B-a. Contracting Parties to the Treaty establishing the Energy Community

ALBANIA COUNTRY PROFILE

Overview

Albania has a GDP of USD 12,295 million and a population of 3.18 million. In 2007, its total production of energy was 2.17 Mtoe (million tons of oil equivalent), of which 12.4% was hydro power, 1.3% was coal/peat, 11.1% was combustible renewable and waste, 0.1% was geothermal/solar/wind, 0.7% was natural gas and 74.4% was oil. Net imports were 1.26 Mtoe. CO₂ emissions were 4.02 Mt. Albania is a signatory to the Treaty establishing the Energy Community and as such has undertaken to implement the Energy Community acquis.

1. Institutional structure

The Government and Ministry of Industry and Energy (the Ministry) are responsible for policy-setting in the energy sector and the Energy Regulatory Authority (ERE) is responsible for regulatory implementation. ERE was first established in 1995; in 2003, new primary legislation for the power sector (Law on Power Sector) was adopted, and recently updated in 2008. In June 2008, ERE’s regulatory authority was extended to the gas sector and a new gas law was enacted, though as a practical matter Albania has a minimal gas supply and a negligible gas market.

ERE has five Commissioners who serve for five year terms, with a right to reappointment for one term. The chairman also serves as the executive administrator of ERE. In addition to the Commissioners, ERE employs 32 technical and non-technical staff members.

The Commissioners are appointed (and dismissed) by the Parliament by proposal of a selection team, composed of two Parliament representatives, the Chairmen of the Permanent Commissions of Production Activities, Trade and Environment, and Economy and Finance respectively, as well as the Ministry. Grounds for dismissal primarily consist of concrete and limited conditions, but also include a potentially broad unprofessional conduct provision.

ERE has an independent budget, which comes from licensing fees and regulatory fees it sets. No later than the end of the first quarter of each year, ERE submits to the Parliament an annual report on the electric energy sector, gas sector situation, and ERE’s activities, including its financial activities. This report is made public.

ERE has authority in the following areas: licensing, setting tariffs, drafting and approving secondary legislation, including tariff methodology and licensing rules, and dispute resolution. No government entities can overrule or alter regulatory decisions directly, though the Government may ask ERE to reconsider a decision (with the final decision still belonging to ERE). If the licence holder does not rectify deficiencies identified by ERE, ERE may impose fines or, if the deficiencies are repeated, may withdraw the licence.

53 Information herein is drawn primarily from the regulator, from answers to questionnaires provided by this project and from the Energy Community Regulatory Board, National Report Albania, Version 1.3, 1 September 2008.
All ERE decisions can be appealed in the Court within 30 days of publication in the Official Journal. If a court decides that ERE’s decision shall be cancelled, the Board either reviews its decision or appeals the Court decision according to provisions of the Code of Civil Procedure. Conflict of interest provisions exist for members of the Board and staff during employment, restricting both outside employment and political activities.

The Albanian Competition Authority is tasked with addressing market abuse and has a cooperative agreement with ERE. Operating for over five years now, the Albanian Competition Authority began a general investigation of the electricity, hydrocarbons and gas markets at the end of 2007, to determine the level of competition in the energy market, increase market efficiency and introduce greater consumer choice. After consultation with interested parties, including the Ministry, ERE, industry and the TSO, the Albanian Competition Authority issued recommendations directed at opening the markets for greater competition, and launched in 2008 an in-depth investigation of the hydrocarbons market that revealed undertakings had engaged in coordinated pricing practices.

2. Electricity sector

   a. Market framework

   The market is partially open. As of 2009, all non-household consumers have the right to choose their supplier. By the year 2012, all household and non-household consumers will be eligible. It is the responsibility of ERE to establish and publish the level of annual consumption as well as other requirements for obtaining the status of eligible customer. After receiving the status, the eligible customer has the right to sign electricity supply contracts with any local or foreign qualified supplier licensed by ERE.

