

# **The Czech Republic's National Report on the Electricity and Gas Industries for 2009**

July 2010

## Most frequent abbreviations

<b>Czech</b>	<b>English</b>	
ERÚ	ERO	Energy Regulatory Office
MPO	MIT	Ministry of Industry and Trade of the Czech Republic
OTE	OTE	Market Operator
PXE	PXE	PXE Prague Energy Exchange
EEX	EEX	EEX Leipzig Energy Exchange
SEI	SEI	State Energy Inspectorate
ÚOHS	ÚOHS	Office for the Protection of Competition
APG	APG	Austrian TSO
CEER	CEER	Council of European Energy Regulators
ENTSO	ENTSO	European Networks of TSOs
ERGEG	ERGEG	European Regulators Group for Electricity and Gas
PDS	DSO	Distribution system operator
PZP	UGS facility	Underground gas storage facility
SAIDI	SAIDI	System Average Interruption Duration Index [minutes/year/customer]
SAIFI	SAIFI	System Average Interruption Frequency Index [interruptions/year/customer]
CAIDI	CAIDI	Customer Average Interruption Duration Index [minutes/interruptions]
VVN	EHV	Extra high voltage
VN	HV	High voltage
NN	LV	Low voltage
OZE	RES	Renewable energy sources
a.s.	a.s	Joint-stock company
s. s. r. o.	s. s. r. o. (or s. r. o.)	Limited company

The third package, or the third energy package, or the third liberalisation package:  
A set of five legislative acts adopted under the Czech EU Presidency

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# 1 Foreword

For the sixth time the Czech Republic is presenting a report on the implementation of the requirements arising from the second energy package to the European Commission, thereby meeting its reporting and notification obligation as set out in the applicable Directives.

This report outlines the progress made by Czech energy markets in 2009. For the very first time, competition could also be felt in the household segment. A major electricity trader's insolvency and the subsequent very first application of the concept of supply of last resort also indicate that this market is beginning to work in the Czech Republic. Czech and Slovak day-ahead markets were integrated, and trading takes place on the principle of implicit auctions there. The Czech Republic and the Slovak Republic have therefore joined the group of the first countries with integrated markets in Europe.

The gas market also developed; for example, the number of gas supplier switches increased significantly in all customer categories. In comparison with the previous year, the country used much more gas supplies from Norway and Germany at the expense of imports from Russia (across Ukraine), which was also attributable to the so-called January crisis.

Improvement of both primary and secondary energy legislation made further progress in the Czech Republic in 2009. In this respect, the most important step was a comprehensive amendment to Act No. 458/2000, on Business and State Administration in the Energy Industries and Changes to Certain Laws (the Energy Act), which entered into effect on 5 July 2009.

The Czech Republic clearly confirmed its interest in the development of an integrated and fully liberalised internal market in the EU by its active approach to the approval of the third package when it held the presidency of the Council of the European Union in the first half of 2009.

## **2 Main developments in the electricity and gas markets**

### **2.1 Wholesale market**

#### **2.1.1 Electricity**

The step-by-step opening of the Czech electricity market took place from 2002 for each of the customer categories. Over these years, certain trends characterising electricity suppliers' business strategies can be discerned on this market.

In the initial years of the liberalisation, traders mainly focused on the largest customers, or exported electricity bought in the Czech Republic to other countries.

Between 2006 and 2008, growing competition could be felt in the segment of medium-sized customers and since 2009 also in the segment of small customers connected to the low voltage level. Continuous trading at POWER EXCHANGE CENTRAL EUROPE, a.s. (formerly Energetická burza Praha), PXE, and the high volatility of energy commodity prices in 2008, affecting the prices of futures in the years to follow, supported stronger competition on the market and gave electricity suppliers an opportunity to pursue different strategies for electricity procurement and to broaden the range of their products on offer, and even to focus on a certain customer segment.

One of the major events on the electricity market in 2009 was the collapse of a major electricity trader (MORAVIA ENERGO, a.s.) and the subsequent very first application of the concept of supplier of last resort. We can note that the system worked well and that electricity supply to the affected customers was not disrupted or jeopardised. The experience with this situation was later reflected in the amendment to the public notice on Electricity Market Rules.

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

31 August 2009 saw the interconnection of the day-ahead markets in the Czech Republic and Slovakia, and trading based on the principle of implicit auctions was launched on that day. Taking this step, the Czech Republic and Slovakia have joined the group of the first countries with integrated markets in Europe.

#### **2.1.2 Gas**

The key event on the gas market in 2009 was the successful management of the January gas crisis, described in detail in point 4.2.1 and, to some extent, point 5.2.1. The gas market in 2009 can further be described as a market in which competition was rapidly developing and intensifying, extending to all customer segments. On the liberalised market, new gas traders operated their business in terms of both imports and gas sales to customers. These traders very successfully competed with the incumbent gas suppliers by the offering of their services and products. Thus, 2009 was a year marked by a distinctive increase in gas supplier switching in all customer categories.

In 2009 the number of traders importing natural gas into the Czech Republic rose from 5 to 12. In addition to incumbent gas importers, who imported gas in 2008, specifically RWE Transgas, a.s. and VEMEX s.r.o., also Česká plynárenská a.s., which had won a gas sales

agreement in Norway, Lumius, spol. s r.o., which mainly bought natural gas in Germany, and the German company WINGAS GmbH & Co. KG continued in their gas imports into the Czech Republic. New entrants on the gas import market included United Energy Trading, a.s., Energie Bohemia a.s., CONTE spol. s r.o., LAMA INVESTMENTS a.s., SPP CZ, a.s., MND a.s. and BOHEMIA ENERGY entity s.r.o. The overall quantity of imported gas was almost the same year-on-year; however, the country used gas supplies from Norway and Germany much more at the expense of imports from Russia. A number of the new traders bought gas at bargain prices on the German spot market for gas imports. Traders' efforts to reduce imports from Russia were also based on the gas offer in the cheap spot market in the western part of Europe in addition to the options of using supply from Norway.

The HHI index (Herfindahl-Hirschman Index) of market concentration and its development indicates the importance of the entry of new gas importers. In 2008, the wholesale market's HHI was 8,128, and due to the changes in traders' market shares it dropped to 7,760 in 2009, which, however, still indicates a highly concentrated market. HHI can be expected to follow this trend in the years to come.

In 2009 new traders' activity was also felt in the fact that while in 2008 only RWE Transgas, a.s. exported gas from the Czech Republic, in 2009 new traders also exported gas. Gas was exported to Slovakia by Lumius, spol. s r.o. and United Energy Trading, a.s., the latter also exporting gas to Austria.

## 2.2 Retail market

### 2.2.1 Electricity

The year 2009 can be described as the first year when competition on the electricity market was also apparent in the household segment. According to the data recorded by Operátor trhu s elektřinou, a.s. (renamed to OTE, a.s.), in 2009 almost four times more households switched their supplier than in 2008. In the other customer segments the main wave of electricity supplier switching took place earlier, and therefore in 2009 the percentages of switches were approximately the same as in 2008. Table 1 shows specific data based on the records kept by OTE, a.s.

**Table 1 Final customers; electricity supplier switching**

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

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

Source: OTE, a.s.

On its website, the ERO provides information about the options and procedures for electricity supplier switching and, primarily, the structure of the services and prices offered by suppliers, and about consumers' rights. The basic instrument is an interactive ready reckoner for electricity supply prices, with the help of which every customer connected to the low voltage level can, after keying in the input parameters (the region, the distribution tariff, the level of consumption), compare their overall cost of electricity supply from each of the suppliers and

find the best supplier, if they wish. The ready reckoner is updated on a regular basis, new suppliers are being added to it, and it is gradually extended to include additional useful functionalities and information. At the end of 2009 the ready reckoner contained electrical energy quotations for households from nine suppliers, and the small business segment had a choice of ten suppliers.

The 2009 prices of electricity supply for small customers connected to low voltage were in general influenced by the rising wholesale price of energy (futures for 2009 traded in the preceding periods). Although late 2008 saw a plunge in energy commodity prices because of the beginning of the financial crisis, traders bought most of electricity for 2009 in mid-2008 when electricity prices at energy exchanges climbed to the highest levels ever. They then reflected these purchases in their electricity quotations for final customers. On the other hand, in late 2008 volatile prices made it possible for new traders to enter the electricity market. Thanks to the good timing of their electricity purchases on the wholesale market, these traders are able to offer lower prices than the incumbent suppliers. Most of the electricity supplier switches were therefore caused by customers switching over from the incumbent suppliers of vertically integrated undertakings to alternative suppliers.

At the low voltage level, the same range of tariffs, including the conditions for awarding them, as in 2008 was maintained for small businesses (category C) and households (category D) for 2009.

Suppliers usually adjusted their offering prices of electrical energy once a year, i.e., as from 1 January of the new calendar year. Some suppliers have also started to offer a product where the offering price of energy depends on electricity prices at energy exchanges during the year to small customers.

### **2.2.2 Gas**

New gas traders started to operate on the retail market in 2009 in addition to the incumbents; many customers changed their gas supplier in connection with the continued development of market liberalisation. At the beginning of 2009, BOHEMIA ENERGY entity s.r.o. launched its active business, focusing mainly on small business and household customers and winning almost 32,000 customers. As regards other more important gas traders, on 1 June 2009 SPP CZ, a.s. and on 1 November 2009 ČEZ Prodej, a.s. launched their gas business.

Table 2 shows the number of customers, by offtake category, who switched their gas supplier in 2008 and 2009. In 2009 the large-offtake category was the most active; its switching ratio was 8.7 percent. As regards the number of gas supplier switches in absolute terms, in 2009 gas traders focused on winning lower-demand customers. The largest number of supply points changed their gas supplier in the household category.



**Table 2 Final customers' gas supplier switching**

<b>Demand</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>
	<b>Number of changed supply points</b>	<b>Number of changed supply points</b>	<b>Total number of supply points</b>	<b>Switching [%]</b>
Large offtake	129	152	1,743	8.7
Medium offtake	90	267	6,714	4.0
Small offtake	366	4,506	199,000	2.3
Households	11	28,402	2,664,090	1.1

Note: Switching – the ratio between the number of gas supplier switches per year and the total number of supply points in that year.  
Source: Balancing Centre

To calculate the market concentration index and to compare these indexes between 2009 and 2008, for both years we took into account traders with a market share of more than one percent in respect of gas sales to customers (in 2008 five trading companies and in 2009 ten trading companies, always with an aggregate market share of approximately 98 percent). The development in this area has turned out to be favourable. The market concentration index was found to have decreased from 5,557 in 2008 to 4,484 in 2009.

### **2.3 Public service obligations and consumer protection**

The amendment to the Energy Act contains some minor changes to customers' rights and obligations. Customers have the right to have their energy consuming equipment connected and also to enter into a connection agreement. On the open market, customers also have the right to buy electricity and gas from other countries or on the electricity spot market organised by OTE, a.s. Customers have the right to change their supplier completely free of charge.

On the other hand, the amendment contains major changes in respect of the universal service, i.e., supplier of last resort. The supplier of last resort is designated directly by the Energy Act; it is the trader in the group (of the vertically integrated undertaking) covering the area delineated in the electricity/gas distribution licence held by the distribution system operator in the same group. Suppliers of last resort shall supply electricity/gas to customers for prices that are subject to control by the State in cases where a trader as the party to the contract has lost the possibility or authorisation to supply electricity/gas or has discontinued its electricity/gas supply. Thus, extraordinary situations are involved, and in the above cases suppliers of last resort are obliged to supply electricity/gas for a period of no more than six months. Suppliers of last resort must also supply gas/electricity to households, but for no more than six months, if these are customers with new supply points, provided that the supplier has been requested to do so.

Traders currently have the right to buy electricity/gas from other countries and the right to sell electricity/gas to market participants in other countries.

Compared with electricity traders, gas traders have some additional obligations under the Energy Act. These include, in particular, providing for keeping the safety standard of the required gas supply, i.e., providing for safe and reliable gas supply, amounting to 20 percent, in the event of a gas supply disruption for 8 weeks. Gas traders have the obligation to provide for the keeping of the safety standard in respect of customers with an annual gas take of less than 400,000 cu m.

As regards unauthorised [illegal] consumption of electricity, gas and heat, the Energy Act has clearly defined unauthorised energy consumption, thereby also preventing differing interpretations of the relevant provisions. For the sake of absolute clarity, the Energy Act lays

down that unauthorised consumption of electricity, gas and heat is prohibited. The same applies to unauthorised transmission and distribution.

### **2.3.1 Transparency**

Traders have the right to receive from the market operator, the information that they need for billing their electricity/gas supply to customers whose supply point is registered with OTE, a.s. Traders have the right to use their customers' birth registration number to keep records of customers, and to raise their legal claims concerning supply and billing.

Traders shall notify their customers of their intention to change contractual terms and conditions at least two months in advance. Where a trader has lost its authorisation or possibility to supply electricity/gas, it is obliged to notify the market operator and its customers thereof on its own. Traders shall provide distribution system operators with identification details of the customers whom they supply under agreements on bundled supply services. Traders shall also provide transmission and distribution system operators with information required for the safe and reliable operation of these systems. Another change is the abolishment of traders' obligation to specify certain details in electricity/gas bills for customers; these details will be provided for in an implementing legal regulation.

Electricity and gas traders' obligation is to promote energy services and offers thereof.

### **2.3.2 Complaints**

In the Czech electricity industry, there is not one exclusive authority that market participants can approach with their complaints (apart from the distribution companies and traders themselves). In addition to the Energy Regulatory Office, primarily the State Energy Inspectorate (SEI) and the Office for the Protection of Competition (ÚOHS) were the addressees for complaints, which mainly concerned business practices, procedures for consumption billing, problems with disconnection and reduced supply due to technical causes, prices, and the calculation of advance payments. Some 340 and 280 complaints in the electricity industry and the gas industry, respectively, were tackled in 2009. The number and nature of these complaints indicate that the Czech energy market is gradually maturing and that the number of market participants and consumers' activity are increasing.

### **2.3.3 Conclusions**

In the period under review, the Czech Republic made further progress in legislative and other measures for enhancing customers' position on the liberalised energy markets. This mainly concerned a more adequate implementation of the obligation of the universal service – supply of last resort. This concept was applied in practice in the Czech Republic for the very first time in the period under review, in connection with the collapse of a major electricity trader.

The Czech Republic is preparing significant changes in respect of the public service obligation and consumer protection in connection with the implementation of the third package.

## **2.4 Infrastructure**

### **2.4.1 Electricity**

From the perspective of investment in electricity networks, in 2009 the most noteworthy completed capital investment project at the level of the transmission system was the rapid construction of a new transformer, T204, at the TR Lískovec station. This helped to reinforce the transforming capacity between the transmission system and 110 kV networks in the

Ostrava area. With a view to meeting the planned increase in demand in this area in the coming years, the construction of a new 400kV/110kV Kletná transformer station was started in coordination with the distribution system operator; it is expected to be put into operation in 2011.

In connection with the construction of new generating capacities, as envisaged in the approved Regional Development Policy of the Czech Republic, and the related rise in the number of requests for connection to the transmission system, in 2009 a Strategic Investment Programme until 2022 was prepared. The most important projects planned for 2010 are related to the connection of and export from a new unit of the Ledvice power station. This includes the building of new R 420 kV metal-clad switchgear at the Chotějovice transformer station and the erection of a 400 kV double-circuit line between the Chotějovice and Výškov transformer stations; completion and commissioning are planned for 2011.

#### **2.4.2 Gas**

As regards investment in new gas infrastructure, there was no major capital investment project in 2009. Preparations for the construction of two planned gas pipelines in the Czech Republic continued. One of these pipelines is to be a continuation of the newly built northern route for natural gas transport from Russia to Europe through Nord Stream and the connected Opal pipeline in Germany. In the Czech Republic, this route is to continue by the Gazelle pipeline connecting the border points at Hora sv. Kateřiny and Waidhaus. The volume of gas to be transported through this pipeline is expected to amount to 30 - 33 bcm/year.

However, the Opal pipeline is not primarily intended for the needs of customers in the Czech Republic. The other project being considered is a pipeline connecting the Czech and Polish transmission systems near Český Těšín. The new pipeline is to mainly serve for supplying Polish customers, but in extreme situations it will also support a reverse flow of gas into the Czech Republic. For this project, RWE Transgas Net, s.r.o. has received EUR 3.5 million under the European Energy Programme for Recovery (EEPR)

Major investments in Czech underground gas storage facilities are also being planned. RWE Gas Storage, s.r.o. intends to extend the storage capacity in its underground gas storage facilities by up to 675 mcm in the coming years; the projects for the expansion of storage capacities in the Třanovice and Tvrdonice gas storage facilities are among the 43 selected electricity and gas projects that will receive a subsidy under the EEPR. The European Commission launched this programme in March 2009 to mitigate the impacts of the financial crisis and reinforce the European energy infrastructure. A subsidy of EUR 35 million (approximately CZK 910 million) will be used by RWE Gas Storage, s.r.o. for financing the expansion of its underground gas storage facilities; as a result, by 2012 a new storage capacity of 450 mcm is to be developed under this project. The other storage system operator in the Czech Republic, MND Gas Storage, a.s., is also planning to expand its storage capacity by up to 500 mcm.

The last project for which RWE Transgas Net, s.r.o. has obtained a subsidy under the EEPR is the reverse flow of gas from the west to the east; this flow was used, on a makeshift basis, to tackle the January 2009 gas crisis. EUR 3.675 million will be drawn on the funds available to the programme to provide for a permanent reversibility of the gas transmission system.

## **2.5 Security of supply**

### **2.5.1 Electricity**

#### **The Energy Regulatory Office's competences for security of supply**

The Energy Regulatory Office operates in accordance with the Energy Act and the applicable EU legislation. The currently applicable EU or national legislation does not impose on the ERO any particular tasks in relation to provisions for security of electricity supply.

#### **Demand and supply**

In 2009 the installed capacity of thermal power stations, including cogeneration, increased by 35 MW in comparison with 2008, and the installed capacity of gas-fired and combined cycle plants increased by 37 MW. The installed capacity of plants that use renewable and alternative sources also went up year-on-year, by 459 MW; the installed capacity of hydroelectric power stations decreased by 9 MW year-on-year. Wind power plants' capacity increased by 43 MW. Most of the increase in capacity, more than 425 MW, is attributable to extended photovoltaic capacity.

The total annual increase in the generation capacity installed in the electricity grid amounted to 602 MW. On 31 December 2009, the total installed capacity of power stations in the Czech grid was 18,325 MW. The above increase in total installed capacity was mainly achieved by investment in the construction of photovoltaic plants (up by 71 percent) and retrofits of the existing generating plants (of which, up by 12 percent and 6 percent for nuclear and coal fired plants, respectively).

The country's total electricity consumption, including network losses, decreased to 68.6 TWh in 2009. This 3.4 TWh (4.8 percent) drop in demand was caused by the economic recession. The grid experienced the annual peak demand on 14 January 2009 at 5 p.m. when gross consumption amounted to 11,159 MW. The annual minimum occurred on 9 August 2009 at 6 a.m., when gross consumption dropped to 4,452 MW.

The achieved reliability of the Czech electricity system's total balanced output meets the requirements for rational values of reliability. It is possible to provide for the safe operation of the system (ancillary services) over the medium term, despite some changes in demand. With the exception of the potential significant swings in the output from off-shore and seaside wind power plants, no anomalies appear in the operation of the generating capacities in covering the load profiles and predicted imbalances.

