



GLOBAL CLIMATE CHANGE

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USAID's support of energy sector initiatives has facilitated environmentally friendly and sustainable development in Albania. Further endeavors by USAID, coupled with action by its many partners and collaborators, will help to maintain and increase Albania's participation in the efforts to mitigate the effects of climate change and promote energy sector investment.

Background. Located in southeastern Europe in the west of the Balkan Peninsula, the Republic of Albania has spent the last decade making the transition from 46 years of communism to multiparty democracy and a liberal economic system. In recent years, Albania has achieved impressive economic growth, largely as a result of stable macro-economic policy, growing foreign remittances and improved total factor productivity. From 1999 to 2005 the average annual economic growth rates was around 6.5%. Per capita income increased from \$2,400 in 2004 to \$2,500 in 2005. The national poverty rate was reduced significantly to 18.5% in 2005 from 25.5% in 2002. While these accomplishments are impressive, Albania remains one of the poorest countries in Europe and its per capita income is among the lowest in the Balkan region with high unemployment, widening trade deficit and very low foreign direct investment. The investment environment remains unfavorable due to severe infrastructure deficiencies, weak governance and institutions, unresolved property issues, lack of a highly skilled work force, and a large informal economy. The lack of a reliable and adequate supply of energy continues to be a major constraint to Albania's economic growth.

Sector-Specific Climate Change Activities. USAID supports Albania's institutional development, policy and legal reforms, utility and regulatory technical assistance and partnerships for energy sector development. Because the Albanian power system relies on hydro-power for more than 95% of its electricity generation, it depends greatly on rainfall. The lack of investment in new generation facilities, poor maintenance of existing facilities, and limited capacity of electricity imports have significantly reduced the country's ability to supply its consumers. Weak institutional capacities to enact necessary energy sector reforms and attract foreign investment in the sector compound these problems. As a result, Albania continues to face serious energy crises that threaten the sustainability of its economic growth and inhibit the choices in certain areas for clean energy alternatives. Ultimately, this unpredictable energy climate can have a devastating effect on the environment.

Regulatory Reform and Restructuring Capacity Building. To strengthen the capacity for regulatory reform and restructuring, USAID's Albania power sector assistance contributes to developing a functioning, regional, and competitive electricity market in Southeast Europe by building the necessary regulatory and institutional structures. USAID has assigned several Energy Attorneys/ Electricity Regulatory specialists to work closely with regulators and Ministry officials to develop and implement the regulatory approach to regional cooperation and to address key issues in national restructuring and market development that affect the regional market.

USAID's partners in climate change activities in Albania include*:

- Alliance to Save Energy
- United States Energy Association (USEA)
- Hunton & Williams LLP
- National Association of Regulatory Utility Commissioners (NARUC)
- Pierce Atwood
- OST
- Energy Regulatory Entity (ERE)
- Indiana Utility Regulatory Commission
- Albanian Utility (KESH)
- Ministry of Industry and Energy

* Because partners change as new activities arise, this list of partners is not comprehensive.

For more information on USAID's climate change activities in Albania, visit USAID/Albania's Mission Web site at:

<http://www.usaid.gov/al>

Further, to make the Albanian power market consistent with European Union Directives and the Energy Community of South East Europe, USAID assisted the Albanian government to develop and adopt a Transitional Market Model (TMM). This market structure and applicable rules require minimal need for hardware, software, new processes, and training. As part of its capacity building efforts, USAID trained 35 government, utility and regulatory agency officials to familiarize them with the electricity market and how to implement the TMM.

To strengthen Albania's energy regulations, USAID has supported several initiatives that increase the exchange of information. The National Association of Regulatory Utility Commissioners (NARUC) Partnership Program, funded by USAID, was designed to exchange regulatory experience and information among the Albanian, US, and other European regulators, fostering long-term sustainable relationships between regulatory bodies in all countries.

USAID has also regularly sponsored joint activities between the Energy Regulatory Entity (ERE) of Albania and the Indiana Utility Regulatory Commission. During 2005, Albanian regulators were introduced to environmentally-related topics such as clean coal technology and climate change through a visit to a combined cycle coal gasification plant in Terre Haute, Indiana and a discussion about a joint venture under the US Department of Energy Clean Coal Technology Demonstration Program.

Similarly, USAID's Balkan Electricity Market Partnership Program was designed to build capacity in Albania to meet the requirements of the Southeast Europe Energy Treaty. Albania's entry into the competitive markets created by the treaty will ultimately lead to efficiency improvements to both generation plants and transmission network performance, and decrease overall energy consumption, thereby reducing associated emissions. Eight training events led by senior managers from US electric utilities and transmission system operators were held with over 85 participants from the Albanian Power Utility (KESH) and transmission company (OST).

Energy efficiency is a key aspect of USAID's climate change mitigation approach. In preparation for the Energy Efficiency Law, USAID worked with the Ministry of Industry and Energy and the National Energy Agency in Albania to develop environmentally sound energy policies and legislation. Along with the ERE, these entities also implemented steps to restructure and reform the power sector to place it on a financially self-sustaining basis. Their efforts reduced hours of blackouts and hours of use of stand-by diesel generator units countrywide (estimated to reach 70-80 MW) and associated carbon dioxide (CO₂) emissions. Additionally, assisted by USAID, the ERE has approved regulations with respect to small power production (hydro power plants and combined heat power plants) the construction of which will contribute to the reduction of carbon emissions.