

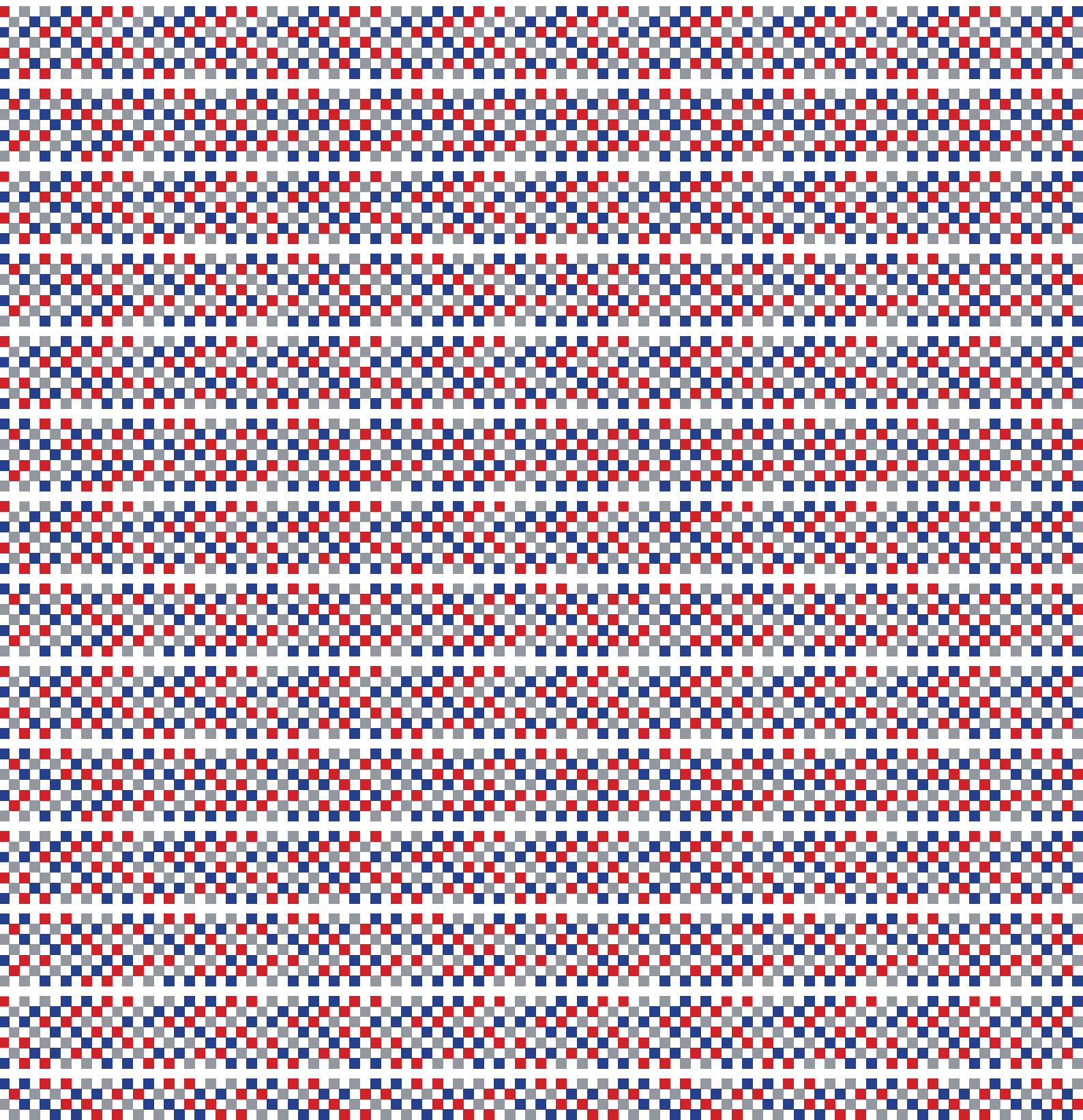
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1) Introduction



1) Introduction

Under Act No 458/2000 on the conditions of business and state administration in the energy industries and amending certain laws (the Energy Act), as amended by, in particular, Act No 131/2015 and the amendment to Act No 165/2012 on supported energy sources, the Energy Regulatory Office ('the ERO' or 'the Office') has been operating as an administrative authority for regulation in energy industries since 1 January 2001.

The Office's mission is, in particular, protecting the justified interests of customers and consumers in energy industries, price controls, and supervision over the energy market and over compliance with the requirements of competition by all participants in this market wherever competition is not feasible. Licensing, including oversight over licence holders, dispute adjudication, promotion of supported energy sources (SES) and oversight over licence holders' adherence to the conditions for carrying on business, as the basis of the preconditions for reliable electricity, gas and thermal energy supply, and also coordination of international cooperation are also the Office's principal tasks.

An amendment to the Energy Act, enacted through Act No 131/2015, one of the objectives of which was to render the Energy Act consistent with the new Civil Code and the new Oversight Rules and to boost consumer protection, came into effect in 2016.

The public consultation on the proposed New Tariff Structure in 2016 was the most extensive public consultation process ever conducted by the Energy Regulatory Office; the Office collected more than 16,000 suggestions. As part of publicising information about consumer issues, ERO staff also met with citizens in person on their trips to the regions. The Office was active in the protection of customers' and consumers' interests in the energy sector and handled more than 9,600 submissions, some of them already on an out-of-court basis under the relevant amendment to the law on consumer protection. Most of the submissions concerned illegal energy off-take, the supplier switching procedure, the conduct of peddlers, purchase contracts for LED bulbs, penalties, and billing. The Code of Ethics was finalised; it helps to enhance consumer protection.

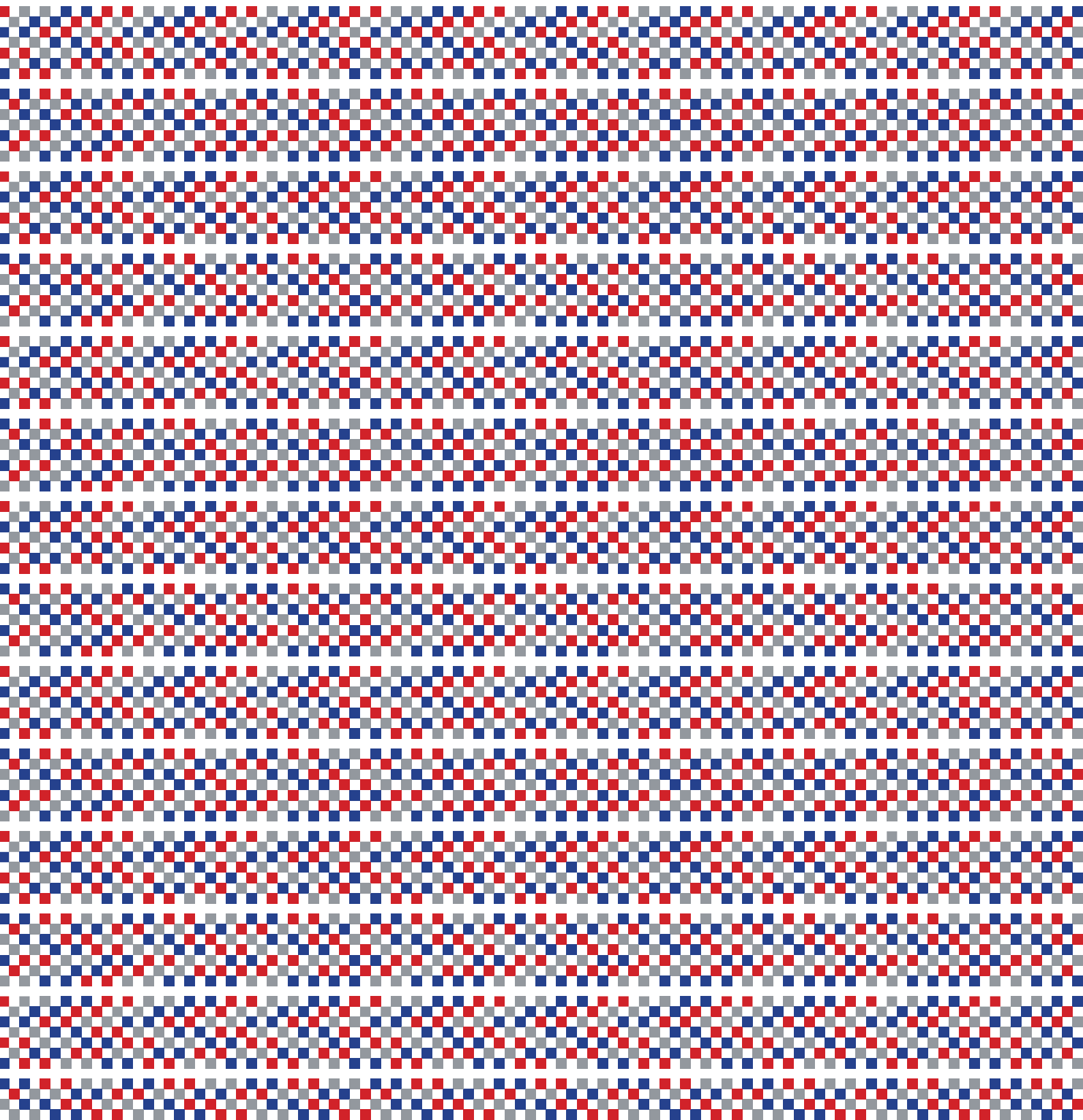
2016 was also the first, and successful, year of the fourth regulatory period: maintenance and development of systems did not come to a halt under the strict regulatory rules. On the basis of its gas market monitoring the Office introduced indicative gas prices during the year; these helped customers of unregulated gas traders to make a picture of the gas price they could require from gas traders. The indicative gas prices substituted for the missing statutory authority for the Office to intervene with the market in case of the need to protect consumers. The Office started supervision under REMIT, the regulation on wholesale energy market integrity and transparency, the purpose of which is to prevent market abuse and promote fair competition.

The Office successfully continued in preparations of price controls for 2017; this was also helped by the fact that the Ministry of Industry and Trade of the Czech Republic (MPO) obtained from the European Commission the necessary notification of its decisions on compatibility with the EU internal market for most of the supported energy sources. On the basis of these notified decisions the Office promptly issued the relevant price decisions laying down support for most of the supported energy sources.

The Office continues its active cooperation with state administration authorities, the Technology Agency of the Czech Republic, and European institutions – the Agency for Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER).

A major issue addressed in 2016 was an intensification of oversight in conventional energy sources; it was more focused on specific suggestions from consumers and also on checking the remedying of the breaches identified in the past mainly in the pricing area and in customer and consumer protection. In addition, the results of checks of costs, in particular those of the largest energy market participants began to be positively reflected in the regulatory decisions taken by the Office.

2) Legislation and administration



2) Legislation and administration

2.1 Amendment to Act No 458/2000 and Act No 165/2012

- **Implementation of the amendment to Act No 458/2000 (the Energy Act) and Act No 165/2012 (on supported energy sources) through Act No 131/2015**

In 2016, the Office helped to implement legislative changes related to the coming into effect of the 'major amendment' 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. This extensive amendment to the above laws was enacted through Act No 131/2015 and entered into force on 5 June 2015, but a large part of this law came into effect on 1 January 2016 necessitating, *inter alia*, extensive changes primarily to the implementing acts within the Office's competences.

This 'major amendment' to the Energy Act was mainly initiated due to the need to harmonise it with the new Civil Code and the new Oversight Rules, and to enhance consumer protection, and also in relation to energy market participants' practical experience and the discrepancies that had emerged from the application practice. The amendment was also adopted in relation to the EU legislation that had to be implemented in the national legal system, such as, in particular, Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC, and Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency.

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 (the law on supported energy sources) was also adopted with effect from 1 January 2016 as part of the same amending law. The main reasons for amending the law on supported energy sources included primarily the need to implement Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency into support for high-efficiency combined heat and power generation and in high-efficiency thermal energy supply systems (providing that some provisions of this directive had been implemented through the above amendment to the Energy Act) and also the requirements arising from the decision to notify Act No 165/2012 to the European Commission in respect of support for electricity from renewable energy sources: Procedure SA.35177 (2014/NN) – Promotion of electricity production from renewable energy sources and high-efficiency combined heat and power generation in respect of support under Act No 165/2012 on supported energy sources. Last but not least, amendments were also made to certain provisions in connection with the application practice and to meet the requirements for improving the oversight process and to optimise the spending of funds on support.

In relation to a legislative error contained in the amendment, i.e. Act 131/2015, in the provision on the date of effect, in which the effective date of the amendment to Act No 234/2014 on Civil Service, as amended, was set incorrectly, the error consisting in replacing the ERO Chairman and Vice-Chairman with ERO Board Members before the effective date of the actual beginning

of the existence of the ERO Board, work was started immediately after the publication of Act No 131/2015 on a technical amendment to this law, which was intended to remedy this error – by amending the provision on the effective date – still before its coming into effect. This technical amendment was completed in 2016 and promulgated as Act No 190/2016 on 25 May 2016. This helped to move the effective date of the change in the Civil Service Act so that the change corresponded with the date of the establishment of the Board of the Energy Regulatory Office.

- **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 to modify 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 (MPO), with the participation of regulated entities and the Office for the Protection of Competition (ÚOHS). The work continued in 2016; the first half of the year saw several meetings of the working group, attended by ERO, however, the work on the amendment in this working group was then suspended.

This amendment primarily concerns the exercise of the Office's competences, price controls in the energy sector and administrative penalties for breaches of the Energy Act and the Office is therefore interested in continuing its active participation, through its representatives, in the drafting of the amendment.

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

In 2016, the Office issued 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. 8/2016 on the details of licensing for business in energy industries**

This statutory instrument was issued under the Office's authorisation under Section 98a(2)(a) of the Energy Act, and it has superseded the previous no. 426/2005 on the details of licensing for business in energy industries, as amended.

The Office issued a new public notice on licensing; nevertheless, from the applicants' perspective it does not bring any fundamental changes as regards licensing for business in energy industries and it basically follows up on the earlier regulation.

The public notice now systematically matches the structure in the authorisation under Section 98a(2)(a) of the Energy Act. The public notice is therefore much more systematic than the earlier regulation, which greatly improves its clarity and makes it user friendly.

On the basis of the experience with using the preceding public notice in administrative proceedings on licence award, some provisions requiring proof of certain conditions for licence award, which turned out to be redundant or useless, were changed or repealed. The changes also follow up on the amendment to the Energy Act, enacted in Act No 131/2015, as amended, since some changes at the level of the law also had to be reflected in the implementing act through this public notice. The same is true for changes related to the new Civil Code.

The public notice also sets out the model forms related to applications for the award, change or revocation of licences and for the recognition of the authorisation to carry on business. The model forms set out in the public notice have been modified and reviewed to reflect the new primary legislation.

The public notice came into effect on 1 February 2016.

In the summer of 2016, the Office decided to amend this public notice in the light of practical experience and to reduce the administrative burden. Specifically, it wanted to remove the requirement to present certain documents on technical fitness due to the submission of the same documents to prove the same in planning procedures in cases where the facility is a construction. This amending exercise was not completed in 2016 and continues in 2017.

- **Public notice no. 9/2016 on procedures for registering support with the market operator and implementing certain other provisions of the law on supported energy sources (the 'registration public notice')**

Under Section 53(2)(c), (d), (e), (f) and (i) of the law on supported energy sources, the Office is authorised to issue a public notice laying down the dates and processes for selecting the form of support for electricity at the market operator, the process for registering the form of support for electricity with the market operator, the dates and processes for selecting and changing the modes of the green premium for electricity, the process for registering operating aid for heat with the market operator and the date for renewable electricity generators to offer their electricity to mandatory buyers.

On 1 January 2016, Act No 131/2015 came into effect; it amends, *inter alia*, the law on supported energy sources concerning the termination of support for biomethane and distributed electricity generation, while the provisions on the new operating aid for heat came into effect. In Section 53(2) of the law on supported energy sources the Office was authorised to issue implementing acts so that the new legislation on the registration of existing operating aid and new operating aid for useful heat could function properly.

The registration process in place until then was revised and, in close cooperation with the market operator, adjusted to the then prevailing practical functioning of the whole system for support payment and recording.

The public notice came into effect on 19 January 2016.

- **Public notice no. 16/2016 on the conditions for connection to the electrical grid**

This statutory instrument was issued under the ERO's authorisation in Section 98a(2)(g) of the Energy Act, and it has superseded the previous no. 51/2006 on the conditions for connection to the electrical grid, as amended.

This new legislation was necessitated mainly by the amendment to the Energy Act through Act No 131/2015, which established the legal basis for simplifying the processes for operating small electricity generating plants, and thus also their connection to the distribution systems, and for electricity generation in up to 10 kW plants without a licence. The public notice unifies the general conditions for connecting electricity market participants' installations to the transmission system or distribution systems. In relation to changes concerning electricity generation in up to 10 kW plants without a licence it also lays down new conditions for connecting micro plants to distribution systems and determines the share of the justifiable costs to be paid by the applicant for connection to the transmission/distribution system.

The public notice came into effect on 1 February 2016.

- **Public notice no. 70/2016 on the billing of supply and related services in the energy industries**

The public notice was issued under Section 98a(2)(j) of the Energy Act, under which the Office is authorised to issue a public notice laying down the scope, details and dates of billing electricity, gas or thermal energy supply and related services in the electricity industry and related services in the gas industry.

The main reason for issuing the new public notice was the amendment to the Energy Act through Act No 131/2015: its Section 2(2) changed the definitions of certain terms in the electricity, gas and heat supply industries, which had also been used in the preceding no. 210/2011. The new public notice has harmonised the terminology with the law, which has a stronger legal force, and clarified and amended the then existing basic, or minimum standards for energy supply billing to customers, because bills should primarily be convenient for customers who receive the bills from electricity/gas generators/producers, electricity/gas traders, distribution system operators, the electricity/gas transmission system operator, or thermal energy suppliers. The purpose is to meet the adequate qualitative requirements for billing primarily through increasing the added value for customers by way of the clarity and transparency of the details when providing service billing across the electricity, gas and heat supply industries in relation to the Energy Act and the relevant European Community directive.

The Office presented a draft public notice requiring information in billing on whether the contract has been entered into for a fixed term or an indefinite period, specifying the term in case of fixed-term contracts. However, this item was eventually omitted from the draft on the basis of the opinion of the working commission of the Government's Legislative Council, which expressed its negative opinion on this noting that the item went beyond the statutory authorisation, because when the required particulars of bills are laid down the basis is the purpose of the bill, but the information about the contract went beyond this purpose, and this detail in the bill was therefore in conflict with the statutory authorisation.

The public notice came into effect on 1 July 2016.

- **Public notice no. 266/2016 amending 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 public notice was issued under the authorisation in Section 53(2)(a) and (b) of Act No 165/2012 on supported energy sources and amending certain laws, as amended, to implement Section 7(3) and Section 12(1)(a) of the law on supported energy sources, and it lays down the technical and economic parameters of renewable sources for electricity generation and the service life of the renewable electricity generating plants, for which the Office also has the authority to lay down support in the form of feed-in tariffs, and also to implement Section 26(4) and Section 27(9) of the law on supported energy sources, where it lays down the technical and economic parameters and the service life of plants producing heat from biogas.

The technical and economic parameters for electricity and heat producing plants are set out in a schedule to the public notice and subject to keeping them, electricity generators are guaranteed a 15-year simple payback period when supported by feed-in tariffs and heat producers are guaranteed a 15-year simple payback period when supported by green premiums for useful heat set by the Office.

In view of the continuous development and improvement of RES technologies on the one hand, and changing prices of the inputs on the other hand, these technical and economic parameters must be changed from time to time. The final RIA report on the draft of public notice no. 296/2015 therefore set out a yearly period for reviewing the public notice. Thus, data is collected every year and should a discrepancy be found between the data collected and the values in the public notice, the latter is amended.

The public notice came into effect on 1 January 2017.

- **Public notice no. 404/2016 on the particulars and structure of the returns required for preparing reports on the operation of systems in energy industries, including the dates, scope and rules for preparing the returns (the 'statistics public notice')**

The public notice was issued on the basis of Section 98a(2)(m) of the Energy Act, under which the Office shall lay down, in an implementing act, the particulars and structure of the returns required for preparing reports on the operation of systems in energy industries, including the dates, scope and rules for preparing the returns.

The new public notice was occasioned by the amendment to the Energy Act enacted through Act No 131/2015, which introduced the new authority. Thus, it was an entirely new public notice as this area had not yet been legislated on until then.

Under Section 17(7)(m) of the Energy Act, the Office shall publish yearly and quarterly reports on the operation of systems in energy industries. These reports are the basic source of data for both state and non-state institutions, experts, and the general public. The reports also serve as inputs for additional work and analyses carried out by institutions such as the Ministry of Industry and Trade, the Ministry of the Environment, the Czech Statistical Office, the Ministry of Foreign Affairs and the market operator. Before this public notice was issued, statistical data was collected and used for creating reports on system operation on the basis of the previous 'well-established and historical practice' without any legislative support. This situation was unsatisfactory and did not provide the Office with any support for performing its obligations.

The public notice came into effect on 1 January 2017.

- **Public notice no. 416/2016, amending no. 349/2015 on the Gas Market Rules**

The public notice was issued under the authority in Section 98a(2)(i) of the Energy Act.

The group of regulated issues was based on the Office's experience with the functioning of the gas market model and suggestions received from gas market participants during the public consultation on changes to the Gas Market Rules. The public notice contains changes mainly of a technical nature.

It partly adjusts Czech law to Article 26(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, and Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks.

The public notice came into effect on 1 January 2017.

2.3 New European legislation

From the perspective of EU legislation, 2016 was important mainly for the electricity industry. New network codes were adopted; they lay down the conditions for connecting different energy installations:

- Commission Regulation (EU) 2016/631 of 14 April 2016 establishing a network code on requirements for grid connection of generators
- Commission Regulation (EU) 2016/1388 of 17 August 2016 establishing a Network Code on Demand Connection
- Commission Regulation (EU) 2016/1447 of 26 August 2016 establishing a network code on requirements for grid connection of high voltage direct current systems and direct current-connected power park modules

The ERO has set up working groups, which will also be attended by prominent representatives of the energy market and which will examine the impact of the various codes on national legislation.

In addition to the above codes, Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation was also adopted for the electricity industry; the Office has adopted sponsorship over this Regulation, the same as over the above codes.

In the gas industry, proposals for some network codes were only presented at the working level and discussions on their final wording are under way (for example, the network code for capacity allocation mechanisms in gas transmission systems and the network code on harmonised transmission tariff structure for gas).

In late 2016, the European Commission presented the 'winter package' – prepared for a long time and announced for a long time – of the Commission's legislative proposals, which contains amendments to/recast of major legislation for the electricity industry bundled in the 'third liberalisation package' from 2009.

Part of the winter package is, for example, the following:

- Proposal for a new regulation on risk preparedness in the electricity sector, repealing Directive 2005/89/EC
- A recast of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC
- A recast of Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC
- A recast of Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators
- A recast of Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003

The Office accepted sponsorship over the recast of Regulation No 713/2009, while the MPO is the sponsor for the other pieces of legislation, with the Office as the co-sponsor.

2.4 Administrative proceedings

A) Administrative proceedings conducted and completed in 2016 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 heat supply industries.

In the **electricity industry**, in 2016 the Office conducted 162 sets of administrative proceedings, of which it concluded **58 sets** with finality. As in the preceding years, a number of licence holders and customers approached the Office with motions for initiating adversarial administrative proceedings in this energy industry. In this respect, adversarial proceedings conducted in the electricity industry continue to be (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 their type, and there are more and more cases that are complex as to the law and substance. The number of addressed cases tripled compared with 2015.

The motions for the Office to adjudicate disputes included disputes under Section 52 of Act No 165/2012, as amended, over support for electricity generation from RES (in particular photovoltaic plants and small hydroelectric power stations) and electricity from high-efficiency combined heat and power generation. 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 2016 the Office conducted 14 sets of administrative proceedings, of which it concluded **seven sets** with finality. From the long-term perspective, the smallest number of disputes has been tackled in this industry. In most cases, the Office's decisions declared that the legal relationship established by an agreement on bundled gas supply had emerged, existed or been discharged within the meaning of Section 17(7)(e)(2) of the Energy Act. The number of addressed cases doubled compared with 2015.

In the heating industry, in 2016 the Office conducted 21 sets of administrative proceedings, of which it concluded **six sets** 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. Compared with 2015, the number of addressed cases almost doubled.

A.2 Approval proceedings

Within its statutory competence under Section 17(7)(g) and (i) 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, codes of the transmission system, storage system and distribution system operators in the gas industry, and ten-year plans for the development of the electricity and gas transmission systems), in 2016 the Office conducted 45 sets of administrative proceedings, and concluded **34 sets** with finality.

A.3 Administrative proceedings under Commission Regulations (EU)

In 2016, the Office conducted, within its statutory competences under Article 8(2) and (9) of Commission Regulation (EU) No 984/2013, under Annex I, point 2.2.5(1) and (4) of Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, under Article 9(6) of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, under Regulation (EC) No 714/2009, under Article 13 of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, under Article 23 of Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules, under Annex I point 2.2.5(1) of Regulation (EC) No 715/2009 of the European Parliament and of the Council, and under Article 9(3) of Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks, 14 sets of administrative proceedings, concluding with finality **seven sets**.

In 2016, the Approval and Adversarial Proceedings Department conducted a total of 256 sets of administrative proceedings, 112 of which were concluded with finality. Overall, the number of pending administrative proceedings increased almost three times compared with 2015.

Conducted administrative proceedings by agenda:

Adversarial proceedings	197
– Electricity industry	162
– Gas industry	14
– Heat supply industry	21
Approval proceedings	45
Administrative proceedings under Regulations (EU)	14
Administrative proceedings conducted in 2016	256

Administrative proceedings concluded with finality, by agenda:

Adversarial proceedings concluded with finality	71
– Electricity industry	58
– Gas industry	7
– Heat supply industry	6
Approval proceedings concluded with finality	34
Decided with finality under Regulations (EU)	7
Total number of final decisions in administrative proceedings in 2016	112

B) Administrative proceedings conducted and concluded in 2016 by the POZE Legal Unit

B.1 Administrative proceedings

The POZE Legal Unit conducts first-instance administrative proceedings under Act No 500/2004, as amended, within its competences in the area concerning administrative offences under Act No 458/2000, as amended, and under Act No 165/2012, as amended by later regulations pertaining to the area and issues of supported energy sources.

In 2016, the POZE Legal Unit conducted in the above area a total of 21 sets of administrative proceedings, deciding on administrative offences within the meaning of Section 91(1)(b), Section 91(1)(h) and Section 91(1)(e) of the Energy Act. In these proceedings, 12 sets were concluded with finality in 2016.

B.2 Adversarial proceedings

In 2016, the POZE Legal Unit conducted seven sets of adversarial proceedings within the meaning of Section 141 of the Rules of Administrative Procedure 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 or heat produced from renewable sources.

