

13 Energy policy

The competitiveness of any economy is heavily influenced by its energy policies. This chapter investigates the energy policies in place to ensure that energy markets are well-regulated, sustainable and competitive. The first sub-dimension, governance and regulation, focuses on how the energy markets are governed and whether policy is conducive for establishing efficient and competitive energy markets. The second, energy security, explores measures taken to make the energy sector more resilient, including through the diversification of energy supply. The third sub-dimension, sustainability, focuses on the energy sector decarbonisation, including through the promotion of renewable energy and energy efficiency policies. The fourth sub-dimension, energy markets, analyses how energy markets are operated, whether competition is used to promote efficient allocation of energy resources, and the degree of regional integration.

Key findings

Albania has improved its performance in the energy policy dimension since the previous assessment, raising its dimension average score from 3.2 to 3.5, chiefly through progress in the areas of unbundling, the creation of markets and strengthening regional integration (Table 13.1). In those areas it now outperforms the regional average. Areas that are not as advanced as the rest are comprehensive decarbonisation policies and energy poverty.

Table 13.1. Albania's scores for energy policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Energy	12.1: Governance and regulation			3.5	3.3
	12.2: Energy security			3.5	2.5
	12.3: Sustainability			3.0	2.8
	12.4: Energy markets			4.0	3.3
Albania's overall score		1.9	3.2	3.5	3.0

The **key findings** are:

- Through its newly adopted National Energy and Climate Plan (NECP) 2020-30, Albania has progressed in alignment with key EU *acquis* such as the governance regulation and established an overarching framework for decarbonisation. However, the NECP still needs to be revised to accommodate the recommendations of the Energy Community Secretariat, with a focus on enhancing the overall alignment of policy objectives and between the relevant ministries and a clear decarbonisation pathway.
- Renewable energy gained further momentum. The new renewable energy sources (RES) law was adopted, bringing the legal framework in line with the latest Energy Community *acquis*. The first onshore wind auctions, complemented with additional solar ones, have been conducted, further pushing for an increase in installed capacity for non-hydro RES generation and diversification of energy sources.
- Electricity market coupling with Kosovo took place at the end of January 2024 and is the very first coupling project in the WB6 economies. It has the potential to provide substantial benefits to both economies in terms of both supply security and price competitiveness of electricity.
- The Albanian Power Exchange (ALPEX) started operations in April 2023, introducing an organised market for day-ahead electricity auctions. Liquidity, however, remains limited for now as only the transmission losses and the volumes for the supplier of last resort are traded at ALPEX.
- Albania's energy regulator continues to be equipped with sufficient resources to perform its roles and tasks and remain financially and operationally independent. The salaries are at industry levels, allowing for the retention of workforce. The regulator could, however, adopt a more proactive approach when it comes to tariff setting and launching of *ex officio* investigations.
- Liberalisation of the Albanian market remains at a low level, as on the supply side no real market for alternative suppliers exists and on the demand side the level of price regulation is still very high. This situation was reinforced by the newly adopted public service obligation (PSO) act, as the non-market-based prices offered by the Albanian Power Company (KESH) to the Supplier of Last Resort in line with this Act did not create any incentives to switch suppliers in 2023.

State of play and key developments

Sub-dimension 12.1: Governance and regulation

The Albanian **energy policy, legal and institutional framework**¹ has seen some progress over the past years in aligning with EU legislation, including some EU Network Codes and Guidelines pursuant to the Third Energy Package and the Clean Energy Package. Thus, the EU Third Energy Package has been largely implemented, and additional efforts to align with the Clean Energy Package and the Electricity Integration Package are foreseen to take place in the upcoming months through the drafting of the outstanding network codes and a redrafting of the Power Sector Law to align with the applicable EU and Energy Community *acquis*.² These additional alignment efforts will enable Albania to reap the full benefits of a green transition, enhance energy security, and prepare its markets for additional regional integration beyond the Western Balkan 6 region.³ Furthermore, they present an opportunity to rectify remaining noncompliances, as despite the formal alignment with the Third Energy Package highlighted above, key legal acts such as for example the PSO act are not in compliance with the Energy Community *acquis*, thus precluding full compliance with the EU Third Energy Package.

The NECP is currently also still undergoing a revision process in line with comments raised by the Energy Community Secretariat which had not been incorporated into the NECP before its adoption in 2021. The Governance Regulation⁴ has also been only partially integrated into the legal framework, and additional amendments to the Law on Climate Change are needed to strengthen alignment with the *acquis*.

From 1 January 2022, a significant number of customers connected to the medium voltage level have been legally deregulated as they are no longer supplied by the Universal Service Supplier. From this moment onwards, those customers had two years' time to find an alternative supplier during which they were entitled to be supplied by the Supplier of Last Resort. Thus, from 2024 onwards, those customers would have been obliged to have an alternative supplier to avoid being disconnected from the electricity supply. However, since 1 January 2024, as a result of an order from the Ministry of Infrastructure and Energy,⁵ only a portion of the medium voltage segment has to be supplied from an alternative supplier, while other customers retained the right to be supplied by the Supplier of Last Resort.⁶ Thus, Albania is not progressing with its deregulation as originally envisaged, as de facto the majority of the medium voltage segment is still to be regarded as part of the regulated segment.

