



**REPUBLIC OF CROATIA**

**CROATIAN ENERGY  
REGULATORY AGENCY  
Ulica grada Vukovara 14  
10000 Zagreb**

**Class: 391-15/23-01/2  
Reg. Number: 371-04-23-9  
Zagreb, 22 August 2023**

Pursuant to Article 11(1), point 14 of the Act on the Regulation of Energy Activities (“Official Gazette”, No. 120/12 and 68/18), and with regards to Article 12 (4) of the Commission Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, in the administrative procedure instigated by the energy undertaking PLINACRO, limited liability company for natural gas transmission, Savska cesta 88a, Zagreb, Republic of Croatia, the Croatian Energy Regulatory Agency, in its 20<sup>th</sup> session of the Board of Commissioners, held on August 22, 2023 has adopted the following

**DECISION**

1. The investment costs for the interconnection gas pipeline Croatia – Slovenia (pipeline Lučko – Rakitje – Zabok – Jezerišće - Sotla) on the territory of the Republic of Croatia, which is part of the European Project of Common Interest No. 6.26.1 Cluster Croatia – Slovenia at Rogatec, shall be borne by the energy undertaking PLINACRO, a limited liability company for natural gas transmission, Savska cesta 88a, Zagreb, Republic of Croatia.
2. This Decision shall be sent to the energy undertaking PLINACRO, a limited liability company for natural gas transmission, Savska cesta 88a, Zagreb, Republic of Croatia.
3. This Decision shall be sent to the Agency for Cooperation of Energy Regulators, Trg republike 3, 1000 Ljubljana, Republic of Slovenia.
4. This Decision shall be published on the web page of the Croatian Energy Regulatory Agency.

## Reasoning

The energy undertaking PLINACRO, a limited liability company for natural gas transmission, Savska cesta 88a, Zagreb, Republic of Croatia (hereinafter: PLINACRO d.o.o.) on April 28, 2023 submitted to the Croatian Energy Regulatory Agency (hereinafter: HERA) the Request for Investment for interconnection gas pipeline Croatia – Slovenia on the territory of the Republic of Croatia (hereinafter: Investment Request), which is part of the European Project of Common Interest (hereinafter: PCI) No. 6.26.1 Cluster Croatia – Slovenia at Rogatec and the amended Investment Request on August 1, 2023, pursuant to Article 12 (4) of the Commission Regulation (EU) 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 (hereinafter: Regulation (EU) 347/2013) and the Agency for Cooperation of Energy Regulators (hereinafter: ACER) Recommendation on Cross-Border Cost Allocation 05/2015 relevant for PCI projects included in the 5<sup>th</sup> PCI list from 2021.

Along with the Investment Request, the project promoter PLINACRO d.o.o. submitted in the attachment the following documents to HERA: the cost-benefit analysis (hereinafter: CBA analysis), the business plan and the draft cross-border cost allocation between Croatia and Slovenia for PCI 6.26.1 Cluster Croatia – Slovenia at Rogatec.

HERA notified ACER by electronic mail on July 19, 2023, on the received Investment Request, whereby the entire Investment Request was attached, in line with Article 12(3) of the Regulation (EU) 347/2013. Also, HERA determined that the received Investment Request along with the amended Investment Request contains all necessary documents, which was communicated to ACER by electronic mail on August 4, 2023, whereby also the amended Investment Request was attached.

Also, the transmission system operator in the Republic of Slovenia PLINOVODI d.o.o., cesta Ljubljanske brigade 118, 1000 Ljubljana (hereinafter: PLINOVODI d.o.o.) submitted on June 15, 2023, to the national regulatory body in the Republic of Slovenia, the Energy Agency (hereinafter: AGEN) the Investment Request of Common Interest (hereinafter: PCI) No. 6.26.1 Cluster Croatia – Slovenia at Rogatec and the amended Investment Request on July 13, 2023.

Pursuant to Article 12 (4) of the Commission Regulation (EU) 347/2013, within six months of the date of receipt of Investment Request by relevant national regulatory bodies, and after the consultation with project promoters, relevant national regulatory bodies adopt harmonized decisions on the allocation of investment costs for the project borne by each system operator. When deciding on the allocation of cross-border costs, the economic, social and environmental costs, as well as the project benefits for countries involved and potential need for financial support are to be taken into consideration.

