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Croatia

Miroljub Maćešić, Ivana Manovelo and Miran Maćešić

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Description of domestic sector

- 1 Describe the domestic natural gas sector, including the natural gas production, liquefied natural gas (LNG) storage, pipeline transportation, distribution, commodity sales and trading segments and retail sales and usage.

During the past few years, the Croatian natural gas sector has been undergoing a liberalisation process. The liberalisation of the gas market was initiated as a part of the process of harmonisation of Croatian law with European Union energy legislation, which itself is part of Croatia's accession process into the European Union. Croatia finished the accession negotiation to the European Union in June of 2011 and is scheduled to become member of the European Union on 1 July 2013.

The opening of the gas market started in 2007 with the enactment of the Gas Market Act (Official Gazette No. 40/07, 152/08, 83/09, 91/11, 114/11, hereinafter the GMA), which introduced market and regulated activities. According to the GMA, market activities are: the production and supply of gas to eligible customers, mediation and representation, as well as trading on the gas market (the price and quantity of delivered gas is freely negotiated). On the other hand, the transport, distribution, storage, LNG facility operation, supply of tariff customers and gas market organisation are regulated activities and are performed as public service obligations. The new GMA also introduced a non-discriminatory third-party access regime.

Croatia's gas sales market has been fully open since 1 August 2008, meaning that all customers have acquired 'eligible customer status'. This means that all customers have the legal right to choose their gas supplier and freely contract the quantity and price of the supplied gas. However, due to the still undeveloped natural gas market, many customers did not choose their supplier within the time limit prescribed by law and therefore the GMA provided a transitional period in which those customers retain the rights and duties of tariff customers and are entitled to universal supplier services.

Sixty per cent of Croatia's natural gas needs are met from domestic production. The only Croatian natural gas producer is the Croatian Oil and Gas Company, INA dd, a partially state-owned and privatised company. INA exploits gas fields in northern Croatia and, in a joint venture with Italian company ENI, in the Adriatic Sea. The remaining natural gas was exclusively imported from Russia for the past 30 years and more recently imports have begun from ENI. The only Croatian natural gas importer is Prirodni plin d.o.o, a company owned by INA dd Croatia has only one natural gas storage facility, owned and operated by Podzemno skladiste plina d.o.o, a company in Plinacro's ownership.

The transportation network is owned and operated by the Transportation System Operator (TSO) Plinacro d.o.o, a state-owned company. There are 36 different companies registered for the distribution of gas, mostly operating at the local level. Due to market liberalisation, there are 49 registered gas suppliers and traders.

Owing to the lack of an LNG terminal, Croatia has no LNG market at present. However, the government is planning to build an LNG terminal on the island of Krk with an annual capacity of 5 billion cubic metres. The national electricity company HEP dd and Plinacro d.o.o. incorporated LNG Croatia Ltd whose sole purpose is to build and manage the LNG Terminal scheduled to begin activities in 2016.

- 2 What percentage of the country's energy needs are met directly or indirectly with natural gas and LNG? What percentages of the country's natural gas needs are met through domestic production and imported production?

Approximately 25 per cent of Croatia's energy needs are met with natural gas. It is expected that the demand for natural gas will continue to increase by approximately 4.2 per cent annually. Domestic production amounts to 60 per cent of total natural gas consumption. The remaining 40 per cent is imported.

- 3 What is the government's policy for the domestic natural gas sector and which bodies set it?

The general guidelines of Croatia's government policy regarding the natural gas sector are set out in the Strategy of Energy Development (Official Gazette No. 130/09) (the Strategy). In the Strategy, Croatia acknowledges the importance of natural gas in energy consumption and encourages its use. Croatia's aim is to achieve a higher level of security of natural gas supply by diversifying supply sources, especially bearing in mind that in the future domestic production will decrease due to depleted reservoirs. Therefore, the construction of LNG storage capacities on the island of Krk, the finalisation of construction of the Croatian transportation network, connection to international pipelines and the construction of natural gas storages are recognised as strategic national projects.