By the end of 2009, total installed capacity of photovoltaic plants had amounted to 504 MW. In 2010 the growth in photovoltaic capacity is to be limited to approximately 1,000 MW to prevent risk to the stability of the electricity grid.

#### **Investment in the electricity system**

Investments in the electricity grid, in particular the transmission system, are occasioned by the needs of the electricity market's development and the need to respond to the markedly changing ring and parallel electricity flows. These changes are attributable to the operation of wind farms in the north and west of Germany and in Denmark and the Netherlands; they have a negative impact on cross-border electricity exchanges and do not contribute to the security of supply for customers in the Czech Republic. They also deteriorate the grid throughput and have a negative impact on electricity transmission and transit in the north-south direction.

Retrofits, upgrades and automation of the existing transmission system facilities and provisions for their reliability and safety continued in 2009, also with regard to environmental protection. ČEPS, a.s. spent a total of CZK 2,146,700 million on capital construction in 2009.

The gradual modernisation of the existing transformer stations in the transmission system and their transition to the remote control mode continued in 2009. As part of retrofitting the existing transforming capacities, 2009 saw the installation of new transformers at the Krasíkov, Řeporyje, Vítkov and Výškov stations.

Construction of lines for connecting new generating capacities, mainly at the level of distribution systems, can be expected in the future. A typical example is renewable sources, for example, wind farms and photovoltaic plants, the construction of which is being planned in areas with a relatively low density of networks.

## **Conclusions**

To provide for security of supply, a new regulation on the dispatch control rules was prepared in 2009. The Ministry of Industry and Trade promulgated it in early 2010 as public notice no. 79/2010, on dispatch control in the electricity grid and data transmission for dispatch control. A new implementing public notice, no. 80/2010, on emergencies in the electricity industry and the required content of the emergency plan, lays down emergency measures. It sets out the measures and procedures to be followed to prevent emergencies and during emergencies and to remedy the consequences of emergencies, the way of declaring states of emergency and notifying of actions to prevent them, procedures for curtailing electricity load, and the required content of emergency plans.

### **2.5.2 Gas**

#### **The Energy Regulatory Office's competences for security of supply**

The Energy Regulatory Office operates in accordance with the Energy Act and the applicable EU legislation. The currently applicable EU or national legislation does not impose on the ERO any particular tasks in relation to provisions for the security of natural gas supply.

#### **Demand and supply, the 2009 gas crisis**

In early January 2009, a Russian-Ukrainian dispute over payments for supplied gas resulted in a reduction and then disruption in natural gas transport via Ukraine to the Czech Republic. From 7 January, a number of EU countries, including the Czech Republic, were left without Russian gas supplies. At that time the whole situation was further complicated by very cold weather that caused a relatively high consumption of gas. The affected countries withdrew gas from underground gas storage facilities and looked for supplies via alternative routes and under short-term contracts. The Czech Republic received gas from Gazprom (in compensation for gas not delivered via the Lanžhot border transfer station) via the so-called northern route through the Yamal pipeline across Poland and Germany and the Hora Svaté Kateřiny and Olbernhau border transfer stations; for this purpose the transmission system operator, RWE Transgas Net, s.r.o., reversed the flow of gas from the westward to the eastward direction. Supply from Norway was also increased across Germany. This way of gas supply and maximum withdrawal from underground gas storage facilities helped to ensure that smooth supply to customers in the Czech Republic was not jeopardised throughout the time of the complications with gas flow across Ukraine. Figure 1 in point 5.2.1 below shows a scheme of the situation in gas supply and transit on 12 January 2009 when demand peaked. The gas supply situation stabilised on 20 January 2009 when gas transport across Ukraine was resumed to the full extent.

## **Investment in the gas system**

Investments in the development of the gas system have been significantly influenced by the January 2009 gas crisis and the ensuing need to enhance the security of supply for customers in the Czech Republic. The Ministry of Industry and Trade, which grants authorisations for construction in the form of the State's consent under the Energy Act, plays the role of the regulatory authority for the development of the gas system. The scope of the investments is outlined in point 2.4.2.

## **Conclusions**

In accordance with Directive 2004/67/EC concerning measures to safeguard security of natural gas supply, the Czech Republic has highlighted the importance of the safety standard for gas supply, which all gas traders are obliged to observe, by moving the standard from a public notice into the amendment to the Energy Act. Further, additional measures were adopted for enhancing security of supply, such as long-term gas sales agreements effective until 2035, diversification of sources of gas supplies from Russia and Norway, coordinated dispatch control between the transmission system operator, distributor system operators and operators of underground gas storage facilities with a capacity of 30 percent of annual demand, and some others.

## **2.6 Regulation and unbundling**

The ERO's remit includes support for competition, support for the use of renewable and secondary energy sources, support for combined heat and power generation, and protection of consumers' interests in the areas of the energy industries in which competition is not feasible. The ERO also decides on the award or revocation of licences for business in the energy sector and has competences to approve transmission and distribution system operation rules and codes. The July 2009 amendment to the Energy Act has extended these competences. The SSO Code has become subject to the ERO's approval procedure in respect of gas storage, which is a monopoly activity similarly as gas transmission and distribution. Subject to the conditions laid down in the provisions on the approval procedure, the competences have been extended to include also the option of the ERO itself setting out these rules and codes in its decisions.

The ERO is authorised to decide on the regulation of some other activities should such regulation become necessary with a view to ensuring the safe and reliable operation of the electricity grid or the gas system and market participants' non-discriminatory access to the electricity grid or the gas system. However, these must at all times be activities or services that are directly related to the performance of licensed activities that are primarily subject to regulation, i.e., they have to be related to gas/electricity transmission/distribution or the market operator's business. Thus, there can be no regulation of prices for activities or products that have been liberalised and are subject to competition and market forces.

The ERO systematically inspects unbundled accounts of legally unbundled companies, from which it requires separate accounts for each of the transmission and distribution activities with a view to preventing discriminatory practices.

The ERO's competences for enforcing managerial and functional unbundling are limited by Directives 2003/54/EC and 2003/55/EC concerning common rules for the internal market in electricity and natural gas, respectively, as transposed to Czech national legislation through the Energy Act. They were described in the previous National Report.

As regards distribution companies' independent presentation, the concept of a shared use of the brand, design and logo of companies within holding structures still predominates.

The ERO does not have any competences to carry out inspections or impose penalties; this is fully within the competences of the State Energy Inspectorate (SEI). Only in the event of a licence holder's gross breach of legal regulations in performing its licensed activity will the ERO revoke the licence.

## **2.7 General conclusions**

### **2.7.1 Related to the present legal framework**

Improvement of primary and secondary energy legislation continued in the Czech Republic in 2009. In this respect the most important step was the comprehensive amendment to the Energy Act, which came into effect on 5 July 2009. The amendment has harmonised the Energy Act with the energy legislation adopted by the European Union since 2004; it has also simplified the procedures and practice for businesses and access to business in the energy industries, simplified some procedures on the part of state administration and also utilities' procedures and approach related to the provision of services incidental to the use of electricity, gas and heat, and reduced the administrative burden on businesses, caused mainly by regulation in the energy sector. An amendment to Act No. 180/2005 on support for the use of renewable energy sources and changes to certain laws (hereinafter also "the RES Act") and another amendment to the Energy Act related to the adoption of the third package are being drafted at present.

The year 2009 saw amendments to several public notices in the energy sector, through which practical experience was projected into legislation and which also reflected the amendment to the Energy Act.

One of the most important of the above amendments is a relatively extensive amendment to the public notice on the Electricity Market Rules, which introduces a new categorisation of generators and financial security for cross-border transmission, standardises the supplier switching process in the electricity industry, and regulates the concept of the supplier of last resort.

A new public notice of the Ministry of Industry and Trade, no. 334/2009 on states of emergency in the gas industry, which is described in more detail in point 5.2.6, came into effect on 1 October 2009.

In October 2009 a new public notice, no. 365/2009 on Gas Market Rules, was promulgated. It has superseded the original public notice no. 524/2006 laying down the rules for the organisation of the gas market and for the development, allocation and use of typical gas supply profiles (hereinafter also "the Gas Market Rules").

The new legislation on Electricity Market Rules and Gas Market Rules has been in effect since 1 January 2010, with the exception of a few provisions to come into effect later.

### **2.7.2 Related to the third package**

In the first half of 2009 the Czech Republic held the EU presidency and actively worked for the adoption of this set of legislative acts, the main purpose of which is to promote the creation of an integrated and fully liberalised internal energy market in the EU. The Czech Republic is now taking the same purpose-driven approach to the implementation of additional provisions of the package as regards the strengthening of the Energy Regulatory Office's independence, competences and responsibility on the one hand, and enhancing consumer protection on the other hand.

## **3 Regulation and structure of the electricity market**

### **3.1 Regulatory issues**

#### **3.1.1 Management and allocation of interconnection capacity and mechanisms to deal with congestion**

There are no bottlenecks in the Czech transmission grid; the grid is capable of transmitting the required volumes of electricity and there is no need to adopt any measures vis-à-vis the electricity market participants (with the exception of emergencies in the grid, which are covered by the relevant legislation).

The size of the available cross-border capacities depends on the physical electricity flows themselves and also on the contracted load at the respective cross-border interconnection. The transmission system operator offers all available cross-border line capacities using non-discriminatory market mechanisms, i.e., annual, monthly and daily explicit auctions are organised for all interconnections (cross-border capacity is only offered in auctions). In the case of the Slovak interconnection, a part of the capacity is also left for implicit auctions (see below).

In the case of the Polish, Slovak and both German interconnections, coordinated explicit auctions are also organised in co-operation with the respective transmission system operator on the principle of the NTC method. Further, contracting for intra-day transmission is also operated on the Slovak, German and Austrian interconnections.

As part of regional activities on the electricity market, since as early as 2006 consultations on the option of launching coordinated auctions throughout the Central and Eastern Europe region have been under way, i.e., also the Austrian, Hungarian and Slovenian transmission system operators would join this joint project. A joint auction office has been established in Freising (Germany), called the Central Allocation Office. Region-wide coordinated auctions have not yet been launched because of the still incomplete flow-based method and the remaining countries' unwillingness to join the coordinated NTC method.

The general procedures for cross-border transactions are described in the Transmission System Operation Rules – Grid Code, Part III. Detailed conditions for transmission are described in the auction rules.

On 31 August 2009, the Czech and Slovak day-ahead markets were integrated, and trading on the principle of implicit auctions was started (jointly traded capacity and energy). The Czech Republic and the Slovak Republic have therefore joined the group of the first countries with integrated markets in Europe.

#### **3.1.2 The regulation of the tasks of transmission and distribution companies**

##### **Network tariffs**

The ERO uses the incentive-based revenue cap regulatory method to calculate average electricity transmission and distribution charges. It was applied throughout the second regulatory period, i.e., from 1 January 2005 to 31 December 2009. The principle of the regulation of the prices set for 2009 was preserved, i.e., the year-on-year changes in the charges for each of the regulated items basically only reflected the external macroeconomic and technical factors such as the rate of inflation, capacity demand and reservation, amount of investment in networks, development of generation from supported sources, etc. The pricing



principles and the structure of the resulting price for electricity supply to the various customer categories were described in the preceding national reports.

### Electricity supply quality

In 2009, in this area the ERO mainly focused on amending public notice no. 540/2005 on the quality of electricity supply and related services in the electricity industry. The amendment responds to the latest problems stemming from the experience acquired with the working of the public notice in practice. In relation to customers, the amendment primarily increases compensation for failure to meet supply standards and extends the time limits for claiming such compensation. Another major change is the modification and standardisation of terminology in relation to the amendment to the Energy Act and the ČSN EN 50160 technical standard. Terminology had to be modified for the sake of unambiguous interpretation and has helped to make the text of the public notice clearer. Another important intention pursued by the ERO was to clearly define the utilities' reporting obligations, including the exact specification of the reports to be returned. Another aim sought by the amendment was to set out a standardised calculation of electricity supply, transmission and distribution continuity indicators. This is necessary because going forward, the ERO plans to implement the quality indicator directly in the regulatory mechanism, thereby providing a stronger economic incentive for system operators to operate their networks reliably.

In 2009, the ERO also focused on monitoring compliance with the standards of the quality of electricity supply and related services in the Czech electricity industry. The following section describes the continuity level achieved in the transmission system, operated in the Czech Republic by ČEPS, a.s., and the continuity of electricity distribution in the three regional distribution system operators' distribution systems.

### Electricity transmission

Under the Energy Act, transmission system facilities are understood to be 110 kV lines and plant that are not part of a distribution system, and 400 kV and 220 kV lines and plant serving for electricity transmission in the Czech Republic, including I&C, protection, and ICT systems.

Under the respective public notice, the level of quality in the transmission system is defined by electricity transmission/distribution continuity standards. The following table shows the values of the indicators achieved in 2009.

**Table 3 Electricity transmission continuity indicators**

Voltage level	Number of failures	Total duration of failures	Average duration of interruption	Electrical energy not supplied
[kV]	[ - ]	[hr:min]	[min]	[MWh]
220	0	0:00	0	0
400	4	0:48	12	138

Source: ČEPS, a.s.

### Electricity distribution

The data reported by the respective companies can be categorised into two groups. One category includes information about the continuity of electricity supply in networks, i.e., data affected by failures and planned events in operated distribution systems. The other category includes information about the so-called commercial quality, which characterises the distributor's or supplier's ability to respond to final customers' requirements and which is not directly related to the physical operation of the systems.

Table 4 shows the values of electricity distribution SAIFI, SAIDI and CAIDI indicators for each of the regional distribution companies. The evaluation was based on the methodology applicable in 2009.

**Table 1 Electricity distribution continuity indicators**

Indicator	ČEZ Distribuce	E.ON Distribuce	PREdistribuce
SAIFI	3.05	2.13	0.92
SAIDI	420.78	338.67	44.98
CAIDI	137.92	159.00	48.70

Source: Distribution companies

SAIFI – [System Average Interruption Frequency Index] average frequency of sustained electricity distribution interruptions per customer in the period under review (*interruptions/year/customer*)

SAIDI – [System Average Interruption Duration Index] average duration of electricity distribution interruption per customer in the period under review (*minutes/year/customer*)

CAIDI – [Customer Average Interruption Duration Index] Average time needed to restore electricity distribution to the average customers per sustained interruption in the period under review (*minutes/interruption*).

### Connection conditions

The conditions for connecting a new electricity customer or generator to the distribution or transmission system, including the method of calculating the applicant's share of the costs incurred in the connection and in bringing the required power, are set out in ERO public notice no. 51/2006 on the conditions of connection to the electricity grid. The technical conditions for connection are stipulated in the rules of the transmission/distribution system operation (the grid code). All of these documents are available on the respective companies' websites. There was no change in this area.

In relation to the amendment to the Energy Act and, in particular, the evaluation of the experience gained with the applicability of public notice no. 51/2006, work on an amendment to the public notice was started in 2009. The main purpose of the amendment is to prevent speculative applications filed for the connection of renewable electricity generating plants, which the currently applicable wording allows.

### The balancing market

In this area, basically no changes took place in comparison with 2008. State-owned OTE, a.s. evaluates contracted and actual electricity supply and take, and subsequently clears the imbalances. It also organises the day-ahead, intra-day and balancing electricity markets and also the market of electricity from combined heat and power generation. The system of intra-day and balancing markets continues to work on the principle of an offer/bid bulletin board. Unlike the day-ahead market, no marginal price is generated there; rather, each of the buying/selling bidders specifies its price. The prices at which trades take place on the balancing market serve as input to the calculation of the marginal price of balancing energy. Both markets are operated round-the-clock yearlong.

### 3.1.3 Effective ownership unbundling

In 2009, no major transformations took place on the electricity market. Attention was mainly focused on E.ON Distribuce, a.s., which had been distributing both electricity and gas since as early as 1 June 2008. The emergence of a company distributing two commodities precipitated the need for changes in regulatory reporting. In 2009, they were therefore set out in an amendment to public notice no. 408/2009, on the required content and structure of regulatory

reports, including models thereof and rules for regulatory report preparation. They mainly include the rules for the allocation of shared overhead costs to electricity distribution and gas distribution.

The still applicable Directive 2003/54/EC concerning common rules for the internal market in electricity requires effective managerial and functional unbundling of distribution companies. However, the Czech regulator does not have sufficient competences to push it through. These are mainly the competences to determine a reasonable amount of human, physical and financial resources for the carrying on of a network business and to formulate the rules for shared service provision. As regards the requirement for distribution companies' independent presentation, the concept of using the shared brand, logo and design of companies within the respective holding structures continues to predominate.

The independence of the only Czech transmission company, ČEPS, a.s., is provided for through its ownership unbundling from the other activities. For this reason, no special demands of the above nature are placed on the company.

## **3.2 Competition issues**

### **3.2.1 Structure of the wholesale market**

#### **The degree of integration with neighbouring Member States**

A potential electricity exporter/importer from/into the Czech Republic must buy, over the transmission system, the respective capacity at a cross-border interconnection in auctions organised by the transmission system operator. This does not, naturally, apply to the day-ahead implicit auctions between the Czech Republic and Slovak Republic, where cross-border capacity is traded together with electrical energy. In 2009, 24.2 TWh were exported from the Czech Republic, while imports totalled 10.5 TWh. In 2009, the available tradable capacity in cross-border lines in the direction to the Czech Republic, offered in yearly and monthly auctions by ČEPS, a.s., made it possible to import, in theory, at least 25 TWh, which was more than 40 percent of the Czech Republic's total net consumption in 2009.

#### **Electricity trading: long-term bilateral contracts, spot market**

In the Czech Republic, electricity is traded at the energy exchange, PXE, under bilateral contracts, and in spot markets organised by Operátor trhu s elektřinou, a.s. (OTE, a.s.). While standard products traded at PXE (annual, quarterly and monthly futures and the product 'hour', the so-called SPOT product) have fixed expiry dates, these rules do not apply to bilateral contracts. The terms of bilateral contracts vary; an electricity producer and electricity trader, or a trader and a customer, usually enter into one-year agreements. In addition to physical products, the exchange has also introduced financial products without an obligation of physical supply. Since February 2009 physical products with delivery in the Slovak grid, and since March 2009 physical products with delivery in the Hungarian grid have been traded at PXE. SPOT products were traded at the exchange only until January 2009; in February 2009 they were transferred exclusively to OTE, a.s.

Due to the co-existence of PXE, OTC bilateral contracts, and spot markets organised by the market operator, it is not feasible to clearly determine the percentage of consumption "originating" from each of these markets. A physical supply of 1 MWh of electricity taken by a final customer may originate from several earlier transactions between the market players. This principle is also apparent from the very products at the energy exchange, where an annual product automatically falls apart into shorter products (a quarter, a month). Market

participants can therefore use shorter products for continuously balancing their trading positions prior to the physical supply/take.

For the above reasons, PXE data shown below has been left without further comments.

