



**Report on the Activities and Finances
of the Energy Regulatory Office for
2019**

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Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
GSSS.....	Gas supply security standard
burza EEX, EEX.....	European Energy Exchange
PXE	POWER EXCHANGE CENTRAL EUROPE
CEER.....	Council of European Energy Regulators
CTIA.....	The Czech Trade Inspection Authority
CR.....	The Czech Republic
ČVUT	The Czech Technical University
VAT	Value-added tax
EC, Commission (EU)..	European Commission
The Energy Act.....	Act No 458/2000 on the conditions of business and state administration in energy industries and amending certain laws, as amended
ERRA	Energy Regulators Regional Association
ERO, Office.....	Energy Regulatory Office
EU, Union.....	European Union
PHV	Photovoltaic plant
ICT.....	Information and Communication Technology
ISMS.....	Information Security Management System
JIS.....	Integrated Information System
CHP	Combined heat & power generation
LNG	Liquefied natural gas
MF.....	Ministry of Finance of the Czech Republic
MIT.....	Ministry of Industry and Trade of the Czech Republic
MFA	Ministry of Foreign Affairs of the Czech Republic
EU Regulation	Regulation of the European Parliament and of the Council
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
NC TAR.....	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas
Market operator, OTE..	OTE, a.s. [a company]
RES	Renewable energy sources
PCI.....	Projects of Common Interest
SES	Supported energy sources
Board/ERO Board	Board of the Energy Regulatory Office
TA ČR	Technology Agency of the Czech Republic
TRU	Trading Region Upgrade
OPC	Office for the Protection of Competition
V4.....	Visegrád Four, V4
Winter package	A package of the Commission's legislative acts titled <i>Clean Energy for All Europeans</i>

Voltage levels:

HV high voltage (earlier designated as EHV)

MV medium voltage (earlier designated as HV)

LV low voltage

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The Chairman's Foreword

This *Report on the Activities and Finances of the Energy Regulatory Office* covers the developments in 2019, a year characterised by major changes in the management and operation of the Office as four new members joined the five-member ERO Board over a span of just three months.

This took place at the moment when the Office was preparing the pivotal *Price Control Principles for the Fifth Regulatory Period*, which the energy sector would follow from 2021. At the same time, the new regulatory rules must respond to the structural changes that the energy sector has gone through since the approval of the currently applicable Principles and also to new legislation that is now becoming applicable in practice.

From its appointment, the ERO Board had only a few weeks for taking the draft Principles to the public consultation. The Board successfully managed it all, which testifies to the effort dedicated to the preparations by all ERO employees. Although this Report covers 2019, at the time it is being released we can note a generally successful completion of the effort as the final version of the new Price Control Principles had been published by now.

Of the many major assignments, I would also highlight the boosting of consumer protection, including the new approaches that we have to take. For example, the operation of energy intermediaries, a relatively new form of business that current laws do not reflect sufficiently, is intensifying. Prevention and consumer enlightenment are thus becoming all the more important. I therefore highly appreciate the cooperation that we have started with organisations that help and counsel vulnerable groups of consumers, as part of which we are proactively sharing our knowledge with the advisers and the consumers themselves.

Dear readers, please accept my sincere thanks for your interest in the ERO's activities; they are set out in detail in the following pages.

Stanislav Trávníček

Chairman, ERO Board

1. Introduction

1.1. ERO profile and highlights of 2019

The Energy Regulatory Office is presenting its nineteenth Report on the Activities and Finances of the Energy Regulatory Office for the relevant calendar year. 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, the Energy Regulatory Office has been operating as an administrative authority for regulation in the energy industries since 1 January 2001. The ERO regulates the electricity, gas, and heat supply industries and supported energy sources.



A five-member Board, the members of which are appointed by the Czech Government, heads the ERO. Until May 2019, the Board had four members, the chairmanship being vacant since December 2018. As of 1 May 2019, Ladislav Havel was appointed as a new Board member, and Jan Pokorný was appointed as the Board Chairman. As of 31 July 2019, the Czech Government decided to overhaul the Board and removed two of its members, Vladimír Outrata and Vladimír Vlk, and did not extend the mandate for another member, the then Board Chairman. At the same time, the Czech Government appointed new Board members with effect from 1 August 2019: Martina Krčová, Petr Kusý, and Stanislav Trávníček, who was appointed as the Board Chairman. Its then current member Rostislav Krejcar, whom the Government had appointed for three years in 2017, remained the fifth member of the Board.

This annual report for 2019 offers a detailed view of the developments in the energy sector and the transformation of the Office in 2019. The principal object and reason for the changes was for the Office to continue to pursue its key missions as due, to ensure consistent consumer protection, energy market supervision, and support for competition in energy industries, and to perform its obligations as regards the frequently discussed aid to renewable energy sources, combined heat and power generation, and decentralised energy generation.

The report also summarises the results of the Office's budget management. The results clearly show that the Office kept budgetary discipline and all the mandatory indicators. Funds were spent on outlays applying the maximum economy, efficiency, and effectiveness.

The Office played an important role in the protection of customers' and consumers' interests and in the protection of regulated licence holders' legitimate interests, which is one of its key missions. The continuously rising number of complaints received by the Office from consumers testifies to the need for such protection. Compared with 2018, the increase was almost six per cent and primarily the number of reports on difficulties with energy intermediators was surging. Their number doubled year-on-year. The Office's response is proportionate to the severity of the problem. The Office is systematically striving for the

legislative provisions covering the issue, having initiated some of them and closely cooperated in the incorporation thereof into the relevant piece of legislation. At the practical level, the Office continuously alerts consumers to imminent problems through the media and informs them in face-to-face training courses. For example in 2019, the Office started cooperation with Národní rada osob se zdravotním postižením ČR, z.s. (The Czech National Disability Council).

In 2019, the Office received more than 800 suggestions to look into the practices of energy suppliers or persons who the authors believed were breaching their obligations in an energy industry. Of those, 529 resulted in an inspection of compliance with the Energy Act, the Consumer Protection Act, price regulations, and the SES Act. Of those, 114 cases, where the non-compliance with the Energy Act, the Consumer Protection Act and the Act on Prices concerned a total of some 300,000 customers and consumers, were referred directly to proceedings on administrative offences and fine levying. [Detailed statistics of its oversight activities](#) are available on the ERO's website.

In less than a month from the transformation of the Board, the Office launched the planned public consultation on the rules proposed for the fifth regulatory period, i.e. the seminal document setting out the principal conditions under which monopoly companies would carry on their business from 2021.

In the second half of the year, the Office issued, on the expected dates, six important price decisions: three for electricity, two for gas, and one for SES. The Office's participation in the drafting of new national and international legislation and the practical application thereof also continued smoothly.

In respect of wholesale energy market transparency and integrity (REMIT), in 2019 the Office delivered its first decision on a breach of Article 8 REMIT. The Office also issued a measure requiring correction of incorrect data in the National Register of Market Participants and instituted new proceedings on a breach of Article 8 REMIT.

ERO representatives' international activities were mainly geared towards ACER and CEER working groups. An important milestone was the approval of several documents in the [Clean Energy for All Europeans](#) package (the Winter Package), the implementation of which has generated new duties and tasks for regulators.

Depending on the issue to be discussed, ERO representatives attended the meetings of the committees and subcommittees of both chambers of Czech Parliament. By the same token, the Office closely cooperated with state administration authorities and specialist institutions, both as part of its everyday agenda and in specialised working groups.

The Office also expanded its activities in the national environment of research, development, and innovation and programme support for the various energy industries. The fundamental line in this respect is its cooperation with the Technology Agency of the Czech Republic (TACR), in particular under the BETA2 and THETA programmes where in 2019, the Office accepted the

role of the application guarantor for 12 projects focusing on the current issues in areas of the regulator's operation.

At the end of 2019, the Office changed its organisational structure and its system of scheduled (established) posts for 2020. It regarded this change as absolutely necessary for improving its working in the future while meeting a requirement of Government Decree 92/2015 on the rules for organising public service agencies. The Office kept the numbers of scheduled posts for 2020 as approved by the Government. The Ministry of Finance required that the total number of such posts be reduced from 321 to 296, i.e. by 25 posts. However, from the very beginning it was not the Board's ambition to establish a system of posts by only cutting down on certain scheduled posts. The Board's objective was to carry out a more extensive and meaningful restructuring of the Office so that it would be able to perform as due the competences vested in it; to simplify and clarify the organisational structure; and, equally importantly, to significantly streamline managerial positions with a view to rationalising and optimising the performance of all activities. Relative to the size of the Office, the unusually large proportion of managerial positions, where 66 out of a total of 321 established posts were filled by superiors and managers in civil service and in employment, was an excess that the Board regarded as one of the causes of the inferior and inflexible working of internal processes, and the insufficient cooperation and inadequate collaboration between different parts of the Office. Another purpose of the restructuring was to minimise the number of departments directly reporting to the Board and to balance out the historically rooted unbalanced numbers of scheduled posts in the various parts of the organisation, with the exception of the cases where such discrepancies are justified by a special nature and extent of duties.

1.2. The ERO Board

The ERO is headed by a five-member Board. Its members are Chairman Stanislav Trávníček, and Ladislav Havel, Martina Krčová, Rostislav Krejcar, and Petr Kusý.



Stanislav Trávníček

Mr Trávníček completed master's and doctoral programmes at the Faculty of Electrical Engineering of the Czech Technical University in Prague (ČVUT FEL), majoring in the economics and management of the energy sector. His career in energy dates to 1998. Earlier, he already worked at the ERO as head of the electricity industry department. He was also a member of ACER and CEER electricity working groups in Brussels. He chaired the market participants committee attached to OTE, a.s. (the market operator). From 2012, as a manager at Ernst & Young, he helped to model and design various aspects of the electricity market. Mr Trávníček also provided strategic advice to energy companies in the Czech Republic and the CEE region.

Ladislav Havel

He has been active in energy for 40 years, dealing with policies for the long-term development of the energy sector, progressively focusing on all aspects (electricity generation, transmission, and distribution). He spent some time at the Ministry of Industry and Trade (MIT) in various positions, e.g., as an adviser to the Deputy Minister or head of the electricity and heat supply department. In addition, between 1992 and his appointment to the ERO Board, he held various positions in management and supervisory bodies of energy companies as the State's representative.

Martina Krčová

Ms Krčová graduated from the Faculty of Economics and Management of the Czech University of Life Sciences in Prague and completed an MBA course at Brno International Business School. In 1997, she joined the Ministry of Industry and Trade as a ministerial executive officer for energy regulation. Since 2001, she has been working at ERO, progressively holding positions as head of the analysis unit, head of the strategy department, Vice-Chairwoman for Regulation and Vice-Chairwoman for European Affairs and Strategy. In 2019, she served at the Praha 7 Municipal District Authority as the energy manager.

Rostislav Krejcar

Mr Krejcar graduated from the Faculty of Electrical Engineering of the Czech Technical University in Prague (ČVUT FEL), majoring in energy economics and management, in which he also received a scientific degree. Between 2002 and 2012, he worked at the ERO in the electricity department. In the past, Mr Krejcar was a member of a number of expert groups attached to CEER and ERGEG in Brussels and Vienna, focusing on renewable energy sources and business in international electricity transmission capacity. Mr Krejcar has been working for ČVUT FEL on a part-time basis, currently teaching Energy System Development.

Petr Kusý

Mr Kusý graduated from the Faculty of Electrical Engineering of the Western Bohemian University in Plzeň. He has spent 14 continuous years at the ERO, which he joined in 2006 as a regulation specialist in the electricity department's generation and network unit. His subsequent positions were largely concerned with the complete processing of the ERO's statistical data, holding positions as head of the statistics unit, head of the analysis and statistics department, and head of the statistics and supply security department.

1.3. The fifth regulatory period

Under Act No 458/2000, the Energy Act, and Act No 165/2012 on Supported Energy Sources (the SES Act), the Price Control Principles set out the procedures for controlling the prices of related services in the electricity industry and in the gas industry for the electricity transmission system operator, the gas transmission system operator, and distribution system operators. For the market operator, they set out the procedures for controlling the prices of market organisation and provision of data from records of commercial transactions, prices related to the issuance of origin guarantees, and prices related to the mandatory buyers' operation.

Price controls apply to entities that carry on business in the segments of the energy industries, in which effective competition is non-existent for technical, organisational, economic, or legislative reasons. Operators of energy infrastructure systems, suppliers of last resort, the market operator, and mandatory buyers are monopolies in their respective fields of operation. Price controls prevent these entities from billing unreasonable and, from the societal perspective, unaffordable prices; however, the set prices must also ensure that the entities provide stable services at the required standard.

The purpose of regulation is to create a predictable, stable, and investment-friendly environment and to ensure that in the services that customers require and receive, they obtain value for money. At the same time, regulation must make it possible for the regulated entities to respond dynamically to energy transition and to preserve their financial stability. This task is more difficult than in the preceding period as the energy sector is now on the threshold of fundamental changes.

The Office is fully aware that the energy sector is going through a period of highly dynamic development. The forthcoming fifth regulatory period will be accompanied by several major trends, in particular the following: the decarbonisation of energy and the national economy as a whole, decentralisation, the advent of new technologies (battery storage sites, smart networks and metering), electric mobility, and advancing digitalisation of society. The trends will be reflected in changes to the EU and Czech legislation, to which the Office must also respond in its price control procedures. New requirements will occasion the procurement and massive rollout of technical means that will flexibly respond to development in energy markets, including the active use of energy infrastructure elements. The Office regards the following challenges and opportunities as priorities in the coming period:

1. Sustainable energy development, in particular increasing the proportion of RES and decentralising energy production.
2. Changes in the position of customers and their new needs, in particular the emergence and development of new concepts, such as the prosumer, citizen energy communities, accumulation, flexibility, dynamic tariffs, and smart city.

3. Improving energy security.
4. Changing the fuel mix, in particular phasing out coal use in the Czech Republic.

During the fifth regulatory period, the new rules adopted in the Clean Energy for All Europeans package will be implemented and the whole regulatory period will be significantly influenced by their impacts. The European Commission's ambitious political programme that will aggressively respond to and direct the ongoing dual – digital and decarbonisation – transformation of society and economy will also have to be taken into account.

In the development of price control procedures, the Office set the following targets and decided on the measures that would help to meet these targets:

The price that customers pay must match the quality of the services that they receive. Regulated companies must respond to changes in customers' position and new needs. Price control procedures must incentivise to network development having regard to the future needs, predictability of the environment, and the efficiency and economy of operation. They also have to provide for a high standard of energy supply security and reliability, including cybersecurity and personal data protection.

Regulation will enable companies' dynamic responses to energy transition through their pro-investment approach. Regulated entities will have funds enough for the effective investments required while the new regulatory procedures will reduce their financial risks. Thus, they will be able to respond to the development of renewable energy sources and decentralised generation, roll out smart solutions for remote metering and system control, take into account the evolution of electric mobility, and expand digitalisation. They will also be able flexibly to respond to unexpected developments.

The regulated entities' financial stability, the objective valuation of assets, and the fair estimate of the risk rate will help to put in place a very investment-friendly environment in which companies will be motivated to carry out the required projects.

Predictability of the regulatory environment has been enhanced by the smooth transition from the fourth to the fifth regulatory period and by preserving most of the currently applicable price control procedures.

The public consultation on the draft Price Control Principles for the Fifth Regulatory Period took place in late 2019. During the consultation process, the Office observed the following assumptions:

- stability and sustainability of the regulatory principles,
- predictability of regulation for the various entities in the electricity and gas markets,
- balanced regulation from the perspective of its impact on the various market participants,
- objective and transparent design of the regulatory principles and inputs, and

- compliance with the applicable Czech and EU legislation and the current amendments thereto.

The Office launched the public consultation process on 30 August 2019 and set the period for responding until 31 December 2019, i.e. a double of the statutory minimum of 60 days. The public consultation was divided into two rounds with a view to a better organisation of responses and the evaluation thereof. The respondents had an opportunity to discuss the responses sent in the first round (i.e. by 31 October 2019) with the ERO Board. A total of 25 parties joined the public consultation process: in addition to regulated entities, also stakeholder associations, traders, producers, one individual, and one trade union. The Office received a total of 184 individual responses.

When dealing with the responses, ERO representatives met with those of the responding entities on a regular basis. The Office kept the following conditions when dealing with the responses:

- Take the draft Price Control Principles published on 30 August 2019 as the starting point, including the evaluation of the responses and the proposed substantiation of the manner in which the responses were dealt with.
- Identify, conceptualise, and find consensus on the key resources, support the set values of parameters by international practice.
- Promote the development of new technologies and motivational indicators.
- Analyse the ensuing proposals and quantify their impacts.
- Seek also other sources of funding, originating from subsidy/grant schemes; prepare an internationally recognised methodology for considering subsidy/grant schemes in regulation.
- Record the proposals relating to the preparations for the next regulatory period, which could no longer be used in the fifth regulatory period, primarily in relation to scientific and research developments (such as the BETA2 a THETA projects of the Technology Agency of the Czech Republic), with a view to reflecting the motivation for additional capex plans in the settings.

1.4. The ERO's activities in research and development

The pivotal activity in the national environment of research, development, and innovation is cooperation with TA CR, primarily under the BETA2 and THETA programmes. The Office has its representatives in both programmes' senior managements.

Under the BETA2 programme, the *Evaluating the Effectiveness of Investments in the Regulated Energy Industries in the Czech Republic* project, and the *System for Processing, Analysing, and Evaluating the ERO's Statistical Data* project are running. The objective of the former project is to develop a comprehensive methodology for evaluating the effectiveness of investments in

the regulated energy sectors, thereby rationalising spending on and regulated payments for energy. The objective of the latter project is to develop a comprehensive system for the collection, analysis, and evaluation of the statistical data on energy system operation. Thus, the research, development, and innovation environment is supportive of employing modern and advanced applied research methods in price control processes and using data on energy system operation.

THETA is geared towards the modernisation of the energy sector, including research in public interest and of energy strategies. ERO representatives cooperate in the Programme Board throughout the public tendering process, from the specification of the priority research objectives, providing the role of the application guarantor to applicants for grants, and grant provision evaluation to the evaluation of the progress and results of each of the public competitions. The Office currently has the roles of the application guarantor for one project from the first public competition, focused on the development of new regulatory methodologies in the conditions of energy sector decentralisation in the electricity and gas industries. In the second public competition, the Office did not provide application guarantee to any project. The third public competition was called in 2019 and was planned to be evaluated in 2020. The Office has the role of the application guarantor for 12 projects geared towards the current issues in the regulator's activities, such as the innovation of the tariff structure, the impact of the massive rollout of smart metering on the regulated entities and consumers, and energy literacy.

The Office has also long been actively monitoring other national and international programmes of support and individual projects (such as EFEKT, Horizont 2020, Interreg, etc.) related to the energy sector and its foundations and compatibility with the Czech and European energy and climate policies. The objective is to interlink the various research projects with the optimum application thereof and with the Office's missions with a view to utilising new technologies and trends for the benefit of consumers.

2. Consumers and retail markets

2.1. Consumer protection

In 2019, the ERO continued its activities geared towards a legal solution to the problem of the intermediation of agreements on bundled electricity supply services. The year saw the culmination of the work on an amendment to the Energy Act in respect of consumer protection and on new legislation on intermediation in energy industries. At the same time, the Office supported, together with MIT and CTIA, and publicly and by way of participation in the working group, suppliers' efforts, as part of self-regulation, to boost the protection of customers in the position of consumers. In 2019, the ERO's intensive cooperation with other state administration authorities and with self-governments continued as regards consumers' complaints about the practices of entities carrying on business outside the Energy Act and offering consumers the intermediation of contracts for electricity supply on the basis of the results of tendering procedures or auctions.

Aware of the importance of prevention for consumer protection, in particular before new legislation on intermediation in energy industries is adopted, the ERO focused on prevention intensively. It has started cooperation with the organisations and authorities closest to consumers, in particular a number of consumer organisations, counselling services for citizens, and also self-governments. Besides the above activities, in respect of consumer protection the ERO continuously addressed ordinary consumers' everyday problems when it handled informal complaints. Thanks to its consulting activities and information provision, a large number of customers' complaints have been resolved without any conflict or the need to conduct adversarial proceedings. Some of suppliers' practices, which were the object of some complaints, continue to be addressed in the Office's oversight activities for suspicion of a breach of the Energy Act or the Consumer Protection Act.