   Market participants are: one Transmission System Operator (TSO), one Distribution System Operator (DSO), generators, the Wholesale and Retail public supplier and qualified suppliers. In terms of its domestic energy, the electricity system depends on more than 98% hydro power, with 90% coming from the Drin River Cascade. Albania’s one thermal power plant, Fier, is not operational because it is old and applies inefficient technology. The construction of Vlora Thermo Power Plant with capacity 97 MW will be commissioned within 2009 and it will become operational by 2010. The Albanian Power Corporation (KESH) imports the remainder of the country’s electricity needs.

   The Albanian Market Model is characterised by bilateral contracts for electricity between and among market participants. There is no retail market at present. Until 2004, KESH operated as a vertically integrated company carrying out the activities of generation, transmission, distribution, supply, import, and export of the electricity. Based on the Transition Market Model approved by the Government in decision No. 539, dated 12 August 2004, the TSO was required to unbundle financially, functionally and legally. The TSO was established on 1 August 2004 as a legal and financially independent entity. It is registered as a joint stock company with 100% of shares owned by the state. In 2006, pursuant to governmental decree, the distribution division was unbundled from KESH; in 2007 the KESH Supervisory Board approved the creation of the electricity distribution system operator (OSSH), which was registered as a separate entity in the Tirana district court. The privatisation of the distribution company, including the distribution system operator and retail public supplier functions, closed in mid-2009, with CEZ investing EUR 102 million for a majority interest. The operational and planning standards, including schemes for the calculation of...
total transfer capacity, are the responsibility of the market operator, pursuant to the Market Rules.

b. Network access and tariffs

ERE is responsible for setting tariffs for all regulated activities in the sector. ERE develops and approves the tariff methodologies and approves, modifies or disapproves the tariffs and terms and conditions of electric power services. Regulated tariffs are set ex ante and, according to the ERE Rules of Practice and Procedures, approved by Board decision in 2009, the tariffs are published before and after the tariff setting process.

ERE approves tariffs for: public generation including small hydro power generation, wholesale activity, transmission, distribution services at 35 kV and 20/10/6 kV, 0.4 kV and retail supply of electricity for tariff consumers. These tariffs are set at an average tariff (not differentiated in energy and capacity components); the tariffs are uniform all over the country. The distribution service tariffs are differentiated by voltage level, the end user prices for the consumers at medium and high voltage levels are differentiated by peak and off peak hours, not yet applicable by DSO due to lack of proper meters. No seasonal tariffs or special tariff is applied for industry. For households, a two block tariff is applied. The end-user tariff components are: pass-through costs of electricity generation (including the renewable), transmission service, distribution service (including losses, bad debts to be included in 2010 tariffs) and retail supply fee. All the power services include the regulatory fee.

The tariffs for access to the network are set by ERE based on the cost of service and pursuant to transparent methodologies as well as on a transparent procedure.

ERE issues licences for the following: distribution system operator; retail public supplier; wholesale public supplier; for generation of electricity; trading of electricity; transmission of electricity; and qualified supplier for eligible customers. It publishes a licensing register (www.ere.gov.al/doc1/Licensees_Register.pdf).

Third Party Access is regulated. Grid codes have been adopted. Generators are not paying use of system charges. The Albanian TSO (which also serves as the market operator) is responsible for ensuring non-discrimination between system users or classes of system users, particularly in favour of its related undertakings; providing system users with the information they need for efficient access to the system. Access tariffs are set by ERE and as such are not negotiated by parties. There is no significant advantage between incumbent suppliers over new entrants. With regard to the authority to give an exemption to the normal rules of Third Party Access for new investment, ERE adopts regulations in order to facilitate access to the grid by power plants with a total capacity no greater than 5 MW.

c. Operational environment

According to the strategy for privatisation of the energy sector and the market model, the TSO and one generation company must remain under state ownership, while the remainder of the sector is open for investment, and foreign capital is unrestricted. With respect to electricity, use of publicly owned resources is governed by a separate concession act.

