



Power Recovery Project (P144029)

EUROPE AND CENTRAL ASIA | Albania | Energy & Extractives Global Practice |
IBRD/IDA | Investment Project Financing | FY 2015 | Seq No: 7 | ARCHIVED on 30-Dec-2018 | ISR35416 |

Implementing Agencies: Ministry of Infrastructure and Energy, Republic of Albania

Key Dates

Key Project Dates

Bank Approval Date: 29-Sep-2014

Effectiveness Date: 30-Jan-2015

Planned Mid Term Review Date: 07-May-2018

Actual Mid-Term Review Date: 07-May-2018

Original Closing Date: 30-Nov-2019

Revised Closing Date: 30-Nov-2019

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

The project development objective is to improve reliability of power supply and financial viability of the power sector.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components

Name

Short Term Complementary Power Import Support:(Cost \$30.00 M)

Upgrading Distribution Infrastructure:(Cost \$93.00 M)

Transmission Meter/Data Center Upgrade:(Cost \$20.00 M)

Supporting Power Sector Reforms and Project Implementation:(Cost \$7.00 M)

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	● Moderately Satisfactory	● Moderately Satisfactory
Overall Implementation Progress (IP)	● Moderately Unsatisfactory	● Moderately Unsatisfactory
Overall Risk Rating	● High	● High

Implementation Status and Key Decisions

1. There are no major issues on environmental and social safeguards compliance. However, the largest component "Upgrading Distribution Infrastructure" continues to experience implementation delays and will not meet the envisaged targets by the November 2019 project closing date. As such, the project implementation progress is still rated as moderately unsatisfactory. OSHEE still needs to address implementation shortfalls, especially the installation works on equipment procured and currently in storage and completing the new billing system as soon as possible. These will help expedite implementation and allow for rating upgrades.

The timely implementation of a metering system to medium voltage grid (MV feeders), low voltage grid (LV level in distribution cabins) and to the end-users, will also reinforce the loss reduction and revenue protection program.



2. Financial viability of the power sector. While progress has been made over the last three years, placing KESH and OST on a relatively sound financial framework, OSHEE continues to face a financial gap. An updated Financial Recovery Plan, is now under review by the Council of Ministers following a delay since July 2018. The plan will provide guidance on the key financial drivers to help improve OSHEE financial condition, in particular, a distribution loss reduction trajectory for 2018–2021, and a prioritized investment designated for loss reduction, quality improvement, and grid expansion.



Risks

Systematic Operations Risk-rating Tool



Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	--	● Substantial	● Substantial
Macroeconomic	--	● Moderate	● Moderate
Sector Strategies and Policies	--	● Moderate	● Moderate
Technical Design of Project or Program	--	● High	● High
Institutional Capacity for Implementation and Sustainability	--	● High	● High
Fiduciary	--	● High	● High
Environment and Social	--	● Low	● Low
Stakeholders	--	● High	● High
Other	--	--	--
Overall	--	● High	● High

Results

PDO Indicators by Objectives / Outcomes

Electricity losses per year in the project area				
▶ Electricity losses per year in the project area (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	45.00	26.00	26.00	14.00
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019
Comments:	Data for the full year 2017.			
▲ Total net injected generation (Megawatt hour(MWh), Custom Supplement)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	7,145,000.00	6,498,515.00	6,498,515.00	7,850,000.00
▲ Electricity losses per year in the project area- Technical (Percentage, Custom Supplement)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15.30	17.30	17.30	12.60
▲ Electricity losses per year in the project area- Non-Technical (Percentage, Custom Supplement)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	29.80	8.70	8.70	1.40



Collection rate of distribution company				
▶Collection rate of distribution company (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	78.00	104.00	96.60	93.00
Date	03-Jul-2014	31-May-2018	31-Oct-2018	30-Jun-2019

