ANNUAL REPORT

2011

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REPUBLIC OF ALBANIA
WATER SUPPLY AND WASTE WATER DISPOSAL AND TREATMENT REGULATORY AUTHORITY

ANNUAL REPORT 2011

SITUATION IN WATER SUPPLY AND SEWERAGE SECTOR

AND

WATER REGULATORY AUTHORITY ACTIVITIES

January, 2012

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ABBREVATIONS

KPI	-	Key Performance Indicators
NRC	-	National Regulatory Commission
GIZ	-	Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH
GDWSS		General Directorate of Water Supply and Sewerage
MPWT	-	Ministry of Public Works and Transport
METE	-	Ministry of Economy, Trade and Energy,
MF	-	Ministry of Finance
MoEFWA	-	Ministry of Environment, Forests and Water Administration
MoH	-	Ministry of Health
IPH	-	Institute of Public Health
USAID	-	United States Agency for International
SHUKALB	-	Water Supply and Sewerage Association of Albania,
ERSAR	-	Regulatory Authority for Water and Waste Services in Portugal
WWRO	-	Water and Waste Regulatory Office of Kosovo
WSS Sector	-	Water supply and sewerage sector
WSS	-	Water supply and sewerage

Vision

A financially self – sustainable water and sewerage sector that provides high quality yet affordable services to all consumers in Albania.

Mission

To ensure for all Albanians that water and sewerage service providers deliver the highest achievable quality at a fair price and in a financially sustainable manner.

Chairs' Statement

I have the pleasure of presenting to you the Annual Report 2011, which includes a review of the WRA's work in 2011, as well as an analysis of the situation in the Albanian Water Supply & Sewerage sector.

I am convinced that this Annual Report will be quite valuable in providing an overview of the current sector situation, not only concerning the performance of the water supply and sewerage companies, but also their working reality and efforts.

During this year, the WRA has continued its work with maximal dedication to fulfill its mission and vision in full accordance with its legal mandate. As an institution undergoing a continuous consolidation process, we have taken care to collaborate, coordinate and cooperate with all other relevant sector players in the development and implementation of our activities.

Within the framework of its decision-making function, in the past year, the National Regulatory Commission has conducted a large number of Commission meetings and working sessions, one of the outcomes of which are 47 decisions on the approval of new tariffs and awarding of licenses. Furthermore, a multitude of regulations, methodologies and other administrative decisions were approved by the Commission, most notably the adoption of the WRA's new Tariff-Setting Guideline.

During 2011, the WRA has engaged more intensively with the water supply and sewerage companies to better understand their sphere of operation and specific challenges, giving advice on options for performance improvements in numerable meetings and during on-site visits. This has led to an increase of trust in the WRA as a professional institution that oversees and supports the companies' work.

The standards set through the approval and application of a number of new regulatory instruments have led to considerable improvements in the engagement and increased awareness of companies in fulfilling their mission to offer the best possible service to their consumers. In 2011, for the first time, the WRA managed to produce an individual analysis of WSS companies, as well as the entire sector for the year 2010. This Performance Report 2010 is foreseen to be published in the coming months, and this approach will be continued in the report of 2011.

I also want to highlight the approval of Model Contract by the National Regulatory Commission as an important instrument in regulating the relations between consumers and licensed operators of water and sewerage sector. WRA will continue with devotion monitoring the process of its implementation by all categories of consumers.

I would like to particularly congratulate companies such as Tirana, Durrës, Korça, Gjirokastër, and Shkoder, which, through considerable improvement of their financial sustainability and efficiency have managed to cover the operation and maintenance costs as well as a part of the other costs with their own income. Also, I would like to express my appreciation to all those

companies that have applied to the WRA for the first time during this year for a license and adjustment of tariffs.
The Water Regulatory Authority will continue its work to urge all companies in taking measures to increase their cost coverage and thus their financial sustainability as a precondition for high quality services for all Albanian consumers.

Another important aspect of the work of WRA during this year was the commitment to increase the professional level of staff and the members of the National Regulatory Commission through a series of training activities inside and outside of the country.

I would like to express, firstly, my appreciation for the commitment of the Government and donors for the support given to many of the WSS companies, through investments in improving the performance indicators and quality of service in these companies.

Lastly, I wish to express my gratitude for all WRA staff as well as all those, who have offered their support to the WRA. Especially I would like to thank the GIZ advisors for the continuous support and cooperation with the WRA.

Yours sincerely,
Avni Dervishi

Chair of the Water Regulatory Authority

1. Water Regulatory Authority

1.1 Legal mandate and its responsibilities

Water Regulatory Authority (WRA) is a public, independent institution, created by law, in order to regulate the water supply and wastewater disposal and treatment sector.

WRA was established and function in accordance with Law no. 8102, 28.03.1996 "On the regulatory framework of water supply and disposal of waste water", as amended by Law No 9352, of 03 March 2005, Law No 9584, of 17 July 2006, and Law No 9915, of 12 May 2008.

The main purpose of this Law is to establish a regulatory framework, to safeguard and protect the public interests on the one hand, and to establish a transparent legal and regulatory environment encouraging private investments on the other hand.

General Tasks of WRA, according to the law is:

- encourage efficiency and efficient use of water;
- enable the licensee to fund the activities authorized by the license received;
- protect the consumer interests on:
  - prices, tariffs and other service conditions;
  - quality, efficiency, continuity and safety of service;
- encourage competition;
- to exercise its activities transparently and to find a fair balance between all actors in the sector, respecting the consumer interests, Councils of Ministers, the public and investors

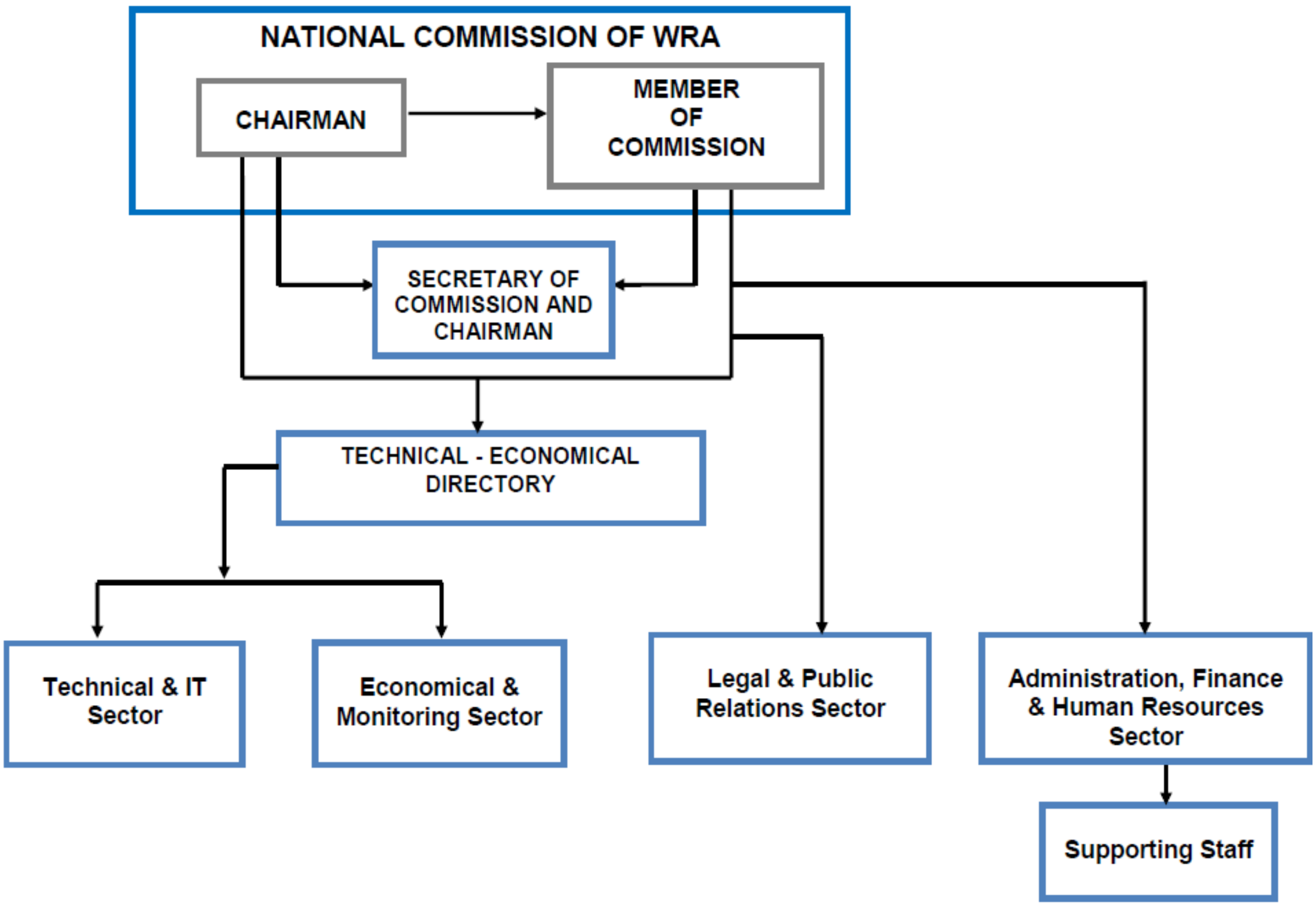
National Regulatory Commission heading the Water Regulatory Authority holds the following competencies:

