



The 2009 Report  
on the Activities and Finances  
of the Energy Regulatory Office

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# The Chairman's Statement



The Annual Report of the Energy Regulatory Office (the "ERO" or "Office") for 2009 provides summary information about the Office's work in the past period. It covers the functioning of the gas and electricity markets and of the heat supply industry, and other activities for which the ERO is responsible as a state administration authority.

An extensive amendment to Act No. 458/2000, the Energy Act, came into force in 2009. A fundamental piece of legislation for the energy sector, the Energy Act sets out, among other things, the conditions for business in the energy industries and for the working of the energy market as such. The Energy Regulatory Office significantly contributed to the drafting of the amendment, and subsequently drew up amendments to secondary legislation; in this connection it also acquired new competences.

Since 2010 would be the first year of the third regulatory period, the development of the methodology for this regulation culminated in 2009. Competition in the electricity market in the household segment was one of the characteristics of 2009, which saw a surge in the number of customers who decided to change their electricity supplier; it should be emphasised that such decisions were not always well-advised, and the Office therefore received

a number of complaints and requests for help.

In respect of electricity generation from renewable energy sources, last year saw an enormous boom in the installation of photovoltaic power plants. The reason for investors' strong interest in the development of this type of power plant was legislation, which did not permit the Office to respond to changes in the prices of equipment (solar panels), while the feed-in tariffs for photovoltaic electricity were extremely attractive for investors. As early as late 2008, the Office made an attempt at changing the legislation, because support for renewable electricity has a heavy impact on electricity prices charged to final customers. The proposed amendment to the legislation was discussed at the government level as late as mid-November 2009 and has since been debated in the Czech Parliament.

In 2009 the Office also focused on monitoring adherence to the quality standards for electricity supply and related services.

In the gas industry, the very beginning of 2009 was marked by an event that neither the Czech nor the European gas industry had faced before, which has significantly changed the behaviour of gas market players and the way in which gas is viewed. The disputes over payments and transit fees between Russian and Ukrainian gas companies came to a head in early January, when gas supplies from Russia for all customers in Europe who use transit gas pipelines passing through Ukraine were reduced, and then completely disrupted. The government authorities and gas companies analysed the ability of Czech legislation to respond timely and appropriately to such situations, whose occurrence cannot be ruled out in the future, and speedily prepared a new public notice, no. 334/2009, on emergencies in the gas industry, because it was apparent that the legislation applying at that time was not able to cope with such situations. New traders appeared on the Czech market; their interest did not focus on large and medium-sized customers only as had been the case with new traders in the past, but also on small business and household customers. Thus, gas supplier switching began to be attractive for customers, and more than 33,000 of them changed their gas supplier in 2009.

The amendment to the Energy Act has resulted in a broader remit for the market operator, until then responsible only for the electricity industry; on 1 January 2010, this organisation started to carry out the activities required by law that also apply to the gas industry.

In the heat supply industry, the information obligation was established for thermal energy suppliers. In this way, the Office wants to strengthen supervision over certain prices of thermal energy and have an opportunity to intervene in cases where sharp increases in heat prices are unjustifiable. The Office initiates price inspections in serious cases or as part of administrative proceedings.

In respect of licensing, the work chiefly centred round licences awarded for electricity generation from renewable energy sources, particularly photovoltaic power plants. There was also a slight increase in the number of electricity and gas trading licence holders. In 2009, 4,800 licences for new generating plants were awarded, of which 4,660 were photovoltaic power plants.

Ten administrative proceedings in the electricity industry, two such proceedings in the gas industry and 98 proceedings in the heat supply industry were conducted and concluded in 2009. These figures show a significant increase in the Office's decision-making responsibilities, in particular decisions on the execution of heat supply agreements and price addenda thereto. Last year the Office received and addressed 116 complaints and suggestions concerning electricity, gas and heat.

Within its competence, the Office focused on direct communication with central state administration authorities. Its co-operation with energy and legal experts of the respective departments of the Ministry of Industry and Trade can be regarded as crucial, especially in the evaluation of the experience with the application of the Energy Act.

The Office also addressed 61 questions on regulatory issues, in particular its price decisions, and also more than 1,000 questions in writing.

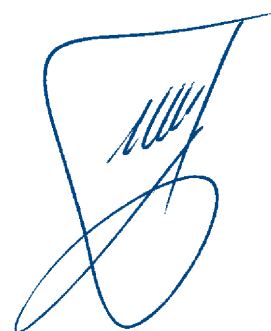
The Office continued to develop its publication activities on the web and produced 10 issues of the *Energy Regulation Gazette*; four of them contained a list of licensees for business in the energy industries. The other published documents included, for example, price decisions and notifications of approval of the rules for energy system operation.

Last but not least, the Office was actively involved in the Czech EU presidency, and it took advantage of this period to organise a general meeting of the Council of European Energy Regulators (CEER) and meetings of some of CEER working groups in Prague. During the presidency the Office also provided information to partner regulatory authorities to influence them with a view to achieving a final agreement on the proposals in the third liberalisation package.

The Office is a member of the regulatory reform and effective public administration panel and of a number of European councils, task forces and working groups under the European Commission.

A separate chapter of this Annual Report is dedicated to the management of the Office's budget and activities. I am pleased to see that the Office observed budgetary discipline, did not overdraw on its approved budget, and adhered to all the mandatory targets of the budget.

The year 2009 was challenging. At this point it is only fair to note that 2010 will be equally complicated in many respects. I would therefore like to express my gratitude to all the employees and external co-workers for their effort. I believe that we will successfully tackle all the tasks that 2010 will bring us.



**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 2009

The beginning of 2009 was marked by an event unprecedented in the Czech or European gas industry. Disputes over payments for natural gas and transit fees between Russian and Ukrainian companies culminated in a crisis at the beginning of January. Natural gas supplies from Russia were first reduced, and then completely disrupted for all customers in Europe who use transit pipelines across Ukraine for transporting the commodity. The Czech gas industry was able to successfully tackle the disruption in Russian supplies, which lasted for 14 days (on 7 January 2009 the gas supplies to Europe were stopped completely and were only fully resumed on 20 January 2009), and Czech customers therefore did not feel the effects of the crisis. On the basis of an analysis, governmental authorities and gas companies made preparations for a potential future crisis situation in the gas market by way of amending Czech legal regulations, which has made it possible to respond to similar situations better and on time now.

In 2009, an extensive amendment to **Act No. 458/2000, the Energy Act**, came into force; the Energy Act is the fundamental legal norm that regulates the environment in the energy sector and provides for the market players’ rights and obligations, i.e., the rules and operation of the energy market in the electricity, gas and heat supply industries, non-discriminatory regulation, and state administration in the energy industries. The law applies the EU’s principles for the energy sector. The Energy Act governs business in the electricity, gas and heat supply industries, and also the rules for regulation and state administration in the energy sector.

The Office made a significant contribution to the drafting of the amendment; the amendment also provides for a number of new competences for the Office, for example, its competence in regulation and resolution of disputes between electricity and gas market participants. The Office prepared amendments to secondary legislation in relation to the amended Energy Act.

At the end of 2009 the Office registered a combined installed capacity of panels of 465 MW on the basis of the then current licences for electricity generation in photovoltaic plants. From the end of 2008, more than 400 MW were put on stream at these installations, which means a nine-fold increase. The unprecedented rise in the number of renewable sources, especially photovoltaic plants in connection with the significant change in the technical and financial parameters, prompted the Office, following consultation with the Ministry of Industry and Trade (MPO) and the Ministry of the Environment (MŽP) to draft and put forward **an amendment to Act No. 180/2005, on support for the use of renewable sources**.

Development of the regulatory methodology for **the third regulatory period** started in mid-2008 and continued in 2009. The Office focused on setting each of the parameters for the third regulatory period, including thorough verification of the accuracy of the input data for calculating the prices for 2010, which is the first year of the third regulatory period.

One of the visible effects of the **liberalisation of the electricity and gas markets** in 2009 was the steep rise in the number of customers who changed their supplier. In 2009, the boom in electricity and gas supplier switching also had its downside. Many customers changed their supplier, but did not carefully study the terms and conditions of the supply from the new supplier and started to complain with the competent authorities about traders’ irregular practices. On its website, the Office posted a guide for households on the steps they should take when changing their electricity supplier.

In 2009 the **Czech and Slovak day-ahead electricity markets were interconnected** and trading based on implicit auctions was started. The interconnection of the spot electricity market organised in the Czech Republic by Operátor trhu s elektřinou, a.s. (effective from 29 October 2009, the name Operátor trhu s elektřinou, a.s. changed to OTE, a.s. under the amendment, Act No. 158/2009, to the Energy Act) and in Slovakia by Slovenská elektrizačná prenosová sústava, a.s. (SEPS, a.s.) means that with effect from 31 August 2009, day-ahead electricity buy/sell bids of registered market participants in both countries can be satisfied from the neighbouring marketplace without the need to obtain transmission capacity.

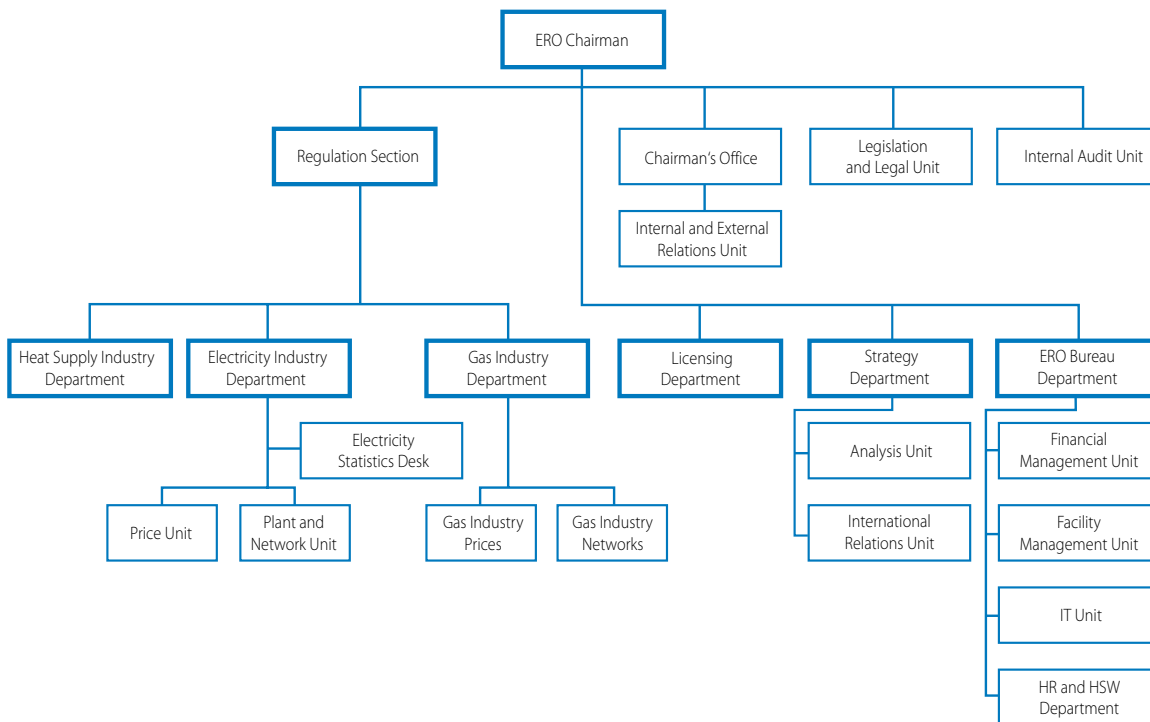
In respect of international electricity trading, main attention was devoted to **auction mechanisms** for trading in cross-border transmission capacities in the Central European region; coordinated auctions for cross-border interconnections are now organised by an auction office in Freising.

The Office was actively involved in the Czech Republic’s EU **presidency**; together with the other central state administration authorities it mainly contributed to the successful completion of the deliberations on the so-called **third liberalisation package** in the energy working group and its final approval in the relevant bodies of the Council of the European Union and the European Parliament. The adoption of all five legislative acts, collectively referred to as the third liberalisation package, was among the Czech EU presidency’s priorities.

The Office also took advantage of the Czech EU presidency to organise a **CEER General Assembly** and meetings of some CEER working groups in Prague.



## 1.2 Organisational structure as at 31 December 2009



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

Josef Fiřt  
 Blahoslav Němeček  
 Luděk Prařák  
 Stanislav Trávníček  
 Sylva Hondlová  
 Stanislav Večeřa  
 Martina Krčová  
 Vladimír Kabelka



# 2

## Legislative activities



## 2 Legislative activities

### 2.1 Drafting the amendment to the Energy Act

In line with the plan of the Cabinet's legislative work, late 2006 and early 2007 saw the launch of preparations for another profound amendment to the Energy Act. The Ministry of Industry and Trade was responsible for drafting the proposed amendment, and the Office was co-responsible. The main reason for drafting the amendment was again the need to implement some additional *acquis*, especially Directive 2005/89/EC<sup>1)</sup>, Directive 2004/67/EC<sup>2)</sup>, and, partly, Directive 2006/32/EC<sup>3)</sup> and also the necessary adjustment of the Energy Act to Regulation 1775/2005<sup>4)</sup>, in particular as regards the issues of inspection and review.

On 2 July 2008, the proposed amendment to the Energy Act was discussed by the Cabinet and approved in its Resolution No. 805; as the government's bill amending the Energy Act, it was then referred to the Chamber of Deputies on 6 August 2008. The bill was debated in the Chamber as paper 566 on 23 September 2008. In the first reading, it was referred to the Economic Committee, which debated it for the first time on 17 November 2008. On 22 January 2009, the Economic Committee issued a resolution, which was delivered to the MPs as paper 566/1 (amending proposals). The proposed amendment to the Energy Act was also debated in the Review Committee, which on 29 January 2009 issued a resolution that was delivered to the MPs as paper 556/2 (amending proposals). The Economic Committee debated the bill again and on 6 February 2009 issued its resolution as paper 566/3 (amending proposals). Thereupon the proposed amendment to the Energy Act was debated in the second reading on 25 March 2009.

1 April 2009 saw the third reading of the amendment bill during the 52nd sitting of the Chamber of Deputies, which passed the government's bill that amended Act No. 458/2000 on the Conditions of Business and State Administration in the Energy Industries and on Changes to Certain Laws (the Energy Act), as amended, in accordance with paper 566 as amended by the amending proposals that had been passed.

On 14 April 2009, the Chamber of Deputies referred the bill amending the Energy Act to the Senate, whose Organisation Committee appointed, on 15 April 2009, the Committee for Economy, Agriculture and Transport as the guarantor committee; it debated the bill on 30 April 2009 and in its resolution no. 130 recommended to the Senate to pass the bill in the wording received from the Chamber of Deputies. The Senate debated the amendment bill on 7 May 2009 and passed it in its resolution no. 60.

The passed bill was delivered to the President of the Republic for signature on 15 May 2009, and the President signed it on 25 May 2009. Subsequently, on 26 May 2009, the passed bill was delivered to the Prime Minister for signature.

On 4 June 2009, the law was promulgated in the Official Gazette, Part 46, page 1936, under no. 158/2009.

### 2.2 Drafting the amendment to the law on the use of renewable sources

The Office actively supports electricity generation from renewable energy sources; however, the amount of this support must be set so as to take into account the actual technical and financial parameters of the various types of renewables while being reasonably attractive for investors.

The last few years have seen a significant increase in investors' interest in photovoltaic, stimulated by the year-on-year drops in specific investment costs of these installations thanks to the prices of photovoltaic panels dropping by more than 40%. The installed capacity of photovoltaic plants and the number of requests for capacity booking for the connection of these plants have increased. For this reason, the Office drafted, in co-operation with MPO, an amendment to Act No. 180/2005 on Support for Electricity Generation from Renewable Energy Sources and on Changes to Certain Laws (the law on support for the use of renewable sources), which removes the statutory limitation on yearly adjustments of regulated prices by more than 5% (Section 6(4) of the law).

The proposed amendment to the law on support for the use of renewable sources will make it possible for the Office to adjust support for electricity generation using solar radiation in line with the level of the support provided for the other types of renewable sources. Investors will have ample time to prepare for the adjusted conditions for investing.

The Cabinet laid the proposed amendment to the law before the Chamber of Deputies on 18 November 2009 and the bill was distributed as paper 968/0 on 20 November 2009.

On 3 December 2009, the first reading of the bill took place during the 66th sitting of the Chamber of Deputies and the bill was referred to the Economic Committee and the Environment Committee for debate.

<sup>1)</sup> 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

<sup>2)</sup> Council Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply

<sup>3)</sup> 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

<sup>4)</sup> 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

## 2.3 Key changes to legal regulations within the ERO's remit

In 2009, the Office drafted and promulgated amendments to the existing implementing legal regulations; the need for amendments was precipitated by the experience with the application of these legal regulations on the liberalised energy markets and also by the passing of Act No. 158/2009, which considerably amended the Energy Act.

The Office promulgated the following legal regulations to implement Act No. 458/2000, the Energy Act, as amended, and Act No. 180/2005, on support for the use of renewable sources, as amended:

- **Public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control**

With effect from 25 May 2009, the public notice of 11 May 2009 superseded no. 150/2007, on regulatory methods in the energy industries and procedures for price control.

The changes are geared towards enhancing licence holders' motivation for effective investment, with emphasis on improving the quality of the services provided to final customers. The new public notice describes the methodology for the third regulatory period, including the setting of each of the regulatory parameters, and reflects the changes in the structure of licence holders. It also sets out the methodology for the buyback of gas facilities.

- **Public notice no. 365/2009 on the Gas Market Rules**

With effect from 26 October 2009, the public notice of 15 October 2009 superseded 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.

Act No. 158/2009 significantly changed the special part of the Energy Act on conditions for business in the gas industry. Some of the TSO's and the Balancing Centre's rights and obligations will henceforth be exercised and performed by the market operator and therefore the implementing regulation, i.e. public notice no. 524/2006, had to be modified accordingly. This mainly includes the organisation of the spot gas market, evaluation and settlement of imbalances, certain information obligations related to the operation of the transmission system, distribution systems and underground gas storage facilities, obtaining and providing the actual values of gas supplies and other information required for the billing of gas supplies to gas market participants, development of the typical gas supply profiles, balancing gas clearing and settlement, and certain steps in the gas supplier switching process.

- **Public notice no. 468/2009, 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.**

Dated 16 December 2009, this public notice amends no. 541/2005 with effect from 1 January 2010 for the following reasons.

In connection with the global economic developments and the drop in the prices of energy commodities, the Czech electricity market experienced the collapse of a major electricity supplier and felt many other electricity suppliers' and customers' deteriorated situation. This eroded confidence in the rules for the Czech electricity market's functioning, and caused financial losses of tens of millions of crowns for some of the insolvent supplier's trading partners and, above all, the electricity market operator. By modifying the electricity market rules, the Office tried to prevent such events from recurring and to put in place better conditions for business in energy industries.

The public notice has introduced more transparent criteria for categorising electricity producers and for assessing their rights and obligations related to the conditions for connecting their generating plants to the electricity grid and to the payments for the use of the electricity grid and payments for system services. It has also introduced the requirement for financial standing of cleared entities for electricity trading abroad, with a view to removing discrimination between traders operating in the Czech Republic and speculators trading in other countries, and reducing other market participants' financial risks stemming from the speculative behaviour of the electricity traders who trade outside the Czech Republic.

In connection with the extension of the market operator's remit to include the gas industry, such extension arising from the amended Energy Act, and in connection with the requirement of Directive 2009/72/EC<sup>5)</sup>, there is a change in the supplier switching process in the electricity industry. The public notice has unified the principles and procedures of supplier switching in the two industries.

- **Public notice no. 358/2009 amending no. 426/2005 on the details of awarding licences for business in the energy industries, as amended**

The Office's authorisation to promulgate a public notice laying down the ways of proving financial standing, technical prerequisites and professional competence for the various types of licences, the ways of determining the delineated area and the operating unit, the ways of proving the ownership title, or the right of use, to the energy facility, the required details of the responsible representative's statement and model forms of the application for the award, change or revocation of a licence, no longer includes an authorisation to lay down the categorisation of licences into groups by the object of business.

The amendment to the Energy Act repealed the hitherto existing provisions of Section 5(7) and (8) of the Energy Act, which governed the demonstration of financial standing. However, Section 7(4)(d) of the Energy Act continues to contain the requirement for attaching documents proving financial standing to licence applications.

For the above reasons, the Office changed the public notice to match its own changed statutory authorisation, with a view to reducing administrative burden and facilitating access to business.

<sup>5)</sup> Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC

- **Public notice no. 408/2009 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports**

Dated 10 November 2009, the public notice superseded no. 404/2005 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports, with effect from 25 November 2009.

In line with the amendment to the Energy Act, the obligation to produce regulatory reports and furnish them to the Office has been limited to holders of licences for electricity and gas transmission and gas storage, and gas and electricity distribution licence holders to whose distribution system more than 90,000 supply points of customers are connected. Holders of thermal energy generation and/or distribution licences are obliged to produce and furnish regulatory reports if their total annual revenues from these licensed activities exceed CZK 2,500,000. The public notice also provides for the structure and essentials of regulatory reports for the purpose of obtaining clearer information for decision-making on prices.

- **A public notice to amend no. 51/2006 on conditions for connection to the electricity grid, as amended**

The proposed instrument will repeal the currently effective implementing regulation on the conditions for connection to the electricity grid, i.e. public notice no. 51/2006. The purpose of the amendment is to put in place standardised general conditions for connecting electricity market participants; the specifics, if any, of connecting different market participants are defined in special provisions in addition to general provisions.

In the light of the experience with the application of no. 51/2006, the regulation retains the principle of a lump sum contribution to the costs incurred in connection and in providing the requested booked capacity for the applicant. The lump sum contributions have been set so as to motivate the applicant for connection to objectively assess its requirements for the level of the power input/output to be booked and so that every applicant for connections pays, on average, 50% of the total actual costs incurred in the electricity grid by the connection.

The proposed public notice was not furnished for the commenting procedure by the end of 2009. The expected date of effect has been set for the first quarter of 2010.

- **A public notice to amend no. 540/2005 on the quality of electricity supplies and related services in the electricity industry, as amended**

Public notice no. 540/2005 as in force now has been overcome by practical life in many respects and fails to reflect the experience gained in the application and reporting of the standards; the experience shows that keeping the short time limits for claiming compensation for failure to observe the standards is difficult for customers.

The amendment extends the time limits for claiming compensation for failure to observe the standards. It also proposes to increase the compensation in the light of the fact that regulated charges for electricity distribution have increased since the effective date of the public notice. Another purpose of the amendment is to unify the calculation of the supply continuity indicators and to make it possible to use them as a parameter on the basis of which it will be possible to reflect supply quality in the economic regulation of distribution and transmission system operators in the next regulatory period.

The commenting procedure for the proposed amendment was concluded on 24 November 2009 and the bill was readied for debate in the working commission for public law of the Legislative Council of the Government of the Czech Republic. The expected date of effect has been set for the first quarter of 2010.

## 2.4 Customers and their position on the liberalised market

### 2.4.1 Information provided to customers

On its website, the Office offers consumers, and therefore also household customers, the required information intended to make it easier for them to find their way around the liberalised energy markets. One of the main issues is the steps to be taken by customers when they want to change their energy supplier. In this connection, the website also offers a ready reckoner, with the help of which customers can compare year-on-year changes in prices and which can therefore make it much easier for them to select their energy suppliers.

The website also presents information about customers' right to energy supply at the prescribed level of quality - if a supplier fails to maintain such quality customers are entitled to a specified compensation; information about administrative authorities and associations the remit of which includes consumer protection issues and which citizens can also approach in the case of difficulties. Information about the development of consumer protection legislation, both the *acquis* and on the national level, is also available on the website.

Those who are interested can obtain specific answers to the most frequently asked questions and the most important issues related to electricity, gas and heat supply in the FAQ section.

### 2.4.2 The European Energy Consumer Checklist

Through DG TREN, the European Commission requested the permanent Representation of the Czech Republic to the European Union in Brussels to prepare the respective national version of the European Energy Consumer Checklist to provide answers to a set of questions concerning consumers' position and rights, reflecting the reality of the local, i.e., Czech, energy market.

In connection with this requirement, the European Commission has prepared the European Energy Consumer Checklist, which contains the crucial questions concerning consumers' rights in the energy sector; this list might become the basis for future legislative changes and adjustments in this area.

The objective and purpose of the European Energy Consumer Checklist in the Czech national version was to prepare clear-cut comprehensive answers to all questions on the basis of co-operation between all the authorities responsible for consumer rights protection. The authority responsible for drafting the answers to the questions in the list was the Energy Regulatory Office.

The Legislation and Legal Unit analysed the questions contained in the list. The analysis suggests the following:

- a) The European Energy Consumer Checklist focuses on nine areas and as a whole forms the basic aspects of consumer protection – information obligations, contracts and billing, prices, tariffs and monitoring, free choice of supplier, connection to network, complaint handling, consumer representation, social measures and unfair commercial practices;
- b) Of the total number of 78 questions (to date), most questions fall within the Office's remit. In some areas, the Office is fully competent to prepare the answers (in particular as regards questions of connection to the network, free choice of supplier, and contracts and billing, including prices), while in other areas it expects co-operation with other central state administration authorities or organisations (State's Energy Inspectorate (SEI), Ministry of Industry and Trade (MPO), Office for the Protection of Competition (ÚOHS) and the Czech Trade Inspection Authority).

The European Energy Consumer Checklist was prepared in the first half of 2009. On 30 April 2009 it was posted on the Office's website.

### **2.4.3 Energy supply billing**

Act No. 158/2009, which amends Act No. 458/2000, the Energy Act, as amended, also contains new provisions in Section 98a(2)(j) on the ERO's authorisation, and duty, to set out the scope, details and dates for billing supply of electricity, gas or heat and related services in an implementing legal regulation.

Customers' position is becoming stronger, also in connection with the new European legislation, from the point of view of, for example, their right to reliable and true information about their actual energy consumption and costs, within a sufficient timeframe so that customers can regulate their consumption and also compare different suppliers' quotations.

In the light of the above, the Office decided to commission a market survey amongst small electricity customers, i.e., households and small business customers, with a view to obtaining information about their awareness of electricity supply billing, with a particular emphasis on electricity consumption and costs, and also their awareness of the supplier switching option, supply quality, clarity of billing and the opportunities that customers have to tackle problems and potential disputes.

The results of this survey were evaluated and will be taken into account when drafting an implementing legal regulation attached to the Energy Act and concerning the billing of energy supply to customers.

### **2.4.4 Citizens' Energy Forum**

On 29 and 30 September 2009, the second meeting of the Citizen's Energy Forum took place. Its agenda focused on the issues of billing, measures for complaint handling, and smart metering rollout, which are expected to result in a strategic change on the internal market.



# 3

## The third regulatory period





# 3 The third regulatory period

## 3.1 Preparations and settings for the third regulatory period

Electricity and gas distribution and transmission are the so-called natural monopolies; their operation relies on only one network because the rollout of parallel infrastructure is not effective in economic terms. To prevent monopolies from dictating prices uncontrollably, they have to be regulated by the State. A regulatory authority is usually authorised to do this.

The development of the regulatory methodology for the third regulatory period started as early as mid-2008 and in line with the principles of a transparent and open approach. The purpose was to determine a reasonable level of profit for companies during the following five-year regulatory period, ensure adequate quality of the services provided to customers, with effective spending of costs, support future investments, provide for the resources required for network renovation, and continue to improve efficiencies benefiting also customers.

The Office mainly wanted to propose a generally acceptable methodology, and its responsible department therefore presented proposals for public consultation that all the stakeholders could join via the Office's website. Additional documents were also posted on the Office's website in due time, making them available for all market players and inviting their comments. For the very first time in its history, the Office employed the tool of a public consultation process and declared its wish to involve the general public in the debate on the methodology for the third regulatory period.

The Office received comments on the published documents from various stakeholders. Principal comments were discussed not only internally but also in the presence of the respective entities. The conclusions of these discussions were incorporated in the Updated Report on the Methodology for the Third Regulatory Period, which was posted on the Office's website on 3 February 2009. The Office also encouraged members of the public to send their substantive comments on the documents prior to the closing of the consultation process.

Then followed a second wave of comments and related meetings, the main topic of which was discussion of the method for setting the input parameters for the calculation of the rate of return (profitability) with regard to the impacts of the financial crisis on the development of these parameters. Other comments mainly concerned the recognition of revalued assets and the related setting of the minimum revaluation coefficient and the efficiency factor.

At the same time, the Office initiated meetings with distribution companies and Svaz měst a obcí ČR [SMO, Union of Towns and Municipalities of the Czech Republic] on issues related to gas facilities currently owned by municipalities. The discussions resulted in the development of a standardised methodology for pricing gas facilities owned by municipalities for the purpose of their sale to distribution companies. Employing this standardised acquisition methodology is a precondition for recognising the value of the facility in regulation for all entities running the gas distribution business. Where a municipality elects not to sell its gas facility and retains it, it must operate the facility under its own licence, which implies a number of duties for the municipality under the Energy Act. The Office does not support (or address) the lease of such facilities as this approach does not provide the lessee with the funds required for the renovation of the facility throughout its service life.

The results of these discussions became the basis for drafting a new public notice, no. 140/2009 on regulatory methods in the energy industries and procedures for price control, which contains the above regulatory methodologies. It was promulgated in the Official Gazette, Part 42, on 25 May 2009.

The requirement to amend the public notice on reporting, which in its then effective wording did not match the structure of the data required of regulated entities, followed from the new public notice. Public notice no. 408/2009 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports, was published in the Official Gazette, Part 132, on 25 November 2009.

In relation to the promulgated legislation, the definitive regulatory methodology was included in the Final Report of the Energy Regulatory Office on the Regulatory Methodology for the Third Regulatory Period, which was published on 11 November 2009. In an effort to make the information about this issue available for a broad range of users, also those outside the Czech Republic (for example, other national regulators), the Final Report was also made available in English.

## 3.2 Regulatory methodology for the third regulatory period

As in the preceding regulatory period, the Office applies the incentive-based revenue cap regulatory method, which is applicable for five years with the regulatory period beginning on 1 January 2010 and ending on 31 December 2014, for the third regulatory period. Allowed revenues for regulated companies continue to include the parameters of costs, depreciation and profit.

$$PV = N + O + Z$$

where

- N allowed costs
- O allowed depreciation
- Z allowed profit

Moreover, in the third regulatory period in the electricity industry, a new element will be incentive-based regulation with a view to specifying the required level of service quality in relation to service price. The standard formula for calculating a regulated entity's allowed revenue has been extended to include a term that adjusts the value of allowed revenue by a penalty/bonus, in financial terms,

for the quality achieved. The following part briefly describes the procedures for determining the basic economic parameters of the formula. Technical parameters are described in the respective chapters on the electricity and gas industries.

### Setting of costs

The initial level of costs was determined on the basis of the average of actual accounting costs in 2007 and 2008. In the coming years, this initial level will be escalated by an escalation factor, which has a new composition (PPI and wage factors were replaced by CPI and the business service price index). The general efficiency factor was originally to be set at 7.5%. Subsequently, following discussion during the consultation process, the general efficiency factor was decreased to 5% subject to determining individual efficiency factors. Since the Office then abandoned the application of individual efficiency factors  $\xi_i$ , it increased the original value of the general efficiency factor to 9.75%.

### Setting of depreciation

The Office gradually reconsidered its approach to allowed depreciation during the second regulatory period, when it concluded on the basis of economic analyses that the required level of depreciation as a source of money for asset replacement was equal to the revalued depreciation that the companies carried in their books. At the same time the Office decided to set depreciation on the basis of planned values. Planned values will then be adjusted to the actual level, using the time value of money, two years later.

### Setting the rate of return

In the third regulatory period, profit will continue to be calculated as the product of the rate of return and the regulatory asset base (RAB), but during the consultation process some parameters of the calculation were subject to the most important changes. Although the method of calculating the weighted average cost of capital (WACC) has been retained, the purpose of the new methodology was to annually optimise the value of the cost of capital so as to reflect the current market situation in the case of considerable ups and downs in the input parameters

The modifications made in the methodology only concerned the parameters related to the cost of debt, equity risk premium and risk-free rate of return, i.e., the parameters for which we could observe relatively major changes over a short period of time, which did not fit within long-term trends. The debt/equity ratio and beta coefficient were subjected to modification using this methodology and were set for the whole of the third regulatory period. The taxation parameter will always be based on the current effective tax rate.

**Table 1 Cost of capital for regulated activities**

Formula parameter	Electricity distribution	Electricity transmission	Gas distribution	Gas transmission
	Value	Value	Value	Value
$r_f$ = risk free rate of return	4.6%	4.6%	4.6%	4.6%
$\beta_{\text{unlevered}}$ = unlevered beta	0.350	0.300	0.400	0.350
ERP (or $r_M - r_f$ ) = equity risk premium	6.4%	6.4%	6.4%	6.4%
D = debt	40%	30%	40%	30%
T = tax rate	19%	19%	19%	19%
$r_d$ = cost of debt	4.91%	4.81%	4.91%	4.81%
<b>WACC nominal value adjusted for tax (before tax)</b>	<b>7.923%</b>	<b>7.65%</b>	<b>8.288%</b>	<b>8.023%</b>

### Setting RAB

One of the largest changes in the methodology for the third regulatory period was the approach to RAB. The main purpose of the new methodology was support for the regulated entities' investment policy and, in turn, a faster growth of RAB. Due to this measure, the values included in regulation will gradually converge with revalued accounting values during the regulatory period.

The initial level of the regulatory asset base was based on the planned residual value of assets in 2009, which was adjusted by the initial revaluation coefficient. This coefficient ensures the continuity of companies' profitability from the second regulatory period and determines the percentage at which companies' assets carried in their books will be recognised in RAB. The Office set the minimum

level of the revaluation coefficient for the initial level of RAB at 55% in the electricity industry and 50% in the gas industry. The companies that had exceeded this percentage were left with the achieved revaluation coefficient. The unification of the initial level of RAB has made it possible to remedy the disproportions that arose between companies due to asset revaluation as part of unbundling and due to different patterns of the inclusion of assets in off-balance sheet records.

