

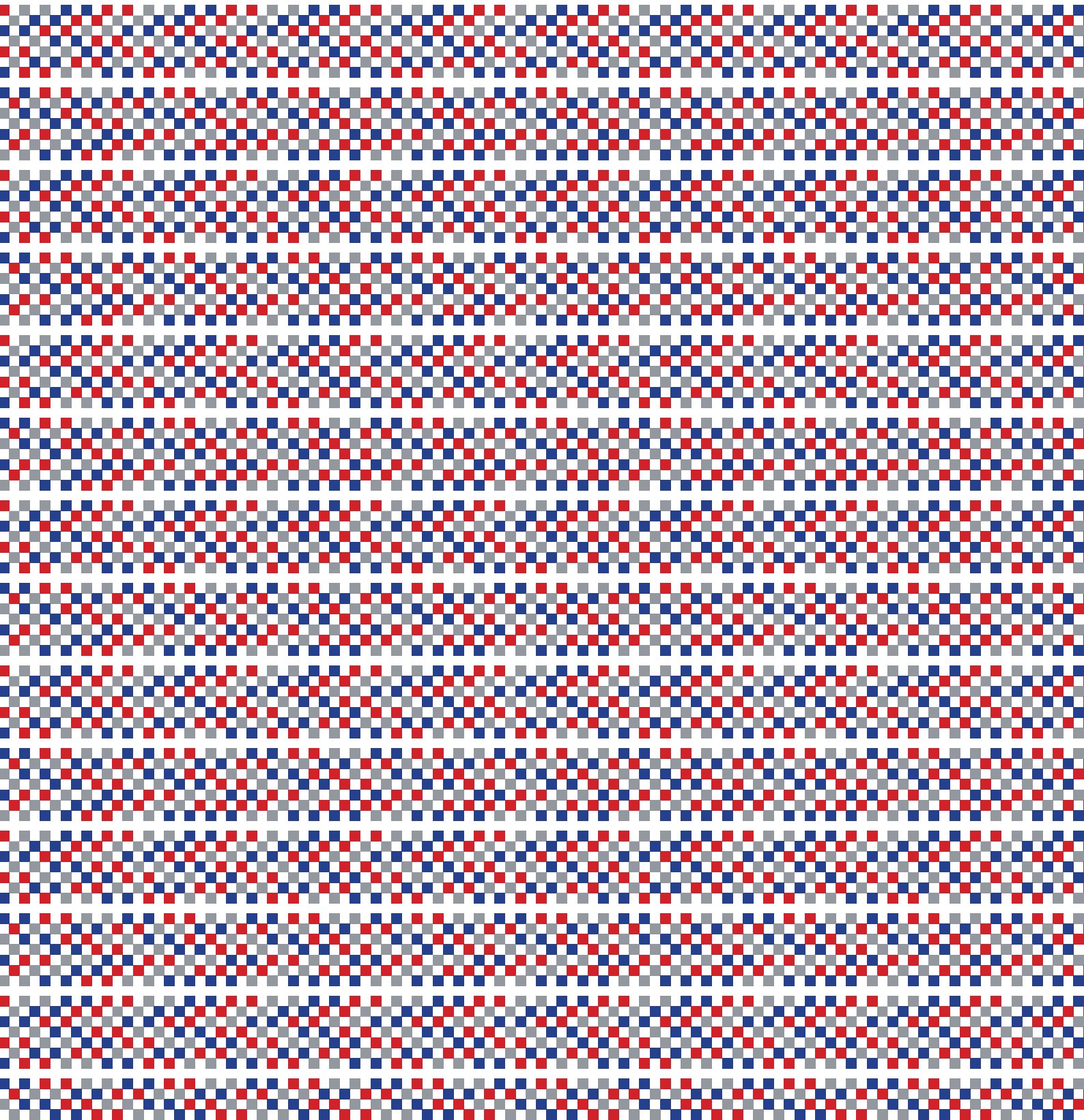
Table of Contents

1	Introduction	5
2	Legislation and administration	8
2.1	Completion of amendments to Act No 458/2000 and Act No 165/2012	9
2.2	Key changes to laws and regulations within the ERO's remit	9
2.3	New EU legislation	11
2.4	Administrative proceedings	12
3	Consumer protection – position on the liberalised energy market	18
3.1	Policy and strategy in the Czech Republic and the EU	18
3.2	Dispute resolution	19
4	Regulation of network industries	20
4.1	Principles of price controls	21
4.2	The electricity industry	21
4.2.1	Pricing	22
4.2.2	Regulated prices for the related service in the electricity industry	22
4.2.3	Unregulated energy price	25
4.2.4	Assessment of the development plan for the electricity transmission system	26
4.3	The gas industry	27
4.3.1	The gas market	28
4.3.2	Pricing	30
4.3.3	Controlled parts of the gas supply price	30
4.3.4	Uncontrolled parts of the price related to gas supply	32
4.3.5	Assessment of the development plan for the gas transmission system	35
4.4	The heating industry	36
4.4.1	Market description	36
4.4.2	Thermal energy price controls	37
4.4.3	Evaluation of thermal energy prices	37
4.4.4	Development of thermal energy prices	37

4.5	Supported energy sources	41
4.6	Licensing policy and its development	43
4.6.1	Recognition of professional qualifications	45
4.6.2	The Energy Regulatory Fund	45
4.6.3	Proceedings on administrative fees	45
5	Oversight	46
5.1	Checks in the electricity and gas industries	48
5.2	Checks in respect of supported energy sources (POZE)	49
5.3	Oversight in the heating industry	50
5.4	Reviews of costs	50
5.5	Administrative proceedings	51
6	International relations	53
6.1	European activities	54
6.1.1	Electricity industry	55
6.1.2	The gas industry	55
6.1.3	Infrastructure – Projects of Common Interest and the process for selecting them	56
6.1.4	Cooperation of Visegrád 4 regulators	56
6.2	REMIT	57
6.2.1	National register of energy market participants	57
6.2.2	Sharing of information	57
6.2.3	Implementation of powers	57
7	Internal relations.....	59
7.1	Cooperation with central state administration authorities and Czech Parliament ..	60
7.2	Public and media relations	61
7.3	Publications	63
7.4	The ERO's involvement in the BETA2 programme (managed by the Technology Agency of the Czech Republic, TAČR)	64
8	ERO budget management	66
8.1	The Chapter's budget	66
8.2	Revenues to the Chapter	66
8.2.1	Administrative fines	66
8.3	Expenditure	67
8.3.1	Current and capital expenditure savings	67
8.3.2	Programme financing	67
8.3.3	Expenses on business trips abroad	68

8.3.4	Evaluation of the economy, efficiency and efficacy of the Office’s financial management	69
8.4	Human resources	70
8.5	Cash funds	73
8.6	Assets, receivables and liabilities	73
8.7	Meeting of mandatory targets	74
9	Internal oversight system	75
9.1	External inspections	76
9.2	Internal oversight and internal audit	76
	Appendix 1	79
	Appendix 2	81

1) Introduction



1) Introduction

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

The Office’s main responsibility is supervision over the energy market and over a sustainable level field for all players on this market. The Office oversees the protection of consumers’ and licence holders’ interests in the segments of energy industries in which competition is not feasible. It is also in charge of support for competition; promotion of supported energy sources (SES); and oversight over licence holders’ adherence to the conditions for carrying on business, thereby creating an environment for reliable electricity, gas and thermal energy supply.

Intensive work on drafting a ‘large amendment’ to the Energy Act continued in 2015; the amendment was initiated primarily to ensure that the law is consistent with the new Civil Code and the new rules of oversight, and also for boosting consumer protection and to reflect energy market players’ practical experience.

In 2015, an amendment to the Energy Act was drawn up and promulgated as Act No 131/2015; this amendment boosts the consumer’s position on the market. The Office was also completing the process of simplifying bills for bundled electricity or gas supply services to make them more understandable for customers. The Office was also active in the protection of energy customers’ and consumers’ interests and handled more than 7,100 submissions. Most of them concerned the supplier switching procedure, peddlers’ conduct, penalties, and billing.

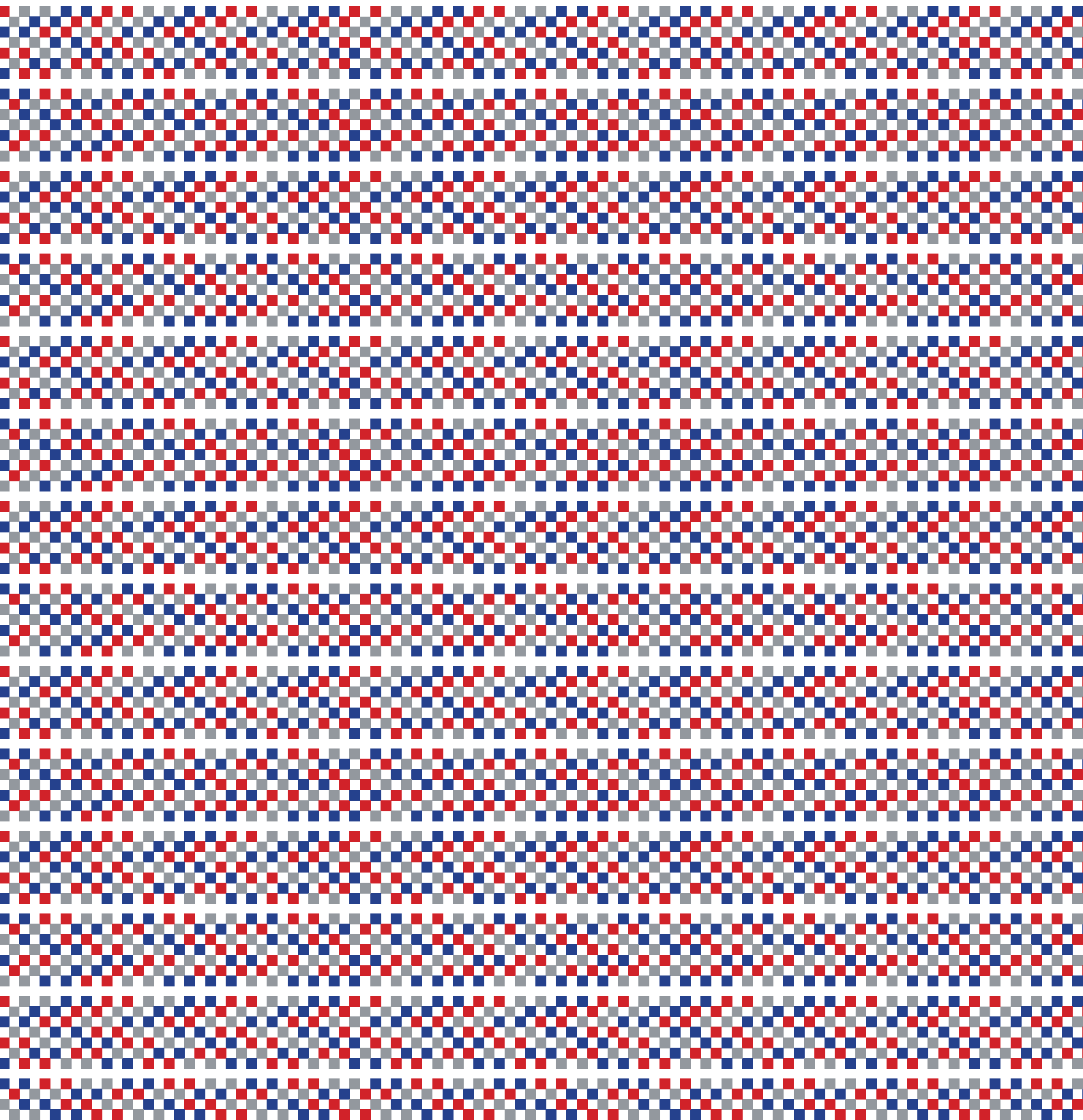
The Office successfully continued in price controls for 2016. The year 2015 was the last year of the third regulatory period, during which the conditions for the fourth regulatory period were being prepared intensively. Issuing the price decision for supported energy sources was quite complicated for the ERO, because it received the European Commission’s notification of its decision on compatibility with the EU internal market only for certain types of plants generating electricity from supported energy sources.

As regards licensing, 2015 was the second year in which the effects of reduced support for renewable electricity generation were felt in full. The Office received a total of 2,023 applications, down by 11% on 2014.

A major issue for the Office in 2015 was the Czech Republic’s involvement in the project for intra-day cross-border electricity trading of the NWE+ countries under the XBID (Cross-Border Intraday) project. The Czech Republic wanted to participate in the project and the ERO, together with the market operator (OTE, a.s.) and the TSO (ČEPS, a.s.) held talks with foreign partners on the conditions on which the Czech Republic would join the other participants in the project.

The Office was active in relation to the EU institutions, pursuing cooperation with ACER and CEER. The Office was also involved in regional initiatives' activities. Cooperation within the permanent functional platform of the Visegrád Four (V4) energy regulators also continued to develop. The Office paid increased attention to promoting bilateral relations.

2) Legislation and administration



2) Legislation and administration

2.1 Completion of amendments to Act No 458/2000 and Act No 165/2012

- **Completion of the amendment to Act No 458/2000 (the Energy Act) and Act No 165/2012 (on supported energy sources)**

Work related to the drafting of the 'large amendment' to the Energy Act continued in 2015. Together with the amendment to the Energy Act, an extensive amendment to Act No 165/2012 on supported energy sources and amending certain laws, as amended, was also being drafted as part of the same amending law. The amendment was passed, and on 5 June 2015 promulgated in the Official Gazette as Act No 131/2015 amending Act No 458/2000 on conditions of business and state administration in energy industries and amending certain laws (the Energy Act), as amended, and other related laws.

- **Preparations for amending Act No 458/2000 (the Energy Act) under Government Resolution No 851 of 20 October 2014**

In its Resolution No 851 of 20 October 2014, the cabinet instructed the Minister of Industry and Trade to draw up a draft amendment to the Energy Act, providing for the basic rules for regulation in energy industries and administrative penalisation for breaches of obligations under the Energy Act. The work on this amendment was started in 2015 in a working group headed by the sponsor of the bill, the Ministry of Industry and Trade of the Czech Republic (MPO), with the participation of regulated entities and the Office for the Protection of Competition (ÚOHS).

Being a member of this working group, the Office contributed to the drafting of this amendment, which primarily concerns some of its competences, i.e., price controls in the energy sector and administrative penalties for violations of the Energy Act.

2.2 Key changes to laws and regulations within the ERO's remit

In 2015, the Office promulgated the following implementing regulations [statutory instruments] in relation to Act No 458/2000 on the conditions of business and state administration in the energy industries and amending certain laws (the Energy Act), as amended, and Act No 165/2012 on supported energy sources and amending certain laws, as amended:

- **Public notice no. 194/2015 on the method of price regulation and procedures for price controls in the electricity and heating industries**

The Office issued a new public notice for the new, fourth regulatory period from 1 January 2016 to 31 December 2018. Because of the different approach to regulation, the part concerning the market operator was removed compared with the preceding legislation. A separate public notice was issued to regulate the prices for the market operator's services.

The public notice came into effect on 1 January 2016.

- **Public notice no. 195/2015 on the method of price regulation and procedures for price controls in the gas industry**

The Office issued a new public notice for the new, fourth regulatory period from 1 January 2016 to 31 December 2018. The regulatory rules, incorporated primarily in the regulatory methodology for the new regulatory period, are based on the principles set forth in public notices nos. 140/2009 and 195/2014, which had been designed for the preceding, third regulatory period. The approach to regulation is different now and therefore the part concerning regulation of the charges for the market operator's services has been treated separately compared with the previous legislation.

The public notice came into effect on 1 January 2016.

- **Public notice no. 196/2015 on the method of price regulation and procedures for regulating the prices for the market operator's activities in the electricity and gas industries**

For the new, fourth regulatory period from 1 January 2016 to 31 December 2018, the Office has provided for the regulation of the charges for the market operator's services in a separate public notice, both for services in the electricity industry and those in the gas industry.

The public notice came into effect on 1 January 2016.

- **Public notice no. 262/2015 on regulatory reporting**

This statutory instrument was issued under the ERO's authorisation under Section 98a(2)(e) of the Energy Act, and it has superseded the previous no. 59/2012 on regulatory reporting, as amended.

The main reason for issuing a new public notice was the amendment to the Energy Act, enacted in Act No 131/2015, which necessitated changes in certain reports and the related provisions of the then current public notice. Section 9(1) of the amended Energy Act requires DSOs, the electricity TSO, the gas TSO and holders of licences for thermal energy distribution to summarise, through regulatory reports and by 30 April of every year, changes in their operated energy installations for the past calendar year. The ERO responded to this new requirement by including a new regulatory report.

The amendment to the Energy Act also changed Section 19a on price controls. Further to that, the public notice responds to planned changes in price controls in the electricity and gas industries with a view to the reported details meeting the Office's needs related to price controls.

The public notice also reflects the change in the collection of payments for supported energy sources (POZE) and relations between the electricity TSO, DSOs, mandatory buyers and the market operator, and sets out new reports for mandatory buyers.

The public notice came into effect on 1 January 2016.

- **Public notice no. 296/2015 on the technical and economic parameters for determining feed-in tariffs for electricity generation and green premiums on heat and on determining the service life of electricity generating plants and heat generating plants using renewable energy sources ('the technical & economic parameters public notice')**

The amendment to the law on supported energy sources (POZE) enacted in Act No 131/2015 has changed and broadened the authorisation to issue a new implementing act, empowering the ERO to determine the technical and economic parameters for specified heat production plants as well; the until then applicable public notice no. 347/2012 set out the technical and economic parameters only for electricity generating plants. It has therefore been replaced with a new public notice setting out the technical and economic parameters for electricity generating plants and heat generating plants. Furthermore, in the light of the continuous development and improvement of RES technologies on the one hand, and changes in inputs on the other hand, technical and economic parameters must be modified over time.

One of the key issues covered by the public notice in an annex thereto is the update of the values of the technical and economic parameters of plants using the energy of water, biomass and wind so as to maintain continuity with the technical and economic parameters promulgated earlier. Another key issue, also covered in an annex, is the technical and economic parameters set out for heat production plants that use, in line with the new wording of the law, biogas for power and heat generation in the process of high-efficiency combined heat & power generation (CHP).

The public notice came into effect on 1 January 2016.

- **Public notice no. 349/2015 on the Gas Market Rules**

It supersedes no. 365/2009, as amended, on which it is based to a large extent in terms of content.

The new Gas Market Rules are based on the Office's experience with the working of the gas market model and on the suggestions received from gas market players; they also implement EU legislation, namely Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks, and Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council. The other changes are related to the amendment to the Energy Act, enacted in Act No 131/2015, which has brought, *inter alia*, certain changes in the Energy Act's sections on conditions for business in the gas industry.

The public notice came into effect on 1 January 2016, with the exception of the provisions that would come into effect on 1 July 2016.

- **Public notice no. 408/2015 on the Electricity Market Rules**

This public notice has superseded no. 541/2005 on the Electricity Market Rules and principles for pricing the electricity market operator's activities, and on the implementation of certain other provisions of the Energy Act, as amended.

To a large extent, the content of the new Electricity Market Rules is based on no. 541/2005, which, however, had to be changed and amended in many respects, in particular further to the amendment to the Energy Act enacted in Act No 131/2015 and also further to the practical knowledge and experience with the application of the electricity market rules in the wording in force until then. The new Electricity Market Rules also implement the authorisation under Section 53(2)(g), (h), (j) and (k) of Act No 165/2012 on supported energy sources and amending certain laws, as amended by Act No 131/2015, and so also supersede no. 193/2014 on the method and time limits for the billing and payment of the charge for covering the costs incurred in support for electricity and on the implementation of certain other provisions of the law on supported energy sources.

The public notice came into effect on 1 January 2016.

2.3 New EU legislation

In 2015, new EU legislation having a significant impact on the energy sector included Commission Regulation (EU) 2015/1222. This Regulation contains the rules for day-ahead and intraday trading, coordinated calculation of transmission capacity and a definition of bidding zones. In respect of the implementation of the content of this Regulation, the Office has launched close cooperation with ČEPS, a.s.

In connection with the forthcoming network codes, in summer 2015 the Office participated in the European Commission's public consultation on the preparations for redesigning the internal

electricity market. This public consultation was the necessary first step towards any additional legislative package for the electricity industry and was also related to the forthcoming code for maintaining balance in electrical grids. The first half of 2015 also saw public consultation on Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply, on the basis of which an amendment to the regulation had been prepared.

In respect of EU law approximation, the Office has accepted national responsibility and co-responsibility for several non-legislative proposals and pieces of legislation, in particular the following:

- Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules;
- Commission Decision (EU) 2015/715 of 30 April 2015 amending Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks;
- Commission Implementing Regulation (EU) No 1348/2014 of 17 December 2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency;
- Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management; and
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *Delivering a New Deal for Energy Consumers*. The MPO is the sponsor.

2.4 Administrative proceedings

A list of administrative proceedings in 2015 is provided herein, and broken down by type. A detailed list of administrative proceedings is posted on the Office's website in the Administrative Proceedings section.

A). Administrative proceedings conducted and completed in 2015 by the Approval and Adversarial Proceedings Department

A.1. Adversarial proceedings

The Approval and Adversarial Proceedings Department conducts adversarial proceedings within the meaning of Section 141 of Act No 500/2004, Rules of Administrative Procedure, as amended, within its competences in the electricity, gas and heating industries.

In the **electricity industry**, in 2015 the ERO conducted 50 administrative proceedings, of which it concluded **16 administrative proceedings** with finality. As in the preceding years, a number of licence holders and customers, or their representatives, approached the Office with motions for initiating adversarial administrative proceedings in this energy industry. In this respect, adversarial proceedings conducted in the electricity industry remain (in terms of the number of disputes) the most prominent part of the adjudication agenda. The disputes are becoming increasingly complex: there are fewer cases that are similar as to substance, and there are more and more cases that are complex as to the law and the facts.

The motions for the ERO to adjudicate disputes included disputes under Section 52 of Act No 165/2012 on supported energy sources, as amended, over support for electricity generation

from renewable energy sources (in particular photovoltaic plants) and electricity from high-efficiency combined heat & power generation. Their subject matter was issues related to the billing of the charge for covering the costs incurred in support for electricity, the inclusion of electricity locally consumed by generators whose consumption does not pass through a distribution or the transmission system into the total quantity of electricity to which the charge for cost meeting is to be related, and also a claim for the disbursement of aid from the day of the dematerialisation of the shares of the company that demands the disbursement. In respect of customers taking electricity in households, a major issue for adjudicating is proceedings under Section 17(7)(a) and (e) of the Energy Act, in particular those through which they seek a declaration of the emergence, existence or discharge of legal relationships established by agreements on bundled electricity supply services, or the performance of obligations under such contracts.

In the **gas industry**, in 2015 the ERO conducted seven administrative proceedings, of which it concluded **three administrative proceedings** with finality. The smallest number of disputes has been tackled in this industry for a long time. In most cases, the Office's decisions declared that the legal relationship established by an agreement on bundled gas supply had emerged, existed or had been discharged within the meaning of Section 17(7)(e)(2) of the Energy Act.

In the heating industry, in 2015 the ERO conducted 13 administrative proceedings, of which it concluded **one administrative proceeding** with finality. Typically, these disputes were over the execution of agreements on heat supply or over their material particulars in the form of a heat price under Section 17(7)(a) of the Energy Act.

A.2 Approval proceedings

Within its statutory competence under Section 17(7)(g) of the Energy Act (rules for the operation of the transmission system and distribution systems in the electricity industry, the market operator's commercial terms and conditions, and codes of the transmission system, storage system and distribution system operators in the gas industry), in 2015 the Office conducted 32 administrative proceedings, and concluded **21 administrative proceedings** with finality.

A.3 Administrative proceedings under Commission (EU) Regulations

In 2015, the Office conducted, within its statutory competences under Article 8(2) of Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council, under Annex I, point 2.2.5(1) of Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks, under Article 8(9) of Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council, and under Article 15(1) of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, four administrative proceedings, with **two administrative proceedings** concluded with finality in 2015.

They were administrative proceedings, at a request under Article 52 of Commission Regulation (EU) 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks, for allowing a deferral of the gas TSO's compliance with the Regulation; proceedings initiated by the ERO *ex officio* under Articles 4 and 5 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, concerning the designation of a nominated electricity market operator under Article 4(1)(3) and Article 5 of Commission Regulation 2015/1222.

In 2015, the Approval and Adversarial Proceedings Unit conducted a total of 106 administrative proceedings, 43 of which were concluded with finality.

Conducted administrative proceedings by agenda:

Adversarial proceedings	70
- Electricity industry	50
- Gas industry	7
- Heating industry	13
Approval proceedings	32
Administrative proceedings under Commission Regulation (EU)	4
Administrative proceedings in 2015	106

Proceedings concluded with finality, by agenda:

Decisions in adversarial proceedings	20
- Electricity industry	16
- Gas industry	3
- Heating industry	1
Decisions in approval proceedings	21
Decisions under Commission Regulation (EU)	2
Decisions in administrative proceedings in 2015	43

B) Administrative proceedings conducted and concluded by the POZE Legal Unit in 2015

B.1 Administrative proceedings

In 2015, the POZE Legal Unit concluded **30 administrative proceedings**, the subject matter of which was fines levied for committing an administrative offence under Section 91(1)(e) of the Energy Act, which the parties to the proceedings had committed by breaching Section 15a of the Energy Act through failure, despite receiving repeated requests for providing information within the set time limits, to provide the required information to the Office, which the Office repeatedly requested in its requests for information provision under Section 15a of the Energy Act. In all 30 cases the ERO decision became final and enforceable.

B.2 Adversarial proceedings

In 2015, the POZE Legal Unit conducted (and also conducts in 2016) adversarial proceedings under Section 17(7)(d) of the Energy Act, the subject matter of which was disputes over support for electricity generation from RES or electricity generation from CHP or electricity generation from secondary energy sources.

B.3 Assistance to the Administrative Proceedings Department

As part of assisting the Administrative Proceedings Department, in 2015 the POZE Legal Unit issued 61 orders levying fines for breaches of Section 68(3) of the Energy Act, i.e., breach of the prohibition to carry out activities in the protection zone of gas installations such as might pose risk to the gas installation.

B.4 IV. Other administrative proceedings

In 2015, the POZE Legal Unit also conducted a proceeding for the declaration of a legal relationship, in addition to adversarial proceedings under Section 17(7)(d) of the Energy Act the subject matter of which is disputes over support for electricity generation from RES or electricity generation from CHP or electricity generation from secondary energy sources.

B.4 Disciplinary fines

In proceedings, within the broader meaning thereof, a disciplinary fine was levied for a grossly insulting submission to the ERO.

Decisions by agenda:

Administrative proceedings	30
Adversarial proceedings	9
Assistance to the Administrative Proceedings Department	61
Other administrative proceedings	1
Disciplinary fines	1
Decisions issued in 2015	102

C) Proceedings under the law on free access to information

Under Act No 106/1999 on free access to information, as amended, in 2015 the Office issued 16 dismissing decisions under the procedural provisions of Section 15 of the law, taken together with a specific substantive provision of the law, in cases where the ERO, as the obliged party, did not grant the request, even in part, and therefore was required to issue a decision on dismissing the request or a part thereof.

