WATER REGULATORY AUTHORITY

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

ANNUAL REPORT 2013

ACTIVITY OF WATER REGULATORY AUTHORITY

AND

SITUATION IN THE WATER SUPPLY AND SEWERAGE SECTOR

January, 2014

Content

ABBREVIATIONS

WRA	-	Water Supply and Waste Water Disposal and Treatment Sector Regulatory Authority
NRC	-	National Regulatory Commission
GIZ	-	German Agency for International Cooperation
GBD	-	German Bank of Development
GDWSS	-	General Directorate of Water Supply and Sewerage
MTI	-	Ministry of Transport and Infrastructure
ME	-	Ministry of Environment
MH	-	Ministry of Health
PHI	-	Institute of Public Health
USAID	-	US Agency for International Development
WSSAA	-	Water Supply and Sewerage Association of Albania
WSS	-	Water Supply and Sewerage
KPI	-	Key Performance Indicators
O&M	-	Operation-Maintenance

Introduction

Dear Reader,

The Annual Report 2013 delivered presents the main developments in the Albanian water supply and sewerage sector, as well as the Water Regulatory Authority efforts and achievements when fulfilling its objectives.

The report main goal is to analyze the water supply and sewerage sector as a whole, but also to represent all the activity of our independent regulatory institution to meet the obligations assigned to it by the law.

In 2013 the Water Regulatory Authority marked its 15 anniversary of establishment within the water and sewerage sector. In a decade and a half period, WRA had to establish its independent status, to increase its professional and technical capacities as well as to achieve such an important challenge on offering human vital services as the one of drinking water and waste water treatment service within the entire territory.

Water Regulatory Authority in Albania (WRA) when accomplishing its mission of "ensuring all Albanians that water and sewerage service providers deliver the highest achievable quality at a fair price and in a financially sustainable manner", at the same time guarantees that the "WSS sector is financially stable offering to customers high quality services which are also financially affordable".

The focus of our work has always been the establishment of a transparent, legal and regulatory environment and in this context, on yearly basis, WRA has fully supported the policymakers in their periodic reforms within the water supply and sewerage sector, thus becoming a sustainable regulatory authority for the market, the companies, their owners and over and above the consumers of all categories (households, businesses or public institutions).

Water Regulatory Authority is run by a collegial body composed of 5 members, who exercise their full time functions as members of the National Regulatory Commission. With responsibility and devotion to such a legal function, the commission has professionally hold 30 commission meetings, from which are taken 50 decisions for granting licenses and approving tariffs to the WSS companies, as well as has approved several important regulatory instruments.

In the last years, WRA with its mission, has performed a series of activities and has developed several instruments to establish a legal framework in which WSS companies can perform their services and at the same time have incentives for their performance improvement in a due time.

Licensing of active companies in the water supply and sewerage sector is one of the main WRA functions. During all these years, WRA has tried to formalize the activity of drinking water supply and treatment of wastewater by the companies (mainly those companies owned by local government units) and include them in the formal market. As a result, by the end of 2013, 54 companies have a license approved by WRA. It should be stressed out that during this year, WRA licensed for the first time four companies that offer both water supply and sewerage services and two companies for waste water treatment, increasing so the number of companies working conform the law. Currently, the number of companies that provides water supply and sewerage licensed services reached 54.

Objectives of 2013 has been, not only licensing, but also strengthening of licensing criteria as well as the monitoring of such criteria by the Regulatory Authority. Consequently WRA has reviewed the licensing criteria and is closely working with the assistance of GIZ to increase the institution monitoring role in this direction.

It is the second year now that WRA evaluates the sector progress and announces the performance of all licensed companies (stressing out the most positive and negative ones among them). The performance report is a public and transparent document, aiming to help not only the companies and policymakers, but also directly the consumers, who through it can understand what is the tariff paid by them for the services they get and what is the quality of water provided.

Up to the end of 2013 there are 44 WSS companies using tariffs approved by Water Regulatory Authority (WRA), from which 9 were approved in 2013. The tariffs are approved based on a methodology widely used in the world, adapted to the conditions and the policies of the Albanian market. During this year, apart from formalization, there is also an improvement of the situation of WSS companies and of water supply and sewerage services in the sector. However, the coverage area for these services has not been increased (neither for the drinking water nor for the sewerage, being in the same situation as that of a year ago).

Thus as an average within the sector compared to 2012, the WSS companies have increased the coverage of their operational costs (approx. 7%) and their total costs (approx. 1.5%)[1], by marking an economic improvement of companies, but not necessarily an improvement of their income administration from the services they offer (collection has dropped considerably with approximately 18% as compared to 2012). Mainly, the increase of cost coverage comes from the increase of water level tariffs, creating so a heavier burden on the regular customers of these companies.

[1] Respectively from 106.3% of total costs in 2012 to 112.4% at the end of 2013 and from 82.7% in 2012 to 84% at the end of 2013. These are preliminary data because in September 2013 WRA assessed and published the sector situation for 2012.

Other performance indicators like: (i) consumption metering ratio, (ii) staff efficiency, non-revenue water; (iii) drinking water quality, have shown improvement or a very small deterioration. However, this does not show a deterioration of the sector performance, but maybe reflects the Regulatory Authority efforts to improve the quality of data collected when evaluating the sector, by paying more attention to the data verification during its analyses.

The need of setting up a reliable and accurate database for the service levels and system management is a key element towards a successful regulation of every sector. That's why WRA finds it crucial and is making all the needed efforts to improve this important process, which by the end will show a real view of the sector.

This Annual Report will serve not only to show an one-year activity overview of WRA but also can be used as a reflection of the current sector situation. However, recommendations for further development of this sector shall be useful to the main actors of the sector.

I would like to assure all the actors of the sector, the WSS companies and all the Albanian customers that WRA, with the same devotion even in the future, will make all the attempts to increase and strengthen the independence, the transparency, the professionalism, and the intra-institutional collaboration in and out of the country, in order to create, using its authority, the needed balance between service providers, policymakers and consumers.

Avni Dervishi

Chair of the Water Regulatory Authority

1. Annual Activity of Water Regulatory Authority

1.1 General

The Regulatory Authority of Water Supply and Wastewater Disposal and Treatment (WRA) is an independent public institution, responsible for regulating the sector of water supply and wastewater disposal and treatment in a national level.

WRA has been established and functions based on the law no.8102, dated 28.03.1996, on the "Regulatory framework of the sector of water supply and wastewater disposal and treatment", as amended.

The main purpose of this law is to establish a regulatory framework and an independent Authority in order to guarantee and protect the public interest and to create a transparent legal and regulatory environment in the sector.

WRA vision is: "*A financially self-sustainable water supply and sewerage sector that provides high quality yet affordable services to all consumers in Albania*".

WRA mission is: "*to ensure for all consumers in Albania, that water supply and sewerage service providers deliver the highest achievable quality at a fair price and in a financially sustainable manner*".

General tasks of WRA are:

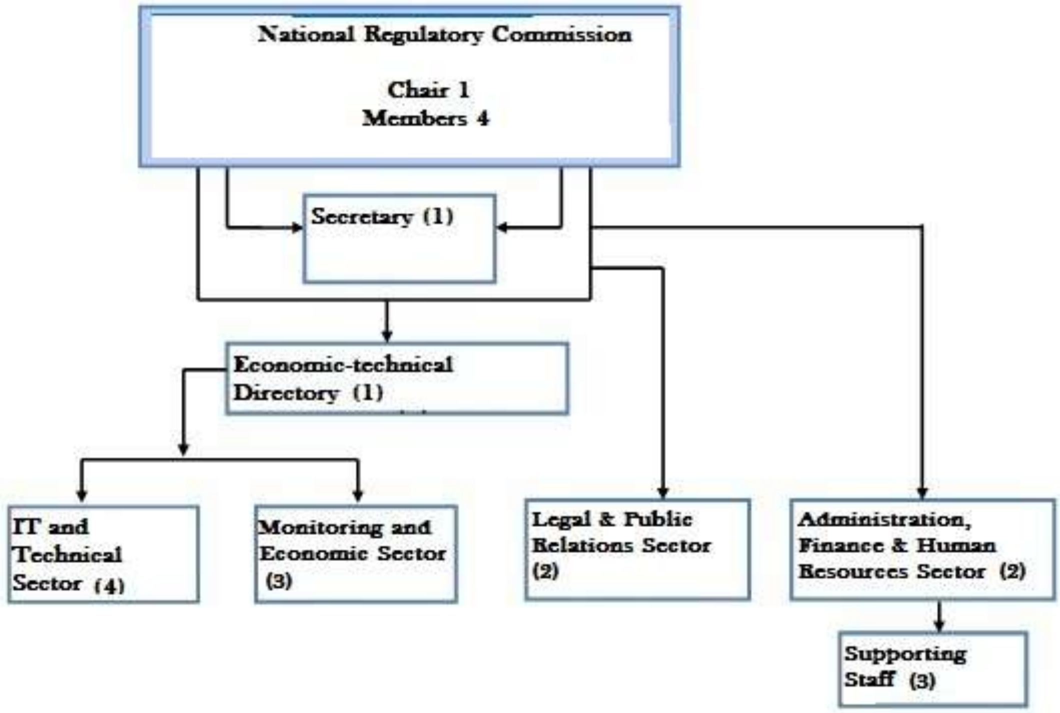
- Encouraging efficiency and efficient use of water, urging and supporting protection of environment and quality of water;
- Enabling the licensees to finance the activities authorized by the granted license;
- Protecting the consumer interests regarding:
  - Prices, tariffs and service conditions;
  - Quality, efficiency and continuity of this vital service for all consumers;
  - Guarantee the rights of complaint and standards of service.
- Encourage competition;
- Exercise its institutional activity transparently and find a fair balance between all players in this sector, respecting the interests of consumers, Council of Ministers, the public and the investors.

Water Regulatory Authority is headed by the National Regulatory Commission (NRC) which exercises the following general competences:

- Issues licenses for commercial entities engaged in water supply and wastewater disposal and treatment services;

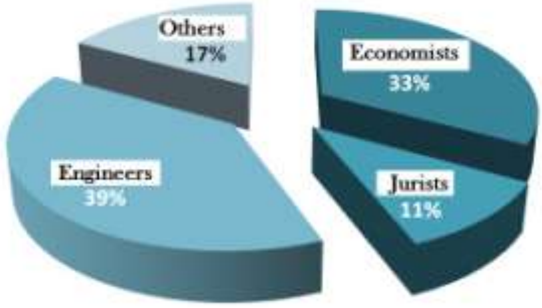
- Approves water sale prices and tariffs for both wholesale and retail, tariffs for used water and tariffs for its treatment, schedules and conditions for the service provided by companies, who supply water for public consumption, even in those cases when the water supply and sewerage systems are in the administration or ownership of local government units;
- Sets standards for investment programs and the sale of assets from the licensees in the water supply and sewerage sector, even in those cases when the water supply and sewerage systems are in the administration or ownership of local government units;
- Establishes and guarantees the implementation of labor standards for all licensees;
- Encourages uniform rules and standards for the entire sector;
- Prepares reports on the sector situation for the Council of Ministers and the Assembly and collects the relevant information from the licensees;
- Sets applicable tariffs for licenses;
- Issues monetary and administrative sanctions;
- Issues regulations to help the exercise of competences and functions provided by law.

