RWE Energy with achieved 3.06% of the electricity market safely progresses towards realization of its three-year goal. However, like other suppliers, inflexible method of pricing the balancing energy and excessive fee for renewable energy sources bother them. “The price of buying electricity from RESC amounts of excessive 70 EUR per MWh and the inefficiencies that arises from this fee and the price of balancing energy result in higher prices for end customers”, says Milisa and advocates for a system that results in best prices for electricity customers.

What is the current situation on the Croatian electricity market?

A year after serious competition entering in the liberalized electricity market the dominant supplier has lost about 10% of the total market. Currently nine new suppliers operate on the market. Universal service price was reduced on 1st October 2013th, and with we have kept our promise to be 10% cheaper than the HEP-ODS, which means that the end customer got decrease in prices by 20% compared to the price prior to our entry into the market. Consequently the pressure on profit margins also increased. Our business strategy is to create a stable long-term portfolio and our results achieved in the past year show that we slowly realize planned business goals.

What price can be expected in the future?

According to the guidelines of the European Union it should be introduced price compensation for manufacturers from conventional sources. In other words, it is the introduction of so-called market capacity, which would provide sufficient quantities of safe production capacity, and therefore the safety of the power system. Due to the introduction of such compensatory project we expect an increase in electricity prices in the future. Furthermore, the current electricity price cannot be long term sustained for all manufacturers from conventional energy sources. The impact of subsidized renewable sources has led to decrease in electricity prices in the market. This level of prices makes production from conventional sources unrewarding, resulting in a shutdown of power plants throughout Europe. For example, in Great Britain was signed a PPA contract with EDF to build two nuclear reactors at the purchase price higher than 110 EUR per MWh. Do something like that and not expect an increase in prices in the future is completely unsustainable.

You start with 0.5% of the Croatian energy market in June 2013th, and three-year goal is 10% of the market. Can you extract a few indicators of your business in the last period?

According to the business strategy, we focused on households and small and medium enterprises supply, and according to the data from March we can say that according to the amount of supplied energy we hold 3.06% of the Croatian market, which is more than we planned. Even 75% of all households who have changed their supplier chose RWE Energy. Our goal is to supply 10% of the Croatian market by 2016th.

Impression in the public that you are the only alternative supplier who placed considerable

focus on the households supply, and significant profit is not made on it. To what extent have you profiled towards major customers – what strategy do you use in this case?
We have established a strong sales channel that allows us to reach a stable customer base. Households contribute to the portfolio optimization, which facilitates us planning as a supplier. When it comes to small and medium businesses, but also large customers, we supply the Croatia lottery, the Croatian Employment Service, the Croatian Academy of Sciences and Arts, Narodne novine, City of Varazdin, City of Pula, Baumax, all City Centers in Croatia and many others.
What do you see as obstacles to achieve your goals when it comes to competition and the way in which the market is regulated?
HEP is still a vertically integrated company, which means that regulated and market activities within the HEP Group are not separate. Therefore, energy from domestic production capacities is not available to other market participants. In addition, Croatia uniqueness lies in the fact that nearly 50 percent of production portfolio is from hydropower plants, so that the hydrology influence on the dominant company profitability is large. The biggest challenge is the way in which this market has been regulated, and four important laws and bylaws deriving from the Law on Electricity Market have not been adopted yet . These are the Rules on the supplier change, General Conditions of Electricity Supply, Law on renewable energy sources and Methodology on pricing the balancing energy to parties responsible for deviation, and the alignment with market model of pricing the balancing energy. We are pleased with the dialogue in this area, and HERA has accepted all alternative suppliers as equal interlocutors in the process of making laws. For example, these days we just expect the final draft of Rules on supplier change as part of required public hearings.
By-laws, which should facilitate and accelerate supplier change, have not been adopted yet, although they should have been completed by the end of February. In your opinion what changes are necessary?
I would agree with the President of the HERA Governing Council, Tomislav Jurekovic, who said that time did run at the same speed to them and to us, suppliers. With the adoption of the Third energy package HERA expanded scope of work or duties and responsibilities and in a short period of time must bring a number of bylaws. Without quality-laws also cannot be regulated fair market competition.
In the meantime, changes have occurred in the pricing of balancing energy, that you had “much rubbed”. Are you satisfied?
A new methodology for pricing the balancing energy to the parties responsible for deviation entered into force earlier this year. This still has not solved the problem of the excessive cost of balancing energy that suppliers pay. In the first tolerance zone, which is five percent of consumption is not penalizing, but as such still is too high. First Tolerance band is “too

tight" with regard to data quality and availability that we have for planning the electricity consumption of our portfolio. We entered for the consumption of our customers four weeks after the end of the accounting period, which makes the quality planning more difficult, while the practice of European countries is to submit data on a daily basis. Historical data for the majority of customers are almost inaccessible. Legally has been prescribed that the HEP -ODS performed the commercial customers readings within a period of 30 + / – 3 days, while for households that period is 180 + / – 15 days. The distribution system often does not respect the prescribed statutory deadlines which quality planning makes difficult. We suggest that first Tolerance band should be increased, and that the coefficients by which the electricity price is multiplied should be reduced. In other words, we believe that the Tolerance band should increase from 5% to 7.5 %, and coefficient multiplying by should be reduced from 1.4 to 1.2. Analyses show that the proposed changes would result in unit cost alignment of energy balancing energy with layer of developed markets.
What is the balancing energy price in other countries?
Specific price of balancing energy in Croatia is higher than in Serbia, and several times higher than the prices in Slovenia and Austria. I cannot accept that our power system is so different from the others, despite the high hydropower plants share in the system.
Your business also affected the fee for renewable energy sources. Can you explain what the problem is and what solution do you propose?
Pursuant to the Law on electricity market and the Tariff system for electricity production from RESC, the suppliers are obliged to buy back the entire RES production in the incentive system. It varies between 40 and 80 GWh on a monthly basis. RWE Energy with a time lag of three months buys the energy from HROTE, as an entity charge for energy placement to the suppliers. In Europe, the things are differently set- an entity responsible for the electricity purchase from RESC also places that energy on the market, and suppliers only collect a fee for abetting the production and development of renewable energy sources. In our case, the first step that we suggest is that HROTE should planned production for a period of minimum one year and thus to liberate suppliers of risk volume production from renewable sources. By this the suppliers could calculate the premium price in the final electricity price for customers. For example, today suppliers in Croatia, according to their market share, must redeem a certain amount of electricity at too high price which at the moment is 70 EUR per MWh, which is 30 € per MWh more than the market price is. By paying these prices suppliers further subsidize energy produced from the RESC. We do have such a situation in the market and suggest that the price to be as close as possible to the market price. Inefficiencies coming from mentioned prices and charges result in higher cost for end customers. We strive for the best price to the end buyer which at this moment it is not possible because of unreasonable high additional costs.
Will you enter into the gas business in Croatia?

All preparations for entering into the gas business are over. Government adopted the Decree on regulating prices for households, by is regulated which the ultimate price for households in the next three years. By the end of the second quarter we will decide on supply starting. There are 36 vendors currently on the market and therefore the procedure of customers transition to new suppliers will be complex.

Late last year the electricity suppliers showed the intention of self-organization in order to better represent their interests. How did you get organize and what is your aim?

RWE Energy was the initiator of the suppliers association, and such a practice exists everywhere in Europe. While we do not create the Association, we will act as a coordinating body of all suppliers and we will coordinate by joint reviews and submit those joint proposals to the relevant authorities. Our common goal is to edit the market in accordance with the Third energy package.