

The Czech Republic's National Report on the Electricity and Gas Industries for 2010

July 2011

Most frequent abbreviations

Czech	English	
ERÚ	ERO	Energy Regulatory Office
MPO	MIT	Ministry of Industry and Trade of the Czech Republic
OTE	OTE	Market Operator
ČEPS	ČEPS	Transmission system operator
PXE	PXE	Power Exchange Central Europe, a. s.
EEX	EEX	EEX Leipzig Energy Exchange
SEI	SEI	State Energy Inspectorate
ÚOHS	ÚOHS	Office for the Protection of Competition
APG	APG	Austrian TSO
CEER	CEER	Council of European Energy Regulators
ENTSO	ENTSO	European Networks of TSOs
ERGEG	ERGEG	European Regulators Group for Electricity and Gas
PDS	DSO	Distribution system operator
PZP	UGS facility	Underground gas storage facility
SAIDI	SAIDI	System Average Interruption Duration Index [minutes/year/customer]
SAIFI	SAIFI	System Average Interruption Frequency Index [interruptions/year/customer]
CAIDI	CAIDI	Customer Average Interruption Duration Index [minutes/interruptions]
VVN	EHV	Extra high voltage
VN	HV	High voltage
NN	LV	Low voltage
OZE	RES	Renewable energy sources
ZOHS	ZOHS	Act on the Protection of Competition
EEPR	EEPR	European Energy Programme for Recovery

	Table of Contents	
1	Foreword	4
2.	Main developments in the electricity and gas markets	5
2.1	Wholesale market	5
2.1.1	Electricity	5
2.1.2	Gas.....	5
2.2	Retail market	5
2.2.1	Electricity	5
2.2.2	Gas.....	7
2.3	Public service obligations and consumer protection	7
2.3.1	Transparency	7
2.3.2	Complaints	8
2.4	Infrastructure	8
2.4.1	Electricity	8
2.4.2	Gas.....	8
2.5	Security of supply.....	9
2.5.1	Electricity	9
2.5.2	Gas.....	10
2.6	Regulation and unbundling	11
2.6.1	The ERO's competences	11
2.7	General conclusions	13
2.7.1	Related to the present legal framework.....	13
2.7.2	Related to the third energy package	15
3	Regulation and structure of the electricity market	16
3.1	Regulatory issues.....	16
3.1.1	Management and allocation of interconnection capacity and mechanisms to deal with congestion.....	16
3.1.2	The regulation of the tasks of transmission and distribution companies	17
3.1.3	Effective ownership unbundling	19
3.2	Competition issues	19
3.2.1	Structure of the wholesale market.....	19
3.2.2	Structure of the retail market.....	23
3.2.3	Measures to avoid abuses of dominance	27
4	Regulation and structure of the natural gas market.....	28
4.1	Regulatory issues.....	28
4.1.1	Management and allocation of interconnection capacity and mechanisms to deal with congestion.....	28
4.1.2	Regulation of the tasks of transmission and distribution companies	28
4.1.3	Effective ownership unbundling	32
4.2	Competition issues	32
4.2.1	Structure of the wholesale market.....	32
4.2.2	Structure of the retail market.....	36
4.2.3	Measures to avoid abuses of dominance	38
5	Security of supply.....	40
5.1	The electricity market in 2010	40
5.1.1	Electricity consumption and levels of peak annual demand	40
5.1.2	Installed capacity.....	41
5.1.3	Authorisation criteria for new generation capacities.....	42
5.1.4	Incentives for new capacity development	43
5.1.5	Investment in transmission.....	43

5.2	The gas market in 2010	44
5.2.1	Gas supply and consumption in 2010	44
5.2.2	Import contracts.....	46
5.2.3	The gas market	46
5.2.4	Investment in system development	48
5.2.5	Emergency measures.....	50
5.2.6	Security of supply standard.....	51
5.2.7	Quality and level of system maintenance.....	51
5.2.8	Investment incentives.....	52
6	Public service issues [Article 3(9) electricity and Article (6) gas]	53
6.1	Key information	53
6.2	Obligations over and above the licence.....	53
6.3	Supplier of last resort	53
6.4	Labelling of primary energy sources / guarantees of origin.....	54
6.5	Disconnection of customers	54
6.6	Protection of customers under contract.....	55
6.7	Pricing for customers on the electricity market	57
6.8	Pricing for customers on the gas market	57
6.9	Public administration and terms of supply contracts	58

1 Foreword

For the seventh time, the Czech Republic is presenting a report on the implementation of the requirements arising from the second energy package to the European Commission, thereby meeting its reporting and notification obligation as set out in the applicable Directives.

This report outlines the considerable progress made by the Czech energy market in 2010. On the electricity market, competition could be felt in full in all customer segments. In the household category, the number of supplier switches quadrupled in 2010 compared with 2009. In the other customer categories, supplier switches doubled. Most of these cases involved customers migrating from the incumbent suppliers of vertically integrated undertakings to alternative suppliers. The lingering effects of the economic crisis and the fact that it was not feasible to clearly forecast electrical energy prices resulted in the entry of new market players and stronger competition on the electricity market. Closer integration of the markets in central Europe was equally important: at the end of the year, cross-border intra-day electricity transmission was used on all national borders with the Czech Republic.

In the year under review, the gas market was characterised by the rapidly developing and intensifying competition, which reached all customer segments. On the liberalised market, additional new gas traders launched their business, both on the side of gas imports and on the side of gas sales to customers. The equalisation of the TSO's entry tariffs at all of the border points supported the rapid growth in the number of new suppliers entering the Czech gas market and also a higher utilisation of the transmission system.

These positive changes took place hand-in-hand with the continued improvement of primary and secondary energy legislation, which already relied on the prospects for the due implementation of the so-called third energy package.

2. Main developments in the electricity and gas markets

2.1 Wholesale market

2.1.1 Electricity

In 2010, the lingering effects of the economic and financial crisis affected electricity consumption, which resulted in stagnant prices at energy exchanges. It was not feasible to clearly forecast energy prices for the short term, which resulted in stronger competition on the electricity market and the entry of new players, and also made it possible for electricity suppliers to pursue a different strategy in electricity purchases and so extend the range of the products they offered.

As regards international electricity trade, late 2010 saw a further integration of markets in the central European region, where cross-border intra-day transmission already was used on all national borders with the Czech Republic. December 2010 also saw the successful organisation by the Freising auction office of the first annual auction (2011), and also monthly auctions (January 2011) for cross-border capacities within the whole region; on 1 January 2011, daily auctions for transmission capacities were also successfully launched in the whole region.

2.1.2 Gas

In 2010, the gas market was characterised by burgeoning competition that reached all customer segments. On the liberalised market, additional new gas traders pursued their business both on the side of gas imports and on the side of gas sales to customers.

One of the ERO's objectives is to support, in wholesale terms, the development of the gas market at the level of gas imports. In addition to amendments to secondary legislation, this mainly included the setting of the TSO's entry tariffs at a single level for all borderline points. The adopted measures resulted in a rapid increase in the number of new suppliers entering the Czech gas market, and the related higher utilisation of the transmission system compared with previous years. The number of companies exporting gas to other countries also rose in 2010.

In the spirit of the integration of the European gas market, co-operation between the German and Czech gas markets intensified. In 2010, the operators of the Czech and German transmission systems presented and launched the GATRAC II (Gas Transport Cooperation) project, which offers new options for booking transmission capacity between virtual trading points in Germany (GASPOOL Hub) and in the Czech Republic (OTE). The transmission capacity between these two points is explicit and bundled, which means that the shipper only needs to enter into one contract with any of the above-named operators, who will then provide it with a back-to-back capacity product along the entire route without the need to book transmission capacity with the other TSO.

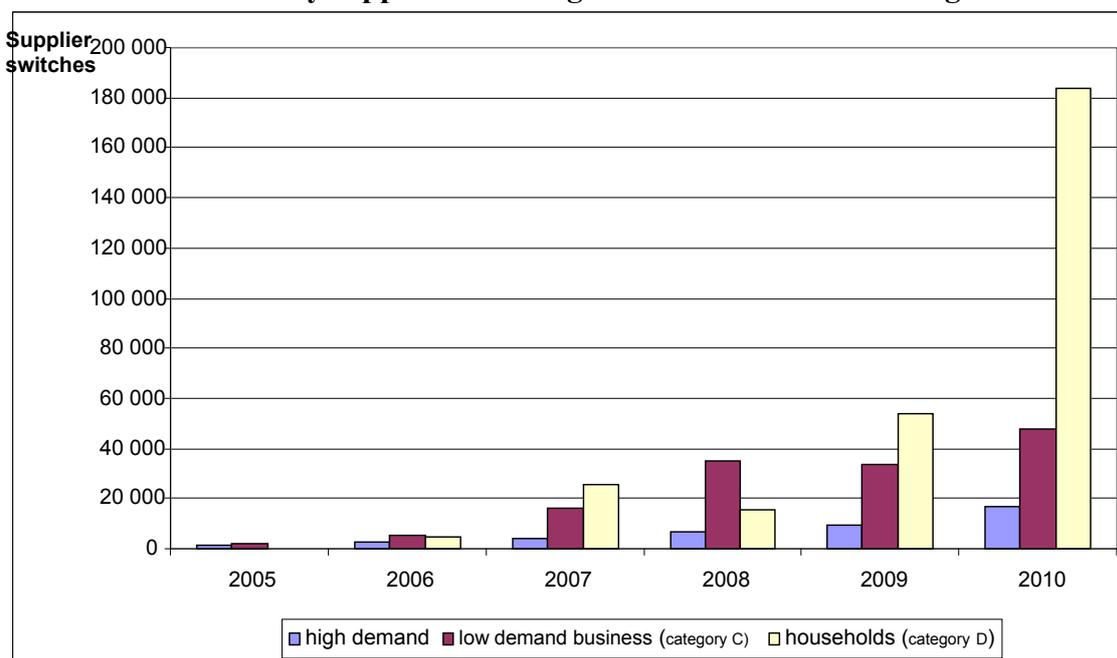
2.2 Retail market

2.2.1 Electricity

In 2010, competition could be felt in full in all customer segments; according to the data recorded by OTE, a. s. for households, almost four times more households switched their supplier in 2010 on a year-on-year basis (184,000 in 2010 versus 54,000 in 2009). In the other customer categories the number of supplier switches approximately doubled; altogether almost 250,000 customers changed their electricity supplier in 2010 (in 2009 the figure was

less than 97,000). The development in the number of electricity supplier switches can be seen in Chart 1.

Chart 1 Annual electricity supplier switching in the main customer categories



Source: OTE, a. s.

To improve the electricity market participants' awareness the ERO maintains a Frequently Asked Questions section on its website, which summarises the typical questions received from customers and other entities and provides answers in an understandable way. In 2006, the Office also posted an interactive ready reckoner of payments for electricity supplies on its website. With the help of the reckoner low-demand customers connected to the low voltage level have an opportunity to compare, on the basis of the data they enter (the distribution rate, annual consumption), the costs of electricity supply from the various suppliers, and find the most appropriate supplier with regard to the nature and size of their demand. The reckoner is updated on the basis of information from the suppliers who provide the ERO with their price quotations on energy products intended for low-demand customers. At the end of 2010, the reckoner contained 14 suppliers' quotations. To enhance customers' awareness the ERO also continuously posted additional, then current, opinions and recommendations, for example, those concerning energy supplier switching.

On the one hand, in 2010 the prices of electricity supply to low-demand customers connected to low voltage were favourably influenced by a slight decrease in the wholesale price of energy (futures for 2010 traded in previous periods) and the growing competition on the electricity market in the areas of trading and supply. On the other hand, they were burdened by the significant increase in the prices related to the buyout of electricity from RES, in particular photovoltaic plants.

Thanks to the good timing of their electricity procurement on the wholesale market, new traders were able to offer lower prices than incumbent suppliers. Most of the supplier switching was therefore caused by customers migrating from the incumbent suppliers, who were part of vertically integrated undertakings, to alternative suppliers.

At the low voltage level, the same range of tariffs, including the conditions for awarding them, as in 2009 was maintained for small business customers (category C) and households (category D) for 2010.

Suppliers usually adjusted their offering prices of electrical energy once a year, i.e., as from 1 January of the new calendar year. Some suppliers have also started to offer small customers a product where the offering price of energy depends on electricity prices at energy exchanges during the year.

2.2.2 Gas

New traders, who thanks to their more comprehensive services and products, and better price quotations, very successfully competed with the incumbents, helped to enhance competition on the retail market. The ERO supported this trend through secondary legislation, primarily by way of simplified and transparent administration of the supplier switching process. The year 2010 was therefore marked by a large number of gas supplier switches in all customer categories in addition to the increase in the number of new traders.

2.3 Public service obligations and consumer protection

2.3.1 Transparency

One of the objectives of the third energy package is to strengthen consumer protection in the electricity and gas industries, and, in relation to this, to extend the competences of the member states' regulatory authorities.

As regards electricity and gas traders' market position, this market is fully liberalised in the Czech Republic at both the wholesale and retail levels. Electricity and gas traders are therefore not legally constrained at all in buying electricity or gas directly from producers or at exchanges or on spot markets in the Czech Republic and in other countries. At the same time they have the right to sell electricity and gas to market participants to other countries. The scope of the stored data on the performance of agreements on the supply of electricity or gas, or derivatives thereof, has been laid down by the ERO in an implementing regulation.

In addition, unlike electricity traders gas traders have the obligation to observe the security standard of the required gas supply, i.e., to provide for safe and reliable gas supply, amounting to 20 percent, in the event of a gas supply disruption for 8 weeks in relation to customers whose annual gas take is less than 400,000 cu m.

Traders must provide distribution system operators with identification details of the customers whom they supply under agreements on bundled supply services. Traders must also provide electricity/gas transmission and distribution system operators with information required for the safe and reliable operation and development of these systems. Electricity and gas traders' obligation is to promote energy services and offers thereof. Electricity and gas traders have the right to receive from the market operator, the information that they need for billing their electricity/gas supply to customers whose supply point is registered with OTE, a. s.

As regards the provisions of the implementing legal regulations, in 2010 the Ministry of Industry and Trade and ERO prepared proposals for public notices [statutory instruments] covering, for example, the setting of the basic, or minimum, standards for energy supply billing to customers and the award of the State's authorisations.

2.3.2 Complaints

In the Czech energy sector, there is not one exclusive authority that market participants can approach with their complaints (apart from the distribution companies and traders themselves). In addition to the Energy Regulatory Office, primarily the State Energy Inspectorate (SEI), the Ministry of Industry and Trade (MIT) and the Office for the Protection of Competition (ÚOHS) were the addressees for complaints, which mainly concerned business practices, procedures for consumption billing and for supplier switching, prices and the calculation of advance payments, and problems with disconnection and curtailed supply due to failures and problems with the connection of RES capacities. Almost 300 and about 220 complaints in the electricity industry and the gas industry, respectively, were tackled in 2010.

2.4 Infrastructure

2.4.1 Electricity

With a view to ensuring the reliability and safety of the Czech transmission system on the transit flow between Germany and Austria in periods of increased output from wind farms in Germany, 2010 saw the speedy adoption of technical measures at the Hradec Východ and Hradec Západ substations and the reinforcement of the transmission capacity of the most vulnerable lines. To meet the increase in demand in the Ostrava area, planned for the coming years, last year also saw the start of the construction of a new 400/110kV substation in Kletná in coordination with the distribution system operator; commissioning is expected before the end of 2011. To support the reliability and safety of supply to this area, a new 400kV line between the Horní Životice transformer station and the Krasíkov substation is being prepared. When this line is erected, the northern loop in Moravia will be closed, thereby establishing a back-up route for transit transmission. This line is to be erected in 2013 and 2014. ČEPS, a. s., the transmission system operator, has received a subsidy from the EU's TEN-E (Trans-European Energy Network) programme for the construction of the first part of this project.

2.4.2 Gas

A major capital investment project of 2010 is the new GAZELLE gas pipeline. The pipeline will connect the Czech Republic to Russian natural gas flowing into Europe via the so-called northern route, which will comprise the Nord Stream pipeline laid on the bottom of the Baltic Sea from Russia to Greifswald, Germany. Nord Stream will be connected to the OPAL pipeline with annually transported volumes expected to amount to 30 to 33 bcm and running to the national border between Germany and the Czech Republic near the village of Brandov. In late 2010, OPAL was connected, near Brandov, with the new border transfer point of the Czech transmission system, called Brandov, to which GAZELLE will be connected. This pipeline is expected to be put into operation in late 2012. GAZELLE will help to release capacities in the currently existing Czech transmission system, making new gas flows from Hora sv. Kateřiny and Lanžhot possible and thus offering a higher level of security and reliability of supply for all EU member states, in particular in the central European region. The flexibility of the existing system will be enhanced and various combinations of direct flow and reverse flow will be feasible (primarily between Olbernhau/Hora Sv. Kateřiny and Lanžhot) between border transfer points. The capacity released in the Czech transmission system will be important from the short-term perspective, for example, in the case of disruptions in gas supply, and from the long-term perspective, for example, it will be possible to use the Brandov border transfer point, which supports additional input capacities, for the

purpose of performing long-term gas supply contracts to meet the Czech Republic's own needs.

In 2010, the transmission system operator applied for an exemption from the obligation to allow connection and regulated third party access to GAZELLE under Section 67a of the Energy Act (transposing Article 22 of Directive 55/2003/EC into national legislation). The Energy Regulatory Office considered the application and requested the transmission system operator to supplement its application with additional information to meet the requirements of the Energy Act. The transmission system operator furnished the required documents in the fourth quarter of 2010. On the basis of this completed application the ERO decided, in early 2011, to grant an exemption from the obligation of regulated TPA. The European Commission was notified of this.

2.5 Security of supply

2.5.1 Electricity

The Energy Regulatory Office's competences for security of supply

The Energy Regulatory Office operates in accordance with the Energy Act and the applicable EU legislation. The currently applicable EU or national legislation does not impose on the ERO any particular tasks in relation to provisions for security of electricity supply. This issue falls within the MIT's remit.

Demand and supply

In 2010, the installed capacity of thermal power stations, including cogeneration, increased by 49 MW in comparison with 2009, and the installed capacity of gas-fired and combined cycle plants increased by 89.5 MW. The installed capacity of plants that use renewable and alternative resources also went up year-on-year, by 1,399 MW; the installed capacity of hydroelectric power stations increased by 19.7 MW year-on-year. Wind power plants' capacity increased by 24.6 MW. Most of the increase in generating capacity, more than 1,355 MW, is attributable to the growth of photovoltaic capacity.

The total annual increase in the generating capacity installed in the electricity grid amounted to 1,608.1 MW. On 31 December 2010, the total installed capacity in the Czech electricity grid was 19,033.8 MW. The above increase in total installed capacity was mainly achieved by investment in the development of photovoltaic plants (up by almost 292 percent), wind power plants (up by 12.7 percent) and gas fired plants (up by 9.6 percent).

The country's total electricity consumption, including network losses, increased to almost 71 TWh (70,961 GWh) in 2010. This 2.3 TWh (3.4 percent) growth in demand was caused by a slight recovery of the country's economy in 2010.

The grid experienced the annual peak load on 27 January 2010 at 5 p.m. when gross consumption amounted to 11,204 MW. The annual minimum occurred on 1 August 2010 at 6 a.m., when gross consumption dropped to 4,578 MW.

The achieved reliability of the Czech electricity system's balance of supply and demand meets the requirements for rational values of reliability. It is possible to provide for the safe operation of the system (ancillary services) over the medium term, despite some changes in demand. However, problems related to the significant swings in the output from off-shore and seaside wind power plants are increasingly occurring in the operation of the generating capacities in covering the load profiles and predicted imbalances. Unfortunately, this factor has a rising trend.

By the end of 2010, total installed capacity of photovoltaic plants had amounted to 1,820 MW.

Investment in the electricity system

Investments in the electricity grid, in particular the transmission system, are occasioned by the needs of the electricity market's development and the need to respond to the markedly changing conditions in the system, in particular changes in ring and parallel electricity flows. These changes are mainly attributable to the operation of wind farms in the north and west of Germany; they have a negative impact on cross-border electricity exchanges and do not contribute to the security of supply for customers in the Czech Republic. They also deteriorate the grid throughput and have a negative impact on electricity transmission and transit in the north-south direction.

