Power Recovery Project (P144029)

EUROPE AND CENTRAL ASIA | Albania | Energy & Extractives Global Practice |
IBRD/IDA | Investment Project Financing | FY 2015 | Seq No: 3 | ARCHIVED on 17-Oct-2016 | ISR23861 |

Implementing Agencies: Ministry of Energy and Industry

Key Dates

Key Project Dates

Bank Approval Date: 29-Sep-2014
Planned Mid Term Review Date: 24-Jul-2017
Original Closing Date: 30-Nov-2019

Effectiveness Date: 30-Jan-2015
Actual Mid-Term Review Date: --
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

<table>
<thead>
<tr>
<th>Name</th>
<th>Previous Rating</th>
<th>Current Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progress towards achievement of PDO</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Overall Implementation Progress (IP)</td>
<td>Satisfactory</td>
<td>Moderately Satisfactory</td>
</tr>
<tr>
<td>Overall Risk Rating</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>
Implementation Status and Key Decisions

Project implementation is progressing; PMU/PIUs have issued all key procurement packages under the project, with the exception of two HV/MV Substations (Tirana Kombinat & Tirana Center area); it has also signed Euro 20 million in contract awards (Concrete Poles, MV-LV Cables & Accessories and Billing System). There are three bids (Euro 35 million) which are in opening and evaluation phase; bids have been opened for the distribution transformer stations and are expected to be opened for distribution meters and metering system for transmission. The project includes seven TA tasks (excluding support to the PMU) to facilitate the recovery of the power sector and improve the management of the distribution company, through the provision of technical advisory services.

The power sector performance has significantly improved; collections have improved to over 95%; intercompany arrears between power utilities have dropped drastically, as a result of the enforcement of the escrow account under the project; electricity losses have dropped by about 7 percent in 2015 and other 2% for the first half of 2016; the sector's liquidity has improved to the point where the arrears have been reduced and investment have been increased.

Financial Recovery Plan & Market Reform; (i) while circumstances have changed to warrant a revision of the Financial Recovery Plan, good progress has been made on implementation to date, which includes implementation of the new Power Law as of July 1, 2016, new Market Model approved, settlement of IPP arrears and transfer of the PPA agreements to RPS, net-off of intercompany arrears as planned under the two DPL loans, refinancing of a substantial portion of the KESh's short-term loans, and improvement in collections and reduction in energy losses; (ii) while the financial position has improved, more needs to be done to insure that these achievements are sustained in the long-term, and include inter alias: (a) updating the existing regulatory framework and tariff methodology; (b) unbundle the RPS as soon as possible to avoid implicit subsidies to DSO and improve management focus; (c) The refinancing of KESh's short-term debt which needs to be serviced from revenues collected by RPS.
**Risks**

**Systematic Operations Risk-rating Tool**

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Rating at Approval</th>
<th>Previous Rating</th>
<th>Current Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political and Governance</td>
<td>--</td>
<td>● Substantial</td>
<td>● Substantial</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td>--</td>
<td>● Moderate</td>
<td>● Moderate</td>
</tr>
<tr>
<td>Sector Strategies and Policies</td>
<td>--</td>
<td>● Moderate</td>
<td>● Moderate</td>
</tr>
<tr>
<td>Technical Design of Project or Program</td>
<td>--</td>
<td>● High</td>
<td>● High</td>
</tr>
<tr>
<td>Institutional Capacity for Implementation and Sustainability</td>
<td>--</td>
<td>● High</td>
<td>● High</td>
</tr>
<tr>
<td>Fiduciary</td>
<td>--</td>
<td>● High</td>
<td>● High</td>
</tr>
<tr>
<td>Environment and Social</td>
<td>--</td>
<td>● Moderate</td>
<td>● Moderate</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>--</td>
<td>● High</td>
<td>● High</td>
</tr>
<tr>
<td>Other</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Overall</td>
<td>--</td>
<td>● High</td>
<td>● High</td>
</tr>
</tbody>
</table>

**Results**

**Project Development Objective Indicators**

- **Electricity losses per year in the project area (Percentage, Core)**

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value</strong></td>
<td>45.00</td>
<td>31.00</td>
<td>29.00</td>
<td>14.00</td>
</tr>
<tr>
<td><strong>Date</strong></td>
<td>03-Jul-2014</td>
<td>31-Dec-2015</td>
<td>30-Sep-2016</td>
<td>30-Jun-2019</td>
</tr>
</tbody>
</table>

- **Total net injected generation (Megawatt hour(MWh), Core Supplement)**

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Electricity losses per year in the project area- Technical (Percentage, Core Supplement)

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>15.30</td>
<td>15.00</td>
<td>15.00</td>
<td>12.60</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>29.80</td>
<td>16.00</td>
<td>14.00</td>
<td>1.40</td>
</tr>
</tbody>
</table>

