

## **Croatia: EU membership and changes in electricity sector legal framework**

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As a new member of the EU, Croatia is focused on fully adjusting its energy legal framework with the EU Acquis Communautaire. The most important initiator of many national reforms is undoubtedly Croatia's accession to the EU. A series of reforms needs to be implemented in order to fully adopt the EU acquis communautaire.

Approximately 1,200 laws were passed between 2008 and 2010 – an average of almost three laws per day. This hurry in passing laws does, however, often lead to a certain amount of sidestepping required consultation procedures and, therefore, causing an increase in the risk of authority abuse and lowering the quality of these very laws. Furthermore, the swift approval of laws often inadequately examined and discussed by the Parliament, increases the risk of legal loopholes. In a number of respects, Croatia is, at present, an advanced transition country still facing significant challenges. Since the commencement of the EU accession process, despite the mentioned swiftness in adopting new laws and regulations, Croatia has made significant improvements in numerous areas of commercial legislation.

As a new member of the EU, Croatia is focused on fully adjusting its energy legal framework with the EU Acquis Communautaire. The EU Acquis Communautaire along with the international agreements which Croatia has signed with the EU form the basis of the legal framework of the energy sector. In this respect, Croatia has obligated itself to implement all accepted legal solutions, taking into consideration its particularities in a need to ensure economic and social development. The legal framework for the energy sector includes other international agreements ratified in accordance with the Constitution of the Republic of Croatia. These are: the Energy Charter Treaty, the Energy Community Treaty, the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects, the Convention on Nuclear safety, etc. Regarding the electricity sector, the framework recognises five types of activity: generation, transmission, distribution and the sale of electricity and organisation of the electricity market.

Energy Law is the key legal document for the Croatian energy sector. It defines the measures for safe supply and efficient production and use of energy. It also defines the laws that are the basis of energy policy, development of the energy sector, energy activities on the market and energy activities with respect to the environmental protection measures. It names the Energy Strategy (OG 130/09) as the basic energy policy document and defines the role of national energy programmes. Croatian energy policy formulated in the Energy Strategy of the Republic of Croatia has the following objectives:

- establishment of a competitive energy system,
- having security of energy supply,
- achieving a sustainable energy sector development,

- energy efficiency increase,
- diversification of energy sources,
- utilisation of renewable resources,
- realistic energy prices, energy market and private entrepreneurship development,
- environmental protection.

The Law on the Electricity Market governs the rules and measures for a safe and reliable generation, transmission, distribution and supply of electricity. It defines electricity trading including tariffs and eligible customers and aims to organise the electricity market as a part of the common EU market. It also states that eligible producers are entitled to the incentive price defined in the Tariff system for electricity produced from renewable energy sources and cogeneration. After gaining conditions for becoming an eligible producer, as defined by the Croatian Energy Market Operator (HROTE), the Electricity Market Law sets a legal obligation to purchase the electricity produced by an eligible producer. HROTE collects the compensation for promotion of renewable energy sources and cogeneration and distributes it to the eligible producers according to Tariff system. Transmission and distribution system operators are obliged to take over entire electricity production of eligible producers.

In the Croatian electricity market the Croatian Energy Market Operator (HROTE) is responsible for organizing the day-ahead market.

The transmission part of HEP-TSO (Transmission System Operator) provides ancillary services if imbalances occur. There is only one electricity market in Croatia. Following the opening of the electricity and gas markets in 2008, HROTE gained a significant role in the Croatian energy system and a responsibility for organising them. In the initial phase of the market opening, the bilateral market model has been chosen and electricity trading has been carried out through bilateral contracts. The two contractual parties in electricity supply contracts are the customer and the supplier. Bilateral contracts concerning electricity trades (whether purchase or sale) are concluded between the supplier, the trader or the producer.

HROTE is also responsible for collecting fees for incentivising renewable electricity production sources and cogeneration. Furthermore, HROTE regulates the repurchase of the entire amount of generated electricity from eligible producers as well as the distribution to the electricity suppliers in the Republic of Croatia.

Electricity market procedures and relationships between HROTE, Transmission System Operator (TSO) and Distribution System Operator (DSO) are arranged by the Electricity Market Rules. The basic tasks of the electricity market are:

- adoption of rules Electricity Market (Market Rules),
- keeping records of entities in the electricity market,
- recording of contractual obligations between entities in the electricity market,
- calculating Croatia's energy balance,

-analyzing the electricity market and proposing measures for its improvement.

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