Indemnity Agreement

(OSSH Privatization Project)

between

ALBANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 6, 2009
INDEMNITY AGREEMENT

AGREEMENT, dated May 6, 2009 between ALBANIA and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”).

WHEREAS, the Ministry of Economy, Trade and Energy of Albania (“METE”) have entered into a share purchase agreement (the “Share Purchase Agreement”) with CEZ, a.s. (the “Investor”) whereby inter alia METE has agreed to sell shares and the Investor has agreed to purchase and subscribe to new shares, so that the Investor shall in the aggregate own seventy six percent (76%) of the share capital of Operatori I Sistemit te Shpërndarjes SHA (“OSSH or the “Company”);

WHEREAS, the Government of Albania, through the Ministry of Finance of Albania (“MoF”) and METE, has entered into a Government Support Agreement (as hereinafter defined) with OSSH whereby it has been agreed to indemnify the Company in an amount not exceeding sixty million Euros (€60,000,000) for a loss of revenue suffered by the Company within the Guarantee Period (as hereinafter defined) pursuant to a Guaranteed Event (as hereinafter defined);

WHEREAS, the L/C Issuing Bank (as hereinafter defined), has issued or shall issue, at the request and for the account of the MoF a standby letter of credit in favor of the Company (the “IBRD-Supported L/C”), which will establish certain rights of the Company to receive drawings on the IBRD-Supported L/C up to the aggregate of sixty million Euros (€60,000,000) following the occurrence of a Guaranteed Event;

WHEREAS, at the request and with the agreement of Albania, pursuant to an agreement dated on or about the date hereof between IBRD and the L/C Issuing Bank (the “IBRD Guarantee Agreement”), IBRD has agreed to guarantee (the “IBRD Guarantee”) the repayment of the principal amount of the loan of up to sixty million Euros (€60,000,000) plus accrued interest (the “IBRD-Supported Loan,” and the aggregate amount due from IBRD at any time in respect of the IBRD-Supported Loan, the “IBRD-Guaranteed Loan Amount”) made by the L/C Issuing Bank as a result of a proper drawing of the IBRD-Supported L/C by the Company as provided in the IBRD-Supported L/C and in the event MoF, pursuant to that certain Reimbursement and Credit Agreement dated on or about the date hereof between MoF and the L/C Issuing Bank (the “Reimbursement and Credit Agreement”), defaults in the payment of the IBRD-Guaranteed Loan Amount within the repayment period required in the Reimbursement and Credit Agreement;
WHEREAS, in consideration of the Bank entering into the IBRD Guarantee Agreement guaranteeing payment of principal and interest of the IBRD-Supported Loan, Albania has undertaken the obligations to the Bank set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Incorporation of General Conditions and Modifications

Section 1.01. (a) The following provisions of the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) (hereinafter the “General Conditions”), with the modifications set forth in paragraph (b) of this Section 1.01, constitute an integral part of this Indemnity Agreement:

(i) Article I (Introductory Provisions);
(ii) Section 3.06 (Loan Terms, Place of Payment), Section 3.07 (Loan Terms, Currency of Payment), Section 3.09 (Loan Terms, Valuation Currency), and Section 3.10 (Loan Terms, Manner of Payment);
(iii) Section 5.10 (Project Execution, Cooperation and Consultation) and Section 5.11(a) (Project Execution, Visits);
(iv) Section 6.01 (Financial and Economic Data), and Section 6.02(a) and 6.02(c) (Negative Pledge) as modified below;
(v) Section 8.01 (Enforceability), Section 8.03 (Failure to Exercise Rights) as modified below, and Section 8.04 (Arbitration);
(vi) Section 9.02 (Legal Opinions or Certificates) as modified below; and
(vii) Article X (Miscellaneous Provisions) as modified below.

(b) The General Conditions, unless the context otherwise requires, shall be modified as follows:
(i) the terms “Borrower”, “Loan Party”, “Loan Parties”, and “Member Country”, wherever used in the General Conditions, mean Albania;

(ii) the term “Effective Date”, wherever used in the General Conditions, means the date specified in Article VI of this Indemnity Agreement;

(iii) the terms “Loan” and “Loan Payments”, wherever used in the General Conditions, mean the amounts payable by Albania under this Indemnity Agreement;

(iv) the terms “Loan Agreement” and “Legal Agreement(s)”, wherever used in the General Conditions, mean this Indemnity Agreement;

(v) the term “Loan Currency”, wherever used in the General Conditions, means Euros;

(vi) the term “Project”, wherever used in the General Conditions, means each and every act taken or that is required to be taken for the implementation by the Company and the relevant Government Parties of their respective rights and obligations in accordance with and as contemplated by the Share Purchase Agreement;

(vii) Section 6.02 (a) is modified to read as follows: “(a) It is the policy of the Bank, in making loans to, or in providing guarantees for loans to, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other External Debt shall have priority over its loans and amounts due to the Bank from the member concerned in consequence of such guarantees in the allocation, realization, or distribution of foreign exchange held under the control or for benefit of such member. To that end, if any Lien shall be created on any Public Assets as security for any External Debt, which will or might result in a priority for the benefit of the creditor of such External Debt in the allocation, realization, or distribution of foreign exchange, such Lien shall, unless the Bank shall otherwise agree, ipso facto and at no cost to the Bank, equally and ratably secure the amounts payable by Albania under this Indemnity Agreement, which, for purposes of this Section only, shall be deemed to be equal to the IBRD Guaranteed Loan Amount and Albania, in creating or permitting the creation of such Lien, shall make express provision to that effect; provided, however, that if for any constitutional or other legal reason such provision cannot be
made with respect to any Lien created on assets of any of its political or administrative subdivisions, Albania shall promptly and at no cost to the Bank secure the amounts payable by the Country under this Indemnity Agreement by an equivalent Lien on other Public Assets satisfactory to the Bank."

(viii) Section 9.02 is modified to read as follows: “Albania shall furnish to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory to the Bank of a competent official of Albania showing (A) that this Indemnity Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, Albania and is legally binding upon Albania in accordance with its terms.”

(ix) Section 10.01 is modified by deleting at the beginning of the second sentence the words “Except as otherwise provided in Section 9.03(a)”.

Section 1.02. Unless the context otherwise requires,

(a) the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth;

(b) all capitalized terms used in this Agreement that are also used in the Privatization Agreements or Transaction Documents (as each is hereinafter defined) shall have the meanings given to them therein; and

(c) the following additional terms shall have the following meanings:

(i) “Demand Notice” means a demand presented to the Bank by the L/C Issuing Bank in accordance with Article 5 of the IBRD Guarantee Agreement and substantially in the form of Schedule 1 thereto;

(ii) “ERE” means the Albanian Energy Regulatory Authority, currently organized and functioning in accordance with the laws of Albania;

(iii) “Government of Albania” or “GOR” means the governing authority of Albania (including ERE, METE and MoF) and any other authority, agency or entity which under the laws of Albania is considered to be part of the government;
(iv) "Government Parties" means ERE, METE and MoF and "Government Party" means any one of them as the context may require;

(v) "Government Support Agreement" means the Government Support Agreement entered into by and among the Government of Albania, through METE and MoF, and the Company and which has been attached to this Agreement for informational purposes only as Schedule 1;

(vi) "Guaranteed Event" has the meaning given to it in the Government Support Agreement;

(vii) "Guarantee Period" means the period starting on the Closing Date (as defined in the Government Support Agreement) and ending on December 31, 2016;

(viii) "IBRD Agreements" means the IBRD Guarantee Agreement, the IBRD-Supported L/C, the Reimbursement and Credit Agreement, the Project Agreement and this Agreement, as they may be amended from time to time;

(ix) "IBRD Guarantee Fee" means the guarantee fee payable by the Company to the Bank pursuant to the Project Agreement;

(x) "L/C Issuing Bank" means Citibank Europe PLC, Hungarian Branch Office or such successor or replacement as may be agreed from time to time;

(xi) "Maximum Guaranteed Principal Amount" means sixty million Euros (€60,000,000);

(xii) "Privatization Agreements" means the Government Support Agreement and the Share Purchase Agreement;

(xiii) "Prohibited Activities" means Corrupt Practices, Fraudulent Practices, Collusive Practices, Coercive Practices or Obstructive Practices in any way connected to the Project, as each of those terms is defined in Annex 1 hereof;

(xiv) "Project Agreement" means the Project Agreement between the Company and IBRD dated on or about the date hereof; and

(xv) "Transaction Documents" means the Privatization Agreements and the IBRD Agreements and "Transaction Document" means any one of them.
ARTICLE II

Indemnity by Albania to the Bank

Section 2.01. In consideration of the Bank providing the IBRD Guarantee on the terms and conditions set out in the IBRD Guarantee Agreement, Albania hereby irrevocably and unconditionally agrees:

(a) to reimburse the Bank immediately upon written demand or as the Bank may otherwise direct in writing for any amount paid by the Bank under the IBRD Guarantee Agreement in Euro together with interest thereon at the rate per annum determined by the Bank (which rate shall not exceed the Bank's prevailing lending rate for Variable-Spread Loans denominated in Euro, as shown from time to time on the Bank's external website) from the date such payment is made by the Bank until such amount is paid in full;

(b) to indemnify the Bank on demand in respect of all actions, proceedings, liabilities, claims, losses, damages, costs and expenses brought against, suffered or incurred by the Bank directly or indirectly in relation to or arising out of the IBRD Guarantee Agreement (except as otherwise provided in Section 8.04(i) of the General Conditions);

(c) that (i) the Bank is authorized to comply with any Demand Notices served on the Bank pursuant to the IBRD Guarantee Agreement and make any payments which may be due or claimed from the Bank under the IBRD Guarantee Agreement (the Bank shall promptly notify Albania of any such demand, but failure to give such notice shall in no way affect the Bank's obligation to make payment under the IBRD Guarantee Agreement or Albania's obligation to reimburse or indemnify the Bank pursuant to this Agreement); and (ii) it shall not be incumbent on the Bank to inquire whether or not any statements in such Demand Notice are in fact correct; and

(d) that any Demand Notice served on the Bank pursuant to the IBRD Guarantee Agreement shall, as between Albania and the Bank, be conclusive evidence that the demand is properly made and payment is properly due. Following the notification to Albania of the receipt by the Bank of any Demand Notice, Albania may investigate the validity of the statements in such Demand Notice and take such actions as Albania may see fit against the Company or the L/C Issuing Bank in respect thereof, all without prejudice to the Bank's obligations under the IBRD Guarantee Agreement to make a payment in respect of such Demand Notice and Albania's obligations under this Agreement in relation to such payment by the Bank. The obligations of Albania hereunder shall apply notwithstanding that Albania or a Government Party disputes the validity of any such Demand Notice or the accuracy or correctness of any documentation, fact or figures relied upon or stated therein.
Section 2.02. (a) The obligations of Albania under this Agreement are irrevocable, absolute and unconditional, irrespective of the value, genuineness, validity, regularity or enforceability of MoF’s obligations under the Reimbursement and Credit Agreement, or Albania’s or a Government Party’s obligations under the Transaction Documents, and shall not be discharged except by performance and then only to the extent of such performance. Such obligations shall not be subject to any prior notice to, demand upon or action against a Company, the L/C Issuing Bank or any other person or any prior notice to, or demand upon, Albania with regard to any failure by Albania or any Government Party to pay any amount in respect of which a Demand Notice is served on the Bank pursuant to the IBRD Guarantee Agreement. Such obligations shall not be impaired by any of the following: (i) any extension of time, forbearance, concession or other indulgence given to the Bank, the Company, the L/C Issuing Bank or any other person; (ii) any variation of the IBRD Guarantee Agreement, the IBRD-Supported L/C, the Reimbursement and Credit Agreement, any Transaction Document or any other related agreement; (iii) any assertion of, or failure to assert, or delay in asserting, by any party to a Transaction Document, any right, power or remedy against Albania, a Company or other person or in respect of any security for the IBRD-Guaranteed Loan Amount (or any part thereof or interest thereon); or (iv) any other circumstances which would or might (but for this provision) constitute a release, discharge, defense or waiver for Albania.

(b) The Bank may at any time, without thereby discharging, impairing or otherwise affecting any rights, powers and remedies hereby created or conferred upon it by this Agreement, or any other Transaction Documents or any other related agreement or by law: (i) offer or agree to or enter into any agreement for the extension or variation of the IBRD Guarantee Agreement, any other Transaction Documents or any other related agreement (except one which would materially increase the obligations of Albania under this Agreement or any other Transaction Document or related agreement); and (ii) offer or give or agree to give any time or other indulgence to any other person or entity from whom it may seek reimbursement (at law or otherwise) in respect of sums paid out or liabilities incurred by the Bank under the IBRD Guarantee Agreement.

(c) Any rights conferred on the Bank by this Agreement shall be in addition to, and not in substitution for or derogation of, any other right which the Bank may at any time have to seek, from Albania, the Company or any other person or entity, reimbursement of or indemnification against payments made or liabilities arising from or in connection with the IBRD Guarantee Agreement.

(d) The Bank shall not be obliged before or after taking steps to enforce any rights conferred on it by this Agreement or exercising any of the rights, powers and remedies conferred upon the Bank by this Agreement, the IBRD Guarantee Agreement, the Project
Agreement, the IBRD-Supported L/C, the Reimbursement Agreement, any Transaction Document or any other related agreement or by law: (i) to take action or obtain judgment or award in any court or tribunal of competent jurisdiction against any other person (including persons from whom it may seek reimbursement in respect of sums paid out or liabilities incurred pursuant to the IBRD Guarantee Agreement); or (ii) to enforce or seek to enforce any other rights it may have against Albania or its rights against or security given by any other person to the Bank.

Section 2.03. Any payment required to be made by Albania pursuant to the terms of this Agreement shall be applied first, to pay all interest and other charges due to the Bank and second, after such interest and other charges are paid, to pay all other amounts then due to the Bank under this Agreement.

ARTICLE III

Project-Related Covenants

Section 3.01. Without limitation or restriction upon any of its other obligations under this Agreement, Albania hereby unconditionally undertakes to the Bank to punctually perform all of its obligations under the Government Support Agreement and other Privatization Agreements and the Reimbursement and Credit Agreement and to cause each Government Party to punctually perform all of its obligations under the relevant Privatization Agreements or other Transaction Documents to which they are a party.

Section 3.02. Albania shall not take or permit to be taken by any Government Party any action which would prevent or interfere with the performance by the relevant Government Party of any of its obligations under the Transaction Documents. Albania shall notify, and shall cause each of the Government Parties to notify, the Bank prior to agreeing to any amendment, waiver, termination or other change and to obtain the written consent of the Bank prior to agreeing to any amendment, waiver, termination or other change to the Transaction Documents to which a Government Party is a party which would or could in the opinion of the Bank materially affect the rights or obligations of the Bank (under the IBRD Agreements or any other Transaction Documents) including, without limitation, any assignment, transfer, novation, abrogation, granting of security over or other disposition of any rights or obligations under such agreements.

Section 3.03. Albania shall, and shall cause the Government Parties to, promptly (i) notify and provide to the Bank copies of any notices, claims, demands, reimbursements or recoveries under the Government Support Agreement, or any demands under the Reimbursement and Credit Agreement relating to making or actions to enforce the IBRD-
Guaranteed Loan Amount, or any other notices issued or received by a Government Party under the Privatization Agreements; and (ii) notify the Bank of any breach or claim of a breach of an indemnification made by a Government Party under the Government Support Agreement or any event or circumstance which would or could result in such breach, of any notice of termination or notice of intent to terminate the Government Support Agreement or other Privatization Agreements, or any event or circumstance which would or could adversely affect Albania’s ability to perform its obligations or exercise its rights under the Privatization Agreements or Reimbursement and Credit Agreement or the ability of a Government Party to perform its obligations or exercise its rights under the Privatization Agreements or the Reimbursement and Credit Agreement.

Section 3.04. Albania shall take all actions within its power to remedy and cure each of the events referred to in Section 3.03 that would or could result in the breach or termination of the Government Support Agreement, the Reimbursement and Credit Agreement or any other Transaction Documents.

Section 3.05. Albania shall not create or permit to exist or occur, and shall ensure that the Government Parties shall not create or permit to exist or occur, any circumstances or change in the laws of Albania which would render obligations under the Privatization Agreements or the Reimbursement and Credit Agreement, illegal, invalid, unenforceable, ineffective or void in whole or part. If such circumstances or change in the laws of Albania exists or occurs, Albania shall take all actions within its power to remedy and cure, or to procure that the appropriate Government Parties remedy and cure the adverse effect on the Project of such circumstances or change in the laws of Albania.

Section 3.06. Albania shall:

(a) take all action which shall be necessary on its part or on the part of any Government Party to enable the Company to perform all of their obligations under the Project Agreement and the Transaction Documents; and

(b) not take any action or to cause or permit any Government Party to take any action which would prevent or interfere with the performance by the Company of such obligations.

Section 3.07. Albania: (i) affirms to the Bank that no Prohibited Activities have been engaged by any official or representative of Albania or any Government Party; (ii) covenants that it shall not engage in Prohibited Activities; and (iii) declares its commitment to enforce the laws of Albania against Prohibited Activities during and with respect to the performance of any contract or activity related to the Project.
Section 3.08. Without prejudice to Sections 5.10 (Cooperation and Consultation) and 6.01 (Financial and Economic Data) of the General Conditions, Albania shall provide the Bank promptly upon request all information necessary, in the reasonable opinion of the Bank, for the Bank’s review of Albania’s performance of its covenants pursuant to Sections 3.06 and 3.07 above and for a review of the relevant mechanisms and indicators.

Section 3.09. No later than sixty (60) days from the Closing Date, Albania shall pay KESH an amount equal to no less than thirty million Euros (€30,000,000) and shall cause KESH to use such amount to repay the short-term debt obligations of KESH (such as loans, credit lines, overdraft facilities, or such other financial liabilities of KESH with commercial banks with maturities of less than two years).

Section 3.10 Albania hereby grants the Bank the right to monitor, review and comment on the proposed Regulatory Statement concerning the Distribution System Operator (DSO) and the Retail Public Supplier (RPS) tariffs applicable for the regulatory period after December 31, 2014 (the “Future Regulatory Statement”), as described in section 1.4 of the Regulatory Statement approved by ERE on March 3, 2009, and agrees to take all actions necessary to ensure that the Bank will be able to exercise its rights hereunder.

ARTICLE IV

Remedies of the Bank

Section 4.01. In the event that: (i) Albania fails to make any payment to or to indemnify the Bank as required pursuant to Section 2.01 of this Agreement; (ii) Albania defaults in the performance of any of its obligations hereunder, and such failure or default continues and remains uncured in the opinion of the Bank for sixty (60) days or more after notice thereof shall have been given to Albania by the Bank; or (iii) any representation made by Albania in or pursuant to this Agreement, or any statement furnished in connection with this Agreement and intended to be relied on by the Bank in providing the IBRD Guarantee, shall in the opinion of the Bank have been incorrect in any material respect, the Bank shall be entitled, in addition to any other rights and remedies it may have, to suspend or cancel in whole or in part Albania’s right to make withdrawals under any loan or guarantee between the Bank and Albania or under any development credit agreement or financing agreement between the International Development Association and Albania, or to declare the outstanding principal and interest of any such loan or credit due and payable immediately.

ARTICLE V
Effective Date

Section 5.01. This Agreement shall come into force and effect upon the date of its ratification by the Parliament of Albania.

ARTICLE VI

Severability

Section 6.01. The Government Support Agreement attached as Schedule 1 to this Agreement has been included for informational purposes only and does not constitute an integral part to this Agreement. If the Government Support Agreement is found by a court or tribunal of competent jurisdiction or is declared by applicable law to be invalid, such invalidity shall not affect in any manner the validity of this Agreement. Amendments to the Government Support Agreement shall take effect in accordance with its terms.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. The Minister of Finance of Albania is hereby designated as representative of Albania for the purposes of Section 10.02 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 10.01 (Notices and Requests) of the General Conditions:

For Albania:

Ministry of Finance
Bv. Deshmoret e Kombit, No. 1
Tirana, Republic of Albania

Facsimile: +355 42 22 84 94

For the Bank:

World Bank
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Facsimile: (202) 522-2758
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Tirana, Albania, as of the day and year first above written.

ALBANIA

/s/ Ridvan Bode
By ______________________________ Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ Greta Minxhozi
By ______________________________ Authorized Representative
ANNEX 1

ANTI-CORRUPTION GUIDELINES FOR WORLD BANK GUARANTEE TRANSACTIONS


1. **CORRUPT PRACTICES**

A “Corrupt Practice” is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.

**INTERPRETATION**

A. Corrupt practices are understood as kickbacks and bribery. The conduct in question must involve the use of improper means (such as bribery) to violate or derogate a duty owed by the recipient in order for the payor to obtain an undue advantage or to avoid an obligation. Antitrust, securities and other violations of law that are not of this nature are excluded from the definition of corrupt practices.

B. It is acknowledged that foreign investment agreements, concessions and other types of contracts commonly require investors to make contributions for bona fide social development purposes or to provide funding for infrastructure unrelated to the project. Similarly, investors are often required or expected to make contributions to bona fide local charities. These practices are not viewed as Corrupt Practices for purposes of these definitions, so long as they are permitted under local law and fully disclosed in the payor’s books and records. Similarly, an investor will not be held liable for corrupt or fraudulent practices committed by entities that administer bona fide social development funds or charitable contributions.

C. In the context of conduct between private parties, the offering, giving, receiving or soliciting of corporate hospitality and gifts that are customary by internationally-accepted industry standards shall not constitute corrupt practices unless the action violates applicable law.

D. Payment by private sector persons of the reasonable travel and entertainment expenses of public officials that are consistent with existing practice under relevant law and international conventions will not be viewed as Corrupt Practices.

E. The World Bank Group does not condone facilitation payments. For the purposes of implementation, the interpretation of “Corrupt Practices” relating to facilitation payments will take into account relevant law and international conventions pertaining to corruption.

2. **FRAUDULENT PRACTICES**
A “Fraudulent Practice” is any action or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial benefit or to avoid an obligation.

INTERPRETATION

A. An action, omission, or misrepresentation will be regarded as made recklessly if it is made with reckless indifference as to whether it is true or false. Mere inaccuracy in such information, committed through simple negligence, is not enough to constitute a “Fraudulent Practice” for purposes of World Bank Group sanctions or remedies.

B. Fraudulent Practices are intended to cover actions or omissions that are directed to or against a World Bank Group entity. It also covers Fraudulent Practices directed to or against a World Bank Group member country in connection with the award or implementation of a government contract or concession in a project financed by the World Bank Group. Frauds on other third parties are not condoned but are not specifically sanctioned in IFC, MIGA, or PRG operations. Similarly, other illegal behavior is not condoned, but will not be sanctioned as a Fraudulent Practice under World Bank Group operations.

3. **Coercive Practices**

A “Coercive Practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.

INTERPRETATION

A. Coercive Practices are actions undertaken for the purpose of bid rigging or in connection with public procurement or government contracting or in furtherance of a Corrupt Practice or a Fraudulent Practice.

B. Coercive Practices are threatened or actual illegal actions such as personal injury or abduction, damage to property, or injury to legally recognizable interests, in order to obtain an undue advantage or to avoid an obligation. It is not intended to cover hard bargaining, the exercise of legal or contractual remedies or litigation.

4. **Collusive Practices**

A “Collusive Practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party.
**INTERPRETATION**

Collusive Practices are actions undertaken for the purpose of bid rigging or in connection with public procurement or government contracting or in furtherance of a Corrupt Practice or a Fraudulent Practice.

5. **OBSTRUCTIVE PRACTICES**

An "Obstructive Practice" is (i) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators, in order to materially impede a World Bank Group investigation into allegations of a Corrupt, Fraudulent, Coercive or Collusive Practice, and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (ii) acts intended to materially impede the exercise of the World Bank Group entity's access to contractually required information in connection with a World Bank Group investigation into allegations of a Corrupt, Fraudulent, Coercive or Collusive Practice.

**INTERPRETATION**

Any action legally or otherwise properly taken by a party to maintain or preserve its regulatory, legal or constitutional rights such as the attorney-client privilege, regardless of whether such action had the effect of impeding an investigation, does not constitute an Obstructive Practice.

**GENERAL INTERPRETATION**

A person should not be liable for actions taken by unrelated third parties unless the first party participated in the prohibited act in question.
Schedule I
Government Support Agreement
GOVERNMENT SUPPORT AGREEMENT

DATED 06 MAY 2009

Between

THE MINISTRY OF FINANCE OF THE REPUBLIC OF ALBANIA,
ACTING ON BEHALF OF THE REPUBLIC OF ALBANIA

And

THE MINISTRY OF ECONOMY, TRADE AND ENERGY
OF THE REPUBLIC OF ALBANIA

And

OPERATORI I SISTEMIT TE SHPERNDARJES SHA
("OSSH")
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GOVERNMENT SUPPORT AGREEMENT

This government support agreement (the "Agreement") is entered into by and between:

1. The Ministry of Finance of the Republic of Albania, represented by the Minister Ridvan Bode duly authorized for the purposes of this Agreement, and acting on behalf of the Republic of Albania,

hereafter referred to as the "Guarantor"; and

2. The Ministry of Economy, Trade and Energy of the Republic of Albania ("METE"), represented by Minister Genc Ruli duly authorized for the purposes of this Agreement,

hereafter referred to as the "Technical Support Party"; and

3. OPERATORI I SISTEMIT TE SHPERNDARJES' SHA ("OSSH"), an Albanian joint stock company, whose registered office is located at Rruga: "Vasil Shanto", Tirana, Albania, registered with the Trade and Companies Registry of Tirana, no.38587, on 19 June 2007 under the number K72410014H, and represented by Mr. Sahit Dollapi, General Director of OSSH, duly authorized for the purposes of this Agreement,

hereafter referred to as the "Beneficiary".

The Guarantor, the Technical Support Party and the Beneficiary are hereafter individually referred to as a "Party" and collectively referred to as the "Parties".

WHEREAS:

(A) METE and CEZ, a.s. entered into a share purchase agreement (the "SPA") dated 11 March 2009, by which METE agreed to transfer seventy-six percent (76%) of the registered share capital of the Beneficiary to CEZ, a.s. (the "Investment") subject to the conditions precedent set in the SPA.

(B) In connection with the issuance of a Partial Risk Guarantee by the IBRD to cover certain regulatory risks associated with the Investment, the Guarantor, the Technical Support Party and the Beneficiary are required to enter into this Agreement.
THE PARTIES HERBY AGREE AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires or unless otherwise specified hereafter, the following words shall have the following meaning:

"Affiliate" means, with respect to any person, an entity controlled by, controlling, or under common control with such person.

"Agreement" means this government support agreement including the Annexes attached hereto.

"Beneficiary Conditional Payment Demand" has the meaning set forth in Article 5.2.

"Beneficiary Demand" has the meaning set forth in Article 4.2.

"Beneficiary Notice of Contested Claim" has the meaning set forth in Article 4.3.2.

"Beneficiary Payment Demand" has the meaning set forth in Article 6.4.

"Claim" means a claim for a Loss set forth in a Notice of Claim or a Notice of Supplementary Claim.

"Closing Date" means the date on which the transaction contemplated in the SPA is closed.

"Conciliation Period" means a period of sixty (60) days following the receipt of either a Notice of Claim or a Notice of Supplementary Claim by the Guarantor during which the Parties shall attempt to amicably settle the Claim.

"Conditional Payment" has the meaning set forth in Article 5.1.

"Contested Claim" means a Claim that the Parties fail to settle during the Conciliation Period.

"Corporate Guarantee" means at the election of the Beneficiary, either a parent guarantee of ČEZ, a.s., or a guarantee issued by the Beneficiary, such guarantee issued by the Beneficiary to be in the form of a notarized executory title.

"Dispute Resolution Procedure" means the procedure set forth in Article 6.

"Double Claim" has the meaning set forth in Article 9.2.

"DSO" means distribution system operator.

"ERE" means the Albanian Energy Regulatory Authority.
"Final Claim Date" means 2 March 2015.

"Guaranteed Amount" means the amount of sixty million Euros (€60,000,000) as such amount may be reduced pursuant to the terms of the LC.

"Guaranteed Event" means (1) a change, repeal or non-compliance by the ERE or the Government of Albania of certain provisions of the Regulatory Framework governing (i) the timely approval of the DSO and RPS tariffs applications as submitted by the Beneficiary, pursuant to Article 1.3 of the Regulatory Statement, and (ii) the DSO tariff formula and the RPS tariff formula and their related inputs (as included in Annex 1 hereto) including the compensation mechanism as reflected in Articles 5 and 6 of the Regulatory Statement but excluding any references to regulatory periods beyond December 31, 2014; and (2) which change, repeal or non-compliance by the ERE or the Government of Albania in accordance with (1) above results in a Loss.

"Guaranteed Period" means the period starting on 1 January 2009 and ending on 31 December 2014.

"Guarantor Notice of Contested Claim" has the meaning set forth in Article 4.3.2.

"Guarantor's Review Period" has the meaning set forth in Article 3.2.

"IBRD" means the International Bank for Reconstruction and Development.

"Indemnification Obligation" has the meaning set forth in Article 2.1.

"Independent Auditor" means the independent auditor jointly appointed by the Guarantor, the Beneficiary and the Technical Support Party pursuant to Article 7.

"Independent Auditor Report" means the report prepared by the Independent Auditor.

"LC" means the letter of credit in the form attached hereto as Annex 2 issued by the LC Bank in an amount equal to the Guaranteed Amount.

"LC Bank" means Citibank Europe PLC Hungarian Branch Office or any permitted successor or assignee in accordance with the LC and the Reimbursement and Credit Agreement dated the date hereof between the LC Bank and the Guarantor.

"Loss" means a loss of revenues of the Beneficiary within the Guaranteed Period resulting from the occurrence of a Guaranteed Event during the Guaranteed Period.

"Notice of Claim" has the meaning set forth in Article 3.4.1.

"Notice of Event" has the meaning set forth in Article 3.1.1.

"Notice of Supplementary Claim" has the meaning set forth in Article 3.4.2.

