

Contracts for Difference

Experiences made in Albania

Contracts for Difference - Experiences from Albania

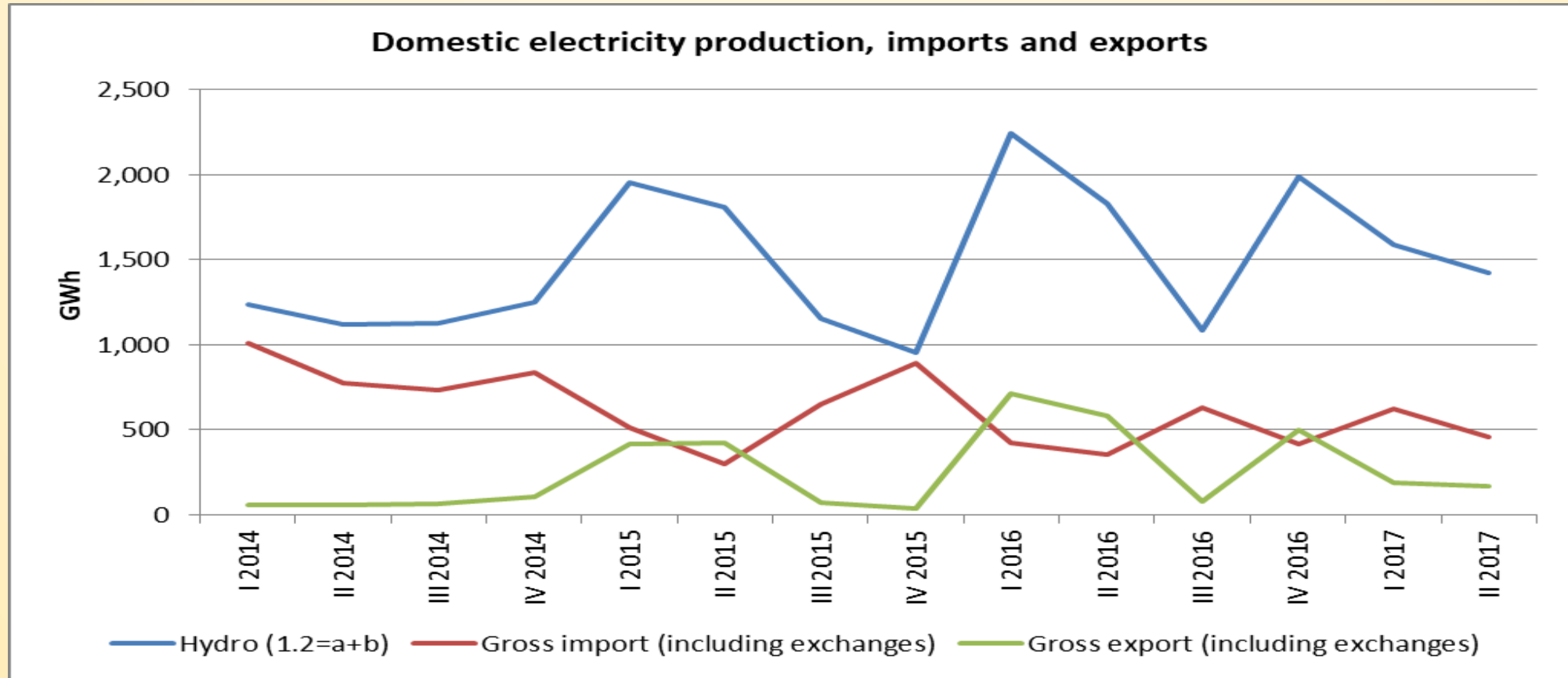
- I. Albania's Electricity Market – Quick Overview
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I. Albania's Electricity Market - Quick Overview

Electricity Facts and Figures			2015	2016
Description of data [unit]				
Electricity production [GWh]			5.865	7.136
Net imports [GWh]			2.355	1.827
Net exports [GWh]			956	1.869
Gross electricity consumption [GWh]			7.264	7.094
Losses in transmission [%]			2,0%	2,25%
Losses in distribution [%]			31,3%	28,04%
Consumption of energy sector [GWh]			24	23
Final consumption of electricity [GWh]			5.069	5.084
Consumption structure [GWh]				
	Industrial, transport, services and other non-residential sectors		2.547	2.497
	Households (residential customers)		2.522	2.587
Net maximum electrical capacity of power plants [MW]			1.895	1.936
of which:				
	oil-fired		98	98
	hydro, total		1797	1838
Horizontal transmission network [km]				
	Length of transmission power lines [km]		3.026	3.298
	Substation capacity [MVA]		4.026	4.026
	Number of interconnectors		5	6
Electricity customers				
	Total number of customers		1.244.716	1.189.478
	out of which: non-households		164.653	160.484
	Eligible customers under national legislation		1.244.716	1.189.478
	Active eligible customers		7	10
Internal market				
	Electricity supplied to active eligible customers [MWh]		610.207	502.895
	Share of final consumption [%]		12,0%	9,8%