According to the Investment Request the planned interconnection gas pipeline between Croatia and Slovenia (hereinafter: GICS project) is one of the strategic energy projects of both the Republic of Croatia and the Republic of Slovenia. Also, in the amended Investment Request the project promoter PLINACRO d.o.o. stated its plans to continue developing the GICS project only in the Option II, with planned transmission capacity of 5.5 billion m<sup>3</sup> per year, in which the GICS project consists of four connected gas pipeline sections Lučko – Rakitje, Lučko – Rakitje – Zabok, Zabok – Jezerišče and Jezerišče – Sotla and is the main evacuation gas pipeline for gas transported from the LNG terminal on the island of Krk to Slovenia. As stated further,

with its geographic route and planned transmission capacity of 5.5 billion m<sup>3</sup> per year, this gas pipeline serves for the natural gas supply of Slovenia and its further transmission to Austria and other central-EU states.

As stated in the CBA analysis for the above-mentioned project and in the amended Investment Request, the financial and economic cost-effectiveness has been determined based on the identified costs and benefits. The financial profitability of the project is, as stated in the document, of utmost importance for the project holder and the economic profitability is significant for the society in general.

In the CBA analysis the financial cost-effectiveness was determined based on the revenues and expenses assessment. Revenues were assessed based on expected utilisation level of the gas pipeline and the related average gas transmission tariff, while costs were assessed taking into account operational, administrative and other activities that will take place during the construction and operation of the gas pipeline. Preliminary level of gas pipeline utilisation was assessed based on the expected interest from the market, and the final utilisation level of the gas pipeline will be known when the project promoter PLINACRO d.o.o. finalizes the procedure of mandatory capacity reservation.

The economic profitability of the project was determined by detailed CBA analysis. The socioeconomic project benefits with regards to market competition, market integration, sustainability and security of gas supply were calculated and monetized by ENTSOG (European Network of Transmission System Operators for Gas) with certain adjustments by project promoter PLINACRO d.o.o. Therefore, the construction of the gas pipeline shall contribute to the achievement of European energy objectives, and in particular to:

- enhanced competitiveness and further market integration by achieved costs savings in the gas supply,
- improved sustainability by reduction of the CO<sub>2</sub> emission costs, and
- increased security of gas supply by savings due to the avoided gas supply interruptions.

HERA has, pursuant to Article 12 (5) of the Commission Regulation (EU) 347/2013, carried out the analysis of the Investment Request and the explanation is provided hereafter:

### **1. Evaluation of the identified impacts, including network tariffs**

In the detailed CBA analysis, being part of the Investment Request, the project promoter PLINACRO d.o.o. calculated the expected project revenues based on the incremental gas flows and average gas transmission costs.

Incremental gas flows are the sum of gas flows from the LNG terminal on the island of Krk with the exit from Croatia to Slovenia. The average gas transmission cost is calculated for each year as a minimum of current average gas transmission cost and new average gas transmission cost calculated for the situation when the project is implemented. Under this approach it was generally assumed that regulated project revenues shall be returned to the extent which will not increase the current average gas transmission tariff.

In the CBA analysis the starting average gas transmission tariff for Croatia was calculated for the case when there is no GICS project implementation for the analysed period 2024-2052 as the ratio between the planned regulated revenue and the expected gas transmission in the

system, and it amounts to 1.14 EUR/MWh in 2024 and is reduced to 0.98 EUR/MWh in 2052. New average gas transmission tariff for Croatia was calculated for the case when the GICS project is implemented with co-financing by the European Union as the ratio between new regulated revenue and planned incremental gas transmission in the system, and it amounts to 1.14 EUR/MWh in 2024 and is reduced to 0.95 EUR/MWh in 2052. New average gas transmission tariff for Croatia was calculated also for the case when the GICS project is implemented without co-financing by the European Union as the ratio between new regulated revenue and planned incremental gas transmission in the system, and it amounts to 1.14 EUR/MWh in 2024 and is reduced to 1.05 EUR/MWh in 2052.

Further, transported gas quantities used for calculation of the new regulated revenue were estimated based on the expected interest from the market and the final utilisation level of the gas pipeline will be known when the project promoter PLINACRO d.o.o. finalizes the procedure of mandatory capacity reservation, which is considered by HERA as the key condition for project realization.

