National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic in 2015

July 2016

List of frequent abbreviations and acronyms

Czech	English	
ČR	CR	Czech Republic
ERÚ, úřad	ERO, Office	Energy Regulatory Office
ČEPS	ČEPS	The Czech transmission system operator (electricity)
OTE	OTE	The Czech market operator (OTE, a.s.)
SEPS	SEPS	The Slovak TSO (electricity)
PSE	PSE	The Polish TSO (electricity)
APG	APG	The Austrian TSO (electricity)
50Hertz, TenneT		German TSO (electricity)
CEER	CEER	Council of European Energy Regulators
ACER	ACER	Agency for Cooperation of Energy Regulators
ES	EC	European Community
EU	EU	European Union
EK	EC	European Commission
V4	V4	Visegrád Four
region CEE	CEE region	Central and Eastern Europe region
MC	MC	market coupling
PCI	PCI	Projects of common interest
EZ	the Energy Act: Act No 458/2000 on conditions of business and state administration in energy industries and amending certain laws, as amended	

Table of Contents

1. Foreword 3
2. Main developments in the electricity and gas markets 3
3. The electricity market 4
   - 3.1. Network regulation 5
     - 3.1.1 Unbundling 5
     - 3.1.2 Technical functioning 5
     - 3.1.3 Network tariffs for connection and access 6
     - 3.1.4 Cross-border issues 7
     - 3.1.5 Compliance 15
   - 3.2. Promoting competition 16
     - 3.2.1 Wholesale markets 17
     - 3.2.2 Retail market 18
     - 3.2.3 Recommendations on supply prices, investigations and measures to promote effective competition 21
4. The gas market 21
   - 4.1 Network regulation 22
     - 4.1.1 Unbundling 22
     - 4.1.2 Technical functioning 23
     - 4.1.3 Network tariffs for connection and access 26
     - 4.1.4 Cross-border issues 27
     - 4.1.5 Compliance 29
   - 4.2 Promoting competition 31
     - 4.2.1 Wholesale markets 31
     - 4.2.2 Retail market 33
     - 4.2.3 Recommendations on supply prices, investigations and measures to promote effective competition 35
5. Consumer protection and dispute settlement in electricity and gas 36
   - 5.1 Consumer protection 36
   - 5.2 Dispute settlement 38

1. Foreword

For the twelfth time, the Energy Regulatory Office (‘the ERO’ or ‘the Office’) is presenting its National Report on the Electricity and Gas Industries to the European Commission and the Agency for Cooperation of Energy Regulators (ACER), thereby meeting its reporting and notification obligation set out in the applicable Directives and Regulations.

The Energy Regulatory Office operates under Act No 458/2000 on conditions of business and state administration in energy industries and amending certain laws, as amended (‘EZ’ or ‘the Energy Act’), into which the Czech Republic (‘ČR’ or ‘the CR’) has implemented the relevant provisions of the third energy package and Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT).

In 2015, the Office contributed to the drafting of an extensive amendment to the Energy Act and Act No 165/2012 on supported energy sources and amending certain laws (‘the SES Act’), as amended. The reasons for the amendments included EU legislation and, in the case of the Energy Act, the need to ensure its compliance with the new Civil Code and the new Review Rules. The Office issued the relevant implementing regulations for both of these laws.

Issuing the Price Decision for supported energy sources was quite complicated for the Energy Regulatory Office, because the Office received the European Commission’s notification of its decision on compatibility with the EU internal market only for certain groups of plants generating electricity from supported energy sources.

In the international arena, the Office continued its active relationships with the EU bodies and institutions and the Council of European Energy Regulators (CEER). The year 2015 was also marked by more intensive cooperation between regulators of the Visegrád Four (V4) countries, in which the ERO, being the presiding country’s regulatory authority, played the main role. Topics such as security of supply, gas market integration and projects of common interest were on the agenda of the four meetings of the regulatory authorities’ senior managers.

2. Main developments in the electricity and gas markets

The year-on-year decline in the total number of electricity supplier switches, which started in 2013, continued last year. The main reason for the switching to slacken was the fact that customers entered into fixed-term contracts, while the offering included various product series helping to avoid changing the supplier only because of changing the electricity product.

As in the electricity industry, the year-on-year decline in the number of gas supplier switches continued in the gas market in 2015. The Czech gas market has reached the stage of saturation and in 2015 the most significant changes were caused by the regrouping of equity interests in some suppliers. Thus, the trend of the gradual decline in the number of supplier switches continued. Companies that supply both gas and electricity acquired a large proportion of new customers.

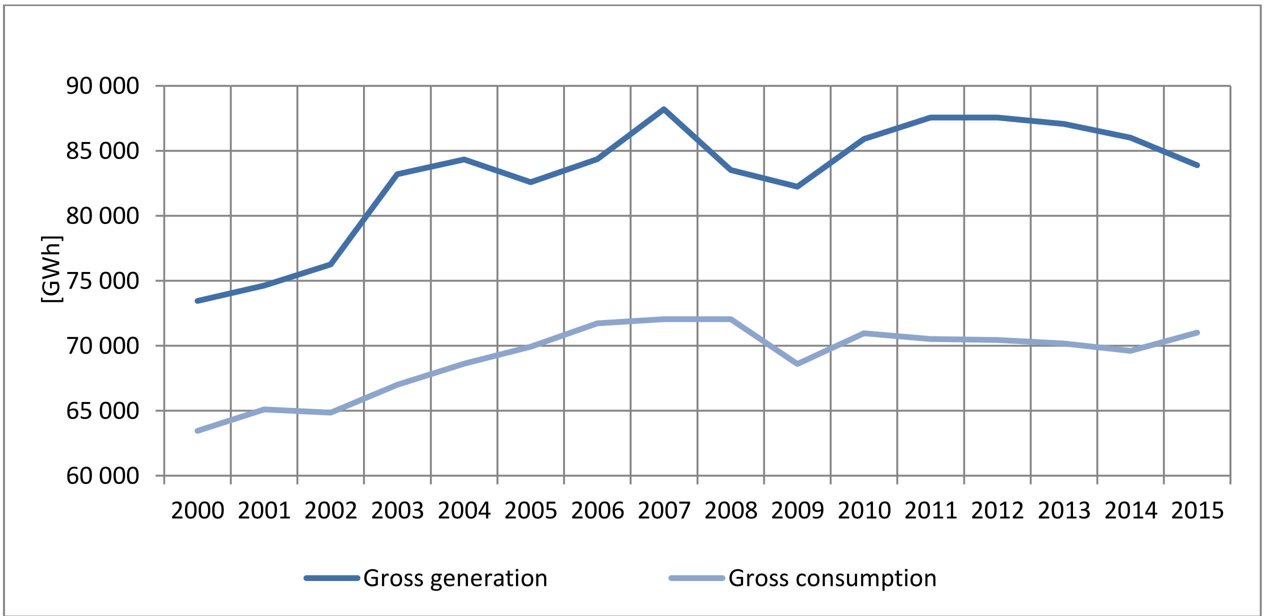
Last year also saw the successful continuation of the day-ahead electricity market coupling in the Czech Republic, Slovakia, Hungary and Rumania on the principle of implicit allocation of cross-border capacities (4M Market Coupling, 4M MC). In connection with this project, the ERO, together with the Czech market operator, OTE, a.s., and the Czech transmission system operator, ČEPS, a.s., held talks with foreign partners on the conditions on which the Czech Republic would join the other participants in the project for intra-day cross-border electricity trading of the NWE+ countries under the XBID (Cross-Border Intraday) project. The ERO paid considerable attention to the implementation of the flow-based market coupling method and the planned merger of the CEE and CWE regions.

