



Development of Energy Market Model and Rules in Albania

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Introduction

Presentation outline

- **Current energy market model**
- **Market model proposed by ERE**
- **Market rules entered into force**



The Current Energy Market Model

DRAFTING

- Requirement of Law No. 9072, dated 22 May 2006, (article 53)
 - ERE and other participants in the area in cooperation with the consultant, prepared the draft model
 - The Ministry of Industry and Energy submitted the draft to the Council of Ministers

APPROVAL

- The decision of the Council of Ministers No. 539, dated August 12, 2004, “On the approval of the Transitional Energy Market Model in Albania”



Participants in the energy market

- The transmission system market operator (TSMO)
- The public generation company (PGC - KESH)
- Small power producers (SPP)
- Independent power producers (IPP)
- External suppliers
- Distribution Division or Company (DDC)
- Tariff customers
- Qualified customers
- Independent Regulator (ERE)



Contractual relations among participants

The market model divides contractual relations among participants into:

- ❖ regulated relations
- ❖ unregulated relations

Contractual relations among participants



Regulated relations

- ✓ The annual regulated energy supply agreements between the Public Generation Company (KESH) and the transmission system market operator (TSMO)
- ✓ The contractual agreement for services between TSMO and Distribution Division (DDC) or Company (KESH)
- ✓ Transmission service agreement between TSMO and DDC
- ✓ The regulated tariffs and service agreements for tariff customers between DDC and Tariff Customers and qualified customers
- ✓ The transmission service agreements between TSMO and qualified customers
- ✓ The energy supply regulated agreements for regulated exports between the export markets and the Public Generation Company (PGC - KESH)

Contractual relations among participants



Unregulated relations

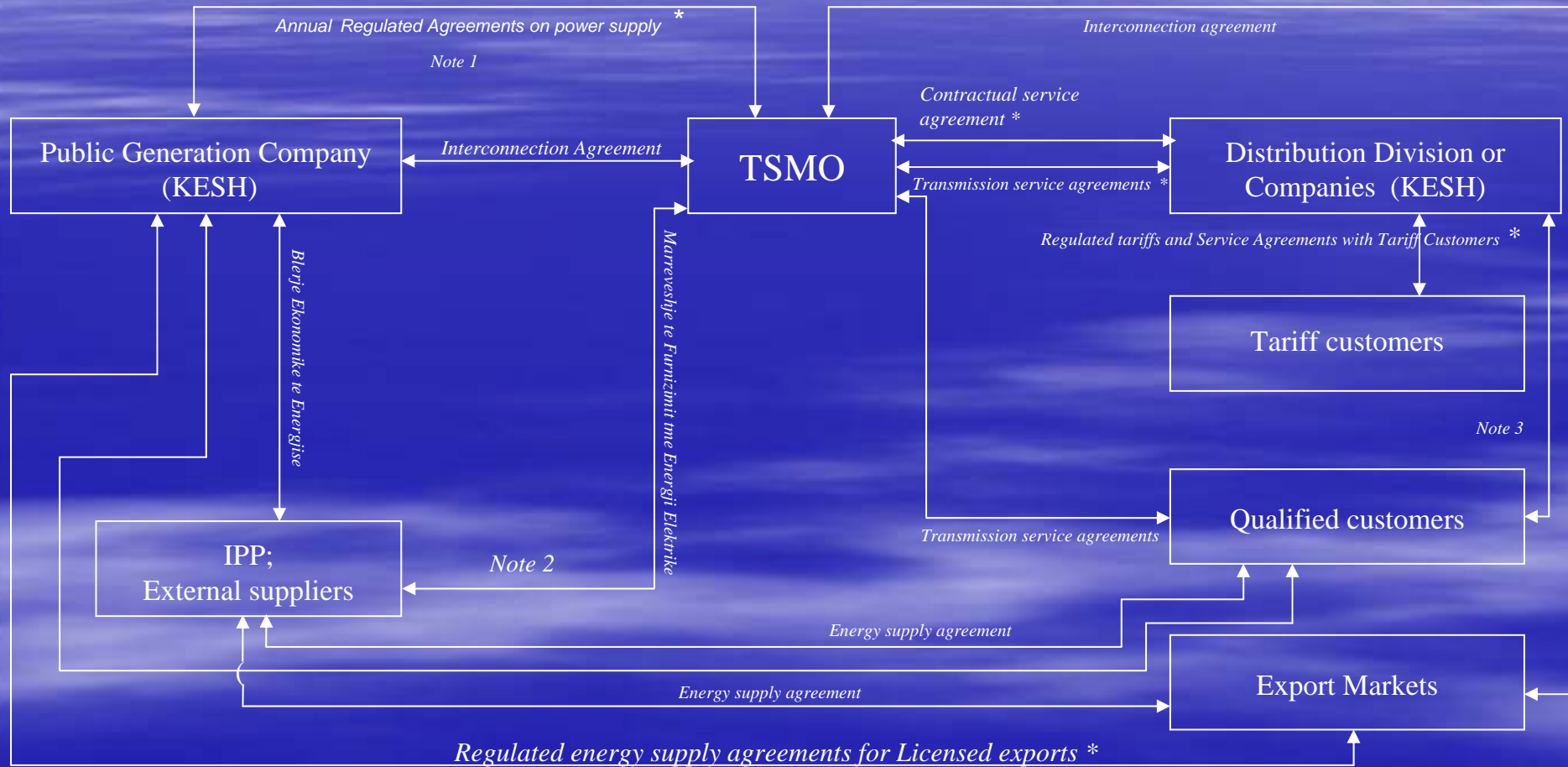
The interconnection agreements between TSMO and PGC (KESH)