In the coming years, this initial value will be adjusted by the change in the residual value of assets, calculated as the difference between capitalised capital expenditure and depreciation. Depreciation will be adjusted by the revaluation coefficient, which will be calculated as the result of dividing the planned value of RAB in year  $i-1$  (in 2010, initial value of RAB) by the planned residual value of assets in year  $i-1$ .

Planned values will be used for computing the values of RAB, and therefore the level of RAB needs to be adjusted through correction after finding the actual level of these values from companies' audited accounts.

### **3.3 Achievement of targets**

During consultations on the methodology for the third regulatory period, the Office did not accept regulated companies' proposals for the full recognition of revalued assets in regulation, thereby preventing the regulated parameters from increasing significantly in comparison with the second regulatory period. The mechanism that was applied in this connection is based on a gradual inclusion of revalued assets into regulation, depending on each individual company's investment activity. At the same time, the Office increased the regulated depreciation parameters to a level matching book values. These steps fully supported the requirement for the further upgrade and development of systems.

The requirement for effective cost spending was only applied on the general level, where the Office set a single limit for required savings for all regulated companies. In this respect, it was not feasible to prepare a convincing comparison that would have made it possible to assess each company individually and the Office will address this issue very intensively during the third regulatory period to make it possible to properly set the individual efficiency factor for the fourth regulatory period.

In respect of the cost of capital, in the light of the mounting financial crisis the Office adopted an alternative calculation; during the regulatory period, it will reflect the current situation depending on the development of financial indicators.





4  
Regulation  
in the electricity industry



# 4 Regulation in the electricity industry

## 4.1 The market in 2009

The electricity market has been gradually opening for all customer categories since 2002 and over the years, we can discern certain trends characterising electricity suppliers' business strategies. In the first years of the liberalisation, traders focused mainly on the largest customers, or exported electricity that they bought in the Czech Republic to other countries.

Between 2006 and 2008, growing competition could be felt in the segment of medium-sized customers and, later, in the segment of small business customers connected to the low voltage level. Continuous trading on Power Exchange Central Europe (earlier Energetická burza Praha) and the high volatility of the prices of energy commodities in 2008, affecting the so-called futures (prices of future electricity supplies) in the following years supported growth in competition on the market, and gave electricity suppliers the opportunity to pursue different electricity purchase strategies and broaden the range of their products, or even to focus on a certain customer segment.

The year 2009 can therefore be viewed as the first year when competition on the electricity market was visible in the household segment too. Specifically, based on the data recorded by Operátor trhu s elektřinou, a.s. (OTE), almost four times more households switched their supplier in 2009 on a year-on-year basis. In the other customer segments the main wave of electricity supplier switching had taken place previously, and therefore the switching percentages are at approximately the same level compared with the previous year. Table 2 shows specific supplier switching data.

The Office uses its website to provide information 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 tariff, the level of consumption), compare their overall cost of electricity supply from each of the suppliers and find the best supplier, if they wish. The ready reckoner is updated on a regular basis, new suppliers are added to it, and it is gradually extended to include additional useful functionalities and information. At the beginning of 2010 the ready reckoner contained electrical energy quotations for households from nine suppliers, and the small business segment customers had a choice of ten suppliers.

**Table 2 Electricity supplier switching**

Demand	2008		2009	
	Number of changed supply points	Switching rate, in %	Number of changed supply points	Switching rate, in %
High-demand customers, EHV, HV	6,549	28.1	5,175	22.2
Low-demand business customers, LV	35,351	4.4	33,487	4.1
Households	15,764	0.3	54,089	1.1

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

Another major event on the electricity market in 2009 was the collapse of a major electricity trader (Moravia Energo, a.s.) and the subsequent very first application of the concept of supplier of last resort. We can note that the system worked well and that electricity supplies to affected customers were not disrupted or jeopardised. The experience with this situation was later reflected in the amendment to the Electricity Market Rules.

In respect of international electricity trading, main attention was devoted to auction mechanisms for trading in cross-border transmission capacities in the Central European region; coordinated auctions for cross-border interconnections are now organised by an auction office in Freising (Central Allocation Office GmbH) rather than the Czech transmission system operator, ČEPS, a.s.

31 August 2009 saw the interconnection of the day-ahead markets in the Czech Republic and Slovakia, and trading based on the principle of implicit auctions was launched. Taking this step, the Czech Republic and Slovakia joined the first countries with integrated markets in Europe (at present, implicit auctions are only also operated in Scandinavia, in the Benelux countries and adjacent border areas, and between Portugal and Spain).

## 4.2 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 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.

The principle of the regulation of prices set for 2010 has been preserved. The range of tariffs 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.

## 4.2.1 Controlled components of the electricity supply price

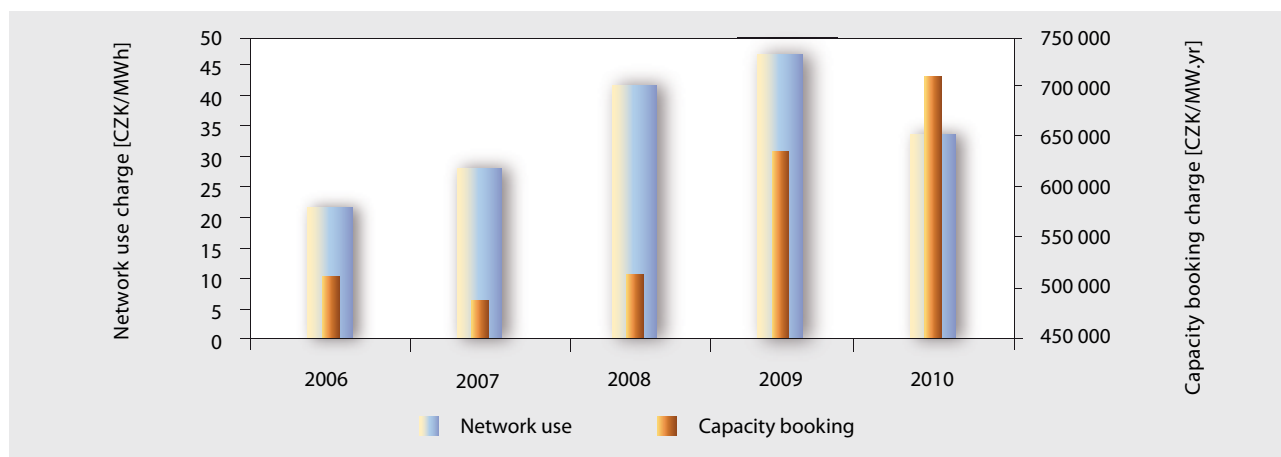
### Charge for network services

The network service charge is composed of a charge for transmission services and a charge for distribution services. The network service charges for 2010 are mainly influenced by the following factors:

#### Transmission service charge

The charge for using the transmission system networks has dropped from CZK 46.78/MWh for 2009 to CZK 33.73/MWh for 2010. This decrease (27.9%) has resulted from the situation on the commodity markets and the plunge in energy prices, which lasted from the third quarter of 2008. The drop in 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 12.7% year-on-year. This increase was mainly due to inflation factors and the expected drop in customers' overall electricity consumption. Chart 1 shows the electricity transmission charge.

Chart 1 Components of the electricity transmission charge



#### Distribution service charge

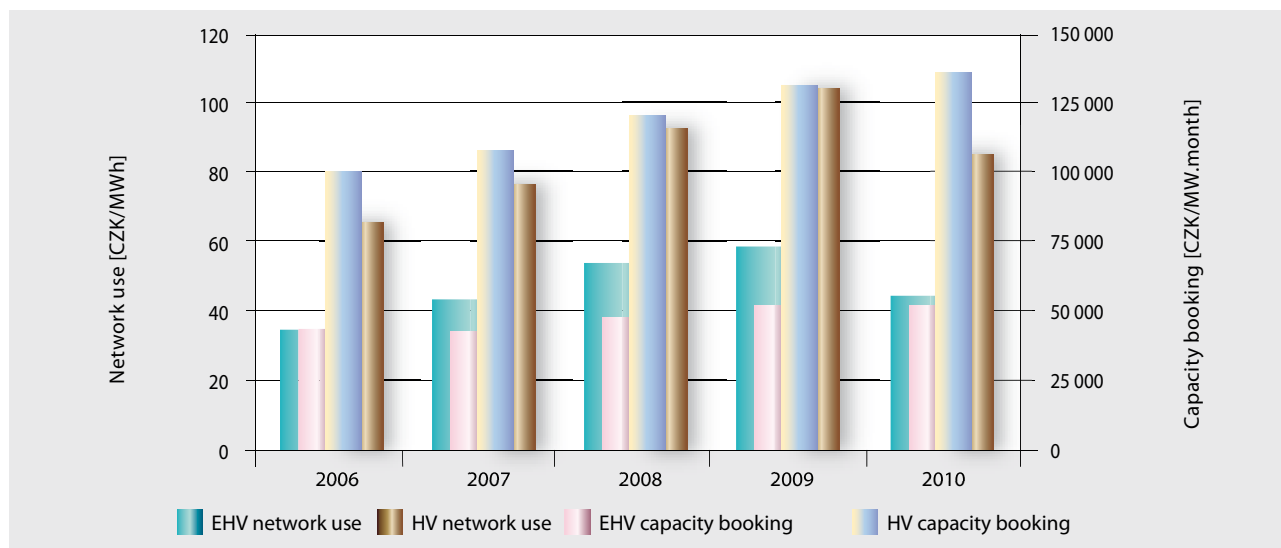
The network use charge that serves for covering network losses and is favourably influenced by the development of energy prices and also the significant decrease in the loss rate allowed for distribution networks has declined year-on-year by 20% on average on the EHV level and by 18.3% on the HV level.

The charges for booked capacity on the various voltage levels are mainly influenced by technical units (the size of the capacity reserved by customers), the volume of investment (depreciation) on the respective voltage level, and the charge for capacity booking in the higher-level transmission system. The increase in the unit charge for transmission capacity booking, together with certain other factors such as inflation and lower electricity demand, have an unfavourable effect on the unit charge for capacity booking in distribution networks. Due to the economic slowdown in 2010, an overall drop in electricity demand by about 9.1% is expected compared with the expected level of 2009. The lower demand has a major negative impact on controlled prices, because the funds that are due to regulated companies for their activity are spread over a smaller number of technical units of consumption.

For 2010 there has been a year-on-year increase of 2.6% on the EHV level and 2.8% on the HV level in the charge for booked capacity in distribution networks.

Chart 2 shows the two components of the distribution charge from 2006 to 2010.

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



**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 on the various voltage levels have been maintained at the level of previous years.

Year-on-year, the final customers’ resulting contribution to distributed generation decreased from CZK 9.21/MWh to CZK 7.66/MWh thanks to corrections in previous years.

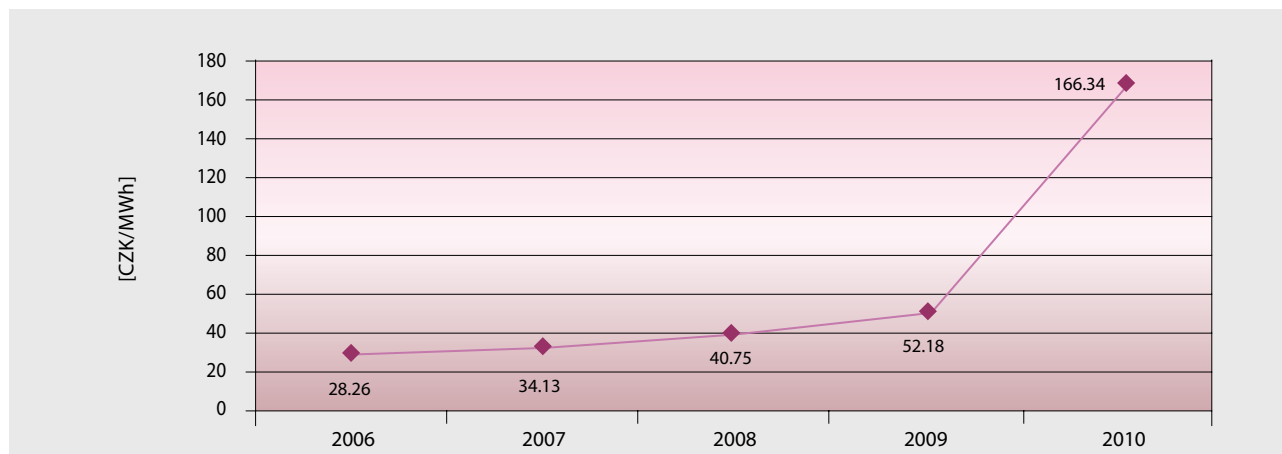
**The charge to meet the extra costs incurred in support for electricity from renewable sources, CHP and secondary sources**

The surge in the costs incurred in providing this support in 2010 is mainly caused by the expected volume of electricity produced in photovoltaic power plants, some 240 GWh, which will cause costs of almost CZK 2.8 billion. The rise in the cost of support for green electricity production has an impact on the unified nationwide contribution from the customers to cover this support. The current contribution for 2010 amounts to CZK 166.34/MWh, which is more than three times higher than the level in 2009 (CZK 52.18/MWh). Almost CZK 7 billion is being spent on renewable energy sources alone. Together with combined heat and power generation and secondary sources, and including the correction factor from 2008, CZK 9.1 billion, which are required to cover these costs, will be collected from customers through this contribution in 2010. This item plays a major role in the overall growth of controlled prices. Had the contribution to supported capacities stayed at the level of 2009 the regulated components, for example, on the low voltage level, would have gone up by less than 3% (specifically 2.7%), i.e., within inflation; however, the way the situation is now, the growth in overall controlled prices on the low voltage level is more than 10%.

To a certain limited extent, an increasing proportion of electricity generation in wind power plants and biogas stations can also be registered. Last but not least, the development of electricity generation in CHP and from secondary energy sources also influences the level of the contribution.

Chart 3 shows the contribution from 2006 to 2010.

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

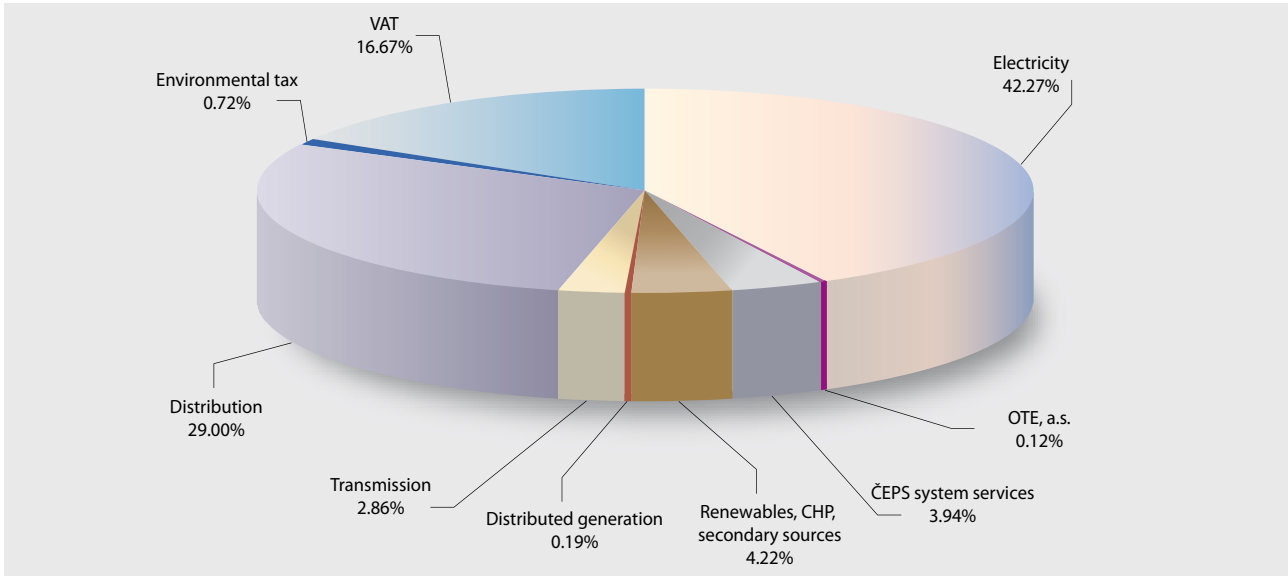
The average decrease in the price of electricity supply to households for 2010, by 3.6% (not including the tax items), is chiefly attributable to a decrease in the uncontrolled price of energy. The percentage shares taken by the various components of the resulting price of electricity supply to an average 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 drop is 4.2% year-on-year (not including the tax items).

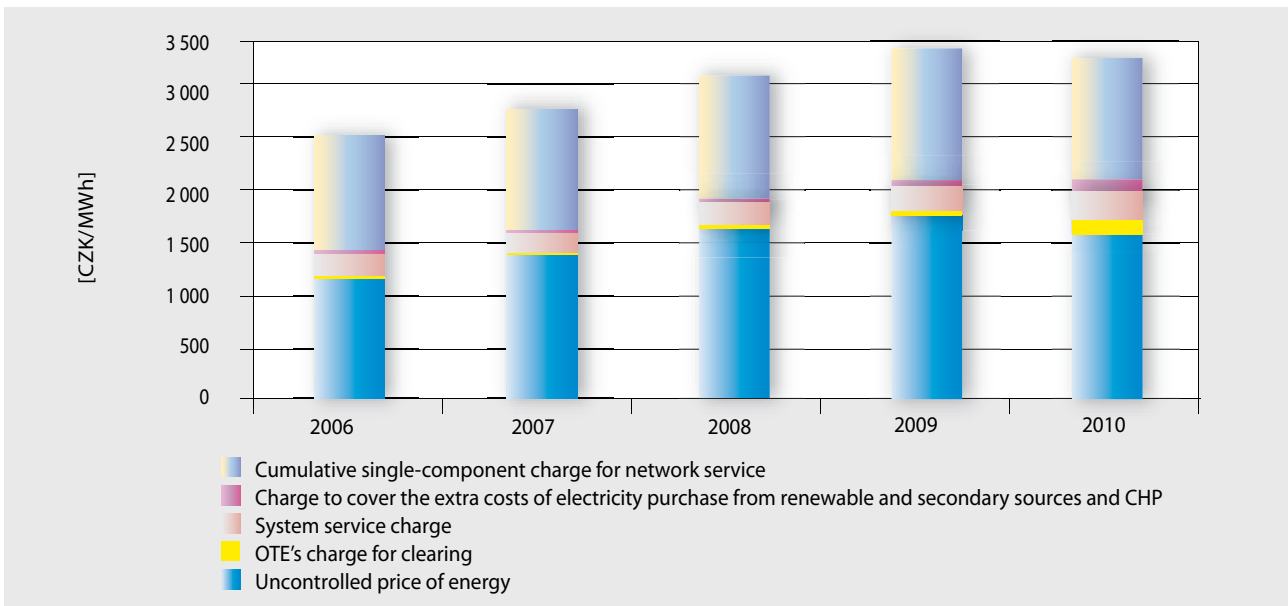
The change in the price of electricity for each individual customer differs depending on the selected tariff and the nature and size of consumption.

The overall increase in controlled prices for low-voltage customers, which the Office is able to influence, is 11.3% 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 since 2006 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 2010 (including tax items)



**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 3. The differences between the companies are mainly caused by their different business strategies in their purchase of energy, which is not subject to price control.

**Table 3** Changes in average prices for the household category in regions served by each of the suppliers between 2009 and 2010

Company	Households [%]
E.ON, a.s.	- 3.95
Pražská energetika, a.s.	-3.20
ČEZ, a.s.	- 3.60

#### Prices charged by the supplier of last resort

For 2010, 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 bought electricity on the exchange and also directly from domestic and foreign suppliers. On the basis of these purchase prices the suppliers calculated, and then submitted to the Office for approval, the maximum prices of energy for each of the distribution tariffs on 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 matched the lowest quotations on the market at the particular time. Effective from 2010, suppliers of last resort have an option to apply for prices regulated on the cost-plus basis because of the amended energy legislation and the general development of the electricity prices based on continuous trading on exchanges.

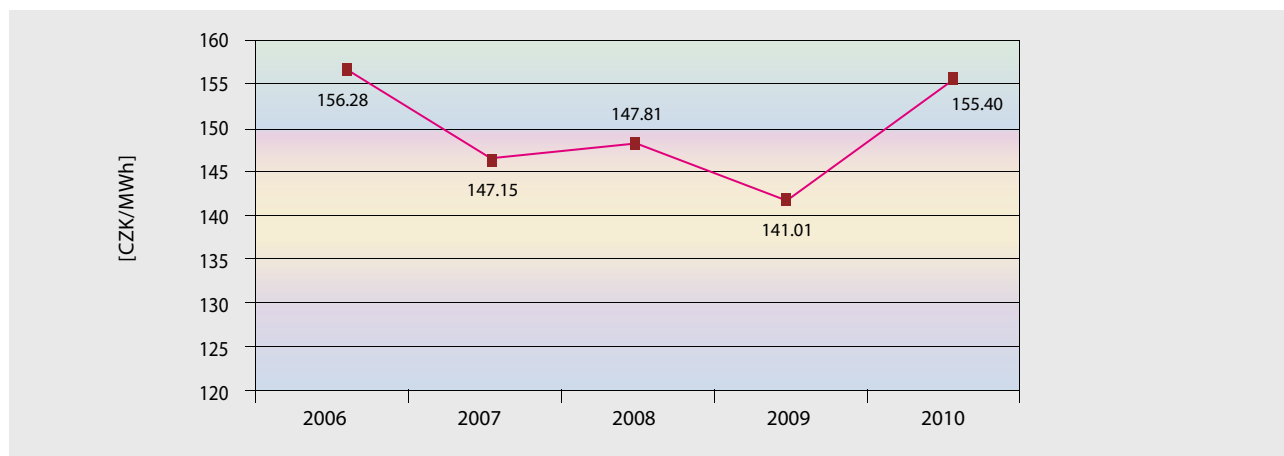
#### Charge for the market operator

For 2010, the charge for the market operator's activities has been left at the level of the preceding year, i.e., CZK 4.75/MWh. This charge covers the costs incurred by OTE. a.s. in activities defined in the Energy Act for the electricity industry, which include, in particular, the processing of balances of electricity supply offers and electricity take bids, the clearing of imbalances, the organising of spot electricity markets, and some others. Effective from 2010, the market operator carries out similar activities for the gas industry as well. Since 31 August 2009, the day-ahead electricity market organised by the market operator has been extended to include Slovakia. The market works on the principle of implicit auctions, where cross-border capacity is also traded together with energy in the case of matching offers/bids from the two countries.

#### Charge for system services

System services are necessary for ensuring that electricity generation and demand are balanced. The transmission system operator, ČEPS, provides these services by purchasing ancillary services from their providers, primarily the 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 ancillary service providers. For 2010, the charge for system services has increased slightly, from CZK 141.01/MWh to CZK 155.40/MWh, i.e., by 10.2%. The system service price increase is mainly due to the lower demand expected in 2010 compared with 2009.

Chart 6 System service charge



#### 4.2.2 Uncontrolled prices

The activities that are subject to price controls are set out in the Energy Act, as amended, 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. 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.

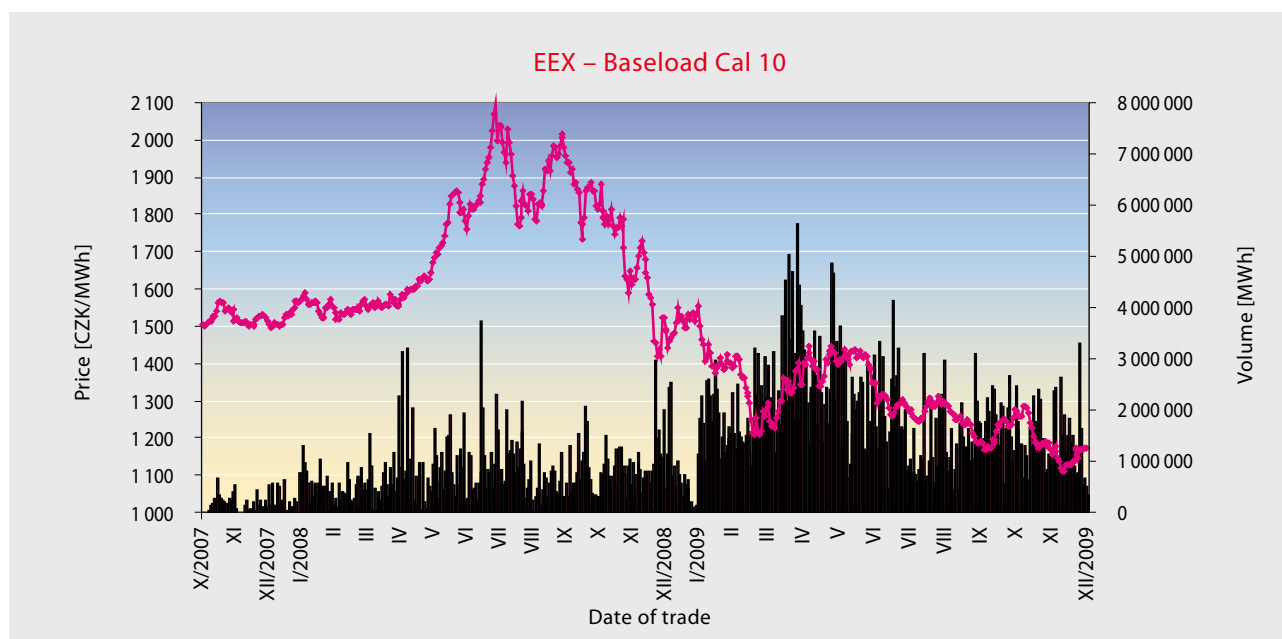
##### Energy price

On today's liberalised market, the price of energy mainly depends on the prices of the products traded on power exchanges. For the Czech market, trading on EEX in Germany (European Energy Exchange AG) and the energy exchange in Prague (Power Exchange Central Europe) is relevant.

The volatile development of the prices of energy commodities over the past two years has influenced the price of electricity for 2010. While until mid-2008 electricity prices on exchanges were rising, from the autumn of 2008 the previous long-term trend of increasing consumption, and therefore also the prices, was hit by the economic crisis, which caused a plunge in demand. This factor, together with the developments on the financial and commodity markets in late 2008 and early 2009, caused electricity prices on exchanges to drop. The price of the relevant products for 2010 traded on the exchange (especially the yearly load band) over the period under review from October 2008 to September 2009, when most traders bought energy for the following year, decreased by approximately 18%. This development, including the respective traded volumes, is apparent in Chart 7, which depicts the development of the base load price for 2010 (BASE CAL 10) on EEX converted to the Czech currency (an EEX chart is used here because of its higher liquidity compared with the Prague energy exchange). Ultimately, the development of exchange prices resulted in a drop in the energy prices quoted by suppliers – on average by 15-20% (suppliers' quoted prices differ in relation to their business strategy and the time when they bought electricity on the wholesale market).

The favourable development of electricity prices on the market is also partly reflected in the regulated part of the prices through the price of energy for covering losses (i.e., in the charge for electricity transport). However, the largest share of the favourable effect for customers is in the uncontrolled part of the price, in each of the suppliers' quotations of prices for electricity supply.

Chart 7 Base load prices for 2010 on EEX



### 4.3 Renewable sources, CHP, and secondary sources

Throughout 2009, the Office gathered the information required for determining the support for electricity generation from renewable energy sources, combined heat and power generation, and secondary energy sources for 2010. In calculating the prices the Office maintained the key pricing principles: for renewable sources, the investment payback period, required by the law, is guaranteed, and account was taken of the varying capital expenditure on different categories of renewable energy sources and of the PPI for the existing capacities in accordance with Act No. 180/2005 on support for the use of renewable sources.

Unlike previous years, feed-in tariffs, green premiums and contributions to the electricity price were published in two price decisions: no. 4/2009, which lays down support for electricity generation from renewable energy sources, CHP and secondary energy sources, was promulgated on 3 November 2009, but without any provisions on support for photovoltaic. The Office waited with the publication of the prices for this renewable for the Czech government's debate on the proposed amendment to Act No. 180/2005. Subsequently, on 23 November 2009 price decision no. 5/2009 was promulgated, whereby support for photovoltaic plants was included in no. 4/2009.

#### Renewable sources

Motivated by setting the support for renewables in the form of minimum feed-in tariffs and green premiums for newly installed capacities correctly, and in view of technological development, in 2009 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. On the basis of the updated information, the Office amended public notice no. 475/2005, which implements certain provisions of the law on support for the use of renewable sources, as amended in no. 364/2007. The change only concerned Appendix 3, in which technical and financial parameters were adjusted. For each of the renewable categories, specific capital expenditure and the load factor were specified more accurately to reflect real-life data on newly erected generating plants. The most important change is the adjustment of technical and financial parameters for photovoltaic, small hydroelectric and wind power plants. In the case of solar capacities, two categories were set up: up to 30 kW, inclusive, and over 30 kW. The public notice was promulgated in the Official Gazette under no. 409/2009 on 10 November 2009.

In respect of the amended public notice, the Office set the feed-in tariff and green premiums for 2010, maintaining the principle of differentiation by the commissioning date. In determining the support, the Office proceeded in accordance with public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price controls. This 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 2% but not more than by 4%, with the exception of those that fire biomass and biogas.

The green premiums include the inflation factor and also reflect the drop in the market price of energy expected in 2010, which means that the absolute value of green premiums has increased for the existing capacities. Revenues per unit of electricity production from renewable sources have thus been maintained; for the various technologies, they equal the sum of the green premium and the

market price of energy. For most of the existing categories, the feed-in tariffs have been increased to reflect PPI. An exception is AF1 and AF2 biogas stations, where thanks to the lower fuel costs the level of feed-in tariffs could be maintained.

A major change is the introduction of a new category of small hydroelectric power stations, where the feed-in tariffs have risen by more than 11%. The reason is the diminishing number of sites suitable for building these power plants, and small hydroelectric power stations therefore need to be built in places where their use is expected to be lower despite their higher capital intensity. Another change is a new category of wind power plants. In this case, capital expenditure is also increasing, but the price has dropped by 5% thanks to the increase in the expected electricity generation from the various capacities.

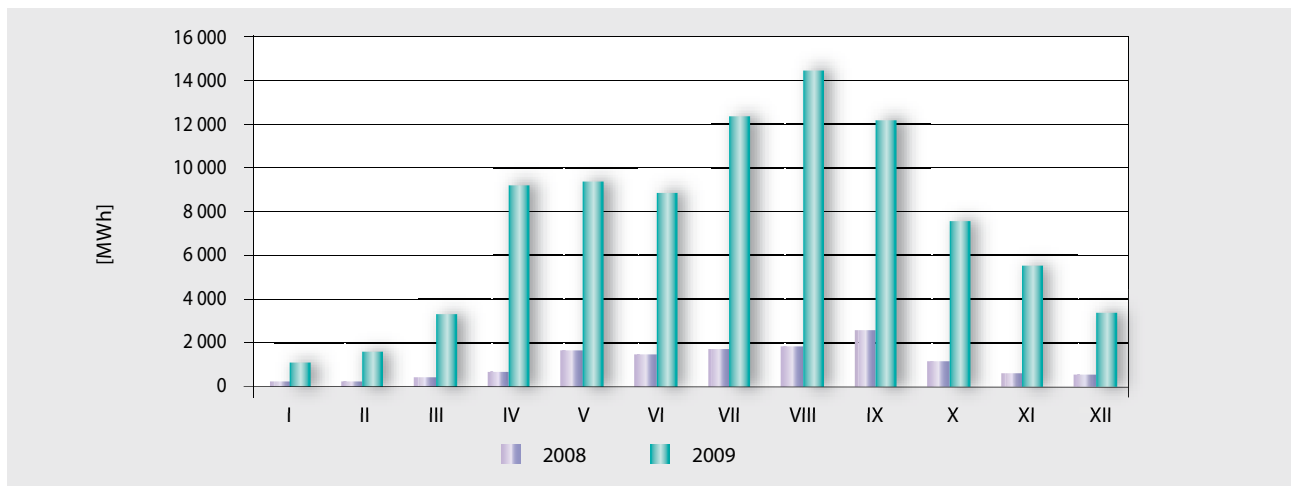
Another change is the introduction of a new category of pure biomass burning in the existing generating plants. These are understood to be operations that only replace a part of coal with biomass without any investment in a power generating unit.

In respect of both photovoltaic categories, up to 30 kW, inclusive, and over 30 kW, new categories have also been set up, for which feed-in tariffs dropped by 5% over the preceding year. The reason is the significant year-on-year drop in specific capital expenditure related to the purchase of photovoltaic panels. The growing interest in this segment is borne out by the dramatic rise in the award of licences in late 2009, which was attributable to the above drop in capital expenditure on equipment, and, in turn, a higher return on investment and a much shorter payback period. Under the law, the Office can reduce the feed-in tariffs for new capacities by only 5% on an annual basis, which has resulted in a significant advantage for newly built photovoltaic power plants over other renewables, for which support has been set in the optimum way.

The trend of investments in photovoltaic systems is also apparent from Chart 8, which shows electricity generation in these capacities.

In 2009, photovoltaic electricity generation was almost seven times higher than in 2008.

**Chart 8 Photovoltaic plants, electricity generation in 2008 and 2009 by month**



Green premiums for electricity produced by fossil fuel and biomass co-firing have been set so as to cover electricity generators' increased cost of biomass firing in comparison with the cost 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 (CHP) has been granted to all categories of cogeneration units through a controlled premium on the market price of electricity.

The amount of support for small cogeneration plants depends on two key factors – natural gas prices and market prices of electrical energy. Having reflected these factors in the calculation of the premiums for 2010, the resulting premiums are higher for up to 5MW CHP categories.

The incentivising amount of premiums has been maintained in the case of large, over 5 MW cogeneration units and also for all CHP categories that burn renewables 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 the 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.