Source: Ministry of Energy and Industry of Albania

I. Albania's Electricity Market - Quick Overview



I. Albania's Electricity Market - Quick Overview

- Conclusion: Albania has a strong need for diversification of its power generation; more generation in the dry season, mainly PV
- Government has become more aware of this problem and plans to issue more concessions for PV and wind power plants
- Revised National Renewable Energy Action Plans foresees new concessions for 120 MW of PV and 70 MW of wind power plants
- To achieve these targets the government needed new RES Law, including new support schemes to support PV and Wind power plants
- New support schemes have to be in line with the State Aid Guidelines

II. Requirements by State Aid Guidelines

- Assumptions and targets:
 - RES will become grid competitive in the period between 2020 and 2030
 - Subsidies and exemptions from balancing responsibilities should be phased out in a degressive way
 - Establishment of market-based mechanisms

II. Requirements by State Aid Guidelines

- *“(124) In order to incentivise the market integration of electricity from renewable sources, it is important that beneficiaries sell their electricity directly in the market and are subject to market obligations. The following cumulative conditions apply from 1 January 2016 to all new aid schemes and measures:*
 - *(a) aid is granted as a premium in addition to the market price (premium) whereby the generators sell its electricity directly in the market;*
 - *(b) beneficiaries (65) are subject to standard balancing responsibilities, unless no liquid intra-day markets exist; and*
 - *(c) measures are put in place to ensure that generators have no incentive to generate electricity under negative prices.*
- *(125) The conditions established in paragraph (124) do not apply to installations with an installed electricity capacity of less than 500 kW or demonstration projects, except for electricity from wind energy where an installed electricity capacity of 3 MW or 3 generation units applies.”*

II. Requirements by State Aid Guidelines

- *“(126) [...] From 1 January 2017, the following requirements apply: Aid is granted in a competitive bidding process on the basis of clear, transparent and non-discriminatory criteria [...]”*
- *“(127) Aid may be granted without a competitive bidding process as described in paragraph (126) to installations with an installed electricity capacity of less than 1 MW, or demonstration projects, except for electricity from wind energy, for installations with an installed electricity capacity of up to 6 MW or 6 generation units.”*
- *“(129) The aid is only granted until the plant has been fully depreciated according to normal accounting rules and any investment aid previously received must be deducted from the operating aid.”*