- ✓ Interconnection agreements between TSMO and export markets
- ✓ Agreements for economic purchases of energy between PGC and IPP and external suppliers
- ✓ Energy supply agreements between TSMO and IPP and external suppliers
- ✓ The energy supply agreements among export markets and IPP and external suppliers

APPENDIX A



TRANSITORY MARKET STRUCTURE Contractual Relations among Participants



Note1: Transmission service agreements; * Supply agreement with annual regulatory ancillary services; * Supply agreement with Non Regulatory Additional Ancillary Services

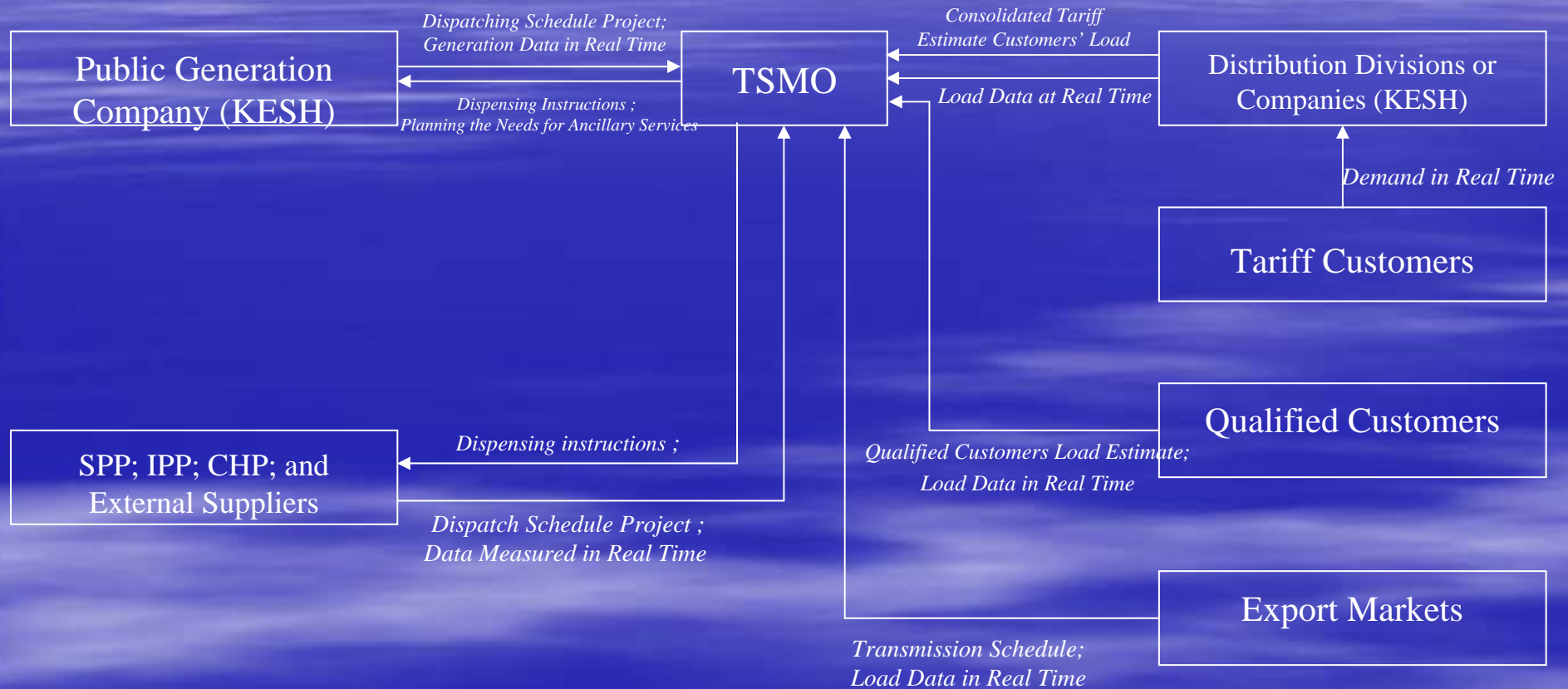
Note2: Energy Supply Agreements ; Transmission Service Agreements ; * Supply Agreements with unregulated ancillary services

Note 3: Those qualified customers connected to the distribution network will have to reach an agreement with the distribution company that provides them with the distribution connection and services.