- Issues licenses for commercial entities engaged in providing water supply service and disposal of waste water.
- Approves water sale prices and tariffs, both wholesale and retail, tariffs for wastewater and its treatment, schedules and conditions for the service offered by the operators, who provide water for public consumption. This also applies in cases where the water supply and sewage systems have been transferred to the administration or ownership of local government units;

Photo: Member of Regulatory National Commission

- Sets standards for investment programmer and asset sale from the licensees in the water supply and sewage sector. This also applies in cases where water supply and sewage systems have been transferred to the administration or ownership of local government units;
- establishes and guarantees the implementation of work standards for the licensee;
- encourages uniform standards and rules for the entire sector;
- prepares reports on the status of the sector for the Council of Ministers and collects relevant information from the licensees;
- sets applicable tariffs for licenses;
- issues administrative and monetary sanctions
- issues rules that support the execution of the competencies and functions laid down in this Law;

The structure and Organigrama of the WRA are approved by the Assembly of Republic of Albania, actually as follows:

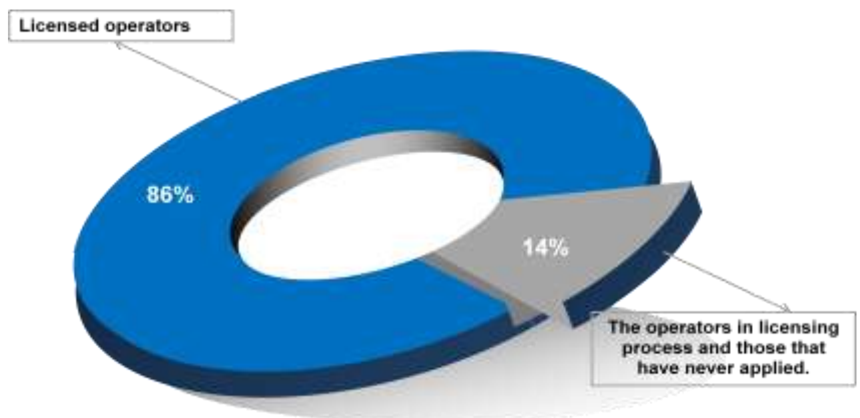


1.2 Regulatory activities

Licensing

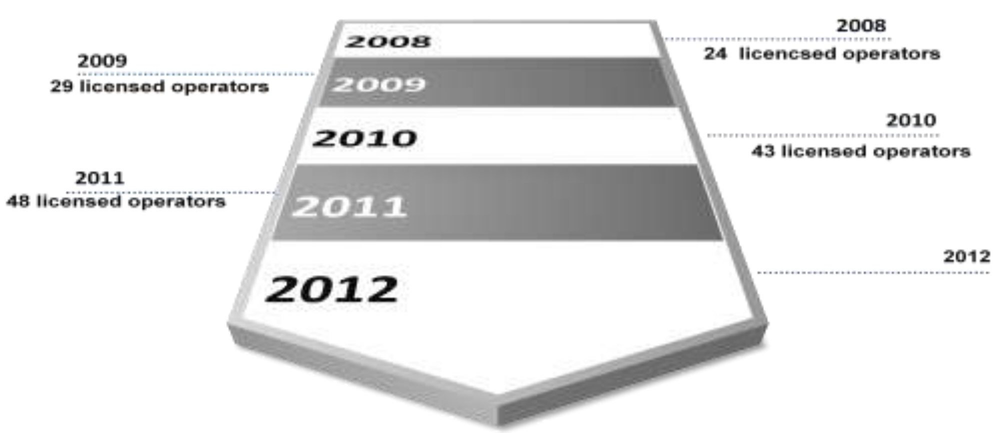
In the water supply and wastewater disposal and treatment sector, based on DCM no. 660 date 12.09.2007, DCM no. 81 date 12.02.2004, DCM no. 173 date 26.03.2004 and DCM no. 809 date 26.11.2004, are 56 operators of which currently are: 48 licensed operators, 3 operators in process and 5 operators have never applied.

Chart 1 Current situation of licensing



The progress of licensing situations of Water Supply and Sewerage operators is improved continuously year by year and one of the main objectives for 2012 remains licensing all WSS operators.

Chart 2 Progress of licensing in years



During 2011 have applied 12 Water Supply and Sewerage operators and after the fulfillment of all required documents, in accordance with the Licensing Regulations approved by decision of NRC no. 29 dated 08.12.2009, after a long decision making process were approved 6 licenses.

This year have applied for the first time and have been licensed 3 operators such as Sh.a U Korçë fshat, Sh.a U Vau i Dejës, Sh.a U Malësia e madhe. In addition, 2 operators have renewed their licenses because of changing their legal or technical directors. One other operator renewed its license for expiring purpose.

From the applications submitted to obtain a license entities that perform in the water supply and disposal and treatment of waste water service or only one of these services are noted the following problems:

- Some WSS operators have never applied to obtain a license for their activities to operate according to the law, even this number is decreasing.
- WSS operators that act in the sector have difficulty in finding technical directors. This is noted in the case of operators who act in small urban areas with few numbers of customers. This problem can be solved through regionalization / aggregation study process of these WSS operators with larger operators that are to close their area.
- Some local government units have set up near them sectors operating in the water supply and wastewater disposal without obtaining a license approved by WRA and contrary to law no 8102 dated. 28.03.1996, as amended.
- Some WSS operators still have problems with transferring the ownership of local government.
- Some WSS operators have problems with the registration at the NRC (National Registration Center);
- WSS operators who act in small urban areas have financial problems because cannot cover the minimal costs to fill the licensing requirements.

Tariff setting

There were 14 operators which applied for tariff change during 2011. National Regulatory Commission has approved the change of tariff for 12 of them and for 2 operators: Sha UK Saranda and Librazhd the process of decision making has been postponed until they will complete the missing documentation.

More than half of the operators which applied for tariff change this year such as: Sh.a UK Tiranë, Durrës, Shkodër, Korçë, Gjirokastër, Sarandë, Elbasan Fshat, Bilisht were using the approved tariffs during 2010. The change of tariff in 2010 for most of these operators, this year brought an improvement in the financial situation which also created new opportunities to improve customer service by using their incomes on making the necessary investments and increasing the level of cost coverage.

Based on the technical & economical analysis of the submitted applications it was noticed that these operators have been able to meet the recommendations made by NRC in the previous tariff change application.

Also, Sha U Orikum and Sha U Shkodër (Fshat) have submitted their applications of tariff change for the first time at WRA, thus there is an increasing level of regulation for water supply and wastewater disposal service under the legal framework. The number of operators which have approved tariffs by WRA has been increased from year to year. Currently, 44 of 56 operators are using approved tariffs by WRA.

This situation is as result of a successful cooperation with operators concerning their awareness on regulation of water supply and wastewater disposal service under the legal framework.

The review of tariff change applications is based on analysis of technical-economic indicators for the current situation and the forecasted one by identifying the main problems and finding the opportunities of improvement. The analysis consisted in evaluating the submitted data, comparing those with the performance indicators which the operator has foreseen for tariff change, comparing with previous period, studding the trend for three years and in the analysis of all factors affecting the change. The change of tariff has been always an increasing one.

