ELECTRICITY AND GAS ROAD MAP
- CROATIA -

Background
According to Article 3a of the Treaty establishing the Energy Community (the Treaty), the activities of the Energy Community (the EnC) shall, among others, include the implementation by the Contracting Parties of the Acquis Communautaire on energy, environment, competition and renewables. Under the Treaty, the Acquis Communautaire on energy is represented by the Directive 2003/54/EC, the Directive 2003/55/EC, and the Regulation 1228/2003/EC (Article 11 of the Treaty). The timeline, as specified in the Treaty’s Annex I, asked for this activity to be implemented by July 2007 (within twelve months of the entry into force of the Treaty). The Treaty also sets out the timetable to adopt the necessary measures to open the market to non-household customers by January 2008 and to all customers by January 2015.

Purpose
The implementation of the Acquis Communautaire on energy, and the adoption of necessary measures to open the electricity and gas markets for competition are supported by the development of tailor-made Road Maps (Action Plans), by each Contracting Party. These are based on electricity, and respectively gas templates prepared by the Energy Community Secretariat and agreed with major stakeholders in the process, including the Permanent High Level Group members.

Electricity Road Map

1) Adoption of the acquis communautaire

- Enforce implementation of the provisions of Directive 2003/54/EC, which have been transposed into domestic legislation.
- Instead already existing Market Rules the final draft of new Market Rules is expected to be in force starting from 1 January 2007.
- Ensure effective implementation of the unbundling model chosen for HEP.
- Continue to deliver further eventually needed sets of transmission system data which are under HEP TSO responsibility to ETSO Secretariat for further technical analyses and cross-checking aimed at ensuring HEP TSO participation in EU&SEE merged ITC mechanism in 2007. Participate in trilateral quality checks of the data between ETSO Secretariat, Data Administrators and HEP TSO.
- Continue with the common explicit auctioning of monthly available cross border transmission capacity between Hungary and Croatia in both directions using total monthly available cross border transmission capacity (without 50%:50% splitting of
endeavour to apply this bilaterally coordinated market based approach at each border starting from 1 January 2007.

- Put in force final draft of the Rules on allocation and use of cross-border capacities starting from 1 January 2007 and further continue with improving them to be fully in line with Regulation 1228/2003 and Congestion Management guidelines.

(2) Market structure

- Continue with collection of data for assessing the market concentration. Conduct the first assessment of the market concentration through commonly used indicators.

- Given the unbundling model chosen for HEP (legal, organisation and decision making as asked by Directive 2003/54/EC with the HEP assets leased to the system operators HEP TSO and HEP DSO as subsidiary companies), implement existing Compliance Program in HEP TSO to ensure impartiality of the operators in exercising daily operation routine with respect to all market players.

- Continue to improve existing Compliance Program in HEP TSO in a way to be signed by HEP TSO employees, to appoint HEP TSO Compliance Officer in charge of Compliance Program monitoring and to report regularly on its implementation.

- Continue to improve overall technical and business performance of HEP TSO, in particular overall ICT infrastructure including the construction of new national control room for transmission system control.

- Apply for HEP TSO membership in ETSO.

- Enact the program for transparency, objectivity and non-discrimination in DSO operations – the Compliance Program.

- As HEP DSO performs duties other than the operation of the distribution grid (supplying and billing end users), ensure smooth transition after 1 July 2007.

- Continue with improvement of the chosen DSO unbundling model and implementation of related legal obligations.

- Preserve the confidentiality of commercially sensitive information obtained in the course of carrying out HEP TSO and HEP DSO businesses.

(3) Wholesale market

- Implement the following final drafts as parts of secondary legislation starting from 1 January 2007:

  1. Rules on the method and criteria for determining the fees for transmission and distribution network use;
  2. Electricity Market Rules;
  3. Balancing Energy Rules;
  4. Methodology for the determination of the price for balancing energy; and
  5. Rules on the allocation and use of cross-border capacities.

- Continue to develop the chosen bilateral market model beyond the initial phase of the electricity market opening. Work out balancing energy contracts between eligible customer suppliers and HEP TSO. Work out balancing energy agreements between...
wholesale market participants and HEP TSO in accordance with the Balancing Energy Rules (once adopted).

- Separate the Market Operator from the HEP Group and assign its ownership to the Republic of Croatia. Strengthen the Market Operator further, especially regarding implementation of daily planning procedures, development of balancing energy settlement and necessary IT infrastructure.
- Continuously review the Electricity Market Rules in parallel with the evolution of the institutional, organisational and legal preconditions needed for full functioning of open electricity market.
- Further improve the existing web page of the HEP TSO.
- Monitor implementation of rules on cross-border capacity allocation, separation of business accounts, connection of new producers and customers, degree of market competition transparency, and time-limits for repairs and connections. Supervise tariff systems and charges, network access and energy undertaking service quality.
- Continue with conduction of national licensing practices and procedures that are already put in place.