APPENDIX B



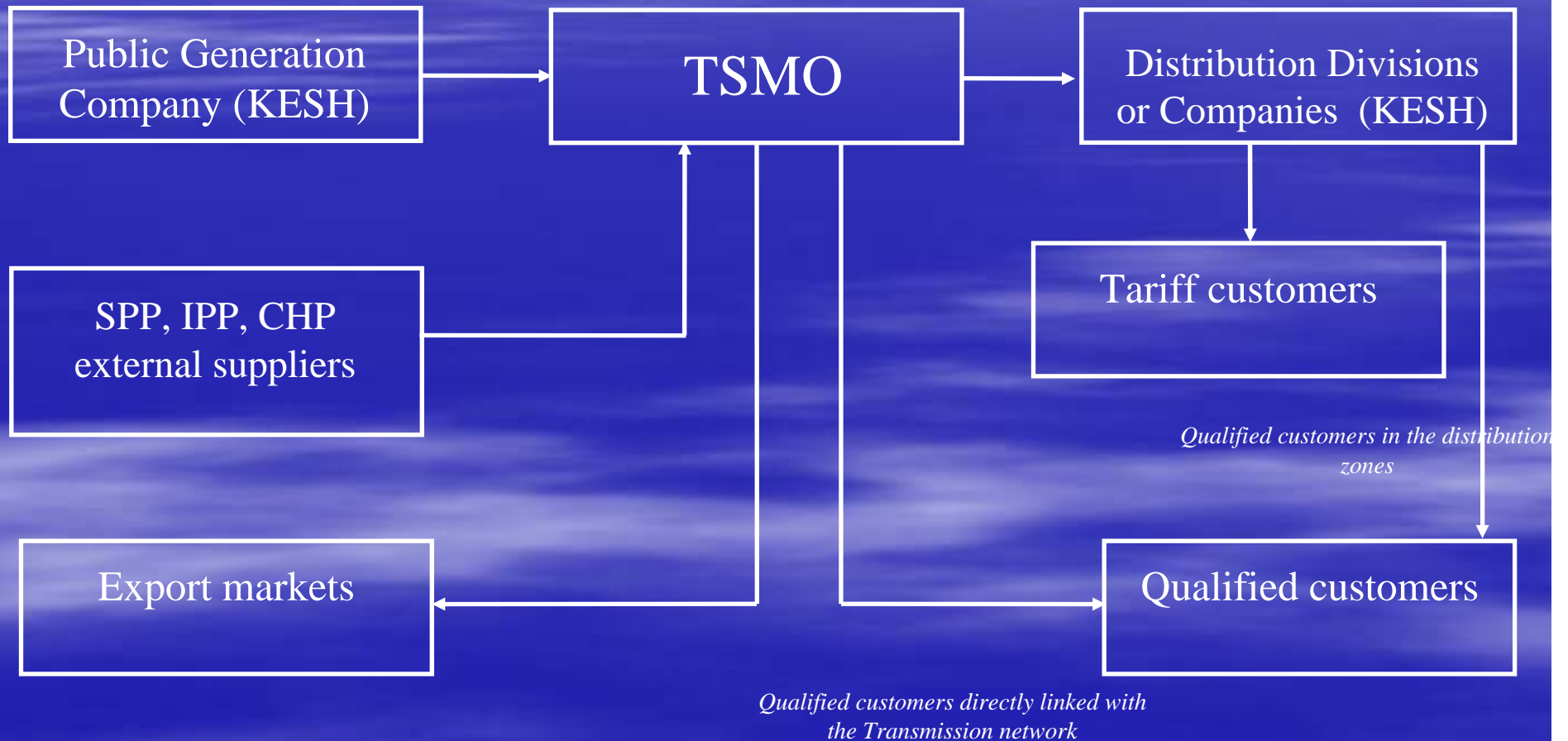
TRANSITORY MARKET STRUCTURE Dispatch and Monitoring of the System