[The Ten Commandments of Defence against Energy 'Scumbags', which we have posted on our website, continues to be a most current document to help consumers when they are entering into energy contracts. We also use it in the campaign promoting suppliers' self-regulation under the auspices of the Czech Confederation of Commerce and Tourism \(Svaz obchodu a cestovního ruchu\) titled Electricity and Gas Market Participants' Declaration for Consumer Protection, which we have welcomed, while some seminars on related topics take place under our aegis. We also actively present the Ten Commandments on the occasion of lectures on defence against energy 'scumbags', which we deliver across the Czech Republic.](#)

The ERO is competent to decide in consumer disputes. These are cases where at the request of an electricity, gas, or heat consumer or of a sole trader such person's dispute with a licence holder is decided. Consumer disputes concerned the performance of obligations under agreements on electricity/gas supply/distribution and also the question of the existence of a legal relationship, especially in cases of withdrawal from contracts. Typical cases included failure to perform the obligation to bill electricity/gas properly. In 2019, the Office considered 72 consumer disputes, 33 of which were concluded with finality in 2019.

In 2019, we considered 72 consumer disputes, 33 of which were concluded with finality.

The most serious transgressions that the Office comes across in its oversight and supervisory role in the electricity and gas industries include unfair commercial practices, failure to bill electricity/gas supply properly, failure to handle complaints, and setting disproportionate down payments. In addition to discrimination against a group of customers, the Office found cases of aggressive commercial practices (high-pressure selling) against consumers and provision of false information to customers upon supplier switching. The Office also completed other investigations concerning traders' failure to keep officially set prices in their billing of bundled electricity supply services to customers. In line with its objective of streamlining consumer protection and the related agenda the Office accelerated the referral of the results and some inquiries directly to administrative proceedings.

2.2. Retail markets and prices

An environment where traders offer and sell services related to gas and electricity supply to final customers is understood to be the retail market. The key indicators for evaluating the retail gas and electricity markets include the number of supply points, the number of active suppliers, the dynamics of supplier switching, the market shares held by the various supplier groups, and the structure of retail prices.

The ERO continuously monitors and investigates electricity and gas market functioning in order to see whether effective competition exists in these markets. Based on its monitoring in 2019 the Office notes that effective competition exists in both markets and the conditions for the functioning of the liberalised market have been put in place correctly. Every customer has the right to select a supplier that will best meet their requirements. However, compared with the

We continuously monitor competition in energy markets, and so are able to note that effective competition exists in retail markets.

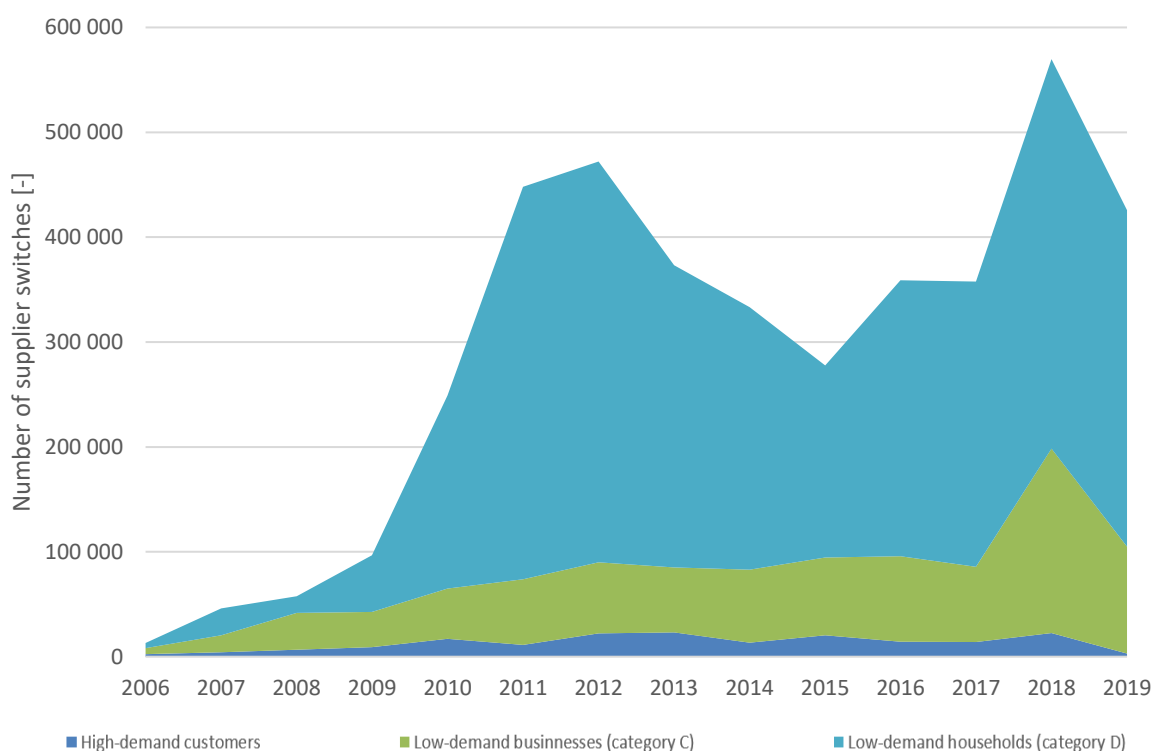
For example, the stable growth of the number of suppliers indicates this. On the other hand, only a small portion of customers actively search for the best quotations in the market.

other EU countries, a relatively small portion of customers are using their options for supplier switching. As the result, the competitive pressure on suppliers is not so strong and many of them can therefore offer their services for higher prices since their customers accept such prices.

At the end of the year, there were 83 suppliers in the retail electricity market, which were cleared entities, i.e. balance responsible parties. The retail gas market had 80 suppliers that were also balance responsible parties and a total of 125 active suppliers, i.e. those that supplied gas to final customers, although they may not have been BRP. Energy suppliers use a number of tools for approaching customers, such as door-to-door sales, participation in mass-scale e-auctions, and the acquisition of weaker competitors. The Office offers one of the tools for supporting the retail electricity market: a calculator comparing electricity suppliers, where the various electricity suppliers' current quotations can be found. Every electricity trading licence holder that provides the Office with its public and traceable quotation for inclusion in the calculator has the opportunity to be included. Data is provided and the calculator is operated on a voluntary basis.

In 2019, approximately 450,000 customers changed their electricity supplier, down by 21% year-on-year compared with the record values for 2018. In terms of the customer categories, the structure of the supplier switching varied significantly. In the high-demand segment, the number of supply point transfers to a different supplier plunged by 86.3%, and in the low-demand business segment the number of electricity supplier switches dropped by 42.1%. In the household segment, electricity supplier switching declined by 13.6%. The year-on-year changes in each of the categories are illustrative only, since the market operator has changed its reporting and the number of cases where the customer category was not specified increased year-on-year. Chart 1 shows the development in supplier switching since electricity market liberalisation in 2006.

Chart 1 Annual electricity supplier switching in the main customer categories



Source: OTE, a.s., ERO editing

Table 1 shows the other relevant indicators over time. In the last four years, the number of active suppliers rose by almost one third, which is one of the major positive developments. On the other hand, the supplier switching dynamics has not really changed, and market concentration also remains at the same level.

Table 1 Selected retail electricity market indicators

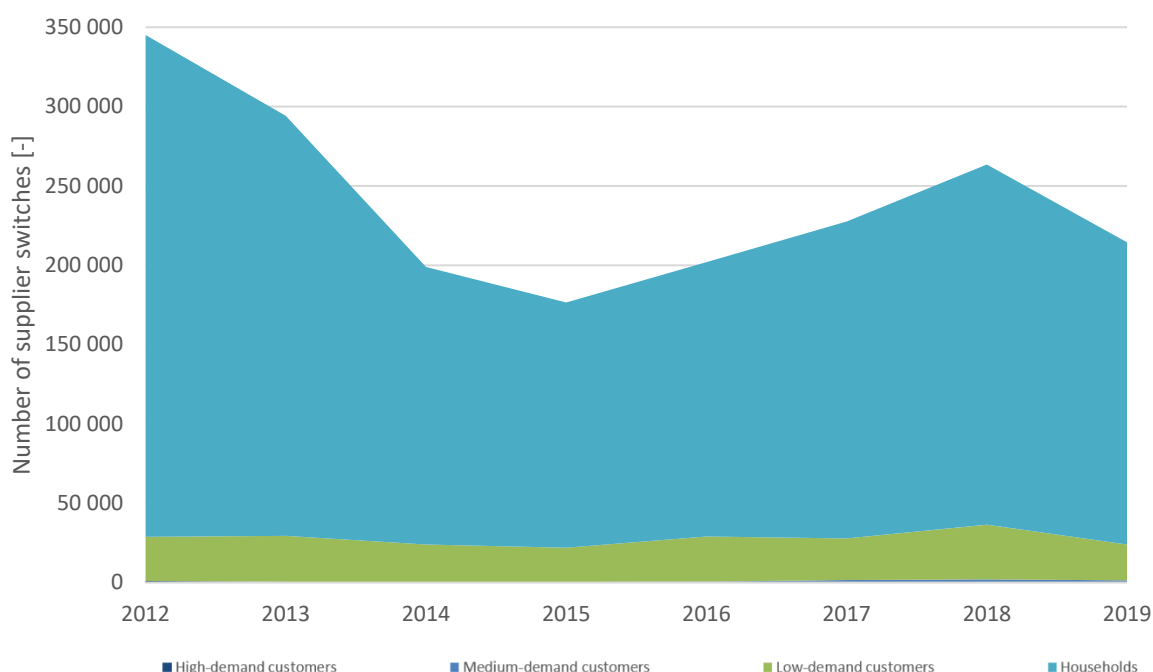
Retail market indicators (households and low-demand businesses)	2016	2017	2018	2019
Number of active electricity suppliers [-]	61	68	79	83
Market share of the three largest suppliers by supply points [%]	n.a.	n.a.	n.a.	69.5
Number of retailers with market shares > 5% [-]	5	5	5	5
External switching rate [%]	5.09	5.22	7.07	6.07
Switching rate, low-demand business				13.67%

Source: OTE, a.s., ERO

More than 214,000 customers out of the total number of over 2.8 million supply points changed their gas supplier in 2019. Of those, more than 190,000 changes took place in the most populated customer category, i.e. households. Chart 2 shows the structure of gas

supplier switching in more detail. Table 2 then shows the number of supplier switches to the number of supply points (the switching rate).

Chart 2 Number of gas supplier switches between 2012 and 2019



Source: OTE, a.s.

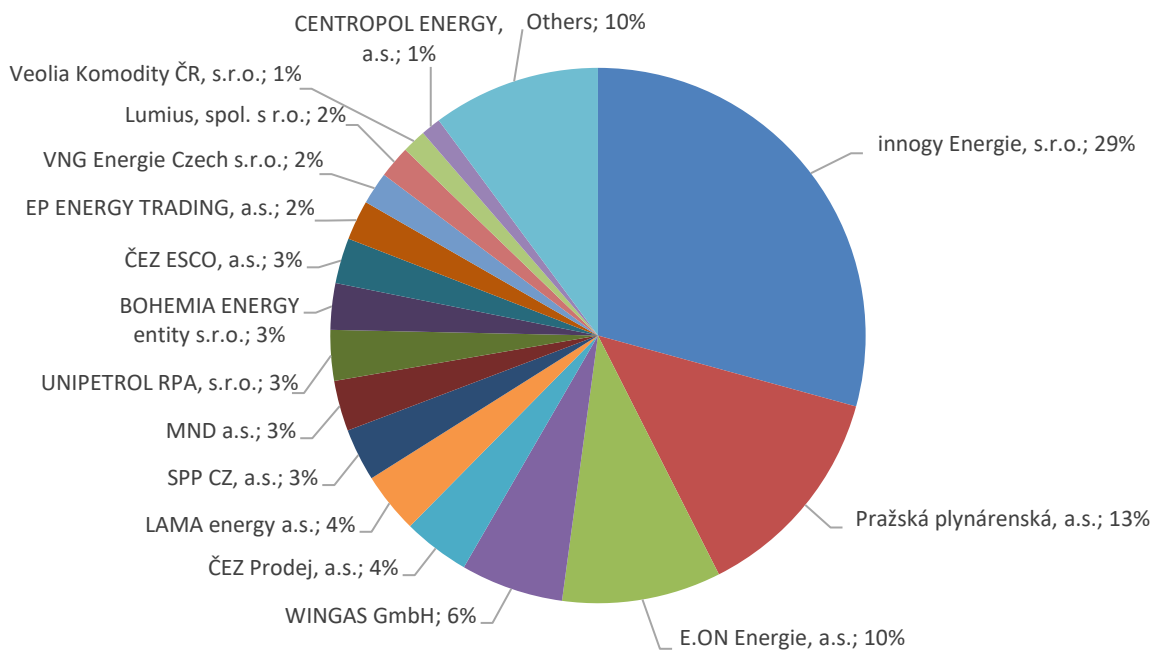
Table 2 Number of gas supplier switches in 2019

Customer category	Number of supplier switches	Total number of supply points	Switching
			[%]
High-demand customers	314	1,692	18.6
Medium-demand customers	1,123	6,760	16.6
Low-demand customers	22,545	206,264	10.9
Households	190,446	2,619,793	7.3
Total	214,428	2,834,509	7.6

Source: ERO

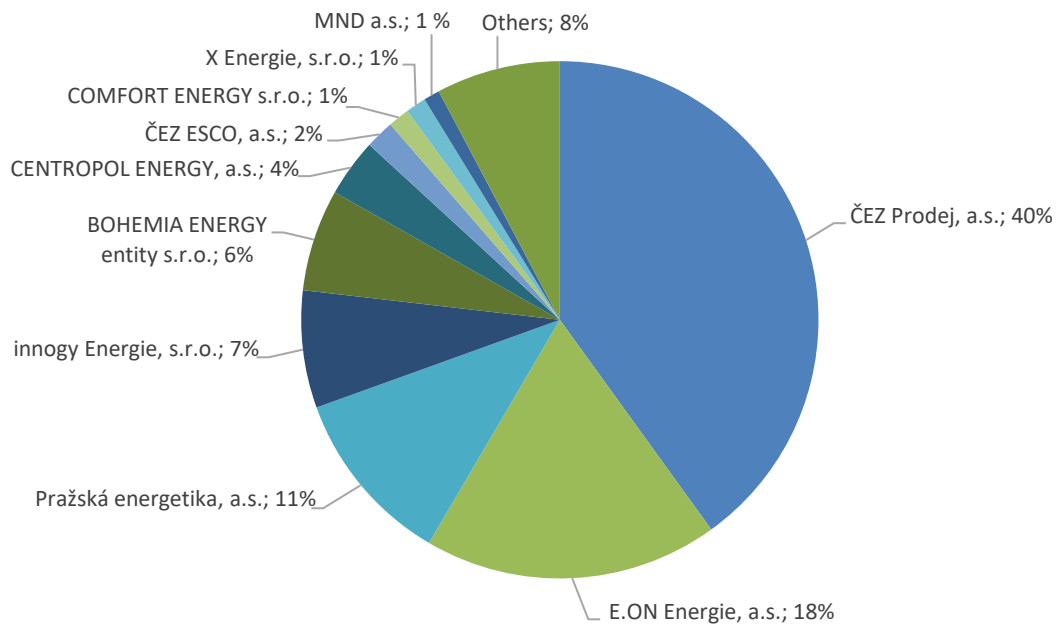
Another important indicator of competition in the retail market is the various suppliers' market shares. In terms of the gas quantity supplied, with its 29% innogy Energie, s.r.o. continues to be the largest gas supplier, followed by Pražská plynárenská, a.s. with 13% and E.ON Energie, a.s. with 7%. Chart 3 provides a more detailed picture of gas traders' shares of supply to customers. In the electricity market, ČEZ Prodej, a.s. continues to be the largest supplier; it supplied electricity to 40% of supply points in the country. It is followed by E.ON Energie, a.s. with 19% and Pražská energetika, a.s. Group with 11% (see Chart 4).

Chart 3 Traders' shares of gas supply in 2019



Source: OTE *) Note: Traders supplying less than 1% are included in the Others item

Chart 4 Electricity traders' shares of supply points at the end of 2019

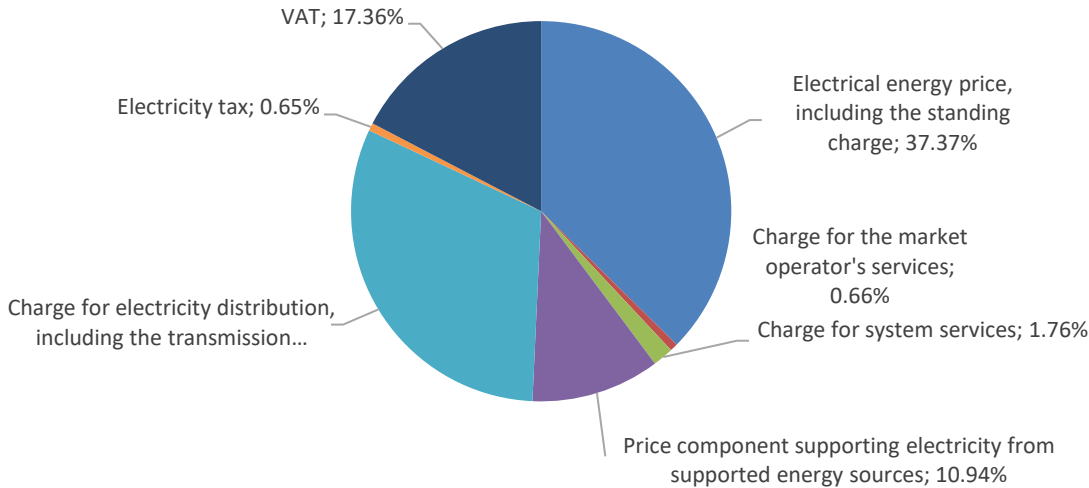


Source: ERO *) Note: Traders supplying less than 1% are included in the Others item

The overall retail price of electricity/gas supply is comprised of several regulated items and the commodity price. The commodity price, which is heavily dependent on the wholesale price, is the result of competitive fight between suppliers. On the other hand, the supplier is unable to influence the price of the regulated items, which depend on the place (distribution area) and the offtake size.

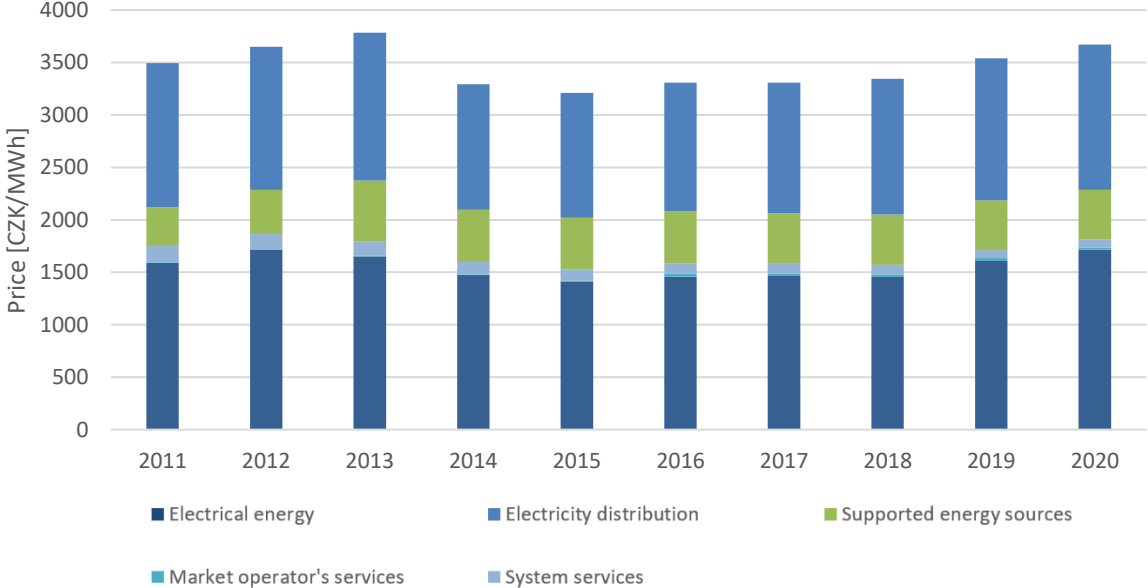
Chart 5 shows the percentage shares (including the VAT and electricity tax) of the various components in the resulting price of electricity supply for average households in 2019. Chart 6 shows the average prices of electricity supply for households, and the components thereof, since 2011.

