

Croatia Exclusive: Power market share fierce battle, HEP vs RWE and GEN-I

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Date : September 26, 2013

If it does not give up stake in electricity sale to households, HEP could be forced to give up shares in the wholesale market in a very painful way. The war for the electricity sale to households really is blazed, and a turning point was last week's HEP price reduction for six to seven percent. His best known rivals, RWE Energy and Gen-i, immediately responded stating that their bids were worth, and that would continue to be ten per cent cheaper than the HEP new price. As they entered in the long race, they must continue to run as best they know.

From the beginning of the battle for households it has been three months, and now we cannot talk about the great outflow from HEP ODS. Recent data say that about thirty thousand buyers signed contracts for supply. GEN-I and RWE Energy say they are satisfied with achieved. However, their further progress in this segment will limit the fact that HEP has lowered the price, and that it has been provided greater flexibility for the future. Is that good or bad for HEP, that cannot be argued, as many believe that the battle for household supply at any price can do more harm than good to the company.

A new Methodology for amount determining of tariff items for electricity supply within the universal service (ie households) imposes different, more market rules to the monopolist. The most important novelty of the new methodology is that the HEP ODS as a supplier will have the right twice a year to seek correction of tariffs for labor force and compensation for supply, based on the purchased electricity cost and business. By the methodology to the supplier are imposed the maximum tariff rates by the end of 2014, and prices will be adjusted only by informing the Agency. If a supplier wants rates higher than the maximum prescribed, it will have to explain it in a special request to HERA. HERA remains the main responsible for determining the electricity price, and from 2015. HEP ODS can adjust prices without the "ceiling" of maximum tariff rates, based on the request submitted to the Agency. Furthermore, the methodology commits HEP DSO to purchase electricity over the competition. In 2015. 25% of electricity should be purchased in a transparent manner, in 2016. even 50% of energy, and after that 75% of the total needed energy. Of course, in these tenders may also participate the HEP trade or production. It is interesting that the methodology detains HEP ODS to generate profit of more than 2% of the electricity cost, which is correction approximately equal to the annual inflation. There should not be extra profit from the energy supply of households, and HEP ODS profit will depend on the supply fees.

One of the interesting questions is why did the HEP decide to significantly reduce electricity price for households? By the end of the year it will lose on that about 10 MEUR and for the year could lose about 41 MEUR, if in the meantime does not adjust their prices. It is a great loss for the company that wants investment and must be able to finance them. As the main argument for the increase in electricity price in 2012. it was cited the need to finance

investments, but acquired 80 MEUR HEP was not invested in import dependence reducing. Now it voluntarily gave up a piece of that revenue. The Methodology aim is to move the production and exports cost to the market principles, namely the price that households pay follows the energy prices in the market. If it had been sought that goal to be achieved immediately, then prices "ceiling" for households should have been abolished. He does a couple of things at the same time - deprives of HEP wages, reduces the chances of HEP competition which is in its infancy and delays the opening of the market in this segment. Thus it is satisfied the form and enabled the HEP transition period to manage the process which should have already been ready. This year HEP has achieved a record production from hydro power plants, and the next year may be faced with drought and significant reliance on gas and import. The calculation will be different then, which should be seen in the prices.

The market opening will happen anyway, because it is inevitable and protectionism can be very expensive. Experiences from Western countries show that the monopoly of households does not retain for long time, and that customers are generally poorly motivated to change supplier. If the European Commission considers that Croatia prevents competition in the household sector, it could happen to be ordered to HEP to give up the wholesale market share. This is accomplished in several ways, one of which is the privatization of part of the production facilities. If this happens, HEP will not be so strong company as it is now. Therefore the government was not supposed to react so panic and look from the HEP and HERA to slow down the inevitable liberalization in the household. If the state, by dictating HEP to reduce prices, wanted to protect citizens from the electricity cost rising, than it was already supposed to issue regulations which protect the so-called protected customers who really did not have money for electricity. According to the latest information, the Social Welfare Act should take care about them at the earliest at the beginning of next year.

Source; Serbia Energy See desk/HERA/CRO medias