On the IMF presentation

(May 14, 2008)

Comment prepared by Mr. Enno Bozdo, Deputy Minister of Economy, Trade, and Energy

The presentation provides an overview of the energy situation in Albania, specifying some of the main issues in the electricity sector, which eventually produce macroeconomic costs and affect the growth. It also provides recommendations, about the reforms needed to overcome this situation.

Taking into consideration this presentation, please allow me to comment as follows:

1. The technical-economical-financial indicators of KESH (losses-collections), or synthetically speaking, the effective rate of collections for the 2007-2008 period has been improved, which is also expressed as a prospective trend, in the presentation and at the slide **"the Reform 1".**

It is true that the average electricity tariff for 2005-2007 has remained unchanged, but it should be noted that by the end of 2006, we witnessed two negative phenomena:

- Very difficult hydrological conditions for 2007, causing considerable reduction of the water level in Fierza, thus directly affecting the reduction of domestic generation and an increase to maximum levels of electricity imports.
- Increase of the electricity prices in the whole Region, which had its considerable effect for our country.

Both these factors brought about an increase in the average cost and have been clearly reflected in Reform 2 (Slide No. 8), **but what I would like to stress out, is that, although it's true that the tariffs should cover the costs, these should be calculated not as annual costs, but as the average cost of the last three years.** This is clearly shown in slide No. 8, where we see that until the end of 2006, the actual average tariff has been lower than the average cost and afterwards, a big increase occurred until mid-2007. After that, we had another decrease in tariffs.

2. The average electricity tariff for 2005-2007 has remained unchanged, but the average household tariff has been increased one year after another, while for non-household it has been lowered in mid-2006 (Slide No.9). Thus, the ERE's tariff regulation was intended to improve cross-subsidies between consumer groups, in order to have the tariffs reflecting their real costs and not to have cross-subsidies.

Also, I would like to point out that ERE, with the new tariffs which became effective on March 1, 2008, has addressed the two negative phenomena which were displayed in paragraph 2 (above), that is, it has effectuated an 18 % increase of the average tariff. To my understanding, these new tariffs are not reflected in Slide No. 9.

3. We fully agree with the recommendations in Reform 3 and Reform 4 (Slides 10-12) and we are working towards the construction of new generation capacities, in both the construction of new interconnection lines as well as the restructuring of KESH, with a view to conclude its privatization by the end of 2008.