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The Legal Framework for Renewable Energy Sources in Albania in the Context of International and EU Commitments

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Abstract

For Albania, renewable-energy development has particular strategic importance because the country combines a historically high dependence on hydropower with increasing electricity demand, exposure to hydrological variability, and the obligation to progressively align its energy legislation with the European Union acquis. This paper examines the legal framework governing renewable energy sources in Albania within the broader context of the country's international climate commitments, obligations arising from membership in the Energy Community, and European Union accession process. Particular attention is devoted to Law No. 24/2023 *On the Promotion of the Use of Energy from Renewable Sources*, which represents a substantial step towards approximation with Directive (EU) 2018/2001 (RED II). The paper analyses renewable-energy targets, support mechanisms, competitive auctions, contracts for difference, guarantees of origin, self-consumption, renewable-energy communities, permitting, electricity-market integration, and the institutional responsibilities of the Energy Regulatory Authority. It argues that Albania has achieved significant formal convergence with the European renewable-energy model, particularly through the transition from administratively determined support towards competitive and market-oriented mechanisms. Nevertheless, important implementation challenges remain, including incomplete alignment with parts of the renewable-energy acquis, administrative and permitting constraints, grid limitations, market liquidity, institutional coordination, and the need to translate awarded renewable capacity into operational projects. The paper concludes that Albania's principal challenge is progressively shifting from legislative approximation towards effective implementation and institutional convergence.

Keywords: Albania; renewable energy; European Union; Energy Community; RED II; RED III; energy law; renewable-energy auctions; contracts for difference; energy transition.

1. Introduction

Energy policy has undergone a profound transformation over the past two decades. Traditionally centred on security of supply, affordability, and the regulation of natural monopolies, contemporary energy law increasingly incorporates climate-change mitigation, decarbonisation, technological transformation, market integration, and sustainable development. Renewable energy has consequently moved from the margins of energy policy to become one of its central regulatory components.

The European Union (EU) has played a particularly important role in this transformation. Successive renewable-energy directives, electricity-market reforms, climate legislation, State-aid rules, and the European Green Deal have progressively established a regulatory model in which renewable-energy development is linked to competitive electricity markets, long-term climate objectives, technological innovation, and cross-border energy integration. Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources (RED II) consolidated this framework, while Directive (EU) 2023/2413 (RED III) significantly strengthened it by increasing renewable-energy ambition and placing greater emphasis on accelerated permitting and the removal of administrative barriers (European Parliament & Council of the European Union, 2018, 2023). For Albania, this European transformation has direct legal consequences. Although Albania is not yet an EU Member State, its renewable-energy framework is influenced by EU law through two interconnected processes. First, Albania is a Contracting Party to the Energy Community Treaty and is therefore subject to legally binding obligations to implement substantial parts of the EU energy acquis. Article 20 of the Energy Community Treaty, as amended through subsequent Ministerial Council decisions, requires Contracting Parties to implement Directive (EU) 2018/2001 (Energy Community, 2022). Second, Albania's EU accession process requires progressive approximation of national legislation with the acquis, including Chapter 15 on Energy and Chapter 27 on Environment and Climate Change. The opening of Cluster 4, "Green Agenda and Sustainable Connectivity," in Albania's accession negotiations in September 2025 gave this process additional significance. The cluster includes Chapter 15 on Energy and Chapter 27 on Environment and Climate Change, directly connecting renewable-energy reform with Albania's broader accession trajectory (Council of the European Union, 2025). Renewable energy is also strategically important because of the particular structure of the Albanian electricity system. Albania already possesses a highly renewable electricity-generation profile because of its extensive hydropower resources. However, dependence on hydropower creates exposure to hydrological variability. Diversification towards solar and wind generation can therefore simultaneously advance decarbonisation, strengthen energy security, reduce dependence on electricity imports during unfavourable hydrological periods, and facilitate integration into regional electricity markets. The adoption of Law No. 24/2023 On the Promotion of the Use of Energy from Renewable Sources constitutes a major development in this context. The Law replaces the earlier framework established under Law No. 7/2017 and seeks to bring Albanian renewable-energy regulation closer to RED II. It introduces or

strengthens mechanisms concerning competitive support, market premiums, contracts for difference (CfDs), guarantees of origin, renewable self-consumers, and renewable-energy communities (Republic of Albania, 2023).

