

**REPUBLIC OF ALBANIA
THE COUNCIL OF MINISTERS**

DECISION

Nr. 539 Date 12.08.2004

**FOR THE APPROVAL OF THE TRANSIT MARKET MODEL OF THE
ELECTRICAL ENERGY.**

Based on the Article 100 of the Constitution and also of the articles 53, point 2, and also article 54 of Law Nr. 9072, date 22.05.2003 "For the Electrical Energy Sector", by the proposal of the minister of Industry and Electrical Energy, the Council of Ministers.

DECIDED

1. The approval of the transit market model of the electrical energy, according to the material, which is attached to this decision.
2. It is appointed the Minister of Industry and Electrical Energy for the implementation of this decision.

This decision enters into force immediately after the publication in the "Official Journal".

THE PRIME MINISTER

FATOS NANO

**THE MINISTER OF INDUSTRY
AND ELECTRICAL ENERGY**

VIKTOR DODA

The decision of the Council of Ministers Nr. 539 date 12.08.2004 “For the approval of the Transit Market Model of the Electrical Energy”

The Transit Market Model in Albania
TMM

PREFACE

The initial structure of the Transit Market Model “TMM” intends a transiting phase which ensures flexibility for the Albanian market in order to be developed toward the complete fulfillment of the Directives of the European Community and also of the Regional Market of the Electrical Energy foreseen from the Memorandum of Athens II. Although the evolution will be depended less and less from the time limits and also more and more from the actual growth with the market mechanisms, it is foreseen from the initial phase to finish approximately for 2-3 years. As early as the country fulfills the critical requests for the next step – including here a National Center for Dispatchers completely operatives, a transparent and efficient flood of the funds and the division of accounts, import and export oriented market that keeps the Clients Profits and a more careful process of the foreseen supply – where the electrical sector will be able to go toward the Regulated Access Model of the Third Parties and to grow the number of Qualified Clients. The progress of the electrical sector toward the development of the market should be assessed every year with the aim to put clearer objectives for a further development of the market based on the progress done till the moment of this assessment.

An important intends of the transiting phase is the movement from the actual structure of the KESH [a vertical integrated company without separated accounts] in generated companies, distribution and legal transmitting, functionally and financially divided. This intention is not only in accordance with the policies of the Albanian Government, but also useful to fulfill the requirements of the European Union Directives 2003/54/EU. The Transit Market Model “TMM” ensures a mechanism for the transition in this separated status and the development from the initial phase with a single buyer in a stronger model which includes the Qualified Client and Regulated Access.

A. Intentions and Objectives

1. The European Union Directives and the Athens Memorandum II

Our country is inspired to collaborate with the European Union. The agreement is described as “an important national intention” in the Document of Policies of the Electrical Energy Sector approved from the QSH in April 2002. Our country is member and party of the Athens Memorandum and is included to collaborate for the creation of a regional market of the electrical energy (“REM”) in the South Eastern Europe. The fulfillment of the minimal requirements of the applicable Directives of the European Union (Directive 2003/54/European Union especially) and also the requirements of the

last Athens Memorandum, approved in December 2003 *Athens II Memorandum” as well as the profit from the rights in the framework of the Directives and Athens II Memorandum are important objectives for the electro – energetic sector. Although, during the initial phase of the transiting period are reflected attributes and lacks of the existing system in the selection of a market model.

2. The Consumers Profits

The selection of a market model and the movement toward national and regional markets of the electrical energy should create profits for the consumers through the stable improvement of the services with non- discriminating tariffs as well as reflecting economical costs. During the transiting period, the regulated tariffs should reflect in a careful way all the costs and give better price signals, discouraging in this way the use of non-economical ways of the electrical energy and ensuring profits to the consumers throughout the improvement of the necessities for new expensive capacities. The Transit Market Model “TMM” will be developed in a way to allow the consumers to choose in that scale that is achievable and also the other requirements, as the one of a functioning liquidation process and also of better information over the prices. A good profit for the consumers is also the stability of services, but the interruptions are not profitable for them. A better competitive market for the electrical energy in the long – term period will produce stability in the growth of the service (and will reduce the interruptions) creating the conditions for the import of the electrical energy with competitive prices. Meanwhile, the conditions that during a year have created a situation, which requires longer interruptive periods, will not be improved from the adaptation of any market model.

3. The Commercially Capable Participants

None of the markets can function in an efficient way if all the players of the market are not commercially capable. So, the intention of the general reform of the electrical energy sector should reflect:

a. The Costs Perpetuating

The regulated participants of the market should give (and pay) the implemented services (or taken ones) based in their economical costs. The costs include the necessary incomes for investments, the service costs and ensured funds in order to support the investments. The conditions that during the years have created

b. The Elimination of Inter – Subventions

With the aim to fulfill the perpetuating principles of the costs, the inter – subventions for the reason of the social welfare should ensure from the QSh and not from the other Tariffs Clients or other participants of the electrical energy sector. The existing subventions should be identified and eliminated as quickly as possible, except the cases when these eliminations lead into a conflict with the important national intentions as the one of a Uniform National Tariff for the same consumers’ category.

c. The Efficient Management

The efficient management of the participants of the sector is dispensable in order to ensure the commercial capability of the participants of the electrical energy sector. The economical costs should not reflect the great number of costs given which are caused from the non-efficient management. The investments in the regulated sector should be based in the principle of the lowest cost. The flood of incomes of the market participants should be supported from a cashier-improved system, reduced losses and tariffs that cover all the costs elements.

4. The National Uniform Tariffs

The policies of QSh require that the tariffs for every class of clients being uniform in all the country. If there is more than a DDc (a distributing company), this intention falls over the conflicts with the principle of not subventions expressed upward in 3(b). The creation of a more than one DDc will increase also the costs, will decrease the efficiency and will complicate without being needed the regulating process.

5. The Governmental Property over Transmitting Assets and Inter Conjunction

For reasons of the governmental security, the policies of the QSH require governmental property over the transmitting assets and also the inter conjunction with the neighbor countries. In accordance with the Albanian it is organized a divided TSMO [Point 10], which is waited to be completely operating in July 2004. Until then, as well as the respective assets and also the essential operating personnel will be transferred from KESH. The function of TSMO according to MTT will be done from this separated governmental company. The generated functions and distribution actually remain part of KESH, but practically they are divided functionally waiting for the final privatization in case if the privatization is economically easy and brings public profits. MTT foresees generated functions and distribution as divisions of KESH or as a divided company.