In line with the capacity allocation mechanism network code, the operation of transmission capacity offering at cross-border interconnectors was started, with the partnering transmission system operators in Germany and Slovakia on the PRISMA on-line booking platform and the transmission system operator in Poland on the GAS-SYSTEM S.A. (GSA) on-line booking platform, in the gas industry in November 2015. Also, Czech-Austrian talks on gas market integration continued; in this connection the Slovak transmission system operator has expressed its readiness to discuss the conditions under which it would provide its infrastructure for the needs of such integration.

3. The electricity market

In 2015, gross electricity generation totalled 83.9 TWh, down by 2.5% year-on-year. Gross domestic electricity consumption (71 TWh) rose by 2%. The largest year-on-year change in gross electricity generation was registered for combined cycle plants; it rose by almost 24.7% and these plants offset the year-on-year drop of 11.5% in NPPs' generation. Generation in large, over 10 MW hydroelectric power stations decreased again, this time by 11.6% year-on-year due to the extremely low water levels in streams. Electricity generation in hydroelectric power stations decreased overall by 6% year-on-year. Pumped-storage hydroelectric power stations and wind power plants generated 21.3% and 20.2% respectively more electricity than in 2014.

Chart 1: Annual electricity generation and demand (2000-2015)



Source: ERO

3.1. Network regulation

3.1.1 Unbundling

The Office also monitors adherence to the rules of unbundling on the basis of the implemented Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity ('Directive 2009/72/EC'). The implementation of directives has resulted in major 'unbundling-centred' amendments to legislation and it was very important from the perspective of the provisions on the electricity transmission system operator's unbundling and also because it has vested the ERO with much broader competences in oversight and inspections, and penalties for breaching the unbundling rules.

In respect of distribution system operators' unbundling, Article 26 of Directive 2009/72/EC had been implemented through an amendment to the Energy Act earlier, specifically through Sections 25a and 11(1)(m) of the Energy Act. The Czech energy market is stable and in terms of unbundling, no major changes are taking place as regards DSOs.

Unbundling has also necessitated measured for meeting the obligation of non-discriminatory access to distribution systems; for oversight in this respect, a compliance programme has been established. DSOs must adopt a compliance programme in their internal regulations. A compliance officer, appointed or otherwise installed by the DSO, oversees the implementation of the programme. Compliance officers prepare and submit to the ERO by 30 April, annual reports on measures adopted for compliance programme execution for the past year.

3.1.2 Technical functioning

The responsibility for balancing energy rests with ČEPS, a.s., which ensures the quality and reliability of electricity supply at the level of the transmission system by means of system services. The funds to pay for these services are provided by final customers through a regulated contribution contained in the price for electricity consumed by final customers.

In terms of the Office's influence on technical procedures, in particular the adoption of new public notice no. 408/2015 on electricity market rules should be mentioned. In this connection, the rules influencing the functioning of the electricity market have been changed.

In respect of electricity supply quality, the Office mainly focused on putting in place incentive-based electricity quality regulation in the fourth regulatory period. In this context it has determined the required values of the continuity indicators and related parameters for each of the regional distribution companies. The required values have been determined on the basis of a detailed analysis examining the relationship between quality and the costs incurred by each of the DSOs. New elements intended to contribute to a fairer and more predictable method of quality regulation have been put in place for the fourth regulatory period. These mainly include the setting of the required values for the whole regulatory period, a clear definition of the initial continuity indicators, the introduction of two-year rolling averages for evaluation, etc. The purpose of incentive-based quality regulation is to reduce the number and duration of both planned and unplanned electricity distribution interruptions.

As in previous years, the Office also monitored electricity supply quality and compliance with the standards required by public notice no. 540/2005 on the quality of electricity supply and related services in the electricity industry. The level of quality in distribution systems is measured by electricity supply continuity indicators under Section 21 of public notice no. 540/2005. The basic continuity indicators are defined in the public notice as follows: System

Average Interruption Frequency Index in the period under review (SAIFI), System Average Interruption Duration Index in the period under review (SAIDI), and Customer Average Interruption Duration Index in the period under review (CAIDI). The results of the monitoring of continuity indicators for 2015 are shown in Table 1.

Table 1: Electricity distribution continuity indicators in 2015

Indicator *	ČEZ Distribuce	E.ON Distribuce	PREdistribuce	Czech Republic
SAIFI [interruptions/year]	3.29	2.27	0.36	2.64
SAIDI [minutes/year]	361.72	352.90	30.93	316.06
CAIDI [minutes]	109.86	155.54	86.20	119.52

* System indicators covering all categories of interruption under Appendix 4 to public notice no. 540/2005
Source: ERO

3.1.3 Network tariffs for connection and access

Under the Energy Act and public notice no. 436/2013 on methods of price regulation and procedures for price controls in the electricity and heating industries and amending public notice no. 140/2009, the Office sets the regulated prices related to electricity supply every year. The prices are heavily influenced primarily by the size of overall consumption, the price of electrical energy for covering losses in networks, the agreed value of booked capacity, and inflationary factors.

Charges for network services are composed of charges for transmission and distribution services, which are further broken down to the charge for network use per unit of electricity taken and the charge for booked network capacity, which is set as a fixed monthly charge.

The charge for using transmission system networks is influenced by losses in the transmission system and the price of energy for covering these losses. Expected losses increased by 7.1% year-on-year, mainly due to the larger quantity of transmitted electricity. The charge for network use was favourably influenced by a drop of 7.4% in the price of electrical energy for covering losses. The other input that significantly and positively influenced, in year-on-year terms, the charge for network use was the negative correction factor. The result of all these factors was a drop of 29.5% in the charge for using transmission system networks. The charge for capacity booking in the transmission system increased by 5.3%.

As in transmission, the charge for network use in distribution serves for covering network losses. For 2015, this charge was also favourably influenced by the drop in the price of electrical energy, while the demand planned for customers remained at approximately the same level year-on-year (declined by 0.8%), the same as the contribution to distributed generation. This favourable development of the parameters caused a year-on-year drop in the charge for network use, including the charge's component for support of distributed electricity generation, at the extra high voltage level ('EHV' [≈ high voltage]) by 14.7%, and at the high voltage level ('HV' [≈ medium voltage]) this charge dropped by 11.6% compared with 2014. The charges for booked capacity at the various voltage levels are mainly influenced by the agreed technical parameters of booked capacity, the amount of investments at the respective voltage level, and the charge for capacity booking in the higher-level transmission system. The unit price for booked capacity at the EHV and HV levels increased by 2.3% and 3% respectively in the year under review.

The charges related to electricity distribution also include the regulated charge for covering the costs incurred in support for electricity (‘charge for supported capacities’). In 2015, the principle of disbursing operating aid for electricity to the operators of supported electricity capacities was preserved. Aid for distributed electricity generation under the conditions set out in the law on supported energy sources was also preserved on the same principles as in 2014.

