



RECENT DEVELOPMENTS IN CROATIA'S ENERGY SECTOR



Croatian Energy Regulatory Council - CERC
Mišo Klepo, CERC Chairman

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CROATIA

Area: 56,542 km², plus 31,067 km² of territorial waters

Population: 4.4 mil.

The majority of the population are Croats. National minorities include Serbs, Moslems, Slovenes, Italians, Hungarians, Czechs, Slovaks, and others

Capital: Zagreb (0.8 mil inhabits.)

Number of islands: 1.185

Climate: continental / semi-highland & highland / Mediterranean

Croatian language and Latin alphabet.

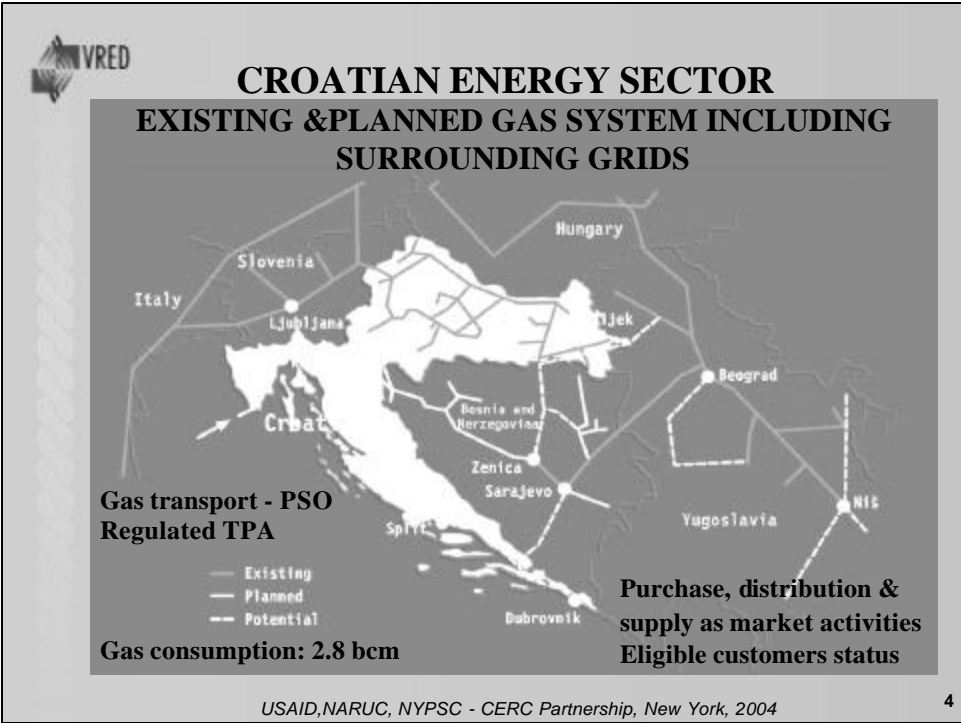
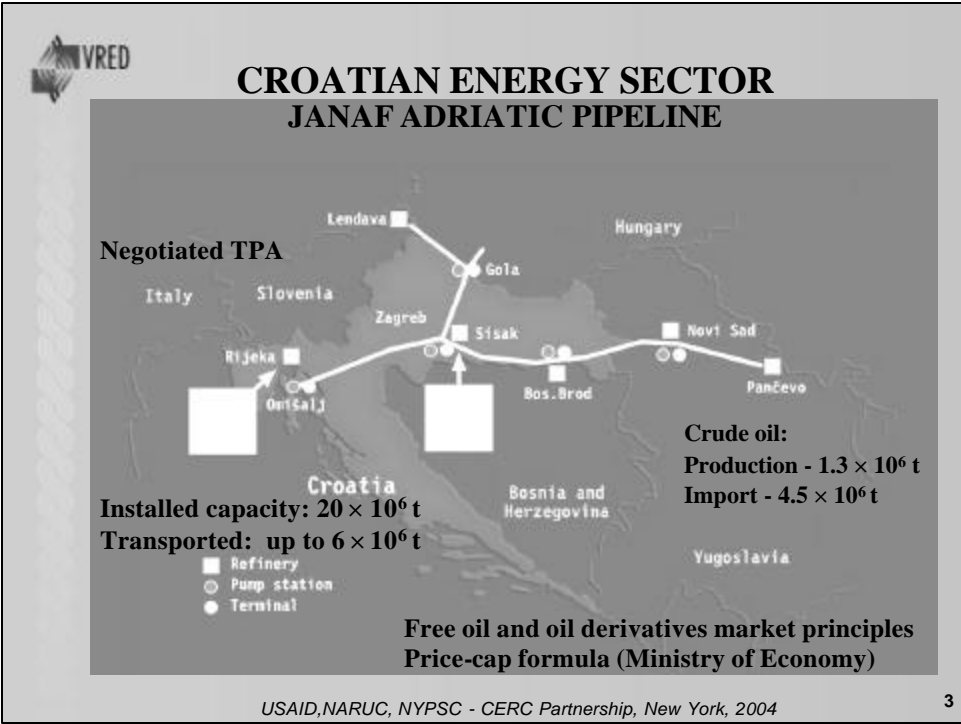
Religions: Roman Catholics, and in addition there are a number of those of Orthodox faith, as well as Muslims, and Christians of other