In terms of policy evaluation and performance assessment, alignment among different departments and institutions does not always seem to be fully in place, and policy decisions are sometimes more short-term and ad hoc in nature rather than being the consequence of a comprehensive forward-looking evaluation of different possible options.⁷

The **energy regulator** in Albania, the Energy Regulatory Authority (ERE), continues to be well equipped with the necessary resources to perform its roles and tasks. The financial resources of the ERE are derived from regulatory and licensing fees, ensuring a stable funding stream. ERE's budget, which includes allocations for staff capacity building, is approved by its Board, granting ERE complete autonomy over its budget implementation. This financial independence allows for allocating sufficient resources dedicated to enhancing the skills and knowledge of its staff. The contribution of twinning projects and regulatory co-operation initiatives has been notably positive, further bolstering the capacity building of the ERE staff.

The regulator has maintained all of its responsibilities and has not experienced any diminution in its duties. The salary levels within ERE are competitive with industry standards, which aids in maintaining its operational integrity and independence. However, while the ERE is considered sufficiently independent, a more proactive approach in areas such as tariff setting could enhance its role further. Notably, ERE has not reviewed or adopted new tariffs for the universal service supply in the past ten years and has not initiated any *ex officio* investigations, indicating potential areas for increased activity.

Sub-dimension 12.2: Energy security

In response to the energy crisis⁸ and to strengthen an adequate **crisis response and resilience**, the Albanian Government has implemented several measures and plans through various decisions of the Council of Ministers.⁹ In line with these decisions, KESH has been mandated to provide all the energy required to fulfil the needs under the universal service supply (USS).

As of 1 January 2024, the Albanian Transmission System Operator (TSO), Operatori I Sistemit te Transmetimit (OST) is obliged to purchase the transmission losses through ALPEX, and Furnizuesi I Shërbimit Universal (FSHU), acting as the Supplier of Last Resort, is obliged to purchase all its energy needs through ALPEX. To hedge their costs, contracts for differences (CfDs) with KESH are concluded, which allow for limiting the impact of price fluctuation on TSO and FSHU tariffs. During the energy crisis, the Council of Ministers also obliged the priority producers benefiting from a Feed-in-Tariff to sell their generated electricity at a regulated price regardless of higher market prices, disallowing the producers to sell electricity in the free market. In addition to these measures, a windfall tax law has been adopted for generators operating in the deregulated market segment. While those measures succeeded in reducing the need for energy imports and the volatility of prices, they fell short of enhancing the overall resilience of the Albanian energy sector as no sustainable long-term measures focusing on enhancing the financial sustainability of the sector were taken. Institutionally, the Albanian Government responded to the energy crisis through the establishment of a Transparency Board, which imposed temporary restrictions on wholesale/retail prices of fuel and regularly updated decisions on the price caps.

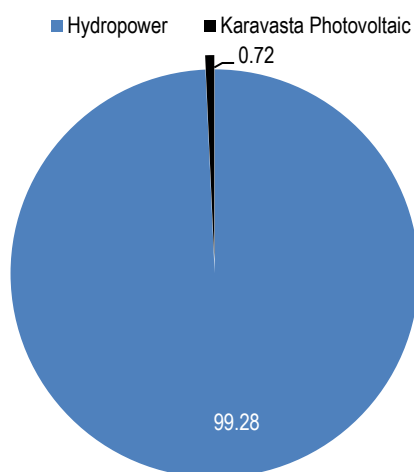
A comprehensive approach to resilience and responding to crises, however, is not present, as crisis measures are mostly taken ad hoc and focus on mitigating the negative impacts of the crisis, rather than tackling its root causes. Furthermore, there seems to be a lack of co-ordination between ministries and institutions, which hampers the effective implementation of these policies. The absence of dedicated climate change adaptation aspects in network development plans also highlights that the current policies might not be based on a comprehensive evaluation of all relevant circumstances and factors, suggesting a need for more integrated and forward-looking policy planning.

According to the Albanian Government, an overarching policy framework for the **diversification of energy supply** is in place. The amended Albanian law on the gas sector¹⁰ partially aligns with Gas Security of Supply Regulation 2017/1938, and addresses several critical aspects such as the security of natural gas supply, the declaration of a state of crisis in natural gas supply, and the facilitation of regional co-operation and solidarity. Concerning the relevance of gas in Albania, however, it must be highlighted that the economy currently does not have a gas market, as further elaborated below. In terms of diversification, gas thus currently does not play a relevant role in Albania, and the most important factor in this regard is an insufficient diversification within Albania's electricity mix.

The economy depends heavily on hydropower, sourcing its electricity generation almost exclusively from hydro resources (Figure 13.1). This makes Albania particularly vulnerable to hydrological variations, as in such situations the economy has difficulty sourcing sufficient energy from other sources and is greatly reliant on energy imports. This had a significant negative financial impact on the Albanian energy sector especially during the crisis of 2022.

Figure 13.1. Electricity mix in Albania (2022)

Electricity source contribution is denoted in percentage



Source: Energy Regulatory Authority (2023^[1]).