The Office issued decisions dismissing a request, or a part thereof, for the provision of information in the following areas covered by the applicants' requests for information:

Dismissing decisions:

Licences	2
Regulation	2
Oversight	2
Legislation and administration	4
Supported energy sources	5
Other	1
Decisions issued in 2015	16

D) Remonstrance proceedings in 2015

The authority to decide on remonstrance as a remedy against decisions delivered by the Office in the first instance under Section 152 of Act No 500/2004, Rules of Administrative Procedure, as amended, is vested in ERO Chairwoman, who decides on remonstrances on the basis of recommendations provided by the remonstrance commission set up under Section 152(3) of

the Rules of Administrative Procedure. As of December 2015, the ERO Chairwoman's existing remonstrance commission has been replaced with two remonstrance commissions, one for renewable energy and one for conventional energy.

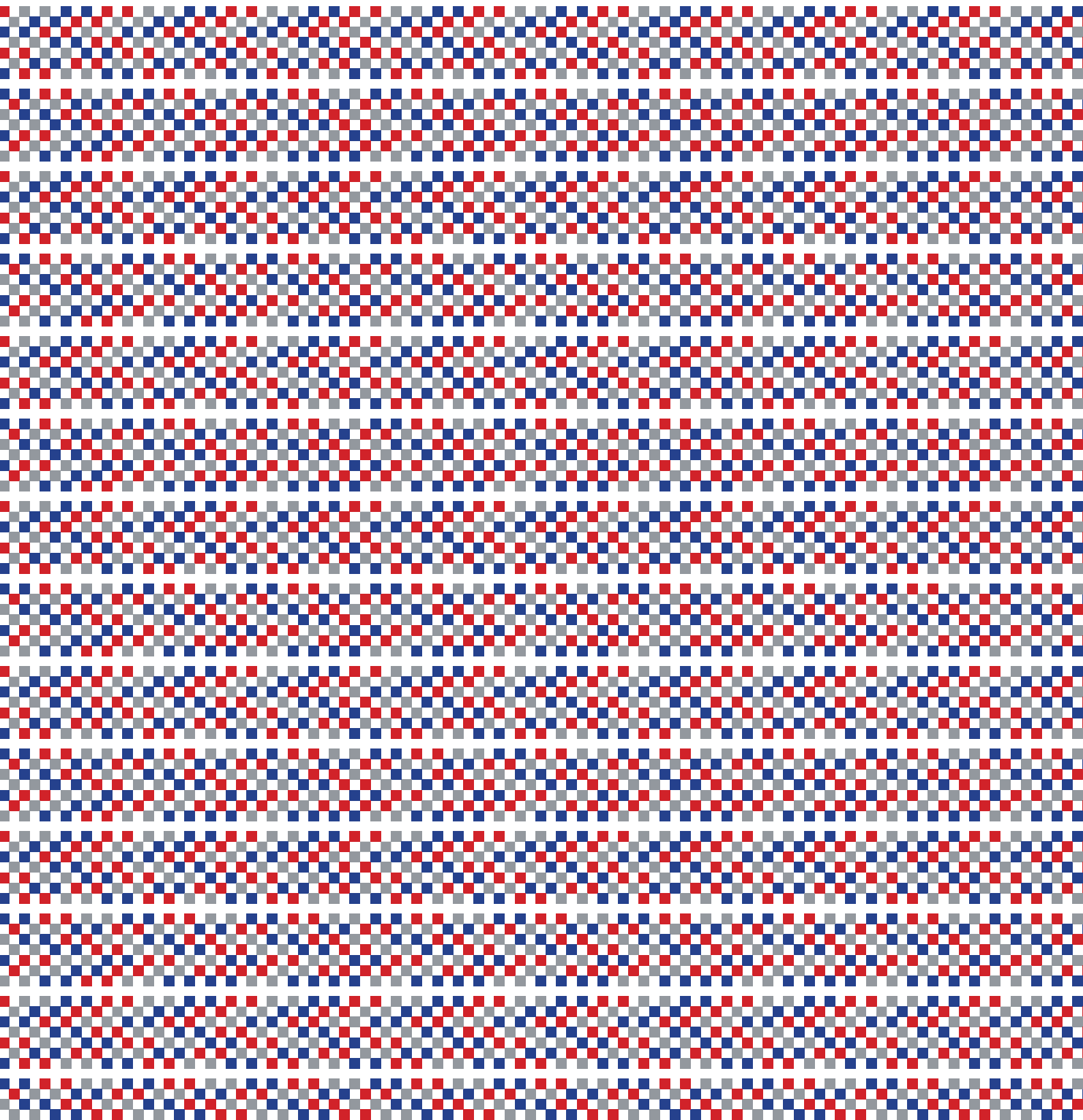
The ERO Chairwoman's remonstrance commissions examined 90 remonstrances in 2015. On the basis of these considerations, 81 decisions on remonstrance were issued, and two remonstrance proceedings were stayed. The ERO Chairwoman's remonstrance commission did not issue a decision on seven remonstrances that the commission had examined by the end of 2015. In 2015, the ERO Chairwoman also issued 21 decisions on remonstrances that the remonstrance commission had examined in 2014.

The ERO Chairwoman delivered 102 decisions on remonstrances in 2015.

Decisions on remonstrance by agenda:

Remonstrance against decisions in adversarial proceedings	33
- Electricity industry	29
- Gas industry	1
- Heating industry	3
Remonstrance against decisions on administrative offences	31
- Under the Energy Act	14
- Under the Act on Prices	16
- Under the Consumer Protection Act	1
Remonstrance in cases of requests for information	13
Remonstrance against licensing decisions	24
Remonstrance on other matters	1
Remonstrance decisions in 2015	102

3) Consumer protection – position on the liberalised energy market



3) Consumer protection – position on the liberalised energy market

Protection of consumers on the energy market is primarily provided for in Act No 458/2000, the Energy Act, as amended, in Act No 634/1992 on Consumer Protection, as amended, and in Act No 89/2012, the Civil Code. Laws for consumer protection in the Czech Republic have been adopted with a view to harmonising Czech law with EU directives and regulations.

3.1 Policy and strategy in the Czech Republic and the EU

The purpose of consumer protection continues to be the effort to minimise the inequality between the positions of the weaker party, the consumer, and the stronger party, the supplier, in contractual relationships.

An aspect helping to boost consumer protection is also an opportunity for consumers to access objective and transparent data on their consumption, the prices and costs of services, and the details of and dates for the billing of energy supply and related services.

In the interest of consumer protection, the Office works with civic associations and other organisations set up for the purposes of protecting consumer rights.

Legal protection for consumers

In 2015, the Czech Republic further empowered consumers on the market, namely through an amendment to Act No 458/2000 enacted in Act No 131/2015. Section 11a now significantly extends consumer protection and the avenues available to consumers when they terminate agreements on bundled supply services within 15 days from the day on which electricity or gas supply was started. This has significantly facilitated the process of terminating contracts with suppliers.

In its steps to achieve the consumer protection objectives set out in EU Directives, the Office works with similar EU institutions such as NEON (National Energy Ombudsmen Network) and CEER for this purpose.

The Office pursues the objective of helping the most populated consumer segment, households, to find their way around as they may need in the liberalised market, primarily as regards energy prices and commodity supply quality.

In 2015, the Office was completing the process of simplifying billing for bundled electricity or gas supply services to make the bills understandable for most consumers in the household segment; the Office therefore proposed an amendment to public notice no. 210/2011 laying down the scope, particulars, and time limits for billing electricity, gas or thermal energy supply and related services.

3.2 Dispute resolution

Every year, the Office receives and handles large numbers of consumers' submissions on a very broad range of subjects. The cases tackled can be categorised into a few groups. They concern supplier switching procedures; contract terms and conditions and penalties for early termination; prices and billing; illegal consumption and consequences thereof; peddling and traders' unfair practices; and, not least, consequences of e-auctions. Naturally, complex cases also appear; they fall within several of the above categories due to their content.

The Consumer Legal Protection Department is not authorised to deliver binding decisions; its operations consist of conciliation/mediation between consumers and energy suppliers. Conciliation/mediation proceedings are informal and consumers can terminate them at any time without any penalty.

As regards consumer protection, in 2015 the Office registered 7,107 submissions. Most of them concerned the supplier switching procedure, peddlers' conduct, penalties, and billing. The remaining submissions mainly concerned issues related to the amendment to the Energy Act and the application of the consumer protection law.

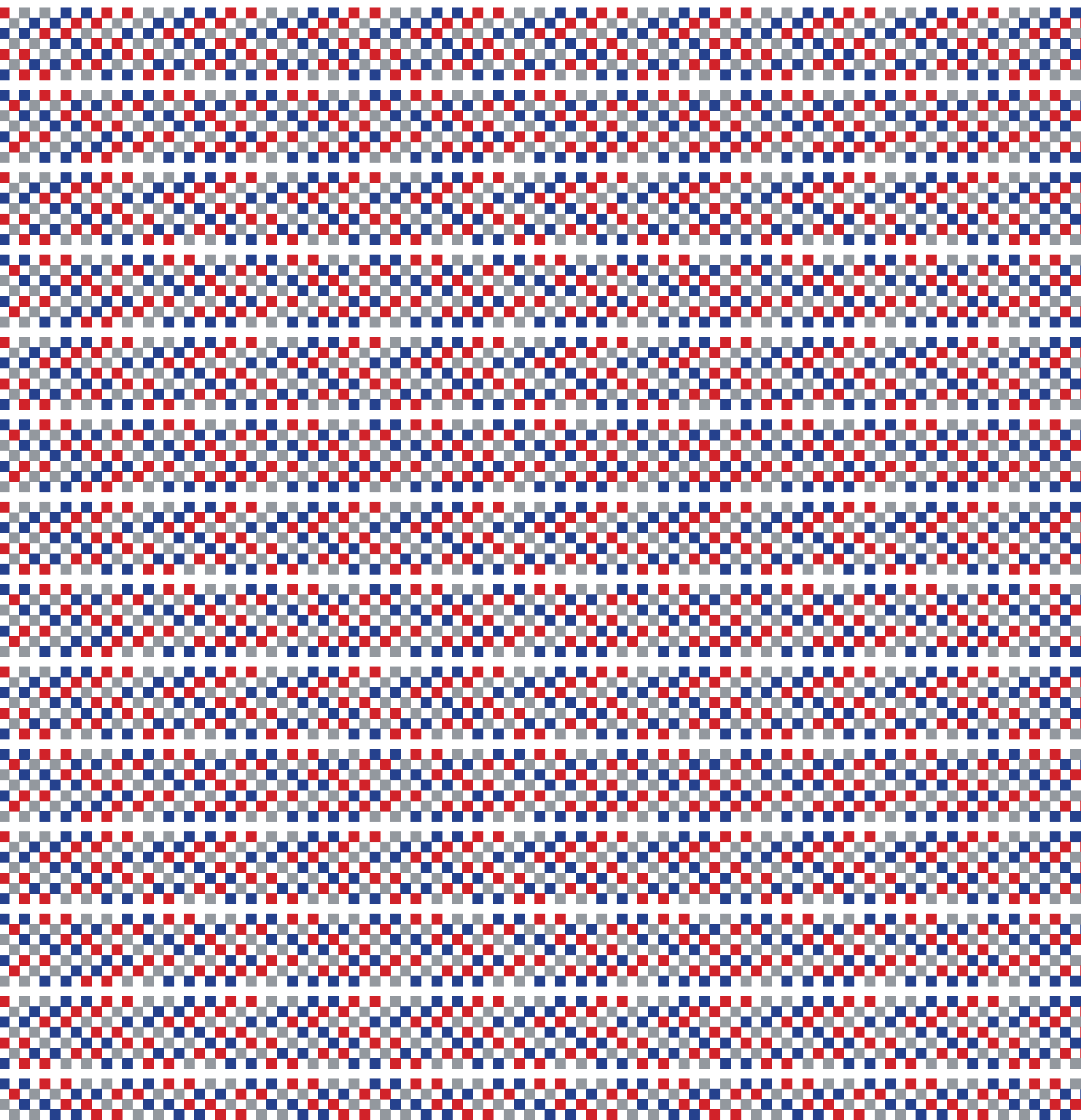
Under Section 17(7)(e) of the Energy Act, in 2015 the Office decided disputes between customers and licence holders (consumer disputes), i.e., disputes over the performance of obligations under agreements on gas/electricity supply/distribution; disputes over declaration whether the legal relationship between the customer and the licence holder, the subject matter of which was electricity/gas supply/distribution, had come into existence, continued to exist, or had ceased to exist; and also disputes over compensation for failure to keep the set standards of supply and service quality in the gas industry. Under these provisions, the necessary precondition for instituting proceedings before the Office (within the limits of its jurisdiction *in rem*) on consumer disputes is the customer's motion, and such motion is also the only possible means of instituting proceedings (the procedural principle of a final disposal of the matter as the parties may wish to settle it). Under Section 17(7)(f) of the Energy Act, the Office is also competent to carry out inspections in energy industries and review compliance with the obligations laid down in the law on consumer protection in energy business (unfair commercial practices, prohibition of discrimination against consumers, and the obligation to provide consumers with information about the price of the services provided).

Customer Information Centre

In 2015, the Office's website extended information for consumers by simplifying consumers' access to the contacts where they can ask for technical assistance.

The website section called Information Centre for Customers (*infocentrum*) summarises the Office's activities in consumer protection in the energy industries. The very description of the Consumer Legal Protection Department's activities and the posting of contact details therefore help consumers to find their way around when they need to consult their problems.

4) Regulation of network industries



4) Regulation of network industries

4.1 Principles of price controls

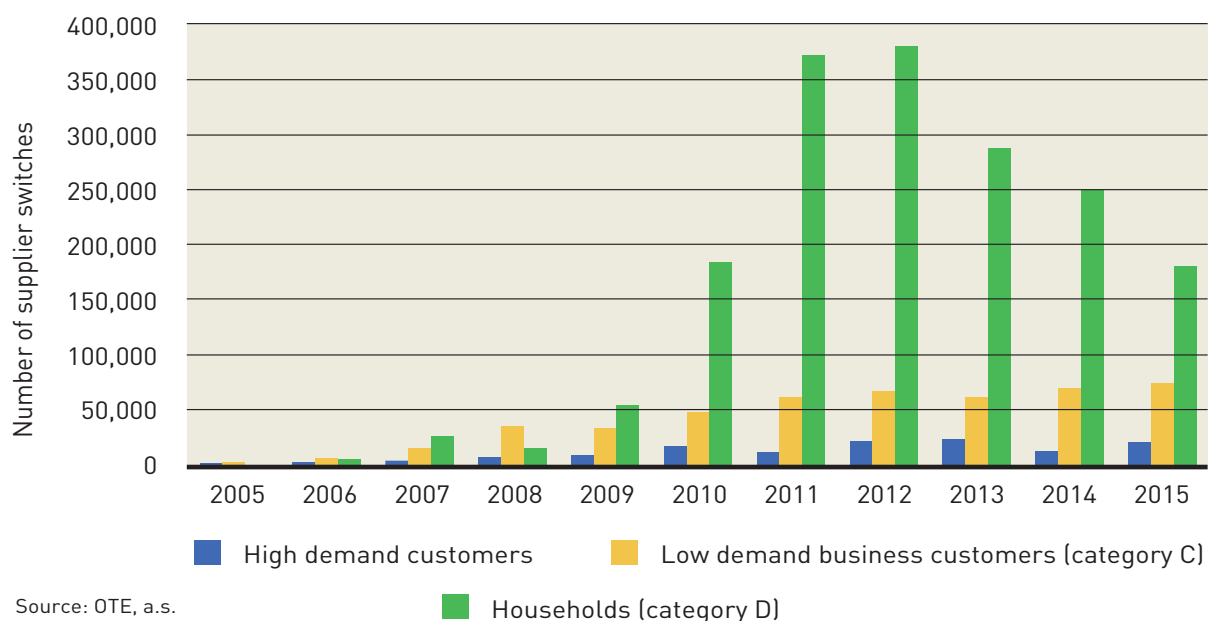
The year 2015 was the last year of the extended third regulatory period; unlike the original intention, the third period covered six years. During the course of that period the ERO spent much effort to draw up the rules and principles of regulation for the forthcoming regulatory period. In 2015, the ERO published the *Principles of Price Controls for the Period from 2016 to 2018 in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries* describing the price control procedures for the fourth regulatory period, including the principles of regulation for the fourth period.

4.2 The electricity industry

The electricity market in 2015

In 2015, almost 278,000 customers changed their supplier, which implies a relative year-on-year drop of 17% in electricity supplier switching. The overall decline in electricity supplier switching is due to a drop of 27% in the household segment. In other segments, the number of supply point transfers to another supplier increased year-on-year, namely by 52% in the high-demand segment and by 7% in the low-demand business segment.

Chart 1 Annual electricity supplier switching in the main customer categories



4.2.1 Pricing

In 2015, the principles of price controls for the period from 2016 to 2018 in the electricity industry and for the market operator’s services in the electricity industry were completed. The initial parameters of regulation were also set for the TSO and each of the DSOs in line with the above principles for the new regulatory period. The charges for the related service in the electricity industry and other regulated charges were determined already on the basis of the new price control principles for 2016 in late 2015.

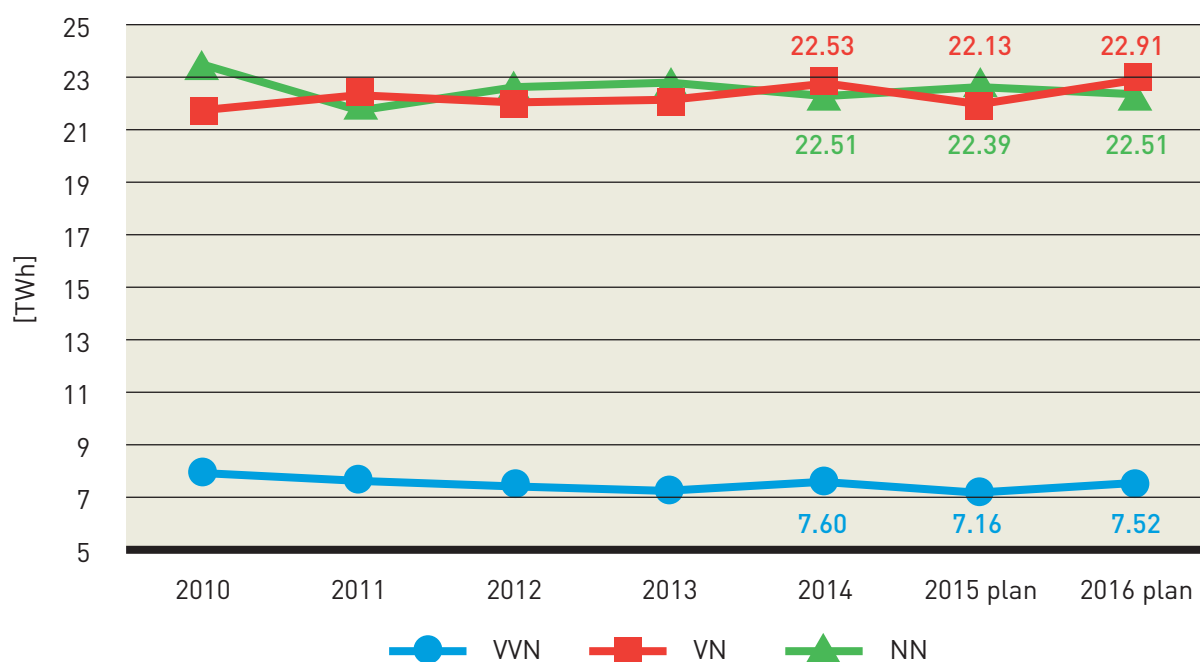
In 2015, the Office issued ERO Price Decision 7/2015 of 26 November 2015, laying down prices for the related service in the electricity industry and other regulated prices (ERO Price Decision 7/2015), and ERO Price Decision 8/2015 of 26 November 2015, laying down prices for the related service in the electricity industry for customers connected to LV networks.

The issuance of the above two price decisions was preceded by ERO Price Decision 1/2015 of 4 September 2015, which amended ERO Price Decision 2/2014 of 25 November 2014 laying down regulated prices related to electricity supply, which set out the charge for data provision from records of trading transactions in the electricity market organised by the market operator for 2015. The reason for this was to meet the REMIT obligations.

4.2.2 Regulated prices for the related service in the electricity industry

The level of controlled prices related to electricity supply is influenced by the initial parameters of regulation, system operators’ investment activity, the electricity demand for which the prices are calculated (Chart 2), the capacities booked in the transmission system and distribution systems, the price of electrical energy for covering network losses in the transmission and distribution systems, the change in the expected output from supported energy sources, and also correction and inflation factors.

Chart 2 Consumption at the EHV, HV and LV levels



Note: VVN extra high voltage (EHV [=HV]); VN high voltage (HV [=MV]); NN low voltage (LV)

Regulated prices related to electricity supply for 2016

Electricity transmission charge

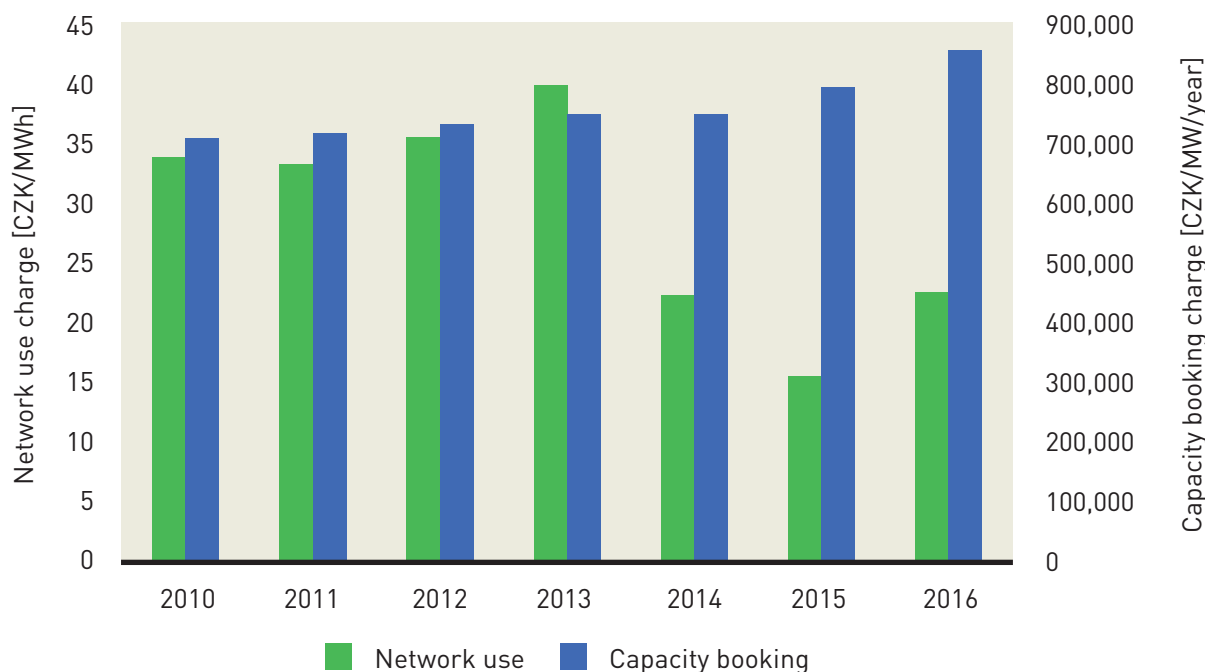
The electricity transmission charge is composed of the charge for booked transmission capacity and the charge for network use in the transmission system.

The charge for booked transmission capacity has increased by 8.4% year-on-year. The increase in the charge for booked capacity is due to the increase in the TSO's adjusted allowed revenues, which had been set in line with the principles of price controls for the fourth regulatory period, and also a year-on-year decrease in booked capacity.

The charge for using transmission system networks has increased by 43.3% year-on-year. This growth is due to the fact that the charges for 2015 reflected a significant negative correction factor related to network use, which had reduced the charges for 2015 significantly. A very small correction factor enters the charges set for 2016, and it has only negligible influence on the prices.

Chart 3 shows the electricity transmission charges between 2010 and 2016.

Chart 3 Components of the electricity transmission charge



Electricity distribution charge

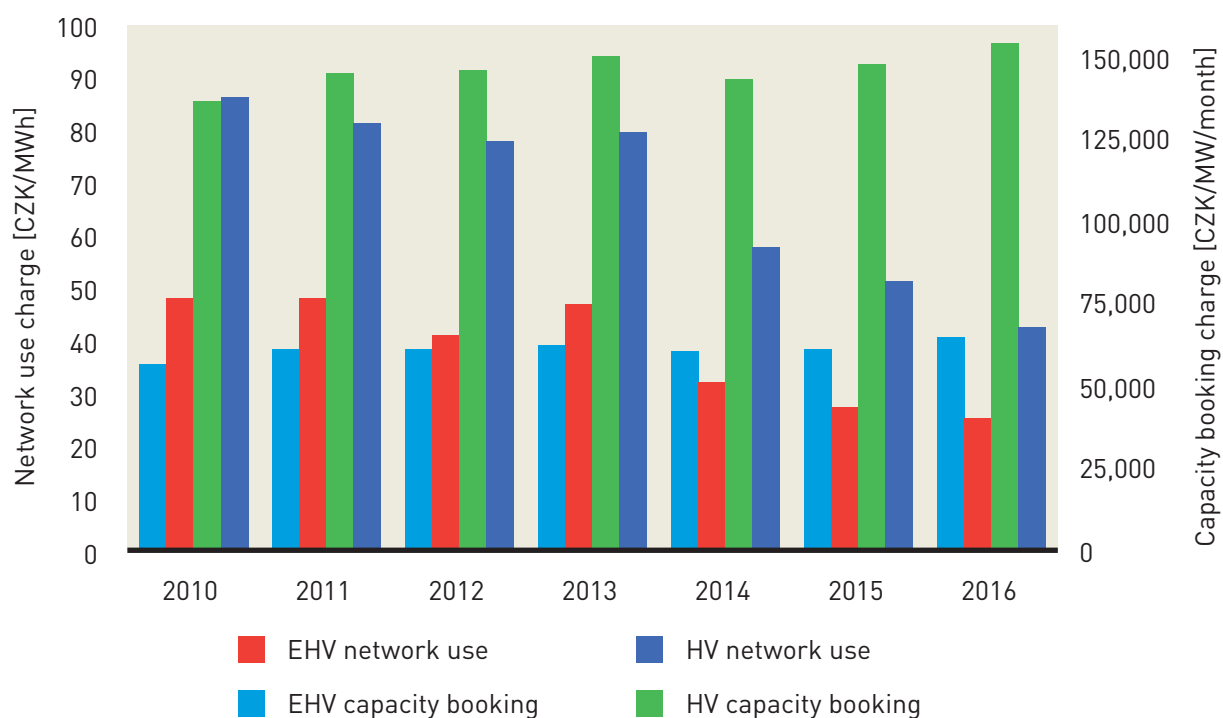
The charge for electricity distribution at EHV and HV levels is composed of a charge for capacity booked in the distribution system and a charge for network use in the distribution system. The charge for electricity distribution at the LV level is composed of a charge for power input determined by the rated current of the main circuit breaker upstream of the electricity meter and the charge for the electricity quantity distributed.

The charge for capacity booked in the distribution system at the EHV level has grown by 4.7% year-on-year, and at the HV level the charge for capacity booked in the distribution system has grown by 4.6% year-on-year. The increase in the charge for capacity booked in the distribution system is mainly due to the increase in adjusted allowed revenues.

