

II. OVERALL DHC LEGISLATIVE FRAMEWORK				
Country				Croatia
#	Name and reference of measure	Type of measure	Responsible organ	Existing or planned?

Legislative Framework

The legislative framework of the district heating sector in the Republic of Croatia is based on the following:

- Energy Law (Official Gazette 68/01, 177/04, 76/07, 152/08 and 127/10)
- Law on Regulation of Energy Activities (Official Gazette 177/04 and 76/07)
- Law on Production, Distribution and Supply of Heat (Official Gazette 42/05 and 20/10)(in rest of the documents simplified name is used: Law on District Heat)
- General Conditions for District Heating Supply (Official Gazette 129/06)
- Tariff System for Services of Energy Activities of Heat Production, Distribution and Supply, without the Amounts of Tariff Items (Official Gazette 65/07 and 154/08)(in rest of the documents simplified name is used: Heat Tariff System)
- Regulation on Licences for Performing Energy Activities (Official Gazette 118/07 and 107/09))
- Regulation on the Validity Period for Licences for Carrying Out Energy Activities (Official Gazette 50/09 and 105/09)
- Decision on the Amounts of Tariff Items in the Tariff System for Energy Activities of Heat Production, Distribution and Supply (Official Gazette 154/08)
- Ordinance of Allocation and Calculation of Costs for supplied Heat (Official Gazette 139/08 and 18/09)

For the purpose of completing the normative framework in the district heating sector, it is necessary to adopt the following acts:

- Ordinance on the technical requirements for power plants for the heat production,
- Ordinance on the conditions required to acquire the status of eligible heat producer,
- Regulation on the parameters for determining the share of the eligible heat producer,
- Ordinance on the fee for the access to district heating distribution network.

This is expected in the near future.

There are a number of other legal regulations that pertain to the performance of individual segments of heat activities that as the *lex specialis* regulate the particular issues in detail. The most important acts are: Law on environmental protection and energy efficiency Fund, Ownership and other real rights Law, Civil obligations Law, Law on environmental protection, Law on local and regional government, Law on Consumer protection, General administrative procedure law, Physical planning and construction Law.

Purpose of the Legislation

In comparison with the condition of the DH sector before the first package of Energy Laws was enforced, a framework for the successful functioning of the DH sector in the Republic of Croatia has been established, in accordance with EU guidelines. The exceptions are several secondary legislations, which are currently under preparation and should be enforced in the near future. The DH activity itself has been opened to the market, but still retains social elements through the legal forms of regulated activity and public service.

The monitoring of the consumption is legally stipulated, in order to increase energy efficiency and minimising harmful environmental impacts. In addition, the positive legal framework has opened the sector for capital investments, which would in turn increase the competitiveness of district heating compared to other energy sources.

Energy Law (Official Gazette 68/01, 177/04, 76/07, 152/08 and 127/10) is the umbrella law for the energy sector and it sets out the measures necessary for reliable energy supply and efficient energy production and use. The Law also defines the methods of energy policy implementation and sector development. Within the Law, energy business is defined as a market activity or as a public service, the activity of services provision is defined, as well as the energy prices (regulated or non-regulated) and energy tariff methodology, general conditions of energy business performance and other legal regulations. According to Energy Law energy activities can be performed as public services or in accordance with the rules governing market relations.

Since under the Energy Law (Official Gazette 68/01, 177/04, 76/07 and 152/08) the production, distribution and supply of heat became energy activities, all energy entities operating in the heat sector should obtain a permit for their activity from the Croatian Energy Regulatory Agency (HERA).

The energy entities in the DH sector may perform the following activities:

1. Production of heat which is defined as physical and chemical process of transforming fuel or renewable sources into heat
2. Distribution of heat which is defined as transfer of heat to customers, from a metering point for heat delivery to a metering point of sale of heat
3. Supply of heat which is defined as sale of heat to customers

The companies performing heat activities should fulfil the requirements set out in the Regulation on Conditions for Performing Energy Activities (Official Gazette 06/03 and 94/005).