### 4.4 Quality of electricity supplies and related services in the electricity industry

In this area, in 2009 the Office mainly focused on amending public notice no. 540/2005 on the quality of electricity supplies and related services in the electricity industry. Four years have passed from the promulgation of this public notice, and this period of time has brought extensive experience with its working and application in practice. The amendment responds to the current problems stemming from the findings obtained. In respect of customers, this mainly includes an increase in the compensation for failure to meet the standards and an extension of the time limits for claiming compensation. Practical experience has shown that the original time limits were too short for customers and the amendment to the public notice therefore sets a single time limit of 60 calendar days for claiming compensation for failure to keep a standard. Another major change is the modification and unification of terminology in relation to the amendment to the Energy Act and the ČSN EN 50160 technical standard. Changing the terminology was necessary for unequivocal interpretation and it helps to make the text of the public notice clearer. Another of the Office's important plans is a clear-cut definition of the entities' reporting obligation, including the specification of the exact form of the reports that the entities have to return. In connection with the different requirements on electricity supply quality in Prague, the amendment sets out shorter time limits for compliance with the standard applicable to the end of disruption in distribution and the standard applicable to the replacement of damaged fuses. This change was proposed because of the importance of providing for the operation of the capital's power-dependent infrastructure. Another objective of the amendment is to put in place a standardised calculation of the indicators of continuity of electricity supply and electricity transmission and distribution. This is required due to the Office's future plan to implement quality indicators directly in the regulatory mechanism, which will help to underpin system operators' financial incentive for reliable network operation.

In 2009 the Office also focused on monitoring compliance with the standards for the quality of electricity supplies and related services in the electricity industry in the Czech Republic. On the basis of the licensed entities' reporting obligation the Office assessed, in accordance with the above public notice, the quality of electricity supplies and related services. On its website, the Office posted its assessment of compliance with the standard for electricity transmission and distribution continuity in the Quality Report for 2008, which described the level of achieving continuity in the transmission system, operated by ČEPS in the Czech Republic, and the level of continuity in electricity distribution in the distribution networks of the three regional DSOs operating in the Czech Republic.



5  
Regulation  
in the gas industry



# 5 Regulation in the gas industry

## 5.1 The market in 2009

In 2009, the Czech gas market was characterised by two distinct features. One of them was an event referred to as the January gas crisis, which had a heavy impact on the Czech Republic and other European countries. The other, internal, feature is related to the legislative changes made during the year and new gas suppliers' expansion to customer segments that are "less" attractive for traders, i.e., small business customers and households. This fact bears out the meeting of the objective of creating a truly fully liberalised energy market in the country.

### 5.1.1 The January gas crisis in Europe

The beginning of 2009 was marked by an event unprecedented in the Czech or European gas industry, an event that was not envisaged even in the most pessimistic scenarios. It is therefore obvious that this event has caused a significant change in market players' behaviour and of the view of the European gas market's working going forward.

Disputes over payments for natural gas and transit fees between Russian and Ukrainian companies culminated in a crisis at the beginning of January. Natural gas supplies from Russia were first reduced, and then completely disrupted for all customers in Europe who use transit pipelines across Ukraine for gas transport. A situation emerged with which the European gas industry had no experience at all. Although Czech gas companies did not expect such a situation, they were able to respond very quickly and efficiently. It turned out that the Czech gas industry was able to successfully tackle the consequences of the disruption in Russian supplies, which lasted for tens of days. The approach was based on the readiness and availability of Czech underground gas storage facilities, in terms of both the volume of gas stored in them and their withdrawal capacities, and, equally importantly, the ability of the transit system to reverse the flow of transported gas from the usual direction, east to west, to the west to east direction. At the same time, traders importing gas into the country responded, and arranged for substitute supplies from Germany. As the result, Czech customers did not feel the effects of the gas crisis at all, unlike the situation in other countries such as Slovakia and Bulgaria.

Governmental authorities and also gas companies analysed the ability of Czech legislation to respond, in the right way and on time, to similar situations, which cannot be ruled out for the future, and speedily prepared a relevant new public notice, no. 334/2009 on emergencies in the gas industry, because it was evident that the existing no. 375/2005 did not have the ability to help tackle such situations.

### 5.1.2 Development of market competition

The Czech gas market in 2009 can be described as a market that experienced a surge in the number of customers who changed their gas supplier. This steep increase was basically due to two factors. One was the fact that many customers realised that they had an opportunity to cut their energy costs by changing their gas supplier. The other factor was the fact that a new gas trader who did not focus only on the segments of large and medium-sized customers, as had been the case with new gas traders previously, but also, and above all, on the small business and household segments appeared on the market. This made gas supplier switching a topical proposition for dozens of thousands of customers, who took it up to a large extent. In 2009, 33,311 customers changed their gas supplier.

The boom in gas supplier switching also had its downside during the year. Many customers failed, also because of the new supplier's practices, to study the supplier's contract terms and conditions for gas supply, and then turned to the Energy Regulatory Office, and also to the Office for the Protection of Competition and the Czech Commercial Inspection Authority, with questions and requests for help. The ERO tackled the situation by including in the new Gas Market Rules, provisions enabling customers who made an ill-advised decision to change their supplier to retract, even after initiating the gas supplier switching process. On its website, the ERO also posted recommendations for customers, describing how they should assess the contract terms and conditions offered by the new supplier.

**Table 4 Gas supplier switching**

Demand	2008	2009	Total number of supply points	Switching [%]
	Number of changed supply points	Number of changed supply points		
Large offtake	128	152	1,743	8.7
Medium offtake	84	267	6,714	4.0
Small offtake	315	4,506	199,000	2.3
Households	11	28,386	2,664,090	1.1

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

Table 4 shows the number of customers who changed their gas supplier in 2008 and 2009. In this connection, a specific ratio is used, the so-called switching rate, for assessing market liberalisation. It is a coefficient (in per cent) calculated as the ratio of the number of supplier switches 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 10% 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 of 8.7% is approaching this threshold. In terms of the absolute number of gas supplier changes, Table 4 shows that in 2009 gas traders extended their focus to include customers with lower consumption; supply points in the small business and household categories changed their gas supplier the most. While in 2008 switching in these categories was almost nil, in 2009 it was well measurable.

### 5.1.3 Changes in legislation and characteristics of the market

Two pieces of legislation were changed in 2009. One change was provided for in Act No. 458/2000, the Energy Act, as amended, and the other replaced 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 amendment to the Energy Act, enacted in Act No. 158/2009, which came into force in July 2009, has significantly changed the conditions for business in the gas industry. The Office has also acquired new competences under the amendment. From the gas industry's point of view, the issue is the assessment and approval of the operating rules of individual operators of gas facilities and the market operator's commercial terms and conditions in 'proceedings on approval of rules' or 'proceedings on specification of rules'.

The remit of the until then existing Operátor trhu s elektřinou, a.s. (newly OTE, a.s.) has also been broadened; effective from 1 January 2010 it carries out the activities set out in the law for the gas industry too. Previously, the TSO and the Balancing Centre exercised the rights and performed the obligations of the market operator.

The market operator is a public limited company established by the State, in which the State must hold at least 67% of the share capital. This ensures independence of gas market management of privately-held entities operating on the gas market. The market operator's expansion to the gas industry is expected to be a guarantee of the gas market organiser's independence of other gas entities primarily for gas traders, and also a guarantee of the protection of their data, frequently sensitive, which is important for competitive fight. In gas trading, the market operator creates a neutral and anonymous point at which the market operator itself appears as the central counterparty to all the transactions.

The market operator's key business includes the organisation of the spot market, evaluation and settlement of imbalances, certain information obligations related to the operation of the transmission system, distribution systems and underground gas storage facilities, obtaining and providing actual values of supplies to market participants and other information required for billing, development of the typical gas supply profiles, balancing gas clearing and settlement, and certain steps in the gas supplier switching process.

Public notice no. 524/2006, which in 2009 governed gas market organisation in the Czech Republic, had been based on the assumption of the TSO holding the rights and obligations of the market operator, and it therefore had to be modified accordingly.

The amendment, under no. 365/2009 on Gas Market Rules, came into force on 1 January 2010. This effective date does not apply to the provisions on storage capacity booking, which came into force on the day of promulgation in the Official Gazette.

Based on the gas market participants' practical experience, the conditions for access to the transmission system, distribution systems and underground gas storage facilities have been modified. The gas supplier switching process has also been transformed, namely in terms of a clarification of the procedures and steps to be taken by the respective gas market participants. As regards the other provisions, which govern, for example, the conditions for transferring and assuming responsibility for imbalance, procedures for imbalance evaluation and settlement, nominations and renominations, and spot market organisation, changes were proposed to respond to the gas market players' practical experience; above all, the market operator is now involved in these processes.

The Office pursued the aim of simplifying and shortening the processes that go on in the gas market and ensure non-discriminatory treatment of all market players in all parts of the market.

#### 5.1.4 Annual gas consumption

According to the preliminary data provided by the Balancing Centre, the Czech Republic's natural gas consumption amounted to 8.161 bcm in 2009, down by 6% in comparison with 2008. Adjusting gas consumption to normal temperatures, natural gas consumption in the Czech Republic decreased by 9.4% to 8.313 bcm. The rather significant drop in gas consumption was mainly attributable to the business sector's problems caused by the financial crisis. Also the warmer weather in April, September and November, when the beginning or the end of the heating season directly depends on ambient temperature, played a role in gas consumption. Average annual temperature in the Czech Republic was 8.8 °C, i.e. 0.8 °C above the normal value.

### 5.2 Price formation and setting

For the third regulatory period, the gas transmission and distribution charges remain regulated prices. Effective from 2010, the charge for the market operator's services is a new regulated price under the amendment to the Energy Act. The other components of prices are not regulated and their structure and levels are determined by each particular gas trader.

The Office sets fixed gas distribution charges for each DSO to which more than 90,000 supply points of customers are connected, for the TSO, and also for the market operator for the whole calendar year, always with effect from 1 January of the respective year.

The Office also sets the prices to be charged by suppliers of last resort to customers whose gas consumption did not exceed 60,000 cu m over the last 12 months, applying the cost-plus method. In 2009 no customer ended up in the regime of supply of last resort.

The uncontrolled part of the price of gas supply is comprised of the charge for commodity and trade and the charge for the other services included in the supply.

#### 5.2.1 Controlled parts of the gas supply price

##### Gas transmission charges

Transmission is the first stage in gas transport to customers. Costs depend on the quantity that has to be transported over one day (the maximum daily capacity out of all the values over the year) and on the quantity of transported gas.

Gas transmission charges are set per unit of capacity booked for each of the entry and exit points of the transmission system, which include the national border of the Czech Republic, underground gas storage facilities and the interface between the transmission system and distribution systems. The price decision for 2010 sets out seven double-component charges for entry points and seven double-component charges for exit points.

The amendment to the Energy Act makes it possible to determine the transmission charges related to the interface between the transmission and a distribution system, which account for approximately 70% of the TSO's allowed revenues, directly in relation to a customer from 2010. The result is integration of the greater part of the transmission charge into the distribution charge. Allowed revenues from the aggregate of all the delivery points between the transmission system and distribution systems are allocated on the basis of the technical units at customers' supply points into prices that are integrated into distribution charges.

In addition to the fixed component of the charge, which depends on capacity, effective from 2010 there will be a variable component of the transmission charge, related to the quantity of transported gas in MWh. The variable component of the charge meets the costs of the gas required for fuelling compressor stations in the transmission system. It is for these prices, which have been set for the entry and exit points on the border and the points of UGS facilities, that the TSO shall bill gas transmission to all market entities that have a gas transmission agreement in place with the TSO. The TSO bills the shares of allowed revenues related to the interface between the transmission system and a distribution system on the basis of the booked capacity and the transported gas quantity to the DSOs on a monthly basis.

From 2010, the TSO will allow cleared entities to book standard firm transmission capacity, daily firm transmission capacity, standard interruptible transmission capacity and daily interruptible transmission capacity under their gas transmission agreement.

The TSO balances the transmission system through an entity on the gas market, which is able to provide the TSO with a sufficient level of daily gas quantities for a specific number of days. In 2010, as in previous years, this service is offered to the TSO by a gas supplier thanks to sufficient withdrawal capacity in UGS facilities. Despite the large number of bidders in the tendering procedure, the cost incurred in obtaining this services has increased by about 11.8% year-on-year.

Adjusted allowed revenues, comprised of allowed costs, depreciation and profit (a change in the methodology upon transition to the third regulatory period) have increased by 1.8%. This rise has been caused by higher allowed depreciation, the value of the regulatory asset base and the above cost of transmission system balancing. Acting against this trend is the fact that in 2008 the TSO collected more funds than had been set, which was due to a greater use of the transmission system, and the TSO must return these funds to the market under the regulatory rules.

There has been a change in booked capacities in the transmission system, and a change in the number of entry/exit points, including the structure of charges (the breakdown to a fixed and variable component and collection of the larger part of the transmission costs by the distributors), and the year-on-year changes in transmission charges are therefore not comparable.

The charges for each of the entry and exit points are listed in Table 5.

**Table 5 Fixed gas transmission charges**

Entry point	Fixed charge for daily firm transmission capacity, $C_f$ in CZK/1,000 m <sup>3</sup>	Fixed charge for transported gas, $C_{rkom}$ in CZK/MWh
Lanžhot border point	7,700	0
Lanžhot border point	7,700	0
Waidhaus border point	7,700	0
Hora sv. Kateřiny – Olbernhau border point	7,700	0
Hora sv. Kateřiny – Olbernhau border point	7,700	0
Point of the RWE Gas Storage virtual gas storage facility	7,700	0
Point of the RWE Gas Storage virtual gas storage facility	7,700	0

Exit point	Fixed charge for daily firm transmission capacity, $C_f$ in CZK/1,000 m <sup>3</sup>	Fixed charge for transported gas, $C_{rkom}$ in CZK/MWh
Lanžhot border point	40,401	0.52
Lanžhot – Mokřý Háj border point	40,401	0.52
Waidhaus border point	52,427	3.66
Hora sv. Kateřiny – Olbernhau border point	52,427	3.66
Hora sv. Kateřiny – Sayda border point	52,427	3.66
Point of the RWE Gas Storage virtual gas storage facility	1,000	0.72
Point of the MND Gas Storage virtual gas storage facility	1,000	0.72

### Gas distribution charges

Distribution, as gas transport over the distribution system to supply points, is a typical line of business that will always be subject to regulation, because the ownership of a distribution system establishes a natural monopoly.

Late 2009 saw the merger of three DSOs to which more than 90,000 supply points of customers are connected. These DSOs were SČP Net, s.r.o., STP Net, s.r.o. and ZČP Net, s.r.o. of the RWE Group. Since 1 October 2009, the merged distribution system has been operated by RWE Gas Net, s.r.o. In 2010, gas distribution in the Czech Republic will rely on six distribution systems to which more than 90,000 supply points of customers are connected.

In connection with the beginning of a new regulatory period the Office made some changes to the methodology for gas distribution pricing, with a view to adjusting the prices to the changes in the market and in customers' behaviour over the recent years and also to minimising the traders' influence on the allocation of a part of the gas transmission charge into the final price of gas supply.

The most visible change in the methodology for gas distribution pricing is the **setting of a fixed component for the medium-offtake and large-offtake categories using a logarithmic formula**. The development of ambient temperatures in recent years and customers' saving measures geared towards reducing their gas consumption are causing the distributed gas quantity to decrease and the booked capacity to increase. The method of pricing on the basis of the model employed in the second regulatory period, in which the variable and fixed components were firmly tied to an offtake band, no longer matched the separation of the sale of distribution from gas trade. Also the fact that the size of the necessary distribution capacity is relevant for distribution costs rather than the distributed quantity was a reason for employing a new method for gas distribution pricing for customers taking over 630 MWh annually.

The setting of a fixed component of the charge, as provided for in the formula, ensures that it is calculated for every customer exactly by his demand for booked capacity, i.e., the charge is tailored to each individual customer. In addition to treating customers on an equal footing, another major benefit is that customers will start booking correct sizes of daily capacities that they really need and will work more with short-term capacities. The formula-based distribution charge also follows the principle of prices decreasing with increasing booked capacity, which has been achieved by removing the interdependency between the variable and fixed components

of the charge. Further, offtake bands are no longer distinguished, which has helped to deal with the persisting problem of the inclusion of supply points into the defined offtake bands. The higher proportion of the charge covered by the fixed components is a great help in making the payments for distribution more even over a year.

**The integration of transmission charges into distribution charges** is another major change. Effective from 1 January 2010, gas distribution charges include regulated transmission charges, or, rather, the largest part of allowed revenues set for the TSO. These are revenues directly allocable to individual customers on the basis of their consumption.

Until 2009 all of a trader's costs related to gas transmission were recouped from customers based on its business strategy, and most traders recouped these costs through an item of the supply price called the "price for other supply services". It was therefore left up to the trader how, and in what amount, he would recoup these costs from its customers.

The amendment to the Energy Act permits the allocation of about 70% of the TSO's allowed revenues directly to the customers on the basis of planned capacities and planned annual offtake at a specific supply point. This step has placed customers on an equal footing as each customer contributes equally to the transmission costs in terms of units. At the same time, the volume of the funds the allocation of which among customers depends solely on the gas traders has been reduced.

The above change has been reflected in the average price of gas distribution across all customer categories throughout the Czech Republic by an increase of almost 11% compared with the average price of 2009, while the increase is less than 7% for household customers. In the overall price of gas supply, the increase will be reflected by about 2% both for the Czech Republic overall and for household customers. However, in the light of the above, this is not an actual increase: the item "prices for the other supply services" in gas suppliers' price lists has decreased by the same amount.

Compared with the second regulatory period, the Office has also changed its approach to determining the allowed level of losses in distribution systems – it sets a specific value for each distribution system and subsequently sets the costs of allowed losses depending on the offtake profile over a regulated year. Allowed revenues newly include the costs of the distribution system's own process consumption.

The distribution charges applicable from 1 January 2010, compared with the charges applicable to households in 2009, have risen by 5.3% on average. The increase is 4.8% for all customer categories.

The following factors have influenced this development:

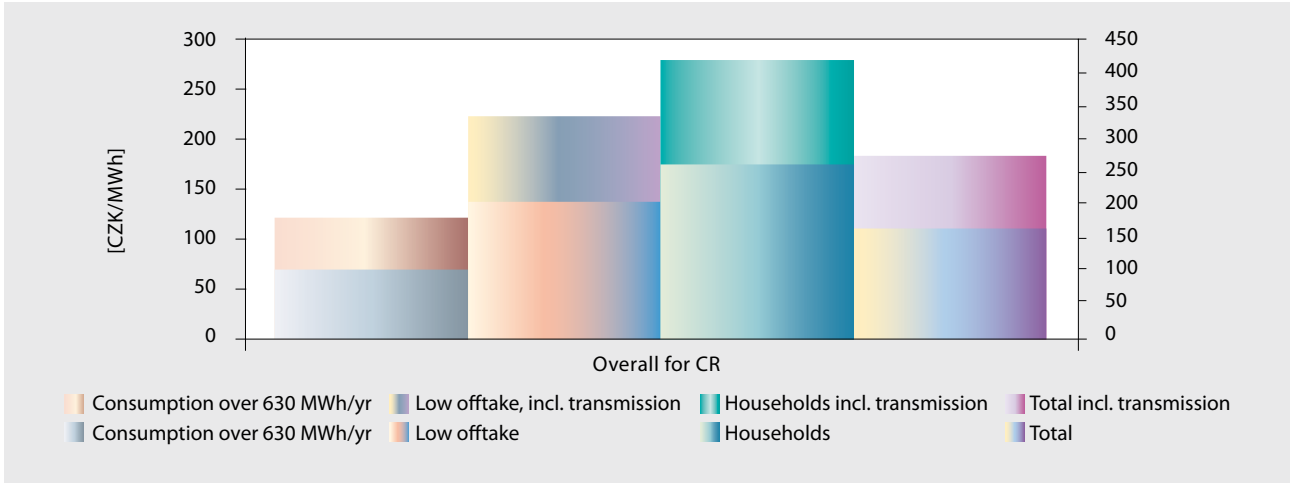
1. A DSO's revenues based on controlled prices must provide for the safe and reliable operation and development of the distribution system. However, one component of the gas distribution charge is related to the distributed gas quantity. During the course of a year, there is also a rise or drop in the number of customers' supply points, which again affects the level of actual sales. The positive or negative difference between actually achieved revenues and those set by the Office is then included into the calculation of prices for the following period. The year 2008, which under the regulatory rules is reflected in 2010, was one of the highly above-average years in terms of ambient temperatures, and gas consumption was therefore much lower than planned.
2. Further, the DSOs are responding to the annually and steadily decreasing distributed gas quantities, which is due to customers' savings and also rising average annual temperatures; their response consists of reducing the quantity planned for the following year, with the objective of making their plans realistic and minimising the differences between actual and allowed revenues.
3. The last factor is the reflection of book values of depreciation in the DSOs' allowed revenues to ensure that they have enough money for the upgrade of their distribution systems.

The increase in the average gas distribution price caused by the above factors has been reflected in the overall price of gas supply by an increase of almost 0.9%, while the figure is approximately 1.2% for households.

Chart 9 shows average gas distribution charges for 2010 by customer category for the Czech Republic, including average distribution prices that include transmission charges.

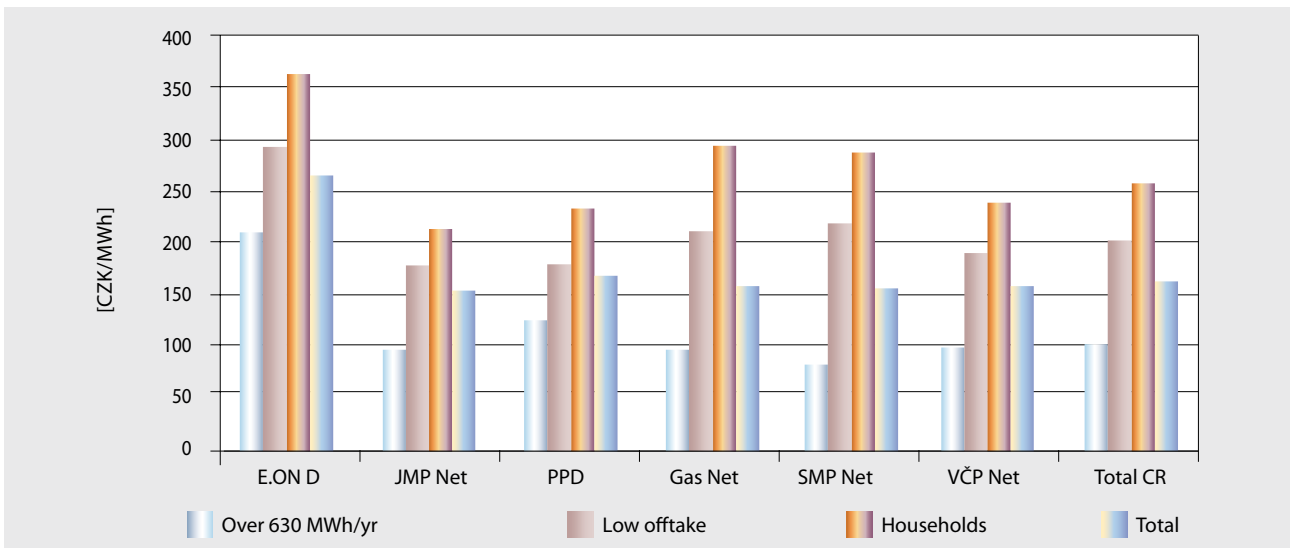


**Chart 9 Average gas distribution prices for 2010, for the Czech Republic  
(Comparison of prices inclusive and exclusive of transmission)**

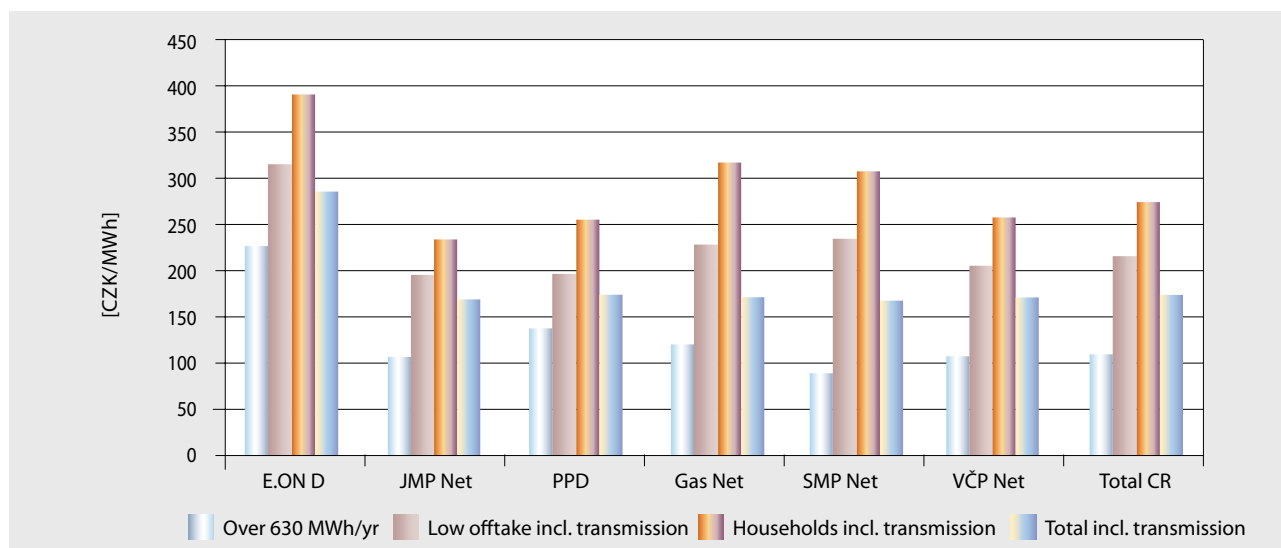


The following charts show average gas distribution prices for each customer category for 2010 by distribution company, Chart 10, and average gas distribution prices inclusive of transmission charges for each customer category for 2010 by distribution company, Chart 11.

**Chart 10 Average gas distribution prices for 2010, by distribution company**



**Chart 11 Average gas distribution prices for 2010, by distribution company; prices include transmission charges**



### Charges for the market operator's services

The amendment to the Energy Act extends the market operator's business to include the gas market. The market operator's activities are regulated and the Office sets the charges for these activities. Customers who consume gas are billed a fixed charge for clearing, in CZK/MWh. The other regulated charges are billed to gas undertakings and gas traders. Cleared entities on the gas market are billed *charges for the registration of the entity and for the clearing activity*. Market participants who are not cleared entities are billed the charge for the *provision of actual values*. A charge for *traded quantity* is also billed.

The charges for the market operator's services have been set to as to cover the costs of service provision in the gas industry and the replacement and development of the hardware and software supporting the market operator's regulated activities related to the gas market.

### Gas distribution prices for DSOs to which less than 90,000 supply points of customers are connected

DSOs to which less than 90,000 supply points of customers are connected also operate on the gas market. Prior to the entry into force of the amendment to the Energy Act, these distribution systems were referred to as local distribution systems. The operators of these distribution systems provide for gas distribution within a limited area, usually former industrial areas. This business is also subject to regulation. The standard regime is the use of the prices in the distribution system to which more than 90,000 supply points of customers are connected, to which this distribution system is connected. In such a case, the revenue generated by this distribution system operator consists of the difference caused by the different prices at the input to the distribution system and the prices for the various customers connected to the distribution system.

ERO public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price controls permits the operators of the above distribution systems whose revenues from distribution 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 controls, a procedure similar to that applicable to the operators of distribution systems to which more than 90,000 supply points of customers are connected, which is described in more detail in the above public notice, is employed. The Office's aim is to prevent uneconomical operation of the distribution system within its limited area while protecting the customers who are connected to the system and have no other option of gas distribution to their supply points.

In 2009, the number of operators of gas distribution systems to which less than 90,000 supply points of customer were connected decreased by nine from the original 82.

ERO price decision no. 6/2009 of 25 November 2009, on gas prices, which came into force on 1 January 2010, sets out different gas distribution prices for ten of the above-described DSOs. In 2009, the number of DSOs with differently set prices went up by one, ENERGY Ústí nad Labem, a.s.

## 5.2.2 Uncontrolled parts of the gas supply price

The uncontrolled part of the gas supply price 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 booked. 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 these customers' gas consumption as the basis. Gas traders also determine the period of applicability of the uncontrolled part of the price for 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 commodity charge is the key variable in calculating the overall gas supply price. The basis for calculating the charge for commodity and trade is the commodity purchase price and the gas trader's margin, which contains its business costs and profit. The gas trader calculates the price for the other services included in the supply by reallocating the costs related to gas transmission via entry and exit points on the national borders and the points of UGS facilities, and by reallocating the costs of the gas storage service. Again, the business policy and the structure of the customer portfolio are determinant for the allocation of the above costs among customer segments.

### Commodity purchase price

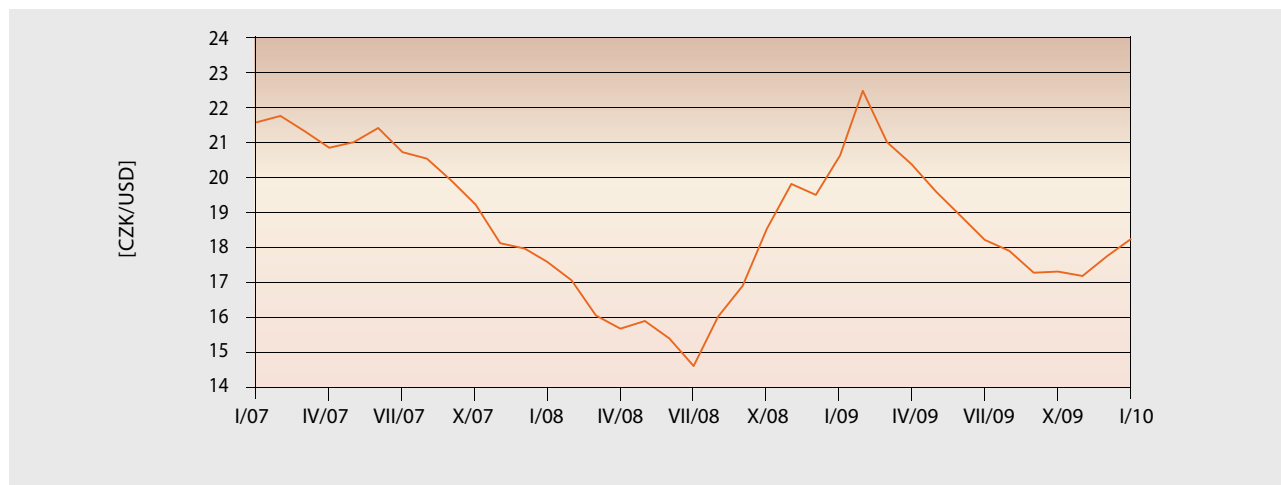
The commodity purchase price is derived from crude oil, fuel oil and coal prices and the EUR/CZK and USD/CZK rates. From the perspective of the commodity price, early 2009 saw a turnaround. While during the whole of 2008 import prices were continuously rising and peaked at the very end of 2008, prices fell in 2009. The plunge came to a halt in the latter half of the year and, in comparison with the preceding period, was followed by gradual increases. The causes of this high volatility of the purchase prices of natural gas were the record levels of and changes in the prices of underlying commodities on the world markets.

Natural gas prices follow oil product and coal prices with a lag of several months. Depending on the weighting of the input parameters, the lag is 6 to 9 months. Between 2007 and the first half of 2009 fuel oil prices went through the most dramatic development in their history. The surge in prices started in early 2007 and peaked in mid-2008, when the price of heavy fuel oil (1% Fuel Oil, Rotterdam) rose from approximately USD 240/t to USD 823/t in August 2008, and the price of gas oil (Gasoil 0.1, Rotterdam) rose from USD 470/t to USD 1,323/t over the same period of time. The fast surge was followed by an even faster fall in March 2009. Heavy fuel oil and gas oil prices plunged to USD 207/t and USD 351/t respectively. Until the end of 2009, the prices of both commodities were rising moderately to USD 430/t and USD 594/t for heavy fuel oil and gas oil respectively. In the period to come, very moderate growth is expected.

Another important commodity that affects natural gas prices in the Czech Republic is hard coal, which developed similarly to fuel oils throughout 2009.

A key factor that has a heavy impact on the purchase prices of natural gas is the Czech currency's US dollar rate. In the first two months of 2009, the Czech currency weakened, stabilising at an average monthly rate of CZK 22.261/USD, see Chart 12. This development had a negative impact on natural gas prices and to a certain extent offset the drop in these prices. In March, the Czech currency started to appreciate more strongly and continued in this trend to hit CZK 17.42/USD in September 2009. This resulted in an even steeper fall of natural gas purchase prices. In late 2009 the Czech currency weakened to the dollar again, the rate was CZK 17.84/USD.

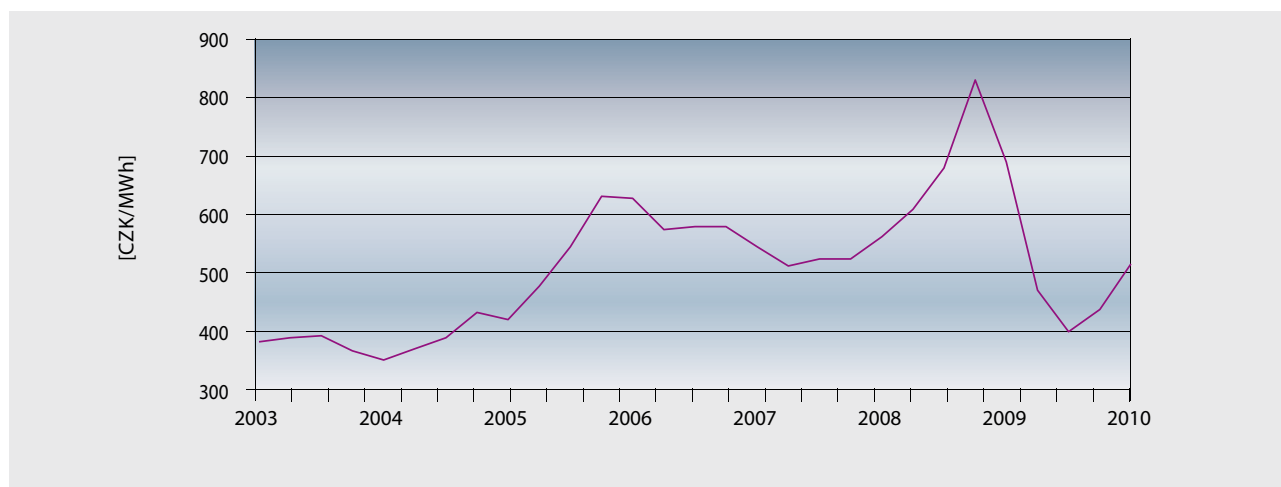
**Chart 12 CZK/USD monthly averages**



Source: CNB

Natural gas prices on the wholesale market according to the Office's forecasts are illustrated in Chart 13. 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 shows import prices from 2003 to early 2010.

