



EU IPA Programme for Croatia
Reinforcement and further development of internal energy market
with the scope of the Energy Community Treaty

Energy regulation in Croatia – – challenges ahead

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Contents

- A brief glance back ...
 ... and a hopeful look forward
- Pre-regulation and regulation
- Energy Regulatory Agency
- Dash towards 1-July-2013
- Regulation as a balancing act
- No problems – only challenges !
- Vision – cornerstones of regulatory policy
- Cooperation and partnership



Croatian energy market development: “regulation” and regulation

Croatian ENERGY sector - a permanently “regulated” part of the national economy:

- Period up to 1990 – political control of the sector
- Period up to 2000 – initiating market transition while retaining traditional market structures and de facto price control
- Sector reform of 2001 – a vision of harmonising with the EU frame – with dilemmas on the execution (how to get there from here)
- 2001-2004: VRED, TSO and the “communal” transition period
- 2004-2007: HERA and first tariff methodologies
- 2007-2010: frame revisions and formal “market opening”
- 2011. ⇨ new paradigm/model: towards effective market opening – with strengthening regulation



HERA - Regulatory experiences since 2001

- Developing along the major energy reform milestones:
 - 1) 2001/2: VRED – Regulation Act #1 (intro EP1)
keyword: *Licensing*
 - 2) 2004/5: HERA – Regulation Act #2 (intro EP2)
keyword: *Tariff methodologies*
 - 3) 2012: HERA – Regulation Act #2 (intro EP2)
keyword: *Effective market*
- Realigning objectives and targets



Objectives of EU energy regulation

- Promoting competitive, safe/secure and environmentally sustainable **internal energy market** (primarily* in electricity and natural gas)
- Eliminating constraints in **energy trading** between EU member states and supporting development of cross-border capacities
- Support in developing **customer oriented systems** while integrating **renewables** and distributed generation,
- Facilitating **access** to networks
- Stimulating operators and system users to improve **efficiency** and increase **market integration**
- Carry forward of the effects of (efficient) market functioning – **customer protection**



Dash towards 1-July-2013

- Major overhaul of the energy sector legal frame – aligning with the 3rd energy package
- **Converging foci:**
 - transposing the EP3,
 - reviewing current market models
 - improving transparency of the legal frame
- **October 2013:**
 - Energy Act
 - **Act on the Regulation of Energy Activities (HERA Act)**
 - 2+3 to follow



... or in the words of Croatian 2012 Act on the Regulation of Energy Activities ...

- Ensuring objectivity, transparency and impartiality
- Providing control over the execution of regulated network access
- Defining tariff-setting methodologies
- Establishing effective energy market and market competition
- Providing protection of customers and energy undertakings

while promoting

- efficient and rational use of energy
- entrepreneurial climate and investments in energy sector
- environmental protection



