Legal insight

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ALBANIA – A COUNTRY RICH IN RENEWABLES

Albania enjoys a very strategic geographical location in Southeastern Europe with a natural opening to European markets and the Balkan region, located in the center of natural crossroads of major European corridors, Pan European corridor VIII, and entry gate with 4 ports: Durres, Vlora, Shengjin, Saranda.
Albania's strategic location and its liberal energy trade policies enable exports towards diverse markets to meet the increasing demand. The country is in the middle of a net electricity importing triangle: Greece, Macedonia and Kosovo. In addition, Italy, the fourth largest consumer of electricity in Europe, imports more than 15% of its energy needs.

Albania is very rich in renewable energy sources, which, along with the relatively low construction prices and labor force salaries, makes it very attractive to investors. Historically, most of the country's electricity needs have been generated by hydropower plants, although the increased demand has led to regular power shortages. Unfortunately, climate change will likely have a negative effect on hydropower production in the years to come, reducing average electricity output from Albania's hydropower plants by up to 15% according to Albanian Investment Development Agency ("AIDA"). For this reason as well as for Government's will to reduce Albania dependence on energy imports, the national energy policy is focused on diversifying its energy supply and promoting other forms of renewable energy – such as solar, wind, and biomass energy.

Water resources are Albania's most important natural resources. At least eight large rivers, fed by hundreds of smaller ones, run through the country from the mountainous East side to the Adriatic and Ionian West sea side.

The total hydropower reserves of Albania are estimated at about 4,500 MW with a potential annual generation of about 16-18 TWh.

So far, the country has exploited around 30 - 35% of its hydropower potential. According to AIDA, the existing total installed capacity is about 1,446 MW, distributed in 11 large and medium sized HPPs and 83 small ones, generating more than 98% percent of country's total electricity production. Several mid and small-sized HPPs are under construction with an additional total capacity of around 400 MW, whereas many others are in process.

Solar energy. Albania has favorable conditions to develop solar energy, due to its geographical position and climate, the high intensity of solar radiation and its relatively long duration. According to AIDA, Albania's solar radiation is calculated at more than 1,500 kWh/m2/year. The country has an average of about 2,400 hours of sunshine per year. The western part gets 2,500 hours and certain locations get a record of about 2,850 hours of solar radiation. Solar

energy is being increasingly used for heating purposes, while photovoltaic energy is still unexplored due to lack of economic incentives.

Albania is engaged in the UNDP/UNEP/GEF Global Solar Water Heating Market Transformation and Strengthening Initiative, intending to accelerate the market development of solar water heating in Albania, with expected continuing growth to reach the set target of 520,000 m2 of total installed SWH (Solar Water Heating) capacity by 2020. This has been estimated to correspond to over 300 MW of avoided, new fossil fuel power capacity by using solar energy instead of electricity for water heating, and an estimated cumulative GHG reduction potential of over 800,000 tons of CO_2 by the end 2020. (UNDP data)

Wind energy. Albania has considerable wind power potential, in particular along the Adriatic coast. Nevertheless, currently there are no wind power farms constructed or under construction. Several domestic and foreign investors have already been licensed to explore wind power production opportunities, while a major investment for a 150 MW wind farm is at the very early stage. According to the National Energy Efficiency Action Plan 2010 – 2018, the Government's target is to generate 5% of the overall electricity produced from wind sources.

The Energy Efficiency Directive (2012/27/EU) represents the European framework of measures on Energy Efficiency within the Union with the goal to achieve a 20% headline target on energy efficiency by 2020. The directive helps in removing energy market hurdles and provides guidelines on national energy efficiency. The main scope of government's National Energy Efficiency Action Plan 2010 - 2018 is to align the Albanian legal system with the EU laws and regulations in the energy field.

Power Sector Law No. 9072 issued on 22/05/2003 sets forth the legal framework in the Albanian energy sector. In December 2009, the Parliament amended the Power Sector Law to regulate renewable energy and introduce incentives for the construction of power plants. (Official Gazette 184, December 30, 2009).