Provisions for the operating safety of the Czech electricity grid in the nearest future

Model calculations based on EWIS (European Wind Integration Study) indicated the critical level of the operation of transmission systems in the central European region, which in recent years has been increasingly affected by the rapidly expanding wind power capacities with intermittent generation in the north of Germany. Because of these capacities, 2010 saw increasingly frequent situations where it was more and more difficult for the operator of the Czech transmission system to provide for the operating safety of the system (the n-1 rule). Overall, these situations accounted for approximately 30 percent of the total annual time. Regardless of the forecasts of installed wind capacities, transmission system operators also have to cope with the expected massive transactions on the market (for example, exports from Germany and Austria). These developments have the strongest impacts on the transmission systems of the Czech Republic and Poland.

Legal framework

To provide for security of supply, a new regulation on the dispatch control rules was prepared in 2009. The Ministry of Industry and Trade promulgated it in early 2010 as public notice no. 79/2010, on the dispatch control rules in the electricity grid and data transmission for dispatch control.

A new implementing regulation, no. 80/2010, on emergencies in the electricity industry and the required content of the emergency plan, lays down emergency measures. It sets out the measures and procedures to be followed to prevent emergencies and during emergencies and to remedy the consequences of emergencies, the way of declaring states of emergency and notifying of actions to prevent them, procedures for curtailing electricity load, and the required content of emergency plans.

2.5.2 Gas

The Energy Regulatory Office's competences for security of supply

The Energy Regulatory Office operates in accordance with the Energy Act and the applicable EU legislation. The currently applicable EU or national legislation does not impose on the ERO any particular tasks in relation to provisions for the security of gas supply. This issue falls within the competences of the MIT.

Demand and supply

Compared with 2009, gas consumption in the Czech Republic increased by approximately 10 percent.

The growth in consumption is attributable to several major factors. One of them was the colder weather: the relation of consumption to temperatures is particularly visible in the first and fourth quarters of the year (from the long-term point of view, 2010 was one of the very coldest periods since 1996). Another factor that influenced gas consumption compared with 2009 was the environmental tax on all types of fuel with gas enjoying a tax break, and also the continuously developing competitive environment in the gas market.

According to the trading companies, the total volume of imported gas was 8.3 percent higher than in 2009. Supplies from the European Union and Russia were used more than in the previous years, at the expense of imports from Norway. It is to be noted that not all of the imported gas was consumed in the Czech Republic; a certain part of this gas was intended for foreign customers.

Investment in the gas system

Investments in the development of the gas system have been significantly influenced by the January 2009 gas crisis and the ensuing need to enhance the security of supply for customers in the Czech Republic. The Ministry of Industry and Trade, which grants authorisations for construction in the form of the State's consent under the Energy Act, plays the role of the regulatory authority for the development of the gas system. The scope of the investments is outlined in point 5.2.4.

2.6 Regulation and unbundling

The ERO systematically inspects unbundled accounts of legally unbundled companies, from which it requires separate accounts for each of the transmission and distribution activities with a view to preventing discriminatory practices.

The ERO's competences to enforce managerial and functional unbundling are limited by Directives 2003/54/EC and 2003/55/EC concerning common rules for the internal market in electricity and natural gas, respectively, as transposed into Czech national legislation through the Energy Act. They were described in the previous National Report.

As regards distribution companies' independent presentation, the concept of a shared use of the brand, design and logo of companies within holding structures still predominates.

The ERO does not have any competences to carry out inspections or impose sanctions; this is within the competences of the State Energy Inspectorate (SEI).

In 2010, 71.6 percent of electricity produced in the Czech Republic was generated by ČEZ, a. s., which produced 61,470.7 GWh.

As regards gas, gas supply from RWE GasNet, s. r. o. predominated; the company sold natural gas to 27.98 percent of final customers.

2.6.1 The ERO's competences

At present, the ERO decides on the award, change or revocation of licences, imposition of the obligation of supply over and above a licence, imposition of the obligation to provide, in urgent cases, energy installations for the performance of the obligation of supply over and above a licence, including decisions on easements pursuant to the relevant legal regulations, and the temporary suspension of the obligation to allow third party access.

The ERO regulates the charges for electricity transmission and distribution, system services, gas transmission and distribution, and for the market operator's services, and the prices charged for electricity and gas by suppliers of last resort, and it sets the contributions to prices

for electricity from secondary energy sources and combined heat and power generation. Upon the transmission system operator's proposal, the ERO is authorised to decide on a different method for the pricing of international gas transmission, employing a market-based method. It can also direct the pricing of thermal energy. The ERO is authorised to decide to regulate the charges for some additional activities carried out by the electricity and gas transmission system operators and distribution system operators and for the market operator's activities, which are related to electricity and gas transmission, electricity and gas distribution and the market operator's services, should such regulation become necessary with a view to ensuring the safe and reliable operation of the electricity grid or the gas system and market participants' non-discriminatory approach.

Pursuant to the current legislation, the ERO also:

- a) adjudicates disputes in cases where an agreement is not entered into under the Energy Act between licence holders or between licence holders and their customers, and disputes over compensation for failure to keep the required standards of the quality of supply and services and disputes over electricity, gas or heat supply curtailed or interrupted due to illegal consumption,
- b) adjudicates disputes arising from contractual relationships between licence holders or between licence holders and their customers under the Energy Act in cases in which a court would otherwise be competent to decide, provided that all parties to the proceedings agree with the ERO's competence to decide the dispute,
- c) adjudicates disputes over access to the electricity and gas transmission systems, distribution systems, underground gas storage facilities and gas production pipelines, including those over access to cross-border capacities for electricity and gas transmission or electricity and gas distribution,
- d) adjudicates disputes over the buyout of renewable electricity and over the right to receive green premiums or contributions to the price of electricity from combined heat and power generation and secondary energy sources,
- e) inspects licence holders' compliance with their obligations and imposes fines pursuant to the law on prices,
- f) approves or sets the rules for the operation of the electricity transmission and distribution systems, the market operator's commercial terms and conditions, and the gas transmission and distribution system operators' grid codes and the storage system operators' codes.

The ERO also systematically inspects unbundled accounts of legally unbundled companies, from which it requires separate accounts for each of the transmission and distribution activities with a view to preventing discriminatory practices of system operators and cross-subsidies.

Effective separation of electricity and gas transmission system operators from activities of electricity/gas generation/production and supply

One of the key objectives of Directive 2009/72/EC and Directive 2009/73/EC is the effective separation of electricity/gas transmission operators from activities of electricity/gas generation/production and supply; at the same time, the Directives allow member states not to transpose the requirements for the ownership unbundling of electricity/gas transmission systems where the electricity/gas transmission system is owned by a vertically integrated

undertaking on 3 September 2009. In such a case, member states can meet the unbundling obligation either by transposing the option of an independent system operator (ISO) or an independent transmission operator (ITO).

In the Czech Republic, the electricity transmission system operator, ČEPS, a. s., could not be regarded as a part of a vertically integrated undertaking on 3 September 2009, and therefore in the electricity industry it was not feasible to apply Article 9 (8) of Directive 2009/72/EC; the only unbundling option was ownership unbundling.

In the gas industry, it was possible to select any of the unbundling options pursuant to Article 9 (8) of Directive 2009/73/EC, because there is no question that on 3 September 2009 the gas transmission system operator, RWE Transgas, s. r. o. (today NET4GAS, s. r. o.) was owned by a vertically integrated undertaking, a part of which was also RWE Transgas, a. s. as a gas importer and supplier.

An assessment of the viable alternative options for effective unbundling indicated that in terms of costs, interference with ownership rights, or the exercise thereof, impacts on the regulation of gas transmission charges (and, in turn, impacts on customers), and the time required for implementation, the establishment of an independent transmission system operator, ITO, would be the best approach. A downside of this option will be the negative effects on the administrative burden on the ERO, because the activities of the transmission system operator, including the regulation of intra-group relationships, will require intensive supervision by the ERO.

The establishment of an independent gas transmission system operator was also recommended as the best option during consultations with the entities concerned.

Strengthening and unification of the powers of member states' national regulators

The objectives of the third energy package also include the strengthening of the independence of national regulators from the government, and of their powers and freedom in decision-making, with a view to enhancing the efficiency of regulation in energy.

Under the proposed amendment to the Energy Act, the ERO shall be obliged to perform its activities impartially and, in particular, independently, both in the business sector in the electricity and gas industries and in other bodies of executive power. The other criteria for the ERO's independence include, for example, the way of the appointment of the ERO's Chair and the financing of its activities.

Sanctions imposed by the ERO

The ERO currently does not have any competences to carry out inspections or impose penalties; this falls within the competences of the State Energy Inspectorate (SEI). Only in the event of a licence holder no longer meeting the conditions for the award of a licence under the Energy Act, committing a gross breach of legal regulations in performing its licensed activity, posing risk to the life, health or property of persons by breaching its obligations under the Energy Act, or applying for licence revocation in writing will the ERO revoke the licence.

2.7 General conclusions

2.7.1 Related to the present legal framework

Improvement of energy legislation continued in the Czech Republic in 2010. In this respect, the drafting of the transposing amendment to the Energy Act was the most important step.

The main objective of the proposed amendment is to harmonise the legislation contained in the Energy Act with the energy legislation adopted by the European Union on 13 July 2009.

Another important law that was amended several times in 2010 is Act No 180/2005 on support for electricity generation from renewable energy sources and changes to certain laws (law on support for renewable sources), as amended. The ERO actively supports renewable electricity; however, the support must be designed so that its amount takes into account the technical and financial parameters of the various types of RES and at the same time is reasonably attractive for investors. In 2010, the ERO cooperated with the MIT in the drafting of three amendments to Act No 180/2005.

In 2010, the MIT prepared, in co-operation with the ERO, a law on support for the use of energy from renewable energy sources, secondary energy sources and highly efficient combined heat and power generation and on changes to certain laws (law on supported energy sources), which is intended to replace Act No 180/2005.

In early 2010, the MIT promulgated public notice no. 79/2010 on the dispatch control rules in the electricity grid and data transmission for dispatch control.

The MIT's new implementing regulation, public notice, no. 80/2010, on emergencies in the electricity industry and the required content of the emergency plan, lays down emergency measures. It sets out the measures and procedures to be followed to prevent emergencies and during emergencies and to remedy the consequences of emergencies, the way of declaring states of emergency and notifying of actions to prevent them, procedures for curtailing electricity load, and the required content of emergency plans.

Some time ago, the MIT promulgated public notice no. 245/2001 on the details of the granting of the State's authorisation for the building of selected gas facilities and on the changing, extending and revoking of such authorisations, as amended in no. 118/2005, as amended in no. 52/2010, and also public notice no. 19/2010 of 15 January 2010 on methods for preparing supply/demand overviews and the scope of gas industry data transmitted to the market operator.

In 2010, the ERO promulgated some new implementing legal regulations, or amendments to earlier regulations, necessitated by the experience with their application on the liberalised energy markets and also by the adoption of Act No 58/2009, which had substantially amended the Energy Act.

In 2010, the ERO promulgated a new public notice, no. 401/2010 on the required content of the Electricity Transmission System Operating Rules, Distribution System Operating Rules, the Gas TSO Code, DSO Codes, the SSO Code, and the market operator's commercial terms and conditions.

In 2010, the ERO prepared a draft of a public notice on the setting of the basic, or minimum, standards for the billing of electricity, gas or thermal energy supply and related services to customers.

In 2010, the ERO also prepared a draft of a public notice on the conditions for connection to the gas system and amendments to no. 251/2001 that lays down the rules for the operation of the gas transmission and distribution systems.

As regards amendments to the existing implementing regulations, in 2010 the ERO drew up amendments to public notices nos. 541/200 on the Electricity Market Rules, as amended, 365/2009 on the Gas Market Rules, as amended, 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended, 140/2009 on regulatory methods

in the energy industries and procedures for price controls, and 51/2006 on the conditions for connection to the electricity grid.

In 2010, the ERO also contributed to the drafts of two public notices sponsored by the MIT; one concerns electricity metering and the method of calculating damages in the case of illegal consumption, supply, and transmission/distribution of electricity, and the other concerns gas metering and the method of calculating damages in the case of illegal consumption, supply, storage, and transmission/distribution of gas.

2.7.2 Related to the third energy package

As of 3 March 2011, national legislation must comply with the new legislation adopted by the EU in the third energy package, which was the key reason for amending the Energy Act. The transposing amendment does not change the basic principles of the Energy Act. The impact of the third energy package consists in the further development of the provisions that were adopted in the respective Directives earlier. The above principle of the continuity of the EU law and the progressive amendments to the Energy Act suggest that the largest part of Directive 2009/72/EC and 2009/73/EC have been transposed into the Energy Act as in effect at present. The proposed amendment to the Energy Act therefore concerns only the parts of the above Directives that have not yet been adequately provided for in the Energy Act. These include, in particular, but without limitation, the methods of the ownership unbundling of electricity and gas transmission system operators and the certification thereof, the legal unbundling of storage system operators from the activities of gas production and supply within the vertically integrated gas undertaking and the related new duties for state administration authorities, and the award of the State's consent to the construction of new electricity generating plants.

The Government of the Czech Republic had not laid the transposing amendment to the Energy Act before the Chamber of Deputies of Parliament of the Czech Republic by the end of 2010. The Government approved the amendment to the Energy Act by its Resolution No 2 of 5 January 2011, and laid it before the Chamber of Deputies on 17 January; the Chamber of Deputies debated it as bill 232 in three readings and passed it as part of the legislative process, together with proposed amendments, in the third reading on 6 May 2011. The amendment to the Energy Act was debated and passed by the Senate of Parliament of the Czech Republic on 9 June 2011. The President of the Czech Republic signed the amendment to the Energy Act on 29 June 2011.

3 Regulation and structure of the electricity market

3.1 Regulatory issues

3.1.1 Management and allocation of interconnection capacity and mechanisms to deal with congestion

There are no bottlenecks in the Czech transmission grid. The grid is capable of transmitting the required volumes of electricity and there is no need to adopt any measures vis-à-vis the electricity market participants (with the exception of emergencies in the grid, which are covered by the relevant legislation).

The size of the available cross-border capacities depends on the physical electricity flows themselves and also on the contracted load at the respective cross-border interconnection. The transmission system operator offers all available cross-border line capacities using non-discriminatory market mechanisms, i.e., annual, monthly and daily explicit auctions are organised for all interconnections (cross-border capacity is only offered in auctions). In the case of the Slovak interconnection, a part of the capacity is also left for implicit auctions (see below).

In 2010, primarily the questions of congestion management and transmission capacity allocation on cross-border interconnectors were discussed as part of the regional activities of the CEE (Central and Eastern Europe) Region. Although for the whole of 2010 the calculation and allocation of capacities for cross-border exchanges continued to take place on the principle of coordinated explicit auctions based on the NTC method only between Poland, Germany, Slovakia and the Czech Republic, in late 2010 the remaining countries of the region, i.e., Austria, Hungary and Slovenia expressed their will to join this system because of the persisting problems with the implementation of the flow-based method.

Following the change in the above countries' attitude, the latter half of 2010 saw the completion of the process of the development and approval of uniform auction rules for the allocation of cross-border transmission capacities. In December 2010, the result of this effort was the successful organisation by the Freising auction office of the first annual and monthly auctions for cross-border capacities for 2011 within the whole region; on 1 January 2011, daily auctions for transmission capacities were also successfully launched in the whole region. Nevertheless, these activities did not constrain in any way the working of the daily implicit auctions between the Czech Republic and Slovakia; since their introduction, the volumes of traded and transmitted electricity have been increasing.

In late 2010, a cross-border intra-day transmission capacity market was also working on all national borders with the Czech Republic, and all TSOs in the region put in place standardised scheduling (market close and data transmission). These steps facilitate trading between countries for the electricity market players themselves, and are also fully in line with the target model of the electricity market in continental Europe.

The general procedures of cross-border trading are described in the Rules of the Transmission System Operation – Grid Code Part III. The detailed conditions of transmission are set out in the auction rules.

3.1.2 The regulation of the tasks of transmission and distribution companies

Network tariffs

The ERO uses the incentive-based revenue cap regulatory method to calculate average electricity transmission and distribution charges. This method will be applied throughout the third regulatory period, i.e., from 1 January 2010 to 31 December 2014. The key principles of the regulation have been preserved for the whole regulatory period; the year-on-year changes in the charges for each of the regulated items only reflect the external macroeconomic and technical factors such as the rate of inflation, capacity demand and booking, investment in networks, development of generation from supported energy sources, etc. The pricing principles and the structure of the resulting price of electricity supply for the various customer categories were described in the preceding national reports.

Electricity supply quality

In 2010, the ERO mainly focused on monitoring compliance with the standards of the quality of electricity supply and related services in the electricity industry under public notice no. 540/2005 as amended in no. 41/2010. The results of the monitoring will be used for the introduction of incentive-based quality control in the future. The following section describes the continuity levels achieved in the transmission system, operated in the Czech Republic by ČEPS, a. s., and the continuity of electricity distribution in the three regional distribution system operators' distribution systems.

Electricity transmission

Under the Energy Act, transmission system facilities are understood to be 110 kV lines and plant that are not part of a distribution system, and 400 kV and 220 kV lines and plant serving for electricity transmission in the Czech Republic, including the I&C, protection, and ICT systems.

Under the respective public notice, the level of quality in the transmission system is defined by electricity transmission/distribution continuity standards. The following table shows the values of the indicators achieved in 2010.

Table 1 Electricity transmission continuity indicators

Year	Number of interruptions	Total duration of interruptions	Average duration of interruptions	Electrical energy not supplied
2010	[-]	[hr:min]	[min]	[MWh]
	1	0:05	5	7

Source: ČEPS, a. s.

Electricity distribution

The data reported by the respective companies can be categorised into two groups. One category includes information about the continuity of electricity supply in networks, i.e., data affected by failures and planned events in operated distribution systems. The other category includes information about the so-called commercial quality, which characterises the distributor's or supplier's ability to respond to final customers' requirements and which is not directly related to the physical operation of the systems.

Table 2 shows the values of electricity distribution SAIFI, SAIDI and CAIDI indicators for each of the regional distribution companies. The evaluation was based on the methodology applicable in 2010.

Table 2 Electricity distribution continuity indicators

Indicator	ČEZ Distribuce	E.ON Distribuce	PREdistribuce
SAIFI	2.88	2.04	0.56
SAIDI	323.89	322.91	42.47
CAIDI	112.67	158.29	76.41

Source: Regional distribution companies

SAIFI – [System Average Interruption Frequency Index] average frequency of sustained electricity distribution interruptions per customer in the period under review (*interruptions/year/customer*)

SAIDI – [System Average Interruption Duration Index] average duration of electricity distribution interruption per customer in the period under review (*minutes/year/customer*)

CAIDI – [Customer Average Interruption Duration Index] average time needed to restore electricity distribution to the average customers per sustained interruption in the period under review (*minutes/interruption*)

Connection conditions

The conditions for connecting a new electricity customer or generator to the distribution or transmission system, including the method of calculating the applicant's share of the costs incurred in the connection and in supplying the required power, are set out in ERO public notice no. 51/2006 on the conditions of connection to the electricity grid. The technical conditions for connection are stipulated in the rules of the transmission/distribution system operation (the grid code). All of these documents are available on the respective companies' websites. There was no change in this area last year.

In March 2010, no. 51/2006 was amended. The purpose of the amendment was to remove the obligation on the distribution/transmission system operator to issue its position on applications, because the positions issued in the past had been a unilateral act binding only on the distribution/transmission system operator while nothing bound the applicant for connection to use the provided capacity effectively and in a reasonable time, which gave applicants opportunities for speculative use of the booked capacities for connecting electricity generating plants. As from March 2010, the distribution/transmission system operator therefore send (if connection is technically feasible) directly a draft letter of intent on connection, or a draft connection agreement itself, to the applicant and the entire relationship between the connection applicant and the distribution/transmission system operator is, from the very beginning, based on a bilateral contractual relationship that imposes obligations on both the connection applicant and the distribution/transmission system operator.