The charge for covering the costs incurred in support for electricity was set at CZK 495/MWh for 2015, i.e. the maximum amount under the law on supported energy sources. The costs of operating aid for electricity and heat that are not covered by the above charge are paid from government subsidies, which amounted to CZK 15.7 billion in the year under review.

The charge for the provision of system services is billed by the electricity transmission system operator. System services help to secure the Czech electricity grid and to balance electricity generation and demand. The transmission system operator arranges for system services primarily by purchasing ancillary services. The charge for system services dropped by 11.7% year-on-year thanks to bargain purchases of ancillary services and a negative correction factor.

Connection conditions did not change in 2015. The conditions for connecting new electricity customers and generators to the distribution and transmission systems, including the method of calculating the applicant’s share of the costs incurred in the connection and in supplying the required power, are set out in public notice no. 51/2006 on the conditions of connection to the electricity grid, as amended. The technical conditions for connection are stipulated in the rules of transmission/distribution system operation.

Cross-subsidies are prevented by the suitable design of regulatory reporting, which, following the accounting and legal unbundling, strictly requires that the costs directly allocable to each of the regulated activities be reported. As part of secondary legislation, the ERO also promulgates the rules for overhead cost allocation, which are applicable to companies operating more than one regulated activity.

3.1.4 Cross-border issues

Access to cross-border infrastructure

The Czech electricity grid is synchronised with the rest of continental Europe. Cross-border interconnections exist with all neighbouring countries, i.e. Germany, Poland, Slovakia and Austria, and with five transmission systems: 50Hertz and TenneT (Germany), PSE (Poland), SEPS (Slovakia), and APG (Austria). At the respective cross-border point transmission capacities are allocated on the basis of coordinated calculation within the Central and Eastern European region (known as Central Eastern Europe, CEE),[1] which also includes Slovenia and Hungary in addition to the neighbouring countries.

Coordinated capacity allocation for the whole of the subsequent year and month (annual and monthly capacities) and for the individual trading hours on the subsequent day (day-ahead capacities) was organised by Central Allocation Office (CAO), a subsidiary of eight regional transmission system operators, for the last time. On 24 June 2015, the general assemblies of CAO and CASC.EU, which operated as two independent auction offices for cross-border capacity allocation, approved their merger agreement to form a single auction office, Joint Allocation Office (JAO). JAO is a joint service company of 20 TSOs in 17 countries. It will mainly perform the yearly, monthly and daily auctions of transmission rights on 27 borders in

[1] Regions for coordinated congestion management are defined in point 3.2 of Annex I to Regulation (EC) No 714/2009

Europe and act as a fall-back for the European Market Coupling, i.e. coupled day-ahead electricity markets. In addition, JAO will be the single contact point for market participants, which will create a pan-European platform for allocating cross-border rights. Trading will take place by harmonised European auction rules.

Capacity allocation takes place under the Rules for Coordinated Auction of Transmission Capacity, which set out the conditions for access to cross-border infrastructure within the meaning of Article 37(6)(c) of Directive 2009/72/EC. The transmission system operation rules, which are subject to approval by the ERO under Section 17(7)(g) of the Energy Act, refer to these auction rules. Informal coordinated assessments of the auction rules take place through the CEE regional coordination committee. The above-described capacity allocation method is used for cross-border interconnections with the 50Hertz, TenneT, PSE and APG transmission systems. For interconnection with Slovakia, a different cross-border capacity allocation method is used, see below.

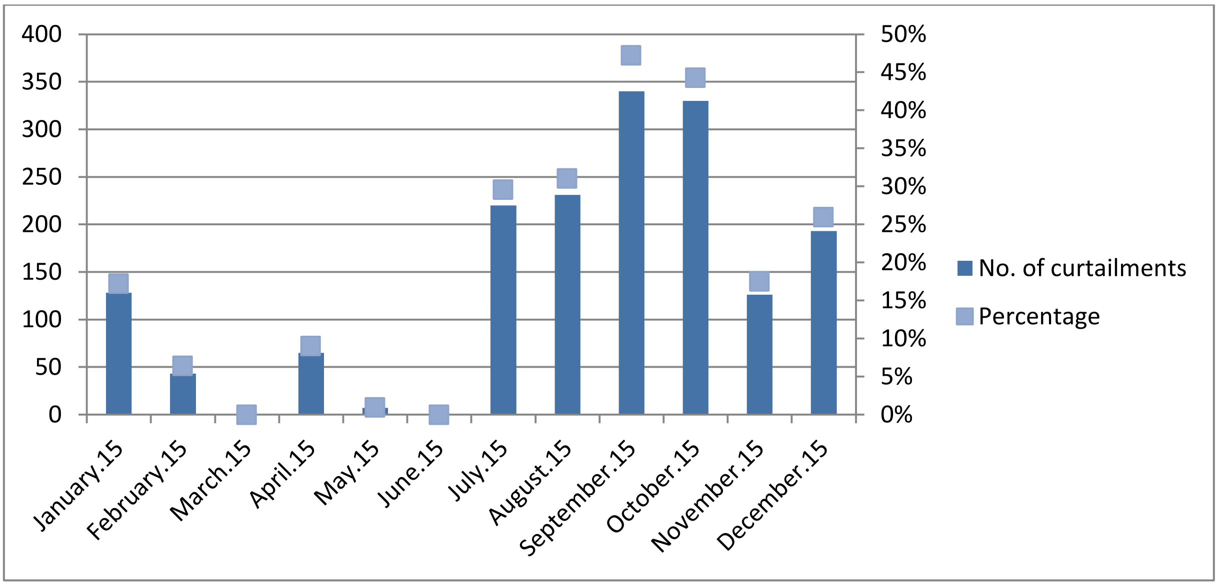
The auction rules fully comply with Article 16 of Regulation (EC) No 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 (Regulation (EC) No 714/2009), and, in particular, allow netting, i.e. the full satisfaction of requirements for transmission in opposite direction. In line with the trend of using long-term transmission capacity rights mainly as protection against volatile prices (hedging), long-term transmission rights are allocated with the no-use option and subsequent resale in a daily auction. This approach is in line with the target model for the electricity industry.

Capacities on the national border with Slovakia (the interconnector with SEPS) are allocated differently. Long-term nominations take place there without the need to book separately cross-border transmission capacity, for which market participants can apply until two days before the cross-border transmission is to take place. The transmission capacity so used is free of charge. Should the aggregate of nominations exceed the capacity earmarked for the long-term timeframe, all nominations are cancelled and the entire available cross-border capacity is released for day-ahead implicit allocation through market coupling with Slovakia, Hungary and Rumania.

Thanks to the historical interconnection between the Czech and Slovak transmission systems, high transmission capacity is available in the cross-border interconnector with SEPS. In previous years, contractual congestions occurred only infrequently. The ČEPS-SEPS interconnection therefore could not, for historical reasons, be described as structurally congested within the meaning of point 1.4 of Annex I to Regulation (EC) No 714/2009. In the case of congestions, capacities are allocated in a non-discriminatory manner – implicit auctions for each of the trading hours on the following day.