Bodies responsible for implementing relevant legislation and Government policy are: the Ministry of Economy, the Croatian Energy Regulatory Agency (HERA) and the Croatian Energy Market Operator (HROTE).

Regulation of natural gas production

- 4 What is the ownership and organisational structure for production of natural gas (other than LNG)? How does the government derive value from natural gas production?

According to article 3/2 Mining Act (Official Gazette No. 75/09, 49/11), all mineral resources, including natural gas, are in the Republic of Croatia's ownership. The natural gas reserves may only be exploited and produced subject to an exploitation concession granted by the Ministry of Economy, Mining Department and a licence for production of natural gas issued by HERA.

The single holder of an exploration concession and a licence from HERA, and therefore, the only producer of natural gas in Croatia, is INA dd.

The government derives value from royalties for occupied extraction fields and extracted gas. The royalty for an occupied extraction field amounts to between approximately €550 and €820 per hectare of a well while 2011 royalties for extracted gas amounts to 3.6 per cent of the market value of the extracted natural gas. The royalty fee for exploitation of hydrocarbons consists of the sum of two elements; fixed and variable element. The fixed element is paid per size of the well in the exploitation field (approximately ranging from €530 to €800) and the variable element is calculated per produced amount of hydrocarbon (5 per cent or 10 per cent of hydrocarbon market value depending on whether exploitation was granted prior or after 31 December 2009).

- 5** Describe the statutory and regulatory framework and any relevant authorisations applicable to natural gas exploration and production.

Natural gas exploration and exploitation is regulated by the Mining Act (Official Gazette No. 75/09, 49/11), the Regulation on Exploration of Mineral Raw Materials (Official Gazette 125/98), the Regulation on Exploitation of Mineral Raw Materials (Official Gazette 125/98) and several other regulations and ordinances.

According to article 3/2 Mining Act, all mineral resources, including natural gas, are in the Republic of Croatia's ownership. The mineral resources may be explored based on a licence granted by the Ministry of Economy, Mining Department. The exploration licence is issued on the basis of a public tender for a maximum period of five years.

Exploitation of a natural gas may be performed based on a concession granted by the Ministry of Economy, Mining Department and an energy licence for the production of natural gas issued by HERA. The concession is awarded in a public tender for a maximum of 40 years. The natural gas may be exploited only within the extraction field specified in the concession and in the amounts defined in the mining project.

Regulatory policies governing the production, transmission, distribution and supply of natural gas are governed by the Ministry of Economy and to certain extent by HERA. The Ministry prepares strategy and legislation with respect to the natural gas sector and implements laws enacted by parliament. The Ministry also enacts different by-laws and regulations. HERA is partially a regulatory and partially a supervisory body. As a regulatory body, HERA grants different licences for the performance of energy activities, participates in natural gas policy design, organises and carries out tender procedures, settles disputes related to the carrying out of regulated energy activities, etc.

The Ministry, as a government body, is independent of the natural gas business and industry. However, in the process of the preparation of natural gas legislation, the Ministry follows and accepts proposals from natural gas specialists. HERA is a non-profit institution, independent from the natural gas industry since members of the HERA Management Board (and members of their family) cannot be owners of any company in the energy business or perform any other activity in that sector that may lead to a conflict of interest. They are also independent of government officials since they cannot be members of parliament, members of local representative bodies or the political parties' main bodies.

HERA's decisions are either final or appealable to the Ministry, depending on the matter in question. If HERA's decision is final, it may only be challenged before the Croatian Administrative Court. The Ministry's Appellate Decision may also be challenged before the Croatian Administrative Court.

The Ministry's decisions are usually final. If the decision is final, it can only be challenged before the Croatian Administrative Court. Exceptionally, if it is provided by the law, the Ministry's decisions

may be appealed back to the same Ministry, but also to the Appeal Senate as the second-instance authority.