For the same reason the amendment contains a new obligation on the connection applicant to pay an advance of 50 percent of the total share of the justifiable costs upon the signing of the connection agreement or the letter of intent.

The previous practice also allowed distribution system operators, under their approved grid code, to require those who applied for the connection of a generating plant to prepare a connectivity study for the particular connection point, which would prove or otherwise the technical feasibility of connection. The amendment has extended this option to include justifiable cases of supply points as well and has also legalised this approach, until then only provided for in the distributor's grid code.

The balancing market

In this area, virtually no changes took place in comparison with 2009. State-owned OTE, a. s. evaluates contracted and actual electricity supply and take, and subsequently clears the

imbalances. It also organises the day-ahead, intra-day and balancing electricity markets. The system of intra-day and balancing markets continues to work on the principle of an offer/bid bulletin board. Unlike the day-ahead market, no marginal price is generated there; rather, each of the buying/selling bidders specifies its price. The prices at which trades take place on the balancing market serve as input into the calculation of the marginal price of balancing energy. Both markets are operated round-the-clock yearlong.

3.1.3 Effective ownership unbundling

A major event of 2010 was the merger of ČEZ Distribuce, a. s. and ČEZ Distribuční zařízení, a. s., which resulted in the consolidation of the distribution assets that the operator [ČEZ Distribuce, a. s.] had used for its business but not owned. This change has caused only a negligible change in the market power of the newly formed company.

The still applicable Directive 2003/54/EC concerning common rules for the internal market in electricity requires effective managerial and functional unbundling of distribution companies. However, the Czech regulator does not have sufficient competences to push it through. These are mainly the competences to determine a reasonable amount of human, physical and financial resources for the carrying on of a network business and to formulate the rules for shared service provision. As regards the requirement for distribution companies' independent presentation, the concept of using the shared brand, logo and design of companies within the respective holding structures continues to predominate.

The independence of the operator of the only Czech transmission system, ČEPS, a. s., is provided for through its ownership unbundling from the other activities. For this reason, no special demands of the above nature are placed on the company.

3.2 Competition issues

3.2.1 Structure of the wholesale market

The degree of integration with neighbouring Member States

A potential electricity exporter/importer from/into the Czech Republic must buy, over the transmission system, the respective capacity at a cross-border interconnection in auctions organised by the transmission system operator. This does not, naturally, apply to the day-ahead implicit auctions between the Czech Republic and Slovak Republic, where cross-border capacity is traded together with electrical energy. In 2010, 26.0 TWh were exported from the Czech Republic, while imports totalled 11.1 TWh. In 2010, the available tradable capacity in cross-border lines in the direction to the Czech Republic, offered in yearly and monthly auctions by ČEPS, a. s., made it possible to import, in theory, at least 25 TWh, which was more than 40 percent of the Czech Republic's total net consumption in 2010.

Electricity trading: long-term bilateral contracts, spot market

In the Czech Republic, electricity is traded at the energy exchange, Power Exchange Central Europe, a. s. (hereinafter also "PXE"), under bilateral contracts, and in spot markets organised by the market operator (OTE, a. s.). While standard products traded at PXE and the products on the spot market of OTE, a. s. have fixed expiry dates, these rules do not apply to bilateral contracts. The terms of bilateral contracts vary; an electricity producer and electricity trader, or a trader and a customer, usually enter into one-year agreements. Since February 2009 physical products with delivery in the Slovak grid, and since March 2009 physical products with delivery in the Hungarian grid have been traded at PXE. SPOT products are traded through the PXE system on the OTE platform. In addition to physical products, PXE has also

introduced financial products without an obligation of physical supply. The current number of parties trading at PXE is 43.

Due to the co-existence of PXE, OTC bilateral contracts, and spot markets organised by the market operator, it is not feasible to clearly determine the percentage of consumption “originating” from each of these markets. A physical supply of 1 MWh of electricity taken by a final customer may originate from several earlier transactions between the market players. This principle is also apparent from the very products at the energy exchange, where an annual product automatically falls apart into shorter products (a quarter, a month). Market participants can therefore use shorter products for continuously balancing their trading positions prior to the physical supply/take.

For the above reasons, PXE data shown below has been left without further comments.

Table 3 Trading at PXE in 2010, overall values

Number of trading sessions			253
Overall PXE futures market CZ, SK, HU			
Volume traded		[MWh]	24,306,334
of which	BASE LOAD	[MWh]	23,589,934
	PEAK LOAD	[MWh]	716,400
Volume traded		[EURm]	1,171.374
of which	BASE LOAD	[EURm]	1,126.812
	PEAK LOAD	[EURm]	44.562
Traded contracts		[MW]	7,572
of which	BASE LOAD	[MW]	6,533
	PEAK LOAD	[MW]	1,039
Number of trades			2,238
of which	BASE LOAD		1,965
	PEAK LOAD		273
Average daily volume		[MWh]	96,072.47
of which	BASE LOAD	[MWh]	93,240.85
	PEAK LOAD	[MWh]	2,831.62
Spot product market			
Volume traded		[MWh]	83,872
Volume traded		[EURm]	3.859
Traded contracts		[MW]	4,023
Number of trades			876

Table 4 Trading in Czech physical products at PXE in 2010

Number of trading sessions			253
Czech physical futures market			
Volume traded		[MWh]	10,128,205
of which	BASE LOAD	[MWh]	10,011,205
	PEAK LOAD	[MWh]	117,000
Volume traded		[EURm]	488.159
of which	BASE LOAD	[EURm]	480.926
	PEAK LOAD	[EURm]	7.233
Traded contracts		[MW]	1,901
of which	BASE LOAD	[MW]	1,796
	PEAK LOAD	[MW]	105

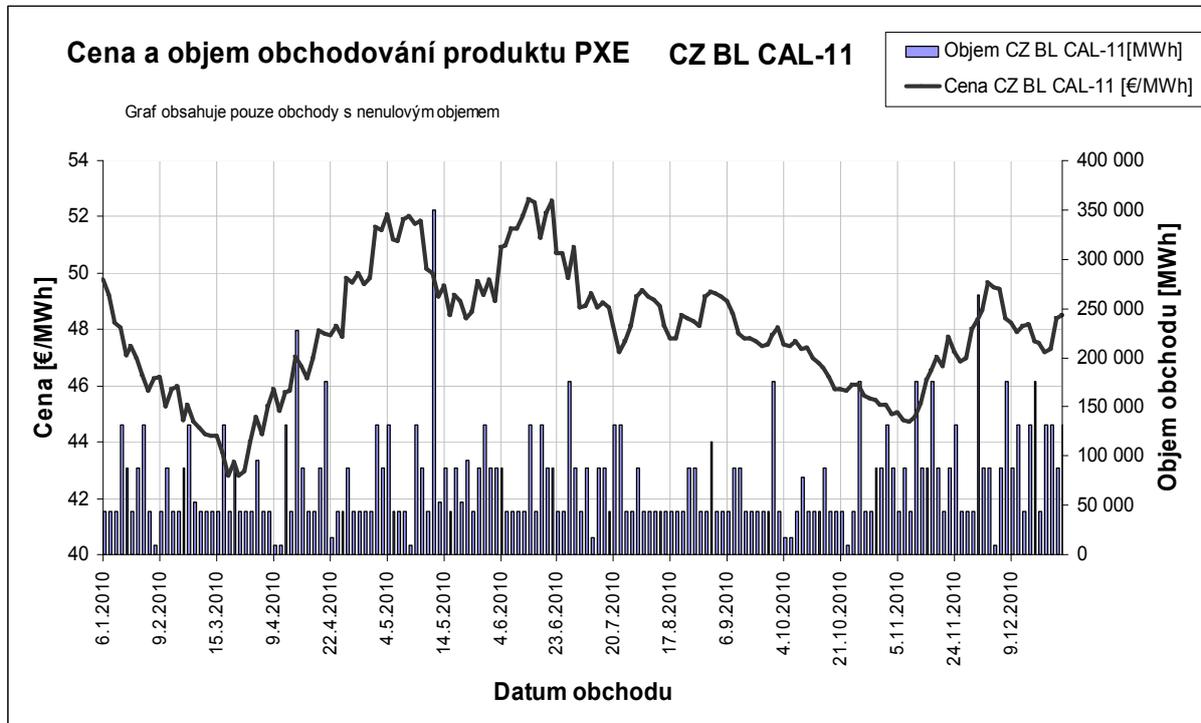
Table 5 Trading in Czech financial products at PXE in 2010

Number of trading sessions			253
Czech financial futures market			
Volume traded		[MWh]	9,788,109
of which	BASE LOAD	[MWh]	9,333,309
	PEAK LOAD	[MWh]	454,800
Volume traded		[EURm]	469.775
of which	BASE LOAD	[EURm]	441.579
	PEAK LOAD	[EURm]	28.196
Traded contracts		[MW]	4,291
of which	BASE LOAD	[MW]	3,422
	PEAK LOAD	[MW]	869

Source for Tables 3, 4 and 5: PXE

The prices of the products traded at PXE (or the spot market organised by OTE) are closely correlated with those at the Leipzig energy exchange, EEX, for products to be delivered to the German and Austrian electricity grids (see Chart 2).

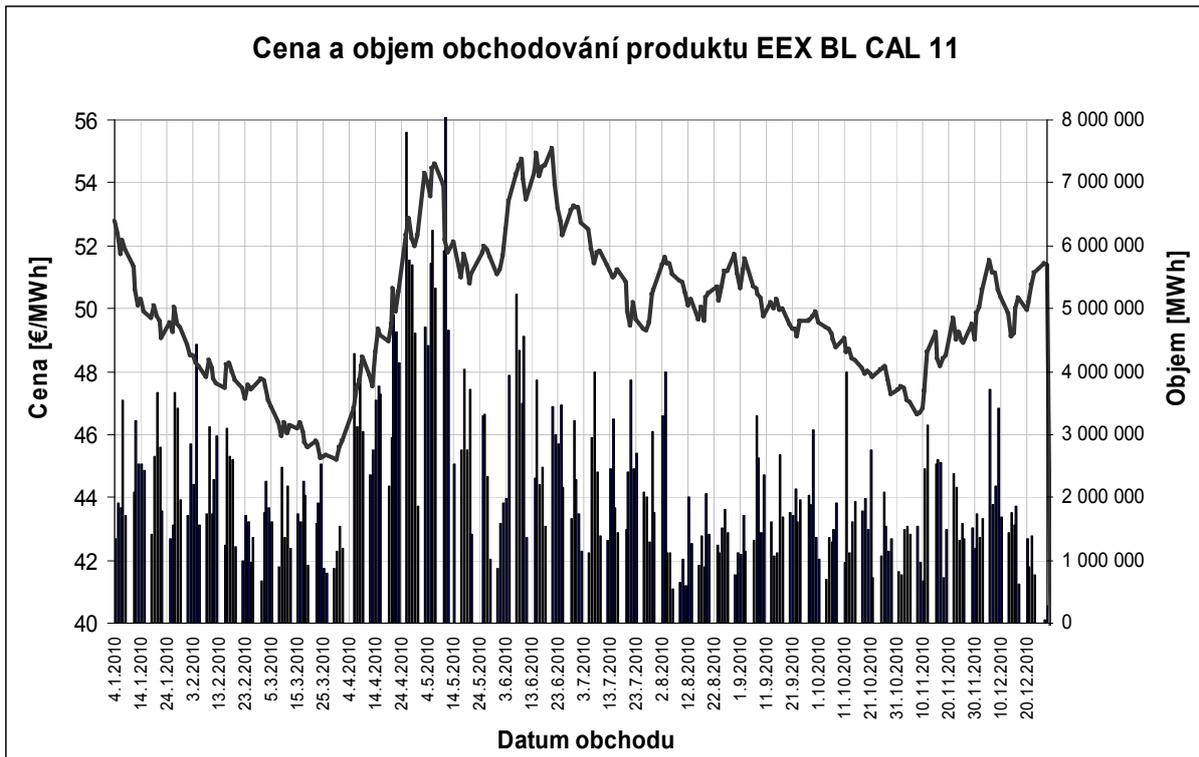
Chart 2 Prices of annual base load for 2011 for the Czech Republic at PXE in 2010



Source: PXE

Price and volume of trading in the CZ BL CAL 11 product at PXE	Volume CZ BL CAL 11[MWh]
	Price CZ BL CAL 11[€/MWh]
The chart only shows non-zero trades	
Price [€/MWh]	Traded volume [MWh]
	Date of trade

Chart 3 Prices of annual base loads for 2011 at EEX in 2010

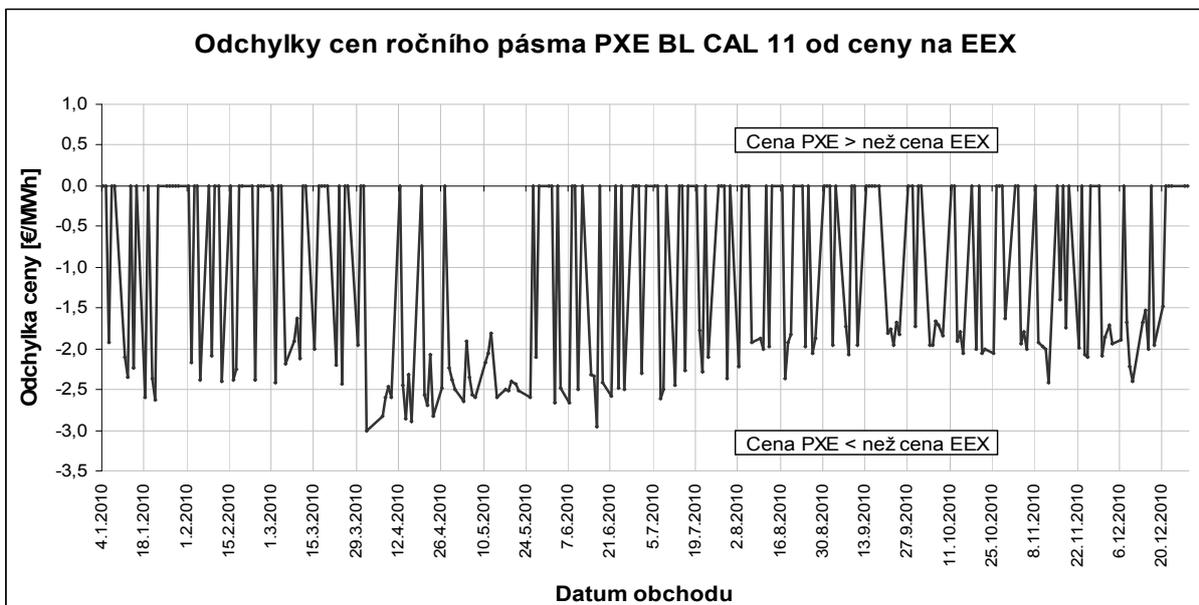


Source: EEX

Price and volume of trading in the BL CAL 11 product at EEX

Price [€/MWh]	Traded volume [MWh]	Date of trade
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Chart 4 Differences in the prices of annual BL CAL 11 at PXE and EEX in 2010



Source: PXE, EEX

Differences in the prices of annual BL CAL 11 at PXE and EEX

Difference in prices [€/MWh]	Date of trade
PXE price > EEX price	
PXE price < EEX price	

The remaining volume of electricity is traded under OTC bilateral contracts and also on the spot markets (day-ahead and intra-day markets) organised exclusively by the market operator since February 2009. In 2010, 106,169.6 GWh were traded under bilateral domestic contracts, 22.8 GWh were traded on the block market, 5,786.7 GWh were traded on the coupled day-ahead Czech-Slovak market in the Czech Republic (the total liquidity of both markets was 7,082.1 GWh) and 172.9 GWh were traded on the intra-day market. Overall liquidity on these spot markets is increasing every year, but it is still less than 10 percent of the Czech Republic's total demand and less than 5 percent of the electricity traded in the Czech Republic in 2010. All cleared entities, i.e., not only traders and generators but also the customers who are responsible for imbalances (the so-called entities subject to clearing), can go to the spot markets to procure electricity.

Mergers and acquisitions in the electricity industry in 2010

In 2010, the Office for the Protection of Competition (ÚOHS) examined several mergers of undertakings. These were mergers of undertakings operating in electric and thermal energy production and supply. The ÚOHS did not find any reasons for withholding its permission for the merger of the undertakings, or for the undertakings to adopt commitments to maintain effective competition, in any of these cases.

ČEZ a. s. acquired an equity stake of 85 percent in Dalkia Ústí nad Labem, a. s. and an equity stake of 55.83 percent in Tepelné hospodářství města Ústí nad Labem s. r. o.

Energetický a průmyslový holding, a. s. acquired control over EAST BOHEMIA ENERGY HOLDING LTD., including its subsidiaries: Elektrárna Opatovice, a. s., Pražská teplárenská a. s., Energotrans, a. s., Teplo Neratovice, spol. s r.o., TERMONTA PRAHA a. s., VAHO s. r. o., REATEX a. s. and EOP & HOKA s. r. o.

Further, Energetický a průmyslový holding, a. s. acquired sole control over PT-Holding Investment B.V., and, in turn, joint control over Pražská teplárenská Holding, a. s. Additional mergers took place in electricity generation. In this market, Radiance Energy Holding S. à r.l., NATLAND Investment Group N.V. and G.I.H.G. LIMITED acquired joint control over ENERGY 21 a. s.

The ÚOHS imposed a fine of CZK 477,000 on LUMIUS spol. s r.o. for a violation of Section 18 (1) of Act No 143/2001 on the protection of competition and changes to certain laws, as amended ("the Competition Act"), because without obtaining permission from the ÚOHS it carried out a merger of undertakings consisting in the acquisition of control over Českomoravská energetická a. s. This decision became final on 26 August 2010.

3.2.2 Structure of the retail market

Three vertically integrated companies whose subsidiaries hold a licence for both electricity distribution (distribution system operators with more than 90,000 customers) and electricity trading are currently operating on the Czech electricity market. They are the ČEZ Group, the E.ON Group, and the PRE Group. In 2010, most of the small customers connected to the low voltage level (low-demand businesses and households) stayed with their original electricity suppliers, i.e., suppliers within the above three groups. These three suppliers' electricity market share accounted for more than 90 percent of customers connected to the low voltage level in 2010.

Some 30 rather important traders also operate on the electricity market. In the past, these suppliers offered electricity, bought from smaller generators or imported from other countries, mainly to large industrial customers; the reason was the gradual opening of the electricity market. In 2008, several independent traders also started to operate at the national level,

focusing on the retail market. At the end of 2010 there were some 20 of these active suppliers who supplied electricity to customers connected to low voltage at the national level (low-demand business customers and households). Under the amendment to the Energy Act, as from mid-2009 new electricity supply agreements need to be entered into for an indefinite period of time with at least a three months' period of notice. Fixed-term agreements are usually executed for one to three years.

The continuing volatility of electricity prices at exchanges facilitated the entry of new traders into the electricity market and more competitive environment also in 2010. Thanks to the good timing of their electricity procurement on the wholesale market, these new traders were frequently able to offer lower prices than incumbent suppliers. Most of the supplier switching is therefore currently caused by customers migrating from the incumbent suppliers of vertically integrated undertakings to alternative suppliers.

For the above reasons, it is not feasible to clearly cite the electricity offering prices for the various customer categories. Simplifying somewhat, suppliers' quotations are based on the current situation on electricity markets, i.e., the resulting price of energy is currently influenced more by the moment when the transaction is executed than the customer category itself. The foregoing applies to large and medium-sized customers, as well as the small customer category as some suppliers have started to offer products in which the energy offering price derives from the current price at energy exchanges.

Support for the market and information for customers

To provide the electricity market participants with more information about not only electricity supply on the liberalised market state administration authorities (the Energy Regulatory Office, Ministry of Industry and Trade, etc.) have set up Frequently Asked Questions (FAQ) sections on their websites, which summarise customers' typical questions and answer them in a comprehensible way. They monitor the development of consumers' questions and update their FAQ section on a regular basis in response to these suggestions.