APPENDIX C



TRANSITORY MARKET STRUCTURE Energy Flow

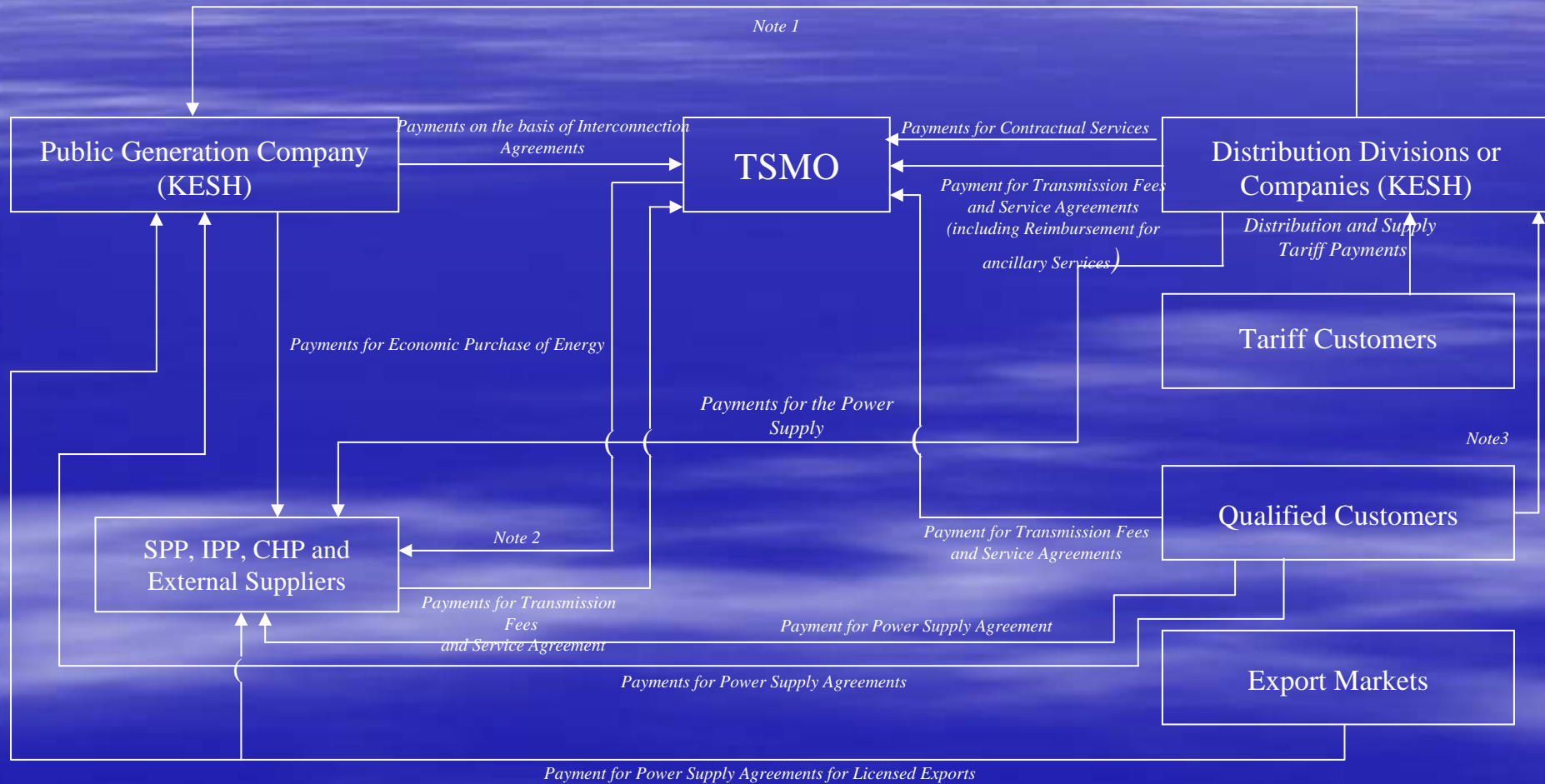


APPENDIX D



TRANSITORY MARKET STRUCTURE

Liquidations – Funds Flow





Contradictions and Difficulties

- ✓ It places TSMO, among other things, in the role of the power purchaser at a time when the Energy sector law does not envisage such a responsibility.
- ✓ It does not foresee Qualified Suppliers as participants in the Qualified Customers with power.
- ✓ It does not envisage the role of each power exporter and importer.
- ✓ It envisages direct links between the Qualified Customers and External Suppliers or Independent power producers (IPPs) to provide the power supply that runs counter to the Energy sector law.
- ✓ It envisages the power sales from SPP to TSMO and Qualified Customers on commercial terms or terms approved by ERE at a time when on the basis of the Energy sector law the agreements among the licensees should be in compliance with Regulations in sale and purchase agreements approved by ERE.



Contradictions and Difficulties in the Operation of the Market according to Current Model

- ✓ It does not determine the market structure after TSMO takes over the role of power contractor.
- ✓ It does not set clear norms on conditions in which Qualified Customers conclude a contract with public generation company (KESH) the more so when the relations scheme among participants foresees the relationship between Qualified Customers and KESH at a time when the latter should not sell energy at the initial stage in order to save low cost energy for tariff customers.
- ✓ It foresees the transfer of funds via TSO, taking into consideration the situation when generation and distribution belong to KESH and in general no physical fund transfer will occur for payments from DDC to KESH, at a time when work is going on to privatize the distribution function that is separated from KESH sh.a.