The Office continuously monitors the situation and currently has data on curtailments for 2015 (see Chart 2). Compared with preceding years, the Office notes that curtailments increased. In connection with the forthcoming regulation on the allocation of long-term transmission capacities and its entry into force in 2016, the Office expects that the allocation of long-term transmission rights will also be put in place on the interconnector with Slovakia. This will adequately cater to the management of congestion on this interconnector fully in line with Article 16 of Regulation (EC) No 714/2009 and Annex I thereto.

Chart 2: Exhaustion of free nominations on the ČEPS-SEPS interconnection

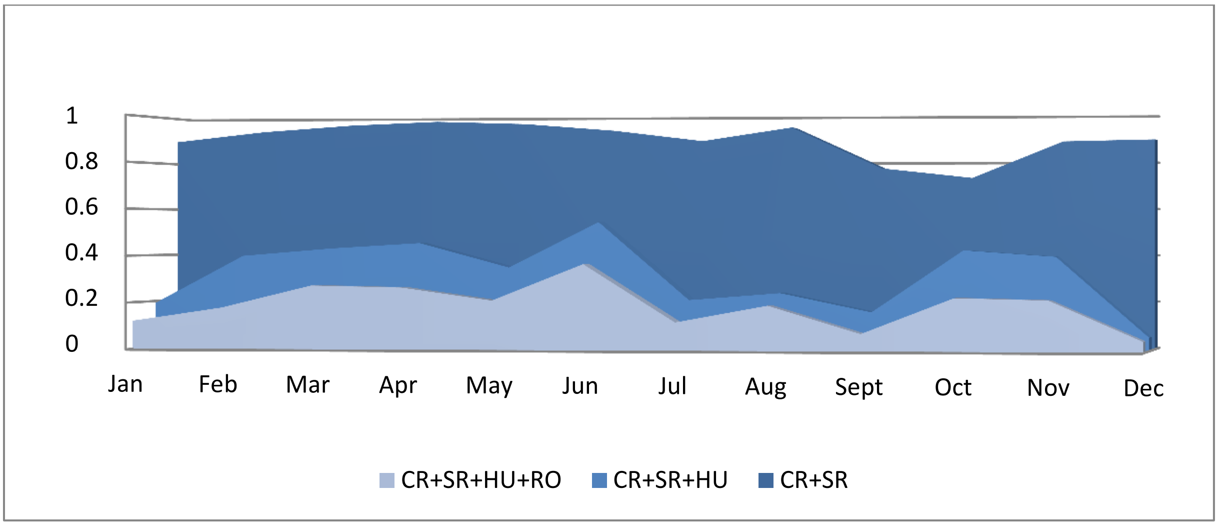


Source: ČEPS, a.s.

On all cross-border interconnectors, intra-day transmission capacities are allocated on the First Come First Served basis until the available capacity is exhausted. Coordinated capacity allocation for all cross-border interconnectors is organised by ČEPS, a.s. The current system does not make charges possible, and therefore does not make the efficient pricing of the limited transmission capacities possible. Since 2012, intra-day transmission capacity has been allocated for individual trading hours on the interconnector with SEPS. On other interconnectors, transmission capacity is allocated for six four-hour intervals ("sessions").

Since 2010, transmission capacities on the national border with Slovakia have been allocated by means of implicit auctions through market coupling. Transmission capacity allocation through implicit allocation has considerable advantages over explicit allocation, which takes place on other cross-border interconnection sites. An important indicator of the success of implicit allocation is the occurrence of identical prices at the participating spot markets, i.e. price convergence. In 2015, price convergence on the CZ-SK interconnection was 90.34%, on the CZ-SK-HU interconnection 31.93% and on the CZ-SK-HU-RO interconnection 19.06%, which basically copies the results in the preceding year.

Chart 3: Convergence in 4M MC in 2015



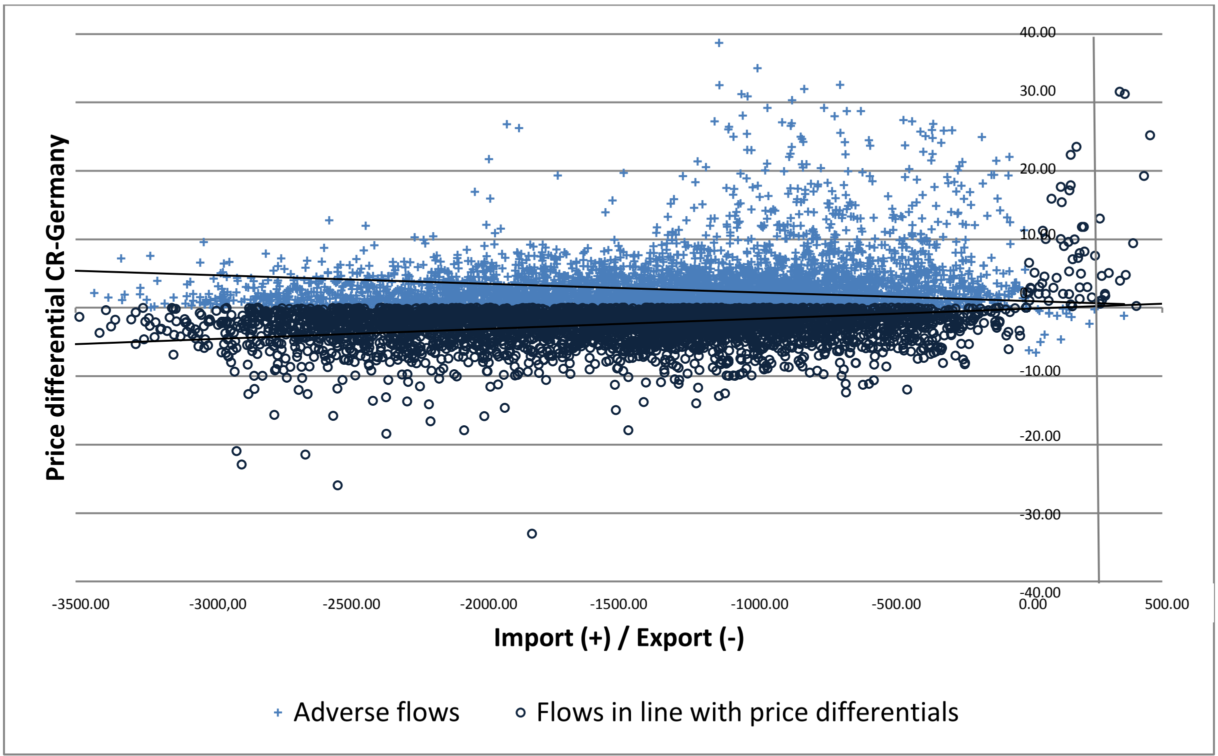
Source: OTE, a.s., the ERO's own calculation

As mentioned above, capacity in other cross-border interconnectors is allocated in explicit auctions. Since capacity is allocated separately from energy trading, situations may occur when electricity is exported from a higher price market to a lower price market, i.e. it flows against the price differential (which is also known as adverse flows). This situation is undesirable from the economic perspective as it reduces social welfare and the potential for using cross-border interconnections. Chart 4 shows the size of this phenomenon on the Czech interface with the German-Austrian trading zone (i.e. all interconnectors with the TSOs 50Hertz, TenneT and APG)[2].