Reliability of MV level at Tirana area				
▶Reliability of MV level at Tirana area (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	100.00	95.00	95.00	70.00
Date	03-Jul-2014	31-May-2018	31-May-2018	30-Jun-2019

Total amount of intercompany arrears				
▶Total amount of intercompany arrears (Days, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	1,200.00	600.00	600.00	550.00
Date	03-Jul-2014	31-May-2018	31-May-2018	30-Jun-2019

Intermediate Results Indicators by Components

Short Term Complementary Power Import Support				
▶Implemented Risk management mechanism for weather related power imports (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	The ToR will be submitted for Bank review in July 2018. Since July 2016, the electricity market model has changed. The hydrology risk is transferred from KESH (wholesale is abrogated) to OSHEE (the distribution company is responsible for end-users security of supply). The new market place (Alb Power exchange) was	The ToR is under review by the Project, Ministry of Energy, Ministry of Finance and Bank team. Since July 2016, the electricity market model has changed. The hydrology risk is transferred from KESH (wholesale is abrogated) to OSHEE (the distribution company is responsible for	The Risk Mitigation Mechanisms are established and implemented.

		planned to be established by the end of 2017, but is not yet established by May 2018.	regulated end-users security of supply). The new wholesale power exchange (Alb Power Exchange) was planned to be established by the end of 2017, but is not yet established by December 2018.	
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019

Upgrading Distribution Infrastructure

► Implementation of a new billing and collection management system (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	The risk management mechanism is not in place	The Billing System package is contracted (Jul14, 2016) and is under implementation. The hardware installation is completed and the contractor is working for software customization. The rollout of the Billing System has experienced delay in customers' database clean up. However, the full system is still expected to be in operation by the end of 2018 if customers' database clean up is done by October 2018.	The Billing System package is contracted (Jul14, 2016) and is under implementation. The hardware installation is completed and the contractor is working for software customization. The rollout of the Billing System has experienced delay in customers' database clean up. However, the full system is now expected to be in operation by February 2019. OSHEE and the contractor has agreed to this revised schedule.	The new Billing and Management System in Operation
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019

► Direct project beneficiaries (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	20,000.00	20,000.00	200,000.00
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019

▲ Female beneficiaries (Percentage, Custom Supplement)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	50.00	50.00	52.00

Transmission Meter/Data Center Upgrade

▶Number of medium voltage customers in deregulated market (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	96.00	96.00	5,000.00
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019
▶Share of meters installed by OST (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	5.00	10.00	100.00
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019
Comments:	The total number of meters to be installed is 2,400.			

Supporting Power Sector Reforms and Project Implementation				
▶Debt-to-Capitalization Ratio of OSHEE (shown), KESh and OST (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	300.00	151.00	23.70	60.00
Date	03-Jul-2014	31-Dec-2016	31-Dec-2017	30-Jun-2019
Comments:	Based on 2017 audited financial statements.			
▶Debt to Equity Ratio of OSHEE (shown), KESh and OST (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.10	-0.30	-0.48	1.60
Date	03-Jul-2014	31-Dec-2016	31-Dec-2017	30-Jun-2019
Comments:	Audited 2017 financial statements.			
▶OSHEE monthly revenues used to pay for energy purchases to KESh and transmission fees to OST (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	40.00	100.00	100.00	100.00
Date	03-Jul-2014	31-May-2018	31-May-2018	30-Jun-2019
▶Power sector reforms implemented (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	The new Power Law is approved and it is under implementation since	The new Power Law is approved and it is under implementation	The cost recovery tariff mechanism is implemented.