In May 2013 Albania passed a new Renewable Energy Sources Law (138 / 2013), published in the Official Gazette No. 83 on May 20, 2013. This law is the first Albanian law on solar water heating (SWH) systems in particular, as well as an important part of Albania's renewable energy policy. For the reason explained above, the Albanian Government has demonstrated its strong support to renewable energy and its commitment to further align Albanian legislation with EU Directive 2009/28/CE and legal standards.

The law requires builders to adhere to a minimum share of solar thermal heat for certain building types. Additionally, the law exempts solar thermal systems and components from custom tariffs and Value Added Tax altogether.

Albania has already suitable infrastructures to benefit from regional and international trade. It enjoys good access to European electricity grids, through transmission lines with Greece (400 kW) and Kosovo (220 KW).
In March 2014, the Albanian and

Kosovar governments agreed to have a unified common energy market, which will lead both countries to build a 400 kV interconnection line. This project is supported by the German bank Kreditanstalt für Wiederaufbau (KWF).

Access to international networks and markets will strengthen significantly in the near future through construction of new power transmission connection lines. As a matter of fact, Terna is presently building a new submarine electricity interconnection merchant line from Montenegro to Italy. At the end of 2012 Albania completed a 400 kW line with Montenegro. That connecting line with allow Albania energy producers to vehicle the power produced in Albania to Montenegro and from Montenegro through Italy to the European market. Moreover, a 400 kW line with Macedonia is planned to be built, while construction of three submarine lines with Italy has been contracted through concessions to private investors and works are expected to start in the next 2-3 years.

Also, one of the most important projects in Albania is the implementation of a natural gas pipeline project, Trans-Adriatic gas Pipeline ("TAP"). The pipeline will allow gas to flow directly from the Caspian region to European markets crossing, in its last kilometers, Greece, Albania, and the Adriatic Sea before coming ashore in Puglia, southern Italy. The 850 Km pipeline will bring as much as 700 billion cubic feet of natural gas per year from the Shah Deniz natural gas field of Azerbaijan as early as 2019.

With regard to the largest transaction occurred in the energy market in 2013, it is worth mentioning the privatization of the four-hydropower plants Bistrica 1, Bistrica 2, Shkopet and Ulza. This transaction was the result of an open competitive tender procedure where the Albanian government sold all of its shares to the Turkish company Kurum Holding.

Another important deal in the energy sector was the acquisition by Heaney Assets Corporation of 70% of the shares of the Albanian Refining & Marketing of Oil (better known as "ARMO"). The Azerbaijani company purchased what is considered the most important refinery of crude oil in Albania currently operating two refineries with a refining capacity of 1.5 million tons per year. The selling party, Anika Mercuria Refinery Associated Oil, purchased ARMO's shares in 2009 as a result of a privatization process.

In June 2013, Statkraft started the construction of the Devoll hydropower plants in Albania. The initial decision is to build two hydropower plants (Banjë and Moglicë) with a combined capacity of 243 Mw and an annual production of about 700 GWh. Overall, the Devoll project consists of three hydropower plants in the valley of Devoll, with an installed capacity of 278 MW. On average the power plants will produce about 800 GWh annually, increasing the Albanian electricity production by almost 20 per cent. The investment decision for the third plant will be considered when the first two plants are completed. The investment frame for the two first plants is estimated at EUR 535 million. The plants are expected to be completed in 2016 and 2018, respectively.

International technology Group ANDRITZ, headquartered in Graz, Austria, built Ashta I & II hydropower project located on the Drin river near the city of Shkodra and consisting of two power plants of similar design.

The most controversial privatization tentative of the Albanian government was the failed attempted sale of Albpetrol, the state owned oil company. The government is reconsidering whether to upgrade Albpetrol technical ability to monitor contracts and development of the oil sector, or to partner with a foreign company and restructure it, or to sell it off entirely.

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