Regulation of natural gas pipeline transportation and storage

- 6** Describe in general the ownership of natural gas pipeline transportation, and storage infrastructure.

The natural gas pipeline, approximately 2,350 km long, is owned and operated by the TSO, a state-owned company called Plinacro d.o.o. Plinacro has been appointed by the GMA as the TSO for a period of 30 years.

Croatia's single natural gas storage facility Okoli, with a capacity of 550 million cubic metres, is owned and operated by the Storage System Operator (SSO) Podzemno skladiste plina d.o.o, a company owned by Plinacro, a state-owned company.

Therefore, both transportation and storage infrastructure are directly or indirectly owned and operated by the state.

- 7** Describe the statutory and regulatory framework and any relevant authorisations applicable to the construction, ownership, operation and interconnection of natural gas transportation pipelines, and storage.

The construction of transportation pipelines and storage facilities requires building, environmental, safety, administrative and other licences in accordance with general planning and building regulations.

The operation and interconnection to transportation pipelines and storage are regulated by the GMA, the Gas Market Regulation (Official Gazette 126/10, 128/11), General Conditions for Supply of Natural Gas (Official Gazette No. 43/09, 87/12) (hereinafter, the General Conditions) and other regulations and ordinances.

The national transmission networks are owned and operated by the national TSO, Plinacro (see question 6). Since natural gas transportation is a regulated, non-market activity, Plinacro has the sole power to construct and operate transportation networks. In accordance with the GMA, Plinacro passed a five-year transportation system development plan, approved by the Ministry of Economy. Plinacro was granted a licence for natural gas transportation activities, issued by HERA.

Croatia's single natural gas storage facility Okoli is owned and operated by the national SSO Podzemno skladiste plina d.o.o. (Plinacro is the sole shareholder of Podzemno skladiste plina), which holds HERA's licence for the operation of storage facilities (see question 6). The storage of natural gas is also a regulated, non-market activity and therefore Podzemno skladiste plina has the sole power to construct and operate storage facilities. SSO's rights and duties correspond with that of TSOs (see above).

Regulatory policies governing the transportation, distribution and supply of natural gas are governed by the Ministry of Economy and to certain extent by HERA (see question 5).

- 8** How does a company obtain the land rights to construct a natural gas transportation or storage facility?

Only Plinacro, as TSO, can obtain land rights to construct a natural gas transportation facility (see question 7). For construction of a pipeline over a privately owned land, the land should be expropriated in an administrative proceeding and expropriation compensation paid to the owner, all in accordance with the Croatian Expropriation Act (Official Gazette 9/94, 35/94, 112/00, 114/01, 79/06, 45/11, 34/12). The expropriation can be made through transfer of ownership or through servitude rights or temporary lease on the land in favour of Plinacro.

The same procedure is applied for construction of a storage facility.

- 9** How is access to the natural gas transportation system and storage facilities arranged? How are tolls and tariffs established?

Croatia has regulated third-party access regime to its transportation and storage system based on non-discriminatory, objective conditions and published tariff system. The GMA provides that the TSO and SSO should reserve system capacities based on received requests for connection to the transportation system and provide access of the free capacities to the:

- natural gas producer;
- system operator; and
- consumers to the extent of their own consumption.

The TSO and respective third party enter into a Contract on Connection to the Transportation System, while SSO concludes Contract on Storage of Natural Gas.

The access may be refused only in cases explicitly provided by the GMA, eg, in case of lack of capacity. The refusal should be explained in writing, and the third party has the right of appeal against the transportation or storage system operator's decision to HERA.

Transportation services rates are set by the Croatian government based on the Tariff System for Natural Gas Transportation, Rates Excluded (Official Gazette No. 2/11, 2/12, 99/12). The transportation tariff system was rendered by HERA and outlines basic principles and methods for calculating rates for natural gas transportation. It adopts an 'entry-exit' tariff system.