The structure and the organizational chart of WRA has been approved by the Assembly of the Republic of Albania by decision no. 94, dated 30.04.2007, as amended. A scheme of this structure of WRA has been given below:



Part of WRA are 5 Commissioners, 13 administrative employees and 3 supporting employees. Composition of WRA team according to professions is as follows:

***Chart 1:** Composition of WRA team according to professions*



1.2 Monitoring and regulatory activity

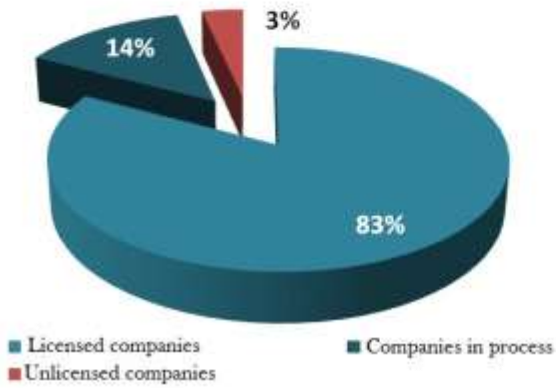
- ***Licensing***

There are **58** companies in the water supply and sewerage sector which provide the water supply, wastewater disposal and treatment service or at least one of them. By the end of 2013, WSS companies' list had changes because two companies "WS Shkodër fshat" sh.a and "WSS Malësi e Madhe" sh.a were merged into one single company based on the decision of Council of Ministers no.1094, dated 26.12.2013.

Based on law no.8102 dated 23.03.1996, as amended and the Licensing Regulations, approved by decision of NRC no.29 dated 08.12.2009, as amended, any physical person exercising its activity in the water supply and sewerage sector should be licensed. After getting the license, the person is entitled to provide the abovementioned services. In December of this year, the National Regulatory Commission, approved a new license form as well as the license conditions as its integral part. Any provider of the licensed service should apply now for the license conditions.

During this year, 31 WSS companies have applied for a license or renewal of a license, from which, after completing all documentation in compliance with DMC no.958 dated 06.05.2009 and the Licensing Regulations, a license was granted to 26 of them while 5 others are still in process. For the first time this year have applied and get licensed the companies "Ndërmarrja Ujësjellës Divjakë", "Komuna Bradashesh", "WSS Libohovë" sh.a and "WSS Fushë-Krujë" sh.a.
Below is a chart of the licensing situation until the end of 2013.

Chart 2: Licensing Situation



There are cases when local government units perform themselves the sewerage service and have not transferred this function to the water supply companies of the respective units. In addition, there are cases when several local government units do not provide themselves the WSS services but have transferred the service to WSS companies, which carry out their activity without applying to get the license approval from WRA.

The companies "WS Delvinë" sh.a, "WS Vlorë" sh.a, and "WS Tepelenë" sh.a have added also the category of disposal of wastewater in their services provided this for many years from the local government units. Also, during 2013 "WSS Durrës" sh.a and "WSS Korçë" sh.a have placed into operation the wastewater treatment plants by being licensed from WRA for this service.

On the process of applications for new licenses or renewal of licenses, during 2013, there were companies operating in the WSS sector which encountered already known problems by WRA as changes in the companies management within a very short period of time (several times in a year), difficulties in finding a qualified technical manager or a second director for companies that have wastewater treatment plants, companies that have problems in getting the sanitary permits from the respective Inspectorates, difficulties in payment of licenses to WRA and difficulties in the registration and reflection of changes in NRC.

- ***Tariffs***

According to the law no.8102 dated 28.06.1998 “On the regulatory framework of the water supply and wastewater disposal and treatment sector”, as amended, WRA is the authority in title of approving the tariffs of WSS services and decides the methodology for calculation of the tariffs. In application of this law, the National Regulatory Commission, in its decision no.28, dated 28.09.2011, has approved the “Tariff Setting Methodology”, which defines the procedures for the application, analysis and approval of tariffs for water supply and disposal and treatment of waste water services.

The methodology establishes a direct link between the tariffs adjustment and performance of operators so that efficiency of offered services is improved.

In applying the methodology, the process of tariffs approval includes the costs and performance analysis, setting achievable and challenging objectives to improve the service quality.

The main WRA objective in the process of tariffs approval is finding the balance between protection of consumers’ interest and increase of financial sustainability of service providers, just as it is foreseen in its mission and vision.

The National Regulatory Commission, in its decision-making, has been trying to improve step by step the costs coverage through periodical tariffs adjustment, thus, increasing the

financial sustainability of companies, in order to reduce subsidies and create opportunities for the repayment of loans.
The trend of tariffs adjustment has always been increasing, depending on the performance of operators. During the last three years, the average tariffs in the whole country for household customers have been increased with 14 % for the water supply and 25% for the sewerage service. The current tariffs applied during 2013 from the operators of this service are given in annex 2 of the report.

Through the tariffs adjustment is intended to increase the level of cost coverage by incomes from the activity.

There have been and continue to perform capital investments for rehabilitation and extension of service areas, in the sector of water supply and sewerage, most part of which are financed by foreign donors through grants and credits. Repayment of loans requires the provision of financial funds needed.

Construction and functioning of wastewater treatment plants and rehabilitation of wastewater disposal collectors have brought about not only the improvement of this service but also a considerable increase of operation and maintenance costs for wastewater, which is obviously reflected in this service tariffs.

In 2013, the following requests were submitted to WRA for tariffs adjustment by:

"WSS Korçë" sha for approval of water supply and wastewater disposal and treatment services tariffs.

"WSS Gjirokastër" sha, "WSS Ersekë" sha, "WSS Lezhë" sha, "WSS Sarandë" sha, "WSS Lushnjë" sha, "WSS Fier" sha, "WSS Berat-Kuçovë" sha, "WSS company Municipality of Pukë" for adjustment of water supply and wastewater disposal services tariffs.

"WSS Tepelenë" sha and "WSS Vlorë" sha applied for tariffs approval of wastewater disposal service. These operators are already licensed by WRA for this service, which previously were performed by the respective municipalities.

NRC completed the process of tariffs approval for the submitted applications, with the exception of "WSS Fier" sha, "WSS Lushnjë" sha and "WSS Berat-Kuçovë" sha, for which the process of tariffs approval has been postponed until they will complete the requirements according to the Methodology of Tariffs.

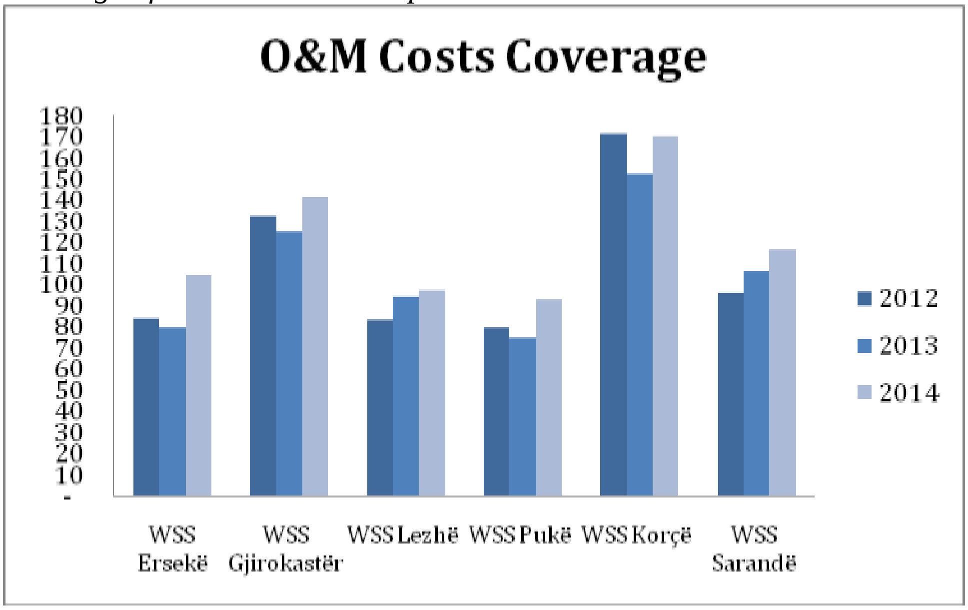
Assessment of tariffs adjustment proposal for each application has been made based on the analysis of the financial and economic situation and key performance indicators, their tendency, targets of the operator with required tariffs and specific conditions of operation.

Through the approved structure of tariffs for each company, WRA has aimed at achievement of objectives for the tariff policy:

Coverage of maintenance and operational costs to enable gradual coverage of total costs.

The following chart gives the expected result in O&M cost coverage with incomes from the activity of 2014 compared it with two previous years, for those companies whose have been approved the tariffs adjustment:

Chart 3: *Coverage of maintenance and operational costs*

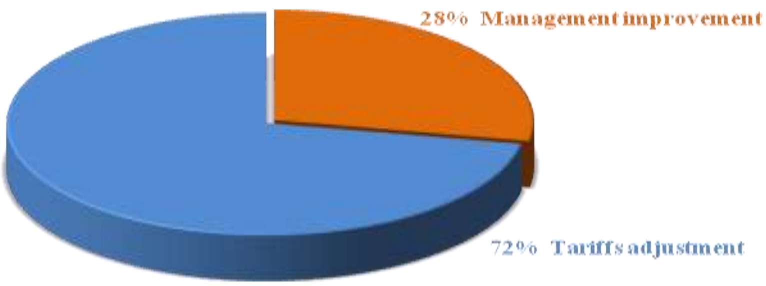


For 2014, coverage of O&M costs with income from WSS services (for the above companies) is expected to increase with 13% compared to a year ago.

This improvement is as a result of income increase as well as of the care the companies are showing to keep under control the level of expenses. For 2014, the O&M costs for these companies are foreseen to increase 5% in average compared to 2013.

On the other hand, the income will increase with approximately 15%. The income increase comes as a result of tariffs adjustment and management improvement. As it can be seen from the chart, the largest increase comes as a result of tariffs adjustment.

Chart 4: *Influence of management improvement and tariffs in the total income*



Although the income is foreseen to increase, not all companies will be able to cover the total costs. This cost is foreseen to increase considerably in 2014. This increase is because depreciation also loans cost will be added to the O&M costs.

