



**ALBGAZ sh.a.**  
**COMBINED NATURAL GAS OPERATOR**  
**COMPLIANCE OFFICER**

Nr. \_\_\_\_\_ Prot

Tirana, on \_\_\_\_/\_\_\_\_ 2020

**ANNUAL COMPLIANCE REPORT**  
**2019**

**On the adoption of measures out for the implementation  
of the Compliance Program in the Natural Gas Sector by  
ALBGAZ sh.a.**

ALBGAZ Sh.a.  
Combined Natural Gas Operator  
Njësia Administrative Nr. 5, Rruga e Kosovareve,  
Pallati Ndër Pro, Tiranë, Shqipëri  
[www.albgaz.al](http://www.albgaz.al)  
NUIS: L71306034U

**ANNUAL COMPLIANCE REPORT**

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**Tirana, 2020**

### Disclaimer on the English Translation

The present Annual Compliance Report is an unofficial English translation for convenient purposes only. Accordingly, any prospective reader should also refer to the official Albanian version, which is the prevailing document for all purposes.

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This report was prepared on the basis of information that was provided by ALBGAZ Sh.a. Natural Gas Transmission and Distribution System Operator to the company's Compliance Officer during the fulfillment of his responsibilities in 2019.

According to the requirements of Article 47, Article 16, point 7 of Law No. 102/2015, dated 23.09.2015, "On the Natural Gas Sector", as amended, as well as the ERE decision no.77, dated 26.05.2017, the annual report will to be published in two languages on the official website of the Transmission System Operator - ALBGAZ Sh.a ([www.albgaz.al](http://www.albgaz.al)) within five days of its submission to the Albanian Energy Regulatory Entity (ERE). The report must be completed by 31 March each year.

*Remark: Because of the unprecedented situation of COVID-19 in 2020, and because of the staff being in quarantine or working from home, myself and the colleagues of ALBGAZ had time to ensure the final report verification, review of the documents, updating the information for the creation of the Annual Compliance Report 2019 for ALBGAZ sh.a. For this occasion, the Report was published late, more precisely on 23.7.2020.*

Prepared by:

Elvis Ponari MBA, MSc

Compliance Officer

Email: [elvis.ponari@albgaz.al](mailto:elvis.ponari@albgaz.al)

## **ABBREVIATIONS AND DEFINITIONS**

**ALBGAZ sh.a.:** Combined Operator of Natural Gas Transmission and Distribution System

**ALBPETROL sh.a:** Public Company for Oil and Gas Production

**ERE:** Energy Regulatory Entity

**OSSH / DSO:** Distribution System Operator

**TSO/TSO:** Transmission System Operator

**ENTSO-G:** European Network of Gas Transmission Operators System

**MIE:** Ministry of Infrastructure and Energy

**LNG:** Liquid Natural Gas

**ECRB:** Energy Community Regulatory Board of Energy Countries

**ACER:** Agency for the Cooperation of Energy Regulators

**CEER:** Council of European Energy Regulators

**MEDREG:** Mediterranean Association of Energy Regulators

**GRI SSE:** Gas Regional Initiative for the South-South East Region

**IGU:** International Gas Union, we are members with full rights

**OME:** Mediterranean Observatory for Energy

**UfM:** Union for the Mediterranean

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## *PART ONE*

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### **1. Introduction**

In support of law no. 102/2015 “On the Natural Gas Sector”, as amended (published in the Official Gazette No. 178, dated 15.10.2015), pursuant to the requirements of Article 47, the Compliance Program (Program) has been approved by the Board of the Energy Regulatory Authority (ERE) with Decision no. 77, dated 26.05.2017 "On the approval of the Compliance Program of the Transmission System Operator for Natural Gas", and especially pursuant to the provisions of Article 21 of Directive 2009/72/EC of 13 July 2009 "On common rules in the domestic energy market which repeals Directive 2003/54 /EC”, Mr. Elvis Ponari MBA, MSc (from now on as Officer), approved by Decision no. 233, dated 16.10.2018, "On the approval of" Minimum requirements for the Officer, professional criteria and other selection criteria "and prior approval of the Officer of the Natural Gas from ERE, drafted this annual report concerning the adaptation of measures by ALBGAZ (TSO) for the implementation of the Program.

This annual report of compliance is drafted for the second time as part of the legal competencies of the activity of the Officer. It aims to present the mechanism for the implementation of this Program, the definition of functional tasks and obligations of TSO’s employees in relation to the Program, relying on monitoring and reporting on the implementation of this Program.

This annual compliance report sets out the monitoring and progress of the process according to the Compliance Program first approved in 2019 by the TSO Supervisory Council with Decision No. 18, dated 04.11.2019 on “approval of the compliance program of the transmission system operator for natural gas ”, but not yet approved by the ERE. ERE with decision no. 221 prot. dated 20.12.2019 requested the submission of the program for approval because in the decision of TSO it was stated “The decision had to be approved by the Assembly”.

The program is aimed at ensuring the unbundling and independence, access and information, avoidance of discriminatory behaviors, implementing and using the program as well as the transposition of the procedures followed by it during the period 1.1.2019 - 31.12.2019.

The Officer confirms that TSO complies with industry standards, laws, bylaws, and regulations set by ERE. During 2019, the Officer analyzed the company according to the Program and exercised his duty for the Program to be implemented by the company. Also, during 2019 the Officer has taken care that the company complies with international regulations. To meet any compliance requirements, the Compliance office together with TSO have actively established regulations, guidelines, and processes so that the company and its staff are as consistent as possible with the Program.

