



Power Recovery Project (P144029)

EUROPE AND CENTRAL ASIA | Albania | Energy & Extractives Global Practice |
IBRD/IDA | Investment Project Financing | FY 2015 | Seq No: 5 | ARCHIVED on 31-Dec-2017 | ISR30419 |

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

Key Dates

Key Project Dates

Bank Approval Date:29-Sep-2014

Effectiveness Date:30-Jan-2015

Planned Mid Term Review Date:30-Mar-2018

Actual Mid-Term Review Date:--

Original Closing Date:30-Nov-2019

Revised Closing Date:30-Nov-2019

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

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

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

No

Components

Name

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

Upgrading Distribution Infrastructure:(Cost \$93.00 M)

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

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

Overall Ratings

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



Implementation Status and Key Decisions

There has been considerable progress since project effectiveness in achieving the Project objectives, all underpinned by the Financial recovery Plan approved by the Government during project design: i) reduction of losses from 45% to 28%; ii) the clearance of arrears from KESH to IPPs (from euro 120 million down to zero); iii) payment of invoiced bills to KESH (generation) from OSHEE (distribution--from 40% to 110%); iv) increase in cash collection at OSHEE from about 65% to over 92%; v) reduction of the Sector's dependence on Government budget guarantees; vi) arrangements for financial restructuring of KESH short-term debt (euro 218 million) with EBRD support; and vii) introduction of an updated Power Law aligning the sector along the 3rd Energy Package, including development of a commercial market place in the form of a Power Exchange & Balancing market, enabling Kosovo's power system to join it as a control block in the future. These are all notable achievements in any power system over the last three years.

However, the Albanian power sector is once again under financial stress, created by the combination of: (i) A down-turn in rainfall precipitation led to incremental power imports in 2017 of about euro 120 million, as compared to 2016; (ii) A capital expenditure program at distribution company OSHEE that has not yet yielded loss reduction, leading to a slippage in the annual loss reduction program—28% vs targets of 26% and 22 % in the years 2016 and 2017 respectively; and (iii) the imposition of a financially unviable public sector obligation (PSO) upon the power generator KESH.

There is, therefore, a likelihood that unless there is a renewed effort to expedite the loss reduction program, a key project development objectives in loss reduction and financial viability would not be met by the scheduled closing date. This requires concerted actions by Government and implementing agencies to update the Financial Recovery plan and address implementation gaps, and the Bank will closely provide the necessary implementation supports.





Risks

Systematic Operations Risk-rating Tool

| Risk Category | Rating at Approval | Previous Rating | Current Rating |
|--------------------------|--------------------|-----------------|----------------|
| Political and Governance | -- | ● Substantial | ● Substantial |
| Macroeconomic | -- | ● Moderate | ● Moderate |



| | | | |
|--|----|------------|------------|
| Sector Strategies and Policies | -- | ● Moderate | ● Moderate |
| Technical Design of Project or Program | -- | ● High | ● High |
| Institutional Capacity for Implementation and Sustainability | -- | ● High | ● High |
| Fiduciary | -- | ● High | ● High |
| Environment and Social | -- | ● Moderate | ● Low |
| Stakeholders | -- | ● High | ● High |
| Other | -- | -- | -- |
| Overall | -- | ● High | ● High |

Results

Project Development Objective Indicators

► Electricity losses per year in the project area (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 45.00 | 28.00 | 28.00 | 14.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

▲ Total net injected generation (Megawatt hour(MWh), Custom Supplement)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|--------------|-------------------|------------------|--------------|
| Value | 7,145,000.00 | 6,400,000.00 | 6,400,000.00 | 7,850,000.00 |

▲ Electricity losses per year in the project area- Technical (Percentage, Custom Supplement)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|----------|-------------------|------------------|------------|
| Value | 15.30 | 15.00 | 15.00 | 12.60 |



▾ Electricity losses per year in the project area- Non-Technical (Percentage, Custom Supplement)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|----------|-------------------|------------------|------------|
| Value | 29.80 | 13.00 | 13.00 | 1.40 |

► Collection rate of distribution company (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 78.00 | 93.00 | 93.00 | 93.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Reliability of MV level at Tirana area (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 100.00 | 95.00 | 95.00 | 70.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Total amount of intercompany arrears (Days, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 1,200.00 | 600.00 | 600.00 | 550.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

