



Croatian Energy Regulatory Agency
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**Summary of responses to the Final Consultation
on the draft Reference Price Methodology in accordance with Article 26
of Commission Regulation (EU) 2017/460**

Introduction

The Croatian Energy Regulatory Agency (further: HERA) on 18 December 2018 published Final Consultation on the draft Reference Price Methodology in accordance with Article 26 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (Regulation 2017/460).

All interested parties were welcomed to participate in the Final Consultation by providing their comments, opinions and statements. The consultation procedure included filling out the consultation form and emailing it to savjetovanje@hera.hr.

The participants were given the possibility to submitted their comments as public response with the full name of the representatives of the interested party, or anonymously, without publishing the name of the interested party.

The consultation was held in period from 18 December 2018 to 18 February 2019.

HERA received one anonymous response and two responses from following energy entities:

- [Plinacro Ltd.](#), transmission system operator in Croatia
- [Prvo plinarsko društvo Ltd.](#) company for gas supply and user of transmission system

In accordance with Article 26, section 3 of the Regulation 2017/460, further is given a summary of submitted responses to the Final Consultation grouped by chapters of the consultation document, while individual submitted responses are available over above indicated hyperlink (only in Croatian).

Summary of submitted responses grouped by chapters of final consultation document in accordance with Article 26 of Regulation 2017/460

2.4. Reserve prices for non-yearly firm capacity products

The energy entity under anonymous submission considers unnecessary to change multipliers for non-yearly firm capacity products since currently valid multipliers are within defined ratios envisaged by the Regulation 2017/460.

2.5. Allowed revenues of the transmission system operator

Prvo plinarsko društvo Ltd. states that current regulation of maximum allowed revenue and floating payable price approach stipulates that all the risk of under-recovery of allowed revenue falls on the transmission system user, while fixed payable price approach forwards this risk to the transmission system operator. Due to a possibility of implementation of fixed payable price approach depending on results of the Open Season procedure, energy entity proposes that consultation document is expanded by clarification how the two regulations and models work simultaneously and how they impact on allowed revenue and reference prices in future periods in case of increase or decrease of contracted capacity compared to forecasted values.

3.3. Transmission system of the Republic of Croatia

Energy entity Plinacro Ltd. comments that changes in volumes of transported gas in the Republic of Croatia over past years were substantially affected by changes in hydrological conditions, resulting with significant increase of gas consumption for energy transformation.

Moreover, Plinacro Ltd. refers to the part of the consultation document where it is stated that the existing gas infrastructure does not allow reverse flow at interconnections and comments that by offering non-standard service of interruptible capacity with reduced interruptibility at Croatia - Hungary interconnection, it was possible to transport gas from Croatia to Hungary as of 2016, however this service was not contracted by system users. In addition, Plinacro Ltd. informs that as of January 2019, reverse flow was implemented at interconnection point Rogatec, enabling firm capacity of 6.965.496 kWh/day and gas flowing through the IP Rogatec from the Republic of Croatia to the Republic of Slovenia.

3.4. Scope of Regulation 2017/460 regarding transmission and non-transmission services

Plinacro Ltd. gives remark that connection services to the transmission system and non-standard services should be attributed to either transmission or non-transmission services as they do not fall to the scope of Regulation 312/2014 and therefore advise to include them to final consultation according to Regulation 2017/460.

3.5.1. Elements of the proposed reference price

In addition to the foreseen possibility of applying a fixed payable price approach under maximum allowed revenue method, energy entity Prvo plinarsko društvo Ltd. highlights the need for further clarification of using both methods in practice and the impact of capacity bookings on points related to the Open Season to the amount of tariff items for points out of the Open Season booking procedure.

3.5.2. Homogeneous group of points and system capacities

Plinacro Ltd. further clarifies statements in the document related to the exit capacities at interconnection with Hungary after the construction of the KS1 compressor station – *“KS1 will enable increase of the exit capacity at interconnection with Hungary at 50,000 m³/h of firm capacity, but we highlight that only by construction of LNG terminal on the Island of Krk a firm capacity of 200,000 m³/h will be enabled. In addition, it should be noted that the specified exit capacity is conditional, that is, it will be available solely if the same capacity is utilized from the LNG terminal at the entry point Omišalj”*.

In addition, energy entity Plinacro Ltd. is of the opinion that forecasted contracted capacities of the transmission system for the period 2021-2026 listed in Table 8 of the consultation document are overestimated for exit points in Croatia and entry points at interconnections. Similar remark is given by the energy entity Prvo plinarsko društvo Ltd.

Energy entity Prvo plinarsko društvo Ltd. states that data in *Table 7 Technical capacities at the entry and exit points of the system* regarding item *“Entry from production”* represents the amount of forecasted contracted capacities instead of the amount of technical capacity. Furthermore, entity recommends that data from *Table 8 Forecasted contracted capacity at the entry and exits points of the transmission system for the period 2021 - 2026* should be adjusted with the results of Open Season procedure that has already been closed.