B.3 Assistance to the Administrative Proceedings Department

As part of assisting the Administrative Proceedings Department, in 2016 the POZE Legal Unit issued 81 orders levying fines for breaches of Section 68(3) of the Energy Act, which lays down that in and outside the protection zone every person shall refrain from conduct whereby the person could damage the gas system or constrain or jeopardise its safe and reliable operation, and that all activities shall be carried out so that no damage is caused to energy installations.

B.4 Other administrative proceedings

In 2016, the POZE Legal Unit also conducted a set of proceedings on a request within the meaning of Act No 280/2009, the Taxation Rules, as amended, but no decision was delivered in 2016.

Decisions by agenda:

Administrative proceedings	18
Adversarial proceedings	8
Assistance to the Administrative Proceedings Department	81
Other administrative proceedings	0
Decisions delivered in 2016	107

C) Proceedings under the law on free access to information

Under Act No 106/1999 on free access to information, as amended, in 2016 the Office issued 24 dismissals of requests, or dismissals of parts of requests under the procedural provisions of Section 15 of this law, taken together with a specific substantive regulation, in cases where the Office, as the obliged party, did not grant the request, even in part, and therefore was required to deliver a decision on dismissing the request or a part thereof.

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

Dismissing decisions:

Licences	3
Regulation	3
Oversight	1
Legislation and administration	10
Supported energy sources	5
Other	2
Decisions delivered in 2016	24

D) Remonstrance proceedings in 2016

The authority to decide on remonstrance ('administrative appeal') as a remedy against decisions delivered by the Office in the first instance under Section 152 of Act No 500/2004, as amended, is vested in the 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. The Office has currently two remonstrance commissions, one for renewable energy sources and one for conventional energy.

The ERO Chairwoman's remonstrance commissions examined 140 remonstrances in 2016. On the basis of these considerations, decisions on 99 of them were issued. Decisions on the 41 remonstrances that the ERO Chairwoman's remonstrance commissions had examined by the end of 2016 were not delivered before the end of 2016. In 2016, the ERO Chairwoman also decided on seven remonstrances that the remonstrance commission had examined in 2015. The remonstrance commissions also examined nine suggestions for review proceedings.

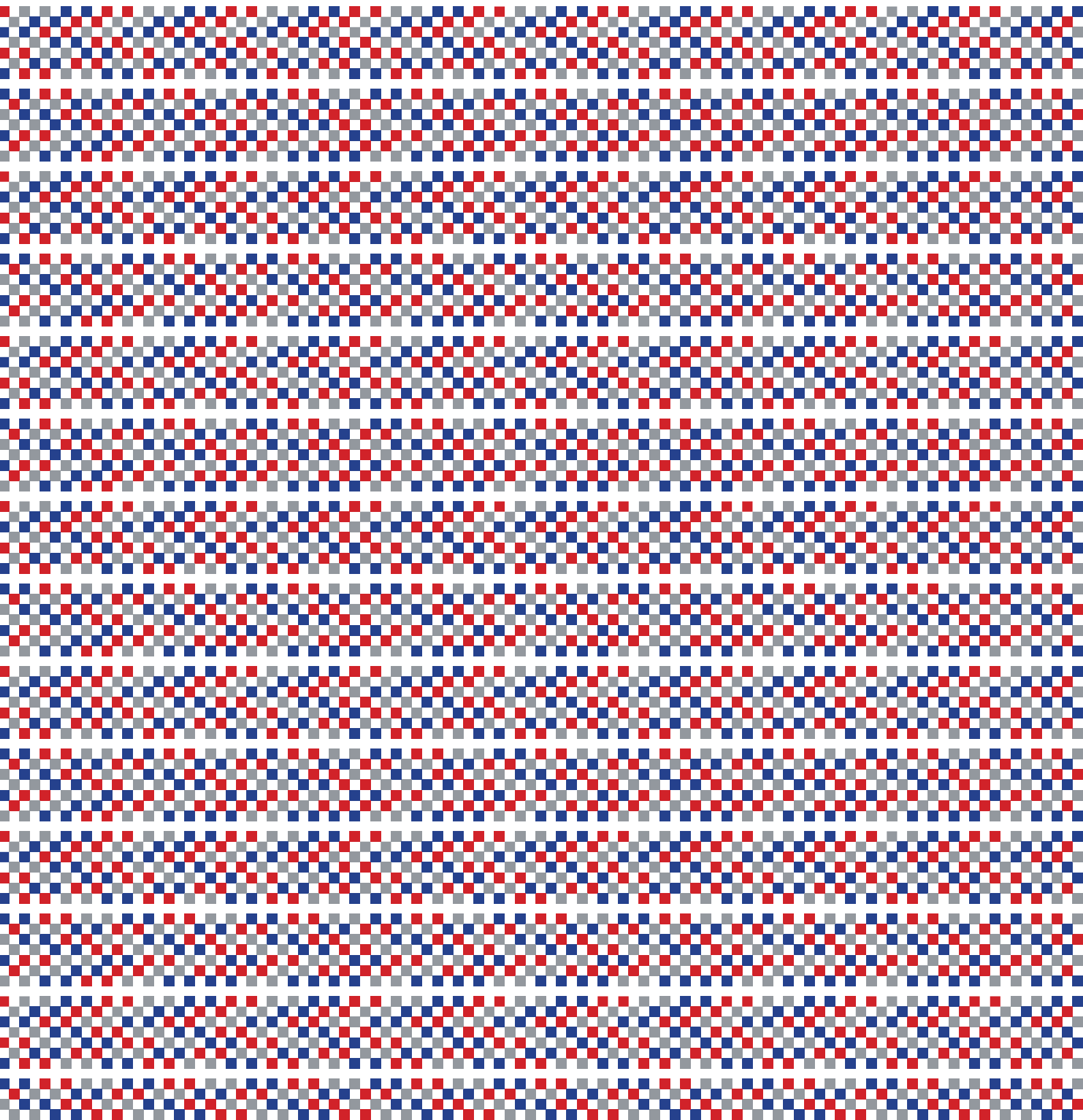
The ERO Chairwoman delivered 106 decisions on remonstrances in 2016.

Remonstrances decided in 2016, by agenda:

Remonstrance against decisions in adversarial proceedings	51
- Electricity industry	17
- Gas industry	9
- Heat supply industry	9
- Renewable sources	16
Remonstrance against decisions on administrative offences	32
- Under the Energy Act	13
- Under the Act on Prices	18
- Under the Act on Supported Energy Sources	1
Remonstrance in cases of requests for information	11
Remonstrance against licensing decisions	10
Remonstrance on other matters	2
Remonstrance decisions in 2016	106

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

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 chiefly 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, as amended. Laws for consumer protection in the Czech Republic have been adopted with a view to harmonising Czech law with EU directives and regulations.

ERO staff also solicited citizens' opinions in the field. In the first half of 2016, the Office organised lectures in more than 30 towns and cities; in addition to the New Tariff Structure the topics included consumer issues and enhancing energy literacy. These meetings also indicated the need to enlighten consumers on the opportunities and risks existing in the liberalised market, and also at the level of the general working of the energy sector that has been going through major changes in the past few years. The Office therefore promptly reflected the enlightenment need in its media outputs, publication activities and preparations for meetings with citizens in 2017.

3.1 Addressing submissions and disputes

The Consumer Legal Protection Department (OPOS) provided information about the publication of the amendment to the Energy Act, i.e. Act No 131/2015; under Section 11a(3) of the then new law, in case of an electricity or gas supply contract or contract for bundled services of electricity or gas supply entered into, on the occasion of supplier switching, by a customer in the position as consumer and a licence holder via distance communication or outside premises customary for business of the licence holder, the customer has the right to withdraw, without any penalty, from a contract concluded for an indefinite period or for a fixed term, by the 15th day from the start of the electricity or gas supply. This time limit is kept if the notice of withdrawal is sent to the licence holder during the time limit. The purpose of this amendment, and also of Sections 30(2)(m) and 61(2)(m) of the Energy Act, was to boost the position and protection of consumers in the energy market.

In 2016, the Office received and handled 9,615 submissions from consumers, which concerned supplier switching procedures, penalties, illegal consumption, billing, prices, peddling and also the approach taken by traders when concurrently entering into advisory agreements and purchase contracts for LED bulbs and other products. A number of these complaints, of which many had a socially sensitive overtone, even concerned several of the above issues. The Office received 3,499 submissions in writing and 5,827 over the telephone; besides that, in 289 cases consumers called on the Office in person for the purpose of tackling disputes or problems related to the relevant issue. The subject matter of 65% of all submissions (a total of 6,250) was dispute resolution; 45% of those, i.e. 4,327 submissions were justified while 20% were unjustified submissions. The remaining 35% of the total number of submissions had an informative nature (such as questions concerning the current energy supplier).

3.2 Legal protection for consumers

The Office issued a new Traders' Code of Ethics; unlike the original Code the new Code contains the requirement that traders specify the date of contract termination in their bills for households, although the law does not require them to do so.

A Guideline on Conditions for Information Provision under Act No 106/1999 on free access to information, as amended, was drawn up and issued as the ERO Chairwoman's Measure No 38/2016.

3.3 Policy and strategy in the Czech Republic and the EU

The Consumer Legal Protection Department actively participated in the interdepartmental working group for coordinating the implementation of the tasks arising from the Priorities of the Consumer Policy 2015–2020, set up at the MPO. The meetings mainly centred on information about the carrying out of the tasks assigned in relation to consumer protection, in which the ERO participated:

- Consider the preparation of a consumer code and possibly draw up a draft – the development of a proposal for clarifying consumer legislation is currently under way, including consultations and drafting of a non-legislative paper for approval by the Cabinet, which initiates the preparation of a draft bill;
- Strengthen oversight focused on breaches of statutory provisions on the prohibition of unfair commercial practices;
- Put in place an ADR system for consumer disputes in relation to the legislation in place, as the relevant part of the amendment to the consumer protection law came into effect on 1 February 2016.

Under Section 20e(c) of Act No 634/1992, as amended, the Energy Regulatory Office was designated as the ADR entity for consumer disputes in the electricity, gas and heat supply industries within the scope of competence laid down in legislation on the electricity, gas and heat supply industries, i.e. the Energy Act.

The purpose of consumer ADR is to achieve out-of-court settlement of the dispute and agreement between the parties on the basis of their communication through the Consumer Legal Protection Department.

In 2016, steps were taken to set up a Consumer Legal Protection Department unit to address consumer disputes in administrative proceedings in 2017.

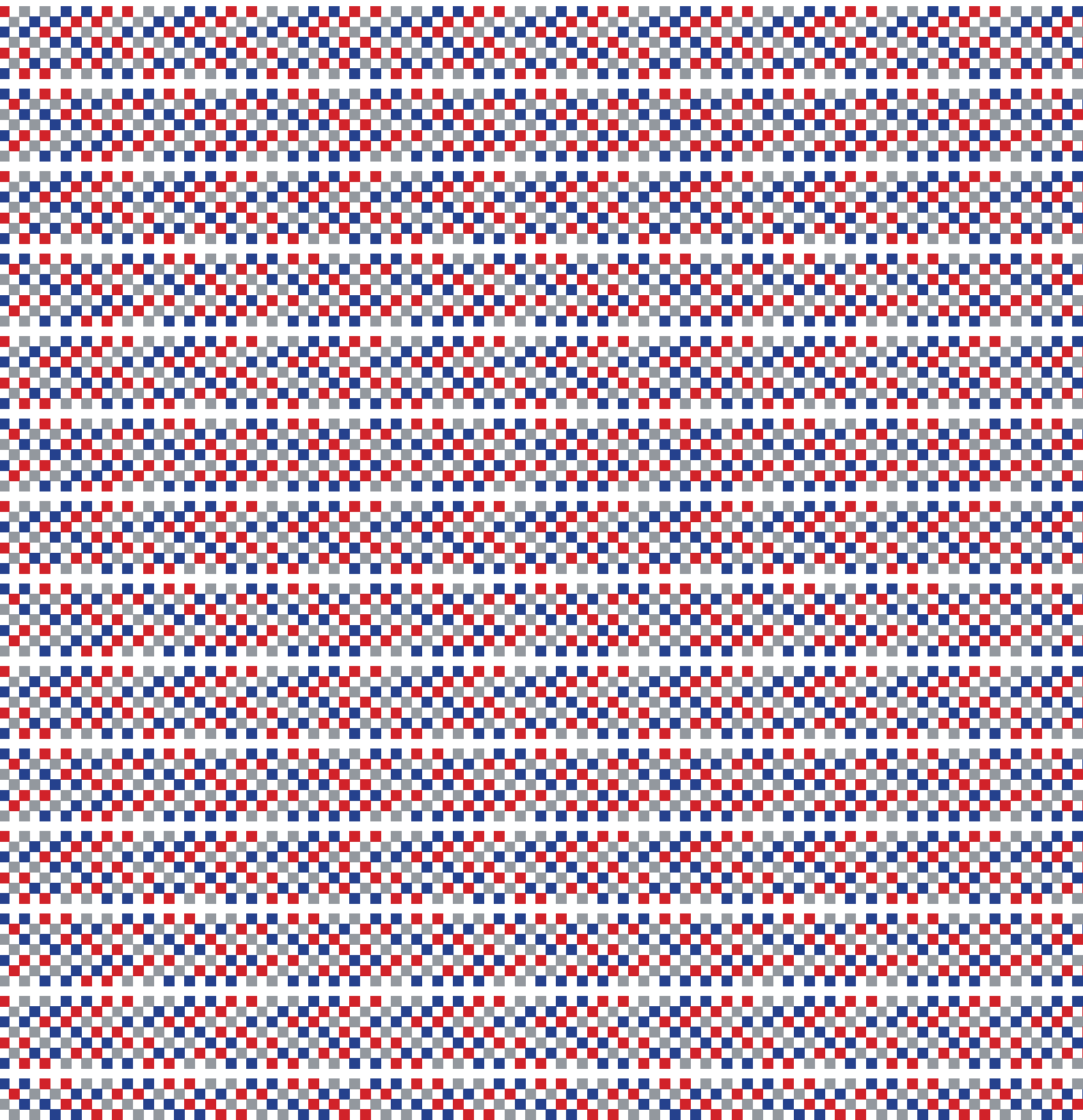
In the interest of consumer protection, the Office cooperates with civic associations and other organisations set up for the purpose of protecting consumer rights.

In the interest of consumer protection, the Office cooperates with EU institutions such as CEER (Council of European Energy Regulators), specifically in the Customer Empowerment Task Force. CEER pursues the objective of helping the most populated consumer segment to find their way around as they may need in the liberalised market, primarily as regards energy prices and the quality of services related to commodity supply.

Within the EU, the Office also cooperates with NEON (National Energy Ombudsmen Network), where it is active in consumer protection in the Czech Republic.

In 2016, the Approval and Adversarial Proceedings Department conducted 127 sets of adversarial proceedings where a person in the position as a consumer was the party who petitioned for adversarial proceedings to be commenced. Of those 127 sets of proceedings, 2016 saw conclusion by final decisions in 41 sets; of those, the consumer's motion was granted in 11 cases and not granted in 9 cases; 21 sets of adversarial proceedings were discontinued with finality, or decisions were taken not to proceed within the meaning of Act No 500/2004.

4) Regulation of network industries



4) Regulation of network industries

4.1 Principles of price controls

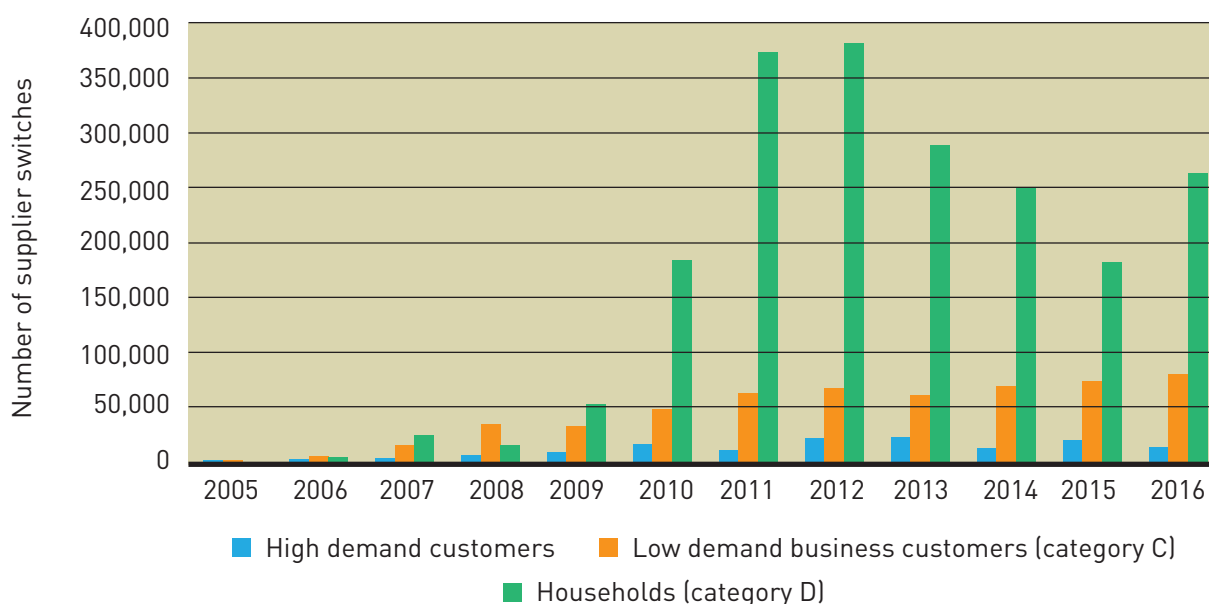
The principles of price controls help to put in place clear-cut and unchanging rules under which the Office regulates prices over a certain, quite long period of time with a view to ensuring the predictability and stability of the regulated environment. The currently used rules of price regulation for the fourth regulatory period are provided in the *Price Regulation Principles 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*. This document from 2015 formulates the general principles as well as detailed processes in price regulation. 2016 was the first year of the fourth regulatory period, which the Office had set as a three-year period, i.e. until the end of 2018.

4.2 The electricity industry

The electricity market in 2016

In 2016, almost 359,000 customers changed their supplier, which implies a relative year-on-year increase of 29.3% in electricity supplier switching. The overall increase in electricity supplier switching is due to an increase of 43.7% in the household category. In the low-demand business category the number of supply point transfers to another supplier increased by 9.9% year-on-year while in the large-demand category electricity supplier switching dropped by 29.8%.

Chart 1 Annual electricity supplier switching in the main customer categories



Source: OTE, a.s.

4.2.1 Pricing

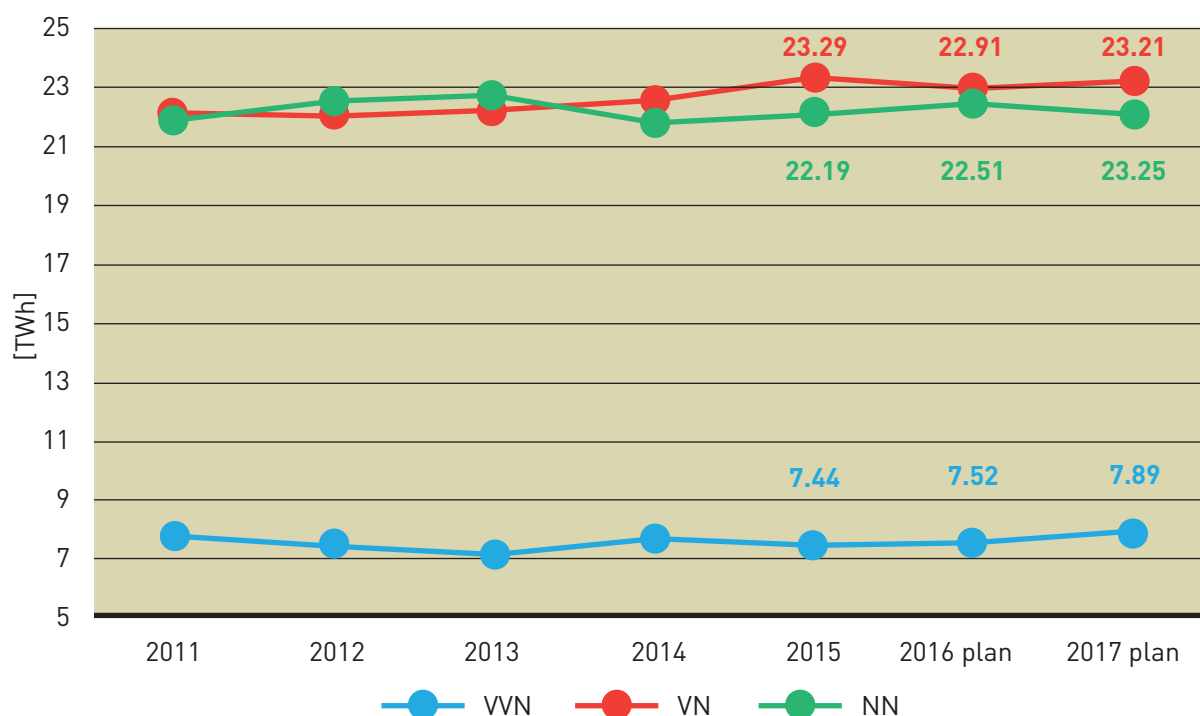
Four Price Decisions on the electricity industry were issued in 2016. The first, ERO Price Decision 3/2016, laying down certain regulated prices under Act No 165/2012 on supported energy sources and amending certain laws, as amended, was issued as early as 23 September 2016, which is related to the Office’s new obligation to issue price decisions on regulated prices under Act No 165/2012 not later than by 30 September of the year preceding the year for which the Office sets out the regulated prices in its price decision. In 2016, the Office also issued ERO Price Decision 7/2016 of 25 November 2016, laying down prices for the related service in the electricity industry and other regulated prices, and ERO Price Decision 8/2016 of 25 November 2016, laying down prices for the related service in the electricity industry for customers connected to LV networks.

Owing to issuing an update of ERO Price Decision 5/2016, which lays down aid for supported sources, the Office issued ERO Price Decision 10/2016 of 14 December 2016 amending ERO Price Decision 7/2016 that sets out prices for the related services in the electricity industry and other regulated prices.

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 amount of the subsidy from the national budget for covering the price component for support of electricity 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 2017

Electricity transmission charge

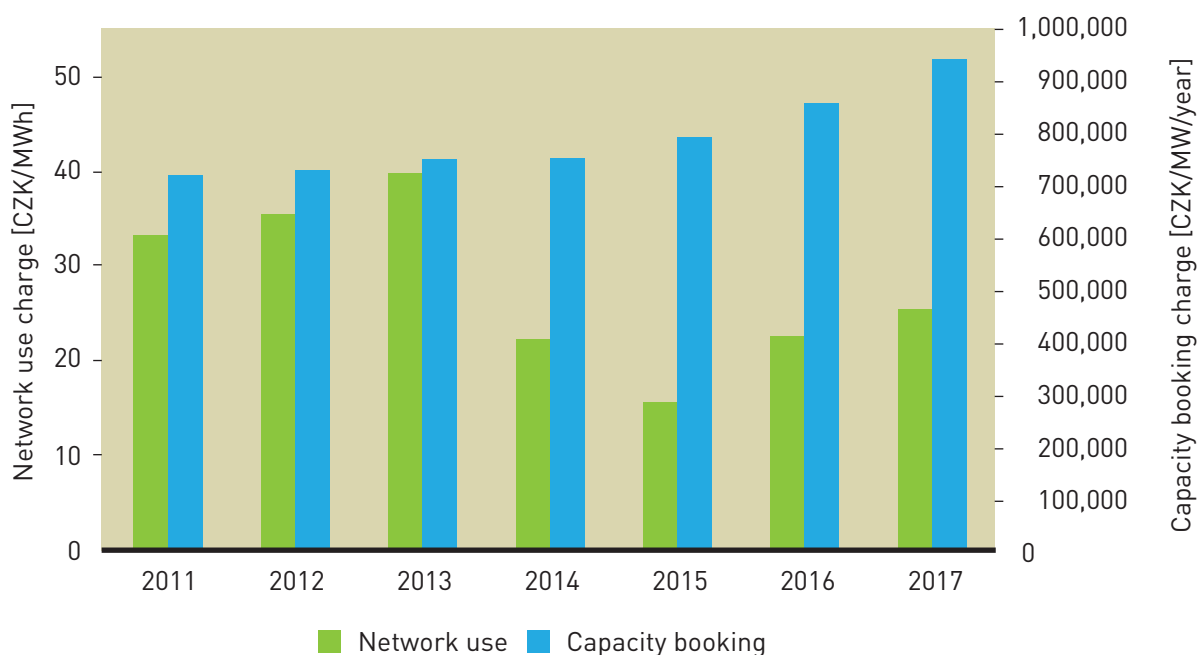
The electricity transmission charge is composed of the charge for booked transmission capacity and the charge for network use in the transmission system.

The charge for booked transmission capacity has increased by 9.6% year-on-year. The increase in the charge for booked capacity is mainly due to significant investments in the transmission system.

The charge for using transmission system networks has increased by 13.5% year-on-year. This growth is due to the increase in the planned losses, the correction factor for 2015 and also a slight decline in the electricity quantity expected to be taken from the transmission system. The charge for using transmission system networks was positively influenced by the decrease in the price of electrical energy for covering losses in the transmission system.

Chart 3 shows the electricity transmission charges between 2011 and 2017.