"Regulator" means ERE or any other electricity industry regulator or other regulatory department, body, agency or authority of the Republic of Albania or of any subdivision thereof created on the basis of the applicable laws of the Republic of
Albania, that has the authority to approve the tariffs and prices of electricity, grant licenses and solve disputes between the licensees and between the licensees and the customers.

"Regulatory Framework" means all the following documents, which are attached in Annex 3:

- ERE’s Decision No. 18 concerning "Electricity Generation Tariff", dated on 14 February 2008;
- ERE’s Decision No. 19 concerning "Approval of Transmission Tariff 2008", dated on 14 February 2008;
- ERE’s Decision No. 20 concerning "Approval of Distribution Service Tariff 2008", dated on 14 February 2008;
- ERE’s Decision No. 21 concerning "Approval of 2008 Tariffs", dated on 14 February 2008;
- ERE’s Decision No. 75 concerning "Approval of WPS Tariff", dated on 26 June 2008;
- ERE’s Decision No. 79 concerning "Electricity Distribution System Operator Tariff Calculation Methodology", dated 26 June 2008;
- ERE’s Decision No. 80 concerning "Retail Sales to Regulated Tariff Customers Tariff Calculation Methodology" dated 26 June 2008;
- OSSH’s tender procedures regarding selection of banks providing new debt to be approved by ERE by the closing date of privatization of OSSH;
- OSSH’s tender procedures regarding selection of supplier of electricity covering the losses to be approved by ERE by the closing date of privatization of OSSH;
- Council of Ministers Decision No. 143 dated 11 February 2009;
- Comfort letter issued by METE concerning government compensation to OSSH for financial losses in 2009 resulting from specified possible ERE decisions and dated 9 March 2009;
- Regulatory Statement approved by ERE on 3 March 2009; and
- Review Panel Procedures.

For the avoidance of doubt, in the event of any discrepancy between the RS and any other document set forth in this definition of "Regulatory Framework", the RS shall prevail.

"Regulatory Statement" or "RS" means the regulatory statement issued by the Regulator on 3 March 2009.
"Reimbursement Amount" has the meaning set forth in Article 5.3(b).

"Reimbursement Guarantee" means a letter of credit, a bank guarantee or a Corporate Guarantee reasonably acceptable to the Guarantor to be provided on behalf of the Beneficiary to secure any Conditional Payment in accordance with Article 5, which terms and conditions are set forth in Annex 4.

"RPS" means retail public supplier.

"Settlement Agreement" has the meaning set forth in Article 4.2.

"Third Party Amount" has the meaning set forth in Article 9.3.1.

1.2 Interpretation

In this Agreement, unless the context otherwise requires or unless otherwise specified:

(a) references to Articles are references to the articles of this Agreement and references to Annexes are references to the annexes of this Agreement;

(b) references to any law, regulation, statute or other statutory provision shall be construed as a reference to the same as it may have been, or may from time to time be amended, modified or re-enacted;

(c) references to a person shall be construed so as to include any individual, firm, company, government, or any other entity incorporated or established as a separate legal entity and shall include any successor of such entity;

(d) the singular includes the plural and vice versa; and

(e) headings to Articles are for convenience only and do not affect in any way the interpretation thereof.

2. INDEMNIFICATION OBLIGATION

2.1 Pursuant to the terms and conditions hereof, the Guarantor shall indemnify the Beneficiary for any Loss (the "Indemnification Obligation"), provided however that the Guarantor's total liability for any Loss, whether individual or in the aggregate, shall not exceed the Guaranteed Amount.

2.2 The Indemnification Obligation may be fulfilled either directly by a payment of the Guarantor or by the LC Bank by a drawing on the LC.
3. INDEMNIFICATION PROCEDURE

3.1 Notice of Event

3.1.1 Promptly after becoming aware of any circumstance which the Beneficiary believes may become a Guaranteed Event, and in any event within thirty (30) days from the date the Beneficiary has, or to the extent that the circumstance has been made public, should have become aware (including, but not limited to through publication in the Official Gazette, publication on METE's website, or communication to the Beneficiary) of the occurrence of the relevant circumstance, the Beneficiary shall provide the Guarantor and the Technical Support Party with a written notice pursuant to Article 9.4 hereof with a copy to IBRD substantially in the form attached hereto as Annex 5 (the "Notice of Event"), setting forth a summary of known and relevant facts with respect to the respective circumstance, any relevant supporting documentation in relation to such circumstance, and any act, decision or order issued by a third party (including the Regulator) in relation to such circumstance, as well as the estimated Loss which may be incurred due to the occurrence of the respective circumstance, without prejudice to the right of the Beneficiary subsequently to claim the actual amount of Loss.

3.1.2 The failure or delay on the part of the Beneficiary to provide the Notice of Event within the time period set forth in Article 3.1.1 shall preclude the right of the Beneficiary to be indemnified for any Loss incurred prior to the date when the Notice of Event has been provided, except for circumstances occurring between the 1 January 2009 and the Closing Date, but will not preclude the right of the Beneficiary to be indemnified for any Loss incurred after the date when the Notice of Event has been provided.

3.2 Guarantor's Review Period

Within thirty (30) days from receipt of the Notice of Event (the "Guarantor's Review Period"), the Guarantor shall review together with the Technical Support Party the contents of the Notice of Event in order to assess whether the circumstance described therein may become a Guaranteed Event giving rise to an Indemnification Obligation. The Guarantor shall together with the Technical Support Party use its best efforts within its lawful capacity to prevent, mitigate or remove the adverse effects of the circumstances set forth in the Notice of Event, including but not limited to, the effects of the acts, decisions or orders which have caused the respective circumstance.

3.3 Consultation with Beneficiary

During the Guarantor's Review Period, the Guarantor and the Technical Support Party shall consult as necessary with the Beneficiary with respect to the aspects described in the Notice of Event in order to resolve possible differences and shall keep the IBRD aware of the progress in the Parties' consultations.
3.4 Notice of Claim

3.4.1 If a Guaranteed Event occurs, the Beneficiary shall provide the Guarantor and the Technical Support Party with a written notice pursuant to Article 9.4 hereof, with a copy to IBRD substantially in the form attached hereto as Annex 6 (the "Notice of Claim"). The Notice of Claim shall set forth the Loss and a summary of known and relevant facts with respect thereto, including any relevant support documentation in relation to such circumstance, as well as evidence showing that a Notice of Event was served to the Guarantor if the Notice of Claim is served subsequent to a Notice of Event; provided however that a Notice of Event need not be served prior to provision of a Notice of Claim, but in such event the Loss shall occur only as from the date of the Notice of Claim.

3.4.2 If the Beneficiary continues to suffer Loss for which a Notice of Claim has been served, the Beneficiary may claim indemnification for the additional Loss suffered. The Beneficiary shall provide the Guarantor and the Technical Support Party with a written notice pursuant to Article 9.4 hereof with a copy to IBRD substantially in the form attached hereto as Annex 6 ("Notice of Supplementary Claim"). The Notice of Supplementary Claim shall set forth the additional Loss and shall refer to the Notice of Claim in respect of the Guaranteed Event from which the Notice of Supplementary Claim results and must be delivered no earlier than one hundred and twenty (120) days from the original Notice of Claim relating to the same Guaranteed Event. If the one hundred and twenty (120) day term exceeds the period remaining until the expiry of the Guaranteed Period, then the term for serving the Notice of Supplementary Claim shall be reduced so that such term expires on the Final Claim Date.

3.4.3 For the avoidance of doubt, the Indemnification Obligation can be triggered only in respect of a Loss for which the Beneficiary has duly served to the Guarantor a Notice of Claim or, as appropriate, a Notice of Supplementary Claim, no later than the Final Claim Date.

4. RESOLUTION OF CLAIMS

Any Claim shall be resolved as provided in this Article 4.

4.1 Conciliation Period

The Parties shall attempt to amicably settle the Claim during a period of sixty (60) days following the receipt of the Notice of Claim or a Notice of Supplementary Claim (the "Conciliation Period").

4.1.1 During the Conciliation Period, either Party may request (the "Audit Request") the Independent Auditor to:

(a) conduct an audit of the relevant Guaranteed Event and of the Loss resulting in the Notice of Claim/Notice of Supplementary Claim; and

(b) prepare an Independent Auditor Report.
An Audit Request must be served by the Party making such Audit Request pursuant to Article 4.1.1 within twenty (20) days from the delivery of the relevant Notice of Claim or Notice of Supplementary Claim on the other Parties with a copy to IBRD. The Independent Audit Report shall be delivered to the Parties within twenty (20) days from receipt of the Audit Request. The Parties shall then deliver a copy of the Independent Audit Report to IBRD.

4.2 Uncontested Claims

In the event that the Parties settle the Claim within the Conciliation Period, they shall execute a settlement agreement setting forth the agreed amount of the Indemnification Obligation substantially in the form attached hereto as Annex 7 (the "Settlement Agreement"). Upon the execution of the Settlement Agreement, the Beneficiary shall deliver pursuant to Article 9.4 hereof to the Guarantor and the Technical Support Party, with a copy to the IBRD, a written demand setting forth the settled amount (the "Beneficiary Demand"). The Guarantor shall pay the Beneficiary the amount set forth in the Beneficiary Demand within thirty (30) days from the date of the Beneficiary Demand, failing which the Beneficiary may deliver its Beneficiary Demand to the LC Bank, with a simultaneous copy to the Guarantor, the Technical Support Party and the IBRD. The Beneficiary shall attach to its Beneficiary Demand delivered to the LC Bank a copy of the Notice of Claim and the Settlement Agreement as well as a certificate stating that the Guarantor has failed to pay the amount due. Should the Guarantor pay the amount to the Beneficiary after the Beneficiary Demand has been delivered to the LC Bank, the Beneficiary shall immediately notify the LC Bank and withdraw its Beneficiary Demand.

4.3 Contested Claims

4.3.1 In the event that the Parties fail to settle the Claim within the Conciliation Period (the "Contested Claim"), such matter shall become a dispute, unless the Parties otherwise agree to extend the Conciliation Period, and shall be settled through the Dispute Resolution Procedure in accordance with Article 6 below.

4.3.2 The Guarantor shall provide the Beneficiary and the Technical Support Party, with a copy to the IBRD, with a written notice pursuant to Article 9.4 hereof acknowledging the existence of a Contested Claim within five (5) days from the expiry of the Conciliation Period substantially in the form attached hereto as Annex 8 (the "Guarantor Notice of Contested Claim"). If the Beneficiary fails to receive a copy of the Guarantor Notice of Contested Claim within five (5) days, the Beneficiary shall provide a notice (the "Beneficiary Notice of Contested Claim") to the other Parties, with a copy to the IBRD substantially in the form attached hereto as Annex 9.

4.3.3 Any portion of a Claim that is not contested or is subsequently settled shall be resolved as set forth above in Article 4.2.
5. **CONDITIONAL PAYMENTS**

5.1 The Parties agree that, in case of a Contested Claim, or a claim for which a Notice of Claim was provided after the expiration of the Guaranteed Period but no later than the Final Claim Date, with a view to ensure mitigation of the exposure of the Beneficiary to the Loss, the Beneficiary may request conditional payments from the LC Bank (a "Conditional Payment").

5.2 The Beneficiary shall present a written demand for a Conditional Payment to the LC Bank setting forth the amount of the Contested Claim, with a copy of the Independent Auditor Report (if an Independent Auditor Report was issued during the Conciliation Period), a copy of the Guarantor Notice of Contested Claim or Beneficiary Notice of Contested Claim as applicable in the case of a Contested Claim, a copy of the duly served Notice of Claim and an original Reimbursement Guarantee in the amount of the Contested Claim ("Beneficiary Conditional Payment Demand"). The Beneficiary shall at the same time provide a copy of the Beneficiary Conditional Payment Demand to the Guarantor, to the IBRD and to the Technical Support Party. The Beneficiary Conditional Payment Demand cannot be served earlier than five (5) days after the expiry of the Conciliation Period in the case of a Contested Claim; provided that a Beneficiary Conditional Payment Demand cannot be served later than the Final Claim Date.

5.3 If with respect to a Contested Claim or a Claim for which a Notice of Claim was provided after the expiration of the Guaranteed Period but no later than the Final Claim Date, Conditional Payments have been made to the Beneficiary pursuant to Article 5.1 and a final Dispute Resolution decision is rendered pursuant to the Dispute Resolution Procedure hereunder or a Settlement Agreement is signed, which:

(a) determines the liability of the Guarantor in respect of the Claim and such liability is less than the full amount of the conditional payment made in respect of the Claim, or

(b) determines that the Guarantor had no liability in respect of the Claim,

the Guarantor will be entitled to immediate reimbursement of the Conditional Payment, but in any event no later than thirty (30) days after the date of the notification to the Parties of the Dispute Resolution decision or the execution of the Settlement Agreement, with respect to the relevant Conditional Payments made in excess of the liability determined under (a) hereabove, or the full amount of the relevant conditional payments made under (b) hereabove ("Reimbursement Amount"), together with interest thereon from the date of such conditional payments to the date of reimbursement at the same rate of interest as the rate of interest applicable under the reimbursement and credit agreement entered into between the Guarantor and the LC Bank.

5.4 The Reimbursement Guarantee may be drawn by the Guarantor in the limit of the Reimbursement Amount in the event the Beneficiary fails to pay the Reimbursement Amount within the thirty (30) day period set forth in Article 5.3(b). If the Beneficiary repays the Reimbursement Amount and accrued interest thereon to the Guarantor within the thirty (30) day period set forth in Article 5.3(b), the Guarantor shall promptly return the Reimbursement Guarantee to the Beneficiary.
5.5 The Beneficiary may provide the Reimbursement Guarantee in the form of a Corporate Guarantee if the amount of the Claim is EUR five million (€ 5.000.000) or less; provided that all of the Claims secured by such Corporate Guarantee(s) may not at any time exceed the amount of EUR ten million (€ 10.000.000). For the avoidance of doubt, if a Claim is e.g. EUR six million (€ 6.000.000), the Beneficiary must secure such Claim by a bank guarantee or a letter of credit.

6. DISPUTE RESOLUTION PROCEDURE

6.1 This Agreement shall be governed by and construed in accordance with the Albanian law.

6.2 Disputes arising between the Parties with respect to the performance by the Parties of their obligations under this Agreement or Contested Claims and which cannot be resolved amicably between the Parties shall be finally settled by arbitration pursuant to Article 6.3.

6.3 Any dispute shall be settled under the Rules of Arbitration of the International Chamber of Commerce by an arbitral tribunal composed of three (3) arbitrators (one (1) nominated by the Guarantor, one (1) nominated by the Beneficiary and one (1) nominated by the consensus of the two arbitrators nominated by the Parties). The place of arbitration shall be the city of Vienna, Austria. The language of arbitration shall be English. The decision of the Arbitrators will be final, binding and enforceable. The losing Party shall pay all costs in connection with such arbitration.

6.4 If the Guarantor does not pay promptly the amount set forth in the final arbitral decision, the Beneficiary may no earlier than twenty (20) days from the date of the final decision, send a written demand for payment to the LC Bank, attaching a copy of the final arbitral decision on the Contested Claim setting forth the amount to be paid to the Beneficiary after deducting any amounts received pursuant to a Conditional Payment ("Beneficiary Payment Demand"). The Beneficiary shall at the same time provide a copy of the Beneficiary Payment Demand to the Guarantor, the IBRD and the Technical Support Party.

7. INDEPENDENT AUDITOR

7.1 Appointment

With the view to facilitate the Parties good faith efforts to conciliate or amicably settle a Claim recognizing the matters require profound experience and specialized knowledge, the Parties shall, within sixty (60) days from the date hereof, jointly appoint one reputable independent expert firm to act as Independent Auditor from the list agreed upon between the Parties in the Regulatory Statement. Upon accepting the appointment as well as upon receiving an Audit Request for an Independent Auditor Report hereunder, the Independent Auditor appointed by the Parties shall confirm in writing its independence towards the Parties. The Independent Auditor shall render its Independent Auditor Report impartially and exclusively on the basis of the Audit Request pursuant to Article 4.1.1.
7.2 Non Binding Effect

The content of the Independent Auditor Report shall not be binding or conclusive on the Parties.

8. REVIEW PANEL PROCEDURES

The Guarantor shall use all actions under its control to ensure that the Review Panel Procedures attached hereto in Annex 3 are adopted by the Republic of Albania into Albanian legislation without undue delay.

9. MISCELLANEOUS

9.1 Assignment

The Beneficiary may not assign by agreement or otherwise all or any portion of its rights, obligations or liabilities under this Agreement without the prior written consent of the Guarantor, which shall not be unreasonably withheld or delayed, otherwise such assignment shall be null and void.

9.2 Double Claims

The Beneficiary shall not be entitled to make any Claim under this Agreement or request any release of money under the LC to the extent that such Claim would allow the Beneficiary to be paid more than once in respect of the same subject matter ("Double Claim"). If the Beneficiary does recover any such amount, which is pursuant to a Double Claim, it shall return an amount equal to the excess to the Guarantor.

9.3 Recovery from Third Parties

9.3.1 This paragraph applies if:

(a) a release of money is made to the Beneficiary in respect to a Claim;

(b) at any time after receiving the money, the Beneficiary actually receives any amount which would not have been received but for the circumstance which gave rise to the Claim ("Third Party Amount"); and

(c) the receipt of the Third Party Amount was not taken into account in calculating the loss of revenues based on which the release of money to the Beneficiary was made.
9.3.2 In the circumstances indicated in paragraph 9.3.1 above, the Beneficiary shall, within thirty (30) days from the actual receipt of the Third Party Amount, repay to the Guarantor an amount equal to the Third Party Amount actually received by the Beneficiary.

9.4 Notices

9.4.1 All notices, requests, demands or other communications which are required or may be given pursuant to the terms of this Agreement shall be in writing, in and English language and will be either: (i) transmitted personally, (ii) transmitted by fax, (iii) transmitted by registered mail, or (iv) by courier, to the addresses specified hereafter:

The Guarantor

Minister of Finance
Ministry of Finance of the Republic of Albania
Bv. Deshmoret e Kombit, No. 1
Tirana, Republic of Albania
Fax: +355 42 22 84 94

The Technical Support Party

Minister Genc Ruli
Ministry of Economy Trade and Energy of the Republic of Albania
Blvd. Dëshmorët e Kombit, Nr. 2, Tirana – Albania
Fax: +355 4 234 818

The Beneficiary

Operatori I Sistemit te Shpermdarjes SHA (OSSH)
Rruga: “Vasil Shanto”
Tirana, Albania
Attention: General Director
Fax: +355 4 22 62 168

With a copy to:

CEZ, a.s.
Duhová 1444/2
Prague 14053
Czech Republic
Attention: Tomas Petran
Fax: +420 211 042 011
9.4.2 Such addresses may be changed by any Party, the LC Bank and IBRD, from time to time, by means of a duly given notice to each of the other Parties and the LC Bank and IBRD. All notices, requests, demands or other communications which are required or may be given pursuant to the terms of this Agreement shall be deemed to have been duly given and received: (i) on the date of delivery if delivered by hand or courier, (ii) on the date of the fax transmission, provided that a facsimile-generated confirmation statement is retained by the sender and delivered to the recipient upon request, in the case of transmission by fax, (iii) on the date when receipt confirmation is signed, if mailed by registered or certified mail, postage prepaid, return receipt requested.

9.5 Confidentiality

Except as otherwise expressly provided in this Agreement or needed for the purpose of authorizing the Guarantor to enter into and perform its obligations under this Agreement, the Parties agree to keep confidential and not to disclose the specific terms and conditions of this Agreement for the Guaranteed Period plus two (2) years.

9.6 Waiver of Sovereign Immunity

Each of the Guarantor and the Technical Support Party represents and warrants that its entry into this Agreement and the fulfillment of the obligations hereunder are commercial rather than public or governmental acts and that it is not entitled to claim immunity from legal proceedings with respect to itself or any of its assets on the grounds of sovereignty or otherwise under any law or in any jurisdiction where an action may be brought for the enforcement of any of the obligations arising under or relating to this Agreement. To the extent that the Guarantor or the Technical Support Party or any of their assets have or hereafter may acquire any right to immunity from set-off, legal proceedings, attachment prior to judgement, other attachment or execution of judgement on the grounds of sovereignty or otherwise, each of the Guarantor and the Technical Support Party hereby irrevocably waives such rights to immunity in respect of its obligations arising under or relating to this Agreement.

9.7 Costs

Each Party shall bear its own costs in connection with this Agreement, including but not limited to the Independent Auditor, the review, the conciliation, and the
Reimbursement Guarantee costs and fees. The costs and fees relating to the arbitrators shall be borne by the losing Party.

This Agreement will come into force at the date of signing by the Parties of this Agreement.

This Agreement is signed on the 6th May 2009, in four (4) originals and drafted in the English language.

THE MINISTRY OF FINANCE OF THE REPUBLIC OF ALBANIA,
ACTING ON BEHALF OF THE REPUBLIC OF ALBANIA

By: Minister of Finance

THE MINISTRY OF ECONOMY, TRADE AND ENERGY
OF THE REPUBLIC OF ALBANIA

By: Minister of Economy, Trade and Energy

OPERATORI I SISTEMIT TE SHPERNDARJES SHA ("OSSH")

By: General Director of OSSH
ANNEX 1
INPUTS TO DSO AND RPS FORMULAE

The inputs to the DSO and RPS formulae include:

For the DSO Formula

- The determination of the regulatory asset base (RAB) for 2009 and subsequent years through 2014 as described in Section 6 of ERE’s Board of Commissioners Decision No. 79, dated June 26, 2008 and in Section 4.1 of the RS.

- The weighted average cost of capital (WACC) calculation methodology including the treatment of the pre-tax allowed return on equity (ARoE) until December 31, 2014, as described in Section 4.2 of the RS and ERE’s Board of Commissioners Decision No. 79, dated June 26, 2008.

- Recognition of the cost of equity of 16.44% pre-tax until 2014 as set out in Section 4.2 of the RS.

- Full pass-through into the applicable tariff by way of the WACC calculation of the cost of new debt (including shareholder financing) acquired following the specified procedures set out in Section 4.2 of the RS.

- Application of the 60% gearing ratio for the DSO as set out in Section 4.3 of the RS.

- Determination of the costs of operation (OPEX) of the DSO in 2009 and subsequent years through 2014, as set out in Section 5 of ERE’s Board of Commissioners Decision No. 79, dated June 26, 2008 and Section 4.4 of the RS.

- Working Capital Requirement for the DSO as described in Section 4.4 of the RS.

- The starting level and future targets for DSO distribution loss reduction and changes to these that may result from the Loss and Audit Studies as described in Section 4.5 of the RS.

- Full pass-through of the cost of power to cover distribution losses for power procured on the open market in accordance with tender procedures approved by ERE as set out in Section 4.5 of the RS.

- Setting the X-factor equal to zero for the first three regulatory periods and recognition by ERE of any profit stemming from the reduction of operational costs (excluding losses), as set out in Section 4.6 of the RS.

For the RPS Formula

- Recognition of the bad debt allowance targets as may be revised as a result of the Bad Debt Study, as set out in Section 5.2 of the RS.

- Recognition of RPS profit margin of 2.2% on annual electricity purchases from the wholesale public supplier (WPS) until 2014 as set out in Section 5.3 of the RS.
• Full pass-through for the power procurement costs of the WPS as set out in Section 5.3 of the RS.

• Adjustment to the tariff to final consumers to compensate for differences between forecast and actual revenue resulting from the circumstances specified in Section 5.3 of the RS.

• Non claiming of any increased earnings, before interest and taxes of OSSH, relating to the period starting on 1st January 2009 and ending on the date of closing of the transaction relating to the privatization of OSSH according to the comfort letter issued by METE on March 9, 2009.
SCHEDULE 3
FORM OF IBRD-GUARANTEED L/C

[On the letterhead of the Issuing Bank]

STANDBY LETTER OF CREDIT

NUMBER: [•]
ISSUED: [•] 2009

To: Operatori I Sistemit Te Shpërndarjes SHA (OSSH) (the "Beneficiary")

Dear Sir/Madam,

Standby Letter of Credit

At the request of The Ministry of Finance of the Republic of Albania acting on behalf of the Republic of Albania (the "Applicant"), we, Citibank Europe plc, Hungarian Branch Office (the "Issuing Bank") hereby establish this Standby Letter of Credit (the "Letter of Credit") in favour of you as Beneficiary.

1. Definitions and Interpretation

Capitalised terms used but not otherwise defined in this Letter of Credit shall have the meanings stated below.

"Business Day" means the day on which banks are open for general business in Tirana and Budapest and which is a TARGET Day.

"Euro" and "EUR" means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

"Event of Termination" means each of the events set out in Clause 5 (Events of Termination).

"IBRD" means the International Bank for Reconstruction and Development.

"IBRD Guarantee Agreement" means the agreement dated 6 May 2009 between the Issuing Bank and the IBRD under which the IBRD has agreed to provide the Issuing Bank with an unconditional and irrevocable partial risk guarantee covering principal and interest repayments not made by the Applicant under the Reimbursement and Credit Agreement as it may be amended, novated, supplemented, extended or restated in accordance with its terms.

"Reimbursement and Credit Agreement" means the agreement dated 6 May 2009 between the Applicant and the Issuing Bank in respect of advances made to the Beneficiary under this Letter of Credit as it may be amended, novated, supplemented, extended or restated in accordance with its terms.
"TARGET2" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"TARGET Day" means any day on which TARGET2 is open for the settlement of payments in Euro.

2. Amount of Letter of Credit

This Letter of Credit is issued in an amount up to EUR 60,000,000, as such amount may be reduced in accordance with the terms of this Letter of Credit (the "Stated Amount").

The Stated Amount shall, except as otherwise set out in this Letter of Credit, from time to time be reduced pursuant to Clause 8.

The Issuing Bank will not be obliged to make a payment under this Letter of Credit if such payment exceeds the Stated Amount at any one time. The Issuing Bank shall inform the Beneficiary within three Business Days from receipt of a written request from the Beneficiary of the balance of the Stated Amount at that date, provided that such request cannot be made by the Beneficiary more than once a month.

Subject to the terms of this Letter of Credit, the Issuing Bank shall honour demands under this Letter of Credit in the order of receipt, according to the principle "first come, first served".

3. Effectiveness of Letter of Credit

This Letter of Credit shall be effective and enforceable only after the Issuing Bank notifies the Beneficiary, in the form of Annex G, with a copy to the Applicant and IBRD, that:

(i) the Effective Date (as defined in the IBRD Guarantee Agreement) has occurred;

(ii) the Issue Date (as defined in the Reimbursement and Credit Agreement) has occurred; and

(iii) the instalment of fees payable under paragraph 2(a) and the first quarterly instalment of fees payable under paragraph 2(b)(i) of the letter dated 6 May 2009 and made between the Issuing Bank and the Beneficiary setting out the fees owed to the Issuing Bank in relation to this Letter of Credit (the "Fee Letter") (but not the remainder of such quarterly fees which shall be payable on the dates set out in paragraph 2(b)(ii) of the Fee Letter) and the costs and expenses payable under paragraph 5 of the Fee Letter have been paid,

(the date set out in such notice from the Issuing Bank being the "Effective Date") provided that if the Effective Date has not occurred by 15th June 2009, this Letter of Credit shall immediately and automatically expire.
4. Natural Expiration of Letter of Credit

This Letter of Credit shall be enforceable from the Effective Date and shall expire on 4 pm (CET) on 2nd March 2015 (the "Expiry Date") unless it has been terminated earlier upon the occurrence of an Event of Termination or under the proviso to Clause 3 (Effectiveness of Letter of Credit).

5. Events of Termination

This Letter of Credit shall terminate immediately if this Letter of Credit is surrendered by the Beneficiary to the Issuing Bank, accompanied by a certificate in the form of Annex E, and shall terminate immediately upon the Issuing Bank notifying the Beneficiary, in the form of Annex I, with a copy to the Applicant and IBRD of the occurrence of either of the following other Events of Termination:

(a) the fees due to the Issuing Bank pursuant to the Fee Letter are not paid when due and remain unpaid for a period in excess of thirty days after the receipt by the Beneficiary of a notice from the Issuing Bank that such fees were unpaid on the applicable dates set out in Clause 3 (iii) hereof; or

(b) the IBRD Guarantee Agreement ceases to be in full force and effect in whole or part, other than as a result of fraud, gross negligence or wilful default of the Issuing Bank.

6. Demands under Letter of Credit

6.1 Subject to Clause 3 (Effectiveness of Letter of Credit) and this Clause 6, absent manifest error, notified and described by the Issuing Bank to the Beneficiary, funds under this Letter of Credit shall be available by presentation and surrender by the Beneficiary to us of:

(a) a demand, dated the date of presentation to the Issuing Bank, in the form of Annex A expressed to be signed by an authorised signatory of the Beneficiary making the request and enclosing the documents specified therein; or

(b) a demand, dated the date of presentation to the Issuing Bank, in the form of Annex B expressed to be signed by an authorised signatory of the Beneficiary making the request and enclosing the documents specified therein; or

(c) a demand, dated the date of presentation to the Issuing Bank, in the form of Annex C expressed to be signed by an authorised signatory of the Beneficiary making the request and enclosing the documents specified therein,

(each of the above, a "Demand").
6.2 Funds under this Letter of Credit shall not be available and the Issuing Bank shall have no obligation to make payment in respect of any Demand received (either at the time of receipt or any later time in the event that funds become available again) if:

(a) the Effective Date has not occurred;

(b) the Issuing Bank has received a notice from IBRD pursuant to Article 4.1 paragraph (b) to (f) inclusive or Article 4.4 of the IBRD Guarantee Agreement and has not received a subsequent notice from the IBRD, in respect of such notice, pursuant to Article 4.2 of the IBRD Guarantee Agreement;

(c) the fees due to the Issuing Bank pursuant to the Fee Letter are not paid when due and remain unpaid at the date a Demand is made above; or

(d) a Demand is received by the Issuing Bank after the Expiry Date or when this Letter of Credit is otherwise terminated.