Proposed Model

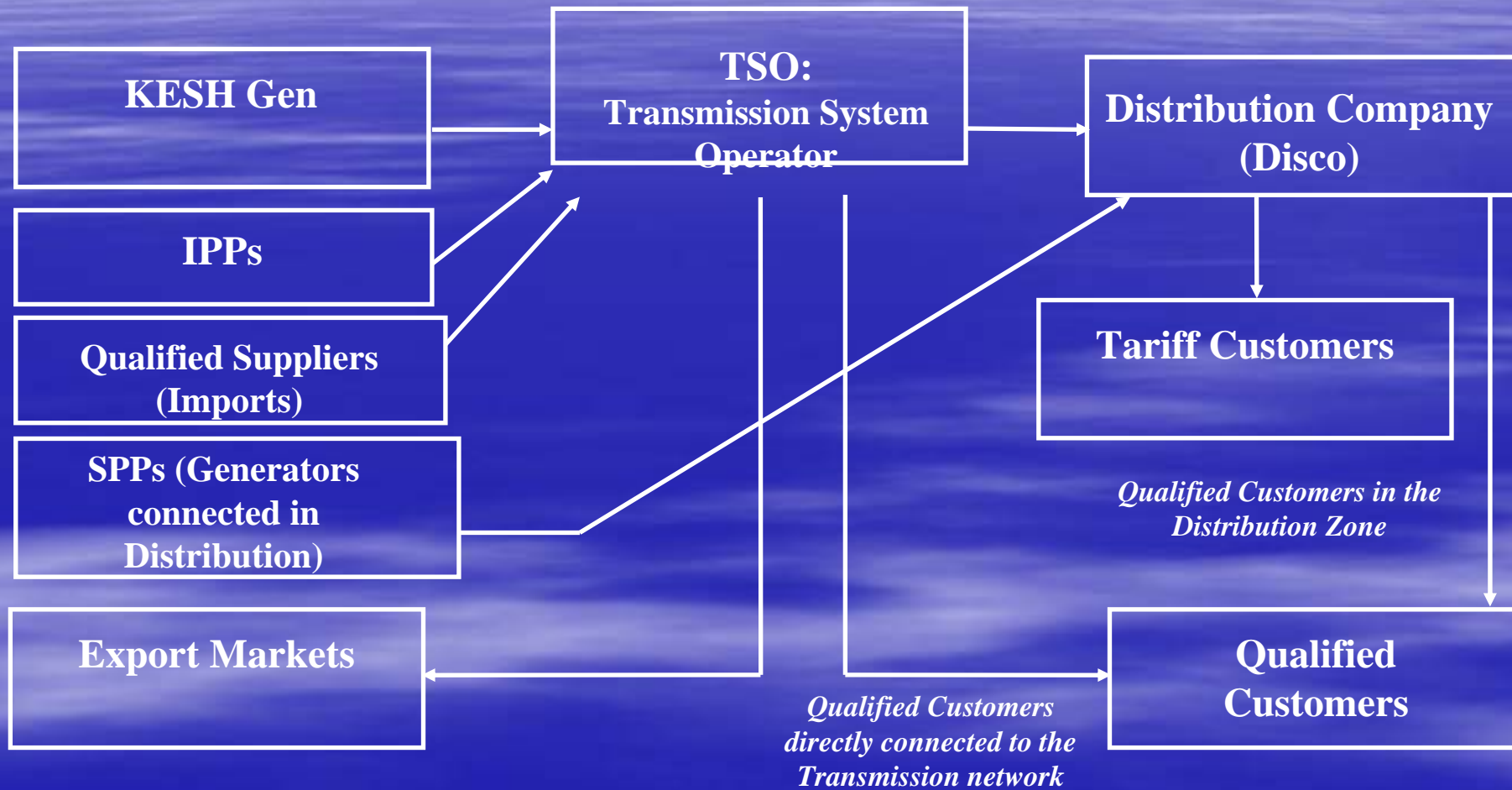


CLIMATE OF CHANGES

- ✓ The order issued by the Minister of Economy, Trade, and Energy to establish the inter ministerial working group.
- ✓ The Government Policy to separate and later to privatize the distribution division.
- ✓ Compliance with legal and sublegal acts.
- ✓ Ratification of The Energy Community Treaty.
- ✓ Eliminates hardships that were encountered.