Analyzing the total cost structure based on these three components, it results that allocation of expenses for 6 companies is as follows:

Table 1: *Total Cost Structure*

Operator	O&M Cost	Depreciation	Loan Cost
WSS Ersekë sha	86%	14%	0%
WSS Gjirokastër sha	95%	5%	0%
WSS Lezhë sha	71%	27%	2%
WSS Pukë sha	87%	13%	0%
WSS Korçë sha	49%	19%	31%
WSS Sarandë sha	66%	34%	0%
Average:	**62%**	**22%**	**16%**

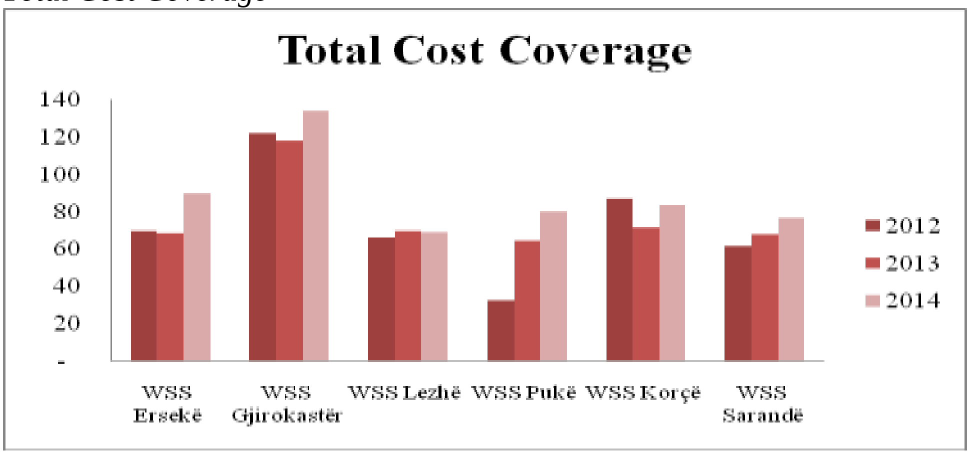
Operators who have received loans for investments such as "WSS Korçë" sha and "WSS Lezhë" sha are obliged to pay not only the loan interest but also its installment. These costs have increased from year to year.

From one side, investments have played an important role in improvement of service for consumers but on the other side the maintenance of WSS systems and loan costs have increased the cost of services.

Regarding "WSS Korçë" sha, depreciation and loan costs account 50% of the total cost. Therefore, tariffs adjustment is necessary and indispensable as the income does not meet the needs of companies to cover these costs.

The situation will be similar in the future, for companies such as "WSS Sarandë" sha, "WSS Gjirokastër" sha, "WSS Fier" sha, and "WSS Lushnjë" sha which are part of the investment program from KFW.

Chart 5: *Total Cost Coverage*



Except WSS Gjirokastër sha, all the other companies do not cover the total costs. For this company, increase of income should be associated with service improvement, which currently is not in good levels. WSS Gjirokastër sha should use its profit for rehabilitation of the existing network and installation of meters, and also accumulate financial funds for repayment of the investment loan financed by KFW.

Coverage of costs should not be achieved only from tariffs increase but also from systematic attempts to reduce service costs and increase the technical and managing efficiency.

Companies should look for the possibility of reduction of maintenance and operation costs especially in those components that account the biggest part in these expenses.

Reduction of losses, increase the level of billing, installment of meters, improvement of collection rate, increase of staff efficiency, improvement of energy efficiency are the indicators where professional management plays an important role.

Currently, WRA has selected 10 key indicators (KPI) to assess the performance of operators. These indicators reflect a large portion of the duties that companies should perform in order that the services they offer are qualitative and efficient.

Tariffs approval includes as part of this process the setting of targets for 10 KPIs that the operator should achieve for service improvement. Before making any tariffs adjustment , the assessment of achievement of these objectives is made. Depending on the results achieved, the process of tariff approval includes incentives for companies that have improved their performance, providing better services and penalties for those companies that have not managed to achieve the objectives.

The NRC analyzed the achievement of objectives for 2013 for two companies "WSS Gjirokastër" sha and "WSS Lezhë" sha, set by the previous tariffs approval. It resulted that the companies have not achieved all the objectives defined by the NRC. For this reason, these companies were punished by not approving the requested tariffs adjustment.

In addition, by tariffs approval, the NRC defined the objectives of 10 KPIs for 2014 for each company.

The expectations of the tariffs approval , are:

- Improvement of Key Performance Indicators according to Annex no.1;
- Increase the level of cost coverage.

The new tariffs approved together with capital investments that have been and are being realized in this sector, have been an important step in increasing the financial sustainability of companies and consequently in increasing the quality and safety of service in terms of consumers and sector development.

One of the main objectives of the tariff policy is affordability of water tariffs payment from household customers.

Although there is room for further tariffs incensement, we have to bear in mind the ratio between affording the tariffs by customers and achievement of financial independence and sustainability by the companies. This is all the more necessary if we take into consideration the low-income customers and the customers in need.

For many companies, services costs have increased considerably due to necessary investments for improvement of services, and especially for those companies where the wastewater treatment plants have started functioning . Taking into account the commitments that Albania has undertaken to achieve the compatibility with main EU directives related to environment, wastewater treatment remains a priority area. It should be stressed that treatment of wastewater is a costly service and in some areas unaffordable for some household customer categories.

According to Tariff Setting Methodology, expenses for WSS services should not take up more than 5% of the family income.

The following table shows what part of family incomes takes the payment of water supply and wastewater disposal and treatment service. This calculation has been made being based on the monthly[2] average income per family and the value of the WSS service invoice for a household customer with an average consumption (18 m^3 per month) with the approved tariffs.

Table 2: *Percentage of invoice amount compared to family incomes*

Companies		Invoice amount (ALL/month)	Average incomes per family(ALL/month)	Invoice amount / Incomes %
Sha WSS	Ersekë	891	42,464	2.1%
Sha WSS	Gjirokastër	942	48,327	2.0%
Sha WSS	Korçë	1,940	42,464	4.6%
Sha WSS	Lezhë	1,599	47,081	3.4%
Sha WSS	Pukë	891	40,865	2.2%
Sha WSS	Sarandë	949	48,327	2.0%

[2] The data for the average incomes have been taken from INSTAT

As it can be seen from the table, the ratio of invoice amount against the incomes is above 4% for the company “WSS Korçë" sha. For the same consumption level in the country, the invoice amount takes up 3.3% against the total incomes of an Albanian family.

For this operator, as it was mentioned before, the service costs have been increased due to the loans received and functioning of wastewater treatment. The loan costs have been taken into account for tariffs calculation, in addition to O&M costs. Based on the respective loan agreements, this company has started to pay their costs.

However, it is reasonable for at least a portion of the costs to be covered by tariffs, but their total coverage may not be affordable by customers and further increase of tariffs could bring negative effects.

"WSS Korçë" sha, along with water supply and wastewater disposal, performs as well the treatment of wastewater. For this reason, the service costs have increased, which is reflected in the tariff for this service. This company applies high tariffs, the service is quite good, and consumers are satisfied and regularly pay for the service provided, but further increase of tariffs could bring negative effects. The first signals have been presented. In the last two years, there is a reduction of the collection ratio, reduction of the consumption by consumers and consequently an increase of the level of losses, although in small amounts.

By means of the current tariff setting methodology, WRA is using its instruments to make possible that tariffs are affordable for consumers, particularly for those with low incomes and those in need. WRA is willing to collaborate also with other stakeholders to find the best possible solution for protection of low-income consumers and the consumers in need.

An important role in this direction is played by *the tariff structure*: fixed tariff and variable tariff according to consumption blocks, which creates the possibility of paying less for a smaller consumption. Under the conditions when the subsidy schemes for low-income families are not determined, the tariff structure defines an affordable tariff for the basic consumption level for this customers category. Application of this tariff structure requires a high level of metering, especially all the non-household customers should have meters and the billing system should be computerized. Companies that applied for tariffs adjustment in 2013 and 2014, with the exception of companies "WSS Pogradec" sha and "WSS Korçë" sha have not managed to meet these conditions. Therefore the approved tariff structure includes a “fixed tariff” for every category of customers and a “variable tariff” for all consumption blocks.

The methodology *conditions the tariffs increase only for the companies that manage to improve their services.* The customers are willing to pay when they are provided a qualitative service.

In addition, organization of the *hearing* public *session* provides information about expectancies and willingness to pay by consumers, especially the household customers.

However, suitable subsidy instruments should be found to ensure the protection of customers in need and at the same time the functioning of companies in a sustainable way.

- ***Monitoring of performance of the sector and service providers.***

WRA monitors the performance of WSS companies to guarantee the fulfillment of their responsibilities and check their progress to improve services. The monitoring of the performance results are used by WRA in both process of tariff adjustment and identification of possibilities on service improvement.

The monitoring enables a correct assessment of performance for the company and sets challenging and achievable objectives for both type of companies with low and high performance. Such achievements are measured based on Key Performance Indicators, which are the same for the entire sector. Fulfillment of such objectives are essential for the companies which request a tariff adjustment, because they need to achieve the objectives set before the approval of any tariff adjustment type takes place.

WRA has published two performance reports of WSS companies in this sector; the first in 2012 and the second in 2013. These reports compare the individual performance of each company with the performance of the rest of companies in the sector. Using the performance report data, the companies can evaluate themselves their performance, by comparing it with the rest of companies operating in similar conditions.

Monitoring of WSS sector and performance report publication intends to provide the opportunity to all interested actors, including the consumers, to check the progress achieved in the sector and evaluate their local company performance. By publishing these reports, WRA wishes to urge all players, companies, their owners, supervisory councils, customers, media and the political decision-makers to be engaged in a constructive dialogue on current and future sector challenges.

A good regulation of the sector needs reliable information. Accuracy of information plays an important role in setting of tariffs. Increase of reliability of data is one of WRA priorities. For this purpose, during 2013 several inspections were made for the verification of data accuracy. Such inspections were made according to a determined schedule, including also the data inspection related to the key performance indicators.

In particular, for three companies that applied for tariffs adjustment, "WSS Lushnjë" sha, "WSS Sarandë" sha and "WSS Lezhë" sha, the inspection was in a more detailed level and data accuracy was related to adjustment of tariffs. For "WSS Lezhë" sha and "WSS Lushnjë" sha data accuracy was also related with the evaluation of objectives defined by NRC for 2013 achievement. Afterwards, based on the inspection results, the relevant corrections were made.

The coming year, the data monitoring and the application of applied tariffs will be the focus of WRA’s work.

- ***Consumer and Transparency***

Water Regulatory Authority, by being an independent institution, aims transparently and non-discriminatively when exercising its institutional activity. The institution mission is to ensure for all customers of the water supply and sewerage sector in Albania, the best possible quality service with a reasonable price. For this reason, WRA treats the consumers carefully by taking into consideration their opinion when processing the tariff adjustment as well as follows every complaint submitted from them.

An important decision related to consumers protection through regulatory policies, is the Tariff Setting Methodology, in which is also foreseen the public hearing session, so since then such procedure became obligatory to be held not only for all big[3] companies that apply for tariffs adjustment but it is advised to all other companies as well.

In such regard, during 2013, two operators "WSS Korçë" sh.a. and "WSS Berat – Kuçovë" sh.a. held public hearings with consumers of different categories as well as representatives of local media.

In these meetings, the operators informed the public on the tariff adjustment, answered to the questions of the participants, presented reasons why they required such tariffs adjustment and informed them on the improvements that such changes will bring to their service quality. Through sanctioning the public hearing, WRA seeks to ensure that consumers are informed on the service they get and the changes that will affect them in the future, directly or not. For a monopoly service, as the service of water supply and wastewater disposal and treatment is, this moment takes a special importance.