6.3 The obligation of the Issuing Bank to pay under this Letter of Credit shall be deemed satisfied if payment is made by the Issuing Bank or an affiliate or subsidiary. Each original Demand together with copies of the documents specified therein must be presented to us by 11 am (CET) at our office at Hũba úteca 2, Budapest 1134 Hungary, to the attention of Ms. Katalin Peter (or at such other office as the Issuing Bank may notify to the Beneficiary) on a Business Day and each demand must be accompanied by evidence satisfactory to the Issuing Bank of the authority of the signatory to sign such a Demand on behalf of the Beneficiary (an original certificate issued by a person expressed to be an officer of the Beneficiary attaching a purported up to date true and correct English language copy extract from the National Registration Centre of Albania evidencing that the signatories of the Demand are statutory directors of the Beneficiary, together with copy specimen signature of such directors shall, for these purposes, be satisfactory evidence).

6.4 The amount of any Demand delivered by the Beneficiary to the Issuing Bank shall be not less than Euro 100,000. Demands honoured by us under this Letter of Credit shall not exceed EUR 60,000,000, as such amount may be reduced in accordance with Clause 8. Only one drawing under this Letter of Credit is allowed in each 15 day period, and payment pursuant to any one or more Demands shall only be against documents strictly complying in all respects with the requirements (in terms of their forms as set out in the Annexes hereto) set out herein.

6.5 If the amount set out in the Demand delivered by the Beneficiary to the Issuing Bank is lower than the amount set out in the notice of claim attached to such demand, this will not be manifest error and the Issuing Bank shall only be obliged to pay the amount demanded and not the amount set out in the notice of claim.

6.6 In the event of a payment by the Issuing Bank under this Clause 6, the Issuing Bank shall deliver a Notice of Drawing in the form of Annex D to the Applicant (with a copy to the Beneficiary and the IBRD) within five Business Days of such payment.
7. Payment

Each of your demands drawn and payable under and in compliance with the terms and conditions of this Letter of Credit will be honoured and paid within ten Business Days from the date of demand. Payment shall be made to the account of the Beneficiary set out in the demand in respect of which a payment is made.

8. Reduction and reinstatement

8.1 After we honour any drawing under this Letter of Credit, the Stated Amount shall automatically be reduced by the amount so drawn.

8.2 After we have received a notice in the form of Annex H from the Beneficiary and IBRD, the Stated Amount shall be reduced by the amount so notified with effect from its receipt.

8.3 Notwithstanding any reduction pursuant to Clause 8.1 above, the Letter of Credit shall, subject to the other provisions of this Letter of Credit, be amended by us to reinstate to the Stated Amount, an amount equal to the relevant principal amount repaid by the Applicant to the Issuing Bank pursuant to the Reimbursement and Credit Agreement. Upon such amendment to reinstate the Letter of Credit, the Issuing Bank shall deliver to the Beneficiary (with a copy to the Applicant and the IBRD) a notice in the form of Annex F, which notice the Issuing Bank undertakes to deliver within four Business Days following such amount being repaid by the Applicant to the Issuing Bank which shall show the relevant new deemed Stated Amount. For the avoidance of doubt:

(a) the Stated Amount shall not be reinstated to the extent that IBRD or any person other than the Applicant shall have repaid to the Issuing Bank the drawn amount or to the extent that the Issuing Bank shall have received a notice in the form of Annex H from the Beneficiary and IBRD; and

(b) the Issuing Bank shall not be obliged at any time to make payment in respect of any demand received which is for an amount in excess of the Stated Amount at the time of receipt of the demand notwithstanding any subsequent reinstatement of the Letter of Credit or the Stated Amount in accordance with this Clause 8.

9. Notices

All notices or other communications to be given or made hereunder shall be in English and in writing, shall be addressed for the attention of the persons indicated below and shall be delivered personally or sent by courier or facsimile provided that any Demand must be served in accordance with Clause 6.3.

The Applicant:

Ministry of Finance
Bv. Deahmore e Kombit, No. 1
Tirana, Republic of Albania
Facsimile:  +355 42 22 84 94
Telephone:  +355 42 22 84 05
Attention:  Minister of Finance

IBRD:
Vice President for Europe and Central Asia
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
Facsimile:  +1 202-522-2758

and
Manager (Finance and Guarantees Unit)
Finance Economics and Urban Department (FEU)
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
Facsimile:  +1 202 522 0761

The Beneficiary:
Operatori I Sistemit te Shperndarjes SHA (OSSH)
Rruga: "Vasil Shanto"
Tirana, Albania
Attention:  General Director
Facsimile:  355 4 22 62 168

With a copy to:
Executive Finance Director
Finance Department
CEZ a.s.
Duhova 2/1444
140 53 Praha 4
Czech Republic
Facsimile:  +420 211 042 040

The Issuing Bank:
Citibank Europe plc, Hungarian Branch Office
Trade Operations Department
Huba utca 2, Budapest 1134 Hungary
Facsimile: +36 40 200 300
Attention: Ms. Katalin Peter

Except as otherwise expressly provided in this Letter of Credit, all notices and communications shall be deemed to be delivered (i) when delivered by hand or by overnight courier, (ii) if received on a Business Day for the receiving party, when transmitted by facsimile to the receiving party's facsimile number and, (iii) if received after business hours or on a day that is not a Business Day for the receiving party, on the receiving party's first Business Day following the date transmitted by facsimile to the receiving party's facsimile number. Any notice given by facsimile shall be confirmed in writing, delivered personally or sent by courier, or by return facsimile but such failure will not invalidate any original notice sent.

The Issuing Bank, the Applicant, IBRD or the Beneficiary may by notice change the address, addressee and/or contact number to which such notices and communications to it are to be delivered or mailed and the Beneficiary shall have the duty of notifying the Issuing Bank of any change of address, telephone and/or contact number of IBRD. Such change of address, addressee and/or contact number shall be effective within 10 Business Days upon delivery of notice in accordance with this Clause 9.

Any communication or document to be made or delivered to the Issuing Bank will be effective only when actually received by the Issuing Bank and then only if it is expressly marked for the attention of the department or officer identified above (or any substitute department or officer as the Issuing Bank shall specify for this purpose).

10. Miscellaneous

10.1 This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein, except only the Annexes hereto and demands referred to herein and the ISP98 mentioned below, and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except for such Annexes and demands.

10.2 This Letter of Credit shall not be waived or amended except in writing signed by the Issuing Bank, the Applicant and the Beneficiary, and with the consent of IBRD.

10.3 Notwithstanding any provision to the contrary in ISP98 or this Letter of Credit the Beneficiary may not assign, transfer, negotiate, or otherwise dispose of all or any part of its rights or benefits or obligations under the Letter of Credit without the prior written approval (such approval to be in their sole discretion) of the Issuing Bank and the IBRD.

10.4 No person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Letter of Credit.
11. Governing Law and Jurisdiction

12. This Letter of Credit and all Annexes shall be governed by and construed in accordance with English law. This Letter of Credit is subject to the International Standby Practice, International Chamber of Commerce Publication 590 (the "ISP98").

12.1 The Beneficiary submits to the non-exclusive jurisdiction of the English courts. Before court proceedings have been commenced to determine a dispute under or in connection with this Letter of Credit (a "Dispute"), the Issuing Bank may by notice to the Beneficiary require that all Disputes or a specific Dispute shall be finally settled by arbitration in accordance with the Arbitration Rules of the International Chamber of Commerce, by a sole arbitrator appointed by the Chairman of the International Court of Arbitration of the International Chamber of Commerce. The arbitration proceedings shall be conducted in Paris, France in the English language. The award shall be rendered in the English language. In the event of a difference between the Arbitration Rules and the terms of this Letter of Credit, the terms of this Letter of Credit shall govern.

12.2 The Beneficiary hereby (to the fullest extent permitted by law) irrevocably and unconditionally:

12.2.1 waives any right to immunity (sovereign or otherwise) from jurisdiction of any court, set off or legal process and waives any right to trial by jury;

12.2.2 waives any right of immunity which it or its assets now has or may hereafter acquire in relation to any legal proceedings brought against it or its assets in relation to this Letter of Credit by the Issuing Bank;

12.2.3 agrees that no immunity from such proceedings (which shall be deemed to include, without limitation, suit, attachment prior to judgment, other attachment, the obtaining of judgment, execution or other enforcement) shall be claimed by or on behalf of itself or in respect of its assets; and

12.2.4 consents generally in respect of any such proceedings to the giving of any relief or the issue of any process in connection with such proceedings including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such proceedings.
Yours faithfully.

CITIBANK EUROPE PLC, HUNGARIAN BRANCH OFFICE

By: __________________________
Name: __________________________
Title: __________________________

By: __________________________
Name: __________________________
Title: __________________________
ANNEX A
Beneficiary Demand
(Uncontested Claim)

To: [ISSUING BANK]

[Date]

Dear Sirs

Standby Letter of Credit no. [*] issued in favour of Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning in this demand (the "Demand").

1. We certify that the sum of EUR [*] is due under the Government Support Agreement dated [*] (the "Government Support Agreement") made by the Ministry of Finance of the Republic of Albania acting as guarantor (the "Guarantor") and the [Albania Distribution System Operator] (the "Beneficiary"). We therefore demand payment of the sum of EUR [*].

2. We attach hereto:
   (a) a copy of the notice of claim dated [*] delivered by the Beneficiary to the Guarantor under clause 3.4.1 of the Government Support Agreement;
   (b) a copy of the settlement agreement dated [*] signed by the Guarantor, the Technical Support Party and the Beneficiary which sets out the amount to be delivered to the Beneficiary under clause 4.2 of the Government Support Agreement; and
   (c) [evidence of authority of signatories of this Demand].

3. We certify that:
   (a) the notice referred to in paragraph 2(a) of this Demand and attached hereto is a "Notice of Claim" as defined under clause 3.4 of the Government Support Agreement; and
   (b) the settlement agreement referred to in paragraph 2(b) of this Demand and attached hereto is a "Settlement Agreement" as referred to under clause 4.2 of the Government Support Agreement.

4. [We certify that the notice of supplementary claim referred to in paragraph 2(a) of this Demand refers to the Notice of Claim (the "Notice of Claim" as defined under clause 3.4 of the Government Support Agreement) dated [*] delivered by the Beneficiary.

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Beneficiary to the Guarantor under clause 3.4 of the Government Support Agreement and that one hundred and twenty (120) days have passed from the date of such notice of claim as set forth under clause 3.4 of the Government Support Agreement.

5. We certify that the thirty (30) days, as set forth under clause 4.2 of the Government Support Agreement, have elapsed from the date of the Beneficiary Demand (the "Beneficiary Demand" as defined under clause 4.2 of the Government Support Agreement) and we have not received payment from the Guarantor of the amount set forth in the settlement agreement referred to in paragraph 2(b) of this Demand.

6. We certify that the amount demanded under paragraph 1 of this Demand has not been requested under another demand under the Letter of Credit.

7. Payment should be made to the following account:
   Name:  
   Account Number:  
   Bank:  

8. The date of this demand is not later than the Expiry Date.

Yours faithfully

(Authorised Signatory)  (Authorised Signatory)

For
OPERATORI I SISTEMIT TE SHPERNDARJES SHA (OSSH)

cc: [MOF, IBRD]
To: [ISSUING BANK]

Dear Sirs

Standby Letter of Credit no. [•] issued in favour of Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning in this demand (the "Demand").

1. We certify that the sum of EUR [•] is due under the Government Support Agreement dated [•] (the "Government Support Agreement") made by The Ministry of Finance of the Republic of Albania acting on behalf of the Republic of Albania acting as guarantor (the "Guarantor") and the Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Beneficiary"). We therefore demand payment of the sum of EUR [•].

2. We attach hereto:
   (a) a copy of the notice of claim dated [•] delivered by the Beneficiary to the Guarantor under clause 3.4 of the Government Support Agreement;
   (b) a copy of the notice of supplementary claim dated [•] delivered by the Beneficiary to the Guarantor under clause 3.4 of the Government Support Agreement;
   (c) a copy of the Guarantor notice of contested claim dated [•] delivered by the Guarantor to the Beneficiary under clause 4.3.2 of the Government Support Agreement;
   (d) a copy of the Guarantor notice of contested claim dated [•] delivered by the Beneficiary to the Guarantor under clause 4.3.2 of the Government Support Agreement;
   (e) a copy of the letter of credit/bank guarantee/corporate guarantee dated [•] for the amount requested herein issued in favour of the Guarantor pursuant to clause 5 of the Government Support Agreement; and
   (f) evidence of authority of signatories of this Demand.

3. We certify that:
   (a) the notice of claim/[notice of supplementary claim] referred to in paragraph 2(a) of this Demand and attached hereto is a "[Notice of Claim]/["Notice of Supplementary Claim"] as defined under clause 3.4 of the Government Support Agreement;
   (b) the notice of contested claim referred to in paragraph 2(b) of this Demand and attached hereto is a "Guarantor Notice of Contested Claim"/["Beneficiary Notice of Contested Claim"].
Notice of Contested Claim'] as defined under clause 4.3.2 of the Government Support Agreement; and

c) the [letter of credit/bank guarantee/corporate guarantee] referred to in paragraph 2(c) of this Demand is a "Reimbursement Guarantee" as defined under clause 5 of the Government Support Agreement.

4. We certify that the notice of supplementary claim referred to in paragraph 2(a) of this Demand refers to the Notice of Claim (the "Notice of Claim" as defined under clause 3.4 of the Government Support Agreement) dated [*] delivered by the Beneficiary to the Guarantor under clause 3.4 of the Government Support Agreement and that one hundred and twenty (120) days have passed from the date of such notice of claim as set forth under clause 3.4 of the Government Support Agreement.

5. [We certify that the conciliation period (the "Conciliation Period" as defined under clause 4.1 of the Government Support Agreement) expired on [*]).

6. [We certify that at least five (5) days have elapsed from the expiry of the Conciliation Period as set forth under clause 5.2 of the Government Support Agreement.]

7. We certify that the amount demanded under paragraph 1 of this Demand has not been requested under another demand under the Letter of Credit.

8. Payment should be made to the following account:

   Name:  [*]
   Account Number:  [*]
   Bank:  [*]

9. The date of this demand is not later than the Expiry Date.

Yours faithfully

(Authorised Signatory)  (Authorised Signatory)

For
OPERATORI I SISTEMIT TE SHPERNDARJES SHA (OSSI)

cc: [MOF, IBRD]
To: [ISSUING BANK]

[Date]

Dear Sirs

Standby Letter of Credit no. [•] issued in favour of the Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning in this demand (the "Demand").

1. We certify that the sum of EUR [•] is due under the Government Support Agreement dated [•] (the "Government Support Agreement") made by The Ministry of Finance of the Republic of Albania acting on behalf of the Republic of Albania acting as guarantor (the "Guarantor") and the Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Beneficiary"). We therefore demand payment of the sum of EUR [•].

2. We attach hereto:
   (a) a copy of the final award of the arbitration tribunal under clause 6.4 of the Government Support Agreement; and
   (b) evidence of authority of signatories of this Demand.

3. We certify that:
   (a) the arbitral award referred to in paragraph 2(a) of this Demand and attached hereto is a "final arbitral decision" under clause 6.4 of the Government Support Agreement and that the amount demanded under this Demand does not include any conditional payments made in relation to the claim solved by this final arbitral decision;
   (b) twenty (20) days have elapsed from the date of the arbitral award referred to in paragraph 2(a) of this Demand.

4. We certify that the amount demanded under paragraph 1 of this Demand has not been requested under another demand under the Letter of Credit.

5. Payment should be made to the following account:

   Name: [•]
   Account Number: [•]
   Bank: [•]
6. The date of this demand is not later than the Expiry Date.

Yours faithfully

(Authorised Signatory)  (Authorised Signatory)

For
OPERATORI I SISTEMIT TE SHPERNDARJES SHA (OSSH)

cc: [MOF, IBRD]
ANNEX D
Notice of Drawing

[Date]

The Ministry of Finance of the Republic of Albania acting on behalf of the Republic of Albania

Dear Sirs

Standby Letter of Credit no. [*] issued in favour of the Operatori I Sistemit Te Shperdarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning herein.

We hereby notify you that we have received a demand for payment of EUR [*] from Operatori I Sistemit Te Shperdarjes SHA (OSSH) pursuant to Clause 6 of the Letter of Credit. We hereby inform you that we paid EUR [*] to the Operatori I Sistemit Te Shperdarjes SHA (OSSH) in accordance with such demand on [*].

CITIBANK EUROPE PLC, HUNGARIAN BRANCH OFFICE

By: __________________________
Name: __________________________
Title: __________________________

and

By: __________________________
Name: __________________________
Title: __________________________

cc: [Beneficiary, IBRD]
ANNEX E
Certificate of Termination

To: [ISSUING BANK]

[Date]

Dear Sirs

Standby Letter of Credit no. [*] issued in favour of the Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning herein.

The undersigned, duly authorised officers of the Beneficiary under the Letter of Credit hereby certify to you that:

1. We hereby surrender the attached Letter of Credit to you.
2. The Letter of Credit is hereby terminated in accordance with its terms.
3. No payment is demanded of you in connection with this surrender of the Letter of Credit.
4. We hereby release all your obligation and responsibility under this Letter of Credit.

Very truly yours,

OPERATORI I SISTEMIT TE SHPERNDARJES SHA (OSSH)

By:
Name: ____________________________
Title: ____________________________

By:
Name: ____________________________
Title: ____________________________

cc: [IBRD, MOF]
ANNEX F
Amendment to Increase Stated Amount
upon Reimbursement by Applicant

To: Operatori I Sistemit Te Shperndarjes SHA (OSSH)

Dear Sirs

Standby Letter of Credit no. [*] issued in favour of Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning herein.

We hereby notify you that the Issuing Bank has been repaid a total principal amount of EUR [*] by the Applicant pursuant to the Reimbursement and Credit Agreement.

Accordingly, we hereby amend the Letter of Credit to reinstate the Stated Amount of the Letter of Credit to EUR [*].

CITIBANK EUROPE PLC, HUNGARIAN BRANCH OFFICE

By: ______________________
Name: ______________________
Title: ______________________

and

By: ______________________
Name: ______________________
Title: ______________________

cc: MOF, IBRD
ANNEX G
Notice of Effectiveness

To: Operatori I Sistemit Te Shpërndarjes SHA (OSSH)

[Date] 2009

Dear Sirs

Standby Letter of Credit no. [•] issued in favour of Operatori I Sistemit Te Shpërndarjes SHA (OSSH) (the "Letter of Credit")

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning herein.

We hereby confirm that the Letter of Credit dated [•] became effective on [•] 2009.

CITIBANK EUROPE PLC, HUNGARIAN BRANCH OFFICE

By: __________________________
Name: _________________________
Title: __________________________

cc: The Applicant, IBRD
ANNEX H
Notice of Reduction of the Stated Amount

To: [ISSUING BANK]

[Date]

Dear Sirs

Standby Letter of Credit no. [*] issued in favour of Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit").

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning herein.

We hereby confirm that the Stated Amount under the Letter of Credit must be reduced by Euro [*].

OPERATORI I SISTEMIT TE SHPERNDARJES SHA (OSSH)

By: ____________________________
Name: ___________________________
Title: ____________________________

Agreed and accepted by

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: ____________________________
Name: ___________________________
Title: ____________________________

cc: MOF
ANNEX I
Notice of Termination

To: Operatori I Sistemit Te Shperndarjes SHA (OSSH)  

[Date]

Dear Sirs

Standby Letter of Credit no. [*] issued in favour of Operatori I Sistemit Te Shperndarjes SHA (OSSH) (the "Letter of Credit").

We refer to the Letter of Credit. Terms defined in the Letter of Credit have the same meaning herein.

An Event of Termination has occurred under Clause 5[(a)/(b)] of the Letter of Credit on [*] 2009.

CITIBANK EUROPE PLC, HUNGARIAN BRANCH OFFICE

By: __________________________
Name: __________________________
Title: __________________________

cc: MOF, IBRD
 DECISION

No. 18, dated 14.2.2008

ON SETTING OF ELECTRICITY GENERATION TARIFF FOR KESH SH.A.
FOR THE PERIOD MARCH 1, 2008 – FEBRUARY 28, 2009

Based on article 8, paragraph 2, letter 'b', articles 9, 26 - paragraph 1, articles 27 and 28 of the law no. 9072, dated 22.5.2003 “On Power Sector”, as amended, the decision of the Board of Commissioners no. 28, dated 24.6.2005 “On Approval of Tariff Calculation Methodology for public generation company”, the Board of Commissioners of the Electricity Regulatory Entity (ERE), in its meeting of 14.2.2008, after reviewing and analyzing the request filed by KESH sh.a. Company, for the approval of generation tariff for KESH sh.a,

DECIDED:

1. The electricity generation tariff for KESH sh.a. for the period March 1, 2008 – February 28, 2009, to be 0.78 leke/kWh.

This decision shall be published in the Official Journal.

Board of Commissioners
DEcision

No.19, dated 14.2.2008

ON SETTING OF ELECTRICITY TRANSMISSION SERVICE TARIFF FOR THE PERIOD OF MARCH 1, 2008 – FEBRUARY 28, 2009

Based on article 8, paragraph 2, letter 'b', articles 9, 26 - paragraph 1, articles 27 and 28 of the law no.9072, dated 22.5.2003 “On Power Sector”, as amended, the decision of the Board of Commissioners no.59, dated 29.12.2004, “On the approval of Electricity Transmission Service Tariff Calculation Methodology for the OST sh.a.”, the Board of Commissioners of the Electricity Regulatory Entity (ERE), in its meeting of 14.2.2008, after reviewing and analyzing the request filed by OST sh.a. Company, for the approval of electricity transmission service tariff,

DECIDED:

1. The electricity transmission service tariff for the period of March 1, 2008 – February 28, 2009, to be 0.50 leke/kWh.

2. This decision shall be published in the Official Journal.

Board of Commissioners
DECISION

No.20, dated 14.2.2008

ON SETTING OF ELECTRICITY DISTRIBUTION SERVICE TARIFF FOR THE USERS OF THE DISTRIBUTION SYSTEM, FOR THE PERIOD OF MARCH 1, 2008 – FEBRUARY 28, 2009

Based on article 8, paragraph 2, letter 'b', articles 9, 26 - paragraph 1, articles 27 and 28 of the law no.9072, dated 22.5.2003 “On Power Sector”, as amended, the decision of the Board of Commissioners no. 29, dated 24.6.2005 “On approval of Tariff Calculation Methodology for distribution of electricity service”, the Board of Commissioners of the Electricity Regulatory Entity (ERE), in its meeting of 14.2.2008, after reviewing and analyzing the request filed by KESH sh.a. (OSSH sh.a) company, for the approval of electricity distribution service tariffs for the users of distribution system,

DECIDED:

1. The electricity distribution service tariffs for the users of distribution system for the period of March 1, 2008 – February 28, 2009, will be:

   - 2.00 leke/kWh for the users of distribution system at 35 kV;
   - 2.60 leke/kWh for the users of distribution system at 20/10/6 kV;

This decision shall be published in the Official Journal.

Board of Commissioners
DECISION

No.21, dated 14.2.2008

ON SETTING OF RETAIL ELECTRICITY PRICES FOR TARIF CUSTOMERS
FOR THE PERIOD MARCH 1, 2008 – FEBRUARY 28, 2009


DECIDED:

1. Approval of retail electricity prices for tariff customers for the period March 1, 2008 – February 28, 2009, according to the table attached to this decision.

2. This decision shall be published in the Official Journal.

Board of Commissioners
Retail electricity tariffs for tariff customers approved by the ERE for the period March 1, 2008 - February 28, 2009.

<table>
<thead>
<tr>
<th>Voltage Level</th>
<th>Customer category</th>
<th>Price (lel/kWh)</th>
<th>Reactive power price (lel/kW)</th>
<th>Peak energy tariff (lel/kWh)</th>
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<td>HV transmission customers with assets owned by them</td>
<td>Industry</td>
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<td>9.00</td>
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<td></td>
<td>Commerce &amp; Services</td>
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<td></td>
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<td></td>
<td>Agriculture</td>
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<tr>
<td></td>
<td>Others</td>
<td></td>
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</tr>
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<td>Customers supplied at distribution 110 kV substations</td>
<td>Industry</td>
<td>7.00</td>
<td>1.05</td>
<td>9.64</td>
</tr>
<tr>
<td></td>
<td>Commerce &amp; Services</td>
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<td></td>
<td>Agriculture</td>
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<tr>
<td></td>
<td>Others</td>
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<td></td>
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</tr>
<tr>
<td>Customers supplied at 35 kV</td>
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<td>7.50</td>
<td>1.13</td>
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<td>Others</td>
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<tr>
<td>Customers supplied at 20/10/6 kV</td>
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<td>1.20</td>
<td>11.00</td>
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<td>Wheat Industry &amp; bakeries</td>
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<td></td>
<td>Agriculture</td>
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<td></td>
<td>Others</td>
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<tr>
<td>Customers supplied at LV</td>
<td>Industry</td>
<td>9.50</td>
<td>1.41</td>
<td>11.00</td>
</tr>
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<td></td>
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<td></td>
<td>Wheat Industry &amp; bakeries</td>
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<td></td>
<td>Agriculture</td>
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<tr>
<td></td>
<td>Others</td>
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<td></td>
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<tr>
<td>Budgetary</td>
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<tr>
<td>LOW VOLTAGE</td>
<td>Fixed service tariff for customers with no energy consumption (lel/month)</td>
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<tr>
<td></td>
<td>Second Tier above 300 kWh</td>
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<td></td>
<td>Tariff for electricity consumption in common spaces (condominium) (lel/kWh)</td>
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<td></td>
<td>TOTAL Average</td>
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Note: The peak tariff will be applied for the energy consumption during the following time period:

For period from 1 November to 31 March from 18:00 pm to 22:00 pm
For period from 1 April to 31 October from 19:00 pm to 23:00 pm
DECISION
No.75, dated 26.06.2008

ON SETTING OF ELECTRICITY WHOLESALE TARIFF

Based on article 9, article 26 - paragraph 1, of the law no.9072, dated 22.5.2003 “On Power Sector”, as amended, Decision of Council of Ministers Nr. 338, dated 19.03.2008 “On the approval of the Albanian Market Model for Electricity Sector”, paragraph 4.13 - letter ‘a’ and paragraph 2, Decision of the Board of Commissioners no. 61, dated 04.06.2008 “For opening the procedures for setting of electricity wholesale tariff for the Wholesale Public Supplier”, the Board of Commissioners of the Electricity Regulatory Entity (ERE), in its meeting of 26.06.2008, after reviewing and analyzing the request filed by KESH sh.a. Company, for the approval of electricity wholesale tariff, as well as the analysis presented by Tariff and Prices Directory,

DECIDED:
1. The electricity wholesale tariff for the electricity sales by the WPS (KESH sh.a.) to the RPS (OSSH sh.a.) to be 1.61 leke/kWh for the period of July 1, 2008 – February 28, 2009.

2. For the effect of the settlements of payables related to the unbundling of the activities of KESH sh.a. and OSSH sh.a., this tariff may be applicable by the parties starting from the January 01, 2008.

3. The Directory of Tariffs & Prices and the Directory of Legal Affairs and Customer Protection are in charge to give the notification to KESH sh.a. and OSSH sh.a. for the Decision of the ERE Board of Commissioners.

This decision shall be in force starting from July 1, 2008.

This decision shall be published in the Official Journal.

Board of Commissioners

Address: Rruga "Marsel Kashen" Nr.10,
Qendra Gjeo-Fizike Tirane ALBANIA

Tel./Fax.: ++ 355 42 22 963
Tel: ++ 355 42 580 66
E-mail: erealb@ere.gov.al
This methodology is assuming that Distribution System Operator (DSO) and Retail Public Supplier (RPS) are within the same company

Authority

This electricity distribution system operator tariff calculation methodology is developed according to the Law No.9072, dated May 22, 2003, “On Power Sector”, as amended.

Purpose

The purpose of this methodology is to set distribution use-of-network tariff based on sound tariff principles and detailing the necessary data needed for fair and transparent tariff setting.

Objective

The objective of this tariff methodology is to establish the methodology for the calculation of the distribution access and use-of-network for the distribution system users of Albania that is consistent with the Energy Community for South East Europe (ECSEE) Treaty, and enable non-tariff customers and merchant power plants to participate in the regional electricity market.

1. Terms used in the methodology

Standard terms used in all tariff methodologies are established in the Power Sector Law, Market Rules, Metering Code, Transmission Code and other secondary legislation approved by the ERE. Terms used in this methodology have the following meanings.

1.1 Annual adjustment factor (A) – a percentage equal to the inflation factor minus the efficiency improvement factor applied to price cap for the previous rate year.

1.2 Base distribution tariff – the set of distribution service tariff values determined according to costs in the base year.

1.3 Base year – the first year of a regulatory period

1.4 Tariff customers – RPS customers
1.5 **Test year** - a 12-month period prior to a regulatory period that is used as the basis for developing the revenue requirements for the base year for the DSO.

1.6 **Efficiency improvement factor (X factor)** – the annual percentage reduction in the cost of distribution service resulting from improvements in operational efficiency and improvements in technology.

1.7 **Cap Regulation** – the use of regulatory periods in which either the revenues of the licensees or the maximum price of the licensees are adjusted during those regulatory periods.

1.8 **Regulated asset base (RAB)** – the value of fixed assets as defined in Article 6.1 of this tariff methodology.

1.9 **Regulatory period** – a multi-year period when prices or revenues requirements are allowed to change at specific rates.

2. **General regulations and basic principles**

2.1 Non-compliance with any part of this Regulation may result in a rejection by the ERE of DSO tariff application.

2.2 This methodology is developed in conformity with Law on Power Sector as well as other legal acts which are in force in the Republic of Albania and other secondary legislation approved by the ERE.

2.3 The ERE will establish the tariff for the distribution system operator based on the principles that:

   - There should be no cross-subsidies between customer classes;
   - Tariffs for the DSO should reflect the actual cost of service for each customer class according to each voltage level;
   - Tariffs should provide proper price signals for the efficient use of the distribution network;
   - Expenses included in the tariff should be transparent to all stakeholders;
   - The tariff should allow the distribution system operator a reasonable opportunity to earn the ERE-approved allowed rate of return on the ERE-approved regulated asset base;
   - Only prudently acquired services and assets will be accepted into the tariff for the distribution system operator; and,
   - Prices for distribution services should remain relatively stable over time.