**Table 2 Trading at PXE in 2009, overall values**

Number of trading sessions			251
<b>Overall PXE futures market CZ, SK, HU</b>			
<b>Volume traded / Volume</b>		[MWh]	<b>28,939,305</b>
of which	BASE LOAD	[MWh]	27,265,545
	PEAK LOAD	[MWh]	1,673,760
<b>Volume traded / Value</b>		[EURm]	<b>1,396.11</b>
of which	BASE LOAD	[EURm]	1,285.96
	PEAK LOAD	[EURm]	110.15
<b>Traded contracts</b>		[MW]	<b>12,083</b>
of which	BASE LOAD	[MW]	9,593
	PEAK LOAD	[MW]	2,490
<b>Number of trades</b>			<b>3,178</b>
of which	BASE LOAD		2,640
	PEAK LOAD		538
<b>Average daily volume</b>		[MWh]	<b>115,296.04</b>
of which	BASE LOAD	[MWh]	108,627.67
	PEAK LOAD	[MWh]	6,668.37
<b>Spot product market</b>			
Volume traded / Volume		[MWh]	240
Volume traded / Value		[EURm]	0.017
Traded contracts		[MW]	10
Number of trades			2

**Table 3 Values of trading in Czech products at PXE in 2009**

Number of trading sessions			251
<b>Czech futures market</b>			
<b>Volume traded / Volume</b>		[MWh]	<b>24,286,815</b>
of which	BASE LOAD	[MWh]	22,930,215
	PEAK LOAD	[MWh]	1,356,600
<b>Volume traded / Value</b>		[EURm]	<b>1,159.41</b>
of which	BASE LOAD	[EURm]	1,073.14
	PEAK LOAD	[EURm]	86.27
<b>Traded contracts</b>		[MW]	<b>10,220</b>
of which	BASE LOAD	[MW]	7,895
	PEAK LOAD	[MW]	2,325

**Table 4 Values of trading in Slovak products at PXE in 2009**

Number of trading sessions			251
<b>Slovak futures market</b>			
<b>Volume traded / Volume</b>		[MWh]	<b>1,143,755</b>
of which	BASE LOAD	[MWh]	1,143,755
	PEAK LOAD	[MWh]	0
<b>Volume traded / Value</b>		[EURm]	<b>52.74</b>
of which	BASE LOAD	[EURm]	52.74
	PEAK LOAD	[EURm]	0
<b>Traded contracts</b>		[MW]	<b>500</b>
of which	BASE LOAD	[MW]	500
	PEAK LOAD	[MW]	0

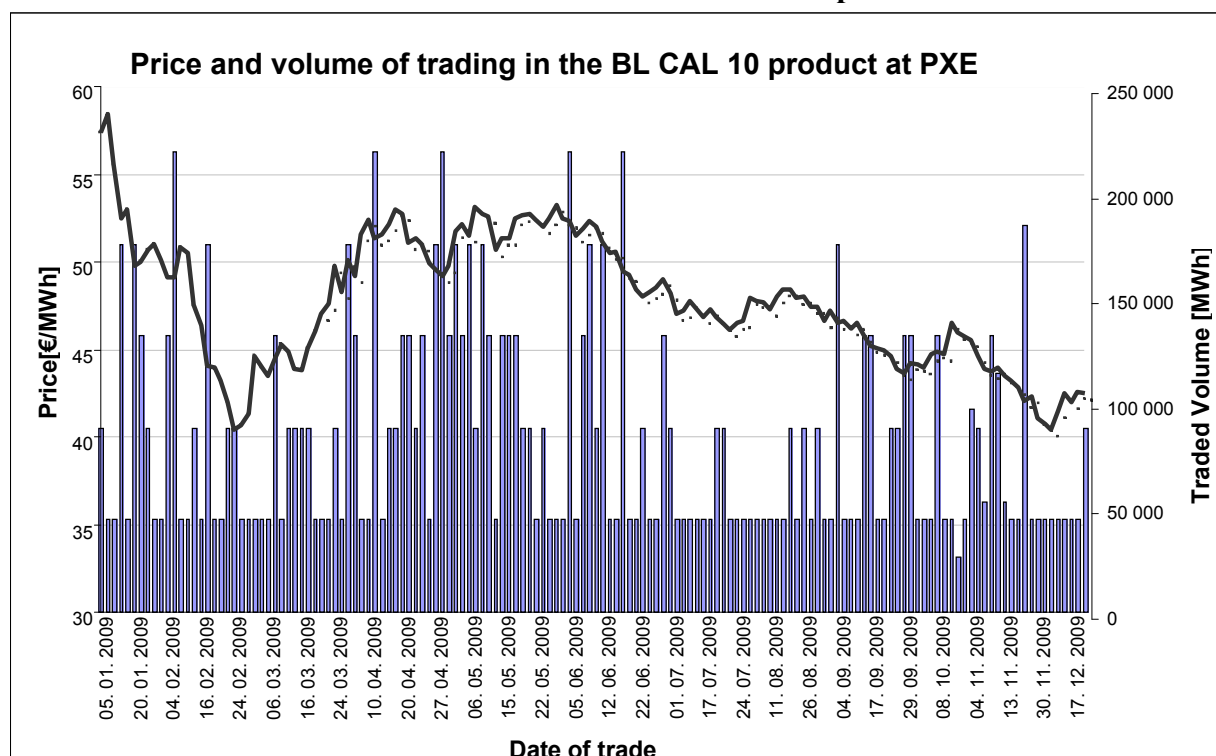
**Table 5 Values of trading in Hungarian products at PXE in 2009**

Number of trading sessions			251
<b>Hungarian futures market</b>			
<b>Volume traded / Volume</b>		<b>[MWh]</b>	<b>3,508,735</b>
of which	BASE LOAD	<b>[MWh]</b>	3,191,575
	PEAK LOAD	<b>[MWh]</b>	317,160
<b>Volume traded / Value</b>		<b>[EURm]</b>	<b>183.96</b>
of which	BASE LOAD	<b>[EURm]</b>	160.08
	PEAK LOAD	<b>[EURm]</b>	23.88
<b>Traded contracts</b>		<b>[MW]</b>	<b>1,363</b>
of which	BASE LOAD	<b>[MW]</b>	1,198
	PEAK LOAD	<b>[MW]</b>	165

Source: PXE

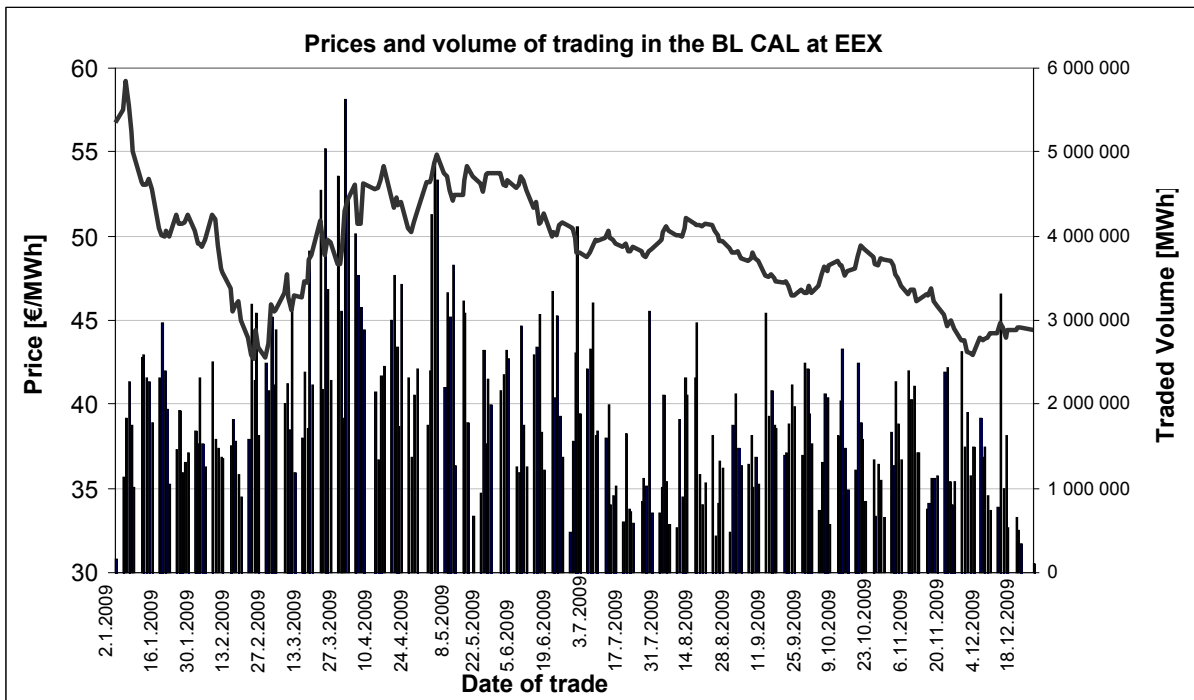
The prices of the products traded at PXE (or the spot market organised by OTE) are closely correlated with those at the Leipzig energy exchange, EEX, for products to be delivered to the German and Austrian electricity grids (see Chart 1).

**Chart 1 Prices of annual base load for 2010 for the Czech Republic at PXE in 2009**



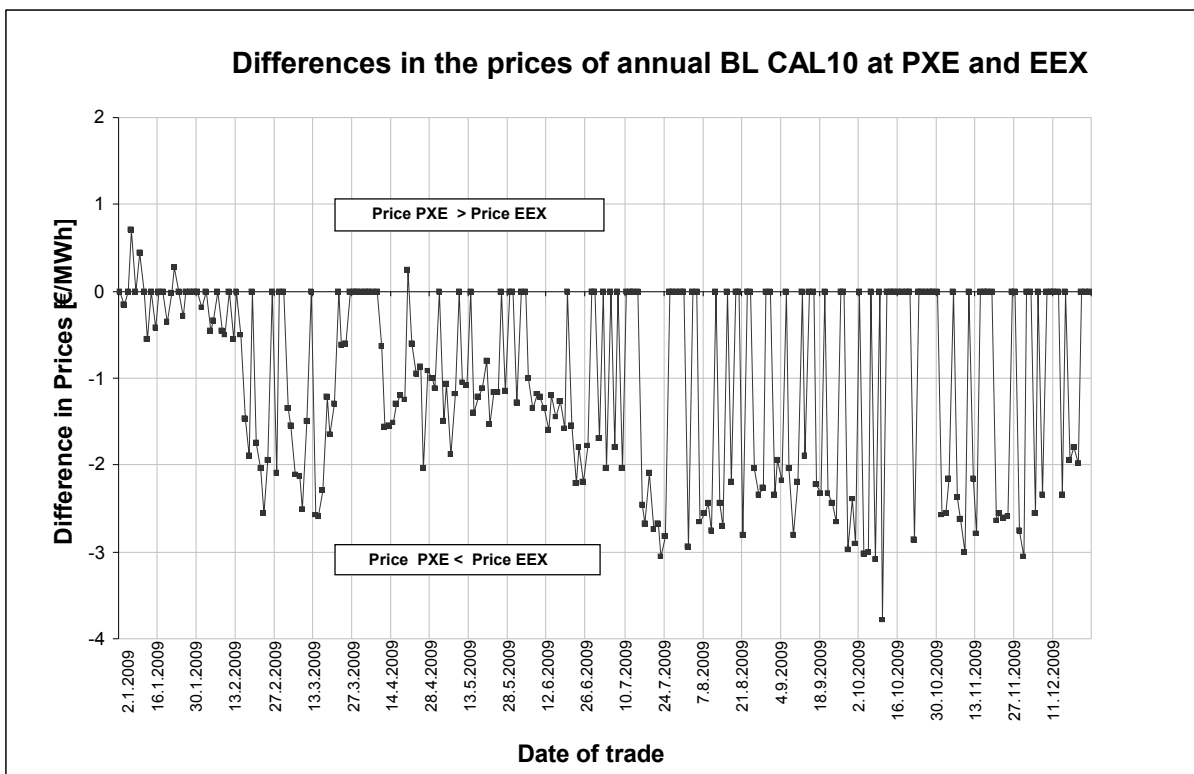
Source: PXE

**Chart 2 Prices of annual base load for 2010 at EEX in 2009**



Source: EEX

**Chart 3 Differences in the prices of annual BL CAL 10 at PXE and EEX in 2009**



Source: PXE, EEX

The remaining volume of electricity is traded through OTC bilateral contracts and also on the spot markets (day-ahead and intra-day markets) organised exclusively by the market operator since February 2009. In 2009, 111,856.5 GWh were traded through bilateral domestic

contracts, 10.2 GWh were traded on the block market, 2,959.2 GWh were traded on the day-ahead market and 238.3 GWh were traded on the intra-day market. The share of these spot markets was less than one percent of total electricity traded in the Czech Republic in 2009. All cleared entities, i.e., not only traders and generators but also the customers who are responsible for imbalances (the so-called entities subject to clearing), can go to the spot markets to procure electricity.

### **Mergers and acquisitions in the electricity industry in 2009**

In 2009, the Office for the Protection of Competition (ÚOHS) examined four mergers of undertakings. These were the merger of International Power Opatovice, a.s. with LIBUTE INVESTMENTS Ltd., which was a part of a business group headed by J&T Finance Group, a.s., the merger of Energetický a průmyslový holding, a.s. with TIMEWORTH HOLDINGS LIMITED, MACKAREL ENTERPRISES LIMITED and MILEES LIMITED, and the merger of MARTIA a.s. with ČEZ Teplárenská, a.s. In all of these three cases, the ÚOHS permitted the merger of the above undertakings because none of the mergers raised concerns over significant distortion of competition.

The ÚOHS also considered the proposed merger of Lumius, spol. s r.o. with ČEZ, a.s., which had an opportunity to acquire the title to 100% of the ownership interest in Lumius, spol. s r.o. This merger did not raise any concerns over distortion of competition and the ÚOHS permitted the merger. However, this transaction was contingent on certain conditions precedent, and these have not been satisfied to date. The merger of these two undertakings has not yet taken place and these two companies continue to operate on the market as competitors.

### **3.2.2 Structure of the retail market**

Three vertically integrated companies whose subsidiaries hold a licence for both electricity distribution (distribution system operators with more than 90,000 customers) and electricity trading are currently operating on the Czech electricity market. They are the ČEZ Group, the E.ON Group, and the PRE Group. In 2009, most of the small customers connected to low voltage (low-demand businesses and households) stayed with their original electricity suppliers, i.e., suppliers within the above three groups. These three suppliers' electricity market share accounted for more than 95 percent of customers connected to the low voltage level in 2009.

Some 30 rather important traders also operate on the electricity market. In the past, these suppliers offered electricity, bought from smaller generators or imported from other countries, mainly to large industrial customers; the reason was the gradual opening of the Czech electricity market. In 2008, several independent traders also started to operate at the national level, focusing on the retail market. At the end of 2009, there were ten of these active suppliers for low-demand businesses and nine for households. Under the amendment to the Energy Act, as of mid-2009 new electricity supply agreements need to be entered into in perpetuity with at least a three months' period of notice. Fixed-term agreements are usually executed for one to three years.

The year 2009 can be characterised as the first year when competition on the electricity market was also apparent in the household segment. According to OTE's records, almost four times more households switched their supplier in 2009 compared with 2008. In the other customer segments, the main wave of electricity supplier switching took place earlier and in comparison with 2008, the number of switches, in percentage terms, was therefore at approximately the same level. From the end of 2008 price volatility supported new traders' entry of the electricity market. Thanks to the good timing of their electricity purchases on the wholesale market these traders are often able to offer lower prices than the incumbent

suppliers. Most of the electricity supplier switches are therefore currently attributable to customers leaving their original suppliers in vertically integrated undertakings for alternative suppliers.

For the above reasons, it is not feasible to clearly cite the electricity offering prices for the various customer categories. Simplifying somewhat, suppliers' quotations are based on the current situation on electricity markets, i.e., the resulting price of energy is influenced more by the moment when the transaction is executed than the customer category itself. The foregoing applies to large and medium-sized customers, as well as the small customer category as some suppliers have started to offer some products in which the energy offering price derives from the current price on energy exchanges.

### **Support for the market and information for customers**

To provide the electricity market participants with more information about not only electricity supply on the liberalised market, state administration authorities (Ministry of Industry and Trade, Energy Regulatory Office, etc.) have set up Frequently Asked Questions (FAQ) sections on their websites, which summarise customers' typical questions and answer them in a comprehensible way. They monitor the development of consumers' questions and update their FAQ section on a regular basis in response to these suggestions.

On their websites, state administration authorities provide information about the options and procedures for electricity supplier switching and, above all, about the structure of the services offered and the suppliers' prices and consumers' rights. The websites are interconnected via links. For example, the ERO's fundamental tool is an interactive ready reckoner for electricity prices, with the help of which every customer connected to the low voltage level can, after keying in the input parameters (the region, the distribution rate, the level of consumption) compare their overall cost of electricity supply from each of the suppliers and find the best supplier, if they wish. The ready reckoner is being updated on a regular basis and gradually extended to include additional useful functionalities and information. At the end of 2009 the ready reckoner contained quotations of electrical energy for households from nine suppliers, and the small business segment had a choice of ten suppliers.

### **Number of customers who have switched suppliers**

According to information available from OTE, a total of 87,576 customers connected to low voltage switched their supplier in 2009. Since the beginning of the liberalisation of the Czech electricity market, i.e., 2002, more than 210,000 entities have changed their supplier, which is almost four percent of all supply points on a cumulative basis (see Table 1 in point 2.2.1).

### **Supplier switching procedure**

The supplier switching process itself, the procedure for which is set out in the public notice on Electricity Market Rules, was not marked by any major changes in comparison with the preceding period, i.e., the overall electricity supplier switching process may not be longer than 17 business days from the moment the customer files an application for supplier change. No fees are charged to the customer for such supplier switching.

### **Inquiries and complaints addressed to the Energy Regulatory Office**

Table 9 shows, by category, the number of inquiries and complaints received from electricity market participants (usually customers), which were addressed to the ERO in 2009. The ERO has no data on market participants' questions and complaints addressed to electricity suppliers.



**Table 6 Number of questions and complaints addressed to the Energy Regulatory Office**

2009	Inquiries	Complaints	Total	Share %
Prices	118	8	126	26.1
Metering	22	6	28	5.8
Customer services	17	0	17	3.5
Business practices	16	18	34	7.1
Misleading business practices	5	3	8	1.7
Contract terms and conditions	56	6	62	12.9
Billing	28	2	30	6.2
Supplier switching	31	1	32	6.6
Obstacles to supplier switching	11	5	16	3.3
Problems with supply, related to payments (disconnection)	36	10	46	9.5
Problems with supply, technical matters	57	8	65	13.5
Refusal to provide supply	2	0	2	0.4
Other	16	0	16	3.3
<b>Total</b>	<b>415</b>	<b>67</b>	<b>482</b>	<b>100</b>

Source: Energy Regulatory Office

### **Consumers' complaints addressed by the State Energy Inspectorate (SEI)**

In 2009, the SEI dealt with 261 complaints in the electricity industry (including 29 complaints referred to it by the ERO). They concerned illegal consumption, problems with the connection of renewable electricity generating plants, electricity traders' procedure followed in supplier switching, consumption billing, advance payment calculation, and charging of fees related to supplier switching, while some of the submittals focused on the complicated and unclear electricity billing, supply interruption due to failures, procedures followed in the connection of supply points, relocation of distribution system facilities, etc.

### **Consumers' complaints, and investigation conducted by the Office for the Protection of Competition (ÚOHS)**

In 2009, the ÚOHS dealt with 42 complaints in the electricity industry (two complaints were also referred to it by the ERO). The ÚOHS received the largest number of complaints from households and small business customers at the end of 2008 and the beginning of 2009. These complaints mainly concerned the continuously rising prices of electricity billed by the respective electricity traders for 2009, and also the non-transparent and non-objective electricity pricing at PXE.

The ÚOHS therefore initiated an inquiry focused on a potential violation of Act No. 143/2001 on the protection of competition and changes to certain laws, as amended ("the Competition Act") for a suspicion of the offence of entering into prohibited agreements or abusing the dominant position.