	<p>May 2015. Regulatory Entity (ERE) is preparing the Bylaws (Rules and Regulations). GoA approved the new Albanian Market Model on Jul 7, 2016. The Wholesale supply was abrogated and KESh is a generation company only. GoA approved the Public Service Obligation act on March 31, 2016. The process was delayed because of the general election on June 28, 2017. The Power Law was amended on Feb 2018; the amendment facilitates the establishment of Market Operator as independent company with state and private ownership. The consultant (NordPool) supported by the Bank and Vienna Energy Secretariat, is working together with Ministry of Energy to establish the proposed power exchange in Albania by the end of 2018. The Bank (IBRD and IFC) is supporting financially the establishment of Albanian Market Operator and Albanian Balancing Market. The distribution company is prepared to unbundle the wires from retail supply. The plan for deregulation of MV customers and IPP is under implementation. Since Jan 1st 2018, all customers (96 customers) connected in 35 kV distribution network are equipped with new metering system and are deregulated. Four from 96 are fully supplied by qualified suppliers; the others 92 are actually supplied by OSHEE. In 2017 only 11% of the total demand was deregulated; those are 10 HV customers connected in transmission network.</p>	<p>since May 2015. Regulatory Entity (ERE) is preparing the Bylaws (Rules and Regulations). GoA approved the new Albanian Market Model on Jul 7, 2016. The Wholesale supply was abrogated and KESh is a generation company only. GoA approved the Public Service Obligation act on March 31, 2016. The process was delayed because of the general election on June 28, 2017. The Power Law was amended on Feb 2018; the amendment facilitates the establishment of Market Operator as independent company with state and private ownership. The consultant (NordPool) supported by the Bank and Vienna Energy Secretariat, is working together with Ministry of Energy to establish the proposed power exchange in Albania by the end of 2018. The Bank (IBRD and IFC) is supporting financially the establishment of Albanian Market Operator and Albanian Balancing Market. The distribution company is prepared to unbundle the wires from retail supply. The plan for deregulation of MV customers and IPP is under implementation. Since Jan 1st 2018, all customers (96 customers) connected in 35 kV distribution network are equipped with new metering system and are deregulated. Four from 96 are fully supplied by qualified suppliers; the others 92 are actually supplied by OSHEE.</p>	<p>New market is functioning and 40% of market is deregulated</p>
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		The same market share is reported for the first quarter 2018.		In 2017 only 11% of the total demand was deregulated; those are 10 HV customers connected in transmission network. The same market share is reported for the first quarter 2018.
Date	03-Jul-2014	31-May-2018	14-Dec-2018	30-Jun-2019
Comments:	<p>Ten customers connected in HV are qualified as eligible; the annual consumption in 2018 is expected to be above GWh 900 which is 15% of total demand in Albania. At the beginning of 2018 the other 96 MV customers connected in 35 kV were qualified but only few of them are supplied on deregulated market; next year other 1000 MV customers will be qualified and be part of deregulated market together with Hydro IPPs. The new market structure is going to be established. The Albanian Power exchange and Albanian Balancing Market are expected to be established by the beginning of 2020..</p> <p>As summarized in the Energy Community Secretariat report from September 2018 the pace of implementation of the EU Acquis (the Third Package), Albania has made a significant amount of progress in terms of the development of a competitive market environment in Albania, but more work needs to be done: (1) The amendments to the Power Sector Law of March 2018 have put in place the missing legal framework for the future organized day-ahead and intraday markets, and set the timing of the Government's decision on establishment of the Albanian power exchange APEX to be taken by September 2018. The day-ahead and intraday market rules were developed and approved by ERE but their application is postponed until the corresponding functions are set. The momentum needs to be regained in order to accomplish the establishment of the independent market operator in 2019. (2) There is an open dispute settlement case against Albania for non-compliance of the distribution system operator with unbundling requirements. To complete legal unbundling, OSHEE established three independent subsidiaries for distribution system operation, provision of universal service and supply of consumers on the market. Their assets, however, remain with OSHEE, which challenges their independence and leaves the formally unbundled service providers without operational capacity. (3) Balance responsibility is implemented by "transitional" balancing rules and KESH is still the sole service provider. In the absence of a local market price, the imbalances are settled using reference hourly prices from the Hungarian day-ahead market. Liquidity of the balancing market could be provided by services across the border, however, cross-border balancing between OST and neighboring transmission system operators is not in place yet.</p>			