(4) Retail market

- As the eligibility status to customers will be granted according to the EnC Treaty timetable, put in place all necessary technical measures and business procedures for eventual customer switching according to provisions of the General Conditions of Electricity Supply.
- Work out correct load profiles for different customer groups in order to further develop tariff methodologies.
- Implement the Automatic Meter Reading (AMR) on a wide-scale in order to develop electricity retail and promote customer switching.
- Continue to maintain billing and collection of payments at satisfied level (close to 100%). Continue to keep prices at adequate level.
- Continue with customer protection actions.

(5) Tariff reform and affordability

- As all inclusive retail tariffs have been implemented for tariff customers (this tariff system is in use since 2002), further develop the following four tariff methodologies which will be the basis for the calculation and determination of the retail tariffs:
  1. Tariff methodology for generation of electricity, apart from electricity generation for eligible customers;
  2. Tariff methodology for transmission of electricity;
  3. Tariff methodology for distribution of electricity;
  4. Tariff methodology for retail supply of electricity, apart from retail supply of electricity for eligible customers.
- Set out the methodologies for:
  1. Determination of the compensation for the connection to the transmission and distribution networks, and for increase in connected load;
2. Provision of energy balancing services in the electric power system;

- Continue applying the tariff methodologies that are put in place on the basis of cost-reflectivity.
- As there are no social tariffs for low income or vulnerable customers/households, continue to take care of them through the social welfare system (responsibility of the Ministry of Health and Social Welfare through a fund for subsidizing such households).

**Gas Road Map**

(1) Adaption of the acquis communautaire

- Update the Transitory Market Model and the Market Rules in order to make them fully compatible with the EnC Treaty requirements.
- Prepare and implement a new gas act where the General Conditions will be dealt with in accordance to the requirements of the EnC Treaty.
- The new gas Law shall foresee the authorisation and tendering rules for the elaboration and construction of additional distribution systems needed for the gasification of additional cities according to national strategy and plans (PLINACRO plan approved by Ministry for 2002 up to 2012 and revision from 2006).
- Elaborate and implement a new gas act where the tasks of storage and LNG-system operators will be defined.
- Prepare and implement the legal basis for DSO unbundling (at least legal form, and organisation and decision making from other activities) in accordance with the Directive 2003/55/EC.
- Draft and implement the legal provisions for third party access to storage facilities and upstream pipelines.
- Develop and implement the legal provisions for the organisation for access to New Infrastructure in accordance with Article 22 of the Directive 2003/55/EC (exemption from TPA-provisions).
- Ensure that all non household customers will be granted the eligibility status as from 1 January 2008 (according to the EnC Treaty – Annex I, Para 2).
- Develop and implement investment incentives for the gasification of the country, according to national strategy and plans mentioned above. The risk perception when adapting the rate of return on the regulatory asset base and when setting incentives for investments shall be considered. The regulatory framework shall suit in the above mentioned sense the region.
- Elaborate and implement the legal basis for derogation possibilities in relation to ‘take or pay’ commitments and derogation possibilities regarding to emergent and isolated markets.
- Elaborate and implement the legal basis for the establishment of a single mechanism for the cross-border transmission, in particular for the allocation of capacity, for the inter-connection agreements as well as for the operational balancing agreements.
(2) Market structure

- Develop a concept for further gasification of the country, according to national and internationals strategy and plans mentioned above.
- Establish a storage system operator and separate the storage services from other market activities.
- Continue with the process of restructuring and consolidation of the distribution company and develop and implement the legal basis for effective DSOs unbundling.

(3) Wholesale market

- Develop a concept for the import-, the storage- and the balancing market and an ancillary services market, taking the results of the above mentioned studies into account. Define a final model from its present status to a full market design.
- Develop a non-discriminatory, broadly cost neutral balancing regime which avoids cross subsidisation between system users.

(4) Retail market

- Develop a concept for further extension of the retail market taking the results of the above mentioned national strategy and plans mentioned above into account.
- Ensure that all non-households consumers may become the eligible customers from 1 January 2008 as given by the timetable set out in the Annex I of the EnC Treaty. Bring out appropriate decision concerning the market opening and granting eligibility status to customers according to the EnC Treaty.
- Elaborate and implement a customer switching procedure also on distribution level.
- Prepare a concept and the regarding provisions concerning transport capacity usage, considering the customer switching process and taking into account the results of the national strategy and plans mentioned above.

(5) Tariff reform and affordability

- Prepare a concept for cost determination of transmission and distribution system operators and in case of a regulated access to storage facilities also of storage system operators and a concept for determination (calculation) of tariffs. Transit shall be considered in order to follow the principles of cost reflective tariffs, based on efficiently incurred costs and in order to avoid cross subsidies between categories of customers.
- Draft a concept for all inclusive tariffs, taking the above mentioned principles (costs reflectivity etc.) as a basis.