Concerning other energy sources, it must be highlighted that Albania lacks an internal gas infrastructure and does not possess any gas terminal. Presently, Albania's only connection to the gas network is through the Trans Adriatic Pipeline (TAP), which notably has no exit point within the economy. Thus, as also noted by the Energy Community Secretariat, no significant progress in the development of Albanian gas infrastructure has been made (Energy Community, 2023^[2]). This is also true of the Albania-Kosovo Gas Pipeline (ALKOGAP), which despite being a Project of Energy Community Interest, has not been progressing. This highlights a gap in the actualisation of diversification projects, indicating a need for renewed focus and efforts to advance these critical infrastructure developments.

Nevertheless, the government of Albania remains committed to position Albania as a regional hub for gas supply, aiming at ensuring interconnectivity, security of supply, and diversification of energy sources, focusing on Liquefied Natural Gas (LNG) as well as the TAP. A critical component of this strategy is the Vlorë LNG Terminal Project, which is currently in its feasibility phase. The project envisions an extensive infrastructure, including regasification, offloading, mooring, shipping, storage, and pipeline facilities. With a projected capacity of around 5 billion cubic metres per year, the terminal will not only supply the Vlorë Thermal Power Plant with 100 megawatts (MW) and its potential expansion, but also offer small-scale solutions through virtual pipelines for both domestic and regional needs.

Sub-dimension 12.3: Sustainability

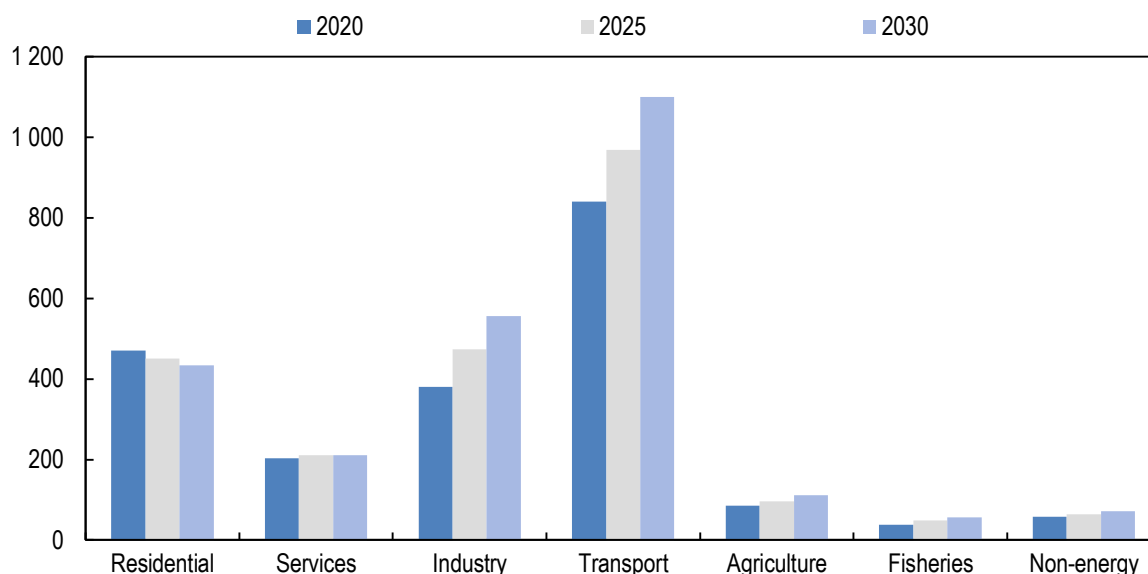
The key documents building the foundations of Albania's **energy sector decarbonisation** path are the Law on Climate Change and the NECP. The provisions of the Law on Climate Change include high-level references to the NECP and to the Long-term Strategy, and ensure public participation in line with the Aarhus Convention.¹¹ The Law also includes provisions related to the monitoring and reporting of greenhouse gas (GHG) emissions to the United Nations Framework Convention on Climate Change (UNFCCC), under which Albania has adopted an emissions reduction target of 23% by 2030 for its energy sector as part of its revised Nationally Determined Contribution (NDC). The reporting frequency related to

climate change adaptation planning and strategies currently foresees four years, which is not in compliance with the two-year frequency pursuant to the Governance Regulation.

Furthermore, the Governance Regulation 2018/1999 has been partially aligned with the adoption of DCM No. 889 dated 27 December 2022, which approves the regulation on monitoring and reporting greenhouse gas emissions and other climate change-related information at the national level. The NECP for 2020-30 was adopted through DCM No. 872 dated 29 December 2021. This plan sets forth Albania's energy and climate goals for the coming decade. The goals set in the current NECP 2020-30 include a reduction in GHG emissions by 18.7%, an energy efficiency target with energy savings of 8.4%, and a target for renewable energy shares in the final energy demand of 54.4% (Ministry of Infrastructure and Energy of Albania, 2021^[3]).

Figure 13.2. Final energy demand per economic sector in Albania (2020-30)

In megatonnes of oil equivalent (Mtoe)



Source: Ministry of Infrastructure and Energy of Albania (2021^[3]).