On their websites, state administration authorities provide information about the options and procedures for electricity supplier switching and, above all, about the structure of the services offered and the suppliers' prices and consumers' rights. The websites are interconnected via links. For example, the ERO's fundamental tool is an interactive ready reckoner for electricity prices, with the help of which every customer connected to the low voltage level can, after keying in the input parameters (the region, the distribution tariff, the level of consumption) compare their overall cost of electricity supply from each of the suppliers and find the best supplier, if they wish. The ready reckoner is being updated on a regular basis and gradually extended to include additional useful functionalities and information. At the end of 2010, the ready reckoner contained quotations of electrical energy for households and the small business segment from 14 suppliers.

Number of customers who have switched suppliers

In 2010, competition could be felt in full in all customer segments; according to the data recorded by OTE, a. s. for households, almost four times more households switched their supplier in 2010 on a year-on-year basis (184,000 in 2010 versus 54,000 in 2009). More than a total of 241,000 customers connected to the low voltage level have changed their supplier, which is more than 4 percent of all customers at this voltage level (see also 2.2.1).

Supplier switching procedure

The supplier switching process itself, the procedure for which is set out in the public notice on Electricity Market Rules, was not marked by any major changes in comparison with the

preceding period, i.e., the overall electricity supplier switching process may not be longer than 17 business days from the moment the customer files an application for supplier change. No fees are charged to the customer for such supplier switching.

Inquiries and complaints addressed to the Energy Regulatory Office

Table 6 shows, by category, the number of inquiries and complaints received from electricity market participants (usually customers), which were addressed to the ERO in 2010. The ERO has no data on market participants' inquiries and complaints addressed to electricity suppliers.

Table 6 Number of questions and complaints addressed to the Energy Regulatory Office

2010	Inquiries	Complaints	Total	Share %
Prices	140	9	149	11.5
Metering	46	8	54	4.2
Customer services	33	0	33	2.5
Business practices	43	11	54	4.2
Misleading business practices	29	8	37	2.9
Contract terms and conditions	58	5	63	4.9
Billing	28	2	30	2.3
Supplier switching	49	1	50	3.9
Obstacles to supplier switching	24	5	29	2.2
Connection to networks, capacity booking	194	36	230	17.7
RES, photovoltaic	209	1	210	16.2
RES, other categories	94	0	94	7.3
Inclusion in RES categories	134	2	136	10.5
Problems with supply, related to payments (disconnection)	36	10	46	3.5
Problems with supply, technical matters	34	10	44	3.4
Refusal to provide supply	2	0	2	0.2
Other	35	0	35	2.7
Total	1,188	108	1,296	100

Source: Energy Regulatory Office

Consumers' complaints addressed by the State Energy Inspectorate (SEI)

In 2010, the SEI dealt with 206 complaints in the electricity industry (including 10 complaints referred to it by the ERO). They concerned illegal consumption, problems with the connection of renewable electricity generating plants, electricity traders' procedure in supplier switching and consumption billing, advance payment calculation, and the charging of fees related to supplier switching, while some of the submissions focused on the complicated and unclear way of electricity billing, supply interruption due to failures, procedures followed for the connection of supply points and relocation of distribution system facilities, etc.

Consumers' complaints addressed by the Ministry of Industry and Trade

The MIT's electricity section itself dealt with 40 complaints. They concerned disputes over the interpretation of the Energy Act and the implementing regulations related thereto. About 10 complaints, mostly concerning electricity consumption, electricity metering and entry of land, were referred to the SEI.

Consumers' complaints, and investigation conducted by the Office for the Protection of Competition (ÚOHS)

In 2010, the ÚOHS dealt with 37 complaints in the electricity industry (for want of competences, 8 complaints were referred by it to the ERO or SEI). The ÚOHS received the largest number of complaints in the context of the changes to the support for the buyout of renewable electricity and the development of photovoltaic plants. In early 2010, ČEPS, a. s. issued its opinion whereby it requested distribution system operators to refrain from granting additional requests for connection. In response to this appeal by ČEPS, a. s., distribution system operators stopped accepting additional requests for the connection of electricity generating plants. The complaints that the ÚOHS addressed therefore mainly concerned the refusals to connect photovoltaic plants to distribution systems, or to book capacities, issued by distribution system operators due to the shortage of capacity in the Czech transmission system.

The purpose of the investigations conducted by the ÚOHS was to establish whether or not the Competition Act was violated, in particular by ČEPS, a. s. abusing its dominant position. The ÚOHS approached the ERO, ČEPS, a. s. and DSOs to establish the reason for which ČEPS, a. s. had published the appeal, intended for each of the DSOs and requesting them to stop endorsing the connection of new electricity generating, especially photovoltaic plants. The investigations conducted by the ÚOHS indicated that the approach taken by ČEPS, a. s., which had issued the above appeal in the interest of maintaining the safe and reliable operation of the electricity grid, did not constitute abuse of the dominant position held by this company in the Czech Republic on the market of electricity transmission within the area delineated in its licence.¹

The approach taken by ČEPS, a. s. in its above steps was supported by reasons that according to the opinion of the ÚOHS can be regarded as objectively justifiable. These reasons also relied on the results of expert studies and the relevant analyses of the potential consequences of an excessive increase in the total capacity of already approved photovoltaic plants, which prompted ČEPS, a. s., which bears responsibility for the operation of the electricity grid, to take this step. The appeal by ČEPS, a. s. was also in accordance with the Energy Act, and this view was also upheld by the ERO in its opinion.

Other complaints addressed by the ÚOHS

From customers, the ÚOHS received a number of complaints about electricity traders' practices that also concerned some other activities related to electricity supply. The complaints addressed to the ÚOHS concerned the amount of advance payments for electricity supply and the way of payment, failure to provide information about increases in advance payments well in advance, demands to meet certain conditions (provision of the customer's bank account number to the trader) to obtain a particular electricity supply product, etc.

The ÚOHS also dealt with complaints about DSOs' practices. The disconnection of a customer's supply point from the distribution system or a request for the payment of the applicant's share of the costs incurred in the connection of the applicant's facility to the distribution system and supply of the required power, refusals to connect electricity generating plants to the distribution system, execution of agreements on the acknowledgement of debt, and payment of disproportionately high fines or damages for illegal electricity consumption, were claimed to be distribution companies' potential abuse of their dominant position.

¹ Cf. Section 11 (1) of the Competition Act

On the basis of its investigations, the ÚOHS did not find any violation of the Competition Act in the practices of the various DSOs that stopped issuing further permissions for the connection of new electricity generating plants in response to the appeal of ČEPS, a. s.

Having examined each of the complaints the ÚOHS concluded that the practices contended by the complainants did not constitute any of the elements of distortion of competition, which are set out in the Competition Act, in any of the cases.

In all cases the ÚOHS informed the complainant about electricity market liberalisation and the related rights and obligations of all electricity market participants. The ÚOHS advised the complainants of their opportunity to freely select their electricity supplier, noting the non-existence of any legislative or technical obstacles preventing electricity supplier switching in relation to any customer in the Czech Republic.

Aware of the sensitive nature of the issue subjected to its inquiry and of the impacts on end consumers, the ÚOHS also noted that it was continuously monitoring the market related to the electricity industry. Therefore it cannot be ruled out that the ÚOHS will initiate an inquiry in this area again should it find new facts.

Complaints addressed to the ÚOHS and concerning the meeting of the conditions for a proper termination of an electricity supply agreement or the setting of the periods of notice on the occasion of electricity supplier switching did not fall within the ÚOHS's competences. The ÚOHS therefore referred these complaints to the ERO and SEI as state administration authorities competent to consider these issues.

3.2.3 Measures to avoid abuses of dominance

Market surveillance

The purpose of the ÚOHS's activity is, *inter alia*, protection of competition. The Competition Act requires a stricter approach to undertakings in a dominant position than to their competitors who are not in a dominant position. At the same time, the ÚOHS supports measures² conducive to increased levels of competition on the various markets. As part of the legislative process, the ÚOHS provides its comments on amendments to the Energy Act from the perspective of its remit.

It is prohibited to abuse a dominant position to harm other undertakings or consumers. The basic requirement for assuming the existence of elements of abuse of the dominant position is the demonstration of the existence of such market power of an undertaking, or several undertakings jointly (the so-called joint dominance),³ which makes it possible for them to behave, to a considerable extent, independently of other undertakings or consumers.⁴ An undertaking or undertakings with joint dominance that achieved a market share of less than 40 percent in the period under review is/are deemed not to hold a dominant position unless the opposite is demonstrated with the help of other indicators (for example, on the basis of the economic and financial power of the undertakings, legal or other barriers to the entry of the market for other undertakings, etc.).⁵

In spite of the foregoing, in cases where a certain undertaking, or undertakings jointly, hold a dominant position on the respective relevant market they have the right, under the

² For example, the so-called competition advocacy; *cf.* <http://www.compet.cz/hospodarska-soutez/zakazane-dohody-a-zneuziti-dominance/pravidla-pro-alternativni-reseni-souteznich-problemu/>

³ *Cf.* Section 10 (1) of the Competition Act

⁴ *Cf.* Section 11 (1) of the Competition Act

⁵ *Cf.* Section 10 (3) of the Competition Act

Competition Act, to defend their market position, i.e., behave competitively on the market, provided that such behaviour is not manifestly inadequate to the specific circumstance.

In the electricity industry, increased surveillance is faced, in particular, by undertakings that own or operate transmission networks. The Competition Act explicitly sets out the substantive elements of abuse of the dominant position through refusal to allow, for a reasonable consideration, other undertakings access to these networks or other infrastructure facilities that the dominant undertaking owns or uses on the basis of some other legal grounds. If for legal or other reasons other undertakings cannot, without co-using such facilities, operate on the same market as the dominant undertakings operating transmission networks, while the latter fail to prove that such co-use is not feasible for operating or other reasons or that it cannot be required of them in fairness, such practices are regarded as abuse of the dominant position provided that certain other conditions required by the law have been met.

When the ÚOHS receives relevant indications of anti-competitive practices, it shall commence administrative proceedings *ex officio*. If a breach of obligations laid down in the Competition Act is found the ÚOHS can impose, by its decision, sanctions for anti-competitive practices and prohibit such practices for the future, or decide to discontinue the administrative proceedings provided that within the statutory time limit the parties to the proceedings propose commitments conducive to the restoration of effective competition on the relevant markets in question. At the same time, the ÚOHS will only accept such commitments provided that the fulfilment thereof will remedy the defective situation and that the prohibited agreement or abuse of the dominant position has not resulted in a material distortion of competition. In 2010, the ÚOHS did not deliver any decision in the energy sector declaring abuse of a dominant position, and the ÚOHS did not impose any remedial measures.

4 Regulation and structure of the natural gas market

4.1 Regulatory issues

4.1.1 Management and allocation of interconnection capacity and mechanisms to deal with congestion

To tackle cases of shortages (due to contracts) of transmission capacity at any particular cross-border point, the following principle has been introduced, at least on a day-ahead basis, to make the transmission capacity accessible for other potential network users: renomination is limited to 10 percent of booked transmission capacity at a point whose capacity is used to the full, including day-ahead auctions. Under this principle, the part of the capacity which cannot be renominated is transferred to the day-ahead auction as firm capacity and every market participant therefore has access to firm capacity at all points of the transmission system at least in the day-ahead regime. Nevertheless, from the long-term perspective free transmission capacity is available at all cross-border points and the above rule has not yet been used.

4.1.2 Regulation of the tasks of transmission and distribution companies

The Czech gas system

The inland transmission system is comprised of gas pipelines having a total length of 3,614 km. The transmission system is operated by NET4GAS, s. r. o. (until 3 March 2010 operating under the name RWE Transgas Net, s. r. o.), which operates inland gas transmission as well as gas transit across the Czech Republic. The transmission system operator transports gas to six distribution systems directly connected to the transmission system, each of them serving

more than 90,000 customers. Further, as at 31 December 2010 a total of 71 smaller holders of licences for gas distribution in distribution systems connected to a higher-level distribution system, via which gas reaches customers under conditions laid down in the legislative framework, operated on the Czech market.

The market operator

Since 1 January 2010, state-owned OTE, a. s. has been operating on the market; under the amendment to the Energy Act, promulgated as Act No 158/2009, it assumed the rights and obligations of the Balancing Centre and is responsible for the clearing of imbalances between the entities that operate on the gas market, for providing data and for other activities related to the balancing of the gas system. The market operator's entry into the gas business means, mainly for gas traders, a guarantee of the market organiser's independence of other gas entities and of the protection of sensitive data vis-à-vis the other gas market players. The market operator creates an anonymous and neutral point at which it itself appears as the central counterparty to all the executed transactions.

The market operator's core business includes the organisation of the spot gas market, evaluation and settlement of imbalances, provision of information related to the operation of the transmission system, distribution systems and underground gas storage facilities, collection of the actual values of supply and of additional information required for billing and the provision thereof to gas market participants, the clearing of balancing gas, and taking the relevant steps in the supplier switching process.

Network tariffs

ERO public notice no. 140/2009 on regulatory methods in the energy industries and price control procedures sets out the key principles of gas transmission and distribution pricing for customers in the Czech Republic and the gas market operator's activities, including the parameters for each of the regulated entities required for that. In mid-2010 it was amended by no. 264/2010.

The basis for setting the parameters is the actual economic values achieved by the regulated entities in the preceding period, indicators of the country's economic development, and the financial and technical values reported by regulated entities in regulatory reports.

Transmission

Customers who use the transmission system pay the cost of gas transport over the transmission system, the cost of the identifying and keeping of the required gas quality standards (metering of GCV, pressures, etc.) and the costs incurred in the balancing of the Czech gas system to the transmission system operator through gas traders.

The transmission charges are calculated on the entry/exit principle. In this respect, the level of allowed revenues from gas transmission is important; it is determined by the ERO on an annual basis. Allowed revenues cover allowed costs, depreciation and amortisation, profit, the correction factor and, possibly, certain other eligible variables. Total allowed revenues are allocated to the entry and exit points of the transmission system, which are the border transfer stations, underground gas storage facilities and the interfaces between the transmission system and distributions systems, which serve for gas supply to customers' supply points in the Czech Republic, the so-called domestic point. The charge for transmission to the domestic point is integrated within the charge for gas distribution, while the other costs of transmission are included in the price of supply.

The year 2010 was the first of the new, third, five-year regulatory period. As in the second regulatory period the ERO used the revenue cap method for calculating the charges for gas

transmission for the third regulatory period. Compared with 2009, the TSO's allowed revenues increased by 1.80 percent. The reason for this growth is the increase in the value of allowed depreciation and of the regulatory asset base and in the costs of transmission system balancing. This trend was countered by the fact that the transmission system operator collected, thanks to the higher use of the transmission system, more funds than had been set, and this excess revenue must be returned to the market in the form of the correction factor under the regulatory rules. Further, for the first time in 2010 the variable component of the charge was set, related to the gas quantity transported over the system, in addition to the fixed component of the charge which depends on booked capacity, for gas transmission charges.

As in 2009, the charge for transit across the Czech Republic was calculated on the basis of benchmarking the routes competing for gas transmission, using two components. One component related to the contracted transmission capacity for a pair of entry and exit points in international transmission, and the other component covered fuel gas. It was also permitted to enter into agreements on transmission over the transit system for a term shorter than one year, i.e., for terms of one month or one day.

Distribution

In 2010, six regional distribution companies carried on the licensed business of gas distribution in the Czech Republic; of these, four are members of the RWE Group. The overall length of the gas pipelines of all of these distribution systems was 72,614 km as at 31 December 2010.

Local distribution systems also distributed gas; via their entry delivery points they are connected to regional distribution systems and they provide distribution services in a limited area. In 2010, the number of gas distribution licence holders who operated local distribution systems decreased from the original 73 to 71.

In 2010, new parameters were set for the whole third regulatory period as in the case of the transmission system operator. The revenue cap method continues to be employed for regulating the distribution charges. Gas distribution charges are set for a calendar year with effect from 1 January of the respective year. Prices are calculated using the same methodology for all regional distribution system operators, using the baseline parameters set for the whole regulatory period and the data provided by the regional distribution system operators in their regulatory reports, the furnishing of which is provided for in secondary energy legislation.

Since 2010, the charge for gas transmission for the needs of customers in the Czech Republic has been integrated within the distribution charge. The ERO integrated the major part of the allowed revenues set for the transmission system operator within the distribution charge to provide a level playing field for all customers in relation to the use of the transmission system for specific supply points.

In 2010, gas distribution charges were set as double-component charges for all customer categories. One component was the price for the allocated distribution capacity; for a particular supply point, this price determines the standing charge depending on the distribution capacity agreed for supply points with an annual gas offtake of more than 63 MWh. For supply points taking up to 63 MWh/year, this component has the form of a standing monthly charge. The other, variable, component was the price related to the number of gas quantity units distributed to the particular supply point.

Depending on the use of the distribution system, supply points of customers with an annual consumption of up to 630 MWh are included in offtake bands by the overall annually distributed quantity. The gas distribution charge is set for the respective offtake band at all

times. The dividing lines between offtake bands are identical for all distribution system operators.

Effective from 2010, supply points of customers with an annual gas consumption of over 630 MWh are not included in offtake bands by their overall annual gas consumption; they are now categorised as supply points connected to the high-pressure part of the distribution network (over 0.3 MPa) and supply points connected to the intermediate pressure or low pressure part of the distribution system (up to 0.3 MPa). In these cases, the gas distribution charge is calculated for each supply point individually using a logarithmic formula, and the sole criterion for the amount of the gas distribution charge is the size of the booked distribution capacity.

To make sure that the respective transmission or distribution system operators do not take a discriminatory approach, gas distribution and transmission charges are set as fixed prices, i.e., no discounts can be granted, and the prices cannot be increased.

In 2010, no distribution system operator had to interrupt supply due to shortfall in distribution capacity, and therefore no discounts for interruption were granted.

Table 7 shows average gas distribution charges for 2010 for selected categories of customers using Eurostat categorisation, ranging from the least to the most expensive regional distribution system. The charges are in CZK/MWh and without VAT. Average charges contain both the fixed and the variable component.

Table 7 Average distribution charges in 2010

Eurostat category	Distribution charge	
	min CZK	max CZK
I1	192.79	304.69
D3	190.34	320.65

Source: Czech Statistical Office, Energy Regulatory Office

The above table does not show average prices for category I4. These are customers taking 27,000 to 277,777 MWh annually. As mentioned above, the fixed component of the gas distribution charge is set individually for all customers taking more than 630 MWh annually. It is therefore not feasible to show the price for the group of customers determined by the amount of the annually distributed quantity.

Service quality

Public notice no. 545/2006 on the quality of gas supply and related services in the gas industry sets out the key rules in respect of customers, which have to be observed by gas traders as well as distribution system operators, the transmission system operator and storage system operators.

This instrument sets out the standards of the required quality of supply and services related to regulated activities in the gas industry, compensations for failure to keep the quality, and the time limits for claiming such compensation. Holders of the relevant licences are obliged to keep the parameters set out in the public notice and publish a summary report on their compliance with all the standards for the preceding calendar year by 31 March of the current calendar year.

The summary reports on compliance with standards for 2010 indicate that the gas transmission licence holder, gas distribution licence holders to whose system 90,000 and more supply points of customers are connected, gas storage licence holders, or the relevant gas trade licence holders did not breach the standards.

Information about gas transmission and distribution conditions

The transmission system operator's and distribution system operators' grid codes set out the terms and conditions of gas transmission and distribution in the Czech Republic; they are posted on the respective websites.

The gas transmission and distribution charges set by the ERO can be found in ERO price decisions, which are available in the *Energy Regulation Gazette* and on the ERO's official website and also on the respective system operator's website.

Balancing

The character of the gas market model's functioning did not change in respect of any balancing parameters in the period under review.

The balancing process was based on the daily interval of imbalance evaluation. For the evaluation of the 'balancing imbalance' and the opportunity to use the balancing tolerances, the whole of the Czech Republic was a single balancing zone, and the 'balancing imbalances' were balanced by means of payments in kind. For more detailed information please see the National Reports for the preceding years.

4.1.3 Effective ownership unbundling

No major transformations took place in the gas market in 2010.