WRA serves as a mediator in the process of resolving complaints. Based on law no.8102, as amended, any interested person could submit to the Commission a complaint against a licensed company. For the period January-December 2013, 39 complaints have been submitted from different consumer categories to the Water Regulatory Authority.

Mainly, the citizens address their complaints to WRA when they are not satisfied with the response they get from the company that provides the water supply and sewerage services, about a problem or disagreement. The complaints mostly are from citizens in the capital city, however, during 2013 there were several sporadic cases even from cities like Durrës, Kavajë and Ersekë.

WRA has also received concerns from citizens even through the People's Advocate.

However during this process, the Water Regulatory Authority has faced an issue; the inability of the institution to take decisions on resolving the complaints. This problem can

3 Big operators are defined as follows:

- Operators offering only the service of water supply for a population of 100 000 inhabitants in its service area.

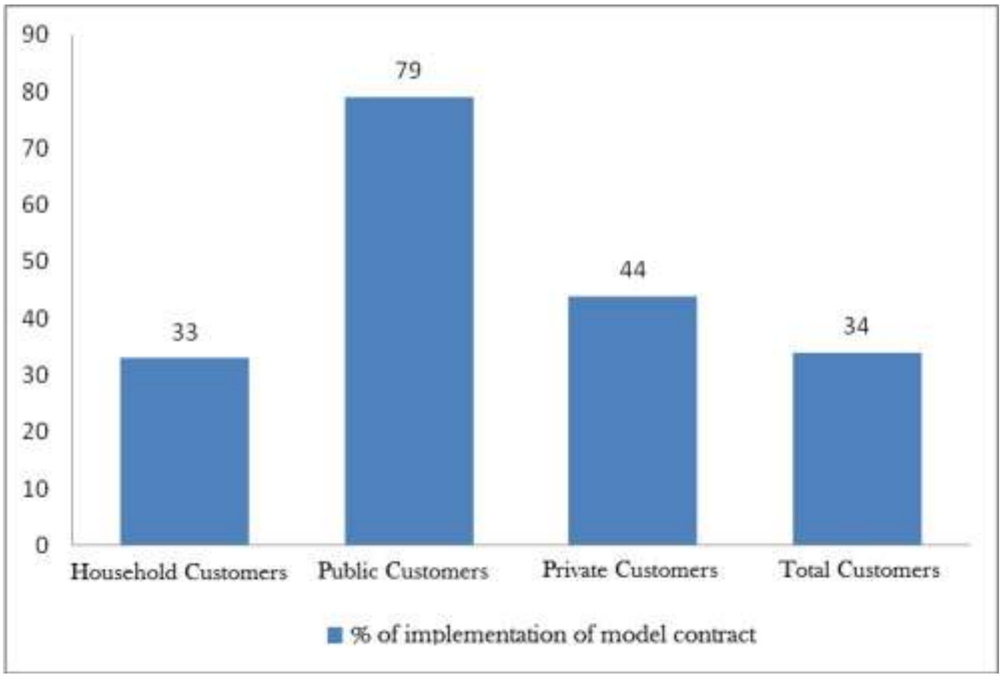
- Operators offering the service of water supply and sewerage for a population of about 50 000 inhabitants in its service area.

be regulated by changes in the law no.8102, amendments that aim a better protection of consumers' rights.

In February 2011, NRC approved the contract model on the water supply and sewerage services. From the approval moment, an important and complex process has started, the implementation of this contract by all companies offering the services in the sector. All this time, WRA has monitored the contract implementation according to consumer categories.

The contract implementation situation until the end of 2013 is presented in the below chart:

Chart 6: *Percentage of the contract model implementation according to the consumer categories*



As it can be seen even from the chart, the public customers category has reached the highest implementation percentage of 79%, being toward the process finalisation. The household customers have reached 33%, whereas only for the 44% of private customers the contract model is implemented. In total, 34% of the consumers in the water supply and sewerage sector have now a contract model approved by NRC.

Publishing the annual and performance reports, all decisions of the National Regulatory Commission, publication of studies, regulations, methods and guides, as well as updating regularly the website, Water Regulatory Authority aims to achieve a full transparency of its work and of the sector situation in general in relation with the local government, independent institutions, all consumers, the international partners and donors.

- ***Standards and handbooks***

One of the main competences of the National Regulatory Commission is setting uniform rules and standards for the entire sector, creating and guaranteeing their implementation for all licensees.

During 2013, National Regulatory Commission has undertaken several initiatives as follows:

- *Approval of new License Conditions*

New license conditions have been conceived as an integral part of the Service License and are attached to the license certificate. They represent a summary of all legal obligations that a service operator has according to the legislation into force.
Such conditions explain and detail the rights and obligations any operator must have, but up to now such are described in so many legal acts and norms, often even not known by the operators.

The main issues treated in the new licensing conditions are:

- Activity of licensee
- Performance of service
- Suspension and removal of license
- Relationship of the company with WRA

The new license conditions enable WRA to efficiently monitor the activity of the service operators.

- *Approval of Balance Sheet of Water*

The water balance sheet is a document which serve to the operators to identify and continuously control their problems in different parts of the water supply system administration so that they can find the relevant solutions within the shortest time possible. The water balance sheet should be filled from the service operators, every month, based on the data measured or assessed from the respective specialists of the field.

Water balance sheet summarizes the information related to:

- Quantity of water produced and supplied;
- Quantity of water lost due to technical problems on the water meters or the system;
- Quantity of water lost due to illegal connections or problems with bad administration of the system;
- Quantity of water supplied to consumers;
- Quantity of water used for public purposes (anti-fire systems, cleaning of reservoirs, streets or watering of gardens, etc.) and for special institutions (churches, mosques, orphanages, and retirement houses, etc.).

The water balance sheet filled in by the companies shall be an instrument that will first serve them, but also will serve to WRA and all local units as owners of the systems, to monitor the performance and service quality of the companies.

- *Manual on setting tariffs for more than a year for companies having a business plan*

Many companies have drafted their business plan as an important instrument for planning and managing their activity. The business plans is a precondition for WSS to approve service tariffs for more than one year.

This manual shall create to WRA the possibility of having all the needed information in order to take the right decisions regarding the adjustment of tariffs for more than one year.
This manual is being drafted in collaboration and under consultancy of GIZ.

- *The manual of supervisory councils of operators*

With the financial support of USAID and GIZ and according to the National Water Strategy, the Water Regulatory Authority held this year the third training phase on the Manual of Supervisory Councils of the WSS companies. Members of the supervisory councils of 19 companies participated in the training activities held in the form of seminars in three cities, Korçë, Shkodër and Gjirokastër.

1.3 Institutional Consolidation of WRA

During 2013, WRA has also been focused on its institutional consolidation, in order to fully exercise its role and responsibilities in the water sector. Increasing of capacities, by increasing the quantity and quality of training activities, qualifications and engagements in national and international conferences, aimed the improvement of the regulatory mandate functioning.

Strengthening of cooperation with main players in the sector has been the WRA main attention, considered this as a very important element to perform its duties and regulatory objectives.

- ***Cooperation with Institutions in Albania***

Institutional collaboration inside or outside the country has taken an important place in the activity of WRA during 2013. The collaboration purpose was mainly an institutional interaction in order to increase the effectiveness and quality of water supply and sewerage services in Albania. In addition, a close collaboration and better knowledge of foreign experiences on the water sector regulatory aspects has influenced the improvement of our contribution in the sector.

For 2013, our institutional collaboration has been enlarged with the following institutions:

- Assembly of Albania
- Council of Ministers
- Ministry of Transport and Infrastructure (MTI)
- Ministry of Health (MH) and PHI
- Ministry of Environment (ME)
- Water Supply and Sewerage Association of Albania (WSSALB)
- People’s Advocate
- Competition Authority

Participation in workshops and national conferences

✓ *Activities organized by WRA*

- The Workshop "Application of Tariff Setting Methodology",on discussions and suggestions from WSS companies for possible improvements of this methodology.
- Activities on celebration of the 15 anniversary of WRA establishment, where the WRA’s 15 year's activity was presented as well as the Performance Report 2012 was introduced providing for the general public a detailed information on the performance of each of company in the sector.
- Workshops on supervisory council members of the WSS companies training, third phase.

✓ *WRA participation in the WSS sector activities*

- Being an important player in the WSS sector, the contribution of WRA was considered as valuable on the 2013 activities performed by MTI in framework of the program "Support for the Water Supply and Sewerage Sector" supported by the Austrian Development for Cooperation (ADA) and European Union".

- Participation and a special contribution of WRA in the Regional Conference on Management of WSS Companies organized in Tirana by WSSALB in close collaboration with the International Water Association (IWA). This conference provided the opportunity to know better the main factors influencing the improvement of WSS companies by sharing different experiences on this regard in relation with challenges of economies in development.

- Participation in the National Water Conference organized by WSSALB in November 2013 where WRA had an active and important role through presentations and moderation of several sessions, in which the consumer and the water importance nowadays was on the center of the discussions.

- Participation in the yearly activity for exchange of regulatory experiences between WRA and the Water and Wastewater Regulatory Office (WWRO) in Kosovo.

✓ *Cooperation with foreign Donors in Albania*

- Collaboration and support from the German Government through GIZ financed project of almost 4 years, with the main objective the institutional strengthening of WRA in the water sector. During 2013, support and advices of GIZ has consisted but not only, in the preparation of the document on WRA basic policies and in the

publication of the Performance Report 2012. In addition, the preparation of the business regulatory plan and the guide on setting tariffs for small companies has already started.
With GIZ support, during 2013 at WRA offices is installed a new server and accessories that will make possible quick and periodical sending of data from WSS companies and their analysis from WRA, in the framework of improvement of service quality and the performance of WSS service providers.

- Collaboration with **USAID** through its local government program; the third phase is completed on the Training of Supervisory Councils as the supervisory body for water supply and sewerage companies, through an updated manual with developments in the water sector.

- ***Cooperation of WRA with International and Regulatory Institutions***

During 2013, the Water Regulatory Authority has collaborated with a series of international regulatory institutions that operate in the water sector as below:

- Organization for Economic Cooperation and Development, OECD
- World Bank (Danube Water Program)
- International Water Association, IWA
- National Association of Regulatory Utility Commissioners, NARUC, USA
- Water and Wastewater Regulatory Office, Kosovo
- Water and Waste Services Regulation Authority, Portugal
- State Energy and Water Regulatory Commission, Bulgaria
- Public Services Commission, Latvia
- State National Regulatory Commission of Public Services, Ukraine
- National Regulatory Authority for Municipal Services, Rumania
- Regulatory Authority for Electricity and Gas, Italy

✓ *Cooperation with Organization for Economic Cooperation and Development, OECD*

In 2013 Water Regulatory Authority became a part of the Economic Regulatory Network, established in framework of the Organization for Economic Cooperation and Development (OECD) project “Application of a better Regulator in the WSS sector”. Participation of WRA in this network means observation of different regulatory experiences, highlighting future challenges in strengthening the WRA efficiency.

✓ *Cooperation for Danube Water Program*

Water Regulatory Authority is one of the beneficiaries in the Danube Water Program supported by the World Bank, the WSS Operators International Association in the area of Danube and by the Austrian Government.