#### **Entering into prohibited agreements**

The potential entering into prohibited agreements allegedly consisted in artificially increasing electricity prices at PXE by the parties trading on this platform.

The inquiry conducted by the ÚOHS showed that electricity traders had bought quite significant electricity quantities with delivery in 2009 at PXE in 2007. Further purchases took place on the wholesale electricity market (including PXE) gradually over a longer period of time with a view to eliminating the extreme rises in electricity prices.

Electricity for delivery in 2009 was bought until mid-September 2008, when the calculations of the final selling prices for customers for 2009 were started.

To find whether or not electricity prices were potentially influenced on the occasion of electricity sales at PXE, the ÚOHS analysed the prices of the electricity products traded, covering the period from the launch of trading at PXE (in mid-2007). The ÚOHS assessed the activity of each of the parties at PXE and also their mutual trades and the development of the prices of each of the products.

However, as part of its inquiry into the electricity traders' potential anti-competition practices, which they allegedly committed by entering into contracts at PXE aimed at increasing electricity prices at the wholesale level of the market, and, ultimately, also prices for customers in 2009, the ÚOHS did not find any circumstances indicating such practices. Obvious evidence was the drop in prices on the wholesale electricity market, which arrived in late 2008 and was caused by concerns over a slump in the demand for the various forms of energy due to the economic crisis. However, this price decrease was reflected in electricity prices for customers only later, when the prices of electricity supply in 2010 were calculated.

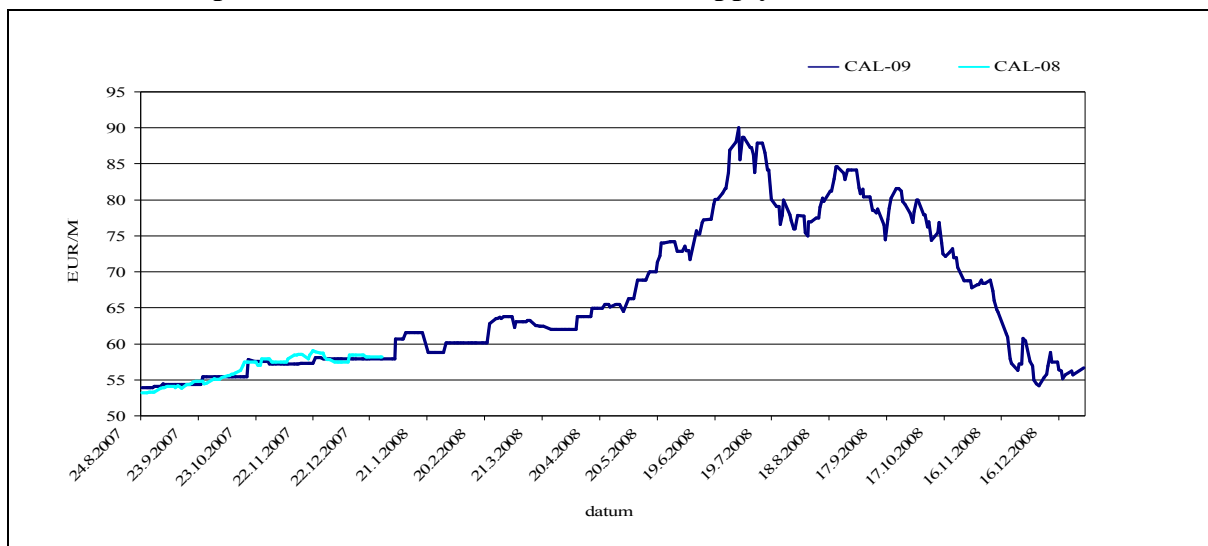
### **Abuse of the dominant position**

ČEZ, a.s., which thanks to its position on the electricity generation and trading market allegedly influenced electricity prices through non-market mechanisms, was said to abuse its dominant position.

As part of its inquiry, the ÚOHS focused on that part of the resulting price of electricity for customers in the Czech Republic, which is not subject to regulation by the ERO (energy). According to the ÚOHS's findings, the period under review saw, at the wholesale level of the market, a surge in electricity prices (the y/y electricity price hikes were approximately 30 percent). The extreme electricity price hikes in 2008 matched the increases in the prices of other commodities (oil, coal and gas) caused by the global economic growth, on which electricity prices are fully dependent. The growth of emission allowance prices was also reflected in the electricity price hikes. In July 2008, electricity and other commodity prices peaked (for example, electricity prices amounted to EUR 90/MWh) and these factors were negatively reflected in the prices of electricity to be supplied to customers in the Czech Republic in 2009.

Chart 4 Development of the annual CZ base load supply, shows the development of the respective annual products traded at PXE.

**Chart 4 Development of the annual CZ base load supply**



Source: PXE

However, the impact of increased electrical energy prices at the wholesale level of the market on each of the customer categories differed depending on the nature and, above all, size of each particular customer's consumption, i.e., depending on the ratio between the charges for regulated items, set by the ERO, and the unregulated price of electrical energy. This circumstance should be felt most strongly by customers using electricity for space heating, where the payment for the commodity taken (energy) makes up the largest part of the overall price of supply.

It is to be noted that in 2009, an increase in regulated prices also contributed to the increase in the overall price of electricity. Regulated prices include the charges for electricity distribution, system services, charges to cover the extra costs incurred in support for electricity generation from renewable sources, combined heat and power generation and from secondary sources, and, finally, for the market operator's activity. The rate of increase in the charges for regulated items depended on the location of the customer's supply point (the area served by the respective regional distribution company) and ranged from 0.2 to 10.6 percent in 2009. In 2009, regulated prices accounted for about 45 percent of the total electricity supply price for customers.

During its inquiry into the causes of electricity price hikes for customers in the Czech Republic in 2009, the ÚOHS has not yet found any circumstances indicating a potential abuse of the dominant position within the meaning of the Competition Act. However, the inquiry continues, i.e., it has not yet been concluded.

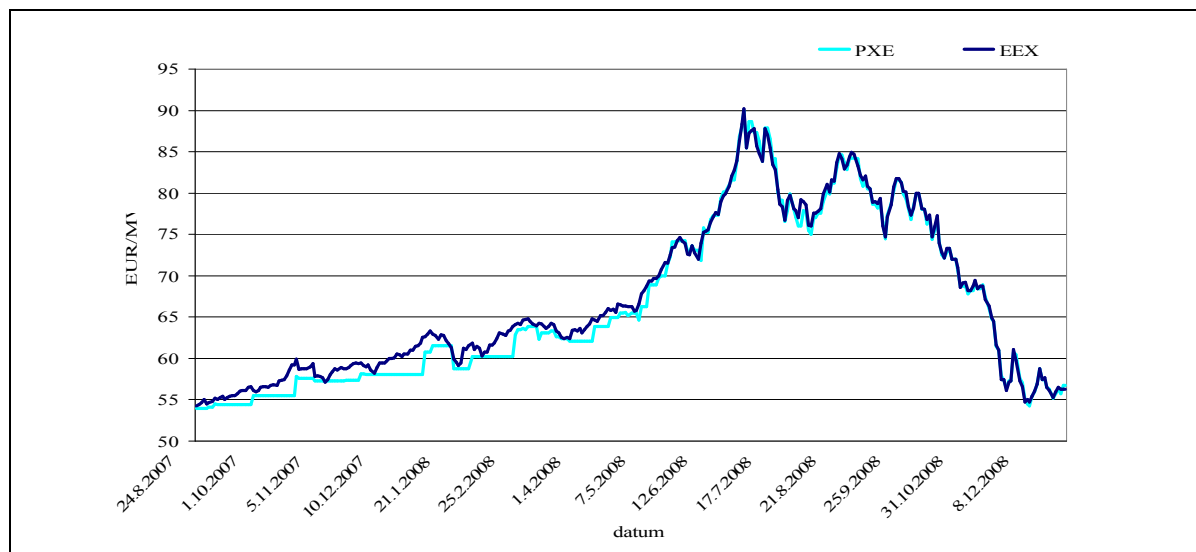
### **PXE and EEX**

As part of considering the complaints, the ÚOHS also focused on the operation itself of PXE. In addition to analysing the development of the prices of the electricity products traded at PXE, the ÚOHS also compared their development with that of the product prices at the Leipzig energy exchange, EEX, and also compared the trading methods at these two exchanges.

An analysis of the collected information suggested that in respect of all traded products, there was a "correlation" of the development of prices on these exchanges in less than a year from the launch of trading at PXE. The trend in the development of prices at PXE therefore matches, in particular since mid-2008, the development of prices at EEX (price hikes and

subsequent drops). Chart 5 shows a comparison of prices, or development thereof, at PXE and EEX.

**Chart 5 Development of Cal 09 at PXE and EEX**



Source: PXE a EEX

From available sources, the ÚOHS has not found any distinctive differences between the two pricing systems; it is to be added that since the very beginning of its existence, PXE has been declaring that it trades under very similar rules and uses the same typified products as EEX.

### **The ÚOHS's conclusion on its inquiry into electricity pricing for 2009**

In its inquiry into the growth of electricity prices for customers in the Czech Republic in 2009 the ÚOHS concluded that the key negative role was played by two major factors: (i) the generally rising energy prices, due to the economic growth, and (ii) convergence of Czech electricity prices with those in other countries, primarily Germany.

Although the inquiries have not yet shown any potential violation of the Competition Act, the ÚOHS has not yet completely concluded its supervisory activity. The electricity industry is one of the areas that are very sensitive from the perspective of end consumers, and the ÚOHS is therefore continuously monitoring it and assessing the conditions for operating on this market.

### **Other complaints addressed by the ÚOHS**

In respect of electricity traders' practices, the ÚOHS received from customers a number of complaints that also concerned some other activities related to electricity supply. The complaints addressed to ÚOHS concerned, for example, the calculation of the advance payments for electricity consumption and the method of their payment, failure to advise of an increase in advance payments well in advance, the meeting of certain conditions (provision of the customer's bank account number to the trader) to obtain a particular electricity supply product, etc.

The ÚOHS also dealt with complaints about distribution companies' practices. The disconnection of a customer's supply point from the distribution system or a request for the payment of the applicant's share of the costs incurred in the connection of the applicant's facility to the distribution system and provision of the required power were thought to be distribution companies' potential abuse of their dominant position. Complaints also concerned refusals to connect an electricity generating plant to the distribution system, and execution of

agreements on the acknowledgement of debt and payment of disproportionately high fines or damages for unauthorised electricity consumption.

Having examined each of the complaints the ÚOHS concluded that the practices contended by the complainants did not constitute any of the elements of distortion of competition, which are set out in the Competition Act, or, in other cases, the law provided for objectively justifiable reasons for the undertakings' contended practices.

In all cases the ÚOHS informed the complainant about electricity market liberalisation and the related rights and obligations of all electricity market participants. The ÚOHS advised the complainants of their opportunity to freely select their electricity supplier, noting the non-existence of any legislative or technical obstacles preventing electricity supplier switching in relation to any customer in the Czech Republic.

Aware of the sensitive nature of the issue subjected to its inquiry and of the impacts on end consumers, the ÚOHS also noted that it was continuously monitoring the market related to the electricity industry. Therefore it cannot be ruled out that the ÚOHS will initiate an inquiry in this area again should it find new facts.

It is fair to add that complaints addressed to the ÚOHS and concerning, for example, the meeting of the conditions for a proper termination of an electricity supply agreement or the setting of the periods of notice on the occasion of electricity supplier switching did not fall within the ÚOHS's competences. The ÚOHS therefore referred these complaints to the ERO and SEI as state administration authorities competent to consider these issues.

#### **Administrative proceedings conducted by the ÚOHS**

On 28 April 2009, the ÚOHS issued its decision under ref. no. ÚOHS-S282/2008/DP-4232/2009/820 whereby it imposed on ČEZ, a.s. to carry out the measures that the company had proposed for the protection of competition and to remedy the defective situation consisting in the application of different conditions to each of its steam coal suppliers. The ÚOHS initiated an administrative proceeding on the potential abuse of the dominant position of ČEZ, a.s., which applied, without any objectively justifiable reasons, different conditions to Lignit Hodonín, s.r.o. compared with the conditions contained in the agreements between ČEZ, a.s. and the other suppliers of brown coal for electricity generation in power stations.

During the administrative proceeding the ÚOHS proved that different conditions existed in the commercial relationships between ČEZ, a.s. and its brown coal suppliers, i.e., it proved the existence of the elements of an abuse of its dominant position. In this case, the ÚOHS accepted the measures proposed by ČEZ, a.s. and, in accordance with the Notice of an Alternative Solution to Some Competition Problems, published by the ÚOHS, it issued a 'decision on commitments', because according to the ÚOHS, the potential anti-competition practices of ČEZ, a.s. did not cause any significant distortion of competition on the relevant market.

#### **The European Commission's inquiry into the energy sector**

The European Commission is also conducting an inquiry into the Czech energy sector from the perspective of the proper working of competition. In late 2009, the Commission made a surprise inspection at, among others, ČEZ, a.s. Since an inquiry into potential distortion of competition conducted by the Commission is usually time consuming and challenging in terms of the subject matter, it is not feasible to estimate today the date of completion or the outcome of the inquiry by the Commission.

### **3.2.3 Measures to avoid abuses of dominance**

#### **Market surveillance**

The purpose of the ÚOHS's activity is, *inter alia*, to ensure and protect well-working competition. The Competition Act requires a stricter approach to undertakings in a dominant position than to their competitors, whose market position is marginal.

In the electricity industry, increased surveillance is faced, in particular, by undertakings that own or operate transmission networks. The Competition Act explicitly sets out the substantive elements of abuse of the dominant position through refusal to provide, for a reasonable consideration, other undertakings with access to these networks or other infrastructure facilities that the dominant undertaking owns or uses on the basis of some other legal grounds. If for legal or other reasons other undertakings cannot, without co-using such facilities, operate on the same market as the dominant undertakings, while the latter fail to prove that such co-use is not feasible for operating or other reasons or that it cannot be fairly required of them, such practices are regarded as abuse of the dominant position.

When the ÚOHS receives relevant indications that might lead to the conclusion that, for example, the above-described practices have taken place, it shall commence administrative proceedings *ex officio*. If a breach of obligations laid down in the Competition Act is found, by its decision the ÚOHS can also impose remedial measures, the purpose of which is to restore effective competition on the relevant market, in addition to a penalty and prohibition of the illegal practices.

In 2009, the ÚOHS selected the option of imposing remedial measures in the case of ČEZ, a.s. for the following reason: despite the fact that this company's practices constituted a serious transgression, at the same time it met the condition under which the transgression was discontinued and had only a limited impact on competition.

## **4 Regulation and structure of the natural gas market**

### **4.1 Regulatory issues**

#### **4.1.1 Management and allocation of interconnection capacity and mechanisms to deal with congestion**

In 2009, there were no changes in the management and allocation of interconnection capacity and mechanisms to deal with congestion. We therefore refer to the information contained in the national report for the preceding year.

#### **4.1.2 Regulation of the tasks of transmission and distribution companies**

##### **The Czech gas system**

The inland transmission system is comprised of gas pipelines having a total length of 1,183 km. The transmission system is operated by RWE Transgas Net, s.r.o. (recently renamed NET4GAS, s.r.o.), which operates inland gas transmission as well as gas transit across the Czech Republic. The transmission system operator transported gas to six distribution systems directly connected to the transmission system and serving more than 90,000 customers. Further, as at 31 December 2009 a total of 73 smaller holders of licences for natural gas distribution in distribution systems connected to a higher-level distribution system, via which gas reaches customers under conditions laid down in the legislative framework, operated on the Czech market.

##### **The Balancing Centre**

The year 2009 was the last year in which the Balancing Centre performed its obligations under the Energy Act. From 2010, OTE, a.s. will operate on both the electricity market and the gas market, where it will be responsible for the clearing of imbalances between gas market entities, data provision, and for other operations related to gas system balancing.

##### **Network tariffs**

ERO public notice no. 150/2007 on regulatory methods in the energy industries and price control procedures sets out the key principles of gas transmission and distribution pricing for customers in the Czech Republic, including the parameters for each of the regulated entities required for that. In mid-2009 it was superseded by public notice no. 140/2009.

The basis for setting the parameters is the actual economic values achieved by the regulated entities in the preceding period, indicators of the country's economic development, and the financial and technical values reported by regulated entities in regulatory reports.

##### **Transmission**

Customers who use the transmission system pay the cost of the transporting of gas through the transmission system, the cost of the identifying and keeping of the required gas quality standards (metering of GCV, pressures, etc.), and the costs incurred in the balancing of the Czech gas system, to the transmission system operator through gas traders.

The transmission charges are calculated on the entry/exit principle. In this, the level of allowed revenues from gas transmission is important; it is determined annually by the ERO. Allowed revenues cover allowed costs, depreciation and amortisation, profit, the correction factor and, possibly, certain other eligible variables.

For gas transmission pricing throughout the second regulatory period the ERO employed the revenue cap method, with the pricing procedure remaining the same as in the previous years. In comparison with 2008, the transmission system operator's allowed revenues were 3.65 percent lower. The reason was the fact that because of market liberalisation, companies used the transmission system in the preceding period more than had been expected, which resulted in the transmission system operator's higher revenues than had been set for it. In line with the principles of regulation, this higher revenue was reflected in 2009.

As in 2008, the charge for transit across the Czech Republic was calculated on the basis of benchmarking the routes competing for gas transmission, using two components. One component related to the contracted transmission capacity for a pair of entry and exit points in international transmission, and the other component covered fuel gas. It was also permitted to enter into agreements on transmission over the transit system for a term shorter than one year, i.e., for terms of one month or one day.

### **Distribution**

The part of the Czech Republic's National Report on the Electricity and Gas Industries for 2008 on gas distribution indicated the forthcoming merger of the distribution companies SČP Net, s.r.o., STP Net, s.r.o. and ZČP Net, s.r.o. in 2009. These companies merged as of 1 October 2009. Since that date, the licensed activity of gas distribution has been operated by six distribution companies to which 90,000 and more of supply points of customers are connected; of these, four are members of the RWE Group. The overall length of the gas pipelines of all of these companies was 72,136 km on 31 December 2009.

The distribution systems to which less than 90,000 supply points of customers are connected were called local distribution systems in 2009. Local distribution systems' entry delivery points are connected to distribution systems to which 90,000 and more of customers' supply points are connected (called regional distribution systems). Local distribution system operators provide distribution services in a limited area, thereby supplementing gas distribution provided by regional distribution systems. In 2009 the number of gas distribution licence holders who operated local distribution systems decreased from the original 82 to 73, i.e., by nine.

The revenue cap method was employed for regulating the distribution charges, similarly as in the case of gas transmission. For the whole regulatory period, an efficiency factor that motivated companies to reduce their operating expenditure had been set in respect of the allowed costs of distribution. Prices are set for a calendar year with effect from 1 January of the respective year. They are set using the same methodology separately for the operator of each regional distribution system. Depending on the use of the distribution system, customers' supply points are included in offtake bands by the overall annually distributed quantity. The dividing lines between offtake bands are identical for all distribution system operators.

The year 2009 was the last year of the second regulatory period. The baseline parameters set for the whole regulatory period and also the data provided by regional distribution system operators in their regulatory reports, the furnishing of which is provided for in delegated legislation on energy, were used for gas distribution pricing.