Chart 5 Percentage shares taken by each of the components of electricity supply price for households in 2019



Source: ERO

Chart 6 Average planned price of electricity supply for households



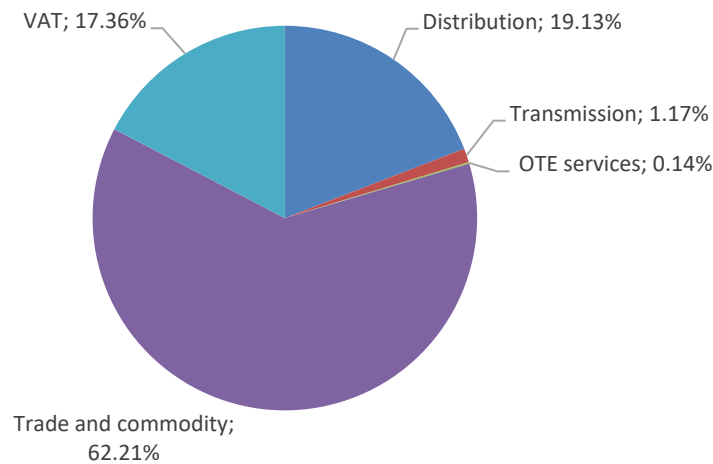
Source: ERO

In the low-demand business segment, the average planned regulated component of the price related to electricity supply for 2019 was approximately CZK 2,159/MWh, for 2020 it is approximately CZK 2,204/MWh. For households, the average planned regulated component

of the price related to electricity supply for 2019 was approximately CZK 1,932/MWh, for 2020 it is approximately CZK 1,957/MWh.

The structure of the average price of the gas supply service for household customers in 2019 is shown in Chart 7.

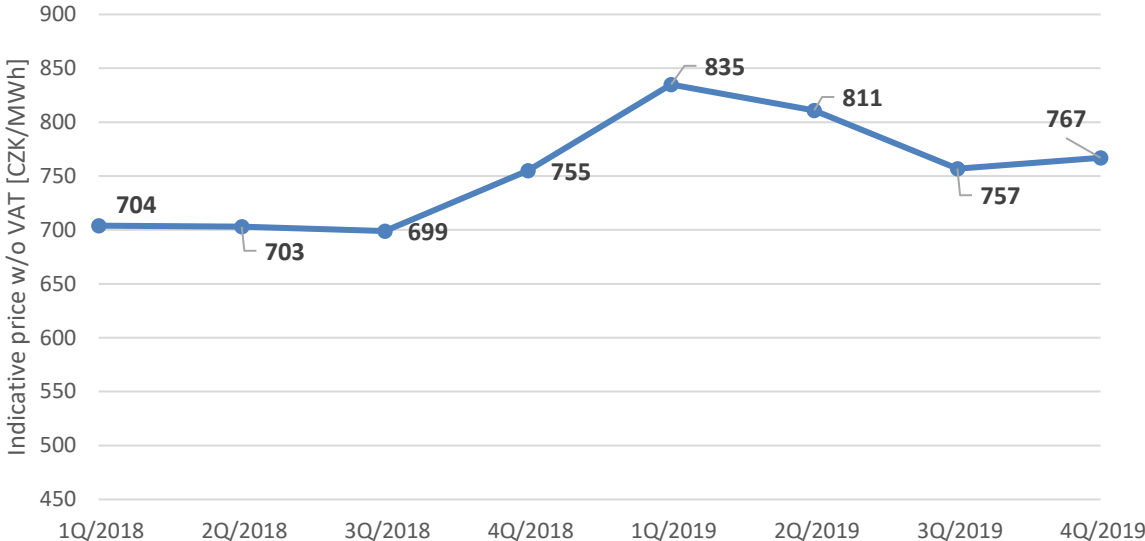
Chart 7 Structure of the average price for the gas supply service for household customers in 2019



Source: ERO *) Note: The charge for the market operator's services contains a special charge for the ERO's activities under Section 17d of the Energy Act.

With a view to enhancing consumers' awareness the Office publishes, on a quarterly basis, the indicative price of the unregulated component (i.e. of the commodity) of the gas supply price for low-demand business and household customers so that everybody is able to check whether their price reflects the current market situation. The indicative price includes the wholesale gas price, traders' margins, which cover their costs incurred in providing the gas supply service, and reasonable profit. Chart 8 shows the indicative prices in 2018 and 2019 for low-demand business and household customers who use gas for space heating.

Chart 8 Indicative gas prices for the 'heating' offtake



Source: ERO

3. The electricity industry



A number of major developments took place in the electricity market in 2019. In terms of electricity market integration, we have to stress the changes in the Czech intraday electricity market, which became part of the single EU cross-zonal intraday electricity market ([Single Intra Day Coupling](#), SIDC) on 19 November 2019. This was the result of the nominated electricity market operators', transmission system operators', and regulatory authorities' effort for many years, and in all the stakeholder countries. Already the first month of trading brought positive and expected results with liquidity increasing and the traded electricity amount growing by hundreds of MWh.

The Czech intraday market was interconnected with the rest of Europe in 2019. It was the result of the nominated electricity market operators', transmission system operators', and regulatory authorities' effort for many years. Liquidity has significantly increased since the very first day.

In 2019, the Office also approved an amendment to the electricity transmission system operating rules and also amendments to the distribution system operating rules. Most of the amendments to both of these documents were related to the implementation of network codes and framework guidelines, i.e. the legislation in the EU's third energy package. The key objective of the approval process was to ensure that the operating rules were the basis for the transparent and predictable performance of the licensed activity and did not cause any disequilibrium between the various electricity market participants. Another requirement was that the operating rules reflected the new findings gathered in the transmission system and distribution system operators' activities.

The publication of the reports on the operation of the electricity grid is also worth mentioning. The Office traditionally prepared quarterly reports (4Q 2018, and 1Q, 2Q and 3Q 2019), and a summary report for the preceding year. These reports contain detailed technical statistics, 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. A new feature in 2019 was tariff statistics, including their development for the last ten years. All reports on the operation of the electricity grid are available on the [ERO website](#).

3.1. Infrastructure and price controls

Price controls

The funds to defray the costs incurred in operating the electricity grid at all levels are raised through regulated prices charged to customers. Every year, the Office therefore sets prices for network use. The various regulated prices are intended to defray various types of costs; fully in compliance with the applicable methodology and the best regulatory practice, the Office seeks the best possible cost-causative linkage between the cost driver and the price paid by customers.

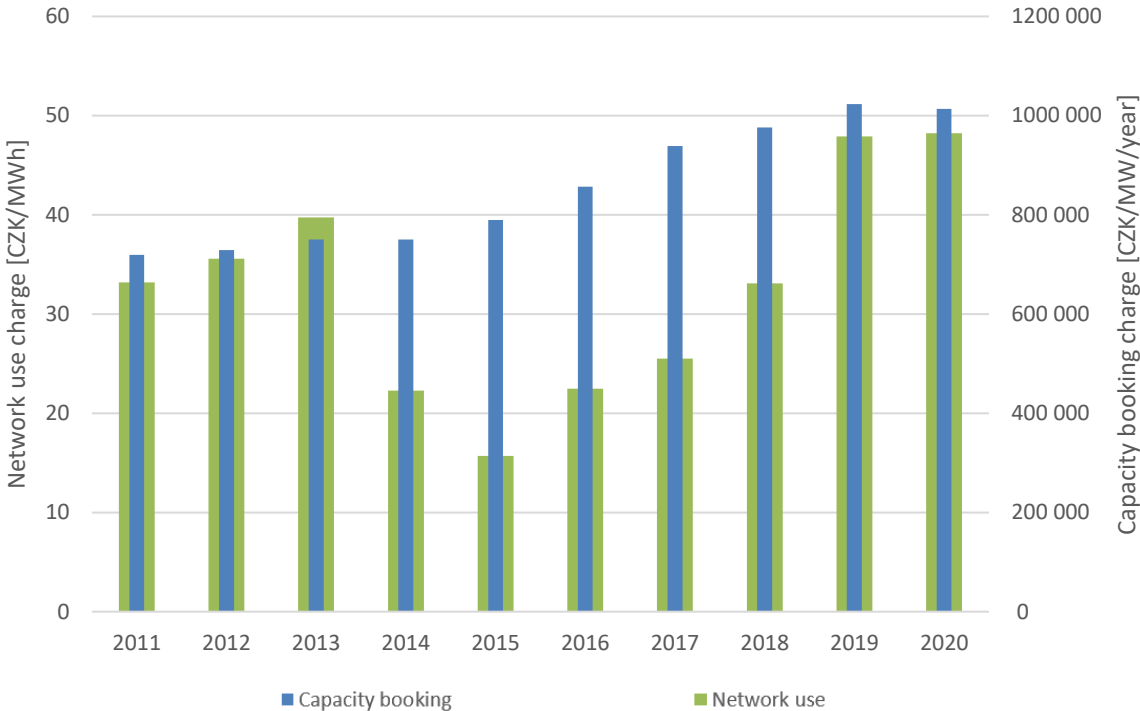
The electricity transmission charge is composed of the charge for reserved transmission capacity and the charge for using transmission system networks. The charge for reserved transmission capacity is the result of dividing adjusted allowed revenues from electricity transmission by the value of the capacity reserved in the transmission system. The charge for using transmission system networks depends on the cost of electrical energy for covering losses in the transmission system. The two items are adjusted by the correction factor, which reflects the surplus/deficit in revenue in previous years, and then divided by 'technical parameters', i.e. the expected total reserved transmission capacity and the total electricity amount planned to be transmitted.

The charge for reserved transmission capacity for 2019 increased by 4.8% year-on-year; one of the key factors was the inclusion of major capital projects in progress, with a long time to completion, in the calculation of allowed revenues. Specified in the price control principles as a standard approach, it was used for the first time for the 2019 prices.

The charge for using networks in the transmission system increased by 44.7% in 2019 year-on-year; the reason was the continuing growth of electricity prices at exchanges and also a large positive correction factor related to the use of the transmission system networks for 2017. For 2020, the electricity transmission charges changed only slightly; the charge for transmission capacity reservation for 2020 declined by 0.97%, and the charge for transmission system network use for 2020 rose by 0.69%. The electricity transmission charges between 2011 and 2020 are shown in Chart 9.

The rising price of electrical energy is reflected in higher costs of infrastructure – the charge for using the transmission system rose by 45% between 2018 and 2019.

Chart 9 Charges for reserved capacity and network use in the transmission system



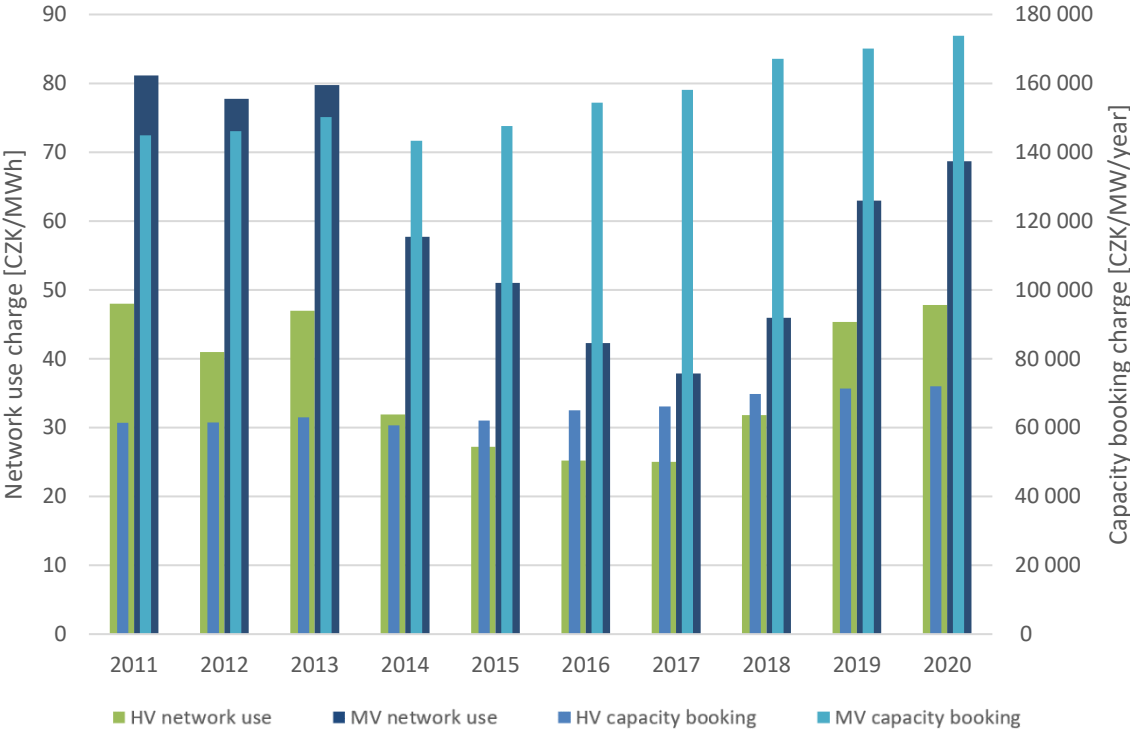
Source: ERO

The charge for system services is the result of dividing the TSO’s adjusted allowed revenues from system service provision by the electricity amount expected to be taken by customers connected to the electricity grid. The charge for system services for 2019 dropped by 18.6% year-on-year, primarily due to lower costs of ancillary service procurement and also the large negative correction factor. For 2020, the charge for system services increased by 1.22% from 2019. This increase is due to a negative correction factor smaller than in 2019, causing the price to rise slightly given similar costs.

The charge for electricity distribution at high voltage (HV) and medium voltage (MV) levels is composed of a charge for capacity reserved in the distribution system and a charge for network use in the distribution system. The charges for reserved capacity at the various voltage levels are mainly influenced by the agreed technical parameters of reserved capacity, the amount of capital expenditure at the respective voltage level, and the charge for capacity booking in the higher-level transmission system. The charge for capacity reserved in the distribution system at the HV level rose by 2.4% year-on-year and at the MV level by 1.8% year-on-year for 2019. The reasons included investments in distribution systems and higher charges for electricity transmission, which constitute some of the inputs into the calculation of the charges for electricity distribution. For 2020, the charge for reserved capacity at the HV level rose by another 0.9% and at the MV level by 2.2%. Investment in distribution systems is the reason again.

The charge for distribution system network use increased by 42.5% at the HV level and by 37% at the MV level for 2019; again, an important factor was the rising price of electrical energy at power exchanges, similarly as in the case of the charge for network use in the transmission system. For 2020, the charge for distribution system network use rose by 5.4% at the HV level and by 9.1% at the MV level. As in the case of the transmission system, the increases, primarily in 2019, resulted from the rising prices of electrical energy at exchanges over the period that enters the calculation of the price of electrical energy for covering losses. Chart 10 shows the development of the two components of the electricity distribution charge between 2011 and 2020.

Chart 10 Charges for booked capacity and network use in MV and HV distribution systems



Source: ERO

At the low voltage (LV) level (the household and low-demand business customer categories), the regulated prices are calculated in a more complicated way for a larger number of distribution tariffs. 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 amount distributed. The year-on-year changes in the various electricity distribution charges at the LV level for 2019 differ depending on the agreed distribution tariff, and therefore average values must be used for the purpose of year-on-year comparisons. The charge for electricity distribution

Investment in the future of our electricity infrastructure is the main reason for the regulated prices to grow gradually. The ERO oversees their adequacy.

at the LV level rose by 4.2% year-on-year on average; combined with the other regulated prices, this caused an increase in the average regulated component of the price for electricity supply at the LV level by 2.07% year-on-year. For 2020, the distribution charge rose by 2.6%, regulated prices rising by 1.5% year-on-year as a result. Again, capital expenditure on distribution systems also caused the prices to grow.

The charge for the market operator's services in the electricity industry increased by 28.3% year-on-year and was set at CZK 6.93/supply point/month for 2019. The main reason was the high costs of the administration and payment of aid to supported energy sources which, together with imbalance clearing, is included in the charge for the market operator's services in the electricity industry. For 2020, on the other hand, this price dropped by 26.7% to CZK 5.08/supply point/month. The amount of the charge for the ERO's activities, which is part of the charge for the market operator's services, did not change and is CZK 2.39/supply point/month.

Networks and codes

The development of decentralised electricity generation precipitates new demands on, primarily, distribution networks and the Office therefore devotes increased attention to their preparations for the changes expected in the energy sector. Electricity self-generation in small plants producing a few kW, the evolving use of power storage (accumulators) in households, prosumers' activities in the market (supply of self-generated electricity to the grid and offer of ancillary services) and

We consider that effective competition exists in the retail market. Revealing evidence of this is the gradual growth in the number of active traders. On the other hand, the Czech switching rate is about average in the EU and the incumbent monopolists continue to control a significant share of the market.

other expected changes require that networks have the right size and sufficient capacity and are optimally controlled. The rollout of digital technology for network control and remote-controlled electronic devices to meter electricity consumption at customers connected to the lowest voltage levels, and the formulation of new requirements for the format and structure of the data exchanged between market participants and new requirements for the connection and control of generating plants, etc. should contribute to this.

At the national level, the Office held discussions with system operators during the process of the development and approval of amendments to the Electricity Transmission System Operating Rules and the Distribution System Operating Rules. Most of these amendments responded to the new conditions for connecting generation and demand, arising from network codes and framework guidelines. The Office also held talks with market participants in relation to amendments to public notice 540/2005 on the quality of electricity supply and

related services in the electricity industry and 408/2015 on Electricity Market Rules. By the same token, it held talks with DSOs further to the reconsideration and redesign of the then current parameters of electricity supply quality, which help to motivate, through bonuses and penalties, DSOs to invest in and develop the electricity grid and roll out new technologies. Worth mentioning is definitely the better communication with DSOs at the local level, which has cultivated the local DSOs' market to some extent.

The network codes and framework guidelines adopted at the EU level as Commission Regulations (EU) and the methodologies for the implementation thereof are becoming increasingly important. The implementation is under way concurrently at several levels: the Union level, the regional level, and the national level. There are three groups of network codes and framework guidelines:

- a) Connection: Commission Regulation (EU) 2016/631, Commission Regulation (EU) 2016/1388, and Commission Regulation (EU) 2016/1447
- b) Operation: Commission Regulation (EU) 2017/1485 and Commission Regulation (EU) 2017/2196
- c) Market: Commission Regulation (EU) 2015/1222, Commission Regulation (EU) 2016/1719, and Commission Regulation (EU) 2017/2195

In the case of connection codes, implementation was taking place almost only at the national level and in 2019 the Office picked up on its earlier work. Several expert working groups (set up by the Office in cooperation with MIT, and those operating under the auspices of DSOs) are dealing with these issues. The requirements contained in the network codes on grid connection of generators, demand connection, and high voltage direct current connections and DC connected power park modules were incorporated into the Electricity Transmission System Operating Rules and Electricity Distribution System Operating Rules. The entire process was complex and demanding, and the implementation had to be split into two stages: first, the requirements for the transmission system and subsequently those for the distribution systems were determined. This approach was adopted with a view to ensuring continuity and system interconnection, because these requirements have a major impact on the operation of networks and generating plants. There is no question today that these requirements will necessitate major capital expenditure on the part of the connected entities. On the other hand, such investments can be expected to induce changes in the development of generating and consuming equipment and technologies.

