



REPORT ON THE ACTIVITIES AND FINANCES OF THE ENERGY REGULATORY OFFICE

FOR 2017

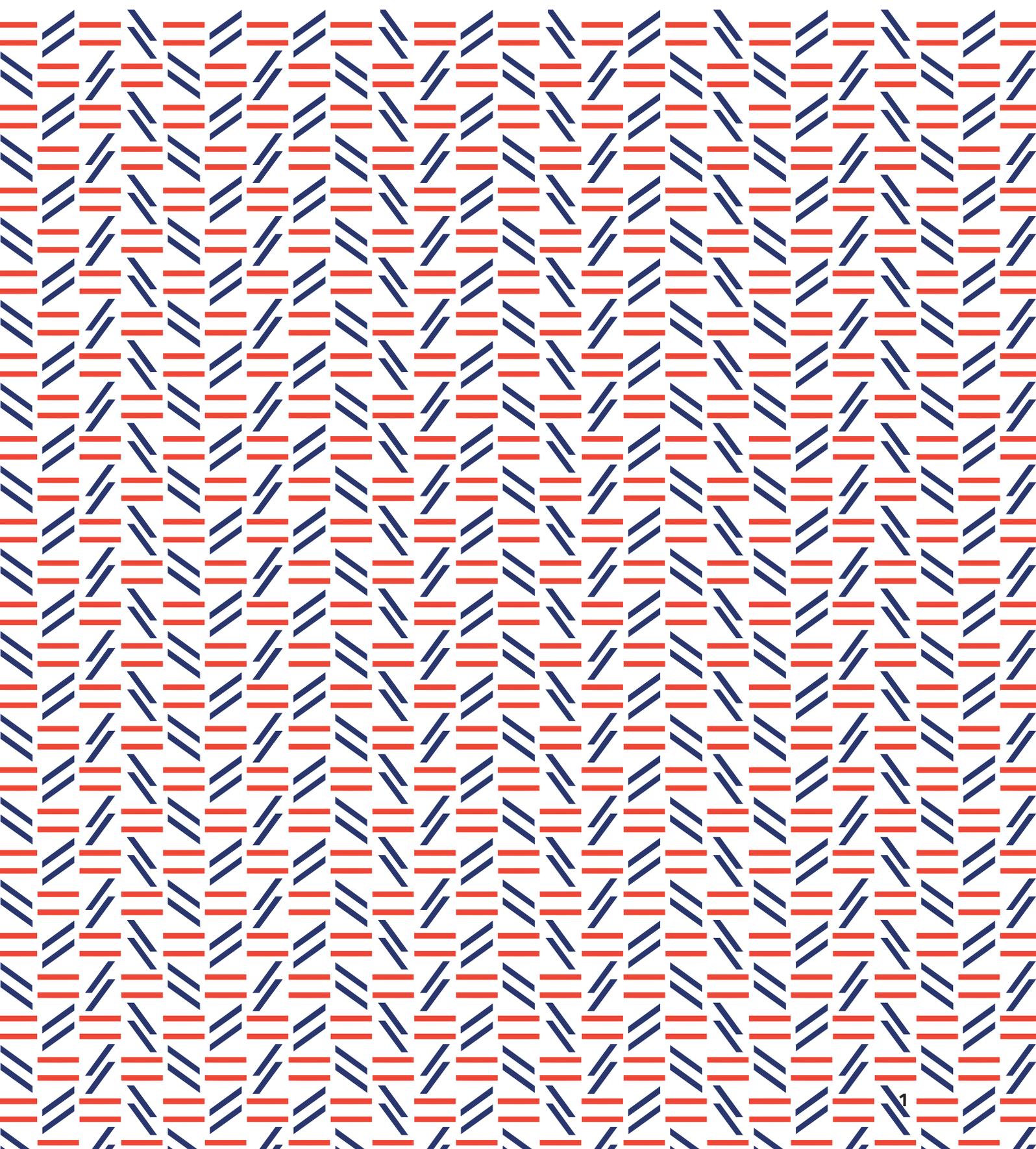


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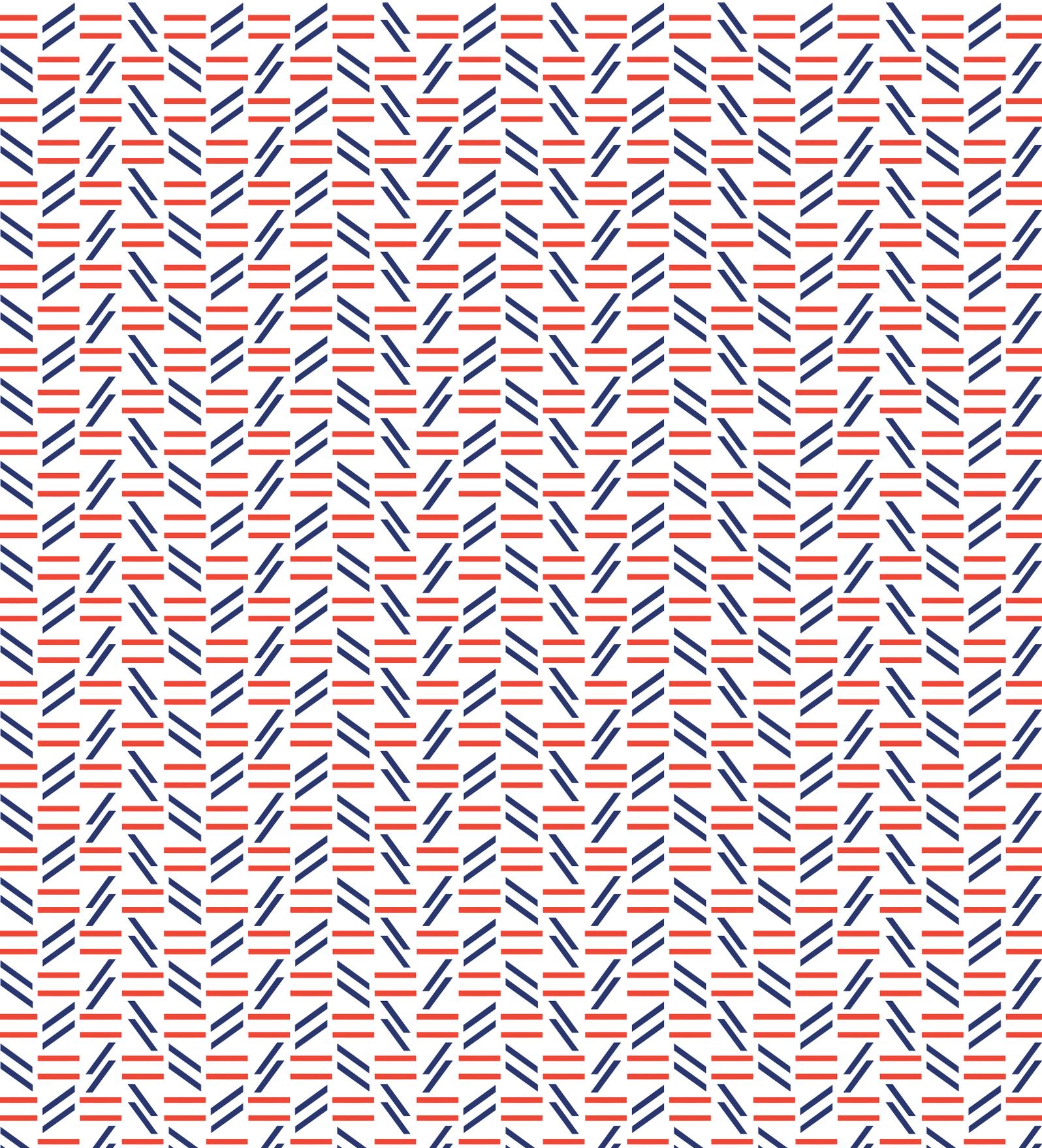
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Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CEER	Council of European Energy Regulators
ČOI	The Czech Trade Inspection Authority
CR	The Czech Republic
VAT	Value-added tax
EC, Commission (EU)	The European Commission
The Energy Act	Act No 458/2000 on the conditions of business and state administration in energy industries and amending certain laws (the Energy Act), as amended, in particular by Act No 131/2015
ERO, Office	Energy Regulatory Office
PHV	Photovoltaic power plants
ISMS	Information Security Management System
CHP	Combined heat & power generation
MF	Ministry of Finance of the Czech Republic
MPO	Ministry of Industry and Trade of the Czech Republic
MZV	Ministry of Foreign Affairs of the Czech Republic
MŽP	Ministry of the Environment of the Czech Republic
REMIT	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency

Market operator	OTE, a.s.
RES	Renewable energy sources
POZE	Supported energy sources
TA ČR	Technology Agency of the Czech Republic
ÚOHS	Office for the Protection of Competition
PCP	Public consultation process
Government, cabinet	Government of the Czech Republic
ERO website	The ERO's website
Winter package	A set of the Commission's legislative proposals titled <i>Clean Energy for All Europeans</i>

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 the energy industries since 1 January 2001.

The Office's mission is, in particular, consumer protection, price controls, supervision over the energy market and over compliance with the requirements for competition wherever competition is not feasible, licensing, checks of licensed entities, dispute adjudication, and promotion of the use of supported energy sources (POZE).

The Office actively cooperates with state administration authorities, the Technology Agency of the Czech Republic (TA ČR), and European institutions—the Agency for Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER).

Highlights of 2017

Under the management of the then ERO Chairwoman, in February 2017 the Office decided to leave the setting of the regulatory parameters, rules, and methodology up to the newly appointed Board of the Energy Regulatory Office (the ERO Board) to decide. The ERO Chairwoman provided the President of the Czech Republic with a report, prepared by the Office, summarising the six years of her service at the Office (*The Energy Regulatory Office under the Management of Chairwoman Alena Vitásková, Term in Office: August 2011 to July 2017*). Before the ERO Board took over the Office also drew up a *Handover Report for the Board of the Energy Regulatory Office* summarising all tasks of each part of the Office.

In compliance with the Energy Act, the Government of the Czech Republic ('the Czech cabinet') appointed, upon a proposal of the Minister of Industry and Trade, a five-member ERO Board with effect from 1 August 2017 in its resolution of June 2017. Thus, the ERO is managed by a collective body; this is one of the most fundamental changes in the ERO's 16-year history. Every year, a new Board member will be appointed for five years to replace the one for whom the term ends. A Board member is appointed as the ERO Board Chairman for the period remaining to the end of his service on the ERO Board, but for no more than three years. The ERO Board's deliberations, which usually take place twice per month, follow its Rules of Procedure. The ERO Board decides by voting, each Board member having one vote. ERO Board's resolutions are passed by the affirmative vote of at least three Board members.

Further to the requirements of the European and Czech legislation, the National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic for 2016 was published at the end of August 2017.

As part of its competences, the Office also publishes reports on the operation of the electrical grid, the gas system, and heat supply systems on a regular basis. In 2017 the Office issued, for each of the energy industries, four quarterly reports and three yearly reports on operation, which included data for 2016. The Office collected this input data from regulatory reports received from market participants. The reports on operation constitute the basic source of data for governmental and non-governmental institutions and for experts and the general public.

In October 2017, CEER General Assembly elected a new Board of Directors. An ERO representative became a CEER Vice-President. This success has helped the Czech Republic to have a greater say in issues concerning the future of the European energy policy.

In November 2017, the ERO and the Office for the Protection of Competition (ÚOHS) signed a memorandum. The purpose of the memorandum is to promote cooperation, coordinate the development of legislation, and share information and experience with a view to cultivating the market. The Office regards its cooperation with ÚOHS as a breakthrough development in its activities.

ERO representatives attended meetings of the committees and subcommittees of both chambers of Czech Parliament. In late 2017, the ERO Board met with representatives of two Senate committees and, once the Chamber of Deputies was constituted, with new members of its Economic Committee and some of the Chamber's subcommittees.

2017 was the second year of the fourth regulatory period, which had originally been planned for three years but was extended to five years after the ERO Board took over. The main reasons for extending the *Price Regulation Principles for 2016-2018* to cover the period from 2016 to 2020 was the proposal for legislative changes in energy as part of the winter package and major technological changes based on the requirements of the EU's legislation.

In line with the Czech cabinet's *Action Plan of Fight against Corruption for 2017* the Office prepared its internal anti-corruption programme elaborating on the action plan and on the *Framework Departmental Internal Anti-corruption Programme* in more detail for the Office's purposes.

The Office took a sceptical attitude to the cabinet's considerations to create a super-regulator, i.e. a single umbrella institution for the existing regulatory activities for different network industries.

Through the Public Administration Portal, the Office posted ten issues of the *Energy Regulation Gazette* with three ERO Price Decisions on prices related to electricity supply, two ERO Price Decisions on prices related to gas supply, and four ERO Price Decisions on support for POZE, and also other messages and information. ERO Price Decisions were also promulgated through communications in the Official Gazette. All of the above were also posted on the ERO website.

With a view to providing all the stakeholders with transparent and clear information, the Office consolidated its website, primarily in respect of consumer protection. The Office regularly updated its website during the year and expanded it to include 1,269 new contributions.

In 2017, the Office posted on its website 13 explanatory statements on the provisions of the legislation relevant for the ERO's competences, which the Office takes into account in its decision-making.

The Office's priority outputs included issues such as the development of the gas system and cross-border electricity flows. Addressing the general public, the Office covered primarily consumer issues in the media. For these purposes the Office used both the media and direct contacts in person, following up on its earlier experience from educational meetings with consumers in the preceding year.

The regulated prices related to electricity supply declined year-on-year for customers connected to medium voltage and high voltage networks, and slightly increased for households and small businesses. In addition to the off-take nature, changes in regulated prices also depend on the location, or the distribution area in which the customer is situated. The year-on-year increase in regulated prices for customers connected to low voltage is 2.5% on average; net of inflation, this change is tenths of percent.

The regulated prices related to gas supply in 2018 will also be comparable with those in 2017. Depending on the off-take nature and distribution area, they will either be stable or increase by units of percent. The changes for low-demand customers and high-demand customers will be the opposite of those concerning electricity supply, i.e., households are facing a smaller increase. Regulated prices will rise by 2.8% on average; nevertheless, thanks to the smaller portion of the regulated component, their impact on resulting gas prices will be weaker than in the case of electricity.

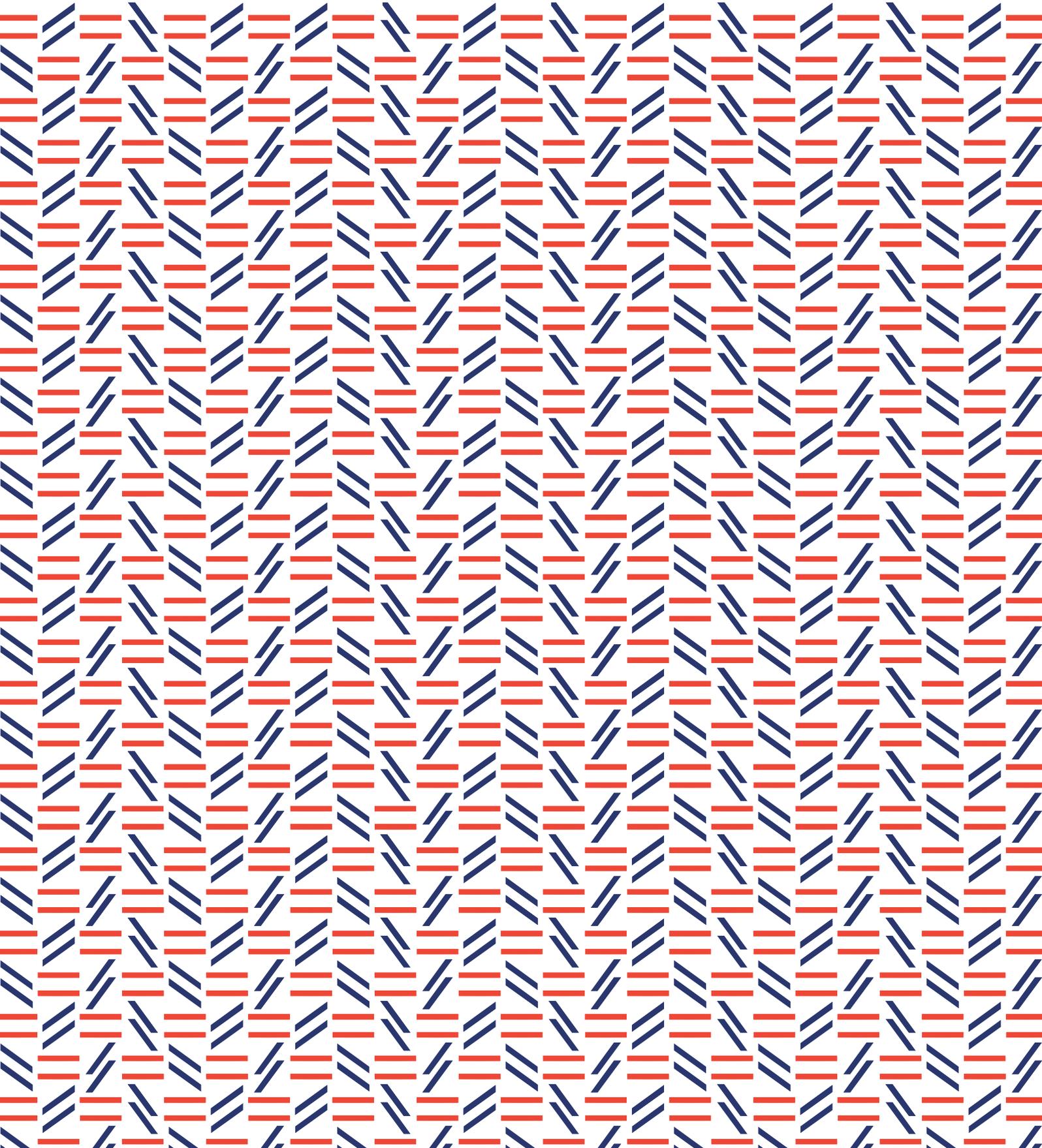
In 2017 almost 358,000 customers changed their electricity supplier, which is approximately the same number of supplier switches as in the preceding year. Compared with 2016, 23,595 more customers changed their gas supplier. Out of the total number of 227,545 gas supplier switches in 2017, 199,678 switches took place on the part of household customers.

With regard of its competences, the Office mainly cooperated with the Ministry of Industry and Trade (MPO), the Ministry of Finance (MF), the Ministry of Foreign Affairs (MZV), the Ministry of the Environment (MŽP), the Ministry of Labour and Social Affairs, Office for the Protection of Competition (ÚOHS), the Czech Statistical Office, the Czech Trade Inspection Authority (ČOI) and the State Energy Inspectorate. The cooperation took the form of regular meetings of the respective groups that had been set up, and also as part of additional working relations.

Two meetings of Visegrád Four (V4) regulators took place in 2017. The meeting on 7 September as part of the economic forum in Krynica, Poland, was the first opportunity to introduce the new ERO Board to partner regulators. Representatives of V4 regulatory authorities held a panel discussion on the dilemmas of the energy policy. On 14 November, the Hungarian regulator hosted, in Budapest, a working meeting of V4 representatives on the *Clean Energy for All Europeans* winter package, which is intended to deepen the market foundations of European energy while preserving the free choice of the energy mix and competitiveness.

In 2017, the Office's representatives attended several conferences, meetings of the Florence, Madrid, and London forums, and workshops. They also attended the meetings of regional groups tasked with preparing lists of Projects of Common Interest, PCI. Some other bilateral and multilateral meetings concerned electricity market integration, gas market integration, and competitiveness.

2 / ERO management



2 / ERO management



ERO Chairwoman

Alena Vitásková, ERO Chairwoman until 31 July 2017

Energy: Severomoravská plynárenská, a.s. (Ostrava), Transgas a.s., RWE Transgas, a.s., Pražská teplárenská a.s.

She has also served as President of the Czech Club of Gas Businesses.

ERO Board



Vladimír Outrata, ERO Board Chairman since 1 August 2017

Before the ERO Board was established, he served as an ERO Vice-Chairman
Energy: Plynoprojekt Praha, Transgas a.s., RWE Transgas, a.s., NET4GAS, s.r.o.

He has been a member of the Board of Directors of Gas Infrastructure Europe and served on the ENTSOG Management Board.



Jan Pokorný, on the ERO Board since 1 August 2017

ERO Vice-Chairman before joining the ERO Board

Energy: Regional Centre for District Heating, Moravskoslezské teplárny a.s., Severomoravská energetika, a.s., Energetika Vítkovice, a.s., ČEZ Energetické služby, s.r.o. He headed the heat supply department of the Ministry of Industry and Trade in the past.



Vratislav Košťál, on the ERO Board since 1 August 2017

Energy: RWE Transgas, a.s., NAFTA a.s., E.ON Česká republika, s.r.o., ČEPS, a.s.
Before joining the ERO Board he was the principal lawyer for consumer protection at the Czech National Bank.



Rostislav Krejcar, on the ERO Board since 1 August 2017

Energy: ERO (2002–2012). Since 2010, teaching at ČVUT in Prague, focusing on energy economics. He worked as a self-employed energy consultant before joining the ERO Board.

Since 2012, he has been working for ČVUT on a part-time basis.

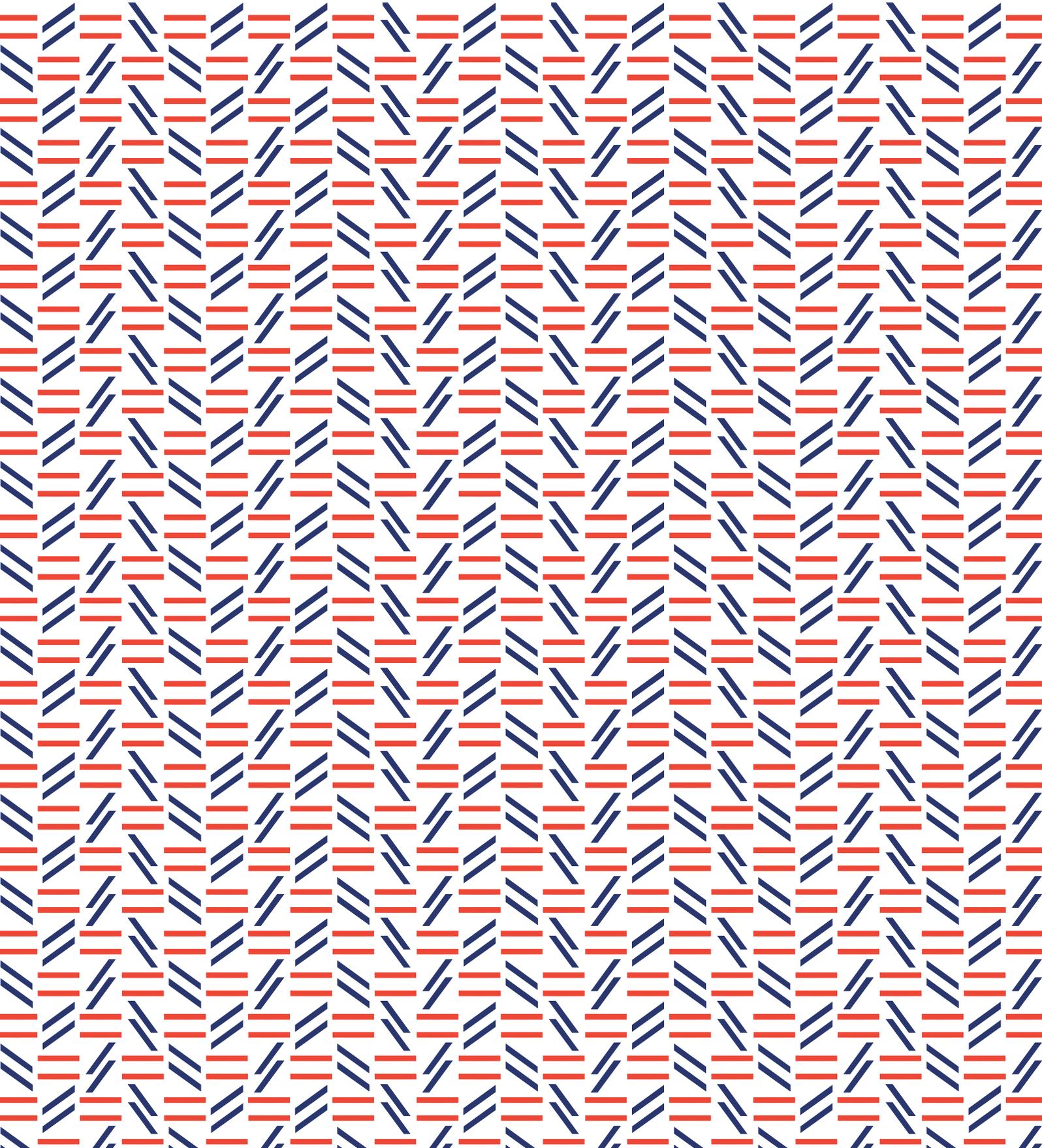


Vladimír Vlk, on the ERO Board since 1 August 2017

Energy: an electricity utility (now ČEZ, a.s.), ŠKODA PRAHA, a.s., ČEZ, a.s.

He has also worked as a consultant for companies and governmental institutions, including as adviser to the Minister of the Environment and to the Minister of Industry and Trade.

3 / Consumer protection



3 / Consumer protection

3.1 Consumer legal protection and international activities

In the first half of 2017 the ERO and ČOI discussed the approach to addressing disputes concerning the sale of LED bulbs in connection with energy supplier switching arranged outside premises customary for business. The discussions resulted in ČOI's public statement resolving the issue of the ERO's and ČOI's *in rem* jurisdiction over consumer disputes arising from LED bulb purchase contracts and disputes arising from contracts for electricity or gas supply.

Code of Ethics

With a view to providing consumers with the required support and legal protection, the Office updated the *Electricity and Gas Traders' Code of Ethics* (effective since 2 January 2017). Effective as of the first quarter of 2018, a major amendment of the earlier version is the signatories' obligation to show the term of fixed-term contracts and the earliest possible date for terminating energy supply in their billing. In 2017, only 19 traders subscribed to the Code of Ethics rules. Working with the largest electricity and gas traders, the Office therefore started to prepare a model Code of Ethics that would contain the basic rules and procedures for traders' ethical dealings with customers in the position of consumer.

Addressing submissions

In 2017, the Office received a total of 11,801 submissions from consumers, of which 7,065 over the telephone, 4,488 in writing, and 248 in person. Consumers resorted to the Office primarily because of the way of handling contract penalties and for advice on the options of terminating electricity or gas supply contracts. Submissions also concerned electricity or gas consumption billing and other conditions of electricity or gas supply, including the pricing conditions, peddling, the supplier switching procedure, contract penalties for failure to keep the contract conditions, and illegal off-take.

International activities

In respect of consumer protection and the retail market, in 2017 the Office was again involved in the activities of CEER, which 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 commodity supply.

On 30 November 2016 the European Commission adopted a package of legislative proposals with broad-ranging impacts on the working of the European electricity market, i.e. the winter package that addresses consumer issues and retail markets primarily through a recast

of Directive 2009/72/EC concerning common rules for the internal market in electricity; thereupon, 2017 was marked by working on position papers and on amending proposals for the relevant articles of the directive in respect of electricity market regulation. The Office also closely cooperated with MPO, MZV and the Office of the Government, and also with other European regulators.

The initiative focused on consumers and retail, the PEER (Partnership for the Enforcement of Energy Rights) initiative, continued under CEER's auspices. The idea is 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. Cooperation with ACER continued, namely in the preparation of the Market Monitoring Report.