In 2009, gas distribution charges were set as double-component charges for all offtake bands in all customer categories. One component was the price for the allocated distribution capacity; for a particular supply point, this price determines the standing charge depending on the distribution capacity agreed for supply points with an annual gas offtake greater than 63 MWh. For supply points taking up to 63 MWh/year, the fixed component has the form of a standing monthly charge. The other component was the price related to a unit of gas quantity



distributed to the particular supply point, which served as the basis for calculating the variable payments.

The calculation of gas distribution charges is based on the annual gas quantity planned to be distributed by the particular distribution system and the maximum quantity of the gas flowing through the system over one day. In some cases, in 2009 customers complemented their annual gas distribution agreements with agreements for a term shorter than 12 months. The gas market rules also define short-term, monthly, agreements, where the prices are derived from the yearly price similarly as the monthly price for transmission, and also sliding agreements, which can be entered into during a calendar month for a number of days identical with the number of days of the respective month. Subject to sufficient distribution capacity, these agreements are entered into within three days of the delivery of the request for the execution of the agreement.

To make sure that the respective transmission or distribution system operators do not take a discriminatory approach, gas distribution and transmission charges are set as fixed prices, i.e., no discounts can be granted, and the prices cannot be increased.

In 2009, no distribution system operator had to interrupt supply due to a distribution capacity shortage, and therefore no discounts for interruption were granted.

Table 10 shows average gas distribution charges for 2009 for the various categories of customers using Eurostat categorisation, ranging from the least to the most expensive distribution system with 90,000 and more supply points. The charges are in CZK/MWh and without VAT. Average charges contain both the fixed and the variable component.

**Table 7 Average distribution charges in 2009**

Eurostat category	Distribution charge	
	min CZK	max CZK
<b>I4</b>	54.62	99.83
<b>I1</b>	161.37	283.81
<b>D3</b>	171.78	320.60

Source: Czech Statistical Office

### Service quality

Public notice no. 545/2006 on the quality of gas supply and related services in the gas industry sets out the key rules in respect of customers, which have to be observed by gas traders as well as distribution system operators, the transmission system operator and storage system operators.

This instrument sets out the standards of the required quality of supply and services related to regulated activities in the gas industry, compensations for failure to keep the quality, and also the time limits for claiming such compensation. Holders of the relevant licences are obliged to keep the parameters set out in the public notice and by 31 March of the calendar year, publish a summary report on their compliance with all the standards for the preceding calendar year.

The summary reports on compliance with standards for 2009 indicate that the gas transmission licence holder, gas distribution licence holders to whose system 90,000 and more supply points of customers are connected, gas storage licence holders, or the relevant gas trade licence holders did not breach the standards.

## **Information about gas transmission and distribution conditions**

The transmission system operator's and distribution system operators' grid codes set out the terms and conditions of gas transmission and distribution in the Czech Republic; they are posted on the respective websites.

The gas transmission and distribution charges set by the ERO can be found in ERO price decisions, which are available on its official website and also on the respective system operator's website.

### **Balancing**

The character of the gas market model's functioning did not change in respect of any balancing parameters in the period under review.

The balancing process continued to be based on the daily interval of imbalance evaluation. For the evaluation of the 'balancing imbalance' and the opportunity to use the balancing tolerances, the whole of the Czech Republic was a single balancing zone, and the 'balancing imbalances' were balanced by means of payments in kind. For more detailed information please see the National Report for the preceding year.

### **4.1.3 Effective ownership unbundling**

As mentioned above, 2009 saw the merger of the gas distribution companies SČP Net, s.r.o., STP Net, s.r.o. and ZČP Net, s.r.o. As of the effective date of the merger, 1 October 2009, the successor company is SČP Net, s.r.o., which has changed its name as of the same date and is now incorporated in the companies register as RWE GasNet, s.r.o. Since the effective date of the merger, prices pursuant to the ERO price decision have been used in the delineated areas of the incumbent regional distributors; in 2009 these prices already were identical for all three merging companies. The regulatory reports for 2009 will therefore be prepared summarily for the successor company RWE GasNet, s.r.o. rather than for the incumbent distribution companies that no longer exist.

Details on the emergence of E.ON Distribuce, a.s., which distributes both electricity and gas, can be found in point 3.1.3.

## **4.2 Competition issues**

### **4.2.1 Structure of the wholesale market**

#### **Gas consumption**

In the Czech Republic, natural gas consumption has been showing a slightly declining trend for some years. The rather more marked decrease in gas consumption in 2009 was mainly due to the business sector's problems caused by the economic (financial) crisis. Warmer weather in the transition months of the year (April, September, November), when the beginning or end of the heating season directly depends on the weather, also played its role in gas consumption. In 2009, actual natural gas consumption amounted to 8.161 bcm. Consumption adjusted to normal monthly temperatures and temperature gradients of consumption amounted to 8.313 bcm. Over the past few years the net calorific value of natural gas supplied to final customers has been slightly increasing; it is approximately 9.51 kWh/cu m (34.24 MJ/cu m) now. The gross calorific value is approximately 10.56 kWh/cu m (38.02 MJ/cu m).

#### **Indigenous resources and imports**

In the Czech Republic, total natural gas demand is met from indigenous and foreign sources. Since indigenous gas production is negligible, the Czech Republic has to import almost all of

the natural gas that it needs, almost 99 percent. In 2009, natural gas imports for the country's needs totalled 8.670 bcm. Natural gas was imported from Russia, Norway and Germany. From Russia, 5.099 bcm of gas was imported, from Norway 3 bcm and from Germany 571 mcm. Imports were supplemented by indigenous production, which includes surface drained gas produced by OKD, a.s. and natural gas supply from UNIGEO a.s., UNIMASTER, spol. s r.o., MND a.s. and ČNS Hodonín. Indigenous supply amounted to 113.2 mcm in 2009. Russian gas accounted for 58.8 percent of imports, Norwegian gas for 34.6 percent, and German gas for 6.6 percent. Indigenous production helps to meet 1.3 percent of the Czech Republic's demand. Natural gas imports were secured primarily by long-term take-or-pay natural gas supply agreements. In the Czech Republic, the contracting party to these agreements is usually RWE Transgas, a.s., which accounted for 87.7 percent of imports. The second largest importer was VEMEX s.r.o. with a market share of 8.5 percent. In 2009, WINGAS GmbH & Co. KG, Lumius, spol. s r.o. and Česká plynárenská a.s. continued to import gas to the Czech market. Some new importers also started to import gas into the Czech Republic, see point 2.1.2. Leaving out RWE and VEMEX, the companies' market share in gas imports totalled 3.8 percent. Most of the contracts were for gas from Germany and Norway. These imports were largely supported by gas purchases on the spot market.

The January gas crisis was an acid test for the Czech gas industry in 2009. A number of measures have been adopted in the Czech Republic; they are described in point 2.5.2 in the 'supply and demand' part. The system of gas supply from imports, described in the above point, together with the maximum possible withdrawal of gas from underground gas storage facilities proved its worth: throughout the period of the complications with gas supply (14 days) smooth supply to all customers in the Czech Republic was not jeopardised or curtailed. On the contrary, Czech gas companies provided significant assistance to Slovakia, the imports into which were completely stopped and which therefore had to curtail industrial customers' consumption. Czech companies allowed withdrawal of gas stored for RWE Transgas, a.s. in the Láb storage facility in Slovakia and for the very first time in history, a direct physical flow of gas was directed via the Lanžhot border transfer station to Slovakia. During the gas crisis, some new traders, Česká plynárenská a.s. and United Energy Trading, a.s., also responded to the situation very flexibly in addition to RWE Transgas, a.s. and VEMEX s.r.o. These traders were able to procure significant gas quantities on European spot markets. However, the limited import capacities of gas pipelines, mainly the limited capacities for metering gas quantities in the reverse flow, turned out to be a problem.

Underground gas storage facilities play an important role in the required operation of the whole gas industry, and not only at the time of reduced supply as described above but also for tackling the differences between summer and winter in terms of the balance between gas supply sources and gas demand. Under normal circumstances, underground gas storage facilities serve for storing gas in summer and gas withdrawal in winter when daily consumption is lower or higher than the contracted daily quantities of imported gas. In 2009, 2.321 bcm and 1.970 bcm of gas was stored in and withdrawn from, respectively, Czech underground gas storage facilities.

### **Natural gas storage prices**

In addition to RWE Gas Storage, s.r.o., also MND Gas Storage, a.s. and SPP Bohemia, a.s., related through equity, were active on the Czech natural gas storage market in 2009.

RWE Gas Storage, s.r.o. owns six of the eight underground gas storage facilities located in the Czech Republic. The remaining two facilities are owned by MND Gas Storage, a.s. and SPP Bohemia a.s. MND Gas Storage, a.s. operates the Uhřice UGS facility. The owner and operator of the Dolní Bojanovice facility is SPP Bohemia, a.s. This facility is not used for

customers in the Czech Republic for technical reasons of connection to the transmission system. It is only used for the Slovak Republic's needs under contracts.

The rules for storage capacity booking, which are set out in new public notice no. 365/2009 on the Gas Market Rules, help the put in place transparent conditions for storage capacity booking and, going forward, to create the corresponding price-related requirements for the storage capacity needed. The method of multi-round electronic auctions is employed for storage capacity allocation. In 2009, several such auctions took place and multiple gas market participants obtained storage capacity.

More than 90 percent of the gas stored in UGS facilities for supply to the Czech market in 2009 was owned by RWE Transgas, a.s., and the balance was owned by Pražská plynárenská, a.s., the Italian company ENOI S.p.A., Pragoplyn, a.s., and United Energy Trading, a.s. and, newly, E.ON, Energie, a.s. and Energie Bohemia a.s.

Storage capacity availability, including some other information, is posted on the operators' websites. When new storage capacity is put into operation (for example, a gas storage facility is reinforced or a contract with a storage customer is terminated), it is offered to bidders in public auctions under terms and conditions published in advance in line with the Gas Market Rules.

Gas storage in underground gas storage facilities is not subject to price controls; each of the storage system operators determines its price for natural gas storage on its own. In 2009, only RWE Gas Storage, s.r.o. offered storage capacity. The average price for gas storage in the Czech Republic was CZK 2.01/cu m of the working volume in the 2009/2010 storage year (from 1 April 2009 to 31 March 2010). The maximum price that was bid in an auction in 2009 was CZK 1.65/cu m, and the resulting price amounted to CZK 2.15/cu m.

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

### **New traders on the gas market**

New trading entrants have become fully involved in the competitive fight for gas customers, and not only in the large-offtake category but also in the categories of medium-sized and small customers and households. Entities that were active in 2008 continued to supply gas to customers in 2009. A trader whose position already was stable on the Czech market in 2009 was VEMEX s.r.o., which is indirectly controlled by the Russian company OAO Gazprom and which imported gas under a contract with this company. VEMEX, s.r.o. registered its success primarily in the category of large-offtake customers with even load profiles. BOHEMIA ENERGY entity s.r.o. was the most active new entrant on the market in 2009, penetrating – unlike the other traders – also the small business and household segments. Other quickly expanding companies are Lumius, spol. s r.o. with a 1.7% share of sales, which focused on customers on the border between large and medium-sized offtake, United Energy Trading, a.s. with a 1.3% share of sales, Energie Bohemia a.s. with 1.2%, LAMA INVESTMENTS a.s. with 1.1% and benefiting mainly from production from its own sources, which means that the company could also focus on seasonal customers in the heat supply sector, Pragoplyn, a.s. with 0.8%, and BOHEMIA ENERGY entity s.r.o. with 0.6%.

### **Contractual relationships**

Contracts for gas purchase from the dominant importer, which were held by the gas traders who in the past had been part of a distribution system operator with more than 90,000

customers and intended for supply to customers in 2009, were long-term take-or-pay agreements. The ERO has no such information about the other traders.

### **Companies with a market share of more than five percent**

The RWE Group is the most important trader on the Czech gas market; it has a market share of 64.88 percent of gas sales to customers. Its core business includes natural gas trading under the Energy Act. RWE Transgas a.s. holds exclusive control over its subsidiary RWE Transgas Net, s.r.o. [now RWE NET4GAS, s.r.o.], which is the transmission system operator, and over RWE Gas Storage, s.r.o., which operates 75 percent of the storage capacity located in the Czech Republic.

In 2009, another major gas trader was Pražská plynárenská, a.s., whose market share was 13.28 percent.

The last gas trader that exceeded a market share of five percent in 2009 was VEMEX s.r.o. with a market share of 8.54 percent.

### **Mergers and acquisitions in the gas industry in 2009**

In 2009, the ÚOHS did not examine any merger of undertakings in the gas industry. It is to be noted that the gas sector suffers from a high level of concentration, originating from the time before the liberalisation of this industry. The ÚOHS therefore tries to make the most effective use of reviews of market concentration to prevent the emergence of situations on the market which would be difficult to tackle.

#### **4.2.2 Structure of the retail market**

There are a total of 105 gas trade licence holders in the Czech Republic, i.e., three licences more than in 2008.

As regards gas trading, in 2009 a number of companies launched their active business; the most important of them were BOHEMIA ENERGY entity, s.r.o., SPP CZ, a.s. and ČEZ prodej, s.r.o. BOHEMIA ENERGY entity, s.r.o. made the greatest progress – it won almost 32,000 customers. In terms of sales to customers, gas trade is dominated by the RWE Group (RWE Energie, a.s., VČP, a.s., JMP, a.s., and SMP, a.s.) with a share of 64.9 percent, followed by Pražská plynárenská, a.s. with a share of 13.3 percent, VEMEX s.r.o. with a share of 8.5 percent and E.ON Energie, a.s. with a share of 3.7 percent. From the perspective of overall gas sales, among the smaller traders the largest share is held by Pragoplyn, s.r.o. with 2 percent, Lumius, spol. s r.o. with 1.7 percent, United Energy Trading, a.s. with 1.3 percent, Energie Bohemia a.s. with 1.2 percent, MND Hodonín, a.s. with 2 percent and LAMA INVESTMENTS, a.s. with 1.1 percent. The other companies hold a share of less than one percent. Table 11 shows the gas traders' shares of total gas consumption in the Czech Republic.

Legally unbundled regional traders provide supply of last resort within the delineated service area of the electricity or gas distribution licence holder.

**Table 8 Shares held by traders supplying gas to customers in the Czech Republic**

	<b>2008 [%]</b>	<b>2009 [%]</b>	<b>Difference [%]</b>
<b>RWE</b>	72.75	64.88	-7.87
<b>PP</b>	12.69	13.28	0.59
<b>E.ON ENERGIE</b>	4.10	3.70	-0.40
<b>VEMEX</b>	8.72	8.54	-0.18
<b>Others</b>	1.74	9.60	7.86

Source: Balancing Centre, Energy Regulatory Office

## Structure of customers in the Czech Republic

In accordance with the Czech Republic's energy legislation, customers are categorised by their annual natural gas consumption into the following segments:

- Households and low-offtake customers (annual consumption up to 630 MWh/year);
- Medium-sized customers (annual consumption from 630 to 4,200 MWh/year); and
- Large-offtake customers (annual consumption over 4,200 MWh/year).

For the sake of comparison, Table 12 shows prices of supply broken down by Eurostat's consumer categories, provided by the Czech Statistical Office for the purpose of this National Report. The prices are stated in CZK/MWh and include all services, i.e. distribution, transmission, storage, commodity, and other commercial services. Column A shows prices without VAT while column B shows the same prices inclusive of all taxes. In addition to the 19% VAT and an environmental tax of CZK 30.60/MWh on natural gas used for heat generation regardless of the use thereof, in 2009 the price of natural gas supply to final customers did not include any other tax or levy.

**Table 9 Prices of natural gas supply to customers by Eurostat categories as at the first day of a quarter in the Czech Republic in 2009, in CZK/MWh**

Period of the year 2009	Standard consumer, Eurostat					
	D3		I1		I4	
	A	B	A	B	A	B
<b>First quarter</b>	1,126.84	1,340.94	1,107.36	1,317.76	912.63	1,086.03
<b>Second quarter</b>	1,089.07	1,295.99	1,072.26	1,275.99	677.32	806.01
<b>Third quarter</b>	1,015.61	1,208.57	1,043.17	1,241.37	572.03	680.72
<b>Fourth quarter</b>	984.82	1,171.94	1,013.28	1,205.80	606.20	721.38

Source: Czech Statistical Office

The periodicity of the changes in natural gas supply prices over a calendar year differs for different traders and the timing of these changes depends on their business policy. The changes are usually made on the basis of changes in the gas purchase prices and each particular trader's customer portfolio.

Large industrial customers have prices calculated using a price formula and the price for these customers changes on a monthly basis. However, these customers also have a choice of products other than those based on a price formula; for example, those based on their acceptance of a monthly price as per the trader's calculation for a given customer segment, or those based on a fixed price for up to 12 months.

Agreements with customers in the household segment are typically executed in perpetuity and as agreements on bundled natural gas supply services. This means that the trader takes care of all the services related to gas supply for the consumer (transmission, storage, distribution, and the commodity itself).

### The gas supplier switching procedure

For 2009, the gas supplier switching procedure was subject to the Gas Market Rules. For customers, supplier switching is allowed as from the first day of a month and is subject to registration with the administrator of the respective balancing zone. Customers with type C metering can change their supplier once in a half year, with the exception of switching over to a supplier of last resort.

In 2009, the gas supplier switching process was not changed; the principle described in the previous national reports continued to apply.

## Complaints and inquiries addressed to the Energy Regulatory Office

Table 13 lists, by category, the number of questions and complaints sent by gas market participants (usually customers) to the ERO in 2009. The ERO does not have information about market participants' questions and complaints addressed to gas suppliers.

**Table 10 Number of complaints and inquiries addressed to the ERO**

2009	Questions	Complaints	Total	Share in %
Prices	44	6	50	42
Metering, gas quantity	7	3	10	8
Setting of advance payments	5	2	7	6
Review of billing	5	0	5	4
Inclusion in an offtake band	2	0	2	2
Billing or clearing period	0	1	1	1
Ready reckoner	11	0	11	9
Information about traders and supplier switching	11	1	12	10
Quality	3	1	4	3
Technical matters	5	1	6	5
Supplier of last resort	2	0	2	2
Gas crisis, gas supply disruption, questions	4	0	4	3
Other – breaches of the Energy Act	1	5	6	5
<b>Total</b>	<b>100</b>	<b>20</b>	<b>120</b>	<b>100</b>

Source: Energy Regulatory Office

## Consumers' complaints addressed by the State Energy Inspectorate

In the gas industry, 211 complaints were handled in 2009 (including three complaints referred to the SEI by the ERO). The complaints mainly focused on the method of calculating the excessive amount of advance payments for a new billing period by the gas traders in the RWE Group. In this connection, the complainants pointed out that advance payments so increased eventually resulted in their granting free credit to the company supplying them with natural gas. Checks also focused on gas traders' procedure in the process of supplier switching, including billing, set-offs of differences in payments and also the calculation of advance payments for the following period.

## Consumers' complaints, and inquiries conducted by the Office for the Protection of Competition

On the basis of the 56 complaints that it received, in 2009 the ÚOHS conducted an inquiry focused on potential violations of the Competition Act through, for example, refusal of access to underground gas storage facilities or asking a disproportionately high price for natural gas and disproportionately high advance payments for natural gas taken.

During its inquiry into the natural gas price hikes the ÚOHS did not find any facts indicating a violation of the Competition Act, either by way of abuse of the dominant position or by way of undertakings entering into prohibited agreements on prices. The ÚOHS found the development of natural gas prices to be the consequence of the market-driven demand versus supply relationship.