This program is focused and supports 11 states in the Danube region in five main pillars as the structure and governance in the sector, regulator, tariffs and subsidies, benchmarking, management of assets and improvement of efficiency of service. Several workshops were organized in framework of this program. The first one was organized in Vienna, Austria where further needs to be met by this WSS program in the entire region were identified and promoted. Afterwards, two other workshops were held in Bucharest, Rumania and in

Florence, Italy focused on benchmarking and determination of clear objectives for the sector policies.

✓ *International Training and Activities*

- Participation in the Forum "WASH Sustainability" organized by the World Bank with main topic “Developments of water, sewerage and sanitation for countries in development”.

- Participation in the World Water Summit of Hungary, which stressed the importance of reachable solutions for challenges of the Water Supply and Sewerage Sector, very actual and necessary for the WSS sector in Albania.

- Participation of WRA representatives in two trainings held in USA, on the role, responsibilities, duties and credibility of Regulatory Commissioners, including new methods, perspectives and the right tools towards a regulatory decision-making.

- To increase the knowledge on different regulatory experiences but also to establish contacts with regional regulators for future cooperation, WRA representatives have participated in two international workshops organized by Energy Regional Regulatory Association (ERRA) and the WSS Association of Rumania in focus of which were the development, experiences and regulatory practices in the water sector of the region.

- Participation in the second seminar on Regulation of water sector in Europe. The seminar was organized by the University of Florence and the University of Sorbone. All participants made presentations on regulatory issues of the water sector.

1.4 WRA expenses and income

- ***Financial sources of the activity***

The financial sources of WRA are procured according to the law no.8102, dated 28.03.1996, "On the regulatory framework of the water supply and wastewater disposal and treatment” and basically they consists of regulatory payments, licensing payments and donations.

WRA is an independent institution that is not financed by the state budget, but from incomes realized by its own activity.

For 2013, the total income realized from financing sources are 21.483 thousand ALL, 17 801 thousand ALL less than the income realized in 2012. The income of 2013, analyzed according to financing sources described above, is as follows:

- 20 405 249 ALL from regulatory payments;
- 610 000 ALL from licensing payments;
- 467 692 ALL other income.

Even during this year, financing of several activities of the Authority were supported from GIZ project.

The low level of liquidation, on regulatory payments from operators in the WSS sector, is one of the main reasons that this year incomes could not guarantee the financial support and cover the annual expenses necessary for the authority activity. The level of liquidation of regulatory payments this year is very low compared also to the contracting values and the liquidation levels of previous years.

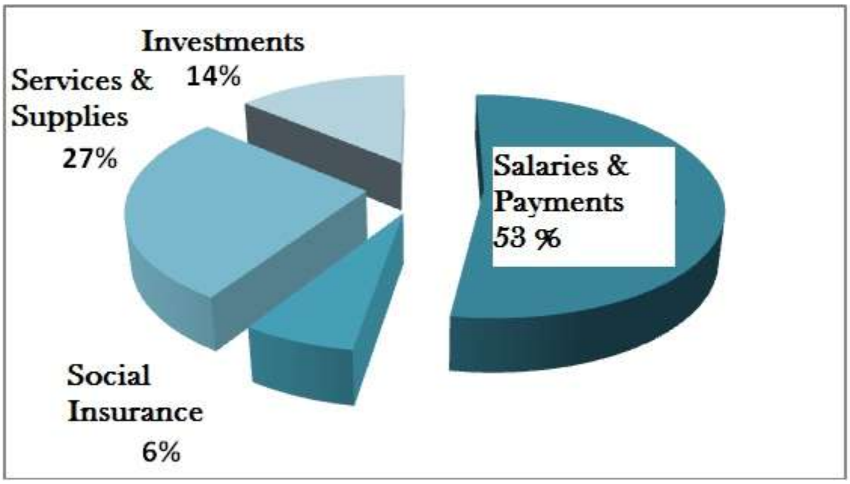
- ***Operational expenses***

The annual plan of operational expenses for 2013, according to art. 11, of the law No.8102, dated 28.03.1996, (as amended), submitted for approval by WRA, is approved by DCM no.815, dated 21.11.2012, “On approval of expenses fund of the water supply and wastewater disposal and treatment sector regulatory authority for 2013"

National Regulatory Commission, in accordance with the institution needs for the achievement of its annual objectives, detailed the annual plan of operative expenses, approved by the Council of Ministers. In drafting the annual plan of expenses, the Authority is conditioned to the possibilities of guaranteeing its financing, because the financing is totally realized from the income of the Authority realized through the regulatory and licensing payments. Ensuring the financing becomes problematic due to the low level of liquidation on regulatory payments from the operators, when in the same time the expansion of the activity, in accordance with the priority actions defined in the WSS Sector Strategy and the achievement of the objectives of the Authority itself, seeks financial support reflecting an increase in the annual expenses of the institution.

In total, the annual plan of operative expenses of WRA for 2013 is **44 103 000 ALL** detailed in components as follows:

Chart 7: *The Annual Plan of Operational Expenses*



Salaries and Payments 23,183,000 ALL

Social Insurance 2,836,000 ALL

Services and supplies 12,000,000 ALL

Investments 6,084,000 ALL

According to the DCM no.591, dated 10.07.2013, "On the discipline of budgetary expenses for 2013", even the WRA made the relevant changes in the annual approved funds, which by the end had their influence on the plan realization.

- ***Realization of expenses***

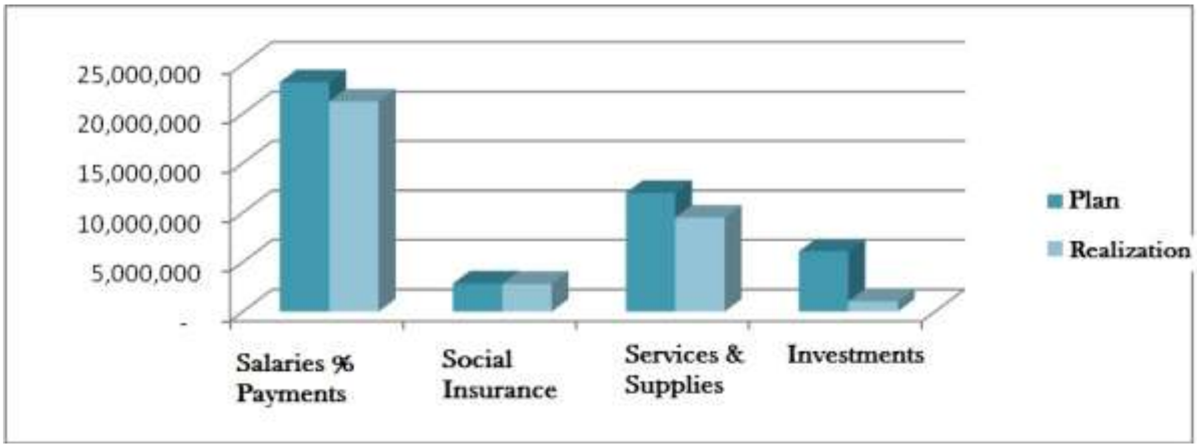
Budgeted expenses for the annual activity of the Authority reached the amount of 34 579 886 ALL.

From these:

- 21 227 238 ALL, expenses for employees' salaries.
- 2 801 618 ALL, expenses for the social insurance of employees.
- 9 506 706 ALL, expenses for services and supplies.
- 1 044 324 ALL, expenses for investments.

The following chart presents the expense's components of the realization plan toward the approved plan.

Chart 8*: Plan of expenses per components*



The use of planned funds is done according to the legal acts and norms into force for both salaries and payments for employees as well as for the purchases of goods and services. Also, the contractual obligations are continuously fulfilled, executing also out the relevant payments on due time. Consequently, the authority has not carried over unpaid expenses from 2013.

The salaries and payments fund has been realized 91.56 percent of the planned one, while the social insurance 98.76 percent. The difference in these two components is due to a vacant position in the approved organization chart for the whole year period.

The planned fund in the “Services and supplies” item has been realized 79.4 percent. During 2013, with these funds are ensured the optimal work conditions, the instruments and the basic materials necessary to perform the WRA functional duties. The expenses in the budget item “Investments” have been realized only 17 percent of the plan.

We would like to emphasize that the failure to realize these two expense's items were not only as a result of funds reduction due to the DCM no.591, dated 10.07.2013, but also due to the low level of regulatory payments liquidation by the operators, being this the main source of financing as well as the coverage of several expenses from GIZ. In addition, the budget item “investments” included funds planned for partial reconstruction of the building where WRA runs its activity, which was not realized due to the other investors. Reconstruction was supposed to be realized with the financial contribution of other institutions as well, like ERE, OST, which are using the same building.

- ***Annual regulatory payment***

The regulatory payments annual obligation for 2013, based on the relevant contracts, is 61 916 710 ALL. This amount is composed of the regulatory payments' obligation for 42 operators, who perform their activity in the sector and have signed a contract with the Authority for such payment.

Despite the special attention given to regulatory payments issue the whole year, the liquidation level is very low. The liquidated amount was only 20 405 249 ALL approximately 40 million ALL smaller than the contracted amount with the operators that perform their activity in the WSS sector. The budgeted expenses for the functioning and performance of the regulatory annual activity are of 34 579 886 ALL, which means that only 20 405 229 ALL are covered with regulatory payments liquidations.

The regulatory payment contracted covers totally the plan of the Authority operational expenses, but due to the low level of liquidation year after year, the annual plan of operational expenses, approved by the Council of Ministers, cannot be covered.

During the year, the Regulator has continually analyzed the problems with the regulatory payments, has continually required correctness and understanding of companies when fulfilling the contractual obligations in order to improve the situation.

The regulatory payment percentage or the operators obligation to pay is 0.8% of the annual income calculated with the approved tariffs.

The companies with the highest unpaid obligations are: "WSS Tiranë" sha with 33 902 000 ALL, "WSS Durrës" sha with 18 197 900 ALL, "WSS Vlorë" sha with 5 000 000 ALL, "WSS Kavajë" sha with 4 825 000 ALL, "WSS Fier" sha with 4 100 000 ALL, "WSS Berat-Kuçovë" sha with 2 385 880 ALL. In total, the obligation of these companies is 68 410 780 ALL. Compared to the unpaid total obligation, such obligation covers 75.45 %.

2. Situation in the sector of WSS Services

2.1 Ownership of companies and the provided services

- ***Ownership***

The WSS services sector functions mainly through the operators organized as joint venture companies owned by the local government. After the approval of law no.8652, dated 31.07.2000, "On organization and functioning of local government", as amended, the water supply systems started to be transferred to local units, through several decisions of the Council of Ministers during the years 2004 and 2006.

The most important decision that completed the transferal of shares of WSS companies from the central government to local government units was the decision of Council of Ministers no.660 dated 12.09.2007 “On the transfer of shares of WSS companies to local government units”. Based on this decision, 47 WSS service companies are transferred to local government units. In cases when the WSS company covered more than one local government unit, its shares were divided proportionally according to the number of population within the local unit that covers the WSS company.

However, the problems associated to this process caused a delay in the effective transferal of all companies to the local units.