The 2018 report presented some recommendations that should have been met throughout 2019, to improve the work of TSO and meet the obligations of the Program. These recommendations will be postponed for 2020.

The recommendations were:

- Update the official TSO website to include the Compliance Program

- Improving the Code of Ethics, to include parts of the Compliance Program
- Guidelines: Compliance Program Principles
- Communication channel with the Officer
- Document Classification Policy Guide
- Update/amend the Program
- Application/mechanism for monitoring and reporting on the implementation of the Compliance Program.

According to the letter of ERE no. 411/1 prot. Date 26.08.2019 "Request for information regarding the implementation of the recommendations of the Officer TSO". TSO with letter no. 87 prot. On 12/09/2019 have responded: they have not been able to complete the recommendations. The Officer with letter no. 71 prot. On 04.03.2020, with subject "information on the measures taken for the recommendations of the Annual Compliance Report of TSO for 2018 is required" has received a response from TSO with letter where they declare that they have not been completed yet and these recommendations will be met during 2020.

Lastly, there have been delays for the completion and approval of the compliance program for various reasons, but with the help of the Officer together with the staff of TSO it was finalized.

## 2. The Company

TSO is a joint stock company with 100% of the shares owned by the state with shareholders of the Ministry of Infrastructure and Energy (MIE), established by Decision no. 848, dated 7.12.2016 of the Council of Ministers, "On the establishment of the company" ALBGAZ "sh.a. The central headquarters of the company is in the city of Tirana. The company also has a representative office in the city of Fier.

TSO was certified by ERE as a **Gas Transmitter and Distributor** by Decision of the ERE Board no. 179, dated 8.11.2017 "On the certification of the company as a Combined Operator of Natural Gas, " and decision no. 187, dated 10.11.2017 on Licensing TSO as a Company in Natural Gas **Distribution** Activity, and decision no. 188, dated 10.11.2017 on Licensing TSO as a Company in Natural Gas **Transmission** Activity. During 2019, TSO has had communication with its Board to receive the approval to apply for a license as a **Gas Storage Company**. Based on the Gas Master Plan of natural gas for Albania and the identification of priority projects in the field of natural gas, TSO applied for the project **Dumrea 2** with request letter no. 8 prot. Dated 01.09.2019. This project costs around 73 million euros with a storage capacity of around 1-1.2bmk of gas inside natural salt storage. At the time being that TAP passes through Albania, and since Albania has natural resources for gas collection, it is of interest to establish such a storage. ERE has approved this with Decision No. 190, dated 25.11.2019 "On the request of the company TSO for licensing in the activity of operation of natural gas storage spaces", after the company "ALBGAZ" sh.a. with letter no. 729 Prot, dated 11.11.2019, submitted to the ERE the application and fulfilled the conditions to be provided with a license in the operation activity of the natural gas storage spaces.

Momentarily TSO pipeline network is distributed throughout western Albania and ends at the ORC in Ballsh. The domestic gas network infrastructure in Albania has a larger scope than the oil infrastructure. TSO has confirmed that they have started with an internal process of the

identification of the gas pipes on the ground, technical assessment and the integrity of pipe lines and as well as environmental impact assessment of this pipes lines, for the purpose of applying for an environmental permit and license.

The gas fields extend from Durrës to Delvinë, thus creating an opportunity for consumers to connect to the network. The limited domestic gas infrastructure in Albania in some parts of it is out of operation and needs major rehabilitation works. TSO manages about 500 km of gas pipelines built more than 40 years ago. I think now that they are outdated, lost, not working or even rusted and hard to put back to life.

Currently the main object of activity of the TSO as a combined operator, it is to provide the transportation and distribution of natural gas through the transmission and distribution network, and in the future to also provide the activity of underground natural gas storage and liquefied natural gas plant.

TSO as a combined gas operator during 2019 has proceeded to finalize the legal requirements in terms of certification and licensing of the company. TSO with:

- Letter No. 22 prot. Date, 27.2.2019 on "Request for extension of the decision on the licensing of the Company ALBGAZ sh.a." has requested extension until 20.12.2019 to complete the missing documentation.
- ERE with letter no. 36 and no. 37, dated 04.03.2019 on "An amendment to the decision of the ERE Board No. 187, Dated 10.11.2017, amended by decision no. 261, dated 19.12.2018," On the licensing of the ALBGAZ in the distribution activity of natural gas", accepted and decided: to postpone the licensing of TSO until 20.12.2019, giving time for TSO to produce:
  1. Documentation that shows the titles of ownership over the assets it has
  2. An environmental permit
  3. An insurance certificate from an insurance company (operating in accordance with the legislation in force in Albania) that evidences the coverage of liability for injuries, illness or death of persons or for the loss or destruction of property caused or resulting from the activities of the applicant within the required license at a level of responsibility not less than 10 million USD.

**It should also be noted the persistence of ERE, where with the decision no. 63 an amendment on the ERE Board decision nr 179, dated 8.11.2017 "on the Certification Combined Operator Gas ALBGAZ Company" dated 23.04.2019, continues to request and inform about the fulfillment of the conditions set for licensing or revocation, especially the approval of the Program.**

TSO during 2019 has managed to meet and fulfill part of the licensing and certification conditions. With letter no. 51 prot. Date, 17.05.2019 "Update on asset status" **has completed this legal request and calls it exhausted.** With letter no. 52 prot. Date, 17.05.2019 TSO also informs about capital increase after the new assets owned by TSO were added.