In 2019, the national implementation of operation regulations focused on the development and adoption of methodologies of a purely national nature. These mainly include those under Commission Regulation (EU) 2017/2196 establishing a network code on electricity emergency and restoration. They set out the basic procedures in the case of system defence against widespread disturbance and re-energisation after such disturbances. In line with the Regulation, a system defence plan was prepared based on the existing defence and

restoration plan. By the same token, a restoration plan was prepared. Both plans were supplemented in line with the requirements of the Regulation and the actions for normal operation (remedial actions) were strictly separated from actions in the system defence plan and in the restoration plan. A significant change is also the transition from a four-level to a six-level automatic low-frequency demand disconnection scheme. The methodologies were developed and adopted in compliance with the requirements of this network code and the implementation of Commission Regulation (EU) 2017/2196 can therefore be regarded as completed in this respect (meeting the obligation to develop and approve methodologies); compliance with the Regulation will be monitored now. It is similar with the methodologies having a purely national nature under Commission Regulation (EU) 2017/1485 establishing a guideline on electricity transmission system operation. The implementation of network codes and framework guidelines at the regional and EU levels is described in Chapter 5.

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 supply quality in distribution systems is measured by electricity supply continuity indicators under Section 21 of the above public notice. The public notice sets out the basis indicators of supply reliability, which are 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 2019 are shown in Table 3.

Table 3 Electricity distribution continuity indicators in 2019

Indicator*	ČEZ Distribuce	E.ON Distribuce	PRE distribuce	CR
SAIFI [interruptions/year]	2.90	1.97	0.36	2.32
SAIDI [minutes/year]	348.52	281.20	29.61	288.73
CAIDI [minutes]	120.35	142.48	81.87	124.38

Source: ERO, *) System indicators covering all categories of interruption under Appendix 4 to public notice 540/2005

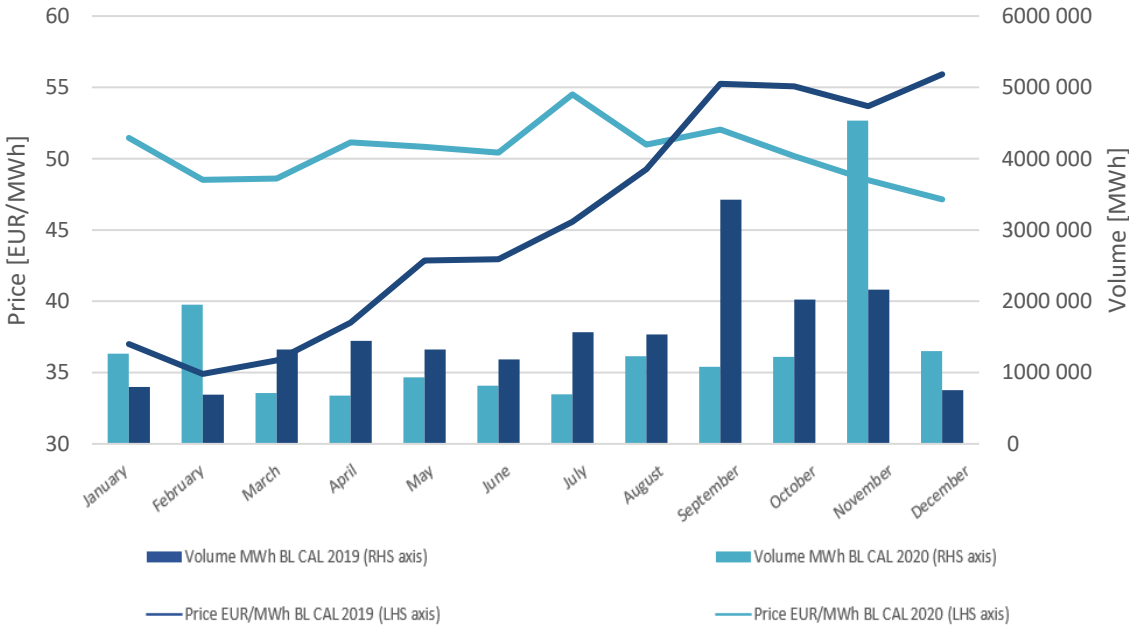
On 24 May 2019, the Office approved the [Ten Year Transmission System Development Plan](#) for 2019 to 2028. This plan specifies the assumptions for the key investment plans for the following ten years. In view of the cross-border nature of electricity trading the content of national plans is closely associated with the non-binding Community-wide ten-year network development plan (TYNDP) drawn up by the European Network of Transmission System Operators (ENTSO-E). Directly related to the system development plan is the EU's list of projects of common interest (PCI). At the level of the transmission system, a cluster of projects covering the investment plans for national transmission lines and substations in the areas of the Verněřov, Vítkov, Přeštice, Kočín and Mírovka substations was included in the current CPI list. In respect of these investment plans, the Office checked their consistence with the

national ten-year plan and the European TYNDP, based on which it agreed with including all of the above projects in the current list. The distribution level includes the ACON project of the distribution system operator E.ON Distribuce, a.s., but without any direct connection with the ten-year plan for the transmission system.

3.2. Wholesale market

At the wholesale level in the Czech Republic, electricity is traded on the EEX (European Energy Exchange) platform (formerly the PXE energy exchange), through bilateral (OTC) contracts, and in spot markets organised by OTE. In 2019, a total of 30.4 TWh of electricity (48% less than in 2018) was traded via EEX (both directly on the trading platform as well as only cleared OTC transactions) for the Czech market for the long term. Of this amount, 16.4 TWh was with settlement in 2020. Chart 11 compares the volume and prices of BL CAL 2019 products traded at EEX in 2018 and the same statistics of the BL CAL 2020 products traded in 2019.

Chart 11 Comparison of year-ahead products for BL CAL 2019 and BL CAL 2020 futures



Source: PXE, a.s.

Spot trading takes place via OTE’s organised markets (day-ahead, intraday, and block markets) or under OTC (bilateral) contracts (not registered at the energy exchange). In 2019, 21,712 GWh was traded in the day-ahead market; under bilateral contracts registered in the market operator’s system between market participants, a total of 75,396 GWh was traded. In the block market, 5 GWh was traded and in the intraday market 670 GWh was traded. Here, a significant increase compared with 2018 occurred due to the coupling of the Czech organised intraday market with other EU countries (SIDC, earlier also known as XBID).

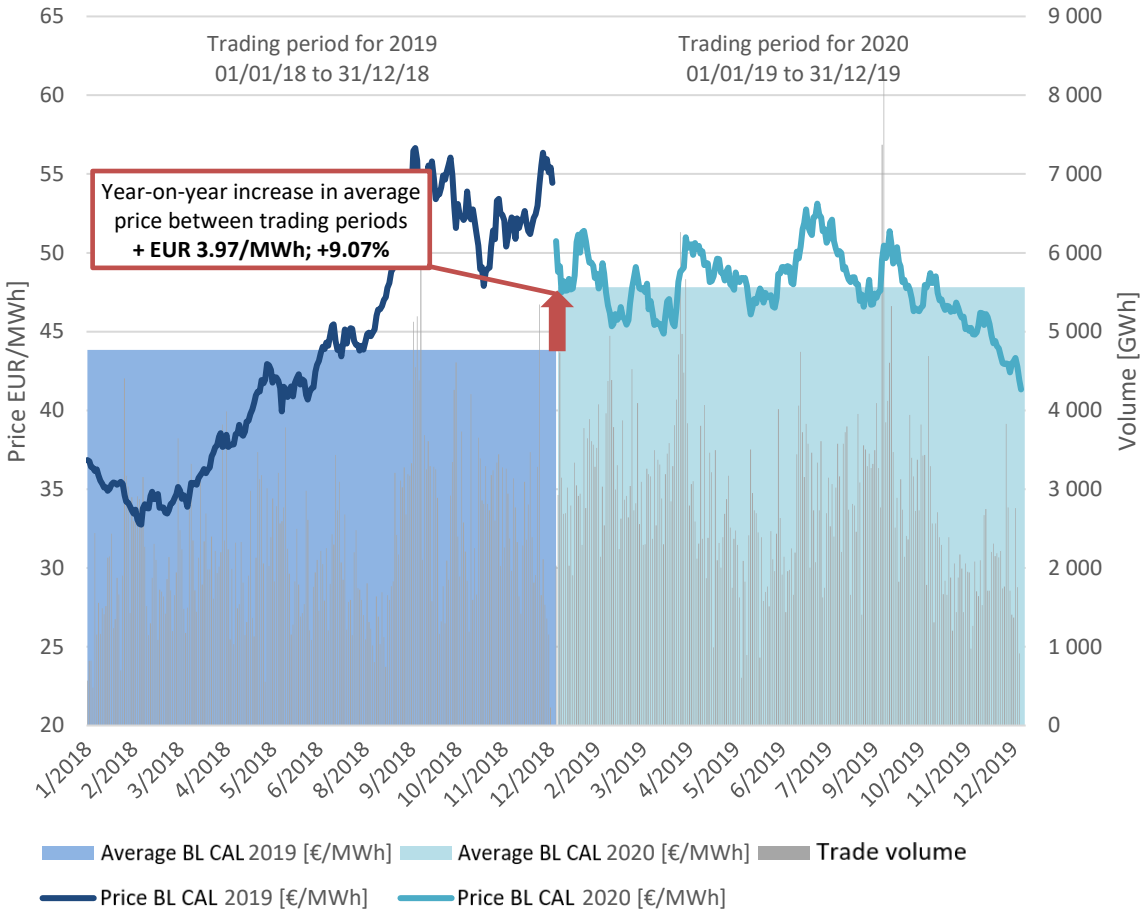
Table 4 Electricity wholesale market indicators

Indicators	2016	2017	2018	2019
Electricity production, GWh	83,302	87,038	88,000	86,989
Participants in spot electricity markets	105	106	113	121
Total electricity demand, GWh	72,418	73,818	73,941	73,931
Imports volume, GWh	8,608	10,388	10,431	10,955
Exports volume, GWh	19,447	23,576	24,310	23,622
Number of traders active in the wholesale market	328	357	378	397
Volume traded in the spot electricity market, GWh	132,033	135,471	132,392	120,667
Total traded volume, GWh	160,603	152,599	163,097	148,573
Weighted average of prices in the day-ahead market, in EUR/MWh	31.18	37.00	46.81	40.80

Source: OTE, a.s., PXE, a.s., ERO

Germany is the decisive wholesale market for the Czech market due to the several times higher liquidity in the German forward market. Chart 12 shows prices of electricity in year-ahead products in EUR/MWh at EEX, with delivery in the German-Luxembourgian bidding zone, including the volume of transactions in 2018 and 2019 to buy electricity for 2019 and 2020. The price of the year-ahead base load product in 2019 gradually climbed to a value of 50 EUR/MWh and oscillated closely around it throughout 2019. As explained in point 3.1, the rising price of electrical energy was also reflected in higher regulated prices for using transmission and distribution system networks.

Chart 12 Electricity prices in EUR/MWh at EEX



Source: EEX

4. The gas industry

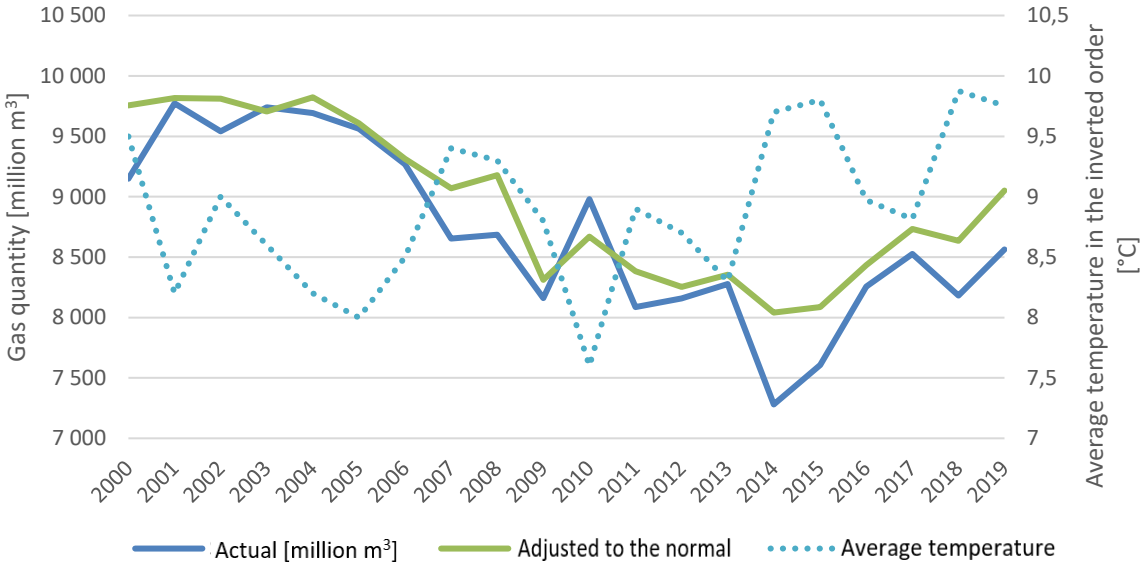


In 2019, natural gas consumption in the Czech Republic totalled 8.565 bcm, i.e. 91.398 GWh (in the Czech Republic, the average gross calorific value was 10.67 kWh/m³). Compared with 2018, actual consumption increased by 4.7%. The average annual temperature was 9.8 °C and the difference from long-term normal temperature was +1.8 °C and from average temperature in 2018 it differed by -0.1 °C. After 2018, 2019 was the second warmest year over the past 30 years. Gas consumption in the heating season accounted for about 68% of total annual consumption. The lowest monthly consumption was measured in June (378 mcm, i.e. 4,027 GWh) while the peak consumption was registered in January (1,284 mcm, i.e. 13,725 GWh). An increase in consumption compared with the same period of 2018 was mainly registered in the second and third quarters. Adjusted to long-term normal temperature using temperature gradients, in 2019 natural gas consumption amounted to 9,052 mcm, i.e. 96,600 GWh, up by 4.8% year-on-year.

Additional interesting information can be found on the ERO's website where we post [detailed statistics on gas consumption](#) every quarter.

Over the past 13 years, natural gas consumption in the Czech Republic did not exceed 9 bcm (96 TWh), an amount that was not unusual at the beginning of this millennium. Natural gas consumption in the Czech Republic is heavily influenced by ambient temperatures, which have been above the long-term normal temperature due to the climate change. The only exception was 2010 when also the highest consumption over the past ten years was registered. On the contrary, the lowest consumption was registered in 2014. The difference between the highest consumption in 2010 and the lowest consumption in 2014 was approximately 1.7 bcm (17.7 TWh). The largest drop in consumption, by 12%, was observed in 2014 when it totalled 7.3 bcm (77.4 TWh), the very lowest gas consumption since 1995. In 2019, actual consumption of natural gas was almost the same as in 2017, but at a much higher temperature measured (+1 °C).

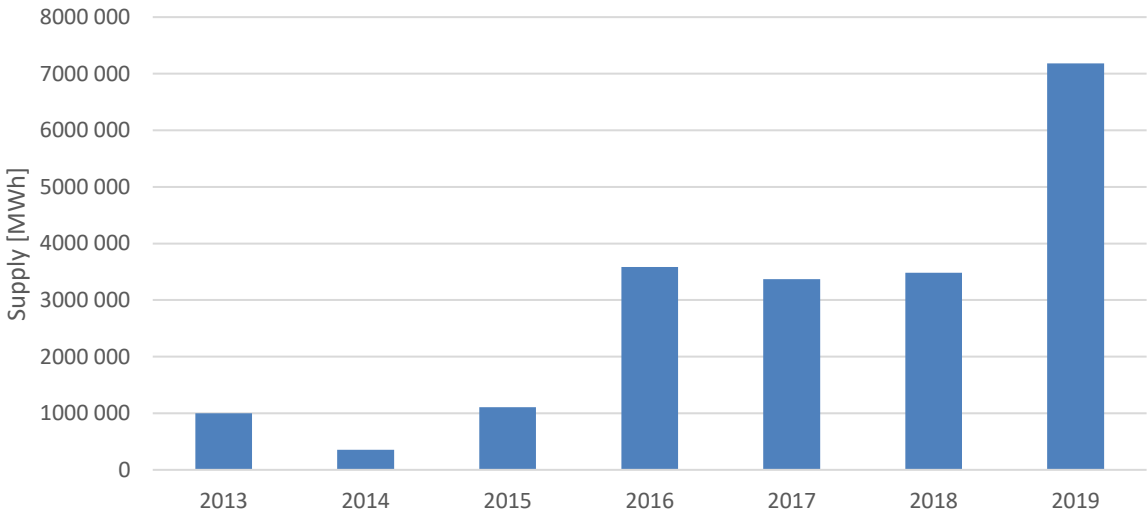
Chart 13 Overall evaluation of gas consumption in the Czech Republic between 2000 and 2019 (also showing adjustment to long-term normal temperature)



Source: ERO

The long-term decline in natural gas consumption has been slightly offset by natural gas consumption for power generation and, to some extent, gas supply to CNG stations in recent years. The Počerady combined cycle unit, an increasingly important element in the gas system, was operated almost continuously in 2019. This increase in electricity generation is attributable to more favourable conditions for the economics of operation as the gas price had dropped significantly. The Počerady power station’s consumption surged by 106% year-on-year to 7,182 GWh of gas. Higher electricity generation from gas was reflected in the rising curve of the quantities traded on spot markets as described below.

Chart 14 The Počerady combined cycle unit – natural gas supply via the Bečov delivery and metering point between 2013 and 2019



Source: ERO

4.1. Infrastructure and price control

Under the Price Control Principles, the Office determines the adjusted allowed revenues applicable to the transmission system operator, the distribution system operators, and the market operator, from which the regulated prices are calculated for the year; it was no different for 2019. The revenue cap regulatory method is used for calculating the allowed revenues for distribution system operators and the market operator. In the case of the transmission system operator's allowed revenues, a combination of the revenue cap and price cap principles is used.

The TSO's adjusted allowed revenues for 2019 rose by 17.52% year-on-year. The main reason was an increase in the correction factor for the gas transmission service compared with the preceding regulated year. Because of the higher adjusted allowed revenues, the average charge for the service of gas transmission to the domestic point rose by 47.23% on 2018 to CZK 17.26/MWh. This charge is integrated in the regulated prices of the distribution system service and, depending on the customer category (households and low-demand business, medium-demand, and high-demand customers), accounts for around 1-2% of the total price for the gas supply service.

The distribution system service charge is calculated in two forms. One of the forms of the regulated price of the distribution system service is the single-component price, which is intended for customers having a certain specific nature of their supply point usage. At such supply points the largest part of their annual off-take is consumed on a few days in a year.

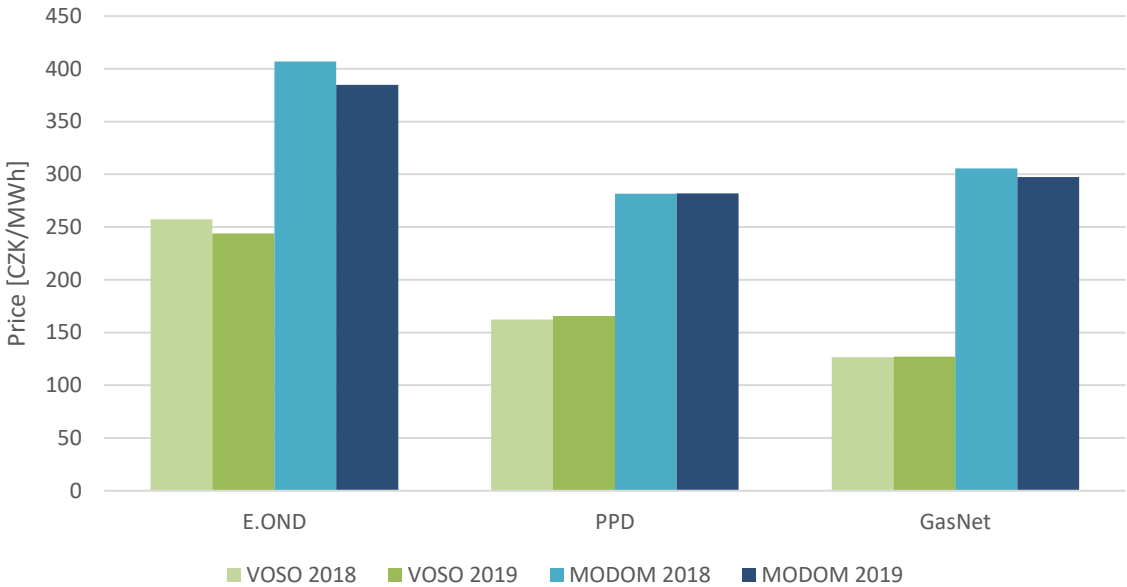
The other form is a double-component price, which is composed of a variable and a fixed component. In the double-component price, the variable component of the price for the distribution system service is determined by a fixed price for gas taken, in CZK/MWh. Its level depends on the gas quantity consumed. The standing monthly charge for available capacity constitutes the fixed component of the prices for customers in the household and low-demand [business] categories (MODOM), 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 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 (VOSO) this component of the price is set on the basis of the calculation of a logarithmic formula 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.