Under Directive 2003/55/EC concerning common rules for the internal market in natural gas, which requires effective managerial and functional unbundling of distribution companies, the regulator does not, however, have sufficient competences to push it through. These are mainly the competences that will help to determine the sufficient amount of human, physical and financial resources for the carrying on of a network business and to formulate the rules for shared service provision. As regards distribution companies' independent presentation, however, the concept of a shared use of the brand, design and logo of companies within holding structures still predominates.

In connection with the adoption of the third energy package and the implementation thereof into Czech legislation, on 4 March 2010 RWE Transgas Net, s. r. o. was renamed NET4GAS, s. r. o. in response to the requirement for a separate identity and appearance on the market. The renaming did not result in any changes in the company's operations.

The GAZELLE transit gas pipeline, which will directly interconnect the future Waidhaus and Brandov border transfer stations, is a major project that will connect to the Nord Stream pipeline. On the day on which the gas pipeline is put into operation its owner will be BRAWA, a. s., which on 12 November 2010 concluded with NET4GAS, s. r. o. a letter of intent on the contribution of a part of the business to the registered capital of BRAWA and the spin-off of a part of NET4GAS, s. r. o. and inclusion thereof into the registered capital of BRAWA, a. s.

4.2 Competition issues

4.2.1 Structure of the wholesale market

Gas consumption

Following a few years of decline and stagnation, gas consumption increased in the Czech Republic last year. In 2010 actual gas consumption in the Czech Republic amounted to 8.979 bcm (95,138 GWh) and was met by gas imports, withdrawal from UGS facilities, and supply from indigenous resources. Consumption adjusted to normal monthly temperatures and

temperature gradients of consumption amounted to 8.668 bcm (91,843 GWh), implying an increase of 4.3 percent. Over the past few years the net calorific value of natural gas supplied to final customers has been slightly increasing; it is approximately 9.54 kWh/m³ (34.34 MJ/m³). The gross calorific value is currently approximately 10.59 kWh/m³ (38.12 MJ/m³).

Indigenous resources and imports

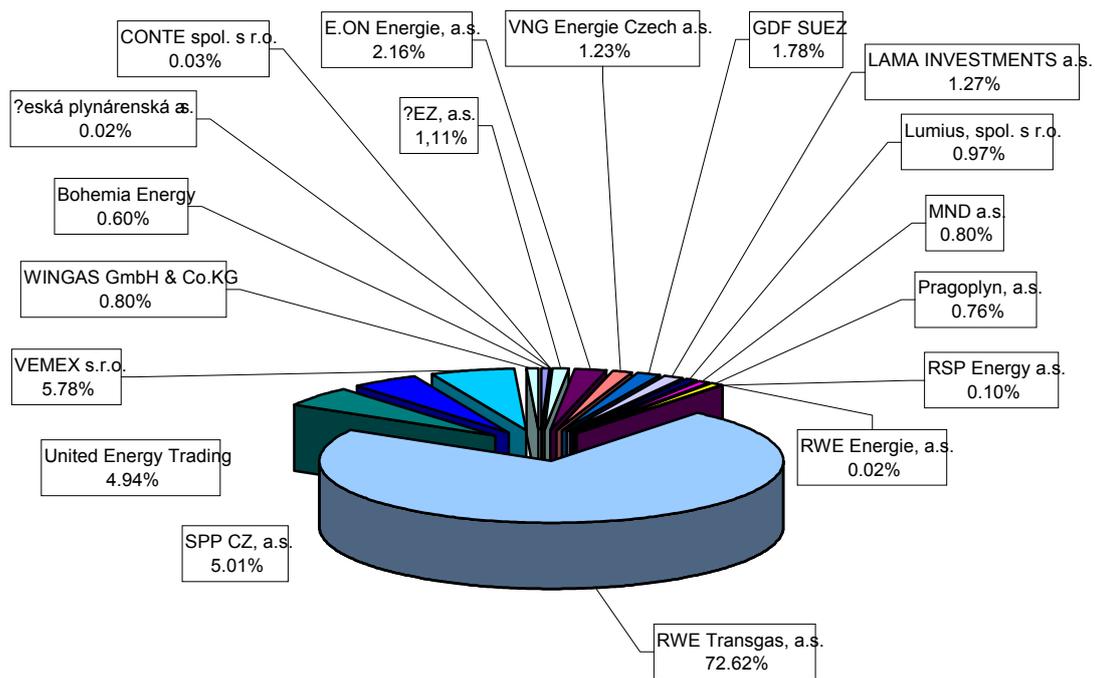
In the Czech Republic, total natural gas demand is met from indigenous and foreign sources. Since indigenous gas production is negligible, the Czech Republic has to import almost all of the natural gas that it needs, almost 99 percent. In 2010, natural gas imports for the country's needs totalled 8.510 bcm. Natural gas was imported from Russia, Norway and EU countries. From Russia, 5.458 bcm was imported, from Norway 1.057 bcm and from the EU 1.995 bcm. Russian gas accounted for 64.1 percent of the imports, Norwegian gas for 12.4 percent, and gas from the EU countries for 23.5 percent.

In 2010 the number of traders importing gas into the Czech Republic rose from 12 to 19. In addition to the incumbents, which imported gas in 2009, namely RWE Transgas, a. s. and VEMEX s. r. o., the following also continued in gas imports into the Czech Republic: Česká plynárenská a. s., Lumius, spol. s r.o., the German company WINGAS GmbH & Co. KG, United Energy Trading, a. s., VNG Energie Czech a. s. (formerly Energie Bohemia a. s.), CONTE spol. s r.o., LAMA INVESTMENTS a. s., SPP CZ, a. s., MND a. s. and BOHEMIA ENERGY entity s. r. o. The other new gas importers included E.ON Energie, a. s., Pragoplyn, a. s., RSP Energy a. s., GDF SUEZ Prodej plynu s. r. o., ČEZ, a. s., RWE Energie, a. s. and Electrabel, organizační složka. The data provided by gas importers suggest that total gas imports were 8.3 percent higher than in 2009. However, supplies from the EU and Russia were used much more at the expense of those from Norway. Most of the gas supplies for the Czech Republic contracted from Norway were sold outside the Czech Republic. Many new traders bought gas for advantageous prices at energy exchanges in western European countries for their gas imports.

The HHI index (Herfindahl-Hirschman Index) of market concentration and its development indicates the importance of the entry of new gas importers. In 2009, the wholesale market's HHI was 7,760 and due to the changes in traders' market shares it dropped to 5,370 in 2010. HHI can be expected to follow this trend in the years to come.

RWE Transgas, a. s. continues to hold the largest market share, 72.6 percent, as regards imports. The other more important gas importers include VEMEX s. r. o. with a market share of 5.8 percent, SPP CZ, a. s. with a share of 5.0 percent and United Energy Trading, a. s. with a share of 4.9 percent. Excluding RWE Transgas, a. s., the sum of the companies' market shares in gas imports was 27.4 percent.

Chart 5 Share of gas imports in 2010



Source: OTE

The imported gas was largely intended for customers in the Czech Republic but some of it was also intended for international customers.

Most of the gas earmarked for international customers is exported from the country by RWE Transgas, a. s. Further, ČEZ, a. s., Lumius, spol. s r.o. and United Energy Trading, a. s. exported gas to Slovakia, the last mentioned also to Austria. Gas was exported to Poland by Severomoravská plynárenská, a. s.

Gas imports were supplemented by supply from indigenous resources, which include drained gas produced by Green Gas DPB, a. s., and natural gas produced by UNIGEO a. s., UNIMASTER spol. s r.o., and MND a. s. and from Česká naftařská společnost s.r.l.o. Indigenous supply amounted to 134.9 mcm/year. Indigenous resources therefore meet 1.5 percent of the country's demand.

Underground gas storage facilities play a major role in the operation of the gas industry. They help to fill the summer/winter gaps between supply and demand, and also help in periods of curtailed supply such as the January 2009 gas crisis. Under normal circumstances, underground gas storage facilities serve for gas storage in summer and gas production in winter when daily demand falls short of or exceeds the daily contract quantities imported from abroad. Working gas stores before the 2010/2011 heating season amounted to approximately 2.500 bcm in Czech underground gas storage facilities. In 2010, volumes of gas injected into and withdrawn from the Czech underground gas storage facilities amounted to 1.529 bcm and 2.255 bcm, respectively.

Charge for access to gas storage

In 2010, three companies operated on the Czech gas storage market: RWE Gas Storage, s. r. o. and two companies related through equity, MND Gas Storage, a. s. and SPP Bohemia a. s.

RWE Gas Storage, s. r. o. owns six of the eight underground gas storage facilities located in

the Czech Republic. The remaining two facilities are owned by MND Gas Storage, a. s. and SPP Bohemia a. s. MND Gas Storage, a. s. owns and operates the Uhřetice UGS facility. The owner and operator of the Dolní Bojanovice UGS facility is SPP Bohemia, a. s. This facility is not used for customers in the Czech Republic for technical reasons of connection to the Czech transmission system. It is only used for the Slovak Republic's needs under contracts.

The rules for storage capacity booking, which are set out in new public notice no. 365/2009 on the Gas Market Rules, help to put in place transparent conditions for storage capacity booking and to create the corresponding price-related requirements for the needed storage capacity. The method of multi-round online auctions is employed for storage capacity allocation.

Storage capacity availability, including some other information, is posted on the operators' websites. When new storage capacity is put into operation (for example, a gas storage facility is reinforced or a contract with a storage customer is terminated), it is offered to bidders in public auctions under terms and conditions published in advance in line with the Gas Market Rules.

Gas storage in underground gas storage facilities is not subject to price controls; as mentioned above, the prices result from multi-round online auctions. In 2010, RWE Gas Storage, s. r. o. called four auctions for storage capacity booking for the storage year 2010/2011. The auction for free storage capacity of 5 mcm for annual one- to five-year contracts resulted in CZK 1.92/m³ per unit of storage volume. The auction for free storage capacity of 4.6 mcm for monthly contracts closed at CZK 1.40/m³. The purpose of another two auctions was to sell new storage capacity of 135 mcm. However, no bidder interested in this product appeared in either of these auctions. The cause of this outcome can be seen in the sufficient gas quantities on spot markets, where gas market participants were able to procure *ad hoc* gas quantities for better prices. These new capacities were then sold in auctions organised in early 2011, and for prices similar to those on spot markets.

Companies with a market share of more than five percent

RWE Transgas, a. s. is the most important trader on the Czech gas market; it has a market share of 72.62 percent of gas imports for customers (this figure also includes gas exported from the Czech Republic for sale to international customers). Its core business includes natural gas trading under the Energy Act. RWE Transgas a. s. holds sole control over its subsidiary NET4GAS, s. r. o., which is the transmission system operator, and over RWE Gas Storage, s. r. o., which operates 75 percent of the storage capacity located in the Czech Republic.

VEMEX s. r. o., whose market share was 5.78 percent, was another major gas trader that imported gas into the Czech Republic in 2010. The last gas trader that held a market share of more than five percent in 2010 was SPP CZ, a. s. with its market share of 5.01 percent.

Mergers and acquisitions in the gas industry in 2010

Important mergers on the gas market in 2010 include the merger of GAZPROM Germania GmbH and VEMEX s. r. o., whereby GAZPROM's control over VEMEX changed from joint to sole control, and a merger of undertakings consisting in KKCG SE acquiring sole control over EUROPGAS a. s. and Moravské naftové doly, a. s. The merger of the undertakings was permitted without the adoption of any commitments.

4.2.2 Structure of the retail market

There are a total of 122 gas trade licence holders in the Czech Republic, i.e., 17 licences more than in 2009.

The new traders fully joined the competitive fight for customers, not only in the categories of large and medium-sized customers but also, and above all, in the small business and household categories. Entities active in 2009 supplied gas to customers in 2010 too. In terms of sales to customers, gas trade was dominated by the RWE Group (RWE Energie, a. s., VČP, a. s., JMP, a. s. and SMP, a. s.). In addition to the RWE Group, for example VEMEX s. r. o., Bohemia Energy entity s. r. o., ČEZ Prodej, s. r. o., LAMA INVESTMENTS a. s., Pragoplyn, a. s. and United Energy Trading, a. s. held stable market positions. BOHEMIA ENERGY entity s. r. o. and ČEZ Prodej, s. r. o. were the most active in marketing in 2010. Additional recently expanding companies that supply gas to customers include CENTROPOL ENERGY, a. s., České Energetické Centrum a. s., GDF SUEZ Prodej plynu s. r. o., RSP Energy a. s., Českomoravská plynárenská, a. s., Západosmoravská plynárenská, s. r. o., Gas International s. r. o., Česká energie, a. s., ČEZ Energetické služby, s. r. o. and Elimon a. s. At the end of 2010 a total of 28 companies supplied gas to customers. Table 8 shows the gas traders' shares of total gas consumption in the Czech Republic.

Legally unbundled regional traders provide supply of last resort within the delineated service areas of the gas distribution licence holders.

Table 8 Shares held by traders supplying gas to customers in the Czech Republic

	2009 [%]	2010 [%]	Difference [%]
RWE	64.88	62.35	-2.53
PP	13.28	12.50	-0.78
E.ON ENERGIE	3.70	4.81	+1.11
VEMEX	8.54	4.58	-3.96
Others	9.60	15.76	+6.16

Source: Energy Regulatory Office

Structure of customers in the Czech Republic

In accordance with the Czech Republic's energy legislation, customers are categorised by their annual gas consumption into the following segments:

- Households and low-offtake customers (annual consumption up to 630 MWh/year);
- Medium-sized customers (annual consumption from 630 to 4,200 MWh/year); and
- Large-offtake customers (annual consumption over 4,200 MWh/year).

For the sake of comparison, Table 9 shows prices of supply broken down by Eurostat's consumer categories, provided by the Czech Statistical Office for the purpose of this National Report. The prices are stated in CZK/MWh and include all services, i.e., distribution, transmission, storage, commodity, and other commercial services. Column A shows prices without VAT while column B shows the same prices inclusive of all taxes. In addition to the 20% VAT and an environmental tax of CZK 30.60/MWh on gas used for heat generation regardless of the use thereof, in 2010 the price of natural gas supply to final customers did not include any other tax or levy.

Table 9 Prices of gas supply to customers by Eurostat categories as at the first day of a quarter in the Czech Republic in 2010, in CZK/MWh

Period	Standard consumer, Eurostat					
	D3		I1		I4	
	A	B	A	B	A	B
First quarter of 2010	954.25	1,145.10	928.66	1,114.39	639.05	766.86
Second quarter of 2010	982.22	1,178.66	986.36	1,183.63	707.22	848.66
Third quarter of 2010	1,021.48	1,225.78	1,031.69	1,238.03	774.86	929.83
Fourth quarter of 2010	1,018.97	1,222.76	1,030.18	1,236.22	737.08	884.50

Source: Czech Statistical Office

The periodicity of the changes in gas supply prices over a calendar year differs for different traders and the timing of these changes depends on their business policy. The changes are usually made on the basis of changes in the gas purchase prices and each particular trader's customer portfolio.

Industrial customers normally have prices calculated using a price formula and the price for these customers changes on a monthly basis. These customers, but also small business customers and households, for whom the gas supply price is usually changed on a quarterly basis, also have a choice of a number of other products; for example, those based on prices fixed for a preset period, options to pay in foreign currencies, varying extent of the customer's gas take obligation, payments related only to the gas quantity taken, etc.

Agreements with customers in the household segment are typically executed for an indefinite period of time and as agreements on bundled gas supply services. This means that the trader takes care of all the services related to gas supply for the consumer (transmission, storage, distribution, and the commodity itself).

The gas supplier switching process

For 2010, the gas supplier switching procedure was subject to an amendment to the Gas Market Rules. The purpose of these changes was to provide for faster and smooth exercise of customers' statutory right to gas supplier switching. A major change was the shortening of the gas supplier switching process and the overall simplification of the supplier switching process, consisting in the clarification of some of the procedures to be followed by the gas market participants in question. The supplier switching process therefore takes 10 business days. Now, the market operator, which has been pulled into this process and become a central point that provides and shares information to and with the relevant entities, plays the key role in the organisation of supplier switching.

Inquiries and complaints addressed to the Energy Regulatory Office

Table 10 lists, by category, the number of inquiries and complaints sent by gas market participants (usually customers) to the ERO in 2010. The ERO does not have information about market participants' inquiries and complaints addressed to gas suppliers.

Table 10 Number of inquiries and complaints addressed to the ERO

2010	Inquiries	Complaints	Total	Share in %
Prices	25	1	26	24
Metering, gas quantity	11	0	11	10
Setting of advance payments	3	1	4	4
Review of billing	6	5	11	10
Inclusion in an offtake band	1	1	2	2
Billing or clearing period	0	1	1	1
Ready reckoner	6	0	6	5
Information about traders	10	0	10	9
Supplier switching	13	14	27	24
Technical matters	4	1	5	4
Supplier of last resort	1	0	1	1
Essential details of invoices	1	0	1	1
Connection	0	2	2	2
Other – breaches of the Energy Act	2	1	3	3
Total	83	27	110	100

Source: Energy Regulatory Office

Consumers' complaints addressed by the State Energy Inspectorate

In the gas industry, 186 complaints were handled in 2010 (including three complaints referred to the SEI by the ERO). The complaints largely concerned the method of gas consumption calculation upon a change in gas price during a billing period, gas supply disruption and requests to check whether the billing procedure was correct.

Consumers' complaints addressed by the MIT

The MIT's gas and liquid fuels department dealt with 18 complaints in 2010. They mainly concerned disputes between customers and their respective natural gas suppliers over the level of natural gas prices, the method of billing for natural gas taken, disconnection of gas meters and the accuracy of their measurement or the amount calculated as gas consumption for a period of faulty measurements of gas meters.

The above department referred to the SEI a total of 11 complaints, which largely concerned the method of gas consumption billing, and disputes over the disconnection of gas meters and the accuracy of their measurement.

Consumers' complaints, and inquiries conducted by the Office for the Protection of Competition

In 2010, the ÚOHS received 15 complaints related to the gas industry, which mainly concerned disproportionately high gas prices and disproportionately high advance payments for gas consumption. Having examined each of the complaints the ÚOHS concluded that the Competition Act was not violated in any of the cases. The complaints that did not fall within its competences were referred by the ÚOHS to the ERO or SEI (for example, issues such as illegal consumption, gas service pipes and service billing).

4.2.3 Measures to avoid abuses of dominance

Market surveillance

Since a characteristic feature of the gas industry is the existence of monopoly operators of gas pipeline facilities (network monopolies), the ÚOHS performs continuous market surveillance

in this sector. The ÚOHS pays increased attention primarily to the RWE Group, which operates as a vertically integrated undertaking. The RWE Group is both a natural gas importer and the natural gas transmission system operator (NET4GAS, s. r. o. holds the exclusive licence for gas transmission in the Czech Republic). The RWE Group also operates in natural gas wholesaling and retailing, plays a role in natural gas distribution, and also works as a storage system operator.

As part of the continuous surveillance over the structure of the gas market, 2010 saw a number of meetings and consultations between the ÚOHS and RWE Group companies on, for example, the RWE Group's pricing policy, gas sales in the so-called allocation system, or the issue of online sales. The RWE Group held these informal meetings with a view to preventing a potential distortion of competition. The RWE Group's objective declared at these meetings was to operate on the market in a transparent and non-discriminatory way.

Other activities of the ÚOHS

In 2010 the ÚOHS, as a statutory party to administrative proceedings conducted by the MIT⁶, was requested – in the case of the award of the State's authorisation for the construction of the Dambořice UGS facility and for the grant of a temporary exemption from the obligation to allow third party access to this facility, owned by Globula a. s. – to provide its opinion on the actual situation in competition on the Czech gas market and the potential effect of the decision on a temporary exemption on this competition.

The ÚOHS provided a negative opinion on the grant of the exemption, since it did not have an opportunity to assess reliably whether or not the exemption would damage competition or the proper functioning of the market, in particular because of lack of detailed information about the entity for which the capacity in the Dambořice UGS was to be booked while taking into account the absence of detailed information about this entity's plans for the intended disposal of the acquired capacity in relation to gas supply for the Czech market.

