TERMS OF REFERENCE
Capacity Building Support to the New Transmission System Operator in Albania

1. BACKGROUND
Currently, Albania has no significant natural gas production and the country is not connected with any of the regional natural gas networks. The first gas exploitation for industrial use in Albania dates from 1963 and the country produced significant volumes of natural gas from pure gas fields and associated gas in upstream oil extraction for industrial and domestic use. However, gas flows have recorded a continuous decrease in the past 30 years (from 1 bcm/year in 1982 to a minimum level of 0.01 bcm/year in the early 1990s) due to the lack of new discoveries and investments in existing resources. Albania’s local gas infrastructure comprises a total pipeline network with a length of 498 km and connects all the previously operational gas fields.

The Trans-Adriatic Pipeline (TAP), which will transport natural gas from the Shah Deniz II field in Azerbaijan through Greece and Albania to southern Italy, is considered as the cornerstone of Albania’s gasification and its key connection point with international gas infrastructure. The country expects that TAP will generate additional spill over effects such as development of the country’s physical infrastructure (i.e. gas pipelines and storage facilities), creation of gas market institutions and regulatory capacity and contribute to the generalised adoption of gas as a power fuel and the expansion of urban gas networks. Industrial sector is another potential anchor load for gas supplies. Furthermore, TAP is the first ever certified Independent Transmission Operator in the Energy Community (“EC”) and constitutes an important benchmark for Albania and other countries in the Western Balkans region. EBRD is one of the anchor lenders considering providing financing to TAP.

The comprehensive medium-term Gas Master Plan and Project Identification Plan (“GMP & PIP”) for Albania was launched by the government with support from EU and the EBRD under the Western Balkans Investment Facility (“WBIF”). Its aim is the development of a sustainable natural gas system that makes a balanced contribution to the energy sector, the security of natural gas supply, to competitiveness and environmental protection. Albania is today, along with Montenegro and Kosovo, the only country in continental Europe, not linked to interstate gas transmission systems and has a completely isolated and underdeveloped national gas distribution system.

In terms of legislation and the regulatory framework, Albania has adopted the Energy Community Treaty, as one of the Contracting Parties. Hence, it has made international legally binding commitments to adopt and implement core EU energy legislation, the acquis communautaire. Besides the Energy Community Treaty, Albania is also a signatory of the Energy Charter Treaty. In the course of transposing the Third Energy Package (“TEP”), in 2015 Albania adopted the Law on Natural Gas Sector. Legal policy actions arising in particular from the new gas law include the unbundling of the gas TSO and DSO(s) and regulatory certification of the gas TSO in cooperation with the Energy Community Secretariat.
Besides adopting the Law on Natural Gas, Albania is also focusing on institutional development and the development of secondary legislation, such as tariff systems, network codes, supply rules, and market code. These types of future activities will lay the foundations for the functioning of the Albanian gas sector. This becomes even more important given that TAP was required to be fully certified\(^1\) before the start of the construction of the pipeline according to the ITO model. Following the Energy Community Secretariat’s Opinion of February 2016, the national regulatory authority undertook to conduct a certification procedure before the beginning of TAP’s commercial operations. In addition, Albania is strengthening its administrative capacities related to the natural gas sector with support from international donors.

Other ongoing projects funded by the European Union (EU) through WBIF and supported by European Bank for Reconstruction and Development (“EBRD” or the “Bank”) as lead International Financial Institution (IFI) include the preparation of a preliminary design for the Ionian Adriatic Pipeline (feasibility study and ESIA were prepared in 2014 under the WBIF umbrella and also supported by EBRD as lead IFI), and the preparation of pre-feasibility for ALKOGAP, the Albania to Kosovo Gas Pipeline.

Against this backdrop, Albgaz, the natural gas TSO for Albania, was established on 6 January 2017 as a combined operator and is responsible for the operation, development and maintenance of the country’s gas transmission, distribution, storage, and LNG infrastructure. Albgaz was unbundled from Albpetrol, the National Oil Company. The company employs 117 staff of which 83 staff were transferred from Albpetrol (staff transferred from Albpetrol following the unbundling) and is organised around three core units: (1) pipeline infrastructure operations and maintenance; (2) projects and agreements; and (3) commercial and regulatory affairs (e.g. applications, licencing). In addition, it operates some segments of the pipeline for transmission customers and limited sections for distribution customers. On November 8, 2017 the Regulatory Authority approved the Tariff Methodology and Certification of Albgaz. Furthermore, on November 10, 2017 Albgaz received the full License as a Combined Gas Operator (initially TSO & DSO).

In view of the TAP financing and its continued support to the development of the gas market in Albania, EBRD will provide further technical assistance to Albgaz for the engagement of a qualified consultancy firm (the “Consultant”) for the capacity building support for its legal and regulatory function and gas market skills development (the “assignment”).

