



# **DOES MONITORING METHODOLOGY MATTERS?**

## **Electricity Market Monitoring in Albania.**

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# DOES MONITORING METHODOLOGY MATTERS?

## Electricity Market Monitoring in Albania.

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# I. Why is energy market monitoring important?

- ‘Public Interest Theory’ of Regulation explains that government intervention, through regulation, is an instrument to correct market failure, such as monopoly market regulation, and improve economic welfare and market efficiency.
- ‘Private Interest Theory’ or ‘Capture Theory’ on the other hand explains that after some time regulation will come to serve the interest of the industry (Hertog, 2010).
- However, it’s not the intention to discuss here the debate between the two theories mentioned above.



# ...Why is energy market monitoring important?

- In the energy sector, usually transmission and distribution are natural monopolies. Therefore, regulation of such industries is justified, from the point of view of 'Public Interest Theory', and Independent Regulatory Authorities are established in many countries.
- In the presence of monopolies in the energy sector we highlight the importance of efficient regulation practices and specifically efficient market monitoring.
- Monitoring is also important in more liberalised market to make sure that they are competitive and transparent

# Market monitoring Legal Responsibilities

- Energy Regulators legal monitoring responsibilities are set by national laws
- Furthermore, EU directives, 2009/72/EC and 2009/73/EC, explain in more detail duties and powers of the regulatory authorities as regard to monitoring activities. Such activities include, but are not limited to:
  - ✓ Monitoring the investment plans of the TSO
  - ✓ Monitoring network security
  - ✓ Monitoring quality of service and supply
  - ✓ Monitoring the level of transparency
  - ✓ Monitoring the level of market opening and competition at wholesale and retail level
  - ✓ Monitoring the time taken by transmission and distribution system operators to make connections and repairs
  - ✓ Monitoring the implementation of all rules related to the roles and responsibilities of all market participants
  - ✓ Monitoring the investment in generation related to the security of supply



## II. Energy market monitoring Case of Albania

- The monitoring role of ERE comes from the Power sector Law and Gas Sector Law
- The Electricity Market Model gives more details on the monitoring role of ERE
- ERE approves all secondary legislation that regulates the power and gas market, including market rules, network codes, tariff methodologies etc.
- Monitoring unit in ERE has been established in 2008



# 1. Electricity Market Characteristics

- Three main companies in the sector: Public generation and Wholesale Public Supplier both parts of KESH sh.a holding, Transmission System Operator (OST sh.a), and Distribution System Operator and retail Public Supplier both parts of OSHEE sh.a Holding.
- All three companies are state-owned
- So far ERE regulates the whole chain starting from generation, wholesale, transmission, distribution and retail prices
- Other market participants operating in the unregulated market are: Small Power Producers (connected to distribution network), Independent Power Producers (connected to transmission network), Qualified Suppliers and Traders.
- Public Generation Company responsible for providing the energy for balancing and ancillary services and the Wholesale Public Supplier act as the supplier of last resort.



## 2. Monitoring Activities of ERE

Some monitoring activities of ERE according to the law and market model

- Monitoring all licensees as far as security of supply is concerned
- ERE monitors all activities of regulated companies
- Monitors all agreements in the unregulated markets – to make sure that no market participant is exercising market power or undertake unfair practises
- Last but not least, monitors the implementation of all rules and regulations, including licence terms and condition, for all market participants.

### 3. How ERE monitors the power market? Is there any methodology?

- Since year 2008 ERE monitor the electricity market based on the following steps
- Data gathering from periodic reporting or requested information
- Data processing
- Reporting the results to the Board of Commissioners
- Defining ERE position and recommendations for the licenses
- Identifying issues for site monitoring activities
- Carrying out the site monitoring and analyzing monitoring data
- Defining the ERE statement and recommendation regarding the monitoring results

## ...How ERE monitors the power market? Is there any methodology?

- Monitoring activities has been undertaken on specific issues – some of them has been monitored periodically and every year, but some other issues has been monitored when a problem has been reported to ERE.
- The most common issues monitored each year by ERE are:
  - ✓ Fulfilment of the investment plan from all three regulated companies
  - ✓ Monitoring the implementation of rules and regulations, mainly for importing and exporting of electricity, licence conditions, ERE decisions, etc.
  - ✓ Distribution losses and collections
  - ✓ Security of supply
- Some examples of performance indicators produced by ERE

## ...How ERE monitor the power market? Is there any methodology?

- Other issues of ERE monitoring – not being monitored periodically
  - ✓ Interconnection capacity auctions
  - ✓ Balancing market
  - ✓ Other ‘one off’ monitoring activities (mainly based on specific issues raised at some point by market participants)
- Monitoring activities during the period of tariff setting
  - ✓ To collect all necessary information about costs of services
  - ✓ Information about electricity demand and energy balance
  - ✓ Achievements of performance indicators mainly for distribution
  - ✓ Realization of tariff structure and average tariff
  - ✓ Investment plans



## ...How ERE monitors the power market? Is there any methodology?

- ERE annual report – as a substitute of a annual monitoring report
- ✓ Reporting on the conditions and changes of the whole energy sector on annual basis
- ✓ Mostly descriptive analysis of the data reported by the licensees
- These data include:
  - ✓ Energy balance
  - ✓ Domestic power production and its efficiency
  - ✓ The structure of energy consumption
  - ✓ Energy imports
  - ✓ The efficiency of energy trading (including losses and collection rate)

## 4. Market Monitoring Outcomes

- This way of monitoring has produced very little recommendations for changes in energy policy – *only recommendations to amend some of the regulation issued by ERE*
- Main outcomes from market monitoring
  - ✓ Resolving the complaints of different market participants
  - ✓ Giving recommendations to targeted market participants to correct their practices
  - ✓ Based on the monitoring results taking fair decisions, such as tariff decisions
  - ✓ Amend certain regulation in order to improve market functioning

## 5. Conclusions

- There is no structured methodology of monitoring with well defined indicators – **apart from some performance indicators in the distribution and generation no other monitoring indicators**
- No precise indicators has been created in order to periodically check the market performance - **no indicators on market efficiency or market opening**
- Monitoring so far oriented mostly on the everyday problems and issues of the regulated companies **(mainly electricity distribution)**
- ERE annual reports are compiled after the close of the year and do not address the issues in real time

## ...Conclusions

- Some reasoning of this way of monitoring
  - ✓ Electricity market mostly regulated – from generation to retail supplier and all companies are state-owned
  - ✓ Issues and problems faced with the distribution companies have consumed most of the work time of the regulator
  - ✓ Actual structure of ERE – capacity issues in terms of number of staff and staff qualification

## 6. Challenges and Recommendations

- New Power sector and Gas Law – implemented the third EU energy package
- These laws have specific articles on monitoring activities of ERE
- Power sector law requires liberalisation of the wholesale and retail market
- ERE independence on organization structure and allocation of budget
- Increased monitoring role of the regulator in the presence of more liberalised markets
- ✓ Need for well established monitoring unit
- ✓ Need for well structured monitoring methodology



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