Storage services rate also set by the government based on the HERA's Tariff System for Natural Gas Storage, Rates Excluded (Official Gazette 151/08, 13/09, 2/11). The current rates are set by the government's decision of 19 June 2009 and are applicable from 1 July 2009.

The TSO is responsible to ensure the balancing of the transportation system on a daily basis. The balance group coordinator is due to pay balancing energy for its balance group if consumption is higher than the nomination and receive the price for balancing energy if the nomination was higher than consumption.

- 10** Can customers, other natural gas suppliers or an authority require a pipeline or storage facilities owner or operator to expand its facilities to accommodate new customers? If so, who bears the costs of interconnection or expansion?

Customers can demand the pipeline or storage facility operator to expand its facilities only if they have previously been rejected from accessing the system due to lack of capacity. The pipeline or storage operator must, within reasonable time, make necessary alterations to its facilities to accommodate new customers but only if such alterations are economically feasible or if the customer bears the total cost of interconnection or expansion (article 54/6 GMA).

The Ministry of Economy and the local administration are responsible for planning the expansion of transportation and storage facilities. The TSO and SSO are due to pass a five-year development plan, which should be approved by the Ministry (see question 7). By approving or disapproving an operator's development plans, the government obliges the TSO or SSO to expand its facilities, if it finds this is necessary.

- 11** Describe any statutory and regulatory requirements applicable to the processing of natural gas to extract liquids and to prepare it for pipeline transportation.

No such specific statutory or regulatory requirements exist. The processing of natural gas purely to extract liquids is not considered a separate energy activity and does not require an energy licence or consent.

The General Conditions specify the standard quality of gas that should be supplied to consumers. Therefore, the processing of gas should result in a standard quality gas, which should be then transported through pipelines to consumers.

- 12** Describe the contractual regime for transportation and storage.

The types of contracts that may be concluded on the gas market and its terms and conditions are outlined in the GMA and General Conditions. As for the transportation system, there are two types of contracts: Contract on Connection to the Transportation System and Contract on Transport of Gas (article 6/2 GMA).

The Contract on Connection to the Transportation System is entered into between the TSO and natural gas producer, system operator or final customer, or all of these. The TSO is obliged to connect the respective user to the system and the user is obliged to pay the connection fee. This contract must contain, inter alia, information on technical specifications for connection, connection fee, payment terms, deadline for connection to the system and connection place and time.

In the Contract on Transport of Gas, the TSO is obliged to provide transport services to the gas supplier or trader within its reserved capacities, while the system user is obliged to pay a regulated fee. The contract must contain gas transport conditions, tariff and place and time of delivery of gas. The Contract on Transportation of Gas may be concluded for a year (until 1 September of the current year for the following year), a month (until the last day of current month for the next month) or for a single day.

The Contract on Storage of Natural Gas is concluded between the SSO and gas supplier, trader or transport system operator for storage of gas. The contract should contain, inter alia, storage conditions, tariff, payment terms, time of delivery of gas into the transportation system, working volume and reserved capacity. The periods for which the contract may be concluded are the same as for the Contract on Transport of Gas.

All above-mentioned contracts are standard contracts published on respective operators' websites.

Regulation of natural gas distribution

- 13** Describe in general the ownership of natural gas distribution networks.

Natural gas distribution networks are operated by Distribution System Operators (DSOs), which hold respective distribution energy licences from HERA and concessions for natural gas distribution granted by local municipalities. There are 36 registered DSOs in Croatia, most of which are completely or partially owned by local municipalities. DSOs operate more than 14,500km of Croatia's distribution network. The distribution network is mainly owned by the municipalities and operated by DSOs on the basis of concession. A part of the distribution network is privately owned by DSOs.

- 14** Describe the statutory and regulatory structure and authorisations required to operate a distribution network. To what extent are gas distribution utilities subject to public service obligations?