**2. Objectives**

The main objectives of this assignment are:

1) Capacity building of TSO with a view to strengthening its legal and regulatory unit;
2) Tasks to operationalise the tariff methodology and tariffs;

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\(^1\) TAP will also be exempt from full ownership unbundling for a period of 25 years for start of operations. Instead the project was certified on the basis of an ITO model. Preliminary ITO certification was obtained at the end of 2015. The ITO model allows ownership of the pipeline to be retained by the gas supply company, albeit as a legally and functionally separate entity.
3) Tasks to operationalise the network code (in particular, facilitating access to the network, including capacity allocation and balancing); and
4) Assistance to enhance network planning functions within the TSO (including planning capital expenditure).

The Consultant will work closely with Albgaz, other key stakeholders in Albania’s gas sector (notably, the Ministry of Energy and the sector regulator (Albanian Energy Regulatory Entity - ERE)), and other international organisations (for example, the Energy Community Secretariat) and their consultants. A key priority will be for the Consultant to liaise with a broad range of stakeholders, which will require a number of visits to Albania.

3. SCOPE OF SERVICES

The Assignment will consist of two phases. The commencement of Phase II will be conditional on the successful completion of Phase I deliverables. Sign-off of Phase I completion and approval of Phase II commencement must be obtained by both the Client and the Bank.

Phase I

Task 1: Capacity building of legal and regulatory unit

- Advice to strengthen the capacity of the internal TSO unit in charge of regulatory strategy for the TSO so that its activities are in line with the Energy Community acquis communautaire and best international practices. In particular assistance in establishing internal process and monitoring activities for:
  - Drafting a short/mid-term regulatory strategy for the TSO; Assessing the potential economic and strategic impact and new business requirements emerging from new regulation;
  - Establishment and review of: tariffs, network codes and service quality levels (see point 3 and 4 below);
  - Cooperation with other stakeholders in particular: Government, energy regulator, international institutions (eg., Energy Community and IFIs);
- Gap analysis of technical skills which would be recommended for the company’s regulatory capacity;
- Develop the first short and medium term regulatory strategy for the TSO;
- Structuring and strengthening the compliance monitoring and reporting process in the company, including enhancing the compliance officer’s expertise as well as its independence and operational capabilities;

Phase II

Task 2: Operationalising tariff methodology

- Support in understanding principles of tariff methodology and active participation in development process driven by ERE.
- Assistance on the calculation of key inputs to the tariff methodology, consisting of:
Task 3: Operationalising network code

- Developing detailed procedure for implementing the network code (currently being prepared by Albgaz and ERE) – providing access to the network (e.g. capacity booking, nominations, capacity allocation) and balancing arrangements. Procedures should cover areas such as:
  - Procedural and operational steps:
    - Does a separate unit need to be set up? How does it interact with other functions?
    - What documentation (including contracts) should the TSO develop?
    - What information should the TSO collect and what information should it publish?
    - What procedures should the TSO put in place to lower transaction costs for market operators to book capacity (reflecting the requirements of the Network Code and other related documents)?
  - Technical: what systems does the TSO need to procure to implement the procedural and operational recommendations? The output could be a detailed technical specification that the TSO can use as a basis for the procurement of such systems.

Task 4: Network planning and capital expenditure

- Provide the TSO with a review of the key types of planning its needs to undertake (for example, capital expenditure plans for regulatory reviews and improvements to the Ten Year Network Development Plan).
- Advise on the processes that should be put in place to undertake network planning, covering areas such as:
  - The data the TSO should collect and use;
  - Preparation and use of feasibility studies; and
  - Criteria used by the TSO to develop and choose between different capex options (for example, the timeframe over which investment cycles are considered, etc.)
  - Procedures for Open Season.
- Advise on “off the shelf” pipeline operations & maintenance contract benchmarks.
4. **IMPLEMENTATION ARRANGEMENTS**

- The overall duration will be [9-12] months. During this period, the Consultant will perform the tasks described above, including visits to Albania.
- The Consultant will appoint a single project manager who will be the main point-of-contact for the Albgaz and the Bank.
- A single point-of-contact from Albgaz will be provided to the Consultant. The Bank will appoint an Operational Leader (OL) for this assignment. The project manager will report to Albgaz and the Bank OL, and deliverables will be shared with Albgaz and the Bank OL.
- At least once a month, the Consultant will set-up an update session with the Bank (either a live or virtual meeting).
- The Consultant will manage the entire assignment. Assistance from local consultants or experts should be sought in this respect. The Client with support of the Bank will facilitate discussions with the relevant stakeholders, but ultimate responsibility will lie with the Consultant.
- The Consultant will be responsible for obtaining all resources (e.g. primary and secondary legislation, regulatory rules, etc.) needed to conduct this study. The Bank will facilitate access to relevant resources, but ultimate responsibility with lie with the Consultant.
- The recommendations from the activities undertaken by the Consultant with this assignment should be gender sensitive, meaning that any implications for gender equality if the recommendations would be implemented should be taken into account.