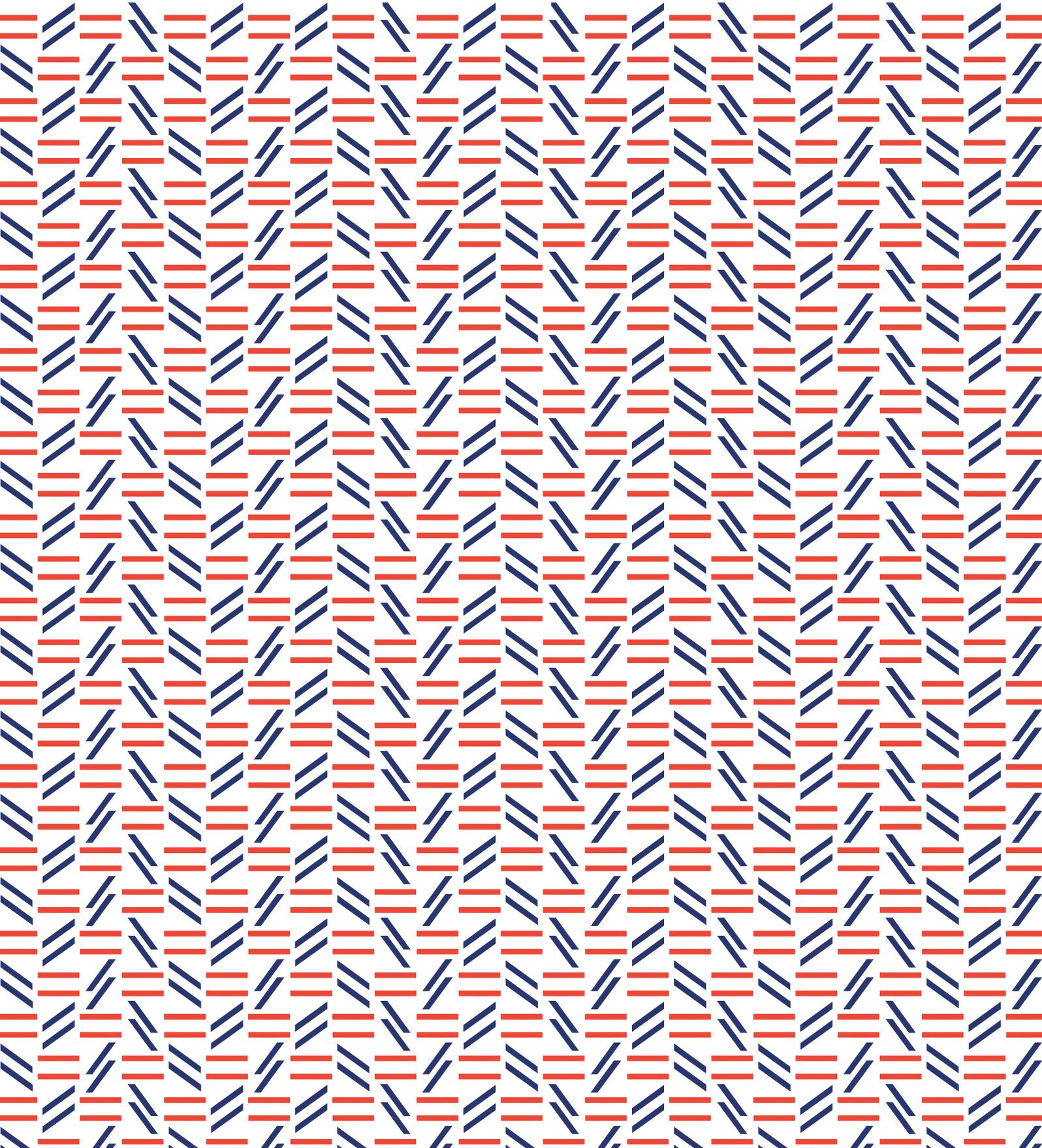
3.2 Dispute resolution

Under Section 20e(c) of Act No 634/1992 on consumer protection, as amended, the ERO is one of the European Commission's ADR (Alternative Dispute Resolution) entities for consumer disputes. The ERO set up its Consumer Disputes Unit for addressing consumer disputes in administrative proceedings, with effect from 1 January 2017. It decides on motions filed by customers in the position as consumers within the limits of the Energy Act under Section 17(7)(e):

- Under Section 17(7)(e)(1), the ERO adjudicates disputes between customers and licence holders over the performance of obligations under agreements on electricity, gas or heat supply or distribution.
- Under Section 17(7)(e)(2), the ERO declares whether the legal relationship between the customer and licence holder, the subject matter of which is electricity, gas or heat supply or distribution, has come into existence, continues to exist, or has ceased to exist, and when this happened.

Proceedings on 146 motions were conducted in 2017, and 76 of them were concluded with finality in 2017.

4 / Regulation



4 / Regulation

2017 was the second year of the fourth regulatory period, which originally was to cover three years but was extended to five years after the ERO Board took over. The main reasons for extending the *Price Regulation Principles for 2016–2018* to the period 2016–2020 were the below facts.

Price Regulation Principles in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries for the Period from 2016 to 2018 set out the price regulation procedures and specify the regulatory principles for the period 2016–2018 (*Price Regulation Principles for 2016–2018*).

Subsequently to the Office putting in place the regulatory principles for 2016–2018 through the *Price Regulation Principles for 2016–2018*, the circumstances have changed materially:

- a) In November 2016, the European Commission presented, under an umbrella title *Clean Energy for All Europeans*, proposals for amendments to energy legislation; once adopted and implemented, they will have far reaching impacts on the working of the electricity market and price controls in the electricity industry;
- b) Major technological changes are taking place, and markets are being integrated based on the requirements of EU legislation;
- c) The plan of the Czech cabinet's legislative work for 2017, set out in Government Resolution 1121 of 14 December 2016, envisaged that the bill intended to amend the Energy Act would come into effect in August 2018;
- d) Government Resolution 601 of 27 June 2016 on the bill to amend the Energy Act updated the task for the sponsor of Act No 458/2000 to present this bill containing provisions on the basis rules for regulation in the energy industries.

The Office is obliged to provide for a continuously stable legal and regulatory environment through controlling prices for the related services in the electricity and gas industries.

The regulator's key mission is therefore to provide for a stable and reliable regulatory framework for the electricity and gas markets that will boost the working of these markets.

The regulatory framework defined in price regulation principles must also be created on the basis of and within the limits of the relevant legislation, in particular Act No 458/2000 and Act No 165/2012 on supported energy sources and amending certain laws, as amended (the POZE Act).

1 January 2019 is the date of effect of the provisions of the Energy Act under which the Energy Regulatory Office shall decide on prices for a certain period of time referred to as the regulatory period. Under the law, a regulatory period is defined as a period of time covering at least

five consecutive regulated years, and it would therefore be contrary to the regulator's related obligations if the regulator set the (originally planned) new price regulation principles for the fifth regulatory period from 1 January 2019 to at least 31 December 2023 being aware that this period will see the above outlined changes that will profoundly influence the Czech regulatory environment and ultimately also the regulatory framework itself.

Taking into account the fact that the current regulatory principles fully meet legislative requirements and having evaluated the costs and benefits, the Office considered that the best approach was to retain these principles in practice for the period 2019–2020; in this period, the legislation that might disrupt or affect the current principles of pricing would be revised. For the new fifth regulatory period, only such price regulation principles which reflect changes in the rules for regulation in energy industries will pass muster vis-à-vis the requirement to provide for a stable legal and regulatory environment on a long-term basis.

The change of the originally stated intention, i.e. maintaining the applicability of the current parameters of the regulatory formula until 31 December 2020, will only have effects on regulated prices in the future. This change will therefore not jeopardise the stability, predictability and transparency of the conditions for providing related services in the electricity and gas industries.

Stability and predictability for investing during the follow-up part of the current regulatory period are both ensured by the fact that the specific values of the regulatory formula parameters applicable to the period 2016–2018 will continue to apply in 2019 and 2020 as well and will be contained in updated Price Regulation Principles for 2019–2020.

Thus, in compliance with the requirements of Section 19a of the Energy Act, the preservation of the current regulatory rules for 2019 and 2020 will continue to result in the setting of reasonable profit for regulated power and gas utilities, ensure an adequate quality of the services provided to customers at reasonable costs, support future investment, and generate funds for system renovation with a view to increasing efficiency, from which customers will also benefit.

Extending the applicability of the current parameters of price regulation until 31 December 2020 is therefore an appropriate and adequate tool for achieving the intended objective of preserving a stable price regulation; in the context of the above circumstance, its benefits will outweigh those of keeping the original plan of putting new price regulation parameters in place as of 1 January 2019.

In respect of tariff restructuring, the Office followed up on the New Tariff Structure (NTS) project, where it received approximately 16,000 suggestions from the public during a consultation process in 2016. Based on these suggestions it revised the objectives of the project in 2016 and designed the new project, Balanced Tariff System (BTS), so as to rely on the mathematical model created under the NTS project but also so

- as to prevent the risk of driving customer groups into energy poverty,
- as to respond to the current situation in the energy market and prepare for future development,
- that system operators would have adequate funds for the safe and reliable network operation and development,
- that customers only pay justifiable costs.

The project also set out a timetable of measures and procedures upon achieving a certain level of decentralised generation. It also envisaged the rollout of smart metering and smart grids as one of the preconditions.

Following the change of the ERO management in August 2017 the above project was modified to the ERO Board's requirements. In view of their requirements the Office decided that the objective of the tariff restructuring in the electricity industry was to create a tariff structure incentivising electricity market participants to rational requirements for the provision of the electrical grid's services through a targeted allocation of the costs induced by the participants through their requirements. The tariff restructuring will result in a fairer – transparent and warranted – allocation of costs to the charges for electricity transmission and distribution. The tariff restructuring will not concern the other prices for related services in the electricity industry such as prices for system services and the market operator's services or the price components to support electricity from POZE sources. The charges for electricity transmission and distribution will be changed to peg them, at least partly, to the value of booked power input and, again at least partly, to the type of metering, providing that no price for type C metering will be created at the low voltage level; instead, the costs of type C metering will be socialised in other charges for electricity distribution.

The above principles will consist of the following changes in the tariff structure:

- 1) The energy unit (expressing either capacity or demand or a combination of both) used for allocating adjusted allowed revenues related to the power component (EHV [\approx high voltage], HV [\approx medium voltage], LV) will be changed with a view to motivating market participants to optimise their demands on the electrical grid;
- 2) A reference unit will be introduced for allocating adjusted allowed revenues related to metering and billing (EHV [\approx high voltage], HV [\approx medium voltage], LV);
- 3) Restructuring the distribution tariffs and determining the algorithm for allocating adjusted allowed revenues to individual distribution tariffs and to charges for electricity distribution to customers (LV).

The changes in the tariff system will be designed for the above points simultaneously to ensure a uniform approach to all voltage levels. However, the modifications to the tariff structure arising from the changed tariff system will not be implemented at all voltage levels simultaneously; nevertheless, the target patterns of the changed tariff system will be similar at all voltage levels.

Although the tariff structure project has been modified two times these are back-to-back modifications and the project steadily continues. However, the population and industry are highly sensitive to electricity prices and every step must therefore be thoroughly analysed and verified for electricity to continue to be a service rather than an unaffordable asset.

4.1 The ERO's involvement in the BETA2 and THETA programmes (managed by TA ČR)

BETA2

Research objectives for the predefined areas, which were specified in more detail based on additional discussion of the requirements with the ERO's respective technical units, were specified for the ERO under the BETA2 programme. In 2017, the addressing of the following research needs, entered in TA ČR's information system, was initiated:

- R&D in regulatory methodologies in relation to the current situation in the energy markets 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.
- 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.
- R&D concerning a software solution for collecting and evaluating statistical data in the electricity, gas, and heat supply industries (the ERO data collection portal). Focus on the electricity, gas, and heat supply industries.

However, the project has been delayed, because TA ČR has not been successful in assigning an expert in energy regulation; such expert assesses the specified research plan and together with the Office starts work on the tender documentation.

THETA

The THETA programme is expected to run between 2018 and 2025. The programme is composed of sub-programmes focused on:

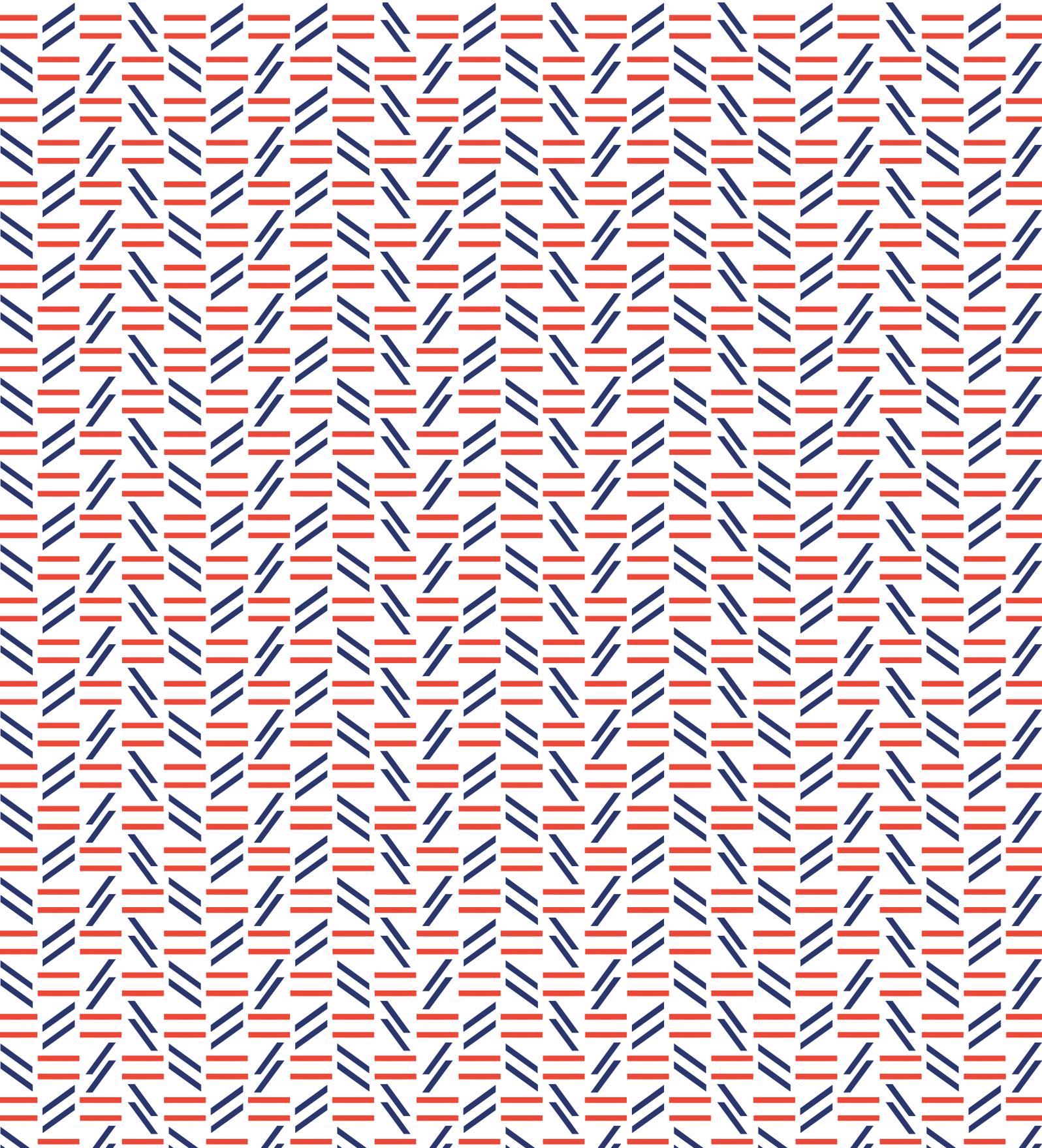
- (PP1) support for projects in the public interest,
- (PP2) new technologies and system elements with a high potential for quick application in practice,
- (PP3) support for long-term technology prospects.

The Office has actively joined PP1 Research in Public Interest, the objective of which is to improve management in the energy sector on the part of public administration and the development of strategic and policy papers through support for R&D in the energy sector, focusing on support for R&D projects in the public interest. In this respect, the above mainly includes support for R&D in the reliability and technological development of nuclear facilities, regulation in the energy sector, and in other relevant segments of the energy sector.

Under PP1, the part on Energy Markets, Regulation, State Aid, and Pricing, the ERO and the MPO have become application guarantors for the following:

1. Analysis of links between energy decentralisation and the regulatory methodology, and the design of tariff systems;
2. A methodological framework for the future market design.

5 / The electricity industry

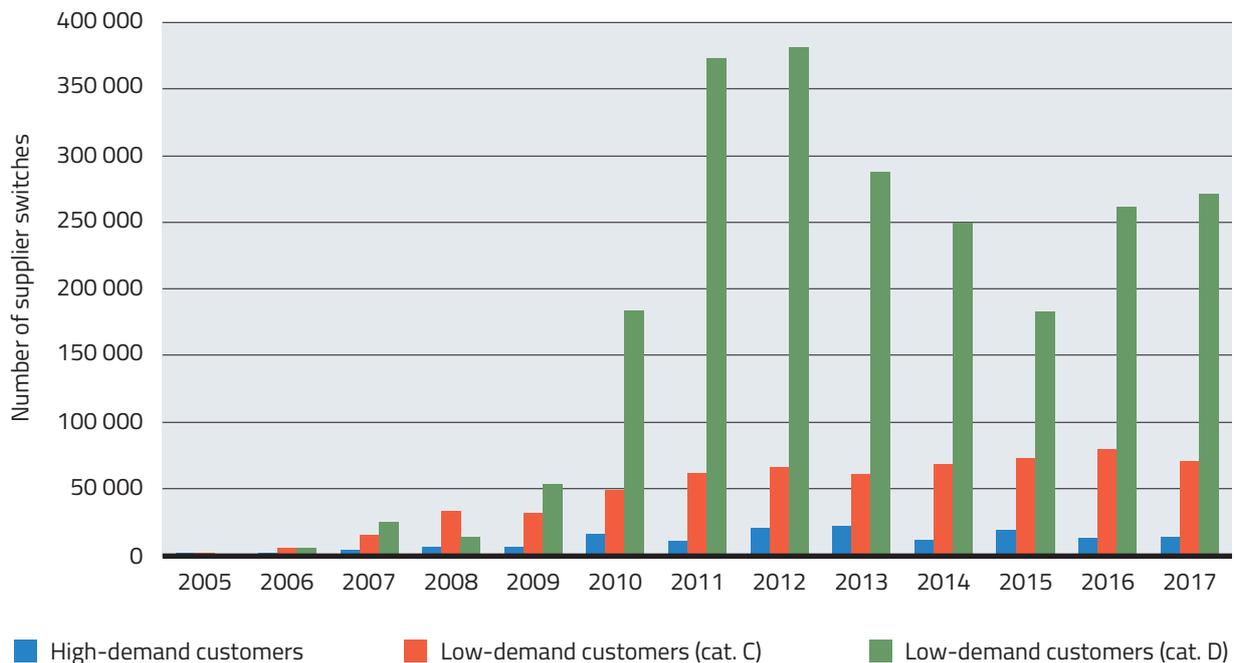


5 / The electricity industry

5.1 The electricity market

Almost 358,000 customers changed their electricity supplier in 2017. This is approximately the same number of supplier switches as in 2016, but the structure of supplier switches differed in terms of the customer categories. In the high-demand category, the number of supply point transfers to a different supplier decreased by 3% and in the low-demand business category the number of switches even dropped by almost 11.9% year-on-year. The above was compensated by a 3.4% increase in electricity supplier switches in the household category.

Chart 1 Annual electricity supplier switching in the main customer categories



Source: OTE a.s., market operator

In 2017, the Office continuously monitored, within its remit and in compliance with Section 17 of the Energy Act, the use of restricting or unfair conditions in contracts on the electricity market, which restricted or excluded customers' rights, and also monitored competition in the wholesale and retail electricity markets. In 2017, the Office did not carry out any investigation concerning the functioning of the electricity market.

5.2 Pricing

In line with the applicable document, *Price Regulation Principles in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries for the Period from 2016 to 2018*, the Office issued three price decisions concerning the electricity industry in 2017. The first of them, ERO Price Decision No 4/2017 laying down certain regulated prices under Act No 165/2012 on supported energy sources and amending certain laws, as amended (Act No 165/2012), was issued on 26 September 2017. The Office also issued ERO Price Decision 6/2017 of 21 November 2017 laying down prices for related services in the electricity industry and some other regulated prices, and ERO Price Decision 7/2017 of 21 November 2017 laying down prices for related services in the electricity industry for low voltage customers.

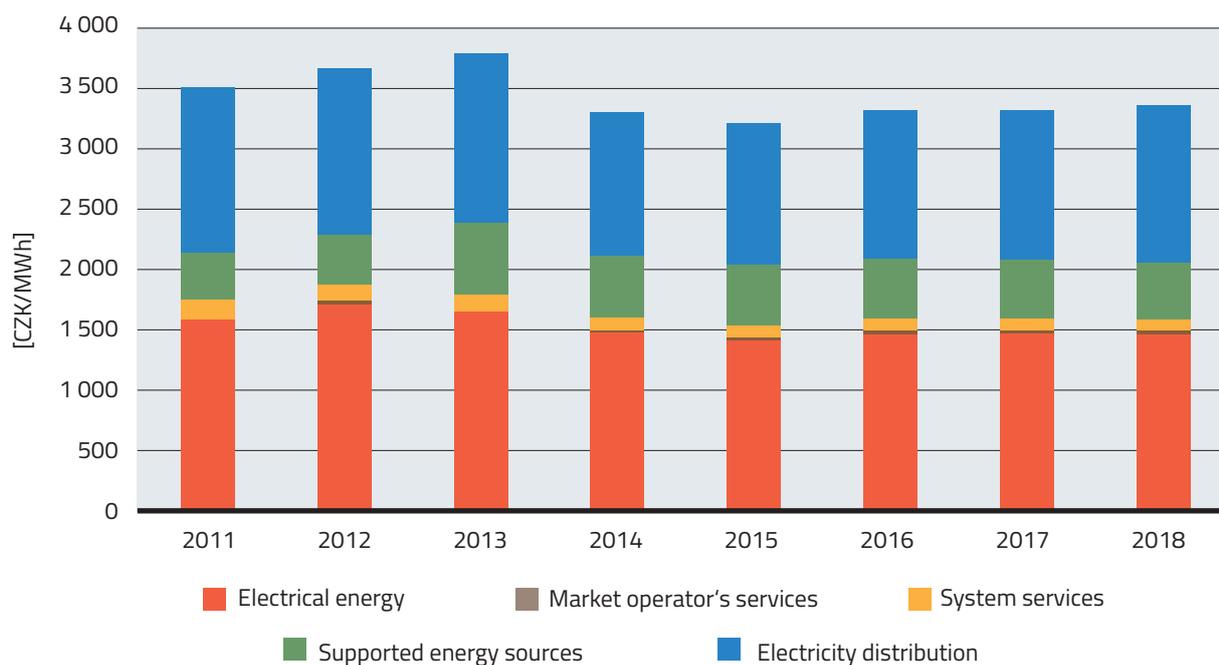
ERO Price Decision 6/2017 contains a major year-on-year change in the part concerning the price for electricity distribution at the level of extra high voltage (EHV [\approx high voltage]) and high voltage (HV [\approx medium voltage]), namely a changed definition of the basic configuration. This modification will help to reduce the costs of electricity distribution paid by customers in cases where the use of the back-up line is caused by the distribution system operator. Furthermore, legislative measures were added to prevent situations where a local distribution system operator (LDS operator) reported transformation losses causing higher off-take of electricity from the LDS than supply into the LDS. Another new feature is the opportunity to use the dynamic calculation of transformer losses based on the transformer load in each 15-minute period.

ERO Price Decision 7/2017 for the low voltage level contains adjusted conditions for applying distribution tariffs C 01d and D 01d. The conditions newly lay down that if a customer who is connecting an electricity generating plant does not apply for a change of the distribution tariff for a supply point with the above distribution tariffs as of the day of the connection of this electricity generating plant, the relevant distribution system operator shall change the distribution tariff to the D 02d tariff for households and to the C 02d tariff for other customers as of the day of the connection of the generating plant.

In addition to the standard public consultation process (PCP) on the above price decisions applicable for 2018, on 31 August 2017 the Office opened two major PCPs concerning the principles of price regulation for the post-2018 period. The purpose of the *public consultation on the proposal for price regulation principles for 2019 and 2020* was to consult the extension of the 2016–2018 price regulation principles applicable to the electricity industry, the gas industry, and the activities of the market operator (OTE, a.s.) in the electricity and gas industries, by another two years. A proposal outlining the general regulatory framework in the electricity industry, including a description of the determination of the key parameters for the subsequent regulatory period beginning in 2021, was published for consultation in a *public consultation on the proposed principles of price regulation in the fifth regulatory period for the electricity industry, the gas industry, and the market operator's activities in the electricity industry and the gas industry*.

For low-demand business customers in 2018, the average regulated price component related to electricity supply is CZK 2,120.33/MWh. For low-demand household customers in 2018, the average regulated price component related to electricity supply is CZK 1,889.85/MWh. Average prices of electricity supply for low-demand household customers and components thereof since 2011 are shown in Chart 2.

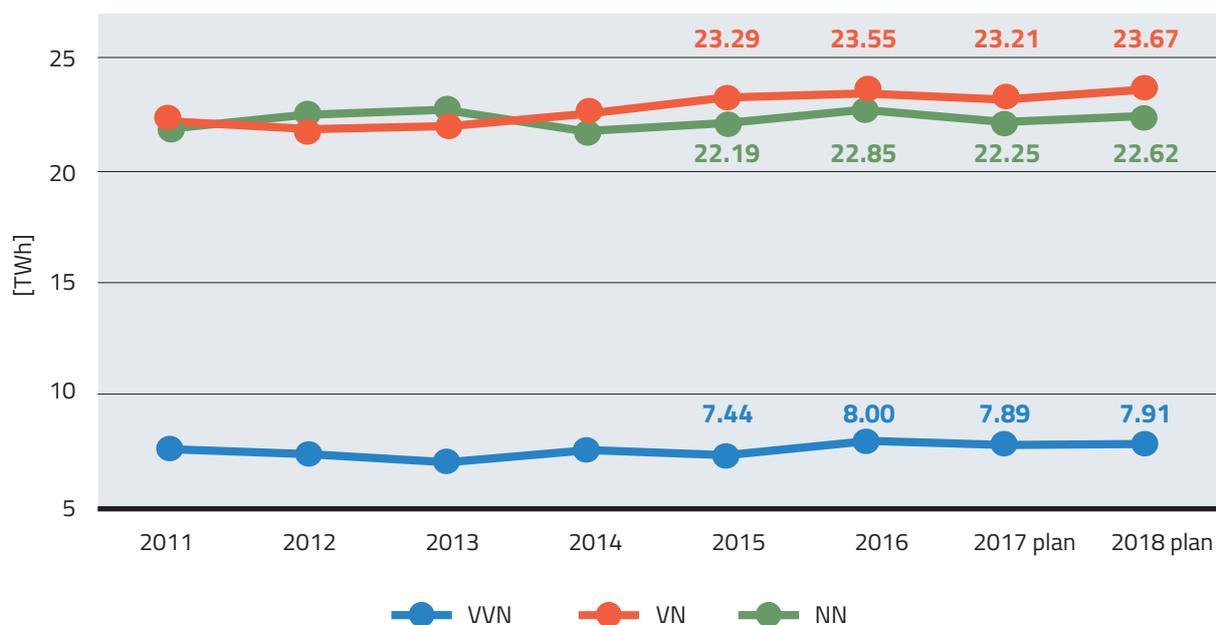
Chart 2 Average prices of electricity supply for households



5.3 Regulated components of the price

The level of controlled prices related to electricity supply is influenced by the same factors as in 2016, see Chart 3.