Chart 3 Components of the electricity transmission charge



Electricity distribution charge

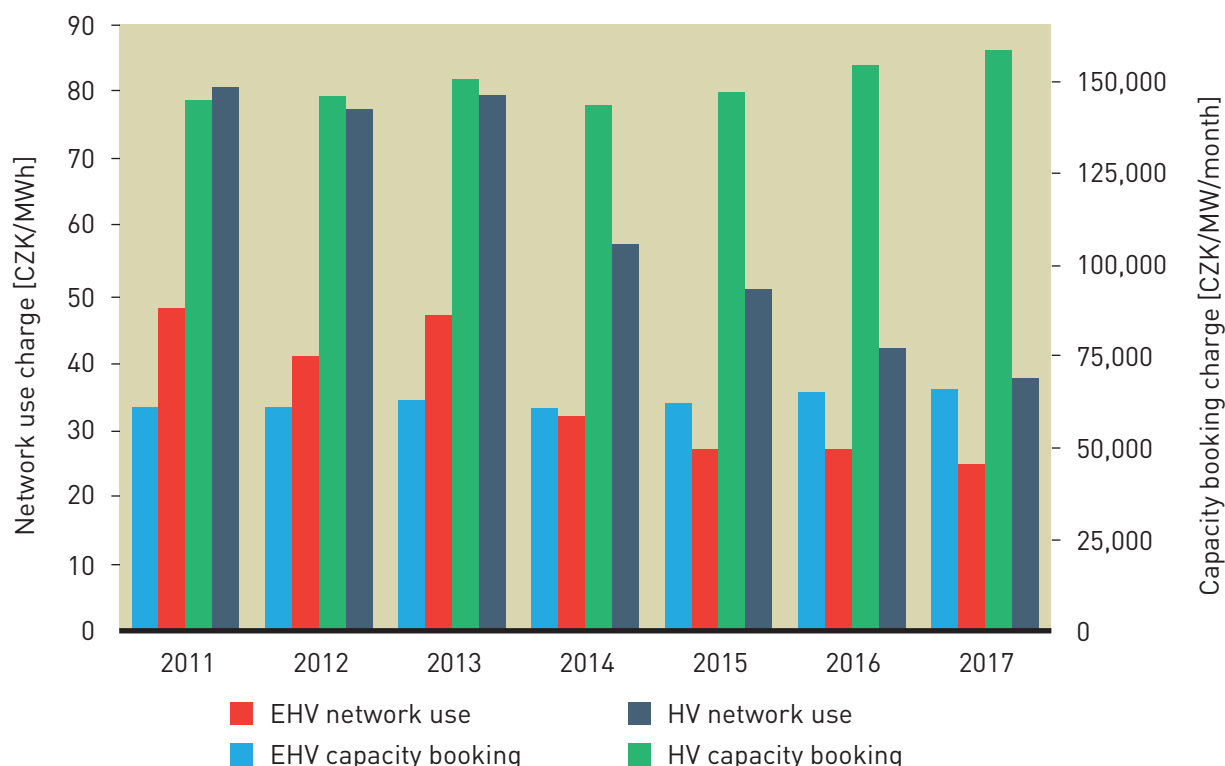
The charge for electricity distribution at EHV and HV levels is composed of a charge for capacity booked in the distribution system and a charge for network use in the distribution system. The charge for electricity distribution at the LV level is composed of a charge for power input determined by the 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 1.7% year-on-year, and at the HV level the charge for capacity booked in the distribution system has grown by 2.4% year-on-year. The increase in the charge for capacity booked in the distribution system is due to the increase in the TSO's charge for booked capacity and growing investment activity of DSOs.

The charge for distribution system network use has decreased by 0.7% year-on-year at the EHV level and by 10.5% at the HV level. This drop in the charge for distribution system network use is mainly due to the declining price of electrical energy for covering losses in distribution systems and a reduction in the allowed losses. In addition, the expected electricity quantity subject to the charge for using distribution system networks has slightly increased.

Chart 4 shows the two components of the distribution charge from 2011 to 2017.

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



The price component for support of electricity from supported energy sources

For 2017, the price component for support of electricity from supported energy sources has been set for the EHV and HV voltage levels on the basis of agreed booked power input, at CZK 78,289.70/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 18.01/A/month. The maximum payment for the price component for support of electricity is calculated as the product of CZK 495/MWh and the total quantity of electricity taken.

The costs in excess of income from the payments of the price component for support of electricity from supported energy sources are met from the national budget under Act No 165/2012.

Charge for system services

The charge for system services has dropped by 5.8% year-on-year and amounts to CZK 93.94/MWh for 2017. The charge has decreased mainly due to the correction factor for 2015.

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

The charge for the market operator's activity in the electricity industry has dropped by 25.5% year-on-year and has been set at CZK 4.90/supply point/month for 2017. This charge has decreased due to lower depreciation, and also the correction factor for 2015.

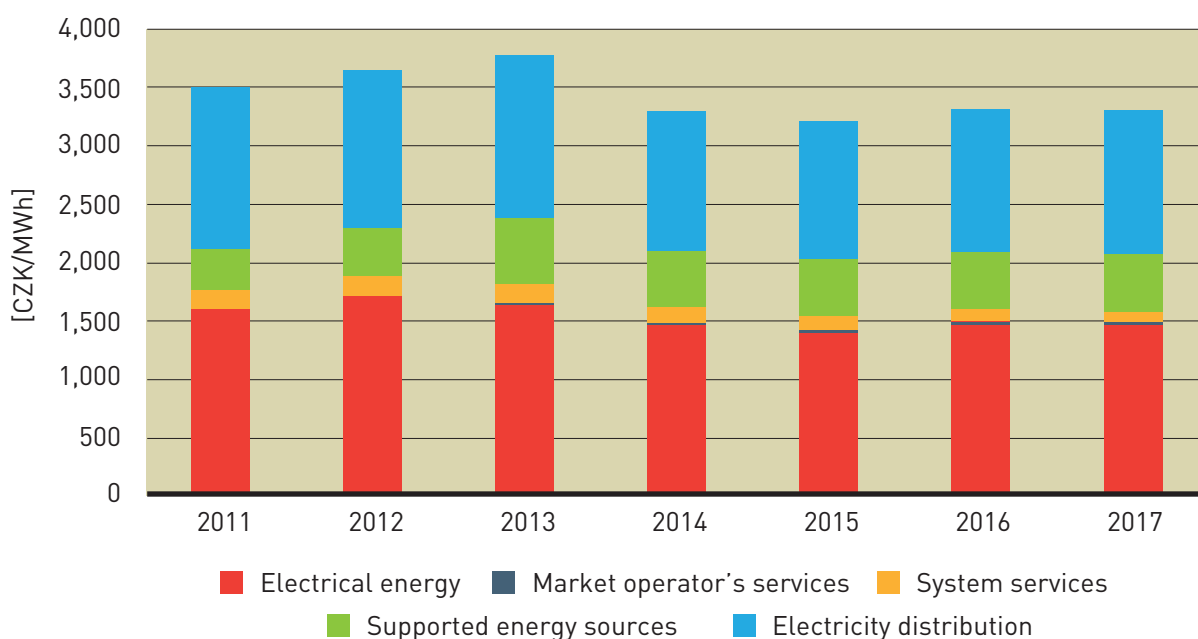
Electricity supply prices for households and low-demand business customers

The average regulated component of the price related to electricity supply for households amounts to CZK 1,843.01/MWh for 2017, up by 0.1% 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 2016 and 2017).

The average regulated component of the price related to electricity supply for low-demand businesses amounts to CZK 2,069.23/MWh for 2017, up by 0.7% 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 2016 and 2017).

The development of average electricity supply prices for households and each of their components since 2011 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 prices of the annual BL product in the first half of the period under review (October 2015 to September 2016) gradually declined to as low as EUR 21/MWh and then, in the second half of the period under review, again rose to approximately EUR 29/MWh. The arithmetic average of the prices of the annual BL product over the period under review was approximately EUR 26/MWh.

4.2.4 Assessment of the development plan for the electricity transmission system

Under Section 24(10)(j) of the Energy Act, ČEPS, a.s., i.e. the TSO, is obliged to prepare a ten-year plan for the development of the electricity transmission system ('the plan') every other year; the plan should specify the needs for construction, modernisation and capital projects in the transmission system, including the milestones for the completion of such projects. Subject to arrangements with ČEPS, it was agreed to issue this plan also for the period 2017–2026, i.e. over and above the statutory obligation, for the sake of consistency between the ten-year plan for the development of the electricity transmission system and the European TYNDP (Ten Year Network Development Plan), to which a selection of projects of common interest (PCI) further relates.

From the European perspective, the principal motivation for planning the development and upgrade of the energy infrastructure is as follows: achieving greater efficiency, competitive prices, supply security, solidarity amongst countries, and integrating renewables. From the national perspective, the primary motivation is ensuring a sustainable operating safety and reliability of the transmission system.

The planned investments in the transmission system are 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. ČEPS's investment plan covers the period from 2017 to 2026 and contains capital expenditure amounting to CZK 47.81 billion; given an ideal even spreading of investments, the average annual amount of expected capital expenditure would be CZK 4.78 billion. The capital expenditure is planned for the short, medium and long term. The purpose of short-term and medium-term investments is to find less time consuming solutions helping to increase the transmission capability before long-term investments can be carried out, such as converting the existing 220 kV double circuit lines to 400 kV double circuit lines, double circuiting 400 kV lines, and comprehensive retrofits or expansions of transformer substations. The short-term and medium-term solutions that are acceptable in both operating and financial terms include, in particular, the following: an upgrade of lines to 80 °C, dynamic loading of lines, the complete modernisation of lines without any major interventions with the pylon structure, automatic power limiting systems and the planned limitations on the output from generating capacities.

Planned investments depend primarily on six basic factors described in the transmission system development plan. The first factor is the development of the generating base, i.e., for example, exporting the output from the Ledvice unit (660 MW) into the grid, safe export of the output from the connected combined cycle unit in Počerady (841 MW) into the grid, exporting the output from the Chomutov wind park (approximately 140 MW) and the construction of nuclear units in Dukovany and Temelín. The second factor is the development of coupling through transformation between the transmission and distribution systems, the nature of which is mainly local and which primarily includes western Bohemia, the Ostrava area, the Prague area and the Milín node. The development of coupling through transformation is influenced by the expected slight increase in demand in the Czech Republic, the development of intermittent decentralised generation, and the gradual closedown of obsolete or environmentally unsatisfactory generating plants exporting into distribution systems. The third factor is the above-mentioned influence of cross-border cooperation, where one of the tasks for ČEPS is to prepare measures to constrain transit flows with a view to preserving the safe and reliable operation of the transmission system. The fourth and fifth factors are the renewal of lines and stations in the transmission system and the replacement of 220 kV lines with 400 kV lines. These factors are justified by the need to reinforce the transmission capability and provide for the safety and reliability of operation. The last factor is the need to address compensation for reactive power, because the operating voltage in the transmission system is being negatively affected, which also results in switching off entire transformer substations as part of grid control.

The Office received ČEPS's ten-year development plan for the period 2017–2026, including the endorsement by the Ministry of Industry and Trade, on 27 December 2016. ČEPS added a description and assessment of the development intentions to the ten-year plan, which includes projects that have a significant positive impact on the operation of the transmission system, in terms of increasing its transmission capacity and the flexibility of its configuration, and improving the reliability of electrical energy supply. In addition to the detailed description of the projects, also the chapter on the results of calculations was drawn up in detail, with the above changes helping to improve the quality and transparency of the transmission system development plan.

4.3 The gas industry

4.3.1 The gas market

In 2016, the Office carried out its activities in the gas market within its competences defined in the Energy Act, and directed them towards market and consumer protection and, in particular, support for competition in this market. All measures adopted by the Office were consistently compared against the requirement for protecting justified interests of customers and consumers and the requirement to protect justified interests of licence holders.

The Office consistently takes care that its decisions contribute to the continuous development of the Czech gas market, which rests on a transparent and predictable basis to prevent unbalance between the various gas market participants, risks to the security of gas supply for customers, and price hikes for final consumers caused by adopting solutions necessitating unjustifiable costs. Together with the above objectives, all measures carried out by the Office are in line with the Gas Target Model from 2015¹⁾ and create the necessary preconditions for the existence of a highly liquid and dynamic gas market. This makes it possible for all gas consumers in the Czech Republic to benefit from safe gas supply and effective competition in the retail gas market.

The public notice on the Gas Market Rules

The amended public notice on the Gas Market Rules, drawn up in 2016, responded to the continuous evaluation of the conditions in the Czech gas market and gas market participants' requirements. On the basis of this monitoring the following issues were identified and treated in the amended Gas Market Rules:

- Gas market participants' suggestions for changes to the conditions for access to gas storage facilities;
- Update of the design of the mechanisms for gas transmission capacity congestion management with procedures for managing congestion in cases of contractual congestion;
- Amendment of the provisions for which a potential ambiguity in the interpretations of the set processes was identified or in which typographic or stylistic discrepancies were found.

The proposals for amendments were subjected to a multi-round public consultation process, which was in fact launched at the beginning of 2016. All the gas market participants concerned had an opportunity to provide their positions on the presented proposals so that the Office would have a large enough number of qualified positions on the impacts on the performance of licensed activities. This consultation process adhered to the fundamental principles of consultation processes as laid down in Section 17e of the Energy Act. All comments delivered in accordance with the rules of the consultation process were published in a manner allowing remote access. Following each round of the public consultation process the Office published, in a manner allowing remote access, a response to the comments, which also contained, if needed, requirements for additional arguments.

The resulting formulation of the changes implemented in the public notice on the Gas Market Rules reflects a compromise proposal between the Office's vision and the market participants' various requirements. It is to be noted in this context that market participants' requirements were often in an antagonistic relationship to each other. Thus, the Office lived up to its role of an administrative authority for regulation in the energy sector as it adopted final decisions on the basis of assessing the impacts of the various proposals.

¹⁾ <http://www.acer.europa.eu/en/Gas/Gas-Target-Model/Pages/Background.aspx>

New balancing system

The process of implementing Regulation (EU) No 312/2014 in the Czech gas market model was completed as of 1 July 2016. With effect from that date, the balancing system in the Czech Republic is based on the requirements of the above Regulation. This means that it is no longer possible to compensate imbalances in kind as in the past. In addition to this important change, this amendment to the legislation also pursues the objective of creating no barriers to participation in the Czech gas market for small traders and of preventing business risks from increasing for the two pillars of this system, the market operator and the gas transmission system operator. The balancing rules laid down by the Office promote trading in the Czech spot gas market as much as possible, help to increase the competitiveness of gas prices, result in gas transactions for balancing needs at the most favourable market prices and control network users' balances in an effective and non-discriminatory manner. In this respect, the Office's intention and objective have been vindicated by the continuously increasing liquidity in the spot gas market organised by the market operator in the Czech Republic.

This legislative change also necessitated amendments to the wording of ERO Price Decision 6/2015 on regulated prices related to gas supply, as amended in ERO Price Decision 1/2016, to harmonise the price decision with higher-level legislation. In line with the Energy Act, on 12 May 2016 the Office launched the proposed wording of the price decision into a public consultation process. The public consultation process took place in compliance with the requirements of the Energy Act and the set rules of the consultation process and was concluded on 26 May 2016. On 1 June 2016, the price decision was promulgated as ERO Price Decision 2/2016.

Indicative prices

Under the Energy Act, the Office continuously monitors the gas market in order to see whether effective competition exists on this market. The monitoring also includes assessing the conditions for the functioning of the liberalised Czech gas market. On the basis of its analyses in 2016 the Office noted that the conditions for the functioning of the liberalised gas market had been put in place correctly. These conditions ensure that the Czech gas market can be described as one of the best developed in the European Union. In spite of that, only a relatively small part of customers use the opportunities to change their supplier and thereby opt for better terms and conditions of the supply service. As the result, the competitive pressure on gas traders is not so strong and many traders can therefore offer their services for higher prices, because their customers accept such prices.

In line with its duty to protect consumers, in the latter half of 2016 the Office therefore started to post on its website indicative prices for the gas supply service with a view to enhancing consumers' awareness. These prices serve as indicative values for consumers. Indicative prices constitute non-binding information for customers on whether the prices for which they are buying the gas supply service reflect the actual situation in the retail gas market.

Indicative prices of supply services reflect the wholesale prices of gas (as the commodity) traded at energy exchanges, at which gas traders are able to buy gas for a particular period. They also contain traders' margin, which covers traders' costs incurred in providing the gas supply service for their customers. This margin also includes depreciation and a reasonable profit.

Indicative prices of the gas supply service constitute an average value that already includes the price for gas taken and also the standing monthly charge for gas supply. However, they do not contain the regulated prices for the service of the distribution system and for the market operator's services, which are laid down in ERO Price Decisions.

Integration of gas markets between the Czech Republic and Austria

In 2016, the Office continued – within an international task force that also included representatives of the Austrian regulator (Energie-Control Austria) and the Austrian and Czech TSOs (Gas Connect Austria and NET4GAS) – in the work on the project for integrating the Czech and Austrian gas markets as a pilot project of gas market integration in Europe. The task force analysed several alternative options for continuing in the integration. The Office placed utmost emphasis on finding a solution that would be, in terms of operation, simple, flexible, requiring only the minimum legislative changes, and cost effective. The Office repeatedly stressed the requirement to minimise the costs necessitated by the project and to quantify the benefits of this market integration for Czech consumers.

The task force drew up a document the purpose of which was to clarify the key aspects of the functioning of the selected integration concept, known as the TRU option. The document was also intended to serve as the basis for the forthcoming public consultation process. The qualitative and quantitative level of the consulted document was the subject of extensive discussions where regulatory authorities demanded that the key aspects of TRU in the presented document be elaborated on in more detail. National regulators played the supervisory role in the consultation process. They guarantee the transparency of the consultation process but not the quality of the document, for the preparation of which the TSOs are responsible.

The comments raised in the public consultation process were received from 30 March to 19 April 2016. Overall, 15 entities and stakeholder organisations operating in the Czech and Austrian gas markets participated in the consultation. During the consultation the players in both markets generally expressed their interest in more detailed information about the functioning of the integration model and the manner in which the integration would be carried out without the existence of direct interconnection. They pointed out certain open issues with regard to compliance with the legislative framework in the two countries and also stressed the need for a more specific determination of the costs and benefits.

The review of the comments had not been completed by the end of 2016. The project and the task force will therefore continue in 2017.

4.3.2 Pricing

The Office's competences in the gas industry include the regulation of the prices of related services in the gas industry. The charge for the related service in the gas industry is the charge for the gas transmission service or the distribution system service, which also includes the charge for the market operator's services, including the charge for the Office's activities. 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 2016, the Office issued three price decisions for the gas industry. All of the published price decisions were issued in accordance with Act No 458/2000, as amended, 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 published *Price Regulation Principles 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*.

The Office issued ERO Price Decision 1/2016 of 29 February 2016, amending ERO Price Decision No 6/2015 of 25 November 2015, on regulated prices related to gas supply, in relation to awarding a gas storage licence to Moravia Gas Storage a.s. This price decision has made it possible to use the entry and exit points of the virtual gas storage facility operated by Moravia Gas Storage, and so offer storage capacity to gas market participants.

The Office issued ERO Price Decision 2/2016 of 1 June 2016, amending ERO Price Decision No 6/2015 of 25 November 2015 on regulated prices related to gas supply, as amended by ERO Price Decision No 1/2016 of 29 February 2016, in connection with the introduction of new principles for balancing in the gas system as of 1 July 2016.

The Office's last price decision for the gas industry was ERO Price Decision 6/2016 of 25 November 2016, on regulated prices related to gas supply, which laid down regulated prices for 2017.

The drafts of all price decisions issued in 2016 were posted, as part of a separate public consultation process under Section 17e(2) of the Energy Act, on the Office's website and comments on the proposed wording could be provided by the time laid down in Section 17e(5) of the Energy Act. All the comments received by the Office were duly evaluated and dealt with under Section 17e(6) of the Energy Act. All comments that were found relevant were accepted and incorporated into the price decisions.

The gas TSO challenged ERO Price Decision 6/2016 in three administrative actions whereby the TSO sought the voidance of the price decision. The administrative court decided to reject all the actions and the price decision is valid in its wording of 25 November 2016.

As in preceding years, in 2016 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.

4.3.3 Controlled parts of the charge related to gas supply

Under Section 17(6)(d) of the Energy Act, in 2016 the Office set the charge for the related service in the gas industry under Section 19a(1) of the Energy Act. The related service in the gas industry is understood to be the charge for the gas transmission service or the charge for the distribution system service, which also include the charge for the market operator's services, including the charge for the Office's activities.

Charge for the gas transmission service

For 2017, the TSO's adjusted allowed revenues have decreased by 14.7% on 2016. One of the main reasons for this drop was the limitation of the flexibility costs, related to the implementation of the new balancing principles. Another positive factor contributing to lower adjusted allowed revenues compared with the preceding year was the lower value of the parameter 'TSO's allowed sales', and also a lower value of the correction factor for the gas transmission service.

The charge for the service of gas transmission to the domestic point is part of the regulated prices for the distribution system service and accounts for approximately 1–2% of the total charge for the gas supply service depending on the customer categorisation as a household, low-demand, medium-sized demand or high-demand customer. Compared with 2016, the average charge for the service of gas transmission to the domestic point has dropped by 15.5% to CZK 15.83/MWh.

The price decision for 2017 lays down significantly lower values for the fixed and variable components of prices at the exit border points of the gas transmission system. The reason for cutting these rates was to maintain the competitiveness and enhance the attraction of the Czech gas transmission system with a view to ensuring its utilisation for the long term.

The variable component of the price at the exit border points of the transmission system has been decreased by reducing the coefficient using which the quantity of energy in the gas required for operating compression stations (fuel gas) is determined. This parameter was determined on the basis of the actual physical gas flows in the transmission system and the actual gas quantity consumed for driving compression stations. Entities transporting gas via the Czech Republic should pay only for the fuel gas quantity that is needed for transporting the required gas quantity. It is apparent from information about the transmission system operation that the fuel gas quantity has actually decreased, and this is not a short-term trend, which has necessitated a modification of the normative coefficient for fuel gas accordingly. The Office has therefore updated this parameter. The coefficient will be set on an annual basis so that it objectively expresses the actual needs and legitimate expectations of all gas market participants.

The above measures have helped to create the conditions for the Czech gas transmission system to be more attractive pricewise in comparison with the potential competing routes, thereby minimising the negative impact on Czech consumers resulting from a low rate of the utilisation of the system.

Charges for the distribution system service

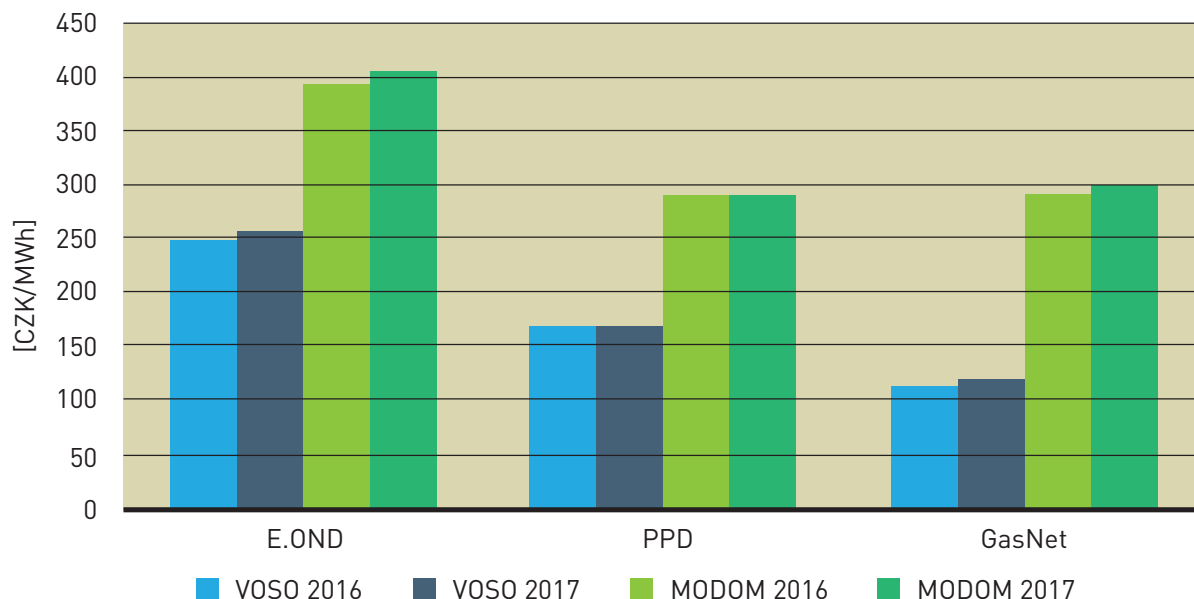
The regulated charge for the distribution system service can take two forms. One of the forms is a single-component charge, which is intended for customers with a certain special nature of use of their supply point, who consume the predominant portion of their yearly demand in only a few days in a year. The other form is a double-component charge, which has a variable component and a fixed component.

In case of the double-component charge, the variable part of the charge for the distribution system service is determined by a fixed price for distributed gas in CZK/MWh. Its level therefore depends on the gas quantity consumed. It is determined separately for the low-demand customer and household customer categories ([the Czech acronym is] MODOM), and separately for the high-demand and medium-sized demand customer categories ([the Czech acronym is] VOSO).

The charge for the distribution system service, including the service of gas transmission to the domestic point, has increased for all customer categories by 2.67% on average for 2017 compared with 2016. In particular the unusually warm winters in the past few years and the general trend of declining gas demand have had a negative effect on the charge for the distribution system service. For 2017, its increase is mainly attributable to positive values of the correction factors for gas distribution, based on the difference between allowed revenues planned for 2015 and actual sales in 2015, which is compensated two years later. The decrease in the TSO's adjusted allowed revenues from the gas transmission service and the decrease in the costs incurred in procuring gas for covering allowed losses and consumption for technological processes in distribution systems have had a positive effect on the charge for the distribution system service, including the gas transmission service.

The average charges for the distribution system service, including the service of gas transmission to the domestic point, for 2017 have increased in almost all customer categories. The only exception is average charges for MODOM customers of the distribution system operator Pražská plynárenská Distribuce, a.s., member of the Pražská plynárenská, a.s. Group.

Chart 6 Comparison of average regulated charges for gas distribution system services (distribution, transmission, market operator) in 2016 and 2017, by distribution system operator



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

Note: E.ON – E.ON Distribuce, a.s.
 PPD – Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.
 GasNet – GasNet, s.r.o.

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

For 2017, the fixed charge for clearing has been set at CZK 1.06/MWh, i.e. this charge has declined by CZK 0.22/MWh year-on-year. The decline is attributable to the halving of the value of depreciation and amortisation and a reduction in the correction factor related to the market operator’s services.

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. For 2017, the rate of this fee is subject to Government Order 392/2015 on the fee for the activities of the Energy Regulatory Office. For 2017, the fee has been set at the same level as for 2016, i.e. CZK 1.34/MWh of the consumed gas quantity. For 2017, the total charge for the market operator’s clearing service in the gas industry is therefore CZK 2.40/MWh.

For 2017, the charge for the provision of data from records of commercial transactions on the gas market organised by the market operator, which is paid by market participants 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), has been increased to CZK 3,027/month from CZK 2,300/month applicable in 2016. The other regulated charges for the market operator’s services, which are listed in the price decision, have remained at their 2016 level.

Price for the supplier of last resort

The Office is authorised to regulate the prices of the supplier of last resort; in the form of cost-plus prices, the Office sets the maximum level of the price of the supplier of last resort in case that the supplier requests so.

In 2016 there were three cases where the original suppliers terminated gas supply and the customers of these suppliers were automatically migrated to a supplier of last resort. Nevertheless, the supplier of last resort did not request the Office to determine the price for it in any of the cases.

4.3.4 Uncontrolled parts of the charge related to gas supply

Business charge

The Office is not authorised to control the level and structure of the prices for services related to gas supply quoted by the various gas traders, i.e. the price of gas as commodity, and traders' related services. Within its competences the Office continuously monitors the situation in the wholesale and retail gas markets as regards competition.

On the basis of this monitoring the Office has concluded that traders' price quotations for MODOM customers in 2016 were influenced by the relatively low prices for which gas could be bought on the wholesale market. Through an active approach and suitable selection of their supplier, customers were able to achieve much lower prices than in the preceding year. Primarily VOSO customers used this opportunity on the liberalised market. MODOM customers are much less active in this respect and do not use the opportunities offered to them by the liberalised market to such an extent.