5. **DELIVERABLES**

The **deliverables** for this assignment and the associated indicative timelines are as follows:

- A kick-off meeting in the first week following the signing of the contract. The kick-off meeting will take place in Tirana.
- Benchmark, best practice, readily available, off the shelf data on pipeline maintenance such as (sample contract, typical revenue & cost / km, number of staff/100km, typical certificates of maintenance staff).
- An inception report, to be submitted three weeks following the kick-off meeting. The inception report will: summarise the Consultant’s assessment of Albgaz’s capacity building needs and provide a detailed methodology for conducting the rest of the assignments (noting the needs of the TSO for each area of capacity building and how these should be addressed within the scope of this assignment).
- A draft report (which may include different memos) that is submitted three months following the approval by the Client (and the Operation Leader (OL) for this assignment) of the inception report. The draft report will include: a short and medium term strategy for the TSO; a review of the tariff methodology; a summary of the methodology for operationalising the tariff methodology; recommendations on different tariff structures; review of the draft network code; draft recommendations
for the implementation of the network code; a summary of the capital expenditure planning needs of the TSO and the steps needed to undertake such planning.

- Several interim workshops that are held in Tirana. The workshops will be used to present the findings of the draft report to the TSO and other relevant stakeholders. A minimum of three workshops will be held (but more may be required) – with separate workshops focussing on the tariff methodology, network code, and capital expenditure planning. Each workshop will be accompanied by training materials that will include presentation slides and spreadsheet tools, best practice sample contracts etc.

- A final report (which may include different memos) that is submitted two months after the interim workshops. The final report will cover all of the tasks included in the scope of work. The final report will be accompanied by templates and spreadsheet-based tools.

- A final round of workshops that coincides with the timings of the outputs related to the final report. Several workshops are expected with each dedicated to a different subject area.

6. **DONOR VISIBILITY**

Given the assignment is funded through the EBRD’s donor funded technical cooperation program, the Consultant will be required to support the Client to ensure visibility of these resources. Support on these visibility aspects can be obtained from the Bank’s Communications Department. Measures could include but not be limited to:

- All documents produced by the Consultant should mention donor support and bear the logo of the donor, when appropriate.
- Donor support to the project should be acknowledged in any public communication (press releases, launch of facilities)
- Local representatives of donors should be invited to any public event organised to promote the project (press conferences, inaugurations, possibly stakeholder participation programs).

Please contact Lucia Sconosciuto (email: SconosciL@ebrd.com; tel: +44 20 7338 8155) for further information. Some donor visibility guidelines can also be provided by the Bank to Consultants at the start of the Assignment.

7. **CONSULTANT PROFILE**

The Consultant for this assignment is expected to have:

- Economics expertise with previous project experience in the economic regulation of gas transmission networks, including:
  - the calculation of network tariffs based on different methodologies (e.g. incentive regulation, cost-plus) the preparation of calculation tools for TSO;
  - the structure of gas transmission tariffs;
developing arrangements for the utilisation of transmission network capacity

- Sector expertise with previous project experience providing support to establish a gas TSO regulatory functions; engaging in the market design of the gas market in an early stage of development.
- Technical expertise with previous project experience in: capacity building to establish a regulatory function; the development and implementation of network codes; the planning of capital expenditures; and the systems and processes needed for balancing and capacity allocation on the gas transmission network; and previous project experience in working in a policy dialogue engagement with multiple stakeholders including local authorities, private and public sector companies and international institutions.
- Legal expertise with previous project experience in Albanian law, developing regulatory acts and bylaws regulating activities of the transmission system operator as well as contracts for the provision of services by the transmission system operator.
- Local expertise with previous project experience of working in the Albanian energy sector and the EU energy sector.

The Consultant’s expert team is expected to include key experts as follows:

- a. Team Leader with previous professional experience in gas network projects, including providing support to establish a gas TSO regulatory functions; engaging in the market design of the gas market in an early stage of development; and previous project experience in working in a policy dialogue engagement with multiple stakeholders including local authorities, private and public sector companies and international institutions.
- b. Economic expert with previous professional experience in the calculation of network tariffs based on different methodologies (e.g. incentive regulation, cost-plus) the preparation of calculation tools for TSO; structure of gas transmission tariffs; and developing arrangements for the utilisation of transmission network capacity.
- c. Technical Expert with previous professional experience in the development and implementation of network codes; the planning of capital expenditures; and the systems and processes needed for balancing and capacity allocation on the gas transmission network;
- c. Legal expert with previous professional experience in Albanian law; and developing regulatory acts and bylaws regulating activities of the transmission system operator as well as contracts for the provision of services by the transmission system operator;
- d. Local experts with previous professional experience of working in the Albanian energy sector and the EU energy sector.