Chart 3 Tariffs of drinking water

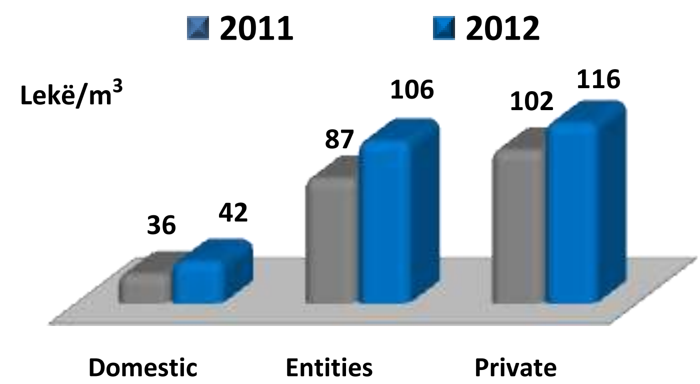
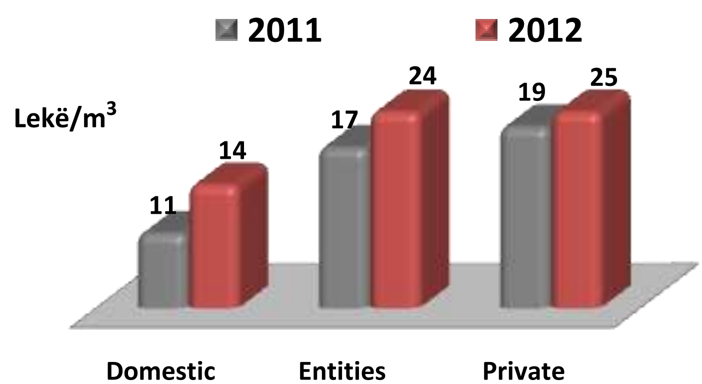


Chart 4 Tariffs of waste water



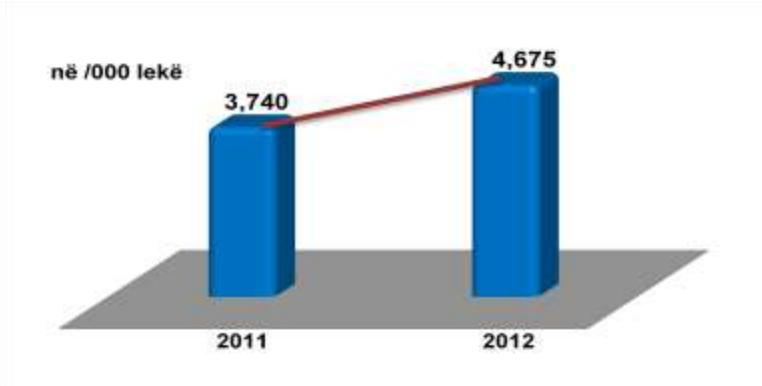
The average increase tariffs for public water consumption is about 16%, instead of increase of wastewater discharge and treatment service is about 27%. The approved tariffs during 2011 aimed at increasing costs coverage.

Most of the investments completed or are still under process in the sector for extension and rehabilitation of WSSS systems are financed by foreign donors through grants and loans. Repayment of these loans as well as rising costs coverage of operation and maintenance for water supply service and especially for sewerage service require providing the necessary funds.

Instead of previous periods, during 2011, Sha UK Tiranë and Durrës have intended to improve and extend their service area through investments using their own financial funds, a process that will continue in future, and this fact has been taken into account in their tariff change applications.

The main objective of WRA in the tariff approval process is finding the balance between protecting the interest of consumers at the same time to increase the financial sustainability of service providers, as set out in its Vision and Mission.

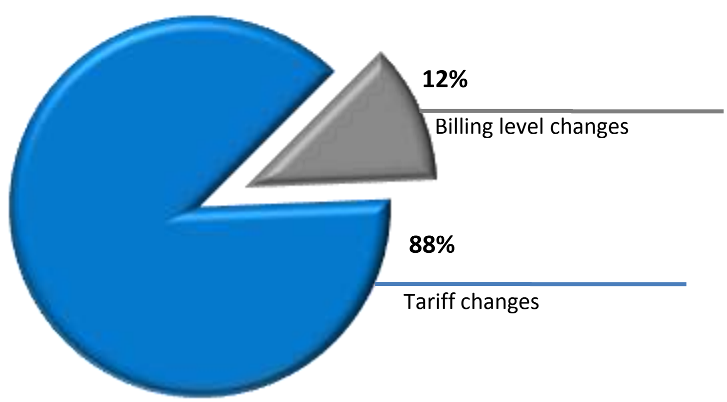
Chart 5 Incomes



The incomes will be increase in WSSS sector as a result of tariffs increase too. So, not only capital investments completed and those under construction, but also the new approved tariffs will enable the increase of financial sustainability of operators. Only by the tariff change for 12 operators, incomes will grow about 25% in water and sewerage sector.

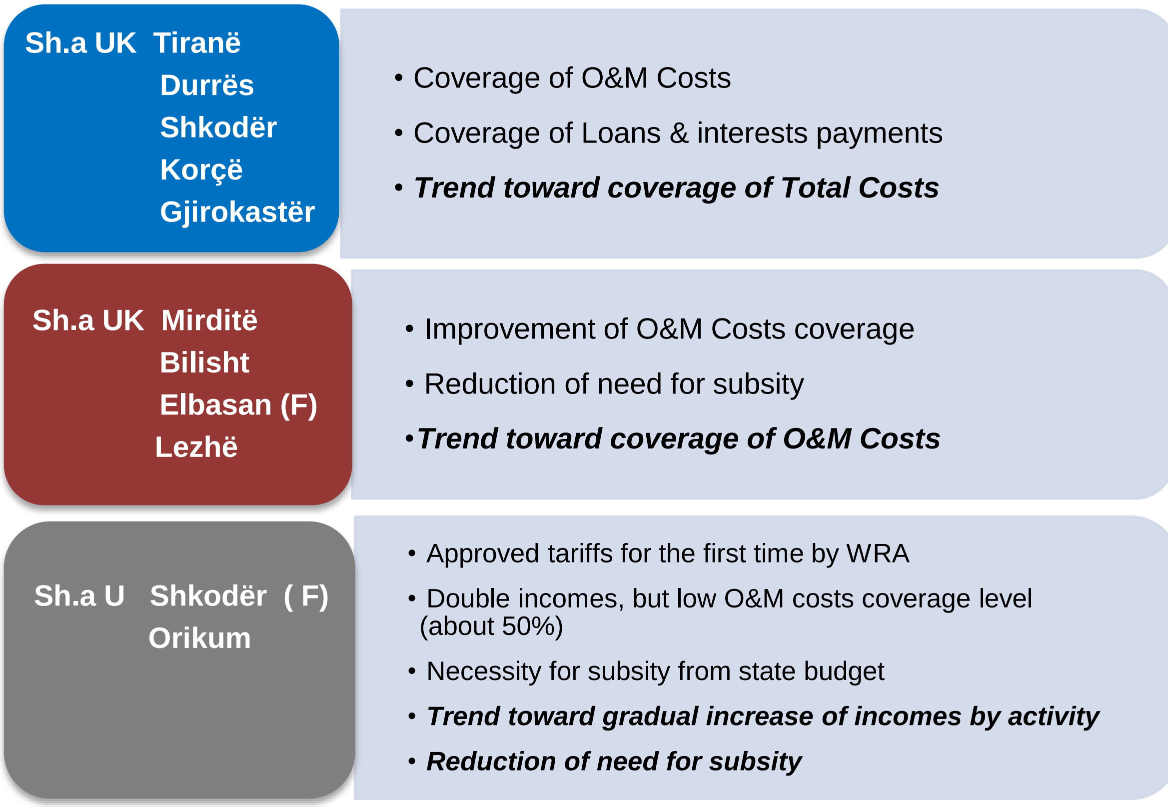
Based on the strategy of government for development of WSSS sector in Albania, by increasing the tariffs, first of all the objective is to cover the operating costs and making possible to achieve total coverage cost gradually. The increase of incomes is due to tariffs change and billing level.

Chart 6 The influence of billing level and tariffs in the total incomes



Considering the current situation of every operator and the specific conditions through the approval of tariff change has always been an intention to increase and improve the economic and financial performance and quality of services as well.

Chart 7 Achievements and ***expectations*** from the tariff change



National Regulatory Commission has been transparent about all his decisions in front of local governments, operators, donors and customers. NRC made transparent his opinion before every decision in writing and meetings with all concerned parts.

During 2011, operators which perform the service of water supply and wastewater disposal and treatment, submitted their tariff change application based on "Methodology of Tariff setting for water supply and disposal and treatment of wastewater" (approved by National Commission Decision Nr. 32. date: 21.12.2009).

WRA under the support of GIZ has already completed the new methodology guideline of tariff setting which has brought a number of innovations not only for tariff approval process but also the elements that will be used for its implementation.