ERE with decision No.220, dated 20.12.2019, **decided on the license:**

- TSO, through letter no. 51 prot., Dated 17.05.2019, recorded in ERE with no. 266/4 prot., Dated 20.05.2019, as well as letter no. 52 prot, dated 17.05.2019, recorded in ERE with no. 354 prot., Dated 20.05.2019, has notified the ERE for the closure of the



process of obtaining ownership certificates and has announced the increase of capital. **ERE calls this condition exhausted.** Following, TSO addressed to ERE with letter no. 122 Prot., Dated 02.12.2019, recorded in ERE with no. 196/1 Prot, dated 02.12.2019, by which it **requested the postponement of the licensing deadline and the completion of the missing documentation until 20.06.2020**, stating that the provision of the required documents is a process that requires time and is dependent on the response from the relevant institutions. Also, in order to complete the documentation, TSO informs ERE that it has applied for the transfer of the Environmental Permit of (Type A) to the National Environmental Agency, which is still waiting confirmation. "TSO", states that it has foreseen in the Budget-Program of economic development for 2020, the payment of the insurance certificate as an insurance company. ERE decided to license "TSO" in the activity of natural gas distribution, for a period of 30 years, provided that within 20.06.2020, in support of Article 24, point 2 of Law no. 102/2015, "On the Natural Gas Sector", it has completed all missing documentation.

ERE with decision no. 221, dated 20.12.2019, decided on the **certification** of TSO:

- to repeal the request for the provision of ownership certificates of the remaining assets after it has been **exhausted**; TSO must submit by 20.06.2020 the Compliance Program and the completion of the missing documentation; **TSO to take measures within 20.06.2020 regarding the implementation of the division of ownership** in accordance with the provisions of article 36 point 2 letter "a" and "b" of law no. 102/2015 "On the Natural Gas Sector"; If the division of ownership of TSO according to article 36, point 2, letter "a" and "b" of law no. 102/2015 "On the Natural Gas Sector", amended, has no changed within 20.06.2020, ERE has the right to review the decision no. 179, dated 08.11.2017, "On the certification of the company" Combined Natural Gas Operator ”.

During 2019 TSO has changed the members of its board by confirming it with letter no. 78 prot. Dated 24.07.2019. And with the letter no. 97/1 prot. Dated 07/01/2020 "On an amendment to the Supervisory Board" changed again the Supervisory Board by completing it lastly with its full members.

### 3. The Compliance Program

#### Principles of the program that govern the activity of TSO

Monitoring the fulfillment of the obligations rising from the Program, **is based on the four basic principles, (unbundling and independence, access and information, avoidance of discriminatory behaviors, implementing and using the program)** according to the Decision of the ERE Board No. 77, dated 25.06.2017 "On the Approval of the Compliance Program of the Operator of the Transmission System for Natural Gas", it is examined how the activity of ALBGAZ sh.a. should be governed by the standards set by the legislation in force.

This annual compliance report sets out the findings acquired by monitoring and progress of the process according to the Compliance Program first approved in 2019 by the TSO Supervisory Board with Decision No. 18, dated 04.11.2019 on "approval of the compliance program of the transmission system operator for natural gas ”

The following regulatory requirements and principles should be considered a priority for TSO and any of its structures is obliged to implement and require compliance with these requirements and principles.

## A. TSO unbundling and independence

### 1. Unbundling of TSO

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved with ERE Nr. 77, date 26.05.2017 and letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”: **TSO meets the requirements of the program** as it is a TSO that develops its activity separated from other activities that are not related to the transmission of natural gas in accordance with Article 36 of Law no. 102/2015 “For the Natural Gas Sector”. Also, TSO is a separate legal entity that is not part of a vertically integrated companies or part of the corporate structure and does not perform or engage in the activities of production and/or supply of natural gas and electricity.
- TSO according to the conditions and requirements of the paragraphs of the Compliance Program approved with ERE Nr. 77, date 26.05.2017 and letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”: **TSO meets the requirements of the program** and has ensured and guaranteed the proper division of TSO, taking measures that the same person or the same persons appointed as members of the supervisory board, board of directors or bodies legally representing TSO do not have the right to exercise control at the same time directly or indirectly on the decision-making of the entity that performs the activities of production or supply of natural gas and be members of the supervisory board, board of directors or other bodies representing themselves to other licensed persons performing the activity of production or supply of electricity of natural gas and the activity of TSO or transmission network.

### 2. Managerial Independence of the TSO

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, and its sub-items, as well as letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”: **as TSO meets the requirements of the Program** by taking measures that the independence of the leaders has been achieved. In terms of the independence of TSO executives, such as the Supervisory Board Members, the Administrator, the chairperson, and the leading staff (heads of structural units), are independent to vertically integrated companies or are not part of them. To this end, the following requirements have been met:
- TSO executives are not professionally affiliated with vertically integrated companies or any part of them.
- TSO executives have no interest or receive financial benefits directly or indirectly, from vertically integrated companies or any part of them.

- Salaries of executives in TSO are determined based on predetermined elements related to the performance of TSO, as specified in the employment contract and / or in the employment instructions.
- The transfer of TSO executives to vertically integrated companies or any part thereof, and vice versa, is foreseen to be done under transparent conditions clearly set out in the TSO Statute and will be followed regularly, and none of these transfers should be predetermined from the beginning. TSO executives do not have shares at vertically integrated companies or any part of them, and there are no potential conflicts of interest related to these shares.