The Proposed Market Structure

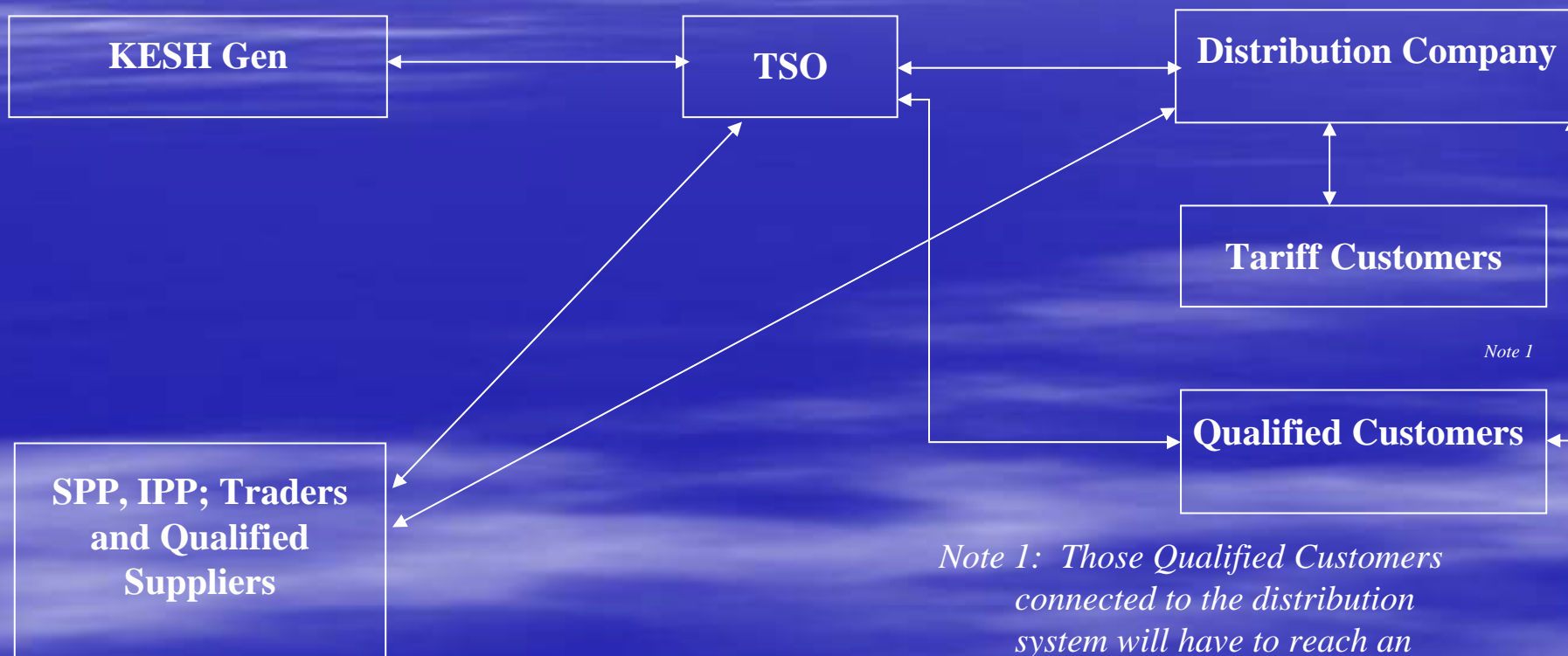
Power Flow



Market Structure



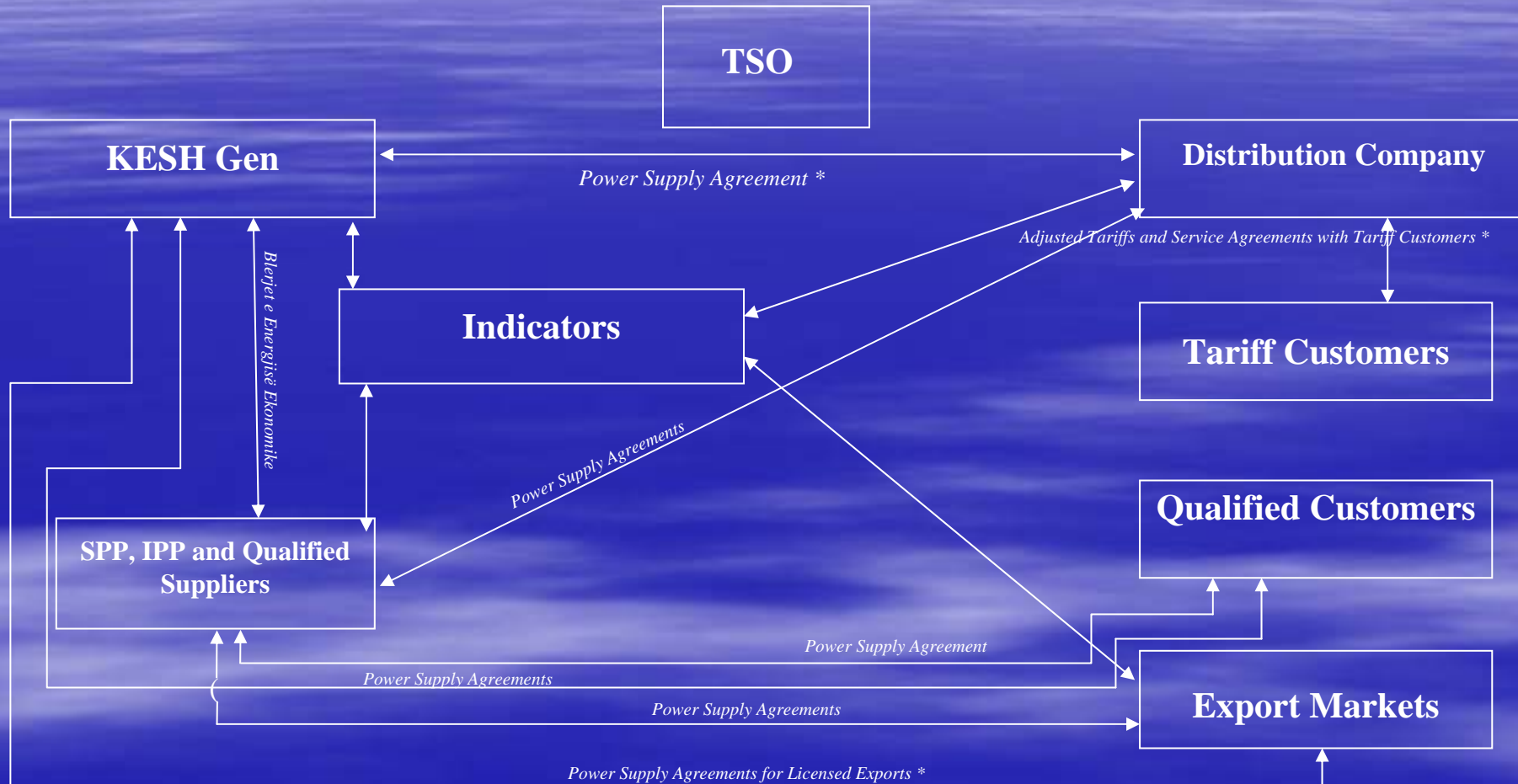
Interconnection and Transmission Service Agreements including the Auxiliary Services (provided by TSO)



Note 1: Those Qualified Customers connected to the distribution system will have to reach an agreement with the company that provides them with the connection and distribution services.