The tariff regulation based on this methodology includes the cost control and quality of service provided incentives for operators to improve. The approval of tariff increase will be a subject only for those operators which achieve the technical and financial performance improvement.

Concerning the implementation of this process, WRA will use new elements such as the tariff structure, model of application, using the benchmark, public hearings, support for business plan development, etc.

The tariff approval based on this methodology will enable increased transparency in decision making, increased costs coverage, improvement of technical and economical performance, more independency and responsibility in managing the activity on medium-terms, tariff approval for more than one year for those operators which have developed business plans.

During 2011, WRA has received the request for tariff change application based on the new methodology from two operators: Sha UK Pogradec and Sha UK Fier to be pilot cases in the implementation of this methodology under the support of GIZ.

This year, for the first time has been drawn the evaluation report of operators based on performance indicators for 2010, set by WRA. The evaluation performance report of operators for 2011 will be completed in May of this year.

Setting standards

One of the key competencies of National Regulatory Commission is creating and ensuring the standards of labor to licensees and to encourage uniform standards and regulations for the entire sector.

During 2011 the National Regulatory commission has undertaken several initiatives as follows:

1) Approval of the model contract for water and sewerage services among consumers and licensed operators of this sector.

This contract regulates the legal relations between the parties for the water supply and wastewater sewerage services according to the applicable law.

The main issues of this contract are:

- Definitions and explanations regarding the service in WSS sector
- Rights and obligations of the consumers and the providers
- Fees, payments and water meters
- Water quality and environmental protection
- Administrative infractions, amendments, suspension and termination of the contract.

Development of this contract began in October 2010, as an initiative of WRA in cooperation with METE and with the support of UNDP. In the beginning of 2011 the draft contract was discussed and consulted with the main stakeholders of the sector, and in February 2011 this draft was approved by the National Regulatory Commission's decision.

This contract model has started to be applied by most operators to regulate the relations with new consumers and in the category of public and private consumers. Gradually this model will be applied even for the household consumer's category and is scheduled to be completed in 2013.

2) Tariff setting guideline

Given the current developments in water and sewerage sector in country, WRA undertook the initiative to revise the tariff setting guideline for water and sewerage service operators. WRA, after a long work, based on the best international experiences and with the support of GIZ, developed a new tariff setting guideline.

In drafting the new methodology was taken into consideration the legislation in force for water and sewerage sector, the existing methodology for setting tariffs, all documents and the main provisions regarding this matter and the opinion of all the stakeholders of the sector.

The new methodology presents a process in tariff setting that includes incentives for water and sewerage service operators to improve their performance, to offer better services to consumers and to achieve their financial sustainability.

This methodology is an essential document in the process of tariff setting. Among the innovations that this methodology brings are:

- The tariff structure will be made by operators so that they can accomplish the objectives of tariff policies which are :
    - cost coverage;
    - managerial efficiency;
    - affordability (taking in consideration the base needs of consumption for consumers with low incomes);
    - environmental efficiency (higher tariffs for higher consumption levels in order to encourage the preserving of resources);
- Separation of the tariff in two components – the fixed component which will cover fixed costs and volumetric component that will be linked to the amount of water consumed
- Increasing block tariff - where the first group will have a lower fee and in other fee groups the fee would be increasing according to the level of consumption, high levels of consumption will get a higher fee
- Monitoring by WRA of other service fees (connection fee, reconnection, meter installation fee, etc)
- Tariff for more than one year
- Accelerated procedure for operators of small service schemes and those that meet or exceed the performance objectives
- Organization of hearing sessions and their inclusion as part of the tariff approval process
- Approval of tariffs after receiving detailed information on the subventions obtained by the operator
- Cost analysis – making the correction of excessive costs and taking into consideration only necessary costs
- Performance analysis – based on 10 indicators the operators will be listed, doing so “the evaluation” of the best operators and “penalization” of the operators with poor performance

- The calculation of “the average tariff” taking into account the collection rate which is a significant indicator of the performance of the operator.

3) The Manual for Water Company Supervisory Council Members

The respective manual for Supervisory Council members is prepared by WRA and aims not only to improve their performance but also determines the legal basis of their activity, their role in monitoring the performance of WSS services and in the assignment of legal directors of the companies, etc.

4) Application of the regulation for water supply and sewerage in the operator’s service area (The Water Code)

The Water Code was approved by the Council of Ministers decision no. 1304, dated 11.12.2003, and has as main objectives:

- The establishment of rules and requirements to be met by the service operators in order to offer a quantitative and qualitative service in the sector
- The creation of a new legal relation between asset owners (local government) and the administrators of these assets.

WRA and GDWSS are the institutions responsible for monitoring the implementation of this regulation.

During 2011, WRA has approved the licensing and new tariffs only for those operators that have approved the Water Code. To date, 30 operators have signed and are implementing this regulation.

5) National survey on client services in water and sewerage companies

This survey is important not only in recognizing the current situation of the customer service but also for setting appropriate objectives in order to improve the quality of this service.

In UK companies should be considered the training and growth of professional capacities of their staff because a qualitative customer service is essential for their functionality

Sector Analysis

In order to fulfill its legal obligation, as defined in Law no. 8102, dated 28.03.1996, as amended, Article 14, paragraph "f", and Article 31, paragraph (1) a), "NRC prepares reports for the situation of the sector, through gathering information from operators," and within its institutional consolidation, WRA follows his efforts, presenting before the high level institutions of the country as the Assembly and the Council of Ministers reports, which reflect the analysis of annual activities of regulatory authority and situation of the whole WSS sector.

National Regulatory Commission by decision no. 38, dated 23.07.2010 "*On approval of key performance indicators (KPI) and their weights*", set key performance indicators of WSS operators, and their respective weights as follows:

Table 1 Key Performance Indicators (KPI)

No.	Key Performance Indicators	Weight
1	Total cost coverage	10
2	O & M cost coverage	10
3	Metered water	15
4	Collection rate	18
5	Hours of service(hours / day)	10
6	Service quality	15
7	Staff efficiency (Staff/1000 connection)	5
8	Environmental protection	5
8	Water losses	8
10	Regulatory perception	2
11	Sewerage coverage	2

KPI enable an evaluation of the progress of regulatory processes among which would be mention aspects of licensing and tariff setting. Condition and performance of these indicators will form a base on which would be evaluate the service that provides a licensee, as well as establishing a proper request for tariff change from his side.

WRA through Benchmarking, based on the respective targets for each KPI, analyzes the performance of operators against them, points to “the best practices”, which will serve as future references for each operator to improve his indicators

KPI and their analysis constitute the axis of handling the individual performance of WSS companies and the whole sector. Individual performance of operators based on these indicators presents a real evaluation of technical and economical progress, to understand their work and efforts to improve the quality of service.

Application and the finalization of the processes as above require accurate and qualitative data, which constitute the basis on which will be evaluated and analyzed performance. WRA and GDWSS based on institutional collaboration between them prepared the framework of data necessary required in the analysis of these processes.

WRA exercise its regulatory mandate to fulfill its institutional activities in collaboration with other actors who contribute in the sector.

Regulatory Authority as one of the main actors in WSS sector based on its legal responsibilities exercises its function in fulfilling his mission and vision for regulating WSS sector, protecting consumers’ interests across the country, and to walk continuously towards in compliance with EU standards and the millennium development goal of environmental sustainability.

NRC approved in September 2011 the new tariff setting guideline, which is obligatory to be implemented by all water and sewerage companies in Albania. In the new tariff setting guideline KPI play an important role during the tariffs approval process by encouraging the performance of WSS companies in order to achieve financial sustainability by providing better services to their clients.

Developing and implementing a business plan will require a better management of companies and in particular, defining their objectives clearly. During the tariff setting process will be taken into consideration KPI progress as the basis for an accurate evaluation of tariff plan prepared by companies.

Consumer protection is one of the main issues of WRA. Analysis, evaluating and tracking it cannot have efficiently without getting in consideration the evaluation of respective indicators like the quality of service provided by the licensee. Only on this basis would be possible preservation of balance between the operator's financial stability and consumer protection.

Improved performance by members of the Supervisory Council, through training undertaken by the WRA will serve for a qualitative change of the position of Supervisory Council, which results in a better performance of the company. Evaluation of performance job of managers of WSS companies through KPIs and an assessment by Local Government and Supervisory Board makes possible settings clear targets to improve the company service efficiency.

The finalization of studies as "Customer Service", or "Customer perception", scheduled for the coming year will clearly define appropriate targets which will provide a better service to operators ‘customers.

Performance indicators such as water quality, water supply, environmental protection play an important role in consumer protection issues and the environment in the long term.