The average price for the distribution system service, including the service of gas transmission to the domestic point, for 2019 decreased by 0.60% from 2018. The main reasons for this

decrease include, in particular, the negative values of the correction factors for DSOs. Chart 15 depicts a year-on-year comparison of the change in the average distribution system service price, including the service of gas transmission to the domestic point, for each of the customer categories by distribution system operator.

Chart 15 Comparison of average regulated charges for gas distribution (distribution, transmission, OTE) in 2018 and 2019, by distribution system operator



Source: ERO

For 2019, the fixed price for clearing, paid to the market operator, was set at CZK 0.71/MWh. The year-on-year decline of 1.99% in this price is due to the negative value of the correction factor for the market operator’s services.

In 2019, the Office continued to draft a motivated decision required in Article 27(4) of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (NC TAR), on the basis of which the relevant prices for the gas transmission service would be set from 2020. In January 2019, the responses received in the three-month public consultation running in the last quarter of 2018 were published under Article 26 NC TAR. Under Article 27 NC TAR, ACER analysed the consultation document and assessed the responses delivered. Within the set period of two months following the end of the consultation, i.e. on 28 February 2019, ACER sent the conclusions of its analysis to the Office and the Commission. The conclusions of its analysis were published in March 2019. On 21 May 2019, a motivated decision was adopted and published under Article 27(4) NC TAR, whereby the EU regulation was implemented in full. In compliance with the EU legislation, the capacity weighted distance (CWD) reference price methodology is therefore used now.

1 April 2019 saw the completion of the asset swap between the RWE and E.ON groups. One of the requirements was selling some of the two companies' assets to third parties. In this operation, the consortium headed by Macquarie Infrastructure and Real Assets increased its stake in innogy Grid Holding, a.s. to 100%, and the company was then renamed Czech Grid Holding, a.s. Its subsidiary GasNet, s.r.o., which operates the largest natural gas distribution network in the Czech Republic, is therefore the country's first regional distributor completely unbundled in ownership terms.

Since 2019, the CR has had the first DSO fully unbundled in terms of ownership, GasNet.

Because of the time limits entailed in the pending administrative proceedings, in 2019 the Office was deciding on two ten-year plans for the development of the transmission system. One was the plan for the period from 2018 to 2027, which had been returned to the TSO for restating in 2018. Its restated version was approved on 18 January 2019.

The Office was also deciding on the [Ten-Year Czech Transmission System Development Plan for 2020-2029](#). The plan contained several material changes compared with the plan for the period 2019-2028 approved in 2018, both in the technical and financial parameters of the various projects and in the list of projects. They were specifically the following changes:

- The interrelated DZ-3-002 and TRA-N-136 (Moravia, CPI) projects: the commissioning date was moved to 2023.
- The commissioning dates for the DZ-3-003 and DZ-3-004 projects were moved by one year, to 2020 and 2023, respectively.
- For the DZ-3-005 project (Moravia Capacity Extension), the technical design concerning the dimension (DN 1000), pressure (PN 73.5), and the required compression capacity was specified more accurately.
- For the UGS-4-003 project, the date of putting the project in operation in terms of its connection with the Czech transmission system was specified.

The plan submitted to the Office for assessment had already taken into account the responses provided during the public consultation organised by the TSO. The Office examined its content from the perspective of the requirements of the Czech and EU legislation and of its benefits for the continuous development of the Czech gas market and for meeting the needs of consumers in the Czech Republic, and from the perspective of overall impacts on final consumers. The plan was then approved on 17 December 2019.

In 2019, NET4GAS, s.r.o., the Czech transmission system operator, continued to carry out its Capacity4Gas project, the objective of which is to satisfy demand for long-term transmission capacity, which had been confirmed in a Europe-wide capacity auction on the PRISMA platform in March 2017. Capacity4Gas will interconnect the Czech gas system with the EUGAL pipeline in Germany and increase the capacity at an entry point of the Czech gas system by

approximately 1,119 GWh/d, which implies that the volume of gas transported across the German-Czech national border will increase by approximately 35 bcm/yr (372 TWh/yr). Most of this volume will be transited to other countries and some of it will also be available for gas supply to the Czech Republic.

Effective since 1 March 2019, the interconnection points between the German NCG zone and the Czech Republic in the area of the Waidhaus interconnection were integrated into the Waidhaus NCG VIP. This completed the virtualisation process for the cross-border interconnection points in the transmission system as required by Article 19(9) of Commission Regulation 2017/459.

Since 1 March 2019, the CR and the German NCG bidding zone have been interconnected through a single VIP. This marked the successful completion of the virtualisation process.

In 2019, GSSS was provided for January to March and October to December. Most gas traders supplied a confirmation that they had another gas market participant providing for their GSSS. In practice this means that one trader provides GSSS for several other traders, including through gas storage for 30% of GSSS. In the light of suspicion that certain companies failed to ensure the required 30% of GSSS in a storage facility at the end of the 2018/2019 winter season, the Office requested storage system operators to provide data on the daily quantities of gas stored in the relevant period, broken down by gas trader. Based on this poll, the Office conducted inspections with a view to checking each of the traders' actual provisions for GSSS.

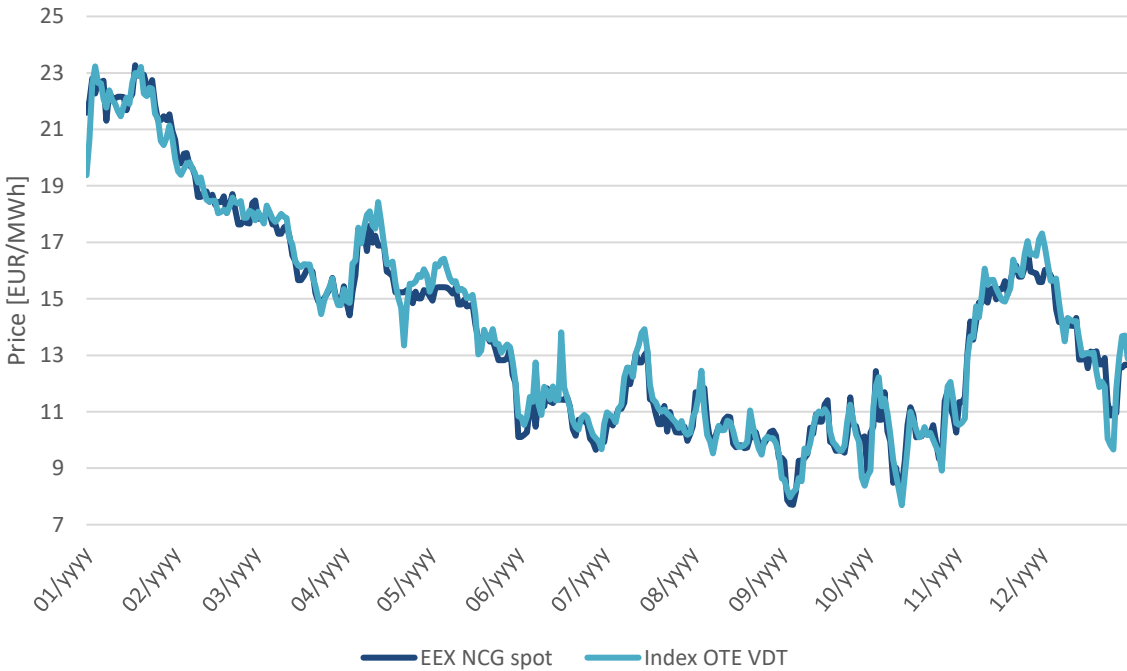
4.2. Wholesale market

In the within day market organised by OTE, 4,670 GWh of gas was traded, a new annual maximum and a growth of 52.7% on 2018. The weighted average of the prices of the gas traded in the within day market declined by 41% to EUR 14.12/MWh in 2019 from EUR 23.88/MWh in 2018. In the spot market, natural gas prices even dropped under EUR 10/MWh in the summer of 2019. The main reason for such low prices was the surplus of LNG being shipped to Europe, and also its lower prices in other global markets. At the end of 2019, access to the spot gas market was open to 98 parties.

The emerging global LNG market has a direct impact on the CR as well. In the summer of 2019, LNG surpluses pushed prices down under EUR 10/MWh.

In recent years, the prices in the within day gas market have copied the profile of the prices of comparable products on the NCG platform, traded in the spot market of European Energy Exchange AG (EEX, the PEGAS platform), and it was no different in 2019. Chart 16 clearly depicts the significant correlation of the development of prices in these two markets.

Chart 16 Comparison of the OTE Index and EEX NCG spot prices in 2019



Source: OTE, a.s. and Powernext SAS

Development similar to the above could also be seen in the adjacent countries’ markets (TTF, Gaspool, and CEGH) in 2019. It can therefore be noted that the within day gas market organised by the market operator in the Czech Republic is a fully functional wholesale marketplace. An important aspect for gas market participants is that the within day gas market has the capacity to satisfy occasional bids for large daily gas volumes for prices comparable with other key trading platforms relevant for the Czech Republic. At the same time, the price remains lower than at the Austrian CEGH hub (operated by Central European Gas Hub AG).

In terms of the forward market, 2,195 contracts totalling 2,554 GWh were traded through PXE in the Czech Gas Futures market in 2019. The value of these contracts totalled EUR 44.6 million. In the PXE spot market (Czech Gas Spot) 240,018 contracts totalling 7,012 GWh and EUR 97.1 million were traded in 2019. Compared with 2018, when 3,483 GWh of gas was traded, PXE registered an over 100% increase in the gas quantity traded and the number of executed contracts.

A change in the balancing regime also helped to improve the operability of the wholesale gas market. Modified rules for the balancing actions undertaken by the TSO took effect on 1 January 2019. This change resulted from the continuous assessment of the model for gas balancing in the system, which had been in place since 1 July 2016. An analysis of the days seeing an extreme increase in consumption in February and March 2018 identified incompatibility between the TSO’s capabilities to control the system safely and reliably and the original model. The new rules directly responded to the need to change the procedure for the TSO undertaking the balancing actions, since the newly set processes and rules for

undertaking balancing actions respond to this incompatibility and reflect legitimate requirements. The changes also reduced the room for traders' speculative operations having the potential to generate costs that are subsequently socialised because of the requirements for the cost neutrality of the balancing system.

Gas storage facilities

Gas storage facilities play an irreplaceable role in the Czech gas infrastructure: they balance out the seasonal differences in gas demand, enhancing supply security and continuity. Gas storage facilities also make it possible for gas suppliers to respond flexibly to unexpected surges in gas demand, mainly in the cold months of the year, thereby helping the wholesale market.

In 2019, storage system operators, innogy Gas Storage, s.r.o., MND Gas Storage a.s., and Moravia Gas Storage a.s., called a total of 46 auctions to sell storage capacities. Seasonal price differentials (spreads) continue to be the main instrument for storage capacity valuation.

Another important criterion for gas storage facilities is the level to which they are filled before the beginning of the heating season and at the end of the storage year. When gas stores in them are too low (which mainly happens at the end of the storage year), for technological reasons storage facilities are unable to offer the full withdrawal capacity and fully respond to temperature changes and so supply sufficient gas quantities to the market. On 1 October 2019, the day that is regarded as the beginning of the heating season and when conventional customs dictate the start of gas withdrawal from facilities, all storage facilities were filled to almost 100% of their capacities. The main reason was the favourable gas price and moderate autumn and winter 2018/2019, when storage facilities were filled to more than 25% after the season. Because of the moderate autumn and winter and also in response to the higher seasonal spread of gas prices and the uncertain transit situation in Ukraine, storage facilities were filled to more than 95% as late as 31 December 2019. Table 5 compares gas quantities in storage facilities after the 2018/2019 withdrawal season and before the 2019/2020 withdrawal season.

Table 5 Comparison of gas volumes in storage facilities after and before the withdrawal season

Company	Level in the facility (in %) on 31 March 2019*	Level in the facility (in %) on 30 September 2019*
innogy Gas Storage, s.r.o.	27.4	100.5
Moravia Gas Storage a.s.	78.8	95.9
MND Gas Storage a.s.	59.0	96.5

Source: www.innogy-gasstorage.cz; www.gasstorage.cz; www.moraviags.cz, *) The percentage expresses the ratio of the gas quantity in the facility and its technical capacity

5. European internal energy market and international cooperation

For the EU's internal energy market, 2019 was an important milestone owing to the approval of the remaining documents in the [Clean Energy for All Europeans](#) package (the Winter Package). The implementation of the Winter Package has generated new duties and tasks for energy regulators, such as amending secondary legislation, market monitoring, risk assessment, tackling of unfair practices, fair determination of network charges, adjudicating disputes between aggregators, issuance of recommendations, safeguarding customers' rights, granting exceptions, organising public consultations, etc.

In the EU, the Office pursued international activities mainly within ACER and CEER. The Office's staff are actively involved in their electricity and gas, consumer protection, and REMIT working groups. These groups also prepared the underlying materials for the development and amendment of European energy legislation and framework guidelines and the implementation thereof at the national level. In respect of electricity, this mainly entailed preparations for Winter Package implementation. Network codes were also discussed. Gas working groups focused on network code implementation monitoring, preparing information about the Czech gas market, and drafting documents for the relevant questionnaire polls. Issues such as market transparency and competitiveness, cross-border interconnections, consumer protection, supply security and quality, sustainable development, and cyber security were also addressed. The Office used its participation in working groups for presenting the Czech Republic's experience, monitoring the emerging trends, and acquiring international experience.

The Office uses its EU cooperation for monitoring the emerging trends and acquiring international experience.

The Office also continuously consulted its positions with V4 countries' regulators, and it joined the activities of Energy Regulators Regional Association (ERRA), which brings together regulatory authorities of countries in Europe, Asia, Africa, the Middle East, and South and North Americas. In the autumn of 2019, the Office joined the Czech Republic's international development cooperation. At a seminar under the *Aid for Trade* programme, the Office shared the experience with the process of energy market formation and liberalisation with representatives of Georgia's energy sector.

During the year, ERO representatives attended several conferences, the Florence, Madrid, Copenhagen, and Dublin forum meetings, and various workshops. They also participated in the meetings of regional groups responsible for listing Projects of Common Interest (PCI). Other bilateral and multilateral meetings concerned electricity market integration, gas market integration, and competitiveness.

A high-profile bilateral meeting with Mr Neil Chatterjee, Chairman of the United States' Federal Energy Regulatory Commission (FERC) took place in Prague in late 2019. The meeting

was an opportunity to share findings concerning the growing competition in energy markets and improved access to energy resources. The regulators also discussed, *inter alia*, cyber security.

In respect of electricity it should be emphasised that the ERO staff members represented all regulatory authorities in the project for the single EU cross-zonal intraday electricity market, Single Intraday Coupling, SIDC (formerly XBID). They also helped to steer certain individual projects for the implementation of the framework guidelines on forward capacity allocation and on balancing.

The day-to-day international agenda in the electricity industry is primarily geared towards implementing network codes and framework guidelines. Implementing Commission Regulation (EU) 2017/1485 establishing a guideline on electricity transmission system operation is a particularly challenging exercise. Since the methodologies under this Regulation are closely interconnected with the requirements of other network codes and framework guidelines, the implementation process is slow as harmonisation across the countries concerned must be ensured while ensuring interoperability with the other network codes and framework guideline as well.

These other regulations mainly include Commission Regulation (EU) 2015/1222 establishing a guideline on capacity allocation and congestion management. Implementation at the regional level continues to run. The main issue discussed in 2019 was designing the conditions for the coordination and use of cross-border redispatching and countertrades and those for allocating the costs incurred therein. This methodology is crucial for controlling the system and for calculating capacities in the day-ahead and intraday timeframes.

For the 4M MRC NTC Market Coupling project (or also Interim Coupling), the issue is the implementation of an interim solution for coupling day-ahead markets using the capacities calculated by the method of net transmission capacity (NTC), that is, specifically, an intermediate step on the path to the target solution of an implicit integration of day-ahead markets in the Core region, through capacities calculated by the flow-based method in the Core FB MC project. At the beginning of 2019, the various companies started to work on the implementation, aiming at launch in September 2020. The Office continues to seek a fully-fledged integration of the Czech Republic, Hungary, Slovakia, Romania, and Poland with the Multi-Regional Coupling countries, and hence integration within the pan-European Single Day-ahead Coupling (SDAC) project.

The target solution for the integration of day-ahead electricity markets in the Core region envisages Flow-based Market Coupling on all internal national borders in the region. The project is currently being implemented and the testing by project parties with each other and also with market participants is planned for 2020. The TSOs expect the launch at the end of the second and the beginning of the third quarter of 2021.

In respect of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing, most of the discussions centred on the establishment of platforms for exchange of balancing energy and for imbalance netting, constituting a central (Trans European) solution for balancing energy sourcing. The TERRE implementation project will serve for exchanging balancing energy from replacement reserves, and the Czech transmission system operator, ČEPS, a.s. (ČEPS) has been its member since November 2019. The project brings together TSOs from 14 European countries and was launched in January 2020. The MARI implementation project is a project for the creation of the European mFRR platform (platform for the exchange of balancing energy from frequency restoration reserves with manual activation). The launch of the platform under the Regulation is expected in the third quarter of 2022. The PICASSO implementation project is a project to establish a European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation (aFRR). The launch of the platform under the Regulation is planned for the third quarter of 2022. The IGCC implementation project is a project for a European platform for the imbalance netting process (IN). IGCC serves for exchanging imbalances in real time using cross-border transmission capacity remaining after intraday gate closure time. The project started in 2011 and the Regulation has firmly established it among the tools for commercial balancing.

In respect of gas, we should mention the pilot project for a service enabling a virtual interconnection of the Czech and Austrian gas markets. It was concluded at the end of the gas year, i.e. 30 September 2019. The Austrian and Czech TSOs were offering the Trading Region Upgrade (TRU) service to gas market participants since 2018. To network users who won in the auction, TRU provided the right to nominate the required gas quantity to be transported via an exit point of the Czech transmission system. This nomination was automatically paired with transport nomination via an entry point of the Austrian transmission system (the Austria-East zone). The principle was also applicable in the direction from Austria to the Czech Republic. The pilot project could be carried out thanks to an agreement on cooperation with the Slovak TSO, which let a part of the capacity in the Slovak transmission system to its Czech and Austrian counterparts. This created a virtual gas pipeline (pipe-in-pipe) and the two gas markets appeared to the network users as if they were interconnected directly.

In 2019, the Office continued to participate in the management of SSE GRI, South South-East Gas Regional Initiatives. November 2019 saw a two-day meeting of representatives of regulatory authorities and stakeholder market participants in this region's countries. The main issues included gas market integration, monitoring and evaluating supplier switching in the various countries, and assessing the effectiveness of the costs incurred in connection with the capital expenditure in the case of sectorial contracting entities in energy.