Chart 3 Electricity off-take at the EHV, HV, and LV levels



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

The electricity transmission charge for 2018

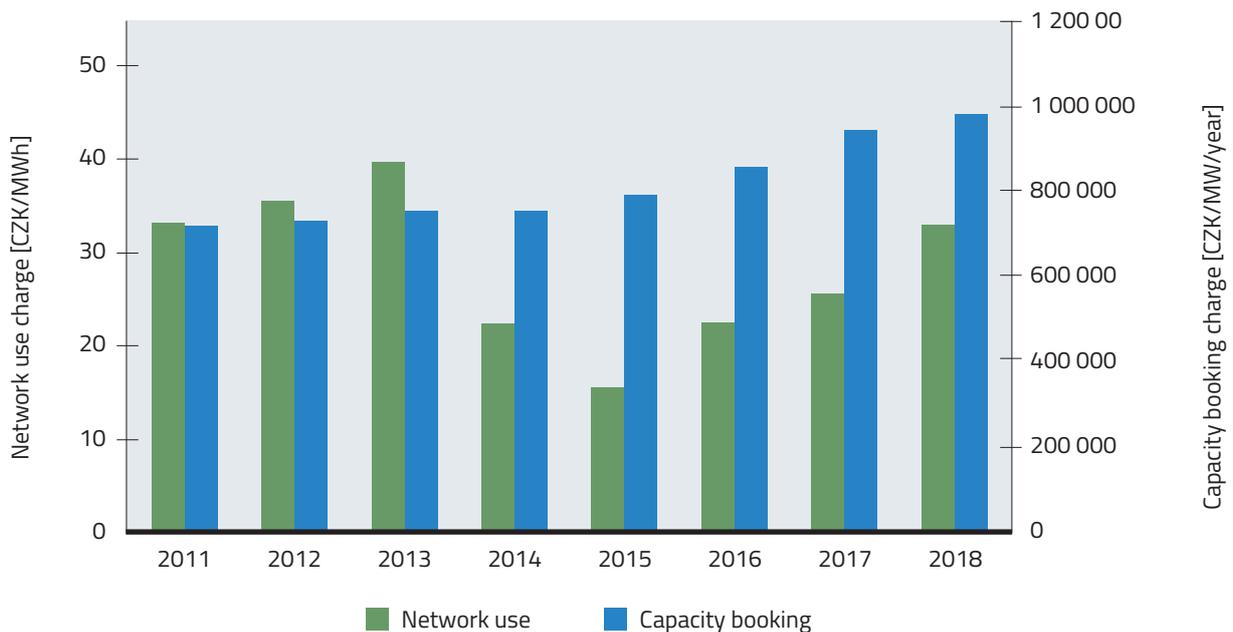
The electricity transmission charge is composed of the charge for booked transmission capacity and the charge for network use in the transmission system.

The charge for booked transmission capacity is the result of dividing adjusted allowed revenues from electricity transmission by the value of the capacity booked in the transmission system. The charge for booked transmission capacity has increased by 4% year-on-year due to the increase in adjusted allowed revenues, mainly caused by the corrections for the preceding years.

The charge for using transmission system networks is determined by the cost of electrical energy for covering losses in the transmission system adjusted by the correction factor and subsequently divided by the electricity quantity planned to be transmitted. The charge for using transmission system networks has increased by almost 30% year-on-year, which is partly due to the rising price of electrical energy at power exchanges and partly by an increase in the planned losses in the transmission system caused by, *inter alia*, the increasing electricity transit.

Chart 4 shows the electricity transmission charges between 2011 and 2018.

Chart 4 Components of the electricity transmission charge



Charge for system services

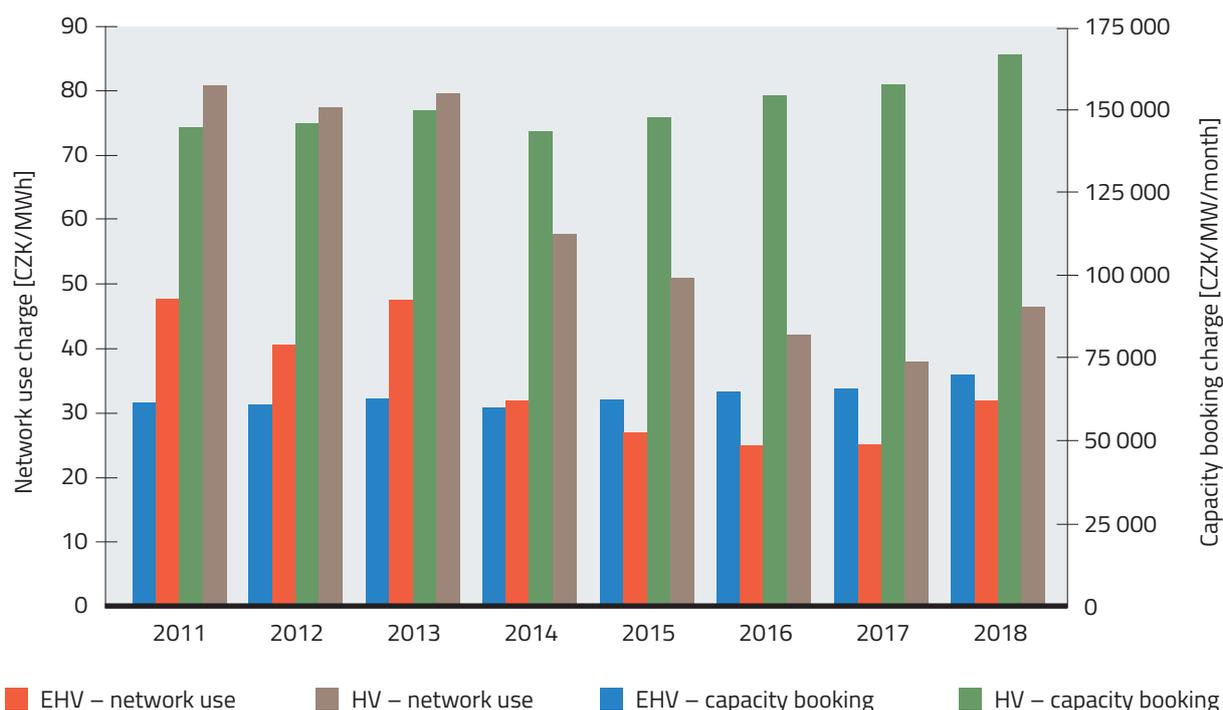
The charge for system services is the result of dividing the TSO's adjusted allowed revenues from system service provision by the electricity quantity expected to be taken by customers connected to the electrical grid. The charge for system services in 2018 has stayed at a level comparable with the 2017 charge.

Electricity distribution charge for 2018

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 risen by 5.4% year-on-year, and at the HV level the charge for capacity booked in the distribution system has risen by 5.7% year-on-year. The reasons include investments in distribution systems and higher charges for electricity transmission, which are one of the inputs into the calculation of the electricity distribution charges. The charge for distribution system network use has increased by 27.7% year-on-year at the EHV level and by 23.4% at the HV level; again, an important factor was the rising price of electrical energy at power exchanges, similarly as in the case of the charge for using transmission system networks. Chart 5 shows the two components of the distribution charge from 2011 to 2018.

Chart 5 Components of the charge for electricity distribution at the EHV and HV levels



The year-on-year changes in the charges for electricity distribution at the LV level differ depending on the distribution system operator and the agreed distribution tariff. The charge for electricity distribution at the LV level has increased by 4% on average year-on-year; including the other regulated prices, this increase has caused the average regulated component of the charge related to electricity supply at the LV level to rise by 2.5% year-on-year.

The price component for support of electricity from supported energy sources (POZE) for 2018

For 2018, 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 65,424.50/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 15.05/A/month. The above values mean a decrease by 16.4% on the preceding year. 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.

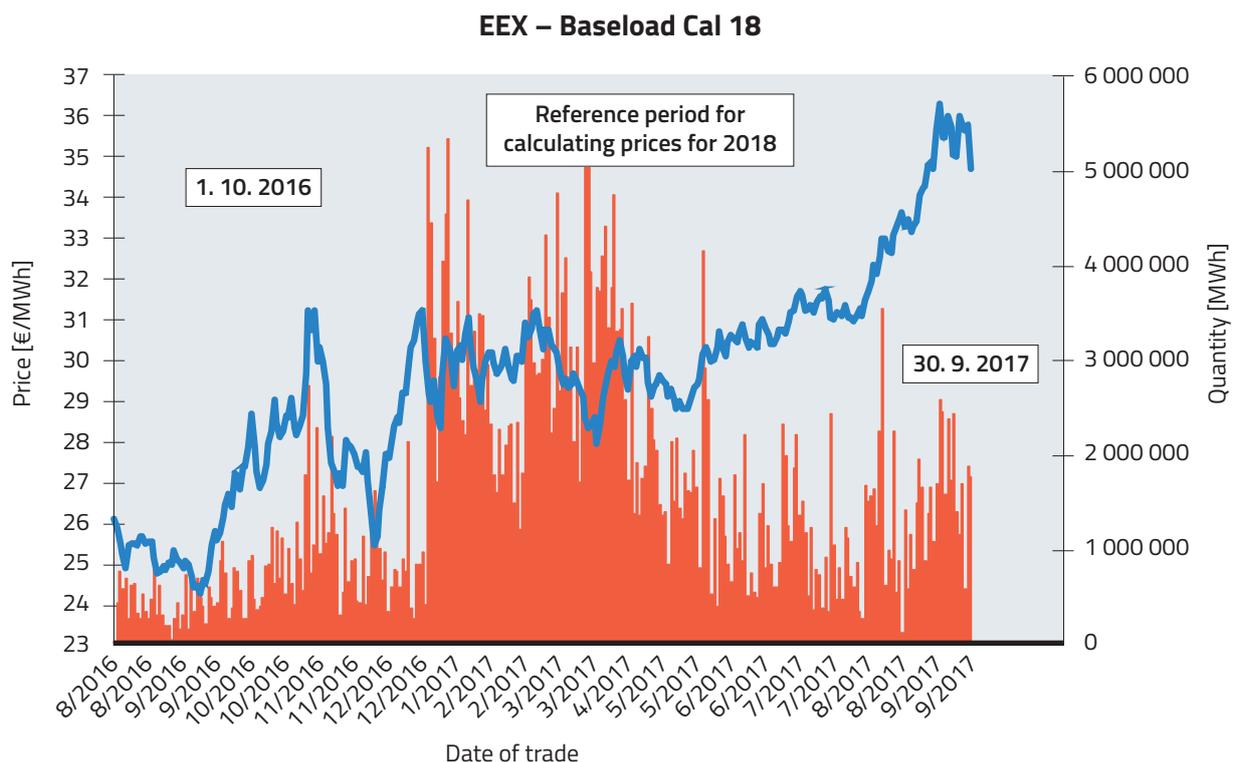
Charge for the market operator's activity in the electricity industry for 2018

The charge for the market operator's activity in the electricity industry has increased by 10% and has been set at CZK 5.40/supply point/month for 2018.

5.4 Unregulated components of the price

In 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. Chart 6 shows prices of electricity in the annual BL products at the Leipzig EEX, in €/MWh, and also the volume of trades over the period under review, with the prices of the annual BL product gradually rising to € 36/MWh, which was also reflected in a higher price for using the networks of the transmission system and distribution systems.

Chart 6 Electricity prices at the EEX in €/MWh



5.5 Statistics and quality monitoring

In 2017, the ERO issued five reports on the operation of the electrical grid. They include quarterly reports for 4Q 2016 and for 1Q, 2Q and 3Q 2017, and also the yearly report for 2016. These reports contain purely technical information such as electricity generation broken down by technology and by fuel, electricity consumption broken down by customer category and by sector, cross-border flows, installed capacities, and other statistical data. The yearly report also includes a chapter on electricity supply quality, evaluating the continuity of supply; its data constitutes inputs into the regulatory mechanism.

Incentive-based electricity quality control is currently in place for the fourth regulatory period (2016–2020). In this context, the ERO has determined the required values of the continuity indicators and related parameters for each of the regional distribution companies. The purpose of incentive-based quality control is to reduce the number and duration of both planned and unplanned electricity distribution interruptions.

In respect of electricity supply quality, the Office primarily monitored the level of electricity supply quality achieved and compliance with the quality standards required by public notice 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended. The level of quality in distribution systems is measured by electricity supply continuity indicators under Section 21 of public notice 540/2005. The basic continuity indicators are defined in the public notice as follows: System Average Interruption Frequency Index in the period under review (SAIFI), System Average Interruption Duration Index in the period under review (SAIDI), and Customer Average Interruption Duration Index in the period under review (CAIDI). The results of the monitoring of continuity indicators for 2017 are shown in Table 1.

Table 1 Electricity distribution continuity indicators in 2017

Indicator*	ČEZ Distribuce	E.ON Distribuce	PREdistribuce	Czech Republic
SAIFI [interruptions/year]	3.41	2.34	0.57	2.76
SAIDI [minutes/year]	501.47	466.68	40.34	431.45
CAIDI [minutes]	146.88	199.17	70.21	156.18

* System indicators covering all categories of interruption under Appendix 4 to public notice 540/2005

5.6 Assessment of the plan for the development of the electricity transmission system

Under Section 24(10)(j) of the Energy Act, ČEPS, a.s., i.e. the transmission system operator, is obliged to prepare a ten-year plan for the development of the electricity transmission system (TYNDP; Ten Year Network Development Plan) every other year; the TYNDP should specify the needs for construction, modernisation and capital projects in the transmission system, including the milestones for the completion thereof.

The Office approves the TYNDP under Section 17(7)(i) of the Energy Act. On 27 December 2016 it received TYNDP 2017–2026 from ČEPS, including a firm endorsement by MPO. In its firm opinion MPO concluded that this TYNDP met the requirements for the development of the transmission system at the national level and also as part of TSOs' international cooperation and that its implementation would ensure the reliable operation of the system and secure electricity supply to customers.

Under Section 17e(2)(d) of the Energy Act, the Office published the submitted TYNDP 2017–2026 for consultation, and the comments raised during the public consultation process were dealt with. During the approval process the Office checked whether the TYNDP was in compliance with the non-binding Community-wide ten-year network development plan and contained all the required projects, including projects of common interest. From this perspective, TYNDP 2017–2026 contains ČEPS's development plans having cross-border relevance, and development plans that are also included in projects 35, 55, 177 and 200 of the European development plan for transmission systems from 2016 (TYNDP 2016). The Office also examined the impact of the *European generation adequacy outlook* documents from 2015 and 2016; in the case of the Czech Republic, these documents do not expect any significant difficulties concerning generation capacity adequacy. In the public consultation process the entities concerned did not refer to any investment need as missing in TYNDP 2017–2026.

In its assessment, the Office also considered the benefits of the various projects included by ČEPS, a.s. in TYNDP 2017–2026 at the Office's request, the criteria being, for example, the reliability of supply and the exporting of power from generating capacities, flexibility, and RES integration. Compared with the preceding TYNDP, ČEPS extended TYNDP 2017–2026 to include a detailed description of the development intentions. The description and assessment of the development intentions include 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, the chapter on the results of calculations was also drawn up in detail, with the above changes helping to improve the quality and transparency of the TYNDP.

The TYNDP also contains the development scenario outlooks drawn up at the national and European levels (ENTSO-E), and these outlooks are used as inputs into the planning of new development measures. In addition to those such as the future RES development, these inputs also include the issue of loop flows that also burden some elements in the Czech transmission system. This is primarily a European problem but it also requires response within the national ten-year plan in order to keep the N-1 security criterion, specifically in the form of short-term solutions (upgrade of transmission system elements) and long-term solutions

(development of capital assets, including the installation of phase shift transformers (PST) on the Czech-German interconnectors).

The full wording of TYNDP 2017–2026 is available on the ČEPS website.

5.7 International relations

The Office's activities in respect of electricity regulation at the European level focused on continuous work in ACER and CEER working groups and task forces on the relevant issues. In the calendar year 2017 these groups concentrated on the development of network codes and, in fact primarily, on the implementation of already effective network codes. The Office worked on position papers and draft amendments to the legislative proposals in the Commission's winter package of 30 November 2016, which contains a set of amendments to the key legislation on the electricity industry going forward.

The Office closely cooperated with the market participants in network code drafting and implementing; in state administration, it closely cooperated with MPO's energy section.

5.7.1 The Office's activities in ACER/CEER electricity groups

For ERO staff members involved in the activities of the ACER/CEER electricity working groups, 2017 was primarily marked by intensive work on the implementation of applicable network codes and also on the drafting of new network codes. In their respective working groups, the Office's representatives actively participated in national and international meetings concerning the implementation of the network code on capacity allocation and congestion management, the network code on forward capacity allocation, and also on network codes on connection, which set out the requirements for the grid connection of generators, distribution systems and high voltage direct current connections. Most of the implementation activity throughout 2017 was related to accepting the conditions or approving the methodologies required by those Regulations.

Along with the processes to implement already adopted network codes, final work continued on the draft network codes, namely the network code on electricity balancing, the network code on electricity transmission system operation, and the network code on electricity emergency and restoration. The Commission adopted these network codes at the end of November and the beginning of December 2017.

In respect of the activities in working groups, ERO staff members 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 at the national level. The relevant ERO staff members also 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.

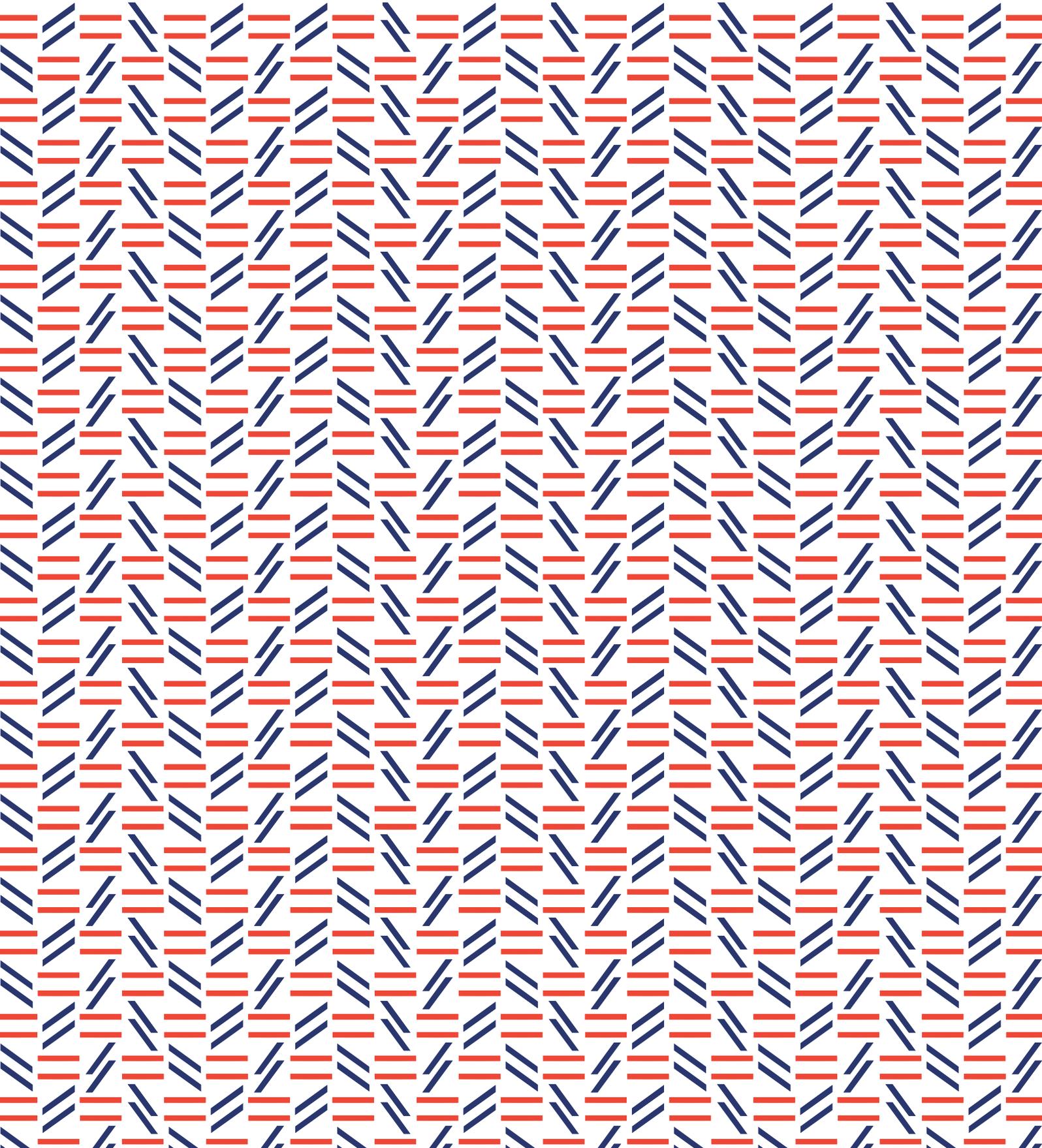
5.7.2 The European Commission's winter package

At the end of November 2016 the Commission adopted a package of legislative proposals that would have broad-ranging impacts on the working of the European electricity market, referred to as the winter package, which mainly includes a recast of Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity, a recast

of Regulation (EC) No 713/2009 establishing an Agency for the Cooperation of Energy Regulators, a recast of Directive 2009/28/EC on the promotion of the use of energy from renewable sources (REDII), and a recast of Directive 2009/72/EC concerning common rules for the internal market in electricity.

2017 was marked by work on position papers and on draft amendments to the relevant Articles of the Regulations and Directive in respect of electricity market regulation. The Office closely cooperated with MPO, MZV and the Cabinet Office, and with other European regulators within CEER.

6 / The gas industry



6 / The gas industry

6.1 The gas market

Supplier switching

There were 2,844,257 supply points of customers in the Czech Republic at the end of 2017. This number also includes 196 CNG (Compressed Natural Gas) fuelling stations. The year-on-year increase in the number of supplier points is therefore 3,786. The increase in the number of customers was attributable to the addition of customers in local distribution systems, the monitoring of which started on 1 January 2017. The breakdown of supply points by customer category is listed in Table 2.

Table 2 Number of gas supply points in 2017

Customer category	Number of supply points	Share [%]
High-demand customers	1,703	0.06
Medium-demand customers	6,817	0.24
Low-demand customers	203,138	7.14
Households	2,632,599	92.56
Total	2,844,257	100.00

Of the total of 227,545 gas supplier switches registered by the Office in 2017, 199,678 took place in the household customer category. Compared with 2016 the number of supplier switches increased by 23,595 in 2017. In terms of the level and effectiveness of gas market opening and competition it can therefore be noted that the current legislative framework for supplier switching meets the requirements for putting in place a competitive and safe consumer-focused environment.

Table 3 Number of gas supplier switches between 2012 and 2017

	2012	2013	2014	2015	2016	2017
High-demand customers	979	449	330	329	617	305
Medium-demand customers	2,951	3,061	1,572	1,326	1,973	1,357
Low-demand customers	27,829	29,091	23,704	21,642	28,411	26,205
Households	316,297	264,680	174,783	154,465	172,949	199,678
Total	348,056	297,281	200,389	177,762	203,950	227,545

In 2017, the Office carried out the continuous monitoring, within its remit and in compliance with Section 17 of the Energy Act, of the use of restricting or unfair conditions, which restrict or exclude customers' rights, in contracts on the gas market and also monitored competition in the wholesale and retail gas markets. In 2017 the ERO did not carry out any investigations in the gas market.

No crisis in the gas market or threat to the physical safety of people, apparatus or installations or system integrity occurred in 2017 and so no safeguard measures had to be taken in 2017.

Indicative prices

The Office continuously monitors the condition and development of the gas market in compliance with the objectives and requirements of the directive on common rules for the natural gas market and the Energy Act. The purpose of this monitoring is to see whether or not effective competition exists or the efficiency of market openness is weakening.

The Office continued to post indicative prices of gas supply services on its website. The indicative prices reflect the wholesale prices for which gas traders are able to buy gas (as the commodity) at energy exchanges. They also contain traders' reasonable margin, which covers traders' costs necessarily incurred in their business activity and a customary level of profit. The indicative prices therefore constitute non-binding and indicative information for consumers on whether the prices for which they are buying gas reflect the actual situation in the retail gas market.

Integration of gas markets between the Czech Republic and Austria

In 2017, the international task force for the project of integrating the Czech and Austrian gas markets, composed of representatives of the Energy Regulatory Office, the Austrian regulator (Energie-Control Austria), and gas transmission system operators (Gas Connect Austria GmbH, and NET4GAS, s.r.o.), continued to prepare a pilot project for integrating the Czech and Austrian gas markets.

The importance of the integration project has been highlighted by a decision of the European Commission, which has made support for the implementation of the *Bidirectional Austrian-Czech Interconnection* (the BACI gas pipeline) infrastructure project, a part of the third list of projects of common interest, conditional on the implementation and evaluation of the test phase of the integration service.

The finalisation of a public consultation on the proposed form of integration, together with the form of the implementing service, Trading Region Upgrade (TRU), which had been run in 2016, was approved and published in 2017. The task force approved the finalisation in the form of an output document, *Questions & Answers (Q&A)*, together with a document describing the TRU service.

In late 2017 the Office approved the publication of the documents on TRU, since the qualitative and quantitative standard of the document drawn up by NET4GAS and Gas Connect Austria reached the minimum standard required by the Office as the guarantor of transparency and correct finalisation. The Office wanted the treatment of comments and suggestions to clarify the crucial and basic aspects of the working of the integration scheme chosen.

Simultaneously with the publication of the above documents an *ad hoc* working group was set up at the national level and tasked with the practical implementation of this integration in national implementing acts. The working group's task was to prepare amendments to the TSO's Grid Code and also the transmission tariff for the offered TRU service as part of a price decision on regulated prices related to gas supply with a view to meeting the TRU service starting date in December 2017 planned by the transmission system operators.

Due to disagreements between the TSOs involved (NET4GAS, s.r.o., Gas Connect Austria, GmbH, and eustream, a.s.), the pilot stage of the TRU service was not started in 2017.

6.2 Pricing

The Office is competent to determine the regulated part of the price (the price for the related services in the gas industry) under the Energy Act. The unregulated part of the overall price for gas supply includes prices that the Office is not competent to determine. These include gas traders' prices for gas supply and margins, and the gas storage charge.

In 2017, the Office issued two price decisions for the gas industry under the Energy Act, public notice 195/2015 on the method of price regulation and procedures for price controls in the gas industry, public notice 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 in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries for the Period from 2016 to 2018*.

The first of them was ERO Price Decision No 1/2017 of 2 March 2017 amending Energy Regulatory Office Price Decision No 6/2016 of 25 November 2016 on regulated prices related to gas supply. This amendment to the price decision for 2017 was related to the amendment to public notice 349/2015, Gas Market Rules, as amended, under which the conditions for setting the fixed [under TAR NC] and the fixed [mandatorily fixed under the Czech Price Act] floating prices for booked firm transmission capacity at cross-border points of the transmission system.