StatLink  <https://stat.link/f4dsbu>

The NECP is currently under revision and the Energy Community Secretariat recommended aiming at more ambitious targets and provision of a coherent decarbonisation trajectory in line with Albania's commitment to carbon neutrality by 2050.¹²

While a National Greenhouse Gas Inventory System is kept up to date, ensuring accurate tracking and reporting, a GHG pricing mechanism is not yet in place, preventing the internalisation of environmental externalities into fossil fuel production. An additional shortcoming in this regard is a subsidy for thermal power plants that can benefit from excise reimbursement.¹³ This arrangement will also apply to future projects, including the Vlorë Thermal Power Plant (TPP) if it resumes operation.

The government of Albania has contracted two oil-powered power plant ships to operate from the Vlorë area. These ships, with an estimated electricity generation capacity of 100-114 MW, were expected to cater to up to 15% of Albania's overall consumption needs and were planned to come into operation by December 2023. Currently they have not been put into operation, as other sources of energy are more

cost-efficient, but this initiative and the facility's reliance on oil are in direct contradiction to any comprehensive policy approach towards decarbonisation.

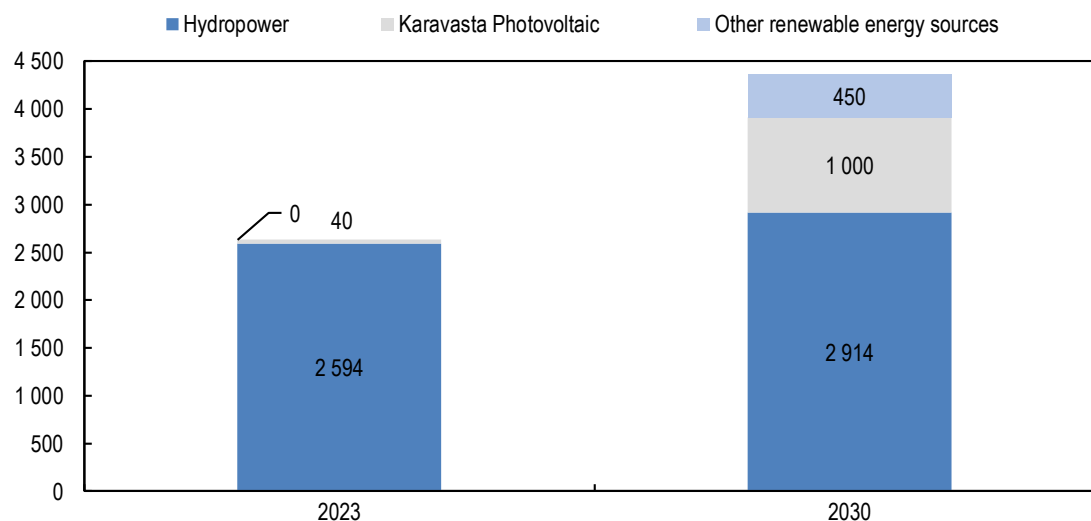
In the area of **renewable energy policy**, Albania has taken a number of notable steps that further strengthen its compliance with the renewable *acquis* of the Energy Community. A new renewable energy sources (RES) Law has been adopted in April 2023, which largely aligns the Albanian renewable energy laws with the Clean Energy Package. The Ministry of Infrastructure and Energy (MIE) is currently also drafting a law on the production, transportation and trade of biofuels and other renewable fuels for transport, which aims at implementing additional elements of the Renewables Directive 2018/2001.

The installed capacity for prosumers has seen a noteworthy increase, reaching 120 MW. This expansion signifies prosumers' growing importance and contribution to the national energy mix. Additionally, competitive auctions have been successfully utilised to source renewable energy. A significant development in that regard is the Karavasta Photovoltaic (PV) project, with a capacity of 140 MW. This project is a major step forward in boosting Albania's renewable energy capacity and is operational since the end of 2023. The government plans to add a total of 350 MW of additional PV capacity in 2024.

Additionally, MIE has already initiated, and successfully concluded, the first wind auction in the second half of 2023. Three companies have been selected as the winner of this competitive process and are expected to conclude the respective contracts with MIE for a total installed capacity of 222 MW. In the area of PV auctions, MIE has also already initiated an additional auction, which was launched in early January 2024, with an installed capacity of 300 MW. Additional solar and wind auctions are planned, which underscore Albania's commitment to enhancing its renewable energy capabilities and moving toward a more sustainable and diversified energy sector.

Figure 13.3. Distribution of installed capacity sources in Albania (2023-30)

In megawatts (MW)



Source: Energy Regulator Authority – Albania (2023_[4]).

In line with the further increase in installed RES capacity, a technical study focusing on the integration of increasing volumes of renewable generation capacity into OST's infrastructure has also been incorporated into OST's master plan. This inclusion is a strategic move to enhance the capacity and efficiency of Albania's energy infrastructure in handling renewable energy.