The charge for distribution system network use has decreased by 7.5% year-on-year at the EHV level and by 17.1% at the HV level. This drop in the charge for distribution system network use is mainly attributable to the decreasing price of electrical energy for covering losses in distribution systems and a decrease in the allowed losses. In addition, the expected electricity quantity subject to the charge for using distribution system networks has increased and support for distributed electricity generation, which had been financed by the charge for electricity distribution contained in the network use charge, has been cancelled.

Chart 4 shows the two components of the distribution charge from 2010 to 2016.

Chart 4 Components of the charge for electricity distribution at the EHV and HV levels



Charge to cover the costs incurred in support for electricity

For 2016, the price component for support of electricity from POZE has been set for the EHV and HV voltage levels on the basis of agreed booked power input, at CZK 104,174.51/MW/month. At the LV level, it has been set on the basis of the rated current of the main circuit breaker upstream of the electricity meter, at CZK 23.96/A/month. The maximum payment for the electricity support component of the price is calculated as the product of CZK 495/MWh and the total quantity of electricity taken.

The costs exceeding income from the payments of the price component for support of electricity from POZE are met from the national budget under Act No 165/2012.

Charge for system services

The charge for system services has dropped by 5.3% year-on-year and amounts to CZK 99.71/MWh for 2016. The charge has decreased mainly due to the lower costs of ancillary services.

Charge for the market operator's activity in the electricity industry

The charge for the market operator's activity in the electricity industry is now related to supply points and has been set at CZK 6.58/supply point/month for 2016.

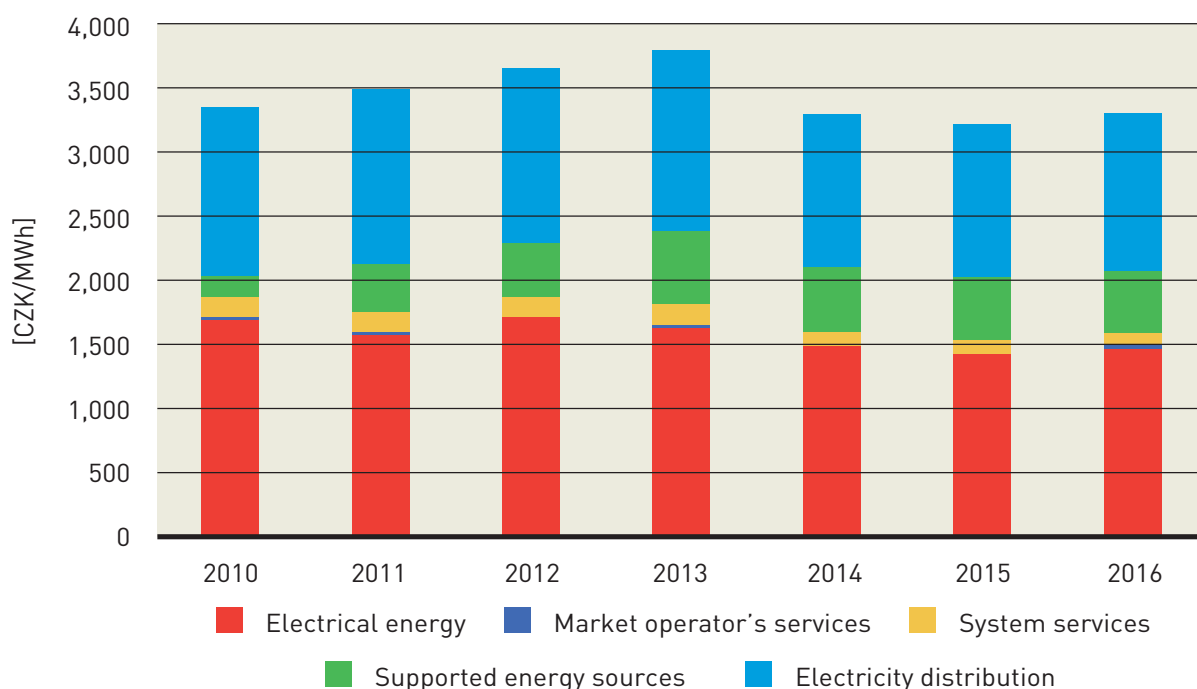
Electricity supply prices for households and low-demand business customers

The average regulated component of the price related to electricity supply for households amounts to CZK 1,841.73/MWh for 2016, up by 1.8% year-on-year (on a comparable basis in terms of the nature and amount of planned electricity consumption when comparing the charges for electricity distribution for 2015 and 2016).

The average regulated component of the price related to electricity supply for low-demand businesses amounts to CZK 2,096.92/MWh for 2016, up by 2.5% year-on-year (on a comparable basis in terms of the nature and amount of planned electricity consumption when comparing the charges for electricity distribution for 2015 and 2016).

The development of average electricity supply prices for households and each of their components since 2010 is shown in Chart 5.

Chart 5 Average prices of electricity supply for households



4.2.3 Unregulated energy price

On today's liberalised market, the price of electrical energy mainly depends on the prices of the products traded at power exchanges. For the Czech market, trading at EEX (European Energy Exchange AG) in Germany and at the Prague energy exchange, PXE (Power Exchange Central Europe) is relevant; at these markets, the trend of price decline continued from around EUR 34/MWh to less than EUR 30/MWh, primarily due to electricity generation from POZE, which have very low incremental costs of electricity quantity produced and frequently even produce power for negative prices due to the aid provided to them. The arithmetic average of prices over the period under review is EUR 32/MWh.

4.2.4 Assessment of the development plan for the electricity transmission system

Section 24(10)(j) of the Energy Act requires ČEPS, a.s., the transmission system operator, to prepare a ten-year plan for the development of the electricity transmission system, including an investment programme, on an annual basis. The underlying idea of the long-term planning for the development and modernisation of energy infrastructure is to find the best way for the gradual integration of energy markets in Europe.

ČEPS's investment plan covers the period from 2016 to 2025 and contains capital expenditure amounting to CZK 46.14 billion spread over ten years, with the capital expenditure allocated more or less evenly to each of the years. Average annual capital expenditure is expected at CZK 4.61 billion. In addition to the need to export output from new capacities, the planned investments are also precipitated by the effort to support the market in both domestic and international cooperation and by the policy adopted for the gradual renovation of the transmission system. The gradual upgrade of the transmission system includes almost one quarter of the 400 kV lines currently in operation. The 200 kV network will also be phased out, and it will be replaced with the 400 kV system. The plan envisages the upgrade of capacities in north-western Bohemia (Ledvice, Počerady and Mělník) and the export of the relevant output into the grid. The investment in expanding the network in connection with the completion of the Temelín and Dukovany NPPs also covers requirements for connections to the grid. Exporting the output from the Chomutov 140 MW wind park and from some other 100 MW renewable capacities in the Karlovy Vary area into the grid requires additional investments. The growing electricity demand in some regions (in particular western Bohemia, the Ostrava area and the Prague agglomeration) necessitates reinforcements of the transformation capacities in the grid, requiring the erection or expansion of 400kV/110kV substations and transformer stations (Dětmarovice, Lískovec, Verněřov, Vítkov, Malešice, the new Prague-North supply station, and Milín).

The rising power in unplanned flows from other countries, mainly Germany, is posing a risk to the safety of the Czech electricity grid. With a view to preserving safe operation and meeting the N-1 safety criterion in the transmission system, ČEPS, a.s. started, following agreement with the German side, the erection of phase shifting transformers (PST) on two parallel lines on the Czech-German interconnector (four machines with an installed throughput power of 850 MVA), which implies a maximum throughput power of 1,700 MVA per cross-border line). PST commissioning is expected in late 2016. They can control the flow of active power in the branch in which the transformer is included.

The ERO received ČEPS's ten-year development plan for the period 2016–2025 as late as 19 January 2016. ČEPS, a.s. must also submit, under Section 16(m) of the Energy Act, a firm opinion of the Ministry of Industry and Trade. The Ministry of Industry and Trade issued its firm opinion granting its approval on 11 January 2016.

4.3 The gas industry

In 2015, actual gas consumption in the Czech Republic amounted (based on preliminary data) to 81,085.9 GWh (7,609.2 million m³). Although the winter months saw relatively warm weather, actual consumption increased by 4.5% compared with 2014.

Chart 6 Actual temperature and normal temperature in 2015

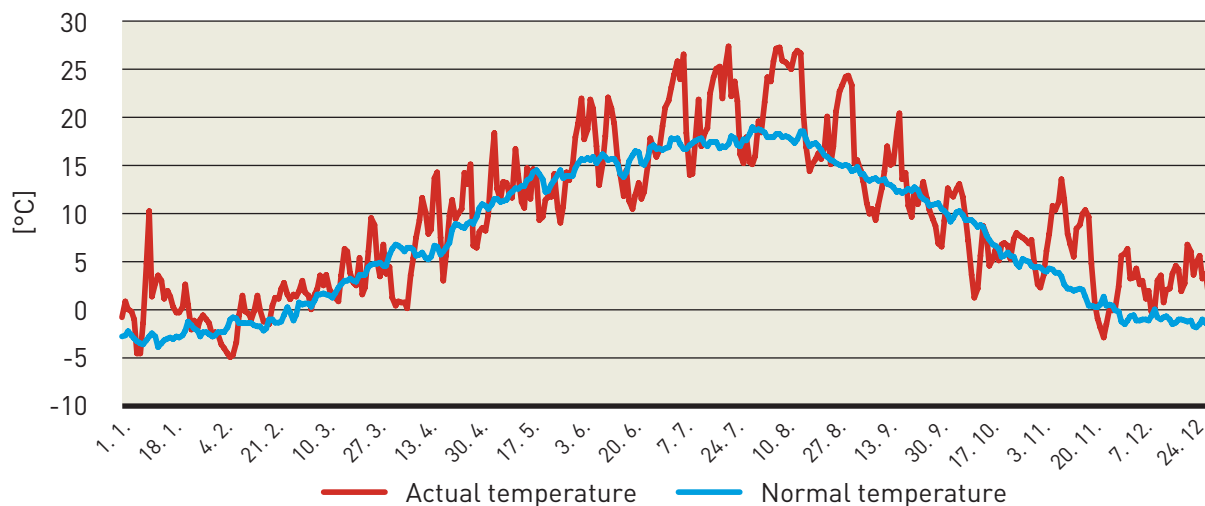
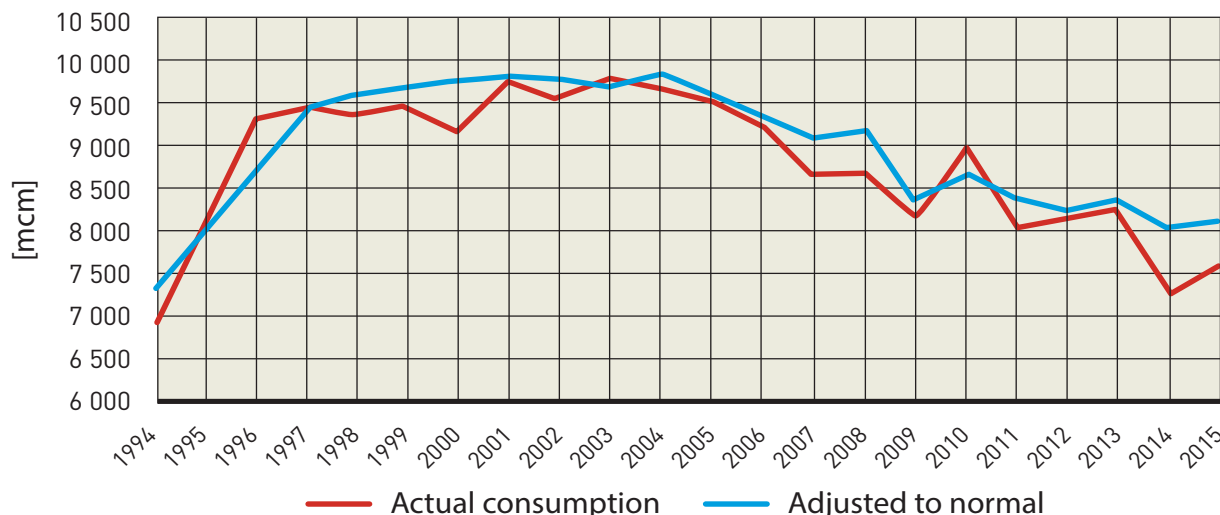


Chart 6 shows that in 2015, average daily temperatures were higher than long-term normal temperatures for almost the whole year.

The country's maximum monthly gas consumption was registered in January at 11,492.8 GWh (1,081.3 million m³). The maximum daily gas consumption was metered on 5 February 2016 and amounted to 453.1 GWh (42.6 million m³) at an average daily temperature of -3.4 °C. For this day, the Office prepared a reference hourly reading.

Actual annual gas consumption in 2015, adjusted for the long-term normal temperature, amounted to 86,174.1 GWh (8,087 million m³). Chart 7 shows actual and adjusted gas consumption in the Czech Republic between 1994 and 2015.

Chart 7 Annual gas consumption between 1994 and 2015



Customer categories' shares of total consumption in 2015 are listed in Table 1.

Table 1 Gas consumption in 2015 by customer category

Category	Annual consumption [GWh]	Share of total consumption [%]
High demand customer category	37,562.1	46.4
Medium-sized demand customer category	7,889.5	9.7
Low-demand customer category	11,257.5	13.9
Households	23,123.0	28.5
Other gas	1,235.8	1.5

Note: Other gas includes, e.g., gas losses in systems and gas producers' own consumption.

4.3.1 The gas market

The retail market

An environment where gas traders supply gas as commodity and the related services to final customers is understood to be the retail gas market. In the Czech Republic, 88 holders of licences for gas trade (traders) supplied gas to customers in 2015.

As at 31 December 2015, the number of registered supply points of customers in the Czech Republic was 2,844,334, down by 4,825 supply points year-on-year. A supply point breakdown by customer category is listed in Table 2.

Table 2 Number of gas supply points in 2015 by category

Customer category	Number of supply points	Share [%]
High demand customer category	1,606	0.1
Medium-sized demand customer category	6,814	0.2
Low-demand customer category	199,725	7.0
Households	2,636,189	92.7
Total	2,844,334	100.0

Of the 177,762 gas supplier switches recorded by the ERO in 2015, household customers made 154,465. The trend of a gradual decline in supplier switching therefore continued from previous years.

Tables 3 and 4 list the numbers of supplier switches in each of the categories.

Table 3 Number of gas supplier switches between 2011 and 2015

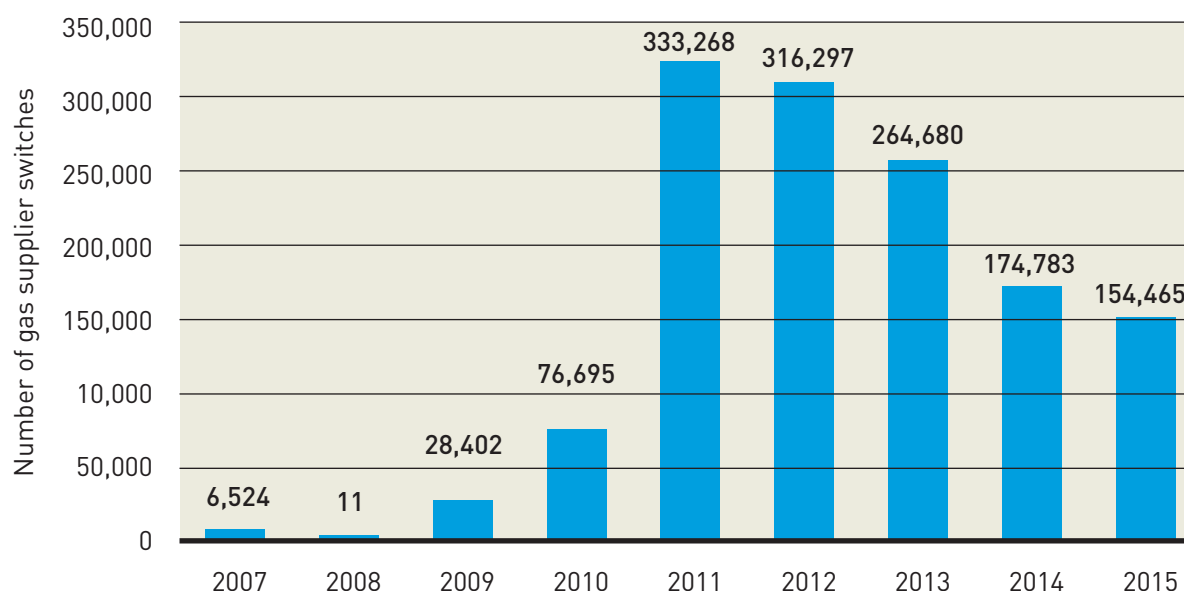
Customer category	2011	2012	2013	2014	2015
High-demand customer category	537	979	449	330	329
Medium-sized demand customer category	1,142	2,951	3,061	1,572	1,326
Low-demand customer category	26,994	27,829	29,091	23,704	21,642
Households	333,268	316,297	264,680	174,783	154,465
Total	361,941	348,056	297,281	200,389	177,762

Table 4 Number of gas supplier switches in 2015

Customer category	Supplier switches	Total supply points	Switching [%]
High-demand customer category	329	1,606	20.5
Medium-sized demand customer category	1,326	6,814	19.5
Low-demand customer category	21,642	199,725	10.8
Households	154,465	2,636,189	5.9
Total	177,762	2,844,334	6.2

Chart 8 depicts numbers of households' gas supplier switches since the start of gas market liberalisation in the Czech Republic.

Chart 8 Annual gas supplier switches in the household category



The wholesale market

An environment where gas traders trade in this commodity with each other is understood to be the wholesale gas market. The Office monitors the working of this environment and oversees compliance with the rules to prevent discrimination against or damage to any entities on the market. The wholesale gas supply price is not regulated by the Office.

In 2015, a record growth in trading at the intra-day gas market organised by the market operator, OTE a.s., could be seen. The volume of trades there totalled 2,228 GWh. The year-on-year increase was a record 236% on 2014, when counterparties executed trades totalling 661 GWh.

Gas flows at the entry into the Czech Republic via the Lanžhot and Hora Svaté Kateřiny border transfer stations confirm the trend from previous years in the use of the transmission system in the west-to-east direction. Via Lanžhot, approximately 143 GWh of gas flowed into the country in 2015, whereas quantities of hundreds of GWh per day were metered at the Hora Svaté Kateřiny and Brandov border transfer stations at the entry into the country.

4.3.2 Pricing

The final prices for gas supply are composed of a part regulated by the ERO and an unregulated part. The Office has no authority to set the prices for gas traders' supply services or gas storage prices, and these components of the total price for gas supply are therefore not subject to price controls.

In 2015, the Office set regulated prices for the licensed activities of gas transmission and gas distribution, and for the market operator's services for 2016. The price decision also lays down the conditions for pricing gas supplied by the supplier of last resort.

The controlled prices related to gas supply in 2016, which are set out in the price decision, were determined on the basis of the Energy Act, public notice no. 195/2015 on the method of price regulation and procedures for price controls in the gas industry, public notice no. 196/2015 on the method of price regulation and procedures for regulating the prices for the market operator's activities in the electricity and gas industries, and the Price Regulation Principles.

4.3.3 Controlled parts of the gas supply price

Transmission charges

NET4GAS, s.r.o. is the gas transmission system operator in the Czech Republic under an exclusive licence for gas transmission awarded by the Energy Regulatory Office.

For 2016, the transmission system operator's adjusted allowed revenues have increased by about 3.83% on 2015. One of the reasons is the one-fifth increase in the TSO's allowed costs. Another major cause that has had an unfavourable influence on the gas transmission charge is the positive value of the correction factor, which accounts for approximately 8% of the total adjusted allowed revenues. The correction factor is positive due to a lower use of the entry border points in the gas transmission system than had been planned. In particular the drop in the costs of the flexibility service, one of the instruments for the physical balancing of the gas system, has had a positive influence on the value of the adjusted allowed revenues for 2016.

The charge for gas transmission to the domestic point, which is part of the regulated prices for gas distribution, has been set at an average of CZK 18.74/MWh for 2016. This item accounts for about 1.5–2.2% of the total gas supply price, depending on the customer categorisation as a household, low-demand, medium-sized demand or high-demand customer.

The variable parts of gas transmission charges have been set at the same level as those for 2015. An exception is the fixed price for transported gas for the gas storage points, where the price for 2016 has increased from CZK 0.08/MWh to CZK 0.37/MWh due to higher gas consumption for compression stations (fuel gas) that are necessary for delivering gas to the transmission system's exit points. The fixed components of the prices at the entry and exit border points and gas storage points have been maintained at the 2015 level.

Due to the obligation to transpose Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (which has a higher priority) into the national gas market model, the latter half of 2015 saw another major amendment to ERO Price Decision 4/2014 of 25 November 2014 on regulated prices related to gas supply, as amended in Price Decision 2/2015 of 4 September 2015, amending ERO Price Decision 4/2014 on prices and conditions for their application for 2015.

Gas distribution charges

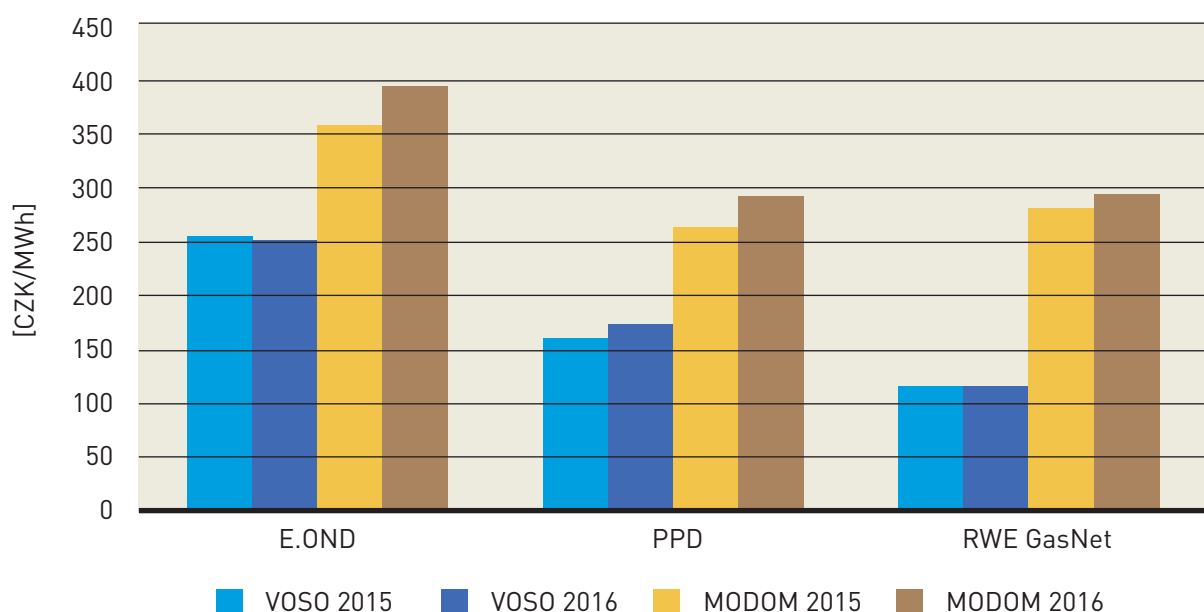
Gas distribution means gas transport to customers' supply points over the distribution system serving the relevant area.

The regulated gas distribution charge is, in most cases, a double-component charge. It has a variable component and a fixed component. The single-component price is only used in some special cases.

The charge for gas distribution, covering also gas transport to the domestic point, has increased by 2.65% on average for all customer categories for 2016 compared with 2015.

The main reasons for increasing the distribution charge include the higher charges for gas transmission to the domestic point, a drop in the gas quantity planned for distribution and positive values of correction factors, which represent the difference between the actual and planned revenues from gas distribution in the period under review. The drop in the costs incurred in procuring gas to cover the allowed losses and process consumption in distribution systems has had a positive effect. Chart 9 compares average regulated charges for gas distribution.

Chart 9 Comparison of average regulated charges for gas distribution (distribution, transmission and OTE) in 2015 and 2016, by distribution system operator



Note: VOSO – high-demand and medium-sized demand category, MODOM – low demand and households

Analyses of distribution products

As in preceding years, in 2015 the Office analysed products that are special in terms of their use and defined in the price decision for customers using the gas distribution service.

On the basis of the evaluated data the Office found that all the products were used by gas market participants sufficiently, and their existence was therefore warranted and contributed to the efficient use of the gas infrastructure.

Charge for the market operator's services in the gas industry

The ERO has awarded the exclusive licence for the market operator's activities across the Czech Republic to OTE, a.s. In the gas industry, the market operator carries out activities related to the organisation of the spot gas market, clearing, the provision of actual values to gas market participants, the provision of data from records of commercial transactions on the gas market, the registration of market participants, and the evaluation and clearing of imbalances of cleared entities, and it also prepares long-term predictions of gas supply and demand.

Some of the services provided by the market operator are subject to ERO regulation.

In 2015, the activities carried out by the market operator were broadened to include the provision of data from records of commercial transactions on the gas market organised by the market operator, under Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT).

For 2016, the fixed charge for clearing has been increased to CZK 1.28/MWh from CZK 1.16/MWh applicable in 2015. These prices are marked up by the fee for the Office's activities, which is set by a Government Order under Section 17d(3) of the Energy Act. Government Order 392/2015 on the fee for the activities of the Energy Regulatory Office set the fee for the ERO's activities in the gas industry at CZK 1.34/MWh of the consumed gas quantity for 2016. In 2015, the fee was CZK 1/MWh. The clearing charge, without any special fee, has been increased primarily due to the extension of the market operator's activities to include new agendas for which it is now responsible.

For 2016, the charge for the market operator's services in the gas industry is therefore CZK 2.62 MWh.

The other regulated charges for the market operator's activities, which are listed in the price decision for 2016, have remained at their 2015 level.

Price for the supplier of last resort

The supplier of last resort is obliged to supply gas to customers whose original supplier discontinues gas supply due to losing its authorisation or ability to supply gas to supply points at which no entity is responsible for imbalances.

In 2015, only one situation occurred where the market operator suspended, under public notice no. 365/2009 on Gas Market Rules, as amended, the opportunity to nominate, transfer and accept responsibility for imbalances and trade on the day-ahead and intra-day gas market. In this connection the Office was not asked to cap the prices of gas supply in the regime of the supplier of last resort for such supply points.