1.3 The involvement of consumers and transparency in the regulatory process

Year 2011 can be called as the year of a new standard, the standard of consumer’s involvement in a transparent process of tariff setting and also in monitoring the operator’s activity.

The new methodology of tariffs setting brings for the first time the innovation of consumer’s inclusion in the process of tariffs setting, through a request to organize a public hearing, especially by large operators.

Also the new model of service contract, besides conditioning of consumer rights in the relationship operator-customers, recognizes the right of consumers to complain to all institutions established to protect their rights, creating so a full cycle of grievance, starting from the operator, WRA, Ombudsman, Commission of Consumer Protection and ending the process in court. During 2011 in WRA are presented and handled 31 complaints from consumers.

When consumer finds violation of his rights provided under this contract, has the right of complain to the relevant unit of public relations in WRA as the only regulatory institution in the sector.

After this step, the consumer may complain to Commission of Consumer Protection, Ombudsman or to other institutions, charged by law to protect consumers. Institutions or administrative bodies that have received a complaint from the consumer must cooperate with WRA for information and the possibility of resolving these complaints.

Besides the standard of consumer's inclusion, one of the main duties of WRA is the protection of consumers regarding the quality of service by operators and tariff setting. During 2011, WRA undertook a **national survey about customer services in operators.**

This is the first study carried out for customer service in the operators, with the support of Joint Program of the United Nations for Economic Governance, Regulatory Reform and pro-poor Development.

This study comes at a moment when efforts to improve the quality of water and sewerage services are increasing. Improvement of services quality is a necessary condition for consumers to accept higher tariffs of water, while it is true that in cases like those of Albania, this improvement need time and requires investments in infrastructure.

Different improvements of services quality can be achieved relatively quickly and with a modest cost, by paying more attention to the relationship between operators and their customers. Improving services for customers and better relationships with them can help customers to accept higher tariffs, which would lead to a better financial performance of companies and ultimately would bring the overall improvement of services quality. A good work in creating better customer - operator relations is made in Sh.a UK Tirana, Durres, Pogradec, Shkodra and Korca.

The study compares the customer service operators of 56 Albanians operators with international best practices of 7 European and American operators by identifying lacks in performance.

The main objectives of this study were:

- Incensement of awareness of Albanian operators of water supply and sewerage for the importance of customers orientation, by improving customer service, as a relatively inexpensive and quick way to improve the service quality and acceptance of higher tariffs by customers;

- To show to the operators the way for the future by providing recommendations for action to be taken to address performance gaps in the management of customer service.

The study concluded that it is time to prepare the Customer Service Standards, as well as a Customer Service Guide for all WSS operators in Albania.

Furthermore, to know better the perception of customers for this service, WRA with the support of the UNDP program has started a **Study on the perception of citizens about the quality of water service** in 10 districts.

The scope of this survey is to provide evidences on citizens' perceptions on quality of water services. These evidences may serve as a tool for creating regulatory policy and to monitor the impact of these reforms on the quality of this service.

Consumer protection in the process of tariffs setting, is ensured not only via changing the tariffs based on the improvement of performance indicators, but also through their involvement in this process, intensification contacts with customers, increasing the transparency in the process of setting tariffs, etc..

All decisions of National Regulatory Commission and its activity are continuously reflected in the institution's website www.erru.al and in local and national media.

In the process of setting tariffs, WRE before taking the relevant decisions, needs the opinion of local government. Local government units are responsible for exercising the functions of water supply and sewage system and functioning of wastewater systems. These institutions are responsible toward their citizens, since they are closer to them.

For these reasons, the opinion of local government units in the tariffs setting process is not only a legal condition but also a minimum standard of decision-making process of NRC, which guarantees the participation of local government units in this process.

1.4 WRA, Institutional Consolidation

During 2011, WRA has continued its institutional consolidation not only through training and qualification of its employees, strengthening cooperation with national and international institutions but also through commitments in conferences, seminars and workshops organized by WRA itself and others actors that operate in the water sector.

We can mention the organization of workshops like Introduction of the model contract, the new tariff setting guideline to all operators, the conference about the Customer service quality or active participation in water conferences organized in Tirana, Amsterdam and Stockholm.

Year 2011 was a year in charge of work to attend some fundamental issues of institutional activity such as:

- Definition and approval of indicators for evaluating the operators’ performance.
- Drafting and approval of New Tariff Setting Guideline.
- Elaboration of Annual Report and Performance Report structure of WRA.
- Preparation and approval of the Supervisory Council Members Manual, training and certification of the Supervisory Council members for 10 WS operators.
- Transparency incensement in decisions of WRA and in the communication between operators and consumers.

Various working groups are established and have handled these issues giving their contributions in cooperation with the consultancy of GIZ.

During this year WRA also worked for the improvement of its organizational structure. In April, the draft structure approved by National Commission was presented for approval in Albanian Assembly, and still is expected its approval. WRA, currently operates in two inadequate different offices that are far away from each other and do not guarantee the necessary and appropriate standards for all employees.

1.5 Cooperation with Institutions and other players in the Water Sector

Cooperation with institutions in Albania

WRA complying with the requirements of Law 8102, the Government's strategy to enable the effectiveness of WS services, aim of improving the performance of the sector and consumer protection and its goals for cooperation with all stakeholders, had a fruitful collaboration with the following institutions

- Assembly of Albania
- Council of Ministers
- Ministry of Public Works and Transport
- Ministry of Environment, Forests and Water Administration (MEFWA)
- The Competition Authority
- Institute of Public Health (IPH)
- Water Supply and Sewerage Association of Albania (SHUKALB)
- European University of Tirana (EUT)
- General Directorate of Metrology

Cooperation with Foreign Donors in Albania

WRA has had a very good cooperation with foreign donors as follows:

- **Cooperation with the German Government** through GIZ funded project which started since 2009. Under this agreement, GIZ has given its contribution in terms of:

  a) Institutional Strengthening of WRA;

  b) The New Tariff Setting Guideline;

  c) Definition of Performance Indicators;

  d) Annual Report and Performance Report,

As well as organizing a series of workshops, conferences, and has cooperated in many other directions where therefore is considering the idea for expansion of the project.

- **Collaboration with the UNDP program** on local governance has been very fruitful for:
  - Drafting and approval of model contracts between operators and consumers as well as training of operators in the implementation of this contract;
  - Study of customer service WSS operators;
  - Studies on the perception of consumer service in the WSS Sector.

- **Cooperation with USAID** through its program for local government in Albania which was created to provide training and technical assistance of some local government units selected for the growth of local economic development.

  Under this initiative is working in close cooperation between the WRA, GIZ, and USAID for the development and approval of the manual of supervisory council members and the organization of several workshops for training them to know their duties and their rights as a supervisory body of operators in WS Sector.

WRA Cooperation with International Institutions

- **WRA – ERSAR / Portugal**

Photo: Mr. Jaime Baptista, ERSAR President at ERRU Office

  Also this year WRA has continued to had an excellent collaboration with ERSAR. In the framework of a cooperation agreement between two institutions, a team of WRA has made a study visit to this institution regarding relationships with the consumer, the process of setting tariffs, etc. Also with WRA invitation President of ERSAR, Mr. Jaime Baptista introduced the Portuguese experience in the conference organized by WRA for customer service. During this time there was a joint meeting between President of ERSAR, Chairman of WRA, Adviser of GIZ and vice minister of MPWT to discuss regulatory issues in their respective countries and to expand contacts and cooperation between the two countries operating in water sector. Also the president of ERSAR had a very fruitful meeting with the Prime Minister's adviser on water issues.

- **WRA – WWRO / Kosovo**

  Even for 2011 WRA and WWRO held its annual workshop in Ohrid based on cooperation agreement between two institutions with the main aim of exchanging regulatory experience. The issues in which this workshop was focused were on legislation, licensing, fees, and analysis of performance indicators.

- **WRA – International Water Association (IWA)**

  WRA is a member with full rights of this institution and has participated in many activities organized by this institution as were international water week in Amsterdam or international conferences relating to water issues organized in Istanbul and Stockholm.