6. The Development of Wholesale Market of the Electrical Energy (“WEMD”)

The intention of WEMSD is the first logical step toward a general market development. WEMD is essentially focused over the development of REM. Because of the barriers in order to develop a national market of the electrical energy, this focus is justified. More and more, REM should offer to the generators in the region (and consumers, in a more limited scale) a possibility to develop market experience based on profitable economical criteria. The harmonization with REM also will lead ahead the most difficult process of the national market liberalization through the competition, transparenance and encouragement of the alternative resources. WEMD has the biggest potential in the short term periods to increase the stability of the services, the security of the supply over the base of the lowest cost if it is accompanied with the investments in order to improve the transmitting system and inter conjunction with the neighbor countries. As the reason of a

big deficit of the actual electrical energy in Albania and of the time and considerable costs that are needed for the construction of new generating implants, where does not exist any other solution for the short term period. Because of the inevitable instability of the prices in the wholesale market development, there will exist tensions between WEMD and principles of the Consumers Profits described in the 2nd upward paragraph. MTT chooses this conflict through the use of the regulated yearly contracts for the greatest number of electrical necessities of Albania from the existing generation of the hydro energy with a low cost lead by KESH as well as for the requirements of the helping services necessary with the aim to limit and minimize the damaging consequences over the greatest number of consumers from the increase of prices or from the market manipulation. The needs electro energetic balance of Albania should be covered from the development of IPP (The Independent Producers of the Electrical Energy), SPP (Small Centrals of the Electrical Energy) and also from imports. The standard market model REM that has been proposed foresees for TMSO only the role of the buyer of the helping services, and not of the electrical energy. When KESH is divided from the functional and financial part, as well as other aspects of MTT designed to be operators, then is the time that the Albanian market of the electrical energy should move over the actual role of TMSO and allow direct contracts between generators and suppliers from the other part and also the Qualified Clients and DDC from the other part. The limited contracts till one year prohibit the safety of that that during the designing first phase of the transitory model.

Surely that the first reason to take into consideration the reform and restructure of the Albanian electric market is also the increase of the Clients Profits. The re-designing of the market, as alike is not a simple intention; but redesigning of the market including WEMD, which should be taken only if it intends to produce big Profits for the Clients than existing in actual conditions. QSH has defined that entering into the European Union will be profitable for Albanians. In order to achieve the Profit for the Clients from this entrance, Albania should fulfill the applicable Directives of the European Union and also the Second II Athens Memorandum. The competitive markets that will result from the implementation of the reforms and structures of the requested market for entering into the European Union will ensure in the long term period Profits for the Clients as the following: a greater service stability, a smaller price changes and more chances to select for the clients into service. The consumers will profit also from the other results of the reforms that may decrease the service cost, for example: an efficient capital division, the elimination of governmental subventions in the sector, the creation of the participants of well managed and commercially capable in the sector. MTT intends to enhance the Profits of the Clients and to act as the first step toward a greater reconstruction of the market where through REM will increase more and more the Profits of the Clients and will reduce the risk of being supplied with the electrical energy of the consumers.

7. The Development of IPP, Small Hydro centrals and Congeners (“CHP”)

As it has been discussed before, in the Albanian market there does not exist to develop the important generating competition in the nearer future. Although, there do exist possibilities for a limited development related to the small production of the electrical

energy and of the small cogeneration or CHP (The combined implant of the Electrical energy and Thermal ones). Law Nr. 9072 for the Sector of the electrical energy (Article 14, chapter 2) that has entered into force in August 2003, authorizes the Electrical Energy Regulations Sector (ERE) to approve the regulations for the setting of simple procedures and fastening the license for these small centrals (5MW or less than it).

Although the project regulations in order to facilitate the essential elements for: the licensing of construction and operation; open access of the transmitting; and (3) the agreement of the sell of the electrical energy for the small centrals which should be finished from the Electrical Energy Regulations Sector (ERE) in support with MTT> the methodology for setting the prices of the electrical energy produced from the small hydro centrals should be alike in order to encourage the development of these centrals and bringing Profits for the Consumers. This development is a strong means to put the competitive (indicators) in the national market and should be encouraged to increase the number and to enlarge the experience of the market participants.

Based on the limits described above, related to the Ppa (Long term Contracts of Selling – Buying of the electrical energy) long terms, is also desirable the development of IPP (including here CHP) that include big unit, especially if all or a part of the electrical energy produced from that will be sold with the market price.

8. Physical Limits of the Generating Assets, Transmitting and Distributing ones

The market reforms should know and reflect existing physical aspects and their technical attributes as well as including every limit settled from the limited skills of these assets. Three serious limits prohibit the functioning of the Albanian energetic market, which are:

a. The Improvement of the Transmitting System and Distribution

The year 2003, the technical losses in the transmitting system and distribution were respectively 10.9% and 15.2% (the losses in transmission are presented according to the structures of the year 2003 of this function). These are very high and illustrate the weak situation of these critic infrastructures.

b. The strength of Transmitting Relations of the Electrical Energy with the Neighbor Systems

The integration of Albania in REM and at last in the European networks of the energy is depended from the improved inter conjunction with the neighbor countries. The existing relations of the transmission are over carried and live huge technical losses.

c. Necessities for the a New National Dispatcher Center

Actually the weaknesses of the dispatcher system are another reason for all the interruptions and the high level of technical losses. Till now, all the activity for the control of the electrical energy system is manually. The regulations of the frequency are made from the Frequency Control and Supply in a hydro central. The limits of the supply are imposed and Imported of the electrical energy sometimes are similar with the maximal capacity of the import. In order that the electrical energy functions in an efficient way, it is essential to be erected a National Dispatcher Center (NDC), including the telecommunication network.

So, although from the market model selected, the actual dispatcher system is non efficient and indicates negatively in the general problems of the high interruptions and in the unacceptable levels of the technical losses. Probably the final design of the Albanian market of the electrical energy should be established a national Dispatcher center. Till the moment that the dispatcher center is functional, it could be difficult to integrate the electrical energy dispatcher bought from the Qualified Client and as a result, the development of MTT greater than the buyers phase with the only aim to fulfill the European union Directives which may be late.

9. Limits of the Human Resources

Except the limits of implant and centrals, the market reform should know and manage all the human resources ensuring an important training for the managers and the employers of the companies, of the regulators and the regulated staff with the aim to implement contemporary methods, being as skillful as possible technically and professionally, the material changes in the process of the electrical energy sector.

10. The Division of KESH

In accordance with the Document of the Policies in the Electrical Energy Sector approved by QSh in April 2002 as well as the European Union Directives, KESH should be divided in functional companies, which should be legally, and financially generating ones, transmitting and distributing ones. The division of transmission is already into process through the creation of the Transmitting Market System Operator (TSMO). As it is described in the part A.5, according to the Albanian legislation it is organized and is waited to be completely operating in July 2004, a stockbroker separated company, the stocks of the one that will be completely property of KESH, a governmental company "holding". A similar division should be done also related to the generated and distributing assets. In order to ensure that the, market operates in a non-discriminated way; TSMO should be completely independent from KESH. Another essential intention of MTT is the lessening and encouragement of this division, in a way to identify and to divide the costs, to install measuring apparatus, to enhance transparency and to lesson the transactions directed from the market profiting from the economical part.

B. Participants and Characteristics of the Transit Market Model

MTT ensures the transition toward the most competitive market. This lesser general market with traditions, minimizes the costs, permits the development increasing the experience of the commercial activity, balances the written objectives in Chapter A for the short term period and should pose the electrical sector in order to move toward a market that fulfills the Directives of the European Union.

MTT proposes another structure and simple market rules, that can be implemented in a very short period with the most minimal needs for hardware, software (computer programs) new processes and staff trainings. Although, these necessities (especially necessities for a National Dispatcher Center) should be fulfilled through the Transit Market Model in order to operate with a maximal efficiency and to develop further on in order to fulfill completely the European Union Directives.