## **2. Evaluation of the Business Plan**

The Business Plan, as part of the Investment Request, provides a detailed description of the GICS project development. Also, it provides the analysis of regional gas markets and their expected development with regards to the future gas demand on the European Union level. In the Business Plan the project promoter PLINACRO d.o.o. estimates the financial aspects of the project development, as a supplement to the CBA analysis. In addition to that, it lays out the detailed development plan of the GICS project by particular phases with corresponding time frameworks.

## **3. Regional or EU-wide positive external project impacts**

In the CBA analysis, for the Option II with planned transmission capacity of 5.5 billion m<sup>3</sup> per year on the interconnection Croatia – Slovenia, the calculated total social project benefit amounts to nearly 1.832 million EUR, with the sharing among EU members states in which the project has significant net positive impact as follows: Austria 46.5%, Croatia 32.6%, and Slovenia 20.9%. Therefore, according to the Investment Request, Croatia and Slovenia, the two countries whose transmission system operators are project promoters and two EU member states that are host countries for the development of the GICS project, have been proposed for cross-border cost allocation.

Further, the project promoter PLINACRO d.o.o. in its Investment Request declares that the GICS project enhances competitiveness and further market integration by achieved costs savings in the gas supply, improves sustainability by reduction of the CO<sub>2</sub> emission costs, and increases security of gas supply by savings due to the avoided gas supply interruptions. Also, it mentions that GICS project provides for gas source diversification by direct access to the LNG terminal on the island of Krk.

## **4. The results of the consultations of the projects promoters concerned**

In the drafting phase of the Investment Request the project promoter PLINACRO d.o.o. conducted consultations with the Slovenian transmission system operator PLINOVODI d.o.o., also being the project promoter, and with the Austrian transmission system operator GAS CONNECT AUSTRIA GmbH, Floridsdorfer Hauptstrasse 1, 1210 Vienna.

Following the joint consultations and upon the adoption of this Decision, HERA and AGEN shall adopt the joint Statement about the agreement on Cross-Border Cost Allocation for the PCI No. 6.26.1 Cluster Croatia - Slovenia at Rogatec, as a coordinated decision on cross-border cost allocation pursuant to Article 12 (4) of the Regulation (EU) No. 347/2013. In the joint Statement, based on the CBA analysis according to which the net benefits of the project for Croatia and Slovenia as host countries are higher than the costs of the project in both countries, HERA and AGEN shall mutually agree that Croatia and Slovenia would not claim any compensation.

Therefore, for the planned development of the PCI No. 6.26.1 Cluster Croatia - Slovenia at Rogatec in the Option II with the planned capacity of 5.5 billion m<sup>3</sup> per year, the Croatian project promoter PLINACRO d.o.o. shall bear the costs arising from the investments of the project construction on the territory of Croatia, and the Slovenian project promoter PLINOVODI d.o.o. shall bear the costs arising from the investments on the territory of Slovenia.

However, for the project to be feasible and at the same time to provide greater positive external impacts in Central and Southeast EU member states, HERA considers the expected financial support from the Connecting Europe Facility (CEF) fund as the key step in the entire process, in order to close the determined financial gap considering that the project is currently not commercially viable.

Finally, considering the expected financial support from the Connecting Europe Facility (CEF) fund and final results of the capacity reservation on the interconnection Croatia – Slovenia, HERA will consider the eligibility of the inclusion of this investment – the planned GICS project construction – into the regulated assets and the transmission tariff for transmission system users in the Republic of Croatia.

On those grounds, it has been decided as stated under Point 1 of this Decision.

This Decision shall be sent to the energy undertaking PLINACRO d.o.o. with a copy to ACER, as decided under Points 2 and 3 of this Decision.

Pursuant to Article 27 (9) of the Act on the Regulation of Energy Activities individual decisions adopted by the Board of Commissioners of HERA in exercising its public authorities shall be published on HERA's website, so it has been decided as stated under Point 4 of this Decision.

**Deputy President of the Board of Commissioners**

**Željko Vrban**

**Instructions on the legal remedy:**

This Decision enforceable.

This Decision shall not be subject to an appeal, but it is possible to initiate an administrative action through a lawsuit at the Administrative Court in Zagreb, within 30 days from the day of delivery of this Decision.