Natural gas distribution is regulated by the GMA, Gas Market Regulation, Tariff System for Natural Gas Distribution, Rates Excluded (Official Gazette No. 34/07, 47/07, 44/10, 13/12, 49/12 and 99/12) and other regulations and ordinances.

According to the GMA, distribution of natural gas is a regulated, non-market, activity performed as public service obligation. DSOs must provide equal, non-discriminatory access to the distribution network to all potential customers.

A DSO must hold a distribution energy licence from HERA and a concession for natural gas distribution granted by the local municipality. The concession is granted for at least 20 years to a maximum of 30 years, in a public tender process.

- 15** How is access to the natural gas distribution grid organised? Describe any regulation of the prices for distribution services. In which circumstances can a rate or term of service be changed?

Access to the natural gas distribution grid is organised in the same manner as the access to the transportation and storage network (see question 9).

The distribution services rates are set in the Tariff System for Natural Gas Distribution, Rates Excluded (Official Gazette No. 34/07, 47/07, 44/10, 13/12, 49/12 and 99/12) rendered by HERA. It adopts a 'post-stamp' principle. The current rates are set by the government's decision of 19 December 2008 and are applicable from 1 January 2009.

General terms of service are provided by relevant legislation – GMA, Gas Market Regulation, General Conditions and Grid Distribution Code – and may be changed only by amendments to the aforementioned legislation. Distribution contracts are standard contract and therefore not subject to negotiations between the DSO and the consumer.

- 16** May the regulator require a distributor to expand its system to accommodate new customers? May the regulator require the distributor to limit service to existing customers so that new customers can be served?

See question 10 in respect of distributors expanding their systems to accommodate new customers.

There is no provision which would allow the regulator to require the DSO to limit service to existing customers so that new customers can be served.

- 17** Describe the contractual regime in relation to natural gas distribution.

For the connection to the distribution system, a Contract on Connection to the Distribution System (article 6/2 GMA) is concluded between the DSO and natural gas producer or final customer. By this contract the DSO undertakes the obligation to connect the respective user to the system and the user is due to pay the connection fee. This contract must contain, inter alia, information on technical specifications for connection, connection fee, payment terms, deadline for connection to the system and connection place and time.

Contract on Connection to the Distribution System is a standard contract published on the DSO's websites.

Regulation of natural gas sales and trading

- 18** What is the ownership and organisational structure for the supply and trading of natural gas?

Supply of gas to eligible customers and natural gas trading are market activities while supply of gas to tariff customers is a regulated, non-market activity. On 1 August 2008 all consumers became eligible customers meaning that each customer may freely choose its natural gas supplier and change it free of charge (see question 1).

Croatia has 49 registered natural gas suppliers, most of which are universal service providers. Until 31 July 2013, all universal service providers have a legal obligation to obtain natural gas from Prirodni plin d.o.o, a company declared by the government's decision as sole provider of natural gas to universal service providers. The majority of suppliers perform their activity in a certain region while there are only a few larger utilities which supply customers in several regions (for example, HEP-Plin d.o.o, Prirodni plin d.o.o.). The suppliers are usually completely or partially owned by local municipalities.

Only one foreign-owned company is registered as natural gas trader in Croatia.

- 19** To what extent are natural gas supply and trading activities subject to government oversight?

Natural gas supply and trading are subject to licensing from HERA. HERA ensures that all licensing requirements and the quality of suppliers' services are fulfilled; that regulated tariffs are applied; initiates misdemeanour proceedings in case of non-compliance with the legal provisions; and issues opinions to the Ministry of Economy on general terms and conditions for supply of customers etc. HERA has the power to withdraw the suppliers' or traders' licences in cases prescribed by the law.

Local municipalities and the Ministry of Economy are responsible for monitoring security of supply. Therefore, the supplier and trader are obligated to provide the Ministry of Economy with a yearly report on security of supply and provide other relevant statistical data.