6. The heat supply industry

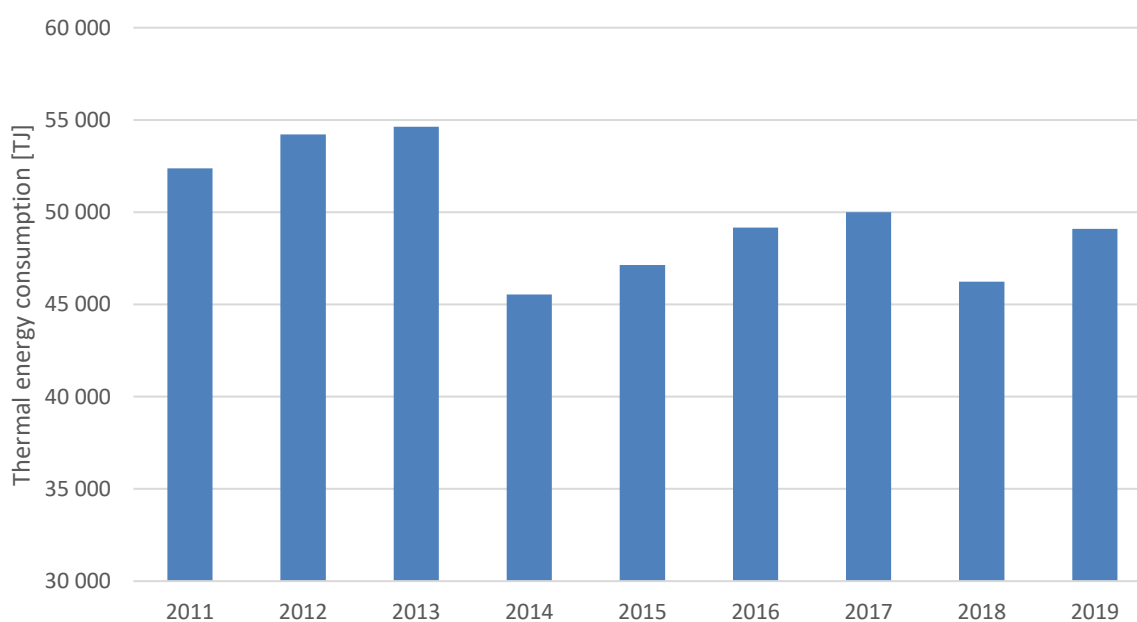


The Czech heat supply industry has been looking for a path to new technologies and a gradual change in thermal energy suppliers' approach in the last few years. Responding to these trends, the Office must put in place such regulatory conditions for the heat supply industry which will accommodate customers' legitimate interests while underpinning a stable business environment. The new rules of thermal energy price controls will be premised on the current condition and future needs of the Czech heat supply industry. The Office has the ambition to introduce the required changes as of 1 January 2021.

The heat supply industry is experiencing major changes. The decarbonisation effort is associated with pressures on conventional coal-fired capacities, and alternative technologies compete with them in terms of price. We are responding to this trend by in-depth analyses so that we have superior regulation also in the future.

Thermal energy is supplied for almost two thirds of the calendar year, usually starting in September and ending in May, depending on the weather. Chart 17 shows the thermal energy supplied to end consumers between 2011 and 2018 and the estimate for 2019. The chart indicates that the largest supply was in 2013, specifically 54,631 TJ. The years that followed were influenced by warmer winters.

Chart 17 Thermal energy supplied to end consumers from 2011 to 2018 and estimate for 2019 [TJ]



Source: ERO

Unlike electricity and gas prices, in the heat supply industry price control has the form of cost-plus pricing of thermal energy. This means that when calculating and agreeing on thermal energy prices, suppliers shall comply with the binding conditions set out by the Office in its [price decisions](#). The conditions for calculating thermal energy prices allow each of the suppliers to take into account

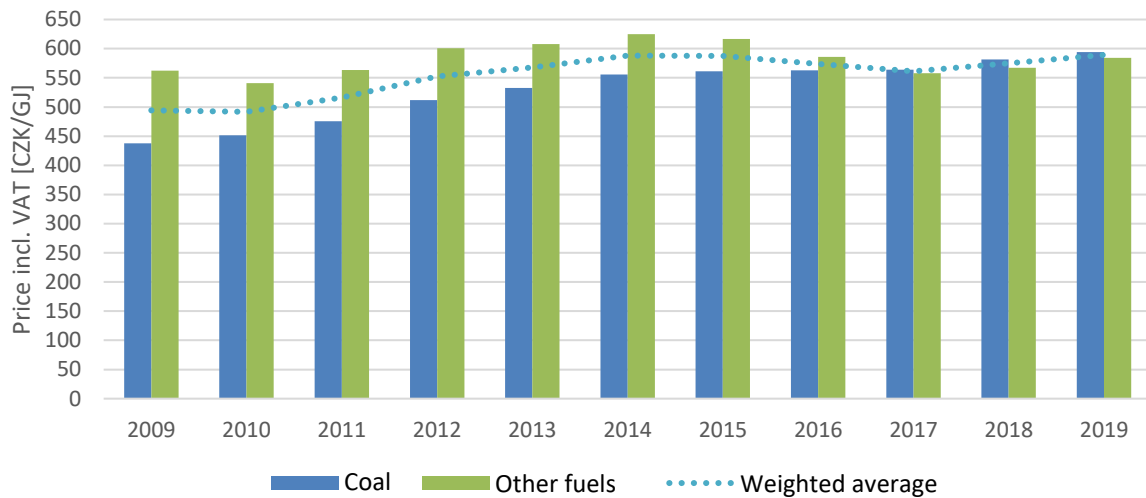
Thermal energy prices reflect the specific conditions in thermal energy production/distribution. The ERO does not set the various suppliers' thermal energy prices.

their specific circumstances in its production/distribution. The Office does not determine or approve heat prices as such in the various price locations. Under the ERO price decisions, the thermal energy supplier may only reflect 'economically justified' [eligible] costs that it necessarily incurs in thermal energy production/distribution, a reasonable profit, and the value-added tax in its thermal energy price. Prices lower than the 'limit price' of CZK 152.86/GJ are exempted from cost-plus pricing.

Primarily the fuel costs (the coal and natural gas prices), which make up the largest portion of costs, influence the thermal energy price in the given year. Emission allowances, the average price of which has more than quadrupled over the last two years (from CZK 144 in 2017 to CZK 607 in 2019), are also becoming increasingly important. In November 2018, this growth prompted the Office to issue Price Decision 5/2018 that increased, with effect from 1 January 2019, the economically justified cost item of emission allowance procurement.

Chart 18 shows average resulting prices of thermal energy supplied to end consumers (to their equipment that receives thermal energy) between 2009 and 2018 and preliminary thermal energy prices as at 1 January 2019. The overview of prices for end consumers includes prices of thermal energy supplied 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; the remaining fuels include mainly natural gas, 'other fuels', and biomass.

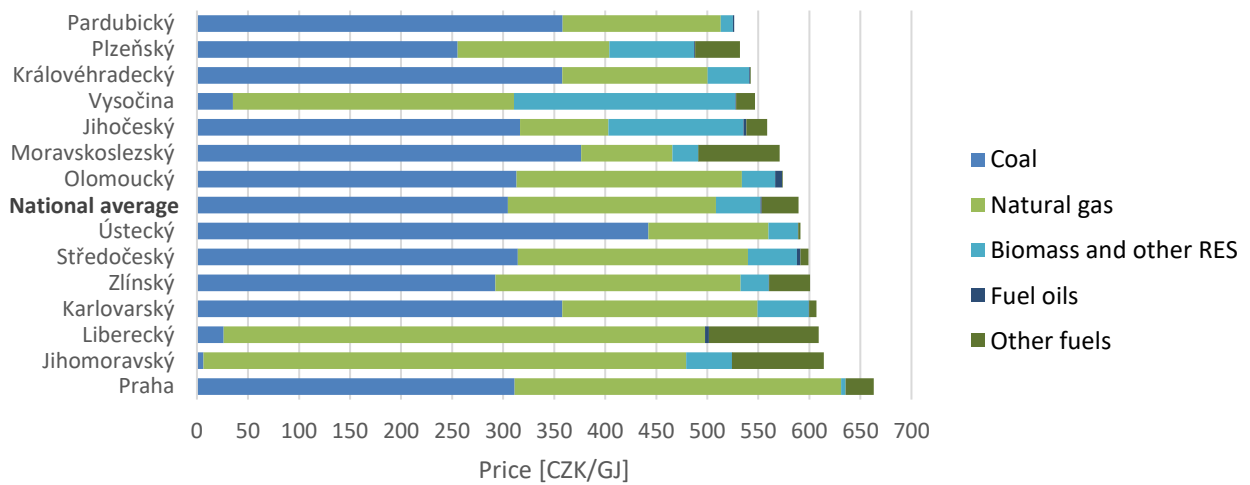
Chart 18 Average thermal energy prices for end consumers (including VAT) between 2009 and 1 January 2019



Source: ERO

In the period under review, a gradual and steadier growth of the average price of thermal energy produced from coal is apparent. For the period from 2009 to 2018, the average price of thermal energy produced from coal for end consumers increased by CZK 143.97/GJ (approximately 32.9%). Over the same period, the cumulative inflation rate climbed to 16.1%. The year-on-year changes in the average price are not even for thermal energy produced from 'other fuels', with year-on-year increases as well as decreases being visible in the period under review. The evolution of prices is also influenced by the frequent changes of the VAT rates. As of 1 January 2019, the average preliminary price of thermal energy from coal increased by CZK 12.48/GJ (2.15%) on 2018. From other fuels, the increase was CZK 16.62/GJ (2.93%). Thermal energy prices by Region are also an interesting breakdown. On 1 January 2019, the Region with the lowest average price (the Pardubický Region, CZK 526.43/GJ) and that with the highest average price (Prague, CZK 662.91/GJ) differed by 20.59%. Chart 19 shows average preliminary thermal energy prices for end consumers broken down by Region, together with the percentages of the fuels used.

Chart 19 Average preliminary prices of thermal energy (including VAT) for end consumers as at 1 January 2019 and percentages of fuels by Region



Source: ERO

The structure of the costs in thermal energy prices for 2018 (the latest year for which complete data is available) shows that in the case of thermal energy from coal, other items of the price (such as depreciation, repair, wages, and overheads) make up the largest portion of the price, 70%, while in the case of thermal energy produced from other fuels the fuel costs and the other items constitute almost equal portions of the thermal energy price. The unit amount of costs is also influenced by the gradual decline in thermal energy supply, which was approximately 8.4% over the period from 2009 to 2018. This effect is mainly visible in the other items of the costs of production from coal, which are often fixed cost items.

Additional interesting information on the heat supply industry is available on ERO website, where we post [detailed operating and price statistics on a regular basis.](#)

In respect of oversight, in 2019 the Office considered submissions received from customers (such as housing cooperatives and condominiums/commonhold), thermal energy suppliers, and individual end consumers of thermal energy. Only 3% of the submissions concerned issues of the interpretation of the provisions of the Energy Act and pricing regulations. Almost 30% of all external submissions (suggestions) concerned thermal energy prices. All justified price inspections concluded in 2019 found breaches of pricing regulations. The checks found that thermal energy suppliers, in calculating and billing the resulting price for the reviewed year in the price location, contracted or demanded a price the calculated amount of which was not in compliance with the price decision applicable to the reviewed year. The most frequent issue was deficiencies in the calculation of the resulting price of thermal energy, in which the supplier included costs that could not be regarded as economically justifiable and necessary for thermal energy production/distribution.

7. Supported energy sources



In 2019, the Office set out aid for 2020 for new or refurbished small hydroelectric power stations and for new electricity generating plants meeting the statutory aid conditions laid down in the transitory provisions of the SES Act (completed projects) and using wind energy, biomass, and geothermal energy. The Office also set out aid to new generating plants using other supported energy sources (electricity from combined heat and power generation (CHP) and heat from RES), which are entitled to it under the SES Act. The level of the aid for new renewable electricity generating plants and new plants producing heat from biogas was determined on the condition of a 15-year simple payback period and the technical and financial parameters of the reference project. The key input values for determining the amount of aid to electricity for new electricity generating or heat producing plants using RES were preserved, and therefore the level of aid for new production plants commissioned in 2020 was determined in the same amount as that for 2019. In 2019, public aid for electricity generating plants using secondary sources and commissioned from 2013 to 2020 was declared compatible, and in late 2019 the Office therefore set out new aid for mine gases and other secondary sources in plants commissioned from 2013 to 2020.

In the case of existing production plants and the already declared aid categories, the Office modified the aid under the SES Act on a year-on-year basis. In the case of feed-in tariffs and green premiums for heat from biomass, the Office applied the regular annual increase of 2% to them under Section 12(1)(b) and Section 26(4) of the SES Act.

The Office changed the amount of the annual green premium for electricity on a year-on-year basis for 2020, mainly due to the change in the wholesale electricity price, and in the case of the annual green premium for electricity from high-efficiency combined heat and power generation (in up to 5MW plants) also having regard to the wholesale prices of natural gas. The rising

The statutory indexation of feed-in tariffs weakens the correlation between the electricity price and the green premium, which undermines the main advantage of the latter.

electricity prices allowed a year-on-year reduction in the green premiums for many supported sources, which would be seen in lower costs of aid. However, the statutory indexation of feed-in tariffs for non-fuel plants has suppressed this effect for some SES categories and so, unfortunately, their green premiums have increased year-on-year despite the rising electricity prices in the market. A typical example of this is photovoltaic power plants commissioned before 2010.

In addition to its routine activities related to issuing price decisions, in 2019 the Office started to update the methodology for annual changes in the green premium, which had been in place

since 2017. The key parameter for changing the annual green premium for electricity is the pricing of electrical energy (referred to as 'the equivalent price of electricity', EPE [ECSE in Czech]), the value of which is influenced by the development of wholesale electricity prices and, in the case of electricity from CHP, also the development of natural gas prices. In late 2019, a public consultation took place; based on the responses, the Office determined that January to June 2021 would be the reference period for calculating the prices for 2022. Until then, the reference period is August and its average (for electricity) and January to June and its average (for gas).

In 2019, the Office also changed aid for 2020 for electricity from biogas plants. It was motivated by the many alerts to the disadvantaged position of fuel plants versus non-fuel plants for which feed-in tariffs are increased by 2% every year under the law. On the other hand, the feed-in tariffs remain unchanged for non-fuel plants. The earlier two categories of biogas plants (AF1 and AF2) were therefore merged into one and generators can thus replace the more expensive biomass crops with cheaper waste biomass. This will cut the generators' overall costs and incentivise them to use cheaper sustainable fuels. The Office also wanted to mitigate the administrative burden on generators caused by reporting biomass origin.

A large part of the costs incurred in the above aid is covered by end consumers of electricity through the charge for support of electricity from SES. The Office set this charge, based on the agreed booked input power, 9.9% lower for 2019 than for 2018. The main reasons for this price component to decline included the higher electricity prices at power exchanges, which pushed down the expected costs of support for SES electricity. The increase in the electricity amount planned to be aided in 2019 acted on that price component in the opposite direction. The maximum payable amount of the price component for support of electricity was preserved at the same level and continued to be determined as the product of the total electricity quantity taken and CZK 495/MWh. The costs in excess of income from the payments of the price component for support of electricity from SES are met from the national budget under Act No 165/2012. For 2019, the subsidy from the national budget amounted to CZK 26.185 billion.

The price component for support of electricity from supported energy sources for 2020, determined based on booked input power, declined by 2.15% compared with 2019. The main reasons for this price component to decline included the higher electricity prices at power exchanges, pushing down the expected cost of support for electricity from supported energy sources, higher planned electricity offtake from the distribution or transmission system, and also the increase in the subsidy from the national budget to CZK 27 billion. The maximum payable amount of the price component for support of electricity from supported energy sources was preserved at the same level and continued to be determined as the product of the total electricity quantity taken and CZK 495/MWh.

The Office also inspected operations that use renewable/secondary sources for generation and the operators of which usually received aid for their energy in the form of feed-in tariffs or green premiums. In 2019, the Office registered almost 150 submissions and carried out almost 100 inspections of PHV, small hydroelectric power stations, and cogenerating units. Some of the checks concerned biomass electricity producers and biomass fuel suppliers. The oversight mainly focuses on compliance with the obligation to notify the Office of changes in the conditions for licence grant under the Energy Act and of meeting the technical and safety requirements for operations under the SES Act. Supported energy sources must meet the safety and reliability requirements set out in the legislation and technical standards, and electrical and thermal energy producers must meter the produced electricity/useful heat by specified measuring instruments.

In 2019, in addition to electricity generators the Office also inspected biomass, bioliquid, and biogas fuel producers, suppliers, and importers; they are obliged to keep complete and true documents and records of the used sorts of biomass, bioliquid, and biogas and documents on the method of the use of biomass, bioliquid, and biogas for fuel production, covering five years. These inspections result in finding the kinds, amounts, and categories of fuels that were energy-used in the fuel firing and co-firing processes.

Another oversight category is price inspections. These check compliance with the conditions, rules, and procedures set out in pricing regulations for claiming administrative prices. Price inspections usually pick up on checks of compliance with the obligations under the SES Act or with compliance with licence holders' obligations under the Energy Act.

8. Legislative, administrative, and licensing activities

8.1. Legislative activities

In 2019, the Office also closely cooperated with MIT in the drafting of amendments to two laws that are crucial for the Office's operation: the Energy Act and the Act on Supported Energy Sources and participated in the working groups preparing the bill for the new Energy Act.

In 2019, the Office started work on amending three statutory instruments (public notices) within its competence. Public notice 408/2015 on Electricity Market Rules was amended in 2017, but due to the dynamics of electricity markets, also in connection with the progressing integration of the internal electricity market, an amendment to the public notice must respond to certain changes. The Office therefore proposed changes to the rules for the procurement of balancing energy, responding to the new rules contained in the EU legislation. It also proposed changes to the registration of supply and delivery points and other changes motivated by an assessment of the way the public notices had been working in practice. A public consultation process presented the proposed amendment to power business entities for responses and it passed through the inter-departmental commenting procedure. It was expected to be completed in 2020.

Public notice 262/2015 on regulatory reporting was last amended also in 2017. Since then, however, several Commission Regulations have entered into force, resulting in changes in the functioning of the electricity and gas markets and in the fact that the structure of the regulatory reports specified in this public notice no longer met the Office's needs. The Office also revised the needed data and proposed to remove both the requirement to report data no longer used by the Office and the duplicities in data reported, to enhance the clarity of the reports, and to simplify reporting. A public consultation presented the proposed amendment to the regulated entities, addressees of the public notice, for responses, and it passed through the inter-departmental commenting procedure. It was expected to be completed in 2020.

Public notice 540/2005 on the quality of electricity supply and related services in the electricity industry was last amended in 2010. The Office proposed a fundamental amendment to the public notice, which was, in the autumn of 2019, consulted with the concerned entities in a public consultation process. The amendment envisages automatic compensations for failure to keep quality standards in some cases, which will ultimately help to improve customers' position. It was expected to be completed in 2020.

8.2. Administrative activities

Remonstrance proceedings

The authority to decide on remonstrance [administrative appeal] as a remedy against decisions delivered by the Office in the first instance is vested in the ERO Board, which decides based on recommendations by the remonstrance commission. The Office has currently three remonstrance commissions: one for SES, one for energy infrastructure and trade, and one for consumer protection.

Our jurisdiction in rem includes conducting several types of administrative proceedings, specifically adversarial proceedings, including consumer disputes, and sanction, approval, and licensing proceedings. The Board decides on appeals lodged in these proceedings.

The ERO Board's remonstrance commissions examined 126 appeals in 2019. Based on these considerations, decisions on 61 of them were delivered. Decisions on 65 appeals examined by the remonstrance commissions in 2019 had not been made by the end of 2019. In 2019, the ERO Board also decided on 51 appeals that the remonstrance commissions had examined in 2018. The ERO Board issued 112 decisions on appeals and 4 decisions in review proceedings in 2019. The remonstrance commissions also considered five suggestions for review proceedings.

Table 6 Overview of appeals decided in 2019, by agenda

Appeals against decisions in adversarial proceedings	55
- Electricity industry	29
- Gas industry	5
- Heat supply industry	7
- Supported energy sources	14
Appeals against decisions in approval proceedings	0
Appeals against decisions on administrative offences	39
- Under the Energy Act	23
- Under the Act on Prices	8
- Under the Act on Supported Energy Sources	0
- Under the Consumer Protection Act	8
Appeals in cases of requests for information	4
Appeals against licensing decisions	9
Other appeals	5
Total decisions on appeals for 2019	112

Source: ERO

Sanction proceedings

As part of supervision under Section 18(1) and (3) of the Energy Act, the Office decides on administrative offences under the Energy Act, the Act on Prices, the Consumer Protection Act,

and the SES Act at the level of first instance and imposes administrative sanctions for them in sanction proceedings. In 2019, the Office received 733 applications for bringing proceedings on administrative offences. They included those based on the Office’s own findings from inspections carried out under the Oversight Rules and those received from outside sources, primarily from the Czech Police.