Proposed Market Structure **RE**

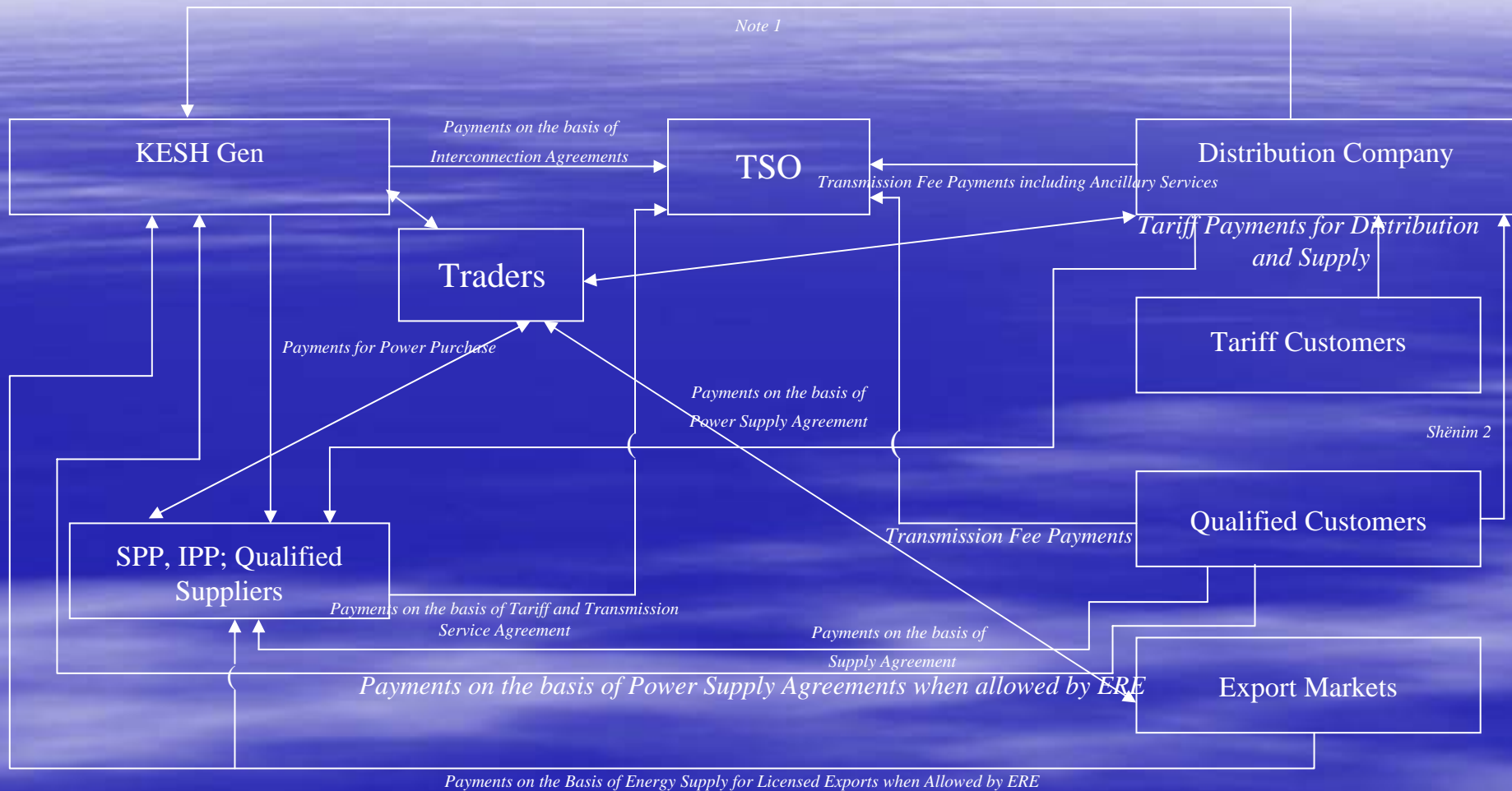
Power Supply Agreements



* Adjusted by ERE

MARKET STRUCTURE

Liquidations – Fund Flow



Note 1: Payments on the basis of Regulated Annual Contract for Power Supply; Payments for Power Purchased not on Contract Basis

Note 2: Payments of Tariffs for Using Distribution System



Market Model Proposed by ERE

- The purpose of the proposal for a new model:
 - To consolidate and develop the Energy Market in Albania.
 - To consider reform launched by the Albanian Government to restructure the whole electric sector.
 - To comply with the Directives of the European Union on energy and requirements of the Energy Community Treaty of South East Europe, for the establishment of the Power Regional Market, a document that was ratified by the Parliament of Albania in 2006.



The purpose of the new proposed model (continued)

- To ensure the flow of funds with transparent and efficient accounts.
- To allow market oriented energy trade (import and export) maintaining customer benefits.
- To ensure a more cautious process on load projection.



Market Model proposed by ERE

- **Other significant purposes of the New Market Model**
 - To take into consideration the transformation of KESH from a vertically integrated Company into three entities separated legally, financially, and functionally.
 - To set up adequate structure to conduct competition both for the wholesale market as well as the Qualified Customers.
 - To develop necessary legal and regulatory framework for privatization of the energy industry starting, with the distribution sector.
 - To implement Government policy to minimize the merchant role of TSO and increase transparency.