Quadrants 1 and 3 (light blue) represent the situation where commercial exchanges flow against the price differential; this situation occurred in 46.7% of hours in 2015, up by more than 1 percentage point on 2014 and by more than 3 percentage points on 2013. The average size of these adverse flows amounted to 1,297 MW from the Czech Republic into the German-Austrian trading zone and to 124 MW in the opposite direction.

[2] Commercial exchanges at each of the interconnectors equal the balance of total nominations in both directions and the price differential is determined as the difference between the hourly price at OTE's intra-day market and the Epexspot intra-day market for the German-Austrian trading zone.

Chart 4 Adverse flows in 2015



Source: OTE, a.s., Epexspot, ČEPS, a.s., and the ERO's own calculation

The Office monitors the use of congestion charges (i.e. proceeds from cross-border capacity auctions). Under Section 24(10)(n) of the Energy Act, every year ČEPS, a.s. provides data for the Office's decisions on charges for electricity transmission and on charges for system services. Proceeds from cross-border capacity auctions go to the System Development Fund and serve for the development of cross-border lines.

Cooperation with other regulatory authorities and ACER

In the period under review, the Office continued its active participation in the drafting of the codes within ACER and CEER, specifically in all areas in which the preparatory process made this possible. The Office was actively involved in the ACER Board of Regulators' and the CEER General Assembly's activities, as well as in working groups and task forces.

The Office's employees who are responsible for the electricity industry attend the meetings of ACER and CEER working groups and sub-groups on a regular basis. Because of the important powers vested in ACER, especially in relation to the preparation of network codes and newly also in the context of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure, the ERO mainly focuses on activities within ACER. The Office also systematically engages in the cooperation related to the collection and evaluation of data on and analysis of the conditions in the internal energy market and to the preparation of ACER's and CEER's reports and studies.

Commission Regulation (EU) No 2015/1222 establishing a guideline on capacity allocation and congestion management entered into force on 14 August 2015 and is directly applicable in the Czech Republic. The ERO is also involved in the activities of ACER's relevant working groups supporting the implementation of this regulation. The first important step was taken on 7 October 2015 when the ERO issued a decision whereby OTE, a.s. was designated as the nominated electricity market operator for four years. On the basis of a request from ČEPS, a.s., on 13 November 2015 the Office brought administrative proceedings on all TSOs' proposal concerning the regions for capacity calculation. The Office also participated in talks on developing a new joint methodology for determining capacity volumes and on new rules for electricity trading.

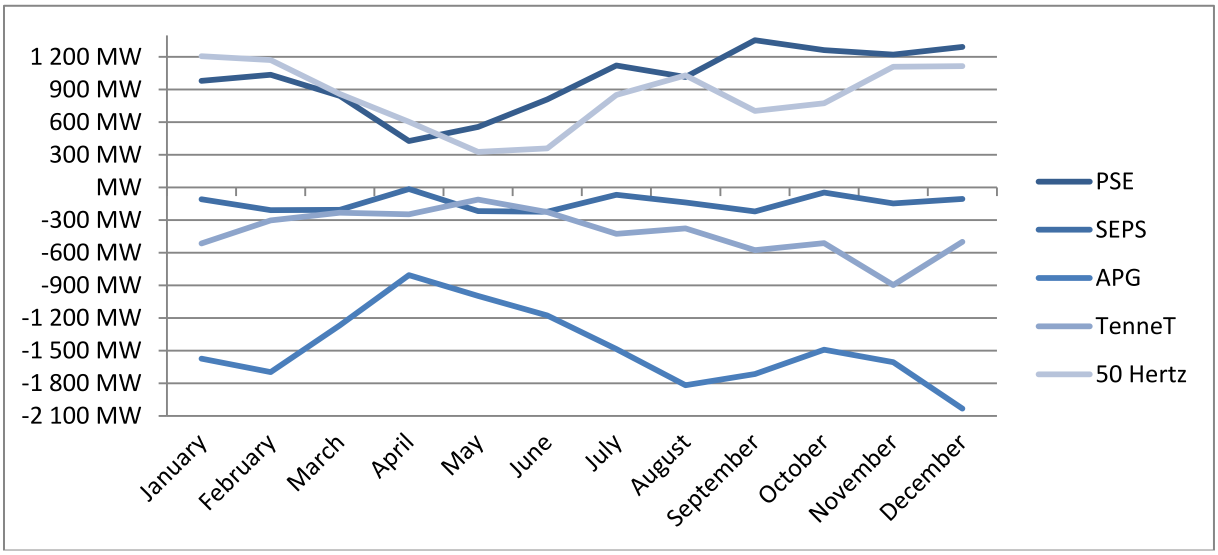
In connection with the forthcoming network codes, in summer 2015 the Office participated in the European Commission's public consultation on the preparations for redesigning the internal electricity market. This public consultation is the necessary first step towards any additional legislative package for the electricity industry, and is also related to the forthcoming code for maintaining balance in electrical grids (Guideline on Electricity Balancing).

As regards regional initiatives in electricity, market harmonisation continued in Central and Eastern Europe in 2015. Late 2014 saw the successful launch of the 4M MC project that coupled day-ahead electricity markets in the Czech Republic, Slovakia, Hungary and Rumania. One of the follow-up issues addressed by the Office in 2015 was the Czech Republic's joining the project for intra-day cross-border electricity trading within the NWE+ group under the XBID (Cross-border Intraday) project. The Czech Republic wants to participate in the project and the ERO, together with the market operator (OTE, a.s.) and the TSO (ČEPS, a.s.) held talks with foreign partners on the conditions on which the Czech Republic would join the other participants in the project.

ERO officers attended multilateral meetings inside and outside ACER on the implementation of flow-based MC and the planned merger of the CEE and CWE regions. The talks are not easy, in particular due to the undesirable loop flows of electricity generated in Germany, which pass through the Czech Republic. Talks with German and Austrian partners on the reconfiguration of bidding zones constituted an important part of the ERO's international activities in the electricity industry. At the request of the Polish regulator (URE), ACER also stepped into the talks through its Opinion 09/2015 of 23 September 2015, which described the absence of the allocation of transmission capacities on the German-Austrian border (and therefore the *de facto* existence of a single German-Austrian bidding zone) as non-compliant with legislation. This Opinion, which is not binding, recommended splitting the German-Austrian bidding zone. The Austrian regulator disagreed with ACER's conclusions and is taking legal steps against the Opinion. The other stakeholder NROs in the affected countries, including the ERO, welcomed ACER's Opinion. Subsequent talks on the implementation of the recommendations contained in ACER's Opinion have not yielded any practical results.

Chart 5 indicates that unscheduled electricity flows (the difference between nominations and physical flows) enter the Czech electricity grid from the north via the interconnections with 50Hertz and PSE and exit the Czech Republic in the south to Austria (the interconnection with APG). Unscheduled imports totalled 1,836 MW on average and unscheduled exports totalled 2,024 MW on average (these are not averages on import and export interconnectors). The Office continues to consider that the increased occurrence of loop flows in the CEE Region is related to the size and topology of the German-Austrian bidding zone and also to wind power development in northern Germany. This view was basically upheld by the findings contained in ACER's Opinion.