The Office prefers that the prices related to gas supply be formed on the basis of the free market principle in a competitive environment but has concluded that it is desirable for it, the regulator, to have an opportunity to influence this part of the price should it develop disproportionately. In this connection, the Office has approached the MPO with a proposal for an amendment to the Energy Act.

Gas storage charge

Gas storage is another business line that is not subject to price control by the Office. The storage price is formed in the market itself on the basis of the results of storage capacity auctions. As part of its market monitoring and its reviews of the efficiency of regulation, the Office monitors the development of storage capacities, the level of stores in storage facilities and, above all, the conditions and results of storage capacity auctions.

The reserve prices in storage capacity auctions were lower than in 2015, 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 in the preceding storage season. This trend, negative for SSOs, has ultimately had a positive effect for end consumers in the form of lower extra costs for gas traders and, possibly, lower final prices for customers.

4.3.5 Supply security standard

Within its competences, the Office also monitors and evaluates adherence to the gas supply security standard (BSD) in the Czech Republic. On the basis of data from gas traders, the Office prepares Monthly Reports on the Evaluation of the Security Standard for Gas Supply in the Czech Republic, which are, beginning in the 2015/2016 winter season, regularly posted on the Office's website. In these reports the Office also pursues, among other things, one of its key priorities: identify all factors that might stand in the way of ensuring safe and reliable gas supply to final customers in the Czech Republic.

In 2016, BSD was ensured for the winter months of January to March and October to December. Most of the gas traders used certificates of BSD provision by another gas market participant, which means that one trader provides for the meeting of the 30% BSD limit through a gas storage facility for several other traders.

Before the 2016/2017 winter season, the Office requested all gas traders to send it all documents and information concerning the obligation to provide for BSD. The Office found that of all licensed entities, 118 gas traders provided BSD for their own operations or for other gas traders as at 31 December 2016.

4.3.6 Assessment of the development plan for the gas transmission system

Under Section 58k of the Energy Act, the Office shall assess the ten-year plan for the development of the gas transmission system (TYNDP) and approve it by its decision; the TSO shall prepare the plan and submit it to the Office every year.

Under Section 58k(6) of the Energy Act, the Office consulted on the TYNDP and for this purpose published the TYNDP without undue delay from receipt thereof in a manner enabling remote access for at least ten working days.

With regard to the requirements for transparency and in compliance with Section 58k of the Energy Act, when deciding on the presented plan the Office places emphasis on the consultation process conducted by the TSO and the consultation process conducted by the Office. In this respect it relies on Section 58k(9) of the Energy Act, under which the TYNDP should include justifiable requirements for investment in the gas transmission system. Together with this, the Office assesses its compliance with the Union-wide Ten Year Network Development Plan prepared by ENTSOG.

In their comments provided during the public consultation process, the current and prospective gas transmission system users, including large professional interest groups (Teplárenské sdružení České republiky [Association for District Heating of the Czech Republic], Hospodářská komora České republiky [Chamber of Commerce of the Czech Republic], Svaz průmyslu a dopravy České republiky [Confederation of Industry of the Czech Republic]), encouraged the TSO to revise its TYNDP, because in their opinion the implementation of the above projects would result in an increase in the price for the gas transmission service.

On the basis of the information available to it from its activities, the Office has reasons to believe that some projects cannot be expected to create a situation where the positive externalities and benefits outweigh the negative externalities, in particular, without limitation, the costs incurred in the implementation of the projects, which the users of the system in the Czech Republic would have to pay.

For this reason the Office, referring to Section 58k(9) of the Energy Act, requested the TSO, as early as the consultation process conducted at the level of the TSO, to provide the information that would rebut the above statement. The Office also requested the TSO to revise and re-evaluate the need for the above projects.

In its submitted observations on the comments the TSO did not accept the comments raised by the current and prospective gas transmission system users whose justified interests may be directly affected by the TYNDP and also the Office's comments and the Office's request to provide facts the nature of which would rebut the Office's opinion on the above projects.

In compliance with Section 58k(9) of the Energy Act, under which the TYNDP should include justifiable requirements for investment in the gas transmission system, on 22 December 2016 the Office therefore issued a decision ordering the TSO to change its TYNDP 2017–2026.

Thus, in 2016 the ten-year plan for the development of the gas transmission system 2017–2026 was not approved on account of the pending administrative proceedings.

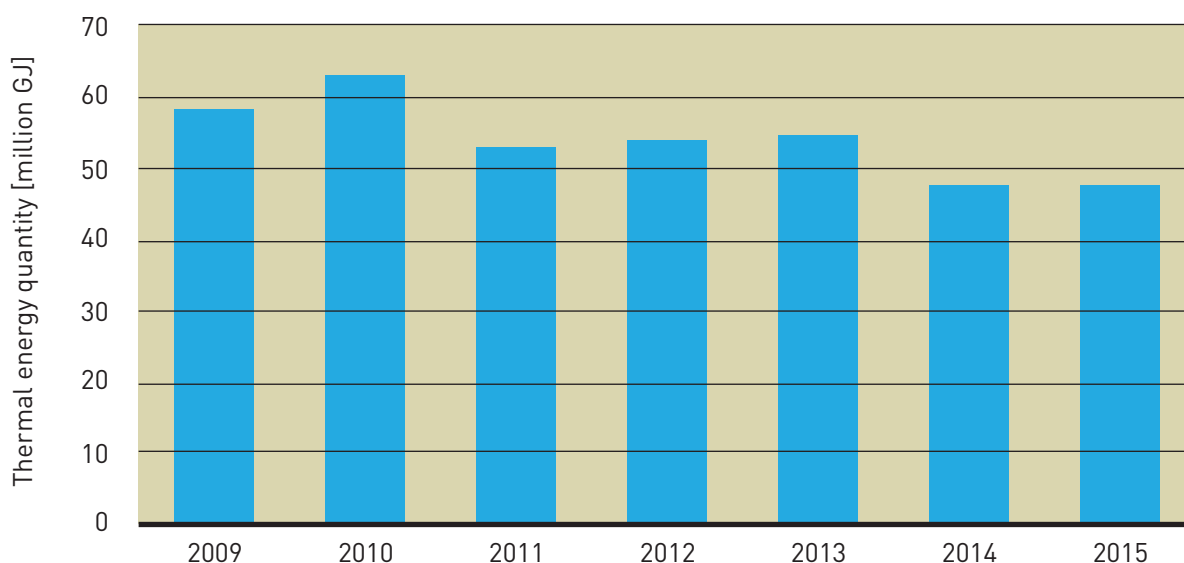
4.4 The heat supply industry

4.4.1 Characteristics of the market

Each of the historical stages in the development of the heat supply industry has its own specificities. At the beginning of the heat supply industry (from the 1930s) extensive coal-fired steam systems were typically being developed, in particular for industry. Later (in the 1970s and 1980s) the tendency was to build gas-fired boiler houses for blocks of flats, while the trend in today's heat supply industry is, increasingly, combined heat and power generation, renewable energy sources, high-efficiency boilers, and the operation of efficient district heating and cooling systems (i.e. at least 50% renewable energy, 50% waste heat, 75% cogenerated heat or 50% of a combination of such energy and heat must be supplied to these systems). Under the law on supported energy sources, as of 2016 the ERO publishes an overview of these 'efficient systems'; 208 of them were registered in 179 municipalities in the Czech Republic in 2015.

The heat supply industry is characterised by heterogeneity. Both small and large heat supply sources, differing in terms of the size of the systems to which they supply thermal energy and the method of thermal energy production, are typical of the heat supply industry. Heat supply companies can usually be regarded as local monopolies even today. The Czech heat supply industry features large percentages of thermal energy supply from district heating and cooling systems for various business entities, non-business institutions, and households, of which approximately 1.6 million receive heat from district heating systems. The variations in thermal energy supply are significantly influenced by, primarily, the weather in the particular calendar year. In the Czech Republic thermal energy is usually supplied for two thirds of a calendar year. The heating season usually begins in September and ends in May. Chart 7 clearly indicates the thermal energy quantities supplied for final consumers between 2009 and 2015; the curve shows that over the above period, the single largest quantity of thermal energy was supplied in 2010, specifically 63.148 million GJ, which was primarily due to the extremely low temperatures in the period under review, with December 2010 particularly frosty. In the years that followed the winters tended to be quite moderate, which was also reflected in the decline in the thermal energy quantity supplied; in that period, the smallest quantity of thermal energy was supplied in 2014, only 45.539 million GJ, i.e. 27.89% less than in 2010.

Chart 7 Thermal energy quantities supplied to final customers between 2009 and 2015



4.4.2 Thermal energy price controls

The Office has been responsible for price regulation in the heat supply industry since 1 January 2001 when it accepted the competence from the Ministry of Finance. The thermal energy price is a regulated price under Section 6 of Act No 526/1990 on prices. Price controls in the heat supply industry are based on cost-plus pricing of thermal energy; the Office lays down the conditions for calculating and agreeing on thermal energy prices, which are binding for all thermal energy suppliers and set out in ERO Price Decisions.

For 2016, the Office had issued an amending ERO Price Decision, namely no. 4/2015 of 6 November 2015, amending ERO Price Decision 2/2013 of 1 November 2013 on thermal energy prices; it contained several formal and technical legislative changes such as more accurate depreciation of the assets for which a subsidy was granted and provisions on the term 'usufruct payment' and, in particular, laid down a limit price of CZK 152.86/GJ w/o VAT under the amendment to the Energy Act, whereby the conditions for cost-plus pricing of thermal energy do not apply to thermal energy prices calculated and charged under this limit. Moreover, Schedule 4, specifying the procedure for allocating shared costs in combined heat and power generation, was transferred into the price decision from the repealed public notice on the method of price controls in energy industries and procedures for price regulation.

As in preceding years, in 2016 the method of price regulation in the heat supply industry allowed thermal energy suppliers to pass through economically justifiable costs, reasonable profit related to thermal energy generation and distribution, and VAT, into thermal energy prices. The Office does not directly set or approve the level of these prices in the various price localities. The current regulatory approach makes it possible to reflect the technical and other conditions for thermal energy generation and distribution in thermal energy prices, which may therefore vary significantly in the various locations.

4.4.3 Evaluation of thermal energy prices

Holders of licences for thermal energy production and holders of licences for thermal energy distribution whose total annual income from all thermal energy supplies exceeds CZK 2,500,000 w/o VAT shall file regulatory reports with the Office under Section 20(6) of the Energy Act. The required details and structure of the regulatory reports, including the model forms thereof and rules for completing them, are set out in public notice no. 262/2015 on regulatory reporting. By 31 January of the relevant calendar year, licence holders must send their Report on Prices and Technical Parameters, in which they report the values planned for the relevant calendar year, and by 30 April they must send their Report on the Price Location and their Statement of Assets and Liabilities, in which they report the resulting values for the preceding calendar year.

On the basis of the reported technical and economic information the Office prepares overviews of the resulting and preliminary thermal energy prices and evaluates the development of thermal energy prices; it posts overviews of these prices on its website, including additional information about thermal energy supply in each of the price locations. The publication of thermal energy prices helps to enhance the public's awareness of the prices charged in the various localities and makes it possible for heat customers to make their own comparisons and improve their position when arranging for thermal energy prices with their suppliers. The Office does not only use the reported data for providing information to the public; the data also serves as feedback on the regulatory conditions in place, as input information when performing inspection activities, and also for assessing the licence holders' financial stability. In 2016, the Office received the Reports on Prices and Technical Parameters, i.e. reports showing the preliminary thermal energy price as at 1 January 2016, from a total of 3,040 price localities.

4.4.4 Development of thermal energy prices

The Office has been processing and evaluating the development of thermal energy prices since 2001. Chart 8 shows average resulting prices of thermal energy supplied to end consumers (to their equipment that takes heat) between 2001 and 2015, including the preliminary thermal energy prices as at 1 January 2016. 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) is the weight. In the period under review, thermal energy produced 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 thermal energy supply. Thermal energy prices were also heavily influenced by the rise in the VAT rate, the imposition of the environmental tax and the required purchase of emission allowances. For the whole period under review (16 years), the average price of thermal energy produced from coal for final customers increased by CZK 265.15/GJ (from CZK 297.03 to CZK 562.18/GJ), i.e. approximately by 89.27%. Over the same period the price of thermal energy produced from other fuels increased by CZK 253.22/GJ (from CZK 342.41 to CZK 595.63/GJ), i.e. approximately by 73.95%.

In 2015, the average price of thermal energy generated from coal increased by CZK 5.64/GJ, i.e. 1%, year-on-year and the average price of thermal energy from other fuels decreased by CZK 7.89/GJ, i.e. 1.26%. As at 1 January 2016, the average preliminary price of thermal energy from coal increased by CZK 0.73/GJ (from CZK 561.45 to CZK 562.18/GJ), i.e. by 0.13%, and that of thermal energy from other fuels decreased by CZK 21.23/GJ (from CZK 616.86 to CZK 595.63/GJ), i.e. by 3.44% compared with the resulting average thermal energy price for 2015.

Chart 8 Average thermal energy prices for final consumers between 2001 and 2015 and on 1 January 2016 (including VAT)

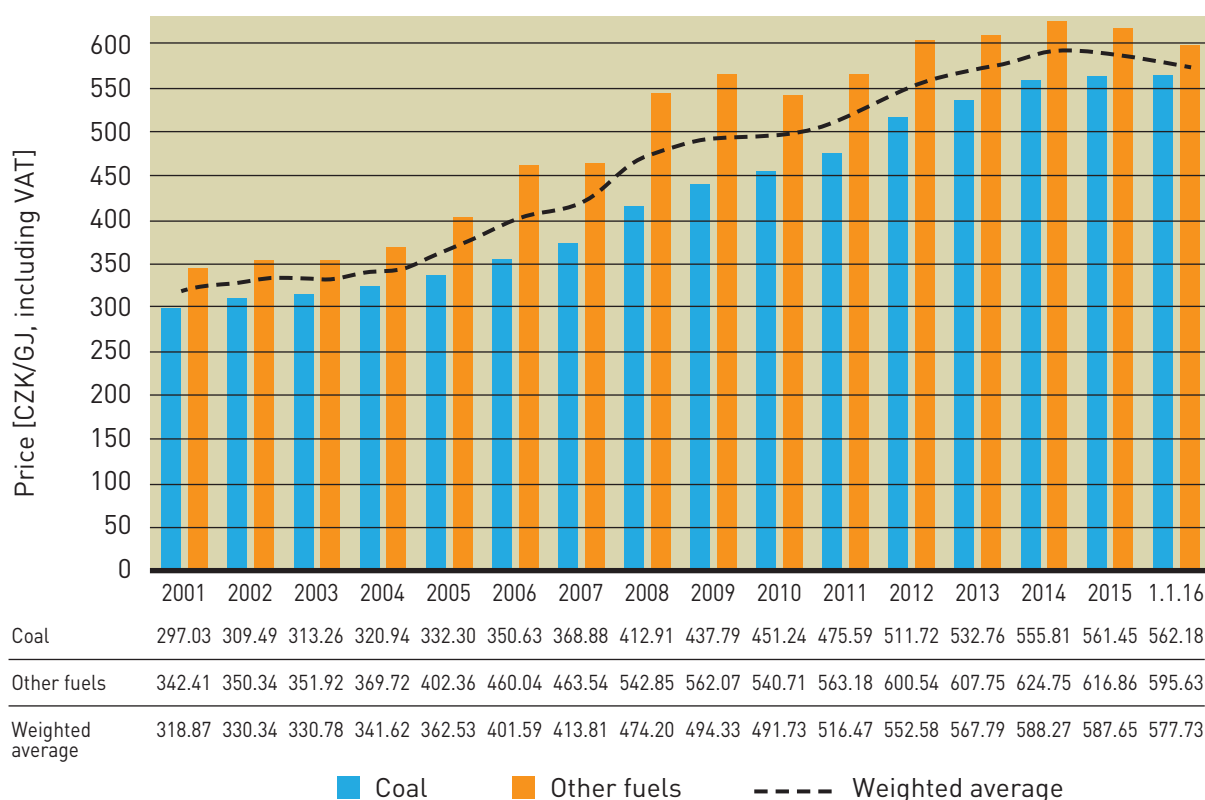
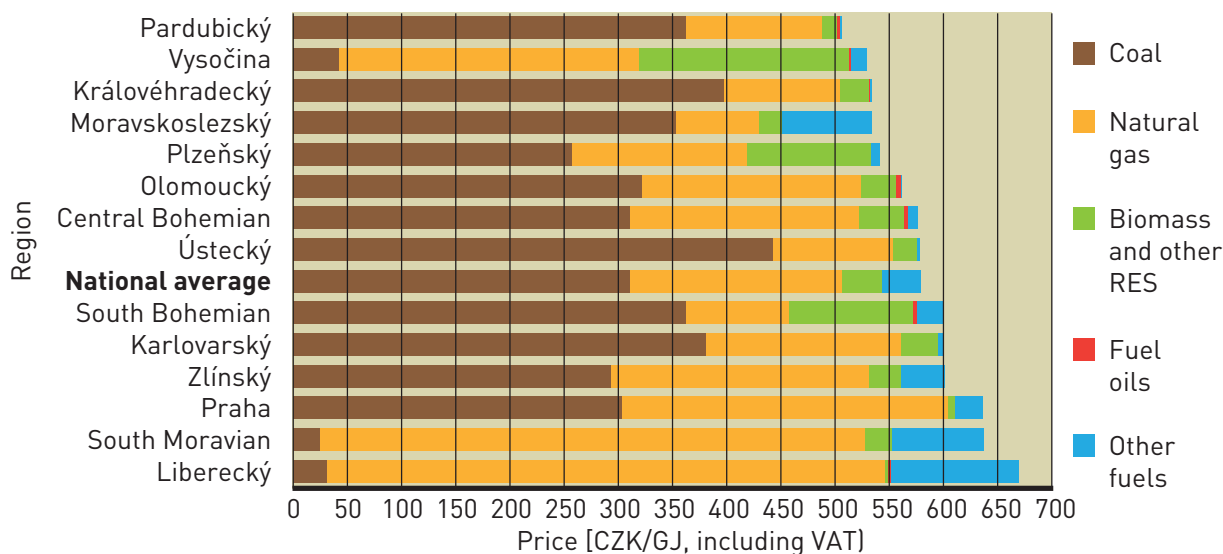


Table 1 Average prices of thermal energy (including VAT) for final consumers as at 1 January 2016 by Regions

Region	As at 1 January 2016		
	Average preliminary price of thermal energy	Coal percentage	Percentage of other fuels
	[CZK/GJ, incl. VAT]	[%]	[%]
Pardubický	503.46	71.43	28.57
Vysočina	528.21	7.73	92.27
Královéhradecký	531.82	74.71	25.29
Moravskoslezský	532.40	66.24	33.76
Plzeňský	538.68	47.86	52.14
Olomoucký	559.57	57.23	42.77
Středočeský	573.81	53.72	46.28
Ústecký	575.63	76.47	23.53
Jihočeský	598.09	60.06	39.94
Karlovarský	598.23	63.41	36.59
Zlínský	600.17	48.75	51.25
Prague	634.63	47.57	52.43
Jihomoravský	636.21	3.77	96.23
Liberecký	667.05	4.56	95.44
National average	577.73	53.50	46.50

Table 1 lists average thermal energy prices for end consumers for each of the Regions as at 1 January 2016, together with the percentages of the fuels used in thermal energy generation. The lowest prices are in Regions with large coal-fired heat-producing plants using combined heat and power generation and with extensive district heating systems. On the other hand, the highest average prices of thermal energy for end consumers are charged by smaller heat supply systems that use other fuels (primarily gas) to a large extent for heat production, combined with primary distribution systems based on steam. As at 1 January 2016, the difference between the Region with the lowest average price (the Pardubický Region, CZK 503.46/GJ) and the Region with the highest average price (the Liberecký Region, CZK 667.05/GJ) amounted to CZK 163.59/GJ for end consumers.

Chart 9 Average preliminary prices of thermal energy (including VAT) for end consumers as at 1 January 2016 and percentages of fuels by Regions



It is apparent from Chart 9 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 10. Thermal energy supplied to end consumers for low or, on the contrary, high prices, makes up only a small percentage of overall supply.

Chart 10 Price ranges with the respective thermal energy quantity supplied to end consumers from 2013 to 2015 and as at 1 January 2016

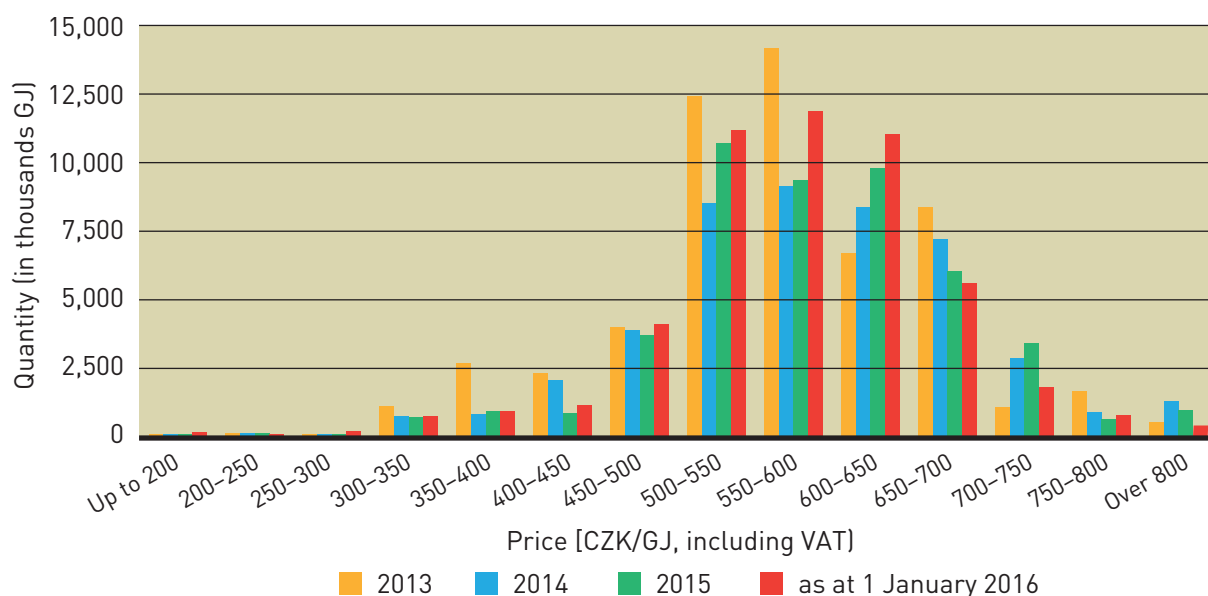


Table 2 indicates that predominantly coal is used for producing thermal energy. Other fuels, primarily pipeline gas, other gases, and biomass, take approximately one-third of thermal energy supply in aggregate. Coal significantly predominates in large thermal systems. On the other hand, in small systems with up to 10 MW_t generating plants and in local boiler rooms, the predominating fuel is pipeline gas. The quantities listed in the table show that the largest volumes of supply take place at the level of transfer from primary heat distributions. Thermal energy supply from local boiler rooms could only be evaluated in cases where the supplier of thermal energy from these sources is also the holder of a licence for thermal energy production and/or distribution.

Table 2 Thermal energy quantities supplied in 2015 at each level of thermal energy transfer, structured by fuel

Thermal energy transfer level		Coal	Pipeline gas	Biomass and other RES	Fuel oils	Other fuels*	Total at each transfer level
		Quantity [million GJ]	Quantity [million GJ]	Quantity [million GJ]	Quantity [million GJ]	Quantity [million GJ]	Quantity [million GJ]
From production, with output over 10 MW _t		16.252	3.766	1.286	0.141	5.544	26.989
From primary distributions		40.005	3.662	2.924	0.124	3.510	50.225
From production, with output up to 10 MW _t		0.128	1.706	0.636	0.003	0.332	2.805
From a central heat transfer station		2.885	0.559	0.083	0.006	0.227	3.760
Thermal energy prices for end consumers	For central water heating in the production plant	0.049	0.693	0.016	0.000	0.009	0.767
	For central water heating in a heat transfer station	4.899	0.776	0.307	0.012	0.442	6.436
	From distributions from a block boiler house	0.196	4.411	0.550	0.008	0.180	5.345
	From external secondary distributions	14.486	2.430	1.067	0.059	1.774	19.816
	From a house transfer station	5.009	4.539	1.105	0.037	0.796	11.486
	From a local boiler room	0.211	3.014	0.026	0.006	0.035	3.292
Total quantity from each of the fuels		84.120	25.556	8.000	0.396	12.849	130.921

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

4.5 Supported energy sources and notification thereof

In 2016, the Office's activities were marked by the processes aimed at finalising support notification schemes, i.e. the notification of the EC's decisions on the compatibility of support schemes with the internal market, in which the Office significantly participated and which were reflected in the number of the price decisions that the Office issued in 2016.

In August 2016, EC notification **SA.43451 (2015/N)** *Operating support for small scale biogas installations with a capacity of up to 500 kW* and notification **SA.43182 (2015/N)** *Promotion of electricity production from small hydro power plants*, which concerned generating plants commissioned on or after 1 January 2016, were finalised.

The Office responded to these issued notifications by promulgating two price decisions, namely ERO Price Decisions 4/2016 and 5/2016, which also included the Czech Republic's obligations arising from these notifications, primarily a reflection of the concurrence of operating aid with investment aid, limitations on the output of small hydro power plants when selecting support in the form of feed-in tariffs, denial of support when a negative market price of electrical energy occurs for at least six hours, and no option to cumulate support for generated electricity with any other form of operating aid.

ERO Price Decision 4/2016, which amended ERO Price Decision 5/2015, was effective from 1 October 2016 and therefore made it possible – from that date until the end of 2016 – to claim newly declared support still in 2016 for newly notified support schemes. On the basis of the above-cited notifications, this fact concerned small hydro power plants, heat producing plants within the meaning of biogas installations defined by the law, and 'residual projects', i.e. plants that use biomass, wind, or geothermal energy for electricity generation, the support scheme for which was subsumed under notification *SA.35177 (2014/NN) Promotion of electricity production from renewable energy sources*.

ERO Price Decision 5/2016 was issued within the statutory time limit by the end of September 2016. It set out support for 2017 only for support schemes notified at that time, i.e. for RES plants under notification SA.35177, small hydro power plants under SA.43182, and biogas installations under SA.43451. In connection with setting out support for small hydro power plants commissioned on or after January 2017, the Office based the calculation of support on updated technical and economic parameters laid down in its public notice no. 266/2016, which in 2016 amended its public notice no. 296/2015 on technical and economic parameters. The fact that support for renewable electricity in the case of new electricity generating plants commissioned on or after 1 January 2014, with the exception of small hydro power plants and residual projects, was terminated by the law and that support for new small hydro power plants and residual projects was only resumed as of October 2016, was reflected in a significantly smaller number of new electricity generating plants entitled to support under Act No 165/2012, as amended, compared with the preceding years.