**Chart 13 Development of the wholesale gas price forecast by the Office**



**Natural gas storage prices**

The gas storage market is not experiencing rapid development. As in the preceding years, 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 in the Czech Republic in 2009.

Moravské naftové doly, a.s., which operates the Uhřovice UGS facility, also operates the Dolní Bojanovice facility, which is owned by SPP Bohemia, a.s. The last mentioned facility is only used for the Slovak Republic's needs under contracts and for technical reasons of connection to the transmission system.

In 2009 RWE Transgas, a.s. owned most of the gas stored in UGS facilities in the Czech Republic. The other users were Pražská plynárenská, a.s., the Italian company ENOI S.p.A., Pragoplyn, a.s., United Energy Trading, a.s. and newly, for the following year, also E.ON Energie, a.s., Pražská plynárenská, a.s., ČEZ, a.s., Energie Bohemia, a.s. and BOHEMIA ENERGY entity s.r.o.

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 2010, the price for natural gas storage in the Czech Republic rose approximately by 15.78% compared with 2009.

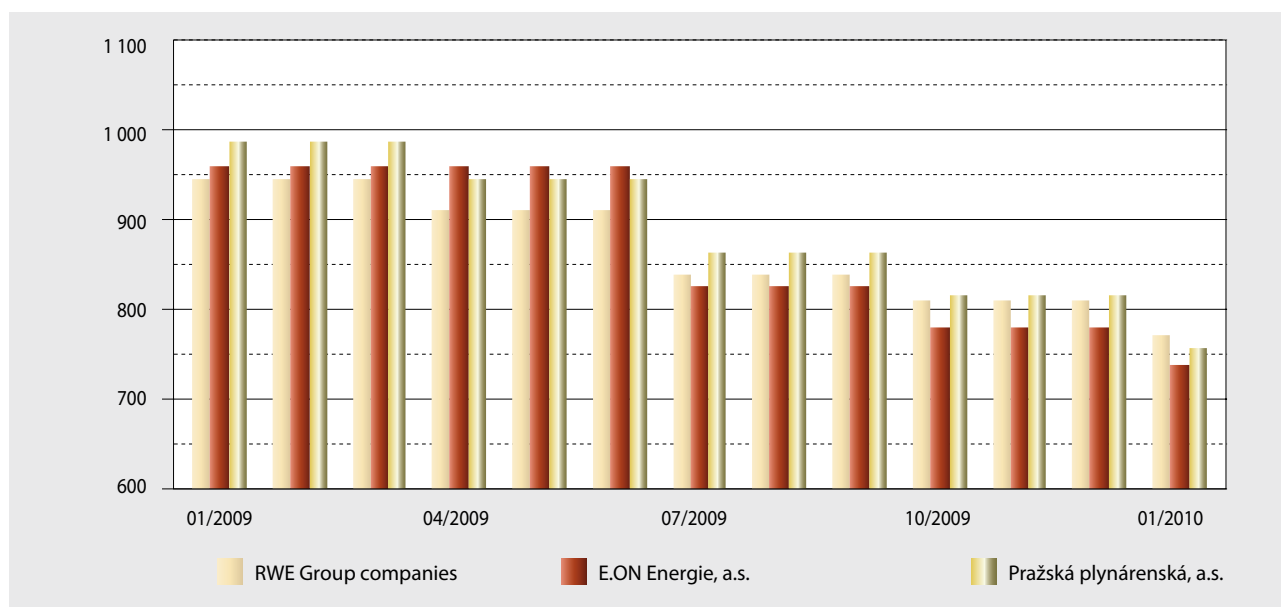
Gas suppliers include the gas storage service cost in their prices of gas supply in the form of the cost of procuring this service and in line with their own business strategy. Thus, every trader decides on its own about the way in which these costs will be reflected in the variable and fixed components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

### 5.3 Gas supply prices for households

Most households continue to take gas from traders who have emerged from the incumbent vertically integrated undertakings. Nevertheless, 2009 saw the effect of competition working to a certain extent in the household category as 28,386 households changed their gas supplier. In this category, the most active companies are BOHEMIA ENERGY entity s.r.o. and LAMA INVESTMENTS a.s.

Average prices of natural gas supplies to households from major gas suppliers are shown in Chart 14, which is based on the price lists applicable to the respective period and published by the companies. The prices are shown without VAT and cover the commodity charge and gas trading, transmission and storage charges; they do not include gas distribution charges.

**Chart 14 Development of average prices of natural gas supply to households from major suppliers**



Source: Trading companies' price lists

Charts 15 and 16 show the structure of the overall supply price for the household category in the first quarter of 2009 and 2010, respectively. The charts are based on an analysis of major gas traders' price lists. One of the most significant changes between these two years is the transfer of the recouped charge for gas transport via the aggregate of the delivery points between the transmission and a distribution system to the domestic points from the transmission item into the distribution item. In Chart 16 this item is shown separately as Transmission Costs in Distribution. In practical terms, this means for the customer that the transmission portion of the payment is lower and the distribution portion of the payment is higher in the overall gas supply price. Higher market prices also caused a year-on-year increase in the share taken by the storage item, from the original 6.2% to 8.3%.

Another factor that has a heavy influence on the structure of the overall gas supply price is the commodity charge. Its considerable decrease resulted, in relative terms, in a lower share of the commodity and trade item and a higher share of storage and distribution items in the overall gas supply price.

As a result of the above factors, in comparison with 2009 the overall share of regulated items has increased in the household category by 4.5% to 26.7%.

Chart 15 Structure of the average gas supply price to household customers, 1Q 2009

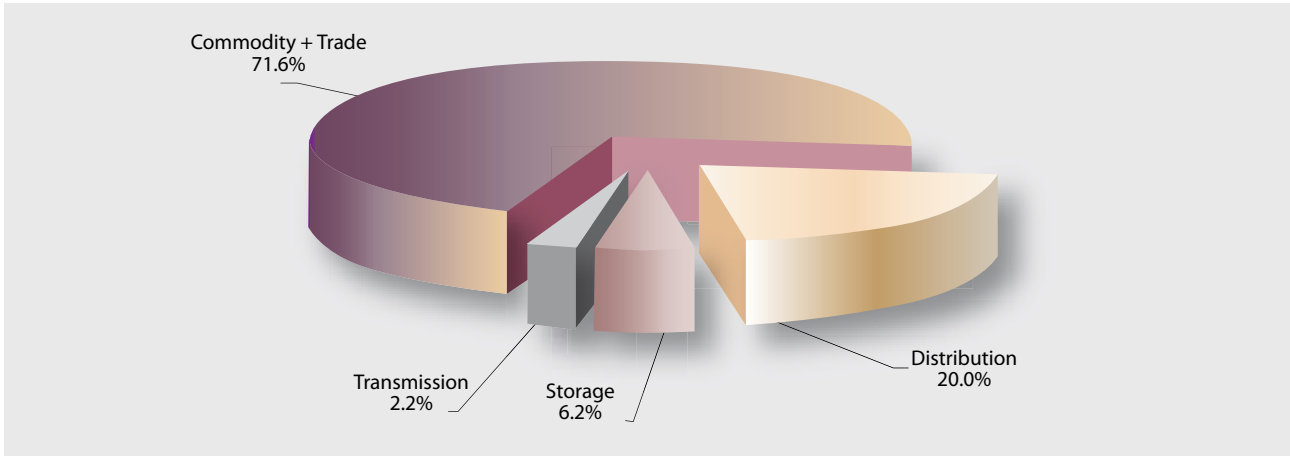
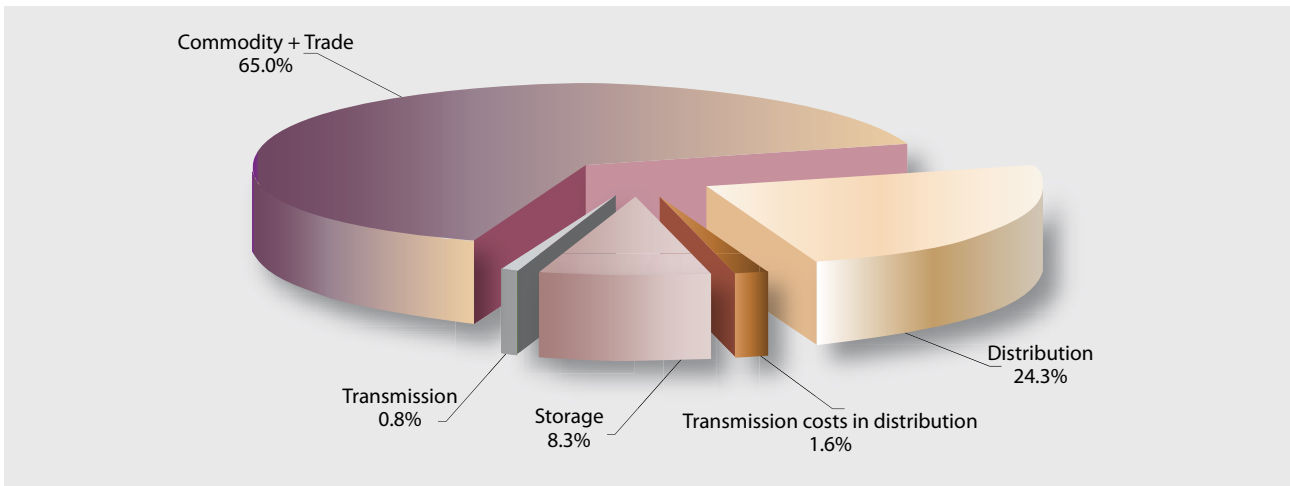


Chart 16 Structure of the average gas supply price to household customers, 1Q 2010 (the part of the gas distribution price containing transmission costs is shown separately)







# 6

## Regulation in the heat supply industry





# 6 Regulation in the heat supply industry

## 6.1 The heat supply market

Thermal energy suppliers are a large group of natural or juristic persons carrying on business in the Czech Republic under a licence for thermal energy production and/or distribution, under a trade permit certificate or only under a trade licence. The technologies employed for thermal energy production and distribution may differ considerably in terms of, for example, the method of production, the extent of the equipment, and the type of the fuel used in thermal energy production. The ownership of thermal facilities and the way of operating them also differ, as do the thermal energy suppliers' pricing policies.

The siting of thermal facilities and the extent to which they supply thermal energy create natural local monopolies of thermal energy suppliers in each region. Individual sources of thermal energy, i.e., house boilers, remain competitors for heat supply systems. However, not all heat supply customers have the opportunity or funds to obtain a different source for space heating and water heating through investment in an alternative source, and such a change in thermal energy provision need not always be beneficial for the customers.

An integral part of the Czech heat supply industry is extensive district heating systems (DHS) that supply thermal energy to a considerable proportion of the country's population and to major businesses. This traditional method of providing thermal energy is currently facing legislative changes that have a negative impact on the financial management of these systems. Thermal energy prices have dramatically risen in the last few years, primarily because of the rising prices of fuels and also due to the increasing VAT and the introduction of environmental taxes on fuels, which are factors that push input costs up mainly for producers of thermal energy in DHS. The thermal energy price hikes are causing customers' dissatisfaction; when such customers arrange for disconnection from a DHS, they cause deterioration in the economy of its operation, which in turn drives thermal energy prices up even further, and in the end causes deterioration in the other customers' financial situation. Gradually, in some towns and cities DHS, which have not only economic but also environmental importance for the areas that they serve, may cease to exist. The disappearance of DHS would cause a serious problem for those thermal energy customers who cannot afford to invest in any other alternative source of thermal energy.

## 6.2 Thermal energy price control

Thermal energy is supplied in the public interest; provision of the public service and support for the heat supply industry are the motivation for price controls, the objective of which is to protect final consumers and motivate thermal energy suppliers to optimise their costs and make production and distribution more effective by, for example, preferring thermal energy production from renewable energy sources and combined heat and power generation and by reducing losses in distributions.

The Office regulates thermal energy prices by way of cost-plus control, where the supplier can reflect only economically justifiable costs that are necessary for thermal energy production and distribution, and reasonable profit, in its price. The Office lays down mandatory conditions for the calculation and negotiation of thermal energy prices in its price decisions. For 2009, price decision no. 7/2008 was applicable; it contained some rather major changes to the mandatory conditions for price calculation and negotiation in comparison with the preceding years.

These changes mainly consist in a more accurate specification of the amount of eligible costs in thermal energy production and distribution, incentives for suppliers to achieve a higher efficiency in production and reduce losses in distribution, the way of applying the various prices within one price locality, and suppliers' obligation to provide information about any further price hikes.

On the other hand, the mandatory conditions have been simplified: the Office will no longer apply reference values of thermal energy price levels or set the allowed year-on-year increase in fixed costs and profit in thermal energy prices; this exercise involved relatively complicated calculations.

By imposing the information obligation on thermal energy suppliers the Office wants to strengthen supervision over certain prices, and therefore also have the opportunity to intervene in cases of unjustifiable price hikes and to demand immediate remedy of the situation from the thermal energy supplier.

## 6.3 Thermal energy price assessment and inspections

The Office examines thermal energy prices in a calendar year upon customers' suggestion or on the basis of its own investigation. This largely concerns high thermal energy prices or their marked annual hikes. In the first step, the Office examines thermal energy prices on the basis of the information and documents provided by the supplier; if it finds irregularities and shortcomings in the calculation or negotiation of thermal energy prices, the Office requests the supplier to remedy these shortcomings.

The Office commences price inspections in serious cases or as part of administrative proceedings where the subject matter of the dispute is the thermal energy price in the current calendar year. The Office's remit in the area of price inspections in the heat supply industry arises from the law on the competences of Czech Republic's authorities in the area of prices, the Energy Act, and the law on State inspection. During a price inspection, the Office mainly focuses on adherence to mandatory procedures and conditions for agreements on thermal energy prices in the current calendar year, on comparing the customary nature of the level of cost items in the calculations, and on ways of reaching agreement on thermal energy prices so calculated with the customers. In other cases the Office requests SEI to perform a price inspection. Table 6 lists the inspections performed by the Office from 2007 to 2009. In 2009 the number of inspections at smaller thermal energy suppliers serving a smaller number of price locations increased.

**Table 6 Inspections performed by the ERO under Act No. 552/1991 on State Inspection**

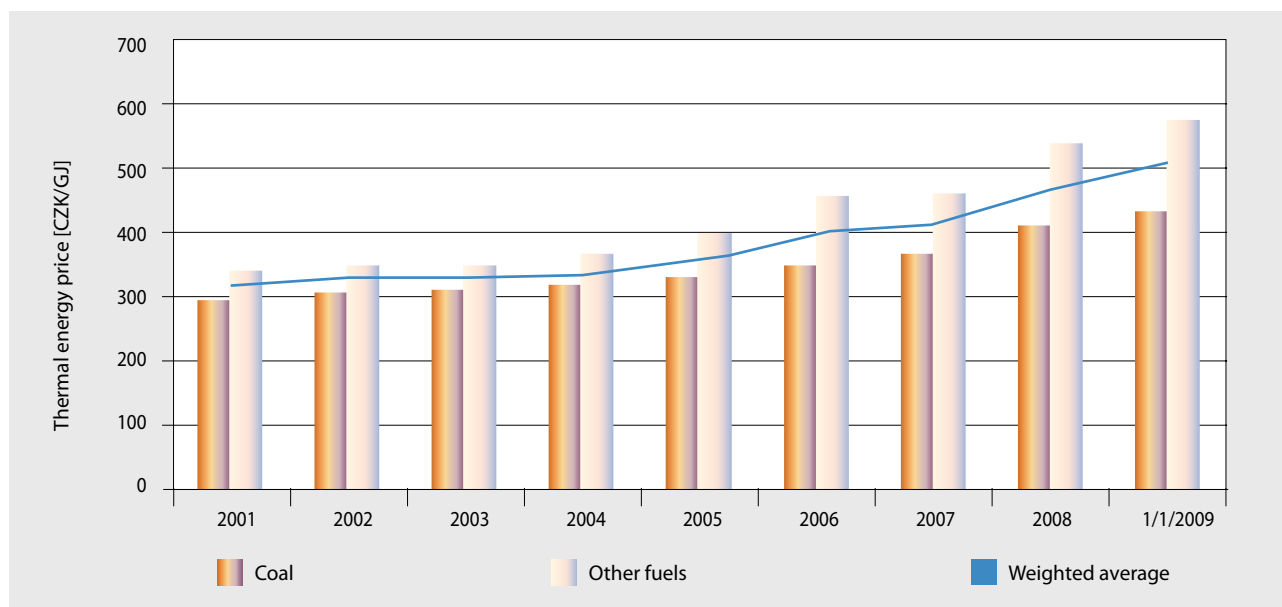
Year	Number of thermal energy generation and distribution licence holders	Number of price locations	Number of inspections	Number of price locations inspected	Thermal energy quantity subjected to review [GJ]
2007	752	1,545	2	3	14,376,931
2008	696	1,878	5	27	277,466
2009	777	2,109	8	10	805,502

## 6.4 Comparison of thermal energy prices

The Office compares thermal energy prices charged by suppliers on the basis of the data in the regulatory reports that thermal energy generation and distribution licence holders return, under public notice no. 408/2009, for every past calendar year. The regulatory reports are used for the development of a very important database of technical and economic information, which includes data on licensed and certain non-licensed activities in thermal energy generation and distribution.

In 2008 thermal energy prices went up considerably, and not only due to higher prices of fuels (coal and natural gas) but also as the result of changes in legal regulations, which changed the VAT rate from 5% to 9% and introduced the so-called environmental tax that pushed the costs of procured fuels and energies up even further. This increase is apparent from Chart 17. Since a significant rise in natural gas prices occurred in the last quarter of 2008, these financial changes were only fully reflected in thermal energy prices in 2009.

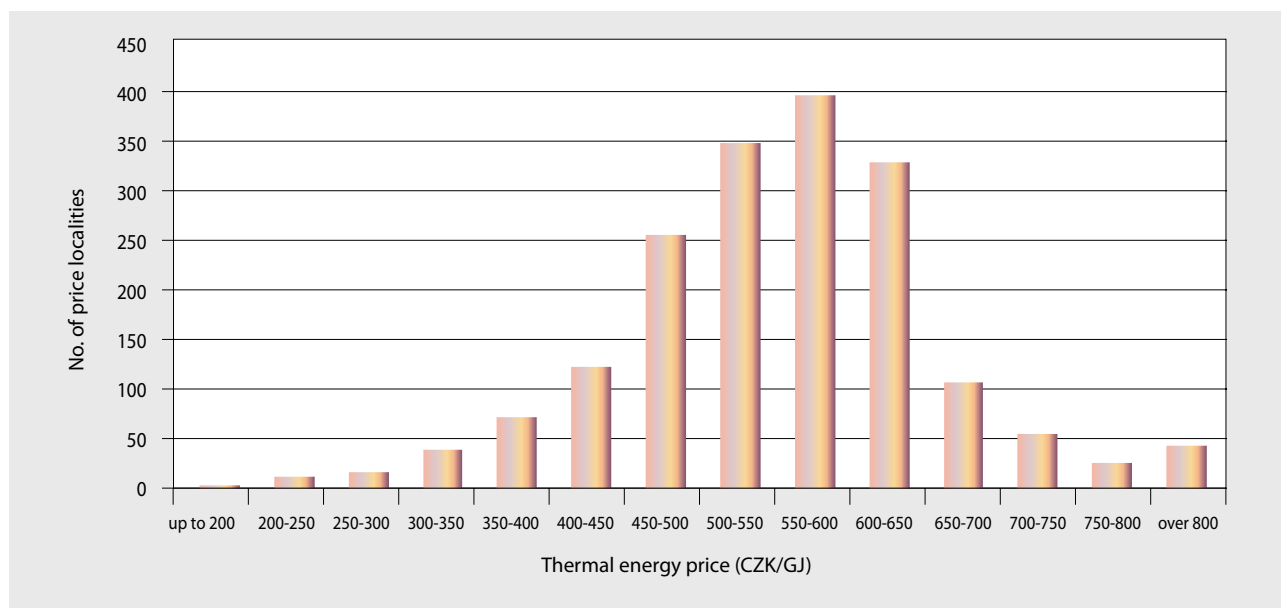
**Chart 17 Thermal energy prices since 2001**



Thermal energy prices are calculated, agreed on, and charged, in the same and conclusive manner for all supply points within a price location which are subject to common calculation. A thermal energy supplier can elect the scope of the price location on its own under its pricing policy. The minimum and maximum scope of a price location is laid down in ERO price decisions.

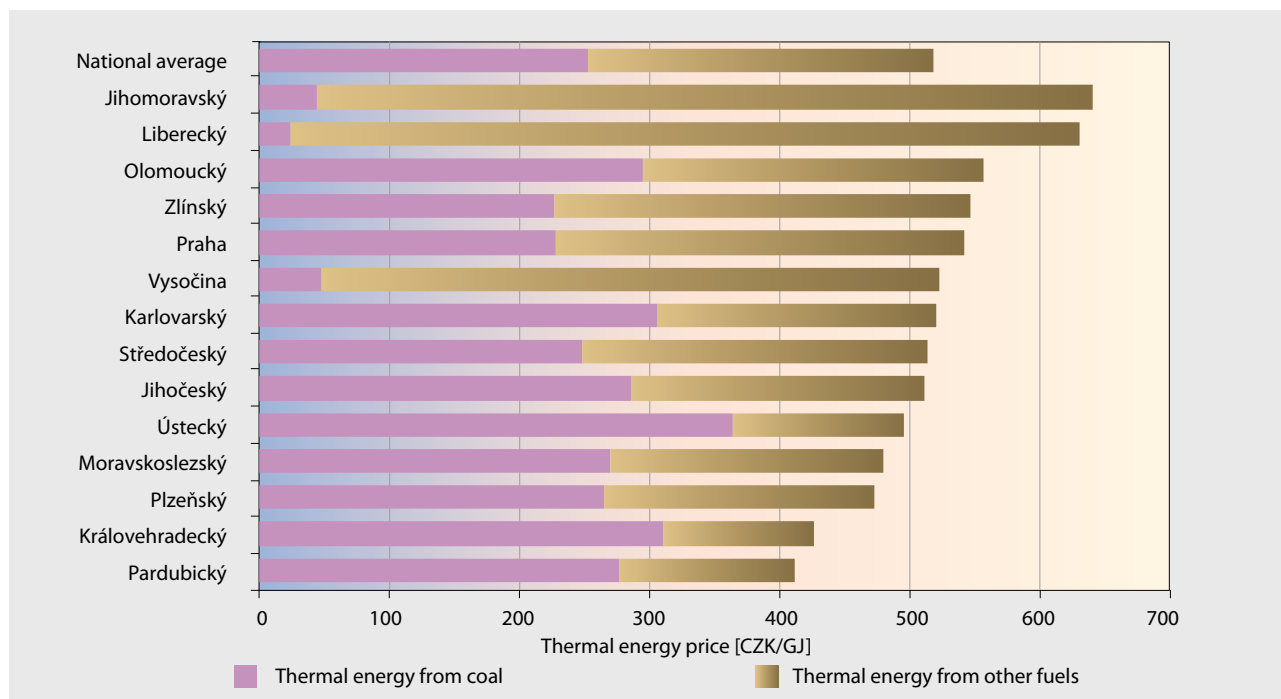
Chart 18 shows average thermal energy prices charged as of 1 January 2009 in the various price locations. The most frequent range of thermal energy prices was CZK 500 to 650/GJ on average across the Czech Republic. This range reflects prices of thermal energy produced largely from natural gas in house or block boiler installations.

**Chart 18** Number of price localities by thermal energy price as of 1 January 2009



Thermal energy prices depend not only on economic but also on technical factors. The selection of a certain fuel and its efficient use for thermal energy generation, the load factor of the generating plant, the rate of using thermal energy produced in combined heat and power generation, the use of renewables and the economical operation of thermal installations can have a significant impact on prices. Chart 19 compares average thermal energy prices in the regions in relation to the fuel used for thermal energy generation.

**Chart 19** Average thermal energy prices in the regions as of 1 January 2009



The highest average thermal energy prices are in the Liberecký and Jihomoravský Regions. In the Liberecký Region, an extensive DHS is used, with steam as the heat carrying medium on the primary side of distributions, while gas oil is mostly used for generation. In the Jihomoravský Region a similar system uses natural gas for heat generation. For the purpose of comparing average prices, these two fuels are included among the so-called other fuels, which also include biomass, the use of which has, on the other hand, a positive effect on thermal energy prices as can be observed in the Vysočina Region, for instance.

The share of fuels in thermal energy generation is shown in Chart 20. Coal and natural gas continue to be the fuels that are used in thermal energy generation the most; gas oil and heavy fuel oil are declining, while biomass is on the rise.

**Chart 20 Share of fuels in the generation of thermal energy**

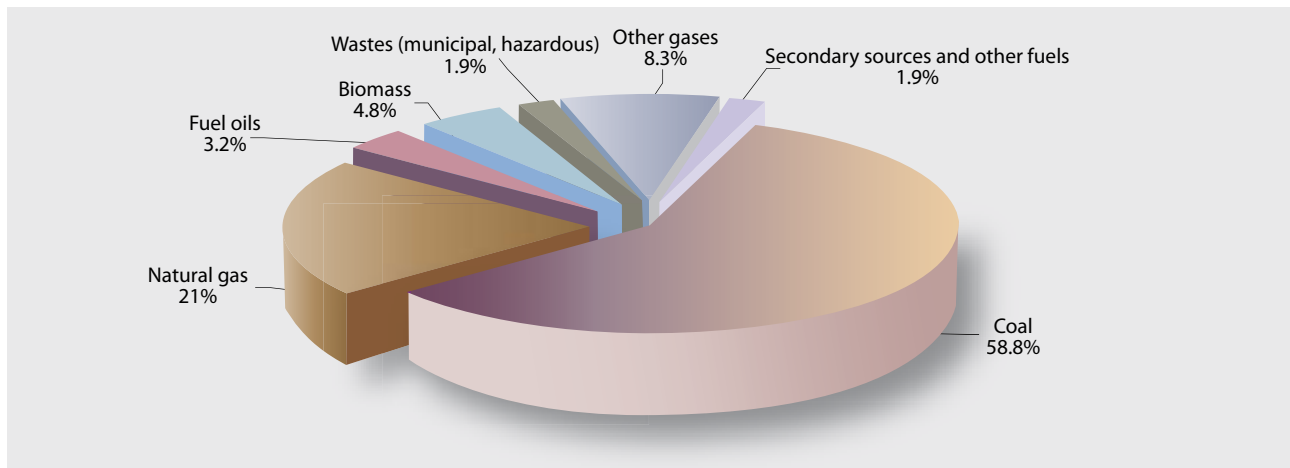
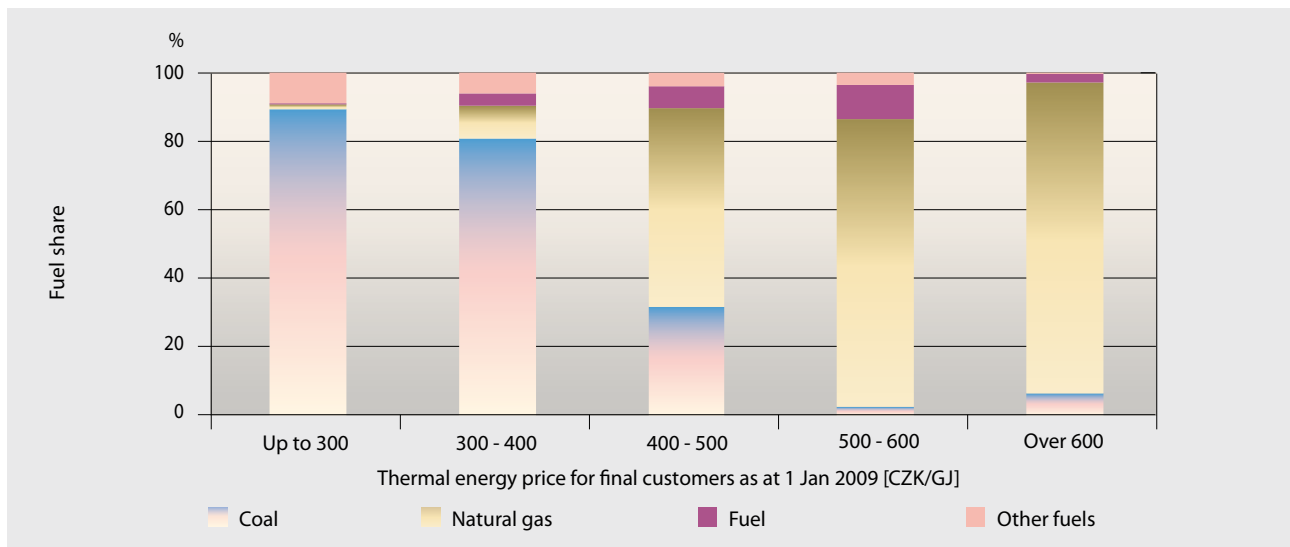


Chart 21 illustrates the relation of thermal energy prices to fuels.

**Chart 21 Thermal energy prices in relation to fuels**

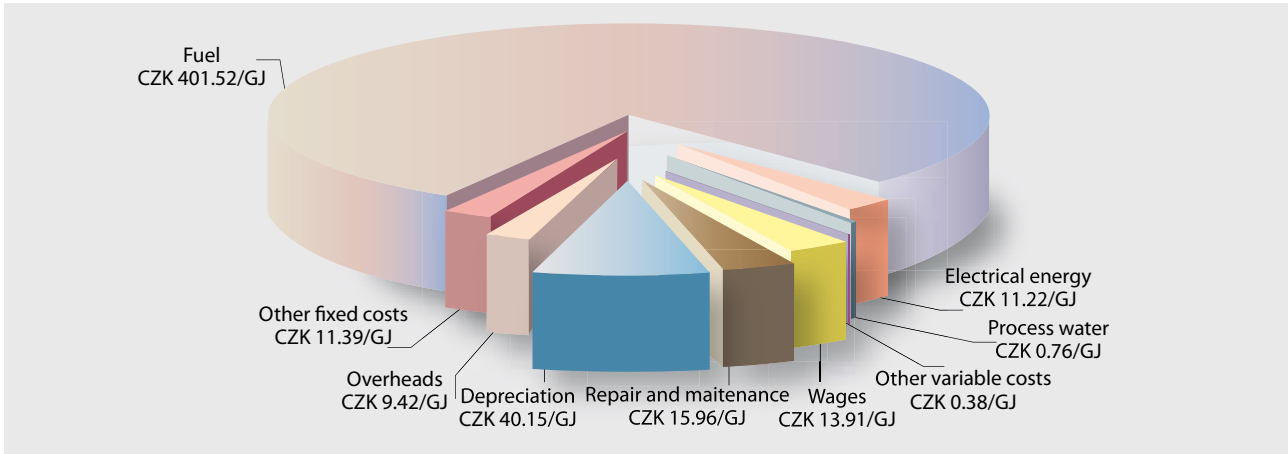


## 6.5 Comparison of costs in thermal energy prices

Thermal energy suppliers may only pass through economically justifiable costs, reasonable profit and the respective VAT into their prices. The differences between the various technologies for thermal energy generation can also be seen in the differences between the levels of certain economically justifiable costs reflected in the prices. How customary, over the long term, costs are in a price can be found for the various types of thermal energy generation in relation to the fuel used and given comparable quantities of thermal energy.

Customers often compare the price of thermal energy supplied from a house delivery station within a DHS with the price of thermal energy from a house boiler installation. Charts 22 and 23 illustrate the share of costs in these prices, which are intended for final customers (consumers).

**Chart 22 Share of costs and profit in the price of thermal energy from a house boiler**



**Chart 23 Share of costs and profit in the price of thermal energy from a house delivery station**

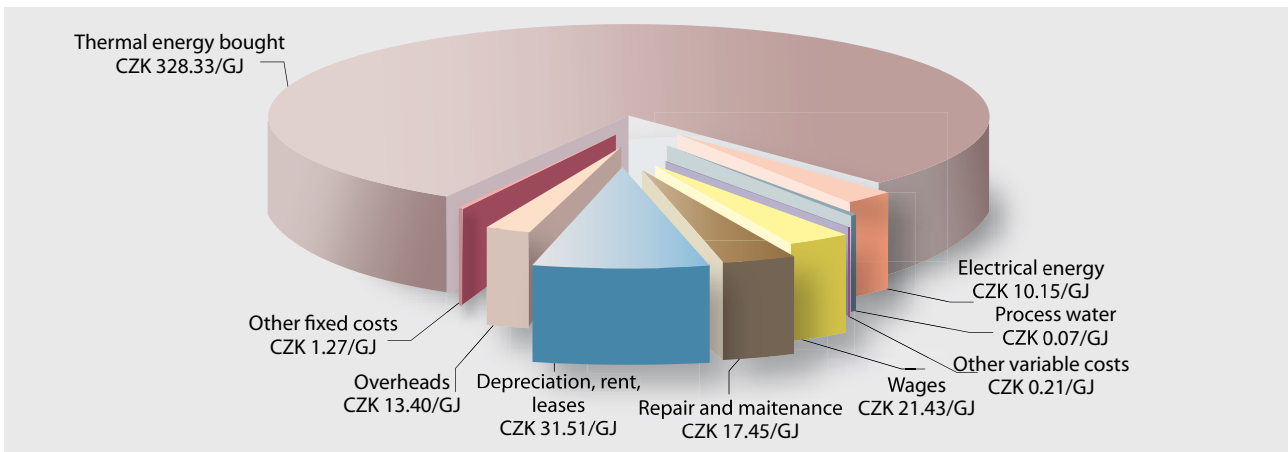
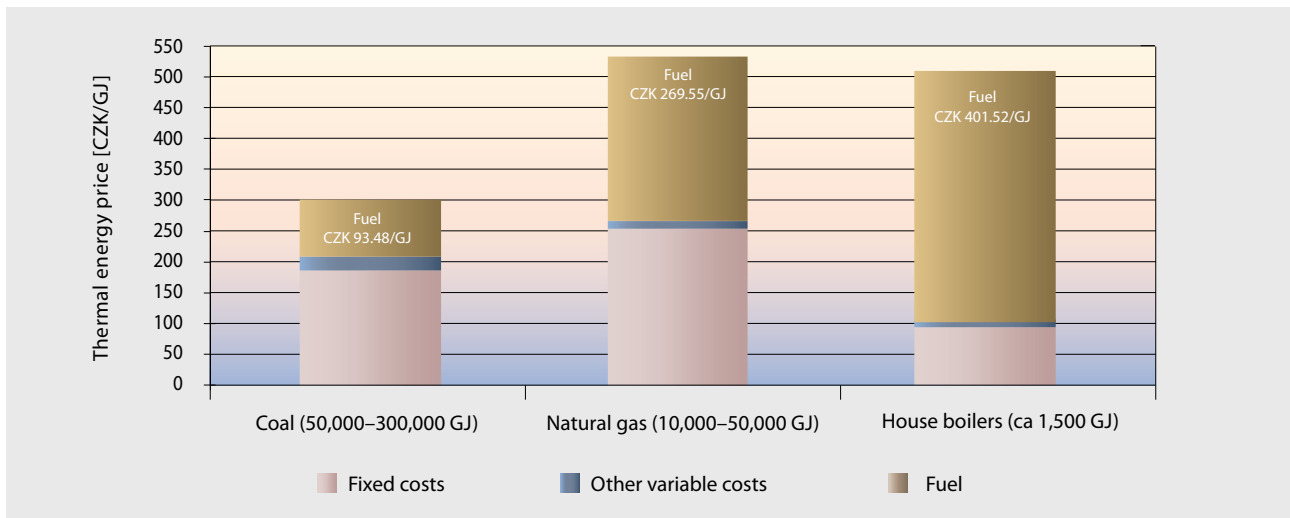


Chart 24 shows prices of thermal energy from potentially competing sources, and their costs expressed per unit of thermal energy, charged by suppliers. The comparison covers the most frequently operated heat supply systems, i.e., price locations where thermal energy is produced from coal and supplied in a range from 50,000 to 300,000 GJ (larger DHS), price locations where thermal energy is produced from natural gas and supplied in a range from 10,000 to 50,000 GJ (block boiler installations) and gas-fired house boilers that supply some 1,500 GJ of thermal energy.

