

The 2008 Report
on the Activities and Finances
of the Energy Regulatory Office

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The Chairman's Statement



In 2008, the Energy Regulatory Office ('ERO' or 'the Office') faced a number of challenging tasks, which were mainly related to work on the amendment to the Energy Act, development of the methodology for the third regulatory period in the energy sector, measures in the fully liberalised electricity and gas markets, and intensive international co-operation within the European Union.

One of the key documents, the amendment to the Energy Act, should provide certainty to investors and businesses operating in the energy sectors, and also vest in the Office the powers that it needs.

The Office's updated report on the methodology for the third regulatory period, including the key parameters of the regulatory formula and pricing in the electricity and gas industries, will be the basis for drafting secondary legislation on price control in the energy industries.

In connection with the fully liberalised natural gas market, the Office adopted the relevant measures concerning the right of supplier choice, which is now enjoyed by every final customer, including households, and as of 1 October 2008 changed the procedure for gas storage capacity booking in the Czech Republic.

The ready reckoner available on the Office's website has proved its worth in the electricity industry; it is part of the information for customers about the opportunity to switch their electricity supplier. The Office regards the provision of understandable and up-to-date information to the public as an integral part of customer protection. This is one of the reasons why in late 2008 the Office set out the way the three regional distribution companies should grant discounts on electricity distribution in the event of a lower quality of the voltage of the electricity they supply.

In 2008 the Office issued some amended implementing regulations. The need to update them largely resulted from the experience with their application on the liberalised energy markets.

In 2008 the Office continued intensive co-operation with other Czech authorities within the European Community and was actively involved in the working group for energy (H7) of the Council of the European Union, the Council of European Energy Regulators (CEER), and the European Regulators Group for Electricity and Gas (ERGEG). The key objective was to put in place the conditions for improved operation of regional electricity and gas markets and prepare for the creation of single European electricity and gas markets. The Office was also actively involved in the Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC project in Ukraine.

The Office has formulated provisions on support for electricity generation from renewable energy sources, combined heat & power generation, and secondary energy sources for 2009 as well. The green premiums for electricity produced by fossil fuel and biomass co-firing have been set with a view to covering the electricity generators' increased costs of biomass firing in comparison with the costs incurred in coal firing. Through the regulated premiums on the market price of electricity, we support combined heat & power generation (CHP) in all categories of cogeneration units.

The Office monitored and evaluated the development of thermal energy prices on an ongoing basis. The publication of these prices enhances the public's awareness of the prices prevailing in each of the localities and makes it possible for thermal energy customers to compare them, giving them a better position in their price negotiations with suppliers.

In 2008 the Office's activity in licensing mostly focused – in response to the requirements of the operators of newly built generating plants – on awarding licences for electricity generation from renewable sources in lower-capacity installations, in particular photovoltaic cells.

By virtue of its position, the Office cooperates, primarily, with the Ministry of Industry and Trade, Ministry of Finance, Ministry of Foreign Affairs, Office for the Protection of Competition, Ministry of the Environment, Ministry of Labour and Social Affairs, Czech Statistical Office, and the State Energy Inspectorate and other administrative authorities in the energy sector, and supplies analyses to the Council of Economic and Social Consensus. Under the Energy Act, the Office is also

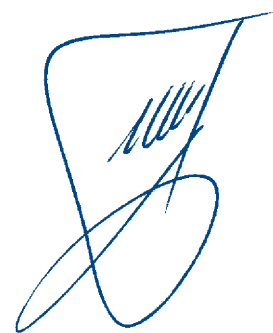
obliged to inform the Parliament of the Czech Republic about its business. The Office keeps in touch with the various committees of the Chamber of Deputies and Senate of Parliament of the Czech Republic.

Under the Energy Act the Office produces the Energy Regulation Gazette and in the Official Gazette it publishes notices of the price decisions that it has issued.

The Office also has its representative on the Panel for Regulatory Reform and Effective Public Administration, which is attached to the Ministry of the Interior. Through its membership of, and active work in, the Panel and its committees, the Office contributes to the formulation of positions on legislative proposals and helps to review the proposals for long-term and medium-term concepts, analyses, outlooks and directions of development, which are related to improvement of regulation, including the elimination of excessive bureaucracy and enhancement of the efficiency of public administration and public services.

A separate chapter of this Annual Report is dedicated to ERO budget management, with detailed information about this area of the Office's business.

I am pleased to note that in 2008 the Energy Regulatory Office successfully carried out not only the challenging responsibilities that are incumbent on it under the law but also the unpredictable tasks brought about by the less than easy energy situation in Europe. To conclude, I would therefore express my sincere thanks to all those who have contributed to these assignments.



Josef Fiřt

Chairman, Energy Regulatory Office

1

Introduction



1 Introduction

Under Act No. 458/2000, on the Conditions of Business and State Administration in the Energy Industries and Changes to Certain Laws, as amended (hereinafter referred to as “the Energy Act”), the Energy Regulatory Office (hereinafter also referred to as “ERO” or “the Office”) has been operating as an administrative authority for regulation in the energy sector since 1 January 2001.

The Office’s main responsibilities include market regulation to substitute free market mechanisms and protect consumers’ and licence holders’ interests in the areas of energy industries in which competition is not feasible; support for competition; support for the use of renewable and secondary energy sources; and oversight over licence holders’ adherence to conditions of business, thereby creating the preconditions for reliable electricity, natural gas and heat supplies.

1.1 Highlights of 2008

In 2008 the Office focused on identifying and adopting such measures in the fully liberalised natural gas market, which would help every final customer, i.e., also households, to really exercise their right to select their gas supplier. Access to underground gas storage facilities, which the Office had been trying to improve for a long time, turned out again to be the key issue.

The work on the forthcoming amendment to the Energy Act placed heavy demands on the Office throughout 2008. The intention was, on the one hand, to push through additional requirements for better transparency and to provide investors with certainty, while granting certain additional competencies to the regulator for performing high-quality regulation on the other hand.

With regard to the rapidly rising electricity prices, in 2008 the Office also considered the option of adjusting the **prices of the commodity itself, i.e., energy, for final customers**. However, the outcome of an assessment of its statutory competencies indicated that the Office was allowed to directly control only that part of the prices, which is mainly related to electricity transport, and could not control the prices charged by electricity generators. Although the Office is not in the position to influence energy suppliers’ quotations, it nevertheless always provides customers with objective information about the resulting price hikes in both controlled and uncontrolled parts of the price. Part of this information is the ready reckoner of payments on the Office’s website.

The Office has also initiated the setting up of a **working group** tasked by assessing electricity purchase and sale models for the household and small business category customers who would not use the alternative options for procuring electricity for 2010.

In 2008 the Office continued its intensive **international co-operation** within the European Union (EU). Its primary objective was to contribute to the preconditions for improvements in the working of regional electricity and gas markets and to the gradual development of a single European energy market in electricity and gas. The Office worked with the Council of European Energy Regulators and the European Regulators Group for Electricity and Gas, a European Commission advisory body, and was actively involved in the meetings of the respective working groups; upon the European Commission’s request, these prepared technical papers for the drafting of the new European energy legislation, in particular the so-called third liberalisation package.

1.2 Preparations for the third regulatory period

In 2008 the Office started intensive work on the development of the methodology for the third regulatory period. In line with the principles of a transparent and open approach to the development of the regulatory methodology and specific regulatory tools, and with a view to preparing a generally acceptable methodology, the Office presented its proposals for public consultation, which all the stakeholders could join via the Office’s website. On 18 July 2008 the Office published its Report on the Regulatory Methodology for the Third Regulatory Period, in which it described the starting-point situation in the regulated sector following the completion of the unbundling process and the assumptions for the development of the methodology for the subsequent regulatory period.

The report was prepared in several versions, with variants of each of the parameters, so that it could also serve as a basis for drafting the related secondary legislation in line with the general principles of Regulatory Impact Assessment (RIA). The key requirements of the proposed methodology included support for investment in infrastructure and provisions for the required quality of supplies to customers. As in the previous regulatory period, the Office proposed to apply the incentive-based revenue cap regulatory method, applicable for five years with the regulatory period beginning on 1 January 2010.

Through the public consultation process and applying the RIA principles, the Office wanted to improve communication with its environment and to make its work accessible to the general public, guarantee transparency in its decision-making, and, in theory, prevent potential attempts at corrupt behaviour.

The Office received comments responding to the published report from regulated and licensed entities, customers, associations, central state administration authorities, and other market participants. Thereupon the Office held, from 15 September to 12 December 2008, public consultations to provide explanations in response to some comments where the Office identified a need for discussing them in person. The consultations held in the autumn mainly concerned regulated entities, which had sent the largest number of comments, and focused on clarifying these comments and also on presenting analyses, justifying the entities’ positions and defending the Office’s decisions.

The Office has used the above comments and information for drafting its Updated Report on the Regulatory Methodology for the Third Regulatory Period, including the key parameters of the regulatory formula and calculation of prices in the electricity and gas industries. The updated report will be the basis for drafting, in 2009, secondary legislation on price control in energy industries.

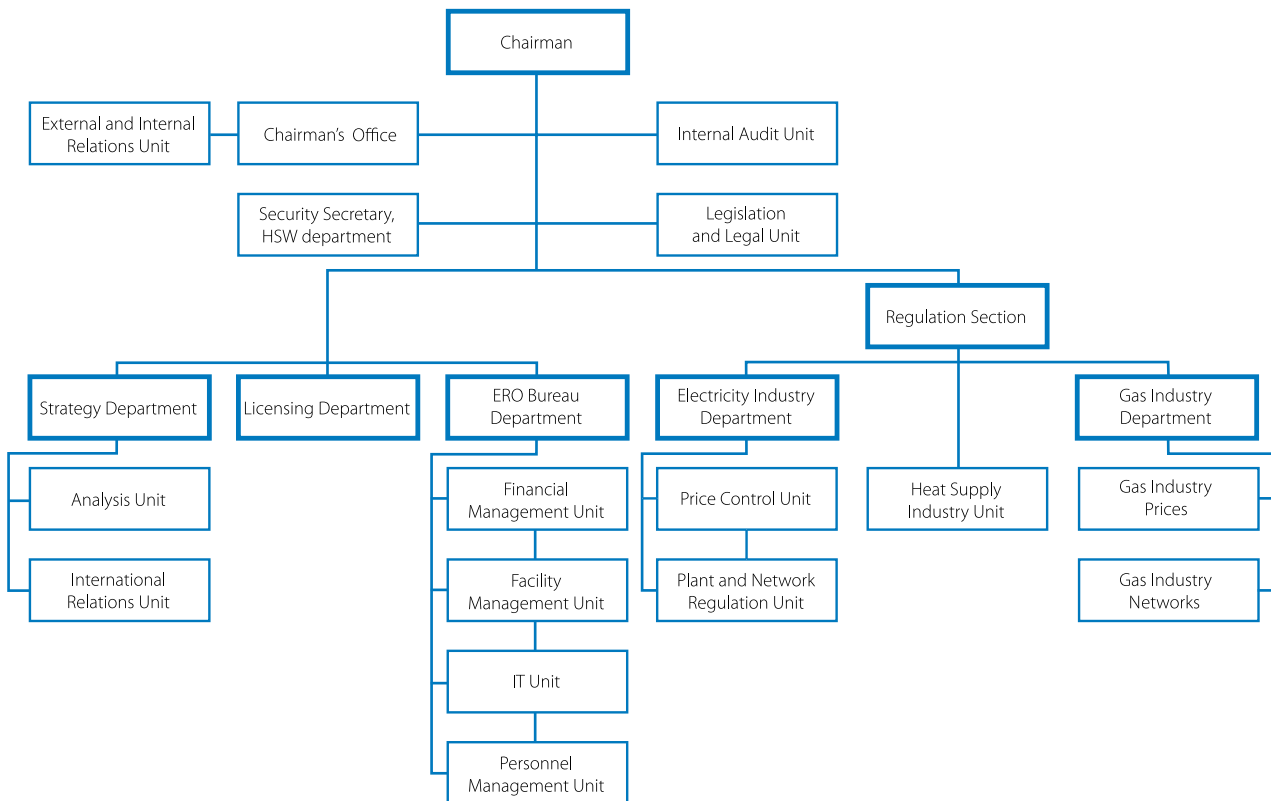
1.3 A step towards customers

In connection with the full opening of the electricity and gas markets, where every final customer can select their supplier, the Office's aim was to help, in particular, the most numerous group of consumers, households, to find their way about the liberalised markets, primarily as regards energy prices, supplier switching, and supply quality. The Office regards the provision of understandable and up-to-date information to the general public as an integral part of customer protection; the main reason is that the Czech Republic has not yet in place the relevant sector-specific legislation and consumers are therefore only protected by general legislation. In the carrying out of this mission, the Office works closely with the respective initiatives of the European Commission, which purposefully promote customers' stronger position on liberalised markets.

Because of the complexity of this task, which extends beyond energy utilities and their customers, the European Commission has organised several rounds of public consultation in which also representatives of governments, regulators, and consumer organisations participate. Some of the proposals tabled during public consultation will be included in the third liberalisation package, which is to be finalised still under the Czech EU presidency. After adoption and implementation, these regulations are expected to further clarify and strengthen the legal framework for energy consumers at the EU level.

In respect of the non-legislative aspect of the reinforcement of customers' position, the European Commission organised a conference in support of energy consumers' rights in Brussels in May 2008; it was attended by some 200 representatives of the key stakeholder groups, who concurred on the need to create a permanent discussion forum, referred to as Citizens' Energy Forum, which would bring together all the stakeholders to examine the exercise of consumers' rights and on which customers would play a visible role. The first meeting of the Citizens' Energy Forum took place in London on 27 and 28 October 2008. The participants in the forum, which will henceforth meet every year, discussed, amongst others, the inadequate transposition of EU legislation on consumer protection, unfair business practices, the issue of billing, and many other aspects that undermine consumers' position on the market. One of the forum's specific deliverables is an agreement to prepare an Energy Consumer Checklist, comprising a harmonised list of the most frequently asked questions concerning consumers' protection in every member state. The list is expected to provide guidance in the tackling of the problems faced by Czech households. In the Czech Republic, the Office has accepted the responsibility for preparing the Energy Consumer Checklist; prior to forwarding the list to the European Commission, the Office consulted it with Consumers Defence Association (SOS), Ministry of Industry and Trade (MPO), State's Energy Inspectorate (SEI) and Office for the Protection of Competition (ÚOHS).

1.4 Organisational structure as at 31 December 2008



Chairman
 Vice-Chairman and Director
 of the Regulation Section
 Head, Licensing Department
 Head, Electricity Industry Department
 Head, Gas Industry Department
 Head, Strategy Department
 Head, ERO Bureau Department

Josef Fiřt
 Blahoslav Němeček
 Luděk Pražák
 Stanislav Trávníček
 Sylva Škrdlová
 Martina Veselá
 Vladimír Kabelka



2

Legislative activities



2 Legislative activities

2.1 Drafting the amendment to the Energy Act

The last time when the legal provisions on the conditions of business in the energy sector, contained at the primary level of legislation in the Energy Act, were significantly amended was in 2004 when Act No. 670/2004 entered into force. This law has, in particular, transposed Directive 2003/54/EC¹⁾ and Directive 2003/55/EC²⁾ into Czech law and provided for some other legal institutes related to the process of electricity and gas market opening.

In line with the plan of the Cabinet's legislative work, the end of 2006 and the beginning of 2007 saw the launch of preparations for another profound amendment to the Energy Act. The Ministry of Industry and Trade is responsible for drafting the proposed amendment, and the Office is co-responsible. The main reason for drafting the amendment is again the need to implement some additional *acquis communautaire*, especially Directive 2005/89/EC³⁾, Directive 2004/67/EC⁴⁾, and, partly, Directive 2006/32/EC⁵⁾, and also the necessary adjustment of the Energy Act to Regulation 1775/2005⁶⁾, in particular as regards the issues of inspection and review. Another objective of the proposed amendment is to unify, and, therefore, clarify and simplify the provisions on electricity and gas market opening, in particular where objectively an opportunity exists for uniform legislation. This is why the proposed amendment includes a joint electricity and gas market operator, identical provisions on the approval of operating documents such as the Rules of Transmission System Operation, Rules of Distribution System Operation, Rules of Gas Operators, etc. The proposed amendment to the Energy Act is also expected to simplify certain decision-making administrative procedures, for example, decisions on licences for business, and also to simplify reporting obligations to the Energy Regulatory Office, repeal provisions on authorisations in the electricity and gas industries, etc. Not least, the proposal puts forward broader decision-making powers of the Energy Regulatory Office in disputes between market participants, with a view to facilitating quicker resolution of such disputes.

On 2 July 2008 the proposed amendment to the Energy Act was discussed by the Cabinet and approved by it in its Resolution No. 805; as the government's draft amendment to the Energy Act, it was then referred to the Chamber of Deputies on 6 August 2008. The bill was debated in the Chamber on 23 September 2008 as paper no. 566. In the first reading, it was referred to the Economic Committee, which debated it for the first time on 17 November 2008.

The process of the Economic Committee's debate on the government's draft amendment to the Energy Act was not completed before the end of 2008, and the bill was not debated in the plenum in the second reading⁷⁾ before the end of 2008. The amendment to the Energy Act is expected to enter into force in 30 days of its promulgation in the Official Gazette.

2.2 Key changes to legal regulations within the ERO's remit

In 2008 the Office continued to issue changes to implementing regulations, the need for which was largely precipitated by experience with their application in liberalised energy markets. The Office followed up on its legislative activity of 2007 and issued the following implementing legal regulations related to Act No. 458/2000, the Energy Act, as amended:

- **Public notice no. 354/2008, amending no. 524/2006, laying down the rules for the organisation of the gas market and for the development, allocation and use of typical gas supply profiles, as amended**

Because of the gradual market opening, in 2006 the Office issued public notice no. 524/2006 laying down the rules for the organisation of the gas market and for the development, allocation and use of typical gas supply profiles, which set out the conditions for a fully opened gas market.

In 2007 the Office received from market participants, the first comments on their experience with the new gas market organisation rules. Assessment of these comments on the working of the gas market resulted in a need to change some of the provisions of the instrument. One of the key requirements for changing the then existing rules for gas market organisation turned out to be the one for an overall adjustment of storage capacity booking. The new instrument therefore changed the storage capacity booking by introducing a storage capacity booking procedure based on online auctions organised by the SSO on the basis of preset rules.

In addition to the new system of storage capacity allocation, the instrument also sets out the dates for requesting storage capacity booking and the method of request evaluation. In view of the rising number of gas supplier switches, it has also made it possible to request distribution capacity allocation via the DSO's information system.

The public notice entered into force on 1 October 2008.

¹⁾ Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in electricity and repealing Directive 96/92/EC

²⁾ Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC

³⁾ Directive 2005/89/EC of the European Parliament and of the Council of 18 January 2006, concerning measures to safeguard security of electricity supply and infrastructure investment

⁴⁾ Council Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply

⁵⁾ Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC

⁶⁾ Regulation (EC) No 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks

⁷⁾ The draft amendment to the Energy Act was debated in the third reading and then passed by the Chamber of Deputies on 1 April 2009.

- **Public notice no. 454/2008, amending no. 541/2005, on the Electricity Market Rules and principles of pricing the electricity market operator's activities and on the execution of certain other provisions of the Energy Act, as amended**

The Government of the Czech Republic and the Government of the Slovak Republic initiated, together with these countries' TSOs, the setting up of a common day-ahead electricity market between the Czech Republic and the Slovak Republic. For the common day-ahead electricity market to be set up and start working there was a need to adjust the Electricity Market Rules accordingly; at the level of delegated legislation, these Rules govern the Czech electricity market's functioning. Market participants' experience with the legislation then in force was another reason for amending the public notice.

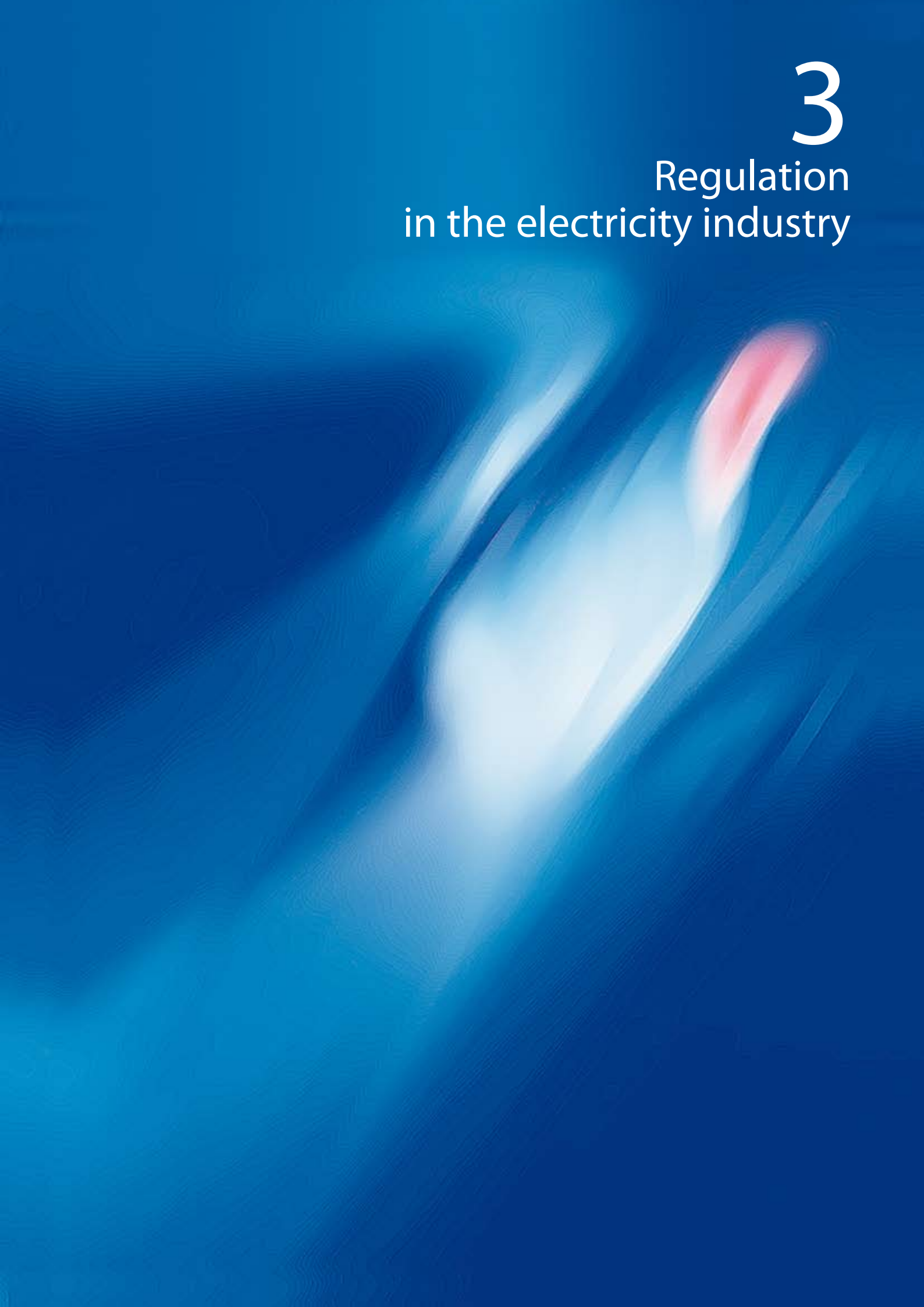
In connection with the preparations for the common intra-day electricity market and other requirements, the following changes were made in the public notice:

- a) Introduction of the rules for the functioning of a common Czech/Slovak intra-day electricity market, using implicit auctions for allocating the cross-border transmission capacities between the two countries;
- b) Introduction of the option of trial operation at supply points;
- c) Changed deadlines for entering into bilateral contracts in the information system of the electricity market operator and the gate closure time for trading on the short-term electricity market;
- d) Additions to the provisions on the publication of the results of trading on the block and intra-day markets;
- e) More precise provisions on the supplier switching process in the regime of delegated responsibility for imbalances, more precise requirements for the billing of electricity supply and related services and for the publication by DSOs of information about planned interruptions in distribution;
- f) More precise provisions on the procedure to terminate the delegation of responsibility for imbalances and on electricity supply interruptions due to unauthorised electricity consumption or distribution;
- g) Changed method for pricing the supply of balancing energy;
- h) More precise requirements for the publication by DSOs of information about planned interruptions in distribution.

The public notice entered into force on 1 January 2009, with the exception of the provision on the publication of information on distribution interruption (clause I of point 50), which will enter into force on 1 January 2010.

3

Regulation in the electricity industry



3 Regulation in the electricity industry

3.1 The market in 2008

The liberalised electricity market functioned for the third year in 2008. Although all final customers already were eligible customers with the right to select their electricity supplier, only two per cent of customers used this opportunity from the moment of electricity market opening. Specifically, the data recorded by Operátor trhu s elektřinou, a.s. (OTE, Electricity Market Operator) indicates that the supplier was changed for 51 supply points at the extra high voltage level, 4,256 supply points at the high voltage level, and 50,484 supply points at the low voltage level (of which 15,764 were households). For 2,898 supply points the voltage level was not recorded. The electricity market was mainly developing at the level of large and medium-sized customers, where a sufficient number of traders were operating. However, the situation is very different in the segment of low-demand businesses and households, where less than ten traders out of the more than 300 licensed electricity traders were operating in any appreciable way on the national scale.

Because of the above, the Office uses its website to inform about the opportunities and procedures for electricity supplier switching and, above all, the structure of the offered services, suppliers' prices, and consumers' rights. The 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 rate, 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.

Table 1 Final customers; electricity supplier switching

Type of supply	2007		2008	
	Number of changed supply points	Switching [%]	Number of changed supply points	Switching [%]
High-demand customers, EHV, HV	4,353	19.0	6,549	28.6
Low-demand business customers, LV	5,733	0.7	35,351	4.3
Households	15,385	0.3	15,764	0.3

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

As early as 2007 the principle of trading on the electricity market was changed completely. The until then existing principle of wholesale electricity marketing based on annual auctions organised by ČEZ, a.s., and on additional bilateral contracts between electricity generators and traders, was replaced by continuous electricity trading at the Prague Energy Exchange. The high volatility of the prices of energy commodities during 2008 influenced the suppliers' purchase strategies; moreover, the combination of a competitive environment amongst traders and the introduction of continuous electricity trading helped to broaden the range of the products offered by electricity suppliers to final customers.

In respect of international trade in electricity, attention focused mainly on the auction mechanisms for trading in cross-border transmission capacities in central Europe (in particular, an expansion of coordinated auctions within the region and the introduction of intra-day cross-border trading). In 2008 the principle of the common daily market between the Czech Republic and Slovakia was developed on the basis of implicit auctions; for this purpose the respective pieces of legislation were amended accordingly. Trading proper on this market will start in 2009.

3.2 Price formation and setting

The resulting price of electricity supply to all final customer categories is composed of two main parts. One component covers regulated activities having a monopoly nature, which include electricity transport from the generating plant over the transmission and distribution systems to final customers and the operations involved in providing for the stability of the energy system, in both technical and commercial terms. The other component is the uncontrolled price of energy offered by suppliers.

Since 2008, an environmental tax on electricity has been a part of the electricity supply price as an additional item. The legal provisions on electricity taxation are contained in Act No. 261/2007, on the stabilisation of public budgets, Part 47 Electricity Tax. The tax rate is CZK 28.30/MWh, with the exception of exempt electricity produced from renewable energy sources and also electricity consumed in energy-intensive processes and public transport.

In respect of the development of the controlled prices of supply of electricity and related services, in 2008 the Office conducted local reviews by way of analysing the information received by the Office from the regulated companies. The purpose was to check the inputs into the calculation of the prices for 2009, the last year of the second regulatory period, and also, primarily, the setting of the regulatory parameters for the third regulatory period. The principle of price controls set for 2009 has been preserved. The range of tariff rates at the low voltage level has also been maintained; this range makes it possible for customers to optimise their costs of services related to electricity supply depending on the nature and level of their demand.

3.2.1 Controlled components of the electricity supply price

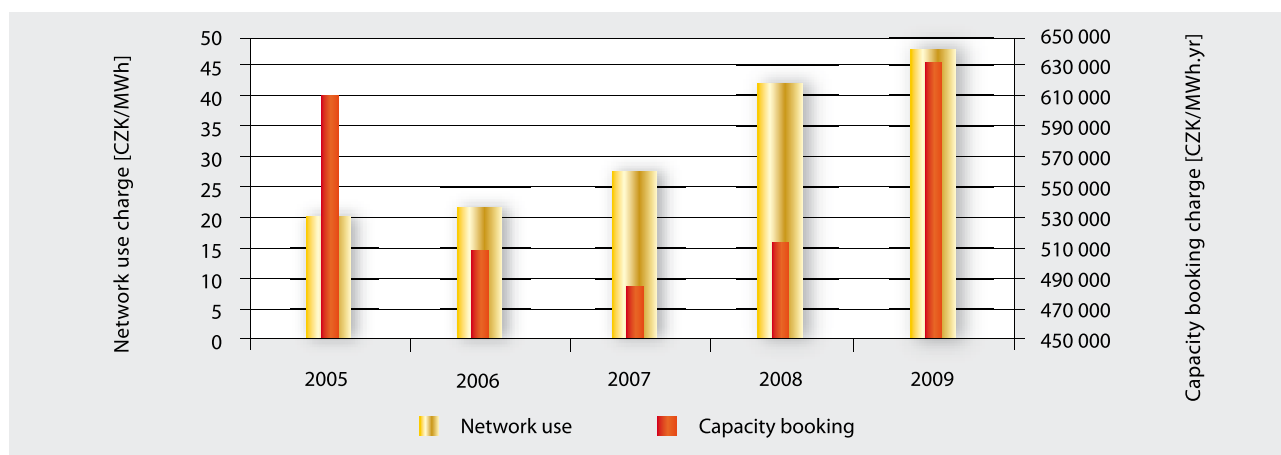
Charge for network services

The network service charge is composed of a charge for transmission services and a charge for distribution services. The network service charges for 2009 are influenced mainly by the following factors:

Transmission service charge

The charge for using the transmission system's services has risen from CZK 41.25/MWh for 2008 to CZK 46.78/MWh for 2009. This growth (13.4 per cent) has resulted from the situation on commodity markets and the surge in energy prices, which lasted well into the third quarter of 2008. The growth of electricity prices on the wholesale market had a direct impact on the price of energy for covering losses, which was bought by the TSO in auctions. The unit price of booked capacity rose 23 per cent year-on-year. This marked increase was attributable to the TSO's lower revenues from trading in cross-border capacities in the preceding period, i.e., a lower amount of funds from auctions on cross-border interconnections was included into the calculation of the transmission charge. Chart 1 shows the electricity transmission charge.