The other price decision for the gas industry was Price Decision No 5/2017 of 21 November 2017 on regulated prices related to gas supply, which set out the regulated prices for 2018.

6.3 Regulated components of the price

Under Section 17(6)(d) of the Energy Act, for 2017 the Office set the charge for the related services in the gas industry. It consists of the charge for the gas transmission service, the charge for the distribution system service and the charge for the market operator's services, including the charge for the Office's activities under Section 17d(3) of the Energy Act.

Charge for the gas transmission service

For 2018, the TSO's adjusted allowed revenues have decreased by 14.35% on 2017. The decrease was positively influenced by the negative value of the correction factor for the gas transmission service, caused by the difference between the actual and planned revenues in the preceding period. The mechanisms incorporated into the Czech gas market

model through the implementation of the Regulation establishing the Network Code on Gas Balancing of Transmission Networks had the heaviest impact (approximately CZK 120 million) on its level.

The adjustment of allowed revenues caused the average amount of the charge for the service of gas transmission to the domestic point to drop to CZK 11.73/MWh, i.e. by 25.9% on 2017. This price is integrated within the regulated prices for distribution system services and, depending on the customer's categorisation as a household, low-demand, medium-sized demand or high-demand customer, accounts for approximately 1-2% of the total charge for the gas supply service.

A major change in the price decision for 2018, specifically in the chapter on gas transmission, is the change in the calculation of the prices for the gas transmission service for virtual points of storage facilities. The reduction in the regulated prices for the service of gas transmission from/to virtual storage facilities should result in a more active utilisation of storage products and is expected to have a positive effect on the competitiveness of the offered storage capacities at the international level.

Charges for the distribution system service

The average price for the distribution system services, including the service of gas transmission to the domestic point, for 2018 has increased by 2.98% on 2017. The main reasons for this increase include, in particular, a decline in the quantity planned for distribution and the positive values of the correction factors for gas distribution, based on the difference between the planned allowed revenues and actual sales in the period under review.

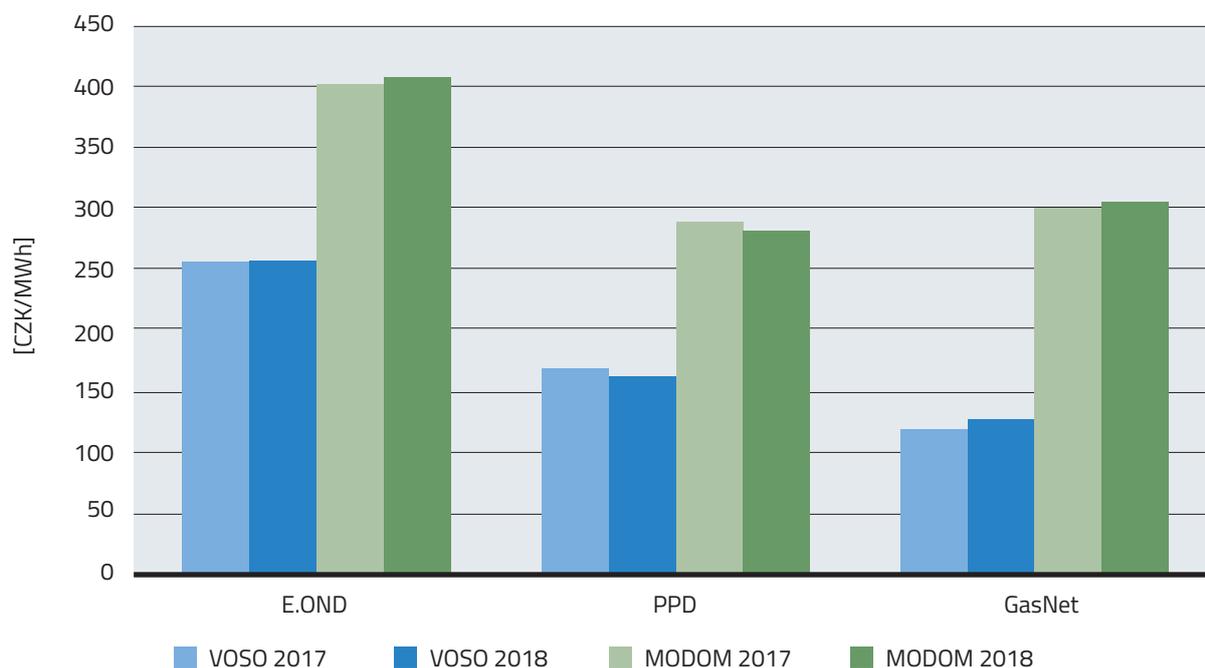
Chart 7 depicts a year-on-year comparison of the change in the average distribution prices, including transmission to the domestic point, for each of the customer categories by distribution system operator.

The charge for the distribution system services is usually a double-component price with a variable component (the price for distributed quantity) and a fixed part (the standing monthly charge).

The variable part of the distribution price is determined by a fixed price for gas taken, in CZK/MWh. Its level therefore depends on the gas quantity consumed.

The standing monthly charge for booked capacity constitutes the fixed component of the prices for customers in the household and low-demand [business] categories, who take up to 63 MWh of gas per year. Its level depends on the particular distribution area and on the customer's inclusion in an off-take band, which is determined by the adjusted annual consumption at the supply point. Low-demand [business] customer and household customer categories ([the Czech acronym is] MODOM) taking over 63 MWh of gas per year pay the fixed component of the price through the fixed price for daily booked distribution capacity. For the high-demand and medium-sized demand customer categories ([the Czech acronym is] VOSO) this component of the price is set depending on the daily booked distribution capacity for an indefinite period of time. Customers most often pay it on a monthly basis as a fixed price for daily booked distribution capacity.

Chart 7 Comparison of average regulated charges for gas distribution system services (distribution, transmission) in 2017 and 2018, 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 2018, the fixed price for clearing has been set at CZK 0.72/MWh. The year-on-year decline of CZK 0.34/MWh in this price is due to the negative value of the correction factor for the market operator’s services. The above price is marked up by the fee for the Office’s activities, which is set by a Government Order under the Energy Act. The fee has remained as the same level as in 2016 and 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), will decrease compared with 2017, from CZK 3,027/month to CZK 2,800/month. The other regulated charges for the market operator’s services, which are listed in the price decision, have remained at their 2017 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 if the supplier requests so.

In 2017, two gas traders became unable to honour their obligations and supply gas to their customers. These traders’ customers were allowed to make a fast change of their supplier. In cases of customers who did not use the option of a fast supplier switch gas supply of last

resort was started to their supply points. Nevertheless, the supplier of last resort did not ask the Office to set the price of the supply of last resort for it in any of the cases, and the price of the gas supply service under the applicable commercial terms of the relevant supplier of last resort was used.

6.4 Unregulated components of the price

The commodity charge

The powers laid down in the Energy Act do not allow the Office to regulate or otherwise influence the level and structure of the gas prices quoted by the various gas traders, i.e. the prices of gas as a commodity, and the trader's related services.

Gas storage charge

The Office does not regulate the charge for gas storage in storage facilities; the storage price is formed in the market itself on the basis of the results of available storage capacity auctions.

In 2017, storage system operators, innogy Gas Storage, s.r.o., MND Gas Storage a.s., and Moravia Gas Storage a.s., called a total of 23 auctions to sell storage capacity for subsequent storage years. As the other liberalised European markets, the Czech gas market has also experienced an expansion of the traditional role of gas storage. In addition to meeting the seasonal and short-term swings in gas demand, ensuring gas supply security, and enabling the optimisation of the whole gas chain, the results of the storage capacity market are also reflected in the financial sector where gas storage is used as an arbitrage instrument for determining seasonal and spot prices. The seasonal differences in prices therefore continue to be the principal tool for storage capacity valuation. The effect of keener competition in the European flexibility market, resulting in stronger pressures for maintaining the profitability of gas storage, is therefore fully reflected in the national environment.

6.5 Statistics and supply security

In 2017, the Office issued five reports on gas system operation: quarterly reports for 4Q 2016 and 1Q, 2Q and 3Q 2017, and the yearly report for 2016. These reports primarily contain technical data such as the system balance, natural gas production and storage, natural gas consumption broken down by off-take categories, data on cross-border flows, and other statistics. The yearly report also includes sections on the gas supply security standard.

As part of its competences, the Office monitors and evaluates adherence to the gas supply security standard (BSD) in the Czech Republic. Based on data from gas traders the Office also prepares monthly reports on BSD that are regularly posted on the Office's website during the winter season. 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.

Under public notice no. 344/2012 on states of emergency in the gas system and on methods for ensuring the security standard of gas supply, as amended, the Office received all returns and information concerning the BSD obligation from gas traders before the 2017/2018 winter season.

Based on the experience with BSD keeping and on its assessment of the related findings the Office participated in the drafting of legislative changes intended to eliminate cases where gas traders take an ambiguous approach to BSD or where effective measures help insufficiently to mitigate the impact of any disruption in gas supply in the Czech Republic.

6.6 Assessment of the development plan for the gas transmission system

Based on the implementation of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC in the national legislation, in the form of Section 58k of the Energy Act, the transmission system operator, NET4GAS, s.r.o., draws up a ten year network development plan (TYNDP) that contains an overview of the measures adopted with a view to ensuring an adequate capacity in the gas transmission system so that it meets the conditions necessary for ensuring gas supply security while guaranteeing the adequacy of the system; the TSO then submits the TYNDP to the Office for a review. The Office reviewed the TYNDP under Section 58k (8) of the Energy Act.

The requirements of Section 58k of the Energy Act emphasise transparency in the decision-making on the submitted TYNDP, and the public consultation process is therefore conducted by the TSO as well as the ERO.

In the context of Section 17(7)(i) of the Energy Act, in 2017 the Office primarily decided on NET4GAS's remonstrance against the Office's decision on TYNDP 2017–2026. The TSO primarily disagreed with the imposition of the obligation to remove the TRA-N-133 (BACI) project from TYNDP 2017–2026.

In the case of the first remonstrance, the second-instance body remanded the decision for new consideration. The TSO also appealed against the second decision (in the form of a remonstrance) but in this case its appeal was not granted and the ERO Board, in its capacity as the second-instance body, upheld the Office's decision in the first instance to the full extent.

The decision of 19 December 2017 therefore became final and the TSO was obliged to omit the TRA-N-133 project from the plan and to recast its TYNDP 2017–2026. Due to the appeals and the time limits in administrative proceedings, TYNDP 2017–2026 was not approved in 2017.

In 2017, the Office also decided on the submitted TYNDP 2018–2027. In the context of the public consultation process run by the TSO the Office primarily initiated an unplanned bilateral meeting on TYNDP 2018–2027. The Office presented its expectations from this as well the subsequent editions of this plan, i.e. that the TSO improves the quality of the information contained in the plan vis-à-vis the other gas market participants.

Compared with TYNDP 2017–2026, the published TYNDP 2018–2027, in the version intended for the TSO's public consultation, contained only few material changes in the technical and economic parameters of the various projects.

In the public consultation process run by the TSO mainly at a general level the Office therefore requested the TSO to describe, for the projects the expected capital expenditure on which had been changed, the reasons for such changes, and for projects having a negative effect on the system's total capacity in which the applicants for connection had materially changed their earlier specified parameters, to provide the reasons for these changes.

In the light of the persisting reservations to the TRA-N-133 project the Office requested the removal of this project from TYNDP 2018–2027 both at the bilateral meeting and, subsequently, as part of the TSO's public consultation, inviting the TSO to provide information that would rebut the Office's comments and concerns relating to the negative externalities.

Under Section 58k(3) of the Energy Act, the Office requested the TSO to omit from the plan the projects designated by the TSO as 'suspended' projects, because the features of those projects failed to meet the requirements of the legislative framework.

In the context of the Capacity4Gas projects, the materialisation of which would have a determinant impact on the Czech gas transmission system, the Office primarily requested a more detailed elaboration on the provided information about the implementation of the TRA-F-752 and TRA-F-918 sub-projects, at least at the level of detail in the published information leaflet on these projects.

As in the preceding years, under Section 58k(6) of the Energy Act the Office subjected the final version of TYNDP 2018–2027, submitted by the TSO, to a public consultation process and therefore published the plan without undue delay from receipt thereof, in a manner enabling remote access, for ten workdays.

The Office assessed the submitted plan from the perspective of the requirements of the national legislation and the higher EU legislation in the context of Directive 2009/73/EC, Regulation (EU) No 715/2009, Regulation (EU) No 347/2013, Regulation (EU) No 994/2010, and Regulation (EU) No 984/2013 and in the context of benefits for the continuous development of the Czech gas market, the needs of gas customers in the Czech Republic, and the overall impacts on final consumers.

In the light of the above and based on the submitted TYNDP 2018–2027 and the information obtained in its activities, the Office expressed its view that for the TRA-N-133 (BACI) project it was not possible to expect a situation where positive externalities and benefits would outweigh the negative externalities. By its requirement that the project be removed from the plan the Office highlighted the immaturity of the project and traders' lack of interest in the proposed new transmission capacity and also countered the TSO's effort to transfer the costs incurred in the implementation of what the ERO regards as purely commercial investments to the users of the Czech gas system, in particular the final consumers, thereby causing a burden on the users.

In its decision the Office also requested that the extent of the planned projects and investments set out in the document "Non-public Part of TYNDP 2018–2027 for the Energy Regulatory Office" be brought into compliance with the extent of the planned investments in the development, refurbishment and upgrade of the gas transmission system within the meaning of effective measures to ensure system adequacy and supply security, as specified in the TSO's regulatory report and the breakdown of the plan of capitalised assets for 2017 in that report, which the TSO had delivered to the Office at its request.

In compliance with Section 58k(9) of the Energy Act, and in the light of the above reservations to the presented TYNDP 2018–2027, the Office ordered the TSO to change the presented TYNDP 2018–2027 and/or remedy its flaws, setting a reasonable time for this.

TYNDP for 2018–2027 and TYNDP for 2017–2026 were therefore not approved in 2017, because the administrative proceedings in the two cases were not concluded in 2017.

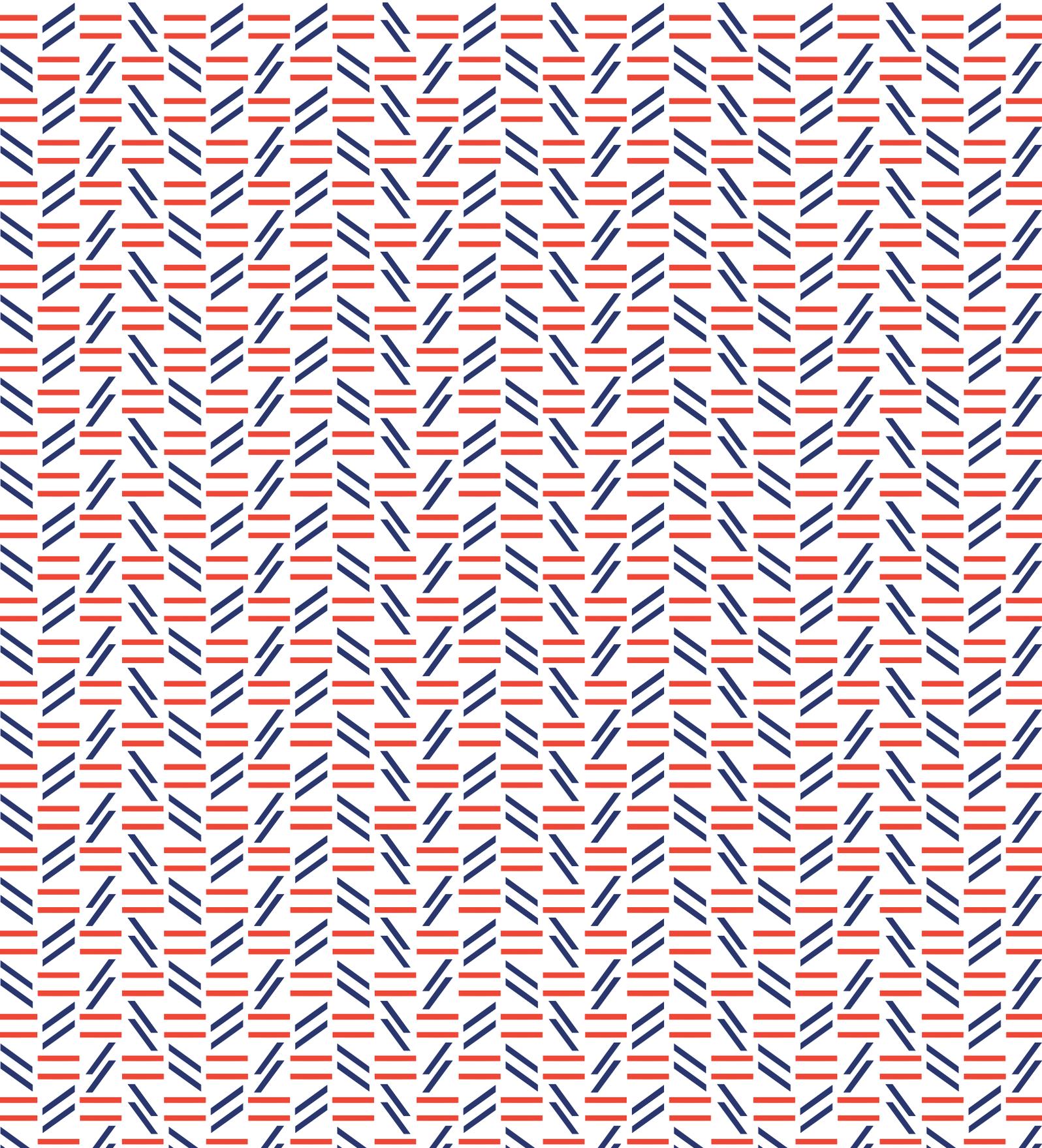
Throughout 2017, the Ten-year Plan for the Development of the Gas Transmission System in the Czech Republic 2016–2025 therefore continued to be the applicable development plan.

6.7 International relations

In 2017, two Regulations were issued with a view to putting in place uniform principles conducive to the creation of a single internal gas market within the EU: Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas, and Commission Regulation (EU) 2017/459 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013. The gas working groups, in the activities of which ERO employees participate, therefore focused on activities geared towards facilitating the implementation of the relevant provisions of these regulations in the national gas market model.

In terms of the contribution to gas market integration, the rules for a pilot project for mutual direct access to the gas market between the Czech Republic and Austria were approved based on the results of the talks between the Czech Republic, Slovakia, and Austria.

7 / The heat supply industry



7 / The heat supply industry

7.1 The heat supply market

The Czech heat supply industry historically features large percentages of thermal energy supply from district heating systems for various business entities, non-business institutions, and households. The variations in thermal energy supply are significantly influenced by, primarily, the weather in the particular calendar year, with the heating season usually beginning in September and ending in May.

The trends in today's heat supply industry include combined heat and power generation (CHP), renewable energy sources (RES), and use of high-efficiency plants. In some localities, individual sources of heat, such as house gas boilers, heat pumps and PHV systems, constitute an alternative to the centralised heat supply systems.

Table 4 shows the current average prices in the Czech heat supply industry, with the weighted average of thermal energy prices, regardless of the fuel used for producing thermal energy, amounting to CZK 570.45/GJ, including the value-added tax (VAT), as at 1 January 2017. The average preliminary price of coal-produced thermal energy as at 1 January 2017 increased by CZK 3.73/GJ compared with the resulting average price in 2016; in the case of thermal energy from other fuels the average price decreased by CZK 11.07/GJ.

Table 4 Average thermal energy prices for final consumers for 2016 and on 1 January 2017, including VAT

Year	From coal [CZK/GJ]	From other fuels [CZK/GJ]	Weighted average [CZK/GJ]
2016	563.04	585.64	573.77
on 1 January 2017	566.77	574.57	570.45

7.2 Pricing

The current wording of the price decision was not amended for the calendar year 2017. The method of price regulation in the heat supply industry allows thermal energy suppliers to pass through economically justifiable costs related to thermal energy generation and distribution, reasonable profit, and VAT into thermal energy prices. The current regulatory approach therefore makes it possible to reflect the technical and other conditions for thermal energy generation and distribution in thermal energy prices, which may therefore vary in the various price locations.

7.3 Evaluation of thermal energy prices

Holders of licences for thermal energy production or thermal energy distribution, or thermal energy production and 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, as amended.

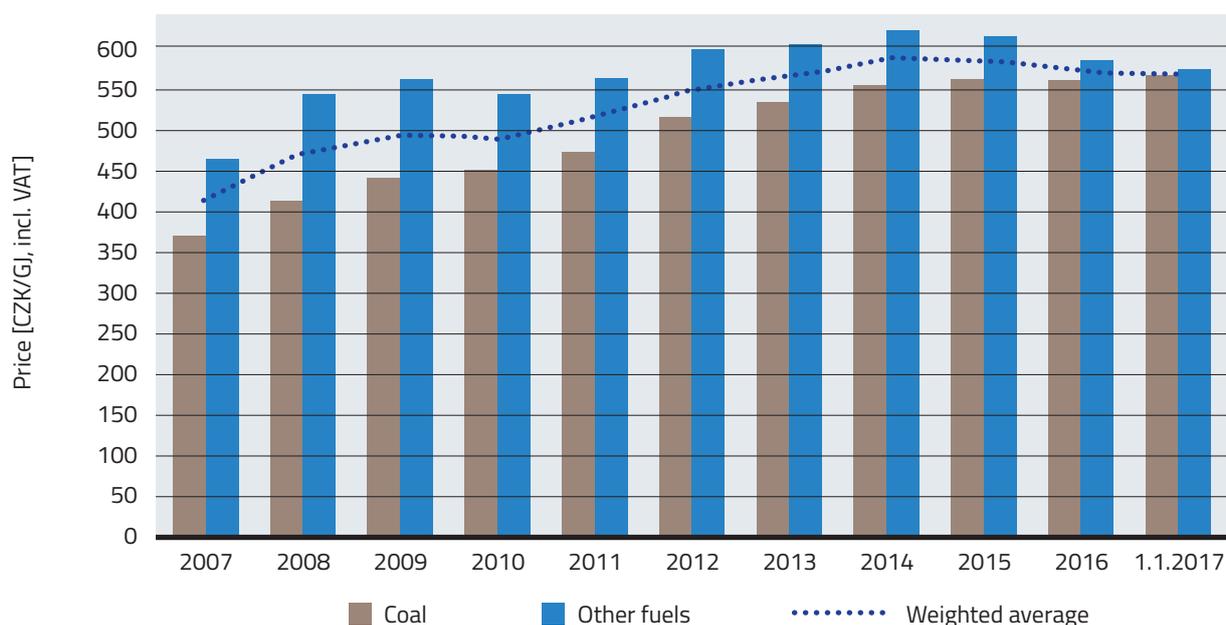
Based on the reported technical and economic information the Office prepares overviews of the resulting and preliminary thermal energy prices, evaluates the development of thermal energy prices, and posts overviews of these prices on its website, including additional information about thermal energy supply in each of the price locations. 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.

7.4 Development of thermal energy prices

The Office has been processing and evaluating the development of thermal energy prices since its establishment. Chart 8 shows average resulting prices of thermal energy supplied to end consumers (to their equipment that receives thermal energy) between 2007 and 2016, and preliminary thermal energy prices as at 1 January 2017. The overview of thermal energy prices for end consumers includes prices of thermal energy supplied from distributions from block boiler houses, external secondary distributions, house delivery substations, centralised hot water preparation, and from house boilers. 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 is the weight.

In the period under review, a gradual and more even increase in the price of thermal energy produced from coal is apparent. The year-on-year changes in the average prices of thermal energy produced from other fuels are not even: we can see year-on-year increases, but also decreases in the period under review. The development (both upward and downward) of thermal energy prices is mainly influenced by fuel price changes, rising fixed costs, and also shrinking thermal energy supply and increasing VAT rates. For the period from 2007 to 1 January 2017, the average price of thermal energy produced from coal for final customers increased by CZK 197.89/GJ, i.e. approximately by 54%. Over the same period the price of thermal energy produced from other fuels increased by CZK 111.03/GJ, i.e. approximately by 24%. As regards fuels other than coal, since 2015 average thermal energy prices have been declining, resulting in the prices of thermal energy from other fuels converging to the average prices of thermal energy from coal.

Chart 8 Average thermal energy prices for final consumers (including VAT) between 2007 and 1 January 2017



Coal	388.88	412.91	437.79	451.24	475.59	511.72	532.76	558.81	561.45	563.04	566.77
Other fuels	463.54	542.85	562.07	540.71	563.18	600.54	607.75	624.75	616.86	585.64	574.57
Weighted average	413.81	474.20	494.33	491.73	516.47	552.58	567.79	588.27	587.65	573.77	570.45

Chart 9 and Table 5 show average preliminary thermal energy prices for end consumers as at 1 January 2017, broken down by Region, together with the percentages of the fuels used in thermal energy generation. The lowest prices are in Regions with large, most often coal-fired heat-producing plants that use combined heat and power generation quite significantly, and with extensive district heating systems. On the other hand, the highest average prices of thermal energy for end consumers are in heat supply systems that use other fuels to a large extent for heat production, combined with primary distribution systems based on steam. As at 1 January 2017, the difference between the Region with the lowest average price (the Pardubický Region, CZK 501.94/GJ, incl. VAT) and the Region with the highest average price (Prague, CZK 630.56/GJ, incl. VAT) for end consumers amounted to CZK 128.62/GJ. In the Vysočina Region, the favourable price of thermal energy is attributable to the large share of biomass for generating thermal energy.