Continuous efforts are also being made to enhance the legal framework and implement policies related to **energy efficiency**, particularly in the context of building renovation and energy performance. The drafting of the Long-term Renovation Strategy, aimed at both public and private buildings, is under way. The first draft, prepared by the Energy Efficiency Agency in collaboration with the European Bank for Reconstruction and Development (EBRD), was submitted in March 2023, and contains a detailed and comprehensive situational analysis regarding the needs for building renovation in Albania. The draft also includes stakeholder mapping and highlights key considerations for building renovation policies going forward. This strategy will be integrated into the revised NECP.

The Albanian Energy Efficiency Law has successfully implemented Energy Efficiency Directive 2012/27/EU, and several by-laws have been adopted to facilitate the application of primary laws within this domain. Furthermore, an Energy Performance Certification Scheme for buildings is already operational. Some indicators, such as those on the energy intensity of economic sectors and households, are being duly collected; others are lacking. The Energy Efficiency Agency has successfully certified 11 energy auditors in industrial installations, 100 energy auditors in buildings, and 153 energy managers.

A new law on energy labelling has also been drafted and is pending parliamentary approval. Furthermore, the energy efficiency law will be undergoing additional revisions in 2024 in order to further align with the EU and Energy Community *acquis* in the area of energy efficiency. It remains to be seen whether these additional alignment efforts will also tackle some missing elements in this regard, such as the establishment of an energy efficiency obligation scheme and the completion of a study of the potential of high-efficiency cogeneration and district heating in line with the obligations under Energy Efficiency Directive 2018/2002.

Regarding policy implementation, the Energy Efficiency Agency is actively involved in generating energy performance certificates for buildings. It also follows up on various projects focused on energy efficiency and the energy performance of buildings. These projects include auditing public buildings in several municipalities, conducting studies, and implementing improvements through construction. Additionally, energy-saving targets were introduced at the end of 2022 to respond to the energy crisis. In the residential sector, 2, 000 family customers have received government subsidies covering up to 70% of the cost of installing solar thermal panels on their buildings. Another project, co-financed by the Municipality of Tirana and private apartment owners, focuses on the thermal insulation of building envelopes. Nevertheless, despite these initiatives, the Energy Community Secretariat notes an insufficient use of financing sources and a lack of public and private investment (Energy Community, 2023^[2]).

Albania's policy framework concerning **energy poverty** and the support of vulnerable consumers is defined in both policy documents and legislation. The framework outlines specific measures to assist these consumers. Firstly, all vulnerable customers with a monthly consumption of up to 200 kilowatt-hours (kWh) are eligible for direct support of ALL 640 per month. Additionally, as a result of the removal of the two-tariff scheme in 2014, all vulnerable customers can be directly supported with an amount of ALL 648 per month. Furthermore, particularly vulnerable groups, such as blind, paraplegic and quadriplegic customers, can receive additional support ranging from ALL 2 400 to ALL 3 000 per month. The main shortcomings in this area are that despite clear stipulations in the primary law and the rules set by ERE, the list of vulnerable customers eligible for support has not yet been adopted. Consequently, these consumers are not guaranteed the right to be supplied with electricity even when they are unable to pay their electricity bills. Furthermore, addressing the challenges in fighting energy poverty requires more structural measures also tackling root causes of energy poverty. To address this, a joint working group, comprising the Ministry of Infrastructure and Energy as well as the Ministry of Health and Social Protection, is being created to draft and implement an action plan to alleviate energy poverty. The successful implementation of this plan will be crucial in ensuring effective support for vulnerable customers and in addressing the broader issue of energy poverty in Albania.

Sub-dimension 12.4: Energy markets

Regarding **market operation**, Albania has taken substantial steps since the CO 2021 assessment. ERE adopted the ALPEX market rules and introduced the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT Light).¹⁴ Additionally, ALPEX has been granted increased competencies for market monitoring. Albania has also abandoned the import value added tax (VAT) for electricity dedicated to ALPEX, while maintaining VAT on all other electricity imports. Furthermore, Albania and Kosovo have signed a memorandum for the mutual recognition of licences. ERE nominated ALPEX as the Nominated Electricity Market Operator (NEMO), a designation in line with the Energy Community *acquis*.¹⁵ As of April 2023, ALPEX is operational, albeit with limited liquidity. Thus, an organised market for day-ahead electricity auctions is operational, with market participation requirements that are non-discriminatory and not overly burdensome. Nevertheless, while the EU target model has been largely adopted, its implementation remains limited. This indicates that while the framework and policies are in place, their practical application and enforcement require further development to fully realise the benefits of Albania's integrated and efficient energy market. Most notably, the noncompliant PSO act needs to be revised and volumes under the universal service contract between KESH and FSHU should be reduced.