3.5.4. Allocation of revenue from entry and exit tariffs

Energy entity Plinacro Ltd. argues statements in this subchapter relating to expected investments in transmission system for the period from 2022 until 2026, commenting that *„approved Ten-Year Development Plan of the Gas Transmission System for the stated period includes several infrastructure projects for enlarging transmission capacities in order to enhance overall system efficiency (pipelines IAP, Lučko-Jezerišće and others) followed by projects for assuring domestic security of supply“*.

Other energy entities hold the opinion that proposed allocation of revenues from entry and exit tariffs in ratio of 60:40 compared to current 70:30 ratio, could endanger security of supply in Croatia and demotivate domestic consumers for higher gas consumption, in particular business and industrial consumers. Further in response they underline negative effects of proposed allocation of revenues to competitiveness of the only gas storage system in Croatia „PSP Okoli“ and on economic interests of the gas storage system operator. They point out that proposed allocation could lead to unforeseen disruptions on Croatian gas market due to additional financial burdens on final gas users. The increase in the amount of tariff items for exits in Croatia will require knowledge of transmission cost optimization by the market participants, while taking into account the current TSO's payment model, may increase the risk of collection of payments for the transmission services. Accordingly, they suggest that the method of allocating revenue from entry and exit tariffs with ratio of 70:30 continues to apply until the expressed demand for capacity bookings at interconnection exit points.

3.6.1. Conditions for offering fixed payable price in the Open Season procedure

Energy entity Prvo plinarsko društvo Ltd. recommends that, given that the Open Season procedure has been closed, a clearly defined method for calculating the amounts of gas tariff items applicable at the entry point from the LNG terminal and the exits on interconnections should be stated, followed by method on which the consulted capacity revenues would be recovered.

Same energy entity seeks for further clarification on risk premium settlement, for potential capacity bookings at the entry from the LNG terminal and exit on interconnection points on a regular basis in the forthcoming period, that is, out of the closed Open Season procedure.

3.7. Adjustment of transmission tariffs at entry and exit points of the system

Energy entity Prvo plinarsko društvo Ltd. considers necessary when determining the amount of tariff items for gas storage system, to take into account the protection of the competitiveness of the only gas storage system in Croatia, compared to gas storage systems in neighbouring countries. The proposed allocation of revenues from entry and exit tariffs (60:40) in their opinion has a direct impact on the competitiveness of the PSP Okoli storage system in comparison to gas storage systems in neighbouring countries.

3.10. Comparison of proposed reference price methodology and CWD methodology

Transmission system operator Plinacro Ltd. considers that consultation document on page 45 does not explain sufficiently in details the approach of calculating tariffs based on CWD model compared to the calculation based on postage stamp methodology. Likewise, the energy entity submits remark that from the consultation document itself it is not clear how the tariffs were calculated according to the postage stamp methodology.

4.1. Indicative reference prices for the period 2021–2026

Energy entity Prvo plinarsko društvo Ltd. suggest that prices from tables 15, 16 and 17 of the consultation document should be updated in accordance with the results of closed Open Season procedure i.e. with new forecasts of capacity bookings at the entry point from the LNG terminal and at the interconnection exit points.

4.2. Comparison of reference prices applicable in the current tariff period and reference prices for the period 2021-2026

Energy entity Plinacro Ltd. suggests that instead of comparing the applicable tariffs for 2020 and the tariffs calculated for the period from 2021 to 2026 according to the proposed postage stamp methodology, HERA should provide comparison for the period from 2021 to 2026 between tariffs calculated according to the currently valid Methodology and tariffs calculated according to parameters of proposed reference price methodology from the consultation document.

Summary of received comments that were out of scope of the consultation

Energy entity Prvo plinarsko društvo Ltd. in its response gives the principal remarks on the proposed consultation document, however most of remarks are outlined further according to related chapters of the consultation document, with the exception of the remark to the security of supply fee, as this does not fall within the scope of Regulation 2017/460.

The energy entity proposes that the consultation document should be expanded with an explanation of the method of calculating and collecting security of supply fee, envisaged in the LNG Terminal Act (Official Gazette, No. 57/18), in order to allow interested parties to foresee their overall real costs in the forthcoming period. At the same time, it expresses the opinion that prescribed and consistent regulatory framework should stimulate consumption growth, which will then inevitably result in a reduction in prices on the gas market.

Energy entity Plinacro Ltd. comments information listed in Article 30 of Regulation 2017/460, disputing provisions of current Methodology for determining the amount of tariff items for gas transmission (Official Gazette, No. 48/18, 58/18) regarding determination of the allowed revenue based on economic efficiency of the regulated assets, as well as based on comparative analysis of costs and efficiency of transmission system operators in neighbouring countries.

Plinacro Ltd. states that those provisions allow HERA discretionary decisions regarding allowed revenue and transmission tariffs as, in its opinion, methodology does not provide sufficient and clearly explained criteria of economic efficiency and comparative analysis. Plinacro Ltd. is of the opinion that such approach will endanger its business activities and current liquidity, restrain its future investments and debt financing.

Additionally, Plinacro Ltd. holds the opinion that technical capacity of exit points of transmission system is not a justified indicator of economic efficiency and points out the possibility that by applying the method of economic efficiency HERA might, by approving Ten-Year Development Plan of the Gas Transmission System, approve investments in particular pipeline in complete amount, whilst for the purpose of determining the value of allowed revenue, might lower the value of such asset.