### 3. Operational and decision-making independence of TSO

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 "Response to letter of Compliance Office nr. 71/1, date 11.03.2020": **TSO has total functional and decision-making independence**, TSO based on Law no. 102/2015 on the Natural Gas Sector, as well as other legal acts and the Transmission Network Code is responsible for providing access to third parties, including the collection of obligation access and congestion obligations, for the operation, maintenance and development of the transmission system as well as to provide a long-term opportunity of the transmission system to meet reasonable requirements through investment planning. With the development of the transmission system, TSO is responsible for planning (including authorization procedure), construction and authorization of new gas infrastructure. TSO is independent in planning investments regarding the transmission system according to the requirements of Law 102/2015 and other applicable legal acts and must be matched with the approved ten-year plan for the development of the transmission network and be monitored by ERE. TSO makes available the required financial, technical, physical, and human resources to perform the tasks of the natural gas transmission system operator.

A legal request carried over from 2018 has to do with the review of the investment plan for 2018 and the 10-year plan 2018-2027 of the development of the TSO network. ERE with decision no. 14, dated 31.01.2019, decided to reject the approval of the investment plan for 2018 of the company " ALBGAZ " sh.a. Point 2 of Decision no. 235, dated 02.11.2018, is amended and made: - " ALBGAZ " sh.a, has to submit to ERE no later than 31.10.2019: approval by the Supervisory Council (Bord), of the Network Development Plan for the period 2019 - 2028, which reflects the changes in the 10-year Network Development Plan according to letter no. 10 prot, dated 24.01.2019.

Also, from TSO during 2019, we have good cooperation and communication with ERE where together they have improved the gas market from the regulatory point of view for the future. ERE with decision no. 53 prot. On 03.04.2019 began the procedure for "Regulation on standard quality criteria for service and supply of natural gas networks" and TSO with the letter 50 prot. Date 13.05.2019 expresses agreement on this regulation. This regulation was approved by decision of ERE no. 100, dated 21.06.2019 "Regulation on the determination of standard criteria and minimum requirements for service quality and supply of natural gas networks".

Another inter-institutional cooperation is the approval of decision no. 76, dated 31.05.2019 "Regulation on the Unified Accounting System for Regulated Companies in the Natural Gas Sector, including Audit of Accounts". And for the beginning of the procedure for the review and approval of the "Regulation of new connections in the natural gas network" approved by decision no. 176, dated 14.11.2019.

A well-fulfilled regulatory function by TSO has been the elaboration and creation of the Network Code, where in cooperation with the EBRD they have created a much needed, and coherent regulatory document for the gas market. ERE with decision no. 56, dated 03. 04.2019 has started the procedure for transposing the regulation 2017/459 approved by decision no. 2018/06 / PHGL-ENC "on the establishment of the network code for capacity allocation mechanisms in natural gas transmission systems". And with decision no. 168, dated 04.11.2019, decided to initiate the procedure for the approval of the "Network Code that harmonizes the tariff structures of gas transmission". While with decision no. 231, dated 20.12.2019, approves the "Network Code that harmonizes the gas transmission tariff structures".

ERE with letter no. 717 prot. Date 7.11.2019 has sent the decision no. 166, dated 04.11.2019 on "regulation on the unified accounting system for companies regulated in the natural gas sector". On the other hand, TSO, as a natural gas operator, has a duty and is responsible for organizing the natural gas market. TSO will draft bylaws which regulate the natural gas sector, at the request of ERE with No. 706 prot. Dated 6/11/2019. TSO with a written response letter no. 87, dated 12.9.2019 stated: that ERE should select the Market Operator according to the provisions of Article 85 of Law No. 102/2015 "On the natural gas sector".

TSO has carried out many other activities in the domestic sector and it is worth mentioning:

- Capacity building in the "commercial" aspect, staff training with "commercial game scenarios".
- Increase of technical capacities with training of TSO staff, organized by USAID, Network Simulating Platform "SIMONE".
- Capacity building towards CAPEX.
- Technical-Financial Research for the realization of a "pilot project" of small-scale LNG
- Tracking the developments of an important first transmission project for TSO (PIP1) such as the FIER-VLORE Pipeline that will supply the Vlora TPP with gas.
- Completion of the construction of the Fier Branch, which has been leased to Albania Gas Services (AGS), the TAP maintenance company, established by TSO and SNAM.
- The procedure for taking ownership of the "land" in the Korça has been completed, on which the TSO Maintenance Center (MC) for the South-Eastern area of Albania will be built. This MC has also been leased to AGS with the working objective "Maintenance of TAP".
- The procedures for the MC project idea have started and are in process, according to the minimum standards of TAP and TSO partner, SNAM. Being an object with "industrial" functions, the MC needs to be designed according to certain standards for the activity of maintenance of gas pipeline assets under high pressure.
- Participation in fairs organized in land, focusing in "energy" in September 2019 and in the "general fair" in November 2019. This was done to increase the visibility of TSO and its activity, to increase awareness of the public regarding developments in the gas sector.