The decision on the support scheme for renewable electricity generation that included the most heavily discussed group of electricity generating plants commissioned between 2006 and 2012, i.e. when Act No 180/2005 on support for electricity generation from renewable energy sources had been effective, was only notified in November 2016 in the EC's notification **SA.40171 (2015/NN)** *Promotion of electricity production from renewable energy sources*. This decision was the reason for issuing the first amendment to ERO Price Decision 5/2016, namely **ERO Price Decision 9/2016**. The last price decision in 2016, **ERO Price Decision 11/2016** amending ERO Price Decision 5/2016, as amended in ERO Price Decision 9/2016, extended support for 2017 by including renewable electricity plants commissioned by the end of 2005, electricity generating plants using combined heat and power generation for electricity generation and also secondary sources in generating plants commissioned by the end of 2012,

and also support for all plants that produce heat from RES, with the amount of support fixed at CZK 50/GJ in Act No 165/2012. The support that was newly set out in ERO Price Decision 11/2016 was laid down on the basis of a joint opinion of ÚOHS and MPO on 'existing support' that did not have to be notified to the EC.

Thus, by the end of 2016 the Office had not set out support for the generating plants that should be supported under the support scheme for which the notification procedure was pending. These include electricity generating plants commissioned on or after 1 January 2013 and using the high-efficiency combined heat and power generation process and waste as energy sources for electricity generation.

4.6 Licensing policy and its development

As regards licensing, 2016 was the third year in which the effects of reduced support for renewable electricity generation were felt in full and also the first year that saw the changes related to the amendment of the Energy Act, in particular the elimination of the necessity to license electrical energy generation for small, up to 10 kW electricity generating installations. The Office received a total of 2,122 applications for licence award/amendment/revocation, up by 5% on 2015. The Office addressed many more questions related to the requirements for liquefied natural gas licences.

In 2016, a total of 77 new operations appeared (in absolute terms), of which 68 were up to 30 kW photovoltaic plants and 10 were up to 10 MW hydroelectric power stations.

Total installed renewable capacity had risen by 3.67 MW in absolute terms by the end of 2016, with photovoltaic plants' share increasing by 4.26 MW (this was the momentary situation resulting from the current developments in court proceedings on the photovoltaic cases brought before courts by the Supreme Public Prosecutor's Office; this situation is continuously changing depending on the competent courts' decisions). The capacity of plants generating from biomass decreased by 0.39 MW, there was no change in pumped-storage hydroelectric power stations, and up to 10 MW hydroelectric power stations increased by 1.05 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 decreased in 2016. In the heat supply industry, the number of applications, mainly occasioned by technology changes, asset transfer or capacity decentralisation was approximately the same as in 2014 and 2015.

Table 3 Numbers of valid licences between 2008 and 2016 by object of business

Licence	2008	2009	2010	2011	2012	2013	2014	2015	2016
Electricity generation	2,989	7,223	13,301	13,530	20,843	26,021	26,158	26,314	26,357
Electricity distribution	281	281	300	307	315	319	299	294	254
Electricity trade	310	312	321	353	360	389	392	381	380
Foreign authorisations for electricity trade	-	-	-	1	4	12	17	26	27
Gas production	14	15	15	15	15	15	14	13	14
Gas distribution	92	87	87	86	83	78	77	72	67
Gas trade	103	105	122	143	172	196	201	213	213
Foreign authorisations for gas trade	-	-	-	1	2	9	13	24	29
Gas storage	4	4	4	4	4	4	4	4	5
Thermal energy generation	655	641	627	619	627	656	672	669	673
Thermal energy distribution	699	689	675	663	653	653	663	654	658
Total	5,147	9,357	15,452	15,720	23,075	28,367	28,513	28,664	28,677

In 2016, the Office issued 513 new decisions to award licences in all energy industries. In addition, 1,122 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 2016. 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 rose by 30% (to 487); they were most frequently initiated by licence holders. This appreciable increase was caused by a larger number of applications for licence revocation in the case of small, up to 10 kW installations, and also in connection with the Office's active inspections.

Table 4 lists the number of administrative proceedings on licence award, change and revocation.

Table 4 Number of licence proceedings between 2008 and 2016 (by purpose)

Licence proceedings	2008	2009	2010	2011	2012	2013	2014	2015	2016
New licences	1,420	5,159	6,997	560	8,051	5,698	625	615	513
Licence changes	598	1,154	1,708	1,029	2,032	1,809	1,192	1,032	1,122
Revoked licences	163	204	264	264	264	354	450	376	487

As regards renewables, last year again saw a slight decrease in the number of applications for licences for electricity generation in small hydroelectric power stations; also due to the amendment to the Energy Act, the number of applications for licences for electricity generation from solar radiation decreased. There were no major changes in the other types of energy compared with 2015, see Table 5. *(The statistics are heavily influenced by the most recent court decisions in cases of revocations of licences for electricity generation in PV plants.)*

Table 5 Number of electricity generating operations and installed capacities between 2010 and 2016 by type of renewable energy used

Operations		2010	2011	2012	2013	2014	2015	2016
Hydro	Number	1,397	1,420	1,451	1,500	1,589	1,615	1,625
	Capacity [up to 10 MW]	140.25	141.77	148.08	154.23	342.67	348.18	349.23
Wind	Number	93	95	105	112	124	128	125
	Capacity [MW]	214.78	217.92	261.98	269.36	283.47	284.98	284.91
Solar	Number	12,861	13,019	21,925	27,956	28,127	28,276	28,351
	Capacity [MW]	1,952.70	1,952.70	2,072.07	2,125.91	2,126.06	2,122.90	2,127.16
With a biogas share	Number	180	264	415	430	431	428	423
	Capacity [MW]	103.02	167.97	306.04	333.68	335.51	334.79	333.52
Landfill gas	Number	61	63	66	70	70	69	68
	Capacity [MW]	22.63	56.50	57.20	58.67	58.67	58.65	58.46
With a biomass share	Number	56	63	74	94	93	93	92
	Capacity [MW]	1,676.37	1,617.64	1,783.11	2,939.33	2,990.42	2,988.01	2,987.62

The list of licence holders is updated on a quarterly basis on the Office's website by licence type. On the website an 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 2016, the Office received 11 applications for the recognition of professional qualifications within the meaning of Act No 18/2004 on the recognition of professional qualifications, as amended. It decided to recognise professional qualifications in seven cases. In four cases, it decided to discontinue the administrative proceedings.

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 of 20 February 2017, delivered by A-CONT, s.r.o., Jihlava, represented by Mr Jiří Makaj, company director, the books of the Fund were maintained in accordance with the applicable legislation and the Fund was truly and fairly reflected in the ERO's financial statements for the accounting period 2016, see Appendix 1.

As at 31 December 2015, the opening balance in the Energy Regulatory Fund stood at exactly CZK 45,444,392. In 2016, 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 2016.

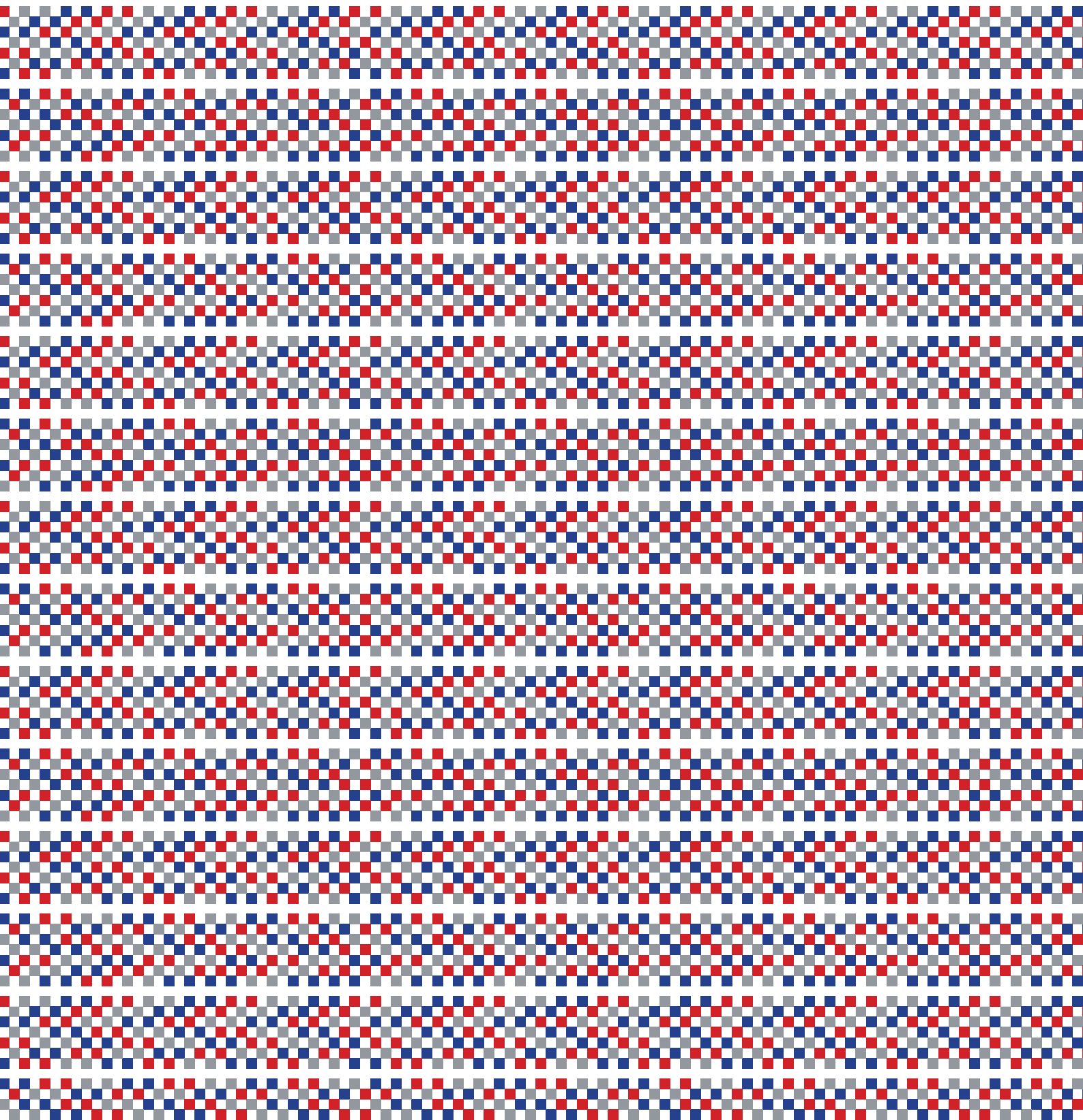
The balance in the Energy Regulatory Fund current account stood at **CZK 45,444,392** as at 31 December 2016.

4.6.3 Proceedings on administrative fees

In proceedings on licence award, change or revocation, the Office collected fees amounting to CZK 7,746,700.

Twenty-six entities applied for the refund of administrative fees; ten entities received refunds totalling CZK 10,500 from the ERO's account and 16 entities received refunds totalling CZK 16,500 from the financial authority with local jurisdiction over the Office, i.e. the Financial Authority for the Vysočina Region, the Jihlava Local Office.

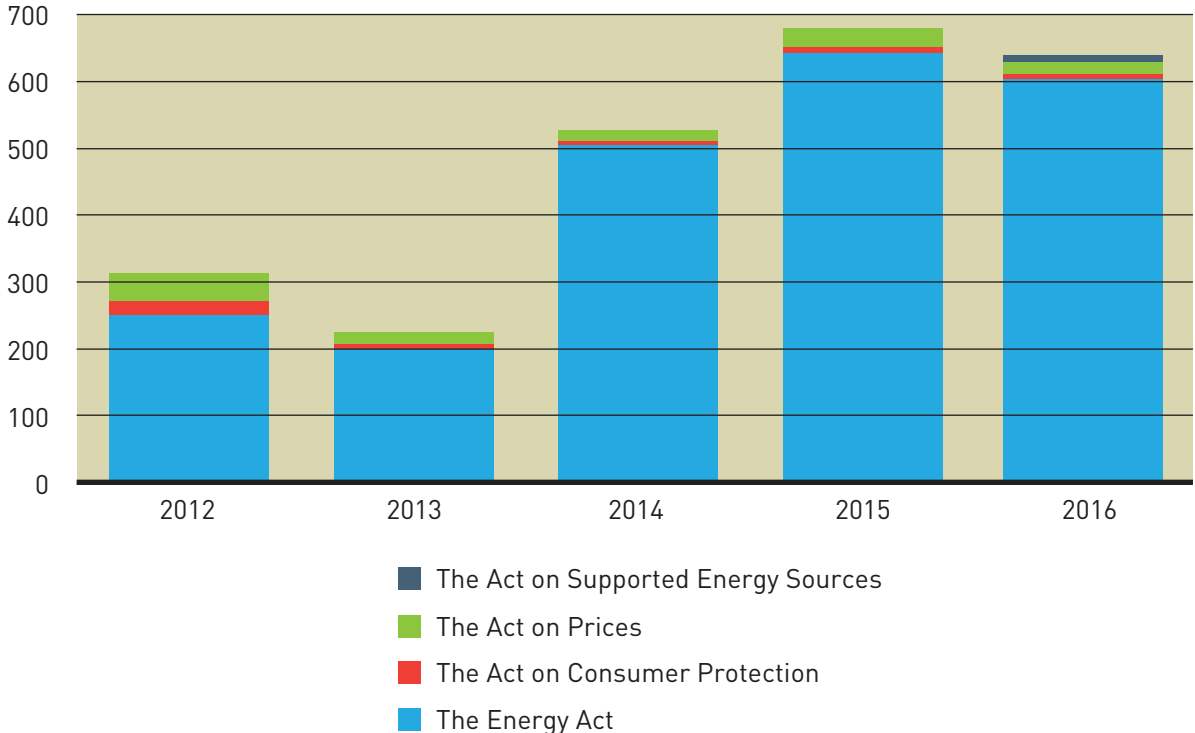
5) Oversight



5) Oversight

The Energy Regulatory Office carries out supervision in energy industries within the bounds of its authority under Section 18(1) of the Energy Act, i.e., it checks compliance with the rights and obligations under the Energy Act in all energy industries, i.e., the electricity, gas, and heat supply industries, and supported energy sources, and with obligations laid down in the consumer protection law only in the electricity and gas industries. Checks of compliance with price regulations, the Price Act and the ERO Price Decisions, are most often initiated in the heat supply industry. As of 2016, the Office supervises compliance with the law on supported energy sources.

Chart 11 Number of inspections/checks started in 2012 to 2016



In 2016, the Office concluded 669 checks and inspections, and held that breaches of the supervised obligations were found in 69% of the cases.

Table 6 List of identified breaches of supervised obligations

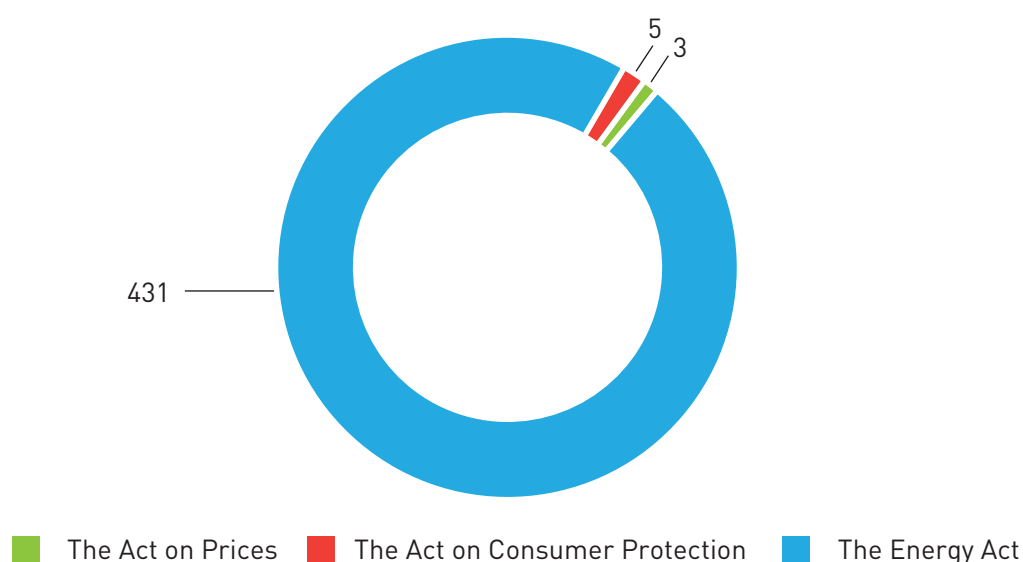
Completed checks	Number
No breach of the checked provision was found	208
A breach of the checked provision was found	461
Total	669

5.1 Checks in the electricity and gas industries

In 2016, the Office’s Electricity and Gas Industries Inspection Department received 481 complaints related to obligations in the electricity and gas industries; they concerned sales representatives’ fraudulent practices, unfair practices in contract execution, failure to accept requests for contract termination, and failure to publish price lists or full prices. Received submissions also point out failure to notify data concerning supply termination, absence of required details in billing, failure to refund overpayments or advance payments, failure to handle complaints and failure to meter consumption by the holders of licences for electricity or gas trading. A significant part of the complaints concerned damage to energy installations and interference with the protective zones of such installations.

In 2016, in the electricity and gas industries the Office initiated 439 checks on the basis of its own findings from market monitoring and also following its evaluation of the suggestions that it received from market participants and other entities. Of the 491 checks completed in 2016, a breach of the checked obligations was found in 83% of cases.

Chart 12 Checks and inspections commenced in 2016



In 2016, checks of compliance with the law on consumer protection and the law on prices accounted for a smaller percentage of the total number of checks carried out, but they usually concerned a considerable number of customers damaged by licence holders’ conduct.

5.2 Checks in respect of supported energy sources

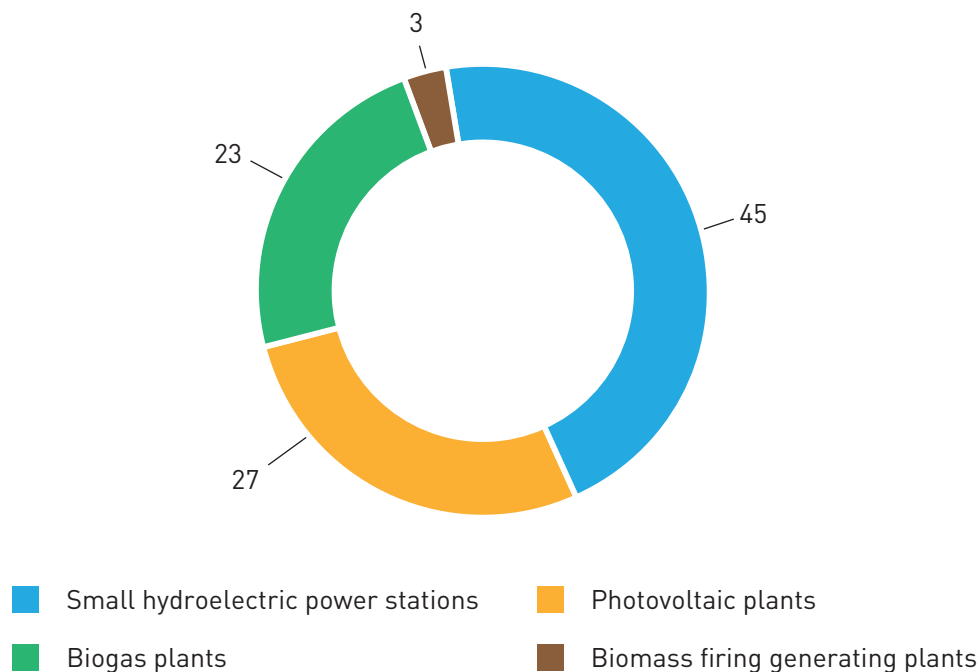
In 2016, in respect of checks and inspections of supported energy sources the Office seamlessly continued its activities that it had started within its competences in the preceding year and, in line with the change in legislation on supported energy sources, it expanded its activities to include checks of compliance with the provisions of the law on supported energy sources. The department's activities include 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 that usually receive state aid in the form of feed-in tariffs or green premiums for the energy so generated.

In 2016, the POZE Inspection Department [*POZE is Czech acronym for Supported Energy Sources*] was ready to seamlessly follow up on the reviews by the State Energy Inspectorate further to the changed competences for checks and inspections under the law on supported energy sources. New employees were gradually accepted to the POZE Inspection Department for the purpose of running this oversight activity. Following their induction training, inspections under the law on supported energy sources started in the second half of the year.

In 2016, the POZE Inspection Department started 98 inspections with a view to checking adherence to Section 9(1) and (5) and Section 11(1)(c) and (e) of the Energy Act by SES producers. These inspections found breaches of the above legislation mainly in relation to the obligation to promptly notify the Office of changes in the technical parameters of the existing operations or changes in the extent of the delineated area in the case of increasing the number of operations, and also breaches of legislation as regards proving that equipment meeting the safety and reliability requirements set out in legislation and technical standards was used for the licensed activity.

In connection with accepting the competence for inspections under the law on supported energy sources the Office checked compliance with Section 7(4) and (5) and the obligations, related to these provisions, under public notice no. 477/2012 laying down the determination of the types and parameters of supported energy sources for electricity, heat and biomethane production and the determination and filing of documents.

Chart 13 Types and number of operations inspected in 2016

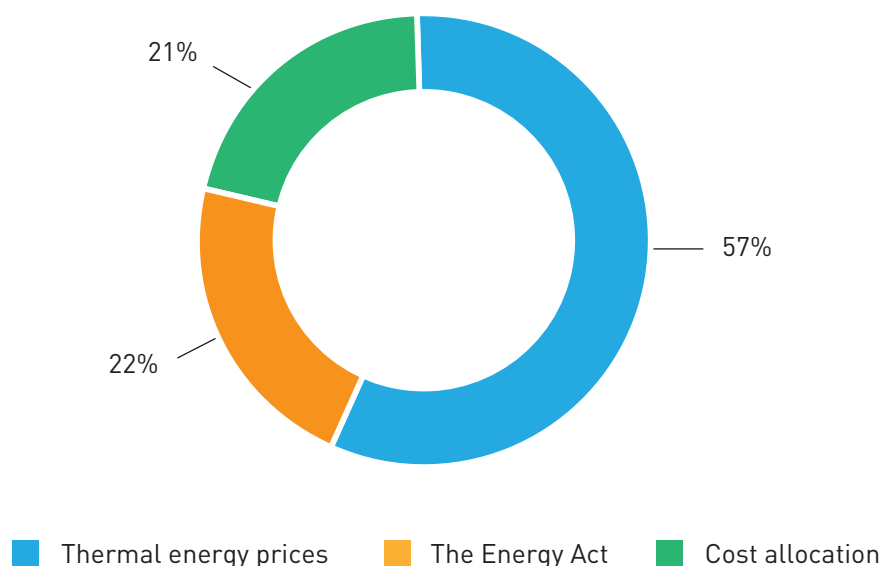


By the end of 2016, the POZE Inspection Department had concluded 79 inspections and referred 36 review files for administrative proceedings, of which 26 review files were referred together with a finding of a breach of the checked provisions and ten review files were referred to continued administrative proceedings on irregularities identified when evaluating the inspection findings.

5.3 Oversight in the heat supply industry

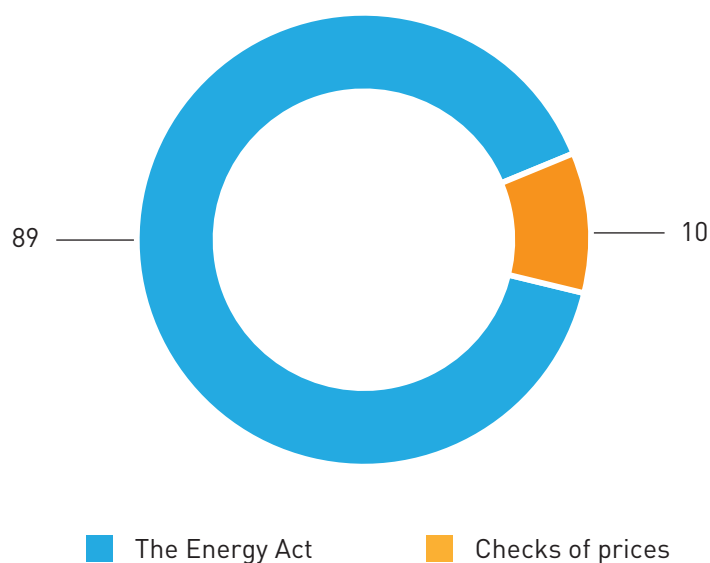
In 2016, the Heat Supply Industry Inspection Department examined the submissions sent by customers (such as housing cooperatives and 'condominiums') and also final consumers of thermal energy. Of the total number of submissions received, almost 80% were disposed of, and inspections at thermal energy suppliers were started on the basis of these submissions only in four cases. More than 20% of the submissions concerned thermal energy cost allocation; the Office has very limited competences to address such submissions.

Chart 14 Subject matter of submissions in 2016



In 2016, the Heat Supply Industry Inspection Department commenced 99 inspections, entailing checks of compliance with obligations both under the Energy Act and the Act on Prices. Of the 95 investigations completed in 2016, a breach of the checked obligations was found in 30% of the cases.

Chart 15 Inspections in the heat supply industry in 2016



5.4 Reviews of costs

In 2016, the Cost Inspection Department completed four inspections of regulated entities and initiated two inspections on its own motion. The inspections of all entities focused on economically justifiable costs in 2012 and 2013. The inspections are carried out in compliance with the Oversight Rules.

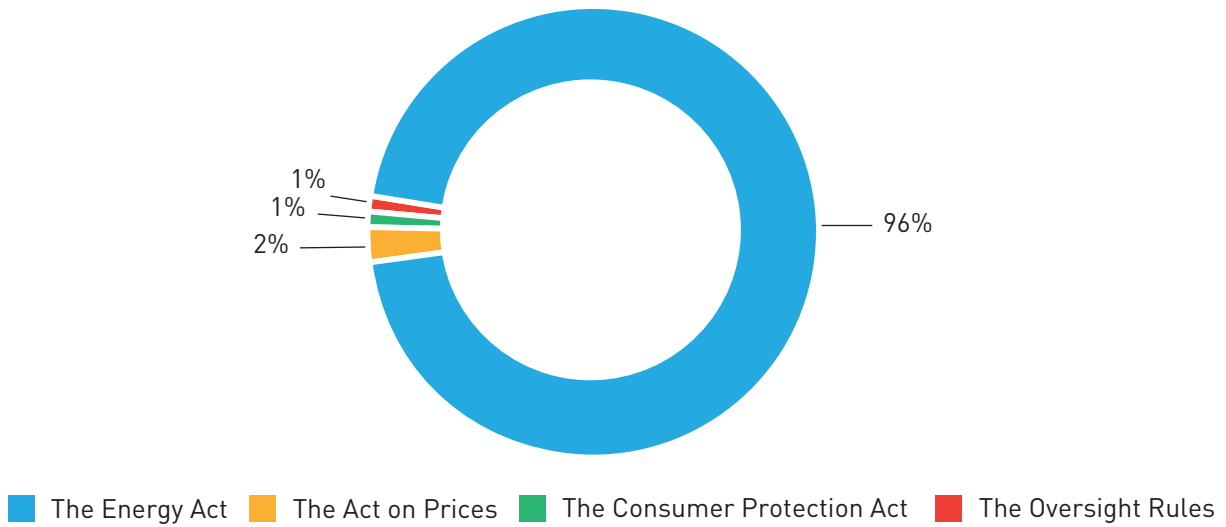
5.5 Administrative proceedings

The Administrative Proceedings Department is responsible for supervision carried out by the Office under Section 18(3) of the Energy Act. The Administrative Proceedings Department's main task is conducting administrative proceedings and deciding on administrative offences and minor offences under the Energy Act, the Act on Prices, the Consumer Protection Act, and the Oversight Rules at the level of the first instance.