The central argument of this paper is that Albania has moved substantially towards formal legal convergence with the European renewable-energy model, but functional convergence remains incomplete. Effective alignment cannot be assessed exclusively through the adoption of legislation. It also depends on implementation capacity, regulatory predictability, electricity-market development, permitting efficiency, grid availability, institutional coordination, and the successful commissioning of renewable projects.

2. RED III and the Shift Towards Implementation Barriers

Directive (EU) 2023/2413 (RED III) represents a significant further development of the European Union's renewable-energy regulatory framework. Adopted in the context of the European Green Deal, the Fit for 55 package and the accelerated energy transition following the energy crisis of 2021–2022, RED III substantially increased the level of EU renewable-energy ambition while simultaneously addressing the practical obstacles that had begun to constrain renewable-energy deployment. The Directive therefore represents not merely an increase in quantitative renewable-energy targets but an important qualitative change in the regulatory philosophy underlying EU renewable-energy policy. RED III amended Directive (EU) 2018/2001 and increased the binding Union renewable-energy target for 2030 to at least 42.5% of gross final energy consumption. Member States are additionally expected collectively to endeavour to increase the share to 45% (European Parliament & Council of the European Union, 2023). The revised target represents a substantial increase compared with the 32% target originally established under RED II and reflects the EU's broader commitment to achieving climate neutrality by 2050. The higher target should be understood within the broader development of EU climate law. Regulation (EU) 2021/1119, commonly referred to as the European Climate Law, establishes the legally binding objective of climate neutrality in the Union by 2050 and a net domestic reduction in greenhouse-gas emissions of at least 55% by 2030 compared with 1990 levels (European Parliament & Council of the European Union, 2021). Renewable-energy expansion consequently forms part of a wider legally structured decarbonisation trajectory rather than constituting an isolated sectoral objective. However, the importance of RED III extends considerably beyond the increase in renewable-energy targets. One of its most significant characteristics is the recognition that the barriers to renewable deployment have changed as renewable technologies have matured. During the earlier stages of renewable-energy development, the principal policy problem was frequently understood as a cost differential: renewable electricity was generally more expensive than electricity produced from conventional sources, and financial support was therefore necessary to make renewable projects commercially viable. Feed-in tariffs, premiums, tax incentives and other financial mechanisms were designed primarily to close this cost gap. Technological development and economies of scale have progressively altered this situation. The costs of solar

photovoltaic and wind technologies have declined substantially over the last decade. The International Renewable Energy Agency (IRENA, 2025) estimates that between 2010 and 2024 the global weighted-average levelised cost of electricity from utility-scale solar PV declined by approximately 90%, while the corresponding cost for onshore wind declined by approximately 70%. In 2024, approximately 91% of newly commissioned utility-scale renewable capacity generated electricity at a lower cost than the cheapest newly installed fossil-fuel alternative (IRENA, 2025). These cost developments have important regulatory consequences. As renewable-generation technology becomes economically competitive, the relative importance of direct financial support declines, while the importance of other project-development costs increases. Permitting delays, uncertain land-use procedures, environmental-authorisation processes, unavailable grid capacity, lengthy grid-connection queues, institutional fragmentation and insufficient transmission infrastructure can consequently become more significant barriers to investment than the cost of solar panels or wind turbines themselves.

RED III responds directly to this transformation. Its regulatory logic increasingly treats renewable-energy deployment as an implementation and infrastructure challenge, rather than exclusively as a problem of financial incentives. In other words, establishing an economically attractive support mechanism is no longer considered sufficient. The legal and administrative system must also enable economically viable renewable projects to proceed from initial development to authorisation, financing, construction, grid connection and commercial operation within predictable periods (European Parliament & Council of the European Union, 2023).