In 2019, the Office brought 400 sets of administrative proceedings for suspicion of administrative offences and decided not to proceed in 233 cases. The latter mostly included those received from the Czech Police, where the offender was unknown. In 2019, the most frequently breached obligations under the Energy Act included: in the electricity industry, those under Section 46(8) and (12) (breach of prohibitions and obligations in the protection zones of energy installations), in the gas industry those under Section 68(3) (damage to energy installations), and in the heat supply industry those under Section 11(1)(f) (required details of thermal energy billing). As regards oversight under the Consumer Protection Act, most frequent breaches concerned Section 4 (use of unfair commercial practices), under the Price Act it was Section 6(1)(c) (failure to comply with the obligations in cost-plus pricing) and under the SES Act it was Section 11(a)(5) (maintenance and operation of measuring instruments). In 2019, the Office decided in 407 sets of administrative proceedings with finality, levying fines totalling CZK 16,952,527 on parties to the proceedings in 365 cases with finality.

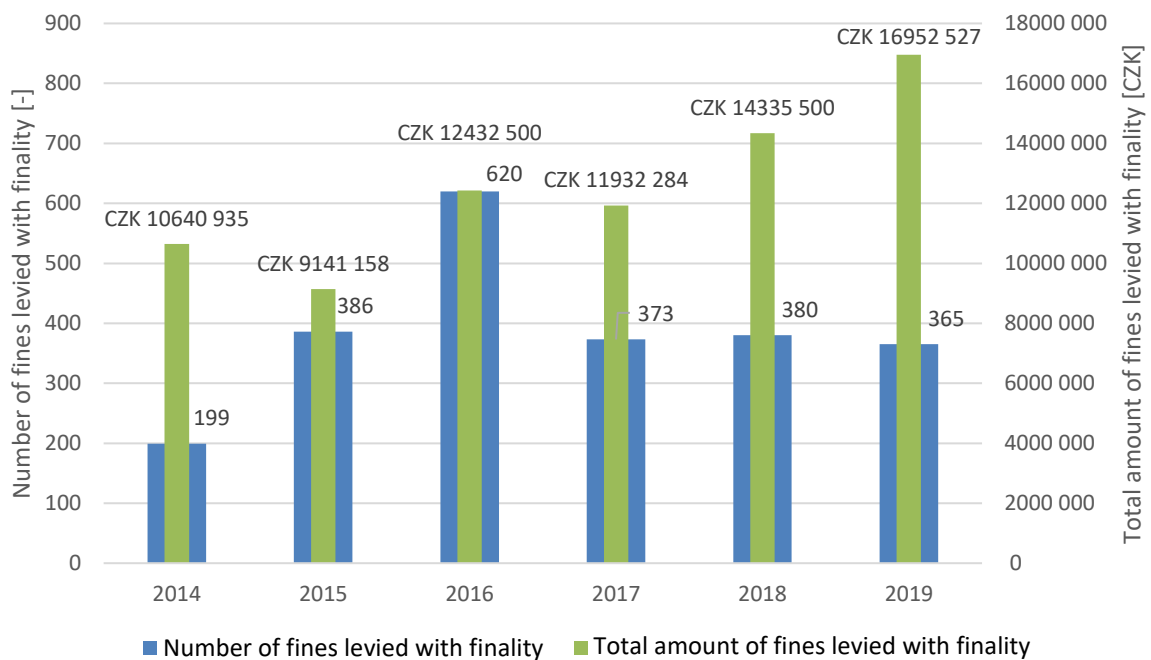
Table 7 Overview of sanction proceedings concluded with finality, by agenda

- Under the Energy Act	396
- Under the Price Act	5
- Under the SES Act	4
- Under the Consumer Protection Act	2
Decisions on administrative offences and minor offences for 2019	407

Source: ERO

In cases of persisting illegal situations caused by illegal practices of parties to the proceedings the Office also imposes, 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 20 Overview of fines levied with finality between 2014 and 2019



Source: ERO

Adversarial proceedings

In 2019, the Office adjudicated on disputes in the electricity, gas, and heat supply industries under Section 17(7)(a) to (e) of the Energy Act, proceeding under Section 141 of Act No 500/2004, the Rules of Administrative Procedure, as amended.

Upon applications of customers in the position as consumers taking electricity, gas or thermal energy for household consumption or customers in a self-employed position, the Office decided under Section 17(7)(e)(1) and (2) of the Energy Act, i.e. consumer disputes. Consumer disputes concerned the performance of obligations under agreements on electricity/gas supply/distribution and the determination of whether the legal relationship between the customer and licence holder, the business of which is electricity/gas supply/distribution, had come into existence, continued to exist, or had ceased to exist, and when this happened. Typical cases included the supplier’s failure to perform the obligation to bill electricity/gas properly and disputes over the establishment and discharge of a legal relationship between the customer and supplier. In 2019, the Office conducted 72 sets of proceedings on consumer disputes under Section 17(7)(e)(1) and (2) of the Energy Act; 33 of them were concluded with finality in 2019.

In the electricity, gas, and heat supply industries, the Office was conducting 113 sets of proceedings under Section 17(7)(a) to (d) in 2019; it concluded 23 of them with finality. Under Section 17(7)(a) to (c) of the Energy Act, the subject matter of those proceedings included disputes over the conclusion of a contract under the Energy Act, disputes over the curtailment,

interruption, or restoration of electricity/gas supply/distribution on account of illegal offtake or illegal distribution, and disputes over connection or access to installations in the electricity grid or the gas system.

Worth mentioning is the Office’s decision in a dispute over a decision to enter into a contract for connection to the transmission system on the terms set by the proponent, a storage system operator. The Office considered that the proponent’s proposal to conclude a contract was justified and therefore decided that the TSO was obliged to enter into an agreement on connection to the transmission system with the SSO and modified the content of the draft agreement received from the SSO.

A special type of disputes for the Office to decide in the electricity industry was those under Section 17(7)(d) of the Energy Act taken together with Section 52 of the SES Act. The subject matter of these proceedings was disputes over aid to electricity generation from RES, CHP, or secondary energy sources, or heat from RES. These proceedings also concerned other disputes, the subject matter of which was compliance with the financial obligation imposed by or agreed under Act No 165/2012. In 2019, the ERO conducted 70 sets of proceedings on disputes over aid. These cases were complex as to the facts and as to the law and required an individual assessment of the electricity market participant’s rights and obligations related to the entitlement to aid for electricity or heat or compliance with the financial obligation laid down in Act No 165/2012.

Table 8 Adversarial proceedings conducted and concluded with finality, by ERO competence

Type of proceedings	Conducted proceedings	Concluded proceedings
Consumer disputes	72	33
Other adversarial proceedings	105	23
- Electricity	105	17
- Gas	2	2
- Heat supply	6	4

Source: ERO

Approval and administrative proceedings under Commission Regulations

In 2019, the Office conducted, under Section 17(7)(g) and (i) of the Energy Act, proceedings on the approval of the Electricity Transmission System Operating Rules and Electricity Distribution System Operating Rules, the market operator’s commercial terms and conditions, the Gas TSO Code, the SSO Codes, and the Gas DSO Codes, and the ten-year gas and electricity transmission system development plans. The Office conducted 62 sets of approval proceedings and concluded 34 of them with finality.

Under Section 17(4) of the Energy Act, in 2019 the Office also exercised the competences of the regulatory authority, the concerned authority, and the competent authority under the

relevant Regulations of the European Parliament and of the Council. Under these competences, the Office conducted 124 sets of proceedings and concluded 100 of them in 2019.

Table 9 Approval proceedings conducted and concluded with finality, by ERO competence

Type of proceedings	Conducted sets of proceedings	Concluded sets of proceedings
Approval proceedings	62	34
Proceedings under EU Regulations	124	100

Source: ERO

8.3. REMIT

The purpose of REMIT is to prevent energy market abuse (prohibition of insider trading and of market manipulation) and to foster open and fair competition in this market. REMIT also lays down 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, to report transactions, including orders to trade, and fundamental data to ACER, and to publicly disclose inside information.

As at 31 December 2019, the National Register of Market Participants held 440 active user accounts and 397 market participants.

In 2019, the Office delivered its first decision on a breach of Article 8 REMIT. It was the first decision on a REMIT breach in the Czech Republic. The monitoring of the wholesale market is one of the pillars helping to achieve a greater wholesale energy market integrity and transparency and rests on the foundations of ACER’s and national regulators’ approach to aggregated data; accordingly, the market participants must perform their obligations *inter alia* under Article 8 REMIT and provide ACER with records of transactions in a proper and timely manner without having to be requested to provide such data.

The Office also issued a measure requesting correction of incorrect data in the National Register of Market Participants and instituted new proceedings on a breach of Article 8 REMIT.

The cooperation with the Office for the Protection of Competition (OPC), started in 2018, continued in 2019. Information exchange between the REMIT Unit and OPC, and the use of such information, is one of the initiatives through which the ERO and OPC are promoting their cooperation in supervision over wholesale energy markets. The purpose of this cooperation is to identify the various types of wholesale energy market participants’ conduct, which indicate features of potential market abuse defined in REMIT and which can simultaneously suggest a breach of the law on the protection of competition.

8.4. Licences

As regards licensing, 2019 was marked by an almost stable number of active licences compared with 2017 and 2018. The Office received a total of 2,084 applications for licence grant/amendment/revocation, which was slightly more than in 2018. Table 10 lists the number of active licences in 2011-2019.

Table 10 Numbers of valid licences between 2010 and 2018 by object of business

Licence	2011	2012	2013	2014	2015	2016	2017	2018	2019
Electricity generation	13,530	20,843	26,021	26,158	26,314	26,357	26,282	26,321	26,405
Electricity distribution	307	315	319	299	294	254	254	254	254
Electricity transmission	1	1	1	1	1	1	1	1	1
Electricity trade	353	360	389	392	381	380	388	403	411
Foreign authorisation, electricity *	1	4	12	17	26	27	29	33	34
Market operator's services	1	1	1	1	1	1	1	1	1
Gas production	15	15	15	14	13	14	13	12	12
Gas distribution	86	83	78	77	72	67	68	69	67
Gas transmission	1	1	1	1	1	1	1	1	1
Gas trade	143	172	196	201	213	213	227	236	243
Foreign authorisation, gas *	1	2	9	13	24	29	27	27	29
Gas storage	4	4	4	4	4	5	4	4	4
Thermal energy generation	619	627	656	672	669	673	663	663	658
Thermal energy distribution	663	653	653	663	654	658	652	650	649
Total	15,720	23,075	28,367	28,513	28,664	28,677	28,610	28,675	28,769

Source: ERO *) Recognition of trading authorisation granted abroad

The number of applications related to mergers or divisions of enterprises and transfers of installations to new entities was similar to 2018 in 2019. Installations were again frequently transferred to a different licence holder (in particular small photovoltaic plants), mainly between family members and natural and juristic persons.

In 2019, we granted 569 new licences in all energy industries. We conducted 1,099 sets of proceedings on licence amendment in relation to changes of responsible representatives, change of output, or change of the number of operations.

There were 416 sets of administrative proceedings on licence revocation, i.e. slightly more than in 2018. 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 11 lists the numbers of sets of administrative proceedings overall and by purpose between 2011 and 2019.

Table 11 Numbers of sets of licence proceedings between 2011 and 2019 (by purpose)

Licensing	2011	2012	2013	2014	2015	2016	2017	2018	2019
New licences	560	8 051	5 698	625	615	513	519	512	569
Licence changes	1,029	2,032	1,809	1,192	1,032	1,122	1,167	1,004	1,099
Revoked licences	264	264	354	450	376	487	501	383	416
Total	1,853	10,347	7,861	2,267	2,023	2,122	2,187	1,899	2,084

Source: ERO

A general view of the electricity generating installations by SES type clearly shows an almost stable number of such installations in 2019 compared with 2018. The number of newly installed PHV plants slightly increased compared with the preceding two years, which was probably caused by the MIT's investment subsidy scheme for energy savings. Table 12 shows the number of operations and installed capacities.

Table 12 Number of electricity generating installations and installed capacities between 2013 and 2019 by type of renewable energy used

Operations		2013	2014	2015	2016	2017	2018	2019
Up to 10 MW hydro	Number	1,558	1,589	1,615	1,625	1,603	1,596	1,604
	Capacity [MW]	328	343	348	349	351	351	353
Wind	Number	112	124	128	125	119	122	123
	Capacity [MW]	269	283	285	285	311	320	342
Solar	Number	27,956	28,127	28,276	28,351	28,348	28,412	28,554
	Capacity [MW]	2,126	2,126	2,123	2,127	2,130	2,119	2,128
With a biogas share	Number	430	431	428	423	420	420	419
	Capacity [MW]	334	336	335	334	332	333	332
Landfill gas	Number	70	70	69	68	69	69	69
	Capacity [MW]	59	59	59	59	59	59	59
With a biomass share	Number	94	93	93	92	91	89	89
	Capacity [MW]	2,939	2,990	2,988	2,988	2,988	2,973	2,889

Source: ERO

More detailed information about licensees and the various operations can be found on the ERO's website using the licence search tool [vyhledavač licenci](#).

9. Budget management

The budget for Chapter 349 Energy Regulatory Office was approved as part of Act No 336/2018 on the National Budget of the Czech Republic for 2019 of 19 December 2018. The budget for Chapter 349 Energy Regulatory Office was approved with revenues totalling CZK 326,488,000 and expenses totalling CZK 295,403,400.

9.1. Revenues to the Chapter

For 2019, total income was budgeted at CZK 326,488,000; this amount included tax revenues of CZK 296,488,000 and non-tax revenues of CZK 30,000,000. 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 2019 in terms of total income was CZK 312,920,990, i.e. at 95.84% of the approved budget for total income, and 100.51% compared with 2018 (in absolute terms up by CZK 1,596,860). In respect of tax revenues, as at 31 December 2019 actual performance was CZK 298,979,770, i.e. at 100.84% of the approved budget. These tax revenues were received on the basis of collecting administrative fees for licence grant, amendment and renewal for entities carrying on business in the energy sector, CZK 5,602,820, and, primarily, the fees paid for the Office's activities, CZK 293,376,950.

In respect of non-tax revenues, as at 31 December 2019 actual performance was CZK 13,941,220, i.e. at 46.47% of the approved budget. These non-tax revenues were mainly received from levied fines. In 2019, 347 fines levied in administrative proceedings were paid, totalling CZK 13,168,800 (without the costs of proceedings) i.e. down by 2.77% compared with 2018 (in absolute terms CZK 375,690). The number of paid fines decreased by 5.71% compared with 2018 (i.e. by 21 fines). At the same time, 332 outstanding receivables remained on account of fines levied with finality and totalling CZK 11,730,240 (without the costs of proceedings), down by 90.25% on 2018 (i.e. by CZK 108,523,120). Other *ad hoc* income amounted to CZK 772,420.

9.2. Expenditure

For 2019, total expenditure was budgeted at CZK 295,403,400 (approved budget), and during 2019 it was adjusted to CZK 295,786,460 (budget after changes). Due to the use of the claims on unused expenses, 'NNV claims' (Section 47 of the law on budgetary rules), totalling CZK 76,194,500, the final budget for the Chapter's total expenditure stood at CZK 371,980,960. The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2019 can be seen in Table 13.

Table 13 Total amounts actually drawn – total expenditure for 2019

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Performance v final budget [%]	Performance v actual in 2018 [%]
Total expenditure	371,980,960	312,466,230	84.00	106.11
of which:				
capital expenditure drawn	35,557,000	24,892,950	70.01	304.64
current expenditure drawn	336 423,96	287 573,28	85.48	100.44

Source: ERO

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 59,514,730, in particular in the following respects:

- salaries and other personnel expenses, incl. insurance premiums and FKSP
CZK 8,755,180
- programme financing EDS/SMVS (ISPROFIN) CZK 10,664,050
- 'other current expenditure' (w/o EDS/SMVS, salaries) CZK 40,095,500

Total NNV claims as at 1 January 2020, amounting to CZK 88,035,180, are reported for Chapter 349, of which 'major expenses' (programme financing EDS/SMVS, funds for salaries) amounted to CZK 34,867,570 and 'minor expenses' amounted to CZK 53,167,610.

Programme financing

In the system for financing the programmes of assets, one programme was included for 2019: programme 149 020 *Development and Replacement of the Technical Facilities of the ERO for 2016-2020*. It consists of two sub-programmes:

- Sub-programme 149 021 – *Development and Replacement of ICT for ERO*, and
- Sub-programme 149 022 – *Development and Replacement of the ERO's other assets*.

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

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 mainly carried out in 2019:

- The ERO's Integrated Information System (IIS),
- Hardware and software procurement and replacement, and
- Cyber security and information security.

Table 14 shows the results of programme financing management in 2019 by sub-programme. In line with the Office's priorities, the largest amount of funds was allocated to IT (sub-programme 149 021 ICT).

Table 14 Results by sub-programme for 2019

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total programme 149 020	35,557,000	24,892,950	70.01
of which:			
Sub-programme 149 021 – ICT	34,607,000	24,080,400	69.58
Sub-programme 149 022	950,000	812,550	85.53

Source: ERO

Expenses on business trips abroad

In 2019, ERO employees went on 137 business trips abroad. They included participation in the meetings of the CEER, ACER, and ERRA working groups and task forces, and of regional initiatives, international meetings, and meetings with representatives of partner regulatory authorities, and in conferences and workshops, 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 2,712,970 for 2019 (CZK 3,773,750 in 2018). Compared with 2018, the number of business trips abroad declined by 9.87%, total expenses dropped by 28.11%, and costs per trip decreased by 20.24%.

For the payment of membership dues (budget item 5532 other non-investment transfers abroad) in CEER (CZK 864,610) and in ERRA (CZK 105,760), CZK 970,370 was spent as at 31 December 2019.

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

Section 39(3) of Act No 218/2000 on budgetary rules and amending certain related laws, as amended, requires the chapter administrator to continuously monitor and evaluate the economy, efficiency, and effectiveness of spending under the chapter that it administers. Having the above obligation, the Office therefore regularly evaluated the spending of the funds in its chapter on the basis of regular quarterly reports on financial management and a summary annual evaluation.

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 and the relevant implementing regulation 416/2004 of the Ministry of Finance. In public procurement, the Office proceeded in compliance with Act No 134/2016 on public procurement and with its internal directive on the procedure for awarding low-value public contracts, and other regulations on public procurement.

In all phases of public procurement, the Office followed the principle of economy, efficiency, and effectiveness. This specifically applies to the precise specification of the object of the public contract and the technical and commercial conditions in the preparatory phase of the procedure. Where appropriate in relation to the object of the public contract, tenders were evaluated based on the best value for money ratio.

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 Annex 3.

A detailed analysis of performance versus budget is contained in the relevant parts of the draft of the closing account of Chapter 349 ERO for 2019, including the spreadsheets.

9.3. Cash funds, assets, receivables, and liabilities

There were no transfers from cash (own) funds to revenues of Chapter 349 in 2019. The Fund of Cultural and Social Needs (FKSP) was continuously accumulated and used in line with the relevant regulations. As at 31 December 2019, the FKSP account held CZK 940,060. The Reserve Fund posted zero as at 31 December 2019.

As at 31 December 2019, the Office held assets valued CZK 238,671,540 at acquisition cost and carried at a book value of CZK 87,413,200 following accumulated depreciation as at 31 December 2019. In 2019, the total value of assets at acquisition cost increased by CZK 23,015,880 on 2018.

As at 31 December 2019, receivables totalled CZK 15,630,770. Of this amount, the largest part was CZK 11,933,090 (including costs of proceedings) in fines levied in administrative proceedings. As at 31 December 2019, liabilities totalled CZK 66,566,480. The Office had no liabilities to suppliers; suppliers' invoices received by the Office before the end of 2019 were paid. The Office had no overdue liabilities as at 31 December 2019. More detailed results of Chapter 349 Energy Regulatory Office as regards income and expenses are listed in the closing account for 2019.