1. Market Participants

a. The Public Company of the Transmitting Operating System (TSMO)

TSMO is an independent governmental company, which has, takes and enlarges a transmitting system. TSMO defines in annual basis all the requirements for the stable sources of the “must run” system and through the annual contracts buys all the electrical energy that is needed to the Division or to the Distributing Company (“DDC”) in order to supply the Tariffs Clients and the adding necessary services which are related to them. Buying from the Foreign Suppliers (imports) will be done according to a tendering transparent process or competitive offers under the regulatory supervision of the Electrical Energy Regulatory Sector (ERE) according to the Market Rules approved by the Electrical Energy Regulatory Sector (ERE). TSMO will be compensated from DDC buying the electrical energy, including their helping services according to a Contract Service Agreement (“CSA”) approved by the Electrical Energy Regulatory Sector (ERE). Except agreements to pay TSMO for the service contract, CSA will require to DDC to pay directly every supplier of the electrical energy immediately after they have taken a report from TSMO that gives the sum and cost of the supplied electrical energy or the services are really ensured. The given compensation according to CSA will be exclusive and TSMO, his / her employers, agents and appointed persons will not take another compensation from DDC, PGC, the Foreign Supplier or any other agent or third party related to the electrical energy bought from TSMO.

With the development of MTT it is foreseen that the intermediate role of TSMO as the electrical energy contractor will be decreased and at least will be reduced only in the security and buying the helping services, in accordance with the defined role from TSMO in the proposed REM.

b. The Public Generating Company (“PGC”)

PGC will sell to TSMO (1) the helping services and generated electrical energy from the existing hydro with regulated prices according to the annual two party contracts, and (2) to sell the required electrical energy from TSMO in order to complete the foreseen supply

of the Clients Tariffs all that it is possible. It is foreseen that PGC will operate as a generating division of KESH, till it is separated completely or will be privatized. When MTT has operated in a successful way for a reasonable period (at least 18 months) PGC might sell till 5% of the existing hydro central capacities to the Exporting Market, supposing that this capacity will not be contracted differently, with unregulated process, subject of the prescribed conditions in Paragraph 4 in the following one.

Firstly, all the profits from the county hydro energetic capacity will be saved fro the Albanian Tariffs Clients. When the market will operate in a successful way, it could be profitable the presence of another not proper regulated seller in the market. There are possibilities that the participation of PGC as a competitor in the unregulated market may be effective and positive over the prices for profiting the Tariffs Clients. Meanwhile, again this future participation should be limited in order to save the greatest number of hydro energetic profits for the tariffs Clients.

Nothing in paragraph b will not prohibit: the exchange' of energy negotiated from TSMO with the neighbor member parties with profiting reciprocal terms which increase Clients Profits. The Electrical Energy Regulatory Sector (ERE) will solve every disagreement if these exchanges (alone or together with the others) have ensured Profits for the Clients in the country.

This Conceptual Material foresees PGC, but with the construct of new hydro centrals in Vlora and the rehabilitation of the old centrals (the one of Fieri) that will contribute more and more in the framework of generation, will have more than one. The appropriate number of PGC will be defined from a research that takes into consideration all the Clients Profits, the impact over the competition, transparency, the effective regulation and at least the privatization.

c. Small Producers of the Electrical Energy (“SPP”)

All the Small Producers of the Electrical Energy (hydro centrals and small co generates with the capacity of 5 and less than MW) that could be licensed in the country in order to sell capacity and energy to TSMO or to the Qualified Clients on commercial terms defined, or if there is not achieved any agreement with approved terms from the Electrical Energy Regulatory Sector (ERE), that lesson the development of these projects and ensure Profits for the Consumers.

d. The Independent Producers of the Electrical Energy (IPP)

IPP (including here CHP) with the capacity over 5 MW that may be developed and licensed in the country and that can sell capacities or energy (1) TSMO and / or Qualified Clients with the market price or (2) TSMO with the contract price approved by the Electrical Energy Regulatory Sector (ERE).

e. Foreign Suppliers

The Foreign Suppliers mean those that are situated abroad and export electrical energy of PGC (economical energy), TSMO and for what is allowed from the legislation and Albanian regulations, at the Qualified Clients.

f. The Division or the Distributing Companies (“DDC”)

DDC has, keeps, enlarges and operates the distributing system operating in all the country. Actually DDC is all part of the operation of the division of KESH. Because of the small size of the Albanian electric system, to the nature of the system (extraordinary independence from a single hydro energetic source in the cascade, that will be operated in an efficient way as a single generating source) and to the electro energetic policy of the uniform national tariffs, the distributing function of KESH should be not more than one distributing company. A single distribution eliminates the necessity to calculate and measure the difference between the transmitting losses and distribution in order to achieve a uniform national tariff for every category of consumers and (2) to ensure better the continuation, in accordance with all the costs elements, taking out the inter subventions and all the above described uniform tariffs in Part A, paragraphs 3a, 3b and 4. for more and more a single distributing company, more stable financially and better managed, may also be more attractive for the strategic investors compared to small companies less financially secures, for a future privatization. The strategic investors are very important for the successful privatization.

g. The Clients tariffs

The Clients are those that buy electrical energy with regulated tariffs only from DDC, which serves in the area that they are put.

h. The Qualified Clients (QC)

Clients are those that have the ability to buy electrical energy from SPP, IPP and Foreign Suppliers. The number of these clients at the beginning will be limited. Actually the Albanian government limits QC in clients that have a consuming level over 100GWh. Actually, none of the clients in the KESH system does not have a supply near to this level of consummation. In order to have a meaning, the specified level of consummation for the qualification should be decreased in order to include big consumers of KESH (over than 50 GWh consume of electrical energy in the previous year). In the initial phases of the development of the market reflected from MTT, The Qualified Clients will not buy from PGC. These would have been giving to them priority access in the hydro energy with a low cost of PGC, which reserves regulated prices for the profit of all the Tariffs of the Clients. As a practical issue, the number of selected Qualified Clients in order to leave the system it is supposed to be very limited during the first phase of MTT. The clients that will be qualified QC may not want to leave the access for hydro energy with a low cost to save the profits of the Tariffs of Clients. QC may not hose the partial leaving from the system and should remain Clients of tariffs or to fulfill all their requests out of the system.

For more information, till the National Dispatcher Center to be operator and to lessen the limitation of transmitting lines and inter conjunction, may have physical and technical constraints for the transmission and distribution and also dispatcher the electrical energy of the Qualified Clients.

i. The Independent Regulator (“The Electrical Energy Regulatory Sector (ERE)”)

The Electrical Energy Regulatory Sector (ERE) has the responsibility to regulate the efficiency of regulated activities of the Market Participants, according to the appropriate rules and regulations and also in accordance with transparent procedures. Law Nr. 9072 for the Electrical Energy Sector (that enters into force in August 2003) ensures a legal base to exercise these responsibilities from the Electrical Energy Regulatory Sector (ERE).

2. The Relations between the Market Participants

The relations and the role of the participants of the market in the physical operation of the Transit Market Model are based in two party contracts between the different participants. Some of these contracts will be subject of the approval and obligatory implementation from the Independent Regulatory (the Electrical Energy Regulatory Sector (ERE)). The contractual relations of TSMO, KESH, DDC, Clients Tariffs, Qualified Clients, IPP and Foreign Suppliers are mentioned in ANNEX A. the contracts that are object of approval from the regulators added and selected by a star.