⁶ Under Section 67 (7) (d) of the Energy Act as in force until 3 July 2009

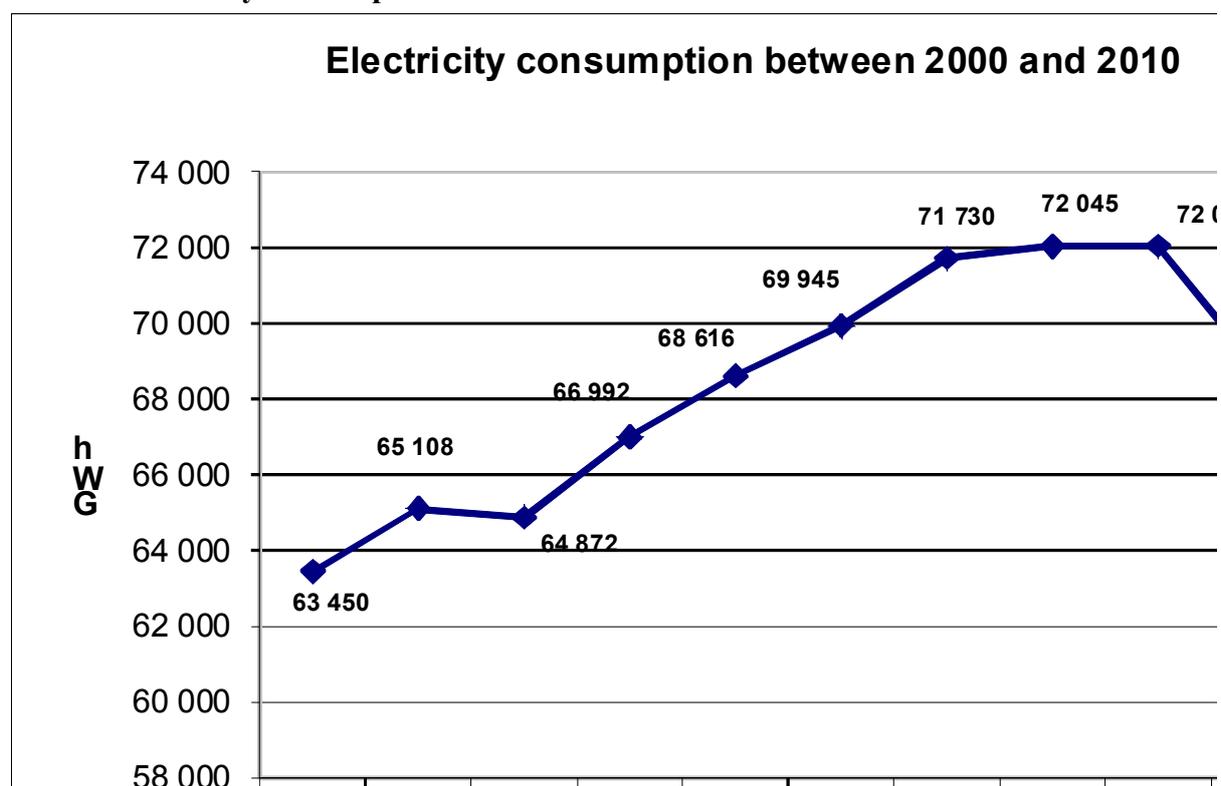
5 Security of supply

5.1 The electricity market in 2010

5.1.1 Electricity consumption and levels of peak annual demand

In 2009, the previous trend of slightly increasing domestic consumption changed. The economic crisis caused a certain decline, mainly on the part of large industrial customers. But thanks to the improving economic situation, in 2010 electricity demand increased almost to the level of 2008.

Chart 1 Electricity consumption between 2000 and 2010

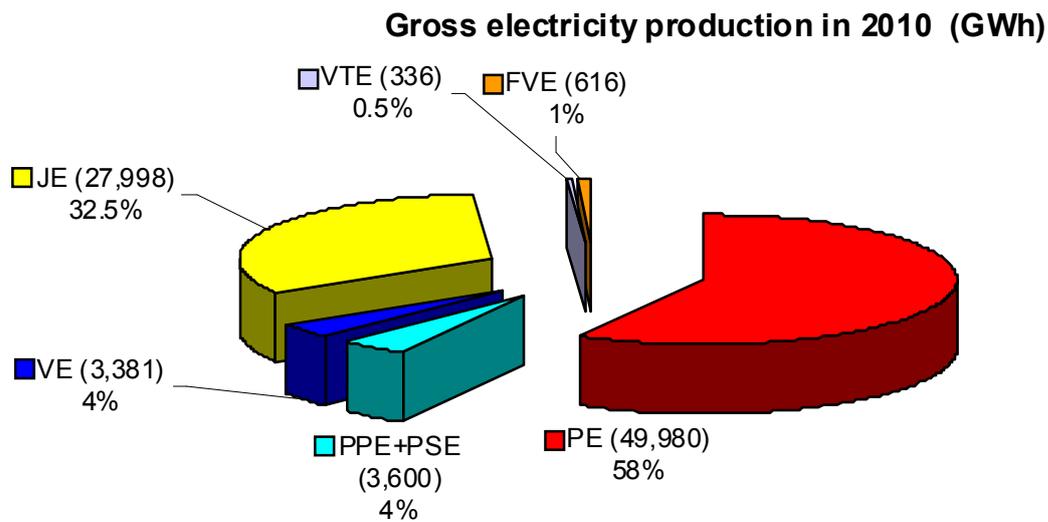


Source: Energy Regulatory Office

The country's total (gross) electricity consumption, including network losses and pumped storage load, was 70.96 TWh in 2010, i.e., up by 3.4 percent compared with 2009. Large customers accounted for the largest part of the increase, specifically 6 percent. Small business customers' and households' consumption increased by almost 2 percent. The grid experienced the annual peak demand on 27 January 2010 at 5 p.m. when gross consumption amounted to 11,204 MW. In comparison with 2009, when the peak annual demand amounted to 11,159 MW on 14 January 2009 at 5 p.m., it was 45 MW (0.4 percent) more. On the generation side, the heavy influence of the preference for renewable sources in electricity generation could be felt throughout the year, in particular photovoltaic plants due to the legislative measures for their support.

This was seen especially in the latter half of the year in the significant increase to 616 GWh generated in photovoltaic plants. Compared with the 335.5 GWh generated by wind power plants, this was approximately double the amount. In 2010, renewable electricity generation totalled 4,331 GWh, accounting for 5 percent of total electricity generation.

Chart 7 Electricity generaiton in 2010



FVE	photovoltaic plants	VE	hydroelectric power stations
VTE	wind power plants	PPE+PSE	combined cycle units and gas fired plants
JE	nuclear power plants	PE	thermal power stations

Source: Energy Regulatory Office

The achieved reliability of the balance of power supply and demand in the Czech electricity system meets the requirements for rational values of reliability. It is possible to provide for the safe operation of the system (ancillary services) over the medium term, despite some increases in demand. With the exception of the potential significant swings in the output from off-shore and seaside wind power plants, no anomalies appear in the operation of the generating capacities in covering the load profiles and predicted differences.

5.1.2 Installed capacity

On 31 December 2010, the total installed capacity of power stations in the Czech Republic amounted to 19,934 MW.

Table 11 indicates the structure of generation capacity, by the size of installed capacities, in 2010.

Table 11 Structure of generation by installed capacity in 2010

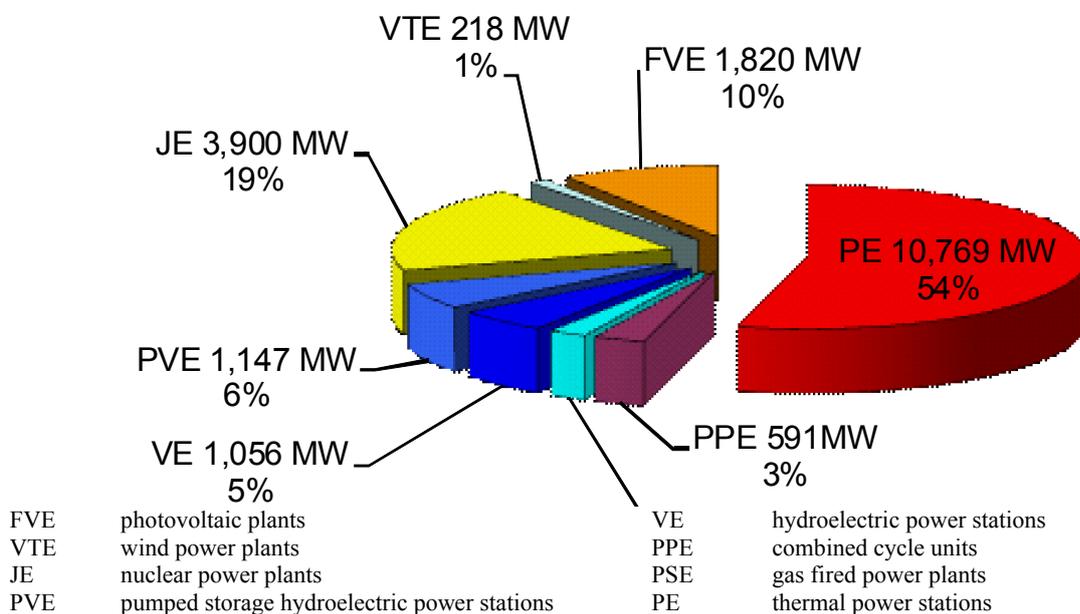
10,769 MW	Thermal power stations (54 percent)
3,900 MW	Nuclear power plants (19.6 percent)
2,203 MW	Hydroelectric power stations, including pumped storage (11.1 percent)
1,024 MW	Gas-fired and combined cycle power plants (5.1 percent)
2,038 MW	Alternative capacities (10.2 percent)

Source: Energy Regulatory Office

The structure of installed capacities of each of the generating capacity subgroups is shown in more detail in Chart 8, which indicates the total installed capacity of the plants and also capacities by type of power station and other generating plant.

Chart 8 Installed generating capacity in the Czech electricity grid on 31 December 2010

Installed capacity on 31 December 2010



Source: Energy Regulatory Office

In comparison with 2009, total installed capacity of power stations increased by 1,608 MW in 2010. Of this, the installed capacity of thermal power stations, including cogeneration, increased by 49 MW and the installed capacity of gas-fired and combined cycle power plants increased by 89 MW, both on a year-on-year basis. In renewable and alternative capacities, output rose by 1,399 MW overall year-on-year. The installed capacity of hydroelectric power stations increased by 19.7 MW year-on-year. The largest increase in installed capacity, by 1,355 MW, was registered in photovoltaic.

There are no expectations of the commissioning of a new large plant having an installed capacity of over 50 MW and firing fossil fuels or using nuclear energy in the coming years (by 2012). Due to the continued support for renewable energy sources, the development of a larger number of plants using renewable sources and having smaller unit ratings can be expected. Under the conditions prevailing in the Czech Republic, the development of biomass firing in local heat & power plants has the most promising prospects; to a limited extent, the development of photovoltaic plants, small hydroelectric power stations and wind power plants can be expected. The Czech Republic does not have suitable/optimum conditions for the other renewable sources.

5.1.3 Authorisation criteria for new generation capacities

The building of a new electricity generating plant may be started upon obtaining a building permit issued by the planning office having local jurisdiction. One of the main conditions for issuing a building permit is the submittal of an expert study proving that the new plant will not have negative environmental impacts. An electrical energy generator has the right to connect its plant to the electricity grid and operate it subject to the connection conditions set out in the relevant energy legislation and upon obtaining an electricity generation licence from the Energy Regulatory Office. It also has the right to supply electricity in line with the rules for the operation of distribution systems or, as applicable, the transmission system (grid

codes). A condition for obtaining an electricity generation licence is, in particular, obtaining the permit to commission the plant and proving the professional competence and financial standing to operate the energy generating plant.

In general, the national budget does not have the obligation to provide support for investment in new generating capacity; nevertheless, certain subsidies can be obtained from the State and certain funds subject to the required conditions. For plants having a total installed capacity of up to 1 MW the generator may benefit from tax holidays for the first five years of operation.

5.1.4 Incentives for new capacity development

The law on support for electricity generation from renewable energy sources is a major breakthrough in the development of electricity production from renewable sources. Since 2006, renewable electricity producers have had the opportunity under the law to choose between electricity buyout by regional distribution system operators or the transmission system operator in the system of guaranteed feed-in tariffs and a premium on the market price of electricity (the system of green premiums). The ERO sets the amount of the feed-in tariffs and green premiums every year. Under the law on support for renewable electricity the feed-in tariffs may not drop by more than 5 percent year-on-year, and the key principle of support for renewable energy sources, i.e., an up to 15-year payback period for the investment, must be preserved. This requirement is not applied when the payback period related to the support so determined is shorter than 11 years. In such cases, the drop can be any percentage. At the same time, support for photovoltaic was limited to up to 30 kW plants. The support in the form of feed-in tariffs cannot be applied in the case of biomass and fossil fuel co-firing or parallel firing. Regional distribution system operators and the transmission system operator are obliged to give priority to the connection of renewable electricity producers.

For the first time since 2006, the 2009 amendment to the Energy Act provides for support for electricity generation in combined heat and power generation, which is granted solely through market price premiums for all categories of generating plant. However, new support for electricity production from secondary resources has been introduced, which is also provided through premiums on the market prices of electricity.

5.1.5 Investment in transmission

The renovation, modernisation and automation of the transmission system's existing facilities and providing for their reliability and safety, also with regard to environmental protection, continued in 2010. ČEPS, a. s. spent a total of CZK 2,597.7 million on capital construction in 2010, i.e., CZK 450.9 million more than in 2009.

The year 2010 saw the implementation stage of projects for the connection of the new Ledvice power station (660 MW) to the 400 kV network, i.e., the erection of a double-circuit 400 kV line between Chotějovice and Výškov, and the construction of 420 kV metal-clad switchgear at the Chotějovice transformer station.

May 2010 saw the start of the construction of a new transformer station at Hladké Životice near Fulnek, which will be commissioned in late 2011 with a capacity of 700 MW. This transformer station will help to tackle the difficult situation in northern Moravia caused by the surge in loads related to the planned development of particularly metallurgical operations.

At Hradec Západ and Hradec Východ substations, measures were carried out thanks to which it is now possible to minimise the risk of grid overloading that usually occurs in the autumn in connection with excessive electricity generation in wind power plants in northern Germany.

Intensive preparations were under way for doubling the existing 400 kV lines between Výškov and Čechy Střed, between Výškov and Babylon, and between Babylon and Bezděčín. These projects will make it possible to connect new capacities located in north-western Bohemia and also to reinforce the transit capacities of the transmission system in this area. Intensive preparatory work was also under way in connection with the extension and upgrade of the Kočín transformer station and the construction of a new 400 kV double-circuit line between Kočín and Mírovka. Both of these projects are crucial in the preparation of the transmission system for the connection of new units at the Temelín NPP. In 2010, the addressing of the question of lines, and the finding of new corridors, appeared to be fundamental in the promotion of the development of the transmission system. The proposals for the reinforcement of the transmission capacities of the grid therefore focus on the erection of multi-circuit lines using the existing lines and their corridors.

5.2 The gas market in 2010

5.2.1 Gas supply and consumption in 2010

Throughout 2010, gas supply for customers in the Czech Republic was smooth and in line with the basic degree of consumption, which means full consumption under the daily profiles agreed in contracts, with 64.1 percent coming from Russia, 12.4 percent from Norway and 23.5 percent from EU countries.

A local emergency was only declared on 7 August 2010 by a distribution system operator, RWE GasNet, s. r. o., for the Liberec region because of local floods.

In 2010, actual gas consumption amounted to 8.979 bcm (8.14 Mtoe), which was 10 percent more than in 2009. Consumption adjusted to normal monthly temperatures and temperature gradients of consumption amounted to 8.668 bcm (7.86 Mtoe), which implies an increase of 4.3 percent year-on-year.

Table 12 lists all the relevant sources of gas for the Czech Republic and the country's gas demand and gas exports from the Czech Republic. In earlier years, this overview also included withdrawal from and injection into the Láb UGS facility in Slovakia, a part of the storage capacity of which is booked by RWE Transgas, a. s. The reason was continuity with the market situation prior to liberalisation when this storage capacity was fully used only for the Czech Republic's needs. On the completely open market (since 2007) this is no longer true.

Table 12 Gas sources and consumption in the Czech Republic

	[Figures in bcm at 15 °C]			[Figures in Mtoe]		
	2010	2009	2008	2010	2009	2008
Supply of imported gas	8,510.1	8,439.9	8,703.5	7.72	7.65	7.89
Fuel gas	-65.0	-80.2	-77.4	-0.06	-0.07	-0.07
Withdrawal from Czech UGS facilities	2,255.3	1,969.5	1,374.8	2.05	1.79	1.25
Injection into Czech UGS facilities	-1,529.1	-2,321.1	-1,509.2	-1.39	-2.11	-1.37
Supply of indigenous gas	134.9	112.8	116.6	0.12	0.10	0.11
Gas export from the Czech Republic	-159.3	-33.9	-23.1	-0.14	-0.03	-0.02
Supply from gas sources for the Czech Republic	9,146.9	8,087.0	8,585.2	8.30	7.33	7.79
Gas consumption in the Czech Republic	8,979.2	8,161.3	8,685.2	8.14	7.40	7.88
Other (change in the line pack, in-house consumption, management)	167.7	-74.3	-100.0	0.15	-0.07	-0.09

Note: IEA conversion factor 1 bcm = 0.907 Mtoe

Source: OTE

Table 13 Actual natural gas consumption between 1995 and 2010

Year	Average temperature in winter months [°C]	Average annual temperature[°C]	Annual consumption [Mtoe]	Annual consumption [mcm]	Annual change	
					[mcm]	[%]
1995	2.2	8.3	7.336	8,075	+1,141	+16.4
1996	-0.1	6.6	8.455	9,306	+1,231	+15.2
1997	1.9	7.9	8.577	9,441	+135	+1.5
1998	2.2	8.5	8.531	9,390	-51	-0.5
1999	2.3	8.7	8.565	9,427	+37	+0.4
2000	3.7	9.5	8.311	9,148	-279	-2.9
2001	2.2	8.2	8.879	9,773	+625	+6.8
2002	2.8	9.0	8.669	9,542	-231	-2.4
2003	1.2	8.6	8.848	9,739	+197	+2.1
2004	2.1	8.2	8.805	9,691	-48	-0.5
2005	1.4	8.0	8.687	9,562	-129	-1.3
2006	1.8	8.5	8.421	9,269	-294	-3.1
2007	3.5	9.4	7.861	8,653	-616	-6.7
2008	3.7	9.3	7.884	8,685	+32	+0.4
2009	2.0	8.8	7.415	8,161	-524	-6.0
2010	0.7	7.6	8.144	8,979	+818	+10.0

Note: Average temperature in winter months covers the period from January to March and from October to December of a given year

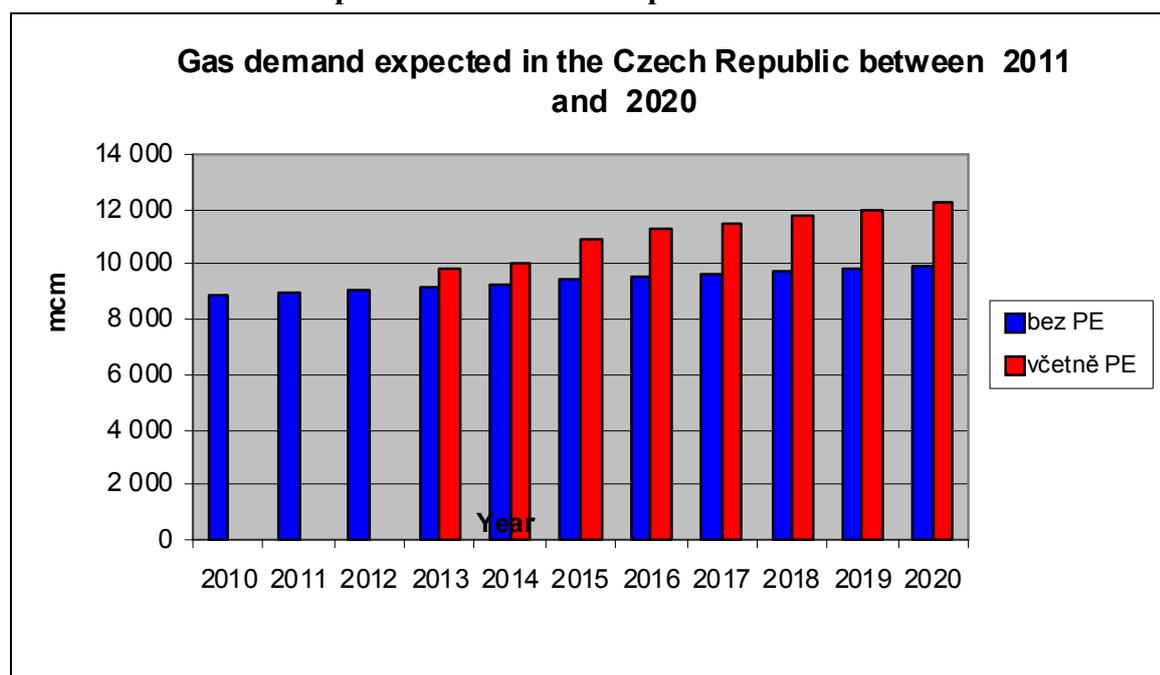
Source: OTE

Natural gas consumption in the Czech Republic was stagnant from as early as 1997, and it was slightly declining since 2004. Gas consumption only increased again in 2010, primarily because of the cold winter season.