Amongst them can be mention the absence of an agreement within local units on the transferal form and on the way such transfer will take place, transferal of companies in block, without analyzing the situation of each company, missing assets registration, etc.

Currently several companies, amongst which companies like "Elber" sh.p.k (Elbasan), "WS Rubik" sh.a, and Company "WS Gjirokastër Fshat”, still have not finished the transferal process to local government units.

- ***The Provided Service***

There are in total 58 companies that operate in the sector, but not all of them provide both water supply and sewerage service. The following local government units perform themselves the sewerage service, through the sectors within their internal structure of municipality.

1. Bulqizë
2. Bilisht
3. Delvinë
4. Gramsh
5. Has
6. Çorovodë
7. Peshkopi
8. Përmet
9. Patos
10. Orikum
11. Novoselë
12. Malësi e Madhe
13. Kurbin
14. Vau i Dejës
15. Vlorë
16. Polican
17. Ura Vajgurore
18. Bajram Curri

This fragmenting of services does not serve to the quality of service and financial sustainability of water supply companies. For this reason, WRA in the beginning of 2013 required from the above units to make possible the union of the two services and their provision from water supply companies operating in the administrative area of the unit.

Further on, WRA has followed this process during the entire 2013, organizing meetings with representatives of local units. Up to now 5 local units, based on relevant decision-making in municipal councils, transferred the sewerage service to water supply companies in the area. These municipalities are:

- Municipality Orikum
- Municipality Peshkopi
- Municipality Delvinë
- Municipality Bilisht
- Municipality Vlorë

Municipality Tepelenë joins the list of the above municipalities, by having transferred this service to the water supply company by the end of 2012.

Meanwhile the Municipality Patos and Përmet are in the process of joining the sewerage service to water supply companies, process which is planed to finish the first trimester of 2014.

However, this process will continue on 2014 as well, resulting to the total transferring of sewerage service to water supply companies by all local government units.

During this year, this process will include the local units that are in the service areas of the companies "WS Lushnje Fshat" sh.a, "WS Shkodër Fshat" sh.a, "WS Elbasan Fshat" sh.a, "WS Korçë Fshat" sh.a, "WS Pukë Fshat", etc.

During this process and also from the communication with local government units, WRA noticed that often the relevant employees of municipalities have no knowledge of the legal framework into force as well as of the obligation to have a licensed service with standards. Local government units always refer to their organic law, organizing in this framework the sewerage services as sectors within the municipality, when in the same time the legal situation is very clear.

In some cases, there is a lack of wish to join these services, because companies of water supply services are considered out of the responsibility of mayors and transfer of sewerage services to these companies is considered as removal of competences from them. In some other cases, the service companies have financial problems and union of services could result in increase of their problems.

2.2 Coverage with water supply and sewerage services

The water supply and sewerage is currently provided by 58 companies. From these, 32 companies provide the water supply and sewerage services, while 26 companies provide the water supply service only. Water Regulatory Authority is making all the attempts to provide to the consumer a qualitative service, by licensed companies, with tariffs approved by the Authority, always having as focus the consumer. The population living in urban areas has more access to these two services, whereas the rural population has more access to the water supply service.

The total number of population living in the jurisdictional area of companies is 3,217,023 inhabitants, from which only to 2,572,755 inhabitants or 80.8 % of them is provided the water supply service and only to 51.0 % of them is provided also the sewerage service, continuing this to be behind the water supply service in many aspects. The population provided with the sewerage service mainly lives in urban areas of the country (approximately 98% of the serviced population), whereas the population in rural areas is almost left out of this service. (details are provided in the map below).

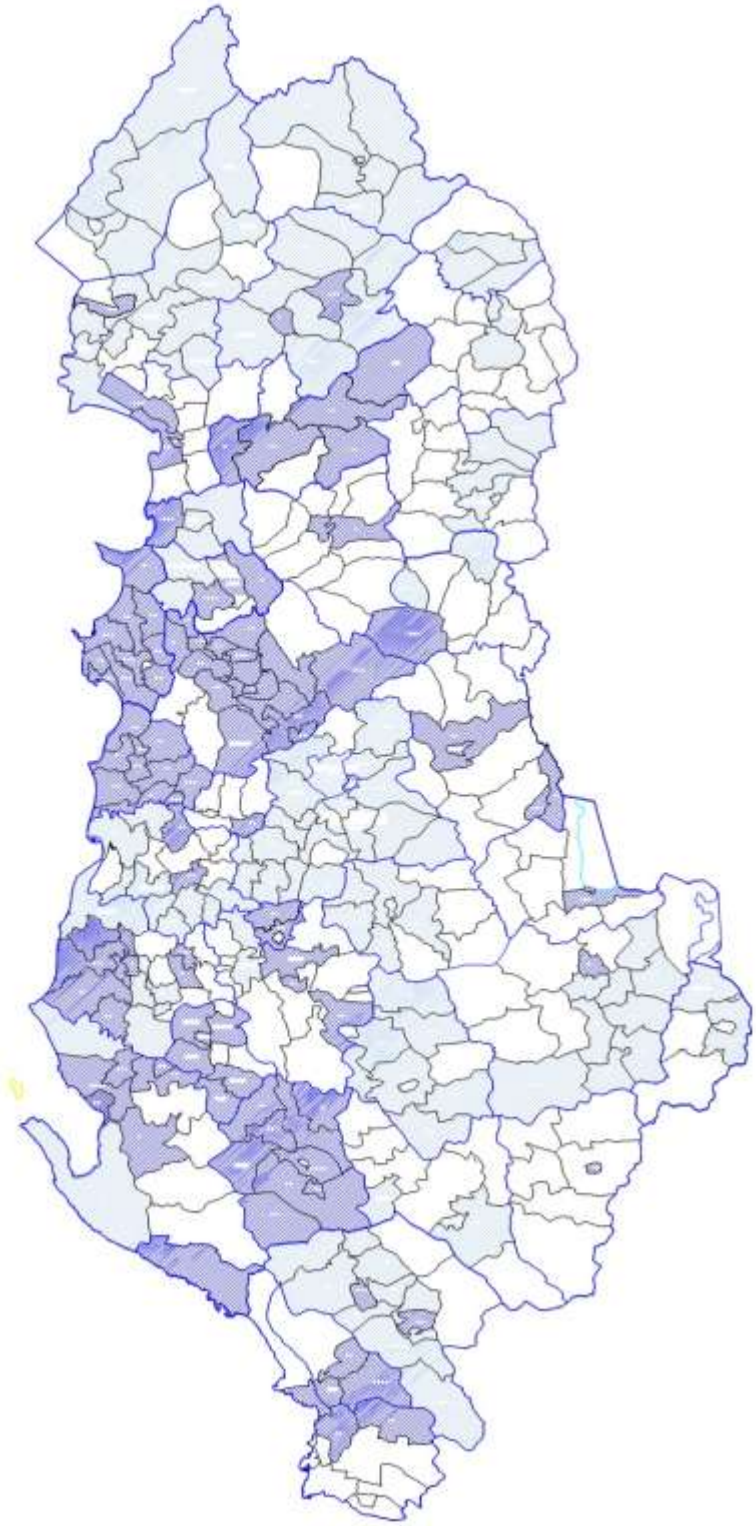
Quality of sewerage services and protection of environment has been improved for 10% of the population in the companies' jurisdictional area, this as a result of 5 wastewater treatment plants operation. Meanwhile, other plants are under construction or only designed (details in Annex no.3).

Such service for the population out of companies' jurisdictional areas, is provided by the sectors functioning within the local government units, communes and municipalities, not licensed by WRA.

In November 2013, Water Regulatory authority started a study on all uncovered areas with licensed services. These areas mainly include local units of local government (128 communes and 3 municipalities), which provide themselves the sewerage and water supply services within their area of jurisdiction. This has always been a concern for WRA, because that part of population receives unlicensed WSS services and tariffs not approved by WRA.

More specifically, this study comprises correct identification of uncovered areas with licensed services, collection of data from a wide spectrum, technical, managerial and financial data, the analysis of qualitative data received from the field, in order by the end to draft a report with detailed data and concrete recommendations on the steps to be taken to simplify the licensing procedures and regulate the water supply and sewerage services in these areas. This study is expected to finish by the end of the first semester of 2014.

WATER SUPPLY & SEWERAGE SERVICES COVERAGE MAP



LEGEND

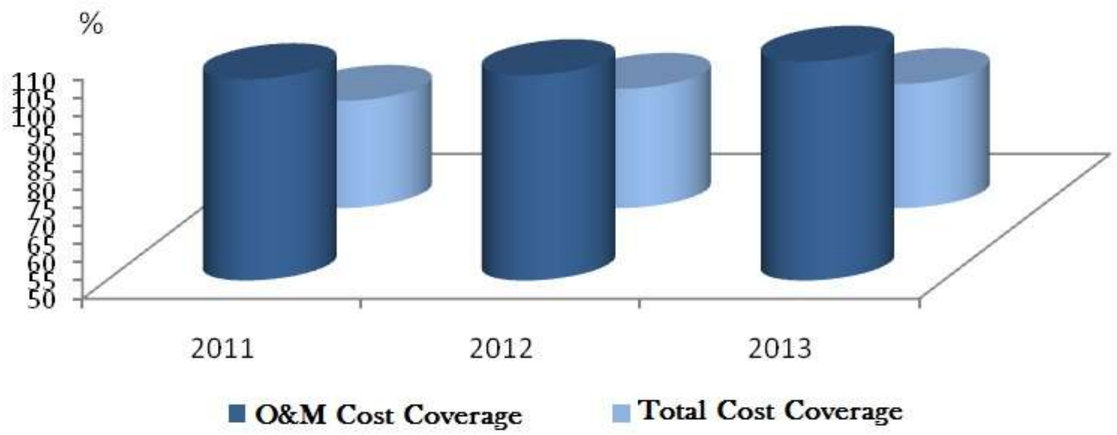
- Companies providing water supply services
- Companies providing water supply & sewerage services
- Uncovered areas with WSS services by companies

2.3 Water Supply and Sewerage Service Costs

One of the main indicators which enable the financial situation assessment of a company is "O&M Cost Coverage". Coverage of direct O&M costs (without depreciation) with income from the activity, serves as a basis to ensure the sustainability in the water supply and sewerage services. For 2013, this indicator has reached a satisfactory level within the sector, of 112.4%, fulfilling so the Sectorial Strategy objective, which was coverage of the O&M cost with income should reach 100%.

O&M cost coverage is considered as the first step toward a full cost coverage in the future. During 2013, 9 companies applied new tariffs so consequently their increase in income due to it has influenced the O&M cost coverage. Of course, the decisions made by WRA regarding tariffs adjustment of these companies was associated with objectives on the quality of service improvement. Based on such data, results that 20 companies covered over 100% the O&M costs.

Chart 9: *Costs Coverage by Income*



Total costs coverage (maintenance and operational costs plus depreciation and capital costs, i.e. interest/liquidation of loans) from realized incomes is the main objective of every company. Based on the sector strategy, this objective shall be reached gradually, first by reaching maintenance and operational cost coverage (O&M). The average total cost coverage for the sector in 2013 has reached 84% from 76% that was in 2012. This means that companies are seriously working to reach this objective, even though there is much more to be done. During 2012, there were 6 companies that covered their total costs over 100% so the profit shall help hem in collecting the needed funds for loan liquidation or for the realization of investments themselves.