General terms and conditions on supply of natural gas set by the respective supplier must be in accordance with General Conditions.

- 20** How are physical and financial trades of natural gas typically completed?

Physical trades of natural gas are typically completed by individual delivery agreements concluded between natural gas supplier or gas trader or gas producer and other gas supplier or trader. According to the GMA and the General Conditions, such contract must contain, inter alia, conditions of supply, price of delivered gas, amount and quality of delivered gas, payment terms, deadline for delivery and delivery place and time.

Prirodni plin d.o.o, as Croatia's largest natural gas supplier (see question 18), has its standard contractual terms for supply of natural gas published on its website.

Financial trades of natural gas are not yet common in Croatia.

- 21** Must wholesale and retail buyers of natural gas purchase a bundled product from a single provider? If not, describe the range of services and products that customers can procure from competing providers.

No, there is no single provider of natural gas commodity and transmission or distribution services. Wholesale and retail buyers can freely purchase gas from different suppliers. Transportation services are provided by TSO Plinacro d.o.o, which has a legal obligation to provide non-discriminatory access to potential consumers (see question 9). Distribution capacities can be booked from different DSOs (see questions 14 and 15).

It should be noted that trading natural gas on the Croatian market is still in its infancy and therefore the range of services and number of providers is limited.

Regulation of LNG

- 22** What is the ownership and organisational structure for LNG, including liquefaction and export facilities and receiving and regasification facilities?

Currently, LNG is not used in Croatia and Croatia does not have liquefaction and export facilities or receiving and regasification facilities. Construction of an LNG terminal on the island of Krk is recognised by the government as a strategic energy project. The national electricity company HEP d.d. and Plinacro d.o.o. have founded LNG Croatia d.o.o. with the purpose of building an LNG Terminal on the island of Krk. The capacity of the terminal should be 5 billion cubic metres per year.

- 23** Describe the regulatory framework and any relevant authorisations required to build and operate LNG facilities.

Building of LNG facilities requires construction, environmental, safety, administrative and other licences in accordance with general planning and building regulations.

According to the GMA and Energy Licence Regulation, for operation of the LNG terminal, the operator must hold the energy licence issued by HERA.

- 24** Describe any regulation of the prices and terms of service in the LNG sector.

According to article 4 of the GMA, operation of the LNG terminal is a regulated activity, performed as public service obligation. The prices of service should therefore also be regulated by a relevant tariff system rendered by HERA; however, no such tariff has been passed as yet.

Regarding the terms of service, GMA and General Conditions apply, meaning that the principles of non-discriminatory third party access regime are also relevant to the LNG sector.

Mergers and competition

- 25** Which government body may prevent or punish anti-competitive or manipulative practices in the natural gas sector?

The Croatian Competition Agency (the CCA) and Croatian Financial Services Supervisory Agency (HANFA) are responsible for acquisition and merger control in general, including the natural gas sector. HERA (Croatian Energy Regulatory Agency) controls the eligibility of parties participating in acquisitions and applies a system of measures for protection of energy market competition.

HERA, in establishing and implementing the system of regulation of activities that are performed as public services, is obliged to apply measures for protection of basic rights of consumers in accordance with special laws. HERA is also obliged to apply the rules and a system of measures for protection of market competition with regard to natural gas matters. It is authorised to supervise, inter alia, the degree of transparency and market competition, and, where necessary, demand implementation of specific measures.

- 26** What substantive standards does that government body apply to determine whether conduct is anti-competitive or manipulative?

There are no specific criteria that apply to the energy sector that define 'anti-competitive' or 'manipulative' conduct. Regulated energy activities are regulated on the principles of transparency, objectivity and non-discrimination, while market energy activities are regulated according to the principles of market competition. Therefore, the Competition Act (Official Gazette No. 79/2009) applies to energy market activities. The Competition Act prohibits entering into agreements that directly or indirectly fix purchase or selling prices or any other trading conditions, limit or control the market, share markets or sources of supply, etc. Furthermore, abuse of a dominant market position is also prohibited as well as concentration of undertakings.