4.3.4 Uncontrolled parts of the price related to gas supply

Business charge

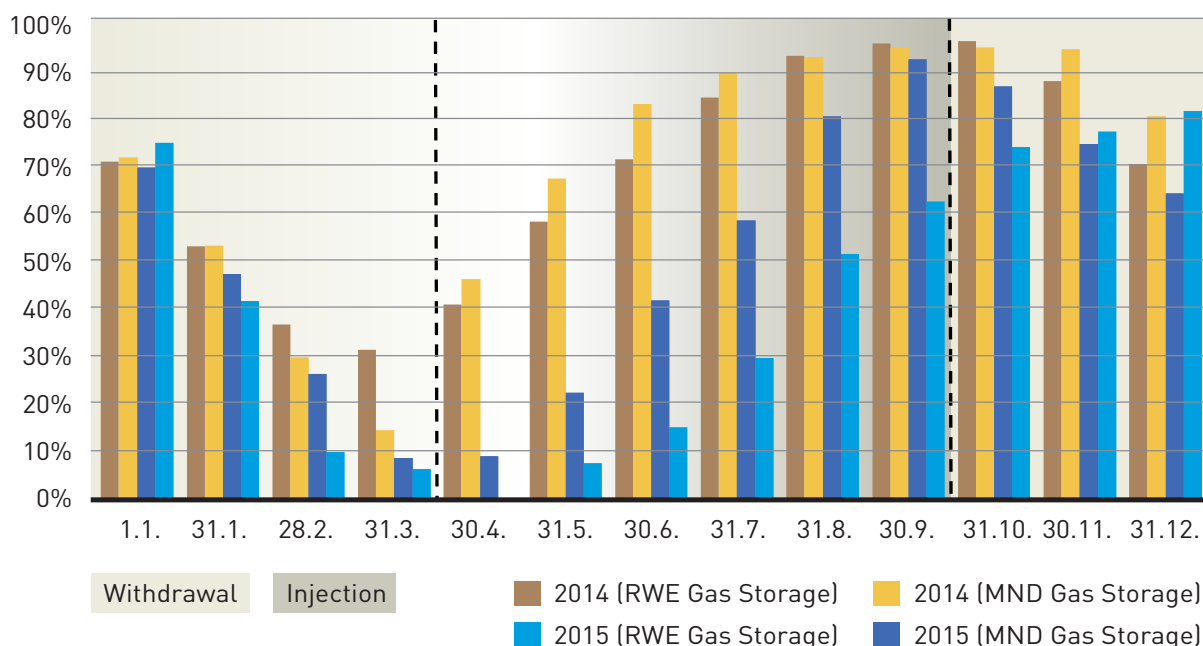
The ERO is not authorised to control the business charge, i.e., the price of gas as commodity, and traders' related services; nevertheless, it monitors these prices on a long-term basis.

Gas traders' price quotations for MODOM customers were stable in 2015. The situation was different with prices for VOSO customers. Traders' price quotations for medium-sized demand and high-demand customer categories are much more closely correlated with wholesale prices. For these customer categories 2015 therefore saw an approximately 6% decline in the business part of the price.

Gas storage charge

As in 2014, the levels of gas stored in the UGS facilities for the coming winter season were monitored in 2015. The main reason for this increased attention was the fact that gas stores had been exhausted more than usual, since at the end of the withdrawal season, on 31 March 2015, gas stores in UGS facilities filled only 9.28% of the aggregate capacity of all UGS facilities. In the same period in 2014, gas stores in UGS facilities filled 32.76% of the aggregate capacity of UGS facilities. Chart 10 shows gas stores in UGS facilities in the Czech Republic between 1 January 2014 and 31 December 2015.

Chart 10 Comparison of gas stores in Czech UGS facilities from January 2014 to December 2015



Note: The dashed black lines in the chart denote the beginning and the end of the withdrawal season

In 2015, SSOs (RWE Gas Storage, s.r.o. and MND Gas Storage, a.s.) called a total of 11 auctions to sell storage capacity for the coming years. Storage capacity was offered for one to five years. RWE Gas Storage offered storage capacity ranging from 2.9 million m³ to 33 million m³. In 2015, MND Gas Storage called one auction for five-year capacity, offering an operating volume of 76 million m³.

The reserve prices in storage capacity auctions were lower than in 2014, which can be attributed to the influence of declining gas prices on spot markets and the minimum difference between the summer and winter prices on spot markets. This trend, negative for SSOs, has ultimately had a positive effect of lower extra costs for gas traders and, possibly, lower final prices for customers.

Supply security standard

Within its remit, the Office monitors and evaluates adherence to the gas supply security standard in the Czech Republic. In 2015, the Office contributed to the drafting of an amendment to MPO public notice no. 344/2012 on emergencies in the gas industry and methods of providing for the gas supply security standard, the purpose of which was to provide for the obligations concerning adherence to the standard and reporting thereon. In 2015 the Office also participated

in the consultation on Regulation (EU) 944/2010. In response to gas traders' and expert circles' interest, the Office created a new Monthly Report on the Evaluation of the Security Standard for Gas Supply in the Czech Republic, which is regularly posted on the Office's website throughout the period for which gas traders are obliged to keep the gas supply security standard. The Office pays utmost attention to checking gas traders' compliance with the security standard.

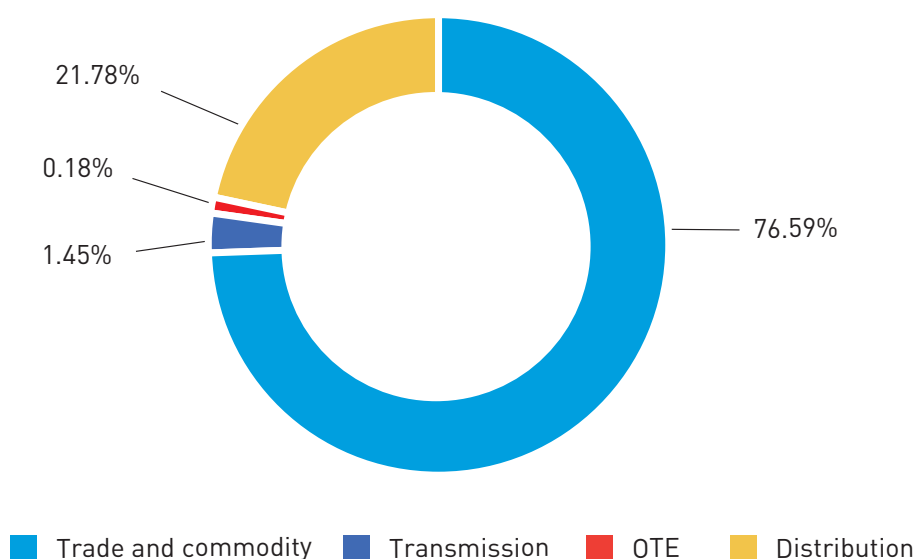
Gas supply prices for households

The trend where suppliers do not reduce their quoted prices of basic product series but usually offer price reductions related to price lists tied to entering into fixed-term contracts was apparent again in 2015. Through this strategy, traders seek to commit customers to longer contract terms for more attractive prices. Thus, customers could usually achieve different prices by supplier switching only, or by selecting a different product series.

According to information released by Eurostat¹⁾ in 2015 the average final price of the gas supply service for households using gas for heat production for space heating (Eurostat D2 – households with annual consumption ranging from 5.6 to 55.6 MWh) was CZK 1,566.52/MWh (CZK 27.283/EUR²⁾) net of tax items.

In 2015, the price of gas supply for the household segment accounted for approximately ¾ of the overall price for the bundled gas supply service (Chart 11).

Chart 11 Structure of the average price of the gas supply service for household customers in 2015 (net of tax items)



1) <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=ten00118&plugin=1>

2) http://www.cnb.cz/cs/financni_trhy/devizovy_trh/kurzy_devizoveho_trhu/prumerne_mena.jsp?mena=EUR

4.3.5 Assessment of the development plan for the gas transmission system

Under Section 58k of the Energy Act, the Office assesses, and approves in its decision, the Ten-year Plan for the Development of the Gas Transmission System (TYNDP, Ten-year Plan), which is prepared and submitted to the Office by the TSO every year. The duty to prepare and submit TYNDP to the Office for approval is based on the implementation of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC, in Czech legislation (the Energy Act).

In the submitted plan the ERO assessed, in particular, its compliance with the Union-wide Ten Year Network Development Plan 2015, issued on 16 March 2015 by ENTSOG. Simultaneously, the Office reviewed the treatment of the comments emerging from the public consultation process.

The Office assessed the Ten-year Plan and, under Section 17e(2) of the Energy Act, consulted the plan with gas market participants in a manner enabling remote access. The decision to approve the submitted Ten-year Plan was issued on 13 January 2016.

The Ten-year Plan includes planned projects with a cross-border reach, intended to increase cross-border capacity.

In 2015, the European Commission conducted an evaluation process on the basis of the new methodology for selection. Cooperating with the regulatory authorities of the countries concerned (Austria and Poland), the Office prepared one of its elements, specifically the assessment of projects that have a direct impact on the Czech gas system.

4.4 The heating industry

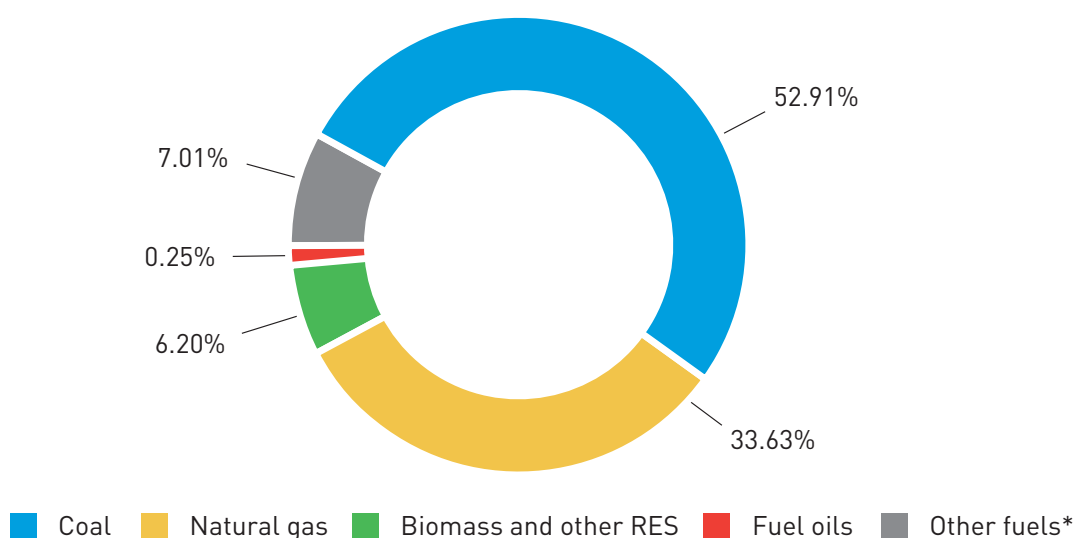
4.4.1 Market description

The Czech Republic is a country with a large proportion and long tradition of district heating. Thermal energy supply systems provide a significant portion of heat supply for households, businesses, and non-business institutions. The heating industry is a very heterogeneous industry, both in terms of the method of thermal energy production and the size of heating installations, and in terms of the size of the various heat companies. Thermal energy supply is usually intended for a certain region or locality and the thermal energy generating and distributing equipment and installations often reflect the specific conditions of the particular locality. In the Czech Republic, the heating industry has a long tradition and is well-developed in almost all larger towns and cities, and also in those where significant amounts of thermal energy were supplied for industrial use in the past. In view of the ageing of supply systems and the developments in thermal energy supply, in the future emphasis should be placed on modernising, retrofitting and optimising the existing systems for thermal energy supply, promoting high-efficiency technologies, supporting the regional development of thermal energy supply systems, and applying transparent thermal energy prices.

The heating industry is influenced by a number of Czech laws and regulations and the EU's energy policy. The fundamental pieces of legislation governing the heating industry are the Energy Act and Act No 526/1990 on prices, as amended, under which thermal energy prices are regulated on a cost-plus basis. The conditions for calculating and agreeing on thermal energy prices have further been laid down in ERO price decisions on thermal energy prices since as early as 2001.

In 2014, some 45.5 million GJ of thermal energy was supplied to final customers (at the following levels of thermal energy delivery: centralised hot water preparation at the heat source, centralised hot water preparation at a heat exchange substation, from distributions of boiler rooms serving blocks of houses, from outside secondary distributions, from house delivery stations and from house boiler rooms). Chart 12 shows the shares of fuels used for thermal energy supply to final customers in 2014. The chart indicates that coal is primarily used for thermal energy generation intended for supplying final consumers. Gas takes approximately one-third of thermal energy supply.

Chart 12 Fuels used for heat supply to final consumers in 2014



* These are mainly other gases, municipal and hazardous waste, electricity, coke, and nuclear fuel

4.4.2 Thermal energy price controls

The Office lays down the conditions for calculating and agreeing on cost-plus prices of thermal energy in its price decisions on thermal energy prices. ERO Price Decision 2/2013 of 1 November 2013 applied to thermal energy prices in 2015. The Office does not directly set or approve the level of these prices in the various price localities. Cost control methods in the heating industry make it possible to reflect all the technical and other specific conditions for thermal energy generation and distribution, and thermal energy prices may therefore vary significantly in the various locations.

Under the current regulatory method, thermal energy prices may only reflect the economically justifiable costs, reasonable profit related to thermal energy generation and distribution, and VAT. The conditions for calculating and agreeing on thermal energy prices, laid down in the price decision, apply to all supplies of thermal energy.

In connection with the amendment to the Energy Act, amendments to a number of implementing acts in the heating industry also had to be drafted in 2015. The most notable change in this respect was the introduction, in the amendment to the Energy Act, of the term 'limit price' that reflects the level under which the conditions of cost-plus control of thermal energy prices do not apply. In accordance with Section 19a(4) of the amendment to the Energy Act, the Office laid down this limit price in its price decision effective from 1 January 2016 at CZK 152.86/GJ without VAT.

4.4.3 Evaluation of thermal energy prices

Under Section 20(6) of the Energy Act, holders of licences for thermal energy generation and distribution submitted regulatory reports in the scope under public notice no. 59/2012 on regulatory reporting. The reports contain technical and economic information on the basis of which the Office prepares overviews of the resulting thermal energy prices, evaluates the development of prices, monitors the impacts of thermal energy price controls and licence holders' financial stability and identifies the customary levels of costs and profit for each of the categories of thermal energy generation and distribution. Using the data in regulatory reports as inputs, the Office prepares overviews of the resulting thermal energy prices for the calendar year, broken down by price locations, and reports on the evaluation of thermal energy prices and their development, which the Offices posts on its website. Data from regulatory reports is also used, for example, in the case of price inspections, administrative proceedings or in addressing various suggestions and complaints received from customers.

4.4.4 Development of thermal energy prices

The Office has been processing and evaluating the development of thermal energy prices since 2001. Average prices for each of the years are calculated as a weighted average, where the quantity of thermal energy generated from coal or other fuels (largely gas and fuel oils) is the weight. In the period under review, thermal energy generated from coal shows a gradual and more even growth in the average thermal energy price. Thermal energy from other fuels displays a high year-on-year growth in prices in 2006, 2008, 2012 and 2014. The development of thermal energy prices is primarily influenced by fuel price changes and shrinking heat supply. Thermal energy prices were also heavily influenced by the rise in the lower VAT rate, the imposition of the environmental tax and the required purchase of emission allowances. For the whole period under review (15 years), the average price of thermal energy generated from coal for final customers increased by CZK 256.12/GJ (from CZK 297.03 to CZK 553.15/GJ), i.e., approximately by 86.2%. Over the same period the price of thermal energy generated from other fuels increased by CZK 265.23/GJ (from CZK 342.41 to CZK 607.64/GJ), i.e., approximately by 77.5%.

Chart 13 shows the development of average resulting prices of thermal energy supplied to end consumers (to their thermal energy appliance) between 2005 and 2014, including the preliminary thermal energy prices as at 1 January 2015. In 2014, the average price of thermal energy generated from coal increased year-on-year by CZK 23.05/GJ, i.e., 4.15%, and the average price of thermal energy from other fuels increased by CZK 17/GJ, i.e., 2.72%. As at 1 January 2015, the average preliminary price of thermal energy from coal declined by CZK 2.66/GJ (from CZK 555.81/GJ to CZK 553.15/GJ), i.e., by 0.48%, and that of thermal energy from other fuels decreased by CZK 17.11/GJ (from CZK 624.75/GJ to CZK 607.64/GJ), i.e., by 2.82% compared with the resulting average thermal energy price for 2014.

Chart 13 Average thermal energy prices for final customers between 2005 and 2014 and on 1 January 2015 (including VAT)

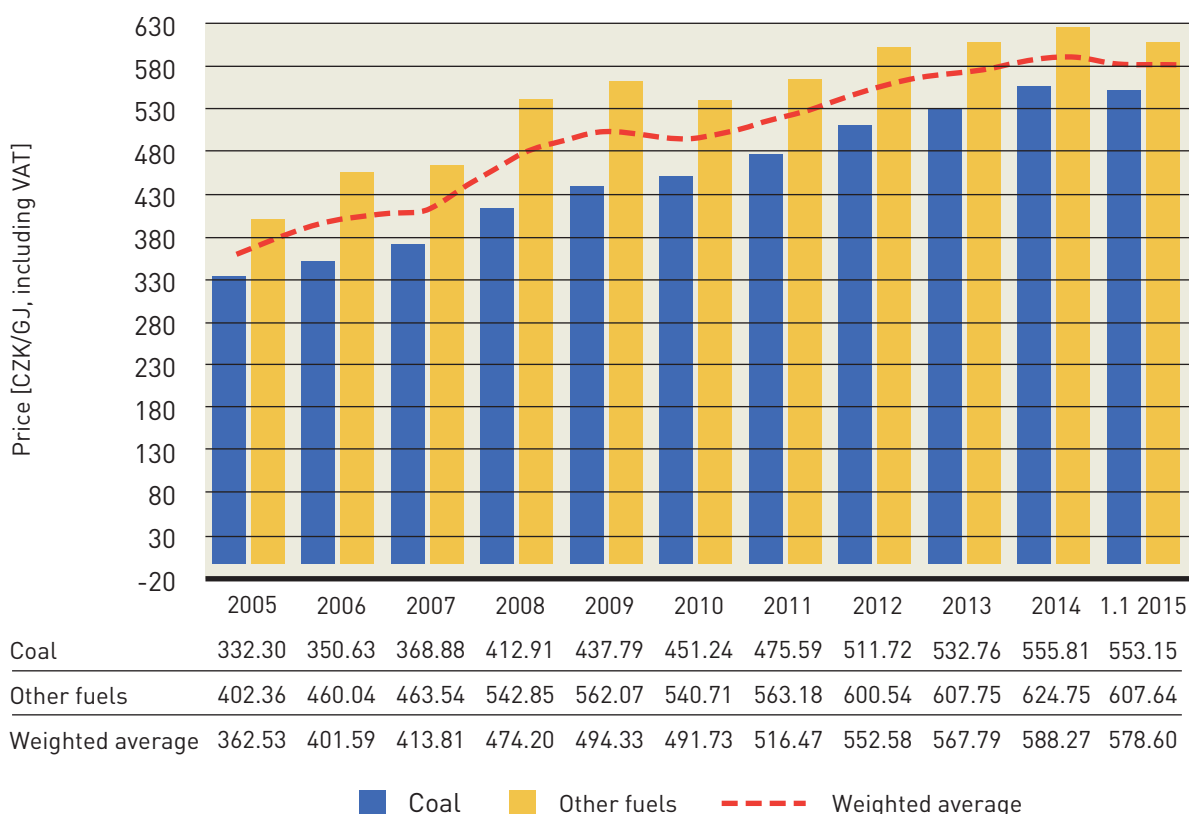
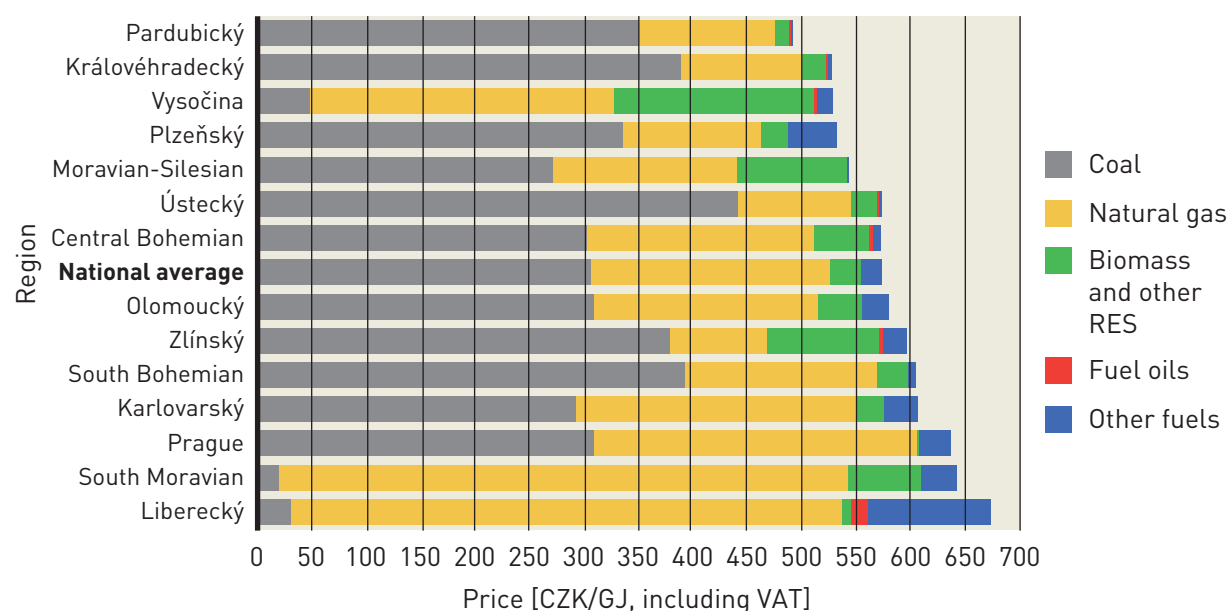


Table 5 lists average thermal energy prices for final customers for each of the regions as at 1 January 2015, together with the percentages of the fuels used in thermal energy generation. The lowest prices are in regions with large coal-fired combined heat and power generation capacities and with extensive district heating systems. On the other hand, the highest average prices of thermal energy for final customers are charged by smaller heating systems that use the other fuels to a large extent for heat production (primarily gas and fuel oils) combined with primary distribution systems based on steam. As at 1 January 2015, the difference between the Region with the lowest average price (the Pardubice Region, CZK 491.66/GJ) and the Region with the highest average price (the Liberec Region, CZK 672.99/GJ) amounted to CZK 181.33/GJ for end consumers.

Table 5 Average prices of thermal energy (including VAT) for final customers as at 1 January 2015 by Regions

Region	As at 1 January 2015		
	Average preliminary price of thermal energy	Coal percentage	Percentage of other fuels
	[CZK/GJ, incl. VAT]	[%]	[%]
Pardubický	491.66	71.31	28.69
Královéhradecký	524.98	74.14	25.86
Vysočina	529.10	9.06	90.94
Moravian-Silesian	531.82	62.94	37.06
Plzeňský	543.96	49.70	50.30
Ústecký	572.16	76.99	23.01
Central Bohemian	572.69	52.67	47.33
Olomoucký	573.13	53.34	46.66
South Bohemian	596.54	63.57	36.43
Karlovarský	603.85	64.79	35.21
Zlínský	607.31	48.28	51.72
Prague	635.38	48.50	51.50
South Moravian	642.79	3.14	96.86
Liberecký	672.99	4.47	95.53
National average	578.60	53.29	46.71

Chart 14 Average preliminary prices of thermal energy (including VAT) for final customers as at 1 January 2015 and percentages of fuels by Regions



It is apparent from Chart 14 that in the Regions where the largest proportion of coal is used for heat production (the Pardubický, Královéhradecký and Moravskoslezský Regions) the thermal energy price is the lowest, while in Regions with a significant predominance of other fuels, in this case gas and fuel oils (the South Moravian and Liberecký Regions), the thermal energy

price is the highest. In these two regions, the high prices are also attributable to the fact that steam is used in the primary distribution systems as the heat carrying utility, which results in larger heat losses. In the Vysočina Region, the favourable price of thermal energy is attributable to the large share of biomass for generating thermal energy.

The shifting of supplied thermal energy quantities to higher price ranges due to increasing thermal energy prices is apparent from Chart 15. Thermal energy supplied to final consumers for low or, on the contrary, high prices, makes up only a small percentage of overall supply.

Chart 15 Price ranges with the respective thermal energy quantity supplied to final customers from 2012 to 2014 and as at 1 January 2015

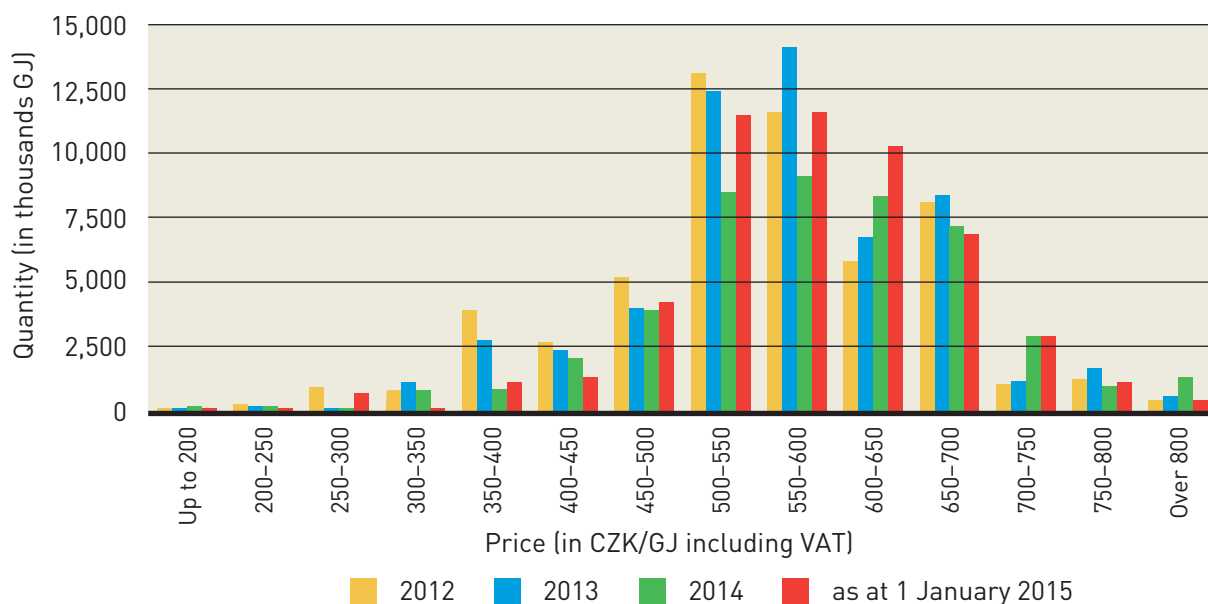
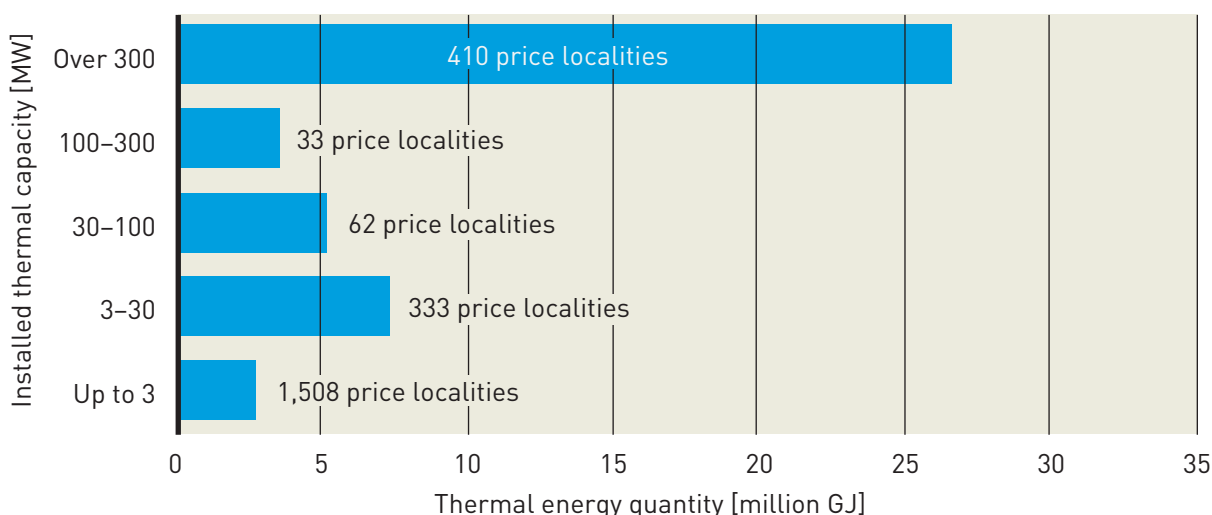


Chart 16 shows the quantity of thermal energy supplied for end consumers, broken down by the level of installed thermal capacity in price localities, and the number of price localities.