In the external sector, it is worth mentioning:

- Negotiations are underway at the technical level with TAP for the exit point (EXIT POINT) in Fier, with a minimum capacity of 80,000 N m<sup>3</sup> / hour or approximately 0.7 Bcm / year.
- Tracking the implementation process in practice of the TAP Maintenance Contract between AGS and TAP, which was signed in December 2018.
- Completion of procedures for approval of all initial documentation and relevant authorizations for the establishment of IAP (Ionian Adriatic Pipeline shpk), between Albania, Montenegro, Bosnia and Herzegovina and Croatia. Also memorandums of Understanding between IAP and TAP, as well as IAP and SOCAR.
- Strengthening institutional cooperation with the Energy Community within the WBIF (Western Balkans Investment Framework).
- Strengthening the institutional cooperation with ENTSO-G, considering a full membership of TSO. Until now, TSO has been following the activities of ENTSO-G with the status of "observer".
- Following the Feasibility Studies results for the interconnection project with Kosovo otherwise known as "ALKOGAP".

The year 2020 awaits TSO with the development in the field of gas as:

- Efforts to develop the gas sector in Albania during 2020 and beyond, because of the presence and operation of TAP, which will begin work in 2020 with the transmission of gas from Azerbaijan to Italy. The government has already approved in 2016 the Master Plan for the Development of the Natural Gas Market in Albania, a project funded by the European Organization that evaluates the development potentials of the Natural Gas Sector in the region, for the next 20 years, and in technology and in financial considerations. The passage of gas through Albania will help the area in important energy developments, in line with those of this sector in the global industry, such as: (i) the development of large energy producers or gas TPPs, as it's the most "Clean" version for using hydrocarbons for energy production, (ii) the supply to industrial customers, enabling the reduction of their production costs, but also (iii) the supply to residential customers.
- One of the first developments / forecasts of the sector will be the Fier-Vlora gas pipeline, with a dual purpose. It will supply the Vlora TPP and will develop the distribution network in the city of Vlora to support the industry, local businesses and the residential market.
- The Fier Region is also developing in parallel with the presence of TAP in the country. The proximity to the TAP pipeline to some traditional gas consumer industries, the practical and family culture of gas use for historical reasons, makes it very possible to develop the industrial and residential market in this city.
- The Korça region and the city, is becoming the "object" of market development and "capitalization" on the benefits that Albania has from the passage of TAP through its territory.

While the short-term objectives of the sector development are as mentioned, the medium-term ones are even more engaging. For example, to implement the connection of the most developed economic zone of Albania, Tirana-Durrës and that of Elbasan, being large industrial energy clusters, it requires high financing and labor costs. TSO is also following and is involved in the



project of the USA Department of Energy, which together with MIE organizes the first seminar in Albania for "Small-scale LNG solutions and the organization of LNG distribution by container".

- In cooperation with the EBRD (European Bank for Reconstruction and Development) TSO has delivered specialized training for its staff with the help of the "Commercial and Regulatory Department of ALBGAZ". Trainings on the network code, the methodology for calculating fees, commercial concepts in balancing natural gas, capacity allocation and network system operation and many more were finalized in 2019. All these elements are the basic knowledge for creating a fully operational TSO.
- TSO is also working with EBRD to deliver specialized assistance for the inhouse Legal Department, to gain experience in the "contractual framework of a TSO". These trainings were specialized for different types of market participants, understand the "Contract model" to be made for: interconnection, shipper, trader, underground storage, etc.

Given the market conditions, to develop the "TSO activity" and to develop the gas market, it is a complex, time-consuming process. Because such activities in this sector are very intensive and demanding in capital, labor, and time. But to achieve these objectives TSO should:

- Create the conditions for obtaining foreign direct investment in this segment of the industry.
- The increase of employment in the sector and in industries that have an impact on the gas sector;
- Improving energy supply to the industry, and residential;
- Creating conditions for sustainable industrial development and reducing energy costs of energy
- Reduction in general the "energy bill" of the final household consumer;
- Generating labor volumes in the country in the areas of pre-designing projects, designing projects, and investment management in the gas industry.

### B. Exclusion of discriminatory conduct

The conditions and procedures are set in relation to the provision of Gas Transmission Services, to prevent any discriminatory treatment by the TSO.

#### 1. Access to the transmission system

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 "Response to letter of Compliance Office nr. 71/1, date 11.03.2020": **TSO meets the requirements of the Program** by taking measures to ensure equal and non-discriminatory access. TSO during 2019 has given access to the gas transmission system to the company ALBPETROL. For 2019, ERE approved the contract with decision no. 230, dated 20.12.2019 Contract no. 1026 Prot., Of ALBPETROL sh.a, dated 04.02.2019 and no. 25 Prot., Of TSO., dated 25.02.2019, concluded between the companies ALBPETROL sh.a. and TSO, for the natural gas

transmission service, for a period of one year starting from 01.01.2019 - 31.12.2019. The gas transmission tariff applied for 2019 has been 28 leke/m<sup>3</sup> through the transmission contract signed between the parties. The procedure has started with the decision of ERE No. 49, dated 27.03.2019 on "Starting the procedure for the approval of the contract for the natural gas transmission service, concluded between TSO and ALBPETROL for 2019". There has been constant communication between TSO and ALBPETROL to renew the contract based on the gas requirements needed by ALBPETROL. With the letter of ERE no. 227/8 prot. Dated 4.07.2019 with the subject of "notification for the development of a hearing session" the contract has been updated where ALBPETROL from the amount of 770,000 Nm<sup>3</sup> for 2019 will require 600,000 Nm<sup>3</sup> for 2020 (in 2018 it was 2,651,000 Nm<sup>3</sup>). This change in the amount of gas used has caused financial damage to TSO. We expect it to be resolved at the next hearing in 2020. I would suggest that the contract should be updated in time and as soon as possible by having a meeting between the two parties after ALBPETROL identifies the amount of gas required. The renewal of the contract does not depend entirely on TSO, as TSO has resubmitted the letter no. 91/1 prot. Dated 09.10.2019 with the subject "reminder on the amount of gas needed and programmed and budgeted for 2020" to ALBPETROL, but without response from them. For this reason, TSO has requested ERE a mediation between the two parties.