Chart 1 Components of the electricity transmission charge



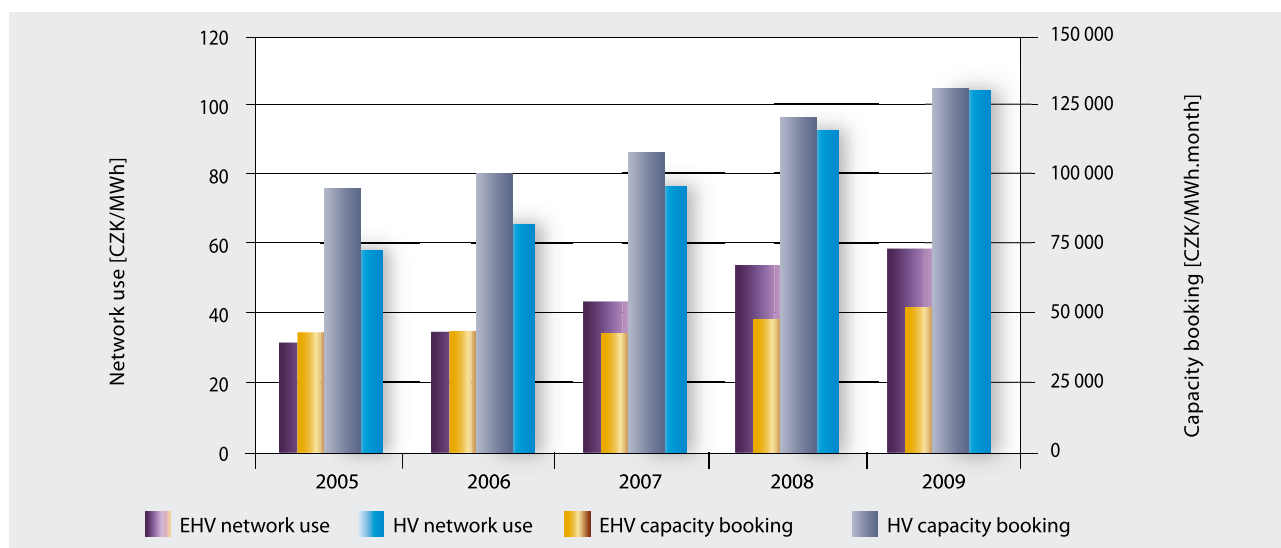
Distribution service charge

The higher prices for network use, which influence the variable part of the distribution rates, are due to the rising energy prices on the wholesale market in 2008; distributors buy this energy to cover their system losses. On average this item is, year-on-year, up by 9.8 per cent at the extra high voltage level and 12.8 per cent at the high voltage level.

The charges for booked capacity at the various voltage levels are mainly influenced by technical units (the size of the capacity reserved by customers), the volume of investment (depreciation) at the respective voltage level, and the charge for capacity booking at the higher-level transmission system. The steep rise of the unit price for transmission capacity booking, caused by including lower proceeds from auctions on cross-border interconnectors, together with some other factors such as inflation, has an unfavourable influence on the unit price. For 2009 there has been a year-on-year increase by 14.4 per cent at the extra high voltage level and by 9.2 per cent at the high voltage level.

Chart 2 shows the development of both components of the distribution charge for extra high voltage and high voltage levels from 2005 to 2009.

Chart 2 Components of the charge for electricity distribution at EHV and HV levels



The charge for distributed generation

Support for distributed generation is intended for generating plants connected to lower voltage levels rather than directly to the transmission system. The amounts of support for distributed generation at the various voltage levels have been maintained at the level of previous years.

Year-on-year, the final customers' resulting contribution to distributed generation has decreased from CZK 9.54/MWh to CZK 9.21/MWh thanks to corrections in previous years.

The charge to meet the extra costs incurred in support for electricity from renewable sources, CHP and secondary sources

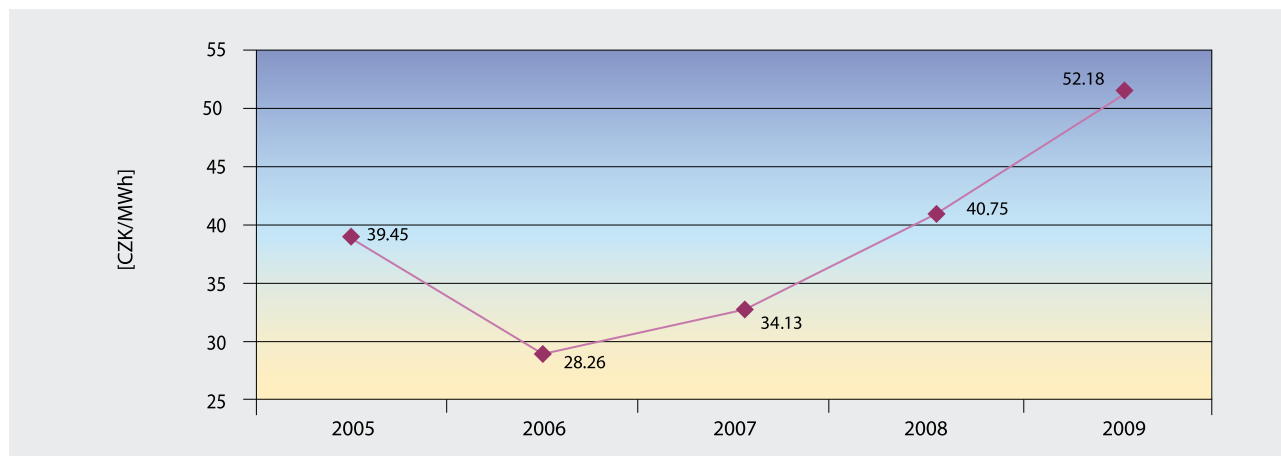
The charge to meet the extra costs incurred in support for electricity from renewable sources, CHP and secondary sources has risen from CZK 40.75/MWh for 2008 to CZK 52.18/MWh for 2009.

The increase in the contribution is mainly caused by the growing quantity of electricity generated from renewable sources. This trend is most distinctly apparent in electricity generation from photovoltaic: the number of solar installations rose almost five times in 2008. To a certain limited extent, also an increasing proportion of electricity generation in wind power plants and biogas stations can be registered. The amount of the contribution is also considerably influenced by higher prices of the fuels (biomass and biogas). Not least, also the development of electricity generation in CHP and from secondary energy sources influences the level of the contribution.

In connection with Act No. 180/2005 on support for the use of renewable sources, and also in connection with support for secondary sources and CHP under the Energy Act, an increase in the quantity of the supported electricity produced can be expected in the future, and therefore also a gradual increase in the contribution.

Chart 3 shows the contribution from 2005 to 2009.

Chart 3 Charge to cover the extra costs incurred in support for electricity generation from renewable sources, CHP and secondary resources



Electricity prices for households and low-demand (small) business customers

As in the other final customer categories, the resulting price of electricity supply to low-voltage customers is composed of regulated prices for distribution and related services, and the energy price, including the supplier's business margin, which is not subject to control.

The average increase in the price of electricity supply to households for 2009, by 11.9 per cent (not including the electricity tax), is chiefly attributable to an increase in the uncontrolled price of energy. The percentage shares taken by the various components of the resulting price of electricity supply to an average household customer are depicted in Chart 4 (the shares are shown including VAT and the electricity tax).

In the case of small business customers, the overall average growth is 13.4 per cent year on year (not including the electricity tax).

The increase in the price of electricity for each individual customer differs depending on the selected tariff and the nature and size of consumption.

The overall increase in controlled prices for low-voltage customers, which the Office is able to influence, is 7.3 per cent on average for the whole Czech Republic, and only reflects outside factors having technical and financial impacts on the operation of networks (particularly the development of electricity production in supported environmental capacities, line losses, the development of the size and structure of demand, and the rate of inflation).

Average prices of electricity supply to households and their components are shown in Chart 5.

Chart 4 Percentage shares taken by each of the components that make up the average price of electricity supply to households for 2009

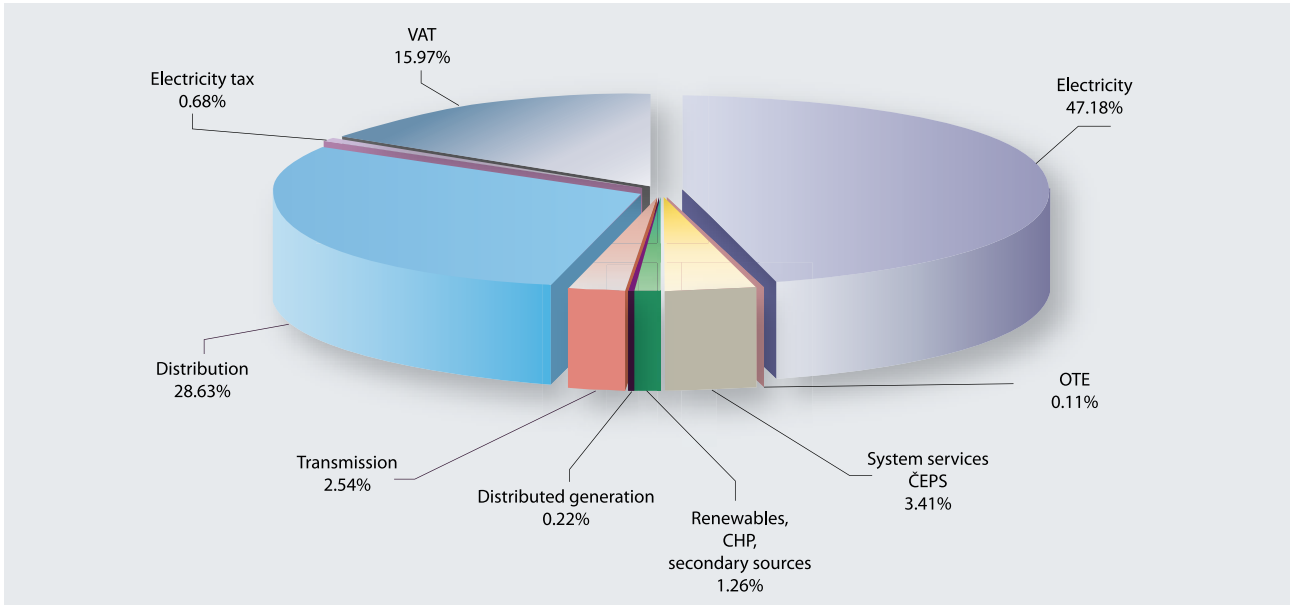
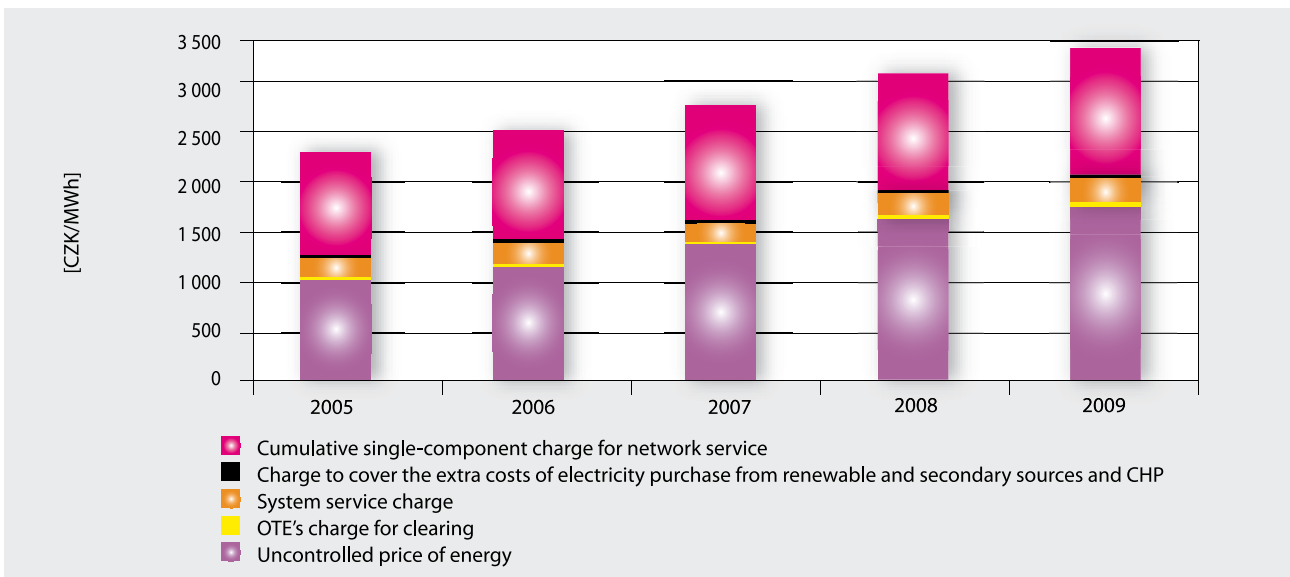


Chart 5 Average price of electricity supply to households



The year-on-year price hikes for each of the regions, reflecting the regional suppliers' (the traders who are part of the same group as the respective distribution company) quoted prices, are listed in Table 2. The differences between the companies are chiefly caused by their different business strategies in their purchase of energy, which is not subject to price control.

Table 2 Changes in average prices for the household category in regions served by each of the suppliers between 2008 and 2009

Company	Households [%]
E.ON, a. s.	16.4
Pražská energetika, a. s.	9.9
ČEZ, a. s.	9.9

Prices charged by the supplier of last resort

For 2009, the average prices of electricity supplied by suppliers of last resort have been calculated on the basis of the weighted average of electricity prices for which the suppliers have bought electricity at the Prague Energy Exchange and also directly from domestic and foreign suppliers. On the basis of these purchase prices the suppliers have calculated, and then submitted to the Office for approval, prices of energy for each of the distribution tariffs at the low voltage level. It is to be kept in mind that the Office cannot influence the wholesale price of energy in the calculation of the prices for suppliers of last resort; the Office can only check whether the electricity so procured by suppliers of last resort matches the lowest quotations on the market at a particular time.

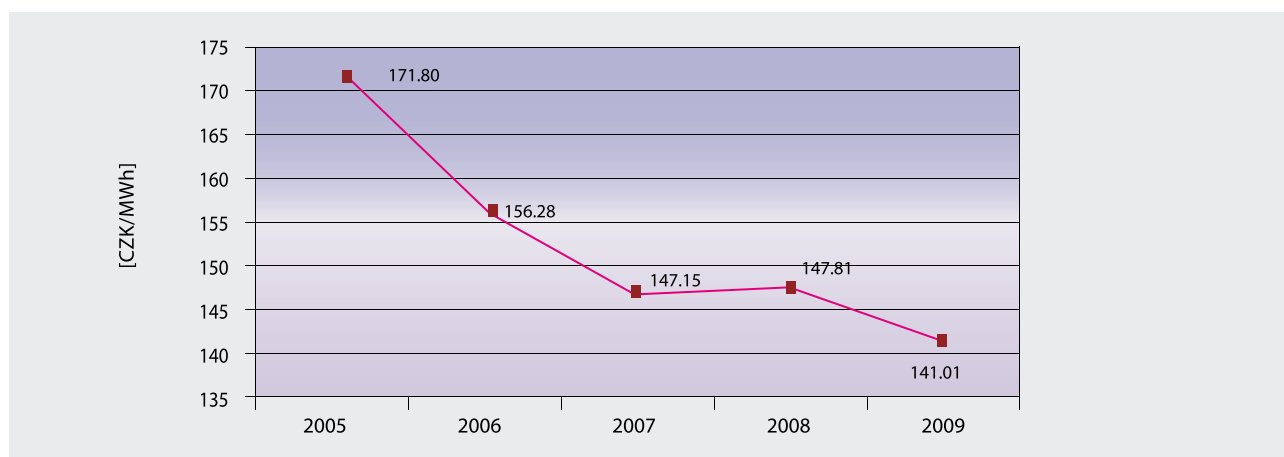
Charge for the electricity market operator

For 2009, the charge for the electricity market operator's activities has been left at the level of 2008, i.e., CZK 4.75/MWh. This charge covers the costs incurred by Operátor trhu s elektřinou, a.s. (OTE) in activities defined in the Energy Act, which include, in particular, the processing of balances of electricity supply offers and electricity take bids, the clearing of imbalances, the organising of short-term electricity markets, and some others. For the first time, in 2008 the so-called block market, with the help of which the liquidity of electricity trading is expected to improve, was added to the short-term electricity markets organised by OTE. In 2009 OTE and its Slovak partner will put in place a common intra-day market between the Czech Republic and Slovakia on the basis of implicit auctions, i.e., electrical energy products and corresponding transmission capacities will be traded jointly.

Charge for system services

System services are necessary for ensuring that electricity generation and demand are balanced. The transmission system operator, ČEPS, a.s., provides these services by purchasing ancillary services from their providers, primarily electricity generators themselves. The downward trend in the cost of system services, observed for a long time, is attributable to the stabilisation of the system, use of long-term tendering processes, and a competitive environment amongst the providers of ancillary services. For 2009, the charge for system services has decreased slightly from CZK 147.81/MWh to CZK 141.01/MWh, i.e., by 4.6 per cent. The favourable development of this charge has been supported by higher revenues from the imbalance clearing mechanism, by which the overall allowed cost of system service procurement is reduced.

Chart 6 System service charge



3.2.2 Uncontrolled prices

The activities that are subject to price control are set out in the Energy Act and in Act No. 180/2005 on support for the use of renewable sources. They are primarily activities that have the nature of a natural monopoly and as such cannot be competitive, and activities that are supported in order to save primary fuels and use renewable energy sources. The Office has no remit to control the prices of energy offered by generators and traders. Controlling prices of energy would be at variance with the principles of Directive 2003/54/EC, because such control would hamper the development of the EU's internal electricity market.

On the liberalised market customers can, by choosing their supplier, influence the uncontrolled component of their resulting electricity supply price, which is the commodity itself (energy), including the supplier's business margin.

Energy price

On today's liberalised market, the price of energy depends on the prices of the products traded on electricity exchanges. For the Czech market, trading on an exchange in Germany and on the Prague Energy Exchange are the key factors. From the long-term perspective, generating capacities in Europe are diminishing, which is causing a gradual growth in electricity prices on interconnected markets. This, together with other macroeconomic factors (in particular, investors' concerns about the impacts of the financial crisis on US markets and migration of investments towards commodities such as electricity), had a negative impact on electricity prices in the Czech Republic in 2008 when over the period under review, from October 2007 to September 2008, the price level on the wholesale market rose by at least 18 per cent (this figure already reflects the positive effects of the Czech currency's euro rate in the period under review).

Traders bought most of their electricity for 2009 in the second and third quarter of 2008, when electricity prices on exchanges hit the highest levels ever. These purchases were then reflected in the electricity quotations for final customers. However, the development of the market prices in 2008 makes it evident that the combination of a competitive environment amongst traders and the introduction of continuous electricity trading provides customers with some room to actively influence the price of energy, i.e., some traders directly offer customers the opportunity to select a business strategy that will guide the trader in its purchases of electricity for the customer on the market.

The impact of the above increase in energy prices on the various customer categories differs by the nature and, primarily, size of a specific customer's consumption, i.e., in relation to the ratio between the charges for regulated items, set by the Office, and the uncontrolled price of energy. This can be felt most strongly by customers who use electricity for space heating, where the charge for the commodity (energy) makes up the predominant portion of the total cost of supply.

The higher energy price has also unfavourably affected the TSO's and DSO's costs of covering network losses.

3.3 Renewable sources, CHP, and secondary sources

In 2008, the Office set the support for electricity generation from renewable energy sources, secondary sources and CHP for 2009. In calculating the prices it maintained the key pricing principles: for renewable sources, the investment payback period, required by the law, is guaranteed, and account has been taken of the varying capital expenditure on different categories of renewable energy sources and of the PPI for existing capacities in accordance with Act No. 180/2005 on support for the use of renewable sources.

Feed-in tariffs, green premiums and contributions to the energy price were published in ERO price decision no. 8/2008 of 18 November 2008, which lays down support for electricity generation from renewable energy sources, CHP and secondary energy sources.

Renewable sources

In 2008 the Office held a number of meetings with associations that bring together generators of electricity from renewable sources and representatives of the competent governmental institutions, with a view to obtaining the latest information about the economics of the operation of power stations that use renewable sources. At the same time, with regard to amended public notice no. 475/2005, which implements certain provisions of the law on support for the use of renewable sources, as amended, the Office set the feed-in tariffs and green premiums for 2009. In determining the support, the Office proceeded in accordance with public notice no. 150/2007 on regulatory methods in the energy industries and procedures for price control. This statutory instrument provides that feed-in tariffs and green premiums shall be applied throughout the service life of electricity generating plants and also that feed-in tariffs shall be increased annually to reflect PPI, by at least two per cent but no more than by four per cent, with the exception of those that fire biomass and biogas.

In respect of the feed-in tariffs and green premiums, the principle of differentiation by the year of commissioning has been maintained.

Green premiums for the various categories of resources are, in most cases (but for photovoltaic), lower in comparison with 2008. This is caused by reflecting the rise of 20 per cent in the market price of electrical energy for the various categories of renewable sources, pushing the green premiums down, against the inclusion of a much lower inflation factor, pushing the green premiums up. Despite the

drop in green premiums in absolute terms, revenues per unit of electricity production from renewable sources have been maintained; for the various technologies, they equal the sum of the green premiums and energy market price.

In the category of biogas stations, the Ministry of the Environment has changed the legislation; the categorisation of these plants is newly set out in Table 2 in Appendix 1 to public notice no. 482/2005 laying down the types, methods of use, and parameters of biomass in respect of support for electricity generation from biomass, as amended. The original biogas station categories have been renamed AF1 and AF2. Further, biogas station categorisation by the date of commissioning has been abolished; as from 2009 biogas stations are therefore only categorised by the type of the biomass they use. Merging the landfill gas category and the sludge gas category into a single category is a small simplification. The use of the so-called aggregated index for the escalation of biogas stations' fuel costs is also new.

In comparison with 2008, a major change is the introduction of two new categories of photovoltaic plants as follows: electricity generation using solar radiation after 1 January 2009, with an installed capacity of up to 30 kW, inclusive, and electricity generation using solar radiation after 1 January 2009, with an installed capacity of more than 30 kW. Respecting the statutory limits, the support for over 30 kW plants has been reduced by five per cent in comparison with the feed-in tariffs set for 2008. In the up to 30 kW category prices have been slightly differentiated; support for this category is CZK 100/MWh higher. The motivation is to provide greater support to the installation of solar panels on roofs, thereby making suitable use of space. The 30 kW threshold has been selected in view of the statistics on the generating plants installed in 2008 and their installed capacity.

As regard biomass firing, the Office expects higher prices of energy crops and green (forest) biomass on the market in 2009. In respect of energy crops and green (forest) biomass, the calculation of the electricity price reflects an increase of nine per cent in fuel prices.

A new category of wind power plants has also been introduced. Here, the feed-in tariff is five per cent lower than the level applicable in 2008.

Green premiums for electricity produced by fossil fuel and biomass co-firing have been set so as to cover electricity generators' increased costs of biomass firing in comparison with the costs of coal firing. In addition to the prices of biomass and coal, the costs incurred by the electricity generators who use these fuels are also influenced by the price of CO₂ emission allowances, the proceeds from which, generated by the replacement of coal with biomass, have also been reflected in the green premiums.

Combined heat and power generation

Since 2006, support for combined heat and power generation has been granted to all categories of cogeneration units through a controlled premium on the electricity market price.

The amount of support for small cogeneration plants depends mainly on two key factors – natural gas prices and market prices of electrical energy. In respect of natural gas, the calculations have included the expected increase in prices by 25 per cent in comparison with the actual prices of 2008. Electrical energy price hikes have been included in the calculation at a similar rate; this will be reflected in generators' higher revenues from the electricity they sell. Having reflected these key factors in the calculation of the premiums for 2009, the resulting premiums are lower for all CHP categories up to an installed capacity of 5 MW.

The incentivising amount of premiums has been maintained in the case of large, over 5 MWe cogeneration units and also for all CHP categories that fire renewable resources or drained gas.

In respect of CHP, the alternative option to select the duration of the high rate for a period of eight or twelve hours a day has been maintained. The option to change the duration of the rate once a month has been preserved, because it contributes to a more effective use of cogeneration units.


Secondary resources

For support of secondary resources, two categories have been maintained: electricity generation from drained gas and electricity generation from other secondary resources. The Office is not ruling out a more detailed breakdown of the secondary resource category in the coming years.

3.4 Quality of electricity supplies and related services in the electricity industry

Under ERO public notice no. 540/2005, on the quality of electricity supplies and related services in the electricity industry, DSOs with more than 90,000 supply points of final customers, or, as applicable, electrical energy suppliers, are obligated to provide the Office with monthly reports on their compliance with the standards of electricity distribution, i.e., standards of supply and related services. On the basis of the licensed entities' reporting obligation the Office monitored, in accordance with the above public notice, the quality of electricity supplies achieved in the Czech Republic in 2008.

The data reported by the respective companies can be categorised into two groups. One category includes information about the continuity of electricity supplies 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. However, the assessment of the level of quality achieved in electricity supply is considerably influenced by the credibility and extent of the data reported. In 2008 the Office placed emphasis on obtaining the required data with an adequate information value. The interval over which the level of quality of electricity supply and related services is analysed is one year. In 2008 the Office published an evaluation, Report on the Level Achieved in Observing the Standard of Continuity of Electricity Transmission and Distribution for 2007 (The Quality Report), of the level achieved in observing the standard of continuity of electricity transmission and distribution for 2007 on its website. The Quality Report describes the level of achieving continuity in the transmission system, which in the Czech Republic is operated by ČEPS, a.s., and the level of continuity in electricity distribution in the distribution networks of the three regional DSOs in the Czech Republic

In the event of failure to keep the quality parameters of electricity supply, as set out in public notice no. 540/2005 on the quality of electricity supplies and related services in the electricity industry, final customers may claim financial compensation for failure to observe the standards of electricity supply quality. Compensations are not paid to customers automatically; affected customers must apply for them with the respective company within the required time limits. Final customers are not yet making full use of this possibility. The Office is planning to enhance consumers' awareness of the quality of the services provided in the electricity industry. In this connection, the Office has placed on its website information for customers about the opportunity to claim compensation for failure to keep standards under the above public notice.

Further, in late 2008 the Office and the operators of three regional distribution systems reached agreement on the procedure to follow in granting discounts on distribution in the case of a lower quality of the voltage of the electricity supplied.



4

Regulation in the gas industry



4 Regulation in the gas industry

4.1 The market in 2008

The year 2008 was the second year in which all customers, including households, were eligible customers. This position has provided all customers with the right of selecting their gas supplier by way of a free-of-charge change of supplier, and, in turn, the opportunity to influence the uncontrolled part of their overall costs of natural gas supply, i.e., the commodity itself, and the services related to gas storage.

4.1.1 Development of competition on the liberalised gas market

The natural gas market in 2008 can be described as a market on which competition was gradually developing, and extending to all final customer segments. The conditions for the working of the gas market are set out in two most important pieces of legislation. Act No. 458/2000, the Energy Act, as amended, and ERO public notice no. 524/2006 laying down the rules for the organisation of the gas market and for the development, allocation and use of typical gas supply profiles, as amended.

The effects of public notice no. 524/2006, which had entered into force on 1 January 2007, were fully felt in the gas market in 2008. A number of new gas traders started to operate on the fully liberalised market; they discerned their opportunities to approach customers in the Czech Republic with their offering of the services and products that enabled them to compete with the incumbent gas suppliers. Thus, 2008 became a year marked by a more distinctive increase in gas supplier switching in all customer categories.

Table 3 shows the number of final customers who changed their gas supplier in 2007 and 2008. In this connection, for assessing market liberalisation a specific ratio is used, the so-called switching rate. It is a coefficient (in per cent) calculated as the ratio of the number of supplier changes per year and the total number of supply points in the respective year. On the basis of European experience, a market with a switching rate of over ten per cent is regarded as a fully liberalised gas market. On the Czech market, large-offtake customers have so far been the most active in this respect; their switching rate for 2008 was 6.7 per cent. In terms of the absolute number of gas supplier changes, Table 3 shows that in 2008 gas traders extended their focus to include customers with lower consumption; the small business category changed their gas supplier the most.

Table 3 Final customers' gas supplier switching

Demand	2007	2008	Total number of supply points	Switching rate, in [%]
	Number of changed supply points	Number of changed supply points		
Large offtake	100	128	1,904	6.7
Medium offtake	2	84	6,838	1.2
Small offtake	0	315	198,771	0.2
Households	1	11	2,657,056	0.0

Note: 1) Switching – the ratio between the number of gas supplier switches per year and the total number of supply points in that year.
2) The figures in the Table do not include supplier switching for reasons caused by the suppliers themselves.