The chief cause of the long stagnation, or decline, of gas consumption was probably the rising average annual temperature, and also customers' efforts to save energy to cut costs, focusing mainly on better and more modern boiler installations, thermal insulation of buildings, and energy savings achieved with the help of energy audits; further, the connection of municipalities to gas supplies has almost been completed.

Projections for 2011 to 2020 expect slight annual increases in view of the expected recovery in the industrial sector. If the gas-fired power stations currently being considered are actually built, between 2013 and 2015 consumption can be expected to grow by about 800 mcm and in 2016 by an additional 900 mcm. The result would be a rise in the Czech Republic's overall gas demand to 9.8 bcm from 2013 and to 10.8 bcm from 2016. Generating capacities are also expected to be developed in the subsequent years, and gas consumption may therefore rise by as much as 30 percent between 2013 and 2020.

Chart 9 Gas demand expected in the Czech Republic between 2011 and 2020



bez PE = without gas fired power stations
včetně PE = including gas fired power stations

5.2.2 Import contracts

As at end-2010, 19 trading companies imported gas into the Czech market; the largest part of these imports was based mainly on long-term take-or-pay gas supply agreements. In the Czech Republic, the contracting party to these agreements is usually RWE Transgas, a. s., and also VEMEX s. r. o.

Most of the other traders bought gas for their imports for better prices at energy exchanges in western European countries. Excluding RWE Transgas, a. s., the sum of the companies' market shares in gas imports was 27.4 percent. Almost one half of these imports was met by gas procurement on spot markets.

The long-term natural gas supply agreement between RWE Transgas a. s. and Gazprom export Ltd. (formerly Gazexport), which originally was to terminate at the end of 2013, has been extended to remain in effect until 2035; the gas sales agreement with Norwegian producers will remain in effect until 2017.

In 2007, VEMEX, s. r. o. and Gazprom export signed a five-year agreement on natural gas supply to the Czech Republic, 0.5 bcm annually, with the option of doubling both the term of the contract and the annual volume.

5.2.3 The gas market

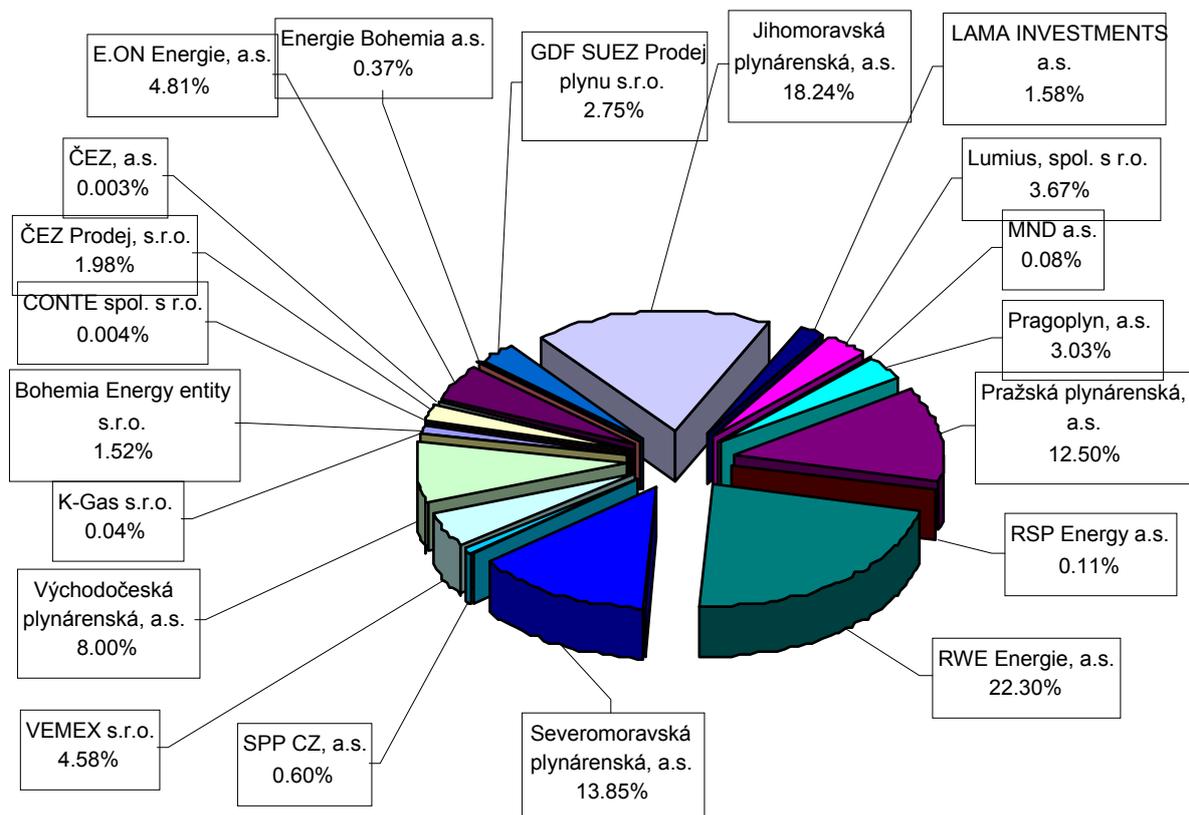
As 2009, the year 2010 was also marked by rapidly developing competition. The new traders fully joined the competitive fight for customers and not only in the categories of large and medium-sized customers but also, and above all, in the small business and household categories. Entities active in 2009 supplied gas to customers in 2010 too.

In 2010, additional new traders joined the incumbent traders on the retail market. In early 2010, CENTROPOL ENERGY, a. s. launched its active business, focusing on customers in the small business and household segments and acquiring more than 10,000 customers. As regards the other more important gas traders, České Energetické Centrum, s. r. o. launched its

gas business and won more than 5,000 customers. A number of smaller traders also appeared on the gas market, for example, Západoslovácká energetická, s. r. o., Českomoravská energetická, a. s., RSP Energy a. s. and Gas International s. r. o.

The RWE Group's share therefore shrank to about 62.4 percent; the second largest share was held by Pražská plynárenská, a. s. (12.5 percent), followed by E.ON Energie, a. s. (4.8 percent) and VEMEX s. r. o. (4.6 percent).

Chart 10 Share of natural gas trade in 2010



Source: OTE

The full liberalisation of the gas market has also given final customers an opportunity to change their gas supplier. Since the beginning of gas market opening on 1 January 2005, customers in all categories have used this opportunity for 125,502 supply points; in 2010, for 84,424 supply points.

Numbers of customers, by offtake category, who changed their gas supplier

Table 14 shows the numbers of customers, by offtake category, who changed their gas supplier in 2009 and 2010. In 2010, the large-offtake category with its switching rate of 12.2 percent was the most active in this respect. In terms of the absolute numbers of gas supplier switches, in 2010 traders' interest focused on acquiring customers with lower demand. The largest number of gas supplier switches took place in the household category.

Table 24 Customers' gas supplier switches

Type of demand	2009	2010	2010	2010
	Number of changed supply points	Number of changed supply points	Number of changed supply points	Switching [%]
Large offtake	152	213	1,742	12.2
Medium-sized offtake	267	674	7,022	9.6
Low offtake	4,506	6,842	192,984	3.6
Households	28,402	76,695	2,644,938	2.9

Note: Switching – the ratio between the number of gas supplier changes per year and the total number of supply points in the same year

Source: Energy Regulatory Office

To calculate the market concentration index and to compare it between 2010 and 2009, for both years we took into account traders with a market share of more than one percent in terms of gas sales to customers (in 2010, as in 2009, ten trading companies with an aggregate market share of approximately 98 percent). The development in this area has turned out to be favourable. The market concentration index was found to have decreased from 4,484 in 2009 to 4,128 in 2010.

5.2.4 Investment in system development

Investments in the development of the gas system have been heavily influenced by the January 2009 gas crisis and the ensuing need to enhance the security of supply for customers in the Czech Republic and in the surrounding countries in this region. The Ministry of Industry and Trade, which grants authorisations for construction in the form of the State's consent under the Energy Act, plays the role of the regulatory authority for the development of the gas system.

Investments to be carried out within three years

In 2006, the Ministry of Industry and Trade awarded to RWE Transgas Net, s. r. o. [now NET4GAS, s. r. o.] an authorisation to build the Czech part of the gas pipeline connecting the Czech gas system with Poland (the Třanovice – Skoczów gas pipeline). The transmission system operator has acquired funds for the construction of this interconnector under the European Energy Programme for Recovery (EEPR), and the project is to be commissioned in 2011. The allocation of the capacities for this gas pipeline took place in an open season process whereby the entire long-term capacity was booked and 10 percent of the total capacity was left for short-term contracts.

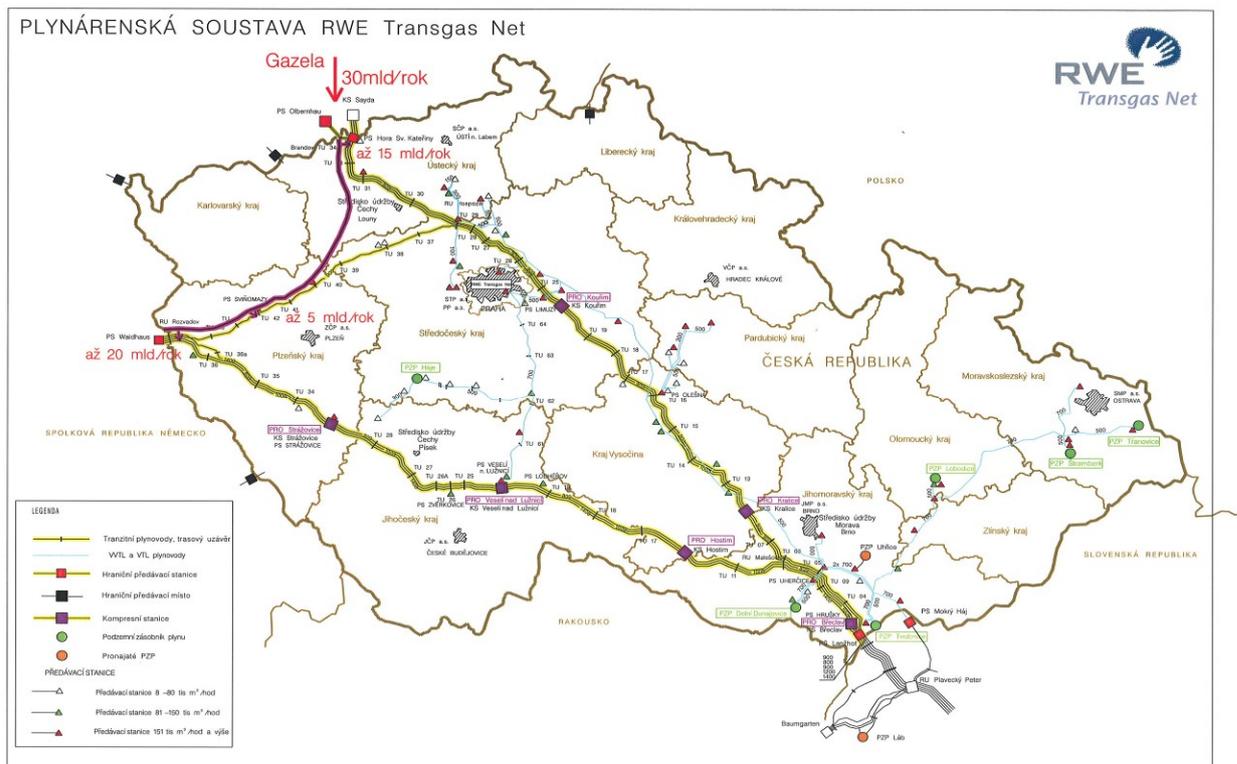
In connection with the need to provide for a reverse gas flow in the transmission system in the case of emergencies, the transmission system operator, in 2009 RWE Transgas Net, s. r. o., now NET4GAS, s. r. o., joined a competition called by the European Commission for the allocation of funds under the EEPR, and was successful. Reverse gas flows will be provided for by capital investment projects mainly involving adjustments to pipe distributions and equipment at border transfer stations and selected compressor stations. The various projects will be put into operation in 2011.

Another important project, which will connect to Nord Stream, is the GAZELLE transit gas pipeline interconnecting border transfer stations at Hora Sv. Kateřiny and Waidhaus across the Czech Republic, with an annual capacity planned at 30 bcm in 2012.

The first stage of GAZELLE development started in October 2010, specifically the construction of the Brandov border transfer station. For detailed description of this capital investment project, including information about the application for an exemption from the

obligation to allow connection and regulated third party access under Section 67a of the Energy Act, please see point 2.4.2.

Figure 1 GAZELLE gas pipeline in the Czech Republic



The largest Czech storage system operator, RWE Gas Storage, s. r. o., is carrying out a project for an increase in the storage capacity of the Tvrdonice and Třanovice UGS facilities by 450 mcm, for which it has also obtained a subsidy under the EEPF.

Investments to be carried out in more than three years

Gas companies' investment plans also include additional investments planned for more distant future (Záhoří – Spáleniště (Austria) and Břeclav – Reintal (Austria) cross-border gas pipelines).

MND Gas Storage, a. s. is also preparing investment in the expansion of the storage capacity in the Uhřetice-Jih UGS facility, and Globula a. s. of the MND Group is preparing the development of a new UGS facility at Dambořice. Česká naftařská and GSCeP are considering the development of additional gas storage facilities at Břeclav and Rožná. Once completed, these capital investment projects will help to increase the storage capacity in the Czech Republic by more than 1 bcm, which will bring it close to 50 percent of the country's total annual gas demand.

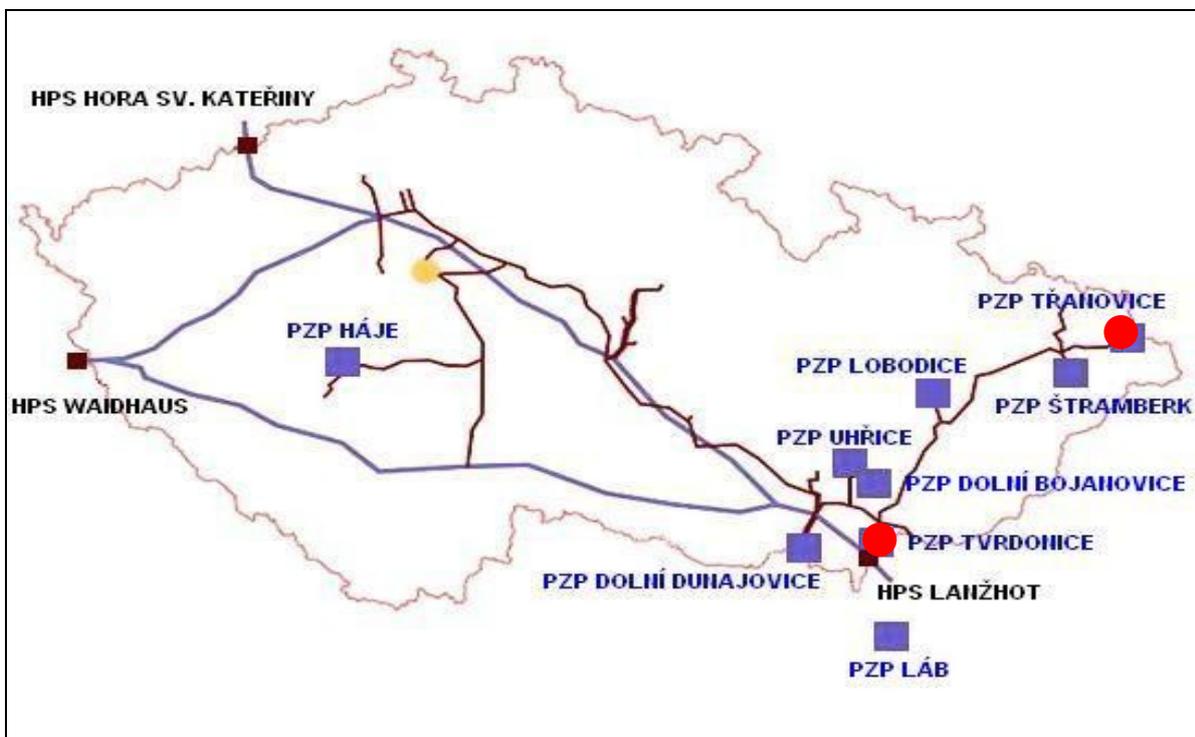
The Ministry of Industry and Trade of the Czech Republic notifies the European Commission of these forthcoming capital investment projects at regular intervals pursuant to Council Regulation No 617/2010 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union and repealing Regulation (EC) No 736/96.

Underground gas storage facilities

Because of the summer/winter swings in gas consumption, UGS facilities that serve for gas storage in summer and gas production in winter when daily demand exceeds the daily contract quantities imported from abroad, helped to provide for balanced supply and demand.

In 2010, 1,529 mcm of gas was injected into Czech UGS facilities, while 2,255 mcm was withdrawn from them; injection into UGS facilities therefore outweighed withdrawal by 726.2 mcm. Working gas stores before the 2010/2011 heating season amounted to 2,486 mcm in Czech UGS facilities. The maximum daily withdrawal capacity in all Czech UGS facilities amounted to 49.7 mcm. These sums do not include the Dolní Bojanovice UGS facility, which is fully used by the Slovak Republic. On 31 December 2010, the amount of gas stores in UGS facilities in the Czech Republic was 1,503 mcm.

Figure 2 Existing UGS facilities and plans for new UGS [shown as ‘PZP’ and name]



Source: RWE

5.2.5 Emergency measures

In accordance with Directive 2004/67/EC concerning measures to safeguard security of natural gas supply, the Czech Republic set out, in the 2009 amendment to the Energy Act, the safety standard for gas supply, which all gas traders are obliged to observe. Further, additional measures were adopted for enhancing security of supply, such as long-term gas sales agreements effective until 2035, diversification of sources of gas supplies from Russia and Norway, coordinated dispatch control between the transmission system operator, distributor system operators and operators of underground gas storage facilities with a capacity of 30 percent of the annual demand, and some others. An implementing regulation, Ministry of Industry and Trade public notice no. 334/2009 on emergencies in the gas industry, sets out the measures applicable to emergency situations. It was drawn up on the basis of the experiences from the January 2009 gas crisis, and is binding on all gas businesses.

The instrument lays down the measures and procedures to be carried out to prevent emergencies, during emergencies and to repair the consequences of emergencies, the method of declaring emergencies and of notifying of the preventing of emergencies and procedures for curtailing gas consumption, customer categorisation by the expected annual demand, offtake degrees and the particulars that emergency plans must contain. It categorises customers into seven groups by the nature and volume of their demand and sets out five regulating degrees for curtailing gas supply and five regulating degrees for interrupting gas supply, and so helps to have better control over potential emergencies.

Under the Energy Act, all gas businesses, with the exception of gas traders, are also obliged to put in place emergency plans for the facilities and installations operated by them, follow these plans, and furnish them to the Ministry of Industry and Trade for review every year.