Chart 9 Average preliminary prices of thermal energy (including VAT) for end consumers as at 1 January 2017 and percentages of fuels by Regions

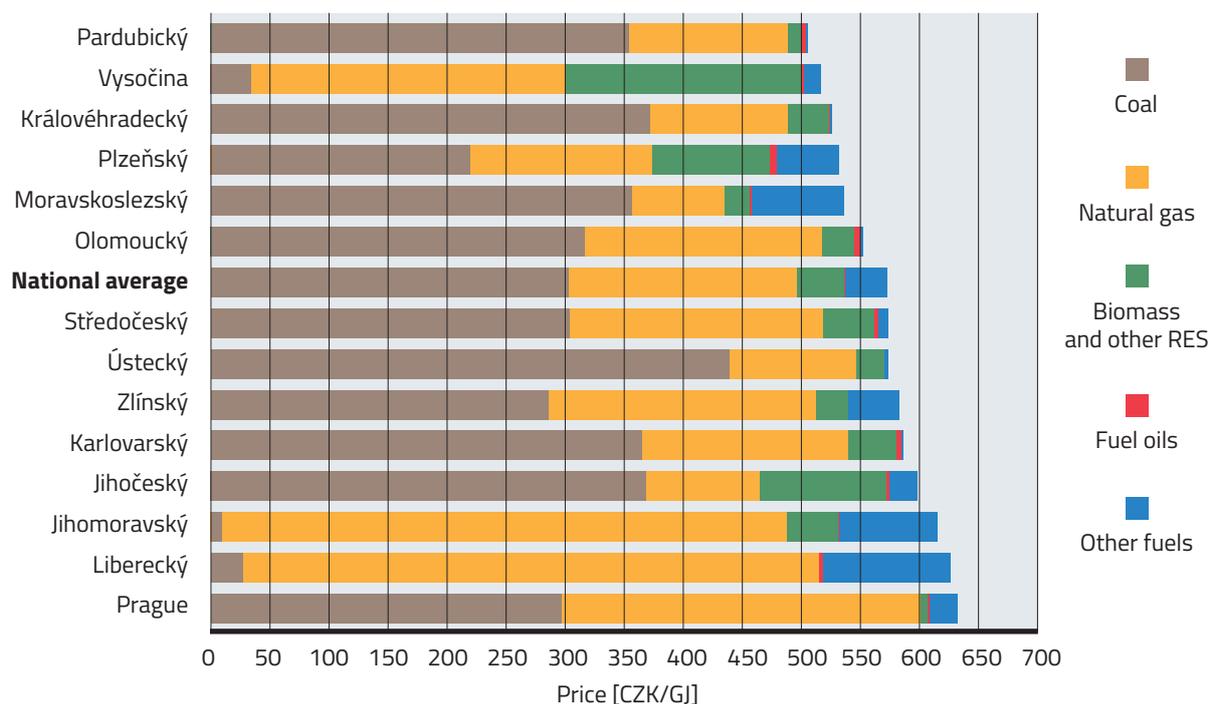


Table 5 Average preliminary prices of thermal energy (including VAT) for end consumers as at 1 January 2017 by Region

Region	1 January 2017		
	Average preliminary price of thermal energy	Coal percentage	Percentage of other fuels
	[CZK/GJ]	[%]	[%]
Pardubický	501.94	70.38	29.62
Vysočina	514.61	6.68	93.32
Královéhradecký	523.19	70.91	29.09
Plzeňský	530.03	41.05	58.95
Moravskoslezský	534.43	66.68	33.32
Olomoucký	548.81	57.46	42.54
Středočeský	570.51	53.13	46.87
Ústecký	571.59	76.68	23.32
Zlínský	580.58	49.04	50.96
Karlovarský	584.25	62.03	37.97
Jihočeský	596.30	61.78	38.22
Jihomoravský	612.74	1.39	98.61
Liberecký	625.35	4.37	95.63
Prague	630.56	46.98	53.02
National average	570.45	52.73	47.27

The following Charts 10 and 11 for the period 2007–2016 show the structure of the average resulting price of thermal energy for end consumers, clearly indicating the impact of the VAT, fuel costs (they are based on adjusting the fuel costs at the generating plant by thermal losses in the heat distribution installations) and other items on thermal energy prices. In 2008, the environmental tax was introduced and has been reflected in fuel costs since. The unit fixed costs in thermal energy prices are also influenced by the gradual decline in heat supply, which was approximately 10.1% for the period 2007–2016. Inflation also influences thermal energy prices.

The depicted structure of thermal energy prices also indicates considerable differences between heat produced from coal and heat produced from other fuels: in 2016, fuel costs accounted for only 16% and other items for 71% of the total price of thermal energy produced from coal, while fuel costs accounted for up to 40% and other items for 47% of the price of thermal energy produced from other fuels; the balance of 13% of the price is VAT for all types of fuel.

Chart 10 Average resulting thermal energy prices for end consumers showing the basic breakdown of prices for coal-produced thermal energy between 2007 and 2016

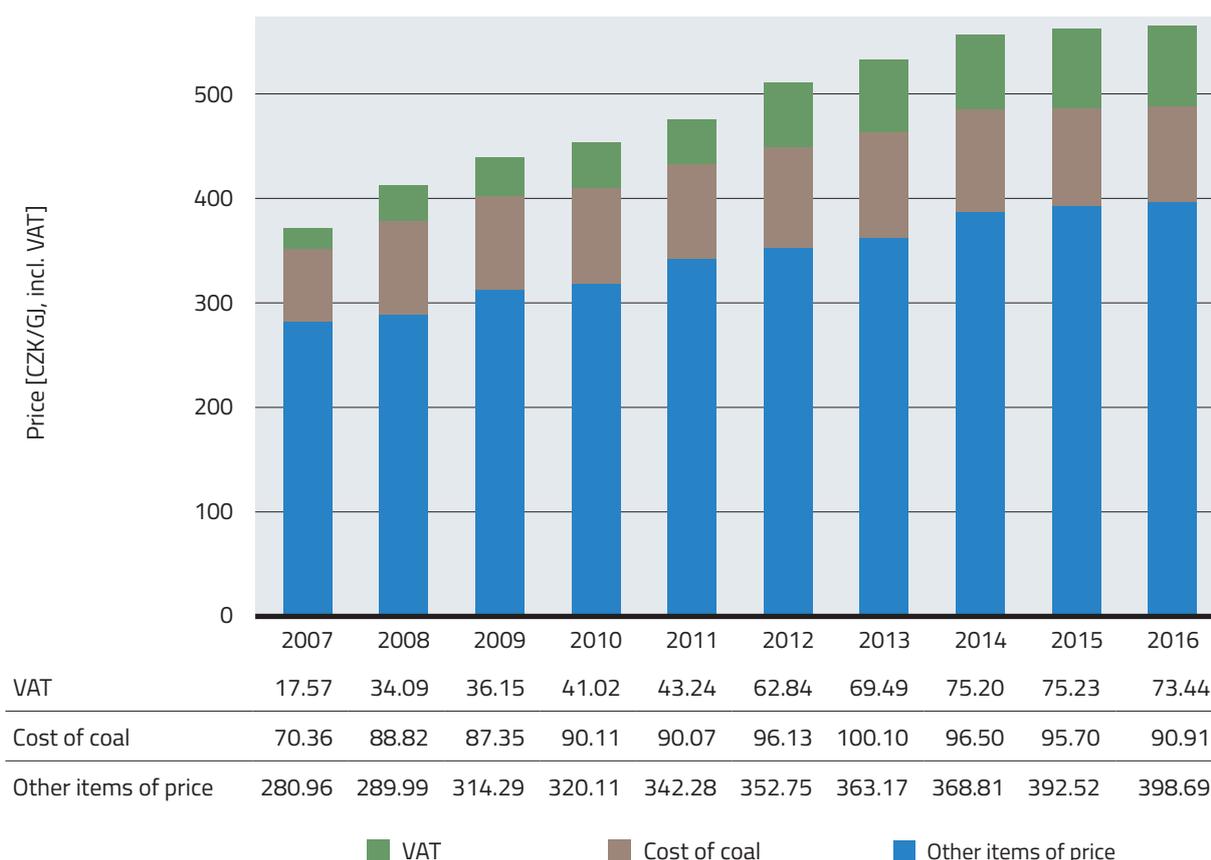
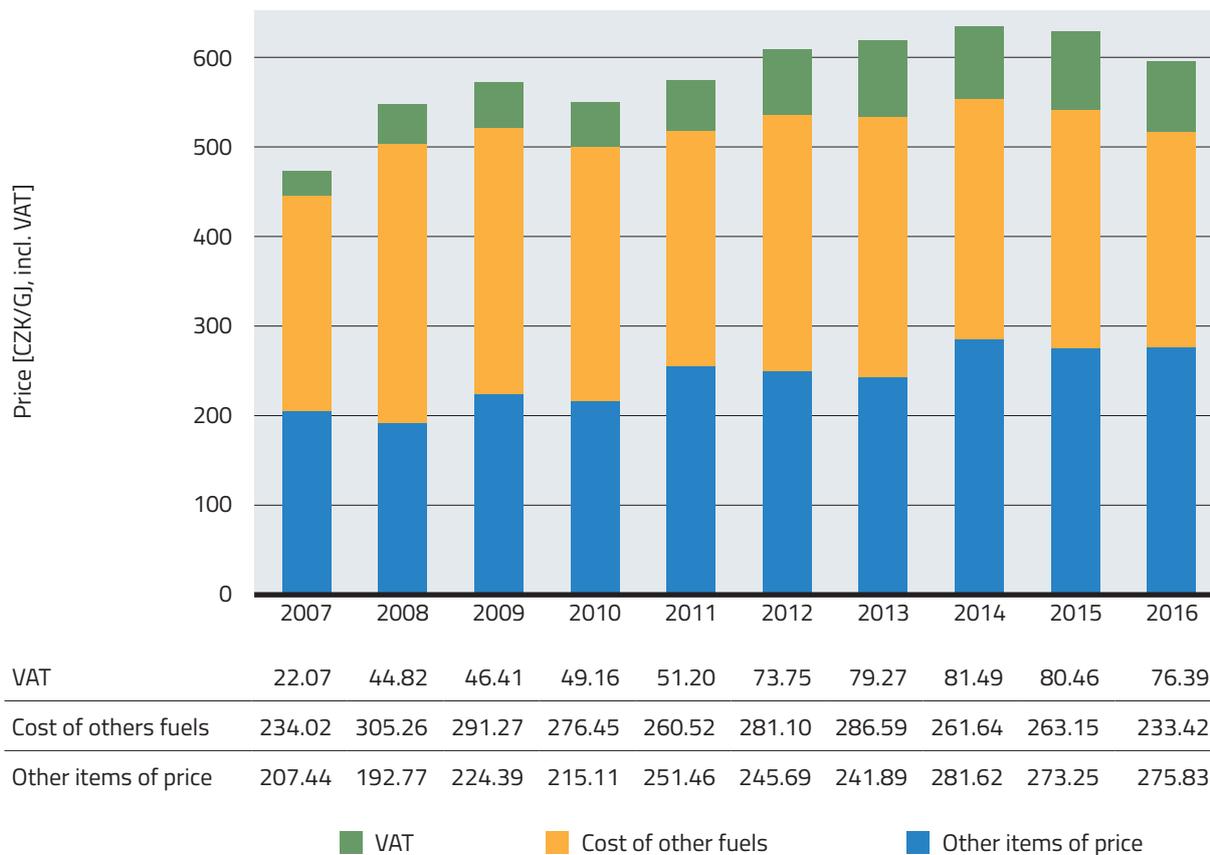
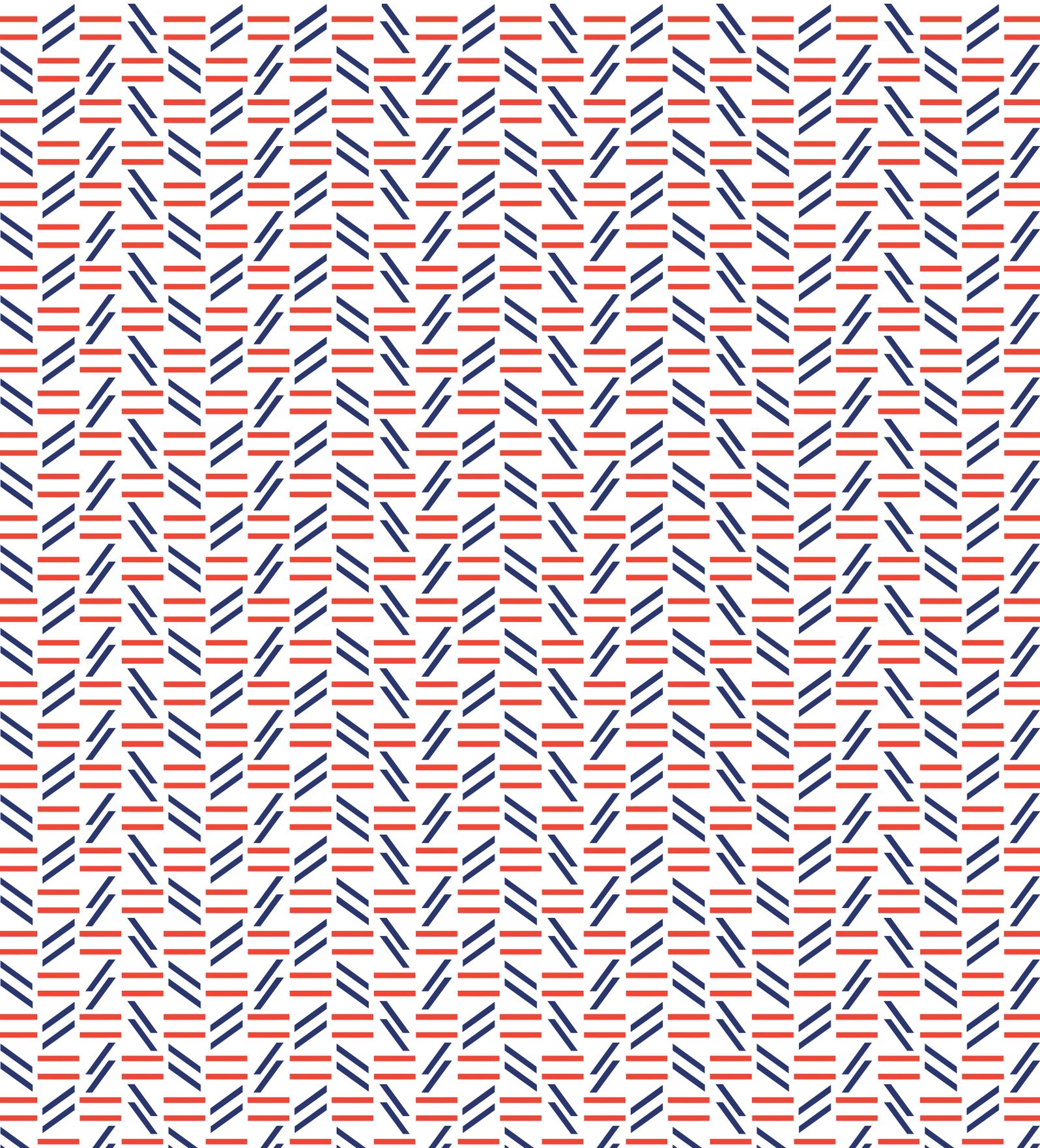


Chart 11 Average resulting thermal energy prices for end consumers showing the basic breakdown of prices for thermal energy from other fuels between 2007 and 2016



8 / Supported energy sources



8 / Supported energy sources

As in the preceding year, the Office's activities were influenced by the process of finalising support notification schemes for the aid schemes where aid for the relevant group of POZE was not set out in any ERO price decision.

The Office has become a member of a working group at MPO, which is drafting a bill to amend the POZE Act. The main points to be covered by the amendment include commitments deriving from the relevant notified decisions, including checks of overcompensation and setting future aid after 2021, in particular new aid in the form of competitive bidding processes.

8.1 Notification procedures

The European Commission's notification SA.45768 (SA.2016/NN) – Czech Republic – Promotion of electricity from high efficiency combined heat and power generation installations, declares promotion of electricity from high-efficiency combined heat and power generation installations commissioned or refurbished between 2016 and 2020 to be compatible with the EU internal market. This involves aid that had not been determined for these installations between 2016 and the Commission's notification. In this notification, the Commission granted a derogation to the Czech Republic and allowed to lay down the existing aid scheme, which is not based on competitive bidding processes, for those installations for the post-2016 period. The derogation could be granted because the Czech Republic notified the Commission that under this notified aid scheme (from 2016 to 2020) only a limited number of above 1MW installations would be commissioned.

The finalisation of another issue under a ***decision notified by the European Commission, SA.38701 (SA.2014/NN) – Czech Republic – Promotion of electricity production from CHP and heat from renewable energy sources***, was only completed in December 2017. The notification concerns electricity installations commissioned between 2013 and 2015. Since the issue is support introduced by Act No 165/2012 in 2013, whereby operating aid does not reflect any investment aid, or cumulation with other forms of operating aid, the notified commitment requires that these installations go through the process of review to ensure that overcompensation is avoided. Another group of installations covered by the notified decision includes heat generating plants (heat plants and CHP) that produce heat by biomass firing (or using geothermal energy or bioliquids) and for which Act No 165/2012 currently lays down aid of CZK 50/GJ of heat supplied to the heat distribution installation of the heat supply system. The notified decision requires the commitment to refrain from determining this support as a firm indexed amount in an amendment to the POZE Act in the future, but only to set support covering the difference between fuel costs. Installations burning waste as fuel for the purposes of energy production from high-efficiency CHP and of heat production from RES are not eligible to apply for support under the notified measure.

8.2 Price Decisions

In 2017, the Office issued four price decisions on the above issues. Part of the price decisions were also commitments deriving from the relevant notified decisions, which would continue to be part of the price decisions before they are provided for in an amendment to the POZE Act.

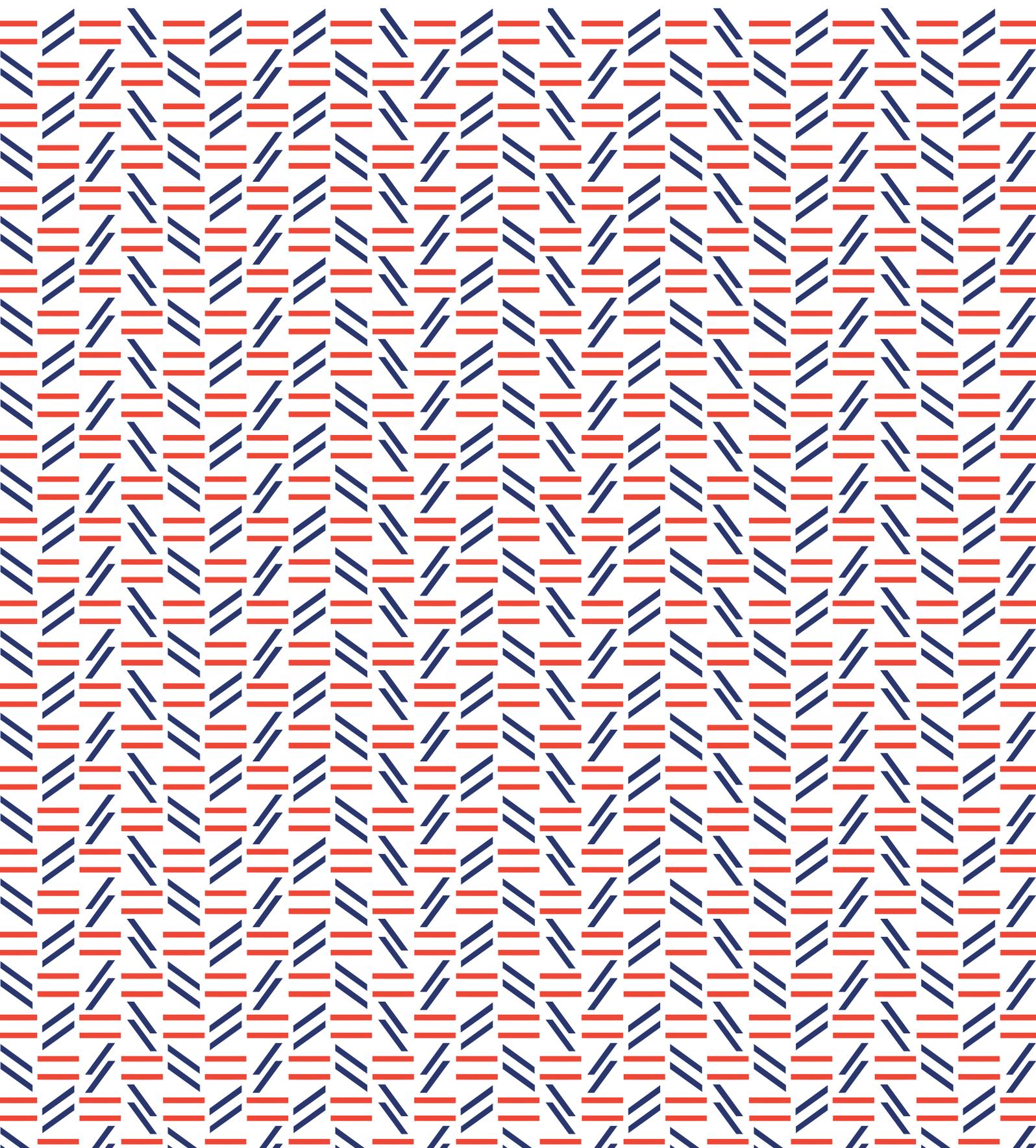
In response to the notified decision EC SA.45768 (SA.2016/NN), ERO Price Decision 2/2017 of 29 March 2017, amending ERO Price Decision 5/2016, which lays down aid for supported sources, as amended in ERO Price Decisions 9/2016 and 11/2016, sets out, with effect since April 2017, aid for 2017 for electricity generating installations that generate electricity in the high-efficiency CHP process in plants commissioned since 1 January 2016.

Under the Energy Act, the Office issued ERO Price Decision 3/2017 of 26 September 2017, laying down aid for supported energy sources. It lays down aid for 2018 with effect from 1 January 2018, setting aid for new power and heat generating installations and annually adjusting aid for already existing supported generating installations. The price decision did not set aid for electricity generating installations generating electricity in the high-efficiency CHP process and commissioned after 1 January 2013, and for electricity generating installations generating electricity using secondary energy sources and commissioned after 1 January 2013, due to the notification processes still pending as at the day of issue of this price decision. Together with the price decision, the Office published a methodology that annually adjusts aid for green premiums on renewable electricity and also on electricity from the high-efficiency CHP process. It also published the method for determining the average expected prices of imbalances for the various RES for the purposes of calculating hourly green premiums on renewable electricity.

On 20 December 2017, the Office issued another two price decisions supplementing aid based on the notified decision SA.38701 (SA.2014/NN) for high-efficiency combined heat and power generation installations commissioned between 2013 and 2015.

ERO Price Decision 8/2017 of 20 December 2017, amending ERO Price Decision 5/2016, which lays down aid for supported sources, as amended in ERO Price Decisions 9/2016, 11/2016 and 2/2017, supplements aid for 2017. ERO Price Decision 9/2017 of 20 December 2017, amending ERO Price Decision 3/2017, which lays down aid for supported energy sources, supplements the newly notified aid for 2018. Under Government Order 266/2017 on aid for electricity and heat from supported energy sources, the Office issued amending price decision 8/2017 in 2017, thereby making it possible for the additional payment of the aid for 2017 to the producers.

9 / Licences



9 / Licences

9.1 Development

As regards licensing, 2017 was the fourth year in which the effects of reduced support for renewable electricity generation were felt in full and also the second year that saw the effect of the changes related to the amendment to the Energy Act, in particular the elimination of the necessity to license electrical energy generation in small, up to 10 kW electricity generating installations intended for the customer's own consumption. The Office received a total of 2,187 applications for licence award/amendment/revocation, which triggered an increase of 65 in the number of the sets of proceedings compared with 2016. Table 6 lists the number of active licences in 2009–2017.

Table 6 Numbers of valid licences between 2009 and 2017 by object of business

Licence	2009	2010	2011	2012	2013	2014	2015	2016	2017
Electricity generation	7,223	13,301	13,530	20,843	26,021	26,158	26,314	26,357	26,282
Electricity distribution	281	300	307	315	319	299	294	254	254
Electricity transmission	1	1	1	1	1	1	1	1	1
Electricity trade	312	321	353	360	389	392	381	380	388
Foreign authorisations for electricity trade	-	-	1	4	12	17	26	27	29
Market operator's services	1	1	1	1	1	1	1	1	1
Gas production	15	15	15	15	15	14	13	14	13
Gas distribution	87	87	86	83	78	77	72	67	68
Gas transmission	1	1	1	1	1	1	1	1	1
Gas trade	105	122	143	172	196	201	213	213	227
Foreign authorisations for gas trade	-	-	1	2	9	13	24	29	27
Gas storage	4	4	4	4	4	4	4	5	4
Thermal energy generation	641	627	619	627	656	672	669	673	663
Thermal energy distribution	689	675	663	653	653	663	654	658	652
Total	9,357	15,452	15,720	23,075	28,367	28,513	28,664	28,677	28,610

In 2017, the Office issued 519 new decisions to award licences in all energy industries. In addition, 1,167 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 2017. Installations were also frequently transferred to a different licence holder (in particular photovoltaic plants (PHV plants)), mainly between family members and natural and juristic persons.

There were 501 sets of administrative proceedings on licence revocation, only a few more than in 2016. Licences were most often revoked at the licence holder's request, mainly in connection with the above transfers of energy installations from one licence to another. Table 7 lists the numbers of administrative proceedings on licence award, change and revocation.

Table 7 Numbers of licence proceedings between 2009 and 2017 (by purpose)

Licence proceedings	2009	2010	2011	2012	2013	2014	2015	2016	2017
New licences	5,159	6,997	560	8,051	5,698	625	615	513	519
Licence changes	1,154	1,708	1,029	2,032	1,809	1,192	1,032	1,122	1,167
Revoked licences	204	264	264	264	354	450	376	487	501

A general view of the electricity generating installations by POZE type clearly shows an almost stable number of energy installations compared with the preceding year, with the exception of the cases below: In the wind power plants category, the commissioning of a new wind park caused a capacity increase of 26.1 MW_e. The solar category shows the current situation based on the pending court proceedings in PHV cases where the Attorney General's Office is the claimant. This situation changes depending on the competent courts' decisions, see Table 8.

Table 8 Number of electricity generating installations and installed capacities between 2011 and 2017 by type of renewable energy used

Operations		2011	2012	2013	2014	2015	2016	2017
Hydro	Number	1,420	1,451	1,500	1,589	1,615	1,625	1,603
	Capacity [up to 10 MW]	141.77	148.08	154.23	342.67	348.18	349.23	351.11
Wind	Number	95	105	112	124	128	125	119
	Capacity [MW]	217.92	261.98	269.36	283.47	284.98	284.91	310.95
Solar	Number	13,019	21,925	27,956	28,127	28,276	28,351	28,348
	Capacity [MW]	1,952.70	2,072.07	2,125.91	2,126.06	2,122.90	2,127.16	2,130.39
With a biogas share	Number	264	415	430	431	428	423	420
	Capacity [MW]	167.97	306.04	333.68	335.51	334.79	333.52	332,20
Landfill gas	Number	63	66	70	70	69	68	69
	Capacity [MW]	56.50	57.20	58.67	58.67	58.65	58.46	58.65
With a biomass share	Number	63	74	94	93	93	92	91
	Capacity [MW]	1,617.64	1,783.11	2,939.33	2,990.42	2,988.01	2,987.62	2,988.13

The ERO website offers a Licence Search function, which is updated on a regular basis. It contains data on holders of licences for business in energy industries awarded by the Energy Regulatory Office and on the various operations.

9.2 Recognition of professional qualifications

In 2017, the Office received 12 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 nine cases. In three cases, it decided to discontinue the administrative proceedings.

9.3 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 27 February 2018, delivered by A-CONT, spol. s r.o., Jihlava, and represented by Mr Jiří Makaj, company director, the books of the Fund were kept in accordance with the applicable legislation and the Fund was truly and fairly reflected in the ERO's financial statements for the accounting period 2017, see Appendix 1.