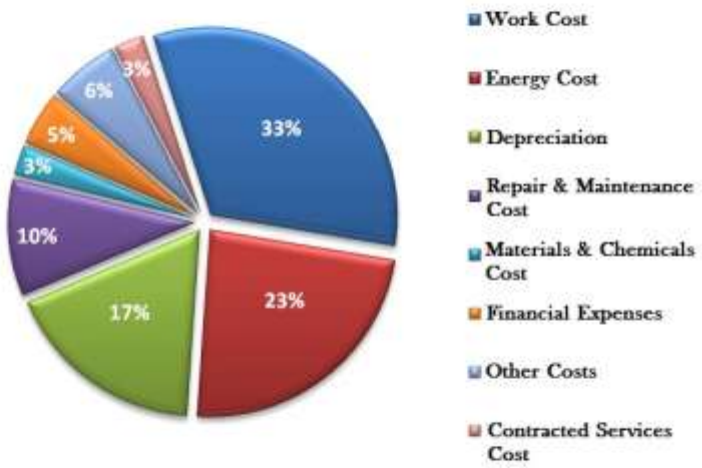
However, it is worth to mention that there are still companies, mainly the small ones that cannot cover even half of their expenses.

Costs Coverage for the three groups of companies is:

	Size of company (no. of water supply connections)	O&M Cost Coverage	Total Cost Coverage
Group 1	>15.000	124.0%	92.4%
Group 2	3.000 - 15.000	84.0%	65.3%
Group 3	<3.000	63.8%	43.1%

From the analysis of the service costs structure, it can be noticed that the highest specific weight in the total of expenses is the work costs (personnel) and electricity.

Chart 10: *Structure of costs of WSS services*



Since the cost of work is one of the highest weight component in the O&M costs and total costs, staff efficiency becomes one of the most important indicators. This indicator, in 2013 compared with one year ago, has marked a small increase by reaching the level of 9.5 employees per 1 000 connections.

In general, WSS companies have a big number of employees per 1000 connections showing an inefficient management of human resources. For a small number of companies, the level of this indicator is approximated with the level of the regional countries where the average number of employees per 1000 connections is not more than 4-5 employees/1000 connections. Improvement of staff efficiency shall influence the level of expenses for this component.

For companies which administer systems with mechanic elevation of water supply and wastewater disposal and treatment, electricity cost takes up a considerable weight in the total costs. In addition, the expenses for electricity in the wastewater disposal and treatment service have increased as well, especially for the companies that administer the wastewater treatment plants.

Improvement of energy efficiency is a very important indicator with direct impact on the financial situation improvement. Reduction of losses, interruption of illegal connections and installation of meters will reduce the volume of produced water and consequently will bring a reduction in the electricity cost.

Investments for rehabilitation of water supply and sewerage systems or construction of new systems have been and are still being carried out in the WSS sector.

An important part of the investment is taken by investments in the construction of wastewater treatment plants. The main source of such investments are funds granted by the state budget as well as credits and grants by foreign donors. Maintaining these investments and paying the costs of credit takes a big part of the total cost; therefore securing the financial means for their coverage is especially important.

The main source of income for companies is the income realized from the main activity as well as income from other services they perform for consumers.

The government has accorded subsidies during 2013 as well, but compared to the previous year there is a reduction of their limit. This is a signal that companies should ensure the economic independence and realize incomes to cover expenses.

2.4 Performance of companies in water supply and sewerage services

Water supply and sewerage service in our country is provided by 58 companies. In application of law no.8102 dated 28.03.1996 “On regulatory framework of the water supply and wastewater disposal and treatment sector”, as amended, all WSS service providers should be licensed and apply tariffs approved by WRA.

Currently, only 2 companies have not been licensed and 14 of them do not apply tariffs approved by WRA.

One of the main duties of WRA is to present to the central government the current situation in the sector. For this reason, WRA continuously monitors and analyzes the performance of companies and the sector in general. Such monitoring and analysis is done based on Key Performance Indicators approved by the National Regulatory Commission.

The Current levels of KPI and their tendencies in the last three years are given in the following table:

Table 4: *Key Performance Indicators*[4]

No	Indicators	Unit	2011	2012	2013	Tendency
1	Water coverage	%	80.8	80.8	80.8	=
2	Sewerage coverage	%	50.8	51.0	51.0	=
3	O&M cost coverage	%	105.2	106.3	112.4	↗
4	Total cost coverage	%	79.4	82.7	84.0	↗
5	Collection norm	%	79.9	90.9	75.0	↘
6	Metering ratio	%	50.6	55.1	58.5	↗
7	Non-revenue water	%	63.5	67.1	68.1	↘
8	Staff efficiency (staff/1000 connections)	no	9.3	9.3	9.5	↘
9	Hours of supply	Hour/day	10.9	10.8	11.5	↗
10	Drinking water quality					
	-Security norm- residual chlorine				97.7	
	-Security norm- Coliform				98.0	

As it can be seen from the above table, the performance indicators for 2013 shows that the sector has not performed in all directions well.

Water supply and sewerage service remains in the same levels of last years. In many aspects, sewerage level continues to be behind the water supply service level. From the data it can be seen that currently there are improvements; from 28 companies offering before this service, currently there are 32 companies. 5 companies covers now this service by operating treatment plants for wastewater. In addition, three plants are expected to start very soon the operation.

However, continuous efforts are needed to improve the disposal and treatment of wastewater service in most of the country, for both coverage as well as service quality to assure water and environment protection.

O&M cost coverage and the total cost coverage are indicators that have shown a good trend and the tendency all this year has been positive. The number of companies that have managed to cover 100% the O&M costs has been increased. In general, the big companies have reached this target, whereas small companies have still much to do to improve the cost coverage level. These three years, the level of cost coverage with income from activity has increased. Companies have tried to keep the level of expenses under control, but mainly the increase of tariffs for 13 companies in 2012 and 10 companies in 2013 has influenced the income increase more then expenses control.

However, although the cost coverage with income level was in a good trend, did not happen the same with the collection rate as one of the main indicators related to financial sustainability and independence of companies. This indicator had a good trend and a positive tendency until 2012, but in 2013 the level is not satisfactory at all. The sector could not

[4] KPI have been calculated based on the data of 9 months from Benchmarking and Monitoring Unit GDWSS for 2013

manage to collect more than 75% of the realized income, compared this to 90% in 2012. In 2013 the companies' effort in collecting income has not been in the needed level. Despite its subjective or objective reasons, this situation should be improved, because all companies should understand that main income source is the income realized from their activity. In general, the collection rate is a managerial aspect and an increased level of this indicator actually expresses the work of the company itself.

An indicator with a positive trend during these years, is the metering level. The performance of this indicator in 2013 for the sector in general has been positively increased at an average level of 58.5%. The level of this indicator is increasing year by year. Compared to 2011, in 2013 the metering level has been increased with 8%. This indicator helps companies to operate with accurate data of produced and invoiced quantity, as well as the income generated from such invoices.

For WRA, the reduction of the practice to apply flat rate billing that actually is in high levels and the application of programs for installation of individual and production meters should be the focus of the companies.

This practice will also help the improvement of the “non-revenue water” indicator, which compared to the previous indicator, is not in good levels. The biggest part of the produced water, or 68% of it, is non-revenue water and the trend of this indicator is not positive. Even though control and reduction of losses requires time and investments, WRA has continuously stressed out that reduction of losses should be a priority for the companies.

During 2013, WRA has tried to get more information on such regard, not only related to the quantity of “lost” water but also to the types of such losses. For these reasons, WRA is working for companies to fill in the “Water Balance Sheet”, as a format that will give detailed data regarding the level of losses and their causes. The companies shall also have a clear picture on the quantity of produced water, billed water, assessment of situation and of measures to be taken for its improvement.

Staff efficiency is an indicator, which had no considerable change, however, its tendency has not been positive. The average number of employees per 1000 connections is increased from 9.3 to 9.5. The level of indicator is high compared with the region countries. However, there are companies where the staff efficiency is in contemporary levels. This indicator plays an important role in the level of expenses and requires more attention from companies.

Continuity of the service and quality of the drinking water are the main indicators for assessment of the service quality to customers. The average of water supply hours in 2013 is 11.5 hours a day. Compared to one year ago, there is an increase of 0.7 hours. The biggest part of customers are not continuously supplied with drinking water, because only few companies supply 24 hours the customers with drinking water, as for example "WSS Korçë" sha, "WSS Pogradec" sha and "WSS Librazhd" sha. Lack of continuous supply, despite the reasons, affects as well the quality of water.

The Public Health Institute, being the responsible institution, controls continuously the quality of drinking water. Assessment of drinking water quality by the Benchmarking and Monitoring Unit at WSSGD is made by using two parameters, residual chlorine and Coliform. The security norms for each of them during 2013 is respectively: 97.7% and 98.0%.

PHI assesses the quality mainly by the number of measured polluted points in urban areas. Based on such assessment, approximately 12.5 % of these points result to be with problems of water pollution. This number has increased in the second semester of 2013.

Even though WRA is not directly the responsible institution for monitoring the drinking water quality, this indicator is considered one of the main regarding consumer protection. For this reason, during 2013 the cooperation with the responsible institutions for drinking water quality is strengthened.

3. WRA objectives for 2014

- Continuation of work for licensing all the companies in the entire country, in order to comply with the requirements of the legislation into force, as well as the monitoring of new licensing conditions for all companies exercising their activity in the sector.

- Review of Tariffs for WSS Service, based on the analysis and evaluation of the main performance indicators as defined by NRC and the new Methodology of Tariffs. When doing such review will be taken also into account the protection of consumers, through application of international directives for payment affordability of this service from household consumers. Special attention shall be given to the preparation and implementation of a special tariffs methodology that will apply to small companies and wastewater treatment companies.

- Continuous monitoring of the service quality and consumer issues, based on the performance analysis of the companies that offer WSS services. The WRA shall analyze the performance of companies with professionalism and shall improve further the quality of data collected through onsite inspection to verify their validity. By the end of the process, the Performance Report on the quality of service for WSS sector shall be drafted for 2013 and its results will be presented to all WSS service sector actors.

- Knowledge and identification of problems in WSS service for rural areas, where this service is not covered by licensed companies, but it is performed by the relevant sectors at the local government units. At the end of the process, a report/study shall be drafted regarding the situation with this service in these areas, giving relevant conclusions and recommendations to regulate it.

- Continuation of work for establishment and updating of service standards in WSS sector, giving priority to standards related to consumer protection and consumer-company relations.

- Continuous monitoring of Water Balance Sheet for all companies aiming to control water production, water consumption, water demand as well as losses in the water supply systems.

- Encouragement of WSS service companies and especially their management to drive their attention toward energy efficiency, by taking into account the big importance of electricity cost in the structure of service cost.

- Institutional consolidation of WRA through completing the approved WRA structure, training of the staff and increasing their professional capacities, as well as applying the new WRA work regulations approved at the end of 2013. During 2014, WRA will continue the fruitful collaboration with GIZ by supporting their project in institutional strengthening of WRA. In addition, WRA will support the Danube water program for the regulatory component aiming the improvement of service quality in WSS sector.