Since April 2021 the Albanian Balancing Market is also in place, which is further substantial progress. One change compared to the originally envisaged setup relates to the Imbalance Settlement Period (ISP), which was set for a transitory period to 60 minutes instead of the originally envisaged 15 minutes. According to information from OST, their systems are ready to switch to 15 minutes, but despite being technically ready for this switch its implementation has been postponed to stick to the same ISP as is applicable to the cross-border TSO compensation mechanisms currently in place. Switching to the 15-minute ISP will be necessary in the future to align with the Network Code on Electricity Balancing.¹⁶

The framework regarding **unbundling and third-party access rules** is very advanced and mostly in line with EU best practices. OST is certified as transmissions system operator and compliance officers have been appointed for both OST and the distribution system operator (DSO) – OSSH. Following the completion of the OSSH's legal unbundling and substantial progress in its functional unbundling, the Energy Community Secretariat has closed its related infringement case ECS-4/17. Regarding third-party access, trade licences are mutually recognised only between Albania and Kosovo. A notable incident occurred in April 2021 when a formal complaint was submitted to the ERE regarding the refusal of third-party access by OSSH. Despite OSSH's firm refusal, ERE ruled affirmatively on the unconditional right of alternative suppliers and customers to access the DSO network and on the customers' right to choose their supplier freely (see Box 13.1)

Box 13.1. Refusal of third-party access rectified through the regulator

In April 2021 the Albanian Association of Electricity Suppliers (AAES) submitted a complaint to the Energy Regulatory Authority (ERE), concerning the refusal of OSSH and FSHU to allow two consumers to switch and freely choose their electricity supplier. The complaint primarily involved two customers (one low-voltage non-household and one low-voltage household customer) and the alternative supplier of their choice.

After the customers wanted to enter into contracts with a new supplier, pursuant to the Law 43/2015 “On the electricity sector” and the “Regulation on switching the electricity supplier”, FSHU (the existing supplier) confirmed the switch and the new supplier informed OSSH and OST about the switch. Both operators confirmed the regularity of the application. However, despite its initial confirmation, OSSH then refused to submit the metering data to the new supplier and OST, which would have been needed

to proceed with settlement and issuance of the respective invoices. Instead, OSSH continued to attribute both customers to FSHU.

During the period of assessment from ERE, the customers then decided to withdraw their complaint, as the electricity prices had changed so drastically due to the energy crisis that a continued supply from FSHU was more advantageous. ERE, however, still ruled on the issue, clearly outlining the shortcomings from OSSH and FSHU and firmly recognising and confirming the right of all customers to freely select the supplier of their choice.

Source: Documents from the Albanian Association of Electricity Suppliers and Energy Regulatory Authority, shared with the OECD as part of the *Competitiveness Outlook* assessment.

When it comes to **regional market integration**, Albania, through its TSO, is actively engaging with neighbouring economies to enhance electricity market integration and strengthen regional interconnections. Already in March 2019, OST signed a memorandum of understanding with the transmission system operators of North Macedonia (MEPSO) and Bulgaria (ESO). This agreement focuses on the development of the electricity market and bolstering regional co-operation through mutual assistance. A critical aspect of the co-operation is the development of an interconnection between Albania and North Macedonia, which is essential for the anticipated market coupling between these markets. However, construction of this new interconnection is currently facing delays. Another emerging initiative in the regional co-operation sphere is the Albania, Italy, Montenegro, and Serbia (AIMS) market-coupling project. Furthermore, with the successful coupling of its power market with Kosovo through the establishment of the ALPEX Kosovo branch, Albania realised one of the first market coupling projects in the WB6 region.

In the context of capacity rights allocation, ERE has adopted the new Harmonised Allocation Rules applicable to the South East Europe Capacity Allocation Office (SEE CAO). Additionally, ERE has initiated procedures for adopting the Shadow Allocation Rules for the markets of Albania and Kosovo. These rules are designed to be applicable in scenarios where the day-ahead market coupling fails to produce results, and are currently undergoing a consultation process.

Regarding additional alignment with the Clean Energy Package that will also strengthen regional integration, Albania is poised to initiate procedures soon. The European Bank for Reconstruction and Development has already started a procurement process to support the Albanian Government in fully integrating the Electricity Directive and Regulation into its legal framework. This is a crucial step toward aligning Albania's energy policies with European standards and further integrating its energy market within the regional and European contexts. Adoption of the Network Codes under the Electricity Integration Package is currently also still outstanding, but a project to support this adoption has started in February 2024.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania has made good progress in the creation of electricity markets and working toward further regional integration. Deficiencies remain, however, in the actual implementation of legislation. Furthermore, as part of the energy crisis, some ad hoc measures were introduced that could have been structured in a less distortive way and which limited Albania's overall progress in the implementation of the recommendations in Table 13.2 below.