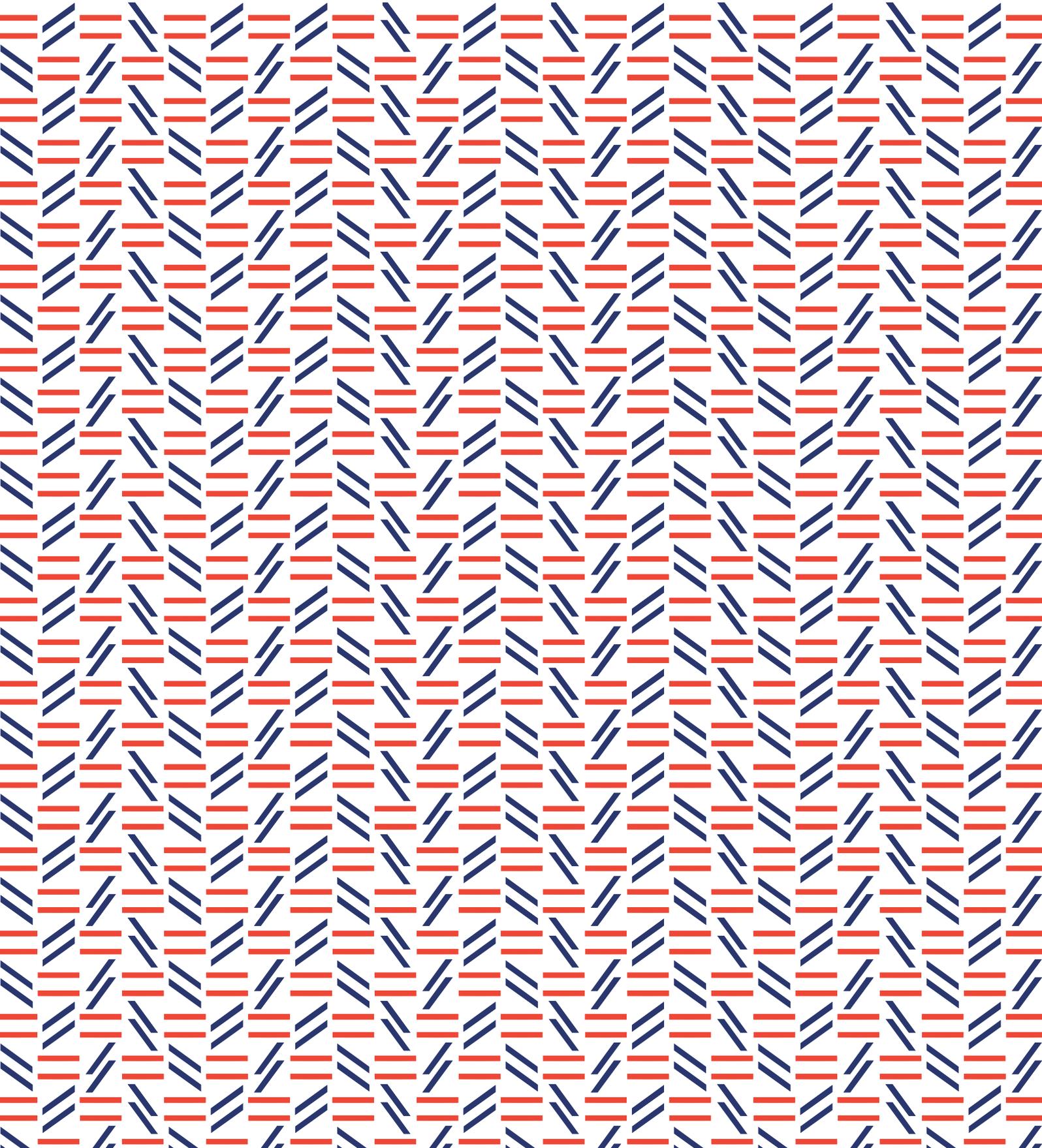
As at 1 January 2017, the opening balance in the Fund stood at CZK 45,444,392. In 2017, no compensation was paid from the Fund's account for a conclusive loss from activity over and above a licence. No income or expenditure was recorded in this account of the Fund in 2017.

The balance in the Fund's separate current account stood at CZK 45,444,392 as at 31 December 2017.

9.4 Proceedings on administrative fees

In proceedings on licence award, amendment or revocation, the Office collected fees amounting to CZK 7,168,100. Some entities applied for the refund of administrative fees. Twenty fees totalling CZK 138,050 were returned from the ERO's account. The net amount collected is CZK 7,030,050.

10 / REMIT



10 / REMIT

Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT), as a regulation the purpose of which is to prevent market abuse (prohibition of insider trading and of market manipulation) and also to foster open and fair competition in this market, lays down a number of obligations for market participants. They include market participants' obligation to register with their relevant national regulatory authority for inclusion in the national register of market participants and to keep this information up to date, report transactions, including orders to trade, and fundamental data to ACER, and publicly disclose inside information under Commission Implementing Regulation (EU) No 1348/2014.

As at 31 December 2017, the National Register of Market Participants held 431 user accounts and 357 market participants.

In relation to REMIT implementation in the Energy Act, in 2017 ERO employees communicated with market participants, responded to questions on an *ad hoc* basis, and attended thematic workshops. The last of them was that on Commodity Trading Regulation in 2018, organised in Prague on 27 November 2017. The topic of this workshop included changes under Directive 2014/65/EU of the European Parliament and of the Council (MiFID II) and their relationship to REMIT.

10.1 Oversight

With a view to ensuring compliance with Article 9 REMIT, the Office carried out an audit of the information provided by registered market participants as to its accuracy and currency. Mistakes were identified for 73 market participants out of the total number of 340 registrations.

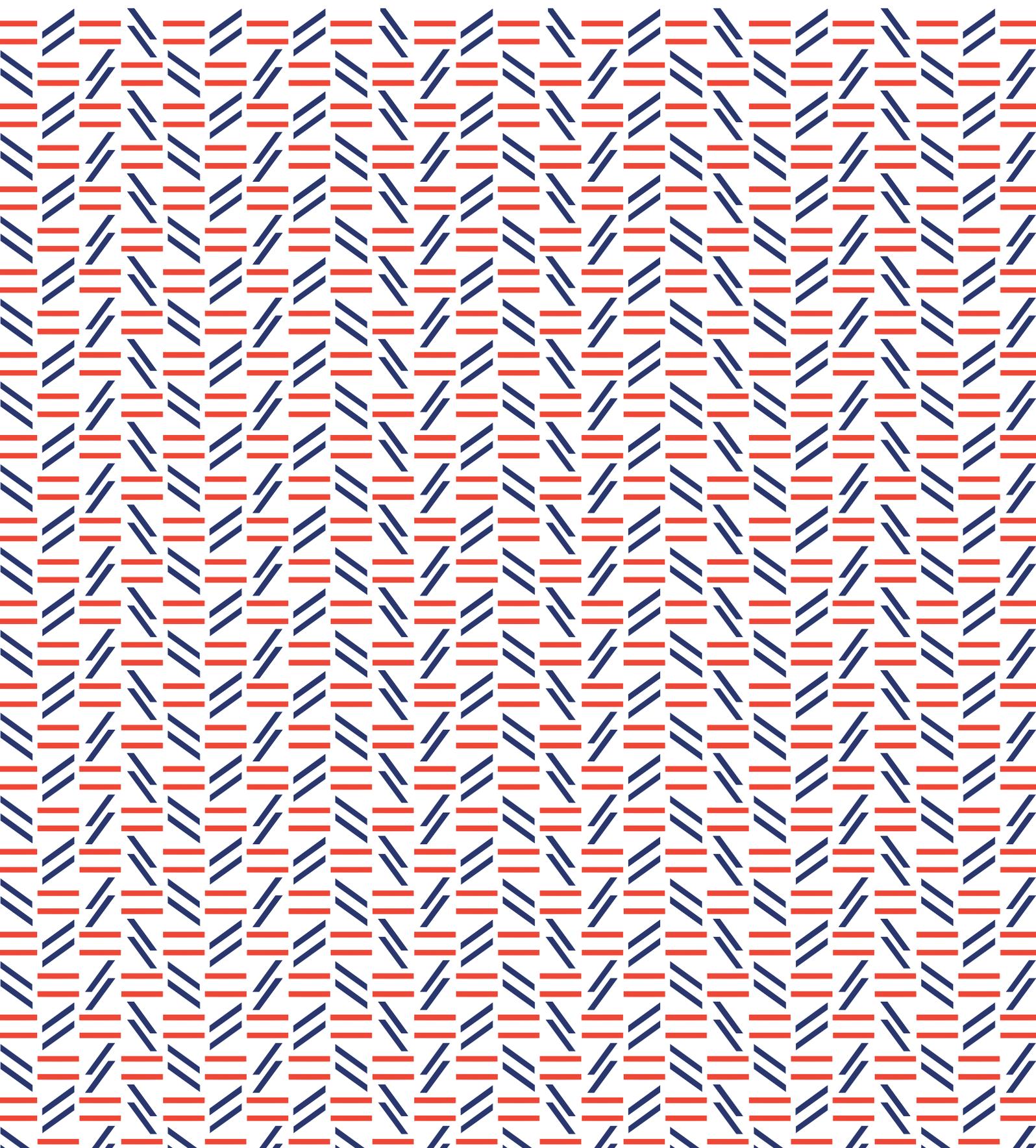
In some cases the Office has found a suspicion of a breach of the reporting obligation; in one case the matter has been referred to proceedings on penalisation. As part of its oversight activities the Office also found a suspicion of a breach of Article 4 REMIT (obligation to publish inside information) and a suspicion of a breach of Article 3 REMIT (prohibition of insider trading), which prohibits the use of inside information.

10.2 International cooperation

As part of the meetings of the international working groups and task forces organised by ACER and CEER, ERO representatives contributed to the development of documents supplementing REMIT implementation.

With a view to ensuring continuous cooperation in investigating suspicions under REMIT, a multilateral Memorandum of Understanding between Austria, Hungary, Croatia, Slovenia and the Czech Republic was signed.

11 / Legislative and administrative activities



11 / Legislative and administrative activities

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

In 2017, the Office issued the following implementing regulations [statutory instruments] in relation to the Energy Act:

Public notice no. 50/2017 amending no. 262/2015 on regulatory reporting

This statutory instrument was issued under the Office's authorisation under Section 98a(2) (a) of the Energy Act, as amended, to implement Sections 20 and 9(1) of the Energy Act.

This new statutory instrument was mainly necessitated by amendments to Act No 563/1991 on bookkeeping, and related implementing regulations, which had entered into force on 1 January 2016. Those amendments changed the chart of accounts and also the arrangement and designation of items in the profit and loss account. Entities subject to price regulation by the ERO have therefore been keeping their books under those amendments since 1 January 2016. The chart of accounts and the profit and loss account are the basis for completing regulatory reports, primarily regulatory reports of profit/loss, costs, and assets. The ERO has issued this public notice, under which regulatory reports are modified to match the modified financial statements, to ensure continued clear, understandable, and transparent reporting based on financial statements.

It also clarifies the reporting obligations for local distribution system operators in the electricity industry, from which the ERO does not require information in the same extent as from regional distribution system operators.

The public notice came into effect on 1 March 2017.

Public notice no. 127/2017 amending no. 408/2015 on Electricity Market Rules

This statutory instrument was issued under the Office's authorisation under Section 98a(2)(h) of the Energy Act, as amended.

Based on the continuous evaluation of the application of the Electricity Market Rules in practice and on the development of the electricity market the ERO concluded that the various market participants were adopting different interpretations of the provisions of the Rules in certain areas of the energy market (for example, in the process of supply point registration, in the interpretation of the provisions on capacity booking and first category producer, supplier switching, and start of supply by the supplier of last resort), resulting in imbalance between them in the electricity market. This public notice clarifies various separate processes in technical legislative terms, or supplements them to prevent self-serving interpretations by individuals or interest groups.

The public notice came into effect on 1 June 2017.

Public notice no. 330/2017 amending no. 401/2010 on the required content of the Electricity Transmission System Operating Rules, Distribution System Operating Rules, the Gas TSO Code, DSO Codes, the SSO Code, and the market operator's commercial terms and conditions

This statutory instrument was issued under the Office's authorisation under Section 98a(2)(b) of the Energy Act, as amended.

It updates the required content of Operating Rules, Codes and commercial conditions in the light of the knowledge gained from the practical application of these documents and it also reflects the EU's extensive legislative activities in energy where in particular in the gas industry new legislation requires new procedures and also new information provided to market participants, based on which they decide in the gas market. It also responds to the latest technological development in energy markets.

The public notice broadens the range of the provided information, based on which the entities will be able to reconsider their business activities in a relevant manner. It supports a stable and predictable environment for all electricity and gas market participants in the Czech Republic.

The public notice came into effect on 1 January 2018.

11.2 Explanatory statements

The Office draws up explanatory statements, within the meaning of Section 17e(1)(d) of the Energy Act, on provisions of legislation within the ERO's remit, and takes them into account in its decision making. Such opinions do not constitute any legislation or any individually binding administrative decision. Their basic purpose is to prevent the risk of energy market participants encountering problems with interpreting certain provisions of legislation within the ERO's remit.

The Office publishes its explanatory statements in a manner enabling remote access on its website. In 2017, it posted **13 explanatory statements**, and the Office will take them into account in its decision making before legislation or its own decision-making practice is changed.

Explanatory statement 12/2017 was issued with a view to ensuring transparent and predictable procedures at the national level in the approval of conditions and methodologies under certain EC Regulations.

In the electricity industry the Office drew up guidance for the market participants in the form of its explanatory statement 10/2017 on the award of D 01d, C 01d, C 35d, C 45d and C 46d distribution tariffs with a view to unifying the approach taken by the various licence holders to the award of the above distribution tariffs.

Explanatory statement 13/2017 on arrangements related to the state of emergency envisages the Office's decisions in particular types of disputes in the electricity industry, where customers connected at the low voltage level seek avoidance of contracts for bundled electricity supply services on the grounds of non-existent provisions on measures adopted when preventing emergency, during emergency, and when remedying consequences of emergency.

With a view to unifying the approach taken by the various licence holders to preparing regulatory reports under public notice no. 262/2015 on regulatory reporting, as amended, explanatory statements 3 to 6/2017 were issued for holders of licences for electricity distribution, electricity transmission, and electricity trade (if mandatory buyers) and for the market operator's services.

Explanatory statement 11/2017 was issued as guidance for completing returns used by the Office for preparing reports on the operation of systems in the electricity industry and in the heat supply industry under 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').

In the gas industry, similarly as in the electricity industry, explanatory statements 7 to 9/2017 provided holders of gas distribution, transmission and storage licences with a methodology for preparing regulatory reports while explanatory statement 2/2017 unified their procedure related to the preparation of reports on gas system operation.

11.3 Administrative proceedings

A) Administrative proceedings conducted and completed in 2017

A.1 Adversarial proceedings

The Office 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 2017 the Office conducted **77 sets of adversarial proceedings**, out of which it concluded **29 sets** with finality. Proceedings under Section 17(7)(a) and (e) of the Energy Act, in particular motions for contract termination and for the performance of contractual obligations, constituted a major portion of the Office's decision-making in this area. The Office also examined motions for deciding in disputes under Section 52 of Act No 165/2012 on supported energy sources and amending certain laws, as amended, over issues such as the justifiability of a claim for aid for RES in relation to the moment of the plant commissioning. Although in 2017 the Office came across cases similar in terms of their type, it should be highlighted that they were complex as to the law and substance.

In the gas industry, in 2017 the Office conducted **10 sets of adversarial proceedings**, out of which it concluded **5 sets** with finality. Most of the administrative proceedings referred to below involved consumer disputes within the meaning of Section 17(7)(e)(2) of the Energy Act, in which the Office decided with finality whether the legal relationship established by an agreement on bundled gas supply had emerged, existed, or had been discharged and/or when that took place.

In the heat supply industry, in 2017 the Office conducted **15 sets of adversarial proceedings**, out of which it concluded **7 sets** with finality. In this area the Office mainly decided on motions for the execution of agreements on heat supply (under Section 17(7)(a) of the Energy Act), including the declaration of their material particulars under Section 76(3) of the Energy Act.

A.2 Approval proceedings

Within its statutory competence under Section 17(7)(g) and (i) of the Energy Act, to approve or lay down the 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, the Office conducted **39 sets of approval proceedings**, out of which it concluded **31 sets** with finality.

A.3 Administrative proceedings under Commission Regulations (EU)

In 2017, the Office decided, within its statutory competences, in particular under Article 8 (2) and (9) of Commission Regulation (EU) No 984/2013 (the NC CACM Regulation), under Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009, under Article 9 (6) of Commission Regulation (EU) 2015/1222 of 24 July 2015 (the CACM Regulation), under Article 13 of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013, under Annex I, point 2.2.5(1) of Regulation (EC) No 715/2009, under Article 9 (3) of Commission Regulation (EU) No 312/2014 of 26 March 2014, under Article (4) (6) (d) and (7) (e) of Commission Regulation (EU) 2016/1719 of 26 September 2016 (the FCA Regulation) and under Article 5 (3) of Commission Regulation (EU) 2016/631 of 14 April 2016 (the RFG Regulation). In this area it conducted **33 sets of administrative proceedings**, concluding with finality **23 sets**. Compared with 2016, the number of cases addressed under Commission (EU) Regulations more than doubled.

In 2017, the Office conducted 174 sets of administrative, i.e. adversarial and approval, proceedings, concluding with finality 95 sets.

Conducted administrative proceedings by agenda:

Table 9 Conducted administrative proceedings by agenda

Adversarial proceedings	102
- Electricity industry	77
- Gas industry	10
- Heat supply industry	15
Approval proceedings	39
Administrative proceedings under Commission (EU) Regulations	33
Administrative proceedings conducted in 2017	174

Table 10 Administrative proceedings concluded with finality, by agenda:

Decisions in adversarial proceedings	41
– Electricity industry	29
– Gas industry	5
– Heat supply industry	7
Decisions in approval proceedings	31
Decisions under Commission (EU) Regulations	23
Total number of final decisions in administrative proceedings in 2017	95

B) Sanction proceedings conducted and concluded in 2017

In respect of sanction proceedings, the Office was active in supervision under Section 18(3) of the Energy Act. The Office's primary task was 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 POZE Act at the level of first instance.

In 2017, the Office received **718 motions** for commencing administrative proceedings. They were motions based on the Office's own findings from inspections carried out under the Oversight Rules and motions received from outside sources, including in particular results of investigations conducted by Czech Police.

In 2017, the Office commenced **473 sets of sanction proceedings** on suspicion of minor offences or other administrative offences.

In 2017, the most frequently breached obligations under the Energy Act included, in the electricity industry, those under Section 23(2)(m), in the gas industry those under Section 68(3), and in the heat supply industry those under Section 78(1). As regards obligations under the Consumer Protection Act, most frequent breaches concerned Section 4, under the Price Act it was Section 6(1)(c), and under the POZE Act it was Section 7(5).

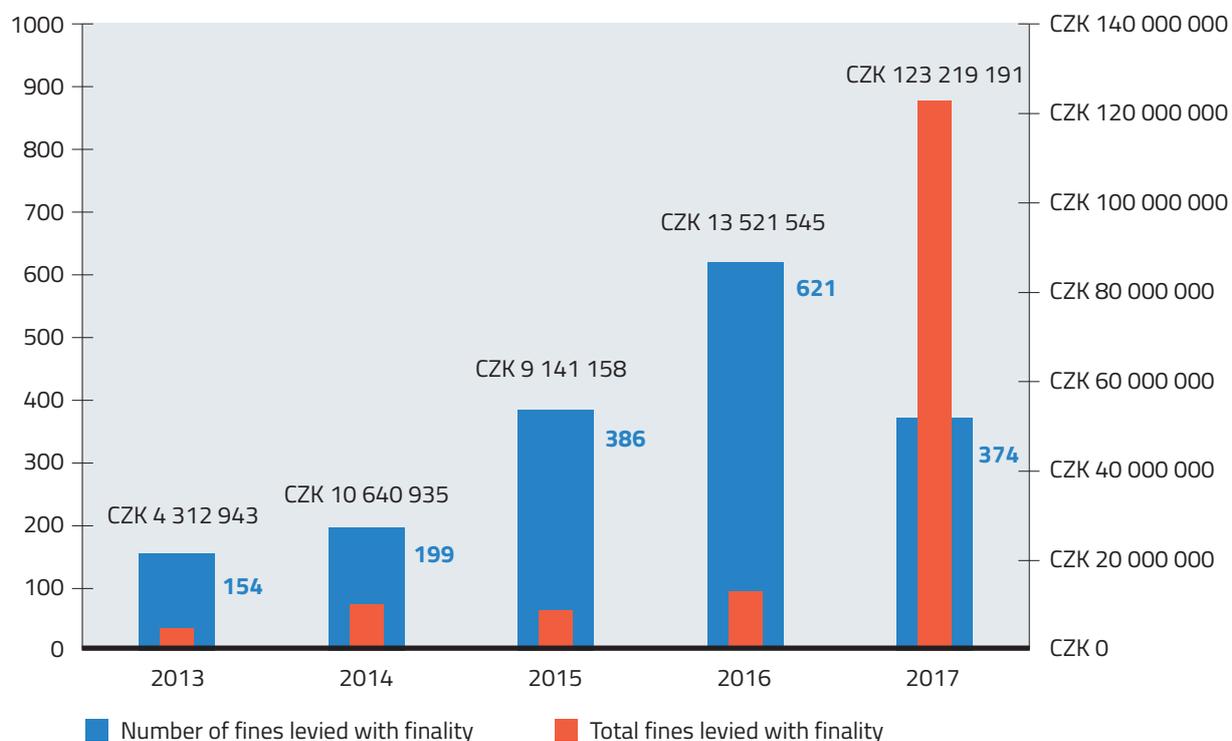
In 2017, the Office decided with finality in **589 sets of administrative proceedings**, levying fines totalling **CZK 123,219,191** on parties to the proceedings in **374 cases with finality**. The total amount of the fines levied with finality in 2017 is mainly due to a fine related to price regulation in the heat supply industry, amounting to **CZK 111,286,907**.

Table 11 Overview of sanction proceedings concluded with finality, by agenda

- under the Energy Act	570
- under the Act on Prices	11
- under the Act on Supported Energy Sources	0
- under the Consumer Protection Act	8
Decisions on administrative offences and minor offences in 2017	589

In cases of persisting illegal situations caused by illegal practices of parties to the proceedings the Office also imposed, besides fines in administrative proceedings, remedial measures under Section 18(3)(b) of the Energy Act, consisting in remedying the illegal situation, i.e. penalties of a non-criminal nature aimed at rectification.

Chart 12 Overview of fines levied with finality between 2013 and 2017



The Office also provided 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. The Office posted these final decisions on its website on an ongoing basis.

C) Proceedings under the law on free access to information

Under Act No 106/1999 on free access to information, as amended, in 2017 the Office issued 29 dismissals of requests, or dismissals of parts of requests, under the procedural provisions of Section 15 of this law, taken together with a specific provision of substantive law, 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.

Under Act No 106/1999 the Office issued the ERO Annual Report on Information Provision Activities, see Appendix 2.

D) Remonstrance proceedings in 2017

The authority to decide on remonstrance ('administrative appeal') as a remedy against decisions delivered by the Office in first instance under Section 152 of Act No 500/2004, as amended, is vested in the ERO Board. Until 31 July 2017, the ERO Chairwoman decided on remedies. The ERO Board decides on administrative appeals 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 three remonstrance commissions, one for POZE, one for energy infrastructure and trade, and one for consumer protection.

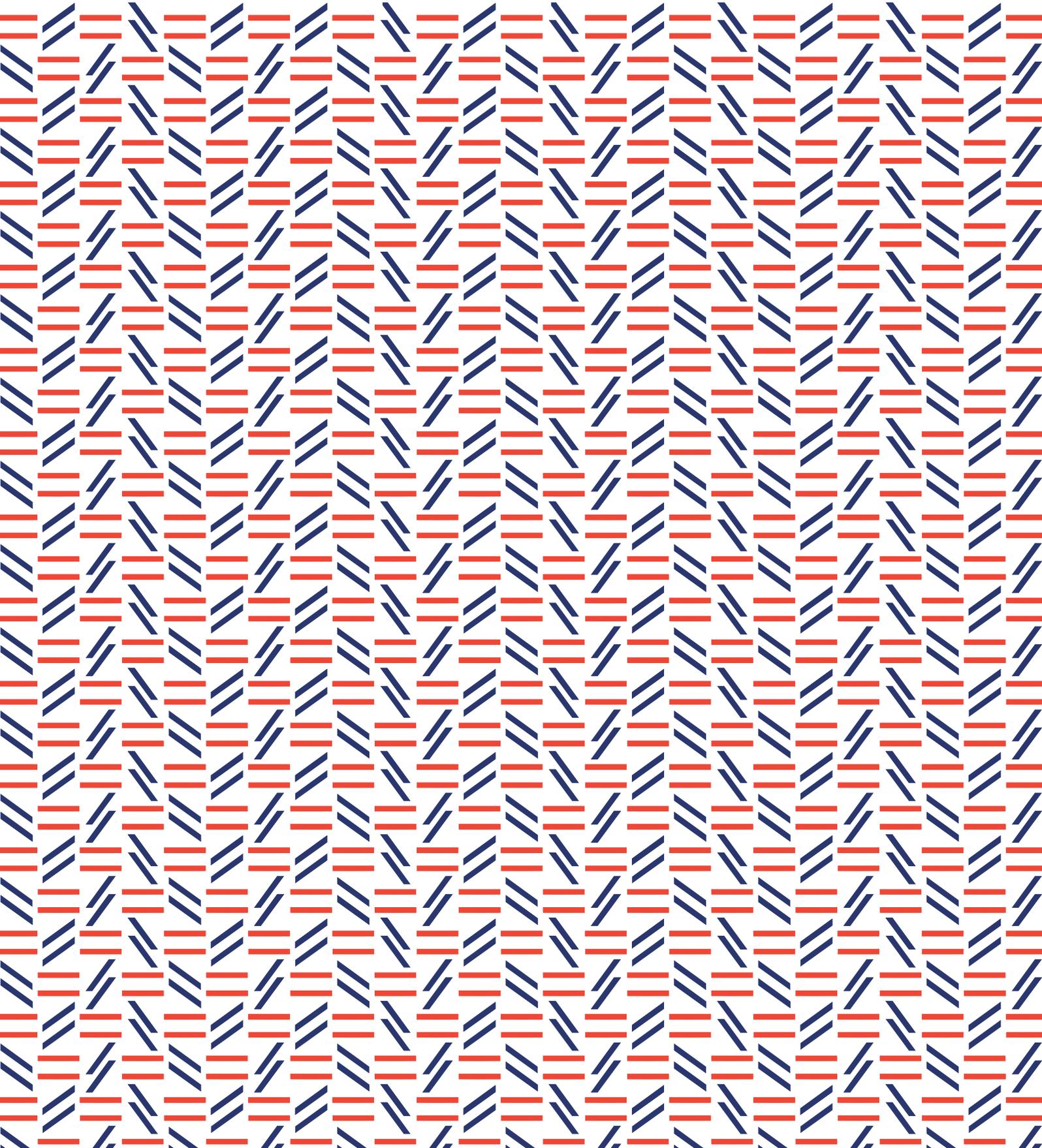
The ERO Chairwoman's/ERO Board's remonstrance commissions examined 205 appeals in 2017. On the basis of these considerations, decisions on 168 of them were made. Decisions on 37 appeals that the remonstrance commissions examined in 2017 had not been made by the end of 2017. In 2017, the ERO Chairwoman/ERO Board also decided on 39 appeals that the remonstrance commission had examined in 2016. No decision was made on one appeal examined in 2016 due to the stay of the administrative proceedings. The remonstrance commissions also examined 26 suggestions for review proceedings.

The ERO Chairwoman/ERO Board delivered 207 decisions on appeals in 2017.

Table 12 Overview of appeals decided in 2017, by agenda

Appeals against decisions in adversarial proceedings	135
– Electricity industry	98
– Gas industry	7
– Heat supply industry	14
– Renewable sources	16
Appeals against decisions in approval proceedings	2
Appeals against decisions on administrative offences	38
– Under the Energy Act	28
– Under the Act on Prices	6
– Under the Act on Supported Energy Sources	0
– Under the Consumer Protection Act	4
Appeals in cases of requests for information	6
Appeals against licensing decisions	21
Appeals on other matters	5
Decisions on appeals in 2017	207

12 / Oversight activities



12 / Oversight activities

The ERO carries out supervision in the 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 in POZE, which use renewable or secondary energy sources for energy generation, and with obligations laid down in the consumer protection law only in the electricity and gas industries.