2.4 Revenue associated with the use of the distribution system should be collected from RPS tariff and non-tariff customers in a transparent and non-discriminatory fashion. Comparable groups of tariff, non-tariff customers and generating plants connected to...
VOLF: QEMOL

the distribution system should pay the same distribution use of network charges, directly or indirectly.

2.5 Tariff customers will be allocated the costs of energy losses associated with their voltage level. Energy use by customers that are not metered at their commercial point of service delivery will be adjusted to cover for energy losses from the commercial point to the metered point.

2.6 Power cost required to meet the annual target for distribution losses (pursue the targets approved in this methodology) is included in the distribution service tariff by voltage level.

3. Regulatory Periods, Test Year and Base Year

3.1 The ERE will decide on the appropriate regulatory periods for the distribution system operator using the price cap tariff methodology.

3.2 The ERE will adopt template tables for tariff applications. The distribution system operator shall use the template tables provided by ERE when filing a rate application for a regulatory period. The format of the tables can be modified as long as the information is organized in a similar manner and the breakdown of information is no less than that provided in the approved template tables. The tables will show test year results, adjustments made to test year and resulting base year including but not limited to company expenses, capital expenditures, and regulated asset base by regulated service.

3.3 The regulatory periods will be consistent for transmission network services, distribution network services.

3.4 The tariff should allow for recovery of the cost of ownership, construction, operation, and maintenance of lines, cables, transformer substations, transformers, and related buildings and communication facilities (and any other facilities related to the provision of distribution access services).

3.5 Price cap regulation is applied to the average tariff. ERE approves the average change in price for each regulatory period.

3.6 An “RPI-X” approach is used to give the distribution system operator an incentive to improve the efficiency of its operations during the regulatory period.

3.7 Long-term debt financing should be used to finance for repair and renovation of existing and new capital expenditures, but should not be used to cover operating costs.

3.8 The distribution system operator shall clearly and unambiguously report the costs of each regulated service including only the assets and activities related to the regulated services. The cost allocation method shall be comprehensive and approved by the ERE.

3.9 Costs included in the tariff for the distribution system operator shall correspond to costs that would be incurred by a well-managed distribution system operator which
makes prudent investments, minimizes network losses, and avoids wasteful expenditures. When setting the distribution system operator tariffs for the base year, the ERE has the right to investigate the cost levels reported by the distribution system operator, and benchmark its unit costs against other distribution system operators in the region taking into consideration the differences in characteristics of those distribution system operators.

3.10 In preparing a tariff application, the distribution system operator shall try to present all costs with precision up to 100,000 Leke. The regulator should not question amounts less than 100,000 Leke unless there is a dispute about compensation or payment to specific physical persons.

4. Electric energy and power balances

4.1 The electric energy balance of the distribution system for the base year shall be prepared by estimating the total amount of energy in GWh received by the distribution system operator during the base year. This total equals energy received from the transmission system plus energy received from generating stations connected to the distribution system. Total energy received must be allocated to:

a) energy delivered to RPS tariff customers
b) energy delivered to non-tariff customers
c) technical energy losses in the distribution system
d) non-technical energy losses in the distribution system.

4.2 The coincident peak load flow balance of the distribution system shall be prepared by estimating the total power in MW received by the distribution system in the peak hour. This total equals power received from the transmission system plus power received from generating stations connected to the distribution system. Total power received must be allocated to:

a) power delivered to RPS tariff customers
b) power delivered to non-tariff customers
c) technical power losses in the distribution system
d) non-technical power losses in the distribution system.

4.3 The distribution system operator will calculate the total sum of all non-coincidental loads by voltage level for all customers with connection capacity greater than 50 kVA.

4.4 Energy and power balances for the combined transmission and distribution system are not an acceptable substitute for balances for the distribution system.

4.5 For each of the last ten years, energy losses in the distribution system must be shown as a percentage of energy received by the distribution system.
5. Revenue Requirements for the Base Year

5.1 The test year expenses for establishing base financial costs will be based on accounting information in accordance with the ERE-approved Uniform System of Accounts. The test year should be a representative 12-month historical period of company operating costs. The ERE has the right to perform, or contract to perform, a regulatory audit of the distribution system operator's test year accounting information during the rate application proceedings.

5.2 The distribution system operator may propose changes to the test year expense results for setting tariff for the base year of the next regulatory period. Any such changes must be both known (a specific item) and measurable (quantifiable). Contingency funds to cover unexpected costs will not be approved by the ERE. The ERE will consider adjustments to test year results such as:

1) demand growth or decreases;
2) inflation;
3) contract price changes;
4) changes in taxes and insurance;
5) the number of customers served;
6) increased levels of the regulatory asset base;
7) cost of capital;
8) level of depreciation expense; and,
9) efficiency factor.

5.3 The distribution system operator will provide justification for each forecasted adjustment to the test year results. The adjustments must be specified on the tables provided by the distribution system operator in the rate application and written testimony will be included in the rate application providing evidence for the reason(s) for each adjustment and the amount for each adjustment.

5.4 For licensed services regulated under price cap regulation, the distribution system operator will provide estimated factors to be included for each rate year in the regulatory period. The factors will include:

1) Average annual cumulative regulatory asset base for the regulatory period;
2) Total energy losses;
3) Annual Inflation factor; and,
4) Annual Efficiency Factor.

5.5 Revenue requirements for the base year will be calculated as follows:

\[ RR = C + (RAB \times WACC) \]

where:

- RR are the annual revenue requirements;
- C the allowed annual costs of operation for the licensed activity;
- RAB the Regulatory Asset Base;
WACC = The Before-Tax Weighted Average Cost of Capital

\[
WACC = \left[ ES \times \frac{ARoE}{(1-T)} \right] + (DS \times CoD)
\]

\[ES + DS = 1\]

Where:

- \(ES\) = Target for equity ratio of the RAB
- \(T\) = Corporate Tax Rate
- \(ARoE\) = Allowed return on equity after tax
- \(DS\) = Target for debt ratio of the RAB
- \(CoD\) = Cost of debt

5.6 Payments associated with leasing (for example, motor vehicle leasing) may be included in operating expenditures.

5.7 The distribution system operator's operating costs that can be included in the revenue requirements for licensed services are specified within the template tables for distribution system operator application.

5.8 The distribution system operator will develop for ERE approval the average level of technical losses on the distribution network at each voltage level. The cost of purchasing energy/capacity to satisfy non-technical energy losses would be an operating expense allocated to RPS (tariff customers) at various voltage levels. The cost of purchasing energy/capacity to satisfy technical energy losses will be an operating expense of the distribution system operator allocated to Use of Network services at the various voltage levels.

5.9 Revenue requirements include all fees paid to ERE by the distribution system operator except for fines and sanction-related costs.

6. **Return on Regulatory Asset Base**

6.1 The regulatory asset base for a licensed service includes both tangible and intangible assets less accumulated depreciation plus a working capital component. The RAB is calculated according to the following formula:

\[
RAB = A - CG - D + WC + INV;
\]

where:

- \(RAB\) = the Regulatory Asset Base;
A the recognized value of used and useful fixed assets at the beginning of the regulatory period;

CG the value of assets acquired through gratuitous transfer or constructed with financial resources of electricity consumers;

D the accumulated depreciation for the past period of asset used to perform the licensed activity; Depreciation for new investments during the regulatory period will equal the mid year average annual cumulative depreciation

WC the working capital requirement;

INV the forecast of the mid-year average cumulative nominal amount of investments approved by the ERE, which will be invested during the regulatory period.

6.2 The ERE will approve the RAB for the base year. Not all assets of the distribution system operator may be included in the regulatory asset base for a separately priced licensed service. Assets that do not support the licensed service will be disallowed from the regulatory asset base. Examples of disallowed assets include assets used for non-licensed activities, recreational facilities, and assets purchased by the distribution system operator above market value. The ERE based on its consultant or its own staff evaluation should determine the market value only in cases of disputed levels of investment.

6.3 Prudent levels of investment approved by the ERE may be included in the regulatory asset base for the distribution system operator’s services for the initial regulatory periods. The distribution system operator will provide the ERE with written testimony on the breakdown of the proposed investment program for the regulatory period, providing details how each major category will provide additional needed capacity or improve service and energy quality performance.

6.4 The distribution system operator shall show the estimated accumulated depreciation and amortization for all assets in the regulatory asset base through the last year of the current regulatory period and propose an estimate of the depreciation and amortization for the base year of the next regulatory period.

6.5 Regulatory or deferred assets are expenses that are non-recurring or periodically recurring expenses that should be recovered over a period of time by the distribution system operator. Non-recurring expenses may include catastrophic storm damage and rate application expenses.

6.6 Depreciation of assets will be based on the most recent depreciation study provided by the distribution system operator and approved by the ERE that will show the lives of assets by category based on an engineering study. The ERE will apply tax lives on assets for regulatory purposes, but it may decide to use other depreciation rates in specific cases.

6.7 The distribution system operator should provide proposals for the amortization of non-tangible assets and regulatory/deferred assets. The ERE will approve all amortization schedules.
6.8 The working capital allowance in the regulatory asset base should be based on a study of the funds required to maintain a suitable level of material and supplies and the cash required to meet current obligations and to maintain minimum back accounts. Any such study will be included in the tariff application by the distribution system operator to the ERE. In absence of the study, the distribution system operator may provide an estimate of the working capital allowance with written evidence justifying such an estimate. In any case, the working capital will not exceed 1/12 of OPEX.

6.9 Rate of return for the distribution system operator should not reflect any assets acquired through gratuitous transfer.

6.10 The distribution system operator will provide the results of any revaluation of tangible assets which was performed in accordance with the Albanian Accountancy Act and International Accounting Standards and which was completed after the last rate application proceeding for the distribution system operator. The distribution system operator will provide a breakdown of the asset, by categories, included in the regulatory asset base, before and after the revaluation.

6.11 The ERE will determine the appropriate after-tax Return on Equity for the distribution system operator which will be the rate for a risk less security in Albania plus a risk premium related to the risk inherent in an electricity distribution system operator. ERE will use the Capital Asset Pricing Model or other methodologies, where the ERE will use a number of factors for consideration, including: (1) comparisons with other companies having corresponding risks; (2) the attraction of capital; (3) current financial and economic conditions; (4) the cost of capital; (5) the risk of the enterprise; (6) the financial policy and capital structure of the utility; (7) the competence of management; and, (8) the company's financial history.

6.12 The ERE will determine the normalized cost of debt for calculating the debt component interest rates. The calculation of the normalized cost of debt will be based on interest rates for outstanding debt of the distribution system operator. The interest rates used for determining revenue requirements may or may not be the same as actual interest rates for debt. The distribution system operator must show that the interest rates for debt are in-line with commercial interest rates for debt assumed by other companies with similar credit risks. Any debt included in the calculation of average debt interest rate that has an interest rate higher than the current market level will be adjusted downward to the market level.

7. Services and Customer Groups

7.1 The distribution system operator will provide five types of services: use-of-network services, metering and meter reading, meter disconnection and reconnection, reactive power compensation, and connection services.

7.1.1 Use of network – the DSO will provide access to the network for the retail public supplier, non-tariff customers, qualified suppliers and SPPs. The DSO will charge these customers a capacity charge and an energy charge. The energy charge for the retail public supplier will include overall energy losses, while the energy charge for qualified suppliers, non-tariff customers, and SPPs will not include non-technical losses.
7.1.2 Metering and meter reading. The DSO will operate and maintain all metering facilities and read the meters as required for the retail customers connected to DSO network.

7.1.3 Meter disconnection and reconnection service. The DSO, upon request of the retail public supplier or qualified supplier or at its own will, disconnect a customer for non-payment or other violation in accordance with the customer service rules. Reconnection will also be made as specified in the customer service rules.

7.1.4 Reactive power compensation – The DSO will charge all customers above 50 kVA for reactive power compensation. The calculation for charges, if any, during a month as provided below in Section 11 below.

7.1.5 Connection – Each new connection will be priced to the retail customers in accordance with the connections rules and Section 12 below.

7.2 The RPS will contract for distribution services on behalf of the tariff customers. Non-tariff consumers, qualified suppliers and SPPs will be individually billed by the distribution system operator.

7.3 Use-of-network services customers will be separated into customer groups based solely on connection voltage. Some customer subgroups may be created within voltage level.

8. Allocation of costs to energy and capacity use-of-network charges

8.1 Each customer must pay an energy charge, in Leke/kWh, based on the number of kWh delivered from the distribution system to the customer during that month.

8.2 Customers with the appropriate type of meter will also pay a capacity charge for distribution, if appropriate, in Leke/kW/month, based on the higher of the customer’s non-coincidental peak load during the 12-month period ending with the billing month or its contractually guaranteed capacity. A penalty may apply for any non-coincidental peak demand excess above the contractually guaranteed capacity.

8.3 In a distribution system operator tariff application, the distribution system operator must forecast the following figures, for each tariff and non-tariff customer groups (customers at 110/x kV transformers, medium and low voltage):

   a) An estimate of the total delivery capacity in kW required to provide a reliable supply of electricity to customers in that customer group.

   b) the total energy in kWh that will be shown in tariff customers and non-tariff customers’ bills in each month of the base year, and the sum of these monthly totals.

   c) a forecast of the distribution losses attributed to tariff and non-tariff consumers at each voltage level (the cost of losses will be included in the energy charge (variable cost) for each customer group).
8.4 For each tariff and non-tariff customer group the fixed cost of the revenue requirements is allocated to that group in the base year. The price of capacity, in leke per kW per month, equals:

\[
P_{\text{capacity}} = \frac{\text{Allocated Fixed Costs}}{L}
\]

\[L\] - Total delivery capacity, kW

8.5 For each tariff and non-tariff customer group (customers at 110kV transformers, medium voltage, and low voltage) the energy-related portion of the revenue requirements is allocated to each customer group.

The price of energy, in leke per kWh, equals:

\[
P_{\text{energy}} = \frac{\text{Allocated Variable Costs}}{E}
\]

\[E\] - Total energy in kWh that will be shown in tariff customers and non-tariff customers' bills during the base year.

8.6 Allocated variable costs for tariff customers will include the cost of providing energy losses, allocated by voltage level. The allocated variable costs for non-tariff customers will include the cost of providing technical energy losses, allocated by voltage level.

8.7 For customers whose meters only measure active energy consumption in kWh, the price per kWh is calculated so that it will cover both capacity-related costs and energy-related costs:

\[
P_{\text{energy-only}} = \frac{(\text{Allocated Fixed Costs} + \text{Allocated Variable Costs})}{E}
\]

Where, \(E\) = total energy in kWh that will be shown in the tariff customers and non-tariff respective customers' bills during the base year.

8.8 The Distribution System Operator may submit an application to ERE for peak/off-peak energy prices in the distribution use of network tariff. In this application there will be two values of energy: (i) one corresponding to peak periods (when network losses are higher and the value of energy is higher), and (ii) one corresponding to off-peak periods (when network losses are lower and the value of energy is lower). In other respects the distribution system operator methodology would be the same. The distribution system operator would have to explain in its tariff application the costs and benefits of introducing a peak/off-peak pricing structure in the distribution use of network tariff. The peak/off-peak approach requires more expensive meters, which can be justified only by peak/off-peak price differences for generated and imported energy and in conjunction with on-peak and off-peak pricing by the RPS may justify the purchase of the required meters.
9. Metering Related Services

9.1 The Distribution System Operator will offer metering services to the retail public supplier and to qualified suppliers.

9.2 The DSO will charge the suppliers a metering and meter reading charge for each customer that each supplier supplies energy. All costs related to the installation, operation, maintenance, calibration and reading of the wholesale and retail customer meters will be included in the allocated revenue requirements for this service, separated by voltage level. The rate will be determined as the total revenue requirements for a particular voltage level divided by the number of customers connected at that voltage level.

9.3 The DSO charges for disconnection and reconnection of meters. The revenue requirements for such service should represent the average annual costs of providing these services. There is one price at the time of reconnection that will include the cost related to disconnection, which must be pre-paid before the reconnection is made. The allocated revenue requirements for this service should include labor, labor overhead, vehicle-related expenses, and other allocated expenses.

10. Setting the average distribution tariff ceiling

10.1 For the base year, the average distribution tariff ceiling is equal to the average distribution tariff calculated according to costs in the base year.

10.2 For the second year of the tariff review cycle (Year 2), each component of the distribution use-of-network tariff for the base year is multiplied by the annual adjustment factor:

\[ A = (1 + \text{RPI} - X) \]

- \( A \) - annual adjustment factor
- \( \text{RPI} \) - rate of consumer price inflation forecast for Year 2 by the National Bank of Albania, or set by the ERE on the basis of the statistical trends in consumer price index over the most recent 3 year period for which historical data are available (sources from INSTAT).
- \( X \) - efficiency improvement factor set by ERE

10.3 The ERE will add to this formula a performance improvement factor based on the quality of supply to tariff customers and non-tariff customers or the level of distribution network energy losses. Such performance improvement factors must be defined very clearly and simply, and the distribution system operator must provide an assurance to ERE that the distribution system operator is able to provide the quality of supply data needed to accurately measure its performance improvement.
10.4 The value of X should be determined on the basis of a benchmarking study of
distribution system operators, in which the performance of at least 3 distribution
system operators is examined over a period of at least 3 years.

10.5 The X-factor will include at least four categories of expenses: direct and indirect
labor, labor productivity, procurement, and technology. The technology will include
implementation of management systems and reduction in technical losses.

10.6 For each succeeding year of the regulatory period, the distribution prices for the
previous year are multiplied by an annual adjustment factor as was done in the second
Year.

11. Reactive Power Charges

11.1 Reactive power compensation is normally an ancillary service provided by generators
to the TSO and therefore reactive power charges are part of the transmission tariff. If
the distribution system operator continually fails to meet its voltage standard set at the
interconnection between the transmission and distribution network, the TSO can
charge the distribution system operator reactive power penalties. The Distribution
System Operator can install reactive power capacity or reactors as the need requires
rather than pay the penalty to the transmission company.

11.2 Likewise, the distribution system operator has the right to require a distribution
network customer to maintain a certain power factor at the interconnection with the
distribution network.

11.3 The consumers with provided electrical capacity of 50 kVA and more pay an
allowance over the value of the active electric power depending on the reactive
electric power used and released at average monthly capacity factor less than 0.9
during the day and peak daylight zone.

11.4 The quantity of used reactive electric power, for which an allowance is paid under
Section 11.3, is the positive difference between the quantity of used reactive electric
power and the product of the quantity of used active electric power and a coefficient
corresponding to the average monthly power factor, according to the formula:

\[ E_{alwn} = E_{used} - (E_{a.used} \times (1 - F)) \]

where:

- \( E_{alwn} \) is the quantity of reactive electric power which is paid, kVarh;
- \( E_{used} \) the quantity of reactive power consumed by the customer during the daytime
  zones;
- \( F = 0.9 \), for reactive power consumption not charged between 1 and 0.9 power factor.
- \( E_{a.used} \) the quantity of active electric power used by the consumer by daytime zones,
determined through the readings of the device for commercial metering of active
electric power, kWh.
11.5 The consumers under Section 11.3 pay an allowance for the quantity of reactive electric power \( (E_{\text{act}}) \) determined according to Section 11.4 at a price for 1 kVarh, equal to a \( \text{[ ]} \) per cent of the regulated public supply price for 1 kWh active electric power for the respective daytime zone and the respective voltage level.

11.6 The consumers under Section 10.3 pay an allowance for the quantity of reactive electric power released throughout the peak hours, determined according to the readings of the commercial metering devices, at a price for 1 kVarh, equal to the regulated public supply price for 1 kWh peak active electric power for the respective voltage level.

11.7 Whenever the consumers under Section 10.3 produce electricity and heat under combined generation cycle, they do not pay to the distribution system operator an allowance over the released reactive electric power produced under combined generation cycle.

12. **Pricing of New Connections to the Distribution Network**

12.1 The prices for customer connecting to the distribution network will be approved by ERE. These prices are paid by newly-connected consumers, existing consumers increasing their power, and by consumers-owners of power facilities (i.e. SPPs).

12.2 New electricity consumers pay the price for connecting to the distribution network, which includes only the direct expenses for connecting the installations of the consumers to the network of the electricity distribution company.

12.3 The prices of connecting consumers' facilities above kVA of contracted capacity are determined under an individual project and are formed through a calculation of the individual expenses on the project, including the expenses necessary for making the connection between the facility's installation and the nearest point of the respective network at which it is possible for the connection to be made.

12.4 The prices of connection are determined by groups of consumers, and include a constant component and a variable one, these being approved by the ERE.

12.5 The prices approved by the ERE for connecting are not subject to differentiation by levels of power between the lower and upper limit of power within the respective group.

12.6 The constant component is determined for the following minimum number of groups of consumers depending on the power of the consumer:

1. customer group of up to 6 kW;
2. customer group of 7 to 15 kW;
3. customer group of 16 to 50 kW;
4. customer group of 51 to 100 kW;
5. customer group of 101 to 200 kW;
6. customer group of 201 to 500 kW;
7. customer group of 501 to 1000 kW.
12.7 The distribution system operator is entitled to submit for the ERE approval of proposals for changing the groups of consumers.

12.8 The prices of connecting consumers whose power exceeds the maximum power set forth in Section 12.6 are determined on the grounds of individual projects.

12.9 The variable component is determined on the grounds of the distance from the facility to the nearest point of the network of the respective voltage, at which it is possible for the connection to be made, or to the nearest voltage-transformation station.

12.10 The variable component is equal to zero in those cases where the distance under Section 12.9 is less than or equal to 25 meters.

12.11 Apart from the cases under Section 12.10, each additional meter of cable or air line is paid for at the price for the respective group of consumers, this price being approved by the ERE.

12.12 The constant component of the prices of connecting is an expression of the average expenses for connecting a consumer belonging to a certain group and is determined through the following formula:

\[
C_{pr}(i) = \frac{N}{\sum_{i} S(i)} \times (\text{Expenses for connections in } i^{th} \text{ group})
\]

where:
- \( C_{pr}(i) \) = the price of connecting a consumer belonging to the \( i \)-th group of consumers, in ALL;
- \( S(i) \) = expenses on connecting - the total expenses on connecting for the \( i \)-th group of consumers for the year preceding the year when the proposal for changes in prices was made, in ALL;
- \( N \) = the number of connections made for the \( i \)-th group of consumers for the preceding year.

12.13 The fixed component of the expenses on connecting comprises the following:

1. for the groups of up to 50 kW of connected power: the expenses on delivery and mounting the electrometer board, installing wiring for a distance of up to 25 meters, delivery and mounting the equipment needed for the specific purpose;

2. for the groups of 50 to 200 kW of connected power: the expenses on delivery and mounting the necessary equipment and wiring needed for the voltage-transformation station and the electrometer board, installing the wiring for a distance of up to 25 meters, delivery and mounting of the electrometer board and its equipment;

3. for the groups of 200 to 1000 kW connected power:
a) the expenses needed for the voltage-transformation station in view of the power required, construction of the voltage-transformation station, its equipment with the necessary devices, wiring, delivery and mounting the apparatuses of the measuring system;
b) the expenses on connecting the voltage-transformation station to the power distribution network of mean voltage by way installing an air line of 1 x 25 meters or a cable of 2 x 25 meters.

12.14 The variable component of the price of connection comprises the expenses on the installation of wiring for the distance from the nearest connecting point of the power distribution network of the respective level of voltage to the electrometer board of the consumer (for the groups of up to 200 kW of required power) or to the voltage-transformation station (for the groups of 200 to 1000 kW), decreased by the expenses for the 25 meters of wiring.

12.15 The above price determination is for a single line connection, or third level (III) of reliability of service for consumers. There are two other higher levels of security, Level II and Level I. The improved reliability is ensured through increased protection including multiple circuits into a customer's premise. This has to be consistent with the distribution code.

12.16 The prices of connecting for other categories are determined as follows:

\[
C_{pri} (II) = 1.8 \times C_{pri} (III);
\]
\[
C_{pri} (I) = 2.8 \times C_{pri} (III),
\]

where:

- \( C_{pri} (III) \) is the price of connecting for the i-th group of consumers, third category of security;
- \( C_{pri} (II) \) - the price of connecting for the i-th group of consumers, second category of security, in ALL.

12.17 \( C_{pri} (I) \) - the price of connecting for the i-th group of consumers, first category of security, in ALL.

12.18 Connection charges for new generating facilities directly connected to the distribution system shall be established on a case-by-case basis. The connection charge should cover only the cost of the metering devices and lines that are built exclusively to connect a new generator to the network.

12.19 Assets financed through connection charges may not be included in the regulated asset base of the distribution system operator. Depreciation of these assets shall not be covered under use of network charges.

13. Deadlines
13.1 Based on this methodology, the distribution system operator shall submit to the ERE a request for the approval of new tariffs no later than 6 months before the day that the new proposed tariffs are required to enter into force.

13.2 The distribution system operator shall submit to the ERE data on previous year costs and average tariff (prices) according to the sale structure, within April of the next year.

13.3 ERE shall examine these data within May of each year, and if deviations from the approved costs and tariff (prices) that impair the customers are evidenced, the ERE shall decide on the company reimbursements for the next year.

14. **Transitional Provisions**

14.1 The regulatory periods will be set in the ERE approved regulatory statement for implementation purposes of this tariff methodology.

14.2 The rates for the third regulatory period will be based on financial data in accordance with Uniform Standards of Accounting for regulatory purposes approved by ERE, and National Accounting and Reporting Standards/IFRS.

14.3 For the first three regulatory periods, the targeted capital structure for the DSO will be as per the published ERE Regulatory Statement.

14.4 The allowed after-tax return on equity will be initially set as per the published ERE Regulatory Statement.

14.5 For the initial regulatory periods,

(1) The distribution system operator tariff structure in the first regulatory will remain the same as it exists as of March 1, 2009.

(2) The distribution system operator may file an application to the ERE to revise the rate structure within the second or third regulatory period if the distribution system operator provides a rate design study based on customer usage patterns and cTSO of service for the various customer groups.

(3) The rates for each distribution service will be uniformly increased based on the increase of revenue requirements for the previous period.

14.6 The program for reduction and eventual elimination, to the extent possible, of energy losses are the responsibility of the distribution system operator. The ERE will set target reductions for energy losses within the regulatory periods. A study for the estimation of technical losses at each voltage level, will be provided by the licensee at the time of tariff application.

15. **Final provisions**
The Electricity Distribution Tariff Calculation Methodology was approved by ERB's Board of Commissioners by Decision Nr. 79, dated on June 26, 2008.
Part II: Application Form
ELECTRICITY REGULATORY ENTITY

RETAIL SALES TO REGULATED TARIFF CUSTOMERS TARIFF CALCULATION METHODOLOGY

PART I

Authority

This electricity sales tariff calculation methodology is developed according to the Law No.9072, dated on May 22, 2003 “On Power Sector.”, as amended.

Purpose

The purpose of this methodology is to set tariffs for regulated sales to electricity end-customers based on sound economic principles and providing the licensee, the Retail Public Supplier (or “RPS”), the opportunity to earn its allowed profit margin.

Objective

The short-term objective of this tariff methodology is to provide a cost-based framework for calculating the price of electricity sold to tariff customers and to provide proper price signals for efficient use of energy.

1. Terms used in the methodology

Standard terms used in all tariff methodologies are defined in the Power Sector Law, the Market Rules, the Metering Code, the Transmission Code, and other secondary legislation approved by the ERE. Terms used in this methodology have the following meanings.

1.1 Average tariff for electricity sales to tariff customers – average revenue per kWh from sales to tariff customers over a 12-month period, calculated as the total revenue from capacity-related charges, energy-related charges, and fixed monthly charges divided by the total kWh delivered to tariff customers.

1.2 Delivery capacity – an estimate of the total customer load in MW that can be reliably supplied by the distribution system during the tariff year.

1.3 Metered Load Forecast – the forecast developed cooperatively between the RPS, the Operator of System and Transmission (or “OST”) and the Wholesale Public Supplier (or “WPS”) of energy sales and peak load assuming all load is served (no load shedding) for tariff customers, energy sales and peak loads for non-tariff customers, total, technical and non-technical energy losses on the electricity distribution network, and forecast of distributed generation production on the distribution network.
SALES TO TARIFF CUSTOMERS: TARIFF CALCULATION METHODOLOGY

1.4 Differentiated tariffs – tariffs for customer service that include capacity-related charges, energy-related charges, and fixed monthly charges related to the respective voltage level.

1.5 Incremental block of consumption – The top block of kWh in the tariff for all customers on which the incremental cost of energy for the power system is reflected.

1.6 Tariff Year – the 12-month period in which the tariffs approved by ERE are applied to monthly electricity bills to tariff customers.

1.7 Regional Electricity Market – a competitive electricity market operating in Albania, Austria, Bosnia-Herzegovina, Bulgaria, Croatia, FYR Macedonia, Greece, Hungary, Montenegro, Romania, Serbia, Slovenia, UNMIK, and Turkey, based on the legal framework of EU Directive 2003/54/EC.

1.8 Test Year – a 12-month period prior to the tariff year that is used as the basis for developing the revenue requirements for the tariff year for the RPS.

2. General regulations and basic principles

2.1 Non-compliance with any part of this Regulation may result in a rejection by the ERE of a tariff application by the RPS.

2.2 This methodology is developed in conformity with Law on Power Sector and the Government-approved Albanian Market Model (“AMM”) as well as other legal acts which are in force in the Republic of Albania and other secondary legislation approved by the ERE.