3. Relevance of RED III for Albania

This evolution has particularly important implications for Albania. Albania has already demonstrated substantial investor interest in utility-scale renewable generation through competitive solar and wind procedures. As the costs of these technologies become increasingly competitive, the principal question is progressively shifting away from whether solar and wind technologies require sufficient financial support to attract developers. The more important question is whether awarded projects can move efficiently from the competitive procedure to commercial operation. This requires several stages to function effectively: project siting, land acquisition or land-use rights, environmental assessment, planning approval, construction authorisation, grid-connection approval, financing, construction and final connection to the electricity system. A bottleneck at any one of these stages can undermine the effectiveness of the entire renewable-support mechanism. For Albania, RED III therefore provides an important benchmark for the next stage of legal approximation. Law No. 24/2023 substantially strengthened the Albanian renewable-energy framework and brought it closer to RED II, but the European *acquis* has already moved further towards accelerated permitting, strategic renewable spatial planning and implementation-oriented regulation. Future approximation should consequently examine not merely whether Albanian legislation recognises renewable support mechanisms but also whether administrative procedures

correspond increasingly to RED III principles concerning predictability, coordination and accelerated decision-making. The concept of renewables acceleration areas may be particularly relevant. Albania possesses significant solar and wind potential, but renewable development must be coordinated with environmental protection, tourism, agriculture, urban development and electricity infrastructure. Strategic identification of appropriate renewable-development areas could potentially reduce conflicts at the individual-project stage. However, such designation would require careful spatial and environmental assessment. Accelerating renewable deployment should not be interpreted as eliminating environmental safeguards. The regulatory objective should instead be to identify appropriate locations earlier and more systematically so that environmental considerations are incorporated into strategic planning rather than becoming unpredictable obstacles after substantial project expenditure has occurred. The success of Albania's competitive renewable auctions can increase pressure on the transmission system if awarded solar and wind capacity develops more rapidly than network infrastructure. Future renewable planning should therefore be linked more closely to assessments of available connection capacity, transmission reinforcement and expected geographic distribution of new generation. This suggests that auction planning and network-development planning should increasingly operate within a common framework. For example, information concerning available grid capacity could be made sufficiently transparent to allow developers to incorporate realistic connection conditions into project-selection decisions. This would be particularly relevant to bidder-selected-site auctions, where developers rather than the government identify project locations. RED III also highlights the importance of administrative coordination. Albanian renewable projects potentially interact with several national and local authorities. Establishing clearly defined procedural responsibilities, maximum decision periods, digital application systems and effective coordination between energy, environmental, territorial-planning and network institutions could substantially reduce development risk. From an investment perspective, these reforms can operate as a form of indirect financial support. Reducing a project's permitting period, clarifying grid-connection conditions or improving administrative predictability does not involve a direct subsidy. Nevertheless, each measure can reduce risk, financing costs and required investor returns. Administrative reform can therefore reduce the electricity price required by renewable developers in future competitive auctions. This leads to a broader conclusion regarding Albania's convergence with EU renewable-energy policy. The first generation of renewable-energy approximation focused predominantly on establishing renewable targets and support mechanisms. The second generation introduced competitive auctions and greater market integration. RED III indicates that the emerging third generation is increasingly concerned with delivery capacity: permitting, spatial planning, infrastructure, grid integration and administrative effectiveness. Albania's future approximation process should therefore move beyond a narrow assessment of whether its legislation contains instruments formally comparable to those used within the EU. A more demanding assessment should examine whether the Albanian legal and institutional framework can deliver renewable projects within predictable

timeframes and at sustainable system costs. Accordingly, several indicators become particularly relevant: average permitting duration; number of institutions involved in project authorisation; time required to obtain grid-connection approval; proportion of auctioned capacity reaching financial close; proportion reaching construction; proportion becoming operational; availability of transmission capacity; frequency of curtailment; and the difference between planned and actual commissioning dates.

Such indicators would permit a transition from measuring formal legislative compliance towards measuring functional implementation. In this respect, RED III is particularly relevant to Albania's EU integration process because it demonstrates that approximation with the renewable-energy *acquis* is no longer principally a matter of adopting support instruments. Increasingly, it requires the creation of an administrative and infrastructural environment capable of translating renewable investment intentions into operating electricity-generation capacity. The central lesson of RED III for Albania can therefore be expressed as a shift from supporting renewable investment to enabling renewable investment. Financial support remains important, particularly for reducing revenue risk and mobilising capital. However, once renewable technologies become commercially competitive, permitting efficiency, regulatory certainty, spatial planning, grid availability and institutional coordination become equally important determinants of whether the energy transition occurs at the speed required by climate, energy-security and European-integration objectives.