3. The Essential Characteristics of MTT

a. The Year in Advance

Based on the annual consolidated predictions of the sent loads from the part of DDC for the Tariffs Clients and the Qualified Clients for their pre taken loads, TSMO will buy:

i. Helping Services

TSMO will prepare the annual prediction of necessities for the helping services and energy, and will give these predictions to the Independent Regulator, the Electrical Energy Regulatory Sector (ERE). PGC will offer to sell to TSMO helping services according to an annual contract (The Annual Supplying Agreement of the Helping Services “ASAHS”) from the technically qualified sectors in order to ensure these services with prices that do not pass the maximal prices defined from the Independent Regulator for these services. The helping services will include the energy balance. TSMO will buy these helping services from PGC or from SPP, IPP or the Foreign Supplier for that part that it is disposed for.

ii. Energy

PGC will offer to TSMO energy that corresponds to the size of capacities left (after the reflection of the helping services bought from TSMO according to “ASAHS”), according to an annual contract with regulated price. TSMO will be obliged to buy the left energy within its maximum (Pmax) and minimum (Pmin) recommended in the Annual Supplying Agreement of the Electrical Energy (“AESAs”) for all the time it is available to transmit his energy to DDC. In the scale that the bought energy from PGC according to AESA is not enough to fulfill the necessities for energy of DDC, TSMO may buy additional energy from PGC, IPP or Foreign Suppliers. PGC is obliged to sell this left energy to TSMO far of the maximum Pmax, with regulated prices, except when PGC will have the commitment to sell the left electrical energy in the Market of Export, subject of the described limits held in Paragraph 4 and following. TSMO will be stopped to buy more energy, as it is needed in a reasonable way to fulfill the foreseen consummation from the Consolidated Foreseen Load of the Tariffs of Clients.

The actual MTT plans the initial contracts according to AESA between PSG and TSMO, and from the other part the supplying contracts between TSMO and DCC. This structure is erected because KESH itself is not divided in separate generated and distributing companies. With the development of division, when the branches are divided and then put back the necessary systems of accountability and measuring ones, will be suitable to develop direct agreements and legally obligatory between KESH – PSG and KESH – DDC.

b. The Week in Advance

Before every week of the Annual Supplying Agreement with Electrical Energy (“ASAEE”) between TSMO and KESH, TSMO will define the necessary quantity from KESH for every hour of the following week based in the regulated foreseeable secured loads from DDC and possibilities to buy what possible from IPP or the Foreign Supplier. Although, the recommended distribution according to ASAEE will not pass or be less than (the maximal tariffs (minimal) of the recommended movement in ASAEE.

c. The Adjustment of the Days in Advance and Within the Day

TSMO later the predictions of the week in advance may modify further on the predictions of the load and to manage the difference between the pre defined energy in the prediction of the week in advance to buy according the “ASAEE” and of the energy required in the predictions taken during the days in advance done from DDC in the case when it is bigger than the request, trying to buy or adding energy from PGC not according the “ASAEE” with regulated tariffs or into local markets (IPP) or regional ones (Foreign Suppliers) with un regulated tariffs.

If the predictions of the day in advance require more additional electrical energy than the one that can be ensured from all the disposed sources, including IPP and Foreign Suppliers, DDC will organize continuing interruptions keeping balanced the Transmitting System. Except this, the interruptions may be also necessary, if the load during a given

day will pass all the predictions of the days in advance and TSMO is not capable to ensure additional energy based one hour in advance. This risk maybe is the biggest risk in MTT. From the other part, it is a risk, which exists actually in the system. For more information, formalizing the predictions of the load and supplying duties, exists the possibility that the potential for interruptions may be soften through the good management of the market and the electrical supplying system. For more, as it is discussed before, the implementation of a rational designing of the tariffs and the methodology of tariffs, accompanied with the designed tariffs in order to pay the real and reasonable costs, will help in the reduction of the risk of the interruptions because of the bigger request for the disposed source supply.

4. The Sells of PGC toward the Other Buyers

The Annual Agreements with Electrical Energy between PGC and TSMO will specify the maximal quantity of his / her capacity (Pmax) that should be sold to TSMO. Pmax will be defined in order to save the profits of the hydro energetic capacities with a lower cost of KESH for the Albanian Tariffs Clients. Although, PGC may sell everyone of his / her capacities over Pmax for every month in REM with unregulated prices by the condition that (1) it should have taken an export license from the Electrical Energy Regulations Sector (ERE) to sell energy for a specified quantity and for a period that passes three months in the Export Market and (2) the Electrical Energy Regulations Sector (ERE) to define that the terms of this selling will not (a) reduce the general Profits of the Clients or (b) will prohibit the obligations of PGC according to ASAE, actual or continuing or according to AASSA. PGC will take the commercial risk and the credits that accompany these sells and also of the fulfillment of the continuing duties in order to distribute the TSMO energy according to ASAE and AASSA.

5. The Operations of the Transmitting Market System

TSMO will be responsible for the operation, maintenance and enlargement of the transmitting system, including the approved schedules of the proposed dispatcher from the PGC in order to complete the requirements for the movement of energy in every hour, and also schedules of the proposed dispatcher from the part of SPP, IPP and the Foreign Supplier in order to fulfill their contractual obligations. PGC, Qualified Clients, SPP and IPP will be required to register all the contracts to buy and sell the electrical energy to TSMO in the way that TSMO may operate the transmitting system in a stable and efficient way. TSMO will also have the right to dispatch directly all the procured capacity according to AASSA or according to the supplying unregulated helping service agreements. In case of emergencies for all the centrals of generation in accordance with the identified procedures in the prepared Network Code with a contribution from the market participants and also approved and implemented from the Electrical Energy Regulations Sector (ERE).

The Dispatcher and the Controlling System according to MTT and the flood of information to support that is illustrated in ANNEX B. the flood of Electrical Energy in MTT is illustrated in ANNEX C. The identified transmitting procedures, to the dispatcher and control will define further on the Network Code.

In the following paragraph are described the typical operating procedures that should be followed from TSMO:

a. The Operation Day

During the Operation Day, TSMO will dispatch taken units from the part of PGC, SPP and IPP in order to fulfill the loads, and will implement the programmed imported and exported transactions, based on the time schedule of the approved dispatcher three days before the Operating Week, modified during a day before the Operating Day. TSMO will follow the dispatcher schedule; adjusted to solve every system emergency for example generated defects or transmitting lines. In order to keep the transmitting system, TSMO will dispatch all the generating units that ensure balancing energies using the AGC signals. TSMO will solve all the emergencies using the operating system manual ensuring transparent decisions of the dispatcher. If the emergencies of the system result in non – planned energy floods with the neighbor systems, these floods will be measured. TSMO will use the systems SCADA and EMS to register all the data of the system, including the registration and measuring of the data in every generator, the meeting points, and loads' basbars. With the development of mechanisms of REM and in accordance with his / her obligations according AEES and AASSAA, PGC may require economical buying within the day and the selling of SPP, IPP and Foreign Suppliers, as well as informing TSMO for the daily changes of the dispatcher timetable schedule.

b. The Day after The Operating Days

In the day after the Operating Day, TSMO will control all the data of the timely measures from the generator, meeting points, and also loading appropriate basbars. After the control, TSMO will distribute daily declare (data) which include information needed to PGC, SPP, IPP, Foreign Suppliers and Qualified Clients in order to calculate the obliged sums according to the respective two party contracts. TSMO will calculate also the sums of money that has to PGC and everything of SPP, IPP or Foreign Supplier that have supplied the helping services. TSMO will divide these costs to DDC and to the Qualified Clients based on their proportional contribution for every hour of their loading system with the aim to pay the capacities for the helping systems. PGC and DDC and also the Qualified Clients will pay for the balanced used energy to supply the absences and their misbalances.