Chart 16 Thermal energy quantities supplied to final customers in 2014 and the number of price localities by installed capacity of plants supplying heat



4.5 Supported energy sources

The year 2015 was marked by the completion of the 'large amendment' to the Energy Act, a part of which was also an amendment to the POZE Act. Despite the Office's effort, the final amended wording of the law did not provide for protecting meters of generated electricity, on the basis of which aid is paid out from the public purse, against illegal tampering. By the same token, measures helping to minimise or eliminate the potential overcompensation through state aid were not adopted. The fact that the final wording of the amendment to the law did not contain provisions on the division of electricity generating plants, which could have had a significant negative impact on the national budget in connection with the levy on electricity from solar radiation, can be regarded as the Office's great success. The final wording of the Energy Act also significantly extends the transitional provisions under which the Office shall set out the amount of aid for renewable electricity in the case of biomass firing and in the case of wind and geothermal energy in its price decisions in the coming years.

With regard to the effective date for most of the provisions of Act No 131/2015 expected as of 1 January 2016, in 2015 the Office drew up an amendment to the public notice related to the determination of the technical and economic parameters for new electricity generating plants aided under the law and new heat generating plants, low-capacity biogas plants based mostly on fuel from waste. Extensive data collection preceded the determination of the parameters for these new heat generating plants defined by the law. This data processing and updating exercise resulted in public notice no. 296/2015 on the technical and economic parameters for determining feed-in tariffs for electricity generation and green premiums on heat and on determining the service life of electricity generating plants and heat generating plants using renewable energy sources ('the technical & economic parameters public notice'). It superseded the previous no. 347/2012 laying down the technical and economic parameters of renewable energy sources for electricity generation and the useful life of plants generating electricity from supported energy sources, as amended. Due to the amendment to the law, public notice no. 346/2012 on time limits and procedures for selecting the form of support, procedures for registering support with the market operator, time limits and procedures for selecting and changing the regime of green premiums on electricity and time limits for offering electricity to mandatory purchasers ('the registration public notice') was superseded by no. 9/2016 on procedures for registering support with the market operator and the implementation of certain other provisions of the law on supported energy sources ('the registration public notice'), which specifies the procedure for registering with the market operator, the choice of the form of aid etc.; it was promulgated in the Official Gazette only in early 2016.

Issuing the price decision laying down aid for supported energy sources for 2016 was quite complicated for the Office. The very unclear interpretation of Section 1(3) of Act No 165/2012 on supported energy sources and amending certain laws, as amended, together with varying interpretations of EU legislation, caused a very unstable situation as regards the Office's authority to promulgate aid for the generating plants the aid to which is paid on the basis of an aid scheme for which the European Commission did not notify its decision on compatibility with the EU internal market. At the time of the publication of the price decisions, such Commission decision was only notified for plants generating electricity from renewable sources commissioned between the beginning of 2013 and the end of 2015. This situation precipitated the need to adopt Czech Government Resolution of 2 December 2015 no. 987 on Operating Aid for Renewable Energy Sources Commissioned before 1 January 2013 and, later, Czech Government Order 402/2015 on Aid for Electricity and Heat from Supported Energy Sources, and to issue two price decisions, namely no. 5/2015 laying down aid for supported energy sources, which promulgated aid for the electricity generating plants aid for which had been notified (these are electricity generating plants using RES and commissioned between 2013 and 2015), and no. 9/2015 laying

down aid for supported energy sources, which promulgated aid for electricity generating plants using RES and commissioned before 2013, combined heat and power generation, secondary sources, and heat generating plants.

None of the price decisions set out the amount of aid for new electricity/heat generating plants that would be commissioned on or after 1 January 2016, the aid for which is certainly also subject to a notified approval.

4.6 Licensing policy and its development

As regards licensing, 2015 was the second year in which the effects of reduced support for renewable electricity generation were felt in full. The Office received a total of 2,023 applications, down by 11% on 2014.

In 2015, only 175 new operations appeared, of which 144 were up to 30 kW photovoltaic plants and 26 up to 10 MW hydroelectric power stations. The remaining five operations included other types of new plants.

Total installed renewable capacity had risen by 0.71 MW by the end of 2015, with photovoltaic plants' share decreasing by 3.16 MW. Plants generating from biomass decreased by 2.41 MW, there was no change in pumped storage hydroelectric power stations, while up to 10 MW hydroelectric power stations increased only by 5.51 MW, and these therefore did not have any major effect on growth in capacity.

The number of applications for the recognition of business authorisations for trade in electricity and gas granted by the competent authority of another EU member state slightly increased in 2015. In the heating industry, the number of applications, mainly occasioned by technology changes, asset transfer or capacity decentralisation was approximately the same as in 2014 and 2013.

Table 6 Numbers of valid licences between 2007 and 2015 by object of business

Licences	2007	2008	2009	2010	2011	2012	2013	2014	2015
Electricity generation	1,702	2,989	7,223	13,301	13,530	20,843	26,021	26,158	26,314
Electricity distribution	281	281	281	300	307	315	319	299	294
Electricity trade	293	310	312	321	353	360	389	392	381
Foreign authorisations for electricity trade	-	-	-	-	1	4	12	17	26
Gas production	13	14	15	15	15	15	15	14	13
Gas distribution	99	92	87	87	86	83	78	77	72
Gas trade	85	103	105	122	143	172	196	201	213
Foreign authorisations for gas trade	-	-	-	-	1	2	9	13	24
Gas storage	4	4	4	4	4	4	4	4	4
Thermal energy generation	672	655	641	627	619	627	656	672	669
Thermal energy distribution	719	699	689	675	663	653	653	663	654
Total	3,868	5,147	9,357	15,452	15,720	23,075	28,367	28,513	28,664

In 2015, the Office issued 615 new decisions awarding licences in all energy industries. In addition, 1,032 sets of administrative proceedings were conducted on licence amendments in relation to changes of responsible representatives, changes in installed capacity and changed numbers of operations.

The number of applications related to mergers or division of enterprises and transfer of installations to new entities was stable in 2015. Installations were also frequently transferred to a different licence holder (in particular photovoltaic plants), mainly between family members and natural and juristic persons.

The number of administrative proceedings on licence revocation dropped by 16%; they were most frequently initiated by licence holders. In the period under review, the Office provided assistance and information requested by the General Financial Directorate. This cooperation helped to revoke the a trader's electricity trade licence and a trader's gas trade licence on the grounds of failing to meet the financial standing requirement.

Table 7 lists the number of administrative proceedings on licence award, change and revocation.

Table 7 Number of licensing proceedings between 2007 and 2015 (by purpose)

Licence proceedings	2007	2008	2009	2010	2011	2012	2013	2014	2015
New licences	540	1,420	5,159	6,997	560	8,051	5,698	625	615
Licence changes	504	598	1,154	1,708	1,029	2,032	1,809	1,192	1,032
Revoked licences	174	163	204	264	264	264	354	450	376

As regards renewables, last year saw a slight decrease in the number of applications for licences for electricity generation at small hydroelectric power stations. There were no major changes as regards the other types of energy compared with 2014, see Table 8.

Table 8 Number of electricity generating operations and installed capacities between 2009 and 2015 by type of renewable energy used (statistics are heavily influenced by the most recent court decisions in cases of PV plants)

Operations		2009	2010	2011	2012	2013	2014	2015
Hydro	Number	1,369	1,397	1,420	1,451	1,500	1,589	1,615
	Capacity [up to 10 MW]	135.39	140.25	141.77	148.08	154.23	342.67	348.18
Wind	Number	85	93	95	105	112	124	128
	Capacity [MW]	192.86	214.78	217.92	261.98	269.36	283.47	284.98
Solar	Number	6,032	12,861	13,019	21,925	27,956	28,127	28,276
	Capacity [MW]	462.92	1,952.70	1,952.70	2,072.07	2,125.91	2,126.06	2,122.90
With a bio-gas share	Number	157	180	264	415	430	431	428
	Capacity [MW]	80.10	103.02	167.97	306.04	333.68	335.51	334.79
Landfill gas	Number	62	61	63	66	70	70	69
	Capacity [MW]	23.18	22.63	56.50	57.20	58.67	58.67	58.65
With a biomass share	Number	48	56	63	74	94	93	93
	Capacity [MW]	2,041.00	1,676.37	1,617.64	1,783.11	2,939.33	2,990.42	2,988.01

The list of licence holders is updated on a quarterly basis on the Office's website by licence type. On the website, a web application also 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.

4.6.1 Recognition of professional qualifications

In respect of the recognition of professional qualifications continuous and long-term cooperation with the national coordinator, Ministry of Education, Youth and Sports of the Czech Republic (MŠMT), is under way. The Office is involved in a project for an information system of the internal market (IMI) for effective administrative cooperation and mutual communication between the EU member states' recognition authorities. In 2015, the Office decided on one case in administrative proceedings on the recognition of professional qualifications within the meaning of Act No 18/2004 on the recognition of professional qualifications, as amended.

4.6.2 The Energy Regulatory Fund

Under Section 14(10) of the Energy Act, the Office is required to submit an audit of the fund for the respective calendar year. Complying, the Office had the fund audited under the audit guidelines issued by the Chamber of Auditors of the Czech Republic. According to the auditor's report the books of the fund were maintained in accordance with the applicable legislation and truly and fairly reflected its situation for the accounting period of 2015, see Appendix 1.

As at 31 December 2014, the opening balance in the Energy Regulatory Fund stood at **CZK 45,444,390**. In 2015, no compensation was paid from the fund's account for a conclusive loss from activity over and above a licence. No income or expenditure was recorded in this account of the Energy Regulatory Fund in 2015.

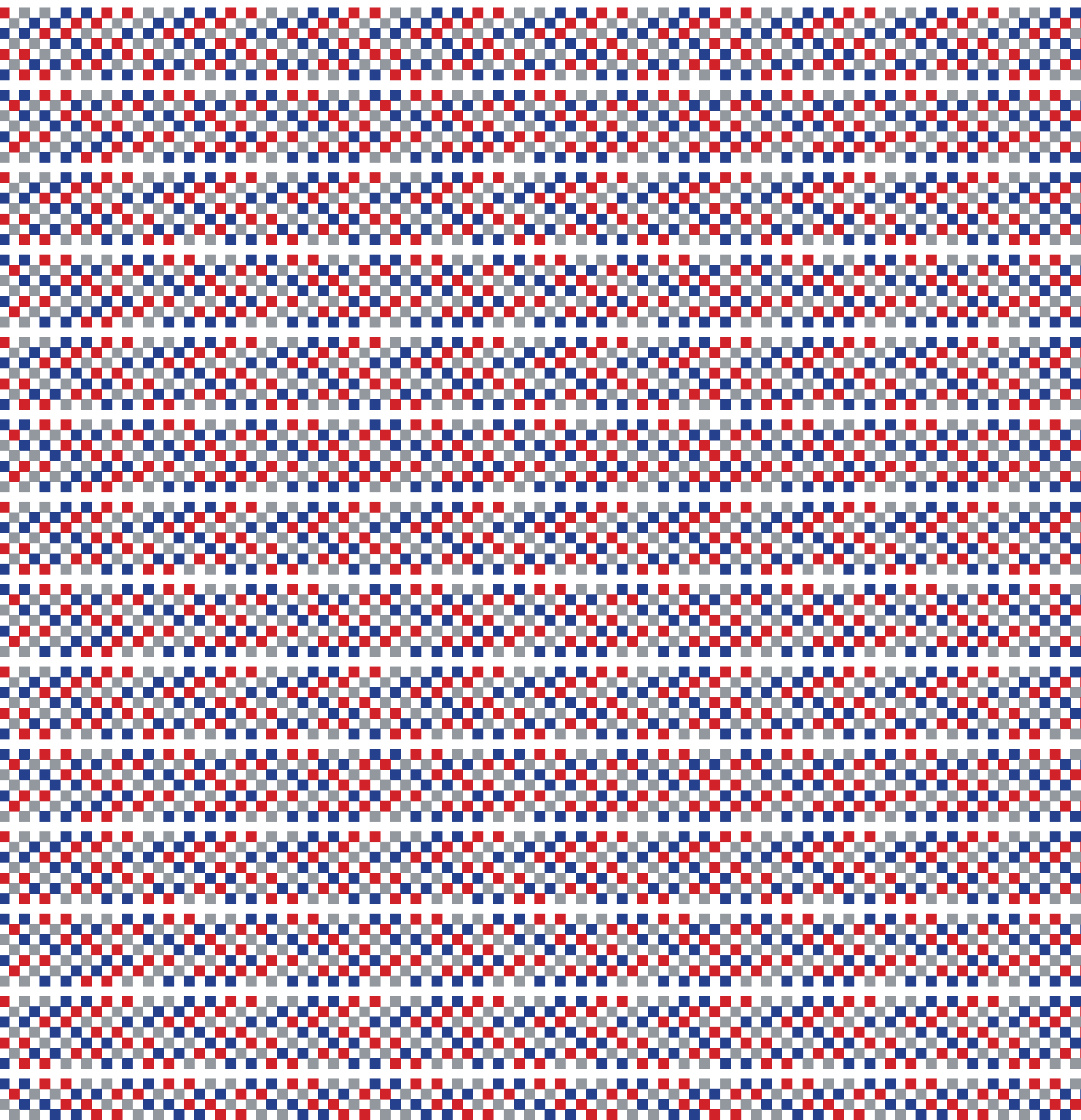
The balance in the Energy Regulatory Fund current account stood at **CZK 45,444,390** as at 31 December 2015.

4.6.3 Proceedings on administrative fees

In proceedings on licence award, change or revocation, the Office collected fees amounting to CZK 10,611,600.

Twenty-one entities applied for the refund of administrative fees. All requests were granted and CZK 126,600 was refunded.

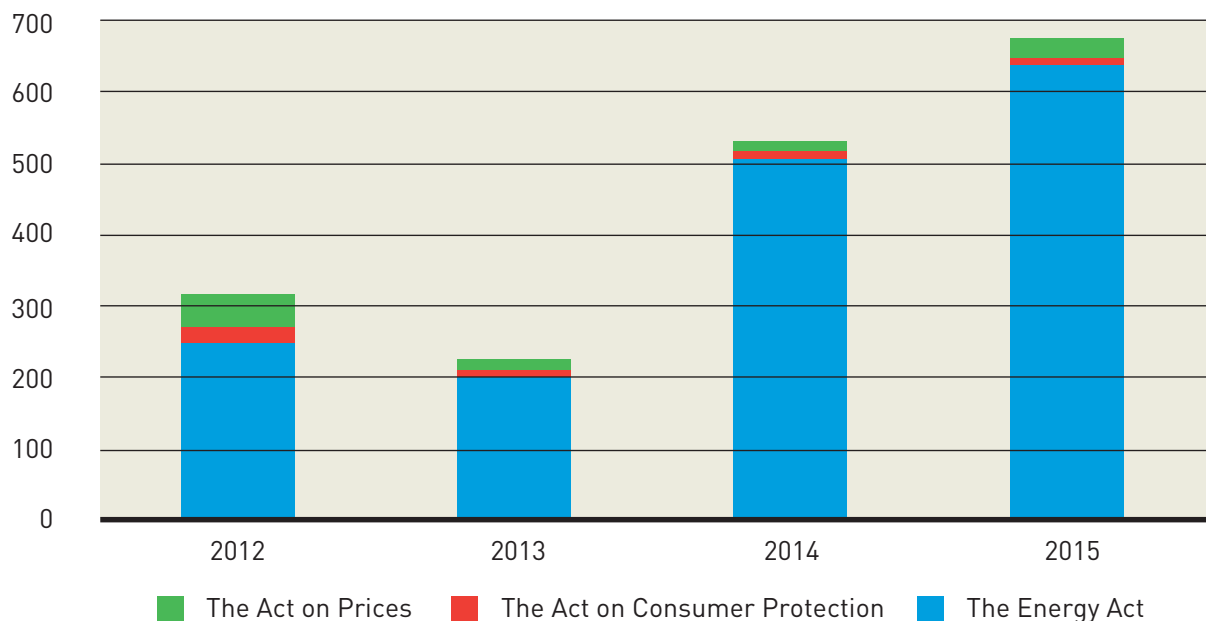
5) Oversight



5) Oversight

The Energy Regulatory Office carries out supervision in energy industries within the bounds of its authority under the Energy Act. The Office checks compliance with the Energy Act in all energy industries, i.e., the electricity, gas, heating and POZE industries. Compliance with the obligations laid down by Act No 634/1992, as amended, is limited to the electricity and gas industries only. The Office is also in charge of overseeing compliance with Act No 526/1990, as amended, i.e., compliance with the price decisions issued by the Office, where the checks and inspections mainly focus on the prices agreed with customers, the methods of price calculation and billing, and whether or not prices include economically unjustified costs and/or unreasonable profit.

Chart 17 Number of inspections/checks started in 2012 to 2015



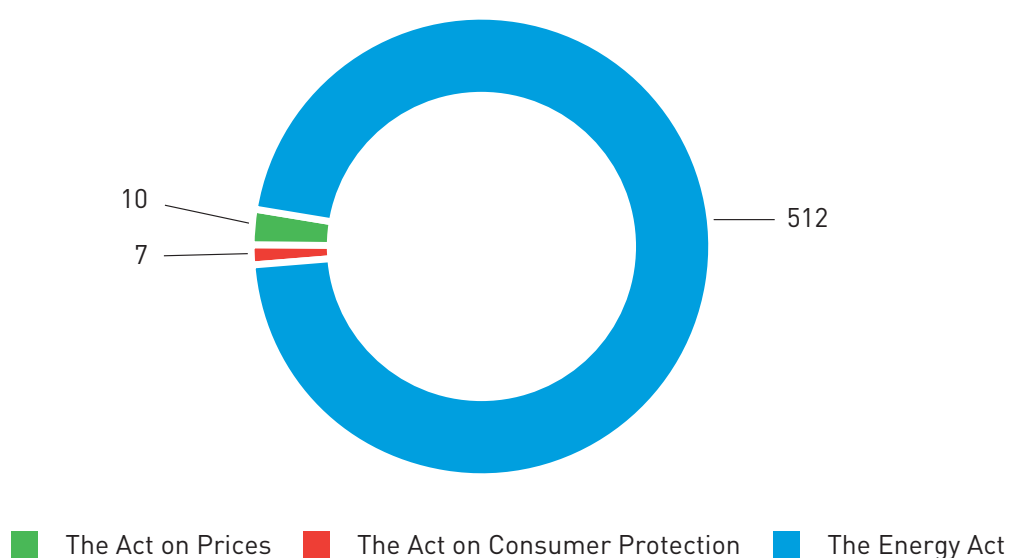
In 2015, the Office concluded 658 checks and inspections focused on compliance with obligations under the Energy Act, the Act on Prices and the Consumer Protection Act; the Office held that the above laws were breached in 74% of cases.

5.1 Checks in the electricity and gas industries

In 2015, the Office's Electricity and Gas Industries Inspection Department received 589 complaints in the electricity and gas industries. They mainly concerned unfair practices in contract execution, failure to accept requests for contract termination, sales representatives' fraudulent practices, failure to handle complaints about billing or consumption metering, interruption of supply, bad condition of energy installations, failure to publish price lists or complete prices, required details of billing, failure to refund overpayments or advance payments and, not least, damage to energy installations.

In the electricity and gas industries the Office initiated 529 checks on the basis of its own findings from market monitoring and also suggestions received from final customers and consumers and other entities.

Chart 18 Checks and inspections commenced in 2015



The subject matter of the largest number of checks was interference with the protection zones of energy installations, involving damage to the installations, most often caused during construction work and usually investigated in response to complaints received from DSOs.

Table 9 Review findings in 2014 and 2015

Concluded checks and inspections	The Energy Act	Consumer Protection	Checks of Prices	Checks concluded in 2015	Checks concluded in 2014
- No breach of the checked provision was found	86	0	0	86	89
- A breach of the checked provision was found	402	2	5	409	256
Total	488	2	5	495	345

5.2 Checks in respect of supported energy sources (POZE)

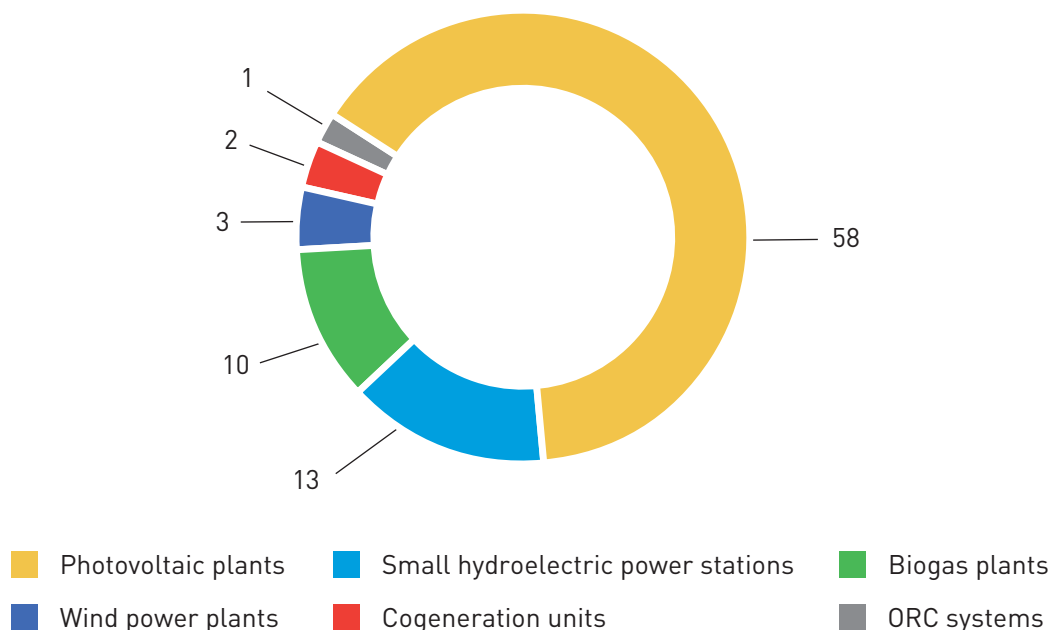
In 2015, in respect of POZE checks and inspections the Office seamlessly continued its activities that it had started within its competences in the preceding year. The POZE Inspection Department's activities included supervision and control over all types of installations that use renewable or secondary sources for energy generation, where, in relation to the Office, these are licensed entities usually receiving state aid in the form of feed-in tariffs or green premiums for the energy so generated.

The efficiency of the system of conducting the reviews was being improved throughout the year. New findings and experience were flexibly used to improve the subsequent reviews continuously. The POZE Inspection Department's activities were directed to follow up, as of 1 January 2016, on the reviews by the State Energy Inspectorate further to the changed competences for checks and inspections under the POZE law.

In 2015, the POZE Inspection Department started 88 investigations with a view to checking adherence to Section 9 and Section 11 of the Energy Act by POZE producers. Under Section 9, the inspectors examined whether or not the licence holder had, in the case of increasing the number of its operations, changing the technical parameters of its existing operations or changing the extent of the delineated area, notified the Office of such changes immediately and started to carry out the licensed activity in such technically altered operations, or in the new delineated area, on the day of finality of the decision amending the decision on licence award. The subject matter of inspections under Section 11 was to check whether or not the licence holder used, for the licensed activity, technical equipment meeting the safety and reliability requirements set out in legislation and technical standards.

By the end of 2015, the POZE Inspection Department had concluded 78 investigations and referred 44 review files for administrative proceedings. In 18 cases where the checks confirmed suspicions of the provision of false documents, the information about the findings was referred for further proceedings on whether or not the case should be referred to Czech Police for investigation. In two cases the review findings resulted in requesting the State Labour Inspectorate to investigate the entities.

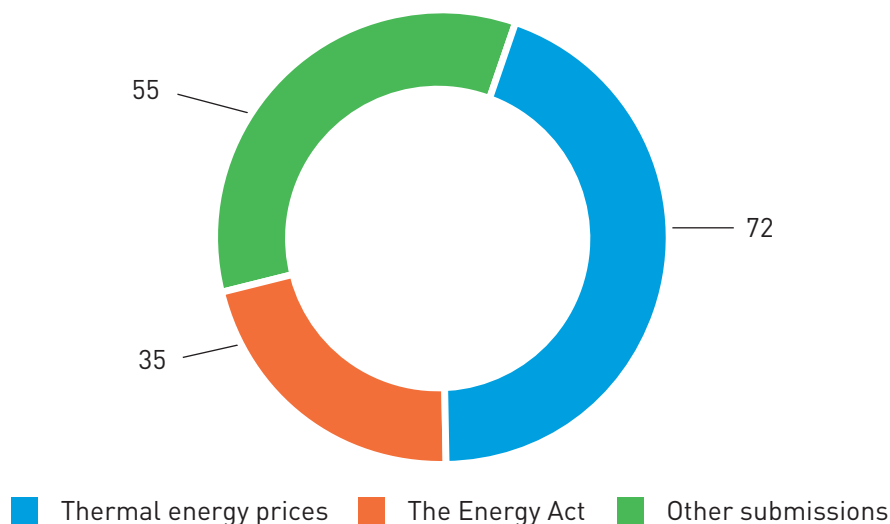
Chart 19 Types of inspected operations



5.3 Oversight in the heating industry

The Office carries out supervision over compliance with the obligations laid down in the Energy Act and the Act on Prices. The single largest number of submissions concerned thermal energy prices charged to customers for thermal energy.

Chart 20 Subject matter of submissions in 2015



Almost one half of the submissions in 2015 concerned thermal energy billing. In such cases, the Office first of all examines the method used for calculating the billed thermal energy price, reviewing the documents on thermal energy prices that it requests to an extent similar to that in the case of price inspections conducted under the oversight rules. It is only in justifiable cases that it opens inspections under the oversight rules. Inspections most frequently reveal breaches such as failure to follow the mandatory procedure in thermal energy negotiation, calculation, and billing.