In 2017, the Office checked compliance with pricing regulations, i.e. the Act on Prices and ERO Price Decisions, largely in the heat supply industry, with only very few checks in the electricity and gas industries.

In 2017, the Office concluded 566 checks and inspections, and held that breaches of the supervised obligations were found in 69% of the cases.

Table 13 List of identified breaches of supervised obligations 2017

Completed checks	Energy Act	Consumer protection	Price checks	POZE checks	Total
No breach of the checked provision was found	119	1	0	57	177
A breach of the checked provision was found	328	24	21	16	389
Total	447	25	21	73	566

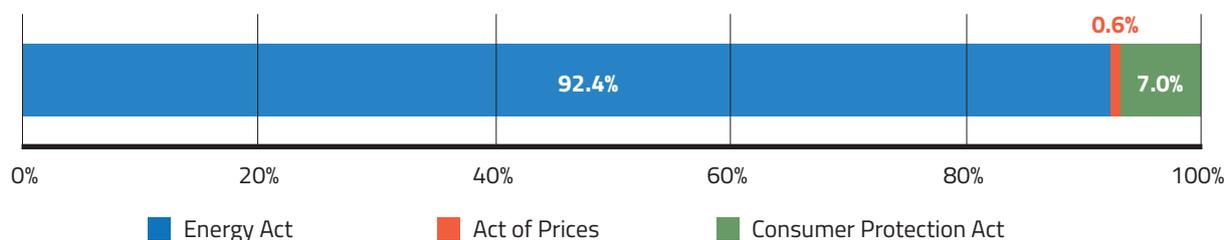
12.1 Checks in the electricity and gas industries

In 2017, the Office initiated 343 checks in the electricity and gas industries based on its own findings from market monitoring and also following its evaluation of the suggestions that it received from market participants or from other state administration bodies or criminal justice authorities. The Office dealt with 509 received suggestions.

The Office was approached by customers when they believed, for example, that licence holders provided them with false information in the process of taking the steps necessary in electricity/gas supplier switching, or that they used unfair commercial practices in contract execution (sales representatives' fraudulent practices), or that they failed to publish price lists or full prices, or that they failed to provide information about the date of supply termination, and also in cases of the allocation of costs of electricity provided by the customer at the supply point. Other submissions suggested suspicion of businesses running without a licence authorising for business in the energy industries, doubts concerning the correct handling

of complaints about electricity/gas billing or metering, or doubts whether electricity/gas supply to the supply point was interrupted justifiably. A significant part of the complaints concerned damage to energy installations and interference with the protective zones of such installations.

Chart 13 Checks and inspections commenced in 2017 in the electricity and gas industries

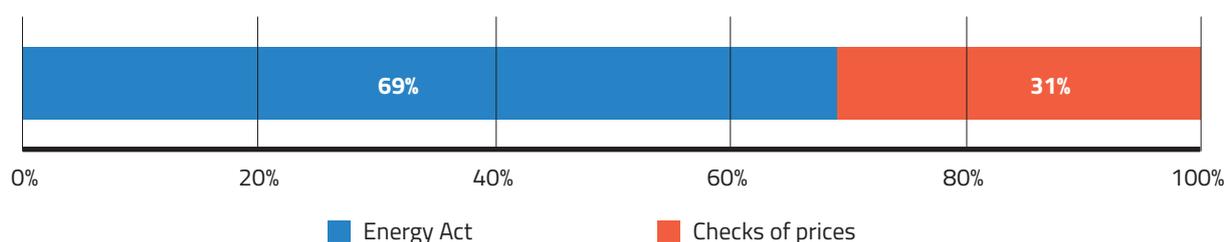


Of the 351 checks completed in 2017, a breach of the checked obligations was found in 86% of the cases. Checks of compliance with the Consumer Protection Act and the Act on Prices constituted a rather small percentage of the total number of the checks carried out in 2017, but in some of these cases they concerned impacts on a considerable number of customers.

12.2 Checks in the heat supply industry

In respect of supervision over the heat supply industry, in 2017 the Office 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; there were reasons to start inspections at thermal energy suppliers based on these submissions only in seven cases. More than 25% of the submissions concerned thermal energy cost allocation to flat users and commercial space within a property. The Office is not competent to address requests for assessing the method of thermal energy cost allocation within a property, because it has only very limited competences in this respect.

Chart 14 Checks and inspections commenced in 2017 in the heat supply industry



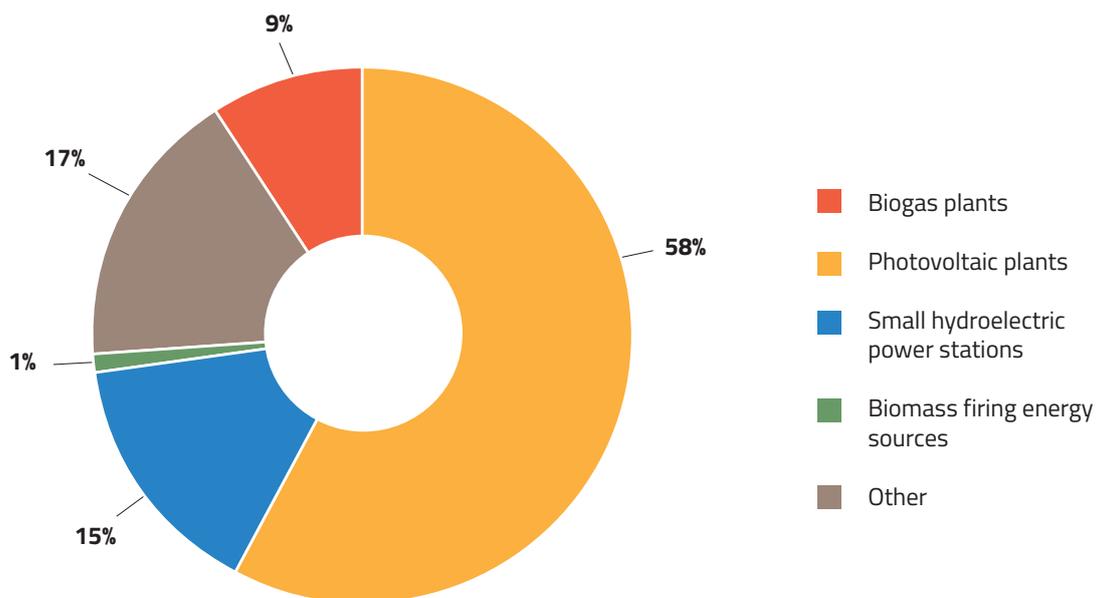
In 2017, the Office commenced 65 inspections entailing checks of compliance with obligations both under the Energy Act and the Act on Prices.

12.3 Checks in respect of supported energy sources

In 2017, the Office inspected operations such as PHV, small hydroelectric power stations, and biogas plants, and also biomass fuel producers and vendors. It started 162 checks of compliance with the requirements of the relevant provisions of the Energy Act (77 checks) and the POZE Act (85 checks).

Oversight actions under the Energy Act were geared towards the circumstances under which energy installation operators were running their business, including the current condition of their energy installations. Checks under the POZE Act were most frequently focused on inspecting the metering instruments and the records of measured values at producers of electricity from RES, secondary energy sources, and high-efficiency CHP. Electricity generating installations with an installed capacity of over 100 kWe, inclusive, in respect of which the right to aid had been exercised and which had been commissioned before the effective date of the POZE Act, i.e. before 1 January 2016, had been obliged to meet the requirements concerning electricity metering and records by 1 January 2017.

Chart 15 Percentages of POZE checks commenced in 2017 by operation type

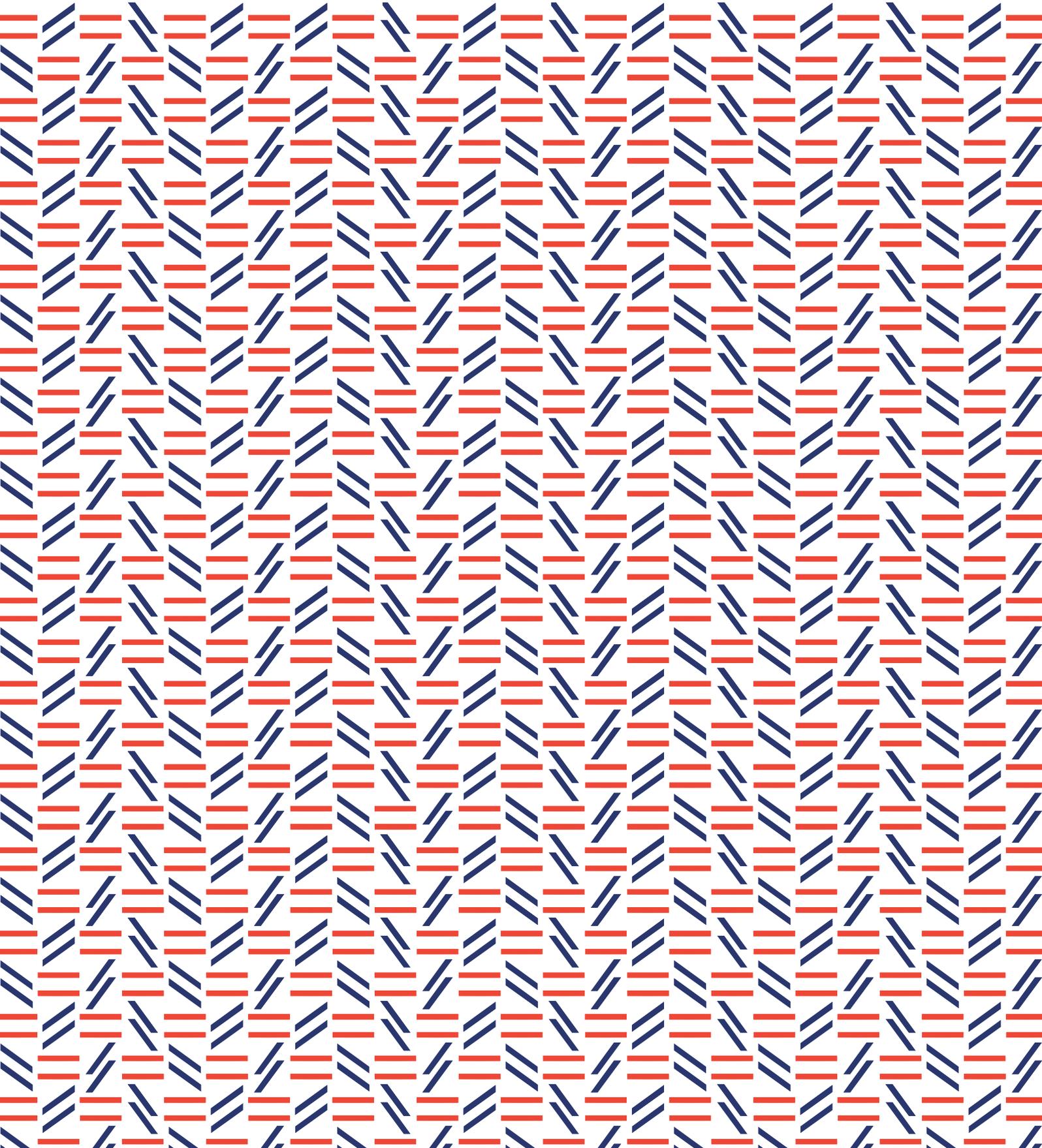


In 2017, the Office concluded 150 POZE checks, finding breaches of the examined obligations under the Energy Act and under the POZE Act in 28% of the cases.

12.4 Reviews of costs

In 2017, the Office completed one review of costs of one regulated entity and analyses of economically justifiable costs at three entities. In respect of regulated entities' costs, 2017 saw a change of the designation of the activity from *reviews of costs* to *analyses of costs*.

13 / ERO budget management



13 / ERO budget management

13.1 The Chapter's budget

The budget for Chapter 349 Energy Regulatory Office was approved as part of Act No 457/2016 on the National Budget of the Czech Republic for 2017 of 7 December 2016, as amended.

The originally approved ERO budget of total income and expenditure was adjusted for 2017, in the area of expenditure, by one budgetary measure within the Finance Ministry's competence, to amount to CZK 288,582,540 (the budget after changes). The final budget was adjusted by nine budgetary measures, which constituted an allowed overstepping of the Chapter's expenditure (by including the claims on unused expenses [NNV]) to CZK 350,217,450, and eight budgetary measures within the Office's own competence (transfers between budgetary items). Budgeted expenditure was adjusted 18 times.

13.1.1 Revenues to the Chapter

For 2017, *total income* was budgeted at **CZK 294,109,000**; this amount included *tax revenues* of **CZK 279,609,000** and *non-tax revenues* of **CZK 14,500,000**. Funds under the mandatory target 'total income from the EU budget without the common agricultural policy' were not budgeted.

Actual performance as at 31 December 2017 in terms of total income was **CZK 297,672,580**, i.e. at 101.21% of the approved budget for total income.

In respect of *tax revenues*, as at 31 December 2017 actual performance was **CZK 285,657,320**, i.e. at 102.16% of the approved budget. These tax revenues were received on the basis of collecting administrative fees for licence award, amendment and renewal for entities carrying on business in the energy sector and also from the fees paid for the Office's activities.

In respect of *non-tax revenues*, as at 31 December 2017 actual performance was **CZK 12,015,260**, i.e. at 82.86% of the approved budget. 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.

Administrative fines

In 2017, 373 fines levied in administrative proceedings were paid in full and eight fines were paid partly, the amount totalling CZK 10,747,680 (w/o the costs of proceedings), down by 0.98% (i.e. by CZK 106,840) on 2016.

In respect of fines levied with finality, as at 31 December 2017 there were 291 outstanding receivables totalling CZK 119,680,340 (w/o the costs of proceedings). The amount of unpaid fines levied with finality was mainly attributable to the fine levied on Pražská teplotárenská a.s. and amounting to CZK 111,287,900. Other unpaid fines total CZK 8,392,430.

13.1.2 Expenditure

For 2017, *total expenditure* was budgeted at **CZK 285,558,570** (approved budget), and during 2017 it was adjusted to **CZK 288,582,540** (budget after changes). Due to the use of the NNV claims (Section 47 of the law on budgetary rules), totalling **CZK 61,634,910**, the final budget for the Chapter's *total expenditure* stood at **CZK 350,217,450**.

The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2017 can be seen in Table 14.

Table 14 Total amounts actually drawn – total expenditure for 2017

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total expenditure	350,217,450	286,379,480	81.77
of which:			
capital expenditure drawn	30,699,700	10,858,460	35.37
current expenditure drawn	319,517,750	275,521,020	86.77

Current and capital expenditure savings

In each case of expenditure, 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 63,837,980**, in particular in the following areas:

- salaries and other personnel expenses, incl. insurance premiums and FKSP CZK 5,893,790
- programme financing EDS/SMVS CZK 20,512,420
- 'other current expenditure' (w/o EDS/SMVS, salaries) CZK 37,431,770

Total claims on unused expenses as at 1 January 2018 amounting to **CZK 121,036,260** are reported for Chapter 349, of which 'major expenses' (programme financing EDS/SMVS, funds for salaries) amounting to CZK 52,483,990 and 'minor expenses' at CZK 68,552,270.

13.1.3 Programme financing

In the system for financing the programmes of asset replacement, two programmes were included for 2017: programme 149 010 Development and Replacement of the Technical Facilities of the ERO for 2008-2018 and programme 149 020 Development and Replacement of the Technical Facilities of the ERO for 2016-2020. 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.

Table 15 shows the results of programme financing management in 2017 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 2017.

Table 15 Results by sub-programme for 2017

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total, programmes 149 010 and 149 020	40,212,630	19,700,210	48.99
of which:			
Sub-programmes 149 011 and 149 021 – ICT	32,642,630	19,338,410	59.24
Sub-programmes 149 012 and 149 022	7,570,000	361,800	4.78

Information and telecommunications technology at the Office

Since most of the agendas that the Office runs are concentrated in the ERO's Integrated Information System (IIS), most of the funds under the ICT sub-programme were drawn for its development.

The following ICT activities were carried out in 2017:

- Within IIS: modifications were made to the filing service, the legal module, and the checks and inspections module, and the processes of data and document handling were unified and their efficiency was improved.
- A recertification audit under ČSN ISI/IEC 2007:2013 was successfully completed at the Office; the Office continues to be entitled to use the certification logos CQS and IQNet for its information security management system (ISMS).
- Obsolete ICT hardware/software and central security features were replaced on an ongoing basis, and a solution for network and mobile device management and security was implemented.

13.1.4 Expenses on business trips abroad

In 2017, ERO employees went on 145 business trips abroad, which included participation in the meetings of the ACER and CEER working groups/task forces and of regional initiatives, international meetings, and 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 3,729,160** in 2017. 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 74,760.

For the payment of the 2017 membership dues (budget item 5532 other non-investment transfers to abroad) in CEER, **CZK 880,060** (EUR 32,939) was spent.

13.1.5 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 continuously to 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.

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) and the relevant implementing regulation 416/2004 of the Ministry of Finance, which implements Act No 320/2001, as amended.

In public procurement, the Office proceeded under Act No 134/2016 on public procurement, as amended, and in line with its internal directive on the procedure for awarding low-value public contracts and other regulations concerning public procurement. A total of two public contracts, for cleaning services in the ERO's Ostrava offices and for the provision of vehicle fleet servicing in Prague, were awarded in the regime of the above Act (in below-threshold procedures). A total of 42 low-value public contracts, i.e. off the regime of the above Act, in excess of the limit of CZK 100,000 w/o VAT were carried out in 2017 (of those, two public contracts were commenced in late 2016). Of this number, three low-value public contracts were cancelled.

Suppliers responded by more than two bids per public contract on average as regards the above public contracts. The financial savings in the case of these public contracts have been quantified, in relation to the set expected value, at more than CZK 3,270,000 w/o VAT. For public procurement, the Office consistently used electronic facilities (E-ZAK contracting authority's profile and until 30 June 2017 also the Gemin electronic market place). In compliance with Act No 340/2015, contract documents resulting from the public contract award procedures were posted in the Register of Contracts.

13.1.6 Cash funds, assets, receivables and liabilities

There were no transfers from cash (own) funds to revenues of Chapter 349 in 2017. The Fund of Cultural and Social Needs (FKSP) was continuously accumulated and used in line with the relevant regulations. As at 31 December 2017 the FKSP account held CZK 1,602,030. The Reserve Fund posted zero as at 31 December 2017.

As at 31 December 2017, the Office **held assets valued CZK 207,960,280** at acquisition cost and carried at a book value of **CZK 72,507,630** following accumulated depreciation. In 2017, the total value of assets at acquisition cost increased by CZK 10,931,210 on 2016.

As at 31 December 2017, **receivables totalled CZK 123,899,340**. Of this amount, the largest part is CZK 120,355,430 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 585,630, prepaid expenses of CZK 2,957,470 and receivables from employees of CZK 810. As at 31 December 2017, the Office did not record any trade receivables.

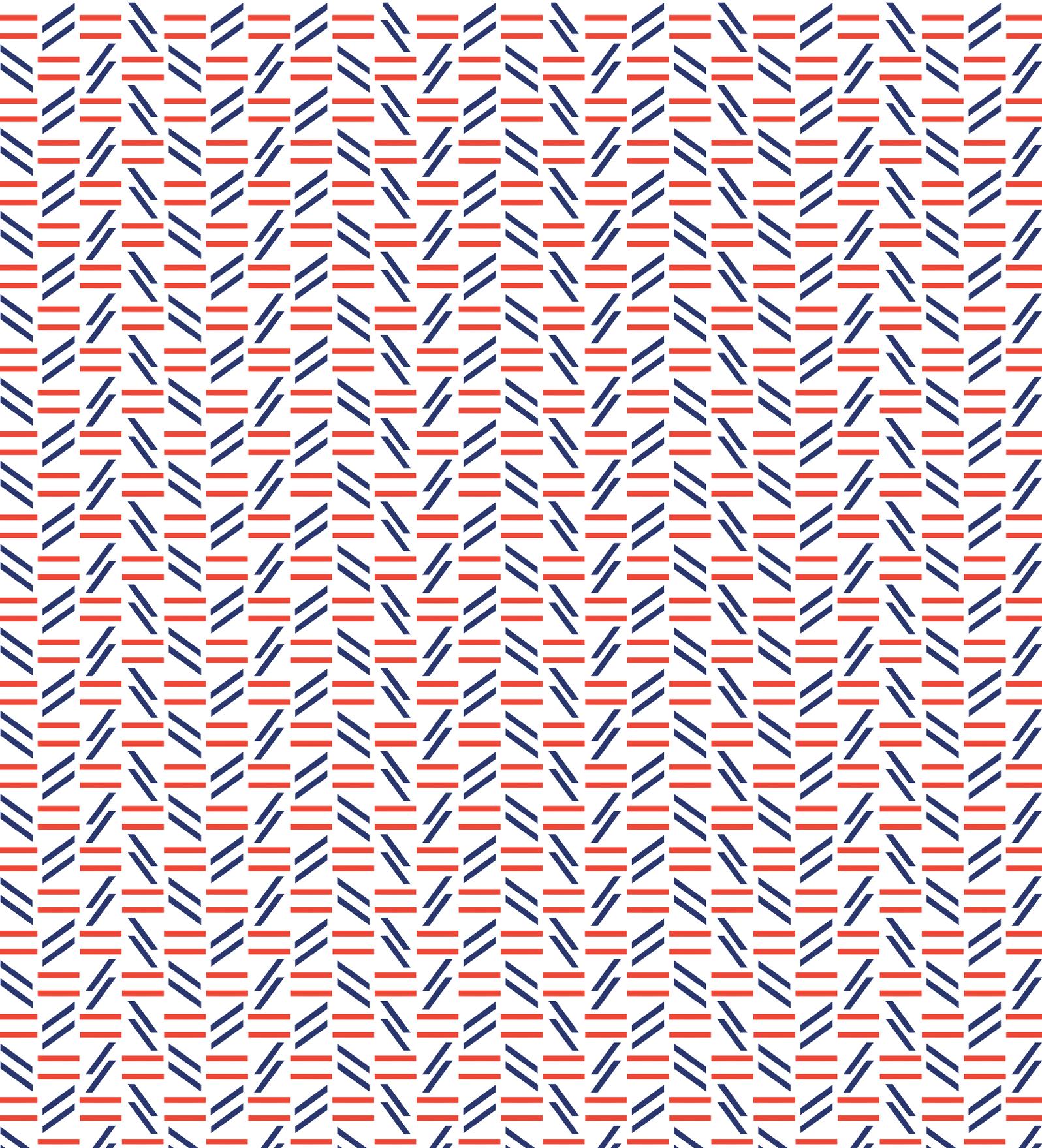
As at 31 December 2017, **liabilities totalled CZK 62,399,620**. They mainly included liabilities to employees, liabilities under social security and health insurance, and income tax liabilities related to employees, totalling CZK 15,547,470 and arising from wage accounting for December 2017; the wages were paid on the payday 10 January 2018. Liabilities also included the Energy Regulation Fund, CZK 45,444,390, accrued expenses of CZK 1,016,910, a balance of CZK 570 in the payment card account with ČSOB, a.s., and recognition of the allocation to the FKSP Fund for 2017, amounting to CZK 390,280. The Office had no liabilities to suppliers; suppliers' invoices received by the Office before the end of 2017 were paid. The Office had no overdue liabilities as at 31 December 2017.

13.1.7 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 Appendix 3.

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 2017, including the spreadsheets.

14 / Human resources



14 / Human resources

The Office's personnel and organisational activities were geared primarily towards the following tasks in 2017:

Personnel management agenda

In the budget and in the schedule of positions approved for 2017, the ERO staff headcount as at 31 December 2017 was set at 313, see Appendix 4. In terms of the average annual FTEs, the budget was for 311.25 scheduled positions. The above numbers are the result of the fact that on 1 August 2017 the management of the Office was changed and the ERO Board took over. Following complicated talks with MF on the required increase in the number of scheduled positions, it was increased by 19, i.e. from 294 for 2016 to 313 for 2017. Since claims on unused expenses [NNV] were used for financing ten of these new positions, these impacts are not reflected in any budget adjustment. NNVs from the preceding years were therefore gradually consumed based on a budgetary measure.

The Office's main task in 2017 was to fill vacant scheduled positions and so build its required administrative capacity. Another task was to absorb the change of the Office governance system and the related personnel and organisational impacts.

The ERO also organised public service examinations in the 'Services 37 – Energy' field not only for the ERO but for the whole state administration. In 2017, examinations could be taken on seven dates.

On 1 June 2017 an amendment to the Civil Service Act came into effect, bringing a number of positive changes that public administration organisations had long been calling for; in spite of that, the whole aspect of the administrative provisions required for compliance with this law has remained disproportionately demanding in terms of both paperwork and time. The persisting unsatisfactory situation was borne out by the fact that late 2017 and early 2018 saw another major amendment to the Civil Service Act and the related implementing regulations being drafted. The Office repeatedly highlighted certain unsuitable provisions of the Civil Service Act and the inappropriate use of procedures under the Rules of Administrative Procedure in a number of administrative operations related to the Civil Service Act.

Education and training

Education and training was customised to the requirements of the Office's technical departments and was continuously updated and adjusted to the Office's current needs.

The Office had a sufficient amount of budgeted funds for education and was therefore able to provide for the required education and training in full. Considerable amounts were

again spent on staff education and training, specifically CZK 2,752,930 (of which: expense item 5167 – training and education services, CZK 2,546,470, item 5021 – other personnel expenses, CZK 20,000, item 5169 – other services, CZK 103,950, item 5176 – conference fees, CZK 82,510). Compared with 2016 this is a drop of CZK 1,078,390, primarily attributable to organising one-time extensive educational courses for new employees in 2016. Total expenses on education in 2017 therefore accounted for 1.75% of the actual cost of salaries for employees under employment contracts and under civil service agreements (including ERO Chairperson's and ERO Board members' salaries).

Education and training can be categorised as follows:

Initial training

a) Introductory initial training

- 72 staff members went through introductory initial training.

b) Continued initial training

- 11 staff members went through continued initial training.
- It is a form of training for civil servants to pass the general and specific parts of the public service examination. Based on this training, 15 ERO civil servants passed the examination in 'Services 37 – Energy', nine civil servants in 'Services 29 – Legislation and Legal Services', three civil servants in 'Services 78 – Organisational Matters of Civil Service and Management of Civil Service Relationships of Civil Servants, Members of Security Forces and Professional Soldiers' and two civil servants in 'Services 36 – Information and Communication Technology'.

Advanced training

a) Advanced managerial training, education for superiors (senior civil servants)

A five-day management training course called Individual Educational Programme was organised, and attended by one superior of the Office.

b) Language training for staff members

Language training was more extensive in 2017. Some of the new staff members were included in the programme. A total of 63 scheduled positions for which command of English is a qualification requirement were determined with finality. As at 31 December 2017, six positions were vacant out of the set 63 scheduled positions. Fifty-six staff members in 56 filled scheduled positions fully met the language requirements. Selected staff members who represented the Office and dealt with foreign counterparties attended intensive English courses abroad in early 2017.

Table 16 Staff members' command of languages as at 31 December 2017

	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	57	6			63
Total	57	6			63

c) Other advanced training covered the following:

Training in energy basics for licensed business lines: CHP;

Comprehensive risk management A to Z;

Training in the use of metering instruments in the heat supply, electricity and gas industries;

Selected accounting issues and the current tax and accounting legislation in 2017;

Training in Act No 255/2012 on oversight (Oversight Rules);

Training in Act No 134/2016 on public procurement;

Training in Ethics and Anti-corruption Measures;

Training in MS Office;

Public notice 50/1978 on professional competence in electrical engineering;

Training in drivers' professional competence;

Other ongoing training courses structured by issues and arising from legislative changes.

