



Public-Private Partnership Stories

Albania: Hydropower Privatization



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As part of a broader effort to liberalize and reform its energy sector, the Albanian Ministry of Economy, Trade and Energy decided to privatize four hydropower plants with a combined capacity of 76.7 megawatts. Some of the plants were in need of rehabilitation to allow them to operate with increased efficiency, safety, and reliability. Following advice from IFC, the four plants were packaged into two companies and privatized through transparent and highly competitive international tenders. They will be operated in compliance with strict environmental standards.

Between 2005 and 2010 the government of Albania unbundled its transmission and distribution systems, introduced a new power market model, and granted concessions for the development of new hydropower plants to private investors. During the summer of 2011 the government decided to privatize four existing medium-sized hydropower plants on the Mat and Bistrica rivers.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

BACKGROUND

The government's objectives for the privatization were to identify private sector investors to acquire, modernize, and operate efficiently four hydropower plants (HPPs), and to maximize proceeds from privatization of the assets.

HPP Ulëz is a medium-head hydropower plant with a reservoir created by a dam on the Mat River, in northern Albania. It has an installed capacity of 25.2 megawatts (MW) and average generation of 103 gigawatt hours per year (GWh/y). Built between 1952 and 1958, most of its electrical and mechanical (E&M) equipment is in an advanced stage of productive life. Due to the antiquated control system, the operation of HPP Ulëz requires the constant presence of operators on site. As a result, close to 100 permanent staff are needed to manage the day-to-day operations. HPP Shkopet is located immediately downstream of HPP Ulëz. It has an installed capacity of 24 MW and average generation of 85 GWh/y. The plant was almost fully rehabilitated between 2002 and 2005.

The Bistrica river cascade consists of HPP Bistrica I and HPP Bistrica II, located in southern Albania. Bistrica I is a high-head HPP with a reservoir created by a dam downstream from a large natural spring. It has an installed capacity of 22.5 MW and average generation of 122 GWh/y. Bistrica II is a medium-head HPP with an installed capacity of 5 MW and average generation of 30 GWh/y; its water intake is the tailrace of HPP Bistrica I. Thanks to a recent rehabilitation, the E&M equipment of the two Bistrica HPPs is in full operating condition.

IFC'S ROLE

In 2011, Albania's Ministry of Economy, Trade and Energy (METE) requested that IFC perform a pre-assessment of the privatization of the four HPPs and subsequently hired IFC as the transaction advisor for the privatization of the two companies.

IFC conducted detailed legal, financial, technical, environmental, and social (E&S) due diligence of the plants, identifying a number of E&S deficiencies. For example, the HPPs had no environmental or social monitoring systems, no firefighting systems for transformers and generators, no waste management, pollution prevention, or emergency response plans, and no practice of ecological flow releases.

IFC recommended packaging the four plants into two companies. METE approved this approach, and IFC prepared contract documents, and managed the tender process and ensuing negotiations.

TRANSACTION STRUCTURE

The four plants were unbundled from KESH, the state owned energy generation company. Two new entities, owned by METE, were created. The entities own two plants each.

In accordance with the Albanian Market Model, the hydropower

plants, once privatized, will operate as merchant plants, selling electricity on the national and regional electricity markets.

Additionally, the government required compliance with IFC's Performance Standards for E&S matters.

BIDDING

Eight companies were prequalified in a first tender launched in May 2012. However, no offers were received by the deadline of September 2012. The accelerated timing of the tender, the deepening European fiscal crisis and—perhaps most importantly—the uncertainty associated with market risk, deterred the more established European utilities and typical renewable energy investors.

This provided a strategic opportunity for the entry of regional investors with an established presence in the Balkans, who came with knowledge of where to sell (or how to use) the electricity produced. One month after the first tender deadline, a new tender was launched. This time, IFC targeted regional investors, receiving 35 expressions of interest. A total of seven offers were received for HPP Bistrica and four for HPP Ulëz-Shkopet.

Turkish company Kürüm International submitted the two highest offers and was awarded both tenders; its iron smelter in Elbasan is one of Albania's largest industrial consumers, and can absorb most of the power produced by the HPPs.

EXPECTED POST-TENDER RESULTS

- In May 2013, the government received privatization proceeds of almost €110 million, which it pledged to the payment of outstanding debts with suppliers and public works contractors.
- The HPPs will now be operated to ensure ecological flows.
- Kürüm is planning to rehabilitate HPP Ulëz to improve the reliability of power supply.

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