Table 10 Review findings in 2015

Concluded checks and inspections	Energy Act	Price inspection	Total number of completed checks in 2015
- No breach of the checked provision was found	48	2	50
- A breach of the checked provision was found	11	20	31
Total	59	22	81

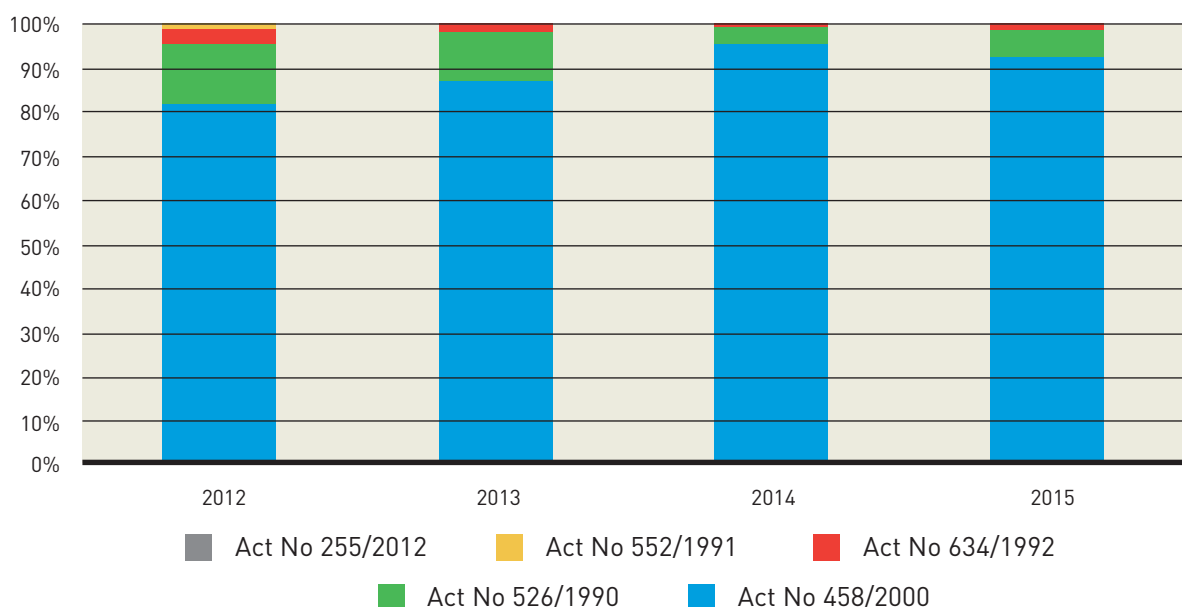
5.4 Reviews of costs

In 2015, the Office's Cost Inspection Department started investigations of four regulated entities, focused on economically justifiable costs in 2012 and 2013. In 2015, the Office updated the methodology of determining economically justifiable costs for ensuring the safe, reliable and efficient performance of the licensed activity, organised several workshops on economically justified costs with regulated entities, and launched cooperation with the Slovak regulator's staff.

5.5 Administrative proceedings

In 2015, the Administrative Proceedings Department conducted 463 sets of administrative proceedings on administrative offences/minor offences under the Energy Act, the Act on Prices, and the Consumer Protection Act and oversight rules.

Chart 21 Subject matter of administrative proceedings 2015



The most frequently breached provisions of the legislation falling within the Office's remit are those of Section 46(12) and Section 68(3) of the Energy Act, consisting in damage to energy installations by activities in their protective zones.

In 2015, the Administrative Proceedings Department initiated 430 sets of administrative proceedings, 386 of them by way of 'an order' under Section 150 of the Rules of Administrative Procedure. In 2015, a total of 394 decisions and orders issued by the Administrative Proceedings Department became final.

In 2015, parties to the proceedings filed protests against issued orders in 23 cases, on which the Office further decided at the level of first instance. Remonstrance was filed against the delivered decisions also in 23 cases. In these cases the Administrative Proceedings Department drew up observations on remonstrance and referred the matter to the second instance authority.

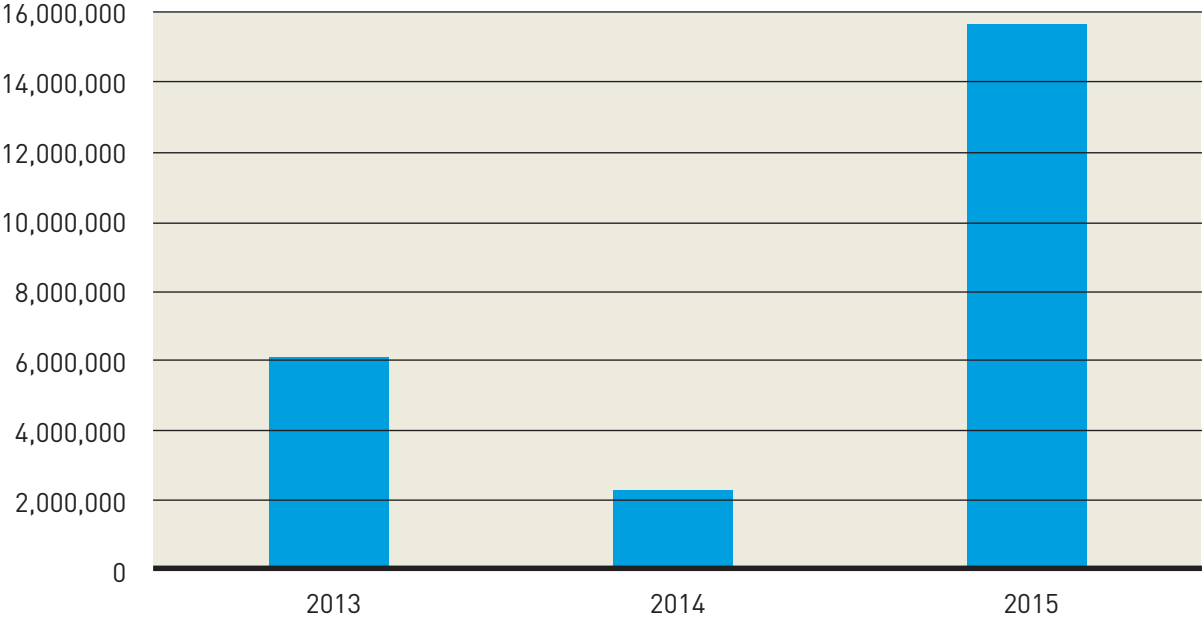
Table 11 Number of remedies filed in 2015

Type	Number
Protest	23
Remonstrance	23

In addition to the above activities concerning the merits of cases, the department also manages the payments of fines levied with finality, for which the ERO is competent under the laws that fall within its remit.

In 2015, the Administrative Proceedings Department levied with finality 85% more fines than in 2014.

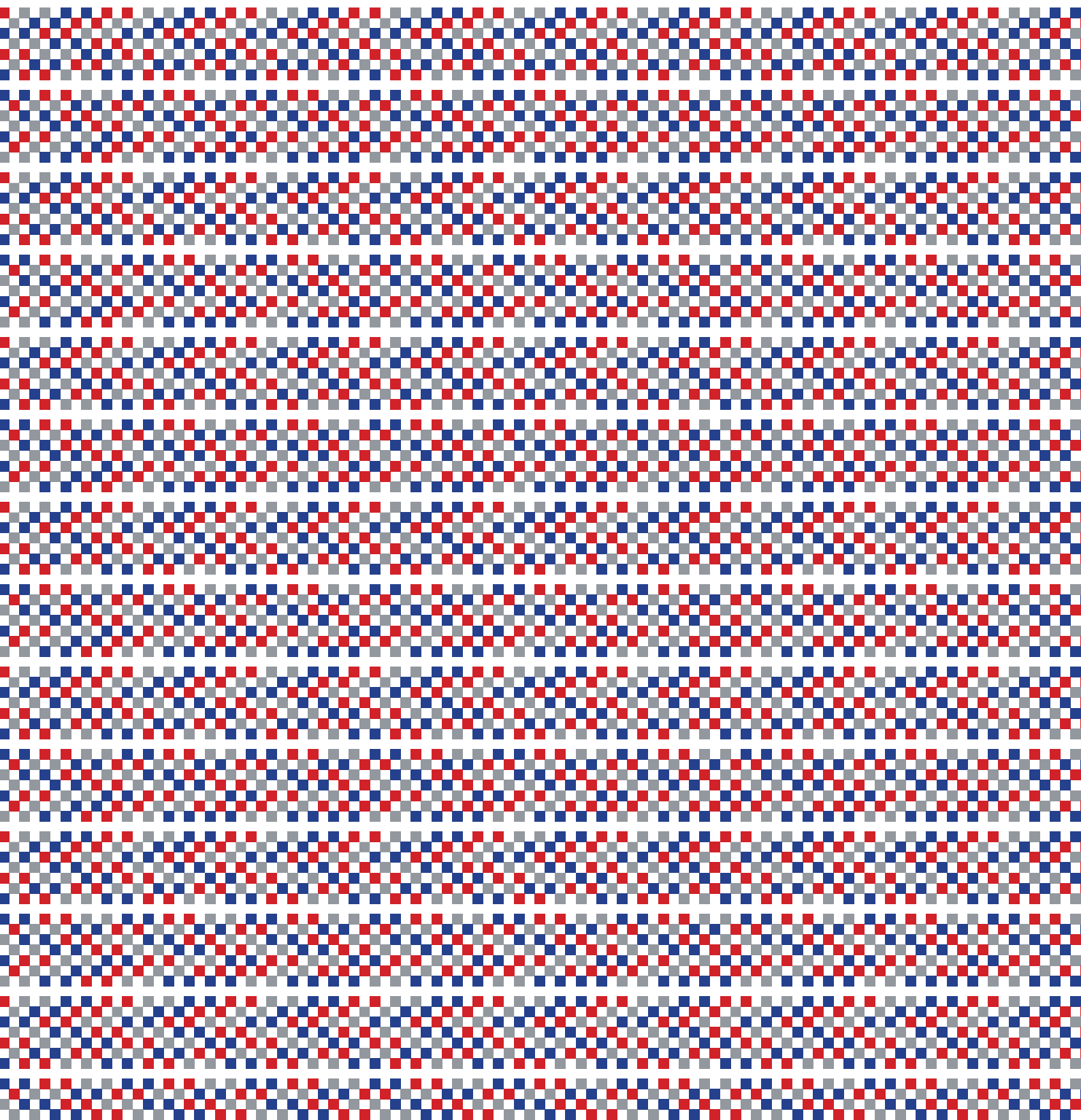
Chart 22 Overview of collected fines between 2013 and 2015



In addition to penalties for administrative offences/minor offences, the ERO also imposes remedial measures within the meaning of Section 18(3)(b) of the Energy Act; when the measures are not carried out, the ERO enforces them by way of levying enforcement fines under Section 96d(1)(d) of the Energy Act. In 2015, remedial measures were imposed with finality in 27 cases.

Under Section 17e(1)(b) of the Energy Act, the ERO is obliged to publish, on a regular basis, its final decisions delivered in its performance of supervision in energy industries and supervision in consumer protection in relation to business in the electricity and gas industries.

6) International relations



6) International relations

Energy is playing an increasingly important role in the EU's agenda. In the last few years, energy markets have been significantly integrated with a view to completing the internal market. A framework has been put in place for the coordinated planning and development of energy infrastructure of EU-wide importance. A mechanism for EU-wide supervision over wholesale market integrity and transparency has been launched. Efforts to harmonise the approach to retail markets are also growing stronger; consumer issues and the roles of DSOs are related to this. Everything is geared towards achieving the key objective of the EU's energy policy, i.e., sustainable, affordable and secure energy supply to final consumers. All of this is taking place while the energy sector is undergoing revolutionary changes. These dramatic developments are also reflected institutionally. National regulators are currently meeting on an almost daily basis to address specific cross-border cases and to develop policies and binding regulations.

In 2015, the Office overhauled its international activities with a view to being able to continue operating as an active agent in the European energy policy. In January 2015, the Office set up its EU Affairs and Strategy Section, comprising the REMIT Department and the EU Affairs Department. The REMIT Department is responsible for the specific area of supervision over the wholesale market integrity and transparency. The EU Affairs Department is tasked with coordinating European activities across the Office and systematically monitors and evaluates European developments with relevance for the Office's operation. In this respect, the cornerstone is setting clear-cut priorities and coordinating the pursuing thereof by the ERO.

6.1 European activities

The Office's operation at the European level is concentrated mainly in the ACER and CEER working groups on issues related to the electricity and gas industries, customers, and REMIT. The period under review saw the working groups' visibly increasing agenda, and in turn the ERO's involvement in them, resulting from the generally rising importance of energy in EU policies. The Office focused on the development and amendment of EU legislation and the implementation thereof at the national level, in particular as regards network codes and the proposals for amendments to regulations and also on influencing the EU's energy policies bundled in the strategies pro the Energy Union.

In addition, the Office continued to cooperate, within state administration, in the preparation of documents for the meetings of the European Council's energy working group, instructions for COREPER I meetings and of the mandates for the Czech delegation to the TTE Council meetings with a view to preparing future European energy legislation. The Office closely worked with the MOP's department of international relations in energy, the Ministry of Foreign Affairs and the Office of the Government, specifically in the public consultation on proposals for amendments to the Regulation concerning measures to safeguard the security of gas supply, and in the preparation of the Czech Republic's response to the European Commission's criticism

concerning the EU Pilot No 7809/15/ENER case as regards the implementation of Directives 2009/72/EC and 2009/73/EC.

The Office also pursued its active role in the Visegrád Four (V4) group and intensified cooperation with those countries' regulators.

6.1.1 Electricity industry

As regards regional cooperation in the electricity industry, in 2015 the Office joined the activities intended to harmonise the Central and Eastern European (CEE) markets. Further to the successful completion of the 4M Market Coupling project, ERO officers attended multilateral meetings in and outside ACER on the implementation of flow-based market coupling and the planned integration of the CEE regions and the CWE (Central Western Europe) region.

The Office also addressed another major issue in 2015: the Czech Republic's joining the project for intraday cross-border electricity trading between NWE+ (North Western Europe) countries under the XBID (Cross-border Intraday) project. The adoption of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management was crucial, and it has laid a clear-cut legal basis for what until then were voluntary activities.

The undesirable loop flows over the Czech transmission system are also a major issue from the perspective of the continued integration of electricity markets; this issue is reflected in the allocation of transmission capacities and trading, and also in physical infrastructure. Talks with the German and Austrian partners, and the resulting need to reconfigure electricity bidding zones, constituted an important part of the Office's activities in 2015. At the request of the Polish regulator, ACER also stepped into the talks through its Opinion 09/2015 of 23 September 2015, in which ACER also supported the splitting of the single German-Austrian bidding zone. The Austrian regulator disagreed with this recommendation and appealed to the Court of Justice of the European Union. The other interested regulators from the countries concerned, including the ERO, welcomed ACER's recommendation.

6.1.2 The gas industry

In the Gas, South South East (GRI SSE) initiative, the Office followed the development of several pilot projects aimed at supporting the timely and voluntary implementation of network codes, in particular the Network Code for the Capacity Allocation Mechanism (NC CAM), the NC BAL code for system balancing, and the NC Interoperability code; integration projects were also supported. The pilot projects were successfully completed and on 1 November 2015, the commercial operation of transmission capacity offering at cross-border interconnectors was started in line with the capacity allocation mechanism network code, with the partnering transmission system operators in Germany and Slovakia on the PRISMA on-line booking platform and the transmission system operator in Poland on the GAS-SYSTEM S.A. (GSA) on-line booking platform.

The Czech and Austrian sides continued their talks and work on gas market integration; in mid-2015, the Slovak transmission system operator joined the discussions again, expressing the options of using the existing transmission capacities, which are sufficient for the purpose of integrating the two markets. The specific form of the integration, the conditions under which the Slovak transmission system would be used, and the effectiveness of the potential development of new infrastructure interconnecting the Czech and Austrian transmission systems are still open issues.

6.1.3 Infrastructure – Projects of Common Interest and the process for selecting them

Work on the development of trans-European energy networks and on diversifying and securing electricity and gas supply also continued in 2015 in line with Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure. On 18 November 2015, the European Commission issued an amendment to Regulation No 347/2013, containing a second list of Projects of Common Interest (PCI). The purpose of these projects is to support the development of a common internal energy market in EU countries, debottleneck electricity and gas transmission networks, and diversify and enhance the security of electricity and gas supply.

The Office is actively involved in the process of the PCI list revision, both on the occasion of meetings of the regional groups that are preparing the regional lists of proposed PCI (one of its elements was, in cooperation with Austrian and Polish regulators, incorporating assessments of the projects that have a direct impact on the Czech gas system), and in the drafting of ACER's opinions on these lists.³⁾

The projects included in the second PCI list number 195, of which 108 concern electricity, 77 gas, 7 crude oil, and 3 smart networks. Three gas PCI and five electricity PCI are located in the Czech Republic.

In 2015, the Office also contributed to the update of ACER recommendation on good practices for the treatment of the investment requests, including cross-border cost allocation requests, for electricity and gas projects of common interest⁴⁾. The mainstay section of the recommendation is the description of the procedure for calculating the contributions of each of the states that have a net positive impact from the project, to the investment costs of the project.

6.1.4 Cooperation of Visegrád 4 regulators

The year 2015 was marked by intensifying the cooperation between V4 countries' regulators, in which the ERO played the leading role as the regulator from the country holding V4 presidency. Four summits of regulatory authorities were held in Prague, Bratislava, Ostrava and Szekszárd (Hungary).

Early 2015 saw discussions on supply security through support for cost-effective cross-border interconnections in relation to the Energy Union. Cooperation also focused on V4 gas market integration with the maximum possible use of the existing infrastructure, and on new infrastructure development. Discussions also centred on PCI, the importance of the North-South corridor and the current condition of the Czech-Polish and Polish-Slovak interconnections. The TSOs' active involvement is required in addition to the intensive work of the V4 Gas Market Forum (set up in 2014).

In late 2015, the ERO pushed through the establishment of a working group that should, during 2016, analyse and evaluate the pluses and minuses of the fully liberalised Czech electricity and gas markets and various ways for regulating end prices in the other V4 countries in relation to households, or protected customers.

3) ACER Opinion 14/2015 and ACER Opinion 15/2015

4) ACER Recommendation 5/2015

6.2 REMIT

Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT) was published in the Official Journal of the European Union on 8 December 2011 and entered into force 20 days following publication, i.e., on 28 December 2011. The objective of the Regulation is to provide a regulatory framework to ensure greater wholesale energy market integrity and transparency in the EU, and so prevent market abuse, and also to foster open and fair competition.

The definitions of this data, and the rules, dates and forms for reporting this data are contained in Commission Implementing Regulation (EU) No 1348/2014 of 17 December 2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency.

6.2.1 National register of energy market participants

REMIT requires wholesale energy market participants entering into transactions which are required to be reported to ACER, to register with the relevant national regulatory authority. In the registration process, each market participant is assigned a unique identifier, known as the ACER code, which helps to identify market participants and report transactions. The obligation to report transactions to ACER was launched on 7 October 2015 for standard contracts and on 7 April 2016 this obligation will start to apply to non-standard contracts.

The purpose of the registration system is to collect and keep up-to-date information about market participants. The Energy Regulatory Office decided to use ACER's platform, CEREMP (Centralised European Register of Energy Market Participants) and put this register into operation on 5 January 2015. Since then, the ERO's competent staff members carry out the process of approving registration requests, including check and verification of the details required for approving registrations, on a daily basis. The Office also provides information support to market participants, including public workshops.

As at 25 February 2016, the CEREMP registration system contained 203 user accounts and 141 market participants.

6.2.2 Sharing of information

For the purpose of monitoring wholesale energy markets REMIT envisages information sharing between ACER, national regulatory authorities and other competent authorities and institutions; ACER has provided for this by creating the required mechanisms. For information sharing, ACER has developed an information system for information management and sharing (ACER REMIT Information System, ARIS), access to which shall only be granted to authorities that have, in line with operational reliability, in place sufficient protection against unauthorised misuse of shared data. For the purposes of providing for the required protection of shared data the Office has put in place sufficient procedures and technical adjustments for working with such data.

6.2.3 Implementation of powers

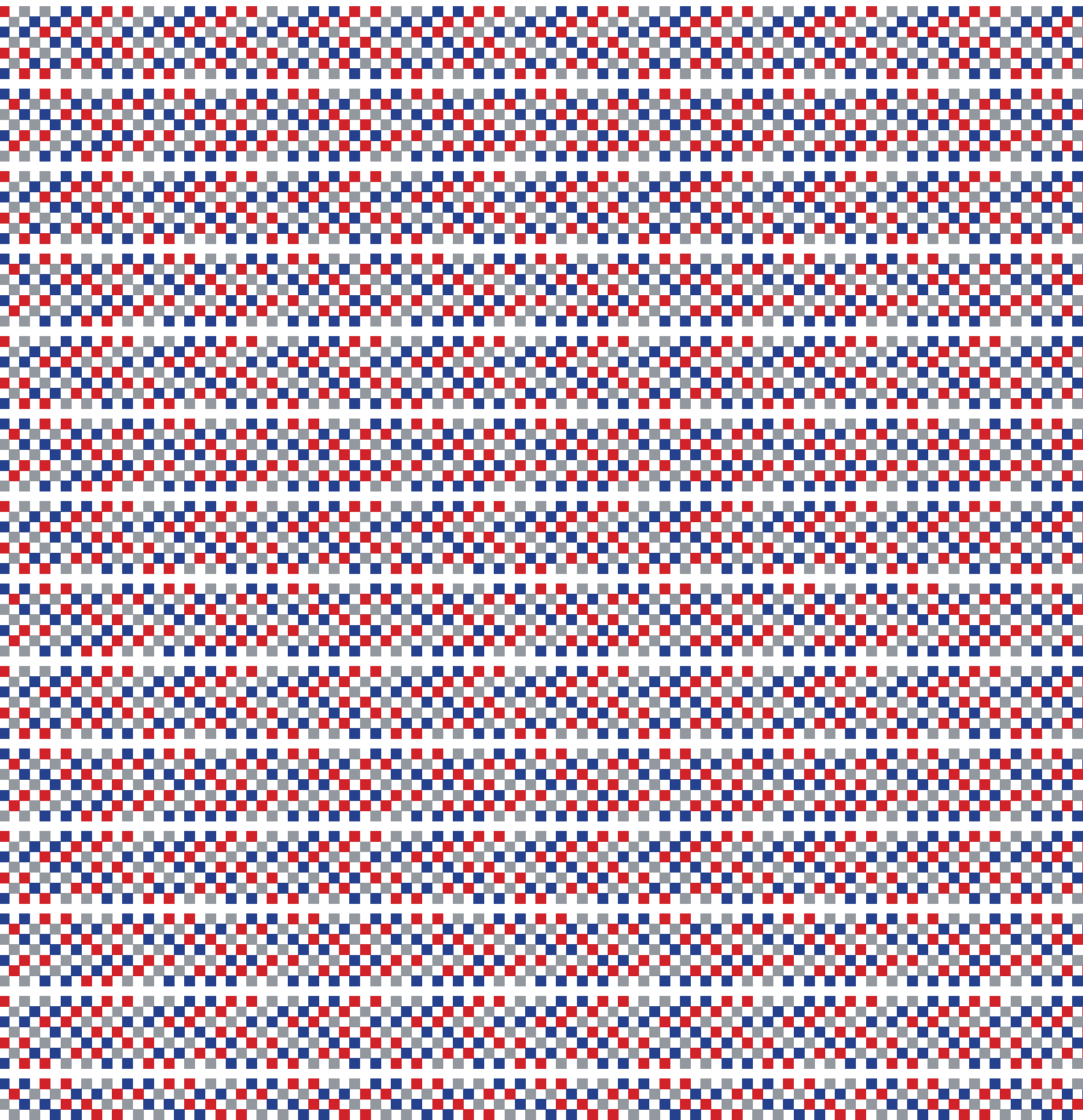
REMIT sets out that each Member State shall ensure that its national regulatory authorities have the investigatory and enforcement powers necessary for the application of the prohibitions and obligations under REMIT. These powers have been implemented in the amendment to the Energy Act, which became valid on 5 June 2015 (Act No 131/2015). The amendment to the Energy Act came into effect on 1 January 2016.

Communication with market participants

Because of the launch of the reporting obligation under REMIT (7 October 2015), in 2015 the REMIT Department communicated with market participants on an almost daily basis. It continuously answered e-mail and telephone questions. The REMIT Department also held discussions with market participants and energy entities' representatives through workshops and working meetings, which were held in Ostrava on 11 February 2015 and in Prague on 30 June and 21 October 2015.

The REMIT workshops, held to provide the experts with information about, and consult with them, the REMIT obligations, to provide the interpretation of the various REMIT provisions, to present the national market participant register (CEREMP), to discuss the RRM (Registered Reporting Mechanism), to present the Q&A document that the REMIT Department was preparing on the basis of the ACER document and questions received from market participants, were held in Prague on 26 March 2015 and in Ostrava on 11 June 2015. These workshops were attended by more than 80 persons from energy companies and met with a positive response; they are beneficial for both sides.

7) Internal relations



7) Internal relations

7.1 Cooperation with central state administration authorities and Czech Parliament

Within its competences, in 2015 the Office focused on direct communication with central authorities of state administration. Cooperation with the energy and legal experts of the relevant MPO departments, in particular when evaluating the experience with the application of the Energy Act and the POZE Act as the basic framework creating an environment for energy market players' business, can be regarded as pivotal. Joint position papers then served as the basis for preparing amendments to the public notices issued by both MPO and ERO. The results of the cooperation between experts of these two central authorities of state administration and other institutions served as inputs for drafting a comprehensive amendment to the Energy Act in 2015.

ERO officers attended all debates on the amendment to the Energy Act in both chambers of Czech Parliament, specifically in committees, sub-committees and party MPs' 'clubs', where they explained and clarified the Office's opinions. When drafting and discussing this law, the Office prepared several expert analyses, which addressed – in response to the evolution of the content of the new bill and the progressively tabled amending proposals – the practical impacts of the proposed changes and modifications and offered a realistic view of the issues in question. However, the views and positions held by the Office's representatives were not always identical with the views and approaches of the two chambers of Czech Parliament and the MPO. An important milestone in the Office's operation continues to be its cooperation with the Government Council for the Energy and Raw Material Strategy of the Czech Republic, focusing on preparing the inputs for the update of the National Energy Policy of the Czech Republic, an amendment to the Mining Act, and an update of the Raw Materials Policy of the Czech Republic.

Other discussions with the MPO concerned issues such as electricity loop flows from Germany over the Czech transmission system, the gas supply security standard, Czech/Austrian market integration, and developing a joint policy for the statistical monitoring of the electricity, heating and gas industries. The Office also has its delegates in working groups attached to the Government Council for the Energy and Raw Material Strategy of the Czech Republic, which meet at the MPO.

ERO officers attended meetings with the Ministry of Finance and the MPO on the parameters and preparation of the draft national budget for 2016 and the medium-term outlook for 2017 and 2018. The Office cooperated, and conducted and coordinated a number of meetings with other central authorities of state administration such as ČTÚ [Czech Telecommunications Office], ÚOHS, ČSÚ [Czech Statistical Office], and SÚJB [State Office for Nuclear Safety] on their joint comments and opinions on the proposed legislation on civil service. In 2015, the Office intensively cooperated with the Ministry of Finance and, above all, the Ministry of the Interior's Section for Civil Service in the drafting of the civil service law and its implementation in practice, including the relevant implementing acts.

In 2015 the Office also attended the committees and subcommittees of the Czech Parliament's Chamber of Deputies to discuss the development of gas infrastructures and their financing, including the indebtedness of the holder of the exclusive gas transmission licence.

The Office also delegated its employees to speak at technical workshops dealing with energy. The Office drew up several keynote materials and studies at the request of members of Czech Parliament's committees and subcommittees, relating in particular to their points on issues such as photovoltaic plants and renewable electricity feed-in tariffs.

As in previous years, in 2015 the ERO Chairwoman provided, on a regular basis, information to MPs and Senators through party MPs' and Senators' 'clubs', and expert and lay members of the public through the Office's press conferences and website, about the Office's key decisions concerning prices, support for POZE, notification of capacities, and the progress in amending energy legislation in relation to regulatory issues in the energy sector and the applicability of the civil service law.

In 2015 ERO officers also participated in the EU notification working group, to which they delivered, in a timely and proper manner, all the requested information and opinions within the Office's remit, which were required for the MPO's and ÚOHS's decisions related to notifications.