In order to assist to TSMO in the preparation of the exact predictions of the system in every hour, will be set up mechanisms in the respective Regulations of the Market in order to ensure the implication for DDC and eventually for the Qualified Clients. When the loads in time differ significantly from the foreseen load (as the reason of unfair scheduling of the generation form DDC, IPP and Foreign Suppliers, causing big

differences in the Lost Energy and the balancing energy of all the consumers, as well as only for the reason of the data and the foreseen not exact from DDC and the Qualified Clients), the stability falls. All those market participants that contributed in the decrease of the stability and misbalances should be penalized in order to improve the level of regularities foreseen. The Electrical Energy Regulations Sector (ERE) is authorized to put sanctions toward those that cause continuous and unjustified misleading of the foreseen loads that should have been done in an exact way.

c. The Fifth Day of the Month after the Operating Day

TSMO will distribute bills for every Market Participant, making known to everybody how much does a person owe to TSMO for the balanced energy that have they consumed during the month. These bills include every correction in their daily declares given after the Operating Day, together with the payments for the transmitting services, operating services of the system, and also every other sum that it is owed TSMO from every Market Participant. TSMO will give also to DDC a declaration which includes the quantity of the electrical energy cost that has been bought in their name from PGC (according and out of AEES), SPP, IPP and Foreign Suppliers. DDC, Qualified Clients, PGC, SPP, IPP and Foreign Suppliers will create their own independent data system and will liquidate the bills and their accounts in an independent way from TSMO and in accordance with the terms of their two party contracts.

d. The Tenth Day of the Month after the Operating Day

The Qualified Clients, DDC, PGC and IPP will pay all the sums of money owed to TSMO according to the bills distributed from TSMO. Further more, DDC will pay directly PGC, SPP, IPP or Foreign Suppliers the electrical energy cost bought from TSMO as it has been told on the given declare from TSMO to DDC according to the prior Paragraph c. although DDC and PGC remain functional of KESH (generation, transmission and distribution) may be reflected from their entering appropriate accounts.

All the aspects of the Operating Market Transmitting System will function in a transparent way with regulatory analyses from the part of the Electrical Energy Regulations Sector (ERE) in order to eliminate every doubt for corruption that would prohibit every effort for the development of the market. The Market Rules and codes related with them will ensure not only the market flexibility operating in an efficient way, but also effective protection against corruption possibilities.

6. Funds Flood

The Funds Flood in the Market Transitory Model is explained in ANNEX D. it should be visible that for all the functioning generating times and also distribution will remain dependant and consolidated in the system of KESH, where it may happen that there does not exist any physical funds transferring related to the payments from DDC to PGC. For example, these payments may be divided according to the appropriate entering accountability, as well as incomes of the generating function and expenses of the

distributed function. The funds flow for all the essential market participants is summarized as it follows:

a. TSMO

- i. **Payable:** TSMO will pay all the bills from PGC, SPP, IPP and Foreign Suppliers for the helping services;
- ii. **Cashable:** (a) DDC and Qualified Clients will pay to TSMO for:
 - 1) Their proportional helping services;
 - 2) All the transmitting payments calculated in accordance with the included tariffs in the Service Transmission Agreements approved by the Electrical Energy Regulations Sector (ERE);
 - 3) TSMO will send bill also to all the Qualified Clients for all the balanced services as well as based on capacities and also energy balances.

b. The Public Generating Company

iii. Payable:

- a. PGC will pay to TSMO all the transmitting services ensured according the approved tariffs from the Electrical Energy Regulations Sector (ERE).
- b. PGC will pay to IPP and Foreign Suppliers for all the economical energy bought (which means, energy that may be disposed in the defined time of the day or the year and may be bough cheaper from that that it may be produced from PGC and maybe used economically for all the central needs or to fulfill contractual obligations).

iv. Cashable

- a. TSMO will pay to PGC all the helping services;
- b. DDC will pay to PGC all the electrical energy with the regulated tariffs;
- c. The Qualified Clients and also Foreign Suppliers will pay to PGC the electrical energy till that level that these selling are allowed.

d. Distributing Divisions or Companies

(i) Payable:

- a) DDC will pay to PGC for all the bought electrical energy from TSMO and also supplied Tariffs Clients (supplied according to the AESA or differently) based on the electrical energy distributed in the system from the part of PGC (where transmitting losses are included).
- b) DDC will pay to SPP and to the Foreign Suppliers for all the bought electrical energy on their behalf from TSMO in that scale that these costs are reflected in the tariffs of the Tariffs Clients approved by the Electrical Energy Regulations Sector (ERE).

(TSMO is prohibited to buy electrical energy from these sources more than it can be paid from the tariffs);

- c) DDC will pay to TSMO all the payments for the transmitting services for transmission of electrical energy according to transmitting tariff based in the approved costs from the part of the Electrical Energy Regulations Sector (ERE).

(ii) Cashable:

Tariffs Clients will pay to DDC for all the distributed electrical energy according to a Supplying and Distributing contract with approved tariffs from the part of the Electrical Energy Regulations Sector (ERE). These tariffs will be based in the costs and will be appropriate to pay:

- a) The costs of buying the capacity and energy (including here also the respective helping service);
- b) The service costs of transmission ensured from the part of TSMO;
- c) The operation expenses and maintenance of distribution; and also
- d) The distributing investments and their reasonable returns.

The flood of funds that include these and other market participants are explained in ANNEX D.

7. The Operations of Distribution

DDC will make proposals related to the supplying tariffs and distribution in a way that DDC has the same supplying and distributing tariff. This will result in those that every Tariff Client within the same class of clients in all the country will pay the same uniform tariff. This is an essential intention of QSh making possible equal zonal development.

DDC which owes the distributing system which relate the Qualified Clients with the transmitting system, will ensure distributing service to all his / her Qualified Clients according to the tariffs used system of the approved distribution from the Electrical Energy Regulations Sector (ERE). DDC will use the same methodology to calculate the tariffs system of the used distribution, but also will make special proposals for the used distributing tariffs system. So, DDC may have a different system of the distributed used tariffs.

8. The Independent Regulator (“The Electrical Energy Regulations Sector (ERE)”)

Law Nr. 9072 for the Electrical Energy Sector, that enters into force in August 2003, authorizes the erection of an independent regulator (The Electrical Energy Regulations Sector (ERE)) in order to exercise broadens regulatory authority in the most transparent way and non discriminating one. The independent functioning and also in accordance with the Law For the Electrical Energy Sector will fulfill all the requirements of the

European Union Directive 2003 / 54 that foresee similar authorities to be well authorized to:

- a. To give, modify and revoke the participants' licenses in the Electrical Energy Sector including here exporters and importers;
- b. To examine and approve selling tariffs of retail business and wholesale one;
- c. To examine investing programs of the companies according to the standards with a low cost;
- d. To recommend to QSh a market model of the electrical energy and adopt market rules a distributing code and also a network code to set up a functioning market, as well as to regulate the access conditions according to the adopted market model;
- e. To survey issues within his / her own authority as a regulator; and
- f. To set up sanctions for the non-accordance of the Electrical Energy Regulations Sector (ERE) decisions and license conditions.