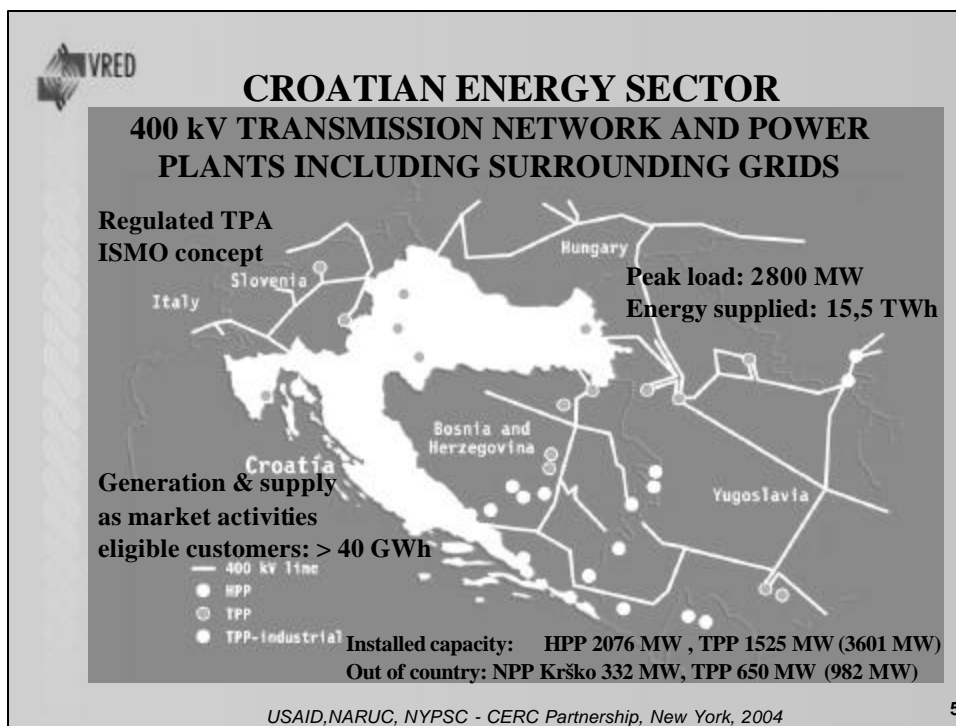
National currency: kuna

GDP: round 5.000 \$US

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The role of subjects involved in regulation:

- ❖ **The Croatian Parliament:** Passes laws, approves energy policy and development strategy, establishes the legal framework for the regulation, appoints members of CERC.
- ❖ **The Croatian Government:** Established energy policy (efficiency, environmental protection, renewable sources), proposes to the Croatian Parliament the way of financing the energy needs, makes decisions and passes regulations which CERC follows, proposes members of CERC to the Parliament, gives timely consent for the statute and annual financial plan of CERC.
- ❖ **Ministry of Economic Affairs (ME):** Proposes energy policy and energy needs, makes drafts for secondary legislations and acts, prepares drafts of decisions and opinions for the Croatian Government.
- ❖ **Local and regional authorities:** Regulate energy services on local and regional levels, participate in making decisions about location and construction of new power plants and grids.
- ❖ **Customers:** Follow the activities of CERC, participate in the process of public discussions and declarations, participate in the work of advisory bodies of CERC.

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Division of authority:

- ❖ Legally established division of authority among: the Parliament, the Government, ministries, energy subjects, State Inspectorate, market agency, ..., CERC

Issues confronting CERC:

- ❖ Legal framework
 - Incomplete the legal framework (*sub-legal acts being made*) which requires flexible organizational structure for future adjustments – gradual fulfilling of the regulatory structure and contents
 - CERC participated in passing sub-legal acts and implementation acts – proposes, gives timely opinion: advisory role towards the Government, passes individual regulations
 - CERC's role limited or undefined
- ❖ CERC organisation, jurisdiction, accountability, dispute resolution, implementation of resolutions, financing
- ❖ Restructuring
- ❖ Energy sector licensing
- ❖ Technical standards and quality service
- ❖ EU / REM / UCTE
- ❖ Other issues

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Issues confronting CERC (continued):

- ❖ CERC is an independent legal person
- ❖ CERC consists of five members, recently re-appointed by the Croatian Parliament to five years terms
- ❖ The Parliament can acquit members of CERC only in cases prescribed by law
- ❖ CERC internal organisation is defined by Charter approved by the Croatian Government, but legal jurisdiction not clearly defined by the package of energy laws
- ❖ The Government approves the annual financial plan of funds for work of CERC and the closing balance sheet for these funds - the financing plans for 2003 and 2004 have not been approved
- ❖ The Croatian Government designated a non-profit legal person who prepares proposals of acts and performs other expert work for CERC, lack of the own personnel
- ❖ CERC gives reports to the Croatian Parliament and Croatian Government at least once a year about its work and observations which are significant for the development of the energy and public services markets, but lack of co-ordination

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Issues confronting CERC (continued):

- ❖ CERC organisation, administrative department organisation, organisation of co-operation with Energy Institute
- ❖ Cooperation in the process of defining the legal framework for energy market development, energy sectors' regulation
- ❖ Elaboration of by-law acts and other documents (around 50)
- ❖ Opinions regarding tariff systems approved by the Croatian Government:
 - i) Tariff System for Power Activities Carried out as PSO*
(September 2002 - proposed by HEP - state owned power utility, all-inclusive tariff)
 - ii) Gas Transportation Tariff System for Suppliers and Eligible Customers*
(September 2002, proposed by PLINACRO - state owned gas transportation company)
 - iii) Gas Supply Tariff System for Tariff Customers*
(September 2002, proposed by INA-Naftaplin - state owned oil and gas company);
- ❖ Opinions/decisions regarding wholesale gas prices
- ❖ Settlement of disputes, issuing of resolution
- ❖ Penalty system

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Restructuring / legal status:

- ❖ Institutions are created and have to be activated
- ❖ Accounting and functional unbundling has to be done
- ❖ Licence (round 100 undertakings, 161 application, 100 issued)
- ❖ Rules have to be defined, tariff system have to be approved
- ❖ Markets have to be established
- ❖ Privatization of oil and gas company INA (25%+1 share to MOL)
- ❖ **Gas sector:**
Functional and legal unbundling, rules approved or in the final stage, creation of SO, mergers & acquisitions probable, transport tariffs defined, distribution tariffs expected
- ❖ **Electricity sector:**
Restructuring on the way, ISMO not unbundled and functioning, rules approved or at the final stage, legal unbundling but not functional, a all-inclusive Tariff System recently passed by the Government, formally market established but not functioning, no eligible customers
- ❖ **Heat sector:**
legal framework to be defined (law and regulations)