Energy regulation as a balancing act

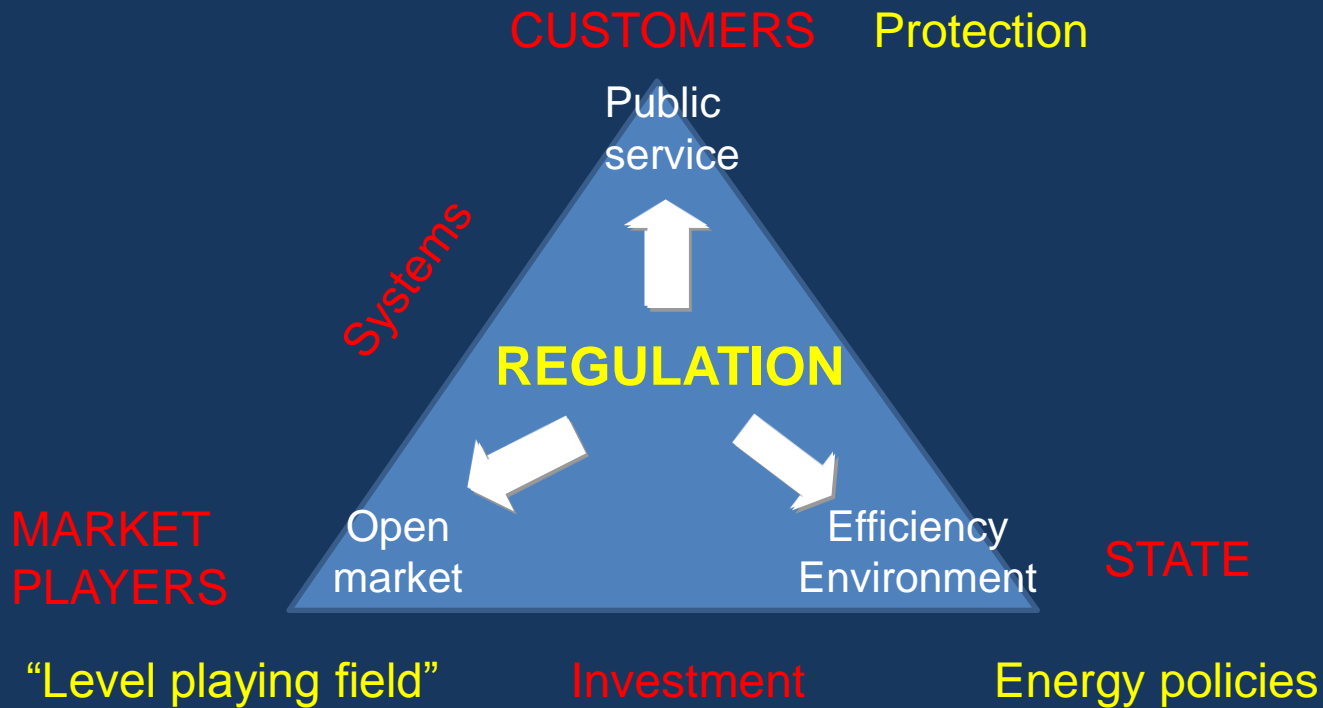
Energy regulation: mid-way between art and science

- High (but often conflicting) expectations of stakeholders
 - market players
 - customers
 - government(s)
 - general public
- A sobering presence



Regulation – doctrinary position

- EP 3: convergence of regulatory concepts



- Question of balance



Defining the ROLE of the regulator

- Major part of the process of harmonizing with EP 3
- Local and EU context
- **Key elements:**
 - independence (→ also as guarantee for investors)
 - TS methodologies and/or setting prices/tariffs in regulated segments
 - binding/enforceable decisions
 - strengthened position of oversight/monitoring
 - licencing/certification
 - customer protection



Open issues of Croatian regulation

- Croatian energy sector is necessarily jumping over (or accelerating through-) certain “natural” development stages.
- A leap from the communal into a (modern and mature*) market environment.

Questions abound:

- Formal or effective ?
- Stress on theory or practical applicability ?
- Regulator as an active participant or a neutral judge ?
- Adequate organisation for the current expansion of task, competencies and responsibilities ?
- Route to efficient market: “One size fits all” ?



Still not without controversies ...

“ ... Let’s be serious about this. We have had three so-called liberalisation packages. Since when has a market become more efficient by more regulation? Since when is more regulation a good idea? ... ”

“ ... NRA should be the main instrument of the so called “regulated state”. ... ”

“ ... If the recipe does not work in all situations, it does not necessarily mean that it is wrong. ... ”

“ ... Stakeholder relations? Do as Caligula did: oderint dum metuant ! ... ”

Therefore a major challenge for regulator - apply proven tools in a tailored solution.



HERA – Vision for implementing the new frame

Cornerstones of regulatory policy:

- Opening towards all stakeholders
- Open consultation procedures (web presence)
- Testing applicability of regulatory solutions and advocating timely adaptations
- Fostering prudent investments
- **EU-level cooperation**
- IPA project as a fast track from regulatory cooperation to regulatory partnership



HERA and E-Control

- Starkly increased tasks and responsibilities
- Great (realistic?) expectations
- *Quis custodiet ipsos custodes ?*
- IPA project as a fast track from regulatory cooperation to regulatory partnership

WILLKOMMEN !