The Office's representative took an active part in the meetings of the Interdepartmental Coordination Group for Fight against Corruption and the Office carried out tasks arising from the Government Strategy for Fight against Corruption for 2015 to 2017 and the Action Plan of Fight against Corruption for 2015. Other ERO employees worked in Regional Development Policy committees of the Ministry of Regional Development, addressing national coordination of regional development. The Office also worked with the Ministry of Culture and the National Heritage Institute to provide a property for its Ostrava offices.

7.2 Public and media relations

Information provision under Act No 106/1999 on free access to information

Under Act No 106/1999 on free access to information, as amended, the Office provides information about its work within its remit. Under Section 18 of the above law, on 1 March 2016 the Office published a report for the preceding calendar year, containing the following:

In 2015, the Energy Regulatory Office received 79 requests for information from applicants for information.

I

Number of requests for information and number of decisions to dismiss the request

	Total received	Handled directly	Referred for handling
Requests (Section 18(1)(a))	79	79	0
Number of decisions to dismiss the request		16	

II

Number of appeals filed against decisions

Number of appeals filed against decisions	4
---	---

III

Copy of the material parts of the judgment in the case of a review of lawfulness

The Brno Regional Court's judgment 62 A 63/2013-53 of 1 October 2014 quashed the ERO Chairwoman's decision 037569/2013-ERÚ of 17 June 2013, and the matter of the applicant, Aliance pro energetickou soběstačnost, z.s., having its registered office at Uhlířské Janovice, Bláto I, was remanded to the ERO for further proceedings. The unlawfulness of the ERO's decision or the incorrect application of Section 11(2) of Act No 106/1999 to the applicant's case was cited as the grounds. However, the proceedings on the application were not concluded in 2015.

IV

Number of exclusive licences awarded under Section 14a(4) of the law

Number of exclusive licences awarded	0
--------------------------------------	---

V

Number of complaints lodged under Section 16a of the law

Number of complaints lodged under Section 16a of the law	1
--	---

VI

Other information relevant to the application of this law

Numbers of requests for information received and handled in 2015 from the perspective of the Office's competences:

Licences	28
Regulation	8
Oversight	4
Legislation and administration	12
Supported energy sources	12
Other	15

The Office largely received requests concerning licences, award of licences, and the satisfaction of the conditions for issuing licence awarding decisions. It also registered considerable interest in the POZE issue, in particular information about photovoltaic plants and the related issue of the aid paid to the various electricity generating plants.

Applicants were also interested in the ERO's proceedings conducted before courts of different instances and also information about the salaries and bonuses paid at the ERO.

The number of requests for information slightly increased in 2015 compared with 2014, specifically by 13, which warrant the conclusion that Czech citizens' interest in energy persists or rises somewhat; the applicants' requests are also becoming increasingly sophisticated in technical terms, which requires cooperation between the ERO's organisational units in handling this agenda.

The media

The objectives of the Office's media strategy remain the same as in preceding years. More frequent feedback from the media and the public appears to be fundamental. Information provision to the general public, both laymen and expert circles, took place as in the preceding years, i.e., via the Office's website posting press releases, communications, and also ERO Chairwoman's

opinions. To broaden the public reach, this and other information was shared with national and local media, and some of the contributions were also posted in social networks. The Office also provided information to the public through press conferences, some of which were organised on the occasion of energy conferences held under ERO auspices. ERO employees also spoke at specialised conferences and seminars.

In 2015 the Office continued to issue its internal e-quarterly, *Our Office*.

7.3 Publications

Under the Energy Act, the Office uses the public administration portal to publish the *Energy Regulation Gazette*, which in 2015 appeared only in electronic form in accordance with the Energy Act. It was subsequently also posted on the Office's website.

Ten issues of the *Energy Regulation Gazette* appeared in 2015. Eight of them carried price decisions: three on electricity prices, three on gas prices, one on thermal energy prices, and two on the promotion of supported energy sources. Published documents also included information about the size of renewable electricity generation, the size of heat generation from biomass and the size of biomethane production in 2013 and a report on the level achieved in maintaining electricity transmission and distribution continuity for 2014.

Furthermore, under Section (2)(1)(f) of Act No 309/1999 on the Official Gazette and on the Collection of International Treaties, as amended, and Section 10(2) of Act No 526/1990, as amended, the Office is, as a price control authority, obliged to promulgate notices of regulations on price controls (i.e., price decisions), which have been published in the *Energy Regulation Gazette*, in the Official Gazette and the Office again did so in 2015.

Under Section 17(7)(m) of the Energy Act, the Office published annual and monthly reports on the operation of the Czech electricity grid and annual and monthly reports on gas supply and consumption.

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

Under the Energy Act (Section 17(10)) the Office submits, through the Ministry of Industry and Trade, a report on its activities and finances to the Czech cabinet every year; the report is then debated by the Chamber of Deputies of Czech Parliament and is also provided to the Commission and Agency.

The Office's website was progressively extended in 2015 to include the latest information: In the Gas section, a new Supply Security Standard tab was added; the Final Decisions tab now has subcategories Certification and PCI Projects; another remonstrance commission was set up for RES, and the relevant information can be found in the ERO Chairwoman tab, from which, on the other hand, information about the Advisory Corps was removed, because its activity at the ERO was terminated at the end of 2015. The homepage of the website now shows new graphics referring to the New Tariff Structure and the related conference. On the whole, in 2015 the Office's website was extended to include another 835 posts, often containing several annexes.

7.4 The ERO's involvement in the BETA2 programme (managed by the Technology Agency of the Czech Republic, TAČR)

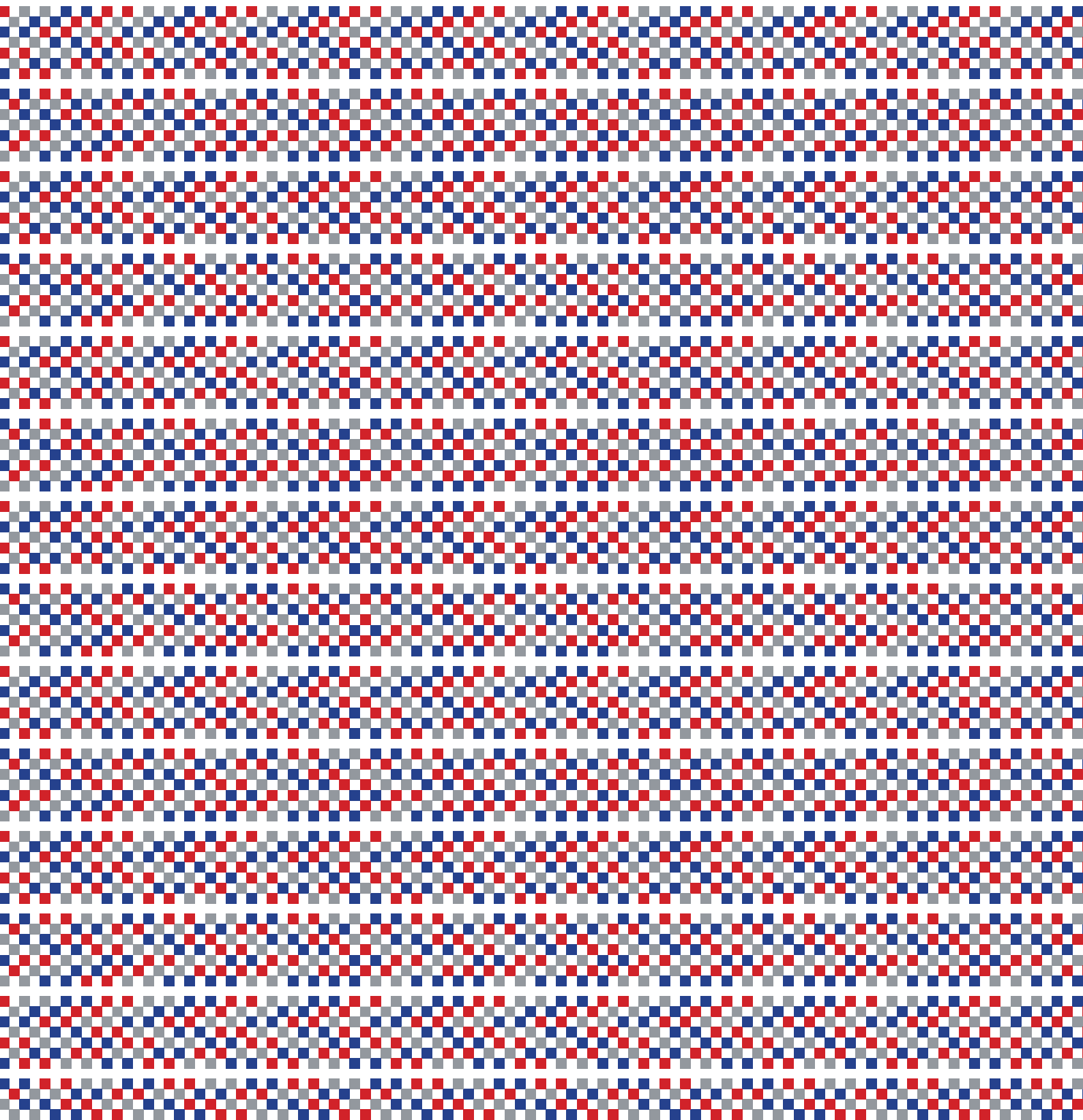
In the autumn of 2015, the Office joined the new BETA2 programme under the management of Technology Agency of the Czech Republic (TAČR), which had been set up in 2009 on the basis of the steps taken in the implementation of the Reform of the R&D and Innovation System. TAČR's key mission is to prepare and implement programmes of applied research, experimental development, and innovations, thereby helping to promote the country's competitiveness and economic growth. These tasks are primarily being pursued through the efficient use of public funds for support of research, development and innovation. One of the programmes is BETA (a programme of public contracts in research, experimental development and innovations for the state administration), which was launched in 2011. BETA's objective is to improve the current practices, methodologies, regulatory mechanisms, and supervisory activities, and also to acquire new knowledge, skills, services, and information and managerial products and procedures that will be intended for the performance of state administration and conducive to a higher level of innovation and also improved economy of these activities. In 2011, TAČR started the first round of BETA, and the second round of the programme, called BETA2, was to be started in 2016.

The maximum duration of project implementation is limited to the duration of the programme, which is expected to be nine years from 2017 to 2025. Funds will be spread over the entire period in proportion to the expected quantity of research needs and prices under public contracts resulting from tendering procedures. The funds for the ERO's research needs are estimated at CZK 25 million, plus a reserve of 20% in addition to the total funds proposed.

Under BETA2, the Office has become an expert guarantor and presented the following research needs:

- R&D in regulatory methodologies and links to the experience of other regulatory authorities in the EU.
- R&D in the management of the application of the methods for regulatory asset revaluation for the following regulatory period, including the determination of methodologies for the effective use of assets in the energy sector.
- Research into and providing for development in consumer associations' involvement in consultation processes in the energy sector and improving consumers' energy literacy.
- R&D concerning the definition of vulnerable customers and energy poverty in the Czech Republic and the practical application thereof in practice with a view to putting in place effective policies for spending government funds for housing support.
- R&D concerning a software solution for monitoring the retail and wholesale energy markets.

8) ERO budget management



8) ERO budget management

8.1 The Chapter's budget

The budget for Chapter 349, Energy Regulatory Office, was approved as part of Act No 345/2014 on the National Budget of the Czech Republic for 2015 of 10 December 2014.

The originally approved ERO budget for total income and expenditure was adjusted for 2015, in the area of expenditure, by three budgetary measures within the Finance Ministry's competence, to amount to CZK 234,271,250 (the budget after changes). The final budget was adjusted by four budgetary measures, which constituted an allowed overstepping of the Chapter's expenditure (by including the claims on unused expenses [NNV]), to CZK 250,210,940. In 2015, the Office made 17 adjustments to budgeted expenditure. The scope and detailed structure of the budgetary measures are described in detail in the 2015 State Final Account for this Chapter.

8.2 Revenues to the Chapter

For Chapter 349, Energy Regulatory Office, for 2015 *total income* was budgeted at **CZK 209,114,000**; this amount included tax revenues of **CZK 203,114,000** and non-tax revenues of **CZK 6,000,000**.

Actual performance as at 31 December 2015 in terms of *total income* was **CZK 230,691,470**, i.e., at 110.32% of the approved budget for *total income* and 109.70% compared with the same period of 2014 (an increase in absolute terms of CZK 20,406,490).

In respect of *tax revenues*, as at 31 December 2015 actual performance was **CZK 212,741,230**, i.e., at 104.74% of the approved budget and at 102.86% compared with the same period of 2014 (an increase in absolute terms of CZK 5,906,870).

In respect of *non-tax revenues*, as at 31 December 2015 actual performance was **CZK 17,950,240**, i.e., at 299.17% of the approved budget and at 520.20% compared with the same period of 2014 (an increase in absolute terms of CZK 14,499,620).

For 2015, funds under the standard indicator 'total income from the EU budget without the common agricultural policy' were not budgeted.

8.2.1 Administrative fines

In respect of fines levied with finality, as at 31 December 2015 there were 157 outstanding receivables (account 315, other receivables from main activity) totalling **CZK 4,395,800**, down by CZK 8,029,460, i.e., 35.38%, compared with 2014.

In 2015, 357 fines levied in administrative proceedings were paid in full (ten were paid in part), totalling **CZK 17,393,120** (up by CZK 14,433,890, i.e., 487.76%, compared with 2014).

8.3 Expenditure

The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2015 can be seen in Table 12.

Table 12 Total amounts actually drawn – total expenditure for 2015

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total expenditure	250,210,940	217,981,960	87.12
of which:			
capital expenditure drawn	11,960,000	7,915,090	66.18
current expenditure drawn	238,250,940	210,066,870	88.17

8.3.1 Current and capital expenditure savings

In each case of expenditure in 2015, the funds were spent as effectively, economically and efficaciously as possible, at all times with a view to achieving the maximum benefit for the Office and its activities. Thanks to the above, savings were achieved versus the budget of expenditure, amounting to **CZK 32,228,970**, in particular in the following areas:

- salaries and other personnel expenses, incl. insurance premiums and FKSP CZK 15,137,260
- programme financing EDS/SMVS CZK 4,927,020
- other current expenditure (w/o EDS/SMVS) CZK 12,164,690

These funds can therefore be used for financing the Office in 2016.

Total claims on unused expenses as at 1 January 2016, i.e., savings of **CZK 32,228,970** achieved in 2015 and the balance of claims on unused expenses as at 31 December 2015, amounting to CZK **43,954,160**, were reported at a total of **CZK 76,183,130** for Chapter 349, of which:

- major expenses (programme financing EDS/SMVS, funds for salaries) CZK 40,887,260
- minor expenses CZK 35,295,870

8.3.2 Programme financing

In the system for financing the programmes of asset replacement, for 2015 only one programme was included, 149 010 Development and Replacement of the Technical Facilities of the ERO (hereinafter 'Programme'), which consists of two sub-programmes:

- sub-programme 149 011 – ERO ICT Procurement, Replacement and Operation
- sub-programme 149 012 – ERO Asset Procurement and Replacement

The fundamental objective of this programme is to ensure the development of adequate facilities for the Office, with the heaviest emphasis on ICT.

Eight approved projects have been launched and are being monitored and evaluated under these sub-programmes. The programme financing budget for 2015 was approved at **CZK 24,350,000** and the final budget of expenditure at **CZK 26,410,000**, which was met at 81.34%, with the actual expenditure reported at CZK 21,482,980; in absolute terms, these are savings of CZK 4,927,020 against the final budget of expenditure.

Table 13 shows results for 2015 by sub-programme. In line with the Office's priorities, the largest amount of funds was allocated to IT (sub-programme 149 011 ICT) for 2015.

Table 13 Results by sub-programme for 2015

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total, Programme No. 149 010	26,410,000	21,482,980	81.34
of which:			
Sub-programme 149 011 ICT	20,750,000	16,267,820	78.40
Sub-programme 149 012	5,660,000	5,215,160	92.14

Information and telecommunications technology at the Office

Since all the agendas that the Office runs are concentrated in the ERO's Integrated Information System (JIS), most of the funds under the ICT 149 011 sub-programme were drawn for its development and maintenance with a view to putting in place qualitatively new conditions for pursuing the ERO's mission, for meeting the new tasks under the Energy Act and EU Directives and for improving the quality of the management of the Office.

Furthermore, a tendering procedure for the supplier of data services, including connection to the central service point (CSP) was carried out under ICT.

A large part of the funds was drawn to provide for the Office's new facility in Ostrava. In connection with the effect of Act No 181/2014 on cyber security and amending related laws (the Cyber Security Act), the Office launched a project called Improving the Availability of ICT Services and Data Security in Compliance with the Cyber Security Act. The project is to be completed in 2016 and will be financed using the claims on unused expenses in the area of programme financing.

October 2015 saw a successful recertification audit under ČSN ISI/IEC 2007:2013 at the Office. The certification authority CQS carried out the audit in the Prague and Ostrava offices. The Office therefore continues to be entitled to use the national certification logo, CQS, and the international certification logo, IQNet for its information security management system (ISMS).

8.3.3 Expenses on business trips abroad

Expenses on business trips abroad totalled **CZK 4,623,770** in 2015 (versus CZK 4,450,010 in 2014). Compared with 2014, the number of business trips abroad increased by 20%, with the costs rising by only 4% compared with 2014. The result is a significant drop in expenses per trip abroad by 17%. A total of 192 business trips abroad took place in 2015 (155 in 2014).

In the case of several business trips abroad, savings were achieved in the Chapter's budgeted expenditure due to refunds of the ERO delegates' travel costs, primarily those incurred in relation to the meetings of the ACER Board of Regulators, totalling CZK 145,590, of which CZK 10,400 in respect of trips in 2014 and CZK 135,190 for trips in 2015.

For 2015, 'non-investment transfers to international organisations', carried in budget item 5511 'non-investment transfers to international organisations', amounted to CZK 908,610 (EUR 32,939), and related to the annual membership dues to CEER in Brussels.

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

Under the relevant legislation (Act No 320/2001 on financial control in public administration and amending certain laws (the Financial Control Act), as amended, and the relevant Ministry of Finance implementing regulation no. 416/2004, which implements Act No 320/2001, the Financial Control Act, as amended), the Office evaluates the criteria of the economy, efficiency and efficacy both as part of *ex ante* management inspections before and after the emergence of the liability, and as part of ongoing and *ex post* management inspections.

Under Section 39(3) of Act No 218/2000 on budgetary rules and amending certain related laws, as amended, the Office also continuously monitors and evaluates the economy, efficiency and efficacy of the costs on the basis of regular evaluations of budgetary fund spending.

In 2015, public contracts were carried out in compliance with applicable legislation under Act No 137/2006 on public contracts, as amended ('the Act'), under the internal directive on using the Act at the ERO, and in compliance with other regulations on public contracts, for example, the rules for the system of using electronic market places by public administration entities in procuring and replacing specified commodities.

Public contracts were awarded both in the regime of low-value public contracts and using the procedure under the Act. A total of 58 public contracts were carried out off the regime of the Act, i.e., in the area of low-value public contracts in excess of the limit of CZK 100,000 without VAT, in 2015. In 2015, applicants responded by 1.8 bids per public contract on average as regards public contracts for supplies and services. In the regime of the Act, i.e., when the public contract was expected to have a value of at least CZK 2,000,000 without VAT, two public contracts were launched in 2015.

When publishing the steps, data and information relating to public contracts, the contracting authority placed emphasis on the maximum use of electronic means and instruments, which include, in the case of the ERO, the contracting authority's profile, the e-market and the system of publication in the Information System for Public Contracts (the *Public Contract Gazette*). With effect from 1 July 2015, a register of contracts was put in place; contract documents resulting from implemented public contracts valued over CZK 50,000 without VAT are being published on an ongoing basis.

Financial savings in excess of CZK 4,600,000 without VAT, versus the expected costs, were achieved in the above way in respect of the public contracts carried out in 2015.

No external inspections concerning public procurement took place at the ERO, and no objection or complaint against the contracting authority's procedure in public contract awarding was filed in 2015.

Table 14 Comparison of actual expenses under Chapter 349 Energy Regulatory Office, for the period 2010–2015

Item	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Index 15/14
Total expenses	110,916	111,291	168,384	177,125	194,074	217,982	112.32
of which:							
- Salaries, other payments, insurance premiums and FKSP	67,274	66,334	102,855	118,584	137,273	157,284	114.58
- Expenses on the asset replacement financing programme	18,145	20,811	30,052	25,919	21,425	21,483	100.27
- Total other expenses	25,497	24,146	35,477	32,622	35,376	39,215	110.85
of which:							
- Allocations to the Reserve Fund (RF)	0	0	0	0	0	0	0
- Other expenses w/o RF	25,497	24,146	35,477	32,622	35,376	39,215	110.85
- Use of claims on unused expenses	5,975	7,395	6,306	7,496	5,117	5,349	104.43
Expenses on salaries and other payments for work	49,625	49,449	76,360	88,067	101,854	116,700	114.58
Salaries to employees and civil servants, incl. Chairperson	48,658	47,401	75,356	85,881	99,175	114,701	115.66
Staffing levels (FTE)	105	105	162	190	217	239	110.14
Average monthly salary	38,617	37,620	38,764	37,667	38,085	39,993	105.01
Payroll and social costs per employee	641	632	635	624	633	658	103.95
Programme financing costs per employee	173	198	186	136	99	90	90.91
Other expenses per employee	242	230	219	172	163	164	100.61
Total expenses per employee	1,056	1,060	1,039	932	895	912	101.90

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

8.4 Human resources

The Office's personnel and organisational activities were geared primarily towards the following tasks in 2015:

Personnel management agenda

In the budget approved for 2015, the number of ERO employees was set at 254. The main task for 2015 was to carry out the new activities and duties under Act No 234/2014 on civil service, as amended, primarily consisting in activities related to transferring the Office's current employees to the civil service mode. This process was highly challenging in terms of time and, in particular, paperwork.

Education and training

CZK 3,849,890 (of which: expense item 5167 – training and education services, CZK 3,512,310; item 5021 – other personnel expenses, CZK 48,000; item 5169 – other services, CZK 110,690; item 5176 – conference fees, CZK 178,890) were spent on education and training. Total expenses on education therefore accounted for 3.36% of the actual cost of salaries for employees under

employment contracts and under civil service agreements (including ERO Chairperson's salary), slightly less than in 2014 (a share of 4.22%, the amount was CZK 4,185,680). Education and training can be categorised as follows:

Initial training

- a) 40 employees went through introductory initial training; and
- b) 24 employees went through continued initial training.

Advanced training

- a) Seven employees in managerial positions and persons holding superior positions at the Office went through advanced managerial training.
- b) Language training for employees.

For 2015, 108 official positions were specified for which knowledge of a foreign language is prerequisite qualification. In the 103 official positions that were filled, 82 employees fully met the language qualification requirement, and for eight employees this requirement had been waived. Certain employees attended intensive English language courses in 2015.

Table 15 Employees' command of languages as at 31 December 2015

	Number of selected positions subject to the qualification requirement of standardised language examinations, in the order of proficiency				Total number of specified positions 1st level
	1st level	2nd level	1st level	2nd level	
English	67	37			104
German	4				4
Total	71	37			108

- c) Other advanced training covered the following:
 - repeated training in Act No 500/2004 Rules of Administrative Procedure (certified training courses concluded by a test and a certificate),
 - training in energy basics for licensed business lines,
 - training in Act No 255/2012 on oversight (oversight rules),
 - training in Act No 89/2012, the Civil Code,
 - additional ongoing training in amendments to legislation.

Altogether 141 training events were held, which is comparable with the number in 2014.

The structure of education, training and professional development expenses is as follows:

Table 16 Structure of education and training expenses in 2015

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
Amount	1,279,090	2,570,800	3,849,890

CZK 1,279,090 was spent on language training, which was more than in 2014 (CZK 953,090). CZK 162,150 and CZK 1,116,940 were allocated to language courses in other countries and in the Czech Republic, respectively. Spending on other education was lower than in 2014 (CZK 3,232,590). Of the CZK 2,570,800 drawn in 2015, the following fields of education took the largest amounts: the technical basics of licensed business lines for lawyers, CZK 756,200, introduction to the technical issues of licensed business lines, CZK 592,420.

Employees

The approved budget for 2015, in respect of the 'mandatory standard target' of '*salaries for employees and other payments for work*', was at a level of **CZK 119,855,140**. The final budget was CZK 127,852,250 and was met at a level of 91.28%, i.e., CZK 116,700,250; of this, the '*mandatory standard target of salaries for employees*', with an approved budget of **CZK 84,190,360** and a final budget of CZK 87,078,770, was met at a level of 92.40%, i.e., CZK 80,464,220, the '*mandatory standard target of salaries for civil servants*', with an approved budget of **CZK 31,832,000** and a final budget of CZK 35,398,700, was met at a level of 91.92%, CZK 32,537,380, and the '*mandatory standard target of salaries for employees derived from those of constitutional officials*', with an approved budget of **CZK 1,584,700** and a final budget of CZK 1,806,700, was met at a level of 94.05%, CZK 1,699,230.

An average salary of CZK 38,585 was planned for 2015 (on the basis of the approved budget). The actually achieved average salary was CZK 39,993, index 103.65%. The 2015/2014 index of the actually achieved average salary was 105.01%. As regards expenses on other payments for work (subgroup of items 502), the following amounts were paid:

– Item 5021, other personnel expenses: **CZK 1,999,420**

In 2015, the average number of FTE employees was **239** while the planned number was 254, i.e., the plan was met at 94.09%. Compared with 2014 this was 22 employees more. The average planned number of FTE civil servants (on the basis of the approved budget), 63, was met at 85.71%, i.e., 54, and the average planned number of FTE employees under the Labour Code (on the basis of the approved budget), 191, was met at 96.86%, i.e., 185.

The actual number of employees registered as at 31 December 2015 was 235 while the plan had been 254. This was two employees less than the staffing level as at 31 December 2014. The planned actual number of civil servants under the Civil Service Act, 198 as at 31 December 2015, was met at 90.40%, i.e., 179; the planned actual number of employees under the Labour Code, 56 as at 31 December 2015, was met at 100%.

Following repeated recruitment procedures, in the first half of the year the Office achieved the planned staffing levels; number of employees on 30 June 2015: actual number 253, plan 254, i.e., 99.61%. However, the second half of the year saw a significant decline in staffing levels. The impacts of the application of the civil service law added to the already well-known problem and factor of differences in remuneration (and possibly employee benefits) between the public and private spheres, which had only been aggravated by the growing economy and the private sphere's demand for highly skilled workforce. In a number of cases, the system entailing the mode of acceptance, the employment mode based on fixed terms, the duty to pass examinations in various service disciplines, and the related salary category are not acceptable for new candidates as ultimately, when compared with the private sphere conditions, the Office is not able to meet their requirements and expectations.

Thus, the negative impacts of the application of the civil service law, of which regulatory authorities had been repeatedly warning during the course of the drafting and passing of the civil service law, are beginning to be felt in practice. Despite the large number of repeated recruitment procedures in the second half of 2015 a number of vacancies subject to the civil

service law were not filled by suitable candidates; in practice, this situation is causing serious operating problems in some specialised units.

Since the Office did not have a sufficient number of scheduled job positions, approved in the budget, it had to continue using 'agreements to complete a job' and 'agreements to perform work'; this concerned 23 employees (as at 31 December 2015).