Chart 5 Unplanned flows in 2015



Source: ČEPS, a.s., and the ERO's own calculations

Monitoring of the investment plan and assessment of its consistency with the Community-wide network development plan

Under Section 24(10)(j) of the Energy Act, ČEPS, a.s., i.e. the TSO, is obliged to prepare a ten-year plan for the development of the electricity transmission system, including an investment plan. The ERO also assesses the investments planned in the investment programme.

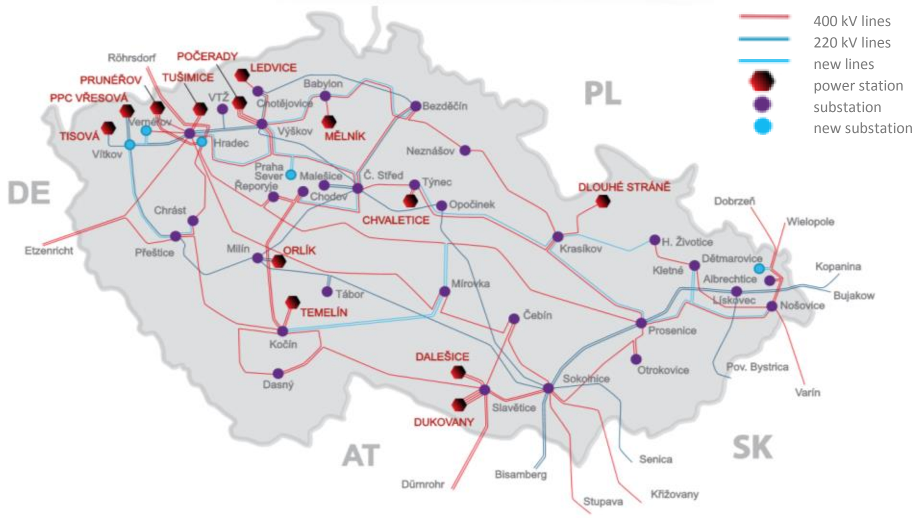
ČEPS's investment plan of 2015 covers the period from 2016 to 2025 and contains capital expenditure amounting to CZK 46.14 billion spread over ten years, with the capital expenditure allocated more or less evenly to each of the years. Average annual capital expenditure is expected at CZK 4.61 billion. In addition to the need to export output from new capacities, the planned investments are also precipitated by the effort to support the market in both domestic and international cooperation and by the policy adopted for the gradual renovation of the transmission system. The gradual upgrade of the transmission system includes almost one quarter of the 400 kV lines currently in operation. The 200 kV network will also be phased out, and it will be replaced with the 400 kV system. The plan envisages the upgrade of capacities in north-western Bohemia (Ledvice, Počerady and Mělník) and the export of the relevant output into the grid. The investment in expanding the network in connection with the completion of the Temelín and Dukovany NPPs also covers requirements for connections to the grid. Exporting the output from the Chomutov 140 MW wind park and from some other 100 MW renewable capacities in the Karlovy Vary area into the grid requires additional investments. The growth in electricity demand in some regions (in particular western Bohemia, the Ostrava area and the Prague agglomeration) necessitates reinforcements of the transformation capacities in the grid, which requires the erection or expansion of 400kV/110kV substations and transformer stations (Dětmarovice, Lískovec, Vernéřov, Vítkov, Malešice, the new Prague-North supply station, and Milín).

The rising power in unplanned flows from other countries, mainly Germany, is posing a risk to the safety of the Czech electricity grid. Over the short term, the safety and reliability of the transmission system's operation is being ensured by modernising crossings and reinforcing the loadability of the phase conductors in selected sections of the most heavily loaded lines. ČEPS, a.s. is also preparing some other solutions included in the ten-year development plan, such as erecting new lines and double-circuiting certain lines. With a view to preserving safe operation and meeting the N-1 safety criterion in the transmission system, ČEPS, a.s. started, following agreement with the German side, the erection of phase shifting transformers (PST) on two parallel lines on the Czech-German interconnector (four machines with an installed throughput power of 850 MVA), which implies a maximum capacity of 1,700 MVA per cross-border line). In 2015, the contractor was selected and the capital project was kicked off; the project entails the construction of a new part of the substation intended for connecting PST to the grid and the preparation of a site for PST. The first PST was made and successfully tested. PST commissioning is expected in late 2016. They can control the flow of active power in the branch in which the transformer is included.

On 18 November 2015, the European Commission adopted and published a second list of projects of common interest (PCI). PCI are projects helping to achieve the European objectives in the development of the European transmission system with a view to ensuring the safety of the operation of the entire integrated system. ČEPS, a.s. nominated five projects, which are also included in its ten-year development plan. The projects aim at double-circuiting inland 400 kV lines (Vernéřov-Vítkov, Vítkov-Přeštice, Přeštice-Kočín, Kočín-Mírovka, Mírovka-Čebín) and at expanding and retrofitting substations (Kočín a Mírovka).

The ERO received ČEPS's ten-year development plan from 2015 for the period 2016-2025 as late as 19 January 2016, when administrative proceedings were started. In these administrative proceedings the ERO also assesses the consistency of the transmission system development plan with the Community-wide ten-year network development plan under Regulation (EC) No 714/2009. ČEPS, a.s. must also submit, under Section 16(m) of the Energy Act, a firm opinion of the Ministry of Industry and Trade. The Ministry of Industry and Trade issued its firm opinion granting its unqualified approval of the ten-year development plan as late as 11 January 2016. Since this opinion was not issued in 2015, the administrative proceedings will only be concluded in 2016.

Figure 1: Development of the Czech electricity transmission system until 2024



Source: ČEPS, a.s.

Table 2: List of PCIs, PCI 3.11

Cluster	Investment index	Project name	Date of commissioning	Promoter
200	306	New 400/110kV substation at Vítkov	2020	ČEPS
200	308	New 400kV double circuit OHL Vernéřov – Vítkov	2019	ČEPS
200	309	New 400kV double circuit OHL Vítkov – Přeštice	2021	ČEPS
35	307	New 400kV substation at Vernéřov	2017	ČEPS
35	311	Upgrade of the existing Kočín substation (400/110kV)	2024	ČEPS
35	313	New 400kV double circuit OHL Kočín – Mírovka	2024	ČEPS
35	315	Double-circuiting the 400 kV single-circuit Kočín – Přeštice line	2028	ČEPS

Source: ENTSO-E, ČEPS, a.s., ERO's editing

3.1.5 Compliance

The Energy Regulatory Office exercises its powers on the basis of the relevant provisions of the Energy Act, which lay down the rights and obligations arising from the relevant provisions of the EU legislation, i.e., in particular, Directive 2009/72/EC, Regulation No 714/2009/EC, and Directive 2012/27/EU. The Czech legislation is fully harmonised with this EU legislation thanks to amendments to the Energy Act and the related implementing acts.

The Office also ensures that the TSO and DSOs and, if applicable, the relevant owners of the systems, and also all electricity utilities perform their obligations under the relevant legislation at the European and national levels.