Albania is one of several net importer countries in the region. In 2007, partly as a result of widespread drought and the domestic reliance on hydro power, and the
limitations of the transmission lines (all imported electricity must come from Montenegro via two 200 kV lines, or from Greece via 400 kV lines), KESH imported more than 50% of its consumption and was forced to institute rolling blackouts. The situation has improved in 2008 and 2009, with electricity imports estimated to make up about 11% of consumption in 2009. In addition, three new power project agreements have been signed in 2009 (biomass, coal-fired, and wind farm) to improve security of domestic energy supply.

For security of supply, the Ministry may launch a tender for new capacity for generation in accordance with the Law on Concessions, to be overseen by the procurement authority. Any construction of new generation capacities shall be made with the approval of the Council of Ministers unless a concession contract is approved by the Government. The TSO is responsible for the demand and load assessment, supervising demand and load forecast validity. To assure adequacy of supply, the licensees carrying out the activities of public generation, transmission, distribution and public supply shall submit to the ERE for approval their investment plan for the next three years and, by 31 October of each year, the updated investment plan for the coming year. The investment plan offers analysis of planned expansions in the relevant regulatory period. The Transmission Code and Distribution Code specify the criteria and procedures to be applied.

Albania participates in the process of establishing a coordinated office for allocation of the interconnection capacities (Coordinated Auction Office – CAO) for the South East Europe region. In February 2009, the TSO signed the Memorandum for understanding on the implementation of common procedures for congestion management methods and the establishment of a coordinated auction office among transmission/independent system operators in South East Europe.

With respect to vulnerable customers, ERE is required to follow the state policy on subsidies allocated for vulnerable consumers, though ERE may suggest tariff-based measures, such as block tariffs to address social needs. The number of subsidised consumers is at 270,000 as a result of the recent addition of state employees to the targeted groups. Vulnerable consumers can obtain the subsidy only if they pay their bill. Problems of identifying the targeted groups remain.

ERE uses public consultation processes prior to adopting secondary legislation, and as part of its tariff review and licence granting or modification processes. It sends responses it gathers from consultations to interested parties and also publishes its decisions on its website, http://www.ere.gov.al. Public participation procedures and rules are addressed in the ERE’s Rules of Practice and Procedures.

3. **Gas sector**

Though commercial production and consumption of natural gas in Albania started in 1960, gas production peaked in the 1980s and the gas system is now largely out of use due to low levels of gas availability. Though plans are underway to extend various supply routes to supply Albania, at present Albania does not import natural gas due to limited available gas infrastructure. The Government seeks to resume gas usage and is taking steps in this direction. In 2008, a new gas law was adopted that creates conditions for investment in the gas sector and anticipates a liberalised gas sector. Specifically, the law requires that any undertaking licensed in the natural gas sector carrying out more than one of the activities related to production, transmission, distribution, supply, and operation of liquefied natural gas (LNG) facilities and storage facilities, shall keep separate accounts for each activity, and prepare consolidated balance sheets in accordance with required accounting practices. The law gives the
TSO authority for proposing transmission asset investment planning, subject to regulatory approval.

In accordance with the new Natural Gas Law, ERE has already amended its Rules of Practices and Procedures and is working for the preparation and development of secondary legislation including the Licensing Procedures, model licenses, market model and other regulatory acts for the natural gas sector.

Although, the tariff methodology for gas are not yet developed, the law on gas does require that gas tariffs and tariff methodologies are non-discriminatory, transparent, take into account the need for system integrity and reflect efficiently incurred costs, including appropriate return on investments. The new law regulates third-party access and sets forth mechanisms for disputes as to access. Dispute resolution and other institutional authorities parallel those found in the electricity sector. All relevant codes and secondary legislation in the gas sector have yet to be adopted.

