



## Regulation of energy activities in the Republic of Croatia, organization and work of Croatian Energy Regulatory Council

Mico Klepo, D.Sc  
CERC Chairman

USAID,NARUC, NYPSC - CERC Partnership, 2003



**Regulatory Council:** Regulates and controls the work of the energy sector, participates in implementing energy policy, controls development and work of energy markets, ensures customer and energy subjects' protection, issues resolutions and opinions, makes decisions, solves disputes (*licences, tariff systems, fees for using the grids, rules and fees for access to grids and systems, market rules, plant rules and rules of system management*).

CERC organization and work are based on (*a package of energy laws*):

- Energy law
- Law about regulation of energy activities
- Law about electricity market
- Law about gas market
- Law about oil and derivatives market
  - CERC Statute and Regulations for conduct
    - *about 40 sub-legal acts and other documents are under way*

USAID,NARUC, NYPSC - CERC Partnership, 2003



**General principles of energy policy in the Republic of Croatia:**

- Implementing energy policy, which is in compliance with EU Directives.
- Introducing competition in the supply of large customers and gradual opening of the energy market, and its integration into EU market.
- Development of energy sector – long-term strategy, encouraging efficiency, use of renewable energy sources, environmental protection.
- Transparent access to transmission and transport systems.
- Ensuring stable, reliable and regular energy supply with reasonable prices through regulated public service activities.
- Independent and unbiased regulation of energy activities.

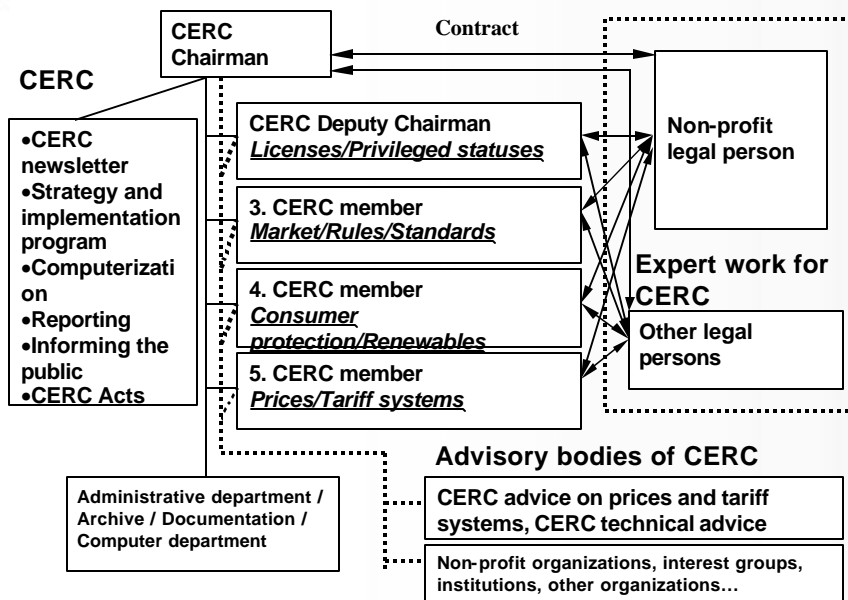
**Specific organizational structure of regulation is conditioned by:**

- Legally determined division of authority between CG, ME and CERC, and legally defined rights, authorities and tasks of CERC.
- Incompletely defined legal framework (*sub-legal acts under way*) which requires flexible organizational structure for future adjustments – gradual fulfilling of regulation structure and contents.
- The need for utilizing limited specialist and expert human resources.
- Organizational scheme of work with non-profit legal person.
- Aiming at utilizing experience and practical knowledge of regulatory bodies of other countries.

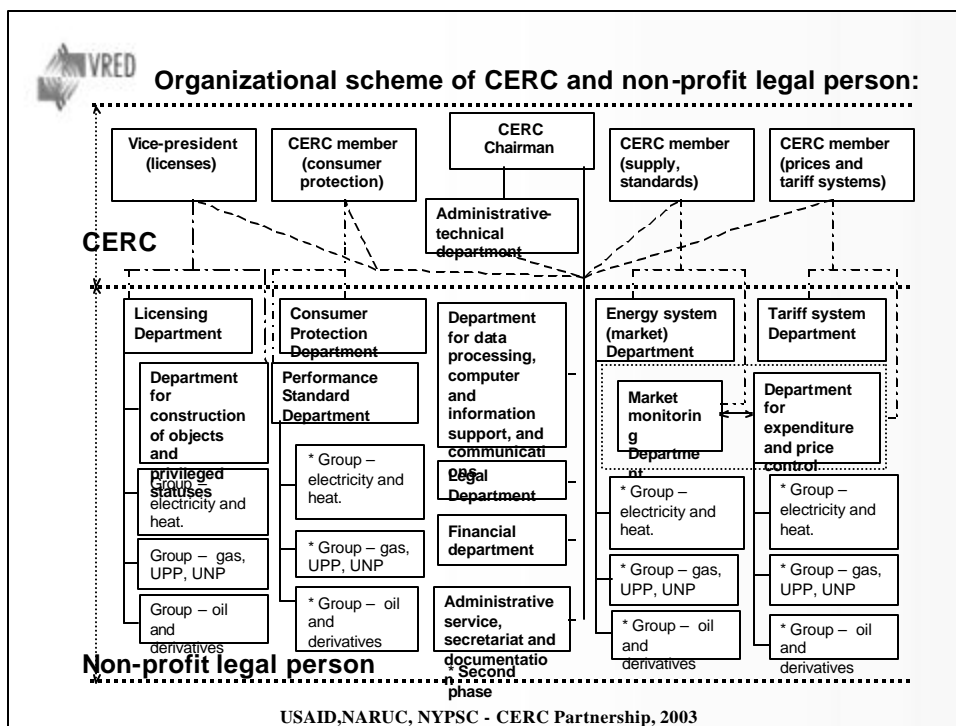
USAID,NARUC, NYPSC - CERC Partnership, 2003