The Office also exercises its supervisory powers under the relevant provisions of the Energy Act so as to ensure the efficient monitoring of all electricity market participants' compliance with EU and Czech law and with the ERO's and ACER's relevant legally binding decisions, and imposes effective, proportionate and dissuasive penalties on the electricity utilities that breach their obligations. The Office oversees compliance of the electricity transmission company's and distribution companies', system owners' and electricity undertakings' activities with the relevant EU legislation, including the cross-border issues. To this end, the Office primarily monitors and oversees compliance with the relevant provisions of the Energy Act on independence of the electricity transmission system operator and with the certification decision. Should it find a breach of the relevant provisions of the Energy Act in this respect, the Office has the power to impose the respective penalties laid down in the legal system under Article 37(4)(d) of Directive 2009/72/EC, and also the power to revoke the independence certificate under statutory conditions.

As regards complying with the Agency's and the Commission's binding decisions by the Office, no such decisions were made in respect of the Office in 2015. The Office made its best effort to carry out the non-binding recommendations contained in ACER Opinion 09/2015 with a view to eliminating the inconsistency with Regulation (EC) No 714/2009, stemming from the absence of transmission capacity allocation on the German-Austrian border. However, only the Austrian and German NROs are in the position to remedy this unlawful situation effectively. However, due to the Austrian NRO’s unwillingness, the Opinion could not be complied with within four months of the issue thereof. Thus, under Article 7(5) of Regulation (EC) No 713/2009, the matter has passed to the European Commission.

All the changes to legislation which the ERO effected in 2015 had been consulted with all the entities concerned. When developing or amending legislation the Office always places emphasis on the maximum transparency, non-discriminatory approach and eliminating negative impacts on the Czech electricity market.

In line with its authority under the Energy Act and the SES Act, in 2015 the Office promulgated new implementing acts within its remit. In 2015, the ERO promulgated public notice no. 194/2015 on the method of price regulation and procedures for price controls in the electricity and heating industries. This statutory instrument lays down the foundations for price controls in the electricity industry for the new three-year regulatory period from 1 January 2016 to 31 December 2018. The rules of regulation are primarily treated in the principles of price controls, which are, to a considerable extent, based on the principles applied in the preceding regulatory period. The statutory instrument reflects the changes precipitated by the market situation but basically maintains continuity in price controls in the electricity and heating industries. Together with this public notice, the ERO also promulgated no. 196/2015 on methods of price regulation and procedures for regulating the prices for the market operator’s activities in the electricity and gas industries. Thus, the regulation of the charges for the market operator’s services has been separated and provided for in a separate implementing act.

In 2015, the ERO also promulgated new public notice no. 262/2015 on regulatory reporting. The main reason for this new statutory instrument was the amendment to the Energy Act, which necessitated changes in some regulatory reports and the related provisions of the public notice. Nevertheless, continuity in data reporting for regulatory purposes has been preserved to a considerable extent, because the new instrument is largely based on the earlier one and does not constitute a fundamental change for regulated entities. In 2015, the ERO also promulgated public notice no. 296/2015 on the technical and economic parameters for determining feed-in tariffs for electricity generation and green premiums on heat and on determining the service life of electricity generating plants and heat generating plants using renewable energy sources (‘the technical & economic parameters public notice’), which is an implementing act related to the SES Act.

Late 2015 saw new public notice no. 408/2015 on Electricity Market Rules. To a large extent, its content is based on the previous Electricity Market Rules, which it has superseded as of 1 January 2016. Public notice no. 408/2015 responds to the electricity market integration process that is under way across Europe. This process requires changes in the electricity market rules, primarily as regards terminology, cut-off times of the various markets, and the currencies for transaction settlement to make it possible to integrate the intra-day market between the Czech Republic and surrounding countries. In relation to the amendment to the Energy Act and the SES Act, no. 408/2015 also puts in place more transparent criteria for categorising new and existing electricity generators and for assessing their rights and obligations related to charges for using the electricity grid and payments for system services. Legislation has also had to respond to electricity market participants’ practical experience.

3.2. Promoting competition

The retail and wholesale markets have been fully liberalised. Electricity traders are therefore not legally constrained at all in buying electricity directly from producers (generators) or at exchanges or spot markets in the Czech Republic and in other countries. They also have the right to sell electricity to market participants to other countries.

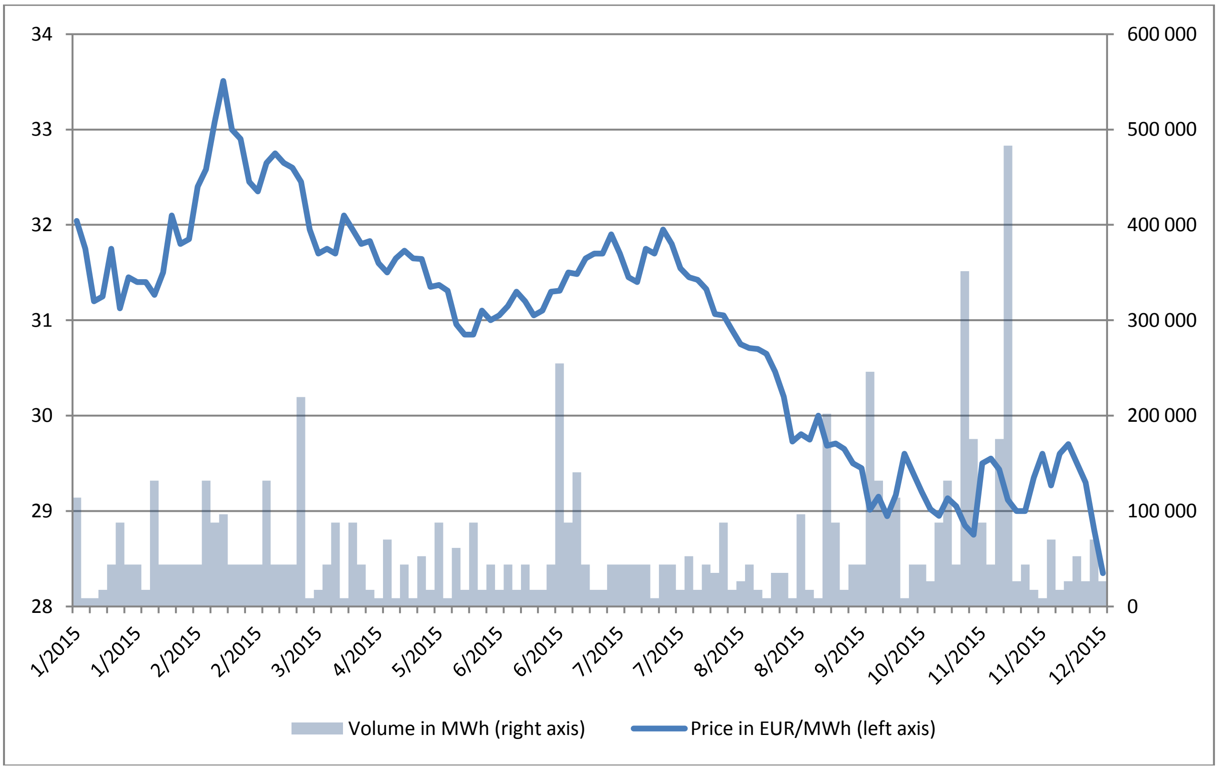
3.2.1 Wholesale markets

3.2.1.1. Monitoring the level of prices, the level of transparency, and the level and effectiveness of market opening and competition

In the Czech Republic, electricity is traded at POWER EXCHANGE CENTRAL EUROPE, a.s. ("PXE"), under bilateral [OTC] contracts, and at spot markets organised by OTE, a.s. While the standard products traded at PXE and the products at the spot market of OTE, a.s. have fixed expiry dates, these rules do not apply to bilateral contracts. The terms of bilateral contracts vary; an electricity producer and an electricity trader, or a trader and a customer, usually enter into one-year agreements. At PXE, only financial products (i.e. without the option of physical supply) are currently traded. In 2014, 2,102 contracts with settlement in 2015 and a volume of 10.7 TWh were traded (1,051 contracts with a volume of 9.2 TWh concerned the annual product), while in 2015 (for 2016) it was only 1,390 contracts totalling 8.2 TWh (830 contracts totalling 7.3 TWh concerned the annual product). The traded quantity therefore dropped by 7.7%.