Table 13.2. Albania's progress on past recommendations for energy policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Ensure additional human resources.	ERE has significantly increased the number of its employees, to advance on the alignment with and implementation of the Clean Energy Package.	Strong
Draft and implement policies to promote competition and liquidity within energy markets.	ALPEX is operational as of April 2023, however with limited liquidity. Market coupling with Kosovo took place in early 2024. The competitive balancing and ancillary services market was established. Liberalisation of the Albanian market remains at a low level, as on the supply side no real market for alternative suppliers exists and on the demand side the level of price regulation is still very high. All the customers connected to the 35 kV voltage level, although they had been supplied by alternative suppliers in the past, are (100%) supplied from the state-owned supplier (FTL), due to the possibility offered by FTL of the net metering scheme for the prosumers on a yearly basis (most of the customers connected to this segment are prosumers).	Moderate
Improve market monitoring and transparency.	Regulation on Wholesale Energy Market Integrity and Transparency aligning with REMIT regulation 1227/2011 (Remit Light) was adopted by ERE. The EU Transparency Regulation (No. 543/2013) is fully aligned with and implemented, and electricity market data are regularly submitted to the central data platform established by the European Network of Transmission System Operators for Electricity (ENTSO-E).	Strong
Design and implement a decarbonisation strategy and phase out coal.	Albania was the first Contracting Party to adopt its NECP. Governance Regulation has been partially aligned with. To assure electricity production, Albania has contracted, since September 2022, two oil-powered power plant ships to operate from the Vlora area that have not been put into operation yet.	Limited
Improve the approach to renewable energy project assignment and support to encourage renewable growth, and improve the deployment of energy efficiency measures to limit demand growth and volatility.	RES law was adopted. Competitive auctions are being deployed successfully. Next to solar auctions, Albania has also run a successful wind auction. 2 000 family customers have received subsidies from the government to cover up to 70% of the cost for the installation of solar panels that will supply their buildings with hot sanitary water. Project on "Thermal insulation of the building envelope" financed 50% by the Municipality of Tirana and 50% by the owners of private apartments is still being implemented. Financing for energy efficiency projects needs to be further strengthened.	Moderate
Improve regional integration.	With the go-live of ALPEX in 2023 and the coupling with Kosovo early in 2024, important steps toward further regional integration have been taken. Additional coupling initiatives are under consideration, going even so far as to work towards joining the European single day-ahead coupling (SDAC). Timeline and a clear roadmap, however, still need to be developed.	Strong
Finalise alignment with the EU's Third Energy Package to complete the implementation of international good practice and fully align local legislation for the governance of the energy sector with the EU <i>acquis</i> .	RES law was adopted. NECP is adopted but requires revision to accommodate the recommendations of the Energy Community Secretariat. Adoption of the ALPEX rules. Albania is expected to initiate soon the procedures for alignment with the electricity integration package. EBRD is procuring support to align with the Clean Energy Package through revision of the Power Sector Law. Adoption of the revised Power Sector Law is expected in Q3 2024. Despite an advanced level of alignment with the EU and Energy Community <i>acquis</i> , the Albanian market model is mainly driven by the PSO act, which is not compliant with the Third Energy Package.	Moderate

The way forward for energy policy

While Albania has made progress since the last *Competitiveness Outlook* (CO) in a number of areas, additional efforts are needed to close existing gaps and to further align with the EU and Energy Community *acquis*. The recommendations below provide an outlook on the main topics that, if tackled appropriately, would lead to significant improvement of the Albanian energy sector and its alignment with the applicable *acquis*.

- **Align the legal and policy framework with the remaining elements from the Clean Energy Package and the Electricity Integration Package.** Albania should speedily amend its existing legislation or draft new laws in order to strengthen its compliance with the EU and Energy Community *acquis*, including the Electricity Integration Package. The latter will provide an additional impetus for regional integration and enable working toward joining also the EU single day-ahead coupling, which would unlock additional potential of the Albanian energy market.
- **Revise the NECP in line with the recommendations of the Energy Community Secretariat.** A comprehensive revision of the NECP will streamline Albania's way toward carbon neutrality and provide more planning certainty, which can unlock additional investments. Having a clear decarbonisation and diversification pathway will have a positive effect on the resilience of Albania's energy sector.
- **Phase out Universal Supply Contract between KESH and FSHU.** Reducing the volumes covered under the Universal Supply Contract between KESH and FSHU will enhance the flexibility of KESH and can lead to optimisation of the use of KESH resources. It could also enhance the liquidity of ALPEX, as additional volumes could be traded by KESH on ALPEX.
- **Enforce full and de facto deregulation of the medium voltage segment from January 2024 onwards.** Introducing fully market-based tariffs for the medium voltage segment will enhance the cost-reflectiveness of tariffs and thus enhance the financial consolidation of the sector. Deregulation of the medium voltage segment shall also take place in a way to enable alternative suppliers to enter the market, thus strengthening the Albanian energy market even further.
- **Ensure timely and co-ordinated implementation of the Action Plan to tackle energy poverty and improve the protection scheme for vulnerable customers.** Having a well-structured and targeted support scheme in place as well as tackling the root causes of energy poverty will be a critical means to ensure a just transition. It will also increase societal acceptance of further deregulation and liberalisation and the potential accompanying tariff increases. Monitoring and evaluation of energy poverty and its root causes will be key in this regard (Box 13.2).

Box 13.2. Monitoring of key energy poverty indicators: The case of France's National Observatory of Energy Precarity

In July 2010, France introduced a legal definition of energy poverty through the Grenelle 2 Law: a situation in which a person experiences particular difficulties related to energy provision to meet their basic needs due to inadequate resources or due to their housing conditions. This legal definition provides the basis for analysing the root causes of energy poverty by pre-emptively defining the possible causes, facilitating monitoring of relevant indicators.