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Access to transmission and transport systems:

Gas transport:

- for gas suppliers and/or privileged customers – the principle of regulated third party access (RTPA) (tariffs system defined),
- for legal and/or physical persons from other countries – gas transit by the principle of privileged customers and honouring the principle of mutuality,
- privileged customers and suppliers, who could not get grid access, with CERC's consent can construct their own direct gas pipeline.

Electricity transmission:

- regulated third party access (RTPA) to the grid (fees covering usage of the network & losses & ancillary services defined)
- producers of electricity and customers, who could not get direct grid access, with CERC's consent can construct a direct power line.

Oil and petroleum derivatives transport:

- for legal and/or physical persons – the principle of negotiated third party access (NTPA) (upper limits of fees defined).

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EU / REM / UCTE:

- ❖ EU membership Applicant since February 2003
- ❖ Goal of Croatia - fulfil membership criteria (Including new acquis)
- ❖ Associated status: some member states have ratified SAA
- ❖ General obligations in SAA:
 - harmonisation of legal system, notably in key areas of the internal market
 - obligations in energy field
 - reflecting principles of market economy (European Energy Charter Treaty)
 - co-operation in the formulation and planning of energy policy
 - improvement of access to energy market
 - formulation of framework conditions for restructuring energy companies
 - development of regulatory framework in line with EU *acquis*
- ❖ REM (SEE) participation :
 - creation & integration of regional market (REM), enlarged the EU market
 - planning & development of regional transport and energy infrastructure
 - restoration of electricity interconnections of regional importance, facilitation of transit (transborder tariffication)
- ❖ UCTE - association of transmission system operators, participation:
 - the technical condition for the reliable operation, guarantee market access
 - co-ordination of technical rules: basic 50HZ UCTE frequency
 - facilitating transparency of data, standardisation

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Anticipated Key Issues and Activities:

- ❖ Work on energy sector legal and regulation frameworks - Development & elaboration & harmonisation & enactment of energy sector laws and sub-laws, grid codes, network rules, connection charges, cost of services, balancing power, transmission and distribution pricing methodology, transit conditions and fees
- ❖ Issuing of licences - Application, documentation checking, official correspondence, surveillance of objects, facilities, equipment, network, drafting of CERC's resolution, decision making, licence's data entry in the Licences' Registry Review ...
- ❖ Development and construction plans of transmission and distribution networks
- ❖ Establishment of real (cost reflective and initiative) tariffs and prices
- ❖ Issuing decisions granting the eligible producer status
- ❖ Public tendering for construction of new generation capacities
- ❖ CERC's internal organisation and work with Energy Institute, which is to assist CERC in the preparation of act proposals to be passed by CERC and carry out other expert assignments
- ❖ Transparency, independence, financial stabilisation of CERC
- ❖ International cooperation – partnership, workshops, education

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Conclusion:

- ❖ In the Republic of Croatia organisational forms and principles of new regulation are currently being defined and established. Therefore it is imperative that the sub-legal acts and other documents, which are being prepared at the moment and should be passed, be efficiently co-ordinated and congruous
- ❖ The largest source of possible manipulation could be possibly unclear and understated regulatory rules
- ❖ It is necessary to develop and realize the co-operation between the legislator and the regulatory body within national borders
- ❖ It is essential to anticipate possible effects of certain rules and procedures, in order to protect them from possible abuse and manipulation
- ❖ It is important to develop co-operation of regulatory bodies on the international level, so that the regulatory framework may be free from unpleasant and non-transparent solutions, and in order to learn from each other's mistakes and avoid repeating them
- ❖ It is possible to manage the processes which have already begun, but it is not possible to revert back to the state from which they were initiated (they are not reversible)!

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THANK YOU FOR YOUR ATTENTION!



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