After the adoption from the part of QSh, TMM, the Electrical Energy Regulations Sector (ERE) should proceed with the adoption of the Specific Market Rules, of a Distributing code and a Network of Codes (in order to be prepared from the market participants) to regulate the entrance and to define specifically the roles, responsibilities and participants market relations.

For example, the relation between the Qualified Client ("QC") and DDC should be treated in a specific manner in the Market Rules, that will be approved from the Electrical Energy Regulations Sector (ERE). Although it is important to be presented the price of all the electrical energy from the existing hydro energetic system, which will be regulated, and it will be nearly entirely reserved for the profit of Albanian Tariff Clients. A QC who chooses to buy electrical energy as a non-tariff client is not allowed to have again access in hydro energy through buying the electrical energy from the part of PGC or DDC. If the Qualified Client leaves the system and takes energy from an IPP or Foreign Supplier, will not be any more a tariff Client whom are allowed the low costs hydro energy profits. Choosing to go in the market, the Qualified Client takes the market risk that accompanies his / her new source of supply. The Market Rules should be done carefully in order to avoid that these risks pass to the Tariff Clients. Meanwhile, the Market Rules may secure the appropriate tariffs mechanisms for the Qualified Client that leaves it, in order to avoid these risks. For example, maybe prepared a "stand – by" tariff. According to this tariff DDC may approve to ensure the service in case of incapable persons defined from the supplier of the Qualified Client to ensure the service. The Qualified Client will not allow the departure and entrance of the person according to his / her will from the service of DDC as the sequence of price changes. The Market Rules should specify clearly the circumstances and the constrains of a return of a Qualified Client as a tariff Client and should be planned to protect the tariff Clients from the increased tariffs caused from this return.

Another issue that should be treated in the Network Code and Market Rules is the priority issue of the management transmission when the blocked transmitting lines are limited and

can not afford the total requirements of the Tariff Clients and Qualified Clients. The Market Rules should be specified how to separate Tariff Clients' absences between the Qualified Clients in a way to be implemented from TSMO. The compilation of these rules should be lead from the open access principles non-discriminating ones with the aim to fulfill all the European Union requirements for an open access. In the compilation of these rules should be required everybody's contribution from the interested parties.

The producers themselves who fulfill entirely or partially, their requirements for electrical energy, which remain linked with the system, may be more than foreseen electrical energy in different periods. When there exist a greater dispatcher capacity after the construction of a new dispatcher center, the Market Rules and the Network Codes will ensure access into the net for the great number of the Electrical Energy Regulations Sector (ERE) will define tariffs to buy this energy that creates Profits for the Consumer. These Tariffs should be based in the cost and to reflect the moments of time in use. If, for example the producer himself sells the energy out of the most important hours, the tariff should be a short term energy, which takes into consideration the generating cost / transmission / distribution basis. If the producer himself buys electrical energy in the most important time of DDC, there should be imposed a capacity payment in order to avoid the Tariff Clients penalization. If the producer himself is "out of the system" the greatest part of the time, but wants to use the system as a reserve one of the self production unit in case of maintenance or defect, Market Rules should specify a "stand – by" tariff similar to the suggested one for IPP, which should be approved from the Electrical Energy Regulations Sector.

9. The Agreements to Buy Electrical Energy

QSh has shown politics' reasons why he / she wants to encourage the private investments in the generating centrals to fulfill the electrical energy requirements in Albania, especially when these centrals serve to the other important national objectives as the supply stability or the diversity of burning material. The investitures in these centrals require frequently long term PPA for all or a part of the production of the central in order to ensure incomes for the payment of investments and respective interests. From the other part, if PPA signs for all the foreseen necessities additional capacities, that maybe required into the market, then there exists a place for the development of the market. For example, if the country nearly requires 750 MW with a lot of generating capacities in order to cover the needs till the end of 2015, then signed PPA will not achieve more than 350 till 400 MW. Without a similar limitation, this is indispensably to be taken into consideration because for a reasonable parallel in the resource portfolio to fulfill the requirements of the country for electrical energy.

PPA contracts that have to do with the differences in price of the burning material and in money exchange, there should be limited more than it will be possible. Further on, with the aim to maximize the private investments in the country, during the limitation of the avoiding effects of the market, PPA should be involved buying the only part of the production of the central, but the other part will be in disposal within and outside the

country with the market prices. Every disposed quantity with market prices will be contributed for the market development.

10. The Liquidation Process

The financial health of TSMO and the trust in the liquidation process management from TSMO is absolutely critic for the success of MTT or every market model. The details of the Process of the Liquidation will be specified in the Liquidation Code Protocol of the Network and Market Rules approved from the Electrical Energy Regulations Sector (ERE). The funds of liquidation should be ensured from avoidance. The process should plan in order to function in a transparent way, to welcome the use of two party contracts and to lessen the improvement of the cashier level. In order to give to the potential participants of REM the trust of the process should be ensured supportive guarantees from the Albanian Government or the international donations community. In order to ensure the integration of the process should minimally do the regular audits.

The proposed process of liquidation for MTT is very simple, transparent and minimizes the risk of the financial incapability giving in this way to the seller in the market high security for the payments. Initially, the contractual relations are defined not only from the Agreements to Buy Electrical Energy between TSMO and the seller, but also from the Service Contracts Agreements between TSMO and DDC. According to the Service Contracts Agreements, TSMO agrees to compensate TSMO to do the services and to pay directly the Sellers, but if according to the Albanian Legislation it is necessary a direct contractual relationship with the Seller in order to create a payment obligation for the Seller, DDC will be part of the Buying Agreement of TSMO with the Seller with the aim to paying the obligations and being part of them in order to make a direct payment to the Seller.