Chart 24 Share of costs in thermal energy prices





# 7

Licensing policy





# 7 Licensing policy

## 7.1 Awarding, changing and revoking licences

In 2009 the licensing department's work mainly centred on licensing renewable electricity generation, in particular photovoltaic, because of the requests of the operators of newly built generating capacities. The number of electricity and gas trading licence holders continued to rise only slightly.

The numbers of licences for distribution in the electricity industry stabilised and further dropped in the gas industry. In the heat supply industry, the trend of customers' transition from the existing district heating systems to heat supply using each building's or facility's own capacities can be seen.

**Table 7 Numbers of valid licences between 2005 and 2009 by object of business**

Licences	2005	2006	2007	2008	2009
Electricity generation	1,407	1,467	1,702	2,989	7,223
Electricity distribution	321	282	281	281	281
Electricity trade	274	285	293	310	312
Gas production	14	13	13	14	15
Gas distribution	124	103	99	92	87
Gas trade	69	83	85	103	105
Gas storage	4	4	4	4	4
Thermal energy generation	689	674	672	655	641
Thermal energy distribution	737	721	719	699	689
<b>Total</b>	<b>3,639</b>	<b>3,632</b>	<b>3,868</b>	<b>5,147</b>	<b>9,357</b>

**Table 8 Number of licensing proceedings between 2005 and 2009 by purpose**

Licence proceedings	2005	2006	2007	2008	2009
New licences	372	413	540	1,420	5,159
Licence changes	495	542	504	598	1,154
Revoked licences	228	229	174	163	204

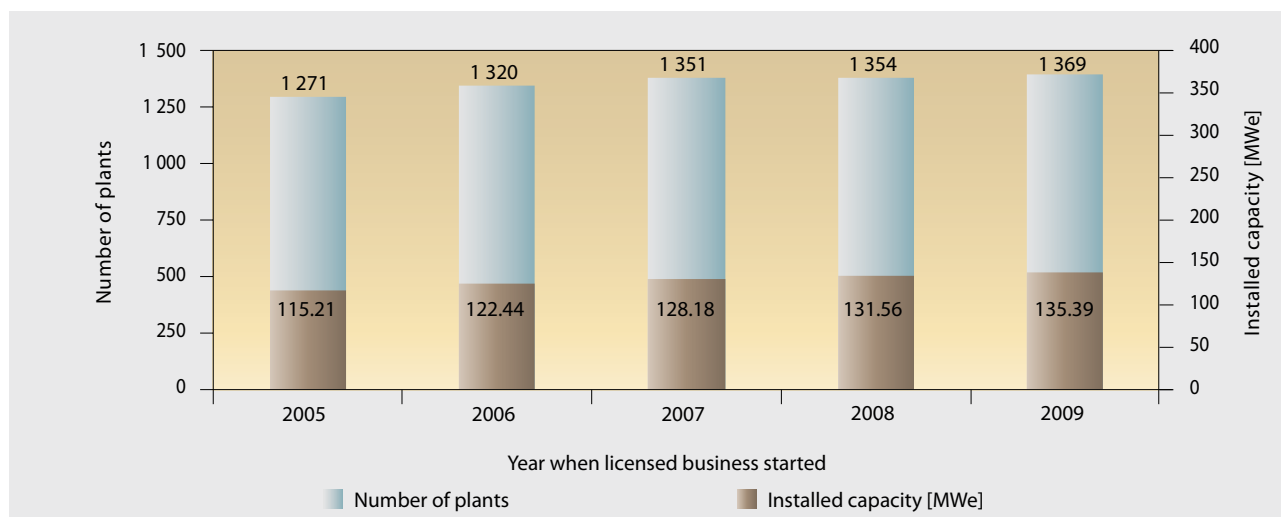
In respect of the Office's licensing activity, 2009 saw a large increase in the number of proceedings on licences for electricity generation, in particular from solar energy. These were mostly licences for 3 to 5 kW installations. However, it is also to be noted that unlike the preceding period, there was a significant increase in the number of licences awarded for plants with higher installed capacities. There was also a moderate rise 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 27 and 29 and Table 9. 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 reduced administrative burden on the setting up of these plants and obtaining licences for up to 1 MW installations (photovoltaic).

**Table 9** Number of electricity generating operations and installed capacities, 2005 to 2009, by type of renewable energy

Operations		2005	2006	2007	2008	2009
Hydro	Number	1,271	1,320	1,351	1,359	1,369
	Capacity [up to 1 MW]	115.21	122.44	128.18	132.89	135.39
Wind	Number	42	57	69	76	86
	Capacity [up to 1 MW]	34.41	44.50	117.52	149.70	193.36
Solar	Number	12	28	249	1,214	6,013
	Capacity [up to 1 MW]	0.15	0.35	3.40	54.29	465.32
With a share of biogas	Number	36	56	83	119	157
	Capacity [up to 1 MW]	11.31	17.33	31.68	53.45	80.10
Landfill gas	Number	31	33	53	58	62
	Capacity [up to 1 MW]	7.85	8.43	20.76	21.91	23.18
With a share of biomass	Number	25	28	31	30	47
	Capacity [up to 1 MW]	1,713.97	1,714.46	1,715.56	1,667.85	2,040.86

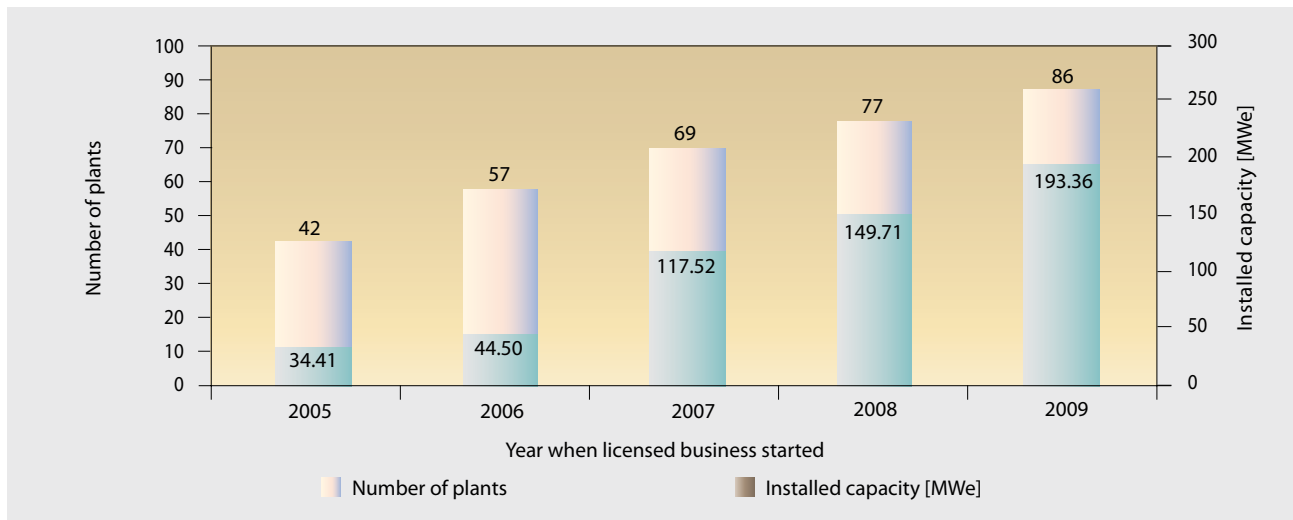
The following graphs show the development of the number and installed capacity of electricity generating plants by the type of renewable.

**Chart 25** 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.

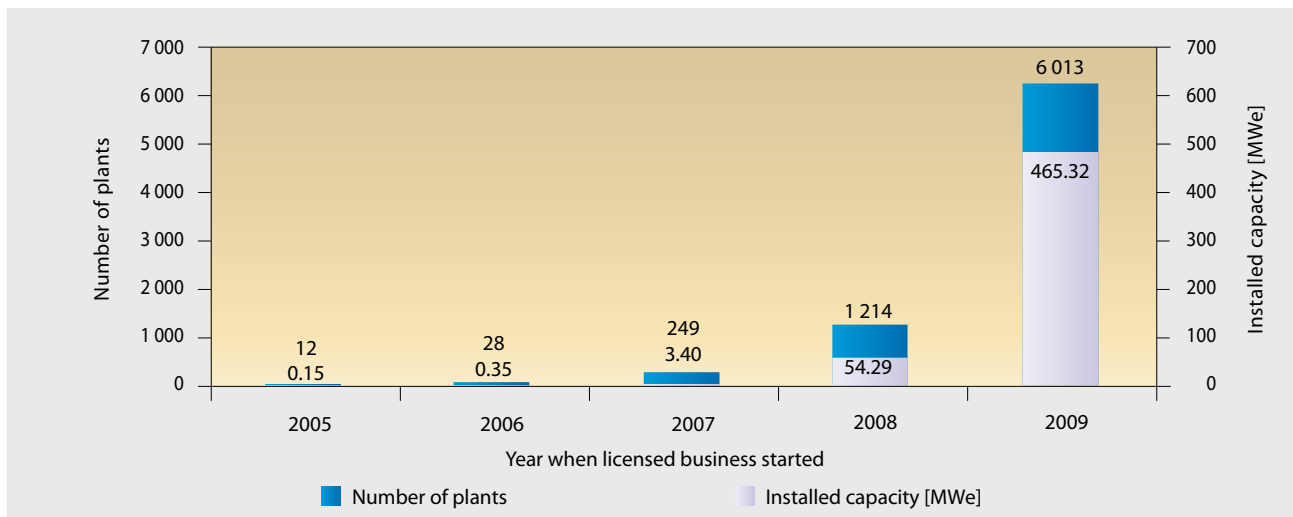
Chart 26 Wind power plants



Plant installations carried out in 2009:

<b>Pardubický Region</b>	– 4 operations, total installed capacity	<b>7.750 MW</b>
<b>Pardubický Region</b>	– 2 operations, total installed capacity	<b>12.000 MW</b>
<b>Olomoucký Region</b>	– 2 operations, total installed capacity	<b>18.002 MW</b>
<b>Jihomoravský Region</b>	– 2 operations, total installed capacity	<b>2.010 MW</b>
<b>Vysočina Region</b>	– 1 operation, total installed capacity	<b>4.100 MW</b>
<b>Středočeský Region</b>	– 1 operation, total installed capacity	<b>0.010 MW</b>

Chart 27 Photovoltaic plants

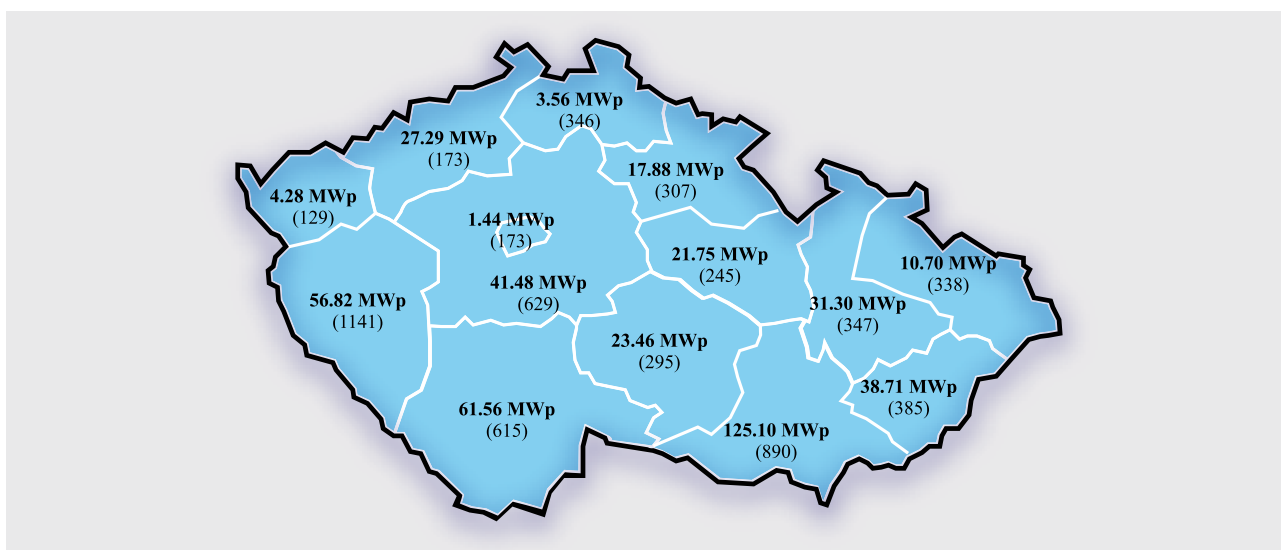


On the basis of the number of applications for licences for electricity generation in photovoltaic plants, the Office expects continued extensive development of solar plants, both on the roofs of buildings of all types, and on free areas, unless the conditions for the installation of new generating plants are changed. The number of received applications for licence award was almost four times higher than in 2008 and because many of them contained more than one operation, their number increased almost fivefold.

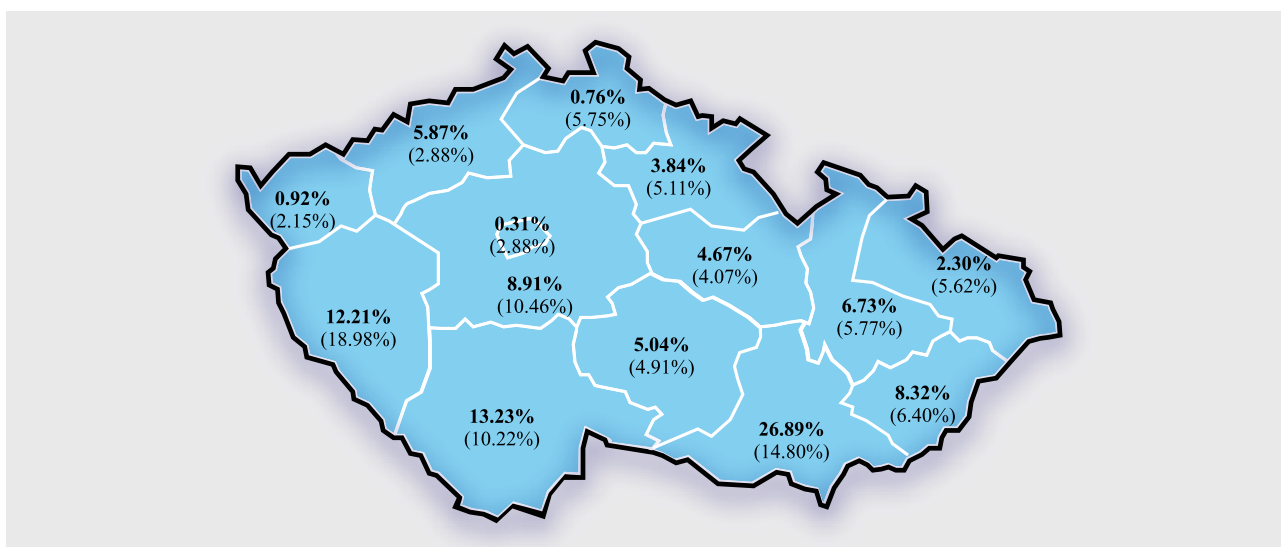
**Table 10** Number of installed photovoltaic plants by capacity [MWp]

	0-0.01	0.01-0.03	0.03-0.1	0.1-0.5	0.5-1	1-3	>3
Number of installed PHV plants	4,514	759	299	207	110	96	28
Number of installed PHV plants [%]	75.07	12.62	4.97	3.44	1.83	1.60	0.47
Total installed capacity [MWp]	21.57	13.24	16.96	50.12	82.71	155.87	124.86
Total installed capacity [%]	4.64	2.84	3.65	10.77	17.77	33.50	26.83

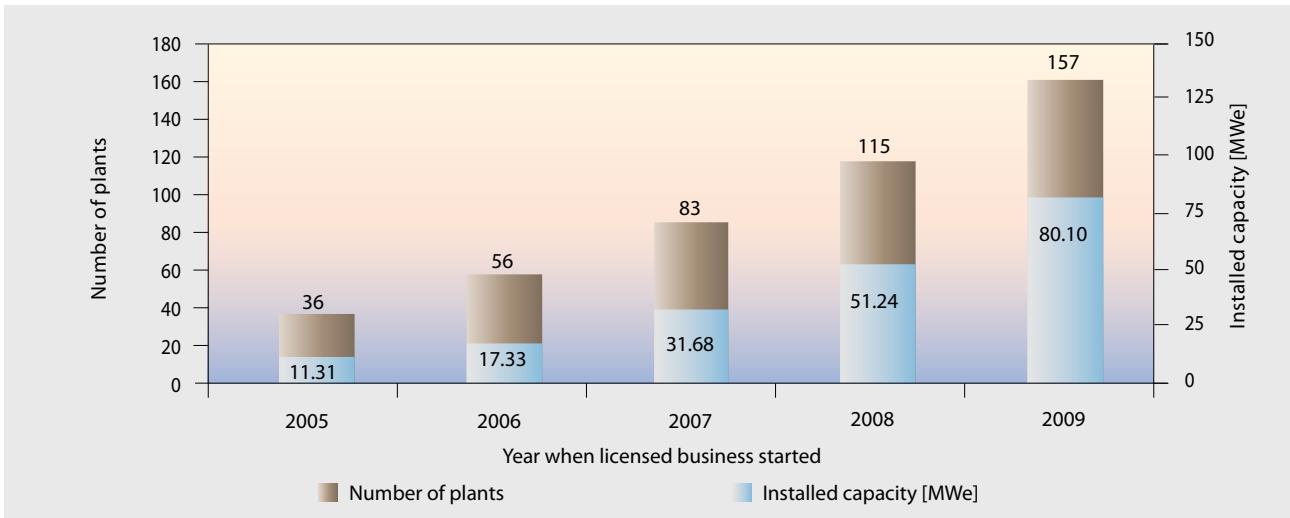
**Map 1** Total installed electrical output of PHV plants in the regions and the number of operations – PHV plants (in brackets) by region as at 31 December 2009



**Map 2** Regions' share of the total installed electrical capacity of photovoltaic power plants in the Czech Republic and their share of the total number of operations – photovoltaic plants (in brackets) as at 31 December 2009

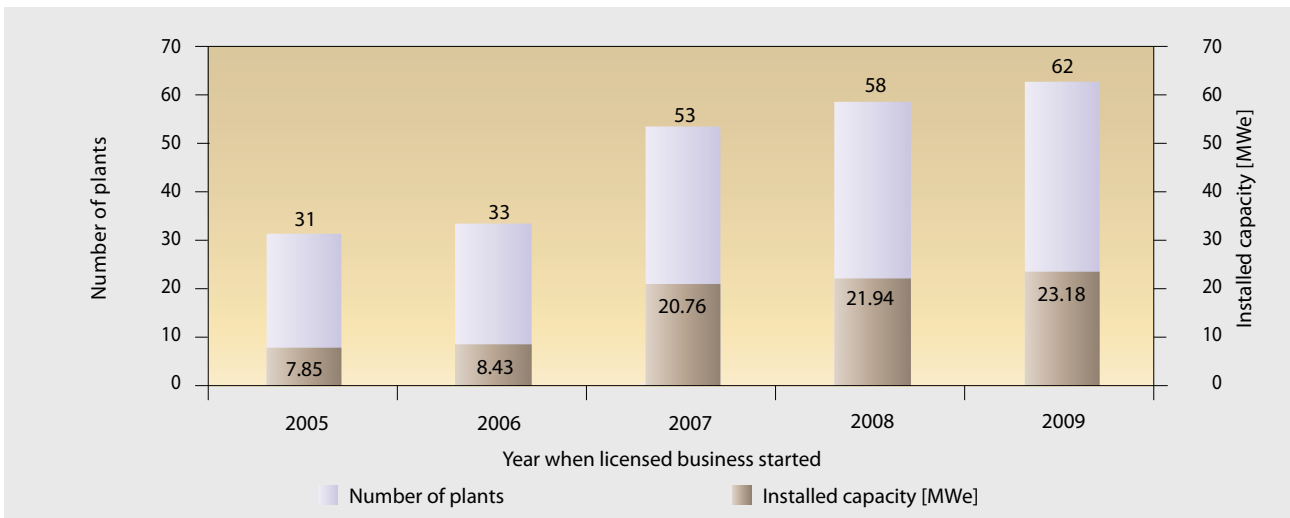


**Chart 28 Biogas share**

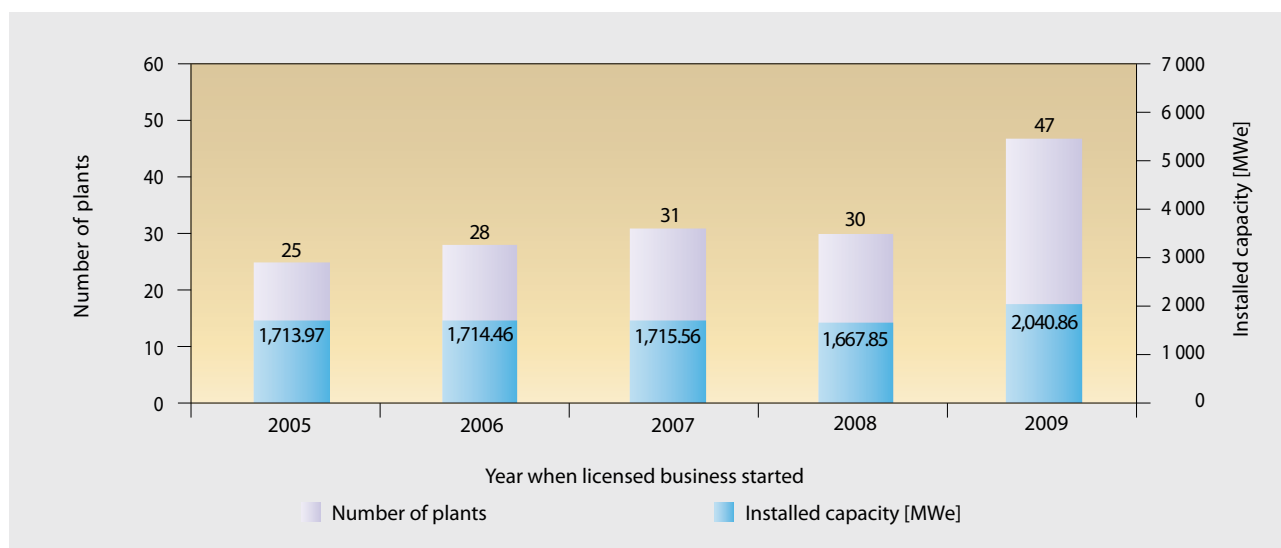


The building of biogas-fired electricity generating plants is expanding in rural areas, as a complement to farming as such.

**Chart 29 Landfill gas**



**Chart 30 Biomass share**



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. A web application helps to find information about specific licence holders. Subject to electricity and gas traders' consent, their contact details are published to facilitate the search for potential electricity and gas suppliers.

### 7.1.1 Proceedings on administrative fees

In connection with licence award, change or revocation, 57 proceedings were conducted in 2009 in respect of the refund of the administrative fee.

## 7.2 Recognition of professional qualifications

In 2009 the Office decided in 9 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, as amended, 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.



# 8

## Administrative proceedings





# 8 Administrative proceedings

## 8.1 Administrative proceedings completed in 2009

### Adversarial proceedings

#### Electricity industry

**Mr Tomáš Szolony and ČEZ Distribuce, a.s.:** A dispute over access to the distribution system. The decision imposed on the respondent the obligation to issue, within 7 days of the finality of the decision, a favourable opinion on the petitioner's application of 30 October 2008 for the connection of a 0.99 MW generating plant to line VN 22 kV no. 246 from the 110/22 kV Nový Jičín substation at point DTS 5245. The reason was the fact that the respondent failed to prove sufficiently credibly that it was not feasible to connect the PHV plant in question.

**Mr Bořek Riess and ČEZ Distribuce, a.s.:** A dispute over access to the distribution system. On the grounds of established insufficient capacity of the distribution facility and the negative effect of the plant in question, a 0.5 MW PHV plant the connection of which the petitioner sought, on the operation of the distribution system, the petition for the Office to impose on the respondent the obligation to issue a favourable opinion on the application for the connection of the 0.5 MW PHV plant located in Starý Jičín was rejected.

**Mr Jiří Lacina and ČEZ Distribuce, a.s.:** A dispute over access to the distribution system. On the grounds of established insufficient capacity of the distribution facility and the negative effect of the plant in question, a 3 MW PHV plant the connection of which the petitioner sought, on the operation of the distribution system, the petition for the Office to impose on the respondent the obligation to issue a favourable opinion on the application for the connection of the 3 MW plant located in Starý Jičín was rejected.

**Mr Petr Žemlík and ČEZ Distribuce, a.s.:** A dispute over access to the distribution system. On the grounds of established insufficient capacity of the distribution facility and the negative effect of the plant in question, a 950 kW PHV plant the connection of which the petitioner sought, on the operation of the distribution system, the petition for the Office to impose on the respondent the obligation to issue a favourable opinion on the application for the connection of the 950 kW plant located in Starý Jičín was rejected.

**POWGEN a.s. and ČEZ Distribuce, a.s.:** A dispute over access to the distribution system. The petitioner moved for the Office to issue a decision that the respondent was obliged to issue, within 15 days of the finality of the decision, the petitioner with a favourable opinion on the application dated 24 September 2008 for the connection of two cogeneration units, each with an output of 1,558 kW, located at Louny, 17. listopadu 2580, to the distribution system operated by ČEZ Distribuce. The proceedings were discontinued when the petition for the initiation of administrative proceedings was withdrawn.

**ARMEX ENERGY, a.s. and ČEZ Prodej, s.r.o.:** Petition for a decision in a dispute under Section 17(5)(b) of the Energy Act. ARMEX ENERGY contended that in connection with a change of the supplier, ČEZ Prodej failed to register on time the supply points in the information system of OTE, a.s., i.e., in the meantime (from 1 January 2009 to 8 January 2009) failed to accept responsibility for imbalance, and by its conduct it caused pecuniary damage to ARMEX ENERGY. ARMEX ENERGY demanded that the Office decide to impose the obligation on ČEZ Prodej to pay compensation for the damage suffered and legal fees. The matter was set aside.

**Mr Mykola Lyakh and ČEZ Distribuce, a.s.:** A dispute over the execution of a connection agreement. The administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because within the required time limit, the petitioner failed to remedy the material defects in the application, which prevented the proceedings from being continued.

**ČEZ Distribuce, a.s. and Mr Pavel Škranc:** A dispute over access to the distribution system and execution of a connection agreement. The administrative proceedings for the declaration that the petitioner was not obliged to connect the respondent to the supply point at Bělkovice-Laštany 287 were discontinued.

**Pavel Havránek-SPARK and ČEZ Distribuce, a.s.:** A dispute over the obligation to renew the connection of an electricity generating plant, MVE Malechov 17, and to renew the possibility for electricity supplies from the electricity generating plant, MVE Malechov 17, to the distribution system. Due to the detected illegal consumption, the respondent disconnected the connecting line from the distribution system. Thus, in addition to the disconnection of electricity take, supply of electricity from MVE was also disconnected. The Office decided that the respondent was obligated to connect the electricity generating plant and renew the possibility of electricity supplies from MVE Malechov.

**Mr Bohumil Vykydal and E.ON Distribuce a.s.:** The petitioner's motion for the Office to impose on the respondent the obligation to specify for the applicant for connection, Bytové družstvo Chládkova 26, the method of metering and to favourably dispose of the applicant's application for connection, and also to impose an obligation to execute an agreement on bundled electricity supply services, was rejected. The Office rejected the petition noting that under Appendix 4 to the public notice on Electricity Market Rules, distribution tariff D 56d can only be granted to category D customers for offtake with a heat pump. Under ERO Price Decision No. 10/2008, the D 56d tariff is intended for supply points in respect of which the customer proves to the distributor in a credible manner that for the space heating of the property a heating system with a heat pump has been properly installed and used. If the heating system with the heat pump is part of the common areas of the house, which only serve the owners or tenants of the flats for common use, such system must be fed over a separate supply line and metered using a separate metering instrument.

Ten administrative proceedings were concluded in the **electricity industry** in 2009, which is a considerable rise compared with 2008 when three administrative proceedings were completed. The disputes mainly concerned the execution of an agreement on the connection of new electricity generating plants, specifically in relation to the rising number of renewable electricity plants being

connected and, consequently, the potential shortage of capacity. The other cases involved disputes over the execution of an agreement on connection to the distribution system, with three proceedings related to the issue of illegal electricity consumption.

Although the electricity industry operates in a stable legal environment, which is predictable for the entities concerned and which has emerged thanks to the Office's activities in the promulgation of implementing legal regulations and price decisions, the number of disputes laid before the Office for decision can be expected to rise in the nearest future as the range of the Office's decision-making powers has been broadened.

### The gas industry

**E.ON Energie, a.s. and RWE Transgas, a.s.:** A dispute over failure to agree on the natural gas price for 2008 as a material item of the agreement on natural gas sale and purchase dated 15 January 1996. The petition was rejected on the grounds that the conducted check did not reveal any violation of price regulations under Section 15(3) of the law on prices when the respondent sold gas in 2008.

**RWE Transgas, a.s. and E.ON Energie, a.s.:** A dispute over failure to agree on the natural gas price for 2008 as a material item of the agreement on natural gas sale and purchase dated 15 January 1996. The Office rejected the petition for the respondent's obligation to execute with the petitioner an agreement on a change of the agreement on natural gas sale and purchase dated 15 January 1996, noting that in the case of adversarial proceedings conducted before the ERO, the petitioner must prove that a regulation of substantive law (here, the Energy Act) gives rise to the petitioner's right in respect of the respondent and the respondent challenges that right, or that the respondent has an obligation to the petitioner and refuses to perform this obligation. In the case of a dispute between gas traders over the execution or change of a gas supply agreement, there exists no obligation of one gas trader to execute such an agreement with another gas trader on the liberalised gas market, because the Energy Act does not impose on any one of them, let alone on both parties, any obligation to contract in respect of gas production and gas trade (which also includes gas supply).

Two administrative proceedings were concluded in the **gas industry** in 2009, i.e., one proceeding less than in 2008 or 2007. For a long time, the number of disputes addressed in the gas industry has been the lowest. Although this is a small number of addressed disputes, they are mostly disputes between the largest entities on the gas market. In spite of this, the gas industry can be viewed as stabilising, also thanks to the promulgation of new implementing legal regulations, the development of new gas storage facilities, and new trading entrants on the market.

The two completed administrative proceedings were partly interrelated as they concerned disputes between the same entities – gas trade licence holders over natural gas prices for 2008; the only difference was in the person of the petitioner.

### Heat supply industry

**Bytové družstvo 1302 Ostrava-Poruba and Dalkia Česká republika, a.s.:** A dispute over the obligation to sign an addendum to the agreement on heat supply dated 15 November 2007; in such addendum, a thermal capacity of 52 kW would be specified with effect from 1 January 2009 and the items in the payment schedule for 2009 would be adjusted accordingly. The Office rejected the petition because the petitioner failed to request the 52 kW by the dates under point 3.2 of ERO price decision no. 7/2008, or point B 6.1 of the agreement on heat supply dated 15 November 2007.

**Nemocnice Louny, a.s. and KA Contracting ČR s.r.o.:** A dispute over the execution of an agreement on heat supply, or, rather, over a change of the essential provisions of such agreement. The Office discontinued the proceedings when the petition for the initiation of the administration proceedings was withdrawn.

**BERSTEL spol. s r.o. and Pražská teplotárenská a.s.:** A dispute over the price arrangements for 2009 related to the agreement on heat supply dated 31 July 2007, whereby the petitioner demanded a price of CZK 154/GJ for the contract quantity and a price of CZK 223.10/GJ for the quantity taken. The Office rejected the petition noting that the variable component of the price (payment for the heat quantity taken) amounted, depending on the expected heat quantity for the period from April to December 2009, to CZK 247.87/GJ effective from 1 April 2009 for the N23 and N36 tariffs in the "A" category of rates.