2.3 The ERE will establish tariffs based on the principles that:

- There should be no cross-subsidies between customer classes (tariffs should reflect the actual cost of service for each tariff class);
- Tariffs should provide proper price signals for the efficient use of energy;
- Expenses included in tariffs should be transparent to all stakeholders;
- Tariffs should cover all reasonable expenses for the RPS and the RPS will pay its liabilities to the other sector licensees on time and in the full amounts of the invoices.
- The tariffs should allow the RPS a reasonable opportunity to earn the ERE-approved allowed profit margin on revenue;
- Budgetary customers will pay all its energy invoices on time and in full;
- Only prudently acquired services by the RPS will be accepted into public supply tariffs;
- Prices for electricity should remain relatively stable over time.
3. Test Year and Tariff Year

3.1 The ERE will approve tariffs annually for the RPS.

3.2 The ERE will adopt template tables for tariff applications as part II of this tariff regulation. The RPS shall use the template tables provided by ERE for filing data from the test year and adjusted for the tariff year. The format of the tables can be modified as long as the information is organized in a similar manner and the breakdown of information is no less than that provided in the approved template tables. The tables will show test year results, adjustments made to test year results including but not limited to company expenses, capital expenditures, and regulatory asset base by regulated service.

3.3 The revenue requirements for the RPS is a result of the forecasted cost of the other regulated sector licensees and its own cost of operation. Any related annual tariff increase in tariffs for other licensees will be reflected in the tariff for the RPS.

3.4 The test year for establishing base financial costs will be based on accounting information in accordance with the ERE-approved Uniform System of Accounts. The test year should be a representative 12-month historical period of company operating costs. The ERE has the right to perform, or contract to perform, a regulatory audit of the RPS's test year accounting information during the tariff application proceedings.

3.5 The RPS may propose changes to the test year expense results for setting tariffs for the tariff year. Any such changes must be both known (a specific item) and measurable (quantifiable). Contingency funds to cover unexpected costs will not be approved by the ERE. The ERE will consider adjustments to test year results such as:

1) demand growth or decreases;
2) inflation;
3) contract price changes;
4) changes in taxes and insurance;
5) the number of customers served;
6) Operations costs;

3.6 The RPS will provide justification for each forecasted adjustment to the test year results. The adjustments must be specified on the tables provided by the RPS in the tariff application and written testimony will be included in the tariff application providing evidence for the reason(s) for each major adjustment and the amount for each adjustments.

3.7 The RPS will separately charge on the tariff customers' invoices energy purchases, use of network services (transmission and distribution) including ancillary service charges, and charges related to public service obligations.

3.8 The RPS will propose allocation factors for all components of revenue requirements for the license types between the various services. The RPS will provide the allocation factors with the basis and justification for the different allocation factors such as number of employees, number of customers, level of
energy sales, and peak load. Some components may only be directly related to one service and therefore all such components should be completely allocated to that service.

4. Revenue Requirements for Regulated Retail Services

4.1 The revenue requirements for Regulated Retail Services are calculated at the following manner:

4.1.1 The revenue requirements for generation services include:

a) Power purchase costs for energy and capacity from the WPS.

The price for energy sold to the RPS for covering the expected metered load is approved each year by the ERE in accordance with the Tariff Methodologies for the WPS. The tariff for the WPS will assume an annual publicly owned hydro production of [4,200] MWHs.

b) The RPS will be charged by TSO for imbalances according to the provisions of the Market Rules if applicable.

c) Adjustment – an annual adjustment for previous year including energy and capacity adjustments from the WPS compared to forecasted levels.

The revenue requirements for network service include:

4.1.2 The charges for transmission use to the RPS for tariff customers.

**OST Costs** – The OST tariff is a single number, is not by voltage (infrastructure and loss differentiation) and it has been approved by the ERE for the period through the end of 2008.

\[
OST \text{ Costs} = OP \times DE
\]

Where:

\[OP = \text{ERE-approved tariff for the OST}\]

\[DE = \text{estimated energy delivered to the distribution network by the OST for tariff customers}\]

**Note:** when the OST reverts to a multi-part tariff, this formula will change accordingly.

4.1.3 The revenue requirements for distribution network use will be allocated by the distribution company between tariff customers, non-tariff customers including balancing groups and distributed generators selling energy outside of the distribution company. The allocated revenue requirements for distribution network use by the RPS to serve tariff customers will be allocated to the tariff customer classes and included in the network charges.
for each tariff customer. The allocations must recognize the voltage level of the customer connection.

The capacity and energy prices for network services are used to compute the customer's bill when the customer has a meter that measures both active power in kW and active energy in kWh. For all other customers the price per kWh reflects the sum of allocated revenue requirements for network service.

4.1.4 Customer Charge will include the public supply fee as well – This fee covers the cost of customer billing and collection, filing tariff applications, and fulfilling other supply-related responsibilities of the RPS. The fee will also include a profit margin for the RPS calculated on the annual electricity purchases by the RPS.

4.1.5 Public service obligations (PSOs) are defined as those obligations imposed on the RPS including reliability of supply, environmental protection and energy efficiency.

All costs associated with public service obligations in the electric power sector shall be fairly paid by each and every end-users receiving service from the transmission and distribution systems and recovered as part of the cost of service from all energy consumers based upon metered usage. The allocation of these costs and the process for handling the allocation, recovery and payment of the costs shall be determined in proceedings before the ERE.

4.2 Revenue requirements (RR) associated with end-user tariffs is the sum of the above related costs.

\[ RR = \text{Generation Costs} + \text{OST Costs} + \text{Distribution Costs} + \text{Supplier Fee} + \text{PSOs Costs} \]

4.3 Auto-producers may wish to purchase standby energy from the RPS based on ERE-approved tariffs. In these cases, the auto-producers must contract with the RPS for both backup energy and capacity. The cost of the energy will be at the system incremental costs for non-household customers at the voltage level of the customer connection and the cost of capacity will be based on a cost of service study for all customers in the "backup energy" customer class.

4.4 If the RPS is legally bundled with the distribution network licensee, the distribution activity and public supply activity must be completely unbundled from an accounting standpoint. If the companies are legally separated under a holding structure, then the resultant shared service agreements will be subject to ERE review and approval before allowing the related costs within those agreements to be included within the tariffs of the RPS.
5. Customer Classes

5.1 The regulated energy and capacity tariffs are be calculated for four main customer groups:

a) Non-household tariff customers at High Voltage, i.e., customers with a direct connection to transformers 110/x kV and 220 kV.

b) Non-household customers at Medium Voltage (35/20/10/6 kV)

c) Non-household customers at Low Voltage (0.4 kV).

d) Household customers at Low Voltage.

5.2 The RPS should calculate tariffs for the four main customer groups by calculating tariffs for each group that accurately reflect the true economic cost of electricity service. The average sales tariff for customers at 110/x kV transformers, the average sales tariff for medium voltage customers, and the average sales tariff for low voltage customers (households and non - households) should be calculated so that they cover the true cost of service, including the cost of access to the distribution network. Within each of the three groups of non-household customers, the ERE may create customer subgroups and set different tariffs for each subgroup. The tariffs may include customer subgroups as long as the cost of service is calculated and the resulting tariffs are based on the true cost of service.

5.3 ERE aims to set energy tariffs so that the total annual revenue required from household customers equals the true cost of service to household customers.

5.4 The tariffs shall be based on costs that would be incurred by a well-managed RPS which avoids wasteful expenditures.

6. Retail Public Supply Tariff Designs

6.1 The bills for the household customers and non household customers supplied in 0.4 kV (LV) may include the following charges:

1) Generation services (Leke/kwh)

   1. 1st Block (X kWh/month for households)

   2. 2nd Block (residual kWhs above 1st Block)

2) Transmission Services (Leke/kwh)

3) Distribution Services (Leke/kWh)

4) Customer charge (in Leke/month)
5) Public Service Obligations, if any (Leke/kWh)

6.2 The bills for each group of non-household customers, according to the supply level of voltage may include the following separated charges:

1) Generation services (Leke/kWh)
   a. capacity charge (leke/kW)
   b. energy charge (leke/kWh)

2) Transmission Services (Leke/kWh)
   a. Capacity charge (Leke/kW)
   b. Energy charge (Leke/kWh)

3) Distribution Services
   a. Capacity charge (Leke/kW)
   b. Energy Charge (Leke/kWh)
   c. Reactive Power Charge (Leke/kvarh)

4) Customer charge (in Leke/month)

5) Public Service Obligations, if any (Leke/kWh)

6.3 For HV and MV tariff customers, the monthly invoice from the RPS will include a capacity charge. The capacity charges will be set at Zero Leke per month until the customer installs electronic metering device to record and store hourly customer demand. The electronic meters should allow for calculating reactive power flows.

6.4 RPS may ask the ERE to approve block tariffs for the non-household consumers as well, according to proper study performed based on an adequate metering system.

6.5 RPS has to determine if the customers should also be required to pay for reactive power or install reactive power compensators/reactors.

6.6 Generation charges from the WPS, in capacity and energy, are allocated to the four customer classes;

For household customers and non household customers supplied in 0.4 kV (LV): the generation energy charge is calculated as the total capacity and variable costs, divided to the total forecasted energy sales respectively.

For other non household consumer groups: (i) the generation capacity charge is calculated as the capacity allocated costs for the customer group (g), divided to the sum of Coincident Peak demand of the respective customer group. (ii) the generation energy charge is calculated as variable allocated costs for the customer group (g) divided to the total energy sales to the respective customer group.
6.7 Transmission charges from the TSO, in capacity and energy, are allocated to the four customer classes;

For **household customers and non household customers supplied in 0.4 kV (LV)**: the transmission service energy charge is calculated as the total capacity and variable costs, divided to the forecasted energy sales respectively.

For **other non household customer groups**: (i) the transmission service capacity charge is calculated as capacity allocated cost for transmission for the customer group(s) divided to the sum of non coincidence peak load of the respective customer group; (ii) the transmission service energy charge is calculated as variable costs for the customer group(s) divided to the total of energy sales to the respective customer group.

6.8 Distribution charges from the DSO, in capacity and energy, are allocated to the four customer classes;

For **household customers and non household customers supplied in 0.4 kV (LV)**: the distribution service energy charge is calculated as the total capacity and variable costs, divided to the forecasted energy sales respectively.

For **other non household customer groups**: (i) the distribution service capacity charge is calculated as capacity allocated cost for distribution for the customer group(s) divided to the sum of non coincidence peak load of the respective customer group; (ii) the distribution service energy charge is calculated as variable costs for the customer group(s) divided to the total of energy sales to the respective customer group.

6.9 Customer charges are calculated based on allocated supply fee for each customer class, divided to the number of customers for each customer class;

6.10 Separate charges for the public service obligations will be determined on a case by case basis where the ERE will determine the fair allocation of the PSO costs to all customer groups.

6.11 Distribution Charges for Eligible Customers

\[ ECDS = \frac{ECADV + ECADC + ECATL}{TES} \]

Where:

- **ECDS** = Eligible Consumers Distribution Services Tariff
- **ECADV** = Allocated Distribution Variable Costs (including the cost of technical losses only)
- **ECADC** = Allocated Distribution Capacity costs
- **TES** = Total energy sales
7. Service Quality Standards

7.1 The RPS will be required to implement a program that will include at least four measurements of service quality. The standards of service will at least include:

Service Quality:
- Average time to respond to a customer inquiry;
- Average number of customer complaints unresolved after 30 days

Energy reliability
- Customer annual interruption duration index (CAIDI)

Energy Quality
- Per cent of time voltage level is below standards at each distribution substations during peak periods

7.2 The energy and service quality program will be administered by the RPS. To the extent that the ERE assesses a penalty associated with the non-performance of meeting the annual targets for energy reliability and energy quality by any other licensee (DSO, OST and/or WPS), the associated penalty will be subtracted from payments made by the RPS to that licensee.

7.3 The retail public supply tariff methodology will be adjusted to allow for adjustments to RPS prices for not achieving the annual targets of performance.

8. Peak and off-peak energy charges

8.1 The RPS may propose a sales tariff with peak and off-peak energy charges, in leke/kWh, to reflect the difference between in the price of energy during peak hours and the price of energy during off-peak hours.

8.2 The definition of peak and off-peak time periods shall be decided by the ERE on the basis of a proposal submitted by the RPS.

9. Reporting

9.1 The RPS by April 30 of each year shall submit to the ERE the previous year's annual reporting forms in accordance with the ERE-approved regulatory Uniform System of Accounts.


10.1 The retail public supply tariff year starts on March 1
10.2 The tariffs for 2011 will be based on financial data in accordance with IFRS and National Accounting and Reporting Standards.

10.3 RPS will develop and propose to ERE the service and energy quality standards program by December 31, 2009. The ERE will approve the standards based on benchmarking of comparable regional electricity public supply companies that have reached commercial maturity.

10.4 The profit margin for the first three regulatory periods, 2009 through 2013, will be approved through a separate regulatory statement. Thereafter the ERE will evaluate the appropriate level of profit margin for the future regulatory periods.

10.5 Separate pricing of imbalance service will enter into force in the year 2010;

11. Final provisions

The Retail Public Service Tariff Calculation Methodology was approved by ERE's Board of Commissioners by Decision Nr. 80, dated on June 26, 2008.
Part II

Tariff Application Forms
STANDARD TENDER PROCEDURES

FOR

THE PROVISION OF FINANCING

TO

OSSH

[●] 2009
1. General Information

1.1 These standard tender procedures for the provision of external financing to OSSH (the “Procedures”) constitute tender procedures set forth in Section 4.2 of the Regulatory Statement Ref. [●] (“Regulatory Statement”) approved by the Energy Regulatory Entity (“ERE”) on [●] by Decision No. [●].

1.2 The Procedures were approved by ERE on [●] by Decision No. [●].

1.3 In accordance with the Regulatory Statement OSSH (the “Company”) shall select banks providing financing to OSSH in compliance with the Procedures.

1.4 The Procedures shall be effective from the date of the approval of the Procedures by ERE, as stated in Section 1.2 above, until the expiration of the term of the Regulatory Statement (31 December 2014).

2. Selection of Advisor/Arranger for the Preparation of Request for Financing Proposal

2.1 The Company shall first launch a tender for the selection of advisor/arranger (“Arranger”) for the purpose of preparation of a request for financing proposal (“RFP”).

2.2 Eligible candidates must fulfill the criteria set forth in (a) through (c) below.
The candidates must have:

(a) proven expertise and track record in the relevant field (advisory/arranger services in connection with financings of large companies, in particular utilities);

(b) adequate resources (including a dedicated team) to execute the required task;

The candidates must provide with their bid:

(c) description of the total cost for the services.

2.3 The Company shall send invitations, by email, registered mail or messenger, to at least 5 entities of international reputation, from which the Arranger is to be selected.

2.4 Invitations shall be made in English.

2.5 Bids shall be made in English and the price offered shall be quoted in EUR without VAT.

2.6 Bids shall be sent by email to the Company at: [●], to the attention of [●]. Each bid must contain a scanned original. Bids must be received by no later than the date and hour specified in the invitation. Late bids will be disregarded.

2.7 The Company will select (taking into account all of the criteria set forth in Section 2.2 above) the bidder who best complied with such criteria. If no bidder submits a bid that satisfies — in the opinion of the Company — the required criteria, the Company may — in its sole discretion — cancel the tender and no bidder will be selected.
2.8 The Company shall send ERE summaries of:

(a) the invitations to potential bidders under Section 2.3 above;
(b) the bids received from advisors participating in the tender for the Arranger;
(c) the decision of the Company on the selection of the winning bidder.

3. Preparation of RFP

3.1 The Arranger selected in accordance with Section 2 above shall prepare, based on instructions from the Company, an RFP, which shall include the relevant qualification and selection criteria for the bank(s) to be providing financing to OSSH, and which shall be prepared in accordance with international best practice.

3.2 The Arranger shall send the RFP, by email, registered mail or messenger, to at least 5 banks of international reputation, from which the financing bank(s) is/are to be selected.

3.3 Bids must be prepared in accordance with instructions set forth in the RFP.

4. Evaluation and Selection of Winning Bidder Providing Financing

4.1 The Arranger shall evaluate the bids received in response to the RFP and shall recommend a bank(s) that has/have best complied with the qualification and selection criteria.

4.2 The Company will select the winning bidder to be providing financing while taking into account the recommendation made by the Arranger, but is not
obligated to follow such recommendation. If no bidder submits a bid that satisfies – in the opinion of the Company – the required criteria, the Company may – in its sole discretion – cancel the tender and no bidder will be selected.

4.3 The Company shall send ERE summaries of:

(a) the RFP;
(b) the bids received from banks participating in the tender under the RFP;
(c) the recommendation made by the Arranger to the Company; and
(d) the final decision of the Company on the selection of the winning bidder (including reasonable explanation why the Arranger's recommendation was not followed, where applicable).

5. Multinational Institutions

The Procedures shall not apply to any efforts by the Company to obtain financing from multinational lenders, such as IBRD and IFC, and Export Credit Agencies.

6. Equity Financing/Inter-company loan financing

In the event that OSSH was unable to obtain financing either:

(a) from commercial lenders using the Procedures, i.e. a bid for external financing was launched, but no bidder submitted a bid or no bidder submitted a bid satisfying the required criteria; or

(b) from multinational institutions, i.e. an attempt by the Company was made to obtain financing from institutions under Section 5 above, but no institution was willing to provide financing (the Company will upon written request from ERE provide reasonable evidence that such attempt was made);
OSSH shall be allowed to receive financing from its shareholders. The cost of such financing shall be equal to the ARoE in accordance with the Regulatory Statement.
STANDARD TENDER PROCEDURES

FOR

THE PURCHASES OF ELECTRICITY FOR THE PERIOD [●]

BY

OSSH

[●] 2009
1. General Information

1.1 These standard tender procedures (the “Procedures”) for the purchases of electricity by OSSH (the “Company”) constitute tender procedures set forth in Section 4.5 of the Regulatory Statement Ref. [●] (“Regulatory Statement”) approved by the Energy Regulatory Entity (“ERE”) on [●] by Decision No. [●].

1.2 The Procedures were approved by ERE on [●] by Decision No. [●].

1.3 In accordance with the Regulatory Statement the Company shall purchase electricity to cover losses in compliance with the Procedures.

1.4 The Procedures shall be effective from the date of the approval of the Procedures by ERE, as stated in Section 1.2 above, until the expiration of the term of the Regulatory Statement (31 December 2014).

2. Preparation of Tender Documents

2.1 No later than by 31 July of each year, the Company shall prepare, in compliance with the Procedures, tender documents for the selection of suppliers of electricity to the Company for the period [●] for the purpose of covering losses (the “Tender Documents”).

2.2 The Company shall send the Tender Documents to potential suppliers by no later than 5 August.
2.3 Eligible candidates must fulfill -- at a minimum -- the criteria specified in (a) through (f) below.

The candidates must have:

(a) appropriate authorizations and licenses for the business of electricity trading;

The candidates must provide with their bid:

(b) an amount of the price in EUR, including customs duty and any other applicable dues, taxes and fees, including the fee for cross-border transfer capacity, but excluding Value Added Tax (VAT); for each lot specified in the Tender Documents;

(c) a bid security in the amount and in form specified in the Tender Documents;

(d) a commitment that their bid will be valid for a period of at least 7 calendar days from the submission of the bid;

(e) a commitment that in the event the bidder will be selected as a winning bidder, such bidder will provide a performance guarantee in form and substance acceptable to the Company;

(f) a written authorization to persons submitting the bid for representing the bidder.

2.4 The Company shall send the Tender Documents, by email, registered mail or messenger, to at least 5 potential suppliers, from which the winning bidder is to be selected.

2.5 The Tender Documents shall be made in English.

2.6 Each bidder may only submit one bid. Bids shall be made in English.

2.7 Bids shall be sent by email to the Company at: [●], to the attention of [●]. Each bid must contain a scanned original. Bids must be received by no later than the date and hour specified in the Tender Documents (which shall not
be later than 10 September 12:00 noon). Late bids will be disregarded.

2.8 By no later than 15 September, the Company will select (taking into account all of the criteria set forth in Section 2.3 above) the bidder who complied with all such criteria and who submitted the lowest price (as defined in Section 2.3 (b) above) per lot for the applicable period. If no bidder submits a bid that satisfies — in the opinion of the Company — the required criteria, the Company may — in its sole discretion — cancel the tender and no bidder will be selected.

2.9 In the event that the tender is cancelled, the Company may launch a new tender in accordance with these Procedures.

2.10 In the event that any tender made in accordance with these Procedures is cancelled and the Company still requires electricity to cover losses, the Company may enter into bilateral negotiations with up to five of the unsuccessful bidders who submitted the lowest bids in such cancelled tender and may agree on the electricity purchase contracts with any of such bidders. In such event, the Company shall (within two business days of such agreement) submit a request for approval of such contracts to ERE. ERE shall (within five business days of submission of such request) approve the contracts so negotiated; provided that the agreed price is lower than the price offered in the tender which was cancelled immediately prior to the commencement of the negotiated procedure described in this Section 2.10.

2.11 The Company shall send ERE summaries of:

(a) the Invitations (Tender Documents) to potential bidders under Section 2.4 above;

(b) the bids received from bidders participating in the tender;

(c) the decision of the Company on the selection of the winning bidder (or the decision that no bidder was selected);
(d) the contracts agreed in the negotiated procedure under Section 2.10, if any.

* * *
Decision on amendment of the decision of the Council of Ministers No. 338 "On the approval of the electric energy market model" dated 19 March 2008.

Decision on amendment of the Decision of the Council of Ministers No. 338 dated 19 March 2008

Pursuant to Article 100 of the Constitution and Article 53 of the act no. 9072 dated 22 May 2003 "On the Sector of Electric energy", as amended, and the proposal of the Minister of Economy, Trade and Energy, the Council of Ministers

DECIDED AS FOLLOWS:

1. Point 10 shall be added after the Point 9 of the electric energy market model, approved by the Decision of the Council of Ministers No 338 dated 19 March 2008, "On the approval of the electric energy market model", as amended, with the following wording:


As long as OSSH is a State Company, electric energy produced by KESH for public retail supplier's will be sold to OSSH sh.a in the requested quantity in relation with the loss coverage. The sale price for the public retail supplier's will be approved by ERE in the year of realization of the sealing.

2. The Ministry of Economy, Trade and Energy and KESH is in charge with the implementation of this decision.

This decision shall become effective as of 1 January 2009.

Prime minister

Sali Berisha
Re: N.A.V. adjustment calculation guidelines

Dear Sir/Madam,

The Ministry of Economy, Trade and Energy of the Republic of Albania acting on behalf of the Republic of Albania ("METE"), hereby informs CEZ a.s. that, after having discussed at length with the Albanian energy regulatory entity ("ERE"), ERE confirmed to METE that any increased earnings, before interest and taxes, of the joint stock company Operatori i Sistemit e Shperndarjes SHA ("OSSH"), relating to the period starting on 1st January 2009 and ending on the date of closing of the transaction relating to the privatization of OSSH, will not be claimed back by ERE from OSSH in any way, including:

(a) by lowering the 2009 tariffs of OSSH as a result of a tariff review, or
(b) by lowering the 2010 (or any future year) tariffs of OSSH as a result of any future tariff review, or
(c) by reducing the justifiable costs of OSSH in 2009 and/or future years, or
(d) by any other means leading to a similar effect.

In the event that the earnings referred to hereabove are however claimed back by ERE, METE hereby undertakes to compensate CEZ a.s. for the equivalent amount following a written notification from CEZ a.s.

Sincerely Yours,

Genc Baji
MINISTER
REGULATORY STATEMENT

1. Purpose and schedules

1.1. General purpose of the Regulatory Statement

The approval of this regulatory statement aims at making possible the calculation of tariffs of publicly owned generation, wholesale supply, distribution and retail supply in accordance with the relevant tariff methodologies approved by the ERE.

1.2. Regulatory periods

The ERE has decided that the period January 1, 2009 to December 31, 2009 be a transitory period during which there will be no change of current tariffs, as defined in the decisions Nr.21, dated on February 14, 2008. This will enable the investor to evaluate the situation within OSSH\(^1\) and prepare the application for review of new electricity tariffs not later than September 30, 2009, which will be effective on January 1, 2010.

The first regulatory period will be 1 January-31 December 2010;
The second regulatory period will be 1 January-31 December 2011;
The third regulatory period will be 1 January 2012-31 December 2014.

The following regulatory periods will be of 3-5 years term.

1.3. Tariff Schedule

According to the above Tariff Schedule, until September 30, 2009 DSO and RPS will submit a tariff application both for the calendar year 2009 ("Tariff Review Application for 2009") and for the first regulatory period, 2010, based on the tariff methodologies described in this approved Regulatory Statement as well as in following decisions:

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\(^1\) For the purpose of this regulatory statement the term OSSH, refers to the joint stock company OSSH sh.a. licensed by ERE for performing two functions: the distribution system operator for the operation, maintenance and development of the network (herewithin refered to as DSO) and the function of the retail public supplier for the tariff customers (herewithin refered to as RPS).
Decision Nr. 18, dated on February 14, 2008;
Decision Nr. 75, dated on June 26, 2008;
Decision Nr. 19, dated on February 14, 2008;
Decision Nr. 20, dated on February 14, 2008;
Decision Nr. 21, dated on February 14, 2008.

ERE will review and approve the 2009 tariffs as per the Tariff Review Application for year 2009 ("Reviewed Tariffs for 2009") no later than 15 December 2009. The difference between Reviewed Tariffs for year 2009 and the tariffs initially approved for 2009 as per the Decision Nr. 21, dated on February 14, 2008 multiplied by the forecast of quantities of energy to be supplied during the whole year 2009 as prepared by OSSH estimated at the date of preparation of the Tariff Review Application for 2009 will be used to calculate the amount of Unrealized Revenues requirements of OSSH in its function of RPS subject to the Compensation Mechanism, as both defined in Article 5.1. and Article 6 below.

In the following years OSSH shall submit its tariff applications, for a given year in the case of the RPS and for a given regulatory period for the DSO, no later than September 1 of the calendar year preceding such regulatory period or year and ERE shall approve such tariffs no later than December 7 of the same calendar year; such approved tariffs will come into effect on January 1st of the following year. Independently from the tariff applications, OSSH will submit an investment plan for 2009 and 2010 (the "Investment Plan for 2009 and 2010") no later than [2] months after closing of the OSSH privatization, which ERE will review and approve no later than [2] month after its submission.

1.4. Approval of the subsequent Regulatory Statements

No later than June 30, 2014, the ERE shall approve a Regulatory Statement for the regulatory periods following 2014, which shall not materially differ in approach from this Regulatory Statement. For the avoidance of doubt, the new Regulatory Statement shall continue to include the Compensation Mechanism, as described in Article 6 below.

2. For the tariff of Public Generation Company (PGC):
2.1 Determination of the Regulatory Asset Base (RAB) for the Publicly Owned Generation company for 2009.

According to the PGC tariff calculation methodology, the RAB for publicly owned generation for 2009 will be equal to the book value of long term assets of the audited IFRS balance sheet of PGC as of December 31, 2007, plus the investments placed in operation during 2008, plus the projected investment by the company for 2009 and accepted by the ERE, less depreciation for years 2008 and 2009, plus working capital.

2.2 Determination of Rate of Return on Equity (RoE) for the Publicly Owned Generation Company (PGC)

Because the publicly owned generation company will remain in the hands of the Government, it will have a low financial risk profile. Moreover, the Government does not require high equity returns. For that reason, its RoE for the publicly owned generation company is a "non-market" based rate of return set as the percentage yield on short term Treasury Bonds of Central Bank of Albania.

2.3 Targeted Gearing (i.e. debt as a percent of total capital) for the Publicly Owned Generation Company

For the purpose of calculation of the generation electricity tariff the assumed Gearing will be 60% debt, 40% equity.

2.4 Working Capital

The allowed Working Capital will be equal to 1/12 of PGC OPEX (allowed operating expenses) as per the publicly owned generation tariff methodology.

2.5 Annual level of publicly-owned hydro generation

The average yearly hydro production for the past 10 years (1999-2008) is 4,400 GWh, and for past 5 years (2004 – 2008) is 4,600 GWh. Considering the fact that KESH uses the level of 4,200 GWh hydro generation for the yearly generation projections, it is probable that the actual production will exceed about 2,500 GWh the projected generation from KESH for the 5 years 2009-2014, thus providing a cushion for future tariff rates and the minimization of hydrology risk. The annual notional level of production of electricity from hydro sources for publicly-owned generation to be assumed...
for the regulatory periods set forth in this statement in the tariff for the WPS to the RPS and the OST, for the purpose of tariff application by OSSH and tariff approval by ERE is 4,200 GWh per year- net generation.

3. For Wholesale Public Supplier Tariff

3.1 Profit Margin

- For the Wholesale Public Supplier is equal to 0.5% on annual electricity purchases.
- In order to reduce the risk of the WPS, due to the hydrogenation of the publicly owned company, the following annual adjustments will be made:
  (i) Wholesale Public Supplier fee will also include any net financing cost caused by the above risk;
  (ii) Adjustment to cover the cost of interest for maintaining a line of credit to cover poor hydro years;
  (iii) An annual adjustment for previous year over or under revenue of Publicly Owned Generation caused by the differences of actual generation with forecasted 4,200 GWh / year net generation.

The WPS will organize an annual tender in accordance with the law no.9643, date 20.11.2006 “On public procurement” for supplemental wholesale energy purchases beyond the forecasted public generation energy production.

4. For Distribution Service Tariff

4.1 Determination of the level of the RAB for the DSO

The value of RAB for 2009, to be used in the Tariff Review Application for 2009 will be calculated as a sum of:

(i) the book value of long term assets of the audited IFRS balance sheet of DSO as of December 31, 2007 published;
(ii) the value of investment for 2008 which will be recognized at the level of at least Lek 1,900 million;
(iii) the value of investment projected to be made during 2009 according to the “Investment Plan for 2009 and 2010” approved by the ERE based on article 24 of power sector law and article 1.3 Tariff schedule of this Regulatory statement;
(iv) the value of any assets constructed by KESH (which are financed exclusively by debt and / or equity of METE) on behalf of OSSH and transferred to OSSH in 2009 as confirmed by the Council of Ministers Decision.
(v) minus the depreciation for 2008 and 2009;
(vi) the value of working capital equal to 1/12 of allowed OPEX for the period it is applied.