4.1.2 New entrants on the Czech gas market

New gas traders started to operate on the market in 2008; in connection with the continued development, many customers changed their gas supplier. In addition to gas traders of the RWE Group and of E.ON Energie, a.s., Pražská plynárenská, a.s., VEMEX s.r.o., Moravské naftové doly, a.s., Petr Lamich - LAMA, United Energy Trading, a.s., Česká energie, a.s., and VNG Energie Czech, a.s., from the beginning of the year some other new gas traders appeared on the market, for example, CONTE spol. s r.o., Pragoplyn, a.s., Lumius, spol. s r.o., Energie Bohemia, a.s., WINGAS GmbH & Co. KG, and Lumen Energy, a.s. In connection with the contemplated development of combined cycle units, also ČEZ, a.s. is actively interested in the opportunities of business on the gas market.

Last year also saw an increase in the number of traders importing natural gas into the Czech Republic. In addition to RWE Transgas, a.s., which holds a dominant market position due to historical development and which supplies gas only to gas traders, and VEMEX s.r.o., a subsidiary of the Russian gas company OAO Gazprom, which supplies gas to both gas traders and final customers, the following companies started to import natural gas into the Czech Republic: Česká plynárenská, a.s., which has won a gas sales agreement in Norway, Lumius, spol. s r.o., which mainly buys natural gas in Germany, and the German company WINGAS GmbH & Co. KG, which, however, discontinued supplies to the Czech Republic at the end of the year.

4.1.3 Changed rules for gas market organisation – storage capacity reservation

With effect from 1 October 2008, the Office has changed the procedure for storage capacity booking in the Czech Republic by amending its public notice no. 524/2006.

Prior to the amendment, the public notice contained rules for storage capacity booking in the case of its shortage on the *pro rata* principle (storage capacity booked in proportion to the amount of the requests). However, these rules did not fully match the principles of the negotiated, i.e. free market, access to storage capacity. On the one hand, this situation resulted in a speculative behaviour of the gas market participants, who requested storage capacity booking and reckoned in advance that storage capacity would not be booked for them to the full amount of their request, and therefore artificially increased their requests, which resulted in an uncertainty of the potential investors in storage capacity concerning the actual size of the demand for storage capacity because they received very distorted signals of the level of demand from the market. On the other hand, there were cases of discrimination against some storage customers on the part of the SSO, because the storage price was set by agreement between the SSO and the storage customer, which created room for possible discrimination against certain market participants.

The Office therefore wanted to introduce such rules for storage capacity booking, which would help to create adequate requests for storage capacity and give clear pricing and investment signals, and would comply with negotiated TPA. This is resulting in support for the development of storage capacity through the extension of the existing and building new underground gas storage facilities in the Czech Republic.

For storage capacity allocation, the method of multi-round online auction has been selected. The definition of storage capacity has been broken down to “storage capacity” meaning the existing, already used capacity, and “new storage capacity” defined as storage capacity put on stream after 1 January 2010. The ways of booking these two types of storage capacity differ in terms of both the time limits within which capacity can be requested and the duration and type of the gas storage agreement.

Since the dominant Czech gas trader, RWE Transgas, a.s., is part of a vertically integrated group that also includes the largest SSO, with which the trader has booked, for a long time ahead, almost all of the storage capacity operated by the SSO, the auction rules contain constraints on such dominant gas traders. The main purpose of this measure is to enhance the development of the Czech gas market by opening access to storage capacity for additional gas market participants and also by the fact that it will not be possible for an affiliated company to speculatively increase the price. This is why gas traders who are part of the same group as the SSO and who have booked with the SSO storage capacity amounting to at least 80 per cent of the capacity of the virtual storage facility operated by the SSO, may only participate in the storage capacity auction if the price per unit of storage capacity is lower than or equal to the current market price of storage capacity.

4.1.4 Annual gas consumption

According to the preliminary data provided by the Balancing Centre, the Czech Republic’s natural gas consumption amounted to 8.683 bcm in 2008, which is slightly more, by 0.4 per cent, than in 2007, but averaged over the last decade it was sub-average consumption again. The low consumption can be attributed to a year with above-average temperatures. Average annual temperature was 9.3 °C, i.e. 1.3 °C above the normal value. Adjusting gas consumption to normal temperatures, natural gas consumption in the Czech Republic increased by 1.5 per cent to 9.199 bcm. However, not even this level of demand matches the maximum levels from the first half of this decade.

4.2 Price formation and setting

The price of natural gas supply to final customers is composed of a part *regulated* by the Office and a part that is *not regulated*, the structure and amount of which is determined by each particular gas trader.

The Office does set some prices even in the environment of a fully liberalised market, namely for gas transmission and distribution, i.e., lines of business that have the nature of a natural monopoly stemming from the ownership of the transmission system and distribution systems.

Charges for gas distribution are set for DSOs as fixed for the whole calendar year effective from 1 January of the regulated year. The DSO shall use these prices for billing its gas distribution, and the gas trader shall use the same price in its billing for gas distribution to final customers.

The charges for gas transmission by the TSO are also fixed and set for the whole calendar year effective from 1 January of the regulated year. Transmission charges are set per unit of the capacity booked for each of the entry and exit points of the transmission system. The TSO shall use these prices for billing gas transmission to all entities on the gas market, which have a gas transmission agreement in place with the TSO.

On the open market, the Office continues to be responsible for setting the prices to be charged by the supplier of last resort to households and small business customers. The prices for the supplier of last resort are calculated using the cost-plus method. In 2008 no customer ended up in the regime of supply of last resort.

The uncontrolled part of the price of natural gas supply is comprised of the charge for commodity and trade and the price for the other services included in the supply. For the uncontrolled part of the price, natural gas traders determine their own structure of offtake bands for the purpose of customer segmentation, and their own structure of the price related to the gas quantity taken and the maximum daily demand reserved. In determining the offtake bands and the structure of uncontrolled prices, gas traders use their business policy vis-à-vis each of the customer categories and the nature of their gas consumption as the basis. Gas traders also determine the period of applicability of the uncontrolled part of the price for natural gas supply. The period of price applicability is, in particular for large customers, one month, but the price can be fixed for up to one year; in respect of smaller customers, applicability is usually offered for one quarter.

The basis for calculating the charge for commodity and trade is the commodity purchase price and the gas trader's margin, which contains its costs of business and profit. Gas traders calculate the prices for the other services included in the supply by allocating the costs of gas transmission and storage as billed to the trader by the TSO and SSO. The business policy and the structure of the customer portfolio are relevant again in this allocation.

4.2.1 Controlled parts of the price of natural gas supply

Natural gas transmission prices

Natural gas transmission involves the cost of transporting natural gas through the Czech transmission system, the cost of identifying and keeping the required natural gas quality standards (metering of GCV, pressures, etc.), and the costs incurred in the balancing of the Czech gas system.

Natural gas transmission charges are uniform for the whole Czech gas market and independent of distance because of the small area covered by the Czech Republic (the postage stamp principle). Their level depends on the gas quantity that has to be transported over one day (the maximum daily capacity out of all the values over the year). The transmission charge is set for one-year and longer agreements.

Gas transmission agreements are entered into for a term of one year or one day, or for a term of one to eleven months. The price under agreements shorter than one year takes into account the fact that the use of the transmission system varies in different months of the year, and therefore the amount of the effort to provide transmission capacity for a shorter period depends on the specific calendar month and the term of the gas transmission agreement. This is done by means of coefficients, which differ for each month and which put at a disadvantage gas consumption in winter when the demand for this service is generally stronger. Daily contracts are also priced on the basis of these coefficients.

The TSO is obliged to balance the transmission system and in this connection sufficient withdrawal capacities of the storage facilities need to be booked. The costs incurred in reserving withdrawal capacity for transmission system balancing increased in 2009 in comparison with 2008; the reason is a higher charge for gas storage.

For 2009, the principle of three entry and three exit points in the transmission system has been maintained, for which fixed charges for booked capacity have been set.

The parameters for calculating the gas transmission charges for 2009 have been set on the basis of the data furnished by gas transmission licence holders in their regulatory reports for 2007. This data has been used as the basis for calculating the correction factor for gas transmission. Particularly because of the drop in the actual quantity required for driving compressor stations, combined with the lower gas prices for the above year (differences between the actual and planned quantities and the price), a markedly negative correction factor has resulted from the calculations and has been applied to gas transmission charges. Further, in 2007 the TSO entered into agreements on a larger natural gas quantity than had been expected, which is another important element of the negative correction factor.

For 2009, the TSO's overall allowed revenues have decreased by 3.65 per cent; these revenues are composed of allowed costs, depreciation, profit, and the above correction factor. The decrease has been caused by lower costs related to the function of the market operator, which the TSO carries out, and also by the rate of corporate income tax, reduced to 20 per cent, which influences the rate of return on the regulatory asset base, and, above all, by factoring in the markedly negative correction factor that has outweighed the role of the increase in allowed revenues caused by the indexation for inflation and the increase in the planned charge for the pricing of losses and for compressor stations.

Overall allowed revenues are allocated to each of the entry and exit points on the transmission system. In natural gas transmission, these points are classified as points through which gas flows into the Czech Republic and further to the final customers, and points through which gas can be exported. Final customers in the Czech Republic pay the price of the transmission involved in gas import into the country and of gas transmission within the country. Due to the drop in booked capacity in the transmission system, the decrease, effective as from 1 January 2009, in these prices differed from that in overall allowed revenues in comparison with 2008. The charge for daily booked capacity at an exit border point decreased more markedly due to lower transit fees from which it is derived. The changes, in per cent, in the transmission charges for each of the entry and exit points are listed in Table 4.

Table 4 Fixed gas transmission charges

Parameter	Symbol	Unit	2008	2009	Change [%]
Charge for daily booked capacity at the entry border point	C_{heni}	CZK/1,000 cu m	20,838.56	20,628.91	-1.01
Charge for daily booked capacity at the entry point to the virtual storage facility	C_{zeni}	CZK/1,000 cu m	664.92	657.87	-1.06
Charge for daily booked capacity at the domestic entry point	C_{deni}	CZK/1,000 cu m	10.00	10.00	0.00
Charge for daily booked capacity at the border exit point	C_{hexi}	CZK/1,000 cu m	85,233.75	79,893.99	-6.26
Charge for daily booked capacity at the exit point from the virtual storage facility	C_{zexi}	CZK/1,000 cu m	0.00	0.00	0.00
Charge for daily booked capacity at domestic exit points	C_{dexi}	CZK/1,000 cu m	21,660.29	21,442.17	-1.01

A gas supplier who has a gas transmission agreement in place with the TSO includes its costs of purchasing the transmission service in the price of the supply in line with its own business strategy. It is therefore the supplier itself who determines the way of allocating its transmission costs to the variable and fixed components of the supply price.

In 2008 extensive preparations for the third regulatory period, which will start on 1 January 2010, were launched. The precise methodology will be specified by mid-2009 and described in more detail in the Office's Annual Report for 2009.

The gas distribution charge

Distribution, as gas transport over the distribution system to supply points, is a typical line of business that will always be subject to regulation on a fully liberalised market. The reason is that the ownership of a distribution system establishes a natural monopoly in the respective area. There are eight regional distribution systems in the Czech gas system. After the commodity charge, the distribution charge is the second most important element of the resulting price of natural gas supply.

The key economic categories that are contained in gas distribution charges include, primarily, the costs incurred in operating the distribution system, metering, and identifying and processing the data required for balancing the Czech Republic's gas system. Gas distribution charges also contain depreciation of the gas assets that make up a distribution system, which provides for asset replacement. The smallest element of the gas distribution charge is regulated profit, which is calculated on the basis of the average return on gas assets. Depending on their geographical conditions, degree of industrialisation of the area they serve, and density of gas penetration in the household category, distribution systems differ considerably. This also necessitates differentiated controlled prices for each of the distribution companies. Table 5 lists average distribution charges in each year of the second regulatory period by customer categories, and distribution charges for households by regional distribution companies.

Table 5 Average gas distribution charges for each customer category between 2005 and 2009

Company	Category	Average natural gas distribution prices in the second regulatory period									
		Price [CZK/MWh]					Price changes [%]				
		2005	2006	2007	2008	2009	2006/05	2007/06	2008/07	2009/08	2009/05
Czech Republic	Large offtake	66.58	66.82	67.95	73.26	82.43	0.36	1.69	7.81	12.52	23.80
	Medium offtake	114.39	125.50	131.36	141.95	166.60	9.71	4.67	8.06	17.37	45.64
	Low offtake	138.87	154.56	166.05	174.81	197.56	11.30	7.44	5.28	13.01	42.27
	Households	173.52	187.77	201.92	211.60	245.55	8.21	7.54	4.79	16.04	41.51
	Total	113.48	121.59	128.58	135.74	155.76	7.15	5.74	5.57	14.75	37.26
E.ON Distribuce, a. s. (formerly JČPD)		212.93	263.95	302.65	320.87	355.84	23.96	14.66	6.02	10.90	67.11
JMP Net, s. r. o.		158.28	168.66	180.13	190.53	213.01	6.56	6.80	5.77	11.80	34.58
Pražská plynárenská Distribuce, a. s.		159.73	181.96	190.89	196.81	210.56	13.92	4.91	3.10	6.99	31.82
SČP Net, s. r. o.	Households	231.72	236.07	255.76	250.07	273.75	1.88	8.34	-2.23	9.47	18.14
SMP Net, s. r. o.		181.96	203.08	220.27	236.08	280.53	11.60	8.47	7.18	18.83	54.17
STP Net, s. r. o.		177.95	185.36	189.91	224.44	273.75	4.16	2.46	18.18	21.97	53.83
VČP Net, s. r. o.		142.65	147.56	168.58	182.48	216.62	3.44	14.25	8.24	18.71	51.85
ZČP Net, s. r. o.		184.97	203.78	212.12	230.27	273.75	10.17	4.09	8.55	18.88	48.00

The Office sets the gas distribution charges as double-component prices; one component is variable and relates to the quantity of the energy distributed in natural gas at a particular supply point. The other component is fixed; in the case of supply points taking annually no more than 63 MWh, it has the form of the standing monthly charge for the capacity made available, and in the case of higher offtake supply points this fixed component has the form of a fixed annual charge for the maximum daily capacity made available. Through this fixed annual charge customers at specific supply points pay the cost of the capacity required to support the maximum daily offtake, at the lowest ambient temperatures in the case of space heating and at the maximum output of the installed process equipment in the case of gas offtake for process purposes.

In comparison with 2008, for 2009 the average distribution charge has been increased by CZK 20.02/MWh for the whole Czech market, implying a growth of 14.75 per cent. However, this distribution price hike has been reflected in an increase of only 2.43 per cent in the final price of supply averaged over the Czech Republic. The reason is the 16.46% share in the overall price of supply to final customers.

The increase in gas distribution charges for 2009 is mainly due to the following:

- lower volume of planned natural gas distribution,
- application of the correction factor for 2007,
- cost of gas to cover losses in distribution systems, and
- closing the gap between the accounting value and regulatory value of depreciation.

The planned quantity of distributed gas is the key factor in the gas distribution charge. The method of distribution price control employed in the Czech Republic is based on capping the DSOs' revenues. This means that the average distribution charge for a particular operator equals the ratio of the revenues set by the Office and the planned quantity of distributed gas. In 2009 the trend of previous years continues, i.e., a decline in overall gas consumption in the country. Decreasing gas consumption is reflected in an increase in the average price for gas distribution.

The difference between the actually generated revenues and the revenues set by the Office is adjusted after two years through the revenue correction factor. For 2009 the correction factor has been set on the basis of the difference between planned and actual revenues for 2007, which was an unusual year in terms of gas demand due to its warm winter. For 2007, the correction factor across the Czech Republic has been reflected in a 4.90% increase in the average gas distribution charge. This parameter has considerable influence on the level of allowed revenues for the distribution companies SMP Net, s.r.o. and JMP Net, s.r.o. The lowest effect can be felt by Pražská plynárenská Distribuce, a.s.

Depending on the development of natural gas purchase prices during 2008, for 2009 the price of gas for covering losses in distribution systems has been increased approximately by 35 per cent compared with the value used in the calculation of the 2008 prices. Although the cost of gas for covering losses accounts for only 10 per cent of the adjusted allowed revenues it is a factor that has a major effect in terms of the increase in the average gas distribution charge.

The gas market liberalisation process has involved legal unbundling of distribution companies from gas trading licence holders. In connection with legal unbundling as from 1 January 2007, there was a need to value the distribution companies' assets. The depreciation of the assets so valued then differed from the depreciation set for the purpose of for gas distribution price control. The elimination of the difference between the accounting and regulatory level of depreciation was started in 2007 and continued in 2008. The accounting and regulatory values of depreciation were completely levelled in the revenues set for 2009. A more marked effect can be seen in E.ON Distribuce, a.s. and VČP Net, s.r.o.

The increase in average gas distribution charges differs for each of the distribution companies, as evident from Table 5 and Chart 7.

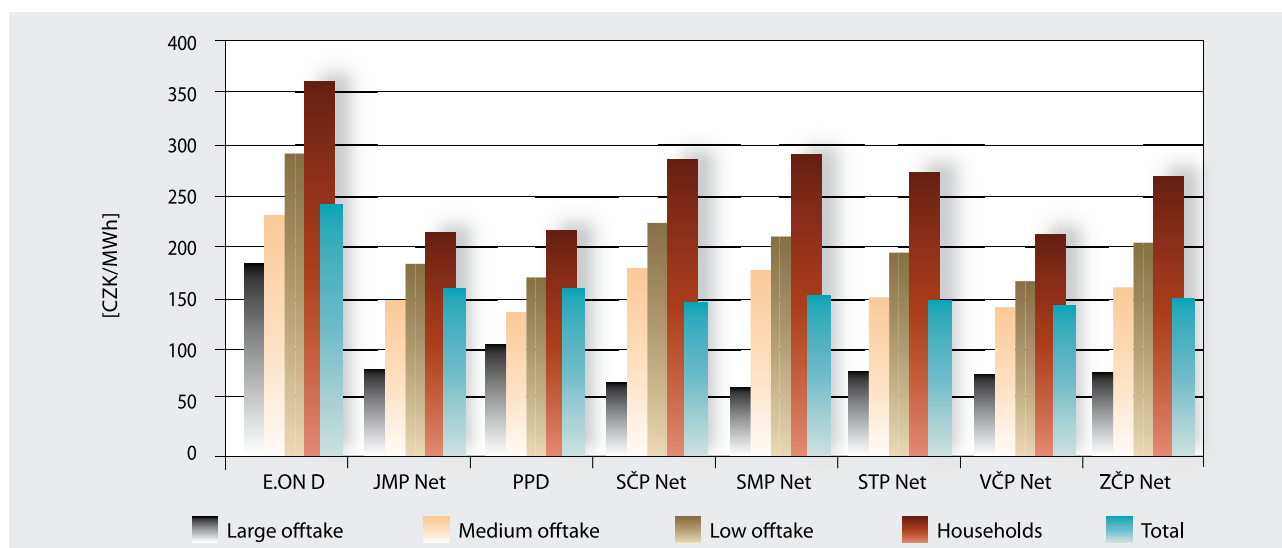
This is attributable to the following factors:

- a) The 2009/2008 change in the distributed quantity is not the same for all distribution companies;
- b) Distribution companies have a different value of the revenue correction factor;
- c) The amount of losses in distribution systems varies; and
- d) The difference between the accounting and regulatory value of depreciation varies for each of the distribution companies.

RWE Gas International B.V. has acquired full ownership of three regional gas companies, and it therefore plans to merge STP Net, s.r.o., SČP Net, s.r.o. and ZČP Net, s.r.o. into a single company during 2009. In this connection, RWE Gas International B.V. has applied for the same tariffs for the three distribution companies, with effect from as early as 1 January 2009. The Office has granted the request; in calculating the prices for these companies it applied the approach of aggregating the input parameters and calculated uniform tariffs for the whole group of the three companies. The first step towards the unification of distribution tariffs was therefore already taken in 2008. This approach has been reflected in a small rise of the average price by 7.32 per cent in ZČP Net, s.r.o. and greater rises in the other two companies. For the whole group of the three distribution companies, the average price for 2009 has increased by 16.08 per cent.

Chart 7 shows average distribution charges for 2009 by customer categories and by distribution companies.

Chart 7 Average natural gas distribution prices for 2009



In connection with the processes precipitated by gas market liberalisation, the second regulatory period saw gradual changes in the conditions related to the methodology of price control in the gas industry. These changes have resulted in the need to adjust the procedures for gas distribution pricing in the third regulatory period, which will start running on 1 January 2010. Extensive analytical work and preparations for adjustments of the regulatory formula parameters and for tightening the regulatory methodology were launched in 2008. The methodology for gas distribution pricing will be specified by mid-2009 and will be described in more detail in the Office's Annual Report for 2009.

Distribution price control for local distribution system operators

In addition to regional distribution systems, local distribution systems provide gas distribution within limited areas. This activity is also subject to price control. Most of the local distribution systems are operated in former industrial areas. The operators of these systems use, as a standard approach, the prices of the regional distribution system to which the respective local distribution system is connected. In such a case, the revenue generated by the local distribution system operator consists of the difference caused by the different prices in the offtake band at the input to the local distribution system and the prices in the offtake bands of the various customers connected to the local distribution system.

ERO public notice no. 150/2007 on regulatory methods in the energy industries and procedures for price control permits local distribution system operators whose revenues do not suffice to meet the costs of operating their distribution system to request the Office to set a different price for gas distribution. For price control, the procedure set out in the above public notice is used *mutatis mutandis*. The main difference is capping the costs, depreciation, and profit in relation to the size of the distribution system and the distributed gas quantity. The aim is to prevent uneconomical operation of the local distribution system within its limited area while protecting the customers who are connected to the local system and have no other option of gas distribution to their supply points.

In 2008, the number of local distribution system operators dropped by eight from the original 91.

ERO price decision no. 11/2008 of 20 November 2008, on prices of gases, which is effective as from 1 January 2009, sets out different gas distribution prices for nine local distribution system operators, the same for whom different prices were also set for 2008.

In late 2008, one of the local distribution system operators requested the Office to set a different gas distribution price for the system it operated. The applicant is currently specifying in more detail the information required for pricing.

4.2.2 Uncontrolled parts of the price of natural gas supply

Simplifying somewhat, the uncontrolled part of the gas supply price consists of the cost of natural gas purchase, which accounts for 70 to 86 per cent of the supply price, depending on the actual level of the current price of the commodity, the supplier's gross margin that covers net profit, and the supplier's own costs incurred in running the business, and the cost of the other services purchased, such as gas transmission and storage.

Commodity purchase price

The commodity purchase price is the key variable in calculating the final price for customers. Throughout 2008, the import price was gradually and significantly increasing and the growth culminated in December 2008. Thereupon the price dropped again. The cause of the surge in natural gas prices (Chart 8) was the record commodity prices on the world markets. Particularly oil prices rose from about USD 90/bbl at the beginning of the year to USD 150/bbl by mid-2008. Oil prices then started to plunge to about USD 40/bbl in early 2009.

From the maximum levels, oil prices have dropped to the current price of about USD 40/bbl. Natural gas prices follow those of oil, oil products, and coal, with a lag of several months - six to nine months depending on the weighting of the various input parameters. The oil price drop can therefore be seen in natural gas prices in early 2009.

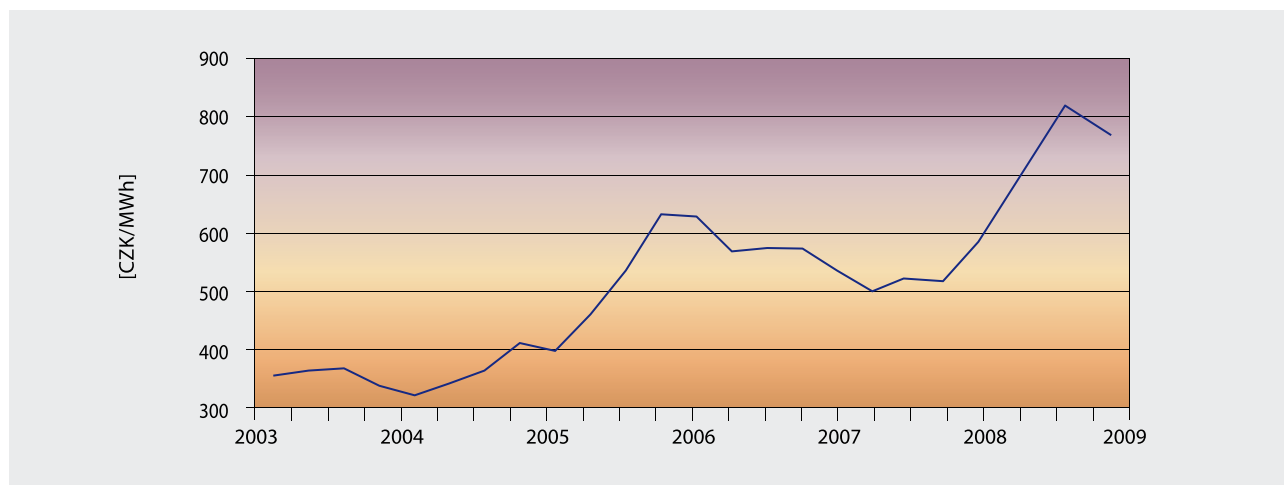
Another factor that in 2008 heavily influenced natural gas prices in the Czech Republic was the Czech currency's US dollar rate. In Q2 and Q3 2008 the Czech currency significantly appreciated in respect of all currencies. This development had a favourable effect on natural gas prices and partly offset the growth caused by rising oil and oil product prices.

From Q4 2008 the Czech currency started to weaken significantly, thereby pushing the sales prices of natural gas up again; they started to reflect the high summer oil prices. This resulted in the two most important factors that influence natural gas prices in the Czech Republic cumulating. The outcome was a negative development, which came to a head in December 2008 when the natural gas price was more than 100 per cent higher than the average price until 2004 or 2005, marking the beginning of an effectively continuous rise in the commodity price.

The prices of oil products, from which natural gas prices derive, experienced the following development in 2008. For example, 1% Fuel Oil at Rotterdam, which is taken into account in natural gas pricing for the Czech Republic, started the year at about USD 450/t. In July the price hit the highest ever level of USD 823/t and at the end of 2008 it closed at USD 215/t. Gas oil is another commodity that enters the formula for calculating natural gas prices, specifically Gasoil 0.1, also quoted in Rotterdam. In early 2008 its price was USD 824/t, and by July it climbed to the highest ever level of USD 1,324/t, to close the year at USD 430/t. Another important commodity that affects natural gas prices in the Czech Republic is hard coal, which developed similarly to the key commodities, fuel oils, throughout 2008.

Natural gas prices on the wholesale market according to the Office's forecasts are illustrated in Chart 8. This price is understood to be the natural gas price, net of the additional items such as margin or structuring, for which gas trading licence holders could buy natural gas in the Czech Republic. The chart, which shows import prices between 2003 and early 2009, also shows the rise of the natural gas price throughout 2008 on an exponential curve.

Chart 8 Development of the wholesale market price forecast by the Office



Natural gas storage prices

In addition to RWE Gas Storage, s.r.o., which owns six of the eight underground gas storage facilities located in the Czech Republic, also Moravské naftové doly, a.s. and SPP Bohemia, a.s. were active on the Czech natural gas storage market in 2008.

Moravské naftové doly, a.s. operates the Uhřice UGS facility; the owner and operator of the Dolní Bojanovice facility is SPP Bohemia, a.s. The last mentioned facility is only used for the Slovak Republic's needs, both under contracts and also for technical reasons of connection to the transmissions system.

More than 90 per cent of the gas stored in UGS facilities for supply to the Czech market in 2008 was owned by RWE Transgas, a.s., and the balance was owned by Pražská plynárenská, a.s., the Italian company ENOI S.p.A., Pragoplyn, a.s., and United Energy Trading, a.s.

The licensed activity of gas storage in UGS facilities is not subject to regulation; each of the SSOs determines its price for natural gas storage on its own. In 2009, the price for natural gas storage rose approximately by 20 per cent compared with 2008 in the Czech Republic.

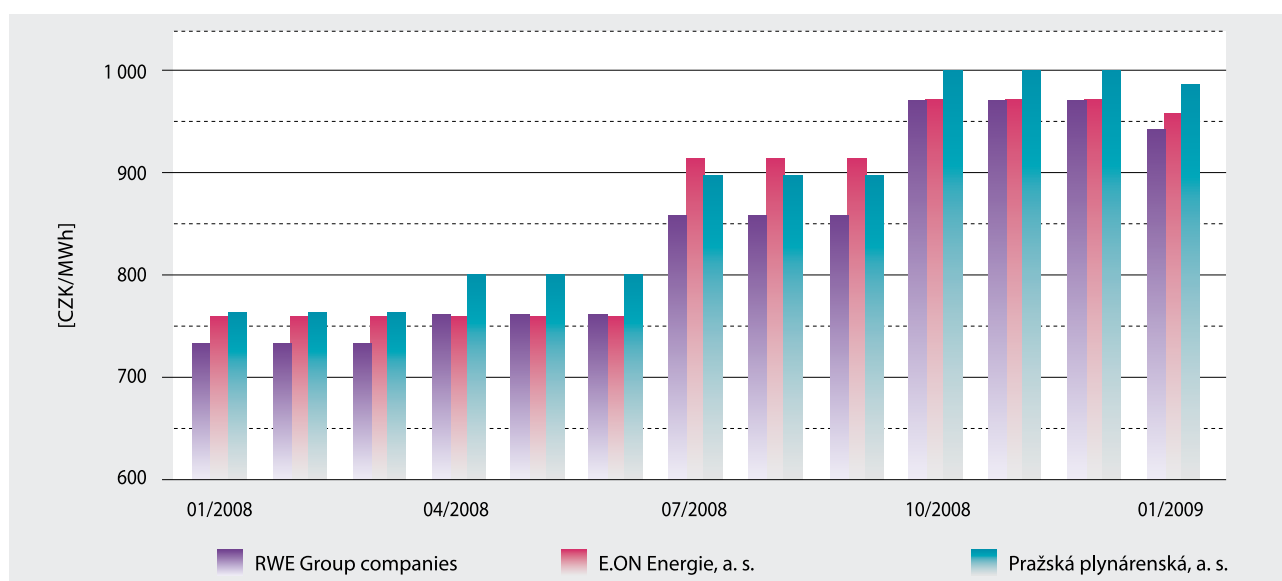
Gas suppliers include the gas storage service in their prices of gas supply in the form of the cost of procuring this service and in line with their own business strategy. Thus, every trader himself decides about the way in which these costs will be reflected in the variable and fixed components of the gas supply price.