Overall Comments

Intermediate Results Indicators



► Number of medium voltage customers in deregulated market (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 65.00 | 65.00 | 5,000.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Power sector reforms implemented (Text, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|----------|---|---|--|
| Value | No | <p>The new Power Law is approved and it is under implementation since May 2015. Regulatory Entity (ERE) is preparing the Bylaws (Rules and Regulations). GoA approved the new Albanian Market Model on Jul 7, 2016. The Wholesale supply was abrogated and KESh is a generation company only. GoA approved the Public Service Obligation act on March 31, 2016. The consultant (NordPool) supported by the Bank and Vienna Energy Secretariat, is working together with Ministry of Energy to establish the proposed power exchange in Albania by the end of 2017. The Bank (IBRD and IFC) is supporting financially the establishment of Albanian Market Operator and Albanian Balancing Market. The distribution company is prepared to unbundle the wires from retail supply. The plan for deregulation of MV customers and IPP is under implementation. The process is going to be delayed because of</p> | <p>The new Power Law is approved and it is under implementation since May 2015. Regulatory Entity (ERE) is preparing the Bylaws (Rules and Regulations). GoA approved the new Albanian Market Model on Jul 7, 2016. The Wholesale supply was abrogated and KESh is a generation company only. GoA approved the Public Service Obligation act on March 31, 2016. The consultant (NordPool) supported by the Bank and Vienna Energy Secretariat, is working together with Ministry of Energy to establish the proposed power exchange in Albania by the end of 2017. The Bank (IBRD and IFC) is supporting financially the establishment of Albanian Market Operator and Albanian Balancing Market. The distribution company is prepared to unbundle the wires from retail supply. The plan for deregulation of MV customers and IPP is under implementation. The process is going to be delayed because of the general election on</p> | <p>The cost recovery tariff mechanism is implemented. New market is functioning and 40% of market is deregulated</p> |



| | | | | |
|------|-------------|--|--|-------------|
| | | the general election on June 18, 2017. The Power Law needs to be amended to facilitate the establishment of Market Operator as independent company with state and private ownership. | June 18, 2017. The Power Law needs to be amended to facilitate the establishment of Market Operator as independent company with state and private ownership. | |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

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

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|---|---|---|--|
| Value | The risk management mechanism is not in place | The Billing System package is contracted (Jul14, 2016) and is under implementation. The hardware installation is completed and the contractor is working for software customization. The full system is expected to be in operation by the end of 2018. | The Billing System package is contracted (Jul14, 2016) and is under implementation. The hardware installation is completed and the contractor is working for software customization. The full system is expected to be in operation by the end of 2018. | The new Billing and Management System in Operation |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Implemented Risk management mechanism for weather related power imports (Text, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|----------|---|---|---|
| Value | No | The ToR is prepared and will be cleared and approved. Since July 2026, the electricity market model is changed. The hydrology risk is transferred from KESH (wholesale is abrogated) to OSHEE (the distribution company is responsible for end-users security of supply). The new market place (Alb Power exchange) to be established by the end of 2017, will accommodate also the | The ToR is prepared and will be cleared and approved. Since July 2026, the electricity market model is changed. The hydrology risk is transferred from KESH (wholesale is abrogated) to OSHEE (the distribution company is responsible for end-users security of supply). The new market place (Alb Power exchange) to be established by the end of 2017, will accommodate also the hydrology risk in | The Risk Mitigation Mechanisms are established and implemented. |



| | | | | |
|------|-------------|----------------------------|-------------|-------------|
| | | hydrology risk in Albania. | Albania. | |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Share of meters installed by OST (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 100.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Debt-to-Capitalization Ratio of OShEE, KESh and OST (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 300.00 | 220.00 | 220.00 | 60.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Debt to Equity Ratio of OShEE, KESh and OST (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.10 | 0.23 | 0.23 | 1.60 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |



► OSHeE monthly revenues used to pay for energy purchases to KESh and transmission fees to OST (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 40.00 | 100.00 | 100.00 | 100.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |

► Direct project beneficiaries (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 200,000.00 |
| Date | 03-Jul-2014 | 31-Mar-2017 | 31-Mar-2017 | 30-Jun-2019 |