- During 2014 the electronic platform for collection and analysis of data for every company and the sector in general will be functional. This system will serve as a database and will offer information in real time for all other players as well as will improve communication with companies and increase the efficiency in decision making.

- Increase the WRA transparency through continuous publication of data and NRC decisions in the institution website, publication of the annual report and performance report for service quality in the sector, organization of work meetings on standards clarification and regulations drafted by WRA, improvement of the process of consumer complaints treatment as well as the communication with all players in this sector.

- Active support on the Government Program and Sector Strategy regarding the sector reforms when drafting the suitable policies of WSS service improvement so that it can progress towards EU standards compliance.

- Increase the collaboration with all players of local and central government, donors and foreign institutions, WSS service companies, the institutions and associations of consumer protection that operate in the WSS service sector.

- Strengthen the international collaboration and experience exchanges with counterparty regulatory institutions in Europe and World, as well as signature of bilateral agreements. In this direction, WRA is part of the initiating group for the establishment of the European regulators network.

4. Recommendations

- ***Recommendations for legal improvements***

  - *Law on organization and functioning of Water Regulatory Authority*

The closure of the process on amendments in the law 8102. This law needs several amendments in order WRA to better respond to the sector development. Such amendments are necessary on several aspects as the WRA approval right of rules and requirements to license the subjects which exercise their activity in the sector, sector monitoring, complaints resolution, increase of sanctions categories and its measures.

  - *Law on water supply and sewerage services*

WSS service sector perhaps is the only sector in Albania that does not have a basic law, which would regulate its organization and functioning. This vaccum, by time, has been partially filled with normative acts from Council of Ministers, but this has been insufficient to give the WSS service sector a full and suitable legal framework. Absence of this law has brought about several drawbacks especially in the activities of the sector, in the determination of rights and duties for legal, physical persons and the public administration involved in the sector, in the market model, its functioning rules, etc. This law would integrate all acts distributed in time and will avoid ambiguities and interpretations.

- ***Recommendations for the WSS sector***

  - Approve and implement the Master Plan in the WSS Sector which aims to increase the access of population to safe drinking water, increase the connections of urban and rural population to wastewater collection network, increase the water supply hours and increase the population percentage connected to wastewater treatment network (especially population of coastal areas).

  - Continue the regionalization process of WSS service through implementation of the Sector Strategy, which aims to the aggregation of WSS services (there are currently 26 companies, mainly small ones and with financial problems providing only water supply services) as well as the aggregation of small companies with mid-size companies. WRA opinion is that the regionalization/aggregation process of such services should be done having clear requirements and set as priority within the reforms to be undertaken in the sector.

  - Reduce the non-revenue water level through continuous monitoring of Water Balance Sheet and the main elements affecting this loss.

  - Increase the metering level in production and consumption of water. Currently only 7 companies have installed meters in water production and only 50% of the consumed water is metered by companies. The installation of meters for private and public consumers should finish by 2014. In addition, it should be set as priority the installation of meters in the water production facilities (pumping stations and drinking water sources).

- Increase the collection efficiency by aiming the increase of incomes for the companies ensuring their financial sustainability.

- Better management for the reduction of service costs from the companies.

- Reform and improve the process of service performance monitoring from the companies in the sector.

- Reform the monitoring process of drinking water quality and wastewater discharged in the water bodies within the country. An institutional coordination and collaboration is required from all sector players in this process to support the project already started from GIZ.

- Ensure a proper service from all companies, aiming at consumer protection. Within this year all companies should complete signing of the new contracts with all three consumer categories.

- Companies should better administer the issues related to environment protection according to European standards. Placing into operation the wastewater treatment plants in coastal areas (Sarandë, Lezhë, Vlorë) and increasing the professional capacities to improve their operation and maintenance, we think will have a positive impact in this direction. The costs of this service is very high. A part of these costs is reasonable to be covered by tariffs, but coverage of total costs would not be possible to be afforded by consumers thus tariff increase could bring negative effects. Therefore it is mandatory to find subsidy mechanisms to protect consumers and at the same time to ensure the sustainable functioning of the systems.

- WRA supports the strategic objective of the government for drafting business plans as a mean of internal management improvement of companies as well as planning of investments monitoring and asset management. When applying the Tariff Setting Methodology for companies having a business plan approved, approval of tariffs will be done for more than one year. WRA, supported also by GIZ consultancy, is working on drafting the relevant guide.

- The process of supporting the companies through granting subsidies and investments should be done through an active collaboration of all players in the sector, based also on the current conditions of this service as well as the O&M and total cost coverage.

Annex 1

Key Performance Indicators

No	Key Performance Indicators	Unit	Sha WSS Erseke		Sha WSS Gjirokaster		Sha WSS Lezhe		Sha WSS Puke		Sha WSS Korçe		Sha WSS Sarande	
	WSS Services		2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
1	Non-revenue water (losses)	%	64.4	62.0	70.0	65.0	48.0	47.0	68.0	66.0	26.0	24.0	72.8	70.0
2	Metering level	%	49.9	75.0	1.0	15.0	64.0	75.0	44.0	70.0	100.0	100.0	68.7	70.0
3	Water quality		100	100.0	normal	normal	normal	normal	normal	normal	Very good	Very good	normal	normal
4	Supply hours	hour/day	11.8	16.0	3.5	5.0	20	20	9.0	10.0	24.0	24.0	4.5	6.0
5	Energy efficiency		2.8	2.6	0.8	0.8	2.56	2.5	-	-	0.8	0.8	0.7	0.7
6	Staff efficiency	staff/000/connections	5.5	5.5	8.7	6.0	6.1	6.0	11.1	10.0	2.4	2.3	3.6	3.6
7	Water coverage	%	100.0	100.0	91.7	92.0	90.0	90.0	53.0	60.0	100.0	100.0	92.7	94.0
8	Sewerage coverage	%	100.0	100.0	48.3	50.0	90.0	90.0	53.0	54.0	94.0	94.0	88.0	75.0
9	Regulatory perception	points	67.0	100.0			100	100		100.0		100.0		100.0
10	Collection rate	%	88.8	92.0	88.7	91.0	80.0	85.0	83.0	85.0	90.0	91.0	70.0	75.0
A	O&M cost coverage	%	80.0	105.0	124.0	142.0	94.0	97.0	75.0	93.0	153.0	170.0	107.0	117.0
B	Total cost coverage	%	69.0	90.0	118.0	134.0	70.0	69.0	65.0	80.0	72.0	84.0	68.0	77.0

Annex 2

Current tariffs of water supply and wastewater disposal service (data updated as per 1 January 2014)

Type of company	Nomination	Date of entry into force of tariffs	For drinking water lek/m3			Service tariff lek/customer/month			For wastewater lek/m3		
			F	B	P	F	B	P	F	B	P
Sha WSS	Berat - Kuçovë	01/01/2013	42	120	120	100	200	200	10	18	20
Sha WS	Bilisht (Devoll)	01/01/2012	38	100	110	50	50	50			
	Bradashesh										
Sha WS	Bulqizë	01/01/2013	17	55	75	100	100	100			
Sha WS	Burrel (Mat)	01/01/2006	23	60	80				2	4	6
Sha WSS	Delvinë	01/06/2008	48	100	100						
Sha WS	Divjakë										
Sha WSS	Durrës	01/06/2013	58	110	120	100	100	100	35	50	50
Sha WSS	Elbasan (Elber)	01/01/2006	38	115	130				8	25	30
Sha WS	Elbasan Fshat	01/01/2012	36	110	110	100	100	100			
Sha WS	Ersekë	01/01/2014	35	90	110	100	100	100	8	12	18
Sha WSS	Fier	01/01/2013	52	100	120	200	200	200	13	16	18
Sha WSS	Fushë Arrez										
Sha WSS	Fushë Krujë	01/05/2004	28	60	80				6	10	12
Sha WSS	Gjirokastër	01/01/2014	39	112	124	80	80	80	9	14	14
Sha WS	Gjirokastër Fshat	01/07/2010	25	60	60						
Sha WS	Gramsh	01/01/2011	32	90	90						
Sha WS	Has										
Sha WSS	Himarë										
Sha WSS	Kavajë	01/07/2010	38	80	100				15	20	20
	Këlcyrë										
Sha WSS	Korçë	01/01/2014	65	110	140	120	120	120	34	56	56
Sha WS	Korçë Fshat										
Sha WS	Krastë	01/07/2007	30	80	100				7	10	15
Sha WSS	Krujë	01/06/2007	33	80	80				8	12	12
Sha WS	Kukës										
Sha WS	Kurbin	01/01/2011	30	80	120	50	50	50			
Sha WSS	Lezhë	01/01/2014	58	135	145	200	200	200	18	22	27
	Libohovë										
Sha WSS	Librazhd	01/03/2012	38	100	100				13	22	23
Sha WSS	Lushnjë	01/01/2013	52	120	130	100	200	200	14	18	20
Sha WS	Lushnjë Fshat	01/01/2006	60	70	100						

	Mallakastër										
Sha WS	Malësia e Madhe										
Sha WSS	Mirditë (Rrëshen)	01/01/2012	30	100	115				10	15	15
Sha WS	Novoselë	01/01/2011	33	50	70						
Sha WS	Orikum	01/01/2012	25	70	75	100	100	100			
Sha WS	Patos										
Sha WSS	Peqin	01/07/2010	30	90	100	50	50	50			
Sha WS	Përmet	01/01/2013	40	110	120	100	100	200			
Sha WS	Peshkopi	01/01/2010	27	65	85						
Sha WSS	Pogradec	01/01/2013	22/62	37/1 11	37/111	200+ 100	400+ 100	400+ 150	11./33	12./36	12./36
Sha WS	Poliçan	01/07/2010	37	80	95						
Sha WSS	Pukë	01/01/2014	35	130	140	100	100	100	8	16	16
Sha WSS	Pukë Fshat										
Sha WSS	Rrogozhinë	01/01/2013	48	90	100	50	100	100	10	12	12
Sha WSS	Rubik	01/10/2008	30	70	100				7	10	15
Sha WSS	Sarandë	01/01/2014	50	135	135	120	120	120	18	28	28
Sha WS	Selenicë	01/07/2010	30	80	100						
Sha WSS	Shkodër	01/01/2012	40	110	110	100	100	100	15	20	20
Sha WS	Shkodër Fshat	01/01/2012	50	120	120						
Sha WS	Skrapar - Çorovodë	01/03/2010	27	80	95						
Sha WS	Tepelenë	01/01/2014	33	100	120	90	400	250	12	20	20
Sha WSS	Tiranë	01/01/2012	45	120	135	100	100	100	11	30	35
Sha WS	Tropojë	01/11/2004	19	60	80						
Sha WS	Ura Vajgurore	10/11/2007	40	90	100						
Shpk	Vau i Dejës										
Sha WS	Vlorë	01/05/2013	30	60	80	80			11	13	13

F - Household customers
B - Budgetary customers
P - Private customers

Annex 3

WASTEWATER TREATMENT PLANTS MAP