## 2. Competition and commercial relations

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraph of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 "Response to letter of Compliance Office nr. 71/1, date 11.03.2020": **the activities of TSO meet the requirements of the program.** Regarding competition and commercial relations, during 2019 no violations or mismanagement of commercial activity were reported, both in general and in relation to specific cases. TSO's activities do not limit or affect fair competition in the natural gas market

## 3. Conflict of interest

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 "Response to letter of Compliance Office nr. 71/1, date 11.03.2020": **TSO meets the requirements of the Program.** Regarding conflicts of interest, during 2019, no violation or abuses from TSO employees or by the Whistleblower or any other internal or external individual of the company has been signaled.
- In 2019, the gas tariff in Albania has remained the same as last year of 28 lek / m<sup>3</sup> until 31.12.2019 where ERE temporarily set the gas tariff with decision no. 60, Dated 15.04.2019 on "approval of the temporary natural gas transmission tariff by the TSO, of 28 lek / m<sup>3</sup> or 2,6457 lek / kwh, until 31.12.2019. ERE with decision no. 186, dated 25.11.2019, decided to initiate the procedure for reviewing the Draft - "Methodology

for determining the tariff for the sale of natural gas by the supplier of the last opportunity". ERE with decision no. 206, dated 16.12.2019 decided to postpone the legal force of the decision no. 60, dated 15.04.2019, of the ERE Board for 2020 until the approval of a tariff based on the application of the company. For the 2019 tariff we have a complaint and lawsuit from ANOIL to ERE where it requires explanation and re-treatment of the annual gas transmission tariff. This lawsuit was then withdrawn by ANOIL as the fee is approved by ERE and not by TSO.

### C. Information policy of the TSO

TSO has undertaken a series of actions to ensure information, confidentiality and transparency to the public by providing equal access to users in all available documentation as it is obliged to publish on the official website of the corporation, according to the regulatory framework governing its activity .

#### 1. Provision of information

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”:**TSO meets the requirements of the Program.** Even though, TSO currently has only one user of the gas transmission network, TSO provides all users of the network with the necessary information for efficient and unrestricted access to the transmission system. This information is provided in a fair, transparent, and non-discriminatory manner according to the terms and conditions set out in Law No. 102/2015 on the Natural Gas Sector. The newly approved Network Transmission Code approved with decision nr. 68, date 22.04.2020 also emphasizes on how information should be provided. TSO is currently working on updating the website where information will be published to the public so that the entire natural gas transmission system is accessible to other transmission system operators, distribution system operators, operators and storage system and GNL system operators.

#### 2. Confidentiality of information

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017 letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”:**TSO meets the requirements of the Program.** Through the individual employment contract and other legal mechanisms, TSO ensures the confidentiality of sensitive commercial, financial, or technical information provided to the leaders or employees of the company during the performance of their professional activity. TSO stores confidential information classified as such under contracts with suppliers of products and/or services. These suppliers must ensure that their executives and employees, who receive this confidential information from TSO, maintain the confidentiality regarding this information. The company's staff has taken all measures to protect materials that have sensitive commercial information such as (documents,



electronic data archives, computers, tablets, telephones, etc.) based on workplace protocols. TSO also does not distribute sensitive commercial information to any third party, except when: Distribution of information is expressly required by law, ensuring that this distribution is carried out in a manner prescribed by law. All TSO executives and employees, authorized representatives, auditors, and advisors do not distribute or have disseminated sensitive commercial information to any third party during their appointment, employment, or cooperation with TSO and for at least the next 3 (three) years after the termination of employment, and co-operation (only in cases cited in law). In accordance with the transparency requirements of TSO, it ensures that all participants and users of the network are treated in a non-discriminatory manner and under the same conditions when functional information is provided, and other information related to TSO activities. If any sensitive commercial information is to be published, it must be ensured that this information is available to all participants and users of the network by publishing it on the TSO website. The Officer together with the TSO are drafting new guidelines and trainings to meet these requirements.

### 3. Public information

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”: **TSO meets the requirements of the Program.** TSO has published on its website information that is not classified as confidential or sensitive commercial information by making available to all participants, network users and third parties information related to the list of services provided by TSO. Published we find information on fees and other conditions for the provision of these services, including technical conditions for access and connection to the transmission system.

### D. Implementation of the Compliance Program

The Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, is designed to have the form of a regulation, or instruction with mandatory commitments for all managers and employees, as well as authorized representatives of TSO, such as auditors, advisors, contractors, network participants and users as well as other third parties.

The Compliance Officer with the letter no. 34 prot. Date 20.02.2020 “information is required on the last decision for the certification of ALBGAZ sh.a.” has requested that TSO to meet the requirements of ERE in decision no.63 dated 23.04.2019 for a change in the decision of the board ERE no.179 , dated 8.11.2017, "on the certification of the company" Combined natural gas operator "ALBGAZ sh.a." . The official with the letter no. 35 prot. Date 20.02.2020 "Information on the latest decisions for certification and licensing of ALBGAZ sh.a." has informed the board of the TSO's legal obligations for 2020.