In March 2011, the French Government created the National Observatory of Energy Precarity, entrusted with monitoring key indicators related to energy poverty. The observatory regularly publishes monitoring reports analysing the situation related to energy poverty in order to inform policy making, as well as evaluations of public policies seeking to address its causes.

Indicators monitored by the Observatory include:

- *The energy effort index*, based on the social category of households (focusing on the lowest-earning third of French households), and the share of their income that is allocated to meeting monthly energy needs (minimum 10%). These data are collected from the national housing survey.
- *The low-income, high-expenditure indicator*, focused on both income (benchmarked by the poverty line), and energy consumption (per square metre and household size).
- *A subjective indicator*, measuring perceived exposure to cold.

In order to be classified as falling under the most critical and prioritised definition of energy poverty, households have to meet high levels under all three of these indicators. The Western Balkan economies could take inspiration from this example in order to draw from existing indicators and expand data collection on energy poverty to cover new ones. The practice of having an institution dedicated to monitoring and evaluating the problem of energy poverty and related policies could also be an example to follow.

Source: Adapted from Ministry of Ecological Transition and Territorial Cohesion, France (2024^[5]).

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Notes

¹ The most important acts and strategies that can be regarded as the backbone of Albania's energy policy, legal and institutional framework are the Law on the Power Sector (No. 43/2015), the Law on Promotion of the use of Energy from Renewable Sources (No. 24/2023, the Law on Energy Efficiency (No. 124/2015, as amended in 2021) and the Law on Climate Change (No. 155/2020). The most relevant planning documents are the Energy Strategy 2018-30, established through DCM No. 480 dated 31 July 2018 and the National Energy and Climate Plan for the years 2020 to 2030 as adopted through DCM. Those two documents, as well as the Law on the Power Sector and the Law on Energy Efficiency, are scheduled to be revised in 2024.

² Most notably Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity; Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity; Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators; and Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk-preparedness in the electricity sector.

³ For a general overview of the Clean Energy Package and the Electricity Integration Package and their overall scope and advantages, please also see www.energy-community.org/implementation/package/EL.html and https://energy.ec.europa.eu/topics/energy-strategy/clean-energy-all-europeans-package_en.

⁴ Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action.

⁵ See Order of the Ministry of Energy and Infrastructure No. 217, dated 28 December 2023.

⁶ The medium voltage segment consists of those customers that are connected to the 6, 10 and 20 kV (kilovolt) voltage levels. All 6 and 10 kV customers remain with the Supplier of Last Resort and are not forced to find an alternative supplier, contrary to the original deadline. The vast majority of the 20 kV segment, however, is indeed no longer being supplied by the Supplier of Last Resort.

⁷ As part of its recommendation to the Draft National Energy and Climate Plan of Albania, accessible via www.energy-community.org/dam/jcr:a89708a9-96f2-48a7-ad6e-79484a2ea5d1/ECS_RE01_AL_NECP_122021.pdf, the Energy Community Secretariat for example explicitly highlighted insufficient alignment and co-ordination as a factor endangering planning certainty in Albania. Concerning non-sustainable ad hoc measures, the most notable example probably is the decision that was taken during the energy crisis to lease two floating thermal power plants in order to enhance supply security and reduce costs of energy imports, but those plants have never actually been put in

operation, and most likely never will be as under post-crisis conditions their operation is simply not economical. See also www.voxnews.al/english/fokus/erdhen-me-ceremoni-por-tec-et-lundruese-ne-vlore-nuk-kane-asnje-dite-pune--i34349.

⁸ The term “energy crisis” here refers mostly to one aspect that characterised the crisis in 2022, namely the significant increase in wholesale market prices. It is, however, beyond the scope and also not the objective of this assessment to provide an analysis of the different factors that actually led to this situation.

⁹ Initially, a temporary market model and PSO were imposed on state-owned companies in the energy sector through the DCM No. 620/2021, which was later repealed and replaced by the PSO act through DCM No. 456/2022, turning the measures that originally were envisaged as temporary into more permanent ones.

¹⁰ Amendment took place through Law 81/2021.

¹¹ The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters.

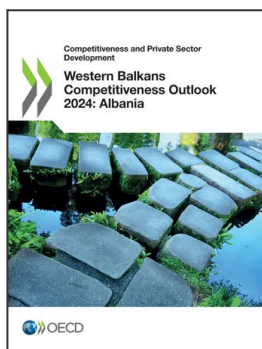
¹² For more information on the Energy Community Secretariat’s recommendations, please see: https://www.energy-community.org/dam/jcr:a89708a9-96f2-48a7-ad6e-79484a2ea5d1/ECS_RE01_AL_NECP_122021.pdf.

¹³ See Article 42 of the DCM No. 612 dated 5 September 2012.

¹⁴ ERE adopted these rules through its Decision 126 dated 17 May 2021. The REMIT Light Rules were adopted by the Ministerial Council of the Energy Community by Decision 2018/10/MC-EnC of 29 November 2018 and contain the most relevant elements of Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency. See also https://www.energy-community.org/dam/jcr:04da54ae-178c-4924-98f4-ba3ea363668e/ECRB_REMIT_guidance_0422.pdf.

¹⁵ See ERE Decision 228 dated 17 July 2023.

¹⁶ Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.



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