



LN 8429-AL

Supplemental Letter

KORPORATA ELEKTROENERGJITIKE SHQIPTARE

November 3, 2014

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Re: Loan No. 8429-AL
 (Albania Power Recovery Project)
 Performance Monitoring Indicators


Dear Sirs and Mesdames:

This refers to the provisions of Section II.A.1 of the Schedule to the Project Agreement of this date between Korporata Elektroenergjitike Shqiptare (Project Implementing Entity) and the International Bank for Reconstruction and Development (the Bank) for the above-captioned Project.

The Project Implementing Entity hereby confirms to the Bank that the indicators set forth in the attachment to this letter shall serve as a basis for the Project Implementing Entity to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

KORPORATA ELEKTROENERGJITIKE SHQIPTARE


By AGIM Z. HESDA
Authorized Representative

PERFORMANCE MONITORING INDICATORS

Annex 1: Results Framework and Monitoring
Project Name: Power Recovery Project (P144029)

Results Framework

| Project Development Objectives | | | | | | | | | | | | |
|--|-------------------------------------|-----------------|---------------|--------------------------|-----------|-----------|-----------|-----------|-----------|---------------|--------------------------|------------------------------------|
| PDO Statement | | | | | | | | | | | | |
| The project development objective is to improve reliability of power supply and financial viability of the power sector. | | | | | | | | | | | | |
| These results are at | Project Level | | | | | | | | | | | |
| Project Development Objective Indicators | | | | | | | | | | | | |
| Indicator Name | Core | Unit of Measure | Baseline 2013 | Cumulative Target Values | | | | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection |
| | | | | 2014 | YR1 | YR2 | YR3 | YR4 | 2019 | | | |
| Electricity losses per year in the project area | <input checked="" type="checkbox"/> | Percentage | 45 | 40 | 33 | 26 | 22 | 18 | 14 | Semi-annually | OShEE | PMU/OShEE |
| Total net injected power (Megawatt hour (MWh) - Sub-Type: Supplemental) - (Core) | | MWh | 7,145,000 | 7,250,000 | 7,360,000 | 7,470,000 | 7,590,000 | 7,720,000 | 7,850,000 | Semi-annually | OShEE | PMU/OShEE |
| Electricity losses per year in the project area- Technical (Percentage - Sub-Type: Supplemental) - (Core) | | Percentage | 15.30 | 14.90 | 14.50 | 14.20 | 13.70 | 13.30 | 12.60 | Semi-annually | OShEE | PMU/OShEE |
| Electricity losses per year in the project area- Non-Technical (Percentage - Sub-Type: Supplemental) - (Core) | | Percentage | 29.80 | 25.10 | 18.50 | 11.80 | 8.30 | 4.70 | 1.40 | Semi-annually | OShEE | PMU/OShEE |

| | | | | | | | | | | | | |
|---|--------------------------|--------------------------------------|-------|------|------|------|------|-----|------|---------------|---------|-----------|
| Collection rate of distribution company | <input type="checkbox"/> | Percentage | 78.0 | 85.0 | 88.0 | 90.0 | 91.0 | 92 | 93.0 | Semi-annually | OShEE | PMU/OShEE |
| Reliability of MV level at Tirana area | <input type="checkbox"/> | Percentage overload at project areas | 100 | 110 | 120 | 70 | 70 | 70 | 70 | Semi-annually | OShEE | PMU/OShEE |
| Total amount of intercompany arrears | <input type="checkbox"/> | Number of days | 1,200 | 800 | 775 | 750 | 650 | 600 | 550 | Semi-annually | PMU/MEI | PMU/MEI |

Intermediate Results Indicators

| Indicator Name | Core | Unit of Measure | Baseline 2013 | Cumulative Target Values | | | | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection |
|---|--------------------------|-----------------|---------------|---|---|--|----------------------------|--------|----------------------------|----------------------------------|---------------------------------|------------------------------------|
| | | | | 2014 | YR1 | YR2 | YR3 | YR4 | 2019 | | | |
| Number of medium voltage customers in deregulated market | <input type="checkbox"/> | Number | 0.00 | 0.00 | 100 | 500 | 2000 | 4000 | 5000 | Baseline, interim and completion | OST / OShEE | PMU/OShEE |
| Power sector reforms implemented | <input type="checkbox"/> | Text | No | Updated market model / Revision of renewable energy law | New market rules in place / Cost recovery tariff methodology approved | | | | | | Ministry of Energy and Industry | PMU |
| Implementation of a new billing and collection management system | <input type="checkbox"/> | Text | No | | | New billing and collection system in place | | | | | OShEE | PMU |
| Implemented Risk management mechanism for weather related power imports | <input type="checkbox"/> | Text | No | No | Risk Mechanism designed | Risk Mechanism implemented | Risk Mechanism implemented | | Risk Mechanism implemented | | Ministry of Energy and Industry | PMU |
| Share of meters installed by OST | <input type="checkbox"/> | Percentage | 0.00 | 10.00 | 60.00 | 85.00 | 100.00 | 100.00 | 100.00 | Semi-annually | OST | PMU/OST |
| Debt Equity Ratio KESH and OST | <input type="checkbox"/> | Percentage | | | 60:40 | 60:40 | 60:40 | 60:40 | 60:40 | Semi-annually | KESH, OST | PMU |