Gas businesses' standard emergency plans contain a classification of failures and accidents, a definition of emergency and prevention thereof, declaration of emergencies, general duties and responsibilities in coping with emergencies, the composition of the Emergency Commission, and the preparation of emergency reports. The operating part of the plans sets out the principles for eliminating failures on gas installations, the related documentation on gas distributions and equipment, and a plan of communication with and availability of the Emergency Commission.

5.2.6 Security of supply standard

The security standard of the required gas supply is understood, under Section 73a of the Energy Act, to consist in ensuring safe and reliable gas supply by gas producers and gas traders for the customers whose gas consumption was lower than 400,000 cu m over the past 12 months, in particular for the following situations:

- a) A partial interruption in gas supply for eight weeks and to the extent of 20 percent of the total daily volume under all import contracts intended for supplying the final customers of the respective trader in the Czech Republic or for securing the consumption of the respective customer who procures gas on his own, in the winter season;
- b) Gas consumption on five consecutive extremely cold calendar days, provided that an extremely cold calendar day is understood to be a day on which the average daily temperature does not rise over -14 °C;
- c) To meet the demand for gas for all possibilities of the range of demand caused by the development of ambient temperatures during the coldest period from 1 October to 31 March, which occurred in the last 20 years preceding the respective year.

Since July 2009, the gas supply security standard has been in place only for customers with an annual consumption of up to 400,000 cu m. In winter, it ranged from 40 mcm to 42 mcm /day under the public notice on emergencies in the gas industry. The suitability of the selected gas supply security standard has been vindicated by the fact that during the January 2009 gas crisis, no problems with gas supply to final customers were registered in the Czech Republic.

5.2.7 Quality and level of system maintenance

Under the Energy Act, all operators of the gas transmission system, gas distribution systems and underground gas storage facilities have the obligation to prepare, on an annual basis, a report on the quality and level of maintenance of the gas installations and facilities operated by them and furnish the report to the Ministry of Industry and Trade and the Energy Regulatory Office.

The basic part of a report on the quality and level of maintenance contains a list of internal regulations on the organisation and method of maintenance, and technical data on the operated gas facilities and installations on which maintenance is carried out. The operating part of a report on the quality and level of maintenance describes the way of providing for maintenance, methods employed for inspecting the condition of facilities and installations, and the equipment and technologies used for maintenance. Reports also describe the situation in gas pipeline corrosion control and checks of natural gas odorising at all odorising stations. For cases of a failure or accident on a gas facility or installation, the report must contain its description, way of repair, and the measures adopted.

The Ministry of Industry and Trade continuously monitors and evaluates reports on the quality and level of maintenance, which are furnished by all operators of gas facilities and installations, and is able to note that this activity is carried out at a very high level. This is borne out by the fact that throughout the time of the operation of the transit gas pipeline since 1972 (or the Brotherhood pipeline since 1967) no interruption in natural gas supply has occurred due to neglected maintenance.

5.2.8 Investment incentives

In line with Directive 2003/55/EC and Act No 458/2000, the Energy Act, as amended, the so-called authorisation principle has been put in place for permitting new gas facilities and installations. In 2010, the Ministry of Industry and Trade awarded 14 authorisations in this respect, 13 of them for high-pressure gas pipelines and one for the development of the Dambořice underground gas storage facility.

As a direct investment incentive, the national legislation allows exemptions from third-party access to new infrastructure under Article 22 of Directive 2003/55/EC. Two such exemptions were granted in the Czech Republic in 2010: the MIT granted an exemption for the construction of the Dambořice underground gas storage facility, and the ERO granted one for the construction of the GAZELLE gas pipeline.

Both of these exemptions were sent to the European Commission after becoming final.

6 Public service issues [Article 3(9) electricity and Article (6) gas]

6.1 Key information

As mentioned in earlier national reports, the Czech Republic has implemented the obligations of public service and consumer protection in the energy sector, which the EU member states are to introduce under, in particular, Directives 2003/54/EC and 2003/55/EC, primarily through the 2004 amendment to the Energy Act and, in part, through the adoption of Act No 180/2005 on support for the use of renewable energy sources and changes to certain laws.

The Energy Act contains provisions on universal service, which is intended to provide above-standard assurance for certain electricity/gas customer categories in cases where their contractual supplier has lost its ability to perform its obligations. Universal service is a part of public service in the electricity and gas industries, which is provided across the board by utilities on the basis of the duties laid down in the law. This includes, in particular, the electricity/gas market participants' right to connection and to gas/electricity transmission for prices controlled by the State, which are set in advance and promulgated for the following year. Part of the public service in energy is also the supervisory activity of the SEI, which under the Energy Act checks compliance with the Energy Act, compliance with Act No 406/2000 on energy management, as amended, compliance with the law on renewable energy sources, and compliance with the European Commission's directly applicable energy regulations.

6.2 Obligations over and above the licence

In cases of urgent need and in the general interest, the ERO has the right to decide to impose an obligation over and above a licence. The entity that is subject to such decision is obliged to carry out the activity of electricity/gas distribution over and above its own licence, thereby accepting the obligations of another licence holder who has stopped performing its obligations. The owners of the [required] distribution facilities are obliged to provide them for the performance of an obligation over and above a licence. The ERO can impose this obligation for 12 months at most. Conclusive loss suffered by an electricity/gas distribution licence holder or a supplier of last resort, constitutes grounds for adjusting regulated prices. If the licence holder carries on some other activity in addition to performing an obligation over and above its licence, it shall keep separate accounts related to its performance of the obligation over and above its licence.

6.3 Supplier of last resort

The draft amendment to the Energy Act does not affect the process of selecting the supplier of last resort as it preserves the current provisions under which the supplier of last resort is identified by the operation of law both for the electricity industry and the gas industry. Thus, an electricity/gas trader who is a part of the same vertically integrated undertaking as the electricity/gas distribution licence holder covering the delineated service area will continue to be the supplier of last resort. Suppliers of last resort continue to be obliged to supply electricity/gas to customer for regulated prices in cases where the trader under contract has lost its ability or authorisation to supply electricity/gas or discontinued its electricity/gas supply. Extraordinary cases are therefore involved and in such cases the supplier of last resort shall supply electricity/gas for 6 months at most. A supplier of last resort must also supply gas/electricity to households for no more than 6 months in the case of customers with new supply points, if such customers request this supply. In cases where a trader loses its

authorisation or ability to supply electricity/gas it is subject to the obligation to immediately notify the market operator and its customers thereof. In practice the point is that in the Czech Republic, three major electricity business groups operate, i.e., the ČEZ Group, the E.ON Group and the PRE Group, and the traders of these three groups currently automatically play the role of the supplier of last resort in electricity, if needed. The situation is similar in the gas industry, where the suppliers of last resort are Jihomoravská plynárenská, a. s., Pražská plynárenská, a. s. and the RWE Group.

Supply of last resort is provided to customers who have lost their electricity/gas supplier or to households with a new electricity/gas supply point to which electricity/gas has never been supplied and the household customer explicitly requests electricity/gas supply from the supplier of last resort. Thus, the supplier of last resort is a safeguard for cases when relatively weak customers need to be protected. The principle that the supplier of last resort has no obligation to supply electricity/gas when illegal consumption is detected continues to apply.

The Energy Act provides for the mechanism of supply of last resort and defines the moment at which such supply begins. The reason is that situations exist in real life when customers do not even learn on time of the fact that their supplier has lost its ability to supply electricity/gas, and a mechanism of migration to the supplier of last resort therefore must exist, and it must work almost automatically and by the operation of the Energy Act.

The duration of supply by a supplier of last resort is limited to six months. Over this period of time customers will learn of this fact and this period appears to be long enough for the customers to enter into an agreement with their regular electricity/gas supplier.

Suppliers of last resort must satisfy the conditions set out in the public notice on the Electricity Market Rules or, as applicable, public notice no. 365/2009, on the Gas Market Rules, which also set out a more detailed procedure for the provision of electricity/gas supply by suppliers of last resort. The obligation of supply of last resort does not apply to customers whose gas consumption exceeded 60,000 cu m over the last 12 months.

6.4 Labelling of primary energy sources / guarantees of origin

Under the Energy Act, electricity generators are obliged to inform electricity market participants, in a manner enabling remote access, about the shares of the resources used for electricity generation, and the amount of CO₂ emissions and the amount of radioactive waste produced in electricity generation in the preceding year. Customers have the right to be informed by their electricity suppliers about the suppliers' overall mix of fuels and their impact on the environment.

Under the proposed public notice on the scope, essentials and dates of the billing of electricity, gas or thermal energy supply and related services, electricity suppliers shall supply customers with, *inter alia*, information, shown on the bill, about the shares of the resources, or the origin of energy, in the overall mix of fuels used by the electricity supplier and also information about the publicly accessible sources of information about the impacts of electricity generation on the environment, together with data on CO₂ emissions and radioactive waste produced in electricity generation, and shall do so at least in the form of a reference to such public source of information.

6.5 Disconnection of customers

From the perspective of supply interruption or disconnection, the Energy Act does not differentiate between customer groups. Under the Energy Act, customers can be disconnected, or their energy supply interrupted, solely for reasons that are exhaustively listed in the law, for

example, due to illegal consumption of energy; in the event of imminent danger to life, health or property and in dealing with such situations; in emergencies and in preventing them; in the event of planned work on the installations in the system; in the event of failures on installations and repair thereof; and in the event of taking electricity using equipment that poses danger to life, health or property or influences the quality of electricity with adverse impacts on other customers. The Energy Act does not contain any limitations on the application of this authorisation by distribution system operators throughout a calendar year, i.e., therefore, for example, in winter months.

The Energy Act clearly defines illegal consumption of electricity, gas and thermal energy and for the sake of absolute clarity, the Energy Act lays down that illegal consumption of electricity, gas and heat is prohibited. The same applies to illegal transmission and distribution. The draft amendment to the Energy Act proposes to remove the right of holders of licences for electricity/gas production, electricity/gas transmission, electricity/gas distribution, electricity/gas trade and thermal energy production/distribution to curtail, interrupt or discontinue electricity/gas supply to the customer on the grounds of illegal consumption when proceedings are pending on a dispute over the curtailment or interruption of electricity/gas/thermal energy supply due to illegal consumption if the customer files the respective petition within 7 days of the day on which he was notified of the detection of illegal consumption. The customer must receive advice of this right in writing at the moment of receiving the notification of the detection of illegal consumption. The right to curtail, interrupt or discontinue the supply shall not arise prior to the expiry of the above time limit for the filing of the petition.

It is proposed that in the case of illegal consumption caused by a disturbance to the metering instrument, the incorrect functioning of the metering instrument be demonstrated, and also that cases of the customer failing to allow the distribution system operator or the electricity/gas transmission system operator access to the metering instrument be grounds for energy supply curtailment or interruption, but that such (in)activity be not classified as illegal consumption.

As regards illegal consumption on the grounds of recurrent failure to perform the agreement payment obligations or on the grounds of failure to perform payment obligations related to compensation for damage caused by illegal electricity/gas consumption, each of the distribution system operators keeps statistics on the number of disconnected customers for whom the distribution system operator curtailed or interrupted energy supply. This data is not available to the ERO.

6.6 Protection of customers under contract

The Energy Act provides for the various types of contracts that are executed on the open electricity market between market participants, with a view to ensuring reliable electricity supply and the functioning of the energy market, laying down, among others, the ‘essential particulars’ of electricity/gas supply agreements. These provisions take into account the rule that the basic formal and factual particulars of contracts should be provided for directly in a law rather than an implementing legal regulation only.

The draft of the transposing amendment to the Energy Act contains, *inter alia*, provisions intended to strengthen the customers’ (consumers’) position on energy markets.

The draft amendment accords to natural persons who carry on a business and take electricity from the low voltage network or have an annual gas consumption of up to 630 MWh the same rights as to consumers in the household category as regards rescission of agreements entered into on the occasion of the so-called door-to-door selling, i.e., the right, in the case of the so-

called ‘execution of agreements outside the electricity/gas supplier’s customary commercial premises’, to rescind an agreement for convenience within 14 days or within one month (depending on whether or not any supply has already taken place).

The draft amendment also provides for customers’ right, in cases of the supplier hiking the price for electricity/gas supply or changing the agreed contractual conditions for electricity/gas supply, to rescind the agreement for convenience within 3 months of the effective date of the price hike or change to other terms and conditions. If the electricity/gas supplier notifies the customers of a change to prices or agreed terms and conditions for electricity/gas supply no later than 30 days before the effective date of such changes and advises the customers of their right to rescind the agreement, the customers will have the right to rescind the agreement for convenience no later than 10 days before the effective date of the price hike or change to other terms and conditions. The purpose of these measures is to make it possible for customers to terminate the contract with their electricity/gas supplier in cases where the changes to the price for electricity/gas supply or other terms and conditions are no longer convenient for them, or the customers are unable to accept them for any reason.

Compared with the legislation currently in force, the draft amendment to the Energy Act provides more details on customers’ right to non-discriminatory choice of the method of payment for supplied electricity/gas. Under the proposed amendment, holders of a licence for electricity trade, gas trade, electricity production and gas production will have the obligation to set the advance payments at no more than the amount covering the size of electricity/gas consumption which is reasonably expected in the next billing period. The purpose of this measure is to protect customers against excessive advance payment that do not reflect the real electricity/gas consumption.

As regards customers’ right to select or change their electricity/gas supplier, this will continue to be customers’ prerogative, which is not conditional on any payment directly related to the exercise of this right. However, the draft amendment to the Energy Act requires customers, when they exercise their right to supplier selection, to keep the agreed duration of the period of notice in cases where the customer and the electricity/gas supplier have in place an agreement for an indefinite period of time. Related to this is the electricity/gas supplier’s new obligation to notify the customer who has delivered a notice to terminate the electricity/gas supply agreement, of the date of termination of the agreement unless information about the beginning and duration of the period of notice is specified in the supplier’s commercial terms and conditions. In connection with supplier switching, the draft amendment to the Energy Act also requires holders of a licence for electricity transmission or distribution and holders of a licence for gas transmission or distribution and the holder of the licence for the market operator’s activities to take all the steps as may be necessary for the effectuation of the selection/change of the electricity/gas supplier when the customer exercises this right. However, the bill also lays down that the foregoing shall be without prejudice to the customer’s liability for any damage that may be caused to the current electricity/gas supplier when the customer exercises the right to supplier switching at variance with the contractual conditions applicable to the termination of the agreement with the current electricity/gas supplier.

The ERO is competent to decide certain private-law disputes between electricity/gas market participants and in the heat supply industry (in particular disputes involving failure to reach agreement on the execution of a contract between licence holders and their customers), disputes over compensation for failure to keep the required standards of the quality of supply and services, and disputes over electricity, gas or heat supply curtailed or interrupted due to illegal consumption. The ERO’s adjudicating competence also applies to some other private-law disputes between entities in the electricity, gas and heat markets which a court would

otherwise be competent to decide, provided that all parties to the proceedings agree with the ERO's competence to decide the dispute. The draft amendment to the Energy Act proposes to limit this competence only to disputes arising from contractual relationships between licence holders, that is, no longer disputes between a licence holder and its customer, and proposes a new competence for the ERO to decide additional disputes between a customer and a licence holder (the so-called customer disputes) if the customers themselves file a petition for the adjudication of such dispute by the ERO, while such petition would also be the only permissible way of instituting such proceedings.

The ERO is also competent to decide disputes over the exercise of the right of third party access to the electricity grid or the gas system; this competence also covers disputes over connection to the electricity grid or the gas system.

Under the proposed amendment to the Energy Act, in relation to the gas transmission system operator who is a part of a vertically integrated gas undertaking the ERO will also be competent to decide disputes between the transmission system operator and other persons who are part of the same vertically integrated gas undertaking if the dispute concerns the obligations under the Energy Act.

6.7 Pricing for customers on the electricity market

In setting prices for customers, the ERO followed up on the preceding period and preserved the differentiation of charges for distribution services at the low-voltage level in relation to the nature of the load. At the low-voltage level, the range of tariffs was therefore maintained, which makes it possible for the customers to optimise their costs of the services related to electricity supply.

In 2010, electrical energy supply was not subject to price controls for any customer category in the Czech Republic, with the exception of price controls on electricity supply from suppliers of last resort. The ERO regulates the price of electricity supply from suppliers of last resort as the maximum permissible price in compliance with Directive 2003/54/EC.

For 2010, the prices of electricity supply of last resort were set out in ERO price decision no. 7/2009 of 25 November 2009, laying down the prices of electricity and related services. The ERO regulated the price of electricity from suppliers of last resort as the maximum permissible price for all customer categories entitled to take such electricity supply. Individual prices varied in relation to the nature of the load and the way of using the electricity taken.

The concept of the supply of last resort was not used in the Czech Republic in 2010. It was first used in 2009 in relation to the collapse of a major electricity trader, MORAVIA ENERGO, a. s. The system worked very well indeed. Suppliers of regional distribution companies automatically accepted the customers, and electricity supply was not interrupted or jeopardised. Subsequently, the affected customers had time enough to decide whether they would enter into a standard electricity supply agreement with the supplier of last resort, which is also a regular trader, or find a different supplier.

6.8 Pricing for customers on the gas market

ERO price decision no. 3/2010 of 29 November 2010, on prices of regulated services related to gas supply, set the prices for the licensed activities of gas transmission and distribution and for the market operator's services (in which competition is not feasible) for the calendar year 2011.

Gas traders active in the Czech Republic determine their commodity charge, which includes their trading activity and charges for other services related to gas supply for customers.

All customers can influence the uncontrolled part of their overall cost of gas supply, i.e., natural gas as the commodity and the gas flexibility service, by changing their gas supplier. Point 5.2.3 in the chapter on the retail market (see above) indicates the number of customers in each category who used the opportunity of a free change of gas supplier in 2010.

The cost-plus method is employed for pricing supply of last resort. Such price may only be used for customers whose gas consumption did not exceed 60,000 cu m over the last 12 months. The above price decision sets out the costs that cannot be included in the calculation of the price for supply of last resort. No customers received supply of last resort in 2010.

6.9 Public administration and terms of supply contracts

The Energy Act provides for the essential particulars of supply agreements, i.e., any such agreement must contain all the particulars required by Energy Act. The Energy Regulatory Office further has the following competences:

- a) It is competent to adjudicate certain disputes between licence holders or between licence holders and their customers over the execution of agreements under the Energy Act (for example, agreements on electricity/gas supply, connection, transmission and distribution, and also agreements on thermal energy supply and certain other types of agreements), disputes over compensation for failure to keep the required standards of the quality of supply and services, and disputes over electricity, gas or heat supply curtailed or interrupted due to illegal consumption. The ERO also adjudicates other disputes arising from contractual relationships between licence holders or between licence holders and their customers in cases in which a court would otherwise be competent to decide, provided that all parties to the proceedings agree with the ERO's competence to decide the dispute;
- b) It is competent to adjudicate disputes over access to the transmission systems, distribution systems, underground gas storage facilities and gas production pipelines, and disputes over the buyout of electricity from renewable sources;
- c) It is competent to approve the rules for the operation of the electricity transmission and distribution systems and the gas transmission and distribution system operators' codes and the storage system operators' codes and also the market operator's commercial terms and conditions.

The State Energy Inspectorate (SEI) is the administrative authority responsible for inspection in the energy industries. The SEI's remit includes overseeing compliance with the Energy Act, including the execution of agreements containing the particulars required by the Energy Act for supply agreements and the particulars of agreements on consumer protection within the meaning of Annex A to Directives 2003/54/EC and 2003/55/EC.

The Office for the Protection of Competition (ÚOHS), which regulates on an *ex post* basis, i.e., intervenes against practices that are specified as prohibited in the Competition Act, is another authority of oversight in respect of supply contracts. The ÚOHS's competences include, for example, inquiries into discriminatory practices of energy suppliers having a dominant market position (coercion to unreasonable contract terms and conditions, applying different conditions for identical or comparable supplies to different market participants, etc.). These cases very often involve entities operating as vertically integrated undertakings both in the electricity industry and in the gas industry, because their anti-competition practices, if any, have the potential of limiting or distorting competition.