The ÚOHS referred complaints falling outside its competences to the ERO or, as applicable, the SEI (for example, issues such as illegal consumption, gas service lines, and service billing).

### **Access to underground gas storage facilities**

In June 2009, the ÚOHS commenced investigations concerned with underground gas storage facilities in the Czech Republic. During the course of the investigations it found that RWE Transgas, a.s. and RWE Gas Storage, s.r.o. had, in the past, entered into an agreement on natural gas storage in underground gas storage facilities for more than 90 percent of the technical capacity of the facilities operated by the RWE Group (hereinafter also referred to as “the Agreement”). The term of the Agreement was for 25 years. At the same time the RWE Group is using more than three-quarters of the total storage capacity in the Czech Republic. Referring to the need to meet its own requirements, the Group rejected most of the competitors’ requests for the allocation of capacity in the storage facilities.

The ÚOHS’s investigation focused on proving whether the RWE Group’s practices could be classified as abuse of the dominant position by way of refusal of access to the essential facilities. During this investigation, the companies within the RWE Group submitted a proposal for measures for the support and protection of competition (hereinafter also referred to as “the Measures”). In the Measures, the RWE Group pledged to gradually release, and offer for use to third parties by 2013, a storage capacity of 500 mcm (i.e., 21.5 percent of the RWE Group’s total storage capacity in the Czech Republic). In the proposed Measures, the term of the Agreement was reduced by 12 years. The Measures adopted by the RWE Group, i.e., the making available of a considerable portion of its own capacities and the reduction of the term of the Agreement (i.e., the time for which the remaining capacities were reserved), created the conditions for the development of competition on the market of natural gas supply. In the ÚOHS’s opinion, the adoption of these Measures remedied the potential anticompetitive situation in a short period of time. Co-operation between the ÚOHS and ERO was also a significant factor that helped to tackle the situation without the need to resort to sanctions.

### **Administrative proceedings conducted by the ÚOHS**

On 24 June 2009, the ÚOHS issued its decision under Ref. No. ÚOHS-S52/2009/DP-7933/2009/820, in which it declared a violation of the Competition Act by RWE Transgas, a.s., specifically by abusing its dominant position, which this company committed, according to the ÚOHS, by demanding the payment of disproportionately high advances despite the fact that these advances had been found to be disproportionately high advances set for 129,131 customers in the small business and household categories (due to a mistake in the calculation of these advances) in September 2008. Without any objectively justifiable reasons, RWE Transgas, a.s. therefore did not make any reasonable effort required to remedy this defective situation. In the ÚOHS’s opinion, RWE Transgas, a.s. should have reduced these disproportionately high advances. RWE Transgas, a.s. caused damage to the 78,746 customers who did not request, by 8 June 2009, a reduction in the incorrectly calculated advances, because as a result of these practices these customers were obliged to pay higher advances for natural gas supply than was necessary.

The ÚOHS imposed a fine of CZK 10 million on RWE Transgas, a.s. for the above violation of the Competition Act, and also imposed certain remedial measures on the company. The remedial measures consisted in compensation for the damage that could be suffered by those of the affected customers, who would have an overpayment at the end of the billing period. As part of the final billing for natural gas consumption in September 2009, RWE Transgas, a.s. credited an extra amount of 8 percent of the overpayment (i.e., the difference between the correctly and incorrectly calculated amount of the advance) to the accounts of the customers affected by these practices. The compensations so paid totalled some CZK 5 million.



### **4.2.3 Measures to avoid abuses of dominance**

#### **Market surveillance**

Since a characteristic feature of the gas industry is the existence of monopoly operators of gas pipeline facilities (network monopolies), the ÚOHS performs continuous market surveillance in this sector. The ÚOHS pays increased attention primarily to the RWE Group, which operates as a vertically integrated undertaking. The RWE Group is both a natural gas importer and the natural gas transmission system operator. The RWE Group also operates in natural gas wholesaling and retailing, plays a role in natural gas distribution, and also works as a storage system operator.

As part of the continuous surveillance over the structure of the gas market, 2009 saw a number of meetings and consultations between the ÚOHS and RWE Group companies on, for example, the RWE Group's pricing policy, natural gas sale in the so-called allocation system, or the issue of online sales. The RWE Group held these informal meetings with a view to preventing a potential distortion of competition. The RWE Group's objective declared at these meetings was to proceed on the market in a public and non-discriminatory way.

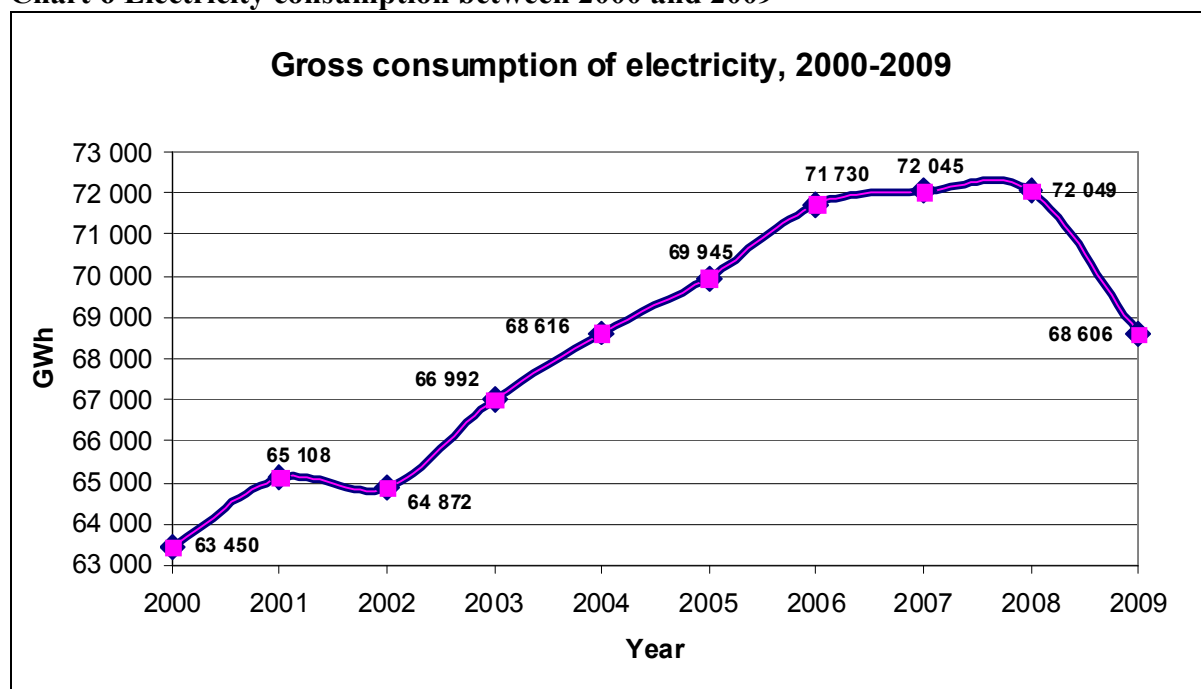
## 5 Security of supply

### 5.1 The electricity market in 2009

#### 5.1.1 Electricity consumption and levels of peak annual demand

In 2009, the previous years' trend of slightly increasing domestic consumption changed. The economic crisis caused a certain decline, mainly on the part of large industrial customers.

Chart 6 Electricity consumption between 2000 and 2009



Source: Energy Regulatory Office

The country's total (gross) electricity consumption, including network losses and pumped storage load, was 68.6 TWh in 2009, down by 4.8 percent in comparison with 2008. Large customers accounted for the largest part of the overall decline, specifically 9 percent. Small business customers' and households' consumption decreased by only 0.4 percent. The grid experienced the annual peak demand on 14 January 2009 at 5 p.m. when gross consumption amounted to 11,159 MW. In comparison with 2008, when the peak annual demand was 10,880 MW on 14 February at 3 p.m., it was 179 MW (2.6 percent) more. Electricity imports contributed to the meeting of domestic demand almost the same as in the previous year (on the whole, 101 GWh more was imported). On the generation side, the influence of the preference for renewable resources in electricity generation could be felt throughout the year, in particular that of solar power plants due to the legislative measures for their support.

The achieved reliability of the balance of power supply and demand in the Czech electricity system meets the requirements for rational values of reliability. It is possible to provide for the safe operation of the system (ancillary services) over the medium term, despite some increases in demand. With the exception of the potential significant swings in the output from off-shore and seaside wind power plants, no anomalies appear in the operation of the generating capacities in covering the load profiles and predicted differences.

### 5.1.2 Installed capacity

On 31 December 2009, the total installed capacity of power stations in the Czech Republic amounted to 18,326 MW, with approximately 58 percent of the power stations' output connected directly to the transmission system and 42 percent to distribution systems. Table 14 indicates the structure of generation capacity, by the size of installed capacities, in 2009.

**Table 11 Structure of generation by installed capacity in 2009**

Generating capacity type	Installed capacity	Share, in %
Thermal power stations	10,720 MW	58.5
Nuclear power plants	3,830 MW	20.9
Hydroelectric power stations, including pumped storage	2,183 MW	11.9
Gas-fired and combined cycle power plants	935 MW	5.1
Alternative sources	658 MW	3.6

Source: Energy Regulatory Office

In comparison with 2008, total installed capacity of power stations increased by 602 MW in 2009. Of this, the installed capacity of thermal power stations, including cogeneration, increased by 35 MW and the installed capacity of gas-fired and combined cycle power plants increased by 37 MW, both on a year-on-year basis. In renewable and alternative capacities, output rose by 468 MW overall year-on-year. The installed capacity of hydroelectric power stations decreased by 9 MW year-on-year. In alternative plants, there was a drop of almost 10 MW. More than 425 MW is attributable to increased output from photovoltaic plants.

This increase in total installed capacity (602 MW) was therefore mainly achieved thanks to investment in the development of photovoltaic plants.

There are no expectations of the commissioning of a new large plant having an installed capacity of over 50 MW and firing fossil fuels or using nuclear energy in the next three years (by 2012). Due to the continued support for renewable energy sources, the development of a larger number of plants using renewable sources and having smaller unit capacities can be expected. Under the conditions prevailing in the Czech Republic, the development of biomass firing in local heat & power plants has the most promising prospects; to a limited extent, new small hydroelectric power stations and wind power plants can also be expected. The Czech Republic does not have suitable/optimum conditions for the other renewable sources. In spite of that, we do register increased interest in photovoltaic plants, kindled by the significant drop in capital expenditure on these plants. The construction of up to several hundreds of MW of installed capacity to generate electricity from renewable energy sources can be expected in the next few years.

### 5.1.3 Authorisation criteria for new generation capacities

The building of a new electricity generating plant may be started upon obtaining a building permit issued by the planning office having the relevant local jurisdiction. One of the main preconditions for issuing a building permit is the submittal of an expert study proving that the new plant will not have negative environmental impacts. An electrical energy generator has the right to connect its plant to the electricity grid and operate it subject to the connection conditions set out in the relevant energy legislation and upon obtaining an electricity generation licence from the Energy Regulatory Office. It also has the right to supply electricity in line with the rules for the operation of distribution systems or, as applicable, the transmission system. A precondition for obtaining an electricity generation licence is, in

particular, obtaining the permit to commission the plant and proving the professional competence and financial standing to operate the energy generating plant.

In general, the national budget does not have the obligation to provide support for investment in new generating capacity; nevertheless, certain subsidies can be obtained from the State and certain funds subject to the required conditions. For plants having a total installed capacity of up to 1 MW the generator may benefit from tax holidays for the first five years of operation.

#### **5.1.4 Incentives for new capacity development**

The RES Act is a major breakthrough in the development of electricity production from renewable sources. Since 2006, renewable electricity producers have had the opportunity under the RES Act to choose between electricity buyout by regional distribution system operators or the transmission system operator in the system of guaranteed feed-in tariffs, and a premium on the market price of electricity (the system of green premiums). The ERO sets the amount of the feed-in tariffs and green premiums every year. Under the RES Act, the feed-in tariffs may not drop by more than 5 percent year-on-year, and the key principle of support for renewable energy sources, i.e., an up to 15-year payback period for the investment, must be preserved. The support in the form of feed-in tariffs cannot be applied in the case of biomass and fossil fuel co-firing or parallel firing. Regional distribution system operators and the transmission system operator are obliged to give priority to the connection of renewable electricity producers.

Effective from 2006, an amendment to the Energy Act provides for support for electricity generation in combined heat & power generation, which is granted solely through market price premiums for all categories of generating plant. However, new support for electricity production from secondary resources has been introduced, which is also provided through premiums on the market prices of electricity.

#### **5.1.5 Investment in transmission**

The renovation, modernisation and automation of the transmission system's existing facilities and providing for their reliability and safety, also with regard to environmental protection, continued in 2009. ČEPS, a.s. spent a total of CZK 2,146,700,000 on capital construction in 2009.

A noteworthy completed capital investment project was the rapid construction of a new transformer, T204 at the TR Lískovec station, worth CZK 93.5 million. This helped to reinforce the transforming capacity between the transmission system and 110 kV networks in the Ostrava area. With a view to meeting the planned increase in demand in this area in the coming years, the construction of a new 400/110 kV Kletná transformer station was started this year in coordination with the distribution system operator; it is expected to be put into operation in 2011.

The gradual modernisation of the existing transformer stations in the transmission system and their transition to the remote control mode continued in 2009. The Týnec nad Labem and Sokolnice transformer stations were converted to this mode. Retrofits continued at the Dasný, Krasíkov and Výškov transformer stations (capital expenditure on these projects amounted to approximately CZK 500 million). As part of retrofitting the existing transforming capacities, 2009 saw the installation of new transformers at the Krasíkov, Řeporyje, Vítkov and Výškov stations at a cost of about CZK 330 million. In the system of 220 kV lines, modernisation was continued for about CZK 350 million (modernisation of the V221/222, V204, V207 and V001/002 lines). In the 400 kV system, the company's capital expenditure on projects being

completed or prepared for the modernisation of lines, modification of crossings, and reinforcements of steel structures amounted to about CZK 76 million.

In connection with the expected construction of new generating capacities, as envisaged in the approved Regional Development Policy of the Czech Republic, and the related increase in the requirements for connection to the transmission system, in 2009 a Strategic Investment Programme until 2022 was prepared. Under this programme, the investment in the coming years is characterised by a high increase in capital expenditure, mainly on the development of the transmission system.

The most important projects are related to the connection of and export from a new unit at the Ledvice power station. This includes the building of new R 420 kV metal-clad switchgear at the Chotějovice transformer station and the erection of a 400 kV double-circuit line (the V480 line) between the Chotějovice and Výškov transformer stations; completion and commissioning are planned for 2011. Capital expenditure planned for 2010 amounts to CZK 2,535,300,000. Beginning in 2011 and in the years to follow, capital expenditure is planned at as much as CZK 4 billion. Construction of lines for connecting new generating capacities, mainly at the level of the distribution system, can be expected in the future. A typical example is renewable energy sources, for example, wind farms and photovoltaic plants, the construction of which is being planned in areas with a relatively low density of networks.

## **5.2 The gas market in 2009**

### **5.2.1 Natural gas supply and consumption in 2009**

Throughout 2009, natural gas supply for customers in the Czech Republic was smooth, regardless of the disruption in gas supply across Ukraine in January 2009, in line with the first degree of load in the first, second and fourth quarters and in line with the basic degree of load in the fourth quarter of the year, with 58.8 percent of the gas coming from Russia, 34.6 percent from Norway, and 6.6 percent from Germany.

A local emergency was only declared in the case of the destruction of a high-pressure gas pipeline of ZČP Net, s.r.o. on 27 January, when 1,724 customers in adjacent municipalities were left without gas supply for a short time.

In 2009, actual natural gas consumption amounted to 8.161 bcm (i.e., 7.41 Mtoe), which is 6 percent less than in 2008. Consumption adjusted to normal monthly temperatures and temperature gradients of consumption amounted to 8.313 bcm (7.54 Mtoe), which implies a decrease of 9.4 percent year-on-year.

**Table 12 Natural gas sources and consumption in the Czech Republic**

	[Figures in mcm at 15°C]			[Figures in Mtoe]		
	2009	2008	2007	2009	2008	2007
<b>Total purchase</b>	8,886	8,687	8,733	8.05	7.88	7.92
<b>Withdrawal from foreign UGS</b>	+255	+455	+483	0.23	0.41	0.44
<b>Injection into foreign UGS</b>	-485	-444	-549	-0.44	-0.40	-0.49
<b>Withdrawal from Czech UGS</b>	+1,970	+1,375	+1,653	1.78	1.25	1.65
<b>Injection into Czech UGS</b>	-2,321	-1,509	-1,362	-2.10	-1.37	-1.23
<b>Supply from MND Hodonín</b>	105.1	102.8	77.6	0.09	0.09	0.005
<b>Drained gas from mines OKD Paskov</b>	8.2	13.8	18.8	0.04	0.04	0.01
<b>Total supply</b>	8,669.8	8,692.5	8,378.8	7.86	7.88	7.59
<b>Difference on balancing (change in the line pack, in-house consumption)</b>	-40.6	-0.6	-46.7	-0.03	-0.005	-0.04
<b>Total consumption</b>	8,161	8,685	8,653	7.41	7.88	7.84

Note: IEA conversion factor 1 bcm = 0.907 Mtoe

Source: Balancing Centre

Overall natural gas consumption was mainly influenced by ambient temperatures in the heating season and the global financial crisis, which was reflected in lower industrial production.

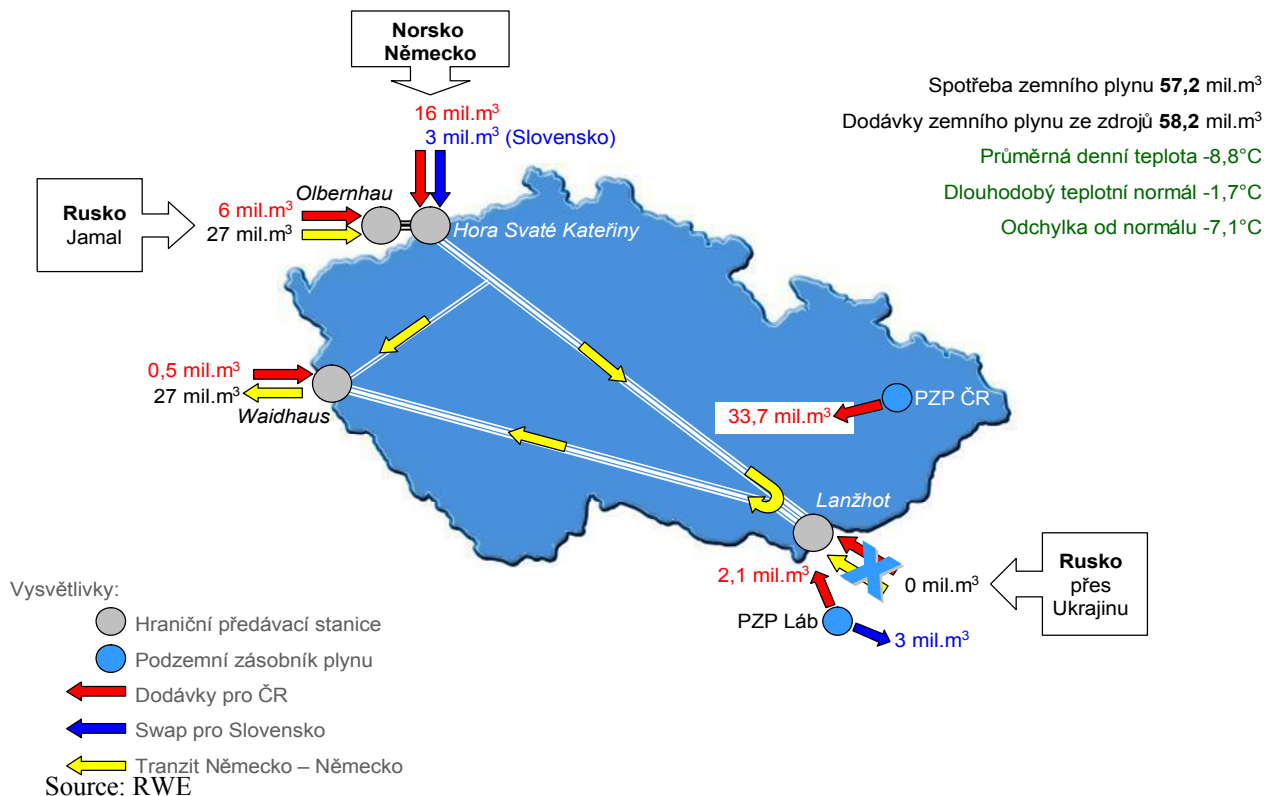
Natural gas was imported into the Czech Republic from Russia, 5.099 bcm (4.62 Mtoe), Norway, 3.000 bcm (2.72 Mtoe), and Germany, 571 mcm (0.52 Mtoe), with the purchase (imports) of natural gas for the country's needs totalling 8.670 bcm at 15 °C (7.86 Mtoe). In comparison with 2008, imports were lower by 23 mcm (0.02 Mtoe).