4. Electricity-Market Integration and ALPEX

The transition from administratively determined renewable-energy support towards market-oriented mechanisms requires more than reform of renewable-energy legislation. It also requires the development of a functioning wholesale electricity market capable of producing transparent, credible, and sufficiently representative price signals. In this respect, the establishment and progressive development of the Albanian Power Exchange (ALPEX) constitutes an essential component of Albania's renewable-energy transition and its broader approximation with the European Union energy *acquis*. Electricity-market reform and renewable-energy reform should therefore not be analysed as separate regulatory processes. Competitive renewable procurement, contracts for difference (CfDs), market premiums, balancing responsibilities, wholesale price formation, cross-border electricity trading, and regional market integration are interconnected components of the same transformation. The effectiveness of each element increasingly depends on the effective functioning of the others. This relationship becomes particularly important as Albania moves away from traditional support mechanisms under which renewable producers could operate largely independently of wholesale electricity-market conditions. Under a conventional feed-in tariff, a producer generally receives an administratively established price for electricity regardless of short-term movements in the wholesale market. Market participation and wholesale price formation therefore have a comparatively limited influence on the producer's revenue. The situation is fundamentally different under market-oriented support mechanisms

such as sliding premiums and CfDs. Under these mechanisms, the wholesale electricity price becomes an integral component of the support calculation. The existence of a functioning electricity exchange consequently becomes a prerequisite for the effective operation of the renewable-support system rather than merely a parallel electricity-market reform.

4.1 ALPEX and the Development of Organised Electricity Trading

ALPEX represents an important institutional development in Albania's transition towards an organised and increasingly integrated electricity market. The Albanian day-ahead electricity market became operational in April 2023, representing an important step away from electricity trading based predominantly on bilateral arrangements towards transparent organised wholesale trading (Energy Community Secretariat, 2023). The development of an organised day-ahead market performs several important functions. First, it creates a centralised mechanism through which electricity supply and demand can be matched for each market time unit of the following day. Second, it produces transparent market-clearing prices reflecting the interaction between bids submitted by electricity producers, suppliers, traders, and other market participants. Third, it increases the availability of publicly observable price information. Fourth, it creates an institutional foundation for progressively integrating the Albanian electricity market with neighbouring bidding zones and ultimately with the broader European electricity market.

The importance of ALPEX therefore extends considerably beyond the creation of a new electricity-trading platform. It contributes to the establishment of a price-discovery mechanism capable of supporting investment decisions, renewable-support settlement, cross-border trading, and the gradual replacement of administratively determined electricity arrangements with market-based mechanisms.

4.2 Wholesale Price Formation and Renewable-Energy Support

Credible wholesale price formation is particularly important for renewable-energy support under Law No. 24/2023. The implementing framework adopted by the Energy Regulatory Authority (ERE) demonstrates this connection explicitly. ERE Decision No. 284 of 18 December 2024 defines a premium contract as a support contract under which a priority producer may receive either a fixed premium or a sliding premium. In the case of a sliding premium, support is calculated as the difference between the guaranteed price and the reference price (Energy Regulatory Authority [ERE], 2024). The guaranteed price is linked to the successful price established through the competitive procedure, whereas the reference price is connected with the Albanian day-ahead electricity market (ERE, 2024). This creates a direct institutional relationship between competitive renewable-energy auctions and ALPEX. The auction determines the price at which the renewable project has demonstrated that it is prepared to invest, while the organised electricity market provides the reference against which the level of financial support can subsequently be determined.

The resulting structure can be illustrated conceptually as follows:

competitive auction ✱ guaranteed price ✱ ALPEX reference price ✱ support settlement.

This differs fundamentally from a traditional feed-in tariff. Under the traditional model, the public authority largely determines the remuneration received by the renewable producer. Under the emerging Albanian model, remuneration increasingly combines a competitively determined support level with electricity-market price formation. The quality of wholesale-market price formation consequently becomes part of the quality of renewable-energy regulation itself.