- **WRA – International Water Institute in Stockholm (SIWI)**

  Working visit of members of National Commission at SIWI in May 2011, gave the opportunity of presenting WRA to this institution well known in global policy making in the field of water. In this visit was made possible the introduction of the Model Contract between operator and customer service designed by the WRA. Also, issues such as tariff setting guideline, standards of service in the WS sector, licensing of operators, etc., were the focus of the meeting held with directors of this institution

Participation in Activities and Conferences

- **Activities organized by WRA**

  - Workshops with all operators that practice their activity in the WS sector to introduce service model contract;
  - Workshops with all operators for the introduction of new tariff setting guideline;
  - Workshops for training the members of supervisory council;

- **Participation of WRA in WS sector activities**

  - In the framework of activities organized by MPWT for government's strategy for water supply and sanitation sector, WRA has not only participated in working groups to formulate the strategy but has been an active part in panel discussions with its suggestions to the conclusion of this National Strategy.
  - WRA's contribution as a regulator and major actors in the WS sector has also been valuable in other activities organized by MPWT for the water supply and sewerage Master Plan for Albania.
  - In water conference held by SHUKALB in November of this year, WRA had a special session in connection with Customer Care and its role in improving the quality of service.

Photo: National Water Week Conference

- **Relations of WRA with Media**

Relations with the media continue to play an important role in many directions and in this context WRA in 2011were engaged through various forms and in a transparent manner to inform the public and institutions for all the decisions in connection with tariffs, the model contract, the new tariff setting guideline, customer care, etc. Chairman of the WRA and the National Regulatory Commission members have actively participated in various television programs to inform the public about the establishment of standards, service fees in the WS sector, etc. All these activities are reflected in the official website of the WRA www.erru.al.

1.6 WRA, incomes and expenses

Incomes

WRA is an independent institution that is not funded by state budget; WRA covers all costs for its activities, through regulatory fees and licensing fees from operators licensed to perform their activity in water supply and sewerage sector. In 2011, WRA has received also funding from foreign donors as the German project GIZ.

Like in previous years even in 2011, WRA has ensure all the incomes to guarantee financial support to cover annual expenses necessary for its activities in fulfillment of annual targets on function of its mission and vision.

For 2011, total incomes realized are 31.803 thousand lekë of which 31.077 thousand lekë are from regulatory fees, 170 thousand lekë from licensing fees and 556 thousand lekë from other incomes.

Chart 8 Annual income realized

Incomes from regulatory fees are 85.7% of annual regulatory fees as specified in contracts that WRA has with operators.

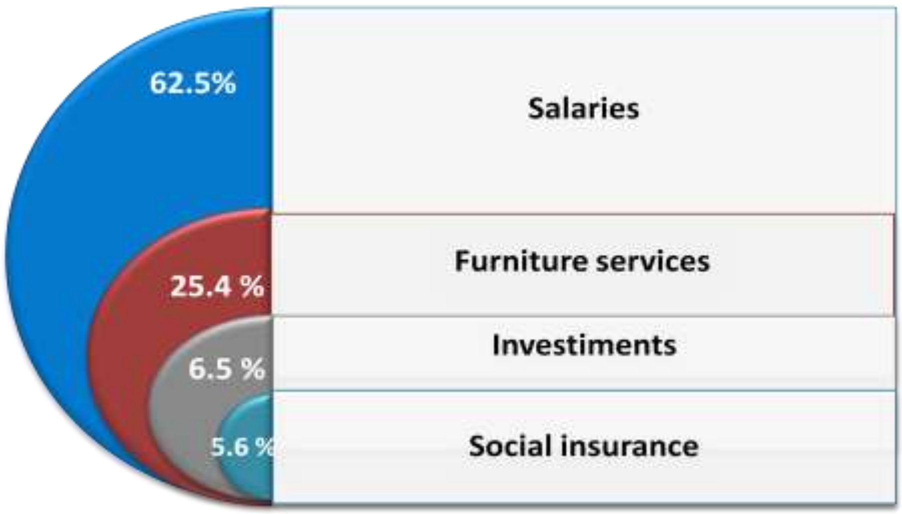
Even because WRA, with the incomes, could cover the annual expenses of the year, collections of regulatory fees for 2011, compared to 2010 have decrease with 24%.

During this year are collected also the regulatory fees of previous years specifically 42% of the total debt from previous years.

Operational expenses

According to the definition of law no. 8102, dated 28.03.1996, "On the regulatory framework of water supply and waste water disposal and treatment sector ", even if WRA is an independent institution, not budgetary, annual operational expenses plan is approved by Decision of the Council. For 2011 the plan is approved by DCM. No. 20, dated 12.01.2011 "On approval of fund expenses for the 2011, of regulatory water authority of water supply and waste water disposal treatment sector." Annual fund of operational expenses of the water regulatory for 2011 is 34,245,000 leke and detailed in the following voices:

Chart 9 The detailed structure of the expenses plan



⇒ 21,425,000 lekë

⇒ 8,700,000 lekë

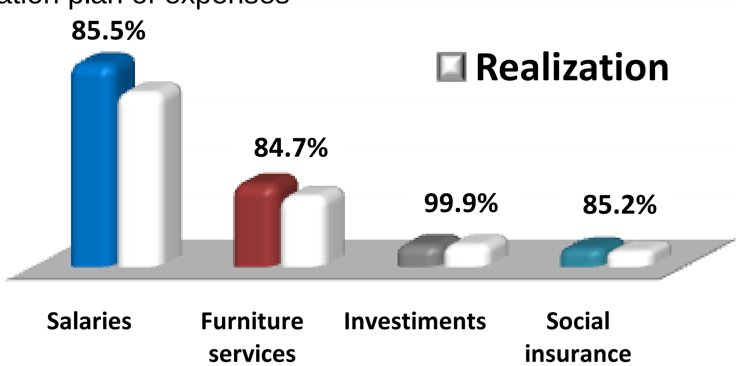
⇒ 2,220,000 lekë

⇒ 1,900,000 lekë

During this year's budgetary expenses for annual activities of water regulatory authority are 29,528,488 lekë, or 86.22% of planned fund. As the following:

- 18,320,087 lekë, salaries expenses.
- 1,619,365 lekë, social insurance expenses.
- 7,370,600 lekë, furniture service expenses.
- 2,218,440 lekë, investments expenses.

Chart 10 Realization plan of expenses



Use of planned funds is made in accordance with laws and acts in force for salaries and bonuses of employees, purchasing of goods and different services in according and in full application with the law "On the public procurements".

2. The situation of water supply and sewerage sector

Performance of service in the WSSS sector

The water supply and disposal and treatment of wastewater service sector more and more from an institutional perspective is formatted under the legal framework. By 56 operators operating in the sector, today are 48 licensed and 44 of them apply tariffs approved by WRA. The offered service by licensed operators is important because it guarantees customers the service is provided by qualified operators and that they pay fair tariffs.

The service of water supply and sewerage provided by 56 operators is not possible all over the country. Population actually supplied with water by these operators mainly live in urban areas. Specifically, operators cover with water supply service about 80% of the population leaving in their jurisdiction area and with wastewater system about 67% of it.

Not all operators which provide the water supply perform the disposal of wastewater as well; only 28 of them perform both kind of service. For the rest of the population the water supply service and collection and disposal wastewater is managed by the several departments of local government, municipalities and city halls which are not licensed by WRA according the applicable law.

In general, every operator in Albania can provide water supply out of two or more systems, which would be gravity system, pumping system or combined. The production out of gravity systems represent only 9% of the total produced water and the rest is produced by pumping systems and combined ones.

Currently, the quantity of produced water fulfills the water demand of all customers. Sewerage services for the majority of operators mean the collection and disposal of wastewater and it is provided mostly for the urban areas customers, meanwhile the treatment of it is performed only by two operators.

WRA analyzes the whole situation in WSSS sector through several key performance indicators as they are showed in the table below:

Table 2 The trend of performance indicators[1]

No.	Performance indicators	2010	2011
1	Coverage of Total Cost	51 %	52 %
2	Coverage of O&M Cost	71 %	71 %
3	Hours of service (hour/day)	11.1	11.43
4	Non revenue water	63 %	63 %
5	Metered water	45 %	59 %
6	Collection rate	84 %	76 %
7	Staff efficiency (Staff/1000 connections)	13.8	14.8
8	Coverage with SS	50 %	50 %

[1] *The calculation of the above indicators for 2011 is made by using the data from Monitoring Unit of GDWS for the first 9 months of 2011. The annual report of 2010 represents performance indicators for the first 6 months of 2010.*

The quality of service in the sector

WRA has assessed the performance of operators about the quality of water supply service based on analyzing and monitoring hours of service, planned and no planned interruptions of the water, breakings of the network, and also the quality of drinking water.

The quality of water supply service is not on a good standard and it is showed by a water supply service which is not constant and with the necessary pressure. Based on the data from Monitoring & Benchmarking Unit of GDWA, the hours of service are something about 4 – 24 hours per day during 2011 too. The consumers have had water supply on the average of 11.1 hours per day on 2010; meanwhile, the average of the supply is 11.4 on 2011.