- 27** What authority does the government body have to preclude or remedy anti-competitive or manipulative practices?

HERA has the power to withdraw licences for the performance of energy activities, for instance, if the supplier does not apply the prices set by the tariff system. HERA also issues other legally binding orders in accordance with the law.

The GMA prescribes fines for any misconduct, including anti-competitive or manipulative practices (for instance, if the TSO or DSO unlawfully denies access to the grid). The fines are imposed by

the State Inspector's Office. In the case of recidivism, energy undertakings may be suspended from carrying out licensed activities for up to a year.

According to competition law, the CCA issues legally binding orders by which it prohibits anti-competitive conduct. Finally, the CCA is authorised to instigate misdemeanour court proceedings in case of violation of the Competition Act.

HANFA is also authorised to instigate misdemeanour court proceedings in case of takeover irregularities.

- 28** Does any government body have authority to approve or disapprove mergers or other changes in control over businesses in the sector or acquisition of production, transportation or distribution assets?

CCA and HANFA are respective authorities in acquisition and merger control sector (see question 25).

Procedures, criteria and time limits for review of transfers of control are set out in the Competition Act (Official Gazette No. 79/2009) and the Act on the Takeover of Joint Stock Companies (Official Gazette No. 109/07, 36/2009, 108/2012).

Pursuant to the Competition Act, the review procedure is performed by the CCA. The procedure is initiated ex officio or upon the request of any party having a legal or economic interest.

Upon carrying out the procedure provided for by the Competition Act, the CCA issues a decision by which it either approves or refuses a transaction. The CCA will block a transaction in case of a prohibited concentration, referring to those undertakings that can significantly influence the prevention, restriction or distortion of competition. The CCA should issue a decree within three to eight months of the day the proceeding was initiated, depending on the type and complexity of the case in hand.

HANFA supervises the takeover of joint stock companies and the application of the Act on the Takeover of Joint Stock Companies. If takeover irregularities were identified, HANFA may impose measures provided for by law such as declaring the takeover bid invalid or to instructing revision, supplementation or withdrawal of the takeover bid.

- 29** In the purchase of a regulated gas utility, are there any restrictions on the inclusion of the purchase cost in the price of services?

Prices for the regulated gas activities are set by the tariff systems rendered by HERA (see questions 9 and 15). Purchase cost of a regulated gas utility is not included in the formula for calculation of a regulated service price as per tariff systems currently in force.

- 30** Are there any restrictions on the acquisition of shares in gas utilities? Do any corporate governance regulations or rules regarding the transfer of assets apply to gas utilities?

There are no special legislative restrictions on acquisition of shares in gas utilities but general merger control principles apply (see questions 25, 26 and 28). However, TSO Plinacro and SSO Podzemno skladiste plina d.o.o. are directly or indirectly state-owned companies and acquisition of shares would be possible only in the privatisation process approved by the government, under the relevant privatisation legislation. No such legislation has been adopted so far.

No specific corporate governance regulations or rules regarding the transfer of assets of gas utilities apply. However, in the case of transfer of assets essential for performing the licensed activity, the gas utility may lose its energy licence from HERA. The new owner of assets may obtain the same licence from HERA, if it fulfils other requirements (personnel, financial, technical etc) set by the Energy Licence Regulation.

Update and trends

Within its accession process to the European Union, the Croatian parliament began introducing the EU Third Energy Package into Croatian legislation by passing the new Energy Act and the Regulation of Energy Activities Act on 19 November 2012. Both acts incorporate directive 2009/73/EZ concerning common rules for the internal market in natural gas. A significant change in the energy sector, especially in natural gas, was made with the new Regulation of Energy Activities Act which gives more power, authority and independency to the Croatian Energy Regulatory Agency (HERA). Thus, since 29 November 2012, responsibility for the setting of gas prices has been switched from the governments to HERA. The underlying reason is to make the gas price a market instead of a social category. Since these two acts are of a general nature, a new Gas Market Act should be adopted to further implement the Third Energy Package in the gas market.