In 2016, the Administrative Proceedings Department received 1,168 motions for commencing administrative proceedings. They were motions based on the Office's own findings and motions received from outside sources, including in particular results of investigations conducted by Czech Police.

In 2016, the Administrative Proceedings Department commenced 839 sets of administrative proceedings on suspicion of administrative offences/minor offences. By the service of an order under Section 150(1) of the Rules of Administrative Procedure, 805 sets of administrative proceedings were commenced. By the service of a notice of bringing administrative proceedings under Section 46(1) of the Rules of Administrative Procedure, 34 sets of administrative proceedings were commenced. Most of the administrative proceedings were conducted for breaches of the Energy Act (some 95% of the cases). Section 68(3), Section 23(2)(m) and Section 15a(1) of the Energy Act were infringed most frequently. For breaches of the Act on Prices, 15 sets of administrative proceedings were commenced, for breaches of the Consumer Protection Act, six sets were commenced and for infringing the Oversight Rules, five sets were commenced.

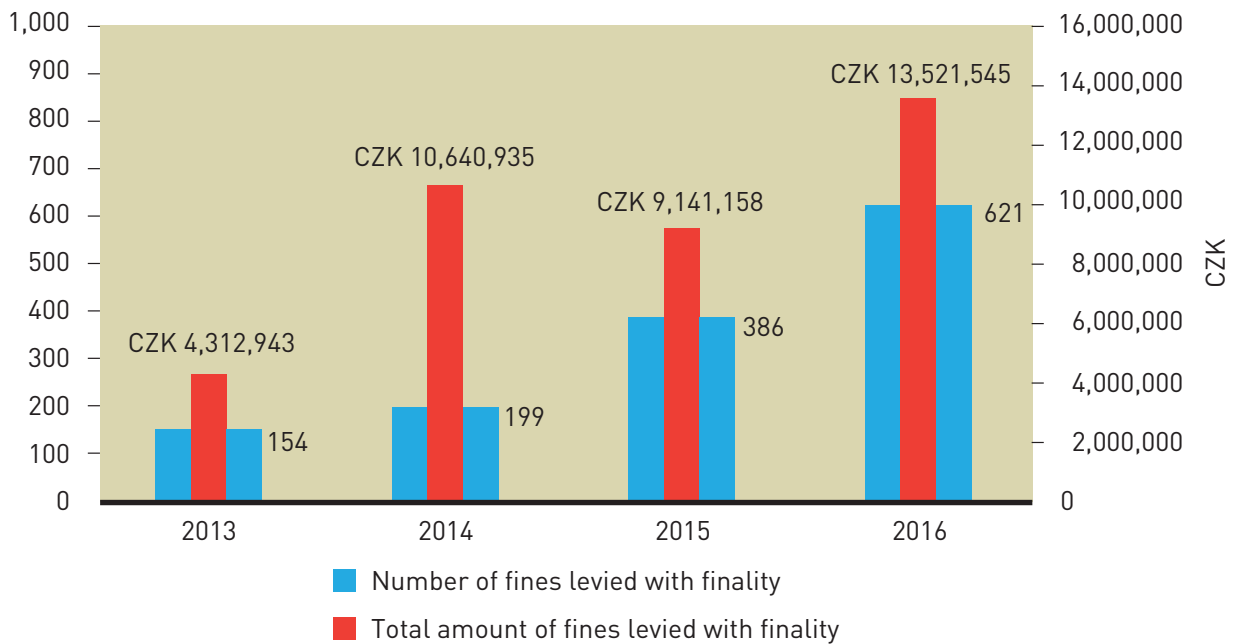
Chart 16 Commenced administrative proceedings under each of the laws



In 2016, parties to proceedings filed protests against issued orders in 200 cases. In 33 cases, they inveighed against the delivered decisions through remonstrance. In these cases the Administrative Proceedings Department drew up observations on remonstrance and referred the matter to the second instance authority for decision.

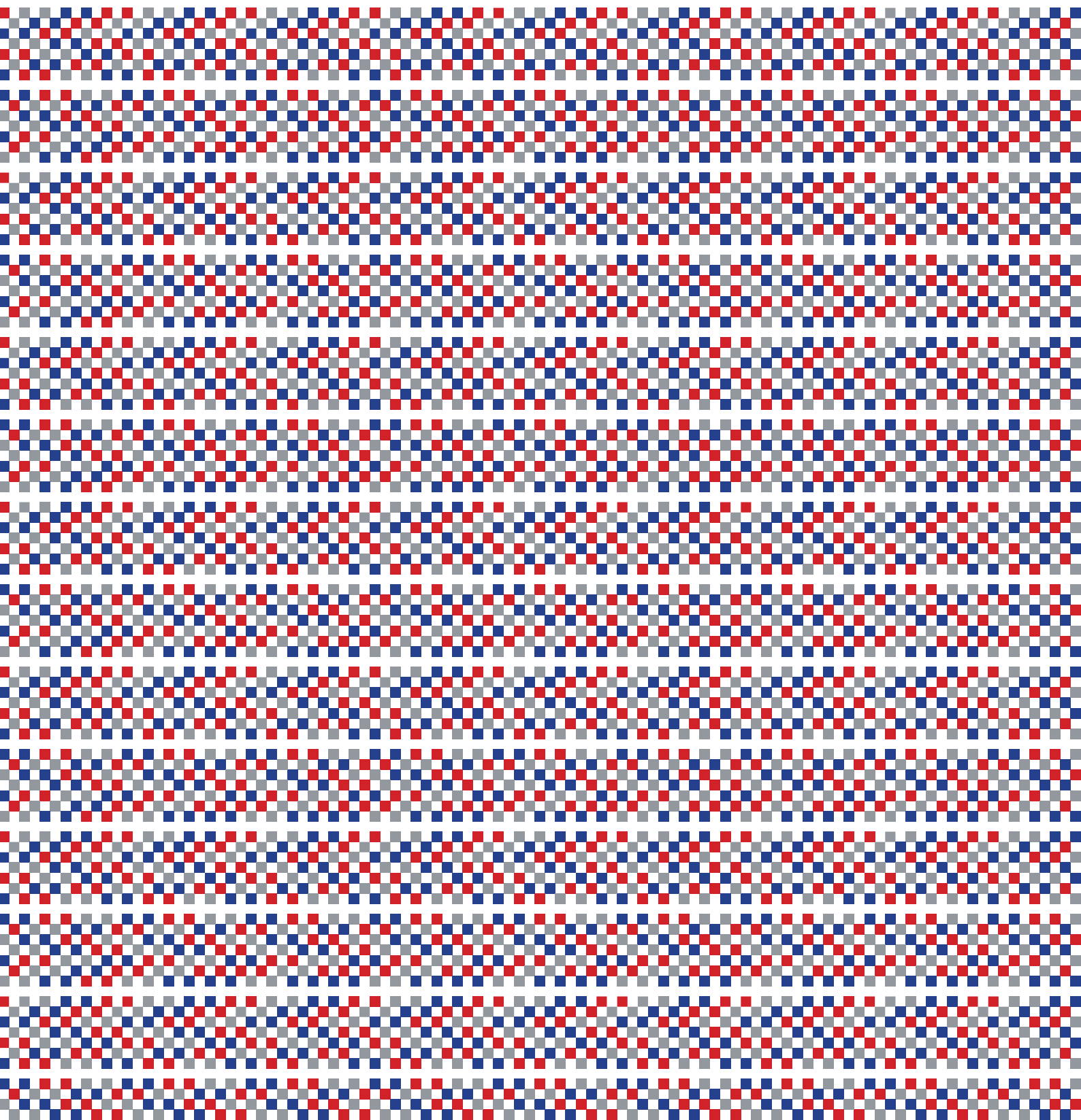
In 2016, the Administrative Proceedings Department concluded 637 sets of administrative proceedings with finality, the result of which was, in 621 cases, fines levied with finality totalling CZK 13,521,545, orders to pay the costs of the proceedings totalling approximately CZK 570,000, and more than 100 remedial measures imposed with finality under Section 18(3)(b) of the Energy Act, consisting in remedying the illegal situation.

Chart 17 Overview of fines levied with finality between 2013 and 2016



The Administrative Proceedings Department is also responsible for compliance with Section 17e(1)(b) of the Energy Act, under which the Office is obliged to publish 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

The Office systematically monitors and evaluates European developments relevant for its operation as the national regulator.

On 30 November 2016, the European Commission presented a package of comprehensive legislative proposals under the title Clean Energy for All Europeans (the package). The package has three main goals: putting energy efficiency first, achieving global leadership in renewable energies and providing a fair deal for consumers. The presented measures are to keep the EU competitive as the clean energy transition is changing the global energy markets.

6.1 European activities

In 2016, the Office's involvement in ACER and CEER working groups focused on continuing work on the relevant issues in the gas industry, electricity industry, REMIT, and consumer protection, related to the development and amendment of European energy legislation and its implementation at the national level, and also on preparing the content of the Clean Energy for All Europeans package.

In line with Article 38 of Directive 2009/72/EC, or Article 42 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 and repealing Directive 2003/55/EC, the Office also closely cooperated with other regulatory authorities to carry out the regulatory assignments with a cross-border element at the regional as well as bilateral level. As regards foreign regulatory authorities, in 2016 the Office most often worked with Bundesnetzagentur (Germany), URE (Poland), ÚRSO (Slovakia) and E-Control (Austria).

The Office continued to promote cooperation with V4 countries' regulatory authorities. At the governmental level, the Office closely cooperated with the Ministry of Industry and Trade, the Ministry of Foreign Affairs and the Office of the Czech Government on joint assignments related to international issues.

6.1.1 The electricity industry

For ERO staff members involved in the activities of the ACER/CEER electricity working groups, 2016 was primarily marked by intensive work on the implementation of network codes for transmission networks. In their respective working groups, the Office's respective technical units actively participated in meetings on preparations for the approval of the network code for grid connection of generators, network code for demand connection, network code on high voltage direct current connections and DC connected power park modules and the framework guideline on forward capacity allocation.

For continuity, in parallel with these processes, work continued on the implementation of the earlier approved network code on capacity allocation and congestion management, with the related processes concerning the conditions or approval of the methodologies required by this Regulation constituting the major part of the departments' work throughout the year. In respect of the activities in working groups, ERO staff coordinate, on a long-term basis, with other entities in the Czech Republic with a view to achieving the maximum possible in promoting Czech interests and minimising the potential negative impacts. ERO staff actively participated in and contributed to these groups through providing, on an ongoing basis, the relevant information, the requested documents, and their own feedback, including *inter alia* active involvement in the monitoring of the XBID Cross-border Intraday Market Project and the related organisation of an international meeting of the project implementation group in Prague in September.

As regards the long-term developments concerning the dangerous level of unplanned electricity flows via the Czech transmission system and the related source of this problem, the German-Austrian bidding zone, ERO staff actively promoted Czech interests, in particular as part of the related talks with ACER, to which national regulators delivered their decision on the matter in May 2016.

6.1.2 The gas industry

Gas working groups primarily focused on monitoring the implementation of network codes in the various countries. As part of their active participation in these working groups, ERO staff prepared questionnaires and subsequently provided the relevant information about the Czech gas market. In 2016, the network code for harmonised natural gas transmission tariff structures was being prepared for approval. The consultations on this document have resulted in respect for the specific nature of the use of the Czech gas transmission system and in minimising the negative impacts on the Czech Republic. Intensive bilateral talks on preparing market integration between the Czech Republic and Austria were under way (for details see point 4.3.1 above). A strategic task with an impact on the gas market in the national as well as the European context was commenting on the materials related to the European Commission's intention to amend the regulation on the security of supply.

In the SSE GRI, projects with regional impacts were re-prioritised. Projects focused on the timely implementation of network codes were removed from the work plan. Instead of those, projects addressing the specific issue of cooperation were prepared and executed. The Czech and Austrian sides continued to discuss and work on the integration of their gas markets; the Slovak TSO, whose existing transmission infrastructure might be used by way of a virtual gas pipeline, was also invited to attend the discussions. The Office also participated in a project focused on analysing licence award in the member states, in a questionnaire assessing the implementation of the third package and in the assessment of gas quality parameters.

6.1.3 Consumers

In respect of consumer protection and the retail market, the Office is intensively involved in the activities in one of CEER's priority areas. CEER pursues the objective of helping the most populated segment of consumers to find their way around the liberalised market, in particular as regards energy prices and the quality of commodity supply.

Of the documents that were prepared within CEER in 2016, we should note the Handbook on Harmonised definitions of retail market metrics, which provides NRAs with guidance on how to use a total of 25 metrics to assess the market environment, including pilots and case studies performed by NRAs, including the ERO. CEER also issued a Report and Position paper on early termination fees and Update of Guidelines of Good Practice on Price Comparison Tools.

CEER's new initiative in respect of consumers and retail is PEER (Partnership for the Enforcement of Energy Rights). PEER promotes a cross-sectoral, cross-authority form of cooperation at EU level under CEER's leadership to boost communication, facilitate exchange of information and reinforce collaboration between the various parties in order to identify and address critical issues related to the rights of energy consumers and their protection.

The Office continued to cooperate with ACER, namely in the preparation of the annual Market Monitoring Report. Within the EU, the Office also works with the NEON network.

6.1.4 Cooperation of Visegrad 4 regulators

One high-level meeting of V4 regulators was held in 2016, specifically in Bratislava on 25 May. The Office headed an expert team of V4 regulators; during 2016, the team was preparing an analysis of both price and non-price aspects of liberalised and regulated markets in V4 countries. The Office also actively participated in the meetings of the V4 Gas Forum.

6.2 REMIT

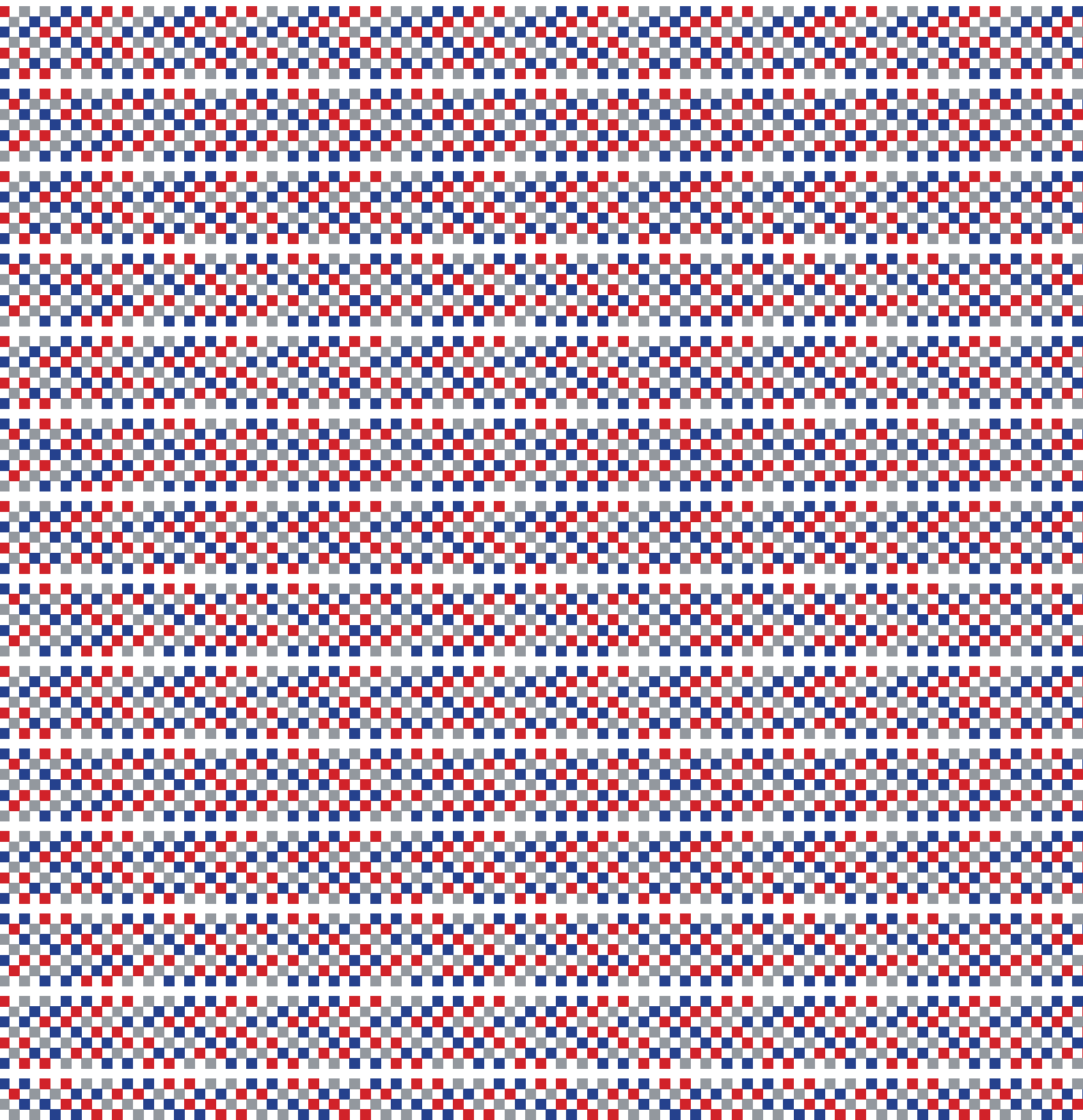
In relation to Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT), the purpose of which is to prevent market abuse, and also to foster open and fair competition as the result of implementing a regulatory framework, the obligation to notify ACER of transactions started as of 7 October 2015 for standard contracts and as of 7 April 2016 also for non-standard contracts. As at 31 December 2016, the CEREMP registration system contained 396 user accounts and 323 market participants.

With a view to providing for continuous exchange of experience between national experts both in market monitoring and in investigating cases of market abuse or other breaches of REMIT a multilateral Memorandum of Understanding was signed; it formalises regional cooperation between the national regulators of Austria, Hungary, Croatia, Slovenia and the Czech Republic.

With regard to the continuing implementation of REMIT, in 2016 ERO staff communicated with market participants, flexibly answered questions and attended thematic workshops. The last workshop took place in Prague on 24 March 2016. It focused on discussions and consultations on the current issues concerning the methods and formats for confidential information publication, data collection by ACER through RRM (Registered Reporting Mechanisms), updating of market participants' particulars in the national register of market participants (CEREMP), the presentation of the ACER Q&A document in Czech, and the facilitation of registration for wholesale energy market entities and subsequent data reporting.

In connection with the application of measures under REMIT, experts continued to work in ACER's standing committee for identifying persons professionally arranging transactions (PPAT) and monitoring their obligations under Article 15 REMIT (such persons shall establish and maintain effective arrangements and procedures to identify market abuse). In order to support NRAs' harmonised approach to wholesale energy market abuse, ACER prepared an internal document, Market Surveillance Strategy, which specifies the fundamental common principles for monitoring and surveillance over wholesale energy markets. It primarily focuses on the efficient and effective allocation of activities between NRAs, ACER and other authorities, reliable data collection from wholesale markets (maintaining, developing and harmonising standards for reporting), development of human resources (knowledge sharing, training) and measures for coordinated procurement of Business Intelligence analytical tools.

7) Internal relations



7) Internal relations

7.1 Cooperation with central state administration authorities and Czech Parliament

Under the Energy Act and other legislation, the Energy Regulatory Office cooperates primarily with the Ministry of Industry and Trade (MPO), the Ministry of Finance, the Ministry of Foreign Affairs, the Office for the Protection of Competition, the Ministry of the Environment, the Ministry of Labour and Social Affairs, the Czech Statistical Office, the State Energy Inspectorate, and other administrative authorities in the energy sector.

In 2016, cooperation with the energy and legal experts of the MPO in evaluating the experience with the application of the Energy Act and the law on supported energy sources as the basic framework creating an environment for energy market players' business continued. The practical application of the laws and the relevant implementing acts was then the basis for drafting amendments to the implementing acts prepared by both the ERO and the MPO.

In 2016, representatives of ERO management provided members of the Economic Committee of Czech Parliament's Chamber of Deputies and the Committee for Economy, Agriculture and Transport of Czech Parliament's Senate with information about the ERO's seminal decisions such as its analysis of support for supported energy sources and about the New Tariff Structure.

In 2016, ERO representatives participated in the activities of the notification working group, to which they delivered all the requested information and opinions within the Office's competences.

An ERO representative also attended the meetings of the Interdepartmental Coordination Group for Fight against Corruption attached to the Office of the Czech Government, where the ERO 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 2016.

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 Act") the Office provides information about its work within its competences. In 2016, the Office received 120 requests for information from applicants for information.

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

Requests (Section 18(1)(a))

Number of requests for information:	120
Handled directly:	120
Referred for handling:	0
Number of decisions to dismiss the request:	24
Number of appeals filed against decisions:	8
Number of complaints under Section 16a of the Act:	3

Other information relevant to the application of this law:

Numbers of requests for information received and handled in 2016 from the perspective of the Office's competences:

Licences:	18
Regulation:	12
Oversight:	11
Legislation and administration:	34
Supported energy sources:	29
Other:	16

The Office largely received requests concerning issues in the legislative and administrative area and in the area of supported energy sources, and also the development of the New Tariff Structure. There was interest in the European Commission's decisions on the notified support for renewable energy sources commissioned in the Czech Republic between 2006 and 2012 and also in capital expenditure on the construction and licensing of photovoltaic plants. The New Tariff Structure in the electricity industry also spurred considerable interest.

The number of requests for information increased in 2016 compared with the number of requests delivered to the Office in 2015, specifically by 41, which warrants the conclusion that Czech citizens' interest in energy rises; the applicants' requests are also becoming increasingly sophisticated in technical terms, which requires cooperation between the Office's organisational units in handling this agenda.

The media

In 2016, the number of consumer-focused texts, which help to enhance the general energy literacy of the country's citizens, increased again. In addition to a new regular column in a nationwide daily newspaper, the Office also placed posts on its Facebook. The large majority of the subjects covered by the ERO Chairwoman's opinions, which are regularly posted on the ERO website, were also consumer focused. The Office also used the traditional media for communicating both hot issues and regular topics in the energy sector with a view to providing information to both lay public and experts. For this purpose, the Office also used invitations to its representatives to a number of conferences and seminars for presenting such issues. The Office organised several press conferences and issued almost 50 press releases in 2016.

Its internal bulletin, *Our Office*, was issued on a regular basis again in 2016.

7.3 Publications

Under the Energy Act, the Office uses the Public Administration Portal to publish the *Energy Regulation Gazette* in electronic form, which is subsequently also posted on the Office's website.

Thirteen issues of the *Energy Regulation Gazette* appeared in 2016. Ten of them carried price decisions: three on electricity prices, three on gas prices and four on support for supported energy sources. Published documents also included information about the levels of electricity and heat production from each of the RES types achieved in 2014, a report on the management of funds in the Energy Regulatory Fund for 2015 and the Fund's budget proposed for 2016, and a report on the level achieved in maintaining electricity transmission and distribution continuity for 2015.

Under Section 10(2) of Act No 526/1990 on prices, as amended, the ERO publishes its price decisions in the *Energy Regulation Gazette*, and under Section (2)(1)(f) of Act No 309/1999 on the Official Gazette and on the Collection of International Treaties, as amended, the Office is, as a price control authority, obliged to publicise, by way of communications in the Official Gazette, the promulgation of regulations on price controls (i.e. price decisions), which have been published in the *Energy Regulation Gazette*. The Office again did so in 2016.

Under Section 17(7)(m) of the Energy Act, the Office published annual and quarterly reports on the operation of the Czech electrical grid and annual and quarterly reports on the operation of the Czech gas system.

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 shall submit, 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 forwarded to the Commission and Agency.

The ERO website was gradually updated again in 2016. A new Reporting subsection was set up in the Heat Statistics section; in the Media section, subsections were consolidated. The Vacancies section was added to the upper menu for better access; in the Information Provision – Fight against Corruption section, a new subsection was set up on Advice, posting summary lists of advisers and advisory bodies (advisory, consulting and other external companies operating on the basis of a mandate or other type of contract, and lawyers and law firms that have in place agreements on the provision of legal services) as a tool enhancing transparency in the public sector. In 2016, in the Electricity section, the New Tariff Structure subsection was set up on a temporary basis; it was continuously filled with latest information until the evaluation of the public consultation process, whereupon there was no longer any reason for its continued existence. At the end of the year, the Office expanded the About the ERO – Organisational Structure section to include a subsection showing contacts for the management and CVs as part of meeting the tasks in the Action Plan of Fight against Corruption for 2016 and the tasks in the ERO Internal Anti-corruption Programme. On the whole, the Office's website expanded in 2016 to include 1,291 new contributions, frequently together with several annexes.

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

BETA2

In the autumn of 2015, the Office joined the new BETA2 programme of public contracts in applied research and innovations for the needs of state administration under the management of the Technology Agency of the Czech Republic (TAČR), which was approved by Czech Government Resolution of 30 March 2016. The objective of the programme is to promote research with a view to developing new or improving current procedures, regulatory mechanisms, and supervisory activities, skills, services, and information and managerial products and procedures intended for better and more efficient performance of state administration. The approved volume of funds to be drawn for the Office's research requirements between 2017 and 2021 was set at CZK 25 million, and furthermore an increased reserve of about 24.26% was approved on top of the total amount of the funds proposed. The amount allocated for ERO projects totals CZK 31,066,200. The complete implementation of public contracts for the purpose of selecting project investigators is the responsibility of TAČR, which subsequently finances the solutions under the projects. Research objectives for the various areas, which were specified in more detail on the basis of additional discussion of the requirements with the ERO's respective technical units, were specified for the ERO under the BETA2 programme:

- R&D in regulatory methodologies in relation to the current situation in the energy market in Europe and in the Czech Republic in the light of the development of distributed generation.
Focus on the electricity, gas and heat supply industries (the Regulation Section);
- Development of a methodology for evaluating the effectiveness of investments in terms of financial ratios, emphasising measurability, conclusiveness and traceability.
Focus on the electricity, gas and heat supply industries (the Regulation Section);
- R&D concerning a software solution for monitoring the retail and wholesale markets in the energy sector.
Focus on the electricity and gas industries (the Regulation Section);
- 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, with a view to putting in place effective policies for spending government funds on housing support.