4.2.3 Natural gas supply prices for households

There is currently no strong competition in the household category. Most households continue to take gas from traders of the incumbent vertically integrated undertakings. Relatively firm rules for calculating the final price therefore apply in this customer segment, and customers do not have freedom to negotiate the terms and conditions of supply.

Average prices of natural gas supplies to households from major gas suppliers are shown in Chart 9, which is based on the price lists applicable to the respective period and published by the companies, which are used for the portfolio of household customers. The prices are shown without VAT and cover the commodity charge and gas transmission and storage charges; they do not include gas distribution charges.

Chart 9 Development of average prices of natural gas supply to households from major suppliers



Source: Trading companies' price lists, ERO

Charts 10 and 11 show the structure of the overall supply price for the household category in the first quarter of 2008 and 2009, respectively. The chart for 2009 has been derived from the controlled transmission and distribution charges for 2008 and an analysis of the traders' price lists. The most important change between these two years is the level of the storage price, which has risen year on year, whereby its percentage share in the price of supply has increased at the expense of the share taken by the other items, mainly gas transmission and distribution. The commodity charge has also risen. Because of the growth in almost all elements of the price, the higher price of the commodity did not affect the composition of the price of supply in percentage terms.

In comparison with 2008, in this category the overall share of regulated items has decreased by less than two per cent to an overall share of 22.2 per cent.

Chart 10 Structure of the average gas supply price to household customers, 1Q 2008

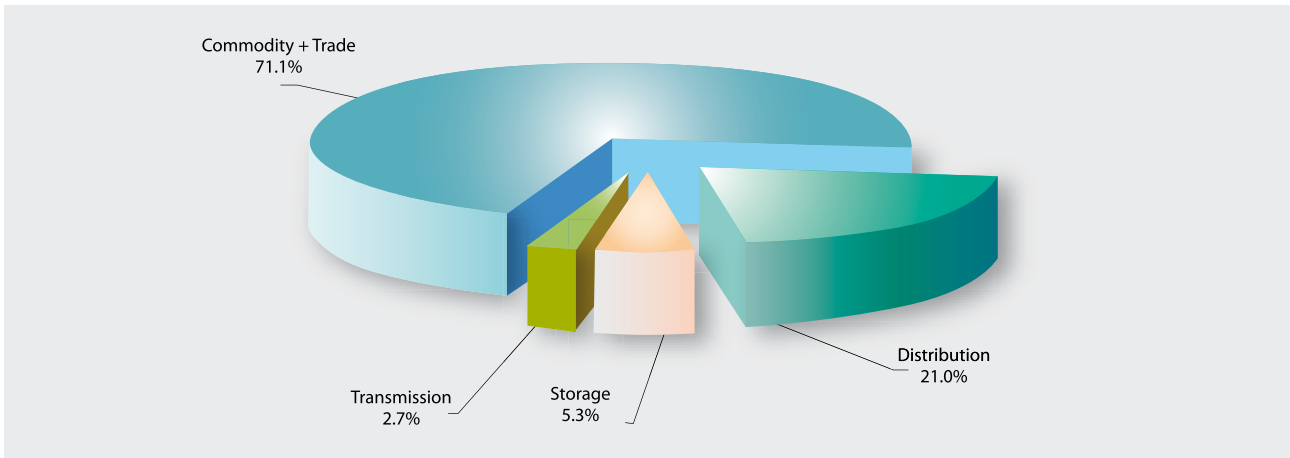
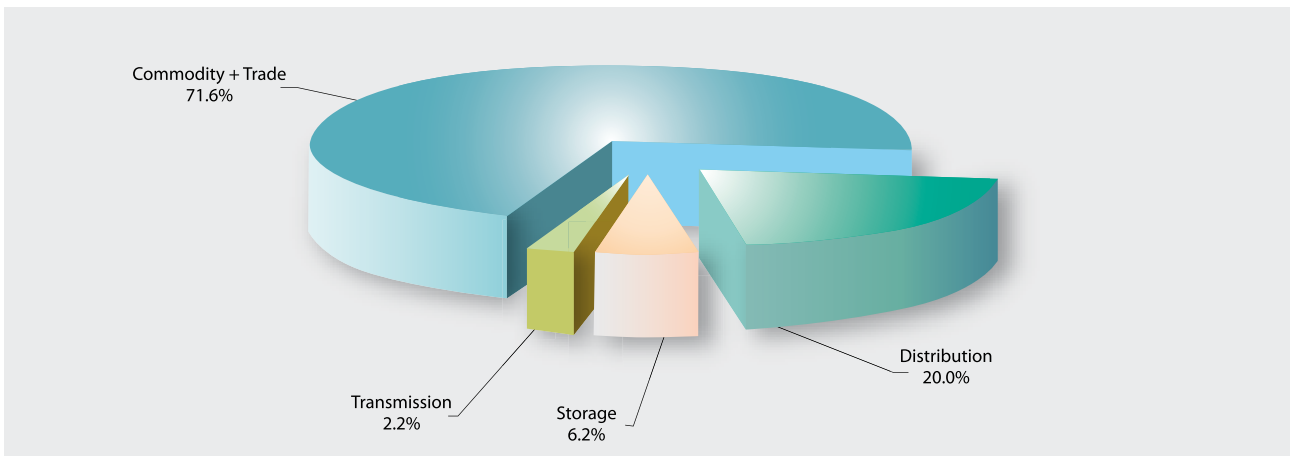


Chart 11 Structure of the average gas supply price to household customers, 1Q 2009



5

Regulation in the heat supply industry



5 Regulation in the heat supply industry

5.1 The heat supply market

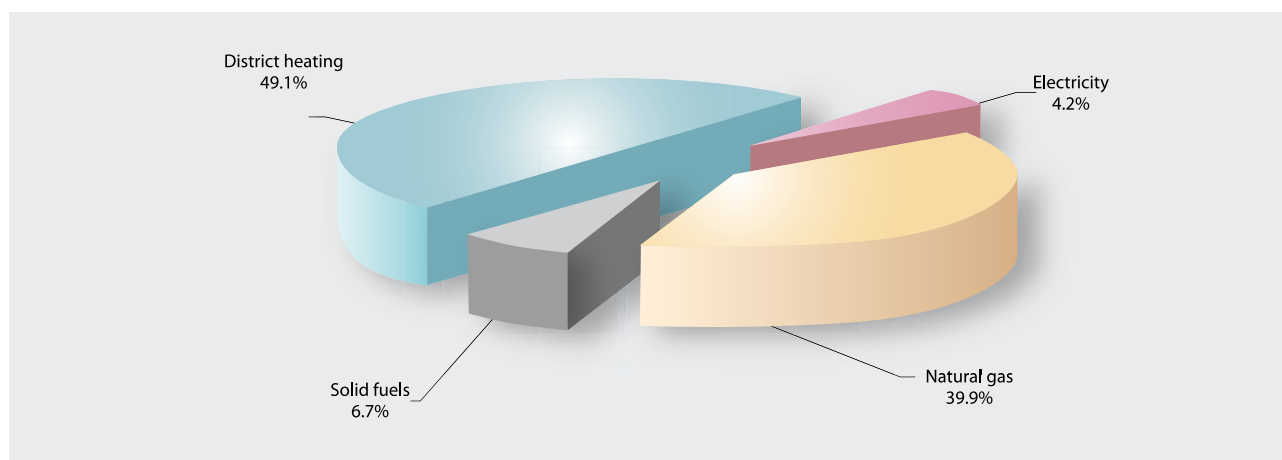
In the Czech Republic, district heating systems (DHS) are traditional and widespread. Similarly as water, gas and other supply systems, they form a fundamental component of the structure of municipalities. They are located within municipalities and serve their citizens and both business and non-business customers.

Thermal energy suppliers are a large and highly diversified group of businesses that differ by their size, form of business, production equipment, and extent of their heating plant. The companies that supply thermal energy from DHS or local boiler installations can be regarded as natural local monopolies in most cases. For their customers this means a limited opportunity to change their thermal energy supplier or find a substitute to replace this way of heating. In the development of towns and their parts, the decision on the way of thermal energy supply, whether the need of heat supplies to households and civil amenities will be met by centralised or decentralised facilities or individually, is usually taken as early as the planning stage. Any changes later, if feasible at all, then require considerable financial costs on the part of customers and cause a heavy administrative burden.

Individual heating or heat production in small gas-fired boiler installations are the main competitors to DHS. However, environmental requirements cannot be fully met in these generating plants. The competitiveness of DHS depends on the costs incurred in thermal energy generation and distribution, i.e., primarily on the efficiency of production and the most effective use of the primary fuel. Well designed and operated systems of combined heat and power generation (in heat & power plants) or in cogeneration can use up to 90 per cent of the fuel's energy, which has favourable economic and environmental effects.

The objective of regulation in the heat supply industry is to mitigate the impacts of the market's imperfections and to actively help protect final customers wherever due to the absence of typical market mechanisms competition does not have strong enough influence on thermal energy prices, thereby providing at least the basic protection against potential abuse of thermal energy suppliers' dominant position. Moreover, the pricing conditions have been designed so as to motivate suppliers to enhance the economy of thermal energy generation and distribution and also to prefer thermal energy generation from renewable energy sources and combined heat and power with a view to reducing the demand for primary resources and emphasising greenhouse gas emissions reduction.

Chart 12 Energies contributing to heat supply to households



5.2 Thermal energy price control

The Office does not apply the same price control to the heat supply industry as to the other energy industries. For example, it does not cap thermal energy prices, but applies cost-plus control to thermal energy, i.e., puts in place general rules for calculating and negotiating thermal energy prices, which can therefore reflect all the technical and other specific conditions of thermal energy generation and distribution in each particular locality.

The Office continuously assesses the development of thermal energy prices and publishes surveys of these prices on its website, including additional details on thermal energy supplies in each of the price localities. The publication of this information helps to enhance the public's awareness of the prices prevailing in the various localities and makes it possible for thermal energy customers to compare them and gives them a better position in price negotiations with suppliers.

Over the long term, the stable rules for price control in the heat supply industry contribute to the stability of this industry and help to provide for reliable, safe and affordable thermal energy supplies to final customers. They also make it possible for thermal energy supplier to achieve a return on the costs they have to spend, and reasonable profit related to thermal energy generation and distribution. These rules also provide support in dispute resolution and inspections of the prices charged.

In 2008, the same basic conditions for thermal energy price calculation and negotiation as in the previous years were applied. To lower thermal energy prices, more liberal conditions for their calculation applied.

5.2.1 Cost-plus price control

Thermal energy prices are subject to regulation under Section 6 of Act No. 526/1990 on prices, as amended, by way of cost-plus control, consisting in putting certain requirements for price agreements in place. These requirements are contained in the Office's price decisions and stipulate a mandatory procedure for calculating and agreeing on the thermal energy price between suppliers and customers. The basic condition is that economically justifiable costs of, and reasonable profit from, thermal energy generation and distribution may only be reflected in thermal energy prices.

For 2008, the mandatory procedure for thermal energy price calculation and negotiation was set out in ERO price decision no. 5/2007 of 17 September 2007, on thermal energy prices. This price decision preserved the key regulatory principles of previous years; however, some of the conditions were clarified and there were adjustments to the allowed annual increases in economically justifiable fixed costs and profit in thermal energy prices. On 1 October 2008, this price decision was amended by ERO price decision no. 6/2008 of 20 August 2008, which adjusted the levels of thermal energy prices in connection with higher natural gas prices.

This more precise specification of economically justifiable costs and the conditions for charging them from 2008 has provided thermal energy suppliers with stronger support in price regulations as regards the possible inclusion of costs into thermal energy prices, while offering inspection authorities a greater legal certainty when they review the justifiability of the costs reflected in thermal energy prices. In 2008, there was no need to determine any procedure for thermal energy pricing for a selected group of thermal energy suppliers different from the procedure set out in the generally applicable conditions contained in ERO price decision no. 5/2007 as amended.

5.2.2 Thermal energy price levels and annual price increases

For purposes of thermal energy price control, the Office stipulates the levels of these prices, which are reference price levels serving for comparison with the average thermal energy prices charged by suppliers in keeping with price decisions. These values are set for each level of thermal energy transfer and divided into two groups by the type of fuel used in thermal energy generation, i.e., coal and other fuels. Other fuels mostly include natural gas, fuel oils and, recently, also biomass.

Because of the changes in taxation and the expected fuel price increase from 1 January 2008, for 2008 thermal energy price levels for final customers were increased by 16.4 per cent and 9.3 per cent in the case of thermal energy generation from coal and from other fuels, respectively. Every year, the quantity of thermal energy supplies priced below the thermal energy price levels is increasing. Of the total quantity of thermal energy supplied to final customers, more than 50 per cent of the supplies are priced below the stipulated thermal energy price levels.

In the event that a supplier charges an average thermal energy price below the stipulated price level, this price is only subject to the basic rules of cost-plus control. For thermal energy prices above these levels, there exists a mandatory cap on the annual growth in the overall level of fixed costs and profit in addition to the basic rules of cost-plus control.

For regulated entities, the proportion of the costs reflected in thermal energy prices is important, both variable costs, primarily fuel costs, and profit and fixed costs, which chiefly reflect costs of the operation of equipment, the way of its financing and some other factors concerning thermal energy generation and distribution. The conditions for the possible inclusion of certain cost items into thermal energy prices, laid down in price decisions, incentivise suppliers to optimise the cost items in thermal energy generation and distribution and to improve the efficiency of the operation of heat installations, for example, by improving their efficiency or reducing thermal losses.

Chart 13 shows the quantity of thermal energy from each fuel and the number of price locations by fuel. Although natural gas is fired for thermal energy generation in most of the price localities, the predominant part of thermal energy is produced from coal.

Chart 13 Thermal energy quantities and number of price locations (CL) by fuel

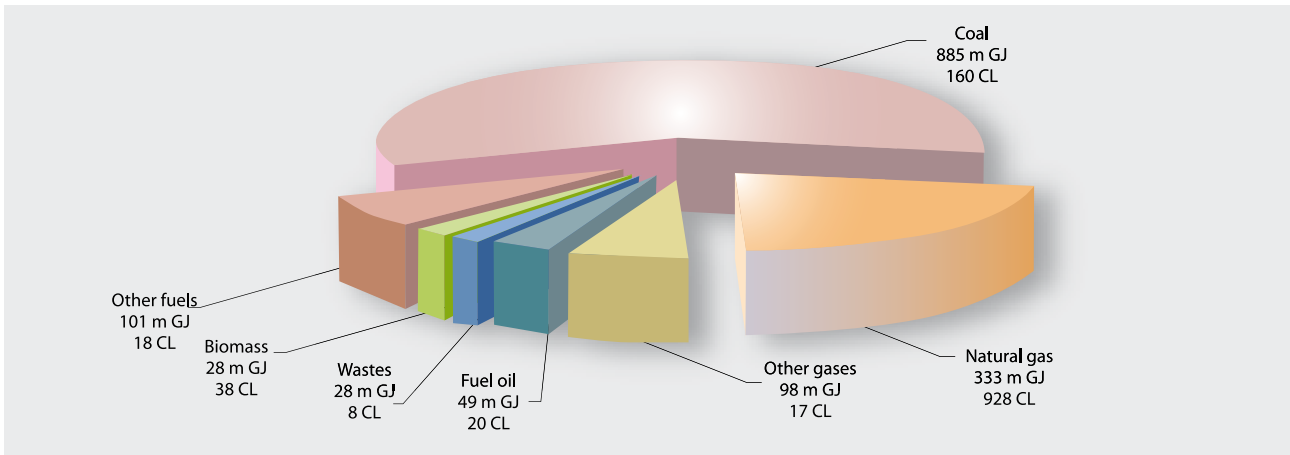


Chart 14 indicates that fuel costs markedly predominate in the price of thermal energy produced from natural gas. Chart 15 shows the shares of cost items in the price of thermal energy produced from coal, when, on the contrary, fixed costs predominate.

Chart 14 Average share of costs in the price of thermal energy produced from natural gas

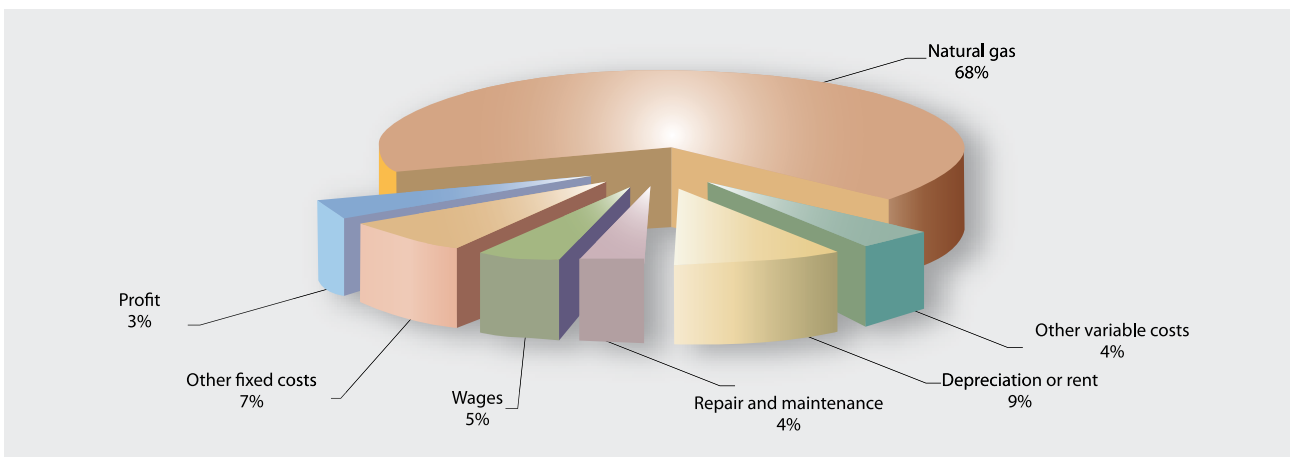
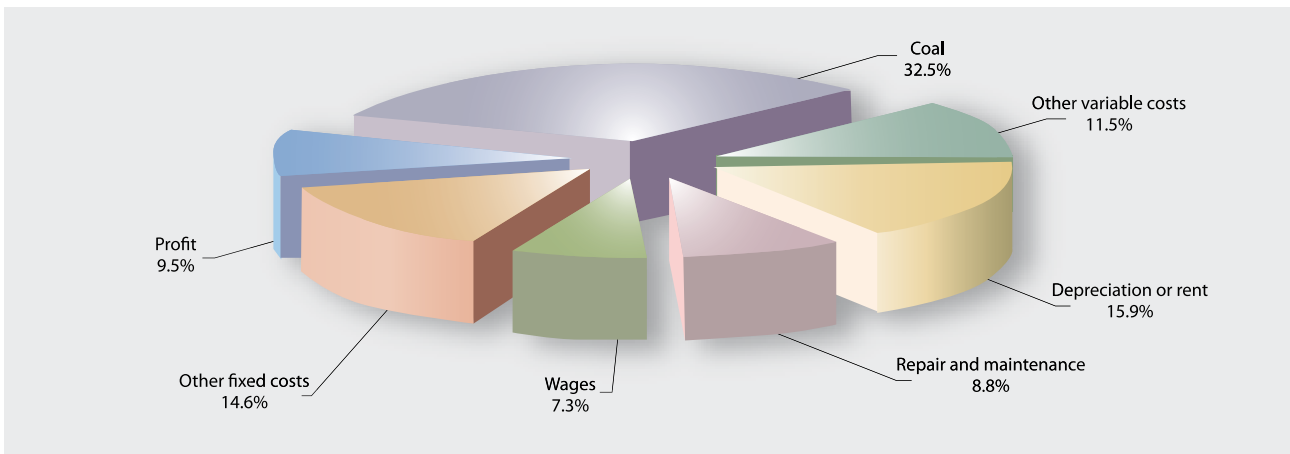


Chart 15 Average share of costs in the price of thermal energy produced from coal



5.3 Thermal energy price inspections

In its capacity of a price inspection authority within the meaning of Section 2c of Act No. 265/1991 on the competencies of the Czech Republic's authorities in the area of prices, the Office performs inspections of prices in the energy sector and issues legal regulations for price inspection in the energy sector. The Office has also the remit to perform inspections in the heat supply industry under the Energy Act, under which the Office reviews licence holders' observance of their obligations under a separate legal regulation, which is the law on prices.

Price inspections, within the meaning of Act No. 552/1991 on State inspection, are usually performed at regulated entities during a current calendar year, when the Office checks observance of mandatory procedures and conditions for agreements on thermal energy prices, in particular observance of the annual price increases, the customary nature of the amount of cost items in the calculations, and ways of reaching agreement on thermal energy prices so calculated with the customers.

The Office does not only perform inspections under the law on State inspection; examining prices is also an integral part of addressing customers' complaints. The Office checks details of the development and level of thermal energy prices as part of dealing with various submissions or examining the data supplied in the regulatory reports furnished by regulated entities every year. In 2008 the Office dealt with a larger number of complaints and disputes between suppliers and customers concerning thermal energy prices. The reason was a higher increase in thermal energy prices in 2008, caused by energy price hikes, a higher VAT rate, and the introduction of the so-called environmental tax.

Table 6 Inspections performed under Act No. 552/1991

Year	Number of thermal energy generation and distribution licence holders	Number of price locations	Number of inspections	Number of price locations inspected	Thermal energy quantity subjected to review [GJ]
2007	752	1,545	2	3	14,376,931
2008	696	1,878	5	27	277,466

5.4 Development and comparison of thermal energy prices

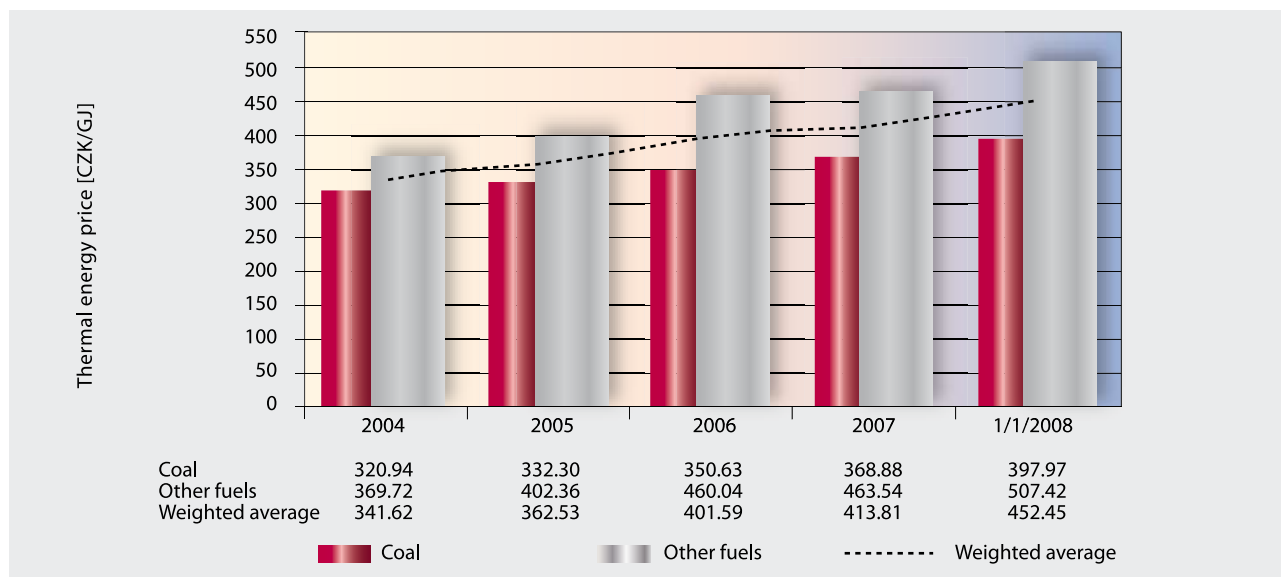
To analyse the development of thermal energy prices the Office uses the reports that it receives for every year under no. 404/2005 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports, from the thermal energy generation and distribution licence holders who are subject to regulation. The reports contain the key financial and technical information that helps the Office to draw a picture of the condition and development of the heat supply industry and to assess the regulated entities' financial stability.

5.4.1 Development of thermal energy prices for final customers

To assess the impacts of regulation and to protect consumers' and thermal energy generation and distribution licence holders' interests, the Office analyses the development of thermal energy prices and the factors that primarily influence these prices. Average thermal energy prices for final customers are continuously rising. The key factors causing this trend include the rising prices of the fuels for thermal energy generation and also the declining quantity of thermal energy supplied to final consumers.

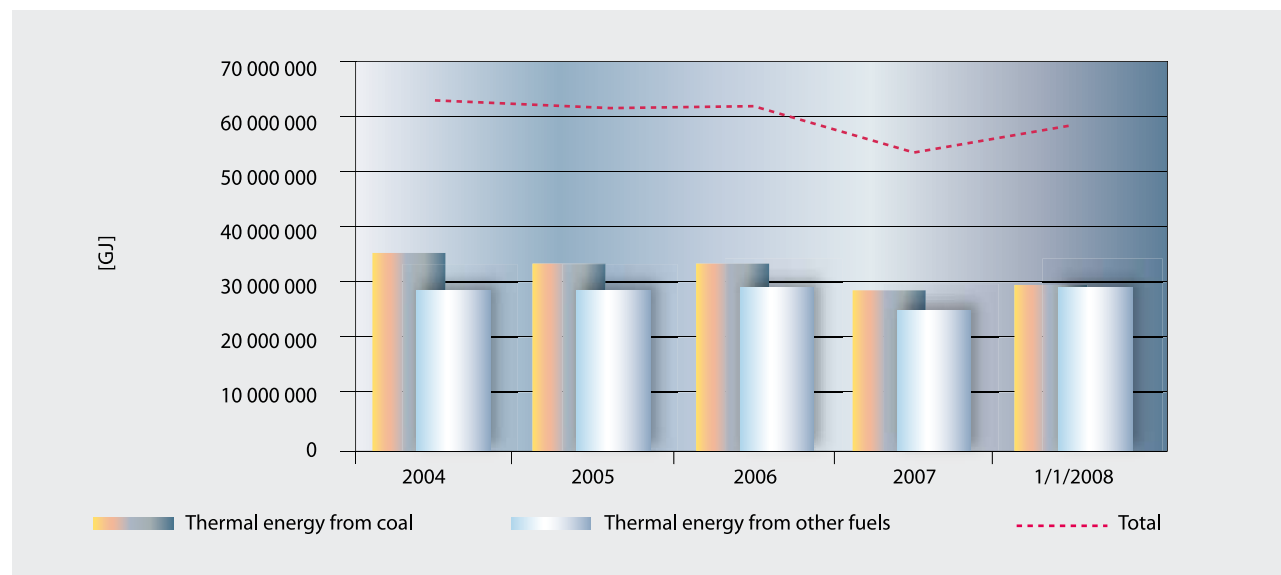
Chart 16 shows that on 1 January 2008 thermal energy prices increased considerably year on year, because in addition to the increase in fuel prices and a slight decline in thermal energy supplies, there were some changes in the taxation of thermal energy, i.e., the environmental tax was introduced and the lower VAT rate was increased.

Chart 16 Thermal energy prices for final customers



Coal is mostly used for thermal energy generation in large district heating systems. The other fuels for thermal energy generation, with natural gas and fuel oils predominating, are chiefly used in small and medium-sized district heating systems. Chart 17 shows the drop in the quantity of thermal energy supplied in each of the years, which is attributable to rising average ambient temperatures, thermal insulation of heated buildings, and also the use of devices that control thermal energy supply.

Chart 17 Thermal energy quantities by fuel



5.4.2 Comparison of thermal energy prices

The survey of average prices for final customers is complete with a comparison of their levels by region, showing the shares of the fuels used in thermal energy production. The comparison of the average thermal energy prices is based on the final prices of 2007 and preliminary prices on 1 January 2008 and shown in Table 7 and Chart 18.

Regions with extensive district heating systems and large combined heat and power generation capacities in which coal predominates as the fuel, have the lowest average thermal energy prices. On the other hand, regions with the largest proportion of district heating systems fired mostly by natural gas and fuel oils have the highest average thermal energy prices for final customers. An exception is the Vysočina Region, where the other fuels predominate but owing to the large share of biomass it has a lower average price than the national average.