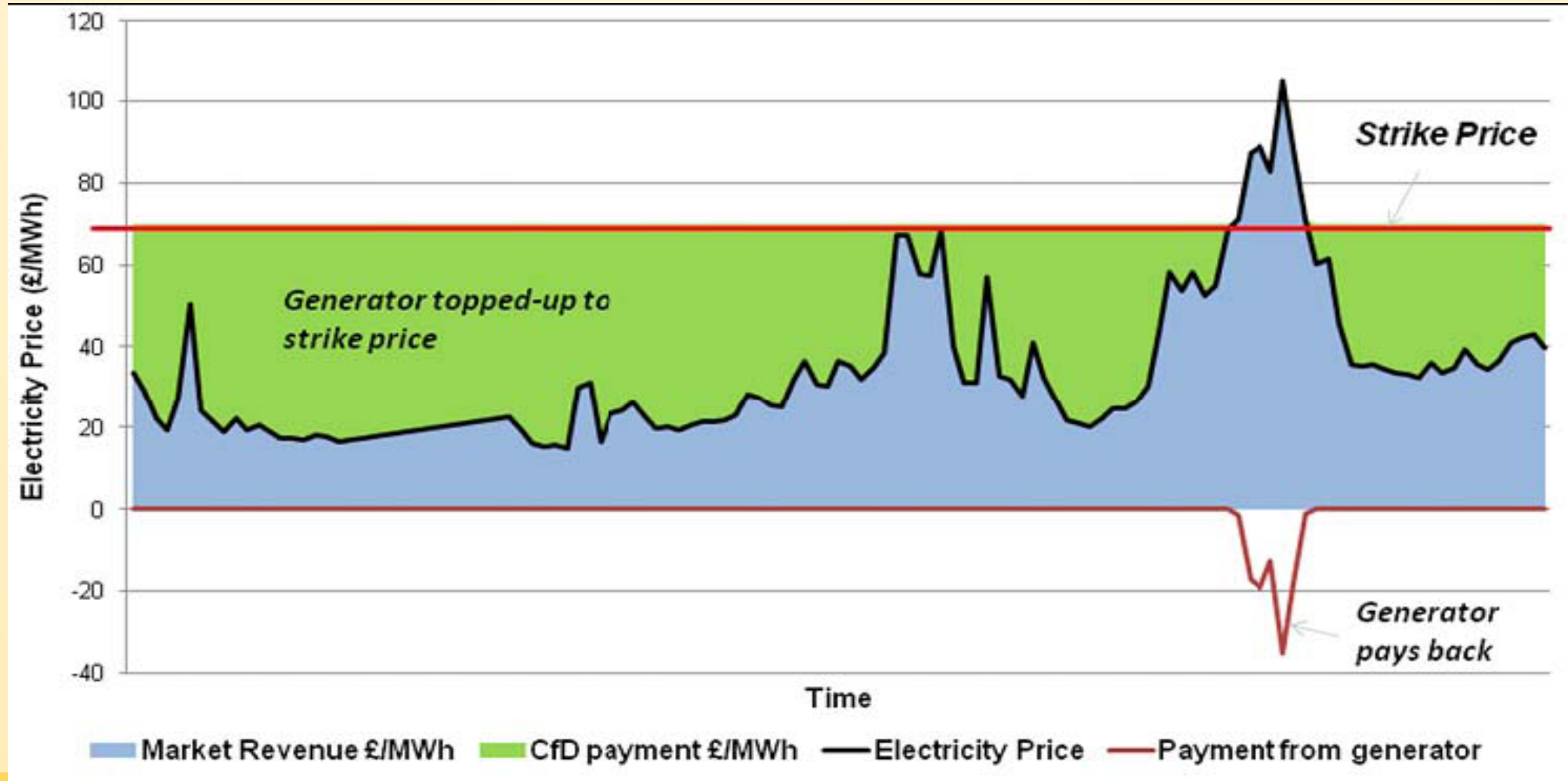
II. Requirements by State Aid Guidelines

- Summary:
 - FiT's are only allowed for small RES installations
 - Bigger RES installations require
 - a competitive bidding process (**auction scheme**)
 - generators have to sell its electricity directly in the market (**Power Exchange**)
 - the aid must be paid as a premium on to of the market price (**CfD**)
 - Without, countries can only support small scale RES technology and that makes it difficult
 - to achieve the targets and
 - to attract investors for bigger investments

III. Implementation by Albanian RES Law

- Threshold for competitive bidding process and premium payments on top of the market price was set at 2 MW
- Support shall be paid under a Contract for Difference (CfD) as a variable premium on top of the market price
- How is the scheme designed?
 - Government sets administrative strike price – maximum amount that it wants to pay as a support
 - Final support under a contract for difference (strike price) must then be determined in an auction
 - The winner (lowest bid) then gets the difference between a reference price (average market price) and the strike price as a premium payment
 - CfD's have a duration of 15 years

III. Implementation by Albanian RES Law



IV. Challenges and recommendations based on the experience from Albania

- None of the schemes are working because
 - Necessary sub legislation for auction scheme is missing
 - No CfD-Modell was drafted
 - Market opening and establishment of Power Exchange is delayed
- Consequence: Albania is currently “stuck” between the past and the future; it can't continue as before but can also not proceed in line with the new legislation
- Leads to severe difficulties:
 - To achieve the targets towards the Energy Community
 - To diversify the energy production and align it with consumption patterns
 - Increases the pressure for future reforms; all has to happen at once at some point
 - Increases insecurity for all market participants; market less attractive for investors

IV. Challenges and recommendations based on the experience from Albania

If you decide to reform a sector, don't accept bigger delay's but follow through and make sure you fully implement all what's necessary. Because if you don't, at some point, your ability to act will be so severely limited, that it will be very difficult to achieve the goals you have set for yourself.

Thank you for your attention!