## Collection rate of distribution company (Percentage, Custom)

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>78.00</td>
<td>100.00</td>
<td>93.00</td>
<td>93.00</td>
</tr>
<tr>
<td>Date</td>
<td>03-Jul-2014</td>
<td>31-Dec-2015</td>
<td>30-Sep-2016</td>
<td>30-Jun-2019</td>
</tr>
</tbody>
</table>
Overall Comments
The losses in Distribution (both technical and non-technical) and collection rate are reported for the period January-June 2016; The net injection in distribution system is estimated for all year 2016; in 2015 the net supply of distribution system was 6,494,866 MWh, well below the previous years. In 2014 the net supply was 6,933,730 MWh.
The intercompany arrears have been reduced as per the agreed Financial recovery Plan, these targets will be revised based on the upcoming update of the Financial Recovery Plan.

Intermediate Results Indicators

Vehicle 1200.00 45.00 650.00 550.00
Date 03-Jul-2014 31-Dec-2015 30-Sep-2016 30-Jun-2019

<table>
<thead>
<tr>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value 100.00</td>
<td>97.00</td>
<td>97.00</td>
<td>70.00</td>
</tr>
<tr>
<td>Date 03-Jul-2014</td>
<td>30-Nov-2015</td>
<td>30-Sep-2016</td>
<td>30-Jun-2019</td>
</tr>
</tbody>
</table>

Intermediate Results Indicators

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Intermediate Results Indicators
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 2016. The distribution company is prepared to unbundle the wires from retail supply. The plan for deregulation of MV customers and IPP is under implementation.

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 2016. The distribution company is prepared to unbundle the wires from retail supply. The plan for deregulation of MV customers and IPP is under implementation.

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

<table>
<thead>
<tr>
<th>Value</th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The risk management mechanism is not in place</td>
<td>The tender for Billing System is launched; the contract is expected to be signed by mid 2016. The full system will be in operation by the end of 2018.</td>
<td>The Billing System package is contracted (Jul14, 2016) and is under implementation. The full system is expected to be in operation by the end of 2018.</td>
<td>The new Billing and Management System in Operation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>03-Jul-2014</th>
<th>31-Dec-2015</th>
<th>30-Sep-2016</th>
<th>30-Jun-2019</th>
</tr>
</thead>
</table>

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

<table>
<thead>
<tr>
<th>Value</th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>The ToR is prepared and will be cleared and approved.</td>
<td>The ToR is prepared and will be cleared and approved.</td>
<td>The Risk Mitigation Mechanisms are established and implemented.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>03-Jul-2014</th>
<th>31-Dec-2015</th>
<th>30-Sep-2016</th>
<th>30-Jun-2019</th>
</tr>
</thead>
</table>
### Share of meters installed by OST (Percentage, Custom)

<table>
<thead>
<tr>
<th>Date</th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

### Debt-to-Capitalization Ratio of OSHEE, KESH and OST (Percentage, Custom)

<table>
<thead>
<tr>
<th>Date</th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>10.00</td>
<td>0.00</td>
<td>0.00</td>
<td>60.00</td>
</tr>
</tbody>
</table>

### Debt to Equity Ratio of OSHEE, KESH and OST (Number, Custom)

<table>
<thead>
<tr>
<th>Date</th>
<th>Baseline</th>
<th>Actual (Previous)</th>
<th>Actual (Current)</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0.10</td>
<td>0.00</td>
<td>0.23</td>
<td>1.60</td>
</tr>
</tbody>
</table>
Overall Comments
The available intermediate results are reported for the period Jan-June 2016.
Debt service coverage ratio disclosed under Note 12 to the Financial Statements. The actual value of 0.23 and (0.12), respectively for the years ended Dec 31, 2015 and 2014, has significantly improved but still below the interim threshold (1.0) provided in the implementation covenants pursuant to the project agreements. This, however, is being addressed by restructuring of overdraft debt in 2015/2016 with the support of EBRD.

Data on Financial Performance

Disbursements (by loan)

<table>
<thead>
<tr>
<th>Project</th>
<th>Loan/Credit/TF</th>
<th>Status</th>
<th>Currency</th>
<th>Original</th>
<th>Revised</th>
<th>Cancelled</th>
<th>Disbursed</th>
<th>Undisbursed</th>
<th>Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>P144029</td>
<td>IBRD-84290</td>
<td>Effective</td>
<td>USD</td>
<td>150.00</td>
<td>150.00</td>
<td>0.00</td>
<td>6.55</td>
<td>141.92</td>
<td>4%</td>
</tr>
</tbody>
</table>

Key Dates (by loan)
### Cumulative Disbursements

<table>
<thead>
<tr>
<th>Status</th>
<th>Approval Date</th>
<th>Signing Date</th>
<th>Effectiveness Date</th>
<th>Orig. Closing Date</th>
<th>Rev. Closing Date</th>
</tr>
</thead>
</table>

### Restructuring History

There has been no restructuring to date.

### Related Project(s)

There are no related projects.