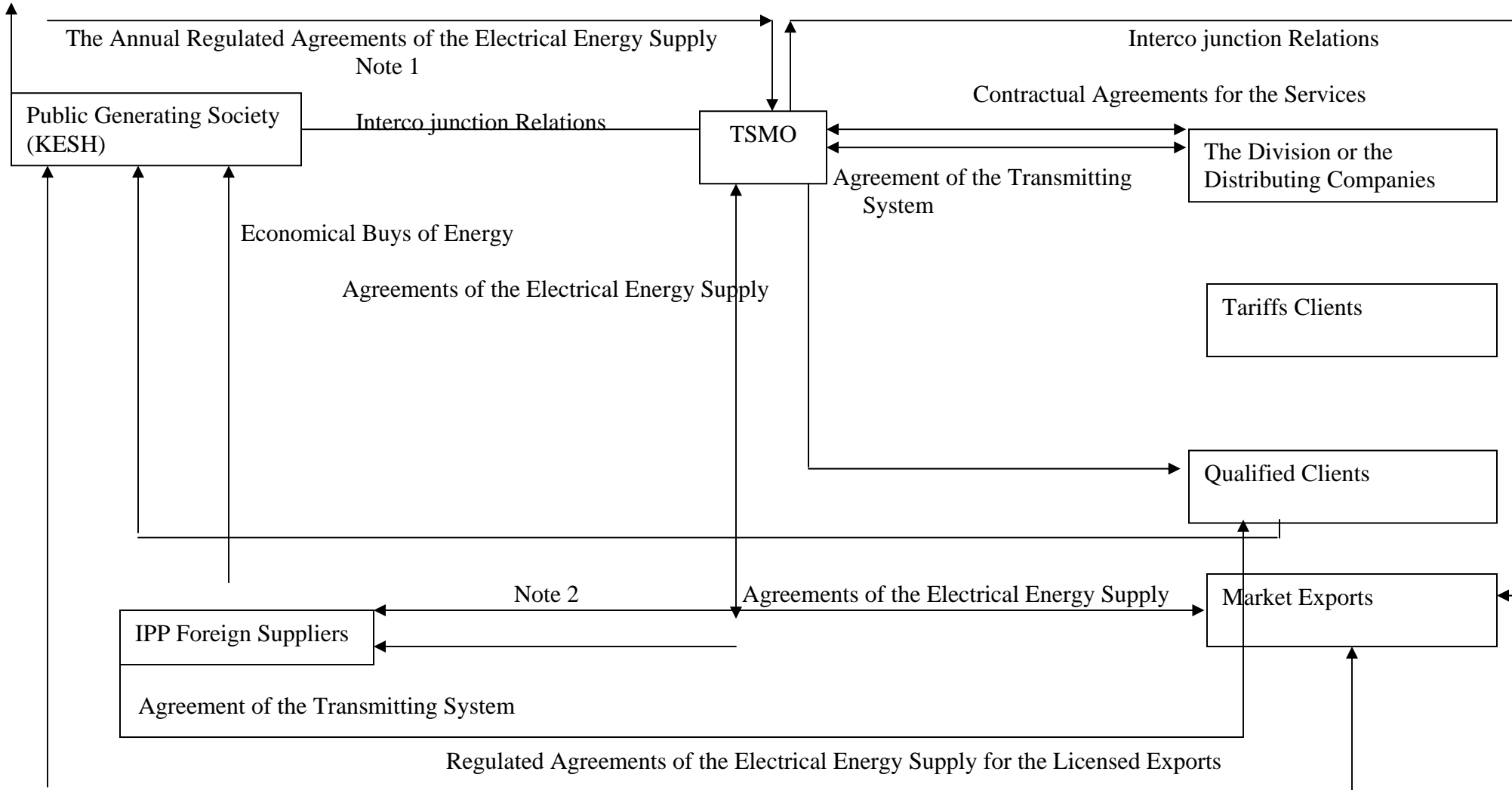
The Seller would have increased the trust for the payment because (1) the sending party {DDC} is the nearest funds source for the payment of {Tariffs Clients}, (2) eliminates an unnecessary step which includes cash transfers minimizing in this way all the chances to avoid funds, and (3) The Agreement of Contractual Services is approved from the Electrical Energy Regulations Sector (ERE). An equal fund is in accordance with MTT and the liquidation process described upward, with the condition to be included the adequate protection and the necessary anti corruptions and avoidances, in order to keep safe the trustworthy of the Seller at the liquidation process as well as to avoid the late timely fulfillments of every scheduled payment.

The Electrical Energy Regulations Sector (ERE).

ANNEX A

THE TRANSITOR MARKET STRUCTURE

Contractual Relations between the Participants



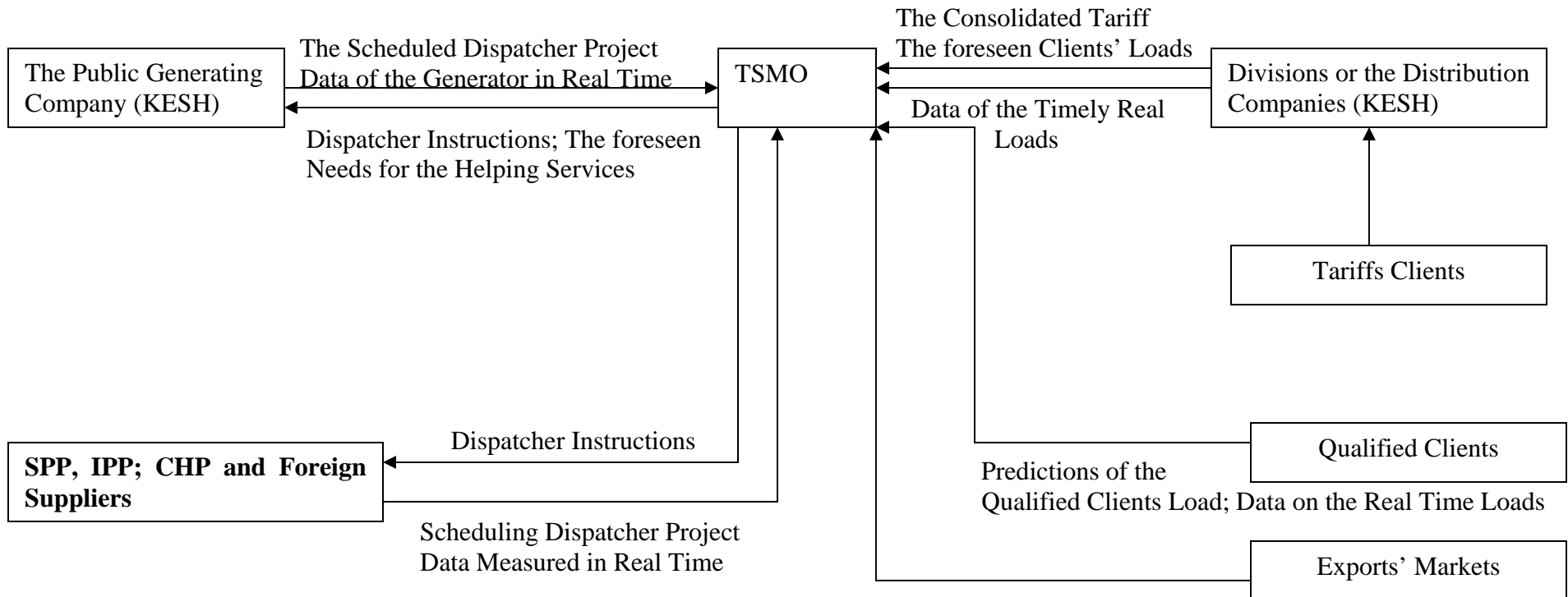
Note 1: Agreement of the Transmitting System
The Annual Regulated Agreements of the Electrical Energy Supply
Agreements of the Helping Additional Unregulated Services

Note 2: Agreements of Electrical Energy Supply
Agreement of the Transmitting System
Agreements of the Helping Additional Unregulated Services

Note 3: Those Qualified Clients related with the distributing systems will have the opportunity to enter in agreements with the distributing companies that serves to them related with the links and distributing services.

