

26 November 2009

INFORMATION ABOUT ENERGY PRICES FOR 2010

I NATURAL GAS PRICES

The Energy Regulatory Office [‘Office’] expects that the **overall price of gas supplies for households in the Czech Republic will not go up from 1 January 2010.**

Natural gas prices on the liberalised market are determined by gas suppliers. A significant increase in the number of household customers who have changed their gas supplier is being registered this year. This bears out that competition on the Czech gas market is growing, as a result of which conditions for customers are improving, in particular from the point of view of prices. However, suppliers can pursue different business policies, which are reflected in, for example, different dates for gas price changes.

Within a very short span of time, gas prices were quite volatile: following a steep rise during 2008, which exceeded 30% and peaked at the end of 2008 and the beginning of 2009, an even faster fall in prices followed between January and July 2009. The prices dropped by almost 50%. The reason was the radical cut in the prices of oil products, from which gas prices are derived, and also the Czech currency appreciating in respect of the US dollar and euro. To provide for pricing stability, suppliers passed through this deep fall to household gas prices gradually, over the whole of 2009 until January 2010. Judging by the current situation on the markets, gas prices are expected to grow slightly.

January 2010 will see a change in the prices for gas distribution and transmission. As in the electricity industry, **transmission charges**, which earlier were not included in distribution charges, will **become part of distribution charges** from 2010. **Distribution charges themselves will go up by 4.8% on average.**

A **market operator** will start operating on the gas market in January 2010, similarly as in the electricity industry. The Office will set the prices for its operations.

Key factors influencing controlled prices:

- *Warm winter in 2008:* The year 2008 was one of the above-average years in terms of ambient temperatures, which caused significantly lower natural gas consumption than expected when the prices had been set for 2008. In line with the regulatory rules, the differences in 2008 sales are reflected in the 2010 prices.
- *Downward trend in consumption:* The trend visible in recent years, declining natural gas consumption, for 2010 compounded by the effects of the economic crisis, and mainly for industrial customers, has also been reflected negatively in the development of controlled prices.
- *Depreciation:* Gas distribution charges include the fair values of accounting depreciation and amortisation of gas distribution assets.

II ELECTRICITY PRICES

The Office announces that **electricity prices will go down for all customer categories on 1 January 2010.**

On the liberalised Czech market, the price of electricity supply for final customers is composed of the following:

- **Regulated** prices, which are set by the Office (covering electricity transmission and distribution and other related services), and
- **Unregulated** prices of electrical energy itself, which is offered by suppliers (electricity traders and electricity generators), i.e., **a price that is not subject to control by the Office.**

1 Key factors influencing prices in the electricity industry for 2010

The key factors that have a profoundly negative impact on the level of controlled prices in 2010 can be summarised as follows:

- Inflation factors;
- Drop in forecast electricity consumption;
- A significant year-on-year increase in the contribution to cover support for electricity generation from renewable sources, cogeneration and secondary sources, which has more than tripled.

On the other hand, the lower price of electrical energy itself has a positive, decreasing effect on both regulated and unregulated prices.

More details on each of the factors at play in the resulting price of electricity:

➤ **Macroeconomic factors**

In line with the regulatory principles, which are set out in public notice no. 140/2009, the economic parameters for 2010 reflect the effect of inflation, which is based on the rolling indexes of the prices of business services (104.08%) and consumer prices (104.6%) for the period between April 2008 and April 2009 as determined by the Czech Statistical Office.

➤ **Declining consumption**

Due to the economic slowdown, a general decrease in electricity consumption is expected in 2010 in comparison with the expected level of 2009. Overall electricity consumption is declining by approximately 9.1%. **This lower demand has a significant and negative impact on controlled prices**, because the funds that are due to regulated companies for carrying on their business are used for a smaller quantity of the technical units of consumption.

➤ **Support for electricity production from renewable sources, cogeneration and secondary sources**

The surge in the costs related to this support in 2010 is mainly attributable to the expected volume of electricity produced from photovoltaic power plants, approximately 240 GWh,

which will incur costs of almost CZK 2.8 billion. The rise in the cost of support for electricity generation in environmentally-friendly installations has an impact on final customers' single nationwide contribution to cover this support. The contribution is currently CZK 166.34/MWh, which is more than three times the level of 2009. Almost CZK 7 billion is to be spent on renewable energy sources alone. Together with combined heat & power generation and secondary sources, after including the correction factor from 2008 CZK 9.1 billion required for meeting these costs will be collected from final customer through the contributions in 2010. **This item plays the key role in the overall rise of controlled prices.** If the contribution to supported sources stayed at the 2009 level, the regulated components of the price would grow, for example, at the low voltage level, by less than three per cent (2.7%), i.e., within inflation; however, the way it is now, total controlled prices at the low voltage level will rise by more than 10%.