4.3 Reference Prices and the Functioning of CfDs

In simplified terms, a CfD establishes a relationship between a guaranteed or strike price and a reference market price. Where the reference price falls below the guaranteed price, the contractual mechanism compensates the producer according to the applicable rules. Under a two-sided structure, where the reference price exceeds the guaranteed price, the producer may be required to return the difference. The economic rationale is to combine two objectives that might otherwise conflict. The first is **market exposure**. Renewable producers should increasingly participate in electricity markets and respond to market conditions rather than remaining completely insulated from wholesale price formation. The second is **investment certainty**. Renewable projects are capital intensive, and excessive exposure to long-term electricity-price volatility can increase financing costs and discourage investment. A properly designed CfD can therefore preserve market participation while reducing the long-term revenue uncertainty faced by investors. However, the effectiveness of the mechanism depends heavily on the quality of the reference price. A reference price should be transparent, objective, difficult to manipulate, and sufficiently representative of the electricity market in which the producer operates. If the underlying market is insufficiently liquid, the resulting price may be excessively volatile or may fail to reflect broader supply-and-demand conditions accurately. The stronger and more representative the day-ahead market becomes, the more credible its prices can become as reference values for long-term renewable-support arrangements.

4.4 Liquidity as a Regulatory Requirement

Market liquidity therefore constitutes an important component of Albania's renewable-energy framework. A functioning power exchange requires more than a technical trading platform. It requires sufficient numbers of active participants, meaningful trading volumes, competitive bidding behaviour, appropriate market monitoring, and adequate availability of electricity for organised trading. Where only a small number of participants submit bids, individual market participants may exercise greater influence over price formation. Limited trading volumes may also increase volatility and reduce confidence that observed prices accurately represent underlying market fundamentals. For renewable-support mechanisms, this issue has additional consequences because the wholesale price may be used not only for electricity trading but also for calculating public or contractual support payments. Consequently, liquidity affects both electricity-market efficiency and the financial operation of renewable-support mechanisms. Albania should therefore treat increasing organised-market participation

as an important element of renewable-energy reform. Measures capable of strengthening liquidity may include progressively increasing the quantity of electricity traded through organised markets, facilitating entry by independent suppliers and traders, improving cross-border participation, strengthening transparency requirements, and ensuring that market rules do not create unnecessary barriers to participation.

4.5 ALPEX and Albania-Kosovo Market Coupling

A particularly important development occurred with the coupling of the Albania and Kosovo electricity markets. ALPEX conducted the first day-ahead auction in market-coupling mode on 31 January 2024 for delivery on 1 February 2024. This established day-ahead market coupling between the Albanian and Kosovo bidding zones (Albanian Power Exchange [ALPEX], 2024). Market coupling represents a more advanced form of electricity-market integration than the simple existence of cross-border transmission infrastructure. Under traditional arrangements, electricity and cross-border transmission capacity may effectively be traded through separate processes. Market coupling seeks to allocate electricity and available cross-border capacity simultaneously through the market-clearing process. The economic logic is that electricity should flow, subject to network constraints, from the lower-price bidding zone towards the higher-price bidding zone until either available cross-border capacity is exhausted or price differences are reduced. Market coupling can therefore improve the utilisation of interconnection capacity and contribute to price convergence between interconnected markets. For relatively small electricity systems such as Albania and Kosovo, the benefits can be particularly significant. Combining markets can increase the effective number of participants, broaden the supply-and-demand base and reduce some of the limitations associated with operating small isolated wholesale markets. The Energy Community identifies Albania-Kosovo day-ahead coupling as an important example of integration between Contracting Parties. The Energy Community's current implementation framework confirms that implicit allocation is used at the Albania-Kosovo border in the day-ahead timeframe (Energy Community Secretariat, 2026). A small domestic electricity market may have structural limitations because of the restricted number of producers, suppliers and consumers. Cross-border integration effectively enlarges the market and can strengthen competition and price formation.

4.6 Development of Intraday Trading

Intraday markets become increasingly important as the share of variable renewable generation grows. Solar and wind output can be forecast with considerable accuracy, but forecasts become more precise as the delivery period approaches. A producer may therefore discover after the closure of the day-ahead market that expected production has changed because of updated weather information. Without effective intraday trading, deviations between forecast and actual renewable production may result in larger imbalances and greater balancing costs. Intraday trading therefore reduces the period during which producers remain locked into earlier forecasts. The development of intraday trading should consequently be understood as part of renewable-energy

integration rather than simply as an additional wholesale-market product. The Energy Community's current implementation information indicates that ALPEX is operating as the designated Nominated Electricity Market Operator for both day-ahead and intraday services in Albania. It also reports that complementary regional intraday auctions between Albania and Kosovo were launched in December 2024, enabling implicit capacity allocation between the two bidding zones in the intraday timeframe (Energy Community Secretariat, 2026). This represents another important step towards creating a market structure capable of accommodating increasing quantities of variable renewable electricity.