Market Model proposed by ERE

Objectives and goals (continued)



- To establish the framework for privatization of the distribution functions in the near future. This framework will be a sound base for the privatization of other segments of the sector such as generation.
- To minimize the chances for corruption and illegal economic activity. To this end, the New Market Model applies bilateral contracts for power purchase in order to improve transparency and to avoid the “overlap” of unnecessary transactions.
- To maintain the full value of power generated by Hydro resources to benefit Albanian tariff customers.
- To improve financial sustainability of the energy sector by making clear the responsibilities and obligations, ensuring sufficient information flow on market operation and establishing a clear structure for financial transactions.



Characteristics of the Market Model

- The Albanian Market Model, in a broad meaning, is characterized by bilateral agreements between participants in the Market: KESH-Gen, SPPs, IPPs, and Qualified Suppliers on one hand and entities that serve the load: OSSH-Disco, and Qualified Customers on the other.
- The traders are the subjects that purchase and sell at wholesale level.
- TSO purchases ancillary services for the Transmission System.

Characteristics of the Market Model

(Continued)

- All contracts and tariffs among different market participants will be regulated since the very beginning except for:
 - a - Contracts between the traders and Qualified Suppliers, on one hand, and OSSH (Disco) and Qualified Customers on the other.
 - b - Contracts between SPPs, IPPs and Qualified Customers.
 - c - Contracts between KESH-Gen, on the one hand, and the export markets or Qualified Customers on the other hand, to an extent that is allowed by other Kesh-Gen restrictions on sales.



Market Model Characteristics

- Relations that are based on standard agreements approved by ERE which all participants are obliged to abide by:
 - Between KESH Gen and OSSH (DSO).
 - Between TSO and other members of the transmission market and services related to it.
 - Between SPPs and OSSH.
 - Between OSSH (DSO) and its tariff customers.

ERE responsibilities following

the approval of the new market model

- After the Approval of the Market Model by the Albanian Government, ERE should reflect changes in market rules and other sub-legal acts related to the market operation. To this end, ERE will take into consideration:
 - a) The relations between the Qualified Customer (QC) and OSSH (DSO). Market Rules to be approved by ERE should focus in particular on these relations, taking into consideration that:
 - A qualified customer cannot simultaneously be a tariff customer.
 - A qualified customer is not allowed to purchase power from KESH Gen or OSSH (DSO).
 - Market Rules should clearly define the criteria and payments for turning a Qualified Customer as a Tariff Customer in order to protect Tariff Customers from the increase of cost resulting from this.
 - Ensure power at a “stand-by” tariff and other mechanisms that reduce the risk of Qualified Customers in the market.



ERE responsibilities following the approval of the new market model (continued)

Give priority to the transmission system or congestion management when transmission lines are limited and cannot meet all the demands of the Tariff and Qualified Customers. This is another issue that needs to be tackled with in the Transmission Code and Market Rules that should determine how to share the lack of capacities between the Tariff and Qualified Customers in order to be implemented by OSSH (DSO). These rules should be drafted on the principles of open access and non-discrimination, in order to meet the requirements of the European Union and to comply with the Energy Community Treaty. All relevant parties should make their contribution to draft these rules.



ERE responsibilities following the approval of the new market model (continued)

- In order for the market to achieve its objectives, ERE, and, in many cases, TSO should have sufficient information on operations, costs, as well as the terms and conditions of contracts among the parties. Therefore, in the process of the preparation and implementation of the documents, ERE will ensure that market participants will be requested to provide all information that ERE and TSO will need to successfully perform their functions. The information will be periodical, complete, and accurate, with an exception of not supplying information related to competition. The information should include at least the availability of the generation unit and current use, the availability of transmission and current use as well as other data on generation and prices. The information will be published on the websites of ERE and TSO for as long as it will be in compliance with relevant requirements of confidentiality.



ERE responsibilities following the approval of the new market model (continued)

- ERE should increase effective utilization of the energy system by applying a tariff system for Tariff Customers, which encourages customers to use power during night hours, reduces power usage at peak hours and encourages Tariff Customers to reduce capacity.
- ERE in cooperation with TSO and market participants should draft rules and standardize contracts that address the issue, in case the energy bill is not paid or is paid partially. ERE should also draft, among other things, rules and procedures to ensure that it exercises its regulatory authority vis-a-vis OSSH (DSO), in compliance with the protocol of liquidations. ERE also possesses the authority to monitor the flow of funds in OSSH (DSO).



Market rules

- Approved by Decision of the Board of Commissioners No.1, dated 25 January 2005, as a requirement of the Law No. 9072 dated 25 May 2003 “On the power sector.”
- Market rules were approved by the Board after the approval of the Transitory Market Model by the Council of Ministers.



Market rules

- What do they regulate?
 - Minimum requirements at the initial stage of the national power market and Albania's participation in the regional power market.
 - Requirements for the technical operation of the power system, the network Codes.
 - The role of each energy market participant in compliance with the Transitory Market Model.



Market rules

- Define in detail the issues on basic market operations, in order to match load with resources, and more specifically with:
 - The ancillary services
 - Balancing energy
 - CBT service
 - Service for allocating interconnection capacities
 - Operation plan according to the scheme for year, month, week, and days in advance
 - Operation procedures
 - The flow of funds and liquidations
 - Access to market information



Market rules

- They will be subject to review by ERE in order to reflect the new power market model that is expected to be approved by the government at the end of September 2007.



Thank you for your attention!