Table 7 Average thermal energy prices for final consumers by region

Region	Average resulting thermal energy price	Share of coal	Share of other fuels	Average preliminary thermal energy price	Share of coal	Share of other fuels	Difference
	2007			1 January 2008			2007-2008
	CZK/GJ	%	%	CZK/GJ	%	%	CZK/GJ
Pardubický	321.39	70.38	29.62	348.75	73.34	26.66	27.36
Královehradecký	348.62	73.39	26.61	383.05	68.22	31.78	34.43
Plzeňský	380.04	53.31	46.69	377.44	61.95	38.05	-2.60
Moravskoslezský	382.03	72.25	27.75	424.13	60.24	39.76	42.10
Ústecký	406.95	72.93	27.07	442.34	73.91	26.09	35.40
Středočeský	421.07	59.54	40.46	462.06	49.95	50.05	40.99
Karlovarský	423.85	44.81	55.19	458.88	58.34	41.66	35.03
Vysočina	426.50	7.29	92.71	454.89	7.75	92.25	28,38
Praha	430.52	43.61	56.39	459.71	42.20	57.80	29.19
Jihočeský	432.45	48.64	51.36	471.54	53.21	46.79	39,09
Olomoucký	433.19	50.90	49.10	485.72	54.05	45.95	52.53
Zlínský	449.98	50.51	49.49	491.98	44.52	55.48	42.00
Jihomoravský	474.18	5.16	94.84	548.12	6.44	93.56	73.94
Liberecký	515.77	3.11	96.89	555.87	3.84	96.16	40.10
National average	413.80	52.53	47.47	452.45	50.23	49.77	38.65

Chart 18 Average thermal energy prices for final customers by region, 1 January 2008

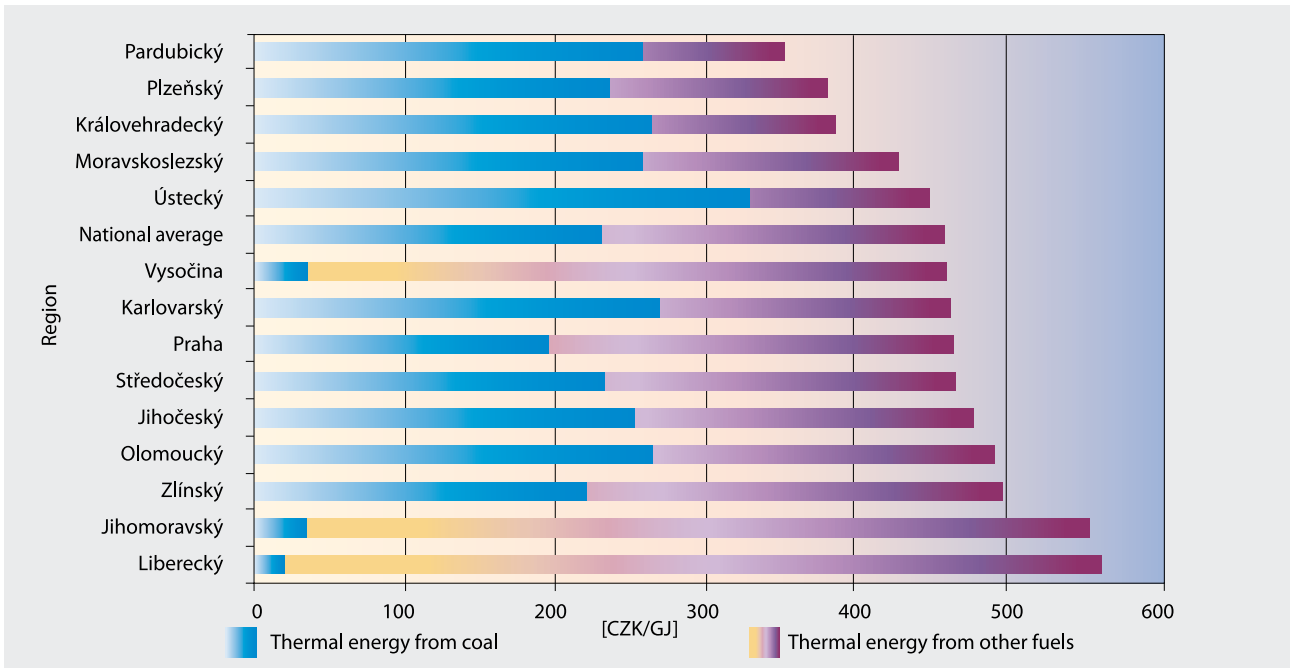


Chart 19 shows thermal energy prices for final customers in relation to the plant's load factor.

Chart 19 Thermal energy prices in relation to the plant's load factor

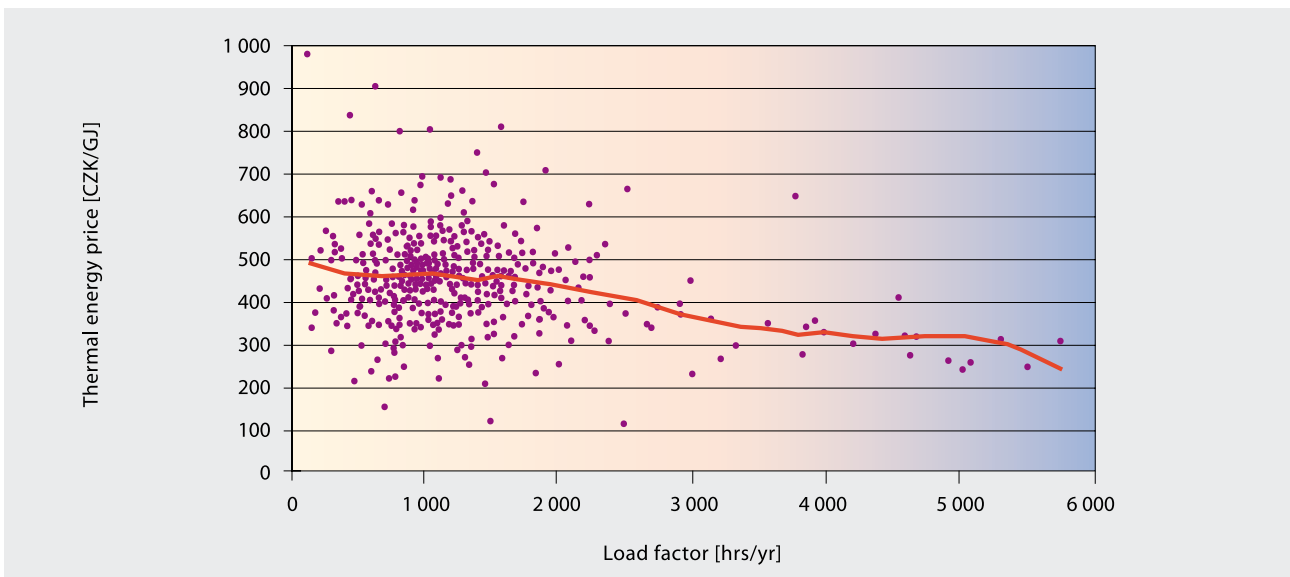
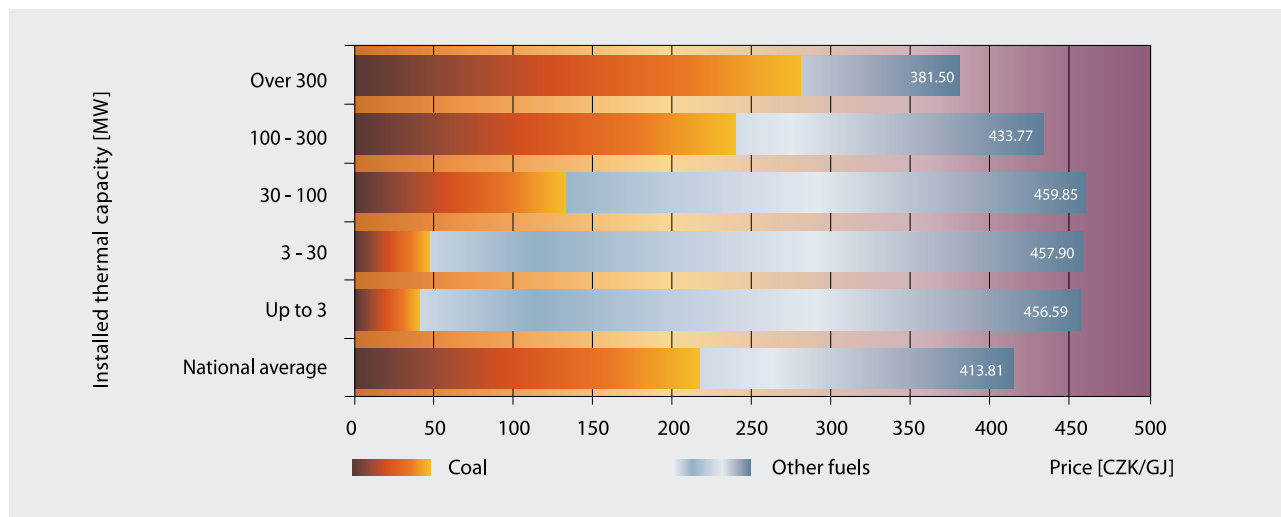


Chart 20 shows the average levels of the final thermal energy prices for final consumers in 2008, by plants' installed thermal capacity

Chart 20 Average thermal energy prices by plants' installed thermal capacity



6

Licensing policy



6 Licensing policy

6.1 Awarding, changing and revoking licences

In 2008 the licensing department's work focused on awarding licences for electricity generation from renewable energy sources in lower-capacity installations, particularly photovoltaic cells, in response to the requirements of the operators of newly developed generating capacities. The number of electricity and gas trading licence holders continued to rise slightly.

The numbers of licences for distribution in the electricity and gas industries have stabilised. In the heat supply industry, the continued trend of transition from district heating to thermal energy supply using each building's or facility's own capacities can be seen.

Table 8 Numbers of valid licences between 2004 and 2008 by object of business

Licence	2004	2005	2006	2007	2008
Electricity generation	1,353	1,407	1,467	1,702	2,989
Electricity distribution	348	321	282	281	281
Electricity trade	146	274	285	293	310
Gas production	12	14	13	13	14
Gas distribution	135	124	103	99	92
Gas trade	31	69	83	85	103
Gas storage	4	4	4	4	4
Thermal energy generation	693	689	674	672	655
Thermal energy distribution	747	737	721	719	699
Total	3,469	3,639	3,632	3,868	5,147

Table 9 Number of licensing proceedings between 2004 and 2008 by purpose

Licence proceedings	2004	2005	2006	2007	2008
New licences	312	372	413	540	1,420
Licence changes	493	495	542	504	598
Revoked licences	194	228	229	174	163

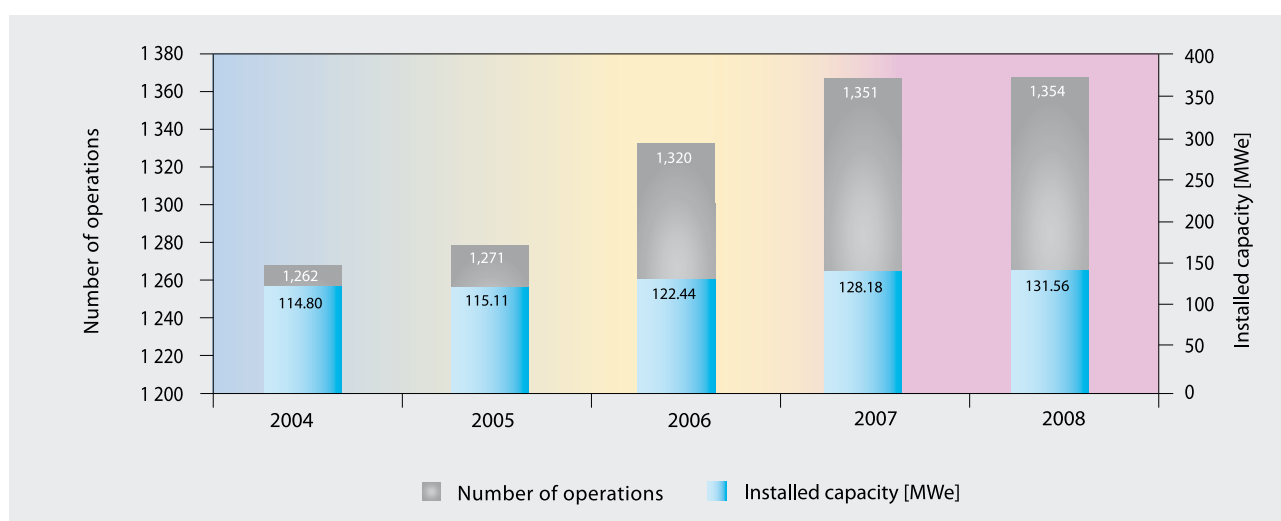
In respect of licensing, 2008 saw a large increase in the number of proceedings on licences for electricity generation, in particular from solar energy. These were mostly licences for 3 to 5 kW installations. There was also a moderate increase in the number of licences for electricity generation in wind power plants and from biogas used in combined heat and power generation, as illustrated in Charts 22 and 24 and Table 10. This rise was mainly attributable to the support for generation from renewable energy sources, where the scheme guarantees a stable level of support for a relatively long time and also a reduced administrative burden on the setting up of these plants and obtaining licences for lower-capacity installations (photovoltaic).

Table 10 Number of electricity generating operations and installed capacities, 2004 to 2008, by type of renewable energy resource

Operations		2004	2005	2006	2007	2008
Hydro	Number [up to 1 MW]	1,262	1,271	1,320	1,351	1,354
	Capacity [up to 1 MW]	114.80	115.21	122.44	128.18	131.56
Wind	Number	26	42	57	69	77
	Capacity [MW]	11.49	34.41	44.50	117.52	149.71
Solar	Number	9	12	28	249	1,214
	Capacity [MW]	0.12	0.15	0.35	3.40	54.29
With a share of biogas	Number	23	36	56	83	115
	Capacity [MW]	7.46	11.31	17.33	31.68	51.24
Landfill gas	Number	21	31	33	53	58
	Capacity [MW]	4.34	7.85	8.43	20.76	21.94
With a share of biomass	Number	20	25	28	31	30
	Capacity [MW]	1,693.13	1,713.97	1,714.46	1,715.56	1,667.85

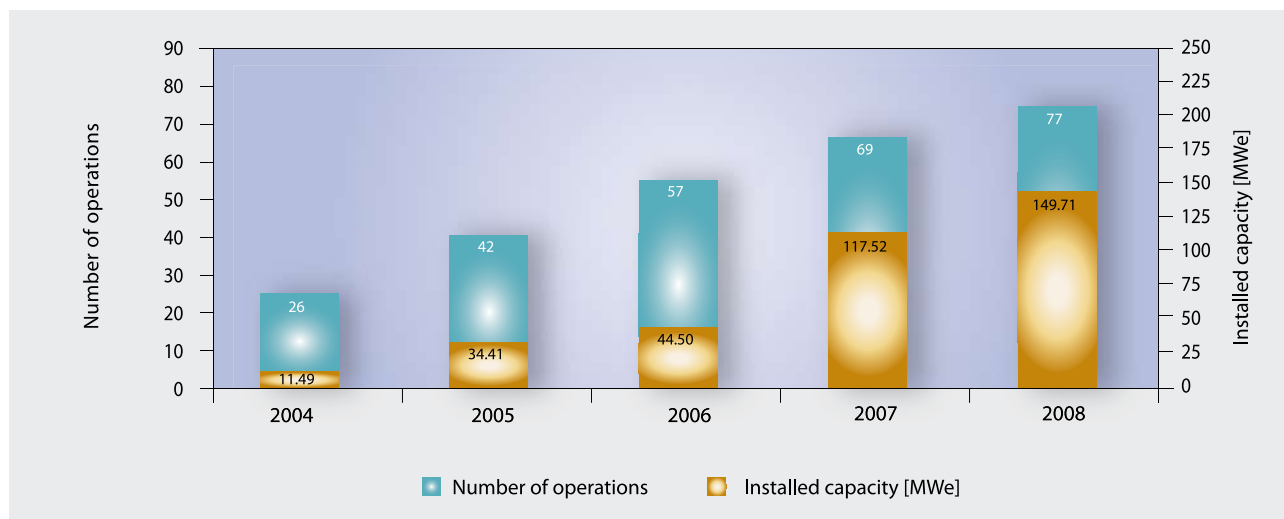
The following graphs show the development of the number of electricity generating operations and of installed capacity by the type of renewable (as at 31 December of each year).

Chart 21 Hydroelectric power stations (up to 1 MWe installed capacity)



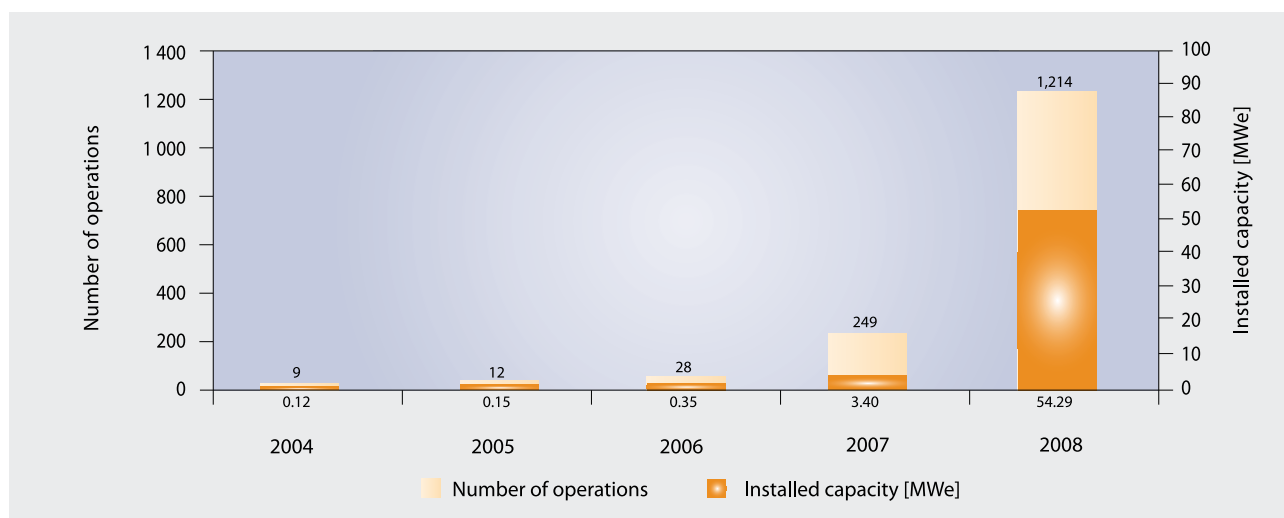
The growth in the number of hydroelectric power stations has almost stopped and therefore the installed capacity of these power stations has increased only slightly. In addition to the minimum construction of new hydroelectric power stations, operations commissioned earlier are being refurbished.

Chart 22 Wind power plants



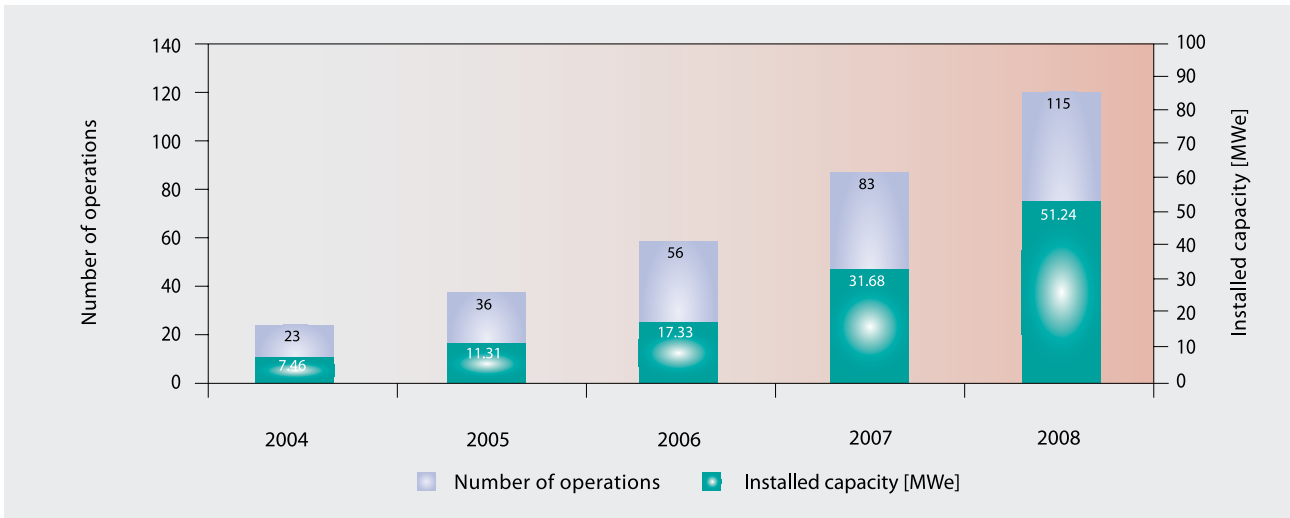
A trend of the construction of plants with higher installed capacity can be observed. This development is concentrated in the Krušné hory Mountains, in the Chomutov, Most and Teplice districts, while the Svitavy and Ústí nad Orlicí districts experience somewhat lower activity.

Chart 23 Solar power stations



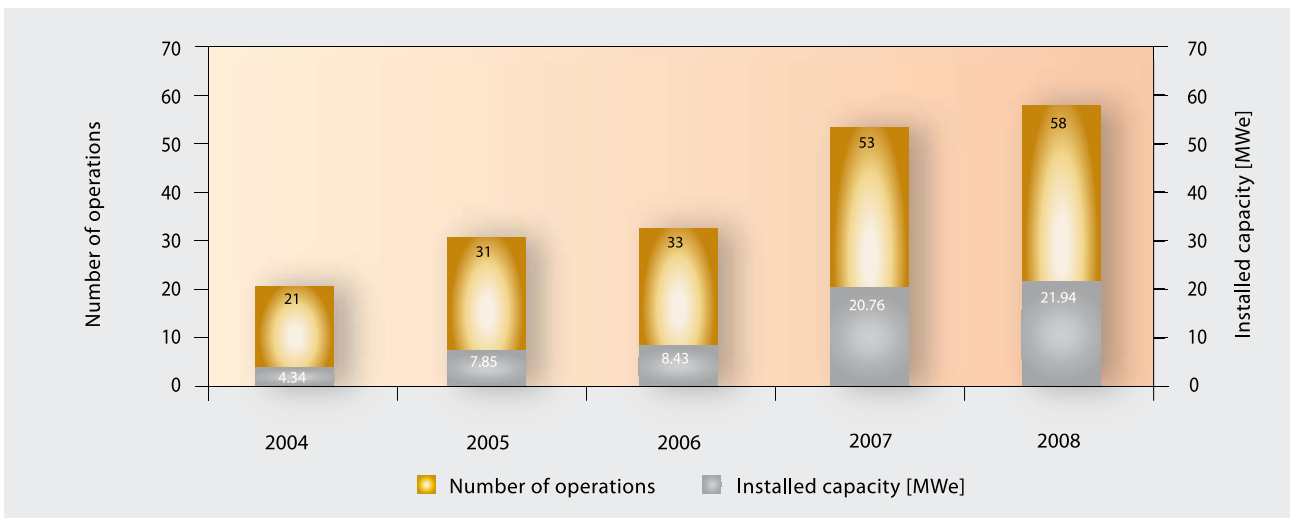
On the basis of the applications for licensing electricity generation from photovoltaic plants the Office expects extensive development of solar power stations to continue, particularly on roofs of all types of buildings, because for erecting such plants there is usually no requirement to obtain a permit in planning proceedings or a building warrant. The number of applications for such licences started to rise notably in late 2008. Thanks to support provided by the regional self-government, the Plzeň Region has also extensively contributed to the rising number of photovoltaic power stations.

Chart 24 Biogas share



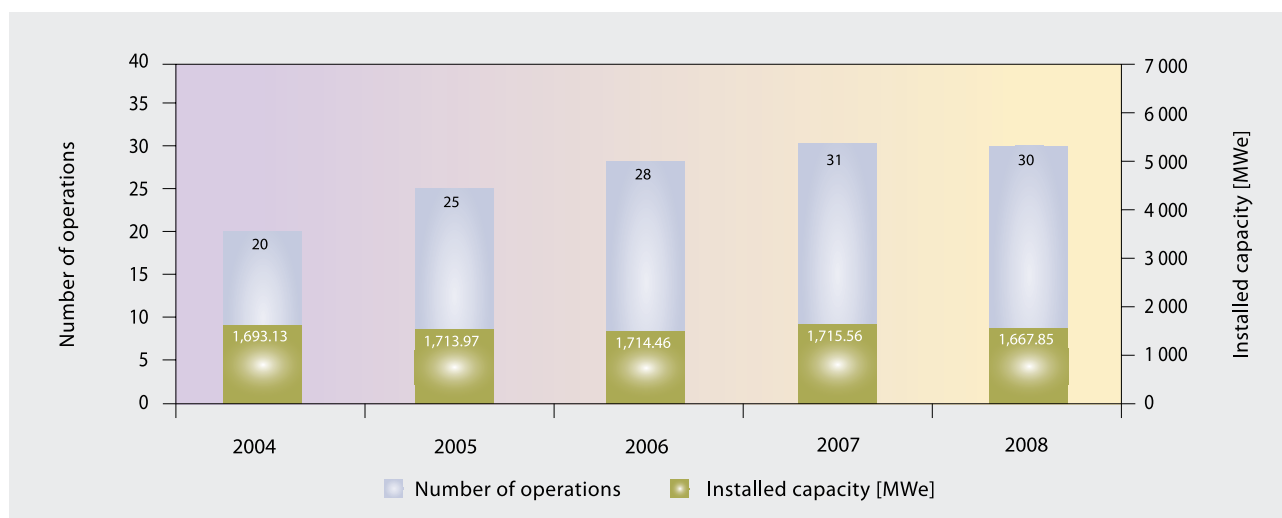
As farming diversifies, the building of biogas-fired electricity generating plants is expanding, in particular as complement to farming as such. Residues of both animal and plant origin from farming production are used for biogas generation. Sludge from wastewater treatment plants is also processed in biogas plants.

Chart 25 Landfill gas



Landfill gas is drained from landfills, treated, and used in internal combustion engines driving alternators for on-site electricity generation.

Chart 26 Biomass share



The year-on-year drop in the number of operations in 2008 was caused by one of the operations switching to a fuel without any biomass component.

Information about the content of the licences awarded, and on changes to and revocation of licences, is published in the *Energy Regulation Gazette* on an ongoing basis; a list of valid licences is posted on the Office's website; it is a list of licence holders structured by the licence groups. There is also a web application that helps to search for details about a particular licence holder. Subject to electricity and gas traders' consent, their contact details are published to facilitate the search for potential electricity and gas suppliers.

6.1.1 Proceedings on administrative fees

In connection with licence award, change or revocation, 37 proceedings were conducted in 2008 in respect of the refund of the administrative fee; in two cases this request was withdrawn before any decision was made. In six administrative proceedings the applicant was requested to pay the administrative fee.

6.2 Recognition of professional qualifications

In 2008 the Office decided in 11 administrative proceedings on the recognition of professional qualifications, with favourable results. No compensation measures within the meaning of Act No. 18/2004, on the recognition of professional qualifications, were required. More complicated cases were consulted with the national coordinator, Ministry of Education, Youth and Sports of the Czech Republic. The Office is involved in a project for an information system of the internal market for effective administrative co-operation and mutual communication between the EU member states' recognition authorities.



7

Administrative proceedings



7 Administrative proceedings

7.1 Administrative proceedings completed in 2008

Electricity industry

FitCraft Production a.s. and ČEZ Distribuce, a.s.: A dispute over access to the distribution system. FitCraft requested ČEZ Distribuce, a.s. to reserve power for its 1.1 MW photovoltaic plant. The respondent sent a rejecting position to the petitioner due to lack of capacity of the distribution facility, because the plant was to be connected to the Lískovec node (TS 220/110kV) where, according to the respondent, it was no longer feasible to connect additional plants. In this area, the connection of all generating plants to the HV and EHV networks was suspended due to the exceeded short circuit strength of R 110 kV at Lískovec. The Office decided that ČEZ Distribuce, a.s. was obliged to issue FitCraft Production a.s. with an affirmative position on its request for the connection of its plant, because ČEZ Distribuce, a.s. did not prove in any credible way that it was not feasible to connect the photovoltaic plant. Similarly, ČEZ Distribuce, a.s. did not raise any specific objections to the studies presented by the petitioner and proving that connection was feasible.

Mykola Lyakh and ČEZ Distribuce, a.s.: A dispute over the execution of a connection agreement. The applicant's petition for ČEZ Distribuce, a.s. to be made obligated to execute with him a connection agreement on the Církvice 10 supply point and to physically connect this point to the distribution system was rejected on the grounds that the petitioner had no rights to the supply point and he should instead arrange for the situation to be remedied with the landlady, who was obliged under the law, depending on the nature of the rented room and the way of its use, to either let the commercial space to the tenant in a condition fit for the agreed purpose of the lease, and to maintain it in this condition at her own cost and provide for the due delivery of the services the provision of which is related to the use of the commercial space and make it possible for the tenant to fully and peacefully enjoy the rights attaching to the lease (Section 5(1) of the law on lease and sublease of commercial space), or let the leased space to the tenant in a condition fit for the agreed use or, if the way of use has not been agreed, for customary use, and maintain it in this condition at her own cost (Section 664 of the Civil Code, because the Civil Code's provisions on the lease of flats do not apply to the lease of a single room like this if it has not been approved as a flat).

TECHNOSERVICE-technické a komerční služby, s.r.o. and ŽDAS, a.s.: A dispute over the execution of a connection agreement. The respondent terminated the agreement that provided for electrical energy supplies to the petitioner. On the basis of talks held at the Office consensus was reached in respect of the wording of this agreement, and the proceeding was discontinued.

