



CROATIAN ENERGY
REGULATORY AGENCY



Tariff Design and Allocation of Allowed Revenues to Customer Categories

Roundtable input by Croatia
Croatian Energy Regulatory Agency (HERA)



ERRA Natural Gas Markets and Economic Regulation Committee
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Hosted by:



Gas transmission:

- ***Methodology for determining the amount of tariff items for gas transmission*** (OG, No. 79/20 36/21)
- **entry-exit tariffs** for homogeneous group of points based on a postage-stamp principle
 - Entry groups in the transmission system:
 - Entry at interconnections, from production, from gas storage, from LNG terminal
 - Exit groups from transmission system
 - Exits at interconnections and in Croatia
- Consumer groups are related to exits in Croatia and refer to:
 - **customers directly connected to the gas transmission system,**
 - **customers connected to the gas distribution system.**

Gas distribution:

- ***Methodology for determining the amount of tariff items for gas distribution*** (OG, No. 48/18)
- **consumer groups are set by yearly gas consumption** levels by which final customers are assigned into relevant tariff models from TM1 to TM12

TSO Tariff Design & Cost Allocation

- **Methodology for determining the amount of tariff items for gas transmission** (OG, No. 79/20 36/21) ensures the implementation of the NC TAR
 - entry and exit tariffs for homogeneous group of points are based on a postage-stamp principle, where allowed revenue has to be recovered from **capacity-based transmission tariffs**, without taking into account the distance of entry and exit points
 - Entry / Exit split of revenue **60%-40%**
 - **Discount for storage - 90% at the entrance** to the transmission system; **100% on exit** from the transmission system
 - **Discount at entry point from LNG - 15%**

- HERA sets the principle of setting the allowed revenue - prescribed by ***Methodology for determining the amount of tariff items for gas distribution***
 - **distribution tariffs** are set for each tariff model TM1 – TM12 – according to yearly allowed revenue and yearly planned quantities of distributed gas together with planned number of metering points for each tariff model
 - **TARIFF ITEMS:**
 - *tariff item for the distributed amount of gas*
 - *fixed monthly fee intended to cover the associated part of fixed costs performance of gas distribution, related to the metering point*
 - the tariff item for the distributed amount of gas for a particular tariff model is defined by the **product of the consumption coefficient** for the tariff model and the amount of the basic tariff item, according to the prescribed formula
 - **allowed revenue** is set up as the sum of yearly values of justified OPEX, amortization and return on regulated assets (CAPEX)

Allocating CAPEX

CAPEX - includes depreciation cost and the return on regulated assets, recognises an equity capital investment into a regulated energy entity, provides sufficient funds for the required investments into the construction and reconstruction of the system and to cover the regulated return on invested capital.

- RAB consist of tangible and intangible assets in use, which is a part of a particular gas system, and investments under an approved system development plan that are taken into account for the regulatory year in which it shall be in use.
- planned CAPEX, with an **ex-post adjustment** based on real values (only up to the economically efficient level)
- no physical parameters are prescribed as a reference for allocating CAPEX
- planned investments in the construction and reconstruction of the system must be technically justified and economically efficient, and provide an adequate degree of security of gas supply

Allocating OPEX



OPEX is projected for regulatory period based on $1+CPI-X$ formula, without ex-post adjustment if realized above, but with profit-sharing mechanism if realized OPEX is below projected level.

- an incentive method is applied by using a **profit-sharing mechanism** in such a manner that after expiry of the regulatory period the base OPEX for the following regulatory period is defined so that the system operator retains 50% of the realized savings from the base year
- OPEX does not include unjustified expenses such as costs of advertising, sponsorships and trade events; representation costs; occasional rewards; annual rewards to board members; cost of life insurance premiums donation; value adjustment; expenditures - write-offs of fixed assets, if the same property is replaced by new assets brought into the regulated assets in the total amount and fines, penalties, compensation for damages occurred and contract related costs.
- no physical parameters are prescribed as a reference for allocating OPEX



THANK YOU FOR YOUR ATTENTION!

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