A total of 161 training events were held, more than in 2016; the equivalent of 921 persons were trained (in 2016 the figure was 917).

Table 17 Structure of education and training expenses

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
Amount	905,240	1,847,680	2,752,920

CZK 905,240 was spent on language training, which was slightly less than in 2016 (CZK 941,890). CZK 471,650 and CZK 433,590 were allocated to language courses in other countries and in the Czech Republic, respectively. Spending on other education was lower than in 2016 (CZK 2,889,420). Of the CZK 1,847,680 drawn in 2017, the following fields of education took the largest amounts: CHP, training in two courses at a total cost of CZK 501,420, Comprehensive Risk Management from A to Z at a cost of CZK 79,860, and equally importantly a course in the use of metering instruments in the heat supply, electricity and gas industries at a cost of CZK 60,500.

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 154,514,290. The final budget was CZK 169,240,940 (it was met at 97.40%), and the actual amount was CZK 164,888,730; of this, the 'mandatory standard target of salaries for employees under employment contract except for staff members in civil service positions', with an approved budget of CZK 29,805,010 and a final budget of CZK 32,816,010, was met at 88.88%, i.e. CZK 29,167,220, and the 'mandatory standard target of salaries for staff members in civil service positions under the Civil Service Act', with an approved budget of CZK 118,428,550 and a final budget of CZK 127,998,250, was met at 99.93%, i.e. CZK 127,904,500, and the 'mandatory standard target of salaries for staff derived from those of constitutional officials', with an approved budget of CZK 3,965,200 and a final budget of CZK 4,154,150, was met at 99.89%, i.e. CZK 4,149,540.

An average salary of CZK 40,749 was planned for 2017 (on the basis of the approved budget). The actually achieved average salary was CZK 51,279, index 125.84%. It is to be noted at this point that the approved budget did not plan for funds for ten scheduled positions; following agreement with MF, the expectation was that these positions would be financed from NNVs from preceding years. The planned salary was therefore lower. A year-on-year comparison of the actually achieved average salary indicates the 2017/2016 index at 121.41%, with annual inflation at 102.50%. The increase in the average salary is primarily attributable to the increase in the base-pay components of the salary as of 1 November 2016 by 10% and as of 1 November 2017 by 10% again.

Since the approved budget of salaries for civil servants did not cover ten scheduled positions while the final budget did not include all available funds locked in NNVs (these continue to help to finance 30 scheduled positions that are not covered by the budget in 2018), this mandatory target was met at almost 100%. Only the claims for the most necessary NNVs that covered the actual need of expenses on civil servants' salaries (had all the NNV claims been consumed the index would have been 93.94%) were consumed.

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

- item 5021, other personnel expenses: CZK 1,718,630.

In 2017, the average number of FTE staff was 262 while the planned number was 311 (in the approved budget after rounding), i.e. the plan was met at 84.24%. Compared with 2016, this was 15 persons more. The average planned number of FTE civil servants (calculated on the basis of the approved budget), 253, was met at 81.03%, i.e. The actual number was 205, and the average planned number of FTE employees under the Labour Code (on the basis of the approved budget), 58, was met at 98.28%, i.e. 57.

The actual number of staff members registered as at 31 December 2017 was 268 while the plan had been 313 (budget and position scheduling approved as at 31 December 2017). This is 14 more than the number on 31 December 2016. The planned actual number of civil servants under the Civil Service Act, 253 as at 31 December 2017, was met at 83.79%, i.e. 212 civil servants; the planned actual number of employees under the Labour Code, 60 as at 31 December 2017, was met at 93.33%, i.e. 56 employees.

As in the preceding years, the whole of 2017 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 full impacts of the application of the Civil Service Act added to the already well-known problem, i.e. 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.

The amendment to the Civil Service Act, adopted with effect as of 1 June 2017, did not help to improve the situation in any appreciable manner. Ultimately, when compared with the private sphere conditions, the Office is not able to meet new employees' requirements and expectations. Thus, the negative impacts of the application of the Civil Service Act continued to be felt in practice in the second half of 2017, both in the burdensome administrative and procedural aspects of personnel management and the payroll agenda and in relation to the potential candidates for civil service.

Despite the extremely large number of repeated recruitment procedures in 2017, a number of vacancies were not filled by suitable candidates; in practice, this situation is causing serious operating problems in some specialised units. In 2017, 225 recruitment procedures for civil service positions and 59 recruitment procedures for employment positions were called and carried out. These procedures resulted in an increase in the number of staff members by 14 compared with 31 December 2016, to 268 actual staff members on 31 December 2017. In 2017, eight staff members went on a maternity leave, which also influenced the headcount level.

During the year 69 new staff members joined but 55 staff members left the Office. The most frequent reason for leaving is wages and salaries. In energy, law, and the related technical professions, people find enough of much better paid vacancies in the private sector on the labour market. The other principal reasons for civil servants leaving the Office include the impacts of the Civil Service Act and the onerous administrative burden felt in civil service performance in state administration.

In the light of the continued departures of civil servants, which were imminent in 2017, and the need to provide adequate remuneration for work performed in lieu of the vacant positions, the Office had to resort to a much more extensive use of the incentive component of salaries, in the form of bonuses, in order to carry out the urgent service tasks successfully. But the average salary so achieved still remains uncompetitive compared with the private sector, specifically with comparable positions and activities primarily in energy. This situation is likely to escalate in the coming years due to the huge demand for experts in energy and the related professions. Going forward, the Office will be compelled to respond to this situation in the payroll area to avoid the risk of continued attrition of civil servants.

The same as for 2016, for 2017 the Office again 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 19). 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 2017 and suggested deferring additional increases in the number of scheduled positions to future years and to spread agenda rollout over a period of time. As the result and following all adjustments, for 2017

the Office required 41 new positions, but within the budget it received only 19 new scheduled positions, ten of which without any funding.

In 2017, 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 32 persons using 'agreements to complete a job' and 'agreements to perform work' (as at 31 December 2017). The number of remonstrance commissions was increased in 2017, and a major portion of the above arrangements includes agreements with their members.

The Office experiences long-lasting problems with the shortage of suitable candidates in all places outside Jihlava where it has its offices. Despite its best effort, 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 already noted, in 2017 a shift into the population of young graduates (primarily women) without adequate practical experience was clearly evident among the candidates for jobs at the Office.

Of the overall number of 268 staff members, 86 worked in Jihlava, 86 in Prague and 96 in Ostrava (worked within the meaning of the place of performance of work / place of service / agreement on regular workplace) (as at 31 December 2017).

Based on the ERO Board's decision, the organisational structure of the Office was transformed into a 'sectoral arrangement' in late 2017. In terms of assignment to specialised units, of the total of 313 scheduled positions 12 were assigned to the ERO Board and audit section, 22 positions are in the gas sector, 78 positions are in the electricity industry and oversight sector, 81 positions are assigned to legislation and administration, communications, and R&D, 42 positions cover the heat supply industry, licensing and REMIT, and 78 positions attend to POZE support, statistics, and the Office's own operation. For more details see Appendix 4 Organisational Structure of the Energy Regulatory Office as at 31 December 2017.

The percentages of men and women are relatively balanced, but the trend of increasing numbers of women is gaining strength, among other things because of salaries. This trend is mainly visible in the group of candidates in the recruitment for vacant scheduled positions. At the level of superiors and managerial personnel, of the total of 66 planned positions 59 were filled, 14 of them by women, i.e. 23.73%, as at 31 December 2017.

Organisational activities

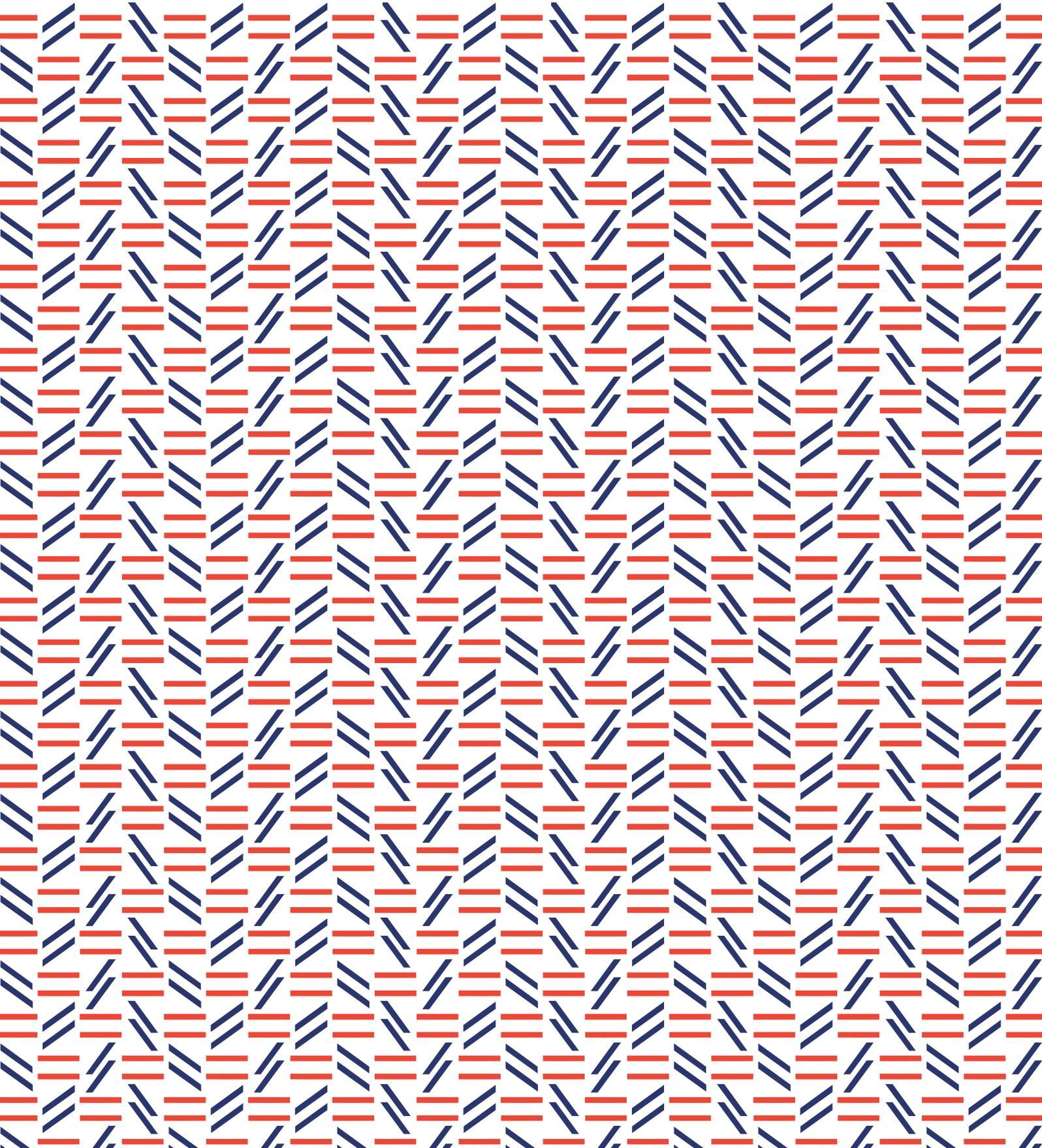
As the preceding years, 2017 was also very extreme in terms of organisation. Primarily in connection with the application of the impacts of the Energy Act and the Office's changed governance, almost all internal policies had to be recast. Thus, 74 internal regulations were issued during the year; 22 of them were the ERO Chairwoman's measures required for the running of the Office, 5 were ERO Chairwoman's decisions on the organisational structure of the Office, 40 were ERO Board's resolutions, and 7 were clarifying guidelines to improve and standardise the procedures followed by the Office's specialised units.

Between January and June 2017, the ERO Chairwoman decided on five organisational changes; the January decision alone, by which the approved parameters of the budget for 2017 were carried out, caused adverse effects for three employees. Additional changes

concerned internal relocations within departments and those of scheduled positions with a view to optimising the Office's operation.

Between August and December 2017, the ERO Board decided on five organisational changes concerning 2017, which resulted in the 'sectoral arrangement' of the Office without any adverse effects for employees, again involving internal relocations within departments and those of scheduled positions. In late 2017, the ERO Board also decided to change the organisational structure as of 1 January 2018; this move involved the materialisation of the approved parameters of the budget for 2018.

15 / Internal oversight system



15 / Internal oversight system

15.1 External inspections

In 2017, the Office was subjected to one external inspection—local investigation by the Jihlava Financial Authority concerning a check of whether or not the ERO was obliged to register for VAT as an instrumentality of the State. It was found that the ERO did not regard itself as a person liable to tax under Act No 235/2004 on value-added tax, as amended, and so no remedial measures had to be adopted.

15.2 Internal oversight and internal audit

Complying with Act No 320/2001, as amended, the Office has an independent internal audit unit (OIA) that is organisationally separate from the managerial and executive structures and functionally independent and that directly reports to the ERO Board. It carries out the specific function of support for the Office's designated managerial tiers 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, and on the assessment of the internal oversight system, the ERO risk management system, and the filing and archiving service.

Internal Audit Unit (OIA)

In 2017, OIA was not given any assignments conflicting with the independent pursuance of the tasks set for it or impairing its independence. OIA operated on the basis of the annual internal audit plan and *ad hoc* assignments comprising extraordinary audits and reviews. In connection with organisational changes, 2017 saw a change of the OIA's annual plan: at the ERO Board's request, the annual plan was extended to include *ad hoc* extraordinary audit actions stemming from the current need to analyse the then current situation and to identify risks in the Office's various processes and activities.

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 on 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 awarding and the performance thereof, on information security (ISMS), on keeping time limits under

the Rules of Administrative Procedure, on the process of supervision over energy industries within the Office's competences, and on the process of running the filing and archiving services. Some of the internal audits were *ex post* audits checking the performance of and compliance with the measures adopted on the basis of recommendations from earlier audits.

In 2017, OIA carried out five planned audits, one planned review and three audit actions at the level of extraordinary audit actions and reviews. The outcomes from the audits and reviews were notified to the responsible managers and superiors, who adopted measures accordingly.

The recommendations most often resulting from the audits and reviews concerned the following:

- the setting or modifications of set procedures,
- informing employees about set procedures and the way to follow them,
- improving the management of the Office's operating and organisational activities and its internal oversight system,
- improving the efficiency of control and oversight mechanisms,
- risk prevention,
- contractual relationships and obligations,
- procedural policies in the Office's activities, including updates of internal and service regulations.

The particular findings of the audits and reviews did not have any impact on the working of the system as a whole. 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 (within the meaning of Section 22(6) of Act No 320/2001, as amended). No circumstances allowing the incidence of corruption or fraud were registered. The risks entailed in the oversight mechanisms put in place to counter corruption are verified and evaluated on a regular basis. 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 oversight

The Office has in place an internal oversight system under Act No 320/2001, as amended.

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

In the form of resolutions adopted by the ERO Board, the Office defined its organisational parts, specified the extent of the corresponding powers and responsibilities of managerial and other personnel and specified obligations, and took other steps required for implementing,

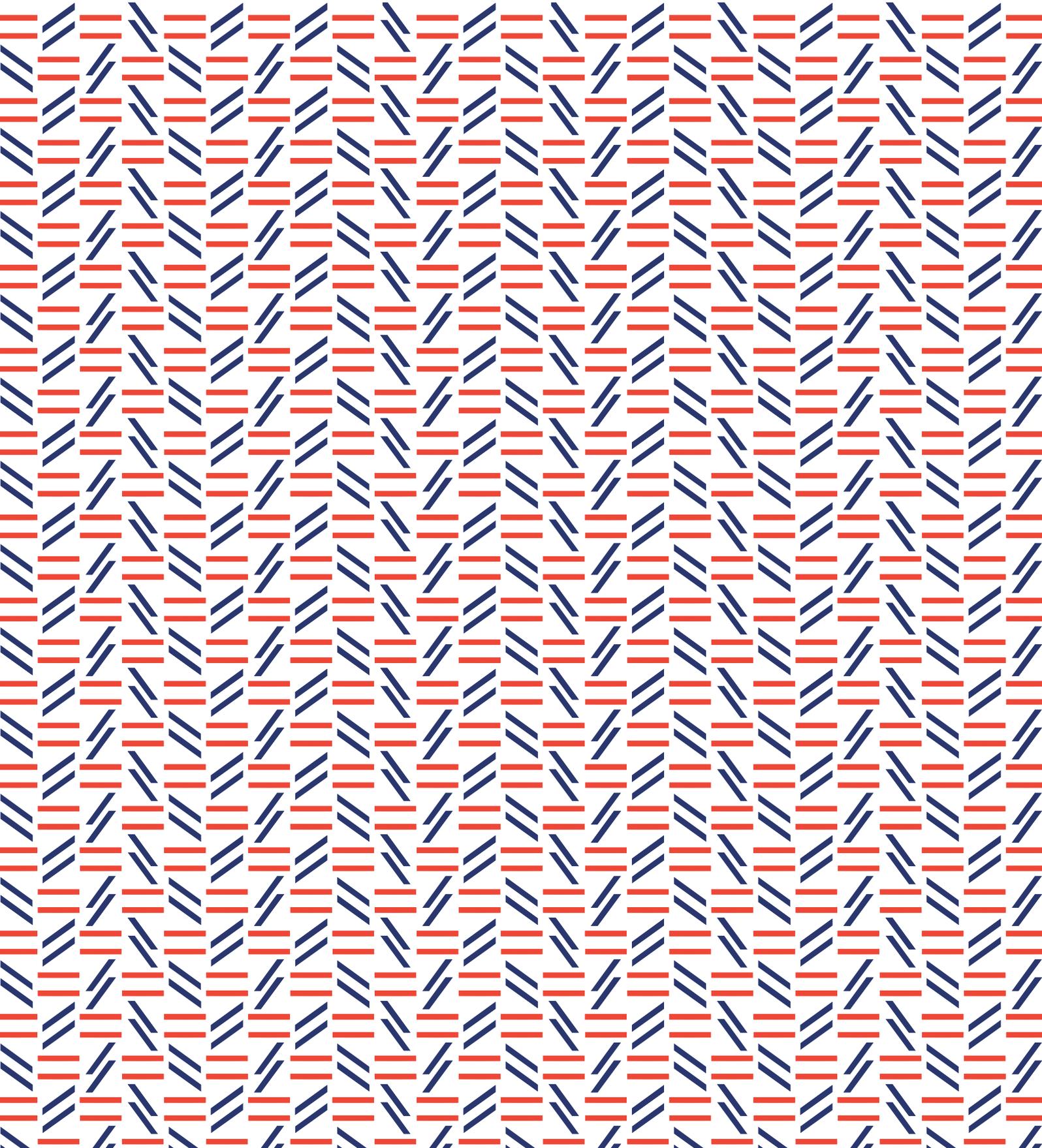
maintaining and checking the efficiency of the internal oversight system and for ensuring the working of management inspection and internal audit. Managers and superiors carry out management inspections as part of the powers and responsibilities vested in them.

In its activities, the Office also observes and follows other provisions of Act No 320/2001, as amended. The Office carries out risk analyses, plans and carries out internal audits and reviews, uses three tiers of management inspection, and allocates responsibilities of managers and superiors as part of each of the operations through a multi-tier approval process 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, as amended, considers recommendations from OIA, 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.

Conclusions

Based on the outcomes of the audits and reviews carried out in 2017, the internal oversight system in place can be described as sufficiently efficient and responsive to changes in economic, legal, operating and other conditions, but the oversight mechanisms in place suffer from a lower level of efficiency in relation to management inspections in some cases. To conclude, a reasonable assurance can be provided that the funds for public spending reported in Chapter 349 of the national budget are drawn down in accordance with legislation and internal regulations.

Appendices



Appendix 1

Auditor's Report

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 2017.

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 2017.

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 27, 2018

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

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

Name of the Accounting Unit: Energy Regulatory Office

Registered Office: Masarykovo náměstí 5, 586 01 Jihlava

Reg. No.: 70894451

Period under review: year 2017

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

Appendix 2

Provision of information under Act No 106/1999 on free access to information for 2017

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 2017, the Office received 115 requests for information provision under the law.

I

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

Requests (Section 18(1)(a))

Number of requests for information: 115

Handled directly: 113

Referred for handling: 2

Number of decisions to dismiss the request: 29

Number of appeals filed against decisions: 3

Number of complaints under s. 16a of the Act: 1

Other information relevant to the application of the Act:

Numbers of requests for information received and handled in 2017 from the perspective of the Office’s competences:

Licences: 24

Regulation: 18

Oversight: 12

Legislation and administration: 21

Supported energy sources: 11

Other: 27

The Office largely received requests concerning issues related to licences and the award thereof, and the satisfaction of the conditions to award licences; an increase in requests from liable entities was registered in respect of a request to provide a copy of the decision concerning a particular case, and the relatively large number of requests categorised as Other also includes the personnel management area and the heat supply industry.

Compared with 2016, the number of requests for information received by the Office in 2017 declined slightly, specifically by five, but interest in the energy sector obviously persists.

Appendix 3

Performance v Budget Meeting of mandatory targets for 2017

Target	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/3 (2) [%]
	1	2	3	4	5
Aggregate targets					
Total income	294,109,000	294,109,000	x	297,672,580	101.21
Total expenditure	285,558,570	288,582,540	350,217,450	286,379,480	81.77
Specific targets – income					
Tax revenues	279,609,000	279,609,000	x	285,657,320	102.16
Non-tax revenues, capital revenues and accepted transfers	14,500,000	14,500,000	x	12,015,260	82.86
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	14,500,000	14,500,000	x	12,015,260	82.86
Specific targets – expenditure					
Outlays to support the ERO's tasks	285,558,570	288,582,540	350,217,450	286,379,480	81.77
Standard targets					
Salaries for employees and other payments for work	154,514,290	156,737,790	169,240,940	164,888,730	97.43
Salaries for employees under employment contract, except for civil servants	29,805,020	29,805,020	32,816,020	29,167,220	88.88
Salaries for civil servants under the Civil Service Act	118,428,550	120,652,060	127,998,250	127,904,500	99.93
Salaries for employees under employment contract derived from salaries of constitutional officials	3,965,200	3,965,200	4,154,150	4,149,540	99.89
Statutory insurance premiums paid by the employer	52,534,860	53,290,850	56,526,000	55,029,690	97.35
Allocation to the Fund of Cultural and Social Needs (FKSP)	3,043,980	3,088,450	3,272,450	3,227,190	98.62
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	17,995,000	17,995,000	40,212,630	19,700,210	48.99

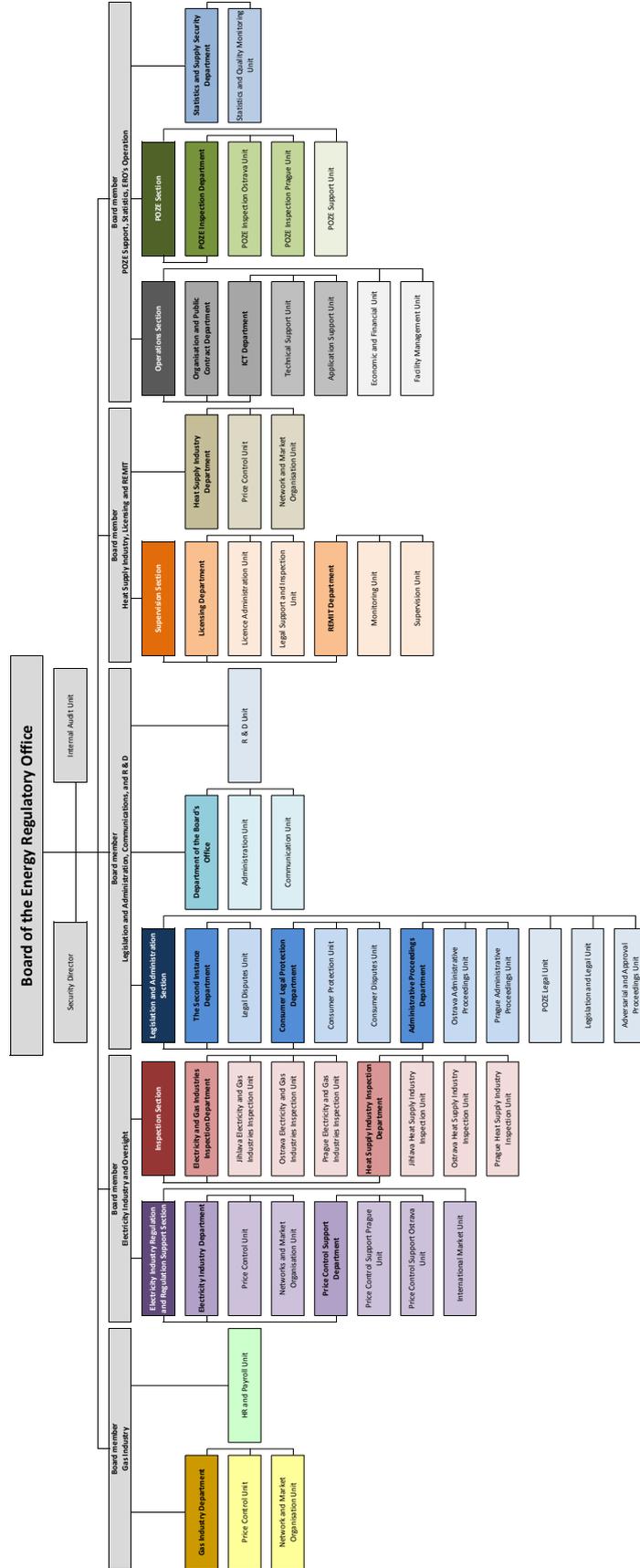
**Comparison of actual expenses under Chapter 349 Energy Regulatory Office,
for the period 2012–2017**

(expenses and other cost items are in CZK thousands)

Item	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Index 17/16
Total expenses	168,384	177,125	194,074	217,982	226,433	286,379	126.47
of which:							
– Salaries, other payments, insurance premiums and FKSP	102,855	118,584	137,273	157,284	172,573	223,145	129.30
– Expenses on the asset replacement financing programmes	30,052	25,919	21,425	21,483	9,284	19,700	212.19
– Total other expenses	35,477	32,622	35,376	39,215	44,576	43,534	97.66
of which:							
– Allocations to the Reserve Fund (RF)	0	0	0	0	0	0	x
– Other expenses w/o RF	35,477	32,622	35,376	39,215	44,576	43,534	97.66
– Use of claims on unused expenses	6,306	7,496	5,117	5,349	11,394	39,069	342.89
Expenses on salaries and other payments for work	76,360	88,067	101,854	116,700	127,094	164,889	129.74
Salaries for employees under employment contracts and for civil servants, incl. Chairwoman, and Board members incl. Board Chairman	75,356	85,881	99,175	114,701	125,189	161,221	128.78
Staffing levels (average FTE)	162	190	217	239	247	262	106.07
Payroll and social costs per employee	635	624	633	658	699	852	121.89
Programme financing costs per employee	186	136	99	90	38	75	197.37
Other expenses per employee	219	172	163	164	180	166	92.22
Total expenses per employee	1,039	932	895	912	917	1,093	119.19

Appendix 4

Organisational structure of the Energy Regulatory Office as at 31 December 2017



**Report on the Activities and Finances
of the Energy Regulatory Office
for 2017**

Design: Metoda, spol. s r.o., Brno, 2018

Energy Regulatory Office

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