Operators can offer a continuous supply and with the necessary pressure are very few. Most of the operators offer their service due to a certain plan. 61% of the operators supply water service between 8 to 20 hours per day, and 39% of them supply 4-8 hours per day.

Also, the quality of service becomes worse because of a high number of no planned interruptions and breaking of the network. About the drinking water quality, the operators and responsible institutions take care for its control. The Institute of Public Health controls and monitors on daily bases the data of water for public use, mainly on urban areas, and the operators as well do the drinking water treatment. The disinfection of the water is done in every kind of supply system.

It does make sense to speak about the quality of the sewerages as long as they are not treated before the discharge. Actually, there are only two working Treatment Plants, one in Pogradec and the other in Kavaja. The discharge of sewerages without treatment causes a lot of environmental problems on the area. But the situation will be a better one during 2011 because the construction of Treatment Plant in Korça and Durres has finished and very soon they will start working, and three other Treatment plants are still under construction.

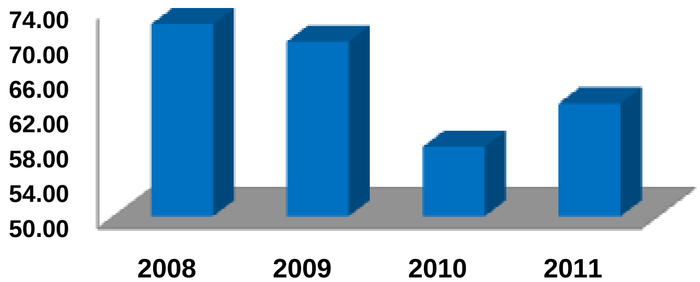
Non revenue water

Non revenue water is equal with the difference between water produced quantity and water billed. It represent the water quantity which does not bring incomes in economical terms (loses), and it has to do with financial sustainability of the company. The average level of loses during 2011 is the same as in 2010. The average level of loses is 63% of the produced water in the sector. Even that not a few operators have achieved good results on reducing losses, there are a lot of the other operators who has improved their work to reduce losses, but most of the water produced is still lost.

Except the known technical loses which are as a result of the system functioning way, the other loses come from the amortization of network, unidentified illegal connections, the connections before the meter or for lake of the meter too. The high level of loses is still one of the biggest problems on performance of water supply operators. This indicator has a great impact on financial sustainability of the operators, not only because the high level of loses make them to produce more water and the production and distribution costs are higher than the need is, but also because non billed water do not bring incomes.

WRA constantly has emphasized that the decrease of loses should be the priority of the work of operators. First of all, operators should prepare real studies about the estimation of water demand, ranking and estimating loses based on the reason, which would them in making a strategy for the decrease of loses.

Chart 11 Non revenue water in %



Metered consumption

Every consumer should pay for what they consume, but this is not possible yet, because not all of customers pay for the real consumption, there is still high level of non metered billing

The average level of metered consumption is increased 14% during 2011 comparing with the previous year. In such way, a significant part is the implementation of legal acts in force, about installing water meters for non-domestic customer and this process has been monitored by WRA during 2011. On the other hand, the implementation of model contract that regulates the relationship between customer and operator has increased the awareness of consumers for the installation of water meters.

Another element that has impacted positively is the increased tariffs. Actually, consumers pay higher tariffs compared to the previous years. The reality has shown that we have low consumption if it is measured. Consumers are encouraged to control their consumption of drinking water and not to waste it. The demand for paying based on the consumed quantity has increased the consumer’s demand for installation of water meters.

On the other hand, the reduction of water consumption helps on reduction of the water demand and in a better planning of all system elements.

Table 3 The trend of metered billing

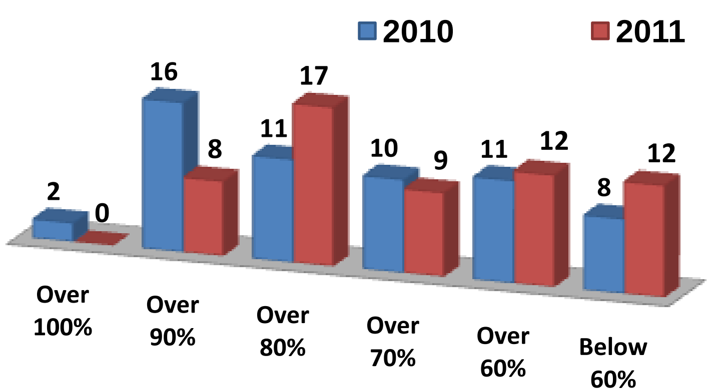
Year	Total of billing m^3	Metered billing m^3	Metered billing %	Trend
2008	86,089	34,265	40	↗
2009	90,640	37,607	41	↗
2010	122,501	54,967	45	↗
2011	108,400	64,273	59	↗

Collection rate

The main source of incomes for the operators of water supply and sewerages services remains the incomes produces by services that they offer to customers in their service area. The collection of revenues as a source of liquidity should be the focus of operators work. According to GDWS data during 2011, the average collection rate for the sector is a lower one compared to 2010.

WRA has noticed that during this year the operators, in general, have not shown the same attention in terms of revenue collection as it happened last year, so the level of this indicator, almost for all operators, is reduced.

Chart 12 The number of operators in accordance with collection rate



The coverage of Operational Cost and Total Cost

The main goal of every operator is the coverage of total cost with incomes produced by main activity and with incomes produces by other services. Only four of them have achieved such goal. In general, the operators which offer the water supply and disposal of wastewater service aim the coverage of operational cost with incomes by activity. But there are still some operators, mainly small operators, which not cover can even half of the costs they do with their incomes.

Chart 13 The coverage of O&M Cost with Incomes / Collections

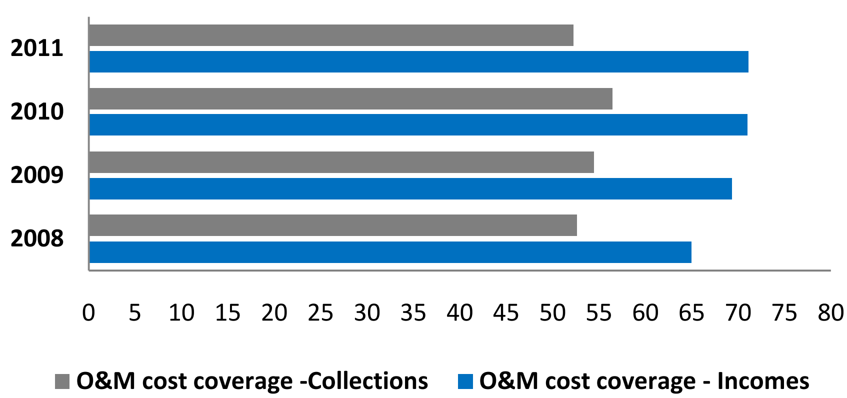
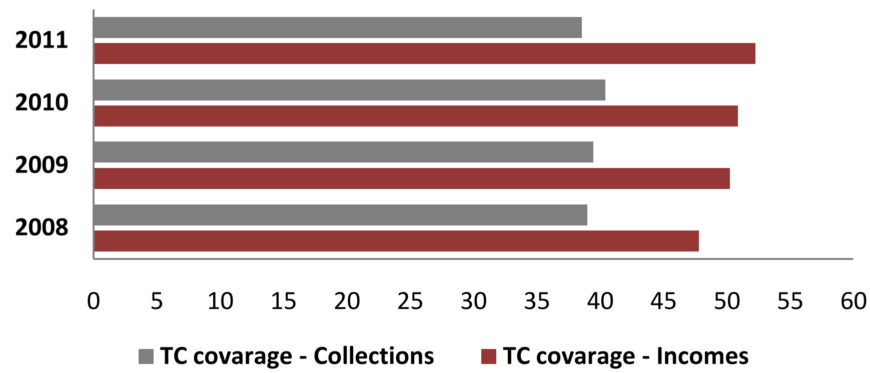