On account of the Russian-Ukrainian dispute over the payment of the debt for supplied gas, early January 2009 saw a reduction and then a total disruption of natural gas transport across Ukraine into the Czech Republic. Figure 1 shows a scheme of the situation in gas supply and transit on 12 January 2009 when the maximum consumption was recorded.

## Figure 1 Situation in gas supply on 12 January 2009

A reference hourly reading in the Czech Republic on 12 January 2009 – the crisis of gas supply from Russian across Ukraine

Kontrolní hodinový odečet v ČR 12.1.2009 – krize v dodávkách plynu z Ruska přes Ukrajinu



Translation of the Czech expressions in the picture:

Spotřeba zemního plynu 57,2 mil.m<sup>3</sup>  
 Dodávky zemního plynu ze zdrojů 58,2 mil.m<sup>3</sup>  
 Průměrná denní teplota -8,8 °C  
 Dlouhodobý teplotní normál -1,7°C  
 Odchylka od normálu -7,1°C  
 Hraniční předávací stanice  
 Podzemní zásobník plynu  
 Dodávky pro ČR  
 Swap pro Slovensko  
 Tranzit Německo-Německo

Natural gas consumption 57.2 mcm  
 Natural gas supply from sources 58.2 mcm  
 Average daily temperature -8.8 °C  
 Long-term normal temperature -1.7 °C  
 Difference from the normal -7.1 °C  
 Border transfer station  
 Underground gas storage  
 Supply for the Czech Republic  
 Swap for Slovakia  
 Transit Germany - Germany

Norsko           Norway  
 Německo       Germany  
 Rusko           Russia  
 Slovensko      Slovakia  
 Ukrajina       Ukraine  
 přes             via

Only a low volume of supply from indigenous resources, which include surface drained gas, of local importance for the north Moravian region, and the gas lifted by Moravské naftové doly, a.s. Hodonín from fields located in south Moravia, supplemented the imports. MND's and OKD's domestic supply amounted to 113.2 mcm/year, which is 0.1 Mtoe, i.e., 1.3 percent of total supply.

**Table 13 Actual natural gas consumption between 1995 and 2009**

Year	Average temperature in the	Average annual temperature	Annual consumption [Mtoel]	Annual consumption [mcm]	Annual change	
					[mcm]	[%]
1995	3.1	8.3	7,336	8,075	+1,141	+16.4
1996	1.0	6.6	8,455	9,306	+1,231	+15.2
1997	2.3	7.9	8,577	9,441	+135	+1.5
1998	3.3	8.5	8,531	9,390	-51	-0.5
1999	3.2	8.7	8,565	9,427	+37	+0.4
2000	4.8	9.5	8,311	9,148	-279	-2.9
2001	2.9	8.2	8,879	9,773	+625	+6.8
2002	3.6	9.0	8,669	9,542	-231	-2.4
2003	3.6	8.6	8,848	9,739	+197	+2.1
2004	3.1	8.2	8,805	9,691	-48	-0.5
2005	2.5	8.0	8,687	9,562	-129	-1.3
2006	3.3	8.5	8,421	9,269	-294	-3.1
2007	4.2	9.4	7,861	8,653	-616	-6.7
2008	2.4	9.3	7,884	8,685	+32	+0.4
2009	3.3	8.8	7,415	8,161	-524	-6.0

Source: Balancing Centre

Natural gas consumption in the Czech Republic was stagnant from as early as 1997; since 2004 it has been slightly declining. In 2010, the current trend of stagnant natural gas consumption can be expected in connection with the economic recession.

The main reason for the currently decreasing consumption is oil prices, which are rising and also causing natural gas price hikes, and also the economic recession, which started in late 2008 but could only be felt to the full extent in 2009.

Another cause of declining consumption is final customers' efforts to save energy, focusing mainly on better and more modern boiler installations, thermal insulation of buildings, and energy savings achieved with the help of energy audits; further, the connection of municipalities to gas supplies has almost been completed.

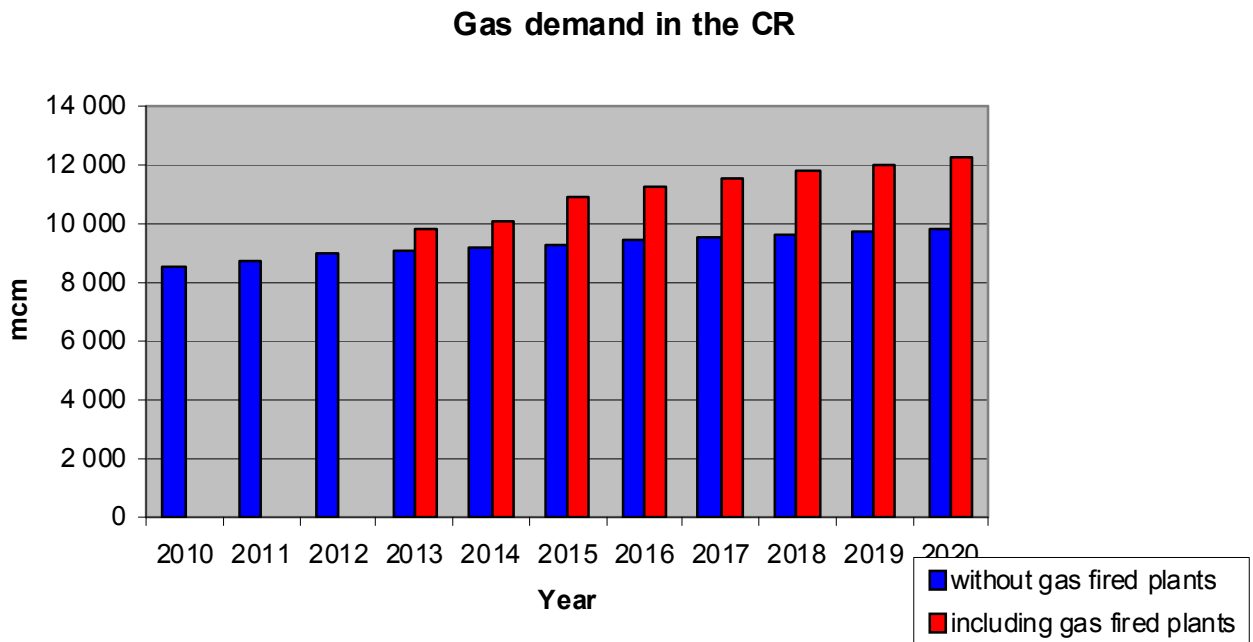
Projections for 2010 to 2020 expect slight annual increases of about 0.3 to 1.0 percent (see Chart 7), particularly if this period sees a certain stabilisation of prices and emphasis on the benefits of natural gas as an environmentally friendly fuel. If the gas-fired power stations currently being considered are actually built, from 2013 natural gas consumption will increase at a higher rate. Several companies are considering plans to build gas-fired power stations in the Czech Republic, but ČEZ a.s. has progressed the farthest with preparations for the construction of an 860 MW gas-fired plant at Počerady. RWE is preparing the construction of another 840 MW plant in central Bohemia. Thus, gas consumption may go up by as much as 30 percent between 2013 and 2020. An important aspect of the development of gas-fired power stations is the need to provide for gas stores, because natural gas stores in underground gas storage facilities serve for the balancing of seasonal supply and demand and in emergencies primarily for supplying households and selected customers who produce foodstuffs or provide medical and other services for the country's population.

One of the objectives of the National Energy Concept is to prevent the Czech Republic's dependence on imports of energy resources from increasing. However, the market decides about the actual consumption; on the basis of rising prices, energy savings, and the other factors mentioned above, the market vindicates the forecast of the National Energy Concept,



which does not expect any significant increase in natural gas demand in the years to come, with the exception of the use of natural gas in gas-fired power stations as indicated below.

**Chart 7 Natural gas demand expected in the Czech Republic between 2010 and 2020**

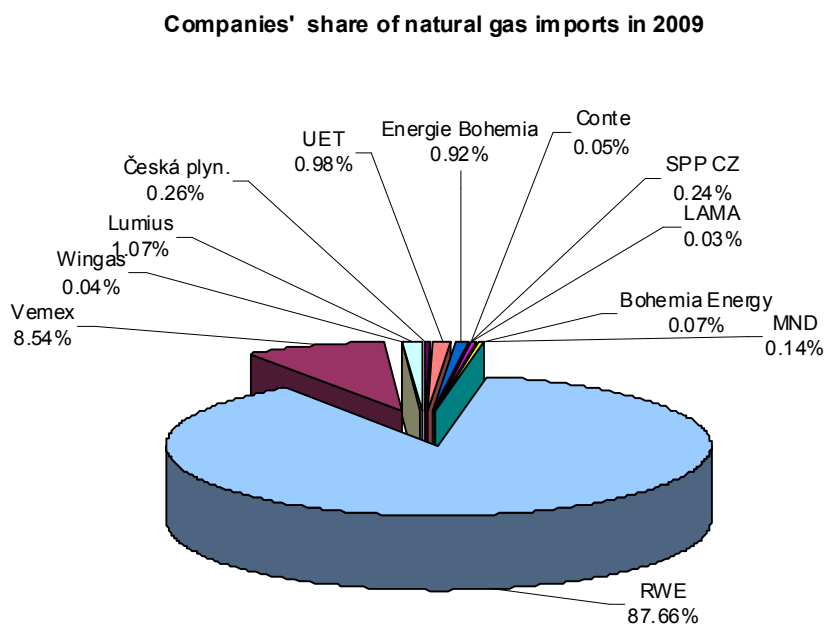


Source: Ministry of Industry and Trade

### 5.2.2 Import contracts

Companies with the largest market shares, RWE Transgas, a.s. and VEMEX, s.r.o., and another ten companies shown in Chart 8, which have gradually established themselves on the Czech market, were responsible for imports, which are crucial for the Czech Republic as regards natural gas sources, under long-term agreements with Norwegian and Russian producers.

**Chart 8 Share of natural gas imports in 2009**



Source: Balancing Centre

The incumbent monopoly natural gas importer, RWE Transgas, a.s., continued to be the dominant importer, however, its market share has dropped to less than 90 percent.

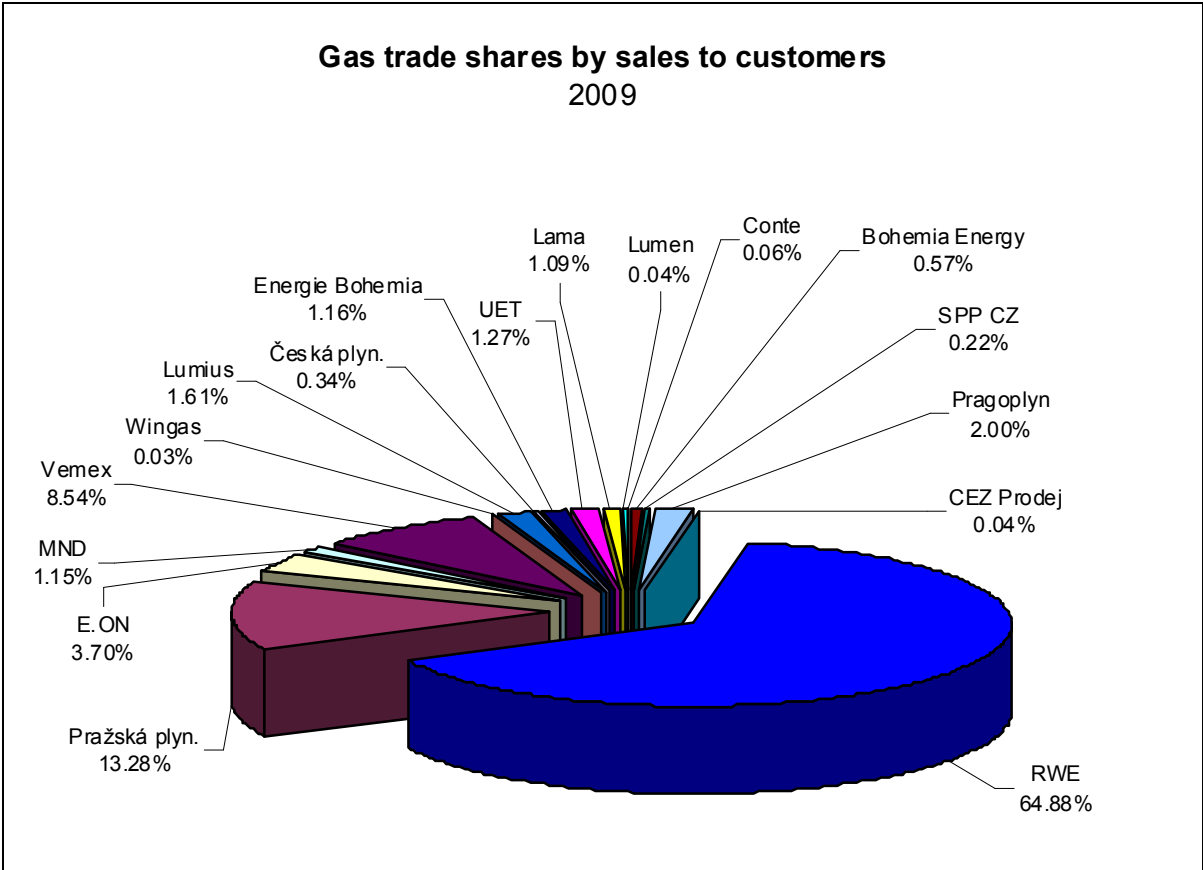
The long-term natural gas supply agreement between RWE Transgas a.s. and Gazprom export Ltd. (formerly Gazexport), which originally was to terminate at the end of 2013, has been extended to remain in effect until 2035; the gas sales agreement with Norwegian producers will remain in effect until 2017.

In 2007, VEMEX, s.r.o. and Gazprom export Ltd. signed a five-year agreement on natural gas supply to the Czech Republic, 0.5 bcm annually, with the option of doubling both the term of the contract and the annual volume.

**5.2.3 The gas market**

The gas market has been rapidly developing since its full opening in 2007. New suppliers have appeared in addition to the incumbent suppliers, i.e., regional gas traders from the RWE and E.ON groups and Pražská plynárenská, a.s., and the RWE Group’s share of gas sales to final customers has dropped to 64.8 percent. The new suppliers include companies maintaining direct business relationships with gas producers, domestic gas producers, and also electricity suppliers who also supply natural gas to their final customers, and the number of active gas traders has therefore risen to 77. VEMEX, s.r.o. had the largest share among new suppliers in 2009.

**Chart 9 Share of natural gas trade in 2009**



Source: Balancing Centre

The full liberalisation of the gas market has also given final customers an opportunity to change their gas supplier. Since the beginning of gas market opening on 1 January 2005,

customers of all categories have used this opportunity for 41,078 supply points, and in 2009 the figure was 33,327 supply points. Detailed information can be seen in the table.

**Table 14 Gas trader switches**

<b>Customers who have switched their gas supplier – number of supply points</b>		
	<b>Since 1 January 2005</b>	<b>In 2009</b>
Large offtake	389	152
Medium-sized offtake	390	267
Low offtake	5,362	4,506
Households	34,937	28,402
<b>Total</b>	<b>41,078</b>	<b>33,327</b>

Source: Balancing Centre

## **5.2.4 Investment in system development**

### **Investments to be carried out within three years**

In 2006, the Ministry of Industry and Trade awarded to RWE Transgas Net, s.r.o. [now RWE NET4GAS, s.r.o.] an authorisation to build the Czech part of the gas pipeline connecting the Czech gas system with Poland (the Třanovice – Skoczów gas pipeline). The transmission system operator has acquired funds for the construction of this interconnector from the European Energy Programme for Recovery (EEPR), and the project is to be commissioned in 2011.

In connection with the need to provide for a reverse gas flow in the transmission system in the case of emergencies, the transmission system operator, RWE Transgas Net, s.r.o. [RWE NET4GAS, s.r.o.], joined a competition called by the European Commission for the allocation of funds from the EEPR, and was successful.

Another important project, which will connect to Nord Stream, will be the Gazelle transit gas pipeline interconnecting border transfer stations at Hora Sv. Kateřiny and Waidhaus across the Czech Republic, with an annual capacity planned at 30 to 33 bcm in 2012.

The largest Czech storage system operator, RWE Gas Storage, s.r.o., is making preparations for investment in an increase in the storage capacity of the Tvrdonice and Třanovice UGS facilities by 545 mcm in the next three years. It has also obtained a contribution from the EEPR for a part of this storage capacity (450 mcm).

### **Investments to be carried out in more than three years**

Gas companies' investment plans also include additional investments in more distant future (Záhoří – Spáleníště (Austria) and Břeclav – Reintal (Austria) cross-border gas pipelines).

MND Gas Storage, a.s. is also preparing investment in the expansion of the storage capacity in the Uhřice-Jih UGS facility by 90 mcm, and another investor from the MND Group is preparing the development of a new UGS facility at Dambořice with a total capacity of 670 mcm. Once completed, these capital investment projects will help to increase the storage capacity in the Czech Republic by about 1.3 bcm, which will bring it close to 50 percent of the country's total annual gas consumption.

The Ministry of Industry and Trade of the Czech Republic has informed the European Commission about these forthcoming capital investment projects through the 'report to the Commission of the European Union on investment projects in the Community's interest in the

oil, natural gas and electricity sectors’.