| | | | | | | | | | | | | |
|--|-------------------------------------|-------------------------|------|------|--------|---------|---------|---------|---------|---------------|-----------|-----------|
| Debt Service Coverage Ratio KESh and OST | <input type="checkbox"/> | Number | | | 1.0 | 1.0 | 1.0 | 1.6 | 1.6 | Semi-annually | KESH, OST | PMU |
| Debt Service Coverage Ratio OShEE | <input type="checkbox"/> | Number | | | 0.6 | 0.6 | 0.6 | 1.0 | 1.0 | Semi-annually | OShEE | PMU |
| OShEE monthly revenues used to pay for energy purchases to KESh and transmission fees to OST | <input type="checkbox"/> | Percentage | 40% | 50% | 85% | 95% | 95% | 100% | 100% | Semi-annually | KESH, OST | PMU |
| Direct project beneficiaries | <input checked="" type="checkbox"/> | Number | 0.00 | 0.00 | 50,000 | 100,000 | 150,000 | 200,000 | 200,000 | Semi-annually | OShEE | PMU/OShEE |
| Female beneficiaries | <input checked="" type="checkbox"/> | Percentage Sub-Type/Sup | 0.00 | 0.00 | 52.00 | 52.00 | 52.00 | 52.00 | 52.00 | Semi-annually | OShEE | PMU/OShEE |

Annex 1: Results Framework and Monitoring

Country: Republic of Albania

Project Name: Power Recovery Project (P144029)

Results Framework

| Project Development Objective Indicators | |
|---|--|
| Indicator Name | Description (indicator definition etc.) |
| Total electricity losses per year in the project area | This indicator is calculated by dividing total electricity losses (i.e. the sum of technical and non-technical losses) by the total net injected generation in the project area. The baseline is the actual electricity losses in the distribution grid at the beginning of the project. |
| Collection rate of distribution company | This indicator is calculated by dividing the amount collected with the amount billed from the distribution company. Increased collection rate improves the financial viability of the whole sector. |
| Reliability of MV level at Tirana area | Sub-Transmission transformation capacity in Tirana area (MVA) |
| KESH/OST arrears in number of sales days equivalent | This indicator is calculated by expressing the total amount of KESH and OST receivables from OSHEE divided by annual sales to OSHEE times 365. |
| Intermediate Results Indicators | |
| Indicator Name | Description (indicator definition etc.) |
| Number of medium voltage customers in regulated market | This indicator measures the number of medium voltage customers that have been removed from the regulated market. |
| Power sector reforms implemented | This indicator measures progress towards improving the electricity market through market reforms, which will include the adoption of new market rules, new tariff methodology, updated market model and revision of renewable energy law. |
| Implementation of a new billing and collection management system | This indicator assesses the implementation of a new billing and collection management system, which will support the improvement in billing and collection of the DSO. |
| Implemented Risk management mechanism for weather related power imports | This indicator assesses the establishment of a risk management mechanism for weather related power imports, which would hedge risks of price volatility |

| | |
|--|---|
| | related to weather conditions. |
| Share of meters installed by OST | This indicator measures progress in installing meters financed under Component 3. The indicator is expressed in percentage of installed meter, i.e. based on the allocated value for metering. |
| Debt Equity Ratio of KESh, OST and OShEE, | This indicator measures the financial leverage of the power companies (KESh, OST and OShEE), calculated by dividing their debt by the amount of capital available, and converted as a percentage. |
| Debt Service Coverage Ratio of KESh, OST and OShEE | This indicator measures the companies' level of indebtedness relative to their income, calculated by dividing the total annual debt payments by annual income. |
| OShEE monthly revenues used to pay for energy purchases to KESh and transmission fees to OST | This indicator measures the level of payments made by OShEE to KESh for energy purchases and to OST for transmission fees, expressed as a percentage of energy sales by KESH and transmission fees invoiced by OST to the distribution company respectively. |
| Direct project beneficiaries | Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage. |
| Female beneficiaries | Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female. |