➤ **Electricity prices on the wholesale market**

Since the autumn of 2008, what earlier had been a long-term trend of growing consumption has been affected by the economic crisis. This factor is causing electricity consumption to decrease; it can be felt throughout Europe, pushing down electricity prices on energy exchanges. The price of the relevant 2010 products traded on the energy exchanges (primarily the 'one year band') fell by approximately 18% over the period under review from October 2008 to September 2009.

The positive development of electricity prices on the market can also be felt to a certain degree in the regulated part of the prices through the price of energy for covering losses (i.e., in the charge for electricity transport). For customers, the key favourable effect can be seen in the unregulated part – the suppliers' electricity supply quotations.

2 Price changes in the electricity industry for 2010

a) HOUSEHOLDS

The overall average year-on-year drop in the cost of electricity supplies for households is 3.6% (without considering VAT and electricity tax) for 2010.

The average increase in the regulated components of the price of supply for households is 11.72%, while the unregulated price of energy, including the traders' margin, will drop by 14.8% on average.

The change in the price for a particular customer will differ depending on the region in which the customer is connected to the grid due to the marked regional factors specific for each of the distribution systems. Differences can also be caused by the tariff selected, different nature of the load and level of consumption, and, above all, choice of the electricity supplier.

All final customers can select their electricity supplier, thereby influencing the amount of the charge for the unregulated part of the price. The ready reckoner at www.eru.cz (link [Změna dodavatele \[Supplier Change\]](#)) can help them make a decision, because it makes it possible to compare total costs of electricity supplies from different suppliers.

b) SMALL BUSINESSES (MOP)

In the case of low-demand business customers connected to the low voltage level, the overall average year-on-year decrease is 4.21%. Again, the price change for each particular customer will differ depending on their tariff and the nature of their load and level of consumption, but also their electricity supplier and the region in which they are connected.

c) ELECTRICITY DISTRIBUTION PRICES FOR HIGH-DEMAND (LARGE) CUSTOMERS

The charge for capacity booking and the charge for network use are key for customers connected to the high and very high voltage networks. The charge for capacity booked for 2010 is up by 2.5% at most for each of the distributors at both voltage levels. The charge for network use, which serves for covering network losses and which is influenced by the development of the prices of energy and also the significant reduction in the allowed rate of losses in distribution networks, will go down by 20% y/y on average at the very high voltage level and 18.33% at the high voltage level.

III SUPPORT FOR ELECTRICITY GENERATION FROM RENEWABLE ENERGY SOURCES

On 3 November 2009 the Office issued its price decision no. 4/2009, which sets out the feed in tariffs and green premiums for supported sources for 2010.

Price decision no. 4/2009 does not set out the prices for photovoltaic.

The Office published the prices for photovoltaic in its price decision no. 5 of 23 November 2009.

For 2010, the feed in tariffs have increased in respect of most of the existing sources because of the PPI. Exceptions are AF1 and AF2 biogas stations, where the feed in tariffs could be maintained thanks to the falling fuel costs.

In addition to the inflation factor, green premiums also reflect the drop in the expected price of electrical energy for 2010 by more than 30%. This means that in terms of their absolute value, green premiums have gone up in respect of the existing sources.

A major change for 2010 is the introduction of new categories of small hydroelectric, wind and photovoltaic power plants.

In respect of small hydroelectric power stations, feed in tariffs have gone up by more than 11%, while they have been reduced by 5% in the category of wind and photovoltaic power plants commissioned on or after 1 January 2010. This is the maximum possible drop allowed by Act No. 180/2005. The reason for the change in the amount of the support is the latest technical and economic parameters, as input to the calculations, which have been taken into account. These parameters can be found in public notice no. 409/2009.

Part of price decision no. 4/2009 is also premiums on electricity prices for combined heat and power generation and secondary sources. The principle of the calculation of the premiums for these sources is the same as in the preceding year; the drop in the price of electrical energy has caused the premiums to rise significantly.

Overall costs of supporting electricity generation from renewable sources, combined heat and power generation, and secondary sources, are expected to amount to CZK 9.1 billion in 2010.