The most recent Amendments to the Energy Law (Official Gazette 127/10) bring major changes into the DH business in Croatia, as the authority for the approval of tariff items for the district heating activity is shifted from the Government to the local governments. Local governments are given 30 days in which to bring their decision. The impact of this major change remains to be seen in the following period.

Law on Regulation of Energy Activities (Official Gazette 177/04 and 76/07) introduces Croatian Energy Regulatory Agency (HERA) with the following key functions: supervision and market control, granting and suspending licenses and decisions on eligible producers, authorization for new generation capacity, participation in energy policy defining, issuing of methodology (tariff system) for energy activities without tariff items, supervision of all tariff systems and fees, supervisions of energy companies quality services and settlement of disputes. HERA should not only protect customers but energy companies as well and should contribute to creating stabile economic conditions. The supervision of the implementation of tariff system is the responsibility of the HERA, which is set up as a permanent and independent legal entity.

Law on District Heating entered into force on April 8th 2005, and is the umbrella law for the district heating sector. It regulates general conditions for production, distribution and supply of heat, the rights and obligations of DH consumers, and provides resources for DH business performance and infrastructure construction (both facilities and equipment), as well as control over the implementation of the Law.

A number of definitions of terms related to DH business have been introduced through the Law.

The Law on District Heating, according to the way of regulation of energy activities, recognizes following:

- Activities carried out in accordance with the rules governing market relations (heat production for eligible customers and heat supply for eligible customers),
- Activities carried out in accordance with the regulations (heat production for tariff customers and heat supply for tariff customers), and
- Activities carried out as a public service, available at any time to all customers and energy subjects at a regulated price and in accordance with the regulations, considering security, regularity, quality

of supply and environmental protection (heat distribution).

Energy operators engaged in energy activities of heat production, distribution and supply have the legal obligation to obtain a license from the Agency for carrying out every one of the abovementioned energy activities.

Licence for the heat production is not required for production solely intended for one's own use or performed in plants with total installed power below 0.5 MW.

The construction of a cogeneration unit shall have priority in the selection of proposed energy projects and in deciding on the construction of energy units for heat production.

The distribution of heat is carried out as a public service.

Energy activity of heat distribution is carried out based on a concession or a service contract for carrying out activities. The concession is granted for a period of up to 30 years.

A local government unit which in its distribution area has heat distribution installations ensures that heat distribution services are provided on a long-term basis.

A local government unit and DH distribution companies ensure the performance of quality distribution services based on the principles of sustainable development, the maintenance of energy installations in a state of satisfactory operability and the public transparency of their work.

The recent Amendments to the Law on District Heat (Official Gazette 20/10) mainly relate to the harmonisation with the new Law on Concessions and the award of concession for the activity of DH distribution.

General Conditions for District Heating Supply (Official Gazette 129/06) define energy and technical conditions, as well as economic relationships, between the distributor, the supplier, the producer and the buyer of heat.

Heat Tariff System (Official Gazette 65/07 and 154/08) determines the methodology for the calculation of tariff items for heat production, with the exception of eligible customers, for heat distribution and heat supply, with the exception of eligible customers, determines the matrix of the tariff models and elements for determining a regulated maximum income, and prescribes the tables for cost follow-up, the formula for calculating the total income with the help of tariff items, the process of submitting proposals for determining the amounts of tariff items and the data authenticity statement form. In the Tariff System the Republic of Croatia opted for regulation of the heat sector that is based on principle of regulated revenue cap in a regulatory period. The revenue-cap regulation is such a regulatory method where a maximum amount of revenues that an energy entity is permitted to receive from performing a regulated energy activity is set out.

Ordinance on the allocation and calculation of costs for supplied heat (Official Gazette 139/08 and 18/09) prescribes the installation of heat devices for internal distribution of supplied heat (heat cost allocators), devices for regulating heat emission and devices for measuring the consumption of heat and it also prescribes the models of allocation and calculation of costs for the supplied heat on a common heat meter for heat customers that own separate parts of facilities representing independent usage units and they record heat consumption via devices for local distribution of supplied heat or by measuring it via a separate device for measuring the heat consumption.