▲ Female beneficiaries (Percentage, Custom Supplement)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|----------|-------------------|------------------|------------|
| Value | 0.00 | 0.00 | 0.00 | 52.00 |

Overall Comments

Data on Financial Performance

Disbursements (by loan)

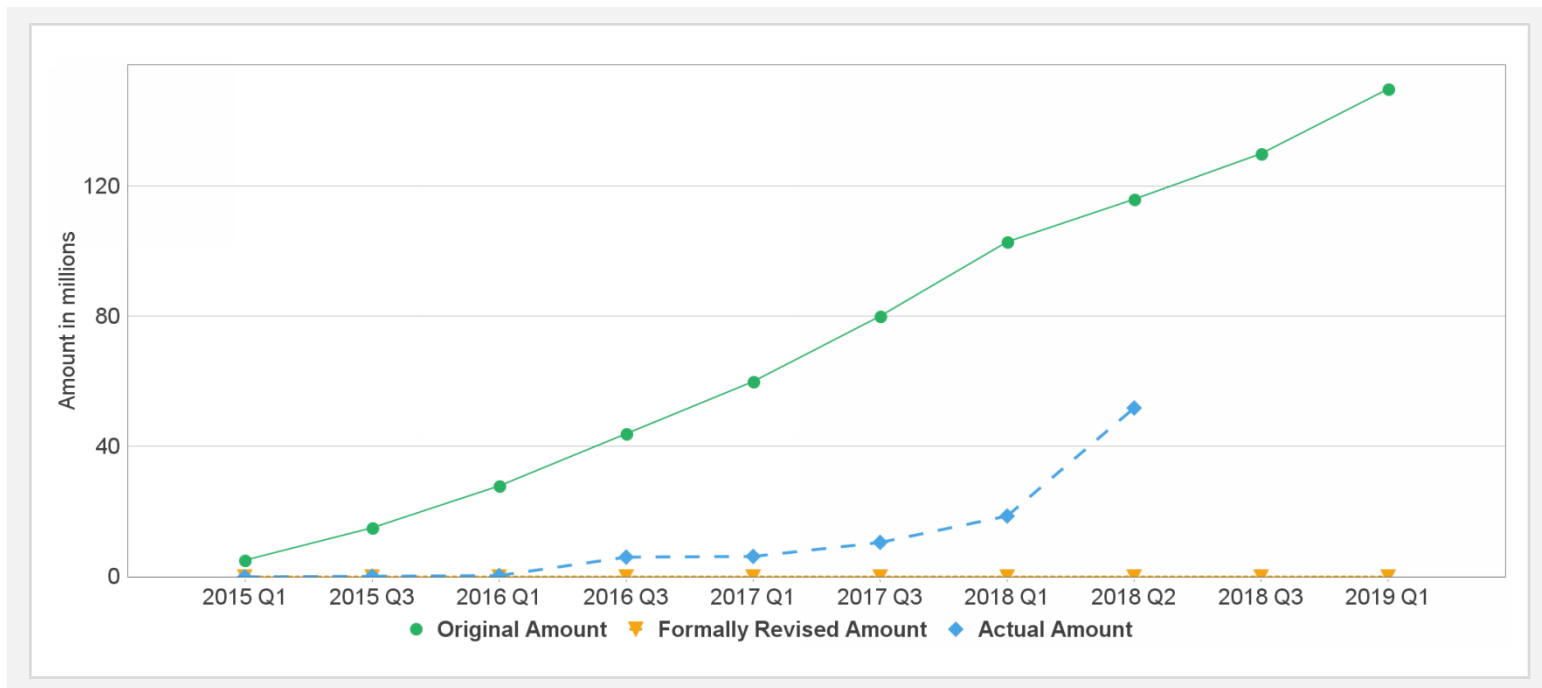
| Project | Loan/Credit/TF | Status | Currency | Original | Revised | Cancelled | Disbursed | Undisbursed | Disbursed |
|---------|----------------|-----------|----------|----------|---------|-----------|-----------|-------------|---|
| P144029 | IBRD-84290 | Effective | USD | 150.00 | 150.00 | 0.00 | 52.16 | 89.14 |  35% |

Key Dates (by loan)



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

Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.