**Společenství pro dům Zderad, Brno and Teplárny Brno, a.s.:** A dispute over the price arrangements for 2009 related to the agreement on heat supply to a supply point dated 1 April 2008. The Office did not find any economically unjustifiable costs in the calculations of the prices of heat at the outlet from the supplier's delivery station (the customer's supply point) applicable as at 1 January 2009 and 1 February 2009. The Office rejected the petition that sought a decision imposing price arrangements for the supply point for 2009 in relation to the agreement on heat supply dated 1 April 2008, such arrangements containing a heat price of CZK 420/GJ (including VAT) from 1 January 2009 to 30 September 2009 and of CZK 400/GJ (including VAT) from 1 October 2009 to 31 December 2009.

**Tepelné hospodářství města Ústí nad Labem s.r.o. and ENERGY Ústí nad Labem, a.s.:** A dispute over the conclusion of a price addendum for 2010 (to set out heat prices) to agreements on heat supply to the following supply points: Karla IV. 11 (a steam line), Kamenný vrch 11, Děčínská 11, Karla IV. 34/12 and Truhlářova 1177/5. The proceedings were discontinued, because the petition was manifestly impermissible as to the law, since at the time when the petition was filed (August 2009) a real dispute over heat prices for 2010 could not exist.

**Mr Ivo Pěkník and České teplo s.r.o.:** A dispute over the execution of a heat supply agreement. The petitioner disagreed with some points of the agreement proposed by the respondent, the heat price being the main point of the dispute. The decision imposed the obligation on the respondent to execute with the petitioner an agreement on heat supply, in the wording specified in the decision; this resulted in a significant decrease in the heat price demanded by the supplier.

**MORAVAN SB, s.r.o. - organizační složka ČR and Teplárna Otrokovice a.s.:** A dispute over the execution of a heat supply agreement. The proceedings were discontinued on the grounds of the petitioner failure to remedy the defects in its filing within the required time limit.

**MORAVAN SB, s.r.o. - organizační složka ČR and Teplárna Otrokovice a.s.:** A dispute over the execution of a heat supply agreement. On the basis of the Office's decision, the respondent became a supplier over and above its licence in a compound where the petitioner had supply points. The petitioner demanded the same agreements on heat supply as it had in place with the previous heat supplier who, however, had been related to the respondent through equity. The Office rejected the petition for the Office to impose on the respondent the obligation to execute with the petitioner agreements on heat supply in the wording demanded by the petitioner.

**METALIS Nejdek s.r.o. and AYIN, s.r.o.:** A dispute over the execution of a price addendum to an agreement on heat supply; the addendum would set out a heat price of CZK 255/GJ w/o VAT for 2009 and CZK 255/GJ w/o VAT +/- change in the input price of the respondent's heat supplier for subsequent years. The petitioner disagreed with the addendum to the agreement on heat supply, which proposed a price of CZK 305/GJ w/o VAT. In its decision the Office rejected the petition because the respondent applied heat prices lower than it was allowed to by price regulations.

**SMO, městská akciová společnost Orlová and Bytové družstvo v Orlové:** A dispute over the obligation to execute a price addendum to an agreement on heat supply dated 1 July 1996. The Office rejected the petition, noting that the heat customer was not subject to any obligation to contract, and the Office was therefore unable to impose on the heat customer the obligation to execute the proposed addendum to the agreement on heat supply.

**Bytové družstvo v Orlové and SMO, městská akciová společnost Orlová:** A dispute over the obligation to sign a price addendum to the agreement on heat supply dated 1 July 1996. The Office did not find any inconsistency with price regulations in the tentatively calculated heat prices of supplier SMO, městská akciová společnost Orlová, amounting to CZK 372.61/GJ w/o VAT from central substations and to CZK 391.60/GJ w/o VAT from secondary distributions and house delivery stations. It therefore rejected the petition that sought the imposition on the respondent of the obligation to execute with the petitioner the above price addendum containing the demanded price.

**Společenství vlastníků jednotek „Královský Horizont D“ and AŽD Praha s.r.o.:** A dispute over the execution of an agreement on heat supply, mainly in respect of the duration of the agreement and termination options. The Office put in place an agreement on heat supply between the parties, noting that the term of the agreement is not a material provision of the agreement, and therefore did not include it in the agreement.

**United Energy právní nástupce, a.s. and Czech Coal Services a.s.:** A dispute over the execution of price arrangements related to an agreement on heat supply. The Office rejected the petition for the Office to impose on the heat customer the obligation to execute a price addendum to the agreement on heat supply, noting that the heat customer was not subject to an obligation to contract.

**Společenství pro dům Salmova 1, 3, 5, 7 and Zásobování teplem s.r.o.:** A dispute over the execution of a heat supply agreement. Conciliation was endorsed concerning the specification of the power to be supplied to the customer, the expected annual consumption, input into the system, and the basic and working prices. The decision was made on the respondent's obligation to execute with the petitioner an agreement on heat supply; the decision specified the material provisions of the agreement; the petition was rejected as regards the remaining part of the agreement proposed by the petitioner.

**Společenství vlastníků jednotek pro dům Wiesenthalova 959/4, Praha 5, Společenství vlastníků jednotek pro dům Wiesenthalova 958/2, Praha 5, Společenství vlastníků jednotek pro dům Dělená 957/1, Praha 5 and České teplo s.r.o.:** A dispute over the execution of a heat supply agreement. The bone of contention was the heat price demanded by the respondent. The Office examined the calculation of the heat price for 2009 and then decided on the respondent's obligation to execute with each of the petitioners an agreement on heat supply. The size of the input to the supply points was adjusted and there was a change in the price for booked capacity, which was newly set at CZK 151.55/kW/month. On the basis of talks with the Office, conciliation on the remaining controversial points was reached and endorsed.

**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 and TEPLIT s.r.o.:** A dispute over the execution of agreements on heat supply. The petition for the commencement of the administrative proceedings was withdrawn, and the proceedings were therefore discontinued.

**Společenství pro dům Hálkova 885, 886, Doksy, Společenství pro dům Sochorova 815, 816, 817, Doksy, Společenství pro dům Hálkova 727, 728, Doksy, Společenství pro dům Pražská 622, 623, Doksy, Společenství pro dům Sochorova 634, 635, 636, Doksy, Společenství pro dům Hálkova 723, 724, Doksy, Společenství pro dům Hálkova 725, 726, Doksy and LENOXA a.s.:** A dispute over the execution of a heat supply agreement. The bone of contention was the thermal energy price demanded by the respondent. The Office decided on the respondent's obligation to execute with each of the petitioners an agreement on heat supply, setting the fixed component of the heat price at CZK 0.72/kWh (CZK 198.42/GJ) and the variable component of the heat price at CZK 520.78/GJ.

71 individual entities - thermal energy customers, and Teplárna Liberec, a.s.: A dispute over the execution of a heat supply agreement. Identical disputes where customers challenged 25 points of the agreement on heat supply proposed by the respondent. The Office decided on each of the disputed points and imposed on the respondent the obligation to furnish the petitioners with a new complete draft agreement on heat supply, containing the changes on which decisions were made in these administrative proceedings. In its decision the Office held that the heat price in the form of a double-component price demanded by the respondent, i.e., the price (one component) for the quantity taken and the price (the other component) for capacity, in general complied with the requirements of price regulations. As regards the change of the commercial terms and conditions, the Office noted that such conditions were part of the agreement and that their modification was to be negotiated similarly as any other amendment to the agreement, and changes therefore could not be merely notified to customers.

Ninety-eight administrative proceedings were concluded in the **heat supply industry** in 2009 (as regards their type, there were 18 administrative proceedings with multiple customers raising similar claims). This implies a marked increase in the decision-making responsibilities, as 12 administrative proceedings were concluded in 2008 (as regards their type, there were six administrative proceedings with multiple customers raising similar claims) and only four administrative proceedings were concluded in 2007. All cases involve a dispute over the execution of an agreement on heat supply, or a price addendum to an agreement on heat supply for the respective year. In most cases, the heat price was also the main reason for failing to execute the agreement on heat supply. In these administrative proceedings, interim injunction was applied to a larger extent.

## Proceedings on fines for violations of the law on prices

In 2009 the following entities were fined with finality:

**ENERGO 2000, a.s.** CZK 50,000 for failure to follow the mandatory procedure, required by price control authorities, for heat price formation and its calculation under Section 6 of the law on prices when proposing preliminary heat prices for 2008;

**České teplo s.r.o.** CZK 300,000 for failure to follow the mandatory procedure, required by price control authorities, for heat price formation and its calculation under Section 6 of the law on prices when proposing preliminary thermal energy prices for 2008;

**LENOXA a.s.:** CZK 750,000 for failure to follow the mandatory procedure, required by price control authorities, for heat price formation and its calculation under Section 6 of the law on prices when proposing preliminary heat prices for 2008;

**TERMIZO a.s.** CZK 500,000 for failure to follow the mandatory procedure, required by price control authorities, for heat price formation and its calculation under Section 6 of the law on prices when proposing preliminary thermal energy prices for 2009;

**I.P.P.E. s.r.o.** CZK 3,000 for failure to observe the information obligation under point 2.5.2 of Appendix 1 to ERO Price Decision No. 7/2008 on thermal energy prices;

**KKS – SMS s.r.o.** CZK 3,000 for failure to observe the information obligation under point 2.5.2 of Appendix 1 to ERO Price Decision No. 7/2008 on thermal energy prices;

**TERMO & CO, s.r.o.** CZK 4,000 for failure to observe the information obligation under point 2.5.2 of Appendix 1 to ERO Price Decision No. 7/2008 on thermal energy prices;

**TEPLO ZUBŘÍ s.r.o.** CZK 1,000 for failure to observe the information obligation under point 2.5.2 of Appendix 1 to ERO Price Decision No. 7/2008 on thermal energy prices.

## Disciplinary fines imposed during price inspections

In 2009, the Office imposed four fines totalling CZK 150,000 on the individuals who caused the inspected person, LENOX A a.s., to fail to meet its obligation to provide co-operation to the extent of the inspectors' authority under Section 11 of the law on State inspection. The individuals were fined for repeatedly failing to furnish, within the set time limit, the required information to the inspectors when they performed the inspection. Disciplinary fines were imposed as part of the price inspections instituted both on the grounds of a suspicion that the heat supplier in the respective location was not meeting the requirement of cost-plus heat prices, and to check whether the heat supplier remedied the calculation of the heat price where the Office had viewed the original pricing as illegal and imposed a penalty.

## Licence proceedings

**TEDOM ENERGO s.r.o.:** In 2009, the Office decided to lift the obligation to make available thermal energy generation and distribution installations in Světlá nad Sázavou, imposed on Sklo Bohemia, a.s., and the obligation to use these installations for thermal energy supply over and above its own licence, imposed on TEDOM ENERGO s.r.o., as of 31 May 2009, i.e. prior to the expiry of a period of 12 months.

**MORAVAN akciová společnost:** In February 2009, the Office commenced proceedings to revoke licences for electricity and heat distribution with MORAVAN - SAFETY BELTS a.s. (now MSB plus Ostrava a.s., v likvidaci). In this connection, on 2 February 2009 the Office obliged MORAVAN akciová společnost to make available its heat distribution installations in the company's compound in Otrokovice and obliged Teplárna Otrokovice a.s. to use these installations to supply thermal energy over and above its own licence. A similar decision was made on electricity distribution installations, where the obligation to use these installations for distributing electricity

over and above its own licence was imposed on Energetika Malenovice, a.s. None of the group of customers suffered any disruption in electricity distribution or heat supply. On the basis of the sale of the assets of MORAVAN akciová společnost by the official receiver, a decision was made to lift the above obligations as of 31 December 2009.

**LENOXA a.s.:** In late August 2009, proceedings were commenced for changing LENOXA's thermal energy generation and distribution licences by way of the abolishment of its operating plant and the delineated area in Rovná, district of Sokolov. The reason was an interruption in heat supply to customers before the end of the 2008/2009 heating season and failure to resume the supply by the beginning of the 2009/2010 heating season. In this connection, effective from 9 September 2009 LENOXA was obligated to make its thermal energy generation and distribution installations in Rovná available, and Dalkia Mariánské Lázně, s.r.o. was obligated to use these installations to supply heat over and above its own licence.

## 8.2 Administrative proceedings in which the ERO Chairman delivered decisions on remonstrances in 2009

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

In 2009, the ERO Chairman decided, upon proposals submitted by the remonstrance commission, on remonstrances lodged by parties to the proceedings in 101 remonstrance proceedings in which decisions on the merits were delivered; he also decided on 24 remonstrances that parties to the proceedings lodged against some other first instance decisions. Compared with 2008, the number of the ERO Chairman's decisions on remonstrances increased considerably in 2009.

### Adversarial proceedings

#### The electricity industry

**Mr Bořek Riess and ČEZ Distribuce, a.s.:** The Office rejected petitioner Bořek Riess's petition in the dispute over the connection of an electricity generating plant to the distribution system. Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance and upheld the contested decision on the grounds of the DSO proving, in the proceedings, its claims of capacity shortage in the distribution facility and risk to the reliable operation of the distribution system under Section 25(11)(a) of the Energy Act.

**Mr Tomáš Szolony and ČEZ Distribuce, a.s.:** The Office granted petitioner Tomáš Szolony's petition in the dispute over the connection of an electricity generating plant to the distribution system. Upon the remonstrance commission's proposal, the ERO Chairman rejected the respondent's remonstrance and upheld the contested decision on the grounds of the DSO failing, in the proceedings, to prove its claims of capacity shortage in the distribution facility and risk to the reliable operation of the distribution system under Section 25(11)(a) of the Energy Act.

**Bytové družstvo Chládkova 26 and E.ON Distribuce, a.s.:** The Office rejected the petition of petitioner Bytové družstvo Chládkova 26 in the dispute over connection to the distribution system. Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance and upheld the contested decision on the grounds of the connection applicant failing to meet the conditions for the granting of the D 56d tariff, on the same grounds for which the first instance had rejected the petitioner's petition.

**Mr Jiří Lacina and ČEZ Distribuce, a.s.:** The Office rejected petitioner Jiří Lacina's petition in the dispute over the connection of an electricity generating plant to the distribution system. Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance and upheld the contested decision on the grounds of the DSO proving, in the proceedings, its claims of capacity shortage in the distribution facility and risk to the reliable operation of the distribution system under Section 25(11)(a) of the Energy Act.

**Mr Petr Žemlík and ČEZ Distribuce, a.s.:** The Office rejected petitioner Petr Žemlík's petition in the dispute over the connection of an electricity generating plant to the distribution system. Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance and upheld the contested decision on the grounds of the DSO proving, in the proceedings, its claims of capacity shortage in the distribution facility and risk to the reliable operation of the distribution system under Section 25(11)(a) of the Energy Act.

#### The gas industry

**E.ON Energie, a.s. and RWE Transgas, a.s.:** The Office rejected the petition of petitioner E.ON Energie in the dispute over the price of natural gas supply. Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance and upheld the contested decisions. The grounds for rejecting the petition were the fact that the Energy Act does not give rise to a right of the petitioner, and to a matching obligation of the respondent, to enter into a gas supply agreement.

## The heat supply industry

BD Burianova 924-925, Družstvo and Teplárna Liberec, a.s.  
Bytové družstvo Jeřmanická 476-477, Liberec 25 and Teplárna Liberec, a.s.  
Spoluvlastníci domu č.p. 293, Liberec and Teplárna Liberec, a.s.  
Bytové družstvo JEŘMANKA and Teplárna Liberec, a.s.  
Společenství Žitná 818-819 and Teplárna Liberec, a.s.  
Otakar Vašák, Na Bídě 191, Liberec 4 and Teplárna Liberec, a.s.:

The Office decided to discontinue the disputes over the execution of an agreement on heat supply. Respondent Teplárna Liberec remonstrated against the resolutions that had discontinued the proceedings. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrances and upheld the contested resolutions that had discontinued the proceedings. The grounds for rejecting the remonstrance were the fact that the parties to the proceedings still had in place a valid agreement on heat supply, and on the basis of this fact, no dispute over the execution of an agreement could exist between them.

Společenství pro dům Haškova 950-951 and Teplárna Liberec, a.s.  
Společenství pro dům Zámecký vrch 1401, Liberec and Teplárna Liberec, a.s.  
Společenství vlastníků Zámecký vrch 1402 and Teplárna Liberec, a.s.  
Společenství Zámecký vrch 1404 and Teplárna Liberec, a.s.  
Společenství pro dům Zámecký vrch 1405 and Teplárna Liberec, a.s.  
Společenství Zámecký vrch 1406 and Teplárna Liberec, a.s.  
Společenství pro dům Zámecký vrch 1407 and Teplárna Liberec, a.s.  
Společenství vlastníků Zámecký vrch 864 and Teplárna Liberec, a.s.  
BD Dobiášova 865, družstvo and Teplárna Liberec, a.s.  
Společenství vlastníků jednotek č.p. Sametová 721/18 and Teplárna Liberec, a.s.  
SPOLEČENSTVÍ SAMETOVÁ 722 and Teplárna Liberec, a.s.  
Spoluvlastníci domu č.p. 723 v Liberci VI-Rochlicích and Teplárna Liberec, a.s.  
Společenství pro dům Haškova 936-937, Liberec and Teplárna Liberec, a.s.  
Společenství pro dům Haškova 939 and Teplárna Liberec, a.s.  
BD Seifertova 904-905, družstvo and Teplárna Liberec, a.s.  
Společenství Na Žižkově 811-812 and Teplárna Liberec, a.s.  
Společenství vlastníků jednotek domu CIHLÁŘSKÁ čp. 664-665 and Teplárna Liberec, a.s.  
Společenství Stavbař 370-372 and Teplárna Liberec, a.s.  
Bytové družstvo Vackův výhled and Teplárna Liberec, a.s.  
Společenství vlastníků jednotek domu MLÝNSKÁ čp. 602 and Teplárna Liberec, a.s.  
Společenství Polní čp. 360 and Teplárna Liberec, a.s.  
Společenství Vnitřní čp. 1411 and Teplárna Liberec, a.s.  
Společenství Vnější 1389, 1390 and Teplárna Liberec, a.s.  
"Společenství vlastníků Žitná 816-817 and Teplárna Liberec, a.s.  
Společenství vlastníků jednotek domu LIBEREC 3 – Jeřáb, Slavíčková ul. č.p. 67/4, 68/6, 69/8 and Teplárna Liberec, a.s.  
Společenství vlastníků jednotek Borový vrch 288 Liberec and Teplárna Liberec, a.s.  
Společenství Jáchymovská 279-280 and Teplárna Liberec, a.s.  
Společenství pro dům 923 Burianova Liberec and Teplárna Liberec, a.s.  
Společenství Matoušova 48 and Teplárna Liberec, a.s.  
Společenství pro dům Soukenická 834 and Teplárna Liberec, a.s.  
Společenství Jeřmanická 474, 475 and Teplárna Liberec, a.s.  
SPOLEČENSTVÍ OLDŘICHOVA and Teplárna Liberec, a.s.  
SPOLEČENSTVÍ PRO DŮM BEZOVÁ 277 and Teplárna Liberec, a.s.  
Společenství pro dům 922 Buriánova Liberec, Liberec and Teplárna Liberec, a.s.  
Společenství pro dům čp. 700, 701 and Teplárna Liberec, a.s.  
Společenství Borový vrch 290 and Teplárna Liberec, a.s.  
Společenství Sametová čp. 709-710 and Teplárna Liberec, a.s.  
Společenství Broumovská 696-697 and Teplárna Liberec, a.s.  
Společenství pro dům Kaplického 367-370 and Teplárna Liberec, a.s.  
BD Dobiášova 854, družstvo and Teplárna Liberec, a.s.  
Bytové družstvo Dobiáš and Teplárna Liberec, a.s.  
Společenství Broumovská čp. 698-699 and Teplárna Liberec, a.s.  
Společenství domu Haškova 952-953 and Teplárna Liberec, a.s.  
Společenství Sametová čp. 711-712 and Teplárna Liberec, a.s.

**Stavební bytové družstvo SEVER and Teplárna Liberec, a.s.**  
**Společenství Haškova 940, 941 and Teplárna Liberec, a.s.**  
**Společenství Cihlářská čp. 669-670 and Teplárna Liberec, a.s.**  
**Společenství Polní čp. 359 and Teplárna Liberec, a.s.**  
**Bytové družstvo Doubák and Teplárna Liberec, a.s.**  
**Bytové družstvo Výhled and Teplárna Liberec, a.s.**  
**Bytové družstvo Burianova 926 a 927 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Šimáčkova 447, 448, 449 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Jabloňová 402, 403 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Malátova 429, 430, Liberec and Teplárna Liberec, a.s.**  
**Společenství vlastníků Sněhurčina 694, 695 and Teplárna Liberec, a.s.**  
**Společenství vlastníků SNP 355, 356, 357 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Letná 419-422 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Sněhurčina 708-711 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Sněhurčina 678, 679 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Vlnařská 835 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Hokejka 646-666, Liberec and Teplárna Liberec, a.s.**  
**Společenství vlastníků Sněhurčina 700, 701 and Teplárna Liberec, a.s.**  
**Bytové družstvo Jabloňová 411, 412 and Teplárna Liberec, a.s.**  
**Podzimní LB s.r.o. and Teplárna Liberec, a.s.**  
**Alexandr Kendík JUNIOR and Teplárny Liberec, a.s.**  
**Bytové družstvo LB TYRŠOVA and Teplárna Liberec, a.s.**  
**Společenství vlastníků Polní 353, 354 and Teplárna Liberec, a.s.**  
**Společenství vlastníků Aloisina Výšina 557 and Teplárna Liberec, a.s.**  
**Společenství vlastníků jednotek Hvězdná 487 a 488, Liberec and Teplárna Liberec, a.s.**  
**BD Burianova 924-925, Družstvo and Teplárna Liberec, a.s.**  
**Společenství vlastníků Jiráskova 301 and Teplárna Liberec, a.s.:**

Before the end of the dispute over the execution of an agreement on heat supply between Stavební bytové družstvo SEVER and Teplárna Liberec, the Office delivered an interim injunction whereby it arranged, on an interim basis, for relations between the parties. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance lodged by petitioner Stavební bytové družstvo SEVER as unfounded, and upheld the decision on the interim injunctions.

In disputes over the execution of an agreement on heat supply, the Office partly granted the heat customers' petitions in its decisions on the merits; in a part of the dispute it endorsed conciliation; and in the remaining part it rejected the petitions. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrances lodged by the petitioners and Teplárna Liberec and upheld the contested decisions on the grounds of not finding the parties' pleas in remonstrances to be well-founded or the contested decisions to be incorrect or in conflict with legal regulations.

**Bytové družstvo 1302 Ostrava-Poruba and Dalkia Česká republika, a.s.:** The Office rejected the petition of petitioner Bytové družstvo 1302 Ostrava-Poruba in the dispute over the execution of an addendum to the agreement on heat supply. Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance and upheld the contested decision on the grounds of the petitioner requesting the adjustment of thermal capacity to 52 kW for 2009 only after the time limit set out in price regulations.

**Společenství vlastníků Milíčova 3042/15 and Dalkia Česká republika, a.s.:** In the dispute over the execution of an agreement on heat supply, the Office set aside the request of petitioner Společenství vlastníků Milíčova 3042/15 for the Office to decide on the obligation of Dalkia Česká republika to make it possible for Mr Jan Paprskář to verify, under Section 78(1) of the Energy Act, that the metered values of thermal energy consumption were correct. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance lodged against the resolution and upheld the contested decision on the grounds of the petitioner making a duty under the Energy Act, on which no decision can be taken in adversarial proceedings on the execution of a heat supply agreement, the subject matter of adversarial proceedings.

Upon the remonstrance commission's proposal, the ERO Chairman rejected the petitioner's remonstrance against the staying of the administrative proceedings and upheld the contested resolution.

In early 2010, the ERO Chairman rejected the remonstrance against the decision whereby the petition had been rejected and upheld the contested decision. The grounds for rejecting the remonstrance were the fact that the executed agreement on heat supply was valid and effective. Due to the legal existence of the heat supply agreement, it was not subsequently possible to grant the petitioner's petition for the execution of an agreement, since the statutory precondition for adjudicating a dispute under Section 17(5)(a) of the Energy Act was not satisfied, i.e., disagreement on the execution of an agreement between a licence holder and its customer.

**Společenství pro dům Salmova 1, 3, 5, 7 and Zásobování teplem s.r.o.:** In the dispute over the execution of an agreement on thermal energy supply, the Office endorsed conciliation in a part of the case, granted a part of the petition of Společenství pro dům



Samova 1, 3, 5, 7 and rejected the remaining part of the petition. Upon the remonstrance commission's proposal, the ERO Chairman quashed the contested decision on the basis of the remonstrance and remanded the case for new consideration. The reason was that the Office granted the petitioner's requirement concerning the perpetuity of the agreement on thermal energy supply and was therefore deciding on a provision of an agreement on thermal energy supply which the Energy Act does not regard as material for an agreement to come into existence.

**Společenství pro dům Sochorova 815, 816, 817, Doksy and LENOXA a.s.**

**Společenství pro dům Hálkova 885, 886, Doksy and LENOXA a.s.**

**Společenství pro dům Pražská 622, 623, Doksy and LENOXA a.s.**

**Společenství pro dům Sochorova 634, 635, 636, Doksy and LENOXA a.s.**

**Společenství pro dům Hálkova 727, 728, Doksy and LENOXA a.s.**

**Společenství pro dům Hálkova 723, 724, Doksy and LENOXA a.s.**

**Společenství pro dům Hálkova 725, 726, Doksy and LENOXA a.s.:**

Before the end of the dispute over the execution of an agreement on heat supply, the Office delivered an interim injunction whereby it arranged, on an interim basis, for relations between the parties. Upon the remonstrance commission's proposal, the ERO Chairman rejected remonstrance lodged by the respondent LENOXA and upheld the decision on the interim injunctions.

By its decision on the merits, the Office partly granted the petitions and partly rejected them. The ERO Chairman rejected the respondent's remonstrance and upheld the contested decisions, because he did not find the respondent's objections as to the correctness of the decisions to be well-founded, and found the contested decisions whereby the respondent was obligated to execute with the petitioner an agreement on heat supply with specified contents to be decisions delivered in accordance with legal regulations.

**SMO, městská akciová společnost Orlová and Bytové družstvo v Orlové:** The Office discontinued the proceedings on the dispute over the execution of a price addendum to the agreement on heat supply, which were initiated by SMO, městská akciová společnost Orlová. In response to the petitioner's remonstrance, the ERO Chairman quashed the contested decision upon the remonstrance commission's proposal, and remanded the case for further consideration, because the proceedings had been discontinued at variance with the rules of administrative procedure.

Following new consideration, the Office rejected the petitioner's petition. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance and upheld the contested decision on the grounds of the fact that the Energy Act does not contain any provision imposing on a natural or juristic person, as a thermal energy customer, an obligation to enter into an agreement on heat supply. The Office therefore concluded that if the Energy Act does not provide a legal basis for delivering a decision on the respondent's obligation to execute the proposed price addendum, the existence of such an obligation cannot be declared in a decision.

**METALIS Nejdek s.r.o. and AYIN, s.r.o.:** Prior to the conclusion of the dispute over the execution of an agreement on heat supply, the Office issued an interim injunction whereby it provided for the parties' relationship on an interim basis. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance lodged by the petitioner METALIS Nejdek and also rejected the decision on the interim injunction.

By its decision on the merits, the Office rejected the petition. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance filed by the petitioner and upheld the contested decision, because on the basis of the facts established during the proceedings the Office arrived at the correct conclusion that the petitioner's demand for the execution of a price addendum containing a heat price of CZK 255/GJ w/o VAT for 2009 could not be granted because the heat price demanded by the respondent for 2009 had not been calculated at variance with pricing regulations.

## Licence proceedings

**ŽĐAS, a.s.:** In proceedings on a change of the decision on licence award, the Office delivered a decision whereby it changed ŽĐAS's licence for electricity distribution. TECHNOSERVICE - technické a komerční služby, s.r.o. lodged a remonstrance against the decision, which the ERO Chairman rejected upon the remonstrance commission's proposal, upholding the contested decision on the grounds of the Office having proceeded in accordance with the Energy Act in the change of the licence.

**ŽĐAS, a.s.:** In proceedings on a change of the decision on licence award, the Office delivered a decision whereby it changed ŽĐAS's licence for thermal energy distribution. TECHNOSERVICE - technické a komerční služby, s.r.o. lodged a remonstrance against the decision, which the ERO Chairman rejected upon the remonstrance commission's proposal, upholding the contested decision on the grounds of the Office having proceeded in accordance with the Energy Act in the change of the licence.

**ZVVZ Energo s.r.o.:** In its resolution, the Office stayed the proceedings on a change of the decision on the award of a licence for thermal energy distribution, initiated upon a request from ZVVZ Energo. The applicant lodged a remonstrance against the resolution, which the ERO Chairman rejected upon the remonstrance commission's proposal, upholding the contested decision on the grounds of the fact that the energy facility for the operation of which the licence was to be awarded was still operated by a different licence holder.

**ZVVZ Energo s.r.o.:** In its resolution, the Office stayed the proceedings on a change of the decision on the award of a licence for thermal energy production, initiated upon a request from ZVVZ Energo. The applicant lodged a remonstrance against the resolution, which the ERO Chairman rejected upon the remonstrance commission's proposal, upholding the contested decision on the grounds of the fact that the energy facility for the operation of which the licence was to be awarded was still operated by a different licence holder.

**ALORA, s.r.o.:** The Office decided to set aside ALORA's request for the initiation of proceedings to find whether the electricity distribution licence holder Mr Milouš Pour met the conditions for licence award. Upon the remonstrance commission's proposal, the ERO Chairman rejected the applicant's remonstrance, upholding the contested resolution on the grounds of the fact that the Energy Act does not vest in the Office the competence to establish in administrative proceedings whether a licence holder meets, or has ceased to meet, the conditions for licence award under Section 10(2)(a) of the Energy Act.

## Proceedings on the imposition of the obligation of supply over and above a licence and provision of energy facilities

**LENOXA a.s.:** In proceedings on the imposition of the obligation of supply over and above the licence and provision of the energy facility, in an interim injunction the Office ordered LENOXA to provide its thermal energy distribution facility to Dalkia Mariánské Lázně, s.r.o. Upon the remonstrance commission's proposal, the ERO Chairman rejected LENOXA's remonstrance as unfounded and upheld the contested decision, because in its interim decision the Office had justifiably arranged for the parties' relationship on an interim basis due to the need to provide for heat supplies to customers.

**LENOXA a.s.:** In proceedings on the imposition of the obligation of supply over and above the licence and provision of the energy facility, in an interim injunction the Office ordered Dalkia Mariánské Lázně, s.r.o. to provide heat supplies through acceptance of thermal energy distributions from LENOXA. Upon the remonstrance commission's proposal, the ERO Chairman rejected LENOXA's remonstrance as unfounded and upheld the contested decision, because in its interim decision the Office had justifiably arranged for the parties' relationship on an interim basis due to the need to provide for heat supplies to customers.

**LENOXA a.s.:** In proceedings on the imposition of the obligation of supply over and above the licence and provision of the energy facility, in an interim injunction the Office ordered LENOXA to provide its thermal energy production facility to Dalkia Mariánské Lázně, s.r.o. Upon the remonstrance commission's proposal, the ERO Chairman rejected LENOXA's remonstrance as unfounded and upheld the contested decision, because in its interim decision the Office had justifiably arranged for the parties' relationship on an interim basis due to the need to provide for heat supplies to customers.

**LENOXA a.s.:** In proceedings on the imposition of the obligation of supply over and above the licence and provision of the energy facility, in an interim injunction the Office ordered Dalkia Mariánské Lázně, s.r.o. to provide thermal energy supplies through acceptance of thermal energy production from LENOXA. Upon the remonstrance commission's proposal, the ERO Chairman rejected LENOXA's remonstrance as unfounded and upheld the contested decision, because in its interim decision the Office had justifiably arranged for the parties' relationship on an interim basis due to the need to provide for heat supplies to customers.

**MORAVAN akciová společnost:** In proceedings on the provision of the energy facility, the Office decided to impose on MORAVAN akciová společnost the obligation to provide its electricity distribution facility to Energetika Malenovice, a.s. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance lodged by MORAVAN akciová společnost and upheld the contested decision, because he concluded that the Office's procedure was in line with the Energy Act. The appellant's objections to the incorrect calculation of the compensation for the provision of the energy facility were also found to be unsubstantiated.

**MORAVAN akciová společnost:** In proceedings on the obligation of supplies over and above the licence, the Office imposed on Energetika Malenovice, a.s. the obligation to operate, over and above its licence, the electricity distribution facility of MORAVAN akciová společnost. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance lodged by MORAVAN akciová společnost and upheld the contested decision, because he concluded that the Office's procedure was in line with the Energy Act. The appellant's objections to the incorrect calculation of the compensation for the provision of the energy facility were also found to be unsubstantiated.

## Proceedings on violations of pricing regulations

**LENOXA a.s.:** The Office imposed a fine on LENOXA under Section 17(1)(b) of the Act on Prices for a breach of pricing regulations. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance and upheld the contested decision on the grounds of his conclusion that by its conduct, the inspected person had breached Section 15(1)(c) of the Act on Prices by failing to follow the mandatory procedure for thermal energy pricing.

**TERMIZO a.s.:** The Office imposed a fine on TERMIZO under Section 17(1)(b) of the Act on Prices for a breach of pricing regulations. Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance and upheld the contested decision on the grounds of his conclusion that by its conduct, the inspected person had breached Section 15(1)(c) of the Act on Prices by failing to follow the mandatory procedure for thermal energy pricing.

**KA Contracting ČR s.r.o.:** The Office imposed a fine on KA Contracting CR under Section 17(1)(b) of the Act on Prices for a breach of pricing regulations. On the basis of a remonstrance, the ERO Chairman quashed the contested decision in early 2010 and remanded the case for new consideration. The reason for quashing the contested decision was the fact that the decision did not comply with legal regulations as it failed to meet the basic requirements of the rules of administrative procedure for the content and form of an administrative decision, and was therefore burdened with defects that could not be remedied in the appellate proceedings without causing prejudice to the rights of a party to the proceedings. In addition to the formal shortcomings of the contested decision, the decision was insufficiently substantiated and, therefore, not amendable to a review.