It should be emphasized the persistence of ERE where with decision no. 63, an amendment on the ERE Board decision nr 179, dated 8.11.2017 “on the Certification Combined Operator Gas ALBGAZ Company” dated 24.04.2019 decided:

- TSO to submit the Program until 31 May 2019 for reasons of fulfillment of certification conditions; the program should be approved by the Assembly, before it is approved by ERE.
- Documentation that shows the titles of ownership over the assets it has.

After the investigation was completed, it was noticed:

- According to the conditions and requirements of the paragraphs of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, letter from TSO nr. 71/2, date, 02.06.2020 “Response to letter of Compliance Office nr. 71/1, date 11.03.2020”: **TSO meets the requirements of the Program.** Referring to the decision No. 78 dated 26.05.2017 of ERE, the continuous monitoring for the proper implementation of the Program was carried out by the Officer who has functioned on the basis and according to the competencies offered according to Law No. 102/2015 “On the Sector of Natural Gas” and the contract concluded between the TSO and the Officer. The Officer has exercised sufficient authority in the appropriate financial and organizational conditions that have enabled him to propose measures to ensure the implementation of this Program and to seek the cooperation of TSO leaders and staff to ensure compliance with this Program. The Officer has had unlimited access to the necessary data in the TSO offices and to all the information he needed in order to perform his duties. The Officer has had access to the TSO offices without the need for a prior notice. The Officer has attended a large number of meetings of the TSO, including the general assembly, supervisory and governing bodies, which have informed the Officer in advance of the scheduled meetings and have provided to the Officer all the information and materials needed to attend the meetings. In carrying out his activities, the Officer has given his opinion regarding some internal documents and opinion regarding TSO’s actions concerning their compliance with applicable legal and sub-legal acts. All TSO executives and employees, authorized representatives, auditors, and advisors have confirmed in writing that they are aware of the Program and will implement it. All TSO executives and employees are regularly instructed to implement this program at least once a year. New executives and employees are instructed by the Officer about the Program before starting their term.

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## *PART TWO*

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### **4. Accepted Recommendations of the Officer**

In the 2019 annual report, TSO could implement only one from the eight recommendations given by the Officer for ensuring the unbundling and independence, access and information, avoidance of discriminatory behaviors, implementing and using the program.

#### **4.1 Introduction of new techniques for staff training**

One of the recommendations given by the Officer regarding training of the staff, was approved and applied in TSO in 2019. New trainings techniques for gas, gas regulations, new

developments in the field of gas, together with seminars and working groups where prepared for the advancement of the staff of TSO on the field of gas.

## 5. Recommendations of the Officer for 2020

According to the letter of ERE no. 411/1 prot. Date 26.08.2019 "Request for information regarding the implementation of the recommendations of the Officer". TSO with letter no. 87 prot. On 12/09/2019, some of the recommendations were answered, saying: are not fulfilled.

- **Update of the official website of TSO**

The Officer has recommended in 2018 that TSO should update the official website. TSO should have considered the recommendation and made the appropriate update to the official TSO website. TSO is working on working on it.

According to the legal requirements set out in Law no. 102/2015, dated 23.09.2015, "On the Natural Gas Sector", as amended, as well as the requirements of the Compliance Program approved by the Decision of the ERE Board No. 77, dated 26.05.2017, the Officer must have a special section on Compliance on the official website of TSO ([www.albgaz.al](http://www.albgaz.al)).

Second, to ensure compliance with the program, a communication channel must be established between the Officer, Staff, customers, the public, and natural gas users. Communication aims to ensure that the Officer gains knowledge of all incidents of non-compliance in relation to unethical or illegal conduct (conflicts of interest, disclosure of commercially sensitive information, discriminatory treatment of System Users, non-compliance with the Program), and that the anonymity of persons reporting these incidents be fully protected. The communication channel must be arranged in three different ways:

- by filling out the electronic submission form through the corporate website ([www.albgaz.al](http://www.albgaz.al)),
- by mail/post,
- by e-mail ([zyrtari@albgaz.al](mailto:zyrtari@albgaz.al); [elvis.ponari@albgaz.al](mailto:elvis.ponari@albgaz.al))

This recommendation will be required to be met in 2020.

- **Improving the Code of Ethics and including parts from the Compliance Program**

The current Code of Ethics used by TSO is very good but requires an improvement by adding parts from the Compliance Program to it. This recommendation will be reconsidered in 2020 to be applied or left out completely.

- **Compliance Guidelines: Principles of the Compliance Program**

The Officer for the year 2020 will create a guideline for the four principles of the program, as in 2019 it was not possible to complete it because the program was approved later in TSO. These guidelines will serve as an internal document to inform the employees on the Compliance Program. It is very important that through these guidelines the employees recognize and meet all the requirements of the Program. This recommendation will be required to be met in 2020.

- **Guidelines on Document Classification Policies**

The Officer has recommended that TSO should create a guideline for classifying documentations according to the requirements of the Program, as in chapter B “Information confidentiality” stated in the Law. These guidelines can be included in the TSO Code of Ethics. The Officer will be working with TSO to complete this recommendation in 2020.

In the letter of ERE No. 411/1 prot 26.08.2019, for "Information request regarding the implementation of the recommendations of the compliance official, by the company." TSO has informed with the answer according to the letter no. 87 Prot. On 12.09 / 2019, for "Information on the recommendations of the Officer" for the implementation of this recommendation in 2019 according to the letter states:

- Staff training on data confidentiality / trade secrecy - TSO staff is well trained and informed on the confidentiality of confidential data / trade secrecy which is included in the Code of Ethics of TSO.