In 2011 it became clear that foreign-owned LNG Adria (E.ON Ruhrgas, Total, OMV and Geoplina) abandoned its intent to build an LNG terminal on the island of Krk. The government attempted to buy the LNG project from LNG Adria in the summer of 2012 but an agreement was not reached. Therefore, the government decided to

make a new LNG project and build an LNG terminal on the island of Krk with a capacity of 5 billion cubic metres per year (Croatia needs about 1 billion cubic metres per year). For that purpose, the state-owned companies, HEP dd and Plinacro, founded LNG Croatia d.o.o. The government is currently looking for partners in the project, potential markets and transport routes. Thus, Plinacro was granted €1 million for the feasibility and design study of the LNG RV project and in September 2012 signed a declaration of intent to build an Adriatic-Baltic gas transport corridor with Polish counterpart Gaz System. In addition, Plinacro has received a grant of €5 million for a feasibility study of the Ionian Adriatic Pipeline that would connect to the Trans-Adriatic Pipeline making this route an additional export point to the already existing interconnection between Donji Miholjac (Croatia) and Dravaszerdahely (Hungary).

Croatia's participation in the South Stream project is always a hot topic in the natural gas sector. After long negotiations, on 17 January 2013 Plinacro and Gazprom finally signed a plan of activities. According to the plan they should form a joint venture to build a south stream branch of the gas pipeline through Croatia with a capacity of 2.7 billion cubic meters, an investment worth €60 million.

International

31 Are there any special requirements or limitations on foreign companies acquiring interests in any part of the natural gas sector?

There are no special requirements or limitations in the natural gas sector regarding acquisitions by foreign companies, but general merger and acquisition laws apply (see questions 25 to 30).

32 To what extent is regulatory policy affected by treaties or other multinational agreements?

According to the Croatian Constitution, international agreements take priority over domestic laws and form an integral part of Croatian legislation. Since 2006, Croatia has been a party to the Energy Community Treaty (Official Gazette International Treaties No. 6/06) and in 2007 Croatia has ratified Kyoto Protocol. Due to its accession into EU, Croatia has adopted *acquis communautaire* in the energy sector, including natural gas sector and implemented relevant EU directives into its legislation. However, Croatia still has to integrate the third EU energy package into the domestic gas legal framework.

33 What rules apply to cross-border sales or deliveries of natural gas?

There are no specific rules that apply to cross-border sales and deliveries of natural gas. Undertakings having natural gas supply and trade energy licences are also eligible for cross-border supply. In Croatia, there is only one importer of natural gas, Prirodni plin d.o.o. (see question 1) and no natural gas is exported.

Transactions between affiliates

34 What restrictions exist on transactions between a natural gas utility and its affiliates?

GMA has adopted a legal unbundling concept, meaning that transportation, distribution and storage system operator have to be independent from one another and from other gas market activities. Cross-subsidisation of companies engaged in regulated activities and those engaged in market activities, and cross-subsidisation of activities within the same company is prohibited by the GMA. However, this does not affect the parent company to approve the annual financial plans of its affiliate and to set the limits of their possible indebtedness, but cannot give instructions relating to their everyday operation.

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General non-discrimination principle and prohibition of abuse of dominant position set out by relevant competition law provisions also refer to transactions between parent companies and its affiliates in natural gas sector.

35 Who enforces the affiliate restrictions and what are the sanctions for non-compliance?

HERA supervises whether the principles of legal unbundling have been followed and may demand their implementation.

CCA oversees enforcement of competition law provisions (see questions 25 to 27).

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