The Office had to repeat a number of recruitment procedures, and it therefore often took quite a long time before eligible candidates for vacancies were found. A shift into the population of young graduates (primarily women) without adequate practical experience is clearly evident among the candidates for jobs at the Office. In addition, everything has become much more complicated, in terms of both time and paperwork, by the application of the relevant provisions of the civil service law.

The employee structure, by selected criteria, is described in detail in the part containing the draft of the closing account of Chapter 349 ERO for 2015.

Of the overall number of 235 employees as at 31 December 2015, 81 worked in Jihlava, 89 in Prague and 65 in Ostrava [worked within the meaning of the place of performance of work / place of service / agreement on regular workplace].

In terms of assignment to units, of the planned 254 scheduled job positions 16 are assigned to the ERO Chairwoman and audit, 44 to the First Vice-Chairman (excluding the Operations Section and the Inspection Section), 25 to the European Affairs and Strategy Section, 46 to the Regulation Section, 9 to the POZE Department, 33 to the Legislation and Administration Section, 34 to the Operations Section and 47 to the Inspection Section, see Appendix 2 Organisational structure of the Energy Regulatory Office as at 31 December 2015.

Organisational activities

The year 2015 was also very extreme in terms of organisation. In connection with the application of the civil service law most of the existing internal regulations had to be amended, and new internal service regulations had to be drawn up in the wake of the civil service law. A total of 51 internal regulations were issued.

8.5 Cash funds

There were no transfers from cash (own) funds to revenues of Chapter 349 in 2015.

The Fund of Cultural and Social Needs (FKSP) was continuously accumulated and used in line with the relevant regulations. As at 31 December 2015, the Office's FKSP account held CZK 327,240.

The balance in the Reserve Fund was nil as at 31 December 2015.

8.6 Assets, receivables and liabilities

As at 31 December 2015, the Office **held assets valued CZK 194,116,070** at acquisition cost and carried at a book value of **CZK 74,177,350** following accumulated depreciation. In 2015 the total value of assets at acquisition cost increased by CZK 11,258,250 on 2014.

As at 31 December 2015, **receivables totalled CZK 8,280,500**. In this amount, the largest part is CZK 4,395,800 in fines levied in administrative proceedings as part of the supervisory activity. This amount also includes operating advance payments to suppliers amounting to CZK 382,800, prepaid expenses of CZK 3,498,860 and receivables from employees of CZK 3,040. As at 31 December 2015, the Office did not record any trade receivables.

As at 31 December 2015, **liabilities totalled CZK 58,626,030**. They mainly included liabilities to employees, liabilities under social security and health insurance, and income tax liabilities related to employees, totalling CZK 12,127,350. Liabilities also included the Energy Regulation Fund, CZK 45,444,390. The Office had no overdue liabilities as at 31 December 2015.

8.7 Meeting of mandatory targets

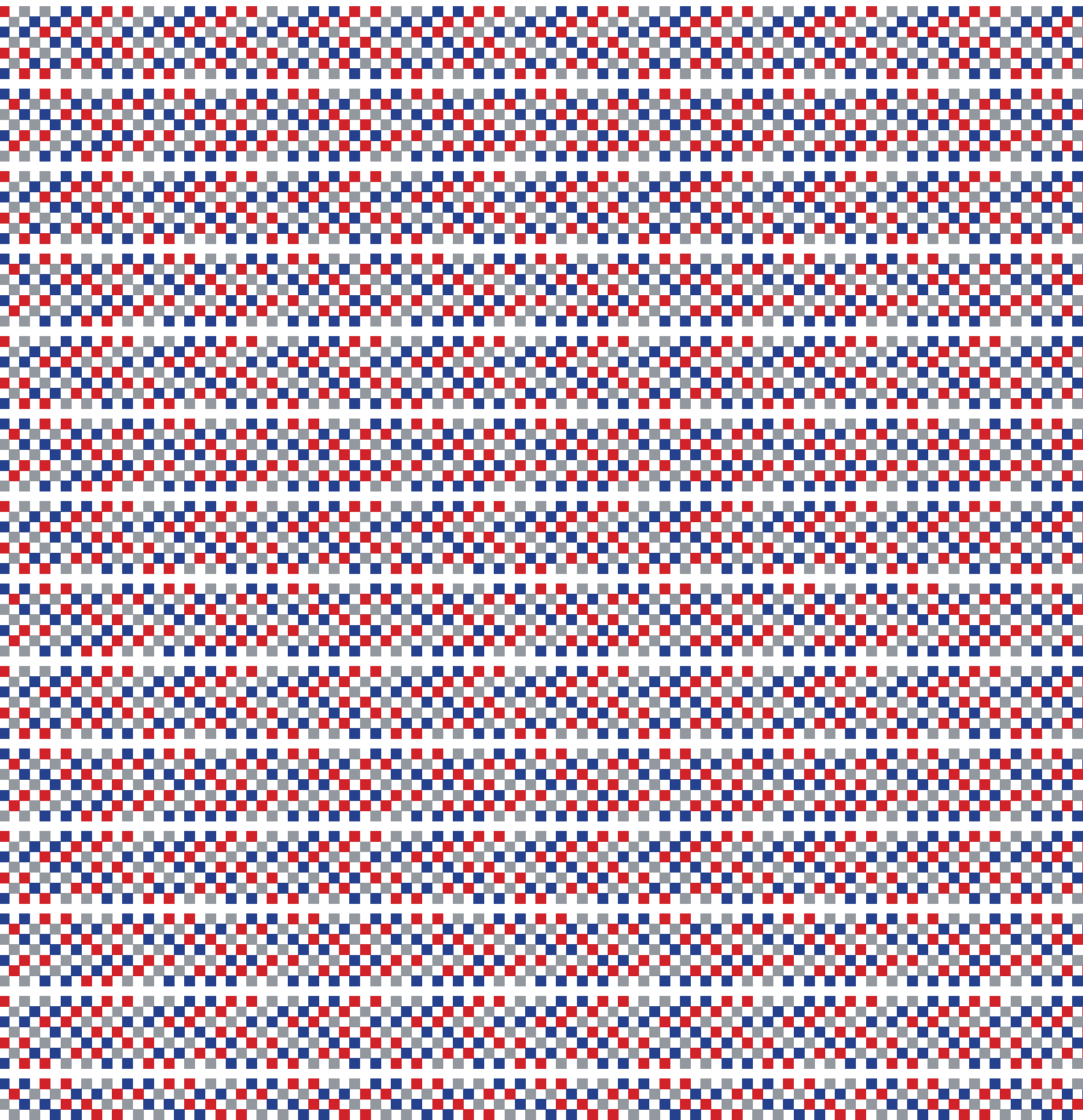
The Office complied with all the mandatory targets. The planned amount of funds was not exceeded under any of the mandatory targets without approval, see Table 17.

A detailed analysis of performance versus budget, including human resources, is contained in the relevant parts of the draft of the closing account of Chapter 349 ERO for 2015, including the spreadsheets.

Table 17 Meeting of mandatory targets

Mandatory targets	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/3 [%]
	1	2	3	4	5
Aggregate targets					
Total income	209,114,000	209,114,000	209,114,000	230,691,470	110.32
Total expenditure	238,216,790	234,271,250	250,210,940	217,981,960	87.12
Specific targets – income					
Tax revenues	203,114,000	203,114,000	203,114,000	212,741,230	104.74
Non-tax revenues, capital revenues and accepted transfers	6,000,000	6,000,000	6,000,000	17,950,240	299.17
of which: income from EU budget w/o CAP, total	0.00	0.00	0.00	0.00	0.00
other non-tax income	6,000,000	6,000,000	6,000,000	17,950,240	299.17
Specific targets – expenditure					
Outlays to support the ERO's tasks	238,216,790	234,271,250	250,210,940	217,981,960	87.12
Standard targets					
Salaries for employees and other payments for work	119,855,140	120,435,250	127,852,250	116,700,250	91.28
Salaries for employees under employment contract	84,190,360	81,203,770	87,078,770	80,464,220	92.40
Salaries of civil servants	31,832,000	35,398,700	35,398,700	32,537,380	91.92
Salaries for employees under employment contract derived from salaries of constitutional officials	1,584,700	1,584,700	1,806,700	1,699,230	94.05
Statutory insurance premiums paid by the employer	40,750,750	40,947,990	43,316,990	39,415,600	90.99
Allocation to the Fund of Cultural and Social Needs (FKSP)	1,176,070	1,181,870	1,251,870	1,168,000	93.30
Arrangements for crisis situations under Act No 240/2000	0.00	0.00	0.00	0.00	0
Total outlays co-financed from the EU budget w/o CAP	0.00	0.00	0.00	0.00	0
of which: from the national budget	0.00	0.00	0.00	0.00	0
share from the EU budget	0.00	0.00	0.00	0.00	0
Total expenses recorded in the EDS/SMVS programme financing information system	24,350,000	24,350,000	26,410,000	21,482,980	81.34

9) Internal oversight system



9) Internal oversight system

9.1 External inspections

No external inspection was carried out at the Office in 2015.

9.2 Internal oversight and internal audit

Complying with the wording and requirements of Act No 320/2001, as amended, the Office has an independent internal audit unit organisationally separate from the managerial and executive functions and directly reporting to the ERO Chairwoman.

In 2015, the Internal Audit Unit was not given any other operating or managerial functions conflicting with the independent pursuance of internal audit assignments and objectives or impairing its independence.

Internal audit followed the annual Internal Audit Plan for 2015, approved by the ERO Chairwoman, and *ad hoc* assignments. During the year, the annual plan was extended to include the *ad hoc* extraordinary audits and reviews that were priorities for the Office in 2015. Some of the internal audits were follow-up audits to check the execution and observance of the measures adopted further to the recommendations from earlier audits.

Audit and review actions focused on assessing the Office's internal control system in terms of the adequacy and efficiency of financial management review mechanisms falling within the remit of the Office's management and executive structures, including checks of the accuracy of selected operations. Audits also focused on the risky processes in the Office such as compliance with the required procedures in public contract award and implementation, on bookkeeping as to its accuracy, conclusiveness and completeness, on fight against corruption, on information security (ISMS), on adherence to the Rules of Administrative Procedure when conducting administrative proceedings, and on checking the accuracy of the operations carried out in each of the processes across the Office in line with the Office's objectives, needs and mission under the Energy Act.

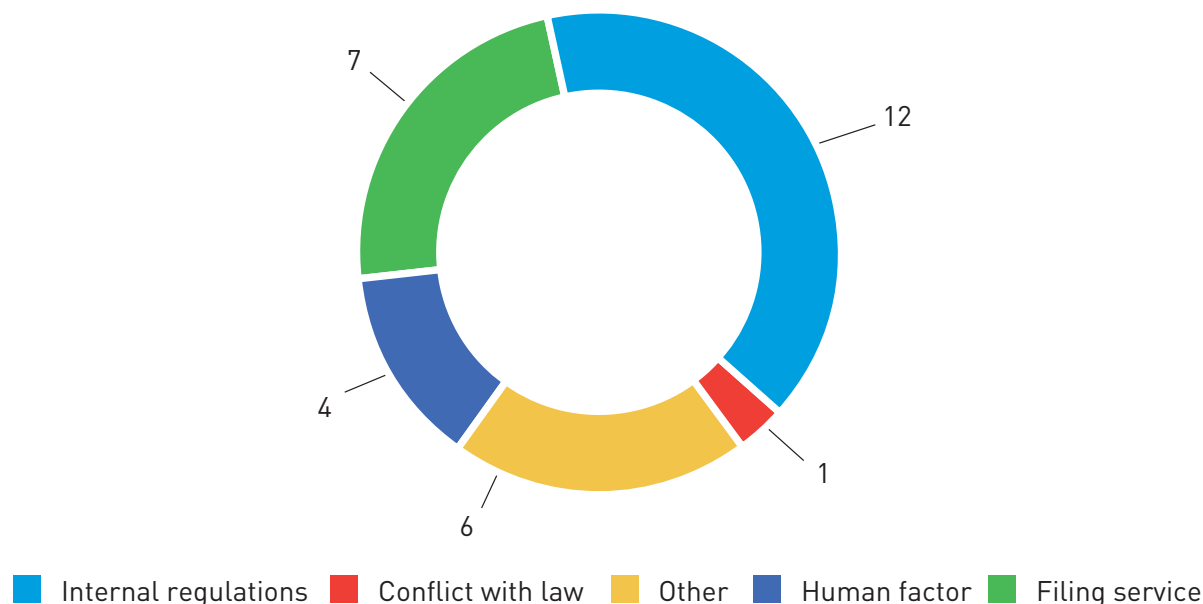
Internal Audit carried out seven planned audits and six *ad hoc* audit actions at the level of extraordinary audits and reviews. Financial audits accounted for 15%, system audits 15%, performance audits 24% and other audits for 46% of the total number.

These audit actions mainly emphasised compliance with legislation and internal regulations and the reflection of laws and regulations in the Office's internal regulations, and protection of public funds against risks and irregularities and other shortcomings, and reviewed the economy, efficiency and efficacy of public spending on the Office's operations and performance.

Internal Audit put forth a total of 30 recommendations for eliminating the shortcomings identified, which were translated into specific and targeted measures with deadlines.

The recommendations were most frequently directed towards risk prevention, improvements in the management of the Office’s operating and financial activities, and enhancing the efficiency of the management and oversight mechanisms, and updates of internal controlling acts and service regulations. The particular findings of the audits and reviews did not have any impact on the working of the system as a whole.

Chart 23 Types of remedial measures in 2015



The internal audit actions did not identify any shortcomings posing a material risk to or preventing the meeting of the Office’s tasks and objectives or significantly influencing the proper administration and management of public funds, and/or constituting reasons for any deterioration in the Office’s financial performance.

No serious deficiencies such as suspicion of minor offences or criminal offences were identified. No cases of corruption or fraud were registered. The risk associated with the set review mechanisms in relation to corrupt practices is being checked and evaluated on a regular basis.

Internal audit draws up Reports on the Results of Financial Controls for the Ministry of Finance of the Czech Republic for the relevant year under Act No 320/2001, as amended, and the relevant implementing regulation.

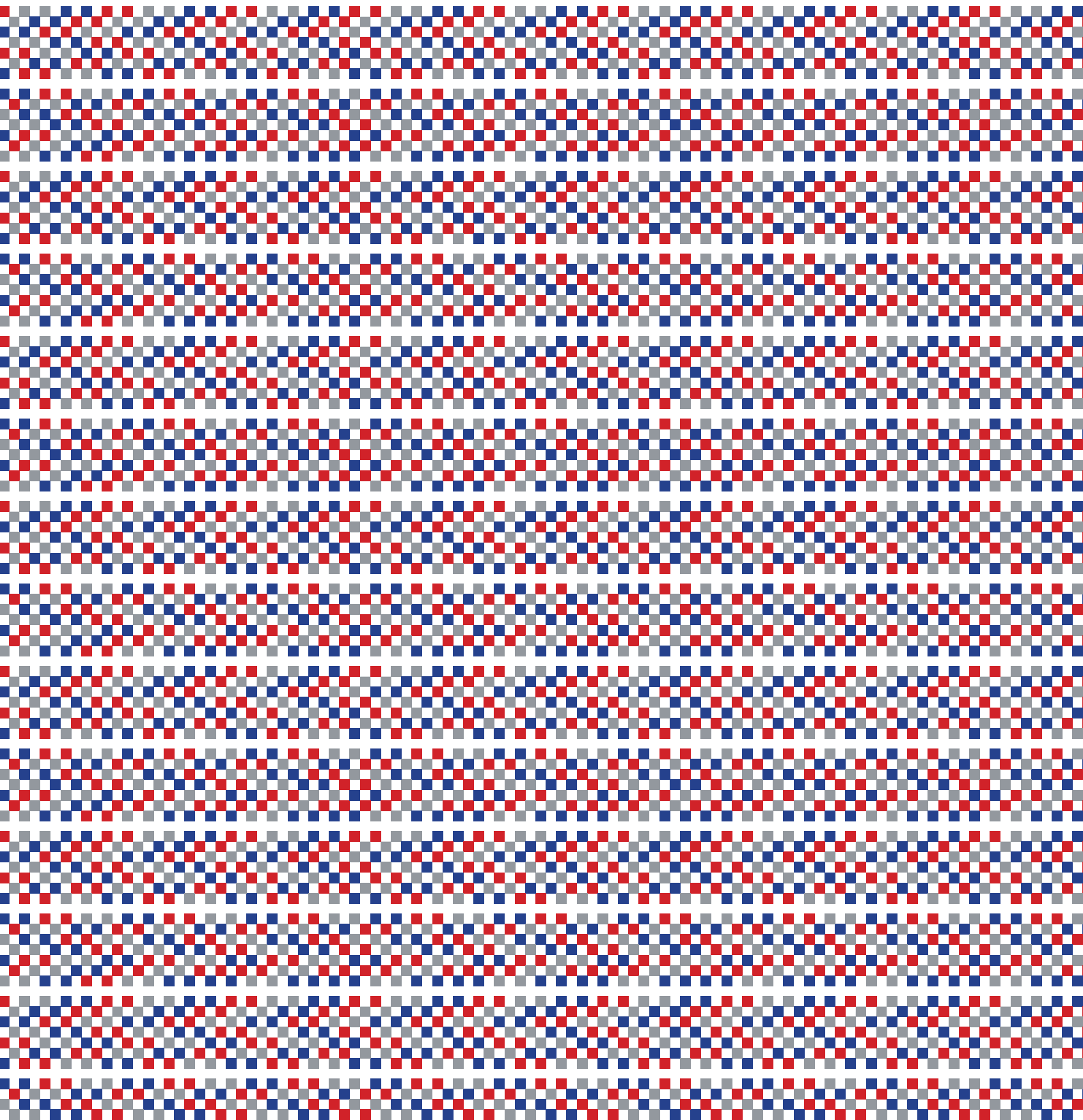
The other component of the internal oversight system is management inspections carried out, as part of the internal management at the Office, by the responsible managers and superiors in the process of preparing financial operations before the approval thereof and the ongoing monitoring of the operations being executed, until the final settlement of and accounting for such operations, and *ex post* checks of selected operations as to the results achieved and effective financial management. The process of management and review mechanisms is set out in the Office’s internal and service regulations.

In its activities, the Office respects and follows Act No 320/2001, as amended. The Office carries out risk analysis, plans and carries out internal audits, uses three tiers of management inspection, allocates responsibilities to managers and superiors within each of the operations through multi-tier approval, publishes the outcomes of its decision-making, considers

recommendations from internal audit, adopts measures to remedy the shortcomings identified, has in place a system for corruption prevention and detection, and continuously reviews and updates its internal steering documents.

The internal control system in place is sufficiently efficient, responds on time to changes in economic, legal, operating and other conditions, and provides reasonable assurance that it is capable of minimising the risks in the above areas. The funds for public spending reported in Chapter 349 of the national budget are drawn in accordance with legislation and internal regulations.

Appendix 1



Auditor's Report

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

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, 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 2015.

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 allocations to the fund and the retirements of the fund were carried out in compliance with the legal regulations in force, and the fund is truly and fairly reflected in the financial statements of the Energy Regulatory Office for the period of 2015.

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 2015

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

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

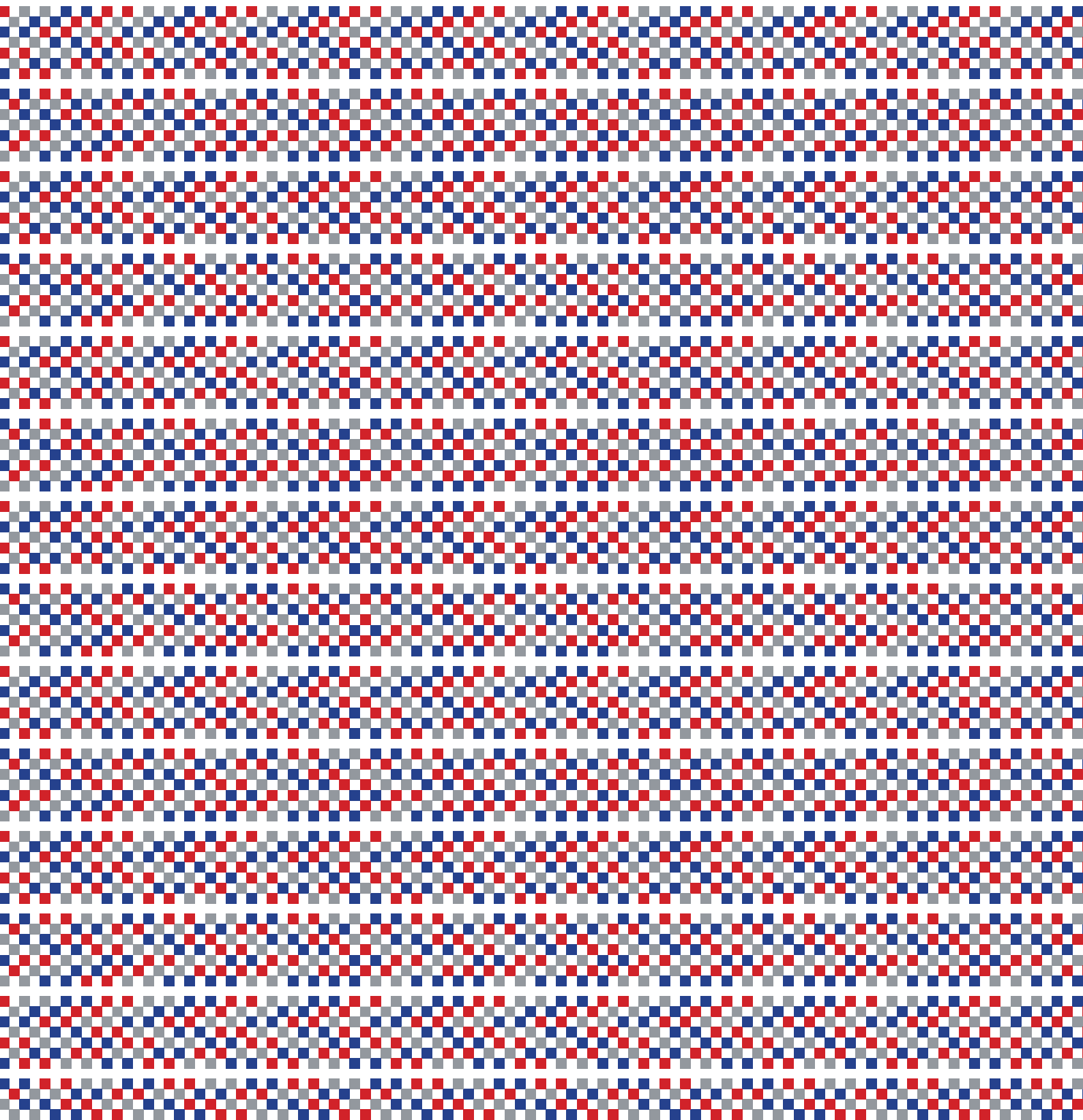


Appendices: Balance sheet account

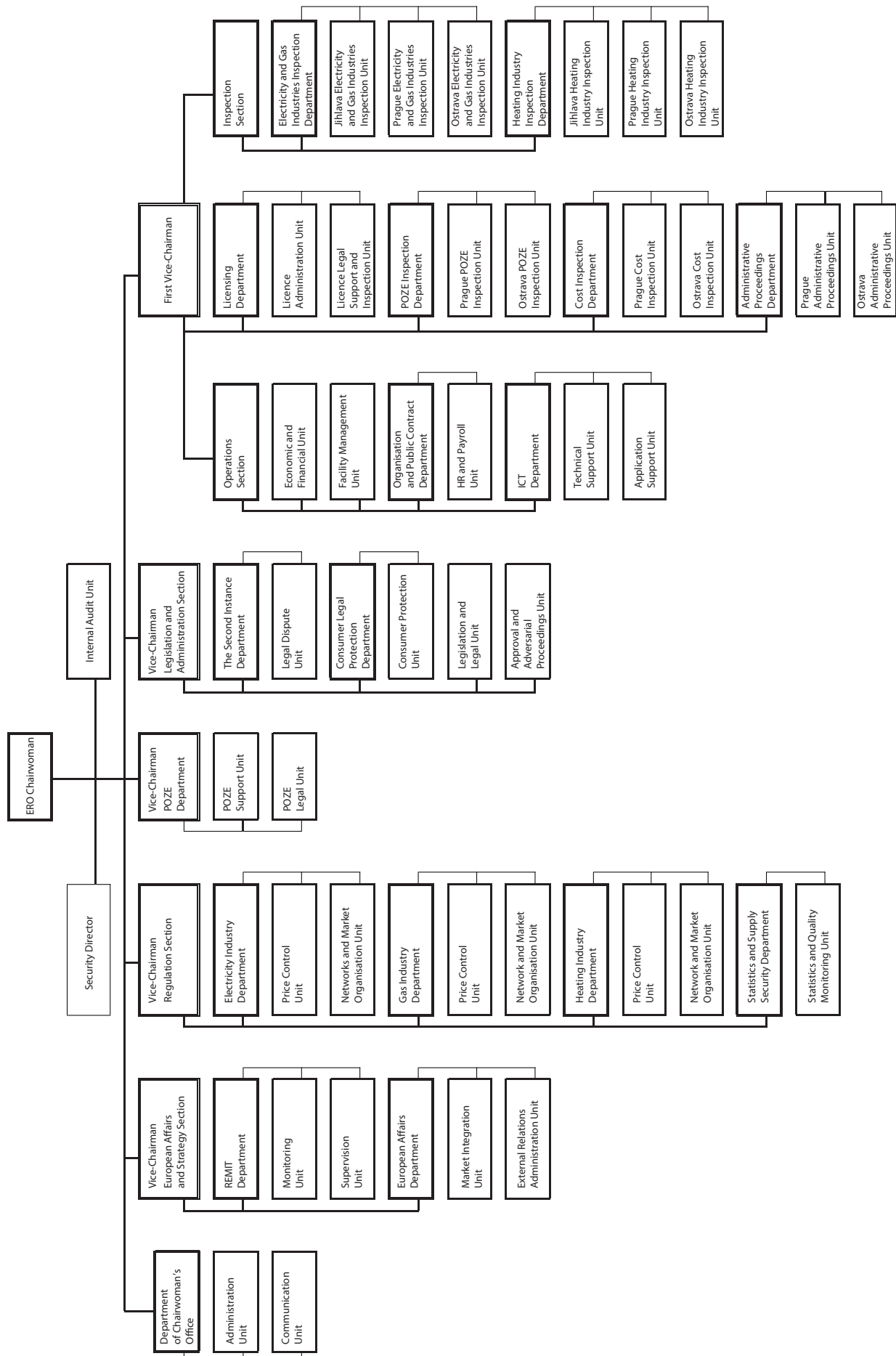
A-CONT, s. r. o., with a registered office at Poini 4, 586 01 Jihlava, Reg. No. 49448889, registered in the Companies Registry administered by the Regional Court in Brno, section C, enclosure No. 12563 and also entered in the list of auditing companies of the Czech Republic's Chamber of Auditors with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

In the town of Jihlava, on February 16, 2016

Appendix 2



Organisational structure of the Energy Regulatory Office as at 31 December 2015



**Report on the Activities and Finances
of the Energy Regulatory Office
for 2015**

Design: © Ditta Jiříčková, 2016
DTP: Metoda, spol. s r.o., Brno, 2016

Energy Regulatory Office

Masarykovo nám. 5

586 01 Jihlava

e-mail: podatelna@eru.cz

www.eru.cz