ANNEX B

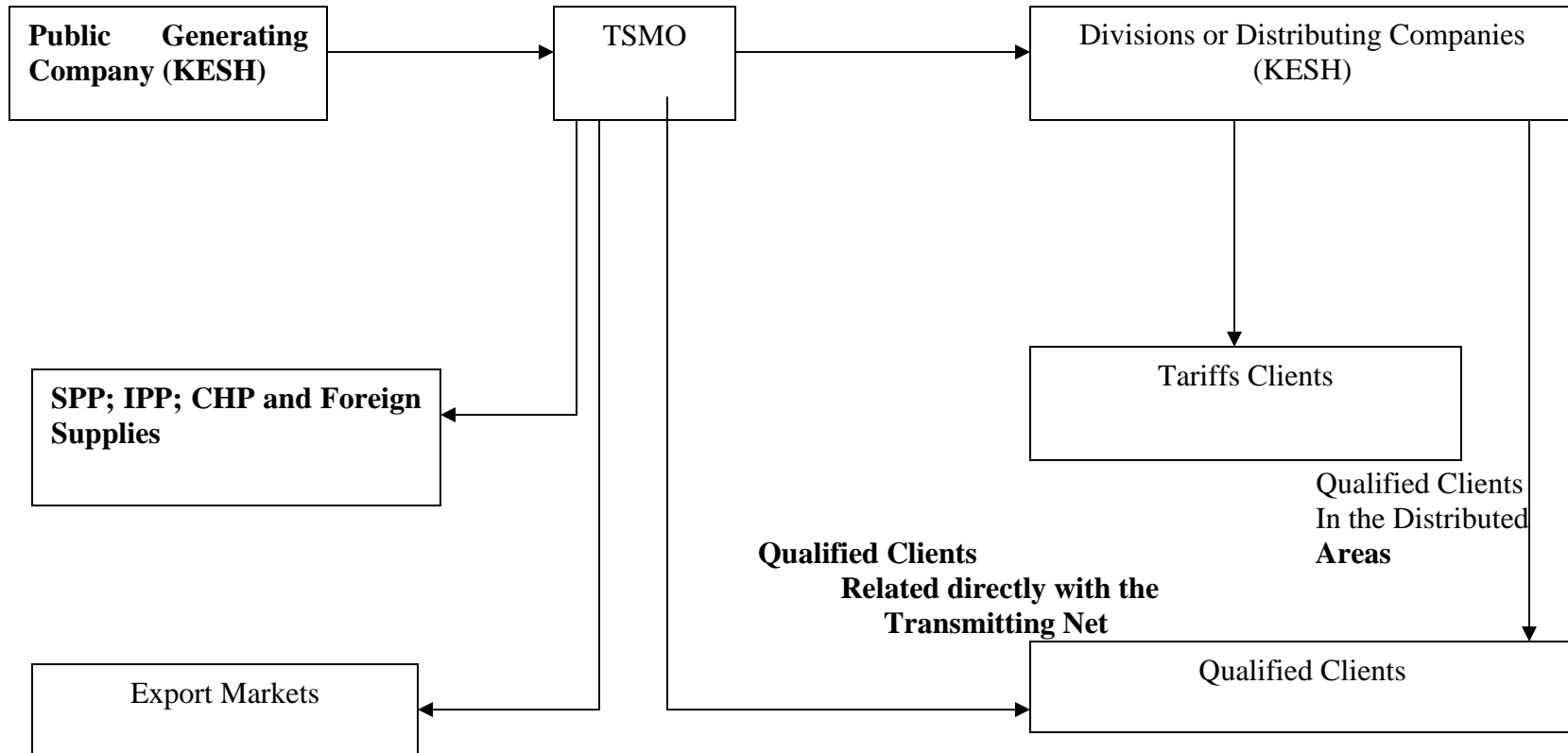
THE TRANSIT MARKET STRUCTURE THE DISPATCHER AND CONTROLLING SYSTEM



ANNEX C

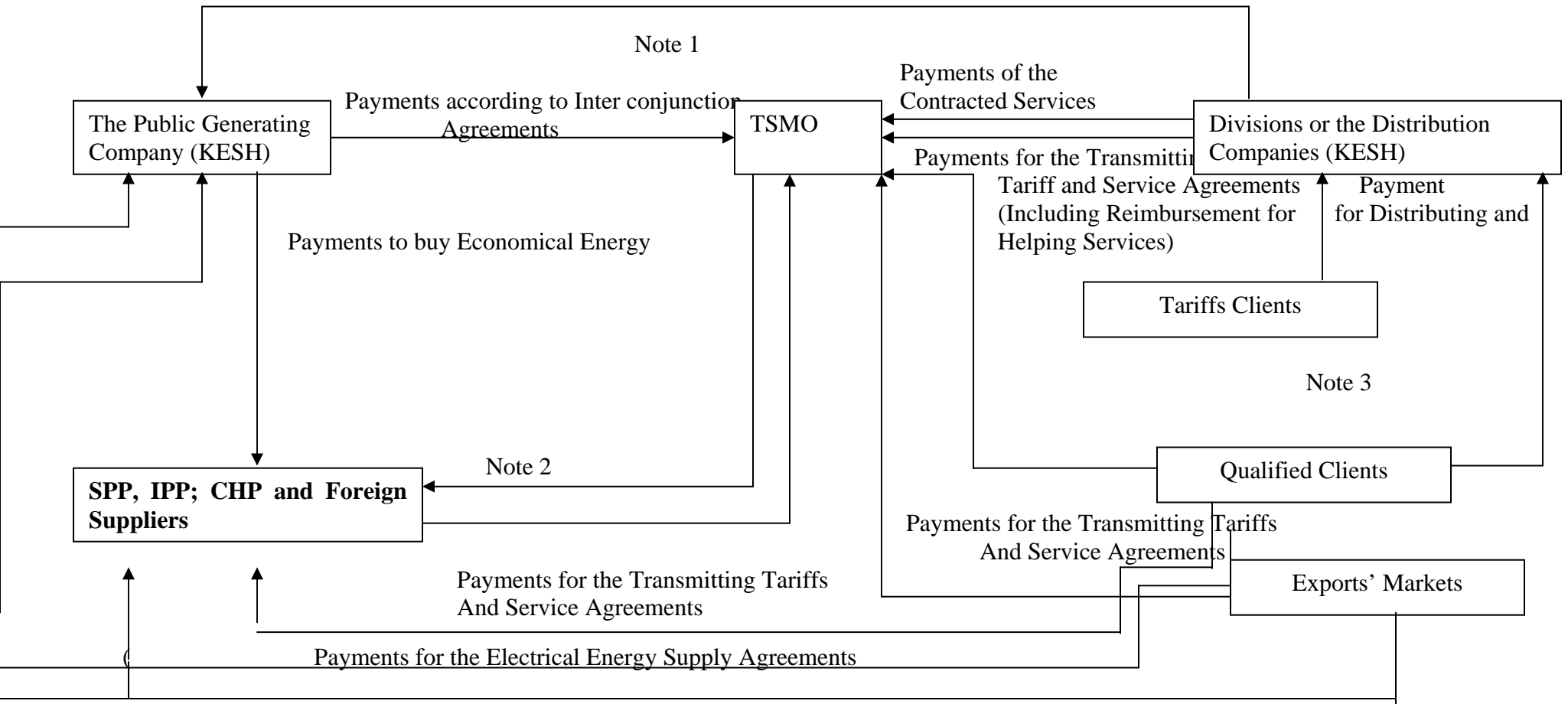
THE TRANSIT MARKET STRUCTURE

THE ELECTRICAL ENERGY FLOOD



ANNEX D

THE TRANSIT MARKET STRUCTURE THE LIQUIDATION AND FLOOD FUNDS



Note 1: Payments for Annual Supply Regulated Contracts with Electrical Energy;
Payments for the Transmitting Tariffs And Service Agreements
Payments for helping Services Bought Out of the Annual Contracts

Note 2: Payments for the Supply Agreements with Additional Services

Note 3: Payments for the Using tariffs of the Distributing System