10. Human resources

10.1. Personnel management agenda

In the budget and in the system of scheduled posts approved for 2019, the ERO's headcount was set at 321 (scheduled posts). Compared with 2018, this means minus 12 posts, and the set reduction in the expenses budgeted for salaries. As in the preceding year, expenses budgeted for salaries in 2019 did not cover 30 scheduled posts. NNVs were therefore gradually consumed based on a budgetary measure to partly finance the expenditure on salaries related to these positions.

10.2. Education and training

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 2,739,790, up by 12.3% on 2018, or CZK 522,670 more. Total expenses on education in 2019 therefore accounted for 1.6% of the actual costs of salaries for employees under employment contracts and under civil service agreements (including ERO Board members' salaries), which was more than in 2018 (1.31%, CZK 2,217,120).

Thirty-one employees went through introductory initial training. Continued initial training was organised in cooperation with the Institute for Public Administration. Its purpose was to teach the participants the basics of the legal system, explain the working of public administration and issues of public finances, etc. Five employees went through continued initial training. It was a form of training for civil servants to pass the general and specific parts of the civil service examination.

The Office is very particular about continuing education for its managers and superiors. A training course called *The Manager on the Starting Line* was organised and attended by two superiors of the Office in 2019. One superior of the Office attended a training course called *Time Management: Master of Your Time Easily and Effectively*.

Language training was more extensive in 2019. Some of the new employees were included in the scheme. A total of 76 scheduled posts for which command of one of the world languages was a qualification requirement were determined for 2019. As at 1 December 2019, 100% of those set and filled positions met the qualification requirement.

A total of 188 training events were held, which was many more than in 2018 (162 events); the equivalent of 1,450 persons were trained (in 2018, the figure was 798). CZK 863,440 was spent on language training, which was slightly less than in 2018 (CZK 970,510). Spending on other education was higher than in 2018 (CZK 1,246,610).

10.3. Employees

An average salary of CZK 43,851 was planned for 2019 (on the basis of the approved budget). The actually achieved average salary was CZK 50,652, index 115.51%. The lower planned salary was influenced by the 30 scheduled (established) posts that were not covered by the approved budget. A year-on-year comparison of the actually achieved average salary indicates the 2019/2018 index at 99.39%, with annual inflation at 102.90%. The overall average salary declined slightly year-on-year due to the lower payment of the incentive items compared with 2018, when larger amounts had been paid. Indicators for 2019 are summarised in Table 15.

Table 15 Budget indicators, salaries

Standard targets/year	Approved budget 2019 [CZK]	Final budget 2019 [CZK]	Actual 2019 [CZK]	Index [%]
Salaries for employees and other payments for work	171,231,350	180,526,950	174,049,730	96.41
Salaries for employees under employment contract, except for civil servants	28,510,220	28,960,220	26,819,680	92.61
Salaries for civil servants under the Civil Service Act	131,769,200	139,482,300	137,562,420	98.62
Salaries for employees under employment contract derived from salaries of constitutional officials	8,636,400	8,636,400	7,315,860	84.71

Source: ERO

In respect of expenditure items *Salaries for employees under employment contract, except for employees in civil service positions* and *Salaries for civil servants under the Civil Service Act*, NNV claims were used at the beginning of the year in relation to 30 scheduled posts that were not covered by the approved budget for salaries. Furthermore, the NNV claims under the mandatory standard target *Salaries for employees and other payments for work* were used for financing *Other personnel costs*, CZK 250,000, for severance pay (*odstupné*), CZK 307,500, and for severance grant [for civil servants] (*odchodné*), CZK 575,000. The funds for salaries were consumed *pro rata* to the positions filled.

Table 16 The average FTE staffing level and the actual headcount

Indicator/year	Plan 2019	Actual 2019	Index [%]
Average FTE staffing level, of whom:	321	282,48	88
civil servants	260	223,27	85,87
employees under the Labour Code	56	54,54	97,39
Actual headcount, of whom:	321	278	86,60
civil servants	260	219	84,23
employees under the Labour Code	56	54	96,43

Source: ERO

In 2019, the Office organised 54 recruitment procedures for civil service positions, three procedures for service positions governed by the Labour Code, and one for employment under the Labour Code.

CZK 1,472,530 was drawn for other personnel costs, by way of 'agreements to complete a job' or 'agreements to perform work' for the delivery of work.

Out of the overall actual number of 278 employees, 97 worked in Jihlava, 86 in Prague, and 95 in Ostrava as at 31 December 2019.

In 2019, the number of university-educated employees declined by five to 82.7%. The structure of education corresponds with the very high demands placed on the employees.

The percentages of men and women were almost balanced, with the number of women rising continuously. As regards superiors and managers, as at 31 December 2019, of the total of 71 planned positions 60 were filled, of which 18 by women, i.e. 25.35%.

11. Internal control system

The Office is putting in place the conditions for an oversight environment favourable for public finance management. In line with the Financial Control Act and with its own policy, plans, and objectives, the Office has put in place an adequate internal control system. The Office's operation is governed by a system of legal, internal, and service regulations. In its internal and service regulations, the Office defines its organisational parts, and specifies the extent of the corresponding powers and responsibilities of superiors and managerial and other personnel. The Office carries out risk analyses, has in place three tiers of management inspection, and allocates responsibilities using a multi-tier approval process and collective decision-making. It publishes the outcomes of its decision-making and has in place a system for corruption prevention and detection. In 2019, the Office also took some other steps required for maintaining and reviewing the efficiency of its internal control system and for ensuring the operability of management inspection and internal audit.

Management inspection is carried out by managers and superiors within their powers and responsibilities. The continuous monitoring and evaluation of the financial control system is part of managers' and superiors' routine employment and service tasks.

Under the Financial Control Act, the Office has in place an internal audit function in the form of an independent, functionally autonomous unit that is organisationally separate from the managerial and executive structures and that reports directly to the ERO Board. It carried out its activities in accordance with an Internal Audit Plan for 2019 approved by the ERO Board. Internal audit planning is based on risk assessment and geared towards the Office's main processes. At the ERO Board's request, during the year the annual plan was extended to include *ad hoc* audit actions at the level of extraordinary audits and checks.

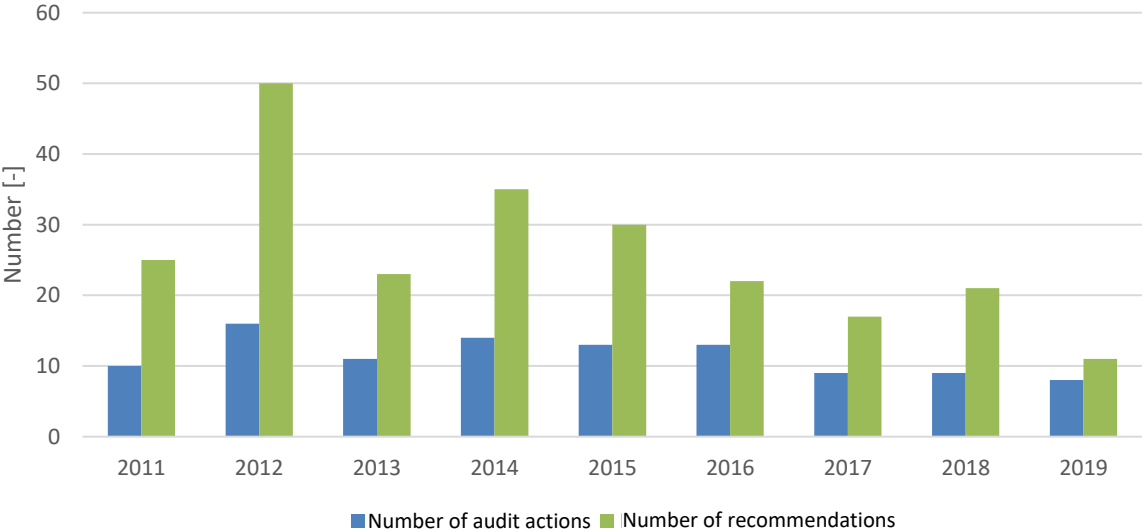
Internal audits focused on the following:

- compliance with legal, service, and internal regulations,
- the design of control and review mechanisms,
- checking that public funds were used effectively, economically, and efficiently,
- checking that accounting was accurate, complete, and based on evidence,
- checking that the operations and processes running in the management of the State's assets and the issuance of price decisions were correct,
- compliance in public procurement concerning low-value contracts,
- information security management (ISMS) and compliance with Act No 181/2014 on cyber security,
- the execution of anti-corruption measures,
- the filing and archiving service management process.

Internal audits also checked and evaluated the efficiency, reliability, and adequacy of the internal control system. Management inspections helped to evaluate the operating, financial,

legal, and other risks entailed in pursuing the Office’s plans and objectives. The results of the audits and checks were discussed with the ERO Board and the responsible managers of the audited departments/units, who then adopted appropriate measures to remedy the shortcomings identified. In 2019, the unit carried out eight audit actions. Compared with the preceding years the total number of internal audits declined, primarily owing to the larger number of system audits, which were more time consuming and covered broader issues, focusing transversally on multiple areas.

Chart 21 Number of audit actions between 2011 and 2019, including recommendations



Source: ERO

Internal audits carried out in 2019 did not identify any shortcomings materially impeding or preventing the performance of the ERO’s key tasks and objectives or significantly impacting proper governance over the management of public funds and assets. The results of internal audits and checks in principle confirm that the internal control system in place is sufficiently effective and serviceable in practice, responds on time to changes in economic, legal, operating, and other circumstances, and provides reasonable assurance that it is capable of minimising the risks in the relevant areas. Public expenditure reported under Chapter 349 of the national budget is being utilised in compliance with the legal and internal regulations.

11.1. External inspection

In 2019, two external inspections of the Office took place. One looked into the obligations concerning health insurance and social security, insurance premiums, and the keeping of records of compensations for loss of earnings caused by occupational injury, and into employment of pensioners, covering the period from 1 April 2016 to 31 March 2019 and carried out by the District Social Security Administration. The inspection did not identify any shortcomings. The Financial Authority for the Moravskoslezský Region also carried out an inspection, focusing on the management of administrative fees under Act No 634/2004

on administrative fees, as amended. The inspection covered 2017 and 2018 and revealed no shortcomings.

Annexes

Annex 1

Under Section 14(10) of the Energy Act, the Office is required to submit an audit of the Fund for the respective calendar year. As at 1 January 2019, the opening balance in the Fund stood at CZK 45,444,392. In 2019, 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 2019. The balance in the Fund's separate current account therefore stood at CZK 45,444,392 as at 31 December 2019.

Annex 2

Annual report under Act No 106/1999 on free access to information for 2019

Provision of information under Act No 106/1999 on free access to information for 2019

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 2019, the Office handled 80 requests for information provision under the Act.

I

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

Requests (Section 18(1)(a) of the Act)

Number of requests for information: 80

Number of decisions dismissing requests, including those dismissing requests in part: 17

II

Number of appeals filed against decisions:

Four appeals against dismissing/partly dismissing decisions were lodged.

III

Number of complaints under Section 16a of the Act:

Applicants for information lodged one complaint about the way their requests were handled.

The reason for the complaint was that the Office did not act on the request, following the procedure in Section 14(5)(c) of the Act, notifying the applicant that it did not have the requested information. The ERO Board found refraining from acting on the request incorrect and requested the Office to handle the request in 15 days.

IV

Number of dismissed requests under Section 14(5)(b) of the Act

Under Section 14(5)(b) of the Act the ERO did not dismiss any request on the grounds of the applicants’ failure to clarify their requests.

V

Number of requests put aside under Section 14(5)(c) of the Act

Under Section 14(5)(c) of the Act the ERO did not put aside any request for information on the grounds of its lack of competence to handle the request.

VI

Additional information concerning the application of the Act

Numbers of requests for information handled in 2019, broken down by the ERO's areas of competence

Oversight issues:	7
Licensing:	22
Legislative and administrative area:	21
Supported energy sources:	10
Regulatory issues:	8
Other:	12

The above breakdown shows that requests received from applicants for information concerned various areas of the ERO's competences, while persisting interest in licensing, the legislative and administrative area, and support for renewable energy sources has been evident for a long time.

The number of requests for information is comparable with that in 2018 when the ERO handled 103 requests for information; however, it should be noted that the requests for information delivered to the ERO in 2019 were more challenging for handling and confirmed the public's long-term interest in the developments in the energy sector.

Annex 3

Performance v Budget

Table 17 Meeting of mandatory targets for 2019

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	326,488,000	326,488,000	326,488,000	312,920,990	95.84
Total expenditure	295,403,400	295,786,460	371,980,960	312,466,230	84.00
Specific targets – income					
Tax revenues	296,488,000	296,488,000	296,488,000	298,979,770	100.84
Non-tax revenues, capital revenues and accepted transfers	30,000,000	30,000,000	30,000,000	13,941,220	46.47
of which: income from EU budget w/o CAP, total	0.00	0.00	0.00	0.00	0.00
other non-tax income, capital revenues and accepted transfers	30,000,000	30,000,000	30,000,000	13,941,220	46.47
Specific targets – expenditure					
Outlays to support the ERO's tasks	295,403,400	295,786,460	371,980,960	312,466,230	84.00
Standard targets					
Salaries for employees and other payments for work	171,231,350	171,576,450	180,526,950	174,049,730	96.41
Salaries for employees under employment contract, except for civil servants	28,510,220	28,510,220	28,960,220	26,819,680	92.61
Salaries for civil servants under the Civil Service Act	131,769,200	132,114,300	139,482,300	137,562,420	98.62
Salaries for employees under employment contract derived from salaries of constitutional officials	8,636,400	8,636,400	8,636,400	7,315,860	84.71
Statutory insurance premiums paid by the employer	58,218,660	58,249,720	60,840,720	58,661,960	96.42
Allocation to the Fund of Cultural and Social Needs (FKSP)	3,378,320	3,385,220	3,533,220	3,434,010	97.19
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	5,000,000	5,000,000	35,557,000	24,892,950	70.01

Salaries for employees and other payments for work					
Salaries for employees under employment contract, except for civil servants	0.00	0.00	0.00	0.00	0
Salaries for civil servants under the Civil Service Act	0.00	0.00	0.00	0.00	0
Salaries for employees under employment contract derived from salaries of constitutional officials	0.00	0.00	0.00	0.00	0
Statutory insurance premiums paid by the employer	0.00	0.00	0.00	0.00	0
Allocation to the Fund of Cultural and Social Needs (FKSP)					
Arrangements for crisis situations under Act No 240/2000	5,000,000	5,000,000	35,557,000	24,892,950	70.01

Table 18 Comparison of actual expenses under Chapter 349 Energy Regulatory Office for the period 2015-2019 (the items are shown in CZK thousands)

Item	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Index 19/18
Total expenses	217,982	226,433	286,379	294,477	312,466	106.11
of which:						
- Salaries, other payments, insurance premiums and FKSP	157,284	172,573	223,145	233,412	236,146	101.17
- Expenses on the asset replacement financing programmes	21,483	9,284	19,700	10,128	24,893	245.78
- Total other expenses	39,215	44,576	43,534	50,937	51,427	100.96
of which:						
- Allocations to the Reserve Fund (RF)	0	0	0	0	0	x
- Other expenses w/o Reserve Fund	39,215	44,576	43,534	50,937	51,427	100.96
- Use of claims on unused expenses (NNV claims)	5,349	11,394	39,069	44,978	46,017	102.31
Expenses on salaries and other payments for work	116,700	127,094	164,889	172,208	174,050	101.07
Salaries for employees under employment contracts, except those in public service positions, salaries for employees under	114,701	125,189	161,221	168,688	171,698	101.78

employment contracts in public service positions under the Public Service Act, salaries for employees under employment contracts derived from salaries of constitutional officials (Chairman, ERO Board)						
Staffing levels (average FTE)	239	247	262	276	282	102.17
Salaries, other payments, insurance premiums and FKSP per employee	658	699	852	846	837	98.94
Programme financing costs per employee	90	38	75	37	88	237.84
Other expenses per employee	164	180	166	185	182	98.38
Total expenses per employee	912	917	1,093	1,067	1,108	103.84

Annex 4

Fig. 1 Organisational structure of the Energy Regulatory Office as at 31 December 2019

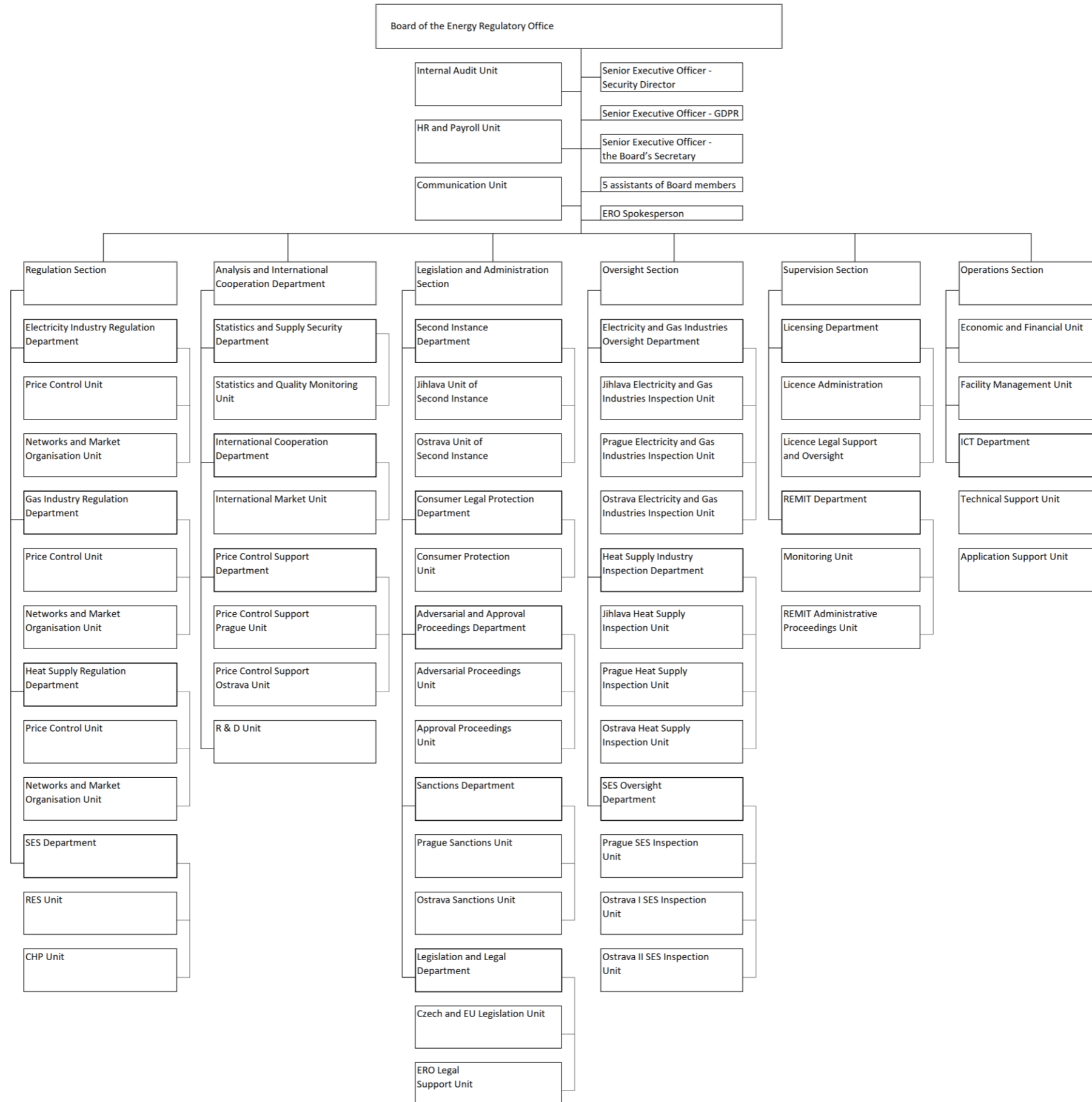


Fig. 2 Organisational structure of the Energy Regulatory Office as at 1 January 2020