Under the law, all consumers of natural gas in a specified geographic service territory within Albania are entitled to access to the reliable, safe, quality and uninterrupted dispatch and supply of gas. Wholesale traders and the natural gas transmission operator are responsible for ensuring security of supply, with service standards reflected in the transmission grid code. The law assigns ERE the responsibility to appoint a supplier of last resort other than the DSO for customers connected to the natural gas network. ERE is required to participate in the monitoring of medium and long term supply/demand balance according to bilateral agreements that are subject to the ERE approval, in order to protect the contracting parties against the risk of the market clearing price variation. The mechanism for monitoring is not developed yet.

4. Renewable energy sources/energy efficiency

The National Strategy of Energy and Law on Heat Conservation of Buildings address renewable energy and energy efficiency in Albania. Article 39 of the Law on Power sector imposes an obligation on producers and importers to use renewable resources or inject energy produced by renewables into the national power system in quantity of around 2% of the total production. In support of this objective, the government has focused on providing a price support system for small hydro power plants in particular. Primary responsibility regarding energy efficiency and other environmental interests is vested in the Government. No renewable energy-specific primary legislation is in place as of yet, but the Government has made renewable energy development a priority and is in process the drafting of a law on renewable energy.

The Ministry is responsible for developing renewable energy policy. Construction of a new power plant for renewables can be performed by obtaining concession rights or by authorisation. Both procedures are carried out by the Ministry and the final decision is issued by the Council of Ministers. Albania also has a Renewable Energy department within the National Agency for Natural Resources, with responsibility for promoting investment, consulting and suggesting policies, proposing energy efficiency measures and implementing plans to comply with annual energy balance on national and regional level.

In 2007 ERE approved a new tariff methodology for small hydro power plants (existing and new). By the end of December 2009 there were 53 hydro power plants (HPP’s), seven wind parks with the capacity 1700 MW, and one plant fuelled with biomass. There is a bilateral Ministerial Agreement for the mutual recognition of green certificates and certificates of origin issues by ERE Albania and GSE Italy.
Several important renewable energy investment projects are underway, including an agreement by EVN of Austria and Statkraft of Norway to construct three hydro power plants in the Devoll River, with installed capacities of 173 MW, 138 MW and 28 MW; development by Verbund of Austria of a 48.2 MW hydro power plant in the north; and new wind parks.

In 2005, Albania ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

5. Conclusion

Albania performs reasonably well overall and with respect to its grouping (Group B). Moreover, within its Group, Albania has an electricity sector score of 0.866 relative to an Energy Community average of 0.860 for Energy Community contracting parties only and 0.827 for Energy Community contracting parties and observers (with 1.0 reflecting full adoption and implementation of best practices as identified in the benchmarks and indicators of this Assessment).

Within the electricity sector, Albania has a regulatory framework in place that is relatively compliant with Energy Community requirements, with partial market opening. Major challenges include the country’s singular dependence on, aside from imports, hydro power generation, resulting in volatile supply both seasonally and from year to year, and its large population of vulnerable customers. Potential development of three power projects in biomass, coal and wind could address some volatility issues and improve security of supply. There is as yet no retail market, but the sector is slowly unbundling and the 2009 privatisation of the distribution company, including the distribution system operator and retail public supplier functions, with CEZ obtaining the majority interest could provide an impetus for modernisation and transparency.

Within the gas sector, limited transmission infrastructure precludes gas import. The regulatory framework for the sector, however, including mechanisms for promoting investment in infrastructure, is in the process of development, with primary legislation in place.
Electricity spider graph – Albania

Note: The diagram presents the electricity sector results of Albania, in accordance with the benchmarks and indicators identified in the assessment model. The extremity of each axis represents an optimum score of 1.0, that is, full compliance with international best practices. The fuller the “web”, the closer the overall electricity regulatory framework approximates international best practices. The results for Albania are represented by the thick bold line. For comparison purposes, the shaded area presents the electricity sector average of the Group B countries.

Electricity Sector - Comparative view of Group B countries (contracting parties and observers)

Notes: (O) stands for observers of the Energy Community Treaty. The results for Serbia do not include Kosovo.