5. Conclusion

Albania has undertaken substantial reform of its renewable-energy legal and institutional framework. Law No. 24/2023 On the Promotion of the Use of Energy from Renewable Sources represents the central legislative expression of this transformation and reflects the combined influence of Albania's international climate commitments, Energy Community obligations, and EU accession objectives. The reform marks a transition from an administratively oriented support system towards a framework increasingly based on competitive allocation, market participation, contracts for difference (CfDs), guarantees of origin, self-consumption, and renewable-energy communities (Republic of Albania, 2023). Competitive solar and wind auctions demonstrate that this transition is already occurring in practice. They have attracted private investment and supported diversification beyond Albania's traditional dependence on hydropower. This diversification is important not only for decarbonisation but also for energy security, as a system heavily dependent on hydrological resources remains vulnerable to rainfall variability and electricity-import requirements. Nevertheless, the analysis demonstrates that legal approximation does not automatically result in effective implementation. Albania must continue aligning its legislation with the evolving EU renewable-energy acquis, including RED III and outstanding RED II requirements. The Energy Community's assessments indicate that progress in legislative approximation must be accompanied by stronger implementation across the wider renewable-energy framework (Energy Community Secretariat, 2024). RED III is particularly relevant because European renewable-energy regulation increasingly focuses on removing practical barriers to deployment, including lengthy permitting procedures, administrative fragmentation, spatial-planning constraints, and inadequate grid infrastructure (European Parliament & Council of the European Union, 2023). Permitting and grid capacity should therefore become central priorities. Clear administrative deadlines, coordinated procedures, digitalisation, and greater institutional cooperation can reduce project-development risk without weakening environmental safeguards. At the same time, renewable procurement must be coordinated with transmission and distribution planning. Awarding substantial quantities of solar and wind capacity has limited value if projects subsequently face prolonged grid-connection constraints. Electricity-market integration is equally important. The development of ALPEX and deeper regional market integration provide the institutional foundation for

market-oriented renewable support. CfDs and sliding premiums depend on credible wholesale reference prices, while liquid day-ahead, intraday, and balancing markets facilitate the integration of variable renewable generation. Electricity-market reform and renewable-energy reform should consequently be regarded as interconnected components of Albania's alignment with the European energy model. Regulatory stability also remains essential. Renewable projects are long-term and capital-intensive investments. Predictable legislation, support contracts, auction schedules, network rules, and administrative procedures can reduce investor risk and financing costs. Legal certainty should therefore be regarded not only as a rule-of-law requirement but also as an instrument for reducing the ultimate cost of renewable electricity. At the same time, Albania should broaden the renewable transition beyond utility-scale projects. Self-consumers, renewable-energy communities, distributed solar, storage, and corporate renewable procurement can complement competitive auctions and increase participation by households and businesses. Finally, renewable-energy performance should increasingly be measured according to implementation rather than announced capacity. Public authorities should distinguish between tendered, awarded, financed, constructed, connected, and operational capacity. This would provide a more accurate picture of progress and help identify whether bottlenecks arise from permitting, financing, construction, or grid connection. Albania's renewable-energy transition can therefore be understood as moving through three phases: establishing the legal foundations for renewable support; introducing competitive procurement and market-oriented mechanisms; and, increasingly, developing the institutional, administrative, market, and infrastructural capacity necessary to convert those mechanisms into operating renewable generation. The principal challenge is consequently shifting from formal legal convergence to functional convergence. In the context of EU accession, Albania's success should not be measured exclusively by how closely its legislation reproduces EU rules, but by whether those rules produce functioning markets, credible investment conditions, efficient permitting, adequate grid access, and operational renewable capacity. The decisive next stage of reform is therefore the transition from legal transposition to effective implementation.

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