The RAB for 2009 as calculated above will serve as the starting value for the tariff application for the first regulatory period 2010. Such tariff application will include the value of any assets constructed by KESH (which are financed exclusively by debt and/or equity of METE) on behalf of OSSH and transferred to OSSH in 2010 as confirmed by the Council of Ministers Decision.

The ERE has not determined the initial value of RAB, however, as a starting value of long term assets will be used the book value of long term assets of the audited IFRS balance sheet of DSO as of December 31, 2007, which is Lek 16,329 million. The long term tangible and intangible assets financed through grants will be excluded from RAB. The value of long term assets financed through grants for 2008 (according to 2008 rate application) is Lek 770 million.

For future years, the RAB will be determined according to following formula:

$$RAB = A - CG - D + WC + INV$$

where:
- **RAB** the Regulatory Asset Base;
- **A** the recognized value of used and useful long terms assets;
- **CG** the value of assets acquired through gratuitous transfer or constructed with financial resources of electricity consumers;
- **D** the accumulated depreciation for the past period of assets used to perform the licensed activity;
- **WC** the working capital requirement, which shall be equal to 1/12 of DSO OPEX;
- **INV** the forecast average cumulative nominal amount of investments approved by the ERE, which will be invested during the regulatory period.

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4.2 Calculation of Weighted Average Cost of Capital (WACC) for the DSO
For the purpose of calculation of the distribution electricity tariffs, the allowed WACC accepted by ERE will be calculated on yearly basis as described in the Electricity Distribution System Operator Tariff Calculation Methodology Approved by ERE's Board of Commissioners Decision No. 79, Dated 26.06.2008 (Tariff methodology) and this Regulatory Statement.

The Allowed return on equity (ARoE) after tax is and shall be calculated according to the following formula (CAPM model):

\[ R_e = r_f + \beta \times (r_m - r_f) \]

Where

- \( \beta \) equity beta: covariance of return on stock market and return on individual share of a company in a similar line of business (\( \beta = 1 \) means the stock market and share have the same volatility and therefore non-diversifiable risk)
- \( R_m \): return on the stock market as a whole
- \( R_m - R_f \): equity risk premium
- \( R_f + CRP \): risk free rate including country risk premium (CRP) defined as 6 months average of yield on sovereign bonds of governments with the comparable rating as Albania

The pre-tax ARoE for the DSO will be equal to 16.44% for the first three regulatory periods (until December 31, 2014). Thereafter, the ERE will review the value of ARoE according to Tariff methodology and this Regulatory statement and then-market conditions. ERE will maintain consistency in its approach and calculation methodology as well as in the data sources it uses.

The table below presents the cost of equity calculation:

<table>
<thead>
<tr>
<th>Component</th>
<th>Nominal risk free rate plus country risk premium</th>
<th>( R_f + CRP )</th>
<th>7.43%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP (equity risk premium)</td>
<td>( R_m - R_f )</td>
<td>5.60%</td>
<td></td>
</tr>
<tr>
<td>Gearing ratio (for Beta)</td>
<td>( G )</td>
<td>60.00%</td>
<td></td>
</tr>
<tr>
<td>Gearing ratio (for D/E)</td>
<td>( G )</td>
<td>60.00%</td>
<td></td>
</tr>
<tr>
<td>Equity Unleveraged Beta</td>
<td>( \text{Beta(U)} )</td>
<td>0.66</td>
<td></td>
</tr>
<tr>
<td>Equity Leveraged Beta</td>
<td>( \text{Beta(L)} )</td>
<td>1.32</td>
<td></td>
</tr>
<tr>
<td>Allowed return on equity after tax</td>
<td>( ARoE = R_f + CRP + \text{Beta(L)} \times \text{ERP} )</td>
<td>14.80%</td>
<td></td>
</tr>
<tr>
<td>Tax rate</td>
<td>( T )</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>
Allowed return on equity pre tax
Pre tax ARoE = ARoE / (1-T) 16.44%

In determination of the appropriate after-tax Return on Equity for the
distribution system operator, the ERE will rely on the estimates of key
parameters to be applied in CAPM methodology provided by reputable
publicly available sources including: for estimation of risk free rate + country
risk premium and equity beta: Bloomberg; for estimation of equity risk
premium: Ibbotson Associates. In absence of available publications by those
providers, the ERE will rely on an independent estimate from a source of
comparable reputation.

As for the cost of new debt in WACC model, the ERE will use the most recent
estimation of the weighted average cost of new debt obtained via the
transparent tender procedure as the interest rate of new debts as defined
below.

OSSH shall select banks providing new debt in accordance with tender
procedures to be proposed by OSSH no later than the end of February 2009.
ERE shall approve such procedures by no later than Closing of privatization of
OSSH. Such procedures shall be fair and transparent and in compliance with
applicable laws and best practice. Such procedures shall be valid for the term
of this Regulatory Statement.

OSSH shall also have the right to raise debt from multinational lenders,
including without limitation EBRD and IFC, in which case such tender
procedures shall not be applicable. The cost of new debt incurred by OSSH in
accordance with such procedures (or as the case may be, obtained from
multinational lenders in accordance with the foregoing sentence) shall be fully
pass-through into the applicable tariff by way of the WACC calculation
contained in this Section.

In case no new debt is possible to be obtained via such tender procedure
and/or from international institutions the shareholders of OSSH may provide,
as a last resort, additional financing to secure the operations of the OSSH.
the cost of such financing will be equal to the ARoE as described above and
shall be fully pass-through as the debt component into the applicable tariff by
way of the WACC calculation contained in this Section. OSSH will provide
reasonable evidence to ERE that it has used its best efforts in obtaining such
financing using such procedures.

The new debt incurred by OSSH in accordance with above mentioned
procedures (or as the case may be, obtained from multinational lenders in
accordance with the foregoing sentence) and/or shareholder financing
according to above paragraph will be considered as the new debt ("New debt").

The assumed interest rate for old debt is the actual interest rates as applicable under the terms of the sub-loan agreement between KESH and OSSH. "Old debt" refers the debt assigned to the DSO in accordance with the Long term debt repayment agreement to be signed between KESH and OSSH ("Long-Term debt repayment Agreement").

The WACC is calculated as follows:

\[
\begin{align*}
\text{CoOD}\% \times \frac{\text{OldL-T}}{\text{OldL-T} + \text{NewL-T}} &= Y_1\% \\
\text{CoND}\% \times \frac{\text{NewL-T}}{\text{OldL-T} + \text{NewL-T}} &= Y_2\%
\end{align*}
\]

\[
\text{WACC} = 40\% \times \text{Pre tax ARoE}\% + 60\% (Y_1\% + Y_2\%)
\]

Where:

- **Pre tax ARoE\%** = Allowed Return on Equity pre tax
- **CoOD\%** = Weighted average actual interest of Old debt
- **CoND\%** = Weighted average interest rate of New debt
- **\( \text{OldL-T}/(\text{OldL-T} + \text{NewL-T}) \)** = Old debt share of total debt
- **\( \text{NewL-T}/(\text{OldL-T} + \text{NewL-T}) \)** = New debt share of total debt
- **\( \text{OldL-T} \)** = outstanding debt payable by the OSSH as specified in the Long-Term debt repayment Agreement, with actual value as per the audited IFRS balance sheet of OSSH for year preceding tariff application
- **\( \text{NewL-T} \)** = outstanding, other than OldL-T, interest bearing debt drawn by the OSSH, with actual value as per the audited IFRS balance sheet of OSSH for year preceding tariff application

4.3 Targeted Gearing for the DSO
For the purpose of calculation of the distribution electricity tariffs the assumed Gearing will be 60% as indicated in the above formula.

4.4 Working Capital

The allowed Working Capital will be equal to 1/12 of DSO OPEX (allowed operating expenses) as per the distribution tariff methodology. Only for the purpose of calculation of the Working Capital, the OPEX represent the allowed annual operational costs incurred for carrying out the licensed activity excluding depreciation and financial expenses. Expenses related to purchases of electricity to cover distribution losses including all applicable transmission costs are also part of allowed OPEX.

The level of OPEX approved in 2008 tariffs was Lek 21,000 million for DSO and Lek 1,800 million for RPS.

The most recent forecast of OPEX for 2009 available as of the date of tariff application (however not lower than the level of OPEX for 2008 defined above) will serve as the basis for calculation of Reviewed Tariffs for 2009 and 2010 tariffs. The forecast for the cost of electricity to cover the cost of losses for DSO for the part of 2009 after Closing and 2010 will not take into account the effects of any adjustments to the estimated DSO and/or RPS costs, related to the Government Decision No.143, dated 11.2.2009 (On an amendment on the Council of Ministers' Decision no.338, dated 19.3.2008 'On the Approval of the Power Market Model' as amended. For avoidance of doubt the cost of Loss Audit and Loss Study, Bad Debt Study and the costs of Partial Risk Guarantee to be obtained from the World Bank ('PRG') will be accepted and recognised for inclusion in the OPEX by ERE.

4.5 Targets for losses reduction

For establishing the targets of distribution losses reduction throughout the regulatory periods, an expected level of losses of 32% of energy injected to the distribution network will be assumed for 2008. The percentage distribution losses of energy shall be understood as difference between the energy received by the distribution system and the energy billed to final customers, shown as a percentage of energy received by the distribution system.

No specific study on distribution losses has been carried out so far, but for tariff purposes, based on KESH estimations, the ERE assumes the total losses (technical and non-technical) reach the level of 15% at the end of the third regulatory period (2014), assuming that the starting value in 2008, to be confirmed in the Loss Audit described below, is at the level of 32%.
The ERE expects a rapid improvement of the level of non-technical losses, and a slower but continuous reduction of technical losses. ERE forecasts the reduction of the total losses in distribution according to the following scenario:

4% (percentage points) reduction for the first regulatory period;
4% (percentage points) reduction for the second regulatory period;
9% (percentage points) reduction for the third regulatory period (3*3).

No later than 31 July, 2009 the DSO shall carry out a detailed loss audit ("Loss Audit") to determine the methodology of calculation of total losses and verify the Actual 2008 losses ("Actual 2008 Losses").

No later than 31 July, 2010 the DSO shall carry out a detailed loss study ("Loss Study") to determine the technical and non-technical losses incurred in 2009.

Loss Audit and Loss Study will be prepared by an independent technical expert selected from the following list:

- Arthur D.Little
- Deloitte
- Ernst & Young
- KPMG
- PricewaterhouseCoopers

The Loss Study and Loss Audit shall be approved by the ERE within 2 months and 1 month, respectively, from the date of submission.

The Actual 2008 losses as verified in the Loss Audit shall serve as the basis for calculation of Reviewed Tariffs for 2009 and 2010 tariffs. At the same time Actual 2009 Losses shall be equal to the Actual 2008 losses ("Actual 2009 Losses") and shall be fully pass-through for the DSO tariff according to the Compensation Mechanism described in Article 6, and shall serve as a starting level for the subsequent loss reduction schedule presented above.  

On the basis of the Loss Study, DSO shall propose to ERE a schedule for the reduction of total losses for the three regulatory periods mentioned above, broken down in years, associated with the investment plan for reduction of losses according to such a schedule, if the scenario proposed by ERE is not considered appropriate. For avoidance of any doubt the level of total losses shall not be lower than 15% at the end of the third regulatory period (2014).

2 (e.g. if the Actual 2009 Losses are 33%, the end level of losses at 31.12.2014 will be 16%).
The level of investments for reduction of losses according to the submitted schedule by DSO shall be approved by ERE according to article 24 of power sector law.

ERE understands that DSO should bear no risk arising out of power procurement on the open market. The cost of recognized losses for the purpose of establishing the distribution tariff for the following year shall be determined as weighed average cost of DSO year-ahead power purchases multiplied by the expected amount of power to cover losses.

For the avoidance of doubt, each calendar year OSSH will launch tenders in accordance with tender procedures to be proposed by DSO by no later than the end of February 2009 ERE shall approve such procedures by no later than closing of the privatization of OSSH. Such procedures shall be fair and transparent and in compliance with applicable laws and best practice. Such procedures shall be valid for the term of this Regulatory Statement. The cost of losses determined in accordance with such procedures shall be fully pass-through into the applicable tariff for the next year.

4.6. $X$ - Factor

4.6.1.1 $X$ factor for first three regulatory periods will be zero,

4.6.2 The ERE will recognize any profit stemming from the reduction of operational expenses (excluding losses) and it will be left to the investor for a regulatory period. The adjustment of OPEX for the subsequent regulatory period will be subject of review of the ERE

5. For Retail Public Supplier Tariff

5.1. Retail Public Supplier Tariff

The Revenue Requirements associated with End User tariff shall be calculated in line with the following methodology, also recognizing amount due from the compensation mechanism as defined in article 6:

$$RR_{act\ n} = (WPS_{tariff\ n} + OST_{tariff\ n}) \times V_{n} + DSO_{tariff\ n} \times V_{dn} + PSO_{cost} + RPS_{cost} - \Delta$$

where:
\[ \Delta \text{COMPB}_n = \text{RR}_{\text{cal},n} - \text{RR}_{\text{max},n} \]

\[ \text{RR}_{\text{max},n} = T_{\text{act},n-1} \times (1+g) \times (1+CPI_{n-1}) \times V_n \]

\[ \text{COMPB}_n = \text{COMPB}_{n-1} + \text{RoC}_n + \Delta \text{COMPB}_n \]

\[ \text{RoC}_n = [\text{COMPB}_{n-1} + \max(\text{RR}_{\text{cal},n} - \text{RR}_{\text{max},n};0)] \times \text{WACC}_{\text{Comp},n} \]

if \[ \text{COMPB}_{n-1} + \text{RoC}_n + \Delta \text{COMPB}_n \leq 0 \],

then \[ \Delta \text{COMPB}_n = -(\text{COMPB}_{n-1} + \text{RoC}_n) \]

with above mentioned variables defined as follows:

- \( \text{RR}_{\text{act},n} \) — actual applied revenues requirement of OSSH in its function of RPS recognised by ERE in year \( n \)
- \( \text{RR}_{\text{max},n} \) — maximum revenues of OSSH in its function of RPS allowed by ERE in year \( n \), as implied by the max real growth rate of total RPS tariff
- \( \text{RR}_{\text{cal},n} \) — recognized revenue requirement of OSSH in its function of RPS based on the tariff application (without impact of compensation balance)
- \( \text{COMPB}_n \) — compensation account balance as of \( n \) year end. For 2008 COMPB equals 0.
- \( \Delta \text{COMPB}_n \) — change in the accrued compensation balance during year \( n \)
- \( g \) — the annual weighted average end-user tariff increase in real terms recognized by ERE, \( g \) shall be equal to or higher than 15%, as long as there are remaining positive amounts in the compensation account
- \( |\Delta \text{COMPB}_n| \) — absolute value of \( \Delta \text{COMPB}_n \) in year \( n \)
- \( \text{WACC}_{\text{Comp},n} \) — allowed regulated return on the compensation balance for year \( n \); according to art.6 \( \text{WACC}_{\text{Comp},n} \) shall be equal to the DSO WACC from year \( n \) as defined in 4.2
- \( \text{RoC}_n \) — return earned on the compensation balance in year \( n \)
- \( T_{\text{act},n} \) — total weighted average RPS tariff approved by ERE in year \( n \)
- \( V_n \) — total sales volume of electricity to tariff customers in year \( n \) agreed by ERE and OSSH
- \( V_{dn} \) — total sales volume of electricity to tariff customers connected to the distribution system in year \( n \) agreed by ERE and OSSH
CPI\textsubscript{n} - annual end year consumer price index in year \(n\) as published in the CPI bulletin of the Statistical Institute of Albania (INSTAT)\(^3\)

\text{WPS\textsubscript{tariff}} - recognised tariff of the wholesale public supplier by ERE in year \(n\)

\text{OST\textsubscript{tariff}} - recognised tariff of the transmission system operator by ERE in year \(n\)

\text{DSO\textsubscript{tariff}} - recognised tariff of the distribution system operator for the tariff customers by ERE in year \(n\)

\text{PSO\textsubscript{costs\textsubscript{n}}} - recognised public service obligation costs by ERE in year \(n\).

\text{RPS\textsubscript{costs\textsubscript{n}}} - recognised retail public supplier costs by ERE in year \(n\).

This shall include the RPS profit margin as specified in Article 5.3 below.

Shall for any reason the RPS tariff cease to be regulated (as the case may be, following unbundling of retail from distribution) and the compensation account has not been fully released into the OSSH revenues, such outstanding compensation balance shall be transferred to the DSO and reimbursed in line with the methodology specified above via DSO tariff.

5.2 Bad Debt

ERE recognizes that certain level of bad debt is an inherent part of the retail business and as such needs to be reflected in the tariffs. The Bad Debt Allowance will be applied as a percentage of the total revenues of OSSH acting in its function of RPS, including all tariff charges of WPS (including PGC), OST, DSO, PSO, RPS and other charges as the case may be excluding Value Added Tax ("RPS Revenues"). For establishing the targets of Bad Debt reduction throughout the regulatory periods, an expected level of Bad Debts of 14\% of RPS Revenues will be assumed for 2008.

For 2009, a level of Bad Debts (as \% of RPS Revenues) is assumed at the same level as for 2008. In 2010, a level of Bad Debts (as \% of RPS Revenues) shall be reduced by 1 percentage point compared to the 2009 level.

Until 31 July 2011, the OSSH in its function of RPS shall carry out a detailed Bad Debt study ("Bad Debt Study") to determine (i) the methodology of calculation of Bad debts and (ii) the Actual 2008, 2009, and 2010 Bad Debt Levels ("Actual 2008, 2009, and 2010 Bad Debt Level"). Bad Debt Study will be prepared by an independent financial expert selected from the following list:

- Deloitte

\(^3\) For avoidance of doubt, in 2007 the CPI was 3.1\% and in 2008 was 2.2\% as published by INSTAT in December 2008
The Bad Debt Study shall be approved by the ERE within 2 months from its submission.

At the same time Actual 2010 Bad Debt Level shall serve as a starting level for the subsequent Bad Debt reduction schedule presented below, provided that it is not higher than the Actual 2009 Bad Debt Level, otherwise Actual 2009 Bad Debt Level shall apply.

1% (percentage point) reduction for 2011;
1% (percentage point) reduction for 2012;
1% (percentage point) reduction for 2013;
1% (percentage point) reduction for 2014.

In case Actual 2009 and/or Actual 2010 and/or Actual 2011 Bad Debt Level is higher than the 14% and/or 13% and/or 12% respectively, the difference shall increase the compensation amount according to Article 6.

In case Actual 2009 and/or Actual 2010 and/or Actual 2011 Bad Debt Level is lower than the 14% and/or 13% and/or 12% respectively, the difference shall reduce the compensation amount according to Article 6.

5.3 Other

- The wholesale public supply tariff shall be a pass through cost for RPS.
- Profit Margin for the Retail Public Supplier is equal to 2.2% on annual expenses for electricity purchases from WPS with regulated price. RPS profit margin is based only on energy purchases from WPS and it is not calculated based on transmission cost, distribution cost or any ancillary services cost, nor the cost of purchases of electricity by DSO for covering losses.
- As to the tariff structure of household customers, the ERE has initiated a study to determine the monthly electricity consumption lifeline. ERE will make the results of the study available to DSO before OSSH prepares its tariff application, i.e. no later than June 30, 2009. The results of this study will be used for reviewing the level of first block for household customers for the tariffs that will be effective from January 1, 2010.
- The RPS tariff to final consumers shall include an adjustment to compensate the RPS for differences between forecast and actual revenue as a result of

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4 Actual 2011 Bad Debt Level is defined as Actual 2010 Bad Debt Level minus 1% point.
deviations in forecasting demand in individual consumer categories when these are newly created or when there are tariff changes that are not the same proportion for all customer categories.

6. Compensation Mechanism for Distribution and Retail Service Tariff

In case ERE does not allow in the tariff a portion of the recognized Revenue Requirements of the DSO and RPS calculated according to the electricity distribution system operator and retail tariff calculation methodology approved in ERE's Board of Commissioners Decision No. 79 and No. 80, both dated June 26, 2008 then such portion of revenues shall become subject to the compensation mechanism as defined below and article 5.1.

In case the calculated revenue requirements of OSSH in its function of RPS for a given year result in an increase of the weighted average end-user tariff (the total required revenues of OSSH in its function of RPS in given year divided by total estimated volume in a given year) higher than 15% in real terms (above CPI)\(^5\), the minimum average tariff increase recognized by ERE will be 15% in real terms. For avoidance of doubt such tariff shall lead to minimum increase of revenue requirements of OSSH in its function of RPS of 15% in real terms.

Should the required increase of the weighted average end-user tariff (prior to application of any amounts due from the compensation mechanism) for the following year be lower than 15% in real terms, ERE shall approve such increase and not to increase the balance of the compensation account. In addition, if there are remaining amounts in the compensation account, ERE shall raise the weighted average end-user tariff to the level needed to reduce the compensation account to zero, provided that such tariff increase is no greater than 15% in real terms, as defined by the formula in Article 5.1 above. Any remaining amount in the compensation account shall be carried forward to the next year.

Such portion of the revenues which was not taken into account in tariff calculation shall form compensation account from the year when the entitlement arises and ending in the year (inclusive of) in which the amount becomes fully compensated according to formula described in article 5.1. above. During the compensation period the OSSH is entitled to regulated return on this amount. Regulated return shall be equal to the DSO WACC as defined in 4.2. prevailing in year preceding its application.

The compensation mechanism shall be applied throughout the period covered by this regulatory statement and shall be also preserved in future regulatory periods.

\(^5\) The real terms increase shall be calculated using the formula \((1+g) \times (1+CPI_{n+1})\).
The entire revenue requirement difference stemming from the difference of the tariffs approved for 2009 as per the decision of No. 21, dated February 14, 2008 and the "Reviewed Tariffs for 2009" shall be subject to the Compensation Mechanism.

In case Actual 2008 Losses are higher than the assumed level of 32% and as result Actual 2009 Losses are also higher than 32%, then the difference between the revenue requirements applicable to the new loss reduction and those to the former loss reduction schedule (based on the assumed level of 32%) as described in this document, shall also be subject of the compensation mechanism.

In case Actual 2009, 2010 Bad Debt Levels, and/or Actual 2011 Bad Debt Level, is higher than the 14%, 13% and/or 12% respectively, then the difference between the revenue requirements applicable to the new bad debt reduction and those to the former bad debt reduction schedule (based on the 14%, 13% and 12% level respectively), as described in this document, shall also be subject of the compensation mechanism.

7. Quality of electricity supply service

Until some standards for the quality of service will be in place, the ERE has established only two indicators of quality of service:

- electricity outages (frequency and duration) in case of repairs to be carried out by the DSO. The DSO shall submit to the ERE the repairs schedule on yearly basis;
- billing accuracy of 99% - billing accuracy is critical to reducing losses and fairness to customers. Furthermore, the ERE and the DSO/RPS should work together to establish rules concerning how often meters are read, and how to allocate usage among months if a meter reading is less frequent than once per month.

The investor, in collaboration with other licensees, will propose to the ERE the standards of the quality of service. The standards shall address the quality and the security of supply of electricity. The ERE anticipates that this process may last about 1 year for DSO and RPS, until they know the system, develop benchmark levels for the quality and security of supply, and establish objectives and programs for achieving these objectives.

8. Final provision

As in all official documents approved by the ERE, the Albanian version of this document shall be the official one.
In the event of any discrepancy between this Regulatory Statement and any other ERE decision, this Regulatory Statement shall prevail.

10. Approval

This Regulatory Statement was approved by the decision no.12, dated 03.03.2009 of the Board of Commissioners.
DEKLARATA RREGULLATORE

1. Qellimi dhe afatet

1.1. Qellimi i pergjithshem i Deklarates Rregullatore

Miratimi i kesaj deklarate rregullatore synon te mundesoje i logaritjen e tarifave te prodhimit publik te zotuer nga shteti, te furnizimit me shumice, te shperndarjes dhe furnizimit me pakice te energjise elektrike ne perputhje me metodologjite perkatese te miratuara nga ERE.

1.2. Periudhat e Rregullimit

ERE ka vendosur qe periudha 1 Janar 2009 - 31 Dhjetor 2009 te jete nje periudhe tranzitore gjate se ciles nuk do te kete ndryshim ne tarifat ekzistuese, te percatuara me Vendimin e saj Nr.21, date 14 Shkurt 2008. Ne kete menyre do t'i japet mundesa investorit te vleresoj te situalet brena OSSH1 dhe te pregatise aplikimin per rishikimin e ketyre tarifave te reja jo me vone se 30 Shtator 2009. Tarifat e reja do te jene efektive duke filluar nga data 01 Janar 2010.

Periudha e pare e rregullimit do te jete 1 Janar - 31 Dhjetor 2010;
Periudha e dyte e rregullimit do te jete 1 Janar - 31 Dhjetor 2011;
Periudha e trete e rregullimit do te jete 1 Janar 2012 - 31 Dhjetor 2014.

Periudhat vijuese te rregullimit do te jene nga 3 deri ne 5 vjet.

1.3. Programi i Tarifave

Ne perputhje me afatet e permendura me lart, deri me 30 Shtator 2009 DSO dhe FPP do te dorezojne aplikimin e tarifave per vitin kalendarik 2009 ("Aplikimi i Rishikimit te Tarifave per vitin 2009") dhe per periudhen e pare te

1 Per qellimin e kesaj Deklarate Rregullatore termi OSSH nenkupton Shoqerine Aksionere OSSH sh.a te licensuar nga ERE per te kryer dy funksione: ate te operatorit te sistemit te shperndarjes per operim, mirembajtje dhe zhvillimin e rrjetit (ne tekstin e kesaj deklarate referuar si DSO) dhe funskionin e furnizuesit publik me pakice per klientet tarifore (ne tekstin e kesaj deklarate referuar si FPP).
rregullimit 2010, ne perputhje me metodollogjite e tarifave te pershkruara ne kete Deklarate Rregullatore te miratuar, si dhe ne vendimet e meposhtme te ERE-s:

Vendimi Nr. 18, date 14.02.2008;
Vendimi Nr. 75, date 26.06.2008;
Vendimi Nr. 19, date 14.02.2008;
Vendimi Nr. 20, date 14.02.2008;
Vendimi Nr. 21, date 14.02.2008.

ERE do te rishikoje dhe miratoje tarifat per vitin 2009 sipas Aplikimit per Rishikimin e Tarifave per vitin 2009 ("Tarifat e Rishikuara per vitin 2009") jo me vone se 15 Dhjetor 2009. Ndryshimi ndermjet Tarifave te Rishikuara per vitin 2009 dhe tarifave te miratuarra filimitsh sipas Vendimit Nr. 21, date 14.02.2008, te shumemuar me sasine e energjise te parashikuara per t’u furnizuar gjate gjithe vitit 2009 te vleresuar nga OSSH ne momentin e pergatitjes se aplikimit per rishikimin e tarifave per vitin 2009, do te sherbeje per te llogaritur shumen e te Ardhurave te Parealizuara te OSSH ne funksionin e saj si Furnizesi Publik me Pakice (FPP), objekt i Mekanizmit te Kompensimit, te percaktuar ne pikat 5.1 dhe 6 me poshte.

Per vitet ne vazhdim OSSH do te paraqese aplikimin e saj per tarife per nje periudhe te dhene rregullatore ne rastin e DSO-se dhe per nje vit te dhene kalendarik ne rastin e FPP-se, jo me vone se 1 Shtatori i vitit kalendarik qe paraprin ate periudhe rregullatore apo ate vit. ERE do te aprovoje keto tarifa jo me vone se data 7 Dhjetor i te njejtit vit kalendarik; tarifat e aprovuara do te behen efektive ne 1 Janar te vitit ne vazhdim. Ne menyre te pavarur nga aplikimet per rishikimin e tarifave, OSSH jo me vone se 2 muaj pas Mbylljes se privatizimit, do te paraqese nje plan investimesh per vitet 2009 dhe 2010 ("Plani i investimeve 2009 dhe 2010"), i cili do te shqyrtohet dhe miratohet nga ERE jo me vone se 2 muaj nga paraqitja e tij.

1.4. **Miratimi i Deklaratave Rregullatore vijuese**

Jo me vone se 30 Qershor 2014, ERE do te miratoje nje Deklarate Rregullatore per periudhat e rregullimit qe vijojne pas vitit 2014, e cila nuk do te ndrysohet ndjeshem ne metodollogji nga kjo Deklarate Rregullatore. Per te menjuanuar cdo dyshim, Deklarata Rregullatore e re do te vazhdoje te
2. Per tarifen e prodhimit te energjise elektrike nga Shoqeria Publike e Prodhimit (PGC):

2.1 Percaktimi i Bazes se Aktiveve te Rregulluara (RAB) per Shoqerine Publike te Prodhimit per vitin 2009

Ne perputhje me metollogjine e llogaritjes se tarifes se prodhimit te energjise elektrike nga PGC, RAB-i per vitin 2009 do te jete i barabarte me vieren kontabel te aktiveve afatgjata sipas bilancit te audituar te PGC sipas Standarteve Nderkombetare te Raportimit Financiar (IFRS) me 31 Dhjetor 2007, plus investimet e vena ne pune gjate vitit 2008, plus investimet e parashikuara nga shoqeria per vitin 2009 dhe te pranuara nga ERE, minus amortizimin per vitet 2008 dhe 2009, plus kapitalin e punes.

2.2 Percaktimi i Normes se Kthimit mbi Kapitalin e vet (RoE) per Shoqerine Publike te Prodhimit (PGC)

Per arsye se shoqeria publike e prodhimit te energjise elektrike do te mbetet prone e shtetit shqiptar, ajo do te kete nje profil risku financiar te ulet. Per me teper, Qeveria Shqiptare nuk kerkon kthime te larta nmbi kapitalin e saj. Per rrjedhoje, Norma e Kthimit mbi Kapitalin e vet per shoqerine publike te prodhimit perben nje norme kthimi "jo te bazuar ne treg", qe percaktohet si norma e kthimit mbi Bonot e Thesarit afatshkurtra te emetura nga Banka Qendrore e Shqiperise.