**CERC organization and basic regulatory scheme:**



USAID,NARUC, NYPSC - CERC Partnership, 2003



- CERC organization and activities:**
- CERC is made of five professional members, who are named by the Croatian Parliament upon proposition of the Croatian Government.
  - CERC has a Department for administrative and technical work.
  - The Croatian Government appoints a non-profit legal person, who prepares drafts of acts and performs other expert work for CERC.
  - CERC passes the Statute, annual financial plan of funds for its work and closing balance-sheet with previously acquired consent of the Croatian Government.
  - CERC informs the Croatian Parliament and Government about its work and observations, which are significant for the development of energy and public service markets.
  - CERC decides about issues under its scope on meetings, by the majority of its members' votes.
  - Acts which CERC passes in performing its public authority are final. Against CERC acts, a dissatisfied party can start legal proceedings.
- Work of CERC is funded:**
- From the income got for performing its own activities – non-recurring fees.
  - From 0.07% of total annual income realized in the previous year by the energy subjects, who perform one or more energy activities based on licenses issued by CERC.
- USAID,NARUC, NYPSC - CERC Partnership, 2003



**Activities and obligations of CERC:**

- Issues and revokes licenses for performance of energy activities.
- Controls the development and activities of energy markets (all energy products).
- Prescribes and controls requirements and way of performing public services and monopolies.
- Gives opinion and controls application of tariff systems and energy rates which are calculated by application of tariff systems passed by the Croatian Government.
- Gives consent for fees for using transmission and transport systems, passes tariffs for transport of oil and petroleum derivatives.
- Participates in making and passing of documents prescribed by the law (*development plans, Grid Code, market rules, requirements for access, connections, general conditions of supply etc.*).
- Decides about complaints by end customers in connection with the work of energy subjects, decides in disputes, and solves the complaints about transmission and distribution grid or on requirements for access.
- Gives consent to subjects under obligation of public service considering the amount of inherited expenses, which are included in the price of energy.
- Issues orders about gaining the status of privileged producer.
- Conducts public competitions for construction of objects for electricity production for tariff customers (*for privileged customers authorized subjects do the construction work*).
- Approves the construction of direct pipe line for privileged customer and purchaser.

USAID,NARUC, NYPSC - CERC Partnership, 2003



**The process of restructuring in the Republic of Croatia today:**

- i) Basic legal framework is defined, sub-legal acts being made,
- ii) An independent regulator of energy activities was introduced,
- iii) Public services introduced, tariff systems passed,
- iv) Defined privileged statuses of gas and electricity customers,
- v) Problems with technical standards, quality of services standards and quality of energy products, and customer and environmental protection,
- vi) Oil and petroleum derivatives sector in the largest part under the influence of activities and regulation of market mechanisms,
- vii) In a very short time gas sector was organizationally adapted to European organizational standards,
- viii) Basic electric power activities in the process of division, process of establishing Croatian trading company for Croatian independent system and market operators is under way.

USAID,NARUC, NYPSC - CERC Partnership, 2003



**Conclusion and message:**

- In the Republic of Croatia organizational 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 coordinated and congruous.
- The largest source of possible manipulation could be possibly unclear and understated regulatory rules (e.g. *problem of uncontrollable increase of energy rates in some countries in the circumstances of market manipulation*).
- It is necessary to develop and realize the co-operation between the legislator and the regulatory body within national borders.
- It is important to predict possible effects of certain rules and procedures, in order to protect them from possible abuse and manipulation.
- It is necessary to develop co-operation of regulatory bodies on the international level, so that the regulatory framework may be free from bad and untransparent solutions, and in order to learn from each other's mistakes and repeat them as rarely as possible.
- 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 started (they are not reversible)!

USAID,NARUC, NYPSC - CERC Partnership, 2003



***THANK YOU FOR LISTENING!***

Author's address:

Mico Klepo, D. sc., CERC chairman  
Croatian Energy Regulatory Council  
10000 Zagreb, Savska cesta 163  
Tel. ++385 1 6326 260, 6326 188  
Fax: ++385 1 6326 261  
E-mail: mklepo@vred.hr

USAID,NARUC, NYPSC - CERC Partnership, 2003