THETA

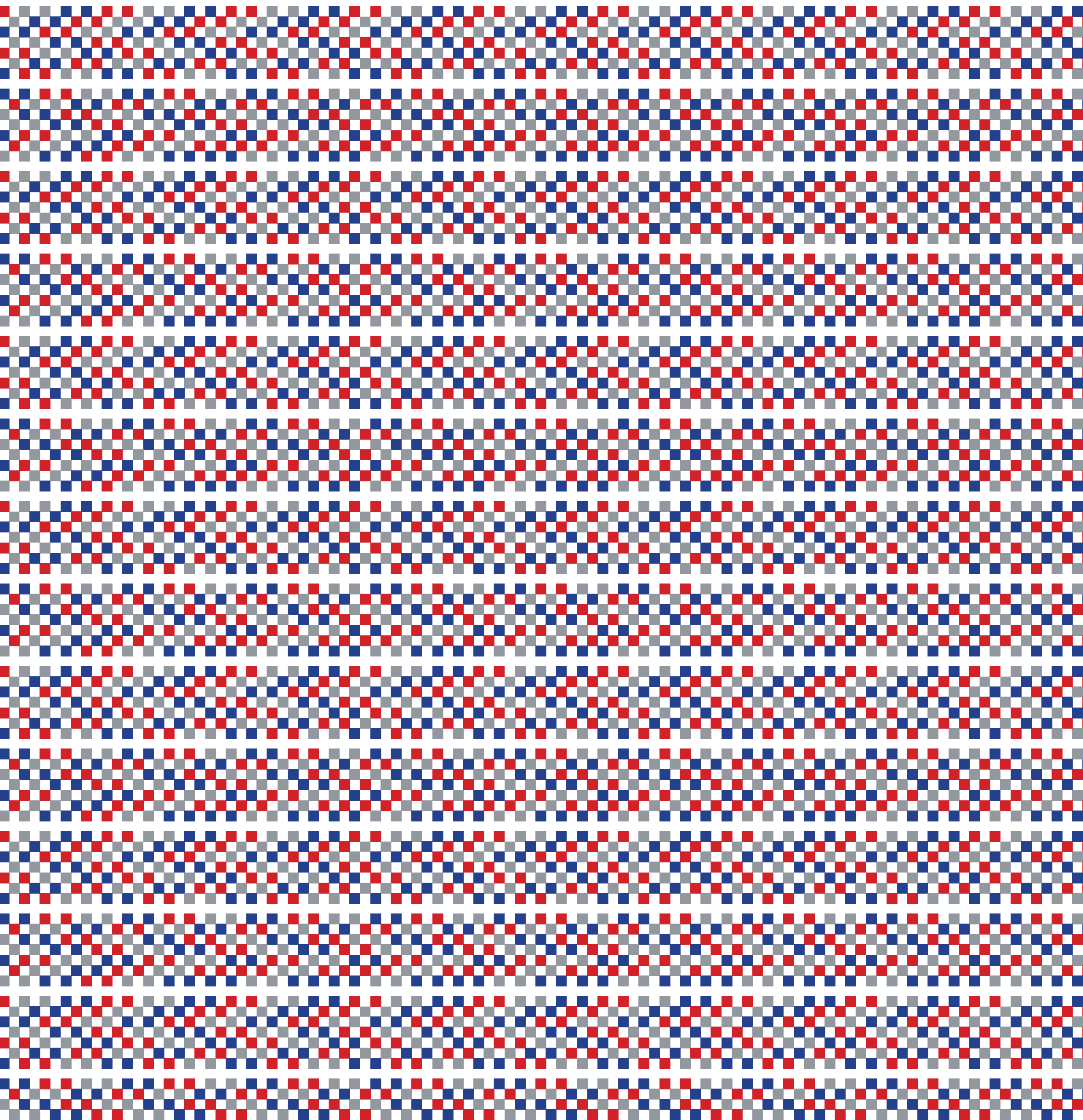
As part of cooperation with TAČR, the ERO, together with the MPO and other stakeholders, participated in the preparations for the new THETA programme in 2016. The origination and orientation of the programme are based on the updated National Energy Policy of the Czech Republic that the Czech Government had approved in May 2015. The underlying idea of the THETA programme is to concentrate support for applied research, development and innovation in energy at 'a one-stop' point. This will help better to track the results of research, development and innovation projects and ensure smooth interlinking between and better coordination of public tendering procedures. THETA will support applied research, development and innovation projects with a view to helping, over the medium and long term, to carry out

the vision of the transformation and modernisation of the energy sector in line with the approved strategic documents. This objective will be achieved under the various sub-programmes geared towards

- support for projects in the public interest,
- new technologies and system elements with a high potential for quick application in practice, and
- support for long-term technology prospects.

THETA was approved by the Czech cabinet on 19 December 2016; the programme is expected to run between 2018 and 2025 and the national budget expenditure on the programme totals CZK 4 billion.

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 400/2015 on the National Budget of the Czech Republic for 2016 of 9 December 2015.

The originally approved ERO budget of total income and expenditure was adjusted for 2016, in the area of expenditure, by one budgetary measure within the Finance Ministry's competence, to amount to CZK 274,779,100 (the budget after changes). The final budget was adjusted by three budgetary measures, which constituted an allowed overstepping of the Chapter's expenditure (by including the claims on unused expenses [NNV]), and one budgetary measure that constituted the tying of expenditure under this chapter, to amount to CZK 294,481,690. In 2016, the Office made nine adjustments to budgeted expenditure. The scope and detailed structure of the budgetary measures are described in detail in the 2016 State Final Account for this Chapter.

8.2 Revenues to the Chapter

For Chapter 349 Energy Regulatory Office, for 2016 *total income* was budgeted at **CZK 297,122,910**; this amount included *tax revenues* of **CZK 286,822,910** and *non-tax revenues* of **CZK 10,300,000**. For 2016, funds under the mandatory indicator 'total income from the EU budget without the common agricultural policy' were not budgeted.

Actual performance as at 31 December 2016 in terms of total income was **CZK 293,471,610**, i.e. at 98.77% of the approved budget for total income and 127.21% compared with the same period of 2015 (an increase in absolute terms of CZK 62,780,140).

In respect of *tax revenues*, as at 31 December 2016 actual performance was **CZK 281,126,500**, i.e. at 98.01% of the approved budget and at 132.14% compared with the same period of 2015 (an increase in absolute terms of CZK 68,385,270). These tax revenues were received on the basis of collecting administrative fees for licence award, change and renewal for entities carrying on business in the energy sector and also, primarily, from the fees paid for the Office's activities.

In respect of *non-tax revenues*, as at 31 December 2016 actual performance was **CZK 12,345,100**, i.e. at 119.86% of the approved budget and at 68.77% compared with the same period of 2015 (a decrease of CZK 5,605,140 in absolute terms). These non-tax revenues were mainly received on the basis of income from levying fines in the energy sector by the Office and other *ad hoc* income.

8.2.1 Administrative fines

In 2016, 537 fines levied in administrative proceedings were paid in full and nine fines were paid partly, the amount totalling **CZK 10,854,520**, down by CZK 6,538,600, i.e. 37.59%, on 2015.

In respect of fines levied with finality, as at 31 December 2016 there were 256 outstanding receivables totalling **CZK 6,769,820**, up by CZK 2,471,030, i.e. 57.48%, on 2015. This increase in the amount of unpaid fines levied with finality was mainly attributable to an increase in their total number in relation to the overall growth in the volume of fines levied by the Office with finality (in 2016, the Office levied 793 fines, and in 2015 it levied 506 fines).

8.3 Expenditure

The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2016 can be seen in Table 7.

Table 7 Total amounts actually drawn – total expenditure for 2016

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total expenditure	294,481,690	226,432,620	76.89
of which:			
capital expenditure drawn	22,360,000	5,072,940	22.69
current expenditure drawn	272,121,690	221,359,680	81.35

8.3.1 Current and capital expenditure savings

In each case of expenditure in 2016, the funds were spent as effectively, economically and efficiently 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 68,049,070**, in particular in the following areas:

- salaries and other personnel expenses, incl. insurance premiums and FKSP CZK 24,200,000,
- programme financing EDS/SMVS CZK 21,876,260,
- ‘other current expenditure’ (w/o EDS/SMVS, salaries) CZK 21,972,810.

These funds can therefore be used for financing the Office in 2017.

Total claims on unused expenses as at 1 January 2017, i.e. savings of **CZK 68,049,070** achieved in 2016, and the balance of claims on unused expenses as at 31 December 2016, amounting to **CZK 50,784,130**, are reported for Chapter 349, in line with applicable legislation, at a total of **CZK 118,833,200**, of which:

- ‘major expenses’ (programme financing EDS/SMVS, funds for salaries) CZK 62,340,140,
- ‘minor expenses’ CZK 56,493,060.

8.3.2 Programme financing

In the system for financing the programmes of asset replacement, for 2016 two programmes were included: programme 149 010 Development and Replacement of the Technical Facilities of the ERO for 2008–2017 (programme 149 010) and programme 149 020 Development and Replacement of the Technical Facilities of the ERO for 2016–2020 (programme 149 020). Each programme consists of two sub-programmes.

The fundamental objective of the programmes 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 sub-programmes 149 011 and 149 012 of programme 149 010. The funds for financing this programme were not budgeted in the approved budget for 2016. The programme was financed by way of using NNV claims in the chapter's budget.

Under sub-programmes 149 021 and 149 022 of programme 149 020, five approved projects have been launched and are being monitored and evaluated. The approved budget for programme 149 020 was set at **CZK 14,400,000** for 2016 and the final budget of expenditure was set at **CZK 31,160,000** and met at 29.79%, with the actual expenditure reported at CZK 9,283,740; in absolute terms, these are savings of CZK 21,876,260 against the final budget of expenditure.

Table 8 shows results for 2016 by sub-programme. In line with the Office's priorities, the largest amount of funds was allocated to IT (sub-programmes 149 011 and 149 021 – ICT) for 2016.

Table 8 Results by sub-programme for 2016

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total, programmes 149 010 and 149 020	31,160,000	9,283,740	29.79
of which:			
Sub-programmes 149 011 and 149 021 – ICT	21,150,000	6,366,880	30.10
Sub-programmes 149 012 and 149 022	10,010,000	2,916,860	29.14

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 and 149 021 sub-programmes 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.

The following ICT activities were carried out in 2016:

- The project for linking the Integrated Information System to the Contract Register, which was completed on time, and the Office thus met its statutory obligation.
- A recertification audit under ČSN ISI/IEC 2007:2013 was successfully completed at the Office. The certification authority CQS carried out the audit in the Prague and Jihlava 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).

Furthermore, projects for modifications to the Integrated Information System were being prepared for implementation at a total cost of CZK 5,800,000; the modifications reflect legislative changes mainly in respect of the filing service, archiving, and secure data storage and access thereto. These projects were approved in late 2016 and will be implemented in 2017.

8.3.3 Expenses on business trips abroad

In 2016, ERO employees went on 167 business trips abroad (the figure was 192 in 2015), which included participation in the meetings of the working groups/task forces of CEER, ACER and regional initiatives, international meetings, meetings with representatives of partner regulatory authorities, and in conferences and study and language courses in line with pursuing the ERO's mission as regards international cooperation and its involvement in the activities of international bodies.

Expenses on business trips abroad totalled **CZK 3,530,710** in 2016 (versus CZK 4,623,770 in 2015). Compared with 2015, the number of business trips abroad decreased by 13%. Total costs dropped by 24% compared with the previous year, with a significant decrease in expenses per trip abroad by 12%.

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 118,240.

For the payment of the 2016 membership dues (budget item 5532 – other non-investment transfers to abroad) in CEER (CZK 894,960 = EUR 32,939) and in NEON (CZK 138,400 = EUR 5,094), **CZK 1,033,360** was spent as at 31 December 2016.

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

Section 39(3) of Act No 218/2000 on budgetary rules and amending certain related laws, as amended, requires the chapter administrator to continuously monitor and evaluate the economy, efficiency and effectiveness of spending under the chapter that it administers. Having the above obligation, the Office therefore regularly evaluates the spending of the budgetary funds in its chapter on the basis of regular quarterly reports on financial management and summary annual evaluations. The Office also prepares, as needed, analyses of selected income and expenditure budget items on an ongoing basis. On the basis of these documents the Office evaluates the past period, carries out its decisions, and determines measures for its further development.

Under the relevant legislation the Office evaluates the criteria of the economy, efficiency and effectiveness 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. These are reviews carried out under Act No 320/2001 on financial control in public administration and amending certain laws (the Financial Control Act), as amended, and the Ministry of Finance relevant implementing regulation no. 416/2004, which implements Act No 320/2001, the Financial Control Act, as amended).

Public contracts were carried out by the contracting authority (the Energy Regulatory Office) in compliance with applicable legislation, i.e. under Act No 137/2006 on public contracts, as amended, and since 1 October 2016 under Act No 134/2016 on public procurement, as amended, and under the internal directive on the procedure for awarding low-value public contracts and other regulations concerning public procurement.

A total of 39 public contracts were carried out (off the regime of the above Act(s)) in the area of low-value public contracts in excess of the limit of CZK 100,000 without VAT, in 2016. Suppliers responded by two bids per public contract on average as regards public contracts for supplies and services. The financial savings in the case of these public contracts have been quantified in relation to the set expected value, at more than CZK 1,251,000 w/o VAT. Of the above number, five public contracts were cancelled upon the contracting authority's decision or because no tender was submitted.

In 2016, the contracting authority also participated in centralised procurement organised in the ICT area by the Ministry of the Interior.

In the regime of the Act, one above-threshold public contract awarded in a restricted procedure was carried out in 2016. The public contract was started in 2015 and was cancelled, in accordance with the Act, for objective reasons on the part of the contracting authority, which included, *inter alia*, an assessment of the contracting authority's current requirements taking into account the effectively available options for the required solution.

At all stages of the award procedure, the contracting authority applies the principle of economy, efficiency and effectiveness. This specifically entails a precise specification of the object of the public contract and the technical and commercial conditions at the preparatory stage. The contracting authority also prefers evaluating tenders by their economic benefits in all cases where it is appropriate in relation to the object of the public contract. Thus, it assesses the value for money, which is ensured by following the above principles. For running award procedures the contracting authority consistently uses electronic tools, which in the case of the Office include the contracting authority's profile, the e-market and the system of publication in the Information System for Public Contracts (the *Public Contract Gazette*). The contract documents are then published under Act No 340/2015 on special conditions for the effect of certain contracts, the publication of such contracts and the Contract Register.

In the case of low-value public contracts the Office prefers open calls, which provide all suppliers with unrestricted access to the published specification documents. Thus, competition is not restricted in any way and the result is effectively spent public funds. This procedure was used in 70% of the contracts that were carried out.

Table 9 Comparison of actual expenses under Chapter 349 Energy Regulatory Office, for the period 2011–2016

Item	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Index 16/15
Total expenses	111,291	168,384	177,125	194,074	217,982	226,433	103.88
of which:							
- Salaries, other payments, insurance premiums and FKSP	66,334	102,855	118,584	137,273	157,284	172,573	109.72
- Expenses on the asset replacement financing programmes	20,811	30,052	25,919	21,425	21,483	9,284	43.22
- Total other expenses	24,146	35,477	32,622	35,376	39,215	44,576	113.67
of which:							
- Allocations to the Reserve Fund (RF)	0	0	0	0	0	0	0
- Other expenses w/o RF	24,146	35,477	32,622	35,376	39,215	44,576	113.67
- Use of claims on unused expenses	7,395	6,306	7,496	5,117	5,349	11,394	213.01
Expenses on salaries and other payments for work	49,449	76,360	88,067	101,854	116,700	127,094	108.91
Salaries to employees under employment contracts and employed civil servants, incl. Chairperson	47,401	75,356	85,881	99,175	114,701	125,189	109.14
Staffing levels (FTE)	105	162	190	217	239	247	103.35
Average monthly salary	37,620	38,764	37,667	38,085	39,993	42,236	105.61
Payroll and social costs per employee	632	635	624	633	658	699	106.23
Programme financing costs per employee	198	186	136	99	90	38	42.22
Other expenses per employee	230	219	172	163	164	180	109.76
Total expenses per employee	1,060	1,039	932	895	912	917	100.55

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 2016:

Personnel management agenda

In the budget approved for 2016, the ERO staff headcount was set at 294. During the year, a change of the system of scheduled positions was approved with effect from 1 July 2016 and the number of scheduled positions was increased by three to 297 positions. This change was motivated by the effort to put in place the preconditions for switching the Office over to the new system of governance in 2017, when the ERO Board would be set up. On a temporary basis, the positions of the Chairwoman of the Office and four Vice-Chairmen (as of 1 August 2017 these positions will be used for setting up the five-member ERO Board) and the positions of section heads, which were being gradually filled, existed in parallel.

The main task for 2016 was to carry out the new activities and duties under Act No 234/2014 on civil service, as amended, primarily consisting in follow-up activities related to transferring the Office's current employees to the civil service mode. This was a whole process of running new competitions for filling the positions of superiors, both in the positions of section heads and,

primarily, in the positions of heads of departments and units. In many cases, the entire process had to be repeated owing to managerial personnel leaving and other personnel changes.

The area of 'examinations of officials' was also very extensive: because of the structure of ERO staff, 84 persons who had assumed a civil service position had the obligation to pass the general part of the officials examination by 30 June 2017. In 2016, this obligation was met by 82 civil servants. The ERO organises examinations in the 'Services 37 – Energy' field not only for the ERO but for the whole state administration. In 2016, examinations of officials could be taken on eight dates, during which 18 ERO civil servants and 9 civil servants from other authorities passed the whole officials examination successfully.

The whole area of administrative arrangements required to achieve compliance with the Civil Service Act is totally disproportionate and untenable in terms of administration and time. It is extremely complicated to find suitable candidates; the reasons include the demanding nature of regulations and knowledge as well as the practical impacts of the Civil Service Act on new staff. In addition to the financial aspect, the challenging examinations of officials are also a problem.

Education and training

Because of the expanding agendas, a larger number of new staff, and professional training of staff in connection with Act No 234/2014, as amended, a larger number of training programmes had to be carried out, also beyond the scope planned for 2016. Considerable amounts were again spent on staff education and training, specifically CZK 3,831,310 (of which: expense item 5167 – training and education services, CZK 3,661,310, item 5021 – other personnel expenses, CZK 40,000, item 5169 – other services, CZK 44,530, item 5176 – conference fees, CZK 85,470). Total expenses on education therefore accounted for 3.06% 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 2015 (a share of 3.36%, the amount was CZK 3,849,890).

Education and training can be categorised as follows:

Initial training

a) Introductory initial training

- 64 staff members went through introductory initial training.

b) Continued initial training

- 19 staff members subsequently went through continued initial training.
- A total of 82 ERO civil servants passed the general part of the examinations of officials:
 - 18 ERO civil servants passed them in the field of 'Services 37 – Energy'
 - 2 civil servants in 'Services 29 – Legislation and Legal Services'
 - 1 civil servant in 'Services 78 – Organisational Matters of Civil Service and Management of Civil Service Relationships of Civil Servants, Members of Security Forces and Professional Soldiers'
 - 1 civil servant in 'Services 43 – Consumer and Market Protection'
 - 1 civil servant in 'Services 46 – Public Investment and Public Procurement'

Advanced training

a) Advanced managerial training, education for superiors

13 staff members in managerial positions and persons holding superior positions at the Office went through advanced managerial training.

b) Language training for staff members

For 2016, 108 scheduled positions were specified for which knowledge of one world language was prerequisite qualification. On 1 November 2016, this number was markedly reduced to 38 scheduled positions. Selected staff members who represent the Office and deal with foreign counterparties attended intensive English courses abroad in 2016.

Table 10 Staff members' command of languages as at 31 December 2016

	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	2nd level	3rd level	4th level	
English	36	2			38
German					
French					
Total	36	2			38

c) Other advanced training covered the following:

- training in Act No 500/2004,
- training in energy basics for licensed business lines – *Energy in a Nutshell*,
- the concept of lapse in rules of administrative procedure,
- criminal liability of officials,
- selected accounting issues and the current tax and accounting legislation in 2016,
- training in Act No 255/2012 on oversight (oversight rules),
- training in Act No 134/2016,
- training in Ethics and Anti-corruption Measures,
- training of staff members for the general part of the examinations of officials,
- other ongoing training courses structured by issues and arising from legislative changes.

A total of 126 training events were held, which is slightly less than in 2015; nevertheless, the equivalent of 917 persons were trained (in 2015 the figure was 907).

The structure of staff education, training and professional development in 2016 is shown in Table 11:

Table 11 Structure of education and training expenses

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
Amount	941,890	2,889,420	3,831,310

CZK 941,890 was spent on language training, which was slightly less than in 2015 (CZK 1,279,090). CZK 196,200 and CZK 745,690 were allocated to language courses in other countries and in the Czech Republic, respectively. Spending on other education was higher than in 2015 (CZK 2,570,800). Of the CZK 2,889,420 drawn in 2016, the following fields of education took the largest amounts: *Energy in a Nutshell*, which took place in three courses and cost a total of CZK 1,434,460, *Criminal Liability of Officials*, CZK 169,400 and *Retraining: Staff in the Liberalised Energy Sector*, CZK 101,640.

Staff

The approved budget for 2016, in respect of the 'mandatory standard target' of 'salaries for staff and other payments for work', was at a level of **CZK 142,279,370**. The final budget was CZK 145,230,540 and was met at a level of 87.51%, i.e. **CZK 127,093,920**; of this, the 'mandatory standard target of salaries for employees under employment contract except staff in civil service positions', with an approved budget of **CZK 28,861,920** and a final budget of CZK 30,661,920, was met at a level of 83.92%, i.e. **CZK 25,731,020**, the 'mandatory standard target of salaries for staff in civil service positions under the Civil Service Act', with an approved budget of **CZK 109,277,930** and a final budget of CZK 110,429,100, was met at 88.55%, i.e. CZK 97,783,030, and the 'mandatory standard target of salaries for staff derived from those of constitutional officials', with an approved budget of CZK 1,824,000 and a final budget of CZK 1,824,000, was met at a level of 91.81%, i.e. **CZK 1,674,680**.

An average salary of CZK 39,672 was planned for 2016 (on the basis of the approved budget). The actually achieved average salary was CZK 42,236, index 106.46%. A year-on-year comparison of the actually achieved average salary indicates the 2016/2015 index at 105.61%, with annual inflation at 100.7%.

As regards expenses on other payments for work (subgroup of items 502), the following amounts were paid:

– Item 5021, other personnel expenses: **CZK 1,905,190**

In 2016, the average number of FTE staff was **247** while the planned number was 294 (the approved budget), i.e., the plan was met at 84.01%. Compared with 2015, this was 8 persons more. The average planned number of FTE civil servants (calculated on the basis of the approved budget), 234, was met at 81.2%, i.e. 190, and the average planned number of FTE employees under the Labour Code (on the basis of the approved budget), 60, was met at 95%, i.e. 57.

The actual number of staff members registered as at 31 December 2016 was 254 while the plan had been 294 (approved budget). This was 19 persons more than the staffing level as at 31 December 2015. The planned actual number of civil servants under the Civil Service Act, 234 as at 31 December 2016, was met at 83.76%, i.e. 196 civil servants; the planned actual number of employees under the Labour Code, 60 as at 31 December 2016, was met at 96.67%, i.e. 58 employees.

The entire 2016 saw repeated recruitment procedures with a view to filling scheduled vacancies. However, the Office repeatedly came across certain problems arising from the applicable provisions of the Civil Service Act. The impacts of the application of the Civil Service Act added to the already well-known problem and the factor of the 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 whole system entailing the manner of acceptance, the fixed-term contracts, the duty to pass examinations in various service disciplines, and the related salary category are not acceptable for new candidates. 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 Act, of which regulatory authorities had been repeatedly warning during the course of the drafting and passing of the Civil Service Act, are beginning to be felt to the full extent in practice.

Despite the large number of repeated recruitment procedures in 2016 a number of vacancies were not filled by suitable candidates; in practice, this situation is causing serious operating problems in some specialised units. By 30 June 2016, 53 recruitment procedures had been called ("new competition" under Section 188(6) of the Civil Service Act): 18 department heads, and 35 unit heads. Of these, 52 recruitment procedures were completed. In 2016, 144 recruitment procedures for civil service positions and 36 recruitment procedures for employment positions were also called and carried out.

For 2016, the Office did not receive the required number of scheduled positions, and it primarily had to address the activities governed by the Civil Service Act by way of using scheduled positions out of the approved increased number of scheduled positions (a total of 40). The transfer of the inspection competence for supported energy sources from the State Energy Inspectorate in connection with Act No 131/2015, as amended, was not finalised. In 2016, the Office therefore repeatedly requested the Ministry of Industry and Trade (MPO) and also the Ministry of Finance to complete the transfer of the respective agendas, both in the financial part of the budget and in respect of scheduled positions. However, all the repeated talks failed due to the MPO's dismissive attitude.

Because of the above problems with filling civil service vacancies, caused by the impacts of certain provisions of the Civil Service Act, the Office reconsidered the timing of the need for an increase for 2016 and suggested deferring additional increases in the number of scheduled positions to future years and to spread agenda rollout over a period of time. For illustration, this concerned another 38 scheduled positions as of 2017 and also another 46 scheduled positions as of 2018. For 2016 to 2018 in aggregate, an increase by 124 scheduled positions was requested; of this, in respect of the transfer of the supported energy sources agenda from the State Energy Inspectorate 75 scheduled positions.

In 2016, the Office had to continue using 'agreements to complete a job' and 'agreements to perform work' for the performance of work where allowed by legislation (mainly in relation to the Civil Service Act) and had to employ another 24 persons using 'agreements to complete a job' and 'agreements to perform work' (as at 31 December 2016).

Because of all of the above facts the Office is filling vacant scheduled positions only with great difficulties. The Office has very appreciably felt the labour market situation and the general shortage of university-educated workforce skilled in engineering disciplines. This is a problem in all places where the Office has its offices. Language requirements are also playing a role. At the end of 2016, the Office therefore subjected its language requirements to a comprehensive review in order to mitigate the challenging requirements placed on a number of scheduled positions. Thus, of the earlier 108 scheduled positions with language requirements for qualification, only 38 scheduled positions in the most exposed posts have remained.

The Office is satisfying its most urgent needs in terms of both the number and qualifications of staff in its various organisational parts with great difficulties and only gradually. However, for the above reasons, the Office has to repeat a number of recruitment procedures, and it therefore often takes quite a long time before eligible candidates for vacancies are found. As noted last year, 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.