This recommendation will be reconsidered in 2020.

- **Update / Amendment of the Compliance Program**

The program is on the second year of application in TSO. Since the program is newly introduced, there will be a group work to review and to improve/amend this program according to EU requirements. This is due to the fact that legal requirements may have changed and/or are added, which in the end will have to be reflected on the program. This recommendation will be required to be met in 2020.

- **Application / Mechanism for Monitoring and Reporting of the Compliance Program Implementation.**

The Officer has recommended to introduce an Management Information System (MIS) to communicate and facilitate the program. It will be added as communication tool in the TSO. It is an information technology system (IT) used for Decision-Making, for coordination, control, analysis, and visualization of information in an organization, especially in a large company. This system will be created and drafted by the Officer together with TSO in 2020.

- **Expanding human resources and trainings**

TSO is a growing and promising company. To develop the domestic gas market, which is currently at basic levels, TSO needs to expand and increase human resources together with more trainings for 2020.

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## ***PART THREE***

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### **6. Specific tasks left by ERE after the approval of the 2018 Report.**

Below are some tasks for the future development of the natural gas sector, which will have to be handled by the Officer:

- Priority follow-up of the TAP Project because it is the decisive year of its establishment, for which ERE is working on the approval of bylaws, regulations and amendments.
- Cooperation with the Energy Regulatory Entities of neighboring countries, such as Greece and Italy. We must coordinate all bylaws and regulations in accordance with Directive 2009 / EU and Regulation 715 / EU.
- Cooperation with the Energy Secretariat in Vienna on remaining bylaws and ongoing consultation on issues arising during the drafting of these regulations.
- It is imperative for the ministry in line (MIE) to build gas infrastructure as an urgent need to open the natural gas market in Albania. Five priority projects have already been identified and approved by the Council of Ministers and we should start developing them as soon as possible.
- Cooperation with MIE and TSO, in the regulatory aspect, for all problems encountered for the opening of the natural gas market.
- Cooperation with National and International institutions on gas problems, participating in their feasibility study groups and the possibility of attracting foreign investment for infrastructure development in Albania.

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## *PART FOUR*

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### **7. Conclusions**

The compliance report concludes that, in 2019 (the second year of implementation of the Compliance Program), TSO has started and continued with the implementation of the Compliance Program accurately since the day of its certification. The leaders and staff of the company have largely adopted the rules and followed the specific regulatory framework of the Program.

The 2019 report does not reveal any violations or does not find that the TSO has violated or has not met the requirements for company compliance.

The model TSO and DSO (Combined Natural Gas Operator) selected by ALBGAZ, referring to Decision no. 848, dated 7.12.2016 of the Council of Ministers, “On the establishment of the TSO, is being successfully implemented, in accordance with the legal framework and with the gas market needs.

During 2019, many changes and improvements have taken place in the functioning of TSO. We can say that the gaps of 2018 have been filled up to a certain level, and 2019 has left open the only problematics such as - the certification and licensing of TSO. This year has been so impressive for TSO that it has received a license for gas storage. However, the above open tasks, issues and procedures remain to be pursued by the Officer and ALBGAZ throughout 2020. The recommendations of the Officer which were not implemented this year, will be reviewed throughout 2020.

It is important to mention, that in 2019, no complaints were submitted to the Operator by a user, an employee, or a member of ERE for the use of incorrect implementation for the gas

network code. In some cases, however, there were some delays regarding the fulfillment of the documentation required for the certification of ALBGAZ. This is partly delayed due to external factors.

It should be noted that TSO, under the knowledge of the Officer, is in continuous communication with the ERE to meet the legal requirements. The Officer has dealt with the coordination of communication with the ERE, with other competent authorities, participants or with third parties related to the implementation of this Program. TSO also has good communication with the Officer for the implementation and consideration of the program, whenever any form of communication or cooperation between them was required, as part of the tasks arising from the Program.

I should conclude that, given the market conditions, to develop the “TSO activity” and to develop the gas market, it is a complex, costly, and time-consuming process. Because such activities in this sector are very intensive and demanding in capital, labor, and time. But to achieve these objectives TSO should:

- Create the conditions for obtaining foreign direct investment in this segment of the economy.
- Increase employment in the sector and in the industry to have an impact on the gas sector;
- Improve energy supply at the industrial, service and residential levels;
- Create conditions for sustainable industrial development and reducing energy costs at the production level of "goods and services";
- Reduce in general of the “energy bill” of the final household consumer;
- Create human capacity in the country in terms of pre-design, design, investment management resulting in effective and efficient implementation of relevant activities in the gas industry.

Lastly, 2020 task for TSO and the Officer will be:

- Efforts to develop the gas sector in Albania during 2020 and beyond. With the development of the first transmission line of the Fier-Vlora gas pipeline, with a dual purpose, to supply with gas Vlora TPP and the development of the distribution network in the city of Vlora.
- Further development of Fier region as TAP passes there.
- Further development of the Korça region as TAP passes there
- Other long-term developments are the gas connection of the two largest cities, Tirana and Durrës. Additionally, Elbasan.
- Tracking the USA project distribution of LNG with containers. In my opinion, it is probably a competing project against TSO.
- Cooperation with the EBRD for more staff training.

**Tirana, 28.07.2020**

**Elvis Ponari, MBA, MSc**

**Compliance Officer, ALBGAZ Sh.a.**