2.3 Raporti i synuar i Borxhit (si perqindje e borxhit ndaj totalit te kapitalit) per Shoqerine Publike te Prodhimit

Per qellim te llogaritjes se tarifes se sherbimit te prodhimit te energjise elektrike, raporti i pranuar i Borxhit do te jete 60% borx dhe 40% kapital.

2.4 Kapitali i Punes

Kapitali i Punes i lejuar do te jete i barabarte me 1/12 e Shpenzimeve Operative te lejuara per PGC sipas metodollogjise perkatese te llogaritjes se tarifes.
2.5 Niveli vjetor i prodhimit publik me ane te burimeve hidrike

Prodhimi mesatar vjetor me burime hidrike per 10 vitet e kaluara (1999-2008) eshte 4,400 GWh, dhe per 5 vitet e kaluara (2004 – 2008) eshte 4,600 GWh. Meqenese KESH sh.a. perdor nivelin e prodhimit me hidro prej 4,200 GWh per te bere parashikimet vjetore, ka te ngjare qe prodhimi qe do te realizohet per 6 vitet e ardhshme (2009 – 2014) te tejkaloje me rreth 2,500 GWh prodhimin e parashikuar nga KESH, duke siguruar keshtu nje mundesi per minimizimin e riskut hidrologjik dhe mbajtjes relativisht te qendrueshme te tarifave te ardhshme te prodhimit te energjise elektrike. Niveli i perqyshshem vjetor i prodhimit te energjise elektrike nga burimet hidrike per kombinime publike te prodhimit te pranuar per periudhat rregullatore te peraktua te kete deklarate per qellim i llogaritjes se tarifes se shitjes me shumice nga FPSH tek FPP dhe OST, si dhe per qellim te aplikimit per rishikim te tarifave nga OSSH dhe aprovimin e tarifes nga ERE, eshte 4,200 GWh ne vit– prodhimi neto.

3. Per Tarifen e Furnizimit me Shumice nga FPSH

3.1 Marzhi i Fitimit

- Per FPSH eshte i barabarte me 0.5% mbi blerjet vjetore te energjise elektrike.
- Me qellim qe te ulet risku i FPSH, per shkak te riskut hidrologjik qe shoqeron veprimtarine e Shoqerise Publike te Prodhimit, do te behen korigjimet e meposhtme mbi baza vjetore:
  (i) Pagesa per FPSH do te pershije gjithashtu cdo kosto financimi neto qe rrjedh prej riskut te permendur me lart;
  (ii) Korigjin per te mbuari koston e interesave per mbajtjen e nje linje kredie per te mbuari kerkosen ne vitet e thata.
  (iii) Nje korigjim vjetor per nivelin e te ardhorave te teperta apo te munguara te vitit te meparshem te Shoqerise Publike te Prodhimit te shkaktuara nga ndryshimet te prodhimit aktuali vjetor me parashikimin vjetor neto prej 4,200 GWh.

FPSH do te kryeje nje tender mbi baza vjetore, ne perputhje me Ligjin Nr. 9643, date 20.11.2006 "Per. Prokurimet Publike", per blerjen e sasise se energjise elektrike te nevojshme, pervec sasise qe parashikohet per tu blere nga Shoqeria Publike e Prodhimit.
4. Per Tarifen e Sherbimit te Shperndarjes se Energjise Elektrike

4.1 Percaktimi i Bazes se Aktiveve te Rregulluara (RAB) per DSO-ne.

Vlera e RAB-it per vitin 2009, qe do te perdoret ne Aplikimin per Rishikimin e Tarifave per 2009, do te llogaritet si shuma e:

1. Vleres kontabel te aktiveve afatgjate sipas bilancit te audituar sipas Standarteve Nderkombetare te Raportimit Financiar (IFRS) te DSO-se te 31 Dhjetorit 2007, te publikuar;
2. Vleres se investimeve per vitin 2008, e cila do te njhet ne nivelin e jo me pak se 1,900 milion Lek;
3. Vleren e investimeve te parashikuar per t'u realizuar gjate vitit 2009, sipas "Planit te Investimeve 2009 – 2010" te miratuar nga ERE sipas nenit 24 te Ligjit per Sektorin e Energjise Elektrike, te amenduar, dhe pikes 1.3, Programi i Tarifave, te kesaj Deklarate Rregullatore;
4. Vleren e aseteve te ndertuara nga KESH (te financuara ekskluzivisht nepermjet borxheve dhe/ ose kapitalit te vet te METEs) per OSSH-ne dhe te transferuara ne OSSH ne vitin 2009 ashtu si konfirmohet nga Vendimi i Keshillit te Ministrave.
5. minus amortizimin per vitin 2008 dhe 2009;
6. Vleren e kapitalit te punes te lejuar te barabarte me 1/12 e Shpenzimeve Operative te lejuara te periudhes per te cilen aplikohet.

RAB-i per vitin 2009, i llogaritur si me siper, do te sherbeje si vlore fillestare ne aplikimin per rishikimin e tarifave per periudhen rrregullatore 2010. Ky aplikim per tarife do te perfshije vleren e cdo aktivi te ndertuar nga KESH (te financuara ekskluzivisht nepermjet borxheve dhe/ ose kapitalit te vet te METEs) per OSSH-ne dhe te transferuara ne OSSH ne vitin 2010 ashtu si konfirmohet nga nje Vendim i Keshillit te Ministrave.

ERE nuk ka percaktuar nje vlore fillestare per RAB-in megjithate, si nivel fillestar i vleres se aktiveve afatgjata do te sherbeje vlera kontabel e aktiveve afatgjata sipas bilancit te audituar te DSO-se ne perputhje me Standartet Nderkombetare te Raportimit Financiar (IFRS) te 31 Dhjetorit 2007, e cila eshte 16,329 million leke. Aktivet afatgjata te finançuara nepermjet granteve do te perjashtohen nga RAB-i. Vlera e aktiveve afatgjata te financuara nepermjet granteve per vitin 2008 (sipas aplikimit te tarifave per vitin 2008) eshte 770 million leke.
Per vitet e ardhshme, RAB-i do të percaktohet sipas formules se meposhtme:

\[ RAB=A-CG-D+WC+INV \]

Ku:

- **RAB**: Baza e Aktiveve te Rregulluara;
- **A**: Vlera e njohur e aktiveve afatgjata ne sherbim dhe te dobishme;
- **CG**: Vlera e aktiveve te perftuara nepermjet granteve apo te ndertuara me burimet financiare te konsumatoreve te energjise elektrike;
- **D**: Amortizimi i akumuluar nga periodhat e kaluara i aktiveve te perdorura per te kryer aktivitetin e licensuar;
- **WC**: Kapitali i punes i lejuar, i cili do te jetë i barabarte me 1/12 e Shpenzimeve Operative te lejuara te DSO-se;
- **INV**: Shuma nominale mesatare kumulative e investimeve te parashikuara dhe e miratuar nga ERE, e cila do te investohet gjate perlluhjes së rregullimit.

4.2 Llogaritja e Kostos Mesa tare te Ponderuar te Kapitalit (WACC) per DSO-ne

Per qellim te llogaritjes se tarifave te sherbimit te shperndarjes se energjise elektrike, WACC –u i lejuar nga ERE do të llogaritet mbi baza vjetore, sic pershkuhet ne Metodologjin e Llogaritjes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes se Tarifes 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Rₚₗ  
\[ Rₚₗ - Rₚ \] norma e kthimit te tregun te kapitaleve si nje i tere
\[ Rₚₚ + CRP \] premiumi i riskut te kapitalit te vet.

Norma e lejuar e kthimit mbi Kapitalin e vet para tatim fitimit per DSO-ne do te jetë i barabarte me 16.44% per tre periudhat e para të rregullimit (deri me 31 Dhjetor, 2014). Me pas, ERE do te rishikoje vleren e ARoE-se ne perputhje me Metodollogjine e Tarifave, kesaj Deklarate Rregullatore dhe kushteve perkatëse te tregut. ERE do te ruaje qendrueshmeri ne parimet e veta dhe ne metodollogjine e llogaritjes, sikurse dhe ne burimin e te dhenave qe perdor.

Tabela me poshte paraqet llogaritjen e kostos se kapitalit te vet:

<table>
<thead>
<tr>
<th>Komponentet</th>
<th>Komponentet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norma nominale e kthimit per letrat me vlera me risk zero plus primin per riskun e vendlit</td>
<td>( Rₚ₋ₚ + ) CRP</td>
</tr>
<tr>
<td>ERP (primi i riskut te kapitalit te vet)</td>
<td>( Rₚ₋ₚₚ )</td>
</tr>
<tr>
<td>Perqindja e Borxhit (per Belen)</td>
<td>G</td>
</tr>
<tr>
<td>Perqindja e Borxhit (per strukturan e kapitalit Borxh/Kapitali i vet)</td>
<td>G</td>
</tr>
<tr>
<td>Beta per Kapitalin e vet (investim pa borxh)</td>
<td>Beta(U)</td>
</tr>
<tr>
<td>Beta per Kapitalin e vet (investimi perfshin edhe borxh)</td>
<td>Beta(L)</td>
</tr>
<tr>
<td>Norma e Lejuar e Kthimit mbi Kapitalin e vet pas tatim fitimit</td>
<td>( ARoE = Rₚ + CRP + Beta(L) \times ERP )</td>
</tr>
<tr>
<td>Norma e tatim fitimit</td>
<td>T</td>
</tr>
<tr>
<td>Norma e Lejuar e Kthimit mbi Kapitalin e vet para tatim fitimit</td>
<td>( ARoE para taksave = ARoE / (1-T) )</td>
</tr>
</tbody>
</table>

Per përcaktimin e 'dughur te Normës se Kthimit mbi Kapitalin e vet pas tatim fitimit per DSO-ne, ERE do te mbeshtetet ne vleresimet e parametrave kyc qe do te zbatohen ne metodollogjine CAPM, te cilet do te sigurohen nepermet burimeve publike te disponueshme dhe te besueshme, sic jane: Bloomberg.
per vleresimin e normes se kthimit per letrat me viere me risk zero + primin e riskut te vendit dhe Beta-n per kapitalin e vet; Ibbotson Associates- per vleresimin e primit te riskut te kapitalit te vet. Ne mungese te publikimeve nga keto burime, ERE do te mbeshtetet ne nje vleresim te pavarur qe rrjedh nga nje burim me besueshmeri te krahasueshme.

Per sa i perket kostos se borxhit te ri ne modelin e llogaritjes se WACC-ut, ERE do te perder e vleresimin me te fundit te kostos mesatare te ponderuar te borxhit te ri te perf tuar nepermjet procedurave transparente te tenderimit, si norme interesit e borxhet e reja sipas perçaktimit me poshte.

OSSH do te zgjedhe bankat per te siguruar borxhin e ri ne te perputhje me procedurat e tenderimit, qe do te propozohen nga vete ajo jo ne vone se fundi i Shkurtit 2009. ERE do te miratoje keto procedura jo me vone se Mbyllja e privatimit te OSSH- se. Kesto procedura do te jene te drejta, transparente dhe ne perputhje me ligjet dhe praktikat me te mira. Kesto procedura do te jene te vlefshme per periudhen kohore qe mbulon kjo Deklarate Rregullatore.

OSSH do te kete gjithashtu te drejt te marre borxh nga huadhenes nderkombetare, duke pershi ne pa kufizim EBRD dhe IFC, ne rastin ne te cilin keto procedura tenderimi nuk do te jene te zbatueshme. Kosto e borxhit te ri te marre nga OSSH ne perputhje me keto procedura (ose sipas rastit, te marre nga huadhenes nderkombetare sipas fjalise me siper) do te jete plotesisht e transferueshme ne tarifen perkatese nepermjet modelit te llogaritjes se WACC-ut te shpjeguar ne kete seksion.

Ne rast se borxh i ri nuk eshte e mundur te perftohet nepermjet ketyre procedurave te tenderimit, dhe/ apo nga institucionet financiare nderkombetare, aksoneter e OSSH- se mund te sigurojne, si burim te fundit, financim shtese per te siguruar mbarevajtjen dhe veprimtarise se OSSH-se. Kosto e ketij financimi do te jete e njejte me normen e lejuar te kthimit mbi kapitalin e vet (ARoE), te pershkruar me siper, dhe do te jete plotesisht e transferueshme ne tarifen e miratuar si komponent borxhi nepermjet modelit te llogaritjes se WACC, sic pershkrashi ne kete seksion. OSSH do te paraqese se ERE fakte te arsyeshme qe tregojne se ajo ka bere perpjekjet me te mira per perftimin e financimeve te tiila nepermjet ketyre procedurave.

Borxhi i ri i marre nga OSSH ne perputhje me procedurat e pershkuara me lart (ose sipas rastit, te marre nga huadhenesit nderkombetare sipas fjalise me lart), dhe/apo nga financimi i aksonereve-sipas paragrafit me-lart, do te konsiderohet si borxh i ri ("Borxh i Ri").

Norma e interesit e pranuar per borxhin e vjetor eshte norma aktuale e interesit te aplikueshem sipas termave te marrevshjes se nen –
ndermjet KESH sh.a. dhe OSSH sh.a., "Borxhi i Vjeter" i referohet borxhit te llogaritur per DSO-ne ne perputhje me marreveshjen per shlyerjen e borxhit afat-gjate qe do te nenshkruhet ndermjet KESH sh.a. dhe OSSH sh.a. ("Mareveshja e Shlyerjes se Borxhit Afatgjate").

Kosto Mesatare e Ponderuar e Kapitalit (WACC) llogaritet si vijon:

$$\text{CoOD} \% \times \frac{\text{OldL-T}}{\text{OldL-T} + \text{NewL-T}} = Y_1\%$$

$$\text{CoND} \% \times \frac{\text{NewL-T}}{\text{OldL-T} + \text{NewL-T}} = Y_2\%$$

$$\text{WACC} = 40\% \times \text{ARoE}\% \text{ para taksave} + 60\% (Y_1\% + Y_2\%)$$

Ku:

**ARoE\% para tatin fitimit** = Norma e Lejuar e Kthimit mbi Kapitalin para tatin fitimit

**CoOD\%** = Norma aktuale mesatare e ponderuar e interest per Borxhin e Vjeter

**CoND\%** = Norma aktuale mesatare e ponderuar e interest per Borxhin e Ri

**OldL-T/(OldL-T + NewL-T)** = Pjesa e Borxhit te Vjeter ne totalin e Borxhit

**NewL-T/(OldL-T + NewL-T)** = Pjesa e Borxhit te Ri ne totalin e borxhit

**OldL-T** = borxhi i mbetur per t'u paguar nga OSSH sipas temave te Marreveshjes se Shlyerjes se huase afatgjate, ne vleren aktuale sipas bilancit te audituar te OSSH sipas IFRS-ve per vitin perpara vitit per tarife.

**NewL-T** = borxhi i mbetur, me norme interes, pervec atij qe mbart Borxhi i Vjeter, te marre nga OSSH, ne vlerë aktuale sipas bilancit te audituar te OSSH sipas IFRS-ve per vitin perpara vitit per tarife.
4.3 Raporti i synuar i Borxhit per DSO-ne

Per qellim te llogaritjes se tarifave te sherbimit te shperndarjes se energjise elektrike, raporti i pranuar i borxhit do te jete 60%, sic tregohet ne formulen me siper.

4.4 Kapitali i Punes

Kapitali i Punes i lejuar do te jete i barabarte me 1/12 e Shpenzimeve Operative te DSO-se (shpenzimet operative te lejuara), sipas metodollogjise se llogaritjes se tarifave te sherbimit te shperndarjes se energjise elektrike. Vetem per qellim te llogaritjes se Kapitalit te Punes, Shpenzimet Operative perfaqesojne kostot operative vjetore te lejuara per DSO-ne qe te kryeje veprimtarine per te cilin eshte licensuar, duke perjashtuar amortizimin e aktiveve afatgjata dhe shpenzimet financiare. Shpenzimet qe lidhen me blerjen e energjise elektrike per te mbuajn kërkesat ne rrjetin e shperndarjes perfshi te gjitha kostot e aplikueshme te transmetimit jane gjithashtu pjese e Shpenzimeve Operative te lejuara.

Niveli i Shpenzimeve Operative i miratuar ne tarifat e vitit 2008 ishte 21,000 million Leke per DSO-ne dhe 1,800 million Leke per FPP.

Parashikimi me i fundit i Shpenzimeve Operative per vitin 2009 sipas aplikimit perkates per rishikim te tarifave (sidooqote jo me i ulet se nivel i Shpenzimeve Operative per vitin 2008 i pershkruar me lart) do te sherbeje si baze per llogaritjen e Tarifave te Rishikuara per vitet 2009 dhe 2010. Parashikimi i kostos i energjise per te mbuajn kërkesat e humbjeve te DSO-se per pjesen e vitit 2009 qe mbetet pas Mbylljes se privatizimit dhe per vitin 2010 nuk do te marre parasysh efektin e ndonje korigjimi ne koston e vleresuar te DSO-se dhe/ose FPP, qe ka lidhje me vendim e Qeverise No. 143, date 11.02.2009 (Per Nje Shtese ne Vendimin Nr. 338, Date 19.03.2008, te Keshillit te Ministrave, "Per Miratimin e Modelit te Tregut te Energjise Elektrike", Te Ndryshuar). Per te menjanuar cdo dyshim, shpenzimet qe lidhen me Auditimin e Humbjeve dhe Studimin e Humbjeve, Studimin e Nivelt te Borxhit te Keq dhe te Garancise e Pjesshme te Riskut (PRG) qe do te merret nga Banka Botore, do te pranohen dhe njihen nga ERE si te arsyeshme per t'u perfshire ne Shpenzimeve Operative.

4.5 Objetivat per uljen e humbjeve

Per vendosjen e objektivave te uljes se humbjeve ne shperndarje pergjate periudhave te rregullimit, per vitin 2008 do te supozohet nje nivel i pritshem i
humbjeve prej 32% te energjise se injektuar ne rrjetin e shperndarjes. Perqindja e humbjeve te energjise elektrike ne shperndarje do te kuptohet si diference ndermjet energjise qe injektohet ne rrjetin e shperndarjes dhe energjise se faturuar konsumatoreve tarifore, e treguar si perqindje ndaj energjise se injektuar ne sistemin e shperndarjes

Dedi me sot nuk eshte kryer ndonje studim i vacante per humbjet ne sistemin e shperndarjes, por per qellim te vendosjes se tarifave, sipas vleresimeve te OSSH-se, ERE pranon qe niveli total i humbjeve ne shperndarje (teknike dhe jo-teknike) te arrije ne 15 % ne fund te periudhes se trete te rregullimit (viti 2014), me supozimin qe niveli fillestar ne vitin 2008, per t’u konfirmuar nga Auditimi i Humbjeve sipas pershkrimit me poshte, eshte ne nivelin prej 32%.

ERE pret nje permiresim te shpejte ne nivelin e humbjeve jo – teknike, dhe nje ulje me te ngadaleshme por te vazhdueshme te humbjeve teknike ne rrjetin e shperndarjes. ERE parashikon uljen e humbjeve totale ne sistemin e shperndarjes sipas skenari i njohur ne vijim:

4% (pike perqindje) ulje per periudhen e pare te rregullimit;
4% (pike perqindje) ulje per periudhen e dyte te rregullimit;
90% (pike perqindje) ulje per periudhen e trete te rregullimit (3*3%).

Jo me vone se 31 Korrik 2009, DSO do te kryeje nje auditim te detajuar te humbjeve ("Auditimi i Humbjeve") per te perçaktuar metodologjine per llogaritjen e humbjeve te perqitshme dhe per te verifikuar nivelin aktual te humbjeve per vitin 2008 ("Humbjet Aktuale te vitit 2008").

Jo me vone se 31 Korrik 2010, DSO do te kryeje nje studim te detajuar per humbjet ("Studimi i Humbjeve") per te perçaktuar humbjet teknike dhe jo teknike te realizuara per vitin 2009.

Auditimi i Humbjeve dhe Studimi i Humbjeve do te pergatiten nga nje ekspert teknik i pavarur qe do te zgjidhet nga lista e meposhtme:

- Arthur D.Little
- Deloitte
- Ernst & Young
- KPMG
- PricewaterhouseCoopers

Studimi i Humbjeve dhe Auditimi i Humbjeve do te miratohen nga ERE perkatesisht brenda 2 muajve dhe 1 muaj nga data e paraqitjes se tyre.
Humbjet Aktuale per vitin 2008 te verifikuar sipas Auditimit te Humbjeve do te sherbejne si baze per llogaritjen e Tarifave te Rishikuara per vitet 2009 dhe 2010. Ne te njytnen kohe, nivel i Humbjeve Aktuale per vitin 2009 do te pranohet i barabarte me nivelin aktual te vitit 2008 dhe do te jete plotesisht i transferueshemb me tarifat e DSO-se ne perputhje me Mekanizmin e Kompensimit te pershkruar ne piken 6, dhe do te sherbeje si nivel fillestar per programin e uljes se humbjeve ne peridhagrid e percatuar me siper.

Duke u bazuar ne Studimin e Humbjeve, DSO do te propozojne ne ERE programin e uljes se humbjeve totale per te tre periudhat e rregullimit te permendur me lart, te ndara ne vete, te shoqeruar me planin perkates te investimeve te nevojshme per uljen e humbjeve sipas ketij programi, nese skenari i propozuar nga ERE nuk eshte i pershtatshem. Per te menjanuar cdo dyshim nivel i humbjeve totale nuk mund te jete me ulet se 15% ne fund te periudhesh se trete rregullatore (2014).

Niveli i investimeve te nevojshme per uljen e humbjeve sipas programit te paraqitur nga DSO do te miratohet nga ERE ne perputhje me nenin 24 te Ligjit per Sektorin e Energjise Elektrike, te ndryshuar.

ERE eshte te vetedijshme qe DSO nuk duhet te perball me riskun qe rrjedh nga prokurimi i energjise elektrike te tregun e hapur. Kosto e humbjeve te njohura per qellim te llogaritjes se tarifes se sherbimit te shperndarjes se energjise elektrike per vitin e ardhshem do te percaktohet së kosto mesatare e ponderuar e blerjes një të avancë të energjise nga DSO shumëzuar mes sasine e pritshme te energjise elektrike te nevojshme per mbulimin e humbjeve.

Per te menjanuar cdo dyshim, OSSH cdo viti kalendarik do te shpall tendera per blerjen e energjise elektrike te perputhje me procedurat e tenderimit qe do te propozohen nga DSO, jo me vone se fundi i muajt Shkurt 2009, dhe do te miratohen nga ERE jo me vone se Mbyllja e privatizimit te OSSH. Kosto procedura do te jene te drejtë, transparente dhe ne perputhje me ligjet ne fuqi dhe praktikat me te mira. Kosto procedura do te jene te vlefshme per periudhën qe do te jete te vlefshme kjo Deklarate Rregullatore. Kosto e humbjeve e percautuar ne perputhje me keto procedura do te jete plotesisht e transferueshëme ne tarifat e shperndarjes te miratuar per vitin pasardhës.

4.6. Faktori - X

4.6.1 Faktori X per tre periudhat e para te rregullimit do te jete zero,

4.6.2 ERE do te njohet cdo perftelim qe vjen si rezultat i uljes se shpenzimeve operative (perjashtuar humbjet) i cili do t'i lihet investorit per nje

1 (p.sh. nese Humbjet Aktuale te vitit 2009 jane 33%, nivel perfundimtar i humbjeve ne 31.12.2014

do te jete 16%).
periudhe rregullimi. Korigjimi i Shpenzimeve Operative per periudhen pasardhese te rregullimit do te jete objetk rishikimi nga ERE.

5. Per Tarifen e Furnizuesit Publik me Pakice

5.1 Tarifa e Furnizuesit Publik me Pakice

Te Ardhurat e Kerkuara Furnizuesit Publik me Pakice (tarifa e konsumatoretave fundore) do te llogaritet duke u bazuar ne metodologjinë e pershkruar me poshte, duke njohur gjithashtu sasine e te ardhurave te llogaritur per tu kompensuar sipas mekanizmit te kompensimit te pershkruar ne Piken 6.:

$$RR_{act\,n} = (WPS_{tariff\,n} + OST_{tariff\,n}) \times V_n + DSO_{tariff\,n} \times V_{c,\,in} + PSO_{cost\,n} + RPS_{cost\,n} - \Delta \, COMPB_n$$

Ku:

$$\Delta \, COMPB_n = RR_{cal\,n} - RR_{max\,n}$$

$$RR_{max\,n} = T_{act\,n-1} \times (1+g) \times (1+CPI_{n-1}) \times V_n$$

$$COMPB_n = COMPB_{n-1} + RoC_n + \Delta \, COMPB_n$$

$$RoC_n = [COMPB_{n-1} + \max(RR_{cal\,n} - RR_{max\,n},0)] \times WACC_{\,Comp,n}$$

nese  $$COMPB_{n-1} + RoC_n + \Delta \, COMPB_n \leq 0,$$
atehere  $$\Delta \, COMPB_n = -(COMPB_{n-1} + RoC_n)$$

Variablat e mesiperm percaktohen si vijon:

$$RR_{act\,n}$$ - kerkesa aktuale per te ardhura e OSSH e njohur nga ERE ne vitin n, ne funksion te veprimtarise se shitjes me pakice qe ajo kryen 

$$RR_{max\,n}$$ - niveli i te ardhurave maksimale te OSSH te lejuar nga ERE ne vitin n, ne funksion te veprimtarise se shitjes me pakice qe ajo kryen, ne kuptimin e normes maksimale reale te rishitjes se tarifes mesatare te FPP.

$$RR_{cal\,n}$$ - kerkesa per te ardhura e OSSH e njohur ne funksion te veprimtarise se shitjes se pakice, sipas aplikimit per rishikimi te tarifave (pa ndikimin e balances kompensimit)
WOLFTHEISS Sh.p.k.
Pr. H. TOPTANI, GENORA EUROCOL.
Kaj 4, TIRANE, ALBANIA
Tel./Fax: 5555 4 2274592
NIP TX 31830008 A

\[ \text{COMP}_B \text{n} \quad - \text{gjendja e llogarise se kompensimit per fundin e vitit n.}
\]
\[ \text{Per vitin 2008 kjo shume eshte e barabarte me zero.} \]

\[ \Delta \text{COMP}_B \text{n} \quad - \text{ndryshimi i gjendjes se akumuluar te llogarise se kompensimit - gjate vitit n.} \]

\[ g \quad - \text{rritja vjetore mesatar e ponderuar e tarifave te konsumatoreve fundore ne terma reale (duke perjashtuar CPI) e pranuar nga ERE, g do te jetet e barabarte me /ose me e larte se 15 \%, peraq kohe sa ka akoma shuma positive te mbetura per tu kompuesuar ne llogarine e kompensimit} \]

\[ |\Delta \text{COMP}_B\text{n}| \quad - \text{vlera absolute e } \Delta \text{COMP}_B \text{n} \text{ne vitin n} \]

\[ \text{WACC}_{\text{Comp}} \text{n} \quad - \text{norma e lejuar e kthimit mbi balancen e llogarise se kompensimit - per vitin n; sipas Pikes 6 WACC}_{\text{Comp}} \text{n} \text{do te jetet e barabarte me Koston Mesatar te Ponderuar te Kapitalit (WACC) te llogaritur per DSO -ne per vitin n, sipas Pikes 4.2.} \]

\[ \text{RoC}_n \quad - \text{kthimi i perfhtuar ne vitin n mbi balancen e llogarise se kompensimit} \]

\[ T_{\text{act}} n \quad - \text{tarifa mesetare totale e ponderuar per FPP e miratuar nga ERE ne vitin n} \]

\[ V_n \quad - \text{sasia totale e energjise elektrike per konsumatore fundore e pranuar nga ERE dhe OSSH per vitin n} \]

\[ V_{dn} \quad - \text{sasia totale e shitjeve te energjise tek konsumatore fundore te lidhur ne sistem e shperndarjes ne vitin n, te pranuar nga ERE dhe OSSH per vitin n.} \]

\[ \text{CPI}_n \quad - \text{Indeksi i Cmimeve te Konsumit i fund vitit ne vitin n i publikuar ne buletinin e Institutit te Statistikis te Shqiperi (INSTAT)\textsuperscript{3}} \]

\[ \text{WPS}_{\text{tariff}} n \quad - \text{Tarifa e kerkuar e furnizesit publik me shumice te energjise elektrike e miratuar nga ERE ne vitin n} \]

\textsuperscript{3} \text{Per te menjanuar cdo dyshim, CPI ne vitin 2007 ishte 3.1\% dhe ne vitin 2008 ishte 2.2\% tash} publikuara nga INSTAT ne Dhjetor 2008.
OST\textsuperscript{tariff} \textsuperscript{n} \quad - \text{Tarifa e kerkuar e operatorit te sistemit te transmetimit te energjise elektrike e miratuar nga ERE ne vitin } \textit{n} \\
DSO\textsuperscript{tariff} \textsuperscript{n} \quad - \text{tarifa e sherbimit te shperndarjes se energjise elektrike e miratuar nga ERE ne vitin } \textit{n} \\
PSO\textsuperscript{costs} \textsuperscript{n} \quad - \text{kostot qe lidhen me detyrimet e sherbimit publik e miratuar nga ERE ne vitin } \textit{n} \\
RPS\textsuperscript{costs} \textsuperscript{n} \quad - \text{kostot e furnizuesit publik me pakice te miratuar nga ERE ne vitin } \textit{n}. Kjo kosto do te perfshihet marzhin e fitimit ashtu si specifikohet ne pikën 5.3 me poshte.

Nese per ndonje arsye tarifa e FPP nuk do te jete me e rregulluar (sipas rastit, nese realizohet ndarja e veprimtarise se furnizimit me pakice nga ajo e shperndarjes se energjise elektrike), dhe gjendja e llogarise se kompensimit nuk eshte realizuar plotesisht tek te ardhuar e OSSH – se, atehere kjo shume e mbetur ne llogaritje e kompensimit do te transferohet tek DSO dhe do te rimbursohet/shlyhet ne perputheje me metodollogjine e pershkuar me lart nepermjet tarifes se DSO-se.