Of the overall number of 254 staff members as at 31 December 2016, 79 worked in Jihlava, 91 in Prague and 84 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 specialised units, of the total of 297 scheduled positions (after the increase as of 1 July 2016), 64 were assigned to the ERO Chairwoman's, First Vice-Chairman's and audit section, 47 to the Regulation Section, 37 to the Legislation and Administration Section, 36 to the Supported Sources Section, 27 to the European Affairs and Strategy Section, 38 to the Operations Section, and 48 to the Inspection Section. For more details see Appendix 2 Organisational structure of the Energy Regulatory Office as at 31 December 2016.

The percentages of men and women are balanced but the trend of increasing numbers of women is gaining strength, among other things because of salaries. At the level of superiors and managerial personnel, of the total of 67 planned positions 61 were filled, 19 of them by women, i.e. 31.15%, as at 31 December 2016.

Organisational activities

As the preceding year, 2016 was very extreme in terms of organisation. In connection with the application of the Civil Service Act some of the internal regulations had to be amended, and new internal service regulations had to be drawn up due to this law. Thus, 43 internal regulations were issued during the year; 38 of them were the ERO Chairwoman's measures required for the running of the Office, 3 were ERO Chairwoman's decisions on the organisational structure of the Office, and 2 were clarifying guidelines to improve and standardise the procedures followed by the Office's specialised units.

8.5 Cash funds

There were no transfers from cash (own) funds to revenues of Chapter 349 in 2016.

The Fund of Cultural and Social Needs (FKSP) was continuously accumulated and used in line with the relevant regulations. As at 31 December 2016, the Office's FKSP account held CZK 407,510.

The Reserve Fund posts zero as at 31 December 2016.

8.6 Assets, receivables and liabilities

As at 31 December 2016, the Office **held assets valued CZK 197,029,070** at acquisition cost and carried at a book value of **CZK 70,724,840** following accumulated depreciation. In 2016 the total value of assets at acquisition cost increased by CZK 2,913,000 on 2015.

As at 31 December 2016, **receivables totalled CZK 11,887,880**. In this amount, the largest part is CZK 7,479,100 in fines levied in administrative proceedings arising from checks of energy business entities as to their compliance with applicable law and the ERO price decisions effective in the year subjected to review. This amount also includes operating advance payments to suppliers amounting to CZK 447,210, prepaid expenses of CZK 3,960,900 and receivables from employees of CZK 670. As at 31 December 2016, the Office did not record any trade receivables.

As at 31 December 2016, **liabilities totalled CZK 63,493,400**. They mainly included liabilities to employees, liabilities under social security and health insurance, and income tax liabilities related to employees, totalling CZK 16,907,450 and arising from wage accounting for December 2016; the wages were paid on the payday. Liabilities also included the Energy Regulation Fund, CZK 45,444,390, prepaid expenses of CZK 1,076,200, the balance in the payment card account with ČSOB, a.s. of CZK 590, and recognition of the allocation to the FKSP Fund for 2016, amounting to CZK 126,710. The Office had no liabilities to suppliers; suppliers' invoices received by the Office before the end of 2016 were paid. A credit note of CZK 61,940 was not paid (it was paid on 2 January 2017). The Office had no overdue liabilities as at 31 December 2016.

8.7 Meeting of mandatory targets

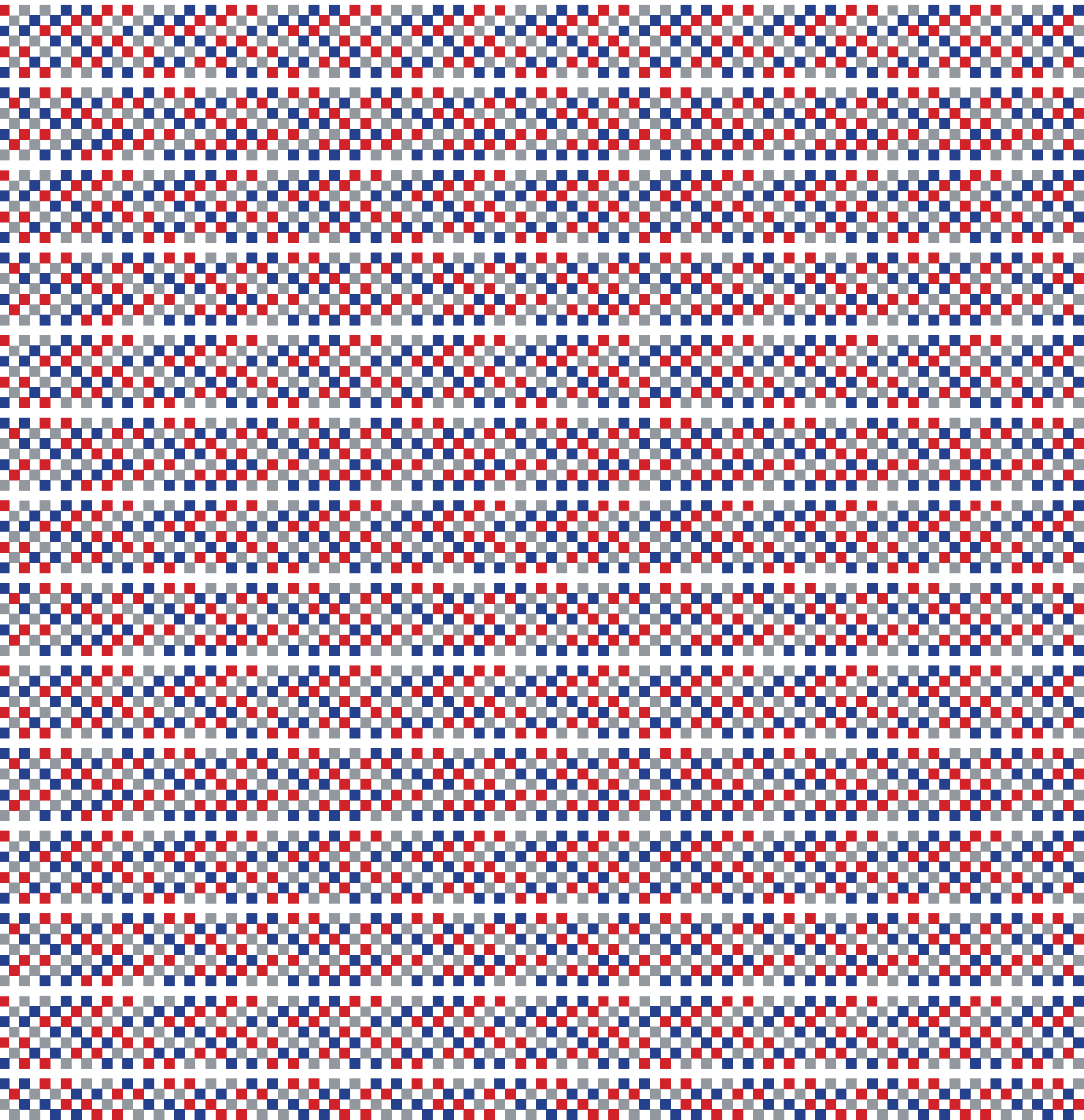
The Office complied with all the mandatory targets. The planned amount of funds was not exceeded under any of the mandatory targets without approval, see Table 12.

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 2016, including the spreadsheets.

Table 12 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	297,122,910	297,122,910	x	293,471,610	98.77
Total expenditure	273,219,270	274,779,100	294,481,690	226,432,620	76.89
Specific targets – income					
Tax revenues	286,822,910	286,822,910	x	281,126,500	98.01
Non-tax revenues, capital revenues and accepted transfers	10,300,000	10,300,000	x	12,345,100	119.86
of which: income from EU budget w/o CAP, total	0.00	0.00	x	0.00	0.00
other non-tax income, capital revenues and accepted transfers	10,300,000	10,300,000	x	12,345,100	119.86
Specific targets – expenditure					
Outlays to support the ERO's tasks	273,219,270	274,779,100	294,481,690	226,432,620	76.89
Standard targets					
Salaries for employees and other payments for work	142,279,370	143,430,540	145,230,540	127,093,920	87.51
Salaries for employees under employment contract, except for civil servants	28,861,920	28,861,920	30,661,920	25,731,020	83.92
Salaries for civil servants under the Civil Service Act	109,277,930	110,429,100	110,429,100	97,783,030	88.55
Salaries for employees under employment contract derived from salaries of constitutional officials	1,824,000	1,824,000	1,824,000	1,674,680	91.81
Statutory insurance premiums paid by the employer	48,394,990	48,786,390	49,398,390	43,594,600	88.25
Allocation to the Fund of Cultural and Social Needs (FKSP)	2,099,460	2,116,730	2,143,730	1,884,130	87.89
Arrangements for crisis situations under Act No 240/2000	0.00	0.00	0.00	0.00	0
Total outlays co-financed completely or partly 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	14,400,000	14,400,000	31,160,000	9,293,740	29.79

9) Internal oversight system



9) Internal oversight system

9.1 External inspections

No external inspection was carried out at the Office in 2016.

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. It carries out the specific function of support for designated managerial tiers of the Office as an independent verification, assessment and advisory element that provides objective information for the efficient management of processes and operations inside the Office and technical consultations mainly on financial control and public procurement, on the assessment of the internal oversight system and on file service management.

In 2016, the Internal Audit Unit was not given any assignments conflicting with the independent pursuance of the tasks set for it or impairing its independence.

The Internal Audit Unit operated on the basis of the annual internal audit plan approved by the ERO Chairwoman, and *ad hoc* assignments comprising extraordinary audits and reviews.

The audit actions mainly emphasised compliance with legislation and service 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 effectiveness of public spending on the Office's operations and performance. The audit actions also focused on assessing the timely and reliable nature of information about the treatment of public funds and validating the operations and processes carried out across the Office, on bookkeeping as to its accuracy, conclusiveness and completeness, on adherence to the procedures for public contract award and implementation, on information security (ISMS), on the licensing process in energy industries and on the process of meeting the requirements arising from the Labour Code and the Civil Service Act. Extraordinary audits and reviews focused on personnel management, the process of supervision in the energy industries within the Office's competences and on ICT services. Audit and review actions also checked and evaluated the carrying out of the measures adopted on the basis of recommendations from audits in the preceding period.

Performance audits checked the efficiency, reliability and adequacy of the internal oversight system. Management inspections assessed the operating, financial, legal and other risks related to the implementation of the Office's plans and objectives.

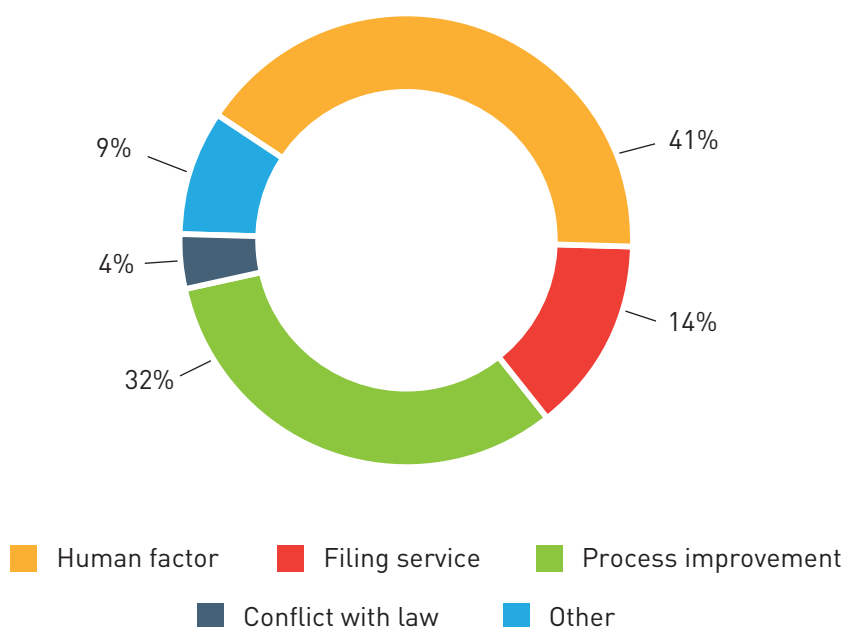
A total of seven planned audit actions, one planned inspection and five *ad hoc* audit actions at the level of extraordinary audit actions and reviews were carried out in 2016.

On the basis of the audits and reviews, 22 recommendations were put forth for eliminating the shortcomings identified. All recommendations were accepted by the audited parties, approved by the ERO Chairwoman, and translated into specific and targeted measures with deadlines.

The measures were most frequently directed towards risk prevention, improvements in the management of the Office’s operating, organisational and financial activities, enhancing the efficiency of the management and oversight mechanisms, protection of public funds, and improvements in the performance, processes and procedures in the operations of the Office. The particular findings of the audits and reviews did not have any impact on the working of the system as a whole.

Internal Audit’s findings have contributed to the more efficient working of financial management and compliance with generally applicable and internal regulations. The internal audit actions and reviews also showed that the identified shortcomings did not have a systemic nature.

Chart 18 Types of remedial measures in 2016



The performed internal audit actions and reviews did not identify any serious deficiencies within the meaning of Act No 320/2001, as amended. No serious deficiencies were found such as would adversely affect the Office’s activities, including deficiencies in the working of the internal oversight system impairing financial performance in the Office’s activities.

No serious deficiencies such as suspicion of minor or criminal offences were identified. No circumstances allowing the incidence of corruption or fraud were registered. Off audit, the annual evaluation of the ERO Internal Anti-corruption Programme was carried out and an annual report was drawn up on its running and on the remedial measures adopted.

Internal Audit draws up a Report on the Results of Financial Controls for the respective year for the Ministry of Finance, in line with the above Act and the relevant implementing act.

The Office has in place an adequate and functioning internal oversight system; 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, and allocates

responsibilities of managers and superiors as part of each of the operations through multi-tier approval and collective decision-making. It publishes the outcomes of its decision-making and over CZK 50,000 contracts in the Contract Register under Act No 340/2015 on special conditions for the effect of certain contracts, the publication of such contracts and the Contract Register, as amended, 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, and it has taken additional steps required for maintaining and checking the efficiency of the internal oversight system, and for ensuring the functioning of management inspections and internal audit.

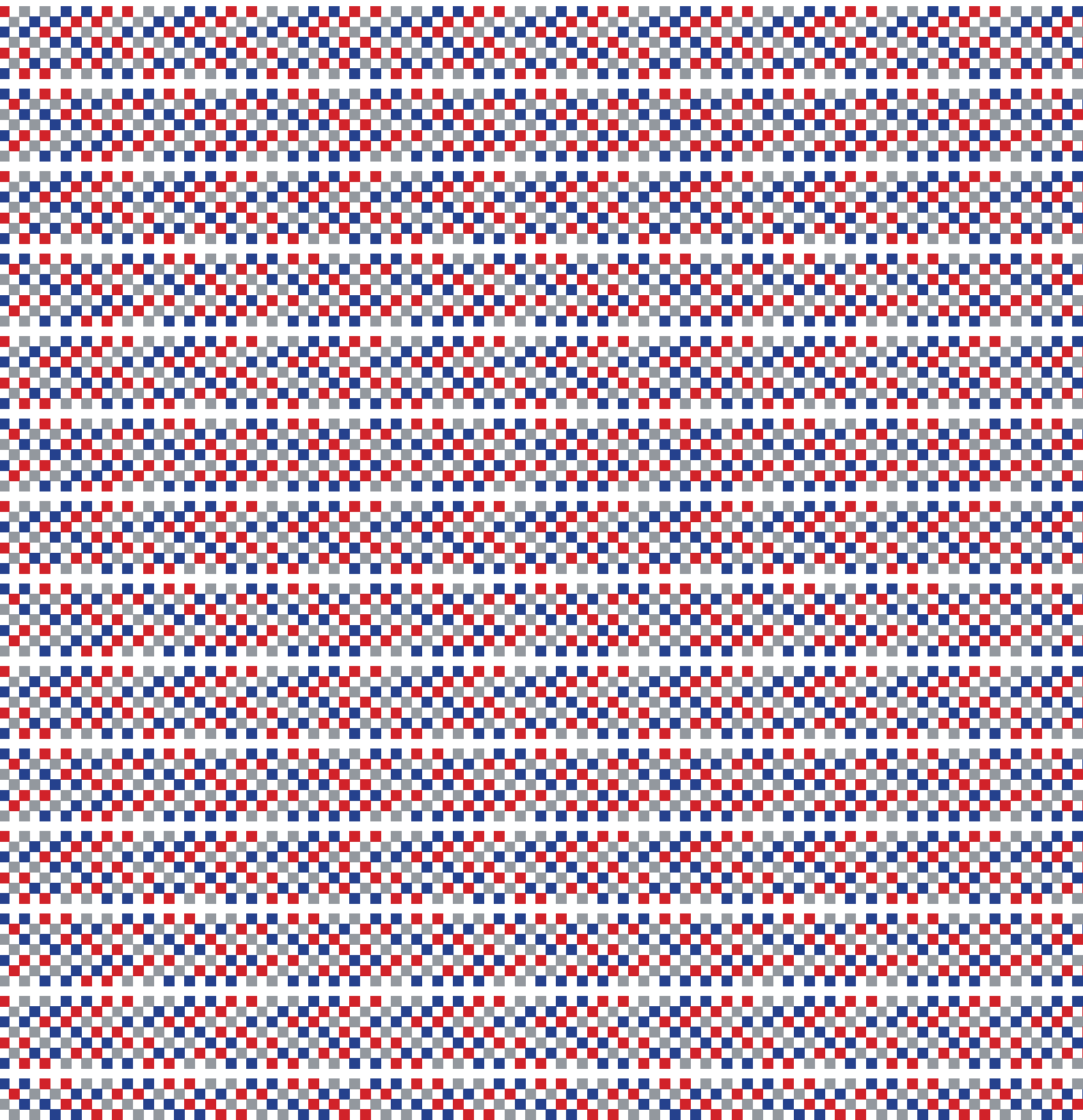
Management inspections are carried out, as part of internal management at the Office, by managers and superiors in the process of preparing financial operations before the approval thereof and during the ongoing monitoring of the operations being executed, until the final settlement of and accounting for such operations, and during *ex post* checks of selected operations as to the results achieved and accuracy of financial management.

The process of management and review mechanisms is set out in the Office's internal and service regulations. These are a set of organised, formalised and permanent tools and measures that have been put in place in the Office to achieve the set objectives while following the 3E principles (economy, efficiency and effectiveness).

The efficiency and focus of financial controls and their contribution to the promotion of the proper management of public funds and property increased in 2016.

To conclude, the internal oversight system in place is sufficiently efficient, responds on time to changes in economic, legal, operating and other conditions, and provides reasonable assurance that 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

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

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

I have examined the fund established pursuant to the Section 14 of the Act No. 458/2000 Coll., on the Conditions for Business and State Administration in the Energy Industries and on Amendments to Certain Laws (hereinafter, the "Energy Act") as amended, and its alignment in relation to the financial statements. The examination has been performed in compliance with the International Accounting Standards and it has covered the period of the year of 2016.

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 2016.

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 2016

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

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

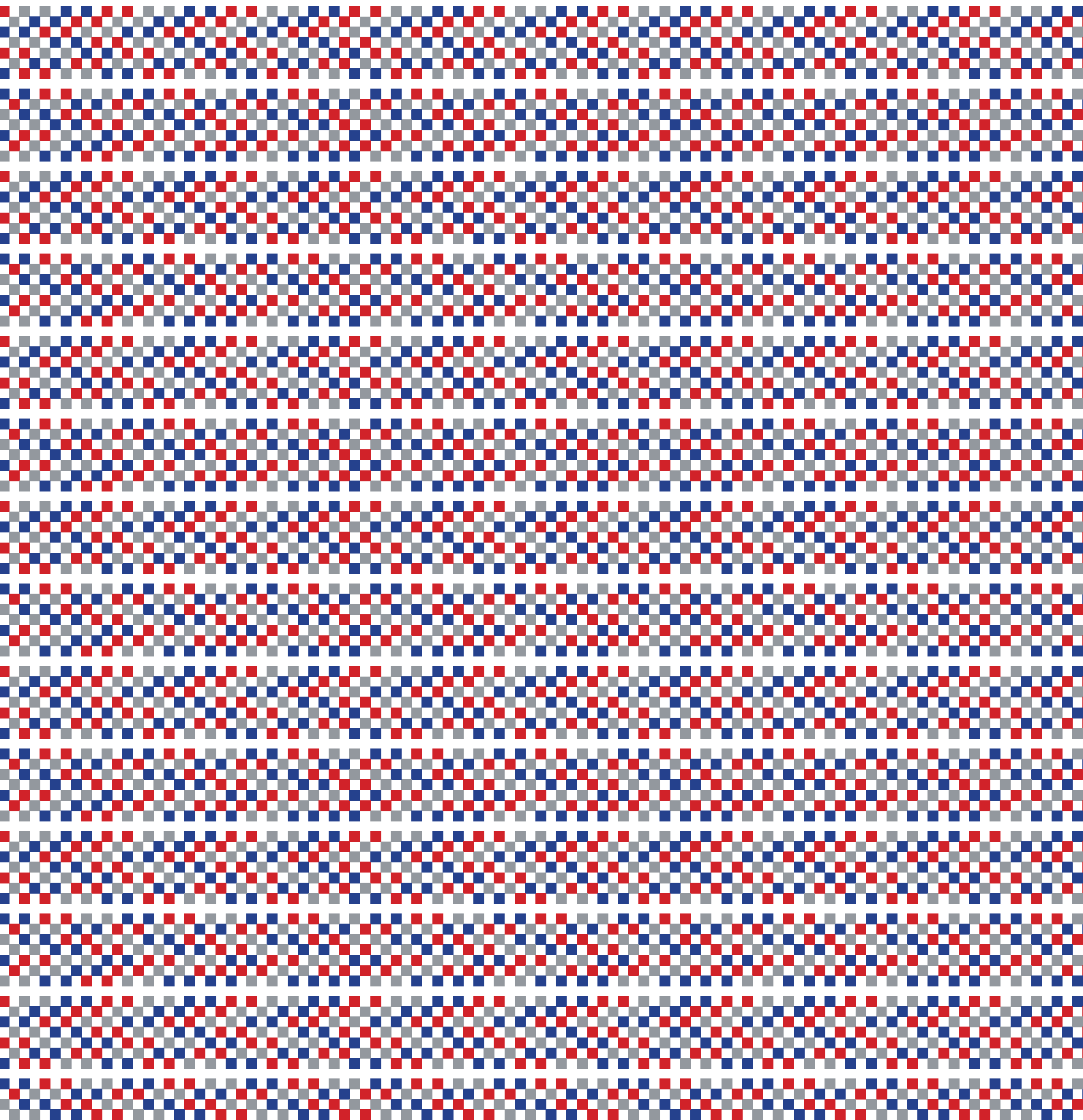


Appendices: Balance sheet account

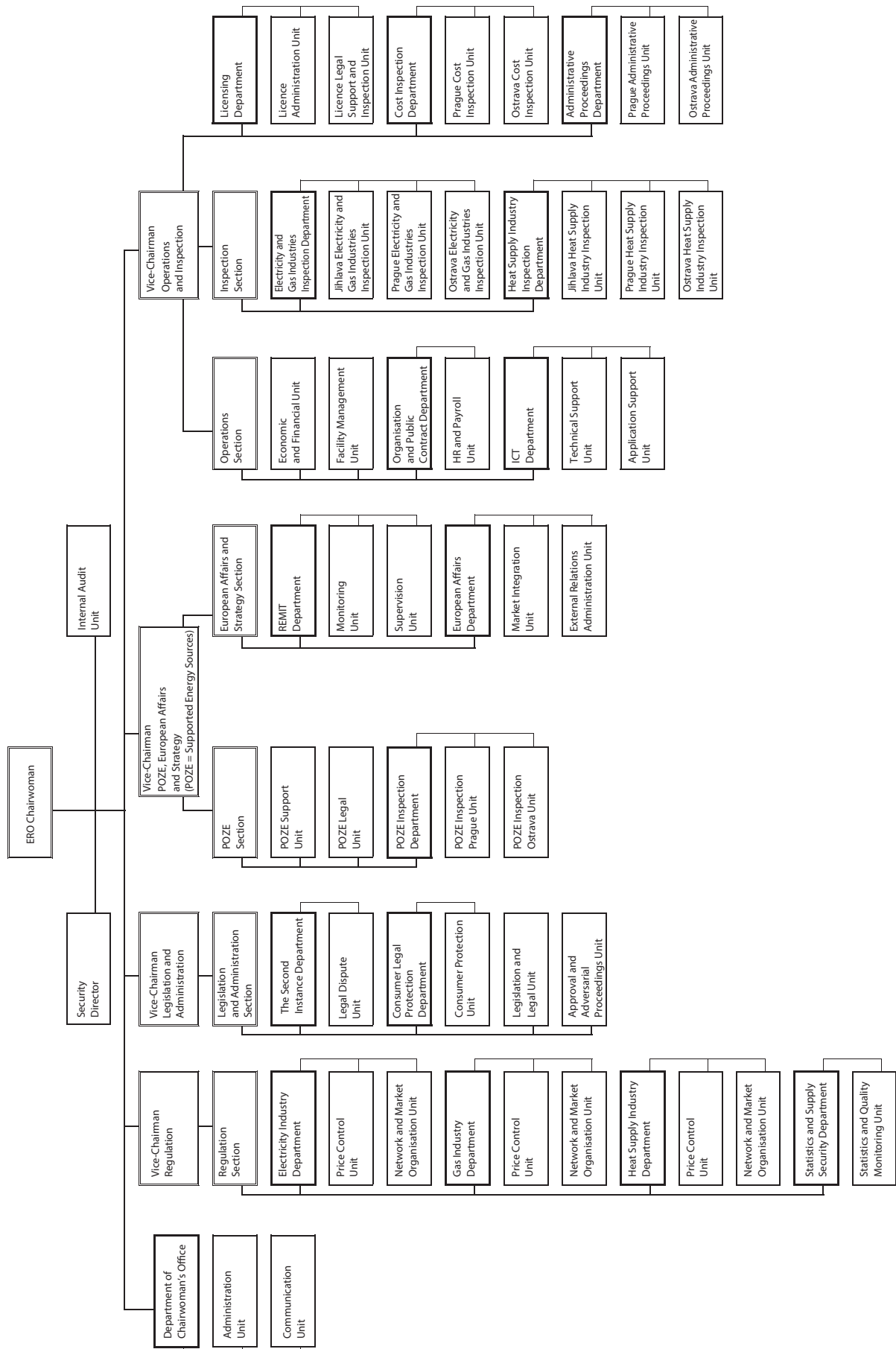
In the town of Jihlava, on February 20, 2017

A-CONT, s. r. o., with a registered office at Polní 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

Appendix 2



Organisational structure of the Energy Regulatory Office as at 31 December 2016



**Report on the Activities and Finances
of the Energy Regulatory Office
for 2016**

Design: © Ditta Jiříčková, 2017
DTP: Metoda, spol. s r.o., Brno, 2017

Energy Regulatory Office

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