Data on Financial Performance

Disbursements (by loan)

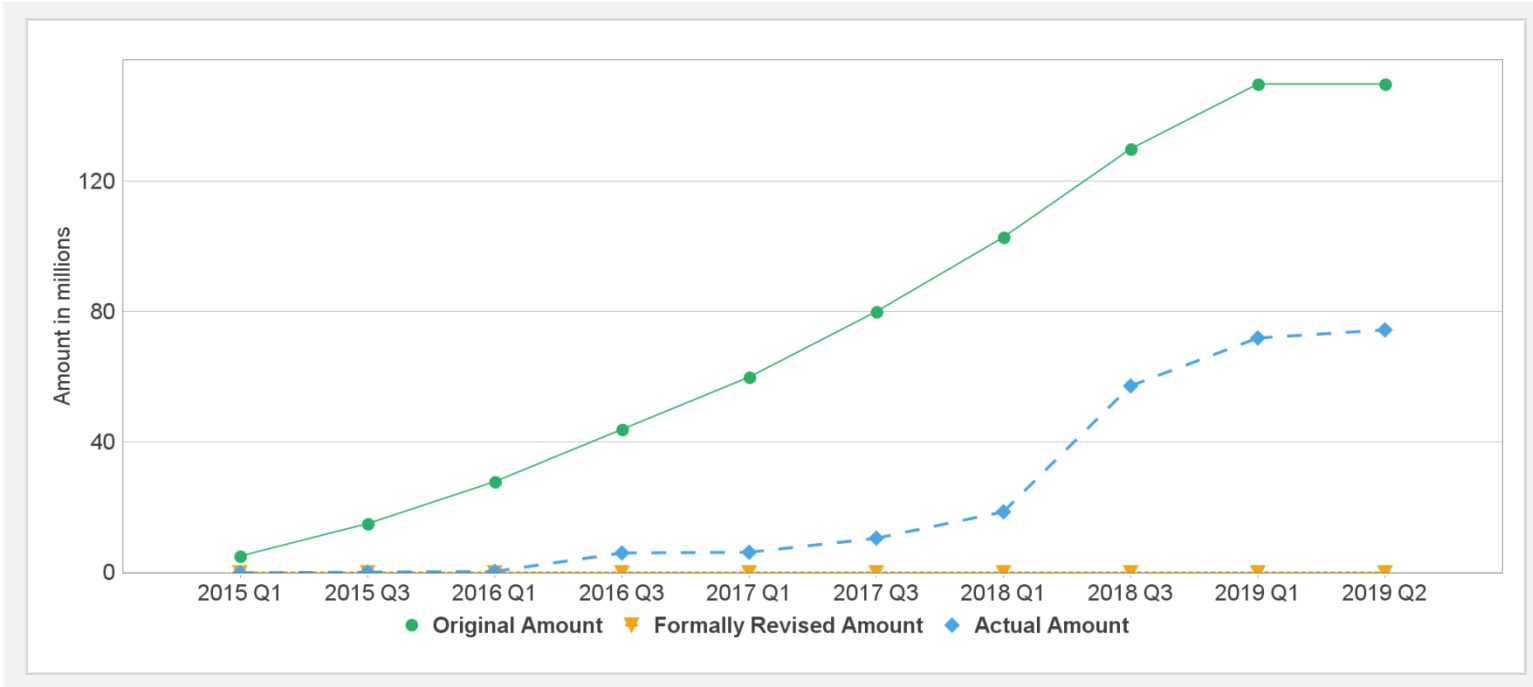
Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P144029	IBRD-84290	Effective	USD	150.00	150.00	0.00	74.83	63.59	54%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P144029	IBRD-84290	Effective	29-Sep-2014	03-Nov-2014	30-Jan-2015	30-Nov-2019	30-Nov-2019



Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.