Three administrative proceedings were concluded in the electricity industry in 2008. All of these cases involved a dispute over connection to the distribution system, but the subject matter differed in each proceeding: one case involved a dispute over the connection of a photovoltaic electricity generating plant, another case involved a dispute over a connection agreement after the termination of an electricity supply agreement, and therefore in fact did not involve a new connection of the customer, and one case involved the connection of a new applicant, a tenant in a small part of a house in which unauthorised electricity consumption was detected. In one case the administrative proceeding was concluded by a first instance decision – the proceeding was discontinued on the basis of prior agreement reached by the parties. In two cases administrative proceedings were concluded by the ERO Chairman's decision on remonstrance that upheld the first instance decision and rejected the remonstrance.

Similarly as in previous years it can be noted that the situation surrounding disputes in the electricity industry has stabilised – only a small number of disputes have appeared over a long time, and they do not share any characteristic feature, although last year all cases involved disputes over connection. This is considerably helped by a stable environment, predictable for the electricity market players, that has emerged thanks to the Office's activities in the promulgation of public notices and price decisions, and also its educational activities, etc. These activities are geared towards the introduction of clear-cut and incontrovertible rules, which ultimately predetermine these market players' behaviour that does not result in disputes adjudicated by the Office.

Gas industry

Pražská plynárenská, a.s. and RWE Gas Storage, s.r.o.: A dispute over storage capacity allocation. Pražská plynárenská, a.s. requested the SSO to allocate to it storage capacity for storing natural gas for five years from 1 April 2007. However, the SSO allocated much smaller storage capacity to the applicant. Since according to the applicant the allocated capacity fell short of its required storage capacity, the applicant requested adjudication of the dispute, declaring that all storage capacity was intended for serving the current customers of Pražská plynárenská, a.s. The Office examined the specification of free storage capacity, which was to be offered by the SSO on 1 April 2007 to the other gas market participants for reservation, and decided that in respect of a part of the storage capacity, Pražská plynárenská, a.s. had, in the storage period from 1 April 2007 to 31 March 2012, the right to be allocated firm storage capacity by the SSO and imposed on RWE Gas Storage, s.r.o. the obligation to execute an addendum to the gas storage agreement with Pražská plynárenská, a.s. In respect of the remaining part of the storage capacity requested by Pražská plynárenská, a.s., the Office rejected its petition, noting *inter alia* that as regards storage capacity allocation to an applicant who was not a gas trading licence holder on 1 April 2007, the SSO did not proceed in line with the Energy Act and the related implementing regulations. RWE Gas Storage, s.r.o. filed remonstrance against this decision. Subsequently, the Office received a letter retracting the remonstrance, and the proceeding was discontinued.

E.ON Energie, a.s. and RWE Gas Storage, s.r.o.: A dispute over storage capacity allocation. E.ON Energie, a.s. requested the SSO to allocate storage capacity to it. The SSO denied the applicant access to the virtual UGS facility operated by the SSO and did not allocate

storage capacity to the applicant, referring to the procedure under Section 18 of public notice no. 524/2006 laying down the rules for the organisation of the gas market, as amended. The Office decided analogously to the proceeding described in the foregoing. However, the Office rejected the petition in full because the applicant requested storage capacity allocation for a shorter period of time than the applicant in the above proceeding. E.ON Energie, a.s. filed remonstrance against this decision, which was rejected by the ERO Chairman.

STP Net, s.r.o. and ENERGO KD s.r.o.: A dispute over the execution of a gas distribution agreement. On the basis of talks with the Office, the parties reached consensus on the wording of the gas distribution agreement and the Office discontinued the administrative proceeding.

Three administrative proceedings were concluded in the gas industry in 2008, i.e., the same number as in 2007. Although this is a small number of disputes, they were again between the largest entities on the gas market (primarily disputes over access to UGS), and this area can continue to be regarded as the most problematic area in terms of disputes and a risky area in terms of the proper working of the gas market (also with regard to the large number of administrative proceedings in this industry that were not concluded in 2008).

Two of the concluded administrative proceedings concerned a dispute over storage capacity allocation and access to UGS, one of them involved a dispute over the execution of a gas distribution agreement due to disagreement with the requirements for financial standing. In the last mentioned case talks between the parties resulted in the execution of the agreement, while in the first two cases the proceedings were concluded by the ERO Chairman's decision on remonstrance, upholding the first instance decision and rejecting the remonstrance.

Heat supply industry

TATRA, a.s., Taforge a.s., Tafonco a.s., Tawesco s.r.o. and KOMTERM, a.s.: A dispute over disagreement on changes to thermal energy supply agreements, in particular an agreement on price changes as an essential part of a thermal energy supply agreement. According to the petitioners, for 2008 no agreement was reached with KOMTERM, a.s. on the thermal energy price because KOMTERM, a.s. had changed the method of thermal energy price calculation. According to the petitioners, the supplier newly demanded payments for condensate not returned. The petitioners also challenged the costs incurred due to a change of the proportion of used fuels and proposed a review of the proportions, mainly from the perspective of the limits set out in the applicable integrated permission, and potentially the necessary investment in equipment. On the basis of talks, KOMTERM, a.s. adjusted the thermal energy price calculation for 2008. The changes included reduction of the thermal energy quantity by the energy for the additional heating of the condensate in the calculation of the price of thermal energy at the exit from the plant and the non-inclusion of the costs of the additional heating of the condensate into the calculation of the price of condensate not returned. The Office noted that this new calculation of the thermal energy price was in line with the applicable ERO price decision no. 5/2007 and that the supplier was not breaching price regulations. Compared with the previous calculation, there was an increase in the price of the thermal energy supplied from steam distributions and a lower price for condensate not returned. The parties then signed addenda to the thermal energy supply agreements on thermal energy prices for 2008 concluded between the petitioners and respondent on 27 to 31 March 2008, and endorsement of conciliation concluded the proceeding.

Energetické centrum s.r.o. and Teplospol a.s.: A dispute over the execution of a thermal energy supply agreement (on purchase of thermal energy obtained from cogeneration and renewables). The petitioner pleaded that it met all the requirements under Section 80 of the Energy Act (the respondent's need for thermal energy in the locality to which the petitioner wanted to supply thermal energy was not satisfied by thermal energy produced from CHP and renewables, there would be no increase in the total costs of thermal energy generation for the portfolio of the then existing customers, and the parameters of the heat carrying utility matched the parameters in the heat distribution installation at the supply point because the petitioner had, as it stated, designed the connection and the inflow of the heat carrying utility with corresponding parameters) and therefore demanded that Teplospol a.s. purchase the thermal energy produced by the petitioner. According to the Office, Teplospol a.s. was obliged to purchase from Energetické centrum s.r.o. its thermal energy obtained from cogeneration and renewables. On the basis of talks, the parties executed a thermal energy supply agreement and the proceeding was concluded by endorsement of conciliation.

KVĚTNICE stavební bytové družstvo [housing cooperative] and LENOXA a.s.: A dispute over the execution of a thermal energy supply agreement. The customer terminated agreement no. 1202 of 27 May 2005 on thermal energy supply, requesting the execution of a thermal energy supply agreement from 1 December 2007 in perpetuity, with a six months' period of notice, with supply to specified supply points in the customer's buildings in Kuřim. However, until the filing of the petition for administrative proceedings to be commenced, the customer had not received any response from the supplier. The customer therefore petitioned for the Office to decide on the supplier's obligation to execute with the customer, a thermal energy supply agreement on supply to the supply points specified in the petition. On the basis of talks, the parties executed a thermal energy supply agreement and the proceeding was concluded by endorsement of conciliation.

Společenství vlastníků jednotek pro dům Wiesenthalova 959/4, Praha 5 [SVJ, a condominium], Společenství vlastníků jednotek pro dům Wiesenthalova 958/2, Praha 5 [SVJ, a condominium] and České teplo s.r.o.: A dispute over changes of the essentials of a thermal energy supply agreement. In their submittal SVJ noted that they were applying for a decision on changes of

the essentials of thermal energy supply agreements executed between developer PALÁC ENGEL ŠAFRANKA s.r.o. and České teplo s.r.o., provided that under Article 5.2(c) of the purchase agreements, the rights and obligations under the above thermal energy supply agreements had passed to the new owners of the housing units under the purchase agreements on housing units in the residential buildings in question. České teplo s.r.o. noted that no thermal energy supply agreement had ever been executed between SVJ and České teplo s.r.o., however, such agreement had been executed between the original owner of the building, PALÁC ENGEL ŠAFRANKA s.r.o., and České teplo s.r.o.; under Section 4(2)(f) of Act No. 72/1994, the agreement passed to each of the owners of the units in the respective building following the execution of agreements on unit transfer and their registration in the Land Register, and therefore not to SVJ, which were not contracting parties to the agreement. The Office noted that between SVJ and České teplo s.r.o., no proper agreements on thermal energy supply were in place and that the Office was therefore unable to decide the dispute over the changes of the essentials of thermal energy supply agreements, and discontinued the proceeding.

TECHNOSERVICE-technické a komerční služby, s.r.o. and ŽĐAS, a.s.: A dispute over the execution of a thermal energy supply agreement. The respondent terminated an agreement providing for thermal energy supplies to the petitioner. On the basis of talks at the Office consensus was reached on the wording of the agreement, and the proceeding was discontinued.

TEPLO T s.r.o. and Společenství vlastníků jednotek pro dům čp. 1840 na ulici K Čimperku v Tišnově, Společenství vlastníků jednotek pro dům čp. 1841 na ulici K Čimperku v Tišnově, Společenství vlastníků jednotek pro dům čp. 1842 na ulici K Čimperku v Tišnově [condominiums]: A dispute over the execution of a thermal energy supply agreement. Only the customer who demands thermal energy supply may file a petition for administrative proceedings to be commenced with the Office in the case of a dispute over the execution of a thermal energy supply agreement, because under the Energy Act the customer does not have the obligation to contract and therefore no decision can be taken on the customer's obligation to execute a thermal energy supply agreement. The Office therefore rejected the petition filed by TEPLO T s.r.o.

Twelve administrative proceedings were concluded in the heat supply industry in 2008 (as regards their type, there were six administrative proceedings with multiple customers raising similar claims). In 2008 all these proceedings were concluded by a first instance decision; in most cases consensus and conciliation was reached thanks to the Office's activity. The Office discontinued proceedings only in one case; since it was not in the position to decide the dispute in question in the last type of the cases, the Office rejected the petition. One dispute concerned prices – pricing provisions for 2008; one case involved a dispute over the obligation to purchase thermal energy from cogeneration and renewables under Section 80 of the Energy Act; two cases concerned the terms and conditions of entering into a short-term thermal energy supply agreement; one case involved the execution of completely new thermal energy supply agreements; and one case concerned possible changes of the essentials of a thermal energy supply agreement.

It can therefore be noted that in comparison with 2007, when four administrative proceedings were completed, the agenda increased last year. Thanks to the Office's activities, in particular its price decisions (the unchanging nature of the principles of its price decisions), disputes over the level and/or structure of thermal energy prices, which predominated a few years ago, have almost disappeared – there was one such proceeding on pricing in 2008, which was concluded by conciliation. On the other hand, there is a rising number of disputes over the terms and conditions of thermal energy supply, i.e., disputes concerning disagreement on the wording of the thermal energy supply agreement. After several years, last year the Office dealt again with a dispute over the obligation to purchase thermal energy from cogeneration and renewables.

Licences

In 2008 the Office decided to revoke the thermal energy generation and distribution licences of Sklo Bohemia, a.s. In this connection, on 1 October 2008 it imposed on Sklo Bohemia, a.s. the obligation to provide its installations for thermal energy generation and distribution located in Světlá nad Sázavou, while imposing on TEDOM ENERGO s.r.o. the obligation to use these installations for supplying thermal energy over and beyond its own licence. None of the large group of customers suffered any interruption in thermal energy supply.

7.2 Administrative proceedings in which the ERO Chairman delivered decisions on remonstrances in 2008

Under Act No. 500/2004, Rules of Administrative Procedure, as amended, decisions on remonstrances, as a remedy against the ERO's first instance decisions, fall within the competencies of the ERO Chairman, who decides on them upon proposals submitted to him by the remonstrance commission appointed by him.

In 2008 the ERO Chairman decided on remonstrances filed by parties to the proceedings in a total of 23 proceedings. It is also to be noted that another three remonstrance proceedings were commenced in 2008, which were still pending at the end of 2008.

Electricity industry

FitCraft Production a.s. v. ČEZ Distribuce, a.s.: By its decision, the Office rejected the petition filed by FitCraft Production a.s. The petitioner filed remonstrance against this decision. In February 2008 the ERO Chairman quashed the contested decision following discussion in the remonstrance commission, and upon the commission's proposal remanded the case for new consideration. Inadequately established facts of the case were the main grounds for quashing the contested decision.

Following new consideration, the Office decided as follows: it granted the petition for access to the distribution system operated by ČEZ Distribuce, a.s. The respondent filed remonstrance against this decision. In September 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision. The grounds for rejecting the remonstrance were the fact that the respondent failed to support its claims by adequate evidence during the adversarial proceeding.

Mykola Lyakh v. ČEZ Distribuce, a.s.: During the proceeding, the petitioner requested an interim injunction to be imposed. By its decision the Office rejected the motion for the interim injunction. The petitioner filed remonstrance against this decision. In September 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal, chiefly because the petitioner did not have electrical equipment fit for connection to the facilities of the distribution system.

Subsequently, the Office delivered its decision on the merits whereby it rejected Mr Mykola Lyakh's petition. The petitioner filed remonstrance against this decision. In November 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision. The fact that the petitioner did not have electrical equipment fit for connection to the facilities of the distribution system was mainly the grounds for rejecting the remonstrance.

Roman Tobiáš v. ČEZ Distribuce, a.s.: Mr Roman Tobiáš applied to the Office to deliver a decision imposing on ČEZ Distribuce, a.s. the obligation to reimburse him for the costs paid to the DSO in connection with the interruption and resumption of electricity supply. By its resolution the Office set aside the application due to the Office's lack of jurisdiction *in rem*. The applicant filed remonstrance against this resolution. In July 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision, because the subject matter of Mr Roman Tobiáš's application was not a request for deciding a dispute for the adjudication of which the Office had jurisdiction *in rem* under the Energy Act.

Gas industry

Česká energie, a.s. v. RWE Gas Storage, s.r.o.: The Office decided to stay the proceeding commenced upon a petition filed by Česká energie, a.s. in respect of access, for the 2008/2009 storage year, to UGS operated by RWE Gas Storage, s.r.o. pending the final conclusion of a proceeding on a preliminary question conducted before the Municipal Court in Prague. The petitioner filed remonstrance against the resolution on the staying of the proceeding. In October 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision on the following grounds: in the first instance proceeding, the Office correctly established that the resolution of the question of the validity of the gas storage agreement in place between the petitioner and RWE Transgas, a.s. had the nature of a preliminary question having a material effect on the decision on the merits.

Česká plynárenská a.s. v. RWE Gas Storage, s.r.o.: The Office decided to stay the proceeding commenced upon a petition filed by Česká plynárenská a.s. in respect of access, for the 2008/2009 storage year, to UGS operated by RWE Gas Storage, s.r.o. pending the final conclusion of a proceeding on a preliminary question conducted before the Municipal Court in Prague. The petitioner filed remonstrance against the resolution on the staying of the proceeding. In October 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision on the following grounds: in the first instance proceeding, the Office correctly established that the resolution of the question of the validity of the gas storage agreement in place between the petitioner and RWE Transgas, a.s. had the nature of a preliminary question having a material effect on the decision on the merits.

ČEZ, a.s. v. RWE Gas Storage, s.r.o.: The Office decided to stay the proceeding commenced upon a petition filed by ČEZ, a.s. in respect of access, for the 2008/2009 storage year, to UGS operated by RWE Gas Storage, s.r.o. pending the final conclusion of a proceeding on a preliminary question conducted before the Municipal Court in Prague. The petitioner filed remonstrance against this resolution. In October 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision on the following grounds: in the first instance proceeding, the Office correctly established that the resolution of the question of the validity of the gas storage agreement in place between the petitioner and RWE Transgas, a.s. had the nature of a preliminary question having a material effect on the decision on the merits.

E.ON Energie, a.s. v. RWE Gas Storage, s.r.o.: The Office decided to stay the proceeding commenced upon a petition filed by E.ON Energie, a.s. in respect of access, for the 2008/2009 storage year, to UGS operated by RWE Gas Storage, s.r.o. pending the final conclusion of a proceeding on a preliminary question conducted before the Municipal Court in Prague. Then petitioner filed remonstrance against

this resolution. In July 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal upheld the contested decision on the following grounds: in the first instance proceeding, the Office correctly established that the resolution of the question of the validity of the gas storage agreement in place between the petitioner and RWE Transgas, a.s. had the nature of a preliminary question having a material effect on the decision on the merits.

E.ON Energie, a.s. v. RWE Gas Storage, s.r.o.: The Office rejected the petition by its decision. Both the petitioner and respondent filed remonstrance against the decision. In February 2008 the ERO Chairman quashed the contested decision following discussion in the remonstrance commission, and upon the commission's proposal remanded the case for new consideration on the grounds of an incorrect legal assessment of the facts found.

After new consideration of the case, respecting the ERO Chairman's legal opinion expressed in the decision on remonstrance whereby the preceding decision had been quashed, the Office decided to reject the petition on access to UGS. The petitioner filed remonstrance against this decision. In October 2008 the ERO Chairman rejected the remonstrance and upheld the contested decision following discussion in the remonstrance commission and upon the commission's proposal. The grounds for rejecting the remonstrance was the fact that the petitioner failed to meet the statutory requirements for access to UGS.

Pražská plynárenská, a.s. v. RWE Gas Storage, s.r.o.: By its decision the Office rejected the petition. Both the petitioner and respondent filed remonstrance against the decision. In February 2008 the ERO Chairman quashed the contested decision following discussion in the remonstrance commission, and upon the commission's proposal remanded the case for new consideration on the grounds of an incorrect legal assessment of the facts found.

After new consideration of the case, respecting the ERO Chairman's legal opinion expressed in the decision on remonstrance whereby the preceding decision had been quashed, the Office decided to partly grant and partly reject the petition on access to UGS. The respondent filed remonstrance against this decision. In October 2008 the ERO Chairman rejected the remonstrance following discussion in the remonstrance commission and upon the commission's proposal and upheld the contested decision. The grounds for rejecting the remonstrance were the fact that in the part of the petition which the contested decision granted the petitioner met the statutory requirements for access to UGS.

Heat supply industry

Energetické centrum s.r.o. v. Teplospol a.s.: By its decision, contested by remonstrance, the Office decided that the respondent was obliged to purchase thermal energy from cogeneration and renewables on set terms. The respondent filed remonstrance against this decision. In April 2008 the ERO Chairman, following discussion in the remonstrance commission and upon the commission's proposal, quashed the decision and remanded the case for new consideration. The grounds for quashing the contested decision was the fact that the contested decision and the proceeding prior to the delivery of the decision were at variance with legal regulations, since the provisions of the rules of administrative procedure on adversarial proceedings had not been observed during decision-making.

TEPLO T s.r.o. v. Společenství vlastníků jednotek pro dům čp. 1840 na ulici K Čimperku v Tišnově, Společenství vlastníků jednotek pro dům čp. 1841 na ulici K Čimperku v Tišnově, Společenství vlastníků jednotek pro dům čp. 1842 na ulici K Čimperku v Tišnově [condominiums]: By its decision, the Office partly granted the petition and partly rejected it. The petitioner filed remonstrance against the decision. In February 2008 the ERO Chairman, following discussion in the remonstrance commission and upon the commission's proposal, quashed the decision and remanded the case for new consideration, because the Office had based its decision on the dispute on an incorrect legal assessment of the facts found. The Energy Act does not award suppliers any right in respect of customers to enter into thermal energy supply agreements.

Společenství vlastníků jednotek pro dům č. 1840 na ulici K Čimperku v Tišnově, Společenství vlastníků jednotek pro dům čp. 1841 na ulici K Čimperku v Tišnově, Společenství vlastníků jednotek pro dům čp. 1842 na ulici K Čimperku v Tišnově [condominiums] v. TEPLO T s.r.o.: The petition filed by the above condominiums with the Office initiated an adversarial proceeding on failure to reach consensus on the execution of a thermal energy supply agreement between the petitioners and TEPLO T s.r.o. as the supplier. The Office rejected the petition by its decision. The petitioners filed remonstrance against the decision. In September 2008 the ERO Chairman, following discussion in the remonstrance commission and upon the commission's proposal, quashed the decision and remanded the case for new consideration on the grounds of an incorrect legal assessment of the facts found.

United Energy právní nástupce, a.s. v. Mostecká uhelná a.s.: A petition filed by United Energy právní nástupce, a.s. as a thermal energy supplier, initiated an adversarial proceeding before the Office on a change of a thermal energy supply agreement in place between the petitioner and Mostecká uhelná a.s. as the customer for the thermal energy. The Office issued a decision granting the petition and imposed on the respondent to sign the proposed addendum to the agreement with the supplier. The respondent filed remonstrance against this decision. In December 2008 the ERO Chairman, following discussion in the remonstrance commission and upon the commission's proposal, quashed the decision and remanded the case for new consideration on the grounds of an incorrect legal assessment of the facts found. The Energy Act does not award suppliers any right in respect of customers to enter into or change thermal energy agreements.

Licence proceedings

IMOLA s.r.o.: The Brno Regional Court's decision reversed the ERO Chairman's decision of 20 October 2007, which had rejected remonstrance filed by this party to the proceedings against the first instance decision on the revocation of a licence, remanding the matter to the ERO Chairman for further proceedings. Because of the grounds for the reversal of the decision, the ERO Chairman decided to quash the first instance decision and remand the case for new consideration and decision. Following new consideration, the Office decided to revoke the licence again on 8 October 2007. The applicant filed remonstrance against this decision. In February 2008 the ERO Chairman, following discussion in the remonstrance commission and upon the commission's proposal, changed the decision as follows: the licence was revoked as of the moment of the finality of the first decision delivered on the application filed in 2004 (the same decision that was later quashed by the ERO Chairman).

Proceedings on violations of pricing regulations

LENOXA a.s.: In proceedings on a violation of pricing regulations under Section 16 of Act No. 526/1990 on prices, as amended, commenced following a price inspection, the Office delivered a decision imposing a fine on LENOXA a.s. LENOXA a.s. filed remonstrance against this decision. In December 2008 the ERO Chairman, following discussion in the remonstrance commission and upon the commission's proposal, quashed the decision and remanded the case for new consideration, chiefly on the grounds that the contested decision had not complied with legal regulations.

7.3 Remonstrance proceedings commenced in 2008 and pending

In late 2008 proceedings on remonstrances against the Office's decisions were commenced in the following cases:

- 1) A dispute on the execution of a gas supply agreement between E.ON Energie, a.s. as the petitioner and RWE Transgas, a.s. as the respondent;
- 2) Proceedings on a change of a licence for electricity distribution, commenced upon a request of ŽĎAS, a.s.;
- 3) Proceedings on a change of a licence for thermal energy distribution, commenced upon a request of ŽĎAS, a.s.

8

External relations



8 External relations

8.1 Co-operation with central state administration authorities

Under the Energy Act and other general and special laws and regulations, the Office mainly cooperates with the Ministry of Industry and Trade (MPO), Ministry of Finance (MF), Ministry of Foreign Affairs (MZV), Office for the Protection of Competition (ÚOHS), Ministry of the Environment (MŽP), Ministry of Labour and Social Affairs (MPSV), Czech Statistical Office (ČSÚ), State's Energy Inspectorate (SEI), and other administrative authorities in the energy sector.

2008 saw continued co-operation with MPO's legal and energy experts on an assessment of the experience with the application of the Energy Act as the basic framework creating the environment for energy market participants' operations. The application of the Energy Act and the related implementing regulations in practice was then the basis for drafting amendments to the implementing regulations, promulgated by both the ERO and MPO. The general development of the energy sector, both in the Czech Republic and on the EU level, prompted the drafting of a comprehensive amendment to the Energy Act, which the Czech Parliament started to debate in the latter half of 2008.

In its activities, the Office also proceeds from the framework established by the Czech Republic's National Energy Concept drawn up by MPO. The ERO Chairman informs the Minister of Industry and Trade about the Office's principal strategic plans and its preparation of major price decisions and other decisions that might have social and macroeconomic impacts. The Office submits information about important price decisions to the Czech Government through MPO.

The ERO Chairman also consults some problems of inflationary effects of energy prices and issues of macroeconomic stability with the Czech National Bank and Ministry of Finance.

In respect of recognition of professional qualifications the Office, as the recognition authority, works with the Ministry of Education, Youth and Sports, which plays the role of the national coordinator under the IMI project with MPO.

In co-operation with the Czech Statistical Office the Office offers and provides applicants for a licence, natural persons, who have not yet been issued with an identification number, with assistance with the related agenda, and it works with MPO in the processing of data from licensed electricity producers.

The Office's co-operation with SEI stems from the legislative framework as well as the needs of the regulatory process and mainly materialises in preparations for specific review actions and the drafting of documentation for administrative proceedings. At the beginning of 2008, review actions in the various cases addressed by the Office and a system of drawing conclusions from administrative proceedings were specified in more detail. In twelve cases the Office referred the complaints to SEI.

The Office also works with the Ministry of Labour and Social Affairs; for the purpose of the application of the law on assistance in material poverty the Office draws up, and provides in the agreed formats, overviews of prices in the electricity, gas and heat supply industries.

Upon request from the Ministry of Finance, in 2008 the Office prepared several analyses and provided data on the expected development of energy prices for meetings of the Council for Economic and Social Consensus ("the tripartite council").

8.2 Co-operation with Czech Parliament

The Office has the obligation under the Energy Act to inform the Czech Parliament about its activities. The Office maintains continuous contacts with committees of the Chamber of Deputies, especially the Economic Committee and its Energy Subcommittee, the Committee for Public Administration and Regional Development, the Committee for the Environment, the European Affairs Committee, and also the Audit Committee. The Office also continuously works with Senate committees, in particular the Committee for Economy, Agriculture and Transport and the Committee for Regional Development, Public Administration and the Environment, and the EU Affairs Committee, in respect of energy legislation.

In the committees of both chambers the Office's representatives regularly attended debates on the forthcoming amendment to the Energy Act and EU papers submitted to both chambers, and the Office's representatives were also actively involved in technical seminars on energy in 2008.

In 2008 the ERO Chairman provided, on a regular basis, information to the chairmen of the Economic Committee and its Energy Subcommittee about the Office's key decisions on prices and about the drafting of the amendment to energy legislation in the field of regulation.

8.3 Public and media relations

8.3.1 Information provision

In compliance with Act No. 106/1999 on free access to information, as amended, the Office provides information on its activities and opportunities for problem resolution within its competencies. In 2008 requests for information were received from 39 citizens and organisations, i.e., approximately the same number as in 2007.

Number of received and handled requests for information in 2008

Area	Number of requests
Licences	5
Regulation	29
Other	5
Total	39

The subject of requests for information mainly concerned the Office's regulatory activity, especially in connection with market liberalisation, and focused on supplier switching and the Office's price decisions. All requests for information were answered within the statutory time limit and were provided free of charge, similarly as in previous years.

In 2008 the Office's relevant technical departments also handled several hundred additional (technical) questions as part of their everyday correspondence. The number of these questions rose significantly compared with 2007.

Under an internal regulation, Chairman's Measure No. 3/2006 Guidelines on Complaint Handling, the Office addresses both the complaints that are filed under Act No. 500/2004, Rules of Administrative Procedure, and those filed against a third party.

The Office received 92 complaints between 1 January and 31 December 2008. In comparison with 2007, their number dropped slightly.

Of the total number of complaints, the Office dealt with 80 complaints falling within its competencies. Of this number, 56 complaints were viewed as unjustifiable and 13 as justifiable; in these cases the Office adopted the measures required for remedying the situation. The Office set aside one complaint for the complainant's failure to supply additional information. The Office resolved 12 complaints in co-operation with the State's Energy Inspectorate. In two cases complaints were received as anonymous in 2008.

Eight complaints were accepted under Section 175 of Act No. 500/2004, Rules of Administrative Procedure. The required time limit for handling was met in the case of all complaints.

The Office's remit offers large room for developing its communication strategy vis-à-vis expert circles, lay public, and the media.

In 2008, European Monitor of Government Communications (EMGC) conducted a survey monitoring the level of public administration institutions' communication in the Czech Republic. The company's project monitors the level of communication by public administration institutions and its objective is to show that communication is an important part of state administration. The results of the survey, organised in the Czech Republic by Westminster for the second time and approaching 516 institutions, were published at a national conference on communication in the public sector. In the category of governmental institutions, the Office won together with the Academy of Science of the Czech Republic and the Czech Statistical Office.

In connection with the shift of regulatory focus in the wake of the relevant legislative changes, the presentation of the Office's position and activity has shifted towards an individualised approach to the media. The Office places a greater emphasis on the specific technical nature of interviews and other appearances of the Office's senior personnel in regional and national media. The Office's employees have published a number of articles in the trade press and contributed to the content and focus of trade press by their participation in editorial boards. They have also contributed to the content of, and spoke at, a number of technical seminars and conferences organised by respected economic and technical periodicals. The Office pursued systematic co-operation with the Czech Press Agency and other news agencies, and on-line news servers.

8.3.2 New website – closer to the public

In 2008 The Office created a new graphic design and structure of content of its website and launched its continuous operation. Its main motivation was to speed up and facilitate communication with website users.