### 5.2.5 Underground gas storage facilities

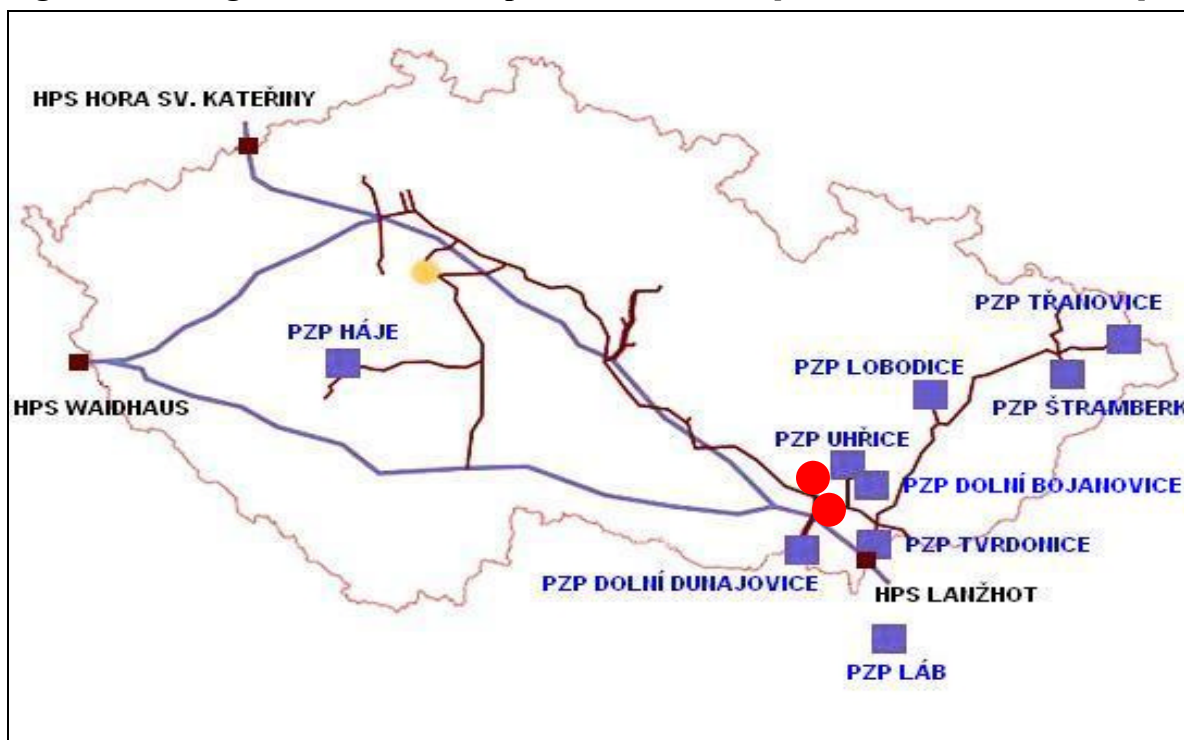
Because of the summer/winter swings in gas consumption, UGS facilities that serve for gas storage in summer and gas production in winter when daily demand exceeds the daily contract quantities imported from abroad, helped to provide for a balance between supply and demand.

In 2009, 2,321 mcm of gas was injected into Czech UGS facilities, while 1,970 mcm was withdrawn from them; injection into UGS facilities therefore outweighed withdrawal by 581 mcm. In 2009, 485 mcm and 255 mcm was injected into and withdrawn from, respectively, the Láb UGS facility in Slovakia.

Working gas stores before the 2009/2010 heating season amounted to 2,464 mcm in Czech UGS facilities and 500 mcm in foreign UGS facilities, i.e. 2,964 mcm on the whole, which accounted for more than 30 percent of total annual gas consumption in the Czech Republic. At the beginning of the winter season the actual maximum daily withdrawal capacity in all UGS facilities amounted to 46.7 mcm, and in those in the Czech Republic it amounted to 41.7 mcm; during the January 2009 gas crisis, the maximum withdrawal capacity was 35.8 mcm.

On 31 December 2009, the amount of gas stores in UGS facilities in the Czech Republic was 2,246 mcm, the Láb UGS facility held 500 mcm, and the overall available volume stored in UGS facilities was 2,746 mcm.

**Figure 2 Existing UGS facilities and plans for new UGS [shown as ‘PZP’ and name]**



Source: RWE

### 5.2.6 Emergency measures

A new implementing regulation, Ministry of Industry and Trade public notice no. 334/2009 on emergencies in the gas industry, sets out the measures applicable to emergency situations. It was drawn up on the basis of the experiences from the January 2009 gas crisis, and is binding on all gas businesses.

The instrument lays down the measures and procedures to be carried out to prevent emergency, during emergency and to repair the consequences of emergency, the method of declaring an emergency and of notifying of the preventing of an emergency and procedures for curtailing gas consumption, customer categorisation by the expected annual demand, offtake degrees and the particulars that emergency plans must contain. It categorises customers into seven groups by the nature and volume of demand and sets out five regulating degrees for curtailing gas supply and five regulating degrees for interrupting gas supply, and so helps to have a better control over potential emergencies.

Under the Energy Act, all gas businesses, with the exception of gas traders, are also obliged to put in place emergency plans for the facilities and installations operated by them, follow these plans, and furnish them to the Ministry of Industry and Trade for review every year.

Gas businesses' standard emergency plans contain a classification of failures and accidents, a definition of emergency and prevention thereof, declaration of emergencies, general duties and responsibilities in coping with emergencies, the composition of the Emergency Commission, and the preparation of emergency reports. The operative part of the plans sets out the principles for eliminating failures on gas installations, the related documentation on gas distributions and equipment, and a plan of communication with and availability of the Emergency Commission.

### **5.2.7 Security of supply standard**

The security standard of the required gas supply is understood, under the Energy Act, to consist in ensuring safe and reliable gas supply by gas producers and gas traders for the customers whose gas consumption was lower than 400,000 cu m over the past 12 months, in particular for the following situations:

- a) A partial interruption in gas supply for eight weeks and to the extent of 20 percent of the total daily volume under all import contracts intended for supplying the final customers of the respective trader in the Czech Republic or for securing the consumption of the respective customer who procures gas on his own, in the winter season;
- b) Gas consumption on five consecutive extremely cold calendar days, provided that an extremely cold calendar day is understood to be a day on which the average daily temperature does not rise over  $-14^{\circ}\text{C}$ ;
- c) To meet the demand for gas for all possibilities of the range of demand caused by the development of ambient temperatures during the coldest period from 1 October to 31 March, which occurred in the last 20 years preceding the respective year.

In the Czech Republic, for 2009 the security of supply standard for the peak daily demand at an average daily temperature of  $-14^{\circ}\text{C}$  was 65,915,000 cubic metres under the above criteria; it was provided for by each of the gas traders, taking into account the number and size of connected customers. The suitability of the selected gas supply security standard has been vindicated by the fact that during the January 2009 gas crisis, no problems with gas supply to final customers were registered in the Czech Republic. Since October 2009, the gas supply security standard has been in place only for customers with an annual consumption of up to 400,000 cu m, and it is 43.2 mcm/day under the new public notice on emergencies in the gas industry.

### **5.2.8 Quality and level of system maintenance**

Under the Energy Act, all operators of the gas transmission system, gas distribution systems and underground gas storage facilities have the obligation to prepare, on an annual basis, a report on the quality and level of maintenance of the gas installations and facilities operated by them and furnish the report to the Ministry of Industry and Trade of the Czech Republic.

The basic part of a report on the quality and level of maintenance contains a list of internal regulations on the organisation and method of maintenance, and technical data on the operated gas facilities and installations on which maintenance is carried out. The operative part of a report on the quality and level of maintenance describes the way of providing for maintenance, methods employed for inspecting the condition of facilities and installations, and the equipment and technologies used for maintenance. Reports also describe the situation in gas pipeline corrosion control and checks of natural gas odorising at all odorising stations. For cases of a failure or accident on a gas facility or installation, the report must contain its description, way of repair, and the measures adopted.

The Ministry continuously monitors and evaluates reports on the quality and level of maintenance, which are furnished by all operators of gas facilities and installations, and is able to note that this activity is carried out at a very high level. This is borne out by the fact that throughout the time of the operation of the transit gas pipeline since 1972 (or the Brotherhood pipeline since 1967) no interruption in natural gas supply has occurred due to neglected maintenance.

### **5.2.9 Investment incentives**

In line with Directive 2003/55/EC and the Energy Act, the so-called authorisation principle has been put in place for permitting new gas facilities and installations. In 2009, the Ministry of Industry and Trade of the Czech Republic awarded 22 authorisations in this respect, 21 of them for high-pressure gas pipelines and one for an expansion of the Uhřetice underground gas storage facility.

As a direct investment incentive, the national legislation allows exemptions from third-party access to new infrastructure under Directive 2003/55/EC. No such exemption was granted in the Czech Republic in 2009.

## **6 Public service issues [Article 3(9) electricity and Article 3(6) gas]**

### **6.1 Key information**

As mentioned in earlier national reports, the Czech Republic has implemented the obligations of public service and consumer protection in the energy sector, which the EU member states are to introduce under, in particular, Directives 2003/54/EC and 2003/55/EC, primarily through the 2004 amendment to the Energy Act and, in part, through the adoption of Act No. 180/2005 on support for the use of renewable energy sources and changes to certain laws.

The Energy Act contains provisions on universal service, which is intended to provide above-standard assurance for certain electricity/gas customer categories in cases where their contractual supplier has lost its ability to perform its obligations. Universal service is a part of public service in the electricity and gas industries, which is provided across the board by utilities on the basis of the duties laid down in the law. This includes, in particular, the electricity/gas market participants' right to connection and to gas/electricity transmission for prices controlled by the State, which are set in advance and promulgated for the following year. Part of the public service in energy is also the supervisory activity of the SEI, which under the Energy Act checks compliance with the Energy Act, compliance with Act No. 406/2000 on energy management, as amended, compliance with the law on renewable energy sources, and compliance with the European Commission's directly applicable energy regulations.

### **6.2 Obligations over and above the licence**

In cases of urgent need and in the general interest, the Energy regulatory Office has the right to decide to impose an obligation over and above a licence. The entity that is subject to such decision is obliged to carry out the activity of electricity/gas distribution over and above its own licence, thereby accepting the obligations of another licence holder who has stopped performing its obligations. The owners of the required distribution facilities are obliged to provide them for the performance of an obligation over and above a licence. The ERO can impose this obligation for 12 months at most. Conclusive loss suffered by an electricity/gas distribution licence holder or a supplier of last resort, constitutes grounds for adjusting regulated prices. If the licence holder carries on some other activity in addition to performing an obligation over and above its licence, it shall keep separate accounts related to its performance of the obligation over and above its licence.

### **6.3 Supplier of last resort**

The July 2009 amendment to the Energy Act also changed the arrangements for the supplier of last resort. The purpose of the changes was to simplify the provisions on the supplier of last resort.

The amendment has eliminated the procedure of the ERO's decision-making on the selection of the supplier of last resort. The supplier of last resort is now designated directly in the Energy Act and it is an electricity/gas trader who is, or was, a part of the same vertically integrated undertaking as the electricity/gas distribution licence holder in the delineated area in which the supply point is located. In practice the point is that in the Czech Republic, three major electricity business groups operate, i.e., the ČEZ Group, the E.ON Group and the PRE Group, and the traders of these three groups currently automatically play the role of the

supplier of last resort in electricity, if needed. The situation is similar in the gas industry, where the suppliers of last resort are Jihomoravská plynárenská, a.s., Pražská plynárenská, a.s. and the RWE Group.

Supply of last resort is provided to customers who have lost their electricity/gas supplier or to households with a new electricity/gas supply point to which electricity/gas has never been supplied and the household customer explicitly requests electricity/gas supply from the supplier of last resort. Thus, the supplier of last resort is a safeguard for cases when relatively weak customers need to be protected. The principle that the supplier of last resort has no obligation to supply electricity/gas when illegal consumption is detected continues to apply.

The Energy Act provides for the mechanism of supply of last resort and defines the moment at which such supply begins. The reason is that situations exist in real life when customers do not even learn on time of the fact that their supplier has lost its ability to supply electricity/gas, and a mechanism of migration to the supplier of last resort must exist, and it must work almost automatically and by the operation of the Energy Act.

The duration of supply by a supplier of last resort is limited to six months. Over this period of time customers will learn of this fact and this period appears to be long enough for the customers to find, and enter into an agreement with, their regular electricity/gas supplier.

Suppliers of last resort must satisfy the conditions set out in the public notice on the Electricity Market Rules or, as applicable, public notice no. 365/2009, on the Gas Market Rules, which also set out a more detailed procedure for the pricing of electricity/gas supply by suppliers of last resort. The obligation of supply of last resort does not apply to customers whose gas consumption exceeded 60,000 cu m over the last 12 months

#### **6.4 Labelling of primary energy sources / guarantees of origin**

Under the Energy Act, electricity generators are obliged to inform electricity market participants, in a manner enabling remote access, about the shares of the resources used for electricity generation, and the amount of CO<sub>2</sub> emissions and the amount of radioactive waste produced in electricity generation in the preceding year. Customers have the right to be informed by their electricity suppliers about the suppliers' overall mix of fuels and their impact on the environment.

#### **6.5 Disconnection of customers**

From the perspective of supply interruption or disconnection, the Energy Act does not differentiate between customer groups. Under the Energy Act, customers can be disconnected, or their energy supply interrupted, solely for reasons that are exhaustively listed in the law, for example, due to illegal consumption of energy; in the event of imminent danger to life, health or property and in dealing with such situations; in emergencies and in preventing them; in the event of planned work on the installations in the system; in the event of failures on installations and repair thereof; and in the event of taking electricity using equipment that poses danger to life, health or property or influences the quality of electricity with adverse impacts on other customers. The Energy Act does not contain any limitations on the application of this authorisation by distribution system operators throughout a calendar year, i.e., therefore, for example, in winter months.

Each of the distribution system operators keeps statistics on the number of disconnected customers for whom the distribution system operator reduced or interrupted energy supply on the grounds of failure to meet their payment obligations stemming from the final billing of actual consumption. This data is not available to the ERO.



## **6.6 Protection of customers under contract**

The 2009 amendment to the Energy Act modified the provisions on the various types of contracts that are executed on the open electricity market between market participants, with a view to ensuring reliable electricity supply and the working of the energy market, laying down, among others, the ‘essential provisions’ of electricity/gas supply agreements. These provisions take into account the rule that the basic formal and factual particulars of contracts should be provided for directly in a law rather than an implementing legal regulation only. The amendment also provides for the ERO’s new decision-making competences.

In addition to the hitherto existing competences to decide in certain private-law disputes between electricity/gas market participants and in the heat supply industry (in particular adjudication of disputes involving failure to reach agreement on the execution of a contract between licence holders and their customers), the amendment vests in the ERO the competence to decide disputes over compensation for failure to keep the required standards of the quality of supply and services, and disputes over electricity, gas or heat supply curtailed or interrupted due to illegal consumption. The ERO’s adjudicating competence has also been extended to include some other private-law disputes between entities in the electricity, gas and heat markets, in which a court would otherwise be competent to decide, provided that all parties to the proceedings agree with the ERO’s competence to decide the dispute. Through this legislation, the ERO has acquired the competence to decide in an additional category of private-law disputes. Licence holders, but also some customer associations wanted to have this competence established for the ERO because administrative authorities’ decision-making is quicker, cheaper and, thanks to the ERO staff members’ expertise in the energy sector, more predicable to a certain extent.

## **6.7 Pricing for customers on the electricity market**

In setting prices for customers, the ERO followed up on the preceding period and preserved the differentiation of charges for distribution services at the low-voltage level in relation to the nature of the load. At the low-voltage level, the range of tariffs was therefore maintained, which makes it possible for the customers to optimise their costs of the services related to electricity supply.

In 2009, electrical energy supply was not subject to price controls for any customer category in the Czech Republic, with the exception of price controls on electricity supply from suppliers of last resort. The ERO regulates the price of electricity supply from suppliers of last resort as the maximum permissible price in compliance with Directive 2003/54/EC.

ERO price decision no. 9/2008 of 18 November 2008, which lays down the prices of electricity and related services, set the price levels of electricity of last resort for 2009. The ERO regulated the price of electricity from suppliers of last resort as the maximum permissible price for all customer categories entitled to take such electricity supply. For customers connected to low voltage, the price was composed of a standing charge, a charge for electricity supply at the high rate and a charge for electricity supply at the low rate. Individual prices varied in relation to the nature of the load and the way of using the electricity taken. For customers connected to higher voltage levels a maximum average price per MWh was set.

The year 2009 was in fact the very first year that saw the practical application of the concept of supply of last resort in the Czech Republic, in relation to the collapse of a major electricity trader, MORAVIA ENERGO, a.s. The system worked very well indeed. Suppliers of regional distribution companies automatically accepted the customers, and electricity supply was not

interrupted or jeopardised. Subsequently, the affected customers had time enough to decide whether they would enter into a standard electricity supply agreement with the supplier of last resort, which is also a regular trader, or find a different supplier.

## **6.8 Pricing for customers on the gas market**

ERO price decision no. 11/2008 of 20 November 2008 set the prices for the licensed activities of gas transmission and distribution (in which competition is not feasible) for the calendar year 2009. The monopoly position of the operators of these activities stems from their ownership of the transmission system and the distribution systems in delineated service areas.

Gas traders active in the Czech Republic determine their commodity charge, including their trading activity and charges for other services related to gas supply for customers.

All customers can influence the uncontrolled part of their overall cost of gas supply, i.e., natural gas as the commodity and the gas storage service, by changing their gas supplier. Point 2.2.2 in chapter 2.2 on the retail market of this report indicates the number of customers in each category who used the opportunity of a free change of gas supplier in 2009.

In the above price decision, the ERO also set the prices to be charged by suppliers of last resort to customers whose gas consumption did not exceed 60,000 cu m over the last 12 months. The cost-plus method is employed. No customers received supply of last resort in 2009.

## **6.9 Public administration and terms of supply contracts**

The Energy Act provides for the essential particulars of supply agreements, i.e., any such agreement must contain all the particulars required by Energy Act. The Energy Regulatory Office further has the following competences:

- a) It is competent to adjudicate certain disputes between licence holders or between licence holders and their customers over the execution of agreements under the Energy Act (for example, agreements on electricity/gas supply, connection, transmission and distribution, and also agreements on thermal energy supply and certain other types of agreements), disputes over compensation for failure to keep the required standards of the quality of supply and services, and disputes over electricity, gas or heat supply curtailed or interrupted due to unauthorised consumption. The ERO also adjudicates other disputes arising from contractual relationships between licence holders or between licence holders and their customers in cases in which a court would otherwise be competent to decide, provided that all parties to the proceedings agree with the ERO's competence to decide the dispute;
- b) It is competent to adjudicate disputes over access to the transmission systems, distribution systems, underground gas storage facilities and gas withdrawal pipelines, and disputes over the buyout of electricity from renewable sources;
- c) It is competent to approve the rules for the operation of the electricity transmission and distribution systems and the gas transmission and distribution system operators' codes and the storage system operators' codes and also the market operator's commercial terms and conditions.

The State Energy Inspectorate (SEI) is the administrative authority responsible for inspection in the energy industries. The SEI's remit includes overseeing compliance with the Energy Act, including the execution of agreements containing the particulars required by the Energy Act for supply agreements and the particulars of agreements on consumer protection within the meaning of Annex A to Directives 2003/54/EC and 2003/55/EC.

The Office for the Protection of Competition (ÚOHS), which regulates on an *ex post* basis, i.e., intervenes against practices that are specified as prohibited in the Competition Act, is another authority of oversight in respect of supply contracts. The ÚOHS's competences include, for example, checks of discriminatory practices applied by energy suppliers having a dominant market position (coercion to unreasonable contract terms and conditions, applying different conditions for identical or comparable supplies to different market participants, etc.). These cases very often involve entities operating as vertically integrated undertakings both in the electricity industry and in the gas industry, because their anti-competition practices, if any, have the potential of limiting or distorting competition.