Chart 14 Total cost coverage with Incomes / Collections

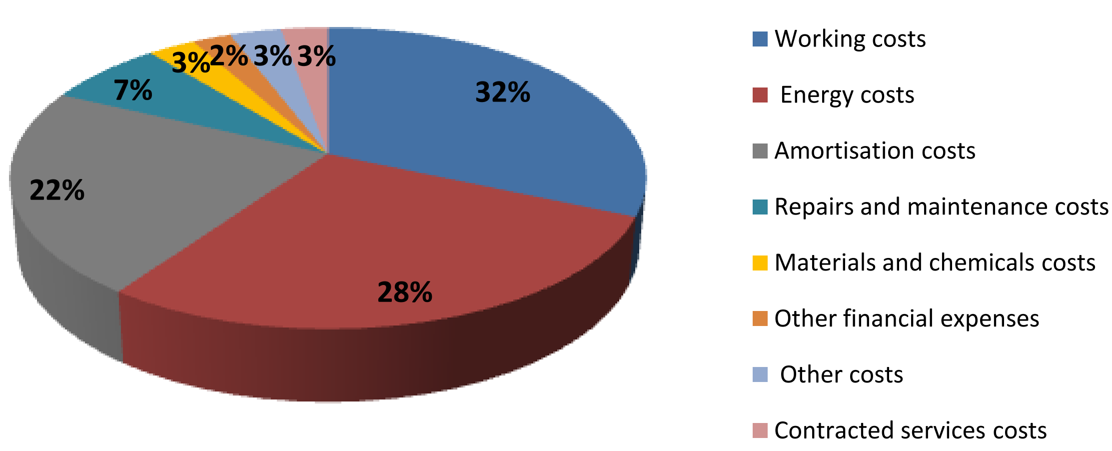


According to the above table, the average level of operational cost coverage with incomes is 71.1% in sector during 2011 and total cost coverage with incomes is 52.3% comparing to the previous year the trend of operational cost coverage and total cost coverage is a positive one.

The situation is not satisfactory if we refer to indicator of total operating costs coverage with collections. The average level of operational cost and total cost coverage with collections is not only low during 2011, but also the trend of this indicator is a negative one. Although that during 2011 nearly 50% of operators have grown significantly their revenues as a result of the tariff increase, the level of cost coverage has not been improved since the costs are increased by the same rate.

The improvement should not come only as a result of tariffs change but also because of implementation of management practices in services that will bring improved performance. Keeping under control the level and structure of costs, will improve this indicator. The cost of water supply service offered by operators is 75-80% of the total cost for all WSSS services.

Chart 15 The structure of expenses



Three kind of cost have the bigger specific weight in the total costs, personnel costs, electricity and depreciation.

Personnel costs are still high. Generally, WSSS operators have a high number of employees per 1000 connections and it means an inefficient management of human resources. The average level of this indicator in the sector is 14.8 staff / 1000connection. For a small number of operators this indicator is approximately as the region level, where the average number of staff per 1000 connections is about 4-5.

The operators which manage pumping systems for water supply and wastewater disposal, electricity cost is a considerable part of total costs.

The main factors which affect the level of these costs for water supply are non revenue water (losses) and amortization of pumping system. The high level of losses makes operators produce more water than the demand is which increases energy consumption. None of the operators has presented a study about improving energy efficiency until now. Electricity cost is increased for wastewater disposal and treatment service as well, especially for those operators who manage a treatment plant.

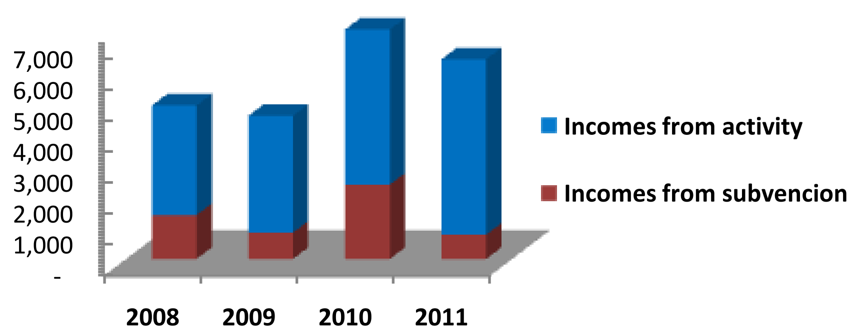
An important element of total costs is the depreciation of fixed assets and it is getting higher, especially for those operators which are making investments for rehabilitation, expansion of water and sewerage system and those operators which already manage a wastewater treatment plant.

Although the materials and maintenance cost is not an important item cost structure during 2011 was noticed that its trend is increasing as a result of reconstruction of water supply and sewerage systems and construction of wastewater treatment plants.

Even for 2011, the main source of revenues for operators has been the incomes produced by their main activity and other services they perform for customers. During this year the sector has generated about 14% more revenues compared to a year ago. About 80% of this growth has come from increased tariffs and 20% as a result of increased level of billing.

Another source of revenue for operators is the subsidy allocated by state budget, which especially for small operators is an important part of total incomes. The subsidy has been mainly used for payment of electricity, social security, purchase of chemicals or slight repairs.

Chart 16 The structure of incomes



Source: GDWSS, MPWT

There are completed and are still in process a lot of investments in water supply and sewerage sector for the rehabilitation or building new water supply and sewerage systems. The investments for building wastewater treatment plants are an important issue. The main sources of investments are the funds allocated from state budget, loans and grants from foreign donors as well. But in 2011 some operators have used their financial sources to make the investments mainly for reconstruction or extension of their service area.

3. Outlook for 2012

2012 will be another year of progress for ERRU towards a further increased performance in exercising its function and implementing the regulatory mandate and mission. ERRU will continue to undertake initiatives, which will focus in achieving this objective. The following activities are foreseen for the coming year:

- Continue the process of licensing all service providers operating in the WSS sector;
- Implement the new Tariff-Setting Guideline in an objective and transparent manner;
- Continue to be a champion of consumer protection and development of the following activities:
  - Prepare a Customer Services Guideline that will be mandatory for all WSS companies,
  - Revision of ERRU’s customer complaint management,
  - Further awareness raising activities to increase the customer focus of the WSS companies;
- Continue implementation of the Action Plan for the nationwide introduction of the customer contract;
- Prepare a Regulatory Business Planning Guideline, which specifies the elements required by ERRU for the analysis of multi-year tariff adjustment applications;
- Develop in partnership minimal service standards for the WSS sector;
- Develop in partnership standards for energy efficiency in the WSS sector;
- Support the process of implementation of the WSS Sector Strategy overall and especially in the areas where ERRU has been identified as leading institution;
- Finalize the survey “Perception of Consumers on Service Quality” with the chosen pilot companies and develop in partnership this activity with all other WSS companies;
- Improve the relevant Manual and continue in partnership the training measure for Supervisory Councils for all WSS companies;
- Develop relevant regulations to perform regulatory processes especially in rural areas that are not yet under regulatory oversight;
- Continue to consolidate the cooperation with all national and international stakeholders in WSS sector;
- Review of the current legislation in order to further improve ERRU’s role and function and reach a harmonization of the legislation with EU directives.

4. Recommendations for WSS Sector

- Reviews of the issue of service provision from WSS companies, who cannot meet the criteria for getting a service, license from ERRU, so that, where feasible, their services are integrated with the licensed company responsible for service provision in the relevant jurisdictional zone.

- Improvement of the sector performance for the main Key Performance Indicators[2].ERRU, in compliance with the governing legislation, will exercise its role as a monitor of these indicators.

- Local governments should increasingly exercise their responsibility as owner of the WSS companies, thus supporting the improvement of service quality of their service providers. This might require further supporting capacity building and awareness raising measures.

- Supervisory Councils should increasing fulfill their role and responsibility as governing bodies of the WSS companies, as foreseen in the relevant legislation.

- WSS companies should make the reduction of costs by improving energy efficiency one of the priorities of their work.

- WSS companies must work to improve their focus on and relations with their customers.

- WSS companies must continue the implementation process of the customer contract, a process which should be transparent and will be monitored by ERRU.

- WSS companies must conclude the installment of water meters for non-household customers, as well as continue with the rapid installment of meters for household customers. Verification and testing of meters has to be done by the Metrology Directory, as a third party between the company and the consumer.

- The finalization of the Master plan for investments in the Albanian WSS sector should be completed as soon as possible. The allocation of investments should also be closely linked to the improvement of performance indicators;

- The review of the subsidy scheme, which was initiated by the Ministry of Public Works and Transport, should be continued and finalized in close coordination with ERRU, the Ministry of Finance and the local governments and inclusion in their distribution plan.

- The national system for the monitoring of water quality should be further improved to include more intensive local inspection activities, verification of reported data, and the equipping of functional laboratories in the large WSS companies.

- Finally, the successful reform and development of the Albanian WSS sector will depend on the continued open cooperation between all institutions involved.

[2] These are cost coverage (O&M, total costs), service coverage (water and sewerage), losses, billing efficiency, collection efficiency, metering ratio, and service hours.

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