The Office's new website complies with the Accessible Web Rules, i.e. recommendations for public administration information systems (ISVS) issued by the former Ministry of Informatics, which has been transferred to the Ministry of the Interior (MV). The fundamental changes in the structure of the content of the Office's website included the addition of the Offers, Public Contracts and Law on Conflict of Interests sections. The Households section, through which final customers in the household category can better find their way around energy markets, was included in the menu. Then followed new pages on the third regulatory period – the consultation process, and the third liberalisation package – public consultation. They provide comprehensive information about the method of regulation in the Czech energy industries in the coming years, including the EU measures for 2010 to 2014. Important pages also include Supplier Switching and the ready reckoner, which help citizens obtain full information about their potential switch to a different energy supplier, including comparisons of specific entities' quotations, and Frequently Asked Questions concerning the practical procedures to be followed in specific situations.

8.3.3 Publications

Under the Energy Act, the Office produces the *Energy Regulation Gazette*, which appeared with a circulation of 800 in 2008 (there were 710 subscriptions). SEVT, a.s. was responsible for the administration of the *Gazette* as in previous years.

In 2008 twelve issues of the *Gazette* were published; four of them, appearing at the end of each quarter, carried – as every year – a list of holders of licences awarded for business in the energy industries, broken down to licences awarded, revoked and discharged. The other documents published in the *Gazette* included price decisions, of which the Office issued twelve: six on gas prices, three on electricity prices, and three on thermal energy prices. The *Gazette* also carried three notices of the approval of the rules for the operation of energy grids, a notice on the assessment of the share of renewable electricity in gross electricity consumption and on the expected impacts of support for electricity generation from renewable sources on the overall price to final customers, a report on the management of the Energy Regulation Fund for 2007 and information for 2008, a notice on the average price of emission allowances, a report on the level achieved in maintaining the standards of continuity of electricity transmission and distribution for 2007 (The Quality Report), and a list of concluded disputes and administrative proceedings in the Regulation Section and Licensing Department.

The Office publishes in the Official Gazette communications on its price decisions that have been published in the *Energy Regulation Gazette*. The Office became obliged to do so upon the entry into force of Act No. 230/2006 of 29 May 2006, amending Act No. 526/1990 on prices.

Under the Energy Act, the Office publishes annual and monthly reports on the operation of the Czech electricity grid. All businesses active in the electricity industry furnish the Office, on a regular basis, with a set of operating and technical data, which forms the basis for preparing these reports. These businesses include electricity generators (2,600 electricity generators with an aggregate installed capacity of less than 0.5 MW_e and 260 electricity generators with an aggregate installed capacity equal to or greater than 0.5 MW_e), distributors (280), electricity traders (300), the transmission system operator, and the company licensed as the electricity market operator.

The monthly reports on operation are prepared at the end of the month following the end of the period under review and are published on the Office's website. Abridged reports are provided to the media.

Once a year the Office produces an *Annual Report on the Operation of the Czech National Electricity Grid*, which appears in Czech, while an executive summary of the report is also published in English (both hardcopy and CD versions).

As the central institution for the processing of operating and technical data on the electricity industry, the Office also coordinates data processing for the electricity industry.

The Czech Statistical Office, Ministry of the Environment, Ministry of Industry and Trade, and some Regional Authorities currently take outputs from the Office's databases.

Both as hard copy and in electronic version, in both Czech and English, the Office also produces its *Reports on the Activities and Finances of the Energy Regulatory Office* for the respective year. The Office submits this annual report to the Czech Government and the Chamber of Deputies every year in accordance with the Energy Act.

8.4 The Chairman's Advisory Corps

Experts from state administration, consumer and business associations, and trade unions, who contributed their opinions, assessments, positions and suggestions to the Office's decisions, in particular as regards the strategic regulatory issues and the Office's positions as part of its activity in the EU, worked in the Chairman's Advisory Corps also in 2008. They met five times in 2008.

At the January meeting, the advisory corps received information about the Office's activity, in its capacity as the authority responsible for three regulations of the European Parliament and the Council, in the debate on European legislation – the third liberalisation package, including the role it played in the drafting of amendments to Directives 2003/54/EC and 2003/55/EC. The advisory corps expressed its consent to the Office's procedure and positions in the drafting of the new European legislation, aimed at protecting the Czech Republic's interests, particularly in respect of ownership unbundling, the establishment of ACER, the strengthening of national regulators' powers, and the development of the single market. The body also expressed its consent to the Office's work in CEER and ERGEG working groups and task forces. In connection with the information about the Office's secondary legislation, the advisory corps discussed the issue of green premiums in electricity generation for the generator's own needs and the way of finding the quantity of electricity supplied to the grid and taken as house load. The body took due note of the information that it received.

At its March meeting the advisory corps agreed with the Office's approach to support for renewable electricity and expressed its approval of the ERO's and SEI's published joint position on small hydroelectric power stations. It also took due note of information about the first and second regulatory period and expressed an affirmative position on the principles and procedures followed by the Office in the preparations for the third regulatory period. The periodical session on information about the development of European legislation offered clarification of the principles of, and differences between, the three alternative options for ownership unbundling. Extensive discussion was held on the forthcoming amendment to the Energy Act, offering an explanation of the procedural system applied to regulatory impact assessment (RIA) and its importance and also answers to questions concerning renewable energy sources and imbalance accounting in the special mode on the part of local distributors.

The June meeting largely focused on the amendment to the Energy Act and the update of European energy legislation, in the development of which the Office closely cooperated with Czech MEPs. The advisory corps received detailed information about the proposed changes to the draft amendment. The reasons for strengthening and broadening the Office's powers were explained; and questions concerning the interconnection between the process of passing the amendment to the Energy Act and the proposals for new European legislation, and issues of capacity blocking and those of smart metering costs were answered.

At their September meeting members of the advisory corps took due note of information about the key principles of the price decision on heat prices for 2009, the purpose of which was to simplify the pricing conditions, support the economy of thermal energy generation and distribution, and improve inspection of prices. They also received information about the forthcoming amendment to the gas market and electricity market rules and about the contemplated modification of the transmission grid code in relation to the preparations for a common electricity market between the Czech Republic and Slovakia. They also received information about the timetable of the consultation process on the third regulatory period (discussion of the methodology, update of the report and regulatory public notice). Discussion focused on the preliminary results of the independent expert panel reviewing the Czech Republic's energy needs over the long term, on issues of customer disconnection from district heating, and on requirements for tighter regulation in thermal energy and hot water supply metering.

At the November meeting the advisory corps supported the principles followed by the Office in the drafting of a price decision to set support for electricity generation from renewable energy sources, combined heat and power generation and secondary resources for 2009. They also took due note of information about natural gas prices for Q1 2009. The advisory corps also discussed the links between price increases and actual costs; risks faced by traders on the electricity exchange; the justifiability of increasing advance payments for electricity and gas; distribution companies' attitudes to customers; unauthorised consumption and defaulters; and the development of electricity consumption. On the basis of information about the meeting of the Citizens' Energy Forum in London, which had focused on, *inter alia*, consumer rights, smart metering benefits, billing methods, energy supplier switching, and a check list of energy consumers' rights, the advisory corps support the Office's approach in this area. It also took due note of the Office's steps in the drafting of an amendment to the public notice on electricity market rules and focused on the development of a common energy market between the Czech Republic and Slovakia. The body also discussed the moving of the market gate closure times and the publication of the results in the so-called block markets, the retracting of supplier switches, unification of the content of billing, and clarification of the way of pricing energy bought on the balancing market, and also focused on the electricity market operator's commercial terms and conditions.

8.5 Membership of commissions – the regulatory reform and effective public administration panel

The Office has delegated its representative to the regulatory reform and effective public administration panel, an inter-departmental coordinating body set up at the Ministry of the Interior to help make public administration more effective and improve regulation; the panel was set up under Government Resolution No. 927 of 22 August 2007 on the application of the general principles of regulatory impact assessment and on the establishment of the regulatory reform and effective public administration panel.

The panel is supported by two standing committees – the committee for regulatory impact assessment and the committee for smart administration coordination; the Office's representatives also work in these committees.

Through the active participation of its representatives in the panel and its committees, the Office takes part in the adoption of positions on legislative proposals submitted to the government from the perspective of assessment of their impacts and the bureaucratic burden they may cause, approval of projects aimed at making public administration more effective and planned to draw on the EU structural funds under the Smart Administration priority, coordination of the work on projects designed to make public administration more effective, and also assessment of proposals for long-term and medium-term strategies, analyses, prospects and directions of development in respect of regulatory improvements, including the elimination of excessive bureaucratic burden and making public administration and public services more effective.

9

International activities



9 International activities

9.1 The National Report

Under the reporting and notification obligation of the Czech Republic as an EU member state, in accordance with Directives 2003/54/EC and 2003/55/EC on the rules of the internal electricity and gas markets, and also Directive 2004/67/EC on measures to safeguard natural gas supply, the Office delivered *The Czech Republic's National Report on the Electricity and Gas Industries for 2007* to the European Commission by 31 July 2008. Already fourth, this national report describes the progress in the development of a competitive environment in the electricity and gas markets achieved by the Czech Republic since the previous national report. The Energy Regulatory Office took on the role of the coordinator in the Czech Republic; the Ministry of Industry and Trade and the Office for the Protection of Competition also contributed to the preparation of the national report.

9.2 CEER and ERGEG

In the period under review, the Office cooperated with associations of European energy regulators, CEER and ERGEG, which mainly focus on achieving a single and competitive European energy market. This co-operation included active participation in the meetings of working groups on electricity, gas, ownership unbundling, customers, the third liberalisation package, market transparency and competitiveness, cross-border interconnection, customer protection, security of supplies, and sustainable development. Papers assessing compliance with the existing energy legislation, inputs to the development of this legislation, and other documents looking at the current situation of the European electricity and gas markets were prepared.

9.3 Regional initiatives (Central and Eastern Europe)

In 2008 the work launched in the area of the regional electricity market in early 2006 continued; its purpose is to eliminate barriers to free trade at the regional level and to gradually create a single European electricity market. The Czech Republic has been included in the Central East Region led by the Austrian regulator (E-Control). The Office's delegates participated in the meetings of the Regional Coordination Committee, attended by regulators, and meetings of the implementation group for coordinated allocation of cross-border transmission capacities and transparency, attended by regulators and TSOs. Among the priorities that have been set for the region, in particular the issue of coordinated allocation of cross-border transmission capacities on the principle of coordinated explicit auctions is important for the Office. These auctions took place between Poland, Germany, Slovakia, and the Czech Republic, with ČEPS, a.s. playing the role of the auction office for this region. In respect of the introduction of the flow-based method, the Office's delegates have emphasised that this new method is only acceptable for the Czech Republic provided that there will be no restrictions on the capacity available for trading in the region. In addition to the above issue, the working groups also addressed investment in existing infrastructure. Preparatory work continued on the takeover of the managing and coordination activities by a new independent auction office established in Germany in June 2008.

The purpose of the gas regional initiative is to strengthen and further the development of regional gas markets, eliminate barriers to competition on the market, and integrate the national markets. The Czech Republic has been included in the South South East Region led by the Italian (AEEG) and Austrian regulators. The year saw meetings of the Regional Coordination Committee, attended by regulators, meetings of the Implementation Group, and meetings of the broad plenum of all gas market players. In 2008 a memorandum of understanding of the region's regulatory authorities and a memorandum of understanding – a co-operation agreement between the TSOs, were signed; a website was set up to enhance information exchanges between regulators; and an advisory panel was established. Preparations were made for a study on transport routes in the region and exchange of information about gas trading conditions on national markets. Meetings also focused on analysing the problems of each of the regions from the perspective of the other market players, with the exception of TSOs and SSOs, and continued to identify the problematic areas that prevent full market liberalisation. Because of the differences between markets, each region has its own specific issues. In this respect, the North West Region appears to be the most determined; it is cited as a model example and there are efforts to apply its approaches in the other regions. The SSE region addressed the routes along which gas could be transported from the east to the west. This project was further extended to include a study on the accessibility of gas from the south.

9.4 Czech EU presidency and the ERO

In 2008 the Office closely cooperated with the Ministry of Industry and Trade, Ministry of Foreign Affairs, and the Office of the Government in the formulation of the Czech Republic's positions on the various aspects of the European Union's energy policy. This included drafting briefs for the Czech Republic's delegates to the meetings of the energy task force and preparing the mandate of the Minister of Industry and Trade for meetings of the Transport, Telecommunications and Energy Council, and involvement in the preparation of policy papers in connection with the Czech EU presidency in the first half of 2009. These documents primarily addressed the liberalisation of energy markets and the related enhancement of competition, the harmonisation of regulatory authorities' powers in cross-border trading and the issues of the strengthening of consumers' position on liberalised markets. As part of debates on the third energy package in the EU Council, the Office has accepted national responsibility over deliberations on the proposed regulation of the

European Parliament and of the Council on the establishment of an Agency for Co-operation of Energy Regulators (ACER), a regulation on the conditions for access to networks for cross-border electricity exchanges and an amendment to the regulation on the conditions for access to gas transmission systems. It has also become co-responsible over deliberations on the amendments to the respective Directives 2003/54/EC and 2003/55/EC, which fall within the remit of the Ministry of Industry and Trade. In connection with the assessment of the specific aspects of the third liberalisation package and, above all, the functioning of the future ACER, the Office also maintained very close contacts with Czech MEPs. For example, this joint effort has helped to direct voting in the respective committee towards passing a mechanism of decision-making in ACER which will make it possible for small and medium-sized EU member states to adequately promote their interests.

9.5 Trips to other countries

In 2008, the Office's staff members went on 114 trips to other countries, which mainly included meetings of ERGEG and CEER working groups and task forces, and also meetings with counterpart regulators, and conferences, technical seminars and study visits in line with the Office's mission in the area of international co-operation and involvement in the activities pursued by international groups and organisations. Another objective of these meetings was to gain new experience related to issues such as the development of regulation and its models, and new knowledge on issues such as support for renewable energy sources, smart metering, and the functioning of the market from the European and global perspective.

More than one half of business travels abroad were to Brussels, where the Office's delegates participated in the deliberations held by the CEER and ERGEG working groups and task forces and in the working group for energy (H7) of the EU Council.

The Office's representatives also attended major international conferences and workshops abroad. For example, the workshop in Warsaw, the European Intelligent Metering Alliance, can be regarded as very beneficial; it focused on the development of smart metering and also the approach taken by regulators, the member states, and the European Commission to this issue. The Office's participation in this workshop has made it possible to acquire information about the favourable aspects of this metering technology for customers, suppliers, and system operators and about the views on the environmental impacts of the use of these metering technologies.

Equally beneficial was the conference on energy prospects held in Brussels, at which the Office's delegates heard about the latest developments in the natural gas and electricity markets and formed a comprehensive view of the current situation in EU member and non-member states. The key points on the programme included topics such as the financing of energy projects and the regulatory environment, the role of the regulator in security of gas and electricity supply, market liberalisation, and benchmarking regulatory methods.

The Office's new employees had an opportunity to broaden their experience at a technical course organised by the Florence School of Regulation, covering the basic theoretical principles from various areas of energy regulation and licensing and case studies and examples from practice. Further, information was provided about the energy markets in EU member states and the general approach to the single European market.

9.6 Twinning with Ukraine

In 2008 the Office was actively involved in the Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC project in Ukraine under Twinning Contract No. UA/2006/PCA/EY/02. The Energy Regulatory Office and E-Control, the Austrian regulator, have the roles of the junior partners, and AEEG, the Italian regulator, and the Italian ministry of finance and economy are the contracting partners in the position of the project leader; the latter is in charge of the administrative aspect of the project.

The project's objective is to strengthen the position of the Ukrainian energy regulatory authority, NERC, to assist with the drafting of primary and secondary legislation complying with the EU *acquis* and also to help implement a new wholesale electricity market model. The Office's experts worked in two areas of the project. One important area centred on designing the tariff structure for individual customers to reflect costs. On the basis of the experience with the introduction of the tariff system in the Czech Republic, they presented a proposal to separate the distribution tariffs from energy supply tariffs, and to separate tariffs for the various groups of customers and voltage levels. The other part of the project in which the Office's experts were involved concerned an analysis of the options for unbundling in the Ukrainian energy sector. In this area, the Office proposed stronger powers for NERC; once vested with these powers, the regulator would have opportunities to harmonise national legislation with the EU Directives.

10

Human
resource management



10 Human resource management

10.1 Personnel management agenda

The Office focused on the following tasks in 2008:

Personnel agenda – Achieving the required number of qualified employees to provide for all of the Office's activities in all sections, in accordance with the organisational arrangements in place; providing for their further professional development and providing them with the required and adequate social environment and facilities for smooth performance of their work. During the year, mostly university graduates filled vacancies on the basis of competitions.

10.2 Education and training

Education - Education was governed by two basic documents adopted by the Office, the rules for training ERO employees and the ERO plan of training and education. Both documents are based on Czech Government Resolution No. 1542/2005 of 30 November 2005 on the rules of administrative authority staff training and on Czech Government Resolution No. 40 of 11 January 2006 on the National Programme of Administrative Authority Staff Training to Provide for Czech EU Presidency.

Initial training

- a) Introductory initial training
All employees took this course during the trial period. Examination of their knowledge of the Office's internal regulations, the code of conduct of ERO employees, and of the other regulations required for performing technical activities and their practical application is carried out by managers together with the evaluation of these employees' performance at the end of the trial period. This training also includes an introductory course in health and safety at work.
- b) Continued initial training
New employees study the structure of state administration and government finance, rules of administrative procedure, basic legal regulations, including labour law, and also the code of conduct for civil servants. Part of initial training was also a course on the EU agenda – a basic course and training for Czech EU presidency (Presidency Minimum 1). Altogether 11 employees attended initial training; seven of them then attended follow-up training at the Public Administration Institute.

Advanced training

- a) Advanced management training
Its objective is to acquire and deepen certain knowledge and skills required in managerial positions (communication at working meetings and at meetings abroad). In 2008, it chiefly focused on issues of regulatory impact assessment (RIA), with nine managers attending, and presiding over working meetings, with 18 managers attending. The Office also organised a course on the principles of working meetings and diplomatic protocol, with 12 managers attending, and a course on communication in the public sector ('bootcamp'), with three employees attending. An extended course, Presidency Minimum 2, was attended by 20 employees.
- b) Language training
It is based on Czech Government Resolution No. 1542/2005 by way of arranging standardised language examinations, thereby meeting Government Resolution No. 40/2006.
The ERO Chairman has specified 55 official positions for which command of a western language is a pre-requisite qualification. Last year this qualification was waived for seven employees due to their age, 47 employees met the requirement for the determination of the level of their command of a foreign language, and a substitute date in February 2009 was granted to an employee who was unable to take the examination. Newly, ERO Chairman decided that 17 employees (experts at the national level in the third category) who were actively preparing for the Czech EU presidency needed a higher level of language qualifications, and/or training in an additional foreign language, under Government Resolution No. 40/2006. Of these 17 employees, 16 met the pre-requisite qualification of command of a foreign language by 31 December 2008, which means that by that date 85.45 per cent of the employees in the 55 positions had met the qualification requirement of command of a foreign language. Language training is organised in line with the approved principles and the applicable internal regulation.
The training of employees – experts at the national level in the third category was completed by 31 December 2008. In addition to language training, these employees went through a special advance course at the State Administration Institute (ISS) on the basis of their inclusion in the central register of ISS;

Table 11 Employees' command of languages as at 31 December 2008

	Number of selected positions subject to the qualification requirement of standardised language examinations, in the order of proficiency				Total number of requirements set for positions
	1st level	2nd level	3rd level	4th level	
English	22	23			45
French	2	2			4
German	5	1			6
Total	29	26			55

c) Other advanced training covered the following:

- Training in regulatory impact assessment (RIA);
- Ongoing training in the updating of legislation as a prerequisite for the employees' technical activities, and in IT user skills;
- Participation in seminars, workshops and conferences on the technical issues of energy regulation;
- A course on Act No. 500/2004, Rules of Administrative Procedure, in the current practice of the courts – the latest interpretation;
- The Office's information system, data security and protection;
- Training in EU processes; Presidency Minimum 2 on negotiation and legislative processes in the EU under the National Educational Programme;
- Training of drivers of the Office's cars; a safe driving course; and training in health and safety at work;
- A workshop on benchmarking of regulated entities' expenditure.

Altogether 127 training events, i.e., specialist courses, seminars and conferences, were held. In the system of training, attended by a total of 288 employees, important positions were held by advanced training in updates of administrative proceedings in relation to Act No. 500/2004, Rules of Administrative Procedure, and advanced training in the Office's information system, in particular in security and data protection, and energy policy, energy security, trading, and advanced IT courses. Education and training expenses totalled CZK 3,038,020, accounting for 6.84 per cent of the actual payroll costs.

The structure of education, training and professional development expenses is shown in Table 12.

Table 12 Structure of education and training expenses

Training	Language training [CZK '000]	Other training [CZK '000]	Total [CZK '000]
Amount	959.63	2,078.39	3,038.02

In 2008, six employees attended four foreign and 24 employees attended ten domestic conferences and seminars dedicated to regulation in the energy sector, energy security, biogas, the heat supply industry, and information security.

10.3 Employees

The 'mandatory target' of salaries and other payments for work was met at a level of 97.29 per cent, CZK 44,431,340; of which, the mandatory target of employees' salaries was met at 99.20 per cent, CZK 44,115,440.

In 2008 the average number (FTE) of the Office's employees was 95, and the planned number was 100. The Office therefore did not manage to have the planned staffing level of 100; the actual number was 99 employees, which means meeting the plan at 99 per cent. As at 31 December 2008 the Office had 99 employees, and there was no change year on year.

The staffing level was maintained on an ongoing basis, and the need for employees in terms of their number and qualifications in the various organisational units under the Chairman's decisions in this area was met. Because of the general shortage of qualified workforce with tertiary education on the Prague labour market and also the keen competition in the energy sector, vacancies in the regulation section in Prague are being filled only with considerable difficulties.

Tables 13 and 14 show the structure of employees by some indicators.

Table 13 Incoming and outgoing employees in 2008

	New staff	Leaving staff
Number	18	13

Of the overall number of 99 employees, 56 worked in Jihlava and 43 in Prague (actual numbers as at 31 December 2008) [worked within the meaning of the place of performance of work / agreement on regular workplace].

Table 14 Employee structure by age and sex as at 31 December 2008

Age category	Men	Women	Total	Share of total staff [%]
Up to 20 years	0	0	0	0
21 - 30	7	7	14	14.2
31 - 40	15	8	23	23.2
41 - 50	11	15	26	26.2
51 - 60	15	11	26	26.2
61 years and older	9	1	10	10.1
Total	57	42	99	100.0
Percentage	57.6	42.4	100.0	-

The largest number of employees fall within the 41 to 60 years age brackets, with those aged 31 to 40 years making up the second largest group. In comparison with 2007, the structure of employees by age category was less favourable in 2008, i.e., there was a visible trend of the recruitment of older employees. This is attributable to the difficulties in recruitment for the Prague offices, given the requirement that new employees joining the regulation section should be experienced. On the other hand, recruitment of older employees also means a larger proportion of university graduates. This is reflected in employment structure by education: university graduates account for 71.7 per cent of the Office's employees. This trend in the demographic pattern of employees can also be expected in 2009, mainly because of the nature of the Prague labour market.

Table 15 Staffing breakdown by education and sex as at 31 December 2008

Education	Men	Women	Total	Share of total staff [%]
Primary	0	0	0	0
Vocational	1	0	1	1
Vocational secondary	0	0	0	0
Complete secondary	0	0	0	0
Complete vocational secondary	6	21	27	27.3
Higher education college	0	0	0	0
University	50	21	71	71.7
Total	57	42	99	100

The predominance of staff with tertiary education corresponds to the structure of salary categories and the challenging nature of the work stemming from the Office's competencies. The Office expects the current trends in employment in 2009 too.

Table 16 Duration of employment as at 31 December 2008

Employment	Number	Share of total staff [%]
Up to 5 years	38	38.4
Up to 10 years	61	61.6
Total	99	100

10.4 Organisational activities

Internal regulations – organisational standards are documents required for supporting the Office’s business and all of its agendas stemming from its competencies. In 2008, formal organisational activities focused on the innovation of internal regulations as new laws and Government Orders entered into force. The Office issued 22 internal regulations – one ERO Chairman Decision, 17 ERO Chairman Measures and 4 methodological guidelines.

11

ERO budget management



11 ERO budget management

11.1 The Chapter's budget

The budget for Chapter 349, Energy Regulatory Office, was approved in Act No. 360/2007 on the Czech Republic's National Budget for 2008, passed by Czech Parliament's Chamber of Deputies in its Resolution No. 553 on the Government's bill on the national budget of the Czech Republic for 2008 of 5 December 2007.

The budget was approved at CZK 119,789,000 and stayed at the originally approved level throughout the year; the Office complied with all the mandatory, general and specific targets in line with the schedule of the Ministry of Finance. There were no changes in mandatory targets which were not approved.

The Office's budget for 2008 reflected the circumstances arising from the budgetary measures carried out under Government Resolution in 2007. They involve funds earmarked for the preparations and provisions for the Czech EU presidency. In this connection, a specific target was set for 2008: expenses related to the Czech EU presidency, amounting to CZK 1,270,000. They also involve funds allocated to the KIVS data services following the termination of a master agreement between the Energy Regulatory Office, former Ministry of Informatics, and Telefónica O2.

In 2008, the Office carried out two budgetary measures in relation to the approved targets. These budgetary measures were carried out within the remit of the chapter in accordance with Act No. 218/2000 on budgetary rules and changes to certain related laws (budgetary rules), as amended. The reason for changes in the Office's budget was adjustments to certain expenditure items on the basis of the Office's new plans and the actual drawdown.

The following describes the content of each of the budgetary measures, which meant transfers of funds between budget items under a specific target – Expenses on the Office's Tasks:

- There was an increase in budgetary items 5169 – purchase of other services, and 5136 – books, teaching aids, and press; on the other hand, there was a decrease in budgetary items 5137 – sundry tangible fixed assets, 5139 – purchase of material, and 5171 – repair and maintenance;
- There was an increase in budgetary items 6125 – IT hardware, and 5169 – purchase of other services; on the other hand, there was a decrease in budgetary items 6111 - software, 6121 – buildings, halls and structures, 6122 – machinery, plant and equipment, 6123 – transport vehicles, and 5162 – telecommunications and radio communications services.

A staffing level of 100 was approved for 2008.

No income was planned for the chapter.

The chapter is not authorised to provide subsidies or loans.

The chapter does not pursue any economic activities. The chapter has no established or controlled instrumentalities of the State.

11.2 Revenues to the Chapter

No targets were planned or set on the income side. The revenues to the chapter are listed in Table 17.

Table 17 Revenues to the chapter

Budget item	Type of revenue	Budget [CZK'000]	Actual [CZK'000]
	Total non-tax revenues, capital revenues, and subsidies	0.00	466.17
	of which:		
2111	Revenues from the provision of services and products		3.54
2141	Interest accrued on accounts – FKSP, deposit account		1.84
2310	Proceeds from the sale of current and sundry fixed assets		0.95
2322	Insurance compensation received (claims related to Office's automobiles)		240.79
2324	Non-capital contributions and compensations received (billing of subscription, credit notes for services provided in previous years)		129.08
2329	Other non-tax income not included elsewhere (transfer of the balance in the payment card account as at 31 December 2008)		1.22
3113	Proceeds from the sale of other tangible fixed assets		8.06
4132	Transfers from other funds (transfer of undrawn funds for wages, including insurance for 12/2007, from the deposit account)		80.69

These funds on the income side were transferred to the national budget through the chapter's income account. They are one-off, non-recurring revenues to the chapter.

11.3 Meeting the mandatory targets

The Office complied with all the mandatory targets. The planned amount of funds was not exceeded under any of the mandatory targets, see Table 18.

Table 18 Meeting of the mandatory targets

Mandatory targets	Approved budget [CZK'000]	Budget after changes [CZK'000]	Actual [CZK'000]	Actual/budgeted [3/2] [%]
	1	2	3	4
Aggregate targets				
Total income			466.17	
Total expenditure	119,789.00	119,789.00	107,906.04	90.08
Specific targets – income				
Non-tax revenues, capital revenues and transfers received			466.17	
Specific targets – expenditure				
Outlays to support the ERO's tasks	119,789.00	119,789.00	107,906.04	90.08
of which: outlays related to Czech EU presidency	1,270.00	1,270.00	1,108.55	87.29
other outlays on ERO's tasks	118,519.00	118,519.00	106,797.49	90.11
Standard targets				
Salaries for employees and other payments for work	45,667.00	45,667.00	44,431.34	97.29
of which: salaries for employees	44,471.00	44,471.00	44,115.44	99.20
other payments for work	1,196.00	1,196.00	315.90	26.41
Statutory insurance premiums paid by the employer	15,983.00	15,983.00	15,458.13	96.72
Allocation to the Fund of Cultural and Social Needs (FKSP)	890.00	890.00	884.83	99.42
Salaries of employees (under employment contracts)	44,471.00	44,471.00	44,115.44	99.20
Arrangements for crisis situations under Act No. 240/2000				

An average salary of CZK 37,059 was planned for 2008. The actually achieved average salary was CZK 38,698, index 104.42 per cent. The 2008/2007 index of the actually achieved average salary was 106.70 per cent. In 2008 the average salary under tariffs, including reimbursements, amounted to CZK 23,349; the average salary, including personal performance supplements and management allowances, without bonuses, was CZK 31,884.

As regards expenses on other payments for work (item 5021) the budgeted costs were not exceeded and the drawdown was 26.41 per cent, CZK 315,900.