## Disciplinary fines imposed during a price inspection

Upon the remonstrance commission's proposal, the ERO Chairman rejected four remonstrances lodged against decisions to impose fines on individuals for a violation of the law on State inspection during a price inspection under the law on prices. The fines were imposed on the individuals who caused the inspected person to fail to meet its obligation to provide co-operation to the extent of the inspectors' authority under Section 11 of the law on State inspection.



9

External relations



# 9 External relations

## 9.1 Co-operation with central state administration authorities

Within its remit, in 2009 the Office promoted its direct communication with the various central authorities of the state administration. Its co-operation with the energy and legal experts of the respective departments of the Ministry of Industry and Trade (MPO) can be regarded as crucial, in particular as regards assessing experiences from the application of the Energy Act as the framework creating the environment for energy market players' operation.

These analyses and joint analytical effort were the basis for drafting the amendments to the implementing regulations promulgated by both MPO and ERO. The results of the co-operation between the two authorities' and other institutions' experts were also the basis for preparing a comprehensive amendment to the Energy Act.

In its activities, the Office also proceeds from the framework established by the Czech Republic's National Energy Concept drawn up by MPO. At their meetings, the ERO Chairman informs the Minister of Industry and Trade about the Office's key strategic plans and its forthcoming price decisions and other decisions that may have social and macroeconomic impacts on the country. The Office furnishes information about important price decisions to the Czech Government through the Minister of Industry and Trade.

As the central institution responsible for the processing of operating and technical data on the electricity industry, the Office also coordinates data processing for the electricity industry within the entire state administration.

In co-operation with the Czech Statistical Office, the ERO offers, and provides natural persons applying for a licence who have not yet been issued with an identification number with, assistance with the related procedure. The ERO also offers its assistance to applicants, natural persons, with obtaining criminal record certificates; in this respect it works with the Ministry of the Interior (MV). In respect of the recognition of professional qualifications the ERO, 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.

The Office also works with the Ministry of Foreign Affairs (MZV) and in 2009 continued to prepare information for the country's positions on the various documents of European institutions, taking into consideration the Czech EU presidency. The Office also worked with the Ministry of Labour and Social Affairs (MPSV); 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.

## 9.2 Co-operation with the Czech Parliament

Under the Energy Act, the Office is obliged to inform the Chamber of Deputies about its activity in the form of an annual report for the respective year. Throughout the year, the Office keeps continuously in touch with committees of the Chamber of Deputies, especially the Economic Committee and its Energy Subcommittee, the Committee for Public Administration and Regional Development, the Environment Committee, the European Affairs Committee, and also the Audit Committee, in particular as regards debated issues concerning energy legislation. The Office's representatives regularly attended, for example, all debates on the amendment to the Energy Act held in the committees of both chambers of the Czech Parliament, and debates on the amendment to Act No. 180/2005 on support for the use of renewable energy sources. They also took an active part in all seminars on amendments to the two laws, where the Office was always provided with opportunities to present its views and positions. As part of the drafting and discussion of the amendment to the law on support for renewables, the Office prepared several analyses that addressed – in response to the development of the proposed content of the amended law and the progressively presented amending proposals – the practical impacts of the proposed changes and modifications, and offered a realistic view of the respective issues. Upon requests from the various committees, the Office also prepared some informative materials and small studies for their meetings, largely in connection with points concerning energy.

In the Senate, the Office works with the Committee for Economy, Agriculture and Transport and its Subcommittee for Energy, and the Committee for EU Affairs. The Office's representatives actively participated in meetings and technical seminars dedicated to energy, renewables and the country's energy security.

## 9.3 Public and media relations

### 9.3.1 Information provision

In relation to its expanding remit, also in the context of the extensive amendment to the Energy Act and the related legal regulations, in 2009 the Office devoted extreme attention to ongoing information provision to both lay and expert circles.

On the basis of Act No. 106/1999 on free access to information, as amended, 61 citizens and organisations, i.e., approximately one third more than in 2008, approached the Office with their questions in 2009.

#### Number of received and handled requests for information in 2009

Area	Number of requests
Licences	15
Regulation	41
Other	5
Total	61

As in previous years, the subject of requests for information mainly concerned the Office's regulatory activity, especially from the perspective of its price decisions. A number of questions also concerned heat price controls, renewable electricity feed-in tariffs, supplier switching, and the licensing procedure, in particular for photovoltaic development.

All requests for information were answered within the statutory time limit and were provided free of charge, similarly as in previous years.

In 2009, the Office's relevant technical departments also handled more than 1,000 questions in writing as part of their everyday correspondence. The number of these questions rose significantly compared with 2008, primarily in connection with the continuously expanding energy market and the rising number of entities operating on the energy market. A major factor that contributed to the number of questions was the development of renewable electricity production, especially the development of investments in solar power plants, and the related licensing for electricity production.

In 2009 the Office received 116 submissions which were, in the light of their nature and content, treated as complaints under an internal regulation, Chairman's Measure No. 3/2006 Guidelines on Complaint Handling.

Number of submissions received in 2009	116
of which disposed of as:	
justifiable	18
set aside for failure to supply additional information	4
unfounded	75
complaints under S. 175 of Act No. 500/2004, Rules of Administrative Procedure	6
referred to a different state administration authority	13

The required time limit for handling was met in the case of all complaints.

The growing interest in energy, both in the Czech Republic and in the whole EU, which has brought about new steps in the energy policy, energy market liberalisation, price issues, energy security etc., was also reflected in the media's extreme interest in the energy sector. In this area, legislative and other activities resulted in an individualised and a specific approach to the media, focused on the explanation of particular problems. The Office placed a great emphasis on the specific technical nature of interviews and other appearances of the Office's senior personnel in the regional and national media. The Office's employees published a number of articles covering the energy sector's current issues in the trade press and contributed to the content and focus of these periodicals by their participation in editorial boards. Speaking at, and consultations related to participation in, technical seminars and conferences organised by respected economic and technical periodicals has become an integral part of the presentation of the Office's activity.

During the Czech EU presidency the Office actively cooperated with the editorial units attached to the Office of the Government of the Czech Republic, which were responsible for a special website throughout the presidency; the website was one of the important communication tools in the process of EU coordination. In this connection, the Office provided information inputs related to the key priorities pursued by the Czech EU presidency, which also included economy and energy, thereby helping to create topical contents of the website. The Office was also continuously in touch with the communication department that was responsible for media services during the Czech EU presidency.

### 9.3.2 Internet – easy access to information

Energy is a phenomenon of our times and as such causes the demand for information from this field to grow. This is also reflected in the hit rate of the Office's website ([www.eru.cz](http://www.eru.cz)). In 2009, the website was restructured and its layout was innovated to make it clearer and more understandable and to offer quick access to information, of which there is more and more and the content of which is continuously expanding.

A new section was set up: ERÚ – Strukturální fondy [ERO – Structural Funds], posting information about the projects implemented by the Office that are co-financed from the EU Structural Funds and relate to the Czech Republic's eGovernment strategy described in a strategic document approved by the Czech Government, *Efektivní veřejná správa a přátelské veřejné služby – Strategie realizace Smart Administration v období 2007 – 2015* [Effective Public Administration and Friendly Public Services – A Strategy for Implementing Smart Administration between 2007 and 2015]. In one of the main sections on the Energy Regulatory Office, new subsections were set up, ERO's competences over time, which outlines the history of the Office, and the Complaints Agenda, where annual reports on complaint handling are posted.

### 9.3.3 Publications

Under the Energy Act, the Office produces the *Energy Regulation Gazette*, which appeared with a circulation of 730 in 2009 (there were 611 subscriptions). SEVT, a.s. was responsible for the administration of the *Gazette* as in previous years.

Ten issues of the *Gazette* appeared in 2009; four of them, published 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 eight in 2009: three on gas prices, four on electricity prices, and one on thermal energy prices. The *Gazette* also carried two notices of the approval of the rules for the operation of energy grids, a notice on the share of renewable electricity in gross electricity consumption and on the expected impacts of support for renewable electricity on the overall price for final customers, a notice on the approval of the commercial terms and conditions of Operátor trhu s elektřinou, a.s., a report on the management of the Energy Regulation Fund for 2009 and the budget proposed for the Fund for 2009, a report on the audit of the Energy Regulation Fund, information about the compensation for the Fund's conclusive loss for 2008, information about a data mailbox for the ERO, a report on the level achieved in maintaining the standards of electricity transmission and distribution continuity for 2008 (The Quality Report) and a list of concluded disputes and administrative proceedings in the Regulation Section and Licensing Department.

Under Section 10(2) of Act No. 526/1990 on Prices, as amended in Act No. 230/2006, the ERO is, as a price control authority, obliged to publish in the Official Gazette the notices of regulations on price controls which have been published in the *Energy Regulation Gazette*. Their publication must be notified through the Official Gazette in the form of a communication under Section (2)(1)(e) of Act No. 309/1999 on the Official Gazette and on the Collection of International Treaties, as amended. 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 Section 17 of Act No. 458/2000, the Energy Act, as amended, 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 7,299 electricity generators, 282 electricity distributors, 313 electricity traders, the TSO and the company licensed as the 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-ROM).

In its position 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.

The Czech electricity market is fully liberalised and every customer can select their electricity and natural gas supplier. With a view to supporting customers in finding their way around, the Office has produced a short publication titled *Electricity Trading – A Guide for Active Customers*, which is intended to provide the general public, in particular final customers in the household category, with the relevant information in an easy and popular way.

Both as hard copy and in electronic form, 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.

## 9.4 The Chairman's Advisory Corps

Experts from the state administration, consumer and business associations, trade unions and consultancies, who contribute their opinions and suggestions to the Office's decision-making, in particular as regards the strategic regulatory issues and the Office's positions as part of its activity in the EU, are members of the ERO Chairman's Advisory Corps. They met five times in 2009.

At the January meeting, the advisory corps received information about the debate on the amendment to the Energy Act and about the Office's position on the related amending proposals, about customers' responses to ERO price decisions for 2009, the situation in electricity supplier switching and the posting of the ready reckoners, noting that aggressive expressions against the Office's activity had subsided. They took due note of the information about the deliberations on the proposed third liberalisation package, the regulator's role during the Czech EU presidency and the Office's participation in the meetings of some CEER and ERGEG working groups.

At the April meeting, the advisory corps received information about the main changes accepted as part of the debate on the amendment to the Energy Act. However, following the adoption of the third liberalisation package, the directives will have to be implemented in Czech legislation, which will precipitate the need for another amendment to the Energy Act. The advisory corps took due note of the information about the deliberations on the proposal for the National Energy Concept of the Czech Republic, noting that the proposal ought to be developed in a broader context, comprehensively and with all the relevant areas interrelated, and that it should reflect the outputs from the Independent Expert Commission that had been set up to assess the Czech Republic's energy needs over the long term, and those from the external examiners' commission. The advisory corps received information about the deliberations on the third liberalisation package; variants of ownership unbundling and amendments to the legislation on renewables were consulted; in this respect, the advisory corps expressed their support for the Office's views.



At the June meeting, the advisory corps received information about the final debate on the amendment to the Energy Act. They expressed their agreement with the Office's steps and views in respect of the amending proposals for the heat supply industry, as part of both the amendment to the Energy Act and the amendment to the Act on Prices. The advisory corps addressed the methods of price controls in the energy industries and the procedures for price controls, and supported the Office in its approach to the setting of the parameters for the third regulatory period. The advisory corps recommended informing the general public, through the media, about the Czech EU presidency's success in the discussions on European energy legislation. Extensive discussion focused on the connection of photovoltaic plants, the drafting of the decision on prices of renewable energy sources, and the drafting of secondary legislation attached to the amendment to the Energy Act.

In September, the advisory corps discussed the public notices that were being drafted by the Office and the reasons for amending them. They also discussed the support for renewable energy sources and the Office's activity related to the amendment to Act No. 180/2005 on support for the use of renewable sources. The advisory corps expressed their agreement with the Office's approach and confirmed their support for the Office as regards the parameters for the third regulatory period. They took due note of information about a benchmarking project for determining the individual efficiency factor and received information about the publication of the third liberalisation package in the Official Journal of the EU (08/2009). In respect of this set of five legislative proposals, the Office initiated talks with CEER, which then passed the comments on a number of ambiguous provisions to the European Commission.

At the November meeting, the members expressed their agreement with the Office's principles for the drafting of price decisions for 2010 and the Office's steps related to the amendment to Act No. 180/2005 (the Government approved the joint MPO/ERO proposal without any comments). They took due note of the fact that disagreements on the parameters for the third regulatory period were resolved and that in connection with the change of the methodology a new public notice on the essentials and structure of regulatory reports, including the model forms thereof and the rules for compiling regulatory reports, was readied for issue and would come into force on 1 December 2009. The advisory corps also agreed with the Office's steps in the preparations for the implementation of the third liberalisation package into Czech legislation (identification of impacts on Czech legislation, addressing the issues of ownership unbundling, establishment of an independent gas transmission system operator, viable ways of implementation, identification of differences in the Office's procedure for deciding on certification and on consumer protection measures).

## **9.5 Membership of commissions – the regulatory reform and effective public administration panel**

As in the previous years, in 2009 the Office 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 to improve regulation.

Through the participation of its representatives on the panel and committees thereof, the Office takes part in the adoption of positions on legislative proposals submitted to the government from the perspective of the assessment of their impacts and the bureaucratic burden that they may cause, and approval of projects aimed at making public administration more effective and subsidised from the EU Structural Funds under the Smart Administration priority.

The panel's activity is supported by two standing committees: a committee for reviewing the quality of regulatory impact assessment (RIA) and a committee for Smart Administration coordination, in which the Office's representatives also work.

The Office also closely cooperates with the Smart Administration Project Office at the Ministry of the Interior; among other things, the Project Office coordinates projects co-financed from the EU Structural Funds. On the basis of this co-operation, the Office prepared a project, ERÚ – Kompatibilita spisové služby [ERO – Filing Service Compatibility] under registration number CZ 1.06/1.1.00/03.05957, implemented under call no. 03 – continuous calls for areas of support 1a and 1b – public administration modernisation under the Integrated Operational Programme; the project follows the Czech Republic's eGovernment strategy, which is described in a strategic document adopted by the government, Effective Public Administration and Friendly Public Services – Strategy for Implementing Smart Administration between 2007 and 2015. The application for subsidy was submitted in early August 2009, and the selection commission approved it in October 2009; thereupon the Ministry of the Interior issued a legal act under which the Office can draw on funds from the EU Structural Funds. The contributions from the European Regional Development Fund account for 85% of the project's total eligible costs. The purpose of the project is to create a software connection between two systems: the Office's filing service and the information system of data mailboxes, with a view to the Office's effective communication with all users of these mailboxes. The key objective is to make public administration authorities' activity more effective, reduce administrative costs and ensure transparent performance of the state administration. As part of this project, the Office data mailbox was activated on 23 October 2009.



10

International activities,  
the Czech Republic's  
EU presidency



# 10 International activities, the Czech Republic's EU presidency

## 10.1 ERO's involvement in CZ PRES

The Office was actively involved in the Czech Republic's EU presidency. In addition to preparing briefs for the meetings of the Transport, Telecommunications and Energy Council and other EU bodies, where the Office closely cooperated mainly with the MPO's unit in charge of international relations in energy, Ministry of Foreign Affairs, and Permanent Representation of the Czech Republic to the European Union in Brussels, the Office primarily contributed to the successful conclusion of the complicated debates on the third liberalisation package in the working group for energy, and the final adoption of the package by the relevant bodies of the Council of the EU and the European Parliament. The Office's staff provided expert assistance in the adoption of the updated directives on common rules for the internal electricity and natural gas markets. On the national level, the Office accepted responsibility for the deliberations on amended regulations on conditions of access to networks for cross-border electricity exchanges and on conditions of access to gas transmission systems, and also for the drafting of a regulation on the establishment of an Agency for Co-operation of Energy Regulators (ACER). The adoption of all five legislative acts, collectively referred to as the third liberalisation package, was among the Czech EU presidency's priorities. This objective was achieved. Thanks to the adoption of this set of measures, aimed primarily at helping to create an integrated and fully liberalised internal market within the EU and constituting an important tool for enhancing energy security in Europe, the Office's independence, remit and responsibility will also be significantly reinforced. Consumer protection will also be enhanced, while respecting the principle of subsidiarity, i.e., leaving sufficient room for decision-making to the member states.

The Office also took advantage of the period of the Czech EU presidency to organise a CEER General Assembly and meetings of some CEER working groups in Prague, and also to provide information to partner regulatory authorities to influence them with a view to achieving a final agreement on the proposals in the third liberalisation package.

## 10.2 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 2008* to the European Commission by 31 July 2009. Already fifth, this national report describes the progress achieved by the Czech Republic in the development of a competitive environment in the electricity and gas markets 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.

## 10.3 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, customers, and the third liberalisation package. These groups dealt with issues such as the unification of conditions for connection to networks, and capacity allocation and congestion management, and also prepared positions on the development of TSOs' ten-year investment plans. They also addressed issues of sustainable development, support for renewable energy sources, supply quality and smart grids, consumer protection and market transparency and competitiveness. Great attention was also devoted to the analysis and implementation of the legislative acts of the third liberalisation package and the future co-operation between CEER with the new ACER.

## 10.4 Regional initiatives (Central and Eastern Europe)

### 10.4.1 Electricity, Central and Eastern Europe

The work launched in the area of the regional electricity market in early 2006 continued in 2009; its purpose is to eliminate barriers to free trade on 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 (Energie-Control GmbH, 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. These meetings primarily focused on discussing congestion management in this region and the introduction of the flow-based method, the comparison of which with the method of coordinated explicit auctions, which is still pending, was pushed through by the Office's delegates. Unlike the coordinated explicit auctions, this method is also acceptable for Austria, Hungary and Slovenia. For this reason, in 2009 capacity allocation for cross-border exchanges on the principle of coordinated explicit auctions took place only between Poland, Germany, Slovakia and the Czech Republic. The new auction office in Germany was not ready, and the Czech TSO, ČEPS, a.s., therefore agreed to play the role of the auction office for these auctions also in 2009. Austria, Hungary and Slovenia did not participate in these auctions as they had disagreed with their principle for a long time.

## 10.4.2 Gas, South South East

The purpose of the gas regional initiatives 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 and Austrian regulators. In 2009 this regional co-operation focused on meeting the provisions of the third liberalisation package, tackling the problem of the security of supply through reverse flows and, in co-operation with TSOs, on capital expenditure on infrastructure. For this period, the long-term tasks included a report on the rules for entry of the national markets in the region, improving the Transparency Platform under the responsibility of GTE+ and the issue of introducing OBA (an allocation regime at entry/exist points of the system) for all border points.

## 10.5 Trips to other countries

In 2009, the Office's staff members went on 104 trips to other countries, which mainly included international meetings, meetings with counterpart regulators, and conferences, technical seminars and study visits in line with the Office's mission in respect of international co-operation and involvement in the activities pursued by international 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 various issues.

More than 73% of business travels abroad were to meetings of the respective CEER and ERGEG working groups and meetings in the Council of the EU, the working group for energy (H7) of Council of the EU and consultations in the European Parliament, of which 51% were business trips to Brussels. As mentioned above, the Office was put in charge of three regulations in the third liberalisation package, the adoption of which was part of the effort to complete the liberalisation of the EU's internal energy market, which is expected to result in lower energy prices and a broader choice of suppliers for European consumers. Its adoption was one of the Czech EU presidency's priorities. The Office's experts therefore took an active part in the meetings of the working group for energy (H7) and other activities.

The Office's representatives also attended major international conferences and workshops abroad. The Smart Metering workshop in Florence, which took place for the purpose of sharing experiences with the deployment of smart metering technologies, was highly beneficial. The delegates had an opportunity to hear about the experiences with the installation of smart meters and receive information about the requirements for harmonisation in the implementation of this technology. The Office's participation in this workshop 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 produced by this metering technology, and also the approaches taken by regulators, countries, and the European Commission to this issue.

Equally beneficial was the participation of the Office's delegate in a seminar in London on incentive-based regulatory methods known as revenue cap and price cap methods. The UK regulator, Office of Gas and Electricity Markets (Ofgem), has been using this methodology for 20 years, and the seminar therefore focused on the options for improving this methodology, taking into account the practice of other regulatory authorities that use alternative approaches to network industry regulation. The workshop in Munich, devoted to coordinated auctions, was also a major international activity: the Office's delegates had an opportunity there to actively influence the development of the methodology for cross-border auctions in Central Europe, thereby helping to put in place the prerequisites for the operation of Czech producers on the regulated market in the liberalised environment.

The Office's new employees had an opportunity to broaden their experience at international courses and technical study stays, for example those organised by the Florence School of Regulation. The benefits of these courses included the opportunity to obtain detailed information covering the basic theoretical principles in the various energy industries and about case studies, to hear about practical examples usable for further work in the development of regulation in the Czech Republic, and to learn about the practice of regulatory authorities all over the world and use their experience for the Office's needs.

## 10.6 Twinning with Ukraine

April 2009 saw the successful completion of the Phare Twinning-Out "Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC" project in Ukraine, which had formally been launched in March 2007. In this project, the Energy Regulatory Office and E-Control, the Austrian regulator, had the roles of the junior partners, while the contracting partners in the position of the project leader were the Italian regulator, Autorità per l'Energia Elettrica e il Gas (AEEG) and the Italian ministry of finance that, together with the ministry of economy, was in charge of the administrative aspect of the project.

The project's objective was 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 area centred on designing the tariff structure for individual customers to reflect costs. On the basis of the experience from 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 included 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 the opportunity to harmonise national legislation with the EU Directives.



11

Human resource  
management



# 11 Human resource management

## 11.1 Personnel management agenda

Achieving the required number of qualified employees to provide for all of the Office's activities was the objective of personnel management and the entire effort in 2009. The required staffing level was achieved on an ongoing basis and during the year each organisational unit received the required number of employees with adequate qualifications. In most cases, candidates with university education filled vacancies on the basis of competitions.

## 11.2 Education and training

Education and training were provided in accordance with the Office's internal rules and the Rules of Administrative Authority Staff Training (primarily Government Resolution No. 1542/2005 of 30 November 2005 on the rules of administrative authority staff training and Government Resolution No. 40 of 11 January 2006 on the National Programme of Administrative Authority Staff Training to Provide for the Czech EU Presidency).

### Initial training

#### a) Introductory initial training

All employees took this course once their employment contract came into effect. Part of this training is a course in health and safety at work and fire protection. Examination of their knowledge of the Office's internal regulations is the responsibility of the respective managers of the Office's units together with the evaluation of these employees' performance during the trial period. Sixteen employees took the introductory initial training programme.

#### b) Continued initial training

This is organised in co-operation with the Institute of State Administration. The purpose is to provide the participants with the basics of the legal order and describe the functioning of public administration and public finance issues; they receive the basic information about the European Union and effective communication techniques. Thirteen employees took the continued initial training programme.

### Advanced training

#### a) Advanced managerial training

This programme pursues the aim of developing the acquired knowledge of and skills in specific forms of communication in everyday practical life and to further the development of the abilities to better communicate with managed employees; it had the nature of personal coaching and a team training course attended by three managers. The programme also focused on ethics, manners and professional image for meetings abroad (attended by two managers), and also on protocol and etiquette (one manager attended). One employee completed an MBA programme.

#### b) Language training

It was based on Czech Government Resolution No. 1542/2005. The ERO Chairman specified 64 official positions for which knowledge of a world language was a prerequisite qualification, and also 12 positions for which knowledge of a second foreign language was a prerequisite. For 11 employees in the latter position, a standardised language examination is planned before 31 December 2010. Altogether 57 employees met the requirement for the determination of the level of their knowledge of a foreign language; this qualification was waived for two employees due to their age and for five employees the standardised language examination is planned before 31 December 2010. It can be noted that by 31 December 2009, 92% of employees out of the total number of positions requiring foreign language qualifications met the requirement.



**Table 11 Employees' command of languages as at 31 December 2009**

	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	29	23			52
French	3	2			5
Germany	5	1			6
Italian	1	0			1
<b>Total</b>	<b>38</b>	<b>26</b>			<b>64</b>

c) Other advanced training covered the following:

- Data mailboxes and Act No. 300/2008 on electronic acts and authorised document conversion;
- A course on Act No. 500/2004, Rules of Administrative Procedure, in courts' current practice;
- Financial analysis;
- 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 regulation in the electricity, gas and heat supply industries;
- The Office's information system, data security and protection;
- Training of drivers of the Office's cars; a safe driving course; and training in health and safety at work;
- Training in EU processes;
- Harmonisation of the EU energy legislation;
- IT knowledge development;
- Right to information in public administration.

An important place in the training system was given to the preparations for the putting into operation of the data mailbox information system (ISDS) and the application of Act No. 300/2008. Part of these preparations was also a training course for the key users at the Institute of State Administration and the supplier of the filing service. Altogether 113 training events, i.e., specialist courses, seminars and conferences, were held.

Education and training expenses totalled CZK **2,155,200**, accounting for 4.63% of the actual payroll costs related to employees under employment contracts.

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]	Other training [CZK]	Total [CZK]
<b>Amount</b>	1,036,200	1,119,000	2,155,200

In 2009, two employees attended an intensive language course in the Czech Republic, one employee attended a language course outside the Czech Republic, and 45 employees attended 20 domestic and foreign conferences and seminars dedicated to regulation in the electricity, gas and heat supply industries, energy security, biogas and information security.

### 11.3 Employees

The 'mandatory standard target' of 'salaries for employees and other payments for work' was met at a level of 99.32%, **CZK 47,185,970**; of this, the mandatory standard target of salaries for employees was met at 100%, **CZK 46,590,130**.

In 2009 the average number of FTE employees was **98**, and the planned number was 100, i.e., the plan was met at 98%. Compared with 2008, the staffing level increased by three employees. The Office had 101 employees as at 31 December 2009.

Because of the general shortage of qualified workforce with tertiary education in the respective disciplines 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. In spite of that, the staffing level was maintained on an ongoing basis, and the need for employees in terms of their numbers and qualifications in the various organisational units was met.

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

**Table 13 Incoming and outgoing employees in 2009**

	New staff	Leaving staff
<b>Number</b>	16	14

Of the overall number of 101 employees as at 31 December 2009, 64 worked in Jihlava and 37 in Prague [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 2009**

Age category	Men	Women	Total	Share of total staff [%]
Up to 20 years	0	0	0	0
21 - 30	13	8	21	20.8
31 - 40	15	7	22	21.8
41 - 50	10	14	24	23.8
51 - 60	15	10	25	24.8
61 years and older	9	0	9	8.8
<b>Total</b>	<b>62</b>	<b>39</b>	<b>101</b>	<b>100.0</b>
<b>Percentage [%]</b>	61.4	38.7	100.0	–

The number of employees in the age groups from 21 to 60 years is quite balanced. The trend of recruiting university graduates continued in 2009. There are no employees aged less than 20, and the number of employees aged over 61 is not rising.

**Table 15 Staffing breakdown by education and sex as at 31 December 2009**

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	19	25	24.7
Higher education college	1	0	1	1
University	54	20	74	73.3
<b>Total</b>	<b>62</b>	<b>39</b>	<b>101</b>	<b>100</b>

The structure of employees by education, with university graduates accounting for 73.3% of the overall number, is more favourable than in 2008. The number of employees with tertiary education stems from the Office's remit and is primarily due to the challenging nature of the work.

**Table 16** Duration of employment as at 31 December 2009

<b>Employment</b>	<b>Number</b>	<b>Share of total staff [%]</b>
Up to 5 years	32	31.7
Up to 10 years	69	68.3
<b>Total</b>	<b>101</b>	<b>100</b>

## 11.4 Organisational activities

Internal regulations are valid management acts directing the Office's activity by way of organisational standards. In 2009, organisational activities focused on updating internal regulations as new laws came into force. The Office issued 16 internal regulations, 15 ERO Chairman Measures and 1 methodological guideline.



12

ERO budget management



# 12 ERO budget management

## 12.1 The Chapter's budget

The budget for Chapter 349, Energy Regulatory Office, was approved in Act No. 475/2008 on the Czech Republic's National Budget for 2009, passed by the Czech Parliament's Chamber of Deputies in its Resolution No. 965 on the Government's Bill on the National Budget of the Czech Republic for 2009, of 10 December 2008.

A budget of CZK 121,625,000 was approved. Between January and December, the Office carried out three budgetary measures falling within the remit of the Ministry of Finance (MF). Following these measures, the budget amounted to **CZK 121,846,000**.

The first budgetary measure, whereby the Office's budget was decreased by CZK 2,831,000, consisted of the transfer of this amount from Chapter 349, Energy Regulatory Office, to Chapter 313, Ministry of Labour and Social Affairs [MPSV]; the measure was carried out under Government Resolution No. 363 of 23 March 2009 to meet the MPSV's increased mandatory expenditure. In the first quarter of 2009 the Office prepared a request for a budgetary measure, which was approved in an MF letter under Ref. No. 19/33 504/2009-193 of 22 April 2009. It concerned a change of the aggregate target Total Expenditure – a decrease of CZK 2,831,000 and also the specific target Outlays to Support the ERO's Tasks – a decrease of CZK 2,831,000, of which: Other Outlays on the ERO's Tasks – a decrease of CZK 2,831,000.

The second budgetary measure, related to the extensive amendment to the Energy Act, caused changes due to the new way of remuneration for the ERO Chairman. It was a change to standard targets FKSP Transfer, an increase of CZK 6,000, and Salaries for Employees, an increase of CZK 295,000. This request for a budgetary measure was approved in an MF letter under Ref. No. 19/58 090/2009-193 of 27 July 2009. Following agreement between the ERO and MF, in 2009 remuneration for the ERO Chairman was charged to budget item 5011, Salaries for Employees in relation to the approved mandatory targets and the related algorithms. Remuneration for the ERO Chairman is reported in the standard target Salaries for Employees.

The third measure resulted in an increase in the budget by CZK 3,052,000 due to the implementation of the ERO – Filing Service Compatibility project, which is co-financed from the EU Structural Funds. In connection with obtaining finances covered by income from the EU budget for the pre-financing of the ERO – Filing Service Compatibility project, the Office prepared, concurrently with the application of the Ministry of the Interior, Ref. No. MV-65 997-1/EKO-2009 of 16 September 2009, its own request for a budgetary measure, which was approved in an MF letter under Ref. No. 19/80 413/2009-193 of 19 October 2009. The budgetary measures caused the transfer of CZK 3,052,000 from Chapter 314, Ministry of the Interior, to Chapter 349, Energy Regulatory office, which resulted in an increase in the mandatory targets of the Office's approved budget.

**The Office complied with all the mandatory standard and specific targets of the budget in line with the schedule and budgetary measures of the Ministry of Finance. There were no changes in mandatory targets which were not approved.**

The Office further carried out five budgetary measures within its own remit, which resulted in a transfer of finances between budgetary items within the specific target Outlays to Support the ERO's tasks, as follows:

- increase in item 5194, gifts in kind, and decrease in item 5171, repair and maintenance, in connection with the Office's activities during events related to CEER meetings in Prague and the Czech EU presidency,
- increase in items 6125, IT, and 5137, low-value tangible fixed assets, and decrease in items 6122, machinery, plant and equipment, and 5171, repair and maintenance, all of this due to procurement of new assets for the ERO,
- increase in items 5137, 5139, 5154 and 5169 against items 5171, 5176, 5137 and 5169 in line with the provisions for the Office's everyday needs,
- increase in items 5161, postal services, and 5169, purchase of other services, through a decrease in items 5511 and 5162 in line with the provisions for the Office's everyday needs, and also increase in item 5024, severance pay, through a decrease in item 5021 due to a termination of employment upon agreement under S. 52(c) of Act No. 262/2006, the Labour Code,
- increase in items 6111, software, 6125, IT, and 5137, low-value tangible fixed assets, through a decrease in items 6121, 6122, 6123, 5139 and 5172 due to the procurement of new assets for the ERO, and also increase in items 5169, purchase of other services, 5139, purchase of materials, and 5171, repair and maintenance, through a decrease in items 5424 and 5162 in line with the provisions for the Office's everyday needs.

A staffing level of 100 was approved for 2009.

The chapter is not authorised to provide subsidies or loans. The chapter does not pursue any economic activities. The chapter has no other subordinated organisational components.

## 12.2 Revenues to the chapter

The following targets were planned and 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 revenues	Approved budget [in CZK]	Budget after changes [in CZK]	Actual [in CZK]
	<b>Total income</b>	<b>2,300,000</b>	<b>5,352,000</b>	<b>9,344,470</b>
	<b>Tax revenues</b>	<b>2,300,000</b>	<b>2,300,000</b>	<b>8,200,520</b>
	<b>Total non-tax revenues, capital revenues, and subsidies</b>	<b>0.00</b>	<b>3,052,000</b>	<b>1,143,950</b>
	of which: Income from EU budget w/o SZP – programming period 2007 to 2013, total	0.00	3,052,000	0.00
	Other non-tax revenues, capital revenues and subsidies, total	0.00	0.00	1,143,950
	Other non-tax revenues, capital revenues and subsidies, total			
	of which:			
2111	Revenues from the provision of services and products			7,920
2141	Interest accrued on accounts – FKSP, deposit account			1,340
2210	Penalties (fines) received			507,000
2310	Proceeds from the sale of current and sundry fixed assets			11,730
2322	Insurance compensation received (claims related to the Office's automobiles)			119,030
2324	Non-capital contributions and compensations received (billing of subscription, credit notes for services provided in previous years)			123,930
2329	Other non-tax income not included elsewhere (transfer of the balance in the payment card account as at 31 December 2008)			2,000
3113	Proceeds from the sale of other tangible fixed assets			44,490
4132	Transfers from other funds (transfer of undrawn funds for wages, including insurance for 12/2008, from the deposit account)			326,510

Revenues totalling CZK 2,300,000 (administrative fees related to the Office's licensing activity) were planned for Chapter 349, Energy Regulatory Office, for 2009. By a budgetary measure within the MF's remit, in the 4th quarter of 2009 these revenues were increased by CZK 3,052,000, i.e., to **CZK 5,352,000**. This budgetary measure increased the specific target 'non-tax revenues, capital revenues, and subsidies'; in this, income from the EU budget without the National Agricultural Policy [SPZ] – programming period from 2007 to 2013 was increased by CZK 3,052,000 (see the budgetary measures in the MF's remit, income from structural funds).