5.2 Borxhi i Keq

ERE eshte e vetedijshme se nje nivel i caktuar i borxhit te keq eshte pjesa e pandare e biznesit te shitjes me pakice te energjise elektrike dhe si e tille duhet reflektuar ne tarifa. Borxhi i Keq i Lejuar do te llogaritet si nje perqindje mbi shumen e te ardhuarave totale te OSSH ne funksionin e saj si FPP perfshir e gjithe perberesit e tarifave te FPSH (perfshire ate te prodhimit), te OST, DSO, PSO, FPP dhe pagesa te tiera sipas rastit duke perjashtuar latimin mbi vleren e shtuar („Te Ardhurat e FPP”). Per vendosjen e objektivave per uljen e Borxhit te Keq per gjitha perindhuve te rrregullimit, do te pranohet per vitin 2008 nje nivel i Borxhit te Keq prej 14 % mbi te Ardhurat e FPP.

Per 2009 pranohet i njejti nivel i Borxhit te Keq me ate te vitit 2008 (si % ndaj te Ardhurave te FPP). Ne 2010, niveli i Borxhit te Keq (si % ndaj te Ardhurave te FPP) do te ulet me 1 pike perqindje krahasuar me nivelin e vitit 2009.

Deri me 31 Korrik 2011, OSSH, ne funksion te veprintarise se shitjes me pakice qe ajo kryen, do te kryje nje studim te detajuar per Borxhin e Keq ("Studimi mbi Borxhin e Keq") per te percaktuar (i) metodollogjine e llogaritjes se Borxhit te Keq dhe (ii) Nivelet Aktuale te Borxhit te Keq per 2008, 2009 dhe 2010 („Nivelet Aktuale
te Borxhit te keq per vitet 2008, 2009 dhe 2010"). Studimi mbi Borxhin e Keq do te perqindjet nga nje ekspert financiar i pavarur i zgjedhur nga lista e meposhtme:

- Deloitte
- Ernst & Young
- KPMG
- PricewaterhouseCoopers

Studimi mbi Borxhin e Keq do te miratohet nga ERE Brenda 2 muajve nga paraqitja e tij.

Gjithashtu, nivel i aktual i Borxhit te Keq per vitin 2010 do te sherbeje si nje nivel filleslar per programin ne vazhdim te uljes se tij sipas pershkrimit me poshte ne rast se ai nuk eshte me i larte se nivelet aktual i borxhit te keq te vitit 2009, perndryshe do te perdoret borxhi i keq aktual i vitit 2009.

1% (pike perqindje) ulje per vitin 2011;
1% (pike perqindje) ulje per vitin 2012;
1% (pike perqindje) ulje per vitin 2013.
1% (pike perqindje) ulje per vitin 2014.

Ne rast se Niveli Aktual i Borxhit te Keq per vitet 2009 dhe apo 2010 dhe apo 2011 eshte perkatesisht me i larte se 14 % dhe apo 13% dhe apo 12%, diferenca do te shtohet ne shumen e te ardhurave per t'u kompensuar sipas Pikes 6.

Ne rast se Niveli Aktual i Borxhit te Keq per vitet 2009 dhe apo 2010 dhe apo 2011 eshte perkatesisht me i ulet se 14 % dhe apo 13% dhe apo 12%, diferenca do t'i zbirit shumes se te ardhurave per t'u kompensuar sipas Pikes 6.

5.3. Te tjera

- Tarifa e sherbimit te furnizimit me shumice do te jetë kosto e transferueshme per Furnizuesin Publik me Pakice.
- Marzi i Fitimit per Furnizuesin Publik me Pakice eshte i barabarte me 2.2 % mbi shpenzimet vjetore per blerjen e energjise elektrike nga FPSH-ja me cmime te rregulluara. Marzi i Fitimit per FPP-er bazohet vetem ne blerjet e energjise elektrike nga FPSH dhe nuk llogaritet bazuar ne kostot e 4 Niveli Aktual i Borxhit te Keq per vitin 2011 percaktohet si Niveli Aktual i Borxhit te Keq per vitin 2010 minus 1 pike perqindje.
sherbimeve te transmetimit, shpenderja apo atyre te sherbimeve ndihmese, madje as ne kostot qe lidhen me blerjen e energjise elektrike nga DSO –ja per mbulimin e humbjeve.

- Lidhur me strukturen e konsumatoreve familjare, ERE ka filluar nje studim per percaktimin e nivelit minimal te konsumit mesatar mujor. ERE do te beje te muncur venien ne dispozion te DSO-se se rezultateve te ketij studimi perpara se OSSH te pregatise aplikimin per rishikimin e tarifave, pra jo me vone se 30 Qershor, 2009. Rezultatet e ketij studimi do te perdoren per rishikimin e nivelit te bllikut te pare te konsumit per konsumatoret familjare, ne aplikimin per rishikimin e tarifave qe do te hyjne ne fuqi me 01 Janar, 2010.

- Tarifa e FPP-së perdorohen te konsumatoret tarifore do te perfshijne nje korigjim per te kërkuar mesatare te ndryshime dhe atyre te realizuara me rezultatet e kërkuara i ndryshimeve ne kerkesen e parashikuar per cdo kategorie e konsumatoreve, kur keto te fundit jane te krijuar rishtasi ose kur ka ndryshime ne tarifat, te cilat nuk jane ne te njejtin proporcion tek te gjitha kategorite e konsumatoreve.

6. Mekanizmi i Kompensimit per Tarifen e Sherbimit te Shperndarjes dhe te Shitjes me Pakice te Energjise Elektrike

Ne rast se ERE nuk lejon ne tarife nje pjese te te Ardhurave te Kerkuara te njohura per DSO-ne dhe FPP-ne, te illogaritura sipas metodologjive perkatese te miratuara nga Bordi i Komisionereve te EREs me vendimet Nr. 79 dhe 80 te dates 26.06.2008, atehere kjo pjese e te ardhurave do te jetet objekt i mekanizmit te kompensimit te pershkuar me poshte ashtu si eshte percaktuar ne piken 5.1.

Ne rast se kerkesa per te ardhura e OSSH-se ne funksionin e saj si FPP per nje vit te dhene rezulton me nje rritje te tarifes totale mesatare te ponderuar per konsumatoret tarifore (shuma e te ardhurave te kerkuara te OSSH-se ne funksionin e saj si FPP pjesuara me volumin vjetor te parashikuar te shitjeve ne nje vit te dhene) me te larte se 15 % ne term reale (mbi CPI), atehere rritja minimale te tarifes mesatare e njohur nga ERE do te jete 15 % ne term reale. Per te menjuar cdo dyshim, kjo tarife do te sjelle rritjen minimale ne te ardhurat e kerkuara te OSSH-se ne funksionin e saj si FPP prej 15 % ne term reale.

Nese rritja e kerkuar e tarifes fundore totale mesatare te ponderuar per vitin e ardhshem (perpara aplikimit te ndonje sasie te ardhurash per tu kompensuar me mekanizmin e kompensimit) eshte me e ulet se 15 % ne term reale, ERE do te miratoje nje rritje te tille dhe nuk do te rise shumen e te ardhurave per

\[ (1+g) \times (1+CPI_{t+1}) \]

5 Rritja ne term reale do te illogaritet duke perdurur formulen (1+g) \times (1+CPI_{t+1})
t'ju kompensuar. Per me teper, nese ka gjendje te mbetur ne llogarime e kompesismit, ERE do te rrise tarifën mesatare te ponderuar te konsumatoreve fundore ne nivelin e duhur per te bere zero llogarime e kompesismit, mjaft qe kjo rrjitet te ajri te mbehte me më shumë 15% ne terma reale, sipas formuleve ne piken 5.1. me sipër. Cdo pjese e mbetur ne llogarime e kompesismit do te mbartet per vitin tjeter.

Pjesa e te ardhurave qe nuk eshte marre parasysh ne llogaritjen e tarifës, do te perbejne llogarime e kompesismit qe nga vitit kur kjo ndodh deri ne vitin (duke pershikur edhe kete vit) kur kjo sasi kompensohet plotesisht sipas formuleve se pershkruar ne Piken 5.1. Gjate periudhes se kompesismit OSSH ka te drejte te fitojne kthimin e rregulluar mbi kete shume – objekt i mekanizmit te kompesismit. Norma e lejuar te kthimit prej 15% te perfundohet me kete vit dhe se kompesismit do te jete e barabarte me Koston Mesatare te Ponderuar te Kapitalit (WACC) te llogaritur per DSO-ne, sipas pikes 4.2, per vitin paraardhesh te vitit kur behet aplikimi te tarifës.

Mekanizmi i kompesismit do te zbatohet per periudhes qe mbulon kjo Deklarate Rregulatore dhe do te ruhet gjithashtu per periudhat e ardhshme te rregullimit.

Ndryshimi ne kerkesen e pergjithshme per te ardhura qe rrjedh nga ndryshimi i tarifave te miratuara per vitin 2009 sipas Vendimit Nr. 21, date 14.02.2008 dhe tarifave sipas "Aplikimit per Rishikimin e Tarifave per 2009", do te jete objekt i Mekanizmit te Kompesismit.

Ne rast se humbjet aktuale per vitin 2008 jane me te larta se sa nivel i supozuar prej 32 %, dhe per rrjedhoje Humbjet Aktuale per vitin 2009 jane gjashtëm me te larta se 32%, atëherë ndryshimi ndërmjet kerkeses per te ardhura te llogaritur sipas programtit te ri te uljes se humbjeve dhe kerkeses per te ardhura te llogaritur sipas programtit filletar te uljes se humbjeve (bazuar ne nivelin e pranuar te humbjeve prej 32%), sic pershkruhet ne këtë dokument, do te jete gjashtëm objekt i mekanizmit te kompesismit.

Ne rast se Niveli Aktual i Boxhit te Keq per 2009 dhe/apo per 2010 dhe/apo Niveli aktual i Boxhiti te Keq për 2011 eshte perkatesisht me i larta se 14 %, 13 % dhe/ apo 12% atëherë ndryshimi ndërmjet kerkeses per te ardhura te llogaritur sipas programtit te ri te uljes se Boxhiti te Keq dhe kerkeses per te ardhura te llogaritur sipas programtit filletar te uljes se Boxhiti te Keq (bazuar ne nivelin e Boxhiti te Keq perkatesisht 14 %, 13 % dhe 12%), sic pershkruhet ne këtë dokument, do te jete gjashtëm objekt i mekanizmit te kompesismit.
7. Cilesia e Sherbimit te Furnizimit me Energji Elektrike

- ERE ka percaktuar vetem dy tregues te cilesise se sherbimit derisa te pergatiten standartet per cilesine e sherbimit:
  - Nderprerjet e furnizimit me energji elektrike (shpeshtesia dhe kohezgjatja) qe do te kryhen nga DSO-ja ne raste riparimesh dhe remontesh. DSO-ja duhet t'i paraqese ERE-se programin e remonteve mbi baza vjetore.
  - Saktesia e faturimit 99 %. Saktesia e faturimit eshte kritike per te reduktuar humbjet dhe per te qene te drejte ndaj konsumatoreve. Per me teper ERE-ja dhe DSO-ja/FPP-ja, duhet te punojne se bashku per te vendosur rregulla per shpeshtesine e leximit te matesave dhe se si do te ndahet konsumi i energjise elektrike per cdo muaj ne rastet kur nje mates lexohet me rralle se nje here ne muaj.

Standartet per cilesine e sherbimit te furnizimit do t'i propozohen ERE-s nga investitori ne bashkepunim me te licensuar te tjere. Standartet do trajtojne cilesine dhe gjithashtu edhe sigurine e furnizimit me energji elektrike. ERE parashikon qe ky proces te zgjase rreth I vit per FPP dhe DSO, derisa ata te analizojne sistemin, te zhvillojne nivelet e krahasimit per cdo standart te cilesise dhe sigurise se furnizimit, dhe te zhvillojne programet per te arritur keto objektiva.

8. Dispozita perfundimtare

Sikurse ne te gjitha dokumentat zyrtare te miratuara nga ERE, versioni shqip i ketij dokumenti eshte versioni zyrtar.

Ne rastin e ndonje mosperputhjeje ndermjet Deklarates Rregulatore dhe ndonje vendimi tjeter te ERE-s, kjo Deklarate Rregulatore do te prevalojne.

9. Miratimi

Kjo Deklarate Rregulatore u miratua nga Bordi i Komisionereve me Vendimin Nr. 12, date 03.03.2009.
REVIEW PANEL PROCEDURES

1. For any decision issued by ERE which is in any way related to the distribution system operator ("DSO") and retail public supplier ("RPS") tariff applications submitted by OSSH and the DSO tariff formula and the RPS tariff formula and their related inputs (as set forth in Annex I hereto), including the compensation mechanism set forth in Articles 5 and 6 of the Regulatory Statement approved by ERE on 3 March 2009 (the "Relevant Decision"), OSSH shall have the right to obtain an opinion of a Review Panel (as described in paragraph 2 below) concerning the Relevant Decision for the purpose of providing additional transparency and analysis in the event OSSH seeks review of the Relevant Decision by ERE.

2. The Review Panel shall consist of three independent experts: one selected by ERE (or, if ERE is unable to make a selection, by METE after consultation with ERE), one by OSSH, and the third one by the two experts selected by ERE (METE) and OSSH. If such two experts are unable to select a third one within a period of 5 days of the selection of the last of the two experts, the third expert shall be selected by an internationally credible institution to be jointly selected by ERE and OSSH, such as the Energy Community Secretariat or other similar reputable international organization (the "Institution"). If the Institution ceases to exist, ERE and OSSH shall jointly replace it with any successor internationally recognized institution of similar character. The members of the Review Panel shall be selected from a list of international experts with demonstrated expertise in electricity regulation, attached hereto as Annex 2. The list may be amended from time to time by ERE or OSSH as follows: either ERE or OSSH have the right to select a new expert (which may be either a company or an individual) and the other party shall not object to such selection; provided that if the selected expert fails to meet the following two criteria: (i) the expert is an international expert with demonstrated expertise in electricity regulation, and (ii) the expert has no conflict of interest with either ERE or OSSH, then the other party shall have the right to reject such selection. The cost of the Review Panel shall be borne by OSSH and, if the Review Panel recommends that the Relevant Decision be modified, the cost shall be included in the tariff applicable to OSSH.

3. OSSH may request that a Review Panel be constituted at any date not earlier than the date that is 45 days prior to the date set for the Relevant Decision. Members of the Review Panel which is to review the Relevant Decision shall be appointed within 5 days after the request by OSSH, and shall immediately begin to familiarize themselves with the issues to be dealt with by the Relevant Decision.

4. OSSH may, within 5 days of the issuance by ERE of the Relevant Decision, request ERE to review the Relevant Decision. If OSSH requests such review, the Review Panel established under paragraph 3 above, shall prepare and submit to ERE not later than 7 days prior to the date established for the final decision by ERE which reviews the Relevant Decision, a written statement of its opinion concerning the merits of the issues that are the subject of the request for review (the "Opinion"). The Opinion shall be determined by a majority vote of the three members of the Review Panel. The Opinion must clearly articulate the basis for the same and the facts and laws supporting it. The Review Panel shall be granted access to any information...
relevant to the Opinion by ERE and OSSH. If either ERE or OSSH fails to provide the requested information, the Opinion shall not be delayed, but the Review Panel may make all reasonable assumptions concerning the missing information.

5. The Opinion shall not be binding on ERE or OSSH, but shall be taken into account by ERE in its final decision. Such final decision shall address in reasonable detail the analysis and recommendations set forth in the Opinion and shall state the reasons for accepting or rejecting them.
ANNEX 1
INPUTS TO DSO AND RPS FORMULAE

The inputs to the DSO and RPS formulae include:

For the DSO Formula

- The determination of the regulatory asset base (RAB) for 2009 and subsequent years through 2014 as described in Section 6 of ERE's Board of Commissioners Decision No. 79, dated June 26, 2008 and in Section 4.1 of the RS.

- The weighted average cost of capital (WACC) calculation methodology including the treatment of the pre-tax allowed return on equity (ARoE) until December 31, 2014, as described in Section 4.2 of the RS and ERE's Board of Commissioners Decision No. 79, dated June 26, 2008.

- Recognition of the cost of equity of 16.44% pre-tax until 2014 as set out in Section 4.2 of the RS.

- Full pass-through into the applicable tariff by way of the WACC calculation of the cost of new debt (including shareholder financing) acquired following the specified procedures set out in Section 4.2 of the RS.

- Application of the 60% gearing ratio for the DSO as set out in Section 4.3 of the RS.

- Determination of the costs of operation (OPEX) of the DSO in 2009 and subsequent years through 2014, as set out in Section 5 of ERE's Board of Commissioners Decision No. 79, dated June 26, 2008 and Section 4.4 of the RS.

- Working Capital Requirement for the DSO as described in Section 4.4 of the RS.

- The starting level and future targets for DSO distribution loss reduction and changes to these that may result from the Loss and Audit Studies as described in Section 4.5 of the RS.

- Full pass through of the cost of power to cover distribution losses for power procured on the open market in accordance with tender procedures approved by ERE as set out in Section 4.5 of the RS.

- Setting the X-factor equal to zero for the first three regulatory periods and recognition by ERE of any profit stemming from the reduction of operational costs (excluding losses), as set out in Section 4.6 of the RS.

For the RPS Formula

- Recognition of the bad debt allowance targets as may be revised as a result of the Bad Debt Study, as set out in Section 5.2 of the RS.
- Recognition of RPS profit margin of 2.2% on annual electricity purchases from the wholesale public supplier (WPS) until 2014 as set out in Section 5.3 of the RS.

- Full pass-through for the power procurement costs of the WPS as set out in Section 5.3 of the RS.

- Adjustment to the tariff to final consumers to compensate for differences between forecast and actual revenue resulting from the circumstances specified in Section 5.3 of the RS.

- Non claiming of any increased earnings, before interest and taxes of OSSH, relating to the period starting on 1st January 2009 and ending on the date of closing of the transaction relating to the privatization of OSSH according to the comfort letter issued by METE on March 9, 2009.
ANNEX 2  
LIST OF EXPERTS

The Parties will agree on a list of experts before the Closing.
ANNEX 4

REIMBURSEMENT GUARANTEE (PARENT CORPORATE GUARANTEE)

[THE LETTERHEAD OF ČEZ, A. S.]

To: The Ministry of Finance of the Republic of Albania (the “Beneficiary”)

Date: [●], 2009

PARENT CORPORATE GUARANTEE

Dear Sirs,

We have been informed by our subsidiary Operatori I Sistemit Te Shperndarjes SHA, a company established pursuant to the laws of the Republic of Albania, having its registered seat at Rruga: “Vasil Shanto”, Tirana, Albania, Identification No. K 72410014 H, registered with the Trade and Companies Registry of Tirana (the “Company”) that you, the Ministry of Economy, Trade and Energy of the Republic of Albania and the Company entered into the Government Support Agreement (the "GSA") dated [6th May] 2009 (the "Transaction").

In consideration of you as the Beneficiary entering into the Transaction with the Company, we, ČEZ, a. s., a joint-stock company established pursuant to the laws of the Czech Republic, with its registered seat at Prague 4, Dušová 2/1444, Zip Code: 140 53, Identification No.: 452 74 649, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B., File 1581 (the "Guarantor"), hereby covenants and agrees to guarantee the obligations of the Company on the terms and conditions as set out below:

1. As a security for any and all of the Company’s payment obligations under Article 5 of the GSA in connection with the Beneficiary Conditional Payment Demand (as defined in the GSA) dated [●] (the "Obligations") the Guarantor herewith unconditionally and irrevocably guarantees to the Beneficiary in accordance with the terms hereof the due and punctual payment of the Obligations and promises to pay to the Beneficiary on first written demand of the Beneficiary all sums due and payable but unpaid by the Company under Article 5 of the GSA.

2. This Guarantee shall be limited to the amount or amounts not exceeding in total EUR [●] (to wit: [●] Euros), including principal, interest and all other fees and expenses.

3. Our liability to make payment under this Guarantee shall be reduced by the amount of any payment to you made by us hereunder.

4. We undertake to make the respective payments, provided the terms and conditions of this Guarantee are satisfied, within fifteen (15) business days from the date we receive a written demand complying with requirements of this Guarantee. For the purpose of
this Guarantee the term "business day" means a day which is not a public holiday and on which banks are opened for general business in the Czech Republic.

5. For the purposes of this Guarantee:

   a. The provisions of Article 5 of the GSA relating to the payments to be made thereunder shall apply "mutatis mutandis" to payments to be made hereunder.

   b. If, after we have made any payment hereunder, we determine that (i) any of the statements set forth in Schedule 1 hereof relating to such payment has been breached, or (ii) any statement made by you in accordance with Schedule 1 hereof has been incorrect or misleading in any respect, you will, upon our written request, return any such payment to us without undue delay.

6. This Guarantee becomes effective on [●], 2009. No demand under this Guarantee shall be valid or result in any liability on our part hereunder unless it is made, and received by us, in accordance with the provisions of this Guarantee on or before [●], 200[●] or such other date on which the Guarantee shall be terminated in accordance with the terms herein. After such time this Guarantee shall cease to have effect and we shall have no liability under it, save to the extent that any demand that you deliver to us under this Guarantee prior to such expiry date shall be valid and until all sums demanded have been fully paid by us. All such demands shall be in writing and shall be effective upon actual receipt by us.

7. Validity of this Guarantee may also expire any time before the indicated above expiry date, should we receive the original copy of this Guarantee together with your written declaration that you do not insist on further validity of this Guarantee.

8. You shall return original copy of this Guarantee to us within 5 business days from the date on which our liability hereunder has ceased to be valid, provided that no payments due are outstanding. Our liability under this Guarantee will cease at its expiry date even if the original copy of this Guarantee is not returned to us.

9. Any notice or demand to be made by the parties hereunder shall only be effective if it is in English and in writing and made to the parties at the addresses set forth below:

If to the Guarantor:
ČEZ, a.s.
financial department
Duhová 2/1444
140 53 Praha 4
Czech Republic
Attn: Executive Finance Director

If to the Beneficiary:
The Ministry of Finance of the Republic of Albania
[●]
Tirana
Republic of Albania
Attn:_________
10. We shall be at liberty at all times to have recourse to and enforce all rights possessed by us as surety or otherwise against the Company or others.

11. Any amendment to the terms of this Guarantee shall be made in writing and signed by you and by us and must be accepted in writing by the Company. The benefit of this Guarantee may not be assigned or transferred to any person.

12. This Guarantee and all legal relationship connected to it or arising thereof shall be construed under and be governed by the laws of the Czech Republic. Place of venue is Praha.

IN WITNESS WHEREOF this Guarantee has been duly executed by duly authorized representatives of the Guarantor on the day first above written.

By: ____________________________
Name: __________________________
Title: __________________________

By: ____________________________
Name: __________________________
Title: __________________________

Acknowledged and agreed by:

By: ____________________________
Name: __________________________
Title: __________________________

By: ____________________________
Name: __________________________
Title: __________________________
Dear Sirs

Demand for payment of guarantee obligations

1. We refer to the Deed of Guarantee issued by ČEZ, a.s. dated [●] (the "Guarantee"). Terms and expressions defined in the Guarantee shall have the same meanings herein.

2. We refer to the Government Support Agreement dated [●] and entered into by the Ministry of Finance of the Republic of Albania, the Ministry of Economy, Trade and Energy of the Republic of Albania and Operatori I Sistemit Te Shpemdarjes SHA (the "Company").

3. We hereby notify you that the Company has failed to perform the Obligations and therefore demand that you as Guarantor pay to us the total amount of EUR [●] (Euro [●]) in conformity with the terms provided by the Guarantee.

4. We confirm herewith that (i) all conditions and demands necessary in connection with the GSA have been fulfilled and made; (ii) any grace period relating thereto has elapsed; (iii) the Company is not contesting its liability; and (iv) the terms of the GSA are the same as those at the date of the Guarantee or, to the extent they are not, any amendments to those terms have been approved by you.

5. The demanded payment execute in favor of our bank account No. ([●]) maintained with the bank (full details of the bank account to which the sum so demanded is to be paid).

For and on behalf of

(the Beneficiary)
To: The Ministry of Finance of the Republic of Albania, and
The Ministry of Economy, Trade and Energy of the Republic of Albania

CC: IBRD

[Date]

Dear Sirs,


Terms defined herein have the same meaning as used in the Government Support Agreement.

We are providing you with a Notice of Event.

We attach hereto the following documentation evidencing the potential future occurrence of a Loss:

1. a summary of known and relevant facts with respect to the respective circumstance,
2. any relevant supporting documentation in relation to such circumstance,
3. any act, decision or order issued by a third party (including the Regulator) in relation to such circumstance,
4. the estimated Loss which may be incurred due to the occurrence of the respective circumstance.

We hereby declare that this Notice of Event has been duly served within thirty (30) days from the date when we were made aware of such event.

This Notice of Event does not prevent us from subsequently claiming the actual amount of Loss.

Yours Sincerely,

[Authorized signatory for OSSH]
ANNEX 6
FORM OF NOTICE OF CLAIM / NOTICE OF SUPPLEMENTARY CLAIM

To: The Ministry of Finance of the Republic of Albania, and
The Ministry of Economy, Trade and Energy of the Republic of Albania

CC: IBRD

[Date]

Dear Sirs,


Terms defined herein have the same meaning as used in the Government Support Agreement.

We are making a claim / supplementary claim for indemnification for a Loss / additional Loss due to the following Guaranteed Event(s): [●].

We believe that the Loss amounts to [●]. Our estimate is based on the calculation attached hereto. [This claim is supplementary to the Claim submitted pursuant to our Notice of Claim dated [●] and relates to additional Loss incurred.]

[We reported the circumstances which we believe have become a Guaranteed Event in the Notice of Event submitted to you on [●].] [Note: Applies if Notice of Event was served.]

We attach hereto the following documentation evidencing the occurrence of a Guaranteed Event:

1. a summary of known and relevant facts with respect to the claim, including any relevant support documentation in relation to such circumstance,
2. Notice of Event duly served [only in case the Notice of Claim is served subsequent to a Notice of Event],
3. detailed calculation of the Loss.

We hereby declare that this Notice of Claim / Notice of Supplementary Claim has been duly served before the Final Claim Date set forth in the Government Support Agreement.

Yours Sincerely,

[Authorized signatory for OSSH]
This Settlement Agreement is concluded by and between:

1. **The Ministry of Finance of the Republic of Albania**, represented by the Minister of Finance duly authorized for the purposes of this Agreement, and acting on behalf of the Republic of Albania,

   hereafter referred to as the "Guarantor"; and

2. **The Ministry of Economy, Trade and Energy of the Republic of Albania** ("METE"), represented by Minister Genc Ruli duly authorized for the purposes of this Agreement,

   hereafter referred to as the "Technical Support Party"; and

3. **OPERATORI I SISTEMIT TE SHPERNDARJS' SHA** ("OSSH"), an Albanian joint stock company, whose registered office is located at Rruga: "Vasil Shanto", Tirana, Albania, registered with the Trade and Companies Registry of Tirana, no.38587, on 19 June 2007 under the number K72410014H, and represented by Mr. Sahit Dollapi, General Director of OSSH, duly authorized for the purposes of this Agreement,

   hereafter referred to as the "Beneficiary";

   hereafter individually referred to as a "Party" or together as the "Parties".

Whereas, pursuant to the Government Support Agreement concluded between the Ministry of Finance of the Republic of Albania, the Ministry of Economy, Trade and Energy of the Republic of Albania and OSSH, dated 6th May 2009, the Beneficiary has submitted [a Notice of Event dated [●] and] a Notice of Claim dated [●];

Whereas, the Parties have met in order to find an amicable settlement following the receipt of the Notice of Claim;

Whereas, the Parties have received the Independent Auditor Report relating to the relevant Guaranteed Event and the Loss incurred by the Beneficiary;

Terms defined herein have the same meaning as used in the Government Support Agreement.
The Parties agree that the Beneficiary has incurred a Loss of [●] pursuant to the Guaranteed Event set forth in the Notice of Claim dated [●] and have decided to settle such Claim through the payment by the Guarantor to the Beneficiary of such amount.

Upon the execution of the Settlement Agreement, the Beneficiary shall deliver to the Guarantor and the Technical Support Party, with a copy to the IBRD, a Beneficiary Demand setting forth the agreed amount.

The Guarantor shall pay the Beneficiary such amount within thirty (30) days from the date of the Beneficiary Demand, failing which the Beneficiary may deliver its Beneficiary Demand to the LC Bank, with a simultaneous copy to the Guarantor, the Technical Support Party and the IBRD.

[Authorized signatory for the Ministry of Finance of the Republic of Albania]

[Authorized signatory for the Ministry of Economy, Trade and Energy of the Republic of Albania]

[Authorized signatory for OSSH]
To: OSSH

CC: Ministry of Economy, Trade and Energy of the Republic of Albania,

IBRD

[Date]

Dear Sirs,


Terms defined herein have the same meaning as used in the Government Support Agreement.

With respect to the Notice of Claim dated [●] / Notice of Supplementary Claim dated [●] submitted by OSSH, considering that the Parties failed to settle the Claim within the Conciliation Period, we are acknowledging herein the existence of a Contested Claim.

Yours Sincerely,

[Authorized signatory for the Ministry of Finance of the Republic of Albania]
ANNEX 9
FORM OF BENEFICIARY NOTICE OF CONTESTED CLAIM

To: Ministry of Finance of the Republic of Albania,

Ministry of Economy, Trade and Energy of the Republic of Albania,

Cc: IBRD

[Date]

Dear Sirs,


Terms defined herein have the same meaning as used in the Government Support Agreement.

With respect to the Notice of Claim dated [●] / Notice of Supplementary Claim dated [●] submitted by OSSH, considering that the Parties failed to settle the Claim within the Conciliation Period, we are acknowledging herein the existence of a Contested Claim.

We hereby serve a Beneficiary Notice of Contested Claim following the failure of the Guarantor to serve the Guarantor Notice of Contested Claim within five (5) days from the expiry of the Conciliation Period.

Yours Sincerely,

[Authorized signatory for OSSH]