The above amount can be broken down as follows:

Work related to the preparation of regulatory statutory instruments, forms, expert calculations and consultations	CZK 19,500
Activities related to the remonstrance commission and expert services	120,240
Other work	28,780
Cleaning work	71,900
Undrawn funds in the deposit account (i.e. income in 2009)	75,480

11.4 Cash funds

Fund of Cultural and Social Needs

The Fund of Cultural and Social Needs (FKSP) was accumulated and drawn in line with the Office's internal principles in 2008. The principles of drawing and using FKSP funds are set out in the Office's internal guidelines in compliance with the legislation on this area of financial management. As at 31 December 2008, the funds in the Office's FKSP account amounted to CZK 334,920.

Reserve Fund

Under the law on budgetary rules, undrawn budgetary funds had been transferred to the Reserve Fund in the previous years. As at 1 January 2008 the Reserve Fund held CZK 17,297,550. February 2008 saw the financial settlement of completed programme 249 010 – Development and Replacement of the Technical Facilities of the ERO for 2003 to 2007 in the area of programme financing, i.e., the transfer of a part of the Reserve Fund, CZK 3,039,040, to the deposit account and thence to the national budget's revenue account no. 772-5921001/0710 intended for settlements with the national budget. There were no other movements in the Reserve Fund in 2008 and there was no additional drawdown on the Reserve Fund or allocations to the Reserve Fund.

As at 31 December 2008, the funds held in the Office's Reserve Fund totalled CZK 14,258,510.

There were no individual subsidies, or expenditure reviewed on a case-by-case basis, in the budget.

Table 19 Funds transferred to the Reserve Fund and their use

Item	Amount [CZK '000]
Balance of undrawn funds transferred to RF under Section 47 as at 1/1/08	17,297.55
of which: included in income in 2008	0.00
used in 2008 – transfer to VPS (undrawn ISPROFIN funds)	3,039.04
Balance of funds transferred to RF as at 31/12/08	14,258.51
of which: national budget funds allocated to finance programmes	0.00
other	14,258.51

11.5 The Energy Regulation Fund

In accordance with the Energy Act, the Office holds the ERF funds in a separate current account kept with the Czech National Bank, account number 3029001/0710.

As at 1 January 2008, the opening balance in the ERF stood at CZK 50,702,540. No payments were made from the ERF during 2008. After adding the interest (see the Energy Act and the new rules for the ERF, which were put in place in 2005), the closing balance in the ERF was CZK 50,956,550 as at 31 December 2008. No payments were made from the Fund in 2008.

However, in the fourth quarter of 2008 the licensing department issued a decision on the obligation to supply thermal energy over and beyond a licence in Světlá nad Sázavou. At the beginning of 2009 additional thermal energy supply over and beyond a licence in Otrokovice was ordered. On the basis of these decisions, funds to compensate for demonstrable losses in both cases will be paid from the Fund in 2009.

Under Section 14(11) of the Energy Act, the Energy Regulatory Office is obliged to furnish an audit of the Fund for the respective calendar year. In compliance with these provisions an audit was performed in keeping with the guidelines issued by the Chamber of Auditors of the Czech Republic. According to the auditor's report, the ERF books were kept in compliance with the legal regulations in force and present fairly the ERF's position for the fiscal year 2008 (Appendix 2).

11.6 Administrative fees and fines

In addition to the income mentioned in the foregoing, the Office also collected CZK 6,131,080 through its administrative fee account no. 3711-2421001/0710 between January and December 2008. These are administrative fees collected by the Office from businesses in connection with licensing under Act No. 458/2000, the Energy Act, as amended, and Act No. 634/2004 on Administrative Fees, as amended. This income is not a part of the chapter's income. It is therefore not included in the reports and statements on the management of the chapter's funds.

In 2008 the Office imposed one administrative fine of CZK 2,000 on a gas distribution licence holder on the grounds of a violation of pricing regulations.

11.7 Budget management results

The total actual drawdown on the budget can be seen in Table 20.

Table 20 Total actual drawdown on the budget

Drawdown on budget	Expenditure [CZK '000]	Percentage drawn [%]
Total expenditure	107,906.04	90.08
of which:		
capital expenditure drawn	9,367.16	98.35
current expenditure drawn	98,538.88	89.37

Performance vs. budget for January to December 2008 and total savings on the expenditure side of CZK 11,882,960 can be broken down as follows:

– Outlays on employees' salaries and other payments, including insurance premiums and FKSP	CZK 1,765,690
– ISPROFIN programme financing	CZK 1,072,610
– Other current expenditure (w/o ISPROFIN)	CZK 9,044,660

11.7.1 Current and capital expenditure savings

Significant current and capital expenditure savings were achieved; see Table 21.

Table 21 Current and capital expenditure savings

Sub-groups of items	Description	Amount [CZK '000]
	Total current and capital expenditure savings	11,882.96
	of which:	
501	Salaries	355.56
502	Other payments for work	880.09
503	Statutory premiums paid by the employer	524.87
513	Purchase of materials	839.81
515	Purchase of water, fuels and energy	191.62
516	Purchase of services	5,076.25
517	Other procurement	3,615.17
534	Transfers to internal funds	5.17
551	Non-investment transfers to international organisations	179.67
611	Procurement of intangible fixed assets	46.93
612	Procurement of tangible fixed assets	109.90
	Other items of the budget	57.92

11.7.2 Programme financing

In 2007 a new programme was approved in the area of programme financing for 2008 – 2013, worth a total of CZK 116,192,000 – programme no. 149 010 Development and Replacement of the Technical Facilities of the ERO (hereinafter 'programme 149 010'). Under this programme for the financing of the replacement of assets, ISPROFIN, for 2008 the Office had available funds planned in an amount of CZK 19,510,000.

On 31 December 2007, programme 249 010 Development and Replacement of the Technical Facilities of the ERO for 2003 – 2007 was completed. At the same time, the financial settlement with the national budget took place; on 27 February 2008 an amount of CZK 3,039,042.01 was transferred to the national budget's settlement account. As at 30 June 2008, the final evaluation of this programme took place. The relevant report on the implementation of programme 249 010 Development and Replacement of the Technical Facilities of the ERO, together with the evaluation of the respective mandatory parameters, was forwarded to the Ministry of Finance for assessment; subsequently, the report was approved without any comments, whereby the programme was closed.

The key objective of programme 149 010 is to provide for the development of an adequate base of technical facilities for the Office, placing emphasis on ICT, to support smooth performance of the tasks and missions under Act No. 458/2000, and to underpin the position of the market regulator in keeping with the EU's requirements. The programme follows up on the preceding programme 249 010 and takes it further in the subsequent period. The objectives of the programme will be met gradually, in relation to the further development of the Office and with a view to effective spending of funds.

In the ISPROFIN system, for 2008 only one programme is included, no. 149 010, which is comprised of two sub-programmes. Eight projects have been launched and are being monitored and evaluated under these sub-programmes.

Table 22 shows the results for 2008 by sub-programmes and Table 23 shows the results by current and capital expenditure. In line with the Office's priorities, for 2008 the largest amount of funds was allocated to IT (sub-programme 149 011 – ICT). The balance of the funds was earmarked for the replacement of the car fleet and renovation of the Office's head office (sub-programme 149 012). The drawdown on the funds of the whole programme is continuously adjusted as needed in relation to current developments and the Office's new needs. In comparison with 2007, last year saw increases in spending on services provided to the Office due to the introduction of outsourced press services and spending on IT procurement and replacement. Total savings of CZK 1,072,610 were achieved under programme 149 010 in 2008.

Table 22 Results by the sub-programmes for 2008

	Plan [CZK '000]	Actual [CZK '000]	Percentage
Total, Programme No. 149 010	19,510.00	18,437.39	94.50
of which:			
Sub-programme 149 011 – ICT	17,790.00	16,806.16	94.47
Sub-programme 149 012	1,720.00	1,631.23	94.84

Table 23 Results by current and capital expenditure for 2008

	Plan [CZK '000]	Actual [CZK '000]	Percentage
Total programme financing	19,510.00	18,437.39	94.50
of which:			
Current expenditure	9,986.00	9,070.23	90.83
Capital expenditure	9,524.00	9,367.16	98.35

The 2008 mandatory target was not exceeded. The basic needs and the running of the Office were met and provided for, and the preconditions for its further development were created.

Information and telecommunications technology at the Office

The first half of 2008 saw the outsourcing of press services at the Office's head office and also its Prague offices on the basis of a public bidding competition. The ISMS certification process under ISO/IEC 27001 (information security management system, see part 12.3) was running; it was completed by certificates awarded in October 2008. On the basis of the recommendations given during the certification process, the internal security of the Office's local network has been enhanced by the purchase of security elements to monitor packet operation within the network and a security incident evaluation system and by upgrades of the firewall and anti-virus and anti-spam functions of electronic mail. In connection with the current developments and the Office's new needs, centralised back-up of important data areas of the whole Office has been reinforced.

In late 2008, the Office bought a comprehensive modular system for monitoring the trading on the open energy market.

In late 2008, videoconference equipment was installed at ERO's Jihlava head office and its Prague offices; it will support direct

contacts between conferring parties not only within the Office but also with other state administration institutions and the Czech Republic's permanent representation in Brussels.

Hardware of the central servers, the parameters of which no longer met current requirements, was replaced in the Prague offices in 2008.

The development of the Office's comprehensive information system continued in 2008 by a project for the integration of the system of electricity industry statistics, for which the Office is responsible under Act No. 458/2000. The project was completed on time by 31 December 2008.

11.7.3 Assets, receivables and liabilities

The assets that the Office is authorised to manage are listed in Table 24.

As at 31 December 2008 these assets were worth a total of CZK 125,370,420.

Table 24 Assets as at 31 December 2008

Account no.	Account name	Amount [CZK '000]
	Total assets as at 31 December 2008	125,370.42
	of which:	
013	intangible fixed assets - software	28,868.31
018	sundry intangible fixed assets	5,025.25
021	buildings	40,291.27
022	self-standing movables and sets of movables	35,276.58
028	sundry tangible fixed assets	12,227.32
031	land	3,390.45
032	objects of art	291.24
041	intangible fixed assets in progress	0.00

Disclosures in accounts as at 31 December 2008 indicate that in 2008, the total value of assets increased by CZK 2,759,450 in comparison with 2007, which is mainly attributable to the development and replacement of the Office's technical facilities (procurement and replacement of IT and the vehicle fleet, renovation of the Office's head office, etc.).

Under Act No. 563/1991 on Accounting, as amended, taken together with implementing regulation no. 505/2002 as amended, accounting units that are self-governing territorial units, semi-autonomous organisations, the State's funds, and instrumentalities of the State, i.e., also the Office, do not depreciate assets. Assets are recognised in books at cost throughout the time for which they are used.

As at 31 December 2008, receivables totalled CZK 700,910. The Office does not post any overdue receivables or receivables due from debtors in receivership proceedings. The Office only posts operating advances paid to suppliers, CZK 638,220, and also receivables due from employees, CZK 61,570 (loans from FKSP and damages) and a receivable of CZK 1,120 due from budget revenues (an administrative fee for licence award).

As at 31 December 2008, liabilities totalled CZK 57,697,780. They included liabilities to employees, liabilities under social and health insurance, and income tax liabilities related to employees totalling CZK 6,670,220, which resulted from the accounting of wages for December 2008 and were paid on 9 January 2009 (the payday). They also include the Energy Regulation Fund (see point 11.5), CZK 50,956,560, balance in the payment card account at ČSOB, CZK 2,000, and the balance of the allocation to FKSP for 2008 in the deposit account, CZK 69,000. The Office had no payables to suppliers; suppliers' invoices received by the Office before the end of 2008 were paid.

11.7.4 Expenses on business trips abroad

Expenses on business trips abroad totalled CZK 2,546,980 and are shown in Table 25.

Table 25 Expenses on business trips abroad

Item no.	Description	Amount [CZK '000]
	Total expenses on business trips abroad	2,546.98
	of which:	
5156	Fuels and lubricants	1.55
5163	Financial services (insurance)	28.67
5167	Training and education services	106.86
5169	Purchase of other services	2.66
5173	Travel expenses (subsistence, pocket money, air fare, accommodation)	2,372.58
5175	Entertainment allowance	2.45
5176	Conference registration fees	28.82
5179	Other purchases (visas)	3.39

In comparison with the previous year there was an increase in budget item 5167 – training and education services (educational events related to the preparations for the Czech EU presidency) and a significant drop in budget items 5176 – conference registration fees and 5173 – travel expenses in 2008. Savings in the Office's budgeted expenses, totalling CZK 277,580, were achieved thanks to a refund of the costs incurred by the Office's delegates in their travels to meetings for which the EU Council was responsible. Compared with 2007, overall expenses on foreign business trips were CZK 120,850 lower.

In the area of 'non-investment transfers to international organisations', item 5511, the actual expenditure reported at CZK 720,330 relates to the annual membership dues to CEER, Brussels, for 2008 under Government Resolution No. 996 of 23 August 2006 on the payment of the membership dues to the Council of European Energy Regulators (CEER) in 2006 to 2008.

11.7.5 Costs incurred in connection with the Czech EU presidency

In respect of the specific mandatory target of costs incurred in connection with the Czech EU presidency, which had been set for the Office for 2008, expenses totalled CZK 1,108,550 (i.e., 87.29 per cent of the funds planned at CZK 1,270,000) between January and December 2008. The largest part of these expenses, approximately CZK 717,330, covers language education and technical training of experts.

11.7.6 Costs incurred in twinning with Ukraine

In 2008 the Office joined the Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC project in Ukraine under Twinning Contract no. UA/2006/PCA/EY/02 in the position of a junior partner.

Under the EU's legislation, project accounts are kept completely independently and separately from the national budget, Chapter 349 ERO, by an external company; the funds are kept in a separate euro account with ČSOB. As at 31 December 2008 the balance in the account stood at EUR 10,467.15. In 2008 expenses on the project totalled EUR 20,855.97. As at the balance sheet day, 31 December 2008, the project had no liabilities to the budget of Chapter 349 ERO, and the project therefore did not burden the national budget.

11.7.7 Evaluation of the economy, efficiency and efficacy of the Office's financial management

Section 39(3) of the law on budgetary rules requires the chapter manager to continuously monitor and evaluate the economy, efficiency and efficacy of the costs spent within the whole chapter.

The Office evaluates the spending of the chapter's budgetary funds on the basis of quarterly reports on financial management and in a summary annual evaluation. In the chapter's closing accounts the Office includes, among other things, an overview of the cost intensity of the chapter since the beginning of its establishment, i.e. 2001, measured by expenses in absolute terms and also by average expenses per employee. These calculations are based on expenses without allocations to reserve funds (to have a comparable basis) and also on expenses inclusive of allocations to reserve funds. Expenses in absolute and relative terms are listed in Table 26, and are broken down by cost categories.


Table 26 Comparison of actual expenses for 2001 to 2008

Item	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Index 08/07
Total expenses	97,487	77,637	93,978	116,770	105,018	98,556	101,130	107,906	106.70
of which:									
- Salaries, other payments, insurance premiums and FKSP	19,955	36,081	41,772	46,967	48,532	52,524	56,986	60,774	106.65
- Expenses on the asset replacement financing programme	54,201	11,976	15,741	15,561	19,526	16,006	15,938	18,437	115.68
- Total other expenses	23,331	29,580	36,465	54,242	36,960	30,026	28,206	28,695	101.73
of which									
- Allocations to the Reserve Fund	2,142	2,299	2,351	27,200	2,602	0	0	0	0
- Other expenses w/o RF	21,189	27,281	34,114	27,042	34,358	30,026	28,206	28,695	101.73
Expenses on salaries and other payments for work	14,741	26,470	30,656	34,397	35,493	38,466	41,619	44,431	106.76
Salaries to employees	14,158	26,001	30,197	34,122	35,225	37,953	41,347	44,115	106.69
Staffing levels (FTE)	40	73	82	89	90	93	95	95	100.00
Average monthly salary	29,496	29,682	30,688	31,949	32,616	34,008	36,269	38,698	106.70
Payroll and social costs per employee	499	494	509	528	539	565	600	640	103.67
Programme financing costs per employee	1,355	164	192	175	217	172	168	194	115.48
Other expenses per employee	583	406	445	609	411	323	297	302	101.68
Total expenses per employee	2,437	1,064	1,146	1,312	1,167	1,060	1,065	1,136	106.67
Other expenses per employee w/o RF	530	374	416	304	382	323	297	302	101.68
Total expenses per employee w/o RF	2,384	1,032	1,093	1,007	1,138	1,060	1,065	1,136	106.67

Note: The figures are in CZK'000 (with the exception of the staffing levels and average wages).

The above figures indicate that in 2008, the chapter's expenses per employee were higher by 6.67 per cent than in 2007; payroll and social expenses per employee were higher by 3.67%.

It is to be taken into account in connection with the above indicators that year-on-year comparisons and ratios should be regarded as indicative only, because every year some extraordinary costs are incurred, both in terms of the cost category and amounts. Expenditure should therefore be viewed within the specific context and situation in the respective year. Various factors have an impact on the level of these indicators every year; primarily the Reserve Fund may have a distorting influence on them.



The Office evaluates the criteria of economy, efficiency and efficacy as part of the *ex ante* and *ex post* management inspection before and after the liability occurs, and also as part of ongoing management inspections. These are checks carried out by budget managers before each individual expense is made; i.e., this approach is a practical application of Act No. 320/2001 on financial control in public administration and changes to certain laws (the Financial Control Act) and regulation no. 416/2004, which implements Act No. 320/2001 as amended in Act No. 309/2002, Act No. 320/2002 and Act No. 123/2003.

12

Oversight



12 Oversight

12.1 External inspections

Resolution No. 4/XXI/2007 of the Supreme Audit Office's College, dated 26 November 2007, included in the 2008 plan of inspections audit action no. 08/24, 'final accounts and financial management under the national budget's Energy Regulatory Office chapter' (audit 08/24). This audit was started on 27 August 2008. In 2008 the Office provided the SAO audit team with co-operation as required for the due performance of the audit.

The audit is expected to be completed, and its conclusions approved, in the second quarter of 2009.

12.2 Internal inspections and internal audit

In 2008 the Office carried out internal audit in accordance with the annual plan that had been compiled in line with the medium-term plan of internal audit. The other basis for preparing the annual plan of internal audit was the Risk Map complying with Section 30 of Act No. 320/2001, the Financial Control Act, as amended and compiled in all of the Offices departments and independent units in late 2007.

Internal audit independently and objectively reviewed some of the Office's activities, working processes and control and oversight systems as set out in the plan. It assessed whether the internal inspection system in place was efficient and flexible enough to respond to changes in legal, economic, and operating conditions and whether it had the capability of providing the ERO Chairman with reliable and timely information. The internal auditors' work was reviewed and evaluated under the internal audit quality programme, using a questionnaire prepared by the manager of the audited part of the Office.

The functional independence of the internal audit department is fully and continuously provided for in the Office's Rules of Organisation, which set out the status of the internal audit department and the code of conduct for internal auditors. In its work, internal audit follows internationally recognised standards and best practice recommendations included in the methodology of the Institute of Internal Auditors and the methodology of the Ministry of Finance for internal audit performance. The internal audit department's work in general is subject to the rules set out in the Internal Audit Manual issued in methodological guideline no. 5/2007.

In accordance with the internal audit plan, 2008 saw 12 audit actions and one extraordinary audit as follows:

- audit of authorisations of contract counterparties' representatives in contracts concluded by the Office;
- audit of adherence to the rules of the process of document storing in the regulation section – file nodes, local (departmental) filing systems, archiving process in the filing service;
- audit of the essentials of accounting documents under the law on accounting and law on financial control;
- audit of risk management in the Office (risk map and updates thereof, standardised risk management principles);
- audit of consistency: issue of meal vouchers, records of attendance, and records of business trips;
- audit of the process of checking compliance with statutory requirements in respect of applications for changes to licences – electricity, natural gas, and heat supply;
- audit of the reliability of the system used for recording the Office's assets on personal cards, lists by rooms, and IT on inventory cards;
- audit of compliance of cash receipts (travel orders, purchases for cash, etc.) with accounting regulations;
- audit of invoice processing and payments, alignment with bookkeeping vouchers, check of meeting due dates;
- audit of the process of placing orders, calculating advance payments, and supporting and accounting for expenses on business travels abroad;
- audit of the implementation of the recommendations from audits in 2008 and follow-up measures to remedy shortcomings;
- inspection of the records and storing of documents approved for third-party entities under the ERO Rules of Organisation, § 16 part (1) points 2, 3, 4;
- extraordinary ISMS audit under ČSN ISO/IEC 27001 for 2008.

Internal audit also carried out the respective provisions on management inspections, reviewed the plan of training, and prepared a report on the results of financial controls for the Ministry of Finance and a summary report on the results of internal audit in 2008 for ERO management.

The reports on the audits carried out, and the recommendations following from them, were discussed with the responsible managers. Of the 34 recommendations suggested, all were accepted. The efficacy of the adopted recommendations is verified during the monitoring of the application of the recommendations from preceding audited topics, carried out as part of the planned new audits.

The other component of the internal inspection system is the management inspections (*ex ante*, ongoing, *ex post*) carried out by managerial personnel under their powers and responsibilities.

The main purpose of both components of the internal inspection system is to prevent potential damage and unfavourable development with impacts of uncontrolled risks. To improve the management processes and to produce a favourable effect on the internal audit planning process and, in particular, to improve information security, an ISMS (information security management system) was implemented and certified, and the following were introduced into routine operation: guidelines on risk management at the

Office; guidelines on IT security at the Office; guidelines on information asset classification and management; rules of IT operation; and procedure and plans for the management of continuity of operations.

The report on the results of financial audits and reviews in 2008 was prepared and sent to the Ministry of Finance in electronic form in keeping with the relevant provisions of the law on financial control and the respective implementing regulation.

12.3 Information Security Management System (ISMS)

Under the ČSN ISO/IEC 27001 standard, from 2006 the Office was implementing principles and procedures in the information security management system (ISMS). The motivation is to improve the security management of the information with which the Office works, both that generated inside the Office and that received from persons and entities outside the Office.

ISMS helps to significantly improve management processes and has a positive influence on planning processes.

ISMS implementation has also involved a profound revision and subsequent redesign of the existing internal documents and procedures concerning information security. For operations and procedures that have not been fully described in the Office's internal documents, new documents have had to be prepared.

The ISMS implementation processes were completed in 2008 when a two-stage ISMS certification audit was carried out by CQS, an independent certification authority, at the Office.

The outcome from the certification audit was the award of CQS national certificate 191/2008 and IQNet international certificate CZ-191/2008 for the Office's ISMS meeting the requirements of ČSN ISO/IEC 27001 (see the Appendices).

Having obtained the certificates, the Office has become entitled to use the CQS and IQNet certification logos.



ISMS certification has resulted in improved information security at the Office and managers' better attitude to information security and risk identification and management.

13

Contacts



13 Contacts



Energy Regulatory Office

Masarykovo náměstí 5
586 01 Jihlava
Tel: +420 564 578 666 (switch room)

Prague offices:

Partyzánská 1/7
170 00 Praha 7 – Holešovice
Tel: +420 255 715 555 (switch room)

E-mail: eru@eru.cz or forename.surname@eru.cz
Elektronic mail room of the Office: podatelna@eru.cz
Central fax: +420 564 578 640

External and Internal Relations Unit:

Partyzánská 1/7
170 00 Praha 7 – Holešovice
Tel: +420 255 715 513



Appendix 1

Expenditure from the National Budget

Period: January to December 2008
Chapter: 349 Energy Regulatory Office

in CZK'000

Description	2008 budget		2008 actual	% drawn c. 3: c. 2
	approved	after changes		
	1	2	3	4
501 Salaries	44,471	44,471	44,115	99.20
502 Other payments for work	1,196	1,196	316	26.41
503 Statutory insurance premiums paid by the employer	15,983	15,983	15,458	96.72
513 Purchase of materials	3,305	2,905	2,065	71.08
514 Interest paid and other financial costs	50	50	20	39.34
515 Purchase of water, fuel and energy	2,090	2,090	1,898	90.81
516 Purchase of services	32,695	33,795	28,719	84.98
of which:				
5164 Rent	3,100	3,100	2,556	82.46
5166 Consulting, advisory and legal services	10,900	10,900	8,400	77.07
5167 Education and training services	3,500	3,500	3,038	86.80
5169 Purchase of other services	10,097	11,497	10,700	93.07
517 Other purchases	8,640	7,940	4,325	54.47
of which:				
5171 Repair and maintenance	2,650	1,950	814	41.74
5172 Software	360	360	256	71.24
5173 Travel expenses (domestic and abroad)	4,650	4,650	2,818	60.60
518 Advances, sureties, guarantees and government loans provided	0	0	0	
519 Costs of non-investment purchases, contributions, etc.	5	5	1	24.60
534 Transfers to internal funds	890	890	885	99.44
of which:				
5342 Transfers to FKSP and Social Fund	890	890	885	99.42
536 Other non-investment transfers to other public budgets	30	30	15	50.00
542 Compensations paid to citizens	10	10	1	13.00
551 Non-investment transfers to international organisations	900	900	720	80.04
5 Total current expenditure	110,265	110,265	98,539	89.37
611 Intangible fixed assets purchased	4,150	3,100	3,053	98.49
612 Tangible fixed assets purchased	5,374	6,424	6,314	98.29
6 Total capital expenditure	9,524	9,524	9,367	98.35
Total	119,789	119,789	107,906	90.08



Auditor's Report

on the examination of the fund established under Section 14 of the Act No. 458/2000 Coll., on the Conditions for Business and State Administration in the Energy Industries and on Amendments to Certain Laws (hereinafter, the "Energy Act"), as amended.

Auditor's opinion intended for the institutor of the Energy Regulatory Office

I have examined the fund established pursuant to the Section 14 of the Act No. 458/2000 Coll. on the Conditions for Business and State Administration in the Energy Industries and on Amendments to Certain Laws (hereinafter, the "Energy Act") as amended, and its alignment in relation to the financial statements. The examination has been performed in compliance with the International Accounting Standards and it has covered the period of the year of 2008.

The statutory body of the accounting unit is responsible for bookkeeping, and for complete, true and correct accounting. The auditor's responsibility is to obtain all the information required for examining the way the fund is maintained and its alignment in relation to the financial statements. The audit has been carried out with respect to the extent of the accounting, and through the examination of documents while respecting the significance of the disclosures.

In my opinion, the fund was maintained in compliance with the legal regulations in force, and it is truly and fairly reflected in the financial statements of the Energy Regulatory Office for the period of 2008.

A-CONT, s. r. o., represented by

Ing. Jiří Makaj
Company Executive
Auditor, Certificate No. 1529



Appendices: Balance Sheet
Schedules of the balances of the fund

In the town of Jihlava, on January 28, 2009

Recipient of the Report: Statutory body of the Energy Regulatory Office

Name of the Accounting Unit: Energy Regulatory Office

Registered Office: Masarykovo náměstí 5, 586 01 Jihlava

Reg. No.: 70894451

Period under review: year 2008

A-CONT, s. r. o., with a registered office at Poini 4, 586 01 Jihlava, Reg. No. 49448889, registered in the Companies Registry administered by the Regional Court in Brno, section C, enclosure No. 12563 and also entered in the list of auditing companies of the Czech Republic's Chamber of Auditors with the certificate No. 372



**CQS - Sdružení pro certifikaci systémů jakosti
Pod Lisem 129, 171 02 Praha 8 - Troja
Česká republika**

CQS je certifikačním orgánem, akreditovaným podle normy ČSN EN ISO/IEC 17021:2007 Českým institutem pro akreditaci, o.p.s. pod registračním číslem 3029 pro certifikaci systémů řízení bezpečnosti a informací



CERTIFIKÁT

číslo: CQS 191/2008

CQS - Sdružení pro certifikaci systémů jakosti na základě kladného výsledku certifikačního auditu prohlašuje, že

systém managementu bezpečnosti informací v organizaci

**Česká republika – Energetický regulační úřad
Masarykovo náměstí 5, 586 01 Jihlava, Česká republika
Pobočky: Partyzánská 1/7, Praha 7; Palackého 17, Jihlava**

byl prověřen a sledán v souladu s požadavky

ČSN ISO/IEC 27001 : 2006

Tento certifikát platí pro celou společnost v souladu s „Prohlášením o aplikovatelnosti“ z 08.10.2008 pro obor (služby):

- **Výkon státní správy v energetice**
.....

Platnost certifikátu omezena do: 06. 11. 2011
Rozhodnutí o certifikaci: 06. 11. 2008
Datum vydání: 06. 11. 2008



Šebestová
Ing. Marie Šebestová
Vedoucí certifikačního orgánu



Členové CQS*:

Elektrotechnický zkušební ústav, s.p., Fyzikálně technický zkušební ústav, s.p., Institut pro testování a certifikaci, a.s., Strojírenský zkušební ústav, s.p., Technický a zkušební ústav stavební Praha, s.p., Technický a zkušební ústav stavební Praha, s.p. – odštěpný závod – ZÚLP, Textilní zkušební ústav, s.p.

* Seznam členů CQS platný v době vydání certifikátu. Aktuální seznam je k dispozici na www.cqs.cz.





CERTIFICATE

IQNet and CQS
hereby certify that the organization

Czech Republic – The Energy Regulatory Office
Masarykovo náměstí 5, 586 01 Jihlava, Czech Republic
Branches: Partyzánská 1/7, Praha 7; Palackého 17, Jihlava

has implemented and maintains a

Information Security Management System

which fulfills the requirements of the following standard

ISO/IEC 27001 : 2005

Issued on: 2008 – 11 - 06

Validity date: 2011 – 11 - 06

Registration Number: CZ – 191/2008



René Wasmer
President of IQNet

Vladimír Filiáč
President of CQS



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Energy Regulatory Office
Masarykovo nám. 5
586 01 Jihlava
www.eru.cz