As at 31 December 2009, the Office's performance v. budget on the income side was 174.6%. Income higher than planned was due to a higher collection of administrative fees (budgetary item 1361) and the payment of fines imposed in administrative proceedings (budgetary item 2210). The higher collection of administrative fees was attributable to the later effect of the amendment to the Energy Act, which provides for the collection and amount of the administrative fees related to licensing.

Income from the EU budget, without the National Agricultural Policy [SPZ] – programming period from 2007 to 2013 (budgetary item 4218): in 2009 this income item was not filled because of the review of the ERO – Filing Service Compatibility project's accounts by the specialised units of the Ministry of the Interior. Under the rules of the Integrated Operational Programme, the funds from the EU budget will be transferred to the income account of the national budget in 2010, following approval of these accounts.

The funds on the income side were transferred to the national budget through the chapter's income account.

### 12.3 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
<b>Aggregate targets</b>				
Total income	2,300.00	5,352.00	9,344.47	174.60
Total expenditure	121,625.00	121,846.00	115,377.17	94.69
<b>Specific targets – income</b>				
Tax revenues	2,300.00	2,300.00	8,200.52	356.54
Non-tax revenues, capital revenues and transfers received	0	3,052.00	1,143.95	37.48
<b>Specific targets – expenditure</b>				
Outlays to support the ERO's tasks	121,625.00	121,846.00	115,377.17	94.69
of which: outlays related to the Czech EU presidency	740.00	740.00	575.50	77.77
other outlays on the ERO's tasks	120,885.00	121,106.00	114,801.67	94.79
<b>Standard targets</b>				
Salaries for employees and other payments for work	47,511.00	47,511.00	47,185.97	99.32
Statutory insurance premiums paid by the employer	16,154.00	16,154.00	15,819.14	97.93
Allocation to the Fund of Cultural and Social Needs (FKSP)	926.00	932.00	931.80	99.98
Salaries for employees	46,297.00	46,592.00	46,590.13	100.00
Arrangements for crisis situations under Act No. 240/2000	0	0	0	
Total outlays on programmes co-financed from the EU's funds w/o SZP – programming period 2007-2013	0	3,600.00	3,414.21	94.84
of which: from the national budget	0	548.00	512.13	93.45
covered by income from the EU budget	0	3,052.00	2,902.08	95.09
Outlays on ISPROFIN programmes	19,372.00	22,424.00	21,232.02	94.68



An average salary of CZK 38,827 was planned for 2009. The actually achieved average salary was CZK 39,617, index 102.03%. The 2009/2008 index of the actually achieved average salary was 102.37%. The average salary under tariffs, including reimbursements, amounted to CZK 24,534 in 2009; the average salary, including personal performance supplements and management allowances, without bonuses, was CZK 33,122.

As regards expenses on other payments for work (item 5021), the budgeted costs were not exceeded and the drawdown was 61.48%, CZK 515,840.

The above amount can be broken down as follows:

	CZK
• Work related to the preparation of expert calculations and consultations	81,910
• Activities related to the remonstrance commission and expert services	141,520
• Other work in licensing	58,820
• Cleaning work	82,520
• Undrawn funds in the deposit account (i.e. income in 2010)	151,070

## 12.4 Cash funds

### Fund of Cultural and Social Needs

The Fund of Cultural and Social Needs (FKSP) was accumulated and used in line with the Office's internal principles in 2009. 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 2009, the funds in the Office's FKSP account amounted to **CZK 511,700**.

### Reserve Fund

The balance in the Reserve Fund as at 31 December 2009 was **null** (as at 1 January 2009 it was CZK 14,258,510). Under Government Resolution No. 122 of 26 January 2009 on the report on changes in revenues to chapters, outlays from chapters and deficit of the Czech Republic's national budget for 2009 given the slowdown of the estimated y/y GDP growth to 3%, 2% and 1%, point II/1b), on 6 February 2009 the entire balance in the Reserve Fund, amounting to CZK 14,258,510, was transferred to general treasury administration (the VSP chapter). There were no other movements in the Reserve Fund in 2009.

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 1/1/09	14,258.51
of which: included in income in 2009	0.00
used in 2009 – transfer to VPS	14,258.51
Balance of funds transferred to RF as at 31 December 2009	0.00

## 12.5 The Energy Regulation Fund

In accordance with Section 14 of Act No. 458/2000, the Energy Act, as amended, the Office must hold the ERF funds in a separate account kept with the Czech National Bank (CNB); the ERF funds are intended for compensating the losses conclusively suffered by licence holders that perform the obligation of supply over and above their licence. The ERF funds are kept in a separate current account no. 3029001/0710 with CNB. As at 1 January 2009, the opening balance in the ERF stood at CZK 50,956,550. Between January and December 2009, considerable volumes of money were drawn from the ERF and major financial operations took place – on the whole, CZK 6,412,960 was paid out to TEDOM ENERGO s.r.o. based in Třebíč for its performance over and above its licence. Net of the above drawdown and adding the interest accrued, the closing balance in the ERF account was **CZK 44,788,650** as at 31 December 2009.

This ERF balance is lower than the limit set out in the Energy Act, which is CZK 50,000,000. In 2009, a compensation was paid out for losses conclusively suffered in performing an obligation over and above a licence and the balance in the ERF account dropped by more than CZK 5,000,000, and therefore under Section 14(3) of the Energy Act financial contributions to the ERF will be collected from the liable entities by 31 October 2010 to comply with the statutory financial limit in 2010.

Under Section 14(11) of the Energy Act, the Energy Regulatory Office is obliged to furnish an audit of the ERF 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 2009 (Appendix 2).

## 12.6 Administrative fees and fines

As part of the income mentioned in the foregoing, the Office collected **CZK 8,200,520** through its administrative fee account no. 3711-2421001/0710 between January and December 2009. 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. Effective from 2009, this income is part of the chapter's income. It is therefore included in the reports and statements on the management of the chapter's funds.

In 2009 the Office imposed administrative fines totalling **CZK 1,728,000**. By the end of 2009, CZK 507,000 (KKS - SMS s.r.o.: CZK 3,000; TERMIZO a.s.: CZK 500,000; TERMO & CO, s.r.o.: CZK 4,000) had been paid to a separate account no. 3754-2421001/0710.

The remaining administrative fines, **CZK 1,221,000**, had not been paid by 31 December 2009 and are shown in the balance sheet accounts in the annual financial statements as the Office's receivables (for more details please see assets, receivables and payables).

## 12.7 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 the budget	Expenditure [CZK]	Percentage [%]
<b>Total expenditure</b>	<b>115,377,170</b>	<b>94.69</b>
of which:		
capital expenditure drawn	10,776,010	96.59
current expenditure drawn	104,601,160	94.50

Performance vs. budget for January to December 2009 and total savings on the expenditure side of **CZK 6,468,830** can be broken down as follows:

- Outlays on salaries for employees and other payments, including insurance premiums and FKSP CZK 660,090
- ISPROFIN programme financing CZK 1,191,980
- Other current expenditure (w/o ISPROFIN) CZK 4,616,760

## 12.7.1 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]
	<b>Total current and capital expenditure savings</b>	<b>6,468.83</b>
	of which:	
502	Other payments for work	323.16
503	Statutory premiums paid by the employer	334.86
513	Purchase of materials	247.32
514	Exchange losses realised	32.22
515	Purchase of water, fuels and energy	354.07
516	Purchase of services	2,739.23
517	Other procurement	1,834.98
542	Compensation for wages at the time of illness	85.78
551	Non-investment transfers to international organisations	64.55
611	Procurement of intangible fixed assets	143.75
612	Procurement of tangible fixed assets	236.24
	Other items of the budget	72.67

Of the above total of CZK 6,468,830, savings in the financing of the schemes of asset replacement financing under ISPROFIN amount to CZK 1,191,980. The financial savings under ISPROFIN also include undrawn funds allocated for the ERO – Filing Service Compatibility project, amounting to CZK 185,790.

From January 2010, the Office will report claims by virtue of unused expenditure in 2008 and 2009 totalling **CZK 18,351,790** (for 2008, savings of CZK 11,882,960 were reported, of which CZK 1,072,610 under ISPROFIN). The Office reports these funds as claims by virtue of unused expenditure under Section 47 of Act No. 218/2000 on budgetary rules and changes to certain related laws (budgetary rules), as amended. As at 31 December 2009 no funds were drawn in this way.

## 12.7.2 Programme financing

In the ISPROFIN system, for 2009 only one programme is included, no. 149 010, which consists of two sub-programmes. Nine projects have been launched and are being monitored and evaluated under these sub-programmes. The financing is based on the approved financing programme for 2008 to 2013, programme no. 149 010 Development and Replacement of the Technical Facilities of the ERO (hereinafter 'programme 149 010'), totalling CZK 119,244,000.

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 continuous performance of the tasks and missions under the Energy Act and to underpin the market regulator's position in keeping with the EU's requirements. The objectives of the programme are being achieved gradually, in relation to the Office's further development and with a view to effective spending of funds and the Office's current needs.

Table 22 shows the results for 2009 by sub-programme and Table 23 shows the results by current and capital expenditure. In line with the Office's priorities, for 2009 the largest amount of funds was allocated to IT (sub-programme 149 011 – ICT). The balance of the funds was earmarked primarily for the replacement of the car fleet and renovation of the Office's head office (sub-programme 149 012). The disbursement of the funds under the whole programme was continuously adjusted as needed in relation to current developments and the Office's new needs. Total savings of CZK 1,191,980 were achieved under programme 149 010 in 2009.

In the period under review, procurement and projects financed under ISPROFIN took place in accordance with the approved target of the budget and the programme financing documentation for 2008 to 2013. For 2009, the budget for ISPROFIN programme financing was approved at CZK 19,372,000; in the 4th quarter of 2009 it was increased, through a budgetary measure within the MF's remit, by CZK 3,052,000 to CZK 22,424,000 in connection with the ERO – Filing Service Compatibility project. Comparing ISPROFIN outlays, actual for 2009 and actual for 2008, the index is 115.16% and in absolute terms the increase is CZK 2,794,630.

**Table 22 Results by sub-programme for 2009**

	Approved budget [CZK]	Budget after changes [CZK]	Actual [CZK]	Percentage [%]
<b>Total, Programme No. 149 010</b>	<b>19,372,000</b>	<b>22,424,000</b>	<b>21,232,020</b>	<b>94.68</b>
of which:				
Sub-programme 149 011 – ICT	17,372,000	21,284,000	20,150,420	94.67
Sub-programme 149 012	2,000,000	1,140,000	1,081,600	94.88

**Table 23 Results by current and capital expenditure for 2009**

	Approved budget [CZK]	Budget after changes [CZK]	Actual [CZK]	Percentage [%]
<b>Total programme financing</b>	<b>19,372,000</b>	<b>22,424,000</b>	<b>21,232,020</b>	<b>94.68</b>
of which:				
Current expenditure	11,268.00	11,268,000	10,456,010	92.79
Capital expenditure	8,104.00	11,156,000	10,776,010	96.59

The 2009 standard mandatory target was not exceeded. The basic needs and the operation of the Office were met and provided for, and the preconditions for its further development were created.

## Information and telecommunications technology at the Office

### Projects under EU Structural Funds

The Office places great emphasis on the development of ICT projects, which is very apparent from the structure of overall outlays in this area. Expenses under the ICT sub-programme account for 94.9% of the aggregate of expenses. In addition to the earlier planned projects, in 2009 the Office launched two new projects: ERO – Filing Service Compatibility (under the Integrated Operational Programme) and SA Analyses – project plan no. 153 (under Operational Programme Human Resources and Employment), which are co-financed from the EU Structural Funds.

The ERO – Filing Service Compatibility project ('Project') was launched on 2 February 2009 and completed on 30 November 2009. The budget totalled CZK 3,600,000; of this, funds from the EU Structural Funds amounted to CZK 3,052,000, i.e., 85% of total eligible costs, while funding provided by the Office amounted to CZK 548,000, i.e., 15% of total eligible costs of the Project.

The actual total costs following the implementation of the Project amount to CZK 3,414,210; of this, funds from the EU Structural Funds amounted to CZK 2,902,080 while the funding provided by the Office amounted to CZK 512,130. In Project implementation, CZK 185,790 was not drawn, and as of 1 January 2010 this amount will be reported in claims by virtue of unused expenditure. Following a review and approval of Project accounts under the rules of the Integrated Operational Programme, the contribution from the EU Structural Funds (the Ministry of the Interior is responsible for this) will be transferred to the income account of the national budget. The whole process is expected to be completed in the first quarter of 2010.

The SA Analyses – project plan no. 153 project was launched on 1 August 2009 with a budget of CZK 2,050,000; of this, funds from EU Structural Funds amounted to CZK 1,743,000, i.e., 85% of total eligible costs, and funding provided by the Office amounted to CZK 307,000, i.e., 15% of total eligible costs of the project. The application for a contribution was submitted to the structural funds department of the Ministry of the Interior on 6 October 2009 and was assessed by external evaluators under the rules of Operational Programme Human Resources and Employment, and on 21 December 2009 it was approved by the selection committee.

Because of certain new circumstances (a major reduction in call 07, i.e., a new final date of 15 February 2010 instead of the original final date 30 June 2010) and the fact that no follow-up call will be launched under the Integrated Operational Programme, and in view of the situation where the feasibility study would not have any further practical use and it would not be possible to obtain co-financing from structural funds under a different call, the Office decided, before issuing a legal act on 12 January 2010, to abandon the Smart Administration Analyses – project plan no. 153. Repeated talks with the structural funds department of the Ministry of the Interior confirmed certain facts due to which it would not be feasible for the Office to sustain the activities of this project after the completion of its implementation.

### Enhancing IT elements

The first quarter of 2009 saw the virtualisation of servers; most of the applications in Jihlava and Prague were migrated from obsolete, less reliable physical servers to virtual servers, which enhanced the availability of the applications and helped to spare some hardware; at the same time, the Office could discard the redundant obsolete servers.

To support the internal security and reliability of the network, in the second half of 2009 the Office started to replace the obsolete active elements of the network, which had been in operation from 2003 and prone to failures, to make it possible in 2010 to divide the network into virtual segments to prevent failures.

All technology elements were operable in 2009. Thanks to measures adopted previously, the security measures and principles proved their worth in practice. Despite the incessant attempts at attacking the Office's IS, the security and operability of all of the Office's systems was ensured.

### 12.7.3 Assets, receivables and liabilities

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

As at 31 December 2009 these assets were worth a total of **CZK 126,129,730**.

**Table 24 Assets as at 31 December 2009**

Account no.	Account name	Amount [CZK]
	<b>Total assets as at 31 December 2009</b>	<b>126,129,730</b>
	of which:	
013	intangible fixed assets – software	32,264,790
018	low-value intangible fixed assets	3,119,410
021	buildings	40,269,570
022	self-standing movables and sets of movables	34,403,360
028	low-value tangible fixed assets	12,369,210
031	land	3,412,150
032	objects of art	291,240
041	intangible fixed assets in progress	0.00

In 2009, the total value of assets increased by CZK 759,310 in comparison with 2008, which is mainly attributable to the development and replacement of the Office's technical facilities (chiefly procurement and replacement of IT).

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 carried in books at cost throughout the time for which they are used.

As at 31 December 2009, receivables totalled **CZK 2,051,680**, up by CZK 1,350,770 compared with 2008. Of the above amount, CZK 1,221,000 was overdue receivables. They were fines imposed in administrative proceedings in the heat supply industry (Lenoxa a.s., CZK 750,000; České teplo s.r.o., CZK 300,000; Energo 2000, a.s., CZK 50,000; Teplo ZUBŘÍ s.r.o., CZK 1,000; Jan Podolský, CZK 120,000) during a review of compliance with Act No. 526/1990 on Prices, as amended.

The balance, CZK 830,680, includes only operating advance payments provided to suppliers, CZK 801,250, and receivables from employees, CZK 29,430 (FKSP loans and compensation for damage).

As at 31 December 2009, liabilities totalled **CZK 51,268,140**, down by CZK 6,429,640 compared with 2008. They included liabilities to employees, liabilities under social security and health insurance and income tax liabilities related to employees totalling CZK 6,391,230, and resulting from wage accounting for December 2009; they were paid as due in January 2010. Liabilities also include the Energy Regulation Fund, CZK 44,788,650, the balance in the business payment card account at ČSOB, CZK 5,300, and the balance of the allocation to FKSP for 2009 in the deposit account, CZK 82,960. The Office had no payables to suppliers; suppliers' invoices received by the Office before the end of 2009 were paid. The Office had no overdue liabilities as at 31 December 2009.

#### 12.7.4 Expenses on business trips abroad

Expenses on business trips abroad totalled **CZK 2,238,720** and are shown in Table 25.

**Table 25 Expenses on business trips abroad**

Item no.	Description	Amount [CZK]
	<b>Total expenses on business trips abroad</b>	<b>2,238,720</b>
	of which:	
5167	Training and education services	46,240
5169	Purchase of other services	1,590
5173	Travel expenses (subsistence, pocket money, air fare, accommodation)	2,002,390
5176	Conference registration fees	53,650
5179	Other purchases (visas)	4,040
5196	Reimbursements and contributions related to holding a constitutional office	130,810

Compared with 2008, overall expenses on foreign business trips were CZK 308,260 lower. In comparison with 2008 there was a significant decrease in budget item 5167 – training and education services, and, mainly, item 5173 – travel expenses. Savings in the Office's budgeted expenses were also achieved thanks to the refund of the travel costs incurred by the Office's delegates in relation to meetings under the responsibility of the Council of the EU.

In the area of non-investment transfers to international organisations, item 5511, the actual expenditure reported as at 31 December 2009, CZK 765,450 (EUR 28,438), relates to the annual membership dues to CEER, Brussels, for 2009.

#### 12.7.5 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**, expenses totalled **CZK 575,500** (77.77% of the budgeted CZK 740,000) between January and December 2009. The largest part of these expenses included personnel costs (CZK 320,000) and travel costs (CZK 92,260) spent on arrangements for performing the tasks of the presidency. Separate reporting followed the rules and time limits set by the Ministry of Finance and all information was provided, in line with the instructions, to the MF, dept. 581, EU agenda coordination.

#### 12.7.6 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. It is a joint project headed by the Italian regulator, Autorità per l'Energia Elettrica e il Gas (AEEG), which worked as the administrator from a member state in co-operation with the ERO and the Austrian regulator, Energie-Control GmbH (E-Control).

Under the EU's legislation, project accounts are kept completely independently and separately from the national budget, Chapter 349 Energy Regulatory Office, by an external company; the funds are kept in a separate euro account at ČSOB, a.s. The balance in the account is reflected in off-balance sheet accounting records on a quarterly basis. As at 31 December 2009, the balance in the account stood at **EUR 1,901.88**. As at the balance sheet date, 31 December 2009, the project had no liabilities to the budget of Chapter 349 Energy Regulatory Office, and the project therefore did not burden the national budget.

The project was completed and experts went on the last business trips abroad in 2009. In the second half of 2009 the whole project was closed and evaluated, whereupon the Office opened final talks with the Italian and Austrian side on the financial settlement of the project.

In late 2009 an agreement was reached with the Italian side on the final settlement of the project, which took place on 29 January 2010. At the same time the euro account at ČSOB, a.s. was closed, and the project was therefore completely finalised.

### **12.7.7 Evaluation of the economy, efficiency and efficacy of the Office's financial management**

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 for a longer period of time, 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 category.


The above obligation to continuously monitor and evaluate the economy, efficiency and efficacy of the costs spent within the whole chapter is imposed on the manager of the chapter's budget by Section 39(3) of the law on budgetary rules.

**Table 26 Comparison of actual expenses for 2002 to 2009**

Item	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Index 09/08
<b>Total expenses</b>	<b>77,637</b>	<b>93,978</b>	<b>116,770</b>	<b>105,018</b>	<b>98,556</b>	<b>101,130</b>	<b>107,906</b>	<b>115,377</b>	<b>106.92</b>
of which:									
– Salaries, other payments, insurance premiums and FKSP	36,081	41,772	46,967	48,532	52,524	56,986	60,774	63,937	105.20
– Expenses on the asset replacement financing programme	11,976	15,741	15,561	19,526	16,006	15,938	18,437	21,232	115.16
– Total other expenses	29,580	36,465	54,242	36,960	30,026	28,206	28,695	30,208	105.27
of which:									
– Allocations to the Reserve Fund	2,299	2,351	27,200	2,602	0	0	0	0	0
– Other expenses w/o RF	27,281	34,114	27,042	34,358	30,026	28,206	28,695	30,208	105.27
Expenses on salaries and other payments for work	26,470	30,656	34,397	35,493	38,466	41,619	44,431	47,186	106.20
Salaries to employees	26,001	30,197	34,122	35,225	37,953	41,347	44,115	46,590	105.61
Staffing levels (FTE)	73	82	89	90	93	95	95	98	103.16
Average monthly salary	29,682	30,688	31,949	32,616	34,008	36,269	38,698	39,617	102.37
<b>Payroll and social costs per employee</b>	<b>494</b>	<b>509</b>	<b>528</b>	<b>539</b>	<b>565</b>	<b>600</b>	<b>640</b>	<b>652</b>	<b>101.88</b>
<b>Programme financing costs per employee</b>	<b>164</b>	<b>192</b>	<b>175</b>	<b>217</b>	<b>172</b>	<b>168</b>	<b>194</b>	<b>217</b>	<b>111.86</b>
<b>Other expenses per employee</b>	<b>406</b>	<b>445</b>	<b>609</b>	<b>411</b>	<b>323</b>	<b>297</b>	<b>302</b>	<b>308</b>	<b>101.99</b>
<b>Total expenses per employee</b>	<b>1,064</b>	<b>1,146</b>	<b>1,312</b>	<b>1,167</b>	<b>1,060</b>	<b>1,065</b>	<b>1,136</b>	<b>1,177</b>	<b>103.61</b>
<b>Other expenses per employee w/o RF</b>	<b>374</b>	<b>416</b>	<b>304</b>	<b>382</b>	<b>323</b>	<b>297</b>	<b>302</b>	<b>308</b>	<b>101.99</b>
<b>Total expenses per employee w/o RF</b>	<b>1,032</b>	<b>1,093</b>	<b>1,007</b>	<b>1,138</b>	<b>1,060</b>	<b>1,065</b>	<b>1,136</b>	<b>1,177</b>	<b>103.61</b>

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





The above figures indicate that in 2009, the chapter's expenses per employee were 3.61% higher than in 2008; payroll and social expenses per employee were up by 1.88%. In this y/y comparison, an important role is played by the ISPROFIN costs (+11.86%); in 2009 major investments were made primarily in IT.

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), as amended, 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.



13  
Oversight



# 13 Oversight

## 13.1 External inspections

The first quarter of 2009 saw the completion of a review conducted by the Supreme Audit Office under no. 08/24 (see Resolution No. 4/XXI/2007 of the Supreme Audit Office's College, dated 26 November 2007; included in the 2008 plan of inspections was audit action no. 08/24, 'final accounts and financial management under the national budget's Energy Regulatory Office chapter'). The audit was started on 27 August 2008 and on 26 February 2009 the ERO received the Audit Report. The Office provided the SAO audit team with co-operation as required for the due performance of the audit.

The Audit Report suggests that only one incorrect item was found in the Balance Sheet for 2007, amounting to CZK 6,680 (incorrectly entered advance payment invoice for the delivery of the printed media), which is deep under the allowed level of incorrect records = level of significance, which in the Office's case was set at CZK 2,202,000.

The Audit Report further notes:

**"Having compared the incorrect item found in the financial statements against the set level of significance, we established that the ERO financial statements as at 31 December 2007 gave, in all material respects, a true and fair view of the subject matter of accounting and the accounting unit's financial position for the accounting period of 2007 in accordance with the Act on Accounting and other legal regulations of the Czech Republic."**

**"Our review of the management of assets in terms of economy and efficacy under Act No. 219/2000, on the property of the Czech Republic and its representation in legal relationships, did not identify any shortcomings in the economic operations subjected to review."**

At its 7th meeting on 4 May 2009, the SAO College approved the audit opinion in its resolution no. 12/VII/2009. The Czech Government took due note of this audit opinion in its resolution no. 842 of 29 June 2009.

In accordance with **the audit plan of the Ministry of Finance**, on 9 to 12 June 2009 its Property Law Department carried out an audit action designed for instrumentalities of the State under Section 48 of Act No. 219/2000, on the property of the Czech Republic and its representation in legal relationships, and Act No. 320/2001 on financial control. The audit focused on the management of the State's property under Sections 17 to 27 of Act No. 219/2000. On 22 July 2009, the Office received a report on the outcome of this audit, which noted only **minor irregularities**. The Office sent a report on the specific measures that it adopted to remedy the shortcomings to the Ministry of Finance on 12 August 2009, under Ref. No. 01905-5/2009-ERU.

Another review was conducted on 6 May 2009 by the Jihlava District Social Security Administration. It concerned sickness insurance, payments of contributions to social security and payments of contributions to the government's employment policy, and performance of the tasks related to retirement pension schemes between 1 June 2007 and 31 December 2008. The review did not identify any shortcomings, and no overpayments or underpayments of contributions were found.

## 13.2 Internal inspections and internal audit

The Internal Audit Unit carried out internal audit in accordance with the annual plan that was compiled in line with the medium-term plan of internal audit and the results of an analysis of the Risk Map meeting the requirements of Section 30 of Act No. 320/2001 on financial control and updated in all ERO sections, departments and units in late 2008.

Internal audit independently and objectively reviewed some of the Office's activities, working processes and control and oversight systems to the extent set out in the internal audit plan. It assessed whether the internal inspection system was efficient and flexible enough to respond to changes in legal, economic and operating conditions. It examined whether it had the capability of providing the ERO Chairman with reliable assurance of the quality of communication and the quality of the information system and whether working processes were running within the limits set by internal standards. 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 Unit and the code of conduct for internal auditors. In its work, internal audit follows the rules of the international framework for the professional practice of internal audit and the internal audit methodology of the Ministry of Finance. The Internal Audit Unit'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, 2009 saw 12 planned audit actions and one extraordinary audit as follows:

- audit of the recording and handling of complaints;
- audit of compliance with the law and with the Office's internal rules for drawdown on FKSP;
- audit of compliance with the rules for the process of document recording and archiving in the Licensing Department's filing service;
- audit of the completeness of records and documents in vehicle fleet operations;
- audit of adherence to the Rules of Administrative Procedure in dealing with licence applications;
- audit of the completeness of records of IT (hardware and software) at the Office and agreement between the records and the actual number of IT components in the IT Unit's storeroom;
- audit of the economy of commissioned repairs and supplies of assets – an overview of purchase orders;

- audit of the records and approval of contracts for advisory and consulting services in the Regulation Section and the Strategy Department;
- audit of the economy of using external services to achieve savings on business trips abroad; employees' insurance during business trips abroad;
- audit of disposals of tangible and intangible fixed assets;
- audit of the ISMS under ČSN ISO/IEC 27001 in the integrated information system;
- audit of the link between the filing service and document destruction in the administrative archive;
- extraordinary audit of the process of drawdown on structural funds in the ERO – Filing Service Compatibility project under Ref. No. CZ 1.06/1.100/03.05957.

The audit team discussed auditors' recommendations with managerial personnel, whose attitude can be described as accommodating and businesslike. The adopted recommendations helped to adjust the internal inspection system and contributed to a deeper awareness of the need to apply the aspects of efficacy, effectiveness and economy to the assessment of all ERO employees' professional activities. 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 planned new audits. The monitoring, together with a comprehensive assessment of the implementation of the adopted recommendations in a summary report on audit results for every calendar year, helps to create feedback that provides information about the effectiveness of audits and inspections.

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 principles of *ex ante*, ongoing and *ex post* management inspection have been incorporated into the Office's internal organisational and management regulations (Rules of Organisation, Signature Mandates, and Guidelines on Accounting Document Circulation). The rules of employees' conduct under the Code of Ethics applicable to ERO employees and the rules that set out the strategy in the fight against corruption were recently introduced into information, inter-personal and managerial relations.

The main purpose of both components of the internal inspection system (internal audit and management inspection) is to prevent risks and reduce threats. To make risk identification easier, the Office continues to standardise all working processes specified in internal regulations. Transparency of working and information processes and records of their standardised structure and the parameters of working processes are a precondition for internal auditors' successful effort.

Internal audit also carried out the respective requirements of management inspections, reviewed the plan of training, and prepared a report on the results of financial reviews for the Ministry of Finance and a summary report on the results of internal audit in 2009 for ERO management. It also proposed and discussed the internal audit plan for 2010. The report on the results of financial reviews in 2009 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.

The report on the result of financial reviews in 2009, approved by the ERO Chairman and submitted to the Ministry of Finance, notes that the system meets the needs and requirements.

**In 2009 there were no material findings within the meaning of Section 22(6) of the law on financial control.**

### 13.3 Information Security Management System (ISMS)

To improve management processes and planning processes and, in particular, to support information security, a certified ISMS system is used. The initial certification of the ISMS system in 2008 resulted in enhanced information security at the Office and its managerial personnel's better approach to risk management, and it was fully reflected in the Office's operations in 2009. Guidelines on risk management at the ERO; guidelines on IT security at the ERO; guidelines on the classification and management of information assets; IT operating rules; the basic analysis of risks – risk management plan – statement of the applicability of ISMS at the ERO; and procedures and plans for managing the continuity of operations were introduced into practice. ISMS certification resulted in a broader awareness of threats to the information system.

In 2009 the set of rules and regulations that specify the parameters of the information security system was updated in the light of the experience from its use for one year and in connection with implementing the rules for using data mailboxes. All internal documents and procedures that deal with information security were adjusted in preparations for a recertification audit. The outcome from the recertification audit was the continued 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). This vindicated the Office's procedures and measures in the process of 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.

Thorough preparations for the recertification audit in 2009 considerably helped to enhance information security and generally improve the work related to information security and risk identification and management.

**Having obtained the certificates, the Office continues to be entitled to use the CQS and IQNet certification logos.**









14  
Contacts





# 14 Contacts

**Energy Regulatory Office**

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

**Prague offices:**

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

E-mail: [eru@eru.cz](mailto:eru@eru.cz) or [forename.surname@eru.cz](mailto:forename.surname@eru.cz)  
Electronic mail room of the Office: [podatelna@eru.cz](mailto:podatelna@eru.cz)  
Central fax: 564 578 640

**External and Internal Relations Unit:**

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



# Appendix 1

## Expenditure from the National Budget

Period: January to December 2009

Chapter: 349 Energy Regulatory Office

in CZK'000

DESCRIPTION	2009 budget		2009 actual	% drawn c. 3 / c. 2
	approved	after changes		
	1	2	3	4
501 Salaries	46,297	46,592	46,590	100.00
502 Other payments for work	1,214	919	596	64.85
503 Statutory insurance premiums paid by the employer	16,154	16,154	15,819	97.93
513 Purchase of materials	2,860	3,130	2,883	92.10
514 Interest paid and other financial costs	50	50	18	36.00
515 Purchase of water, fuel and energy	2,240	2,290	1,936	84.54
516 Purchase of services	33,616	33,590	30,851	91.85
of which:				
5164 Rent	3,250	3,150	2,618	83.12
5166 Consulting, advisory and legal services	10,400	10,000	9,780	97.80
5167 Education and training services	3,500	3,500	2,155	61.58
5169 Purchase of other services	11,372	12,976	12,608	97.16
517 Other purchases	8,755	5,733	3,898	67.99
of which:				
5171 Repair and maintenance	2,805	1,170	692	59.17
5172 Software	300	230	228	99.13
5173 Travel expenses (domestic and abroad)	4,650	3,513	2,548	72.53
518 Advances, sureties, guarantees and government loans provided	0	0	0	
519 Costs of non-investment purchases, contributions, etc.	5	320	263	82.19
534 Transfers to internal funds	926	932	932	100.00
of which:				
5342 Transfers to FKSP and Social Fund	926	932	932	100.00
536 Other non-investment transfers to other public budgets	30	30	16	53.33
542 Compensations paid to citizens	474	120	34	28.33
551 Non-investment transfers to international organisations	900	830	765	92.17
<b>5 Total current expenditure</b>	<b>113,521</b>	<b>110,690</b>	<b>104,601</b>	<b>94.50</b>
611 Intangible fixed assets purchased	3,050	5,077	4,933	97.16
612 Tangible fixed assets purchased	5,054	6,079	5,843	96.12
<b>6 Total capital expenditure</b>	<b>8,104</b>	<b>11,156</b>	<b>10,776</b>	<b>96.59</b>
<b>Total</b>	<b>121,625</b>	<b>121,846</b>	<b>115,377</b>	<b>94.69</b>





## 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.

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 2009

A-CONT, s. r. o., with a registered office at Pohoří 4, 586 01 Jihlava, Reg. No. 4944889, registered in the Companies Registry administered by the Regional Court in Brno, section C, enclosure No. 125A) and also entered in the list of auditing companies of the Czech Republic's Chamber of Auditors with the certificate No. 372.

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 2009.

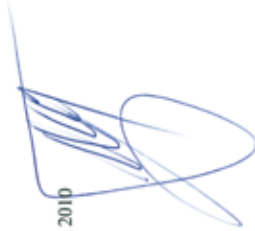
The statutory body of the accounting unit is responsible for bookkeeping, and for complete, true and correct accounting. The auditor's responsibility is to obtain all the information required for examining the way the fund is maintained and its alignment in relation to the financial statements. The audit 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 2009.



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 26, 2010



**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 shledán 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](http://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 Fíliáč  
President of CQS



**IQNet Partners\*:**

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CQM China CQS Czech Republic Cro Cert Croatia DQS Germany DS Denmark ELOT Greece FCAV Brazil  
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Quality Austria Austria RR Russia SAI Global Australia SII Israel SIQ Slovenia SIRIM QAS International Malaysia  
SQS Switzerland SRAC Romania TEST St Petersburg Russia YUQS Serbia  
IQNet is represented in the USA by: AFAQ AFNOR, CISQ, DQS, NSAI Inc. and SAI Global

\* The list of IQNet partners is valid at the time of issue of this certificate. Updated information is available under [www.iqnet-certification.com](http://www.iqnet-certification.com)







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