Electricity traders can use any combination of bilateral contracts and energy exchange products, including OTE's platforms and foreign exchanges, for buying and selling. It is therefore not feasible clearly to determine the structure of electricity procurement for final customers after the supplier has bought or resold electricity in various market places in Europe. Chart 6 indicates the prices at PXE in 2015.

Chart 6: Prices of futures BL CAL 2016 (annual base load) at PXE



Source: PXE

A part of the electricity quantity is traded under OTC (bilateral) contracts (not registered at the energy exchange) and also at the spot market (day-ahead and intra-day markets) organised exclusively by OTE, a.s. In 2015, 19,966 GWh of electricity was traded at the day-ahead market; under bilateral contracts registered in the OTE system, 102,466 GWh was traded, and 40 GWh was traded in the block market; and 539 GWh of electricity was traded on the intra-day market. All cleared entities, i.e. not only traders and producers but also the customers who are responsible for imbalances [≈ balance responsible parties], can go to the spot market to procure electricity.

3.2.2 Retail market

3.2.2.1. Monitoring the level of prices, the level of transparency, and the level and effectiveness of market opening and competition

The ERO website offers customers information about the energy market's functioning and information related to consumer protection. On the website, the Office advises citizens of the opportunities and procedures for electricity supplier switching. The online electricity ready reckoner, also available on the website, helps to compare the various electricity traders' price quotations and check electricity billing.

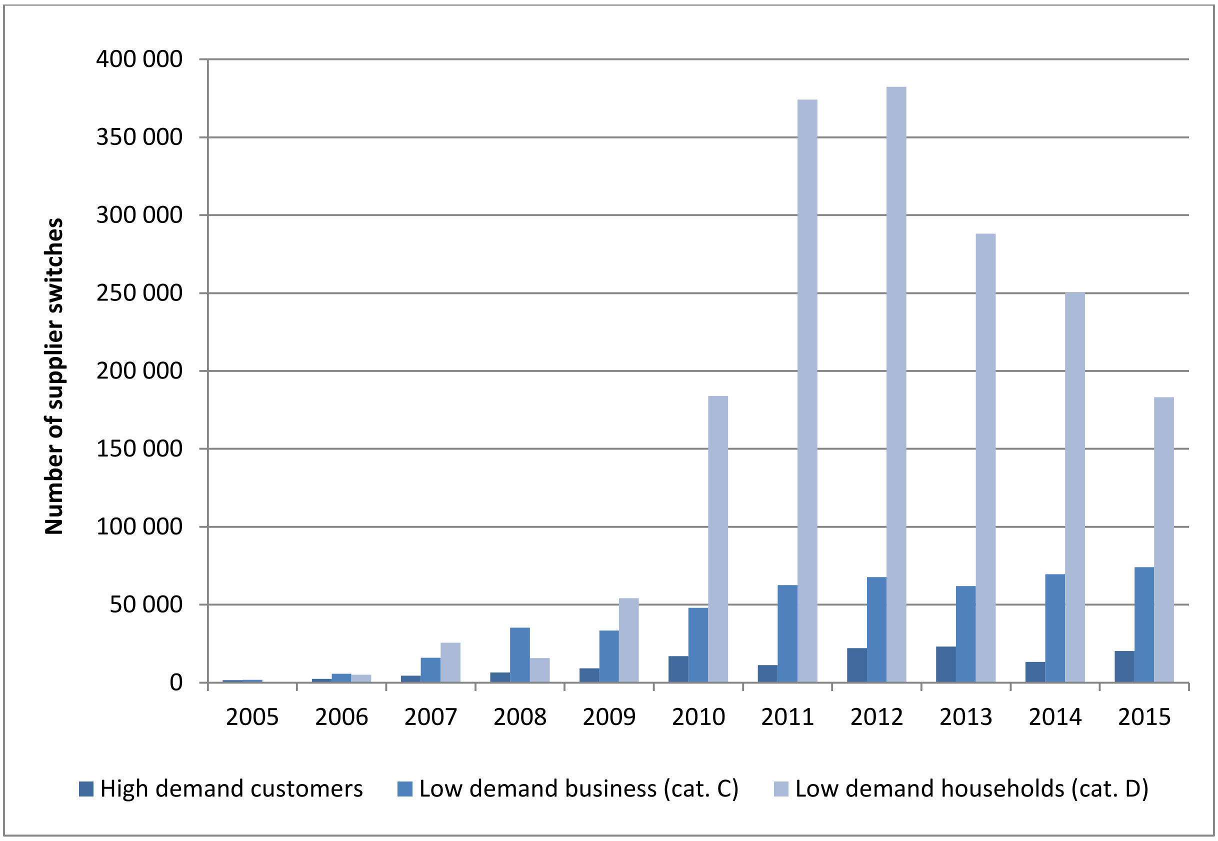
Since 2006, all customers have been able to change their electricity supplier. Since then, more than two million electricity supplier switches have been executed. Electricity suppliers use a number of tools for approaching customers, such as door-to-door sales, participation in mass-scale e-auctions and acquisition of weaker competitors. In spite of that, 2015 saw continuing year-on-year decline in the total number of electricity supplier switches, which had started in 2013. The switching decline is due to the situation on the energy market: for example, customers enter into fixed-term contracts and usually do not change their electricity supplier before the end of the fixed term. At the same time, suppliers offer a broad range of product series, and customers therefore do not have to change their supplier just because of changing an energy product. This is borne out by Chart 7 showing electricity supplier switches between 2005 and 2015. In 2015, approximately 278,000 customers changed their electricity supplier, down by 17% year-on-year. The decline in the household segment accounts for 27% of the overall drop in electricity supplier switching. In the other segments, the number of supply point transfers to a different supplier increased year-on-year: in the high-demand customer segment by 52% and in the low-demand business segment by 7%. The most frequent motivation for changing the electricity trader was a lower price and a more favourable offering.

Table 3: Electricity supplier switching

Type of demand	2014	2015		2015	2015
	Number of supplier switches	Number of supplier switches	Year-on-year change [%]	Total number of supply points	Switching [%]
High demand customers	13,381	20,349	52.1	25,144	80.9
Low demand customers – businesses	69,293	74,109	7.0	748,888	9.9
Low demand customers – households	250,494	183,114	-26.9	5,126,928	3.6
Total	**333,168**	**277,572**	-16.7	**5,900,960**	4.7

Source: OTE, a.s., and the ERO's own editing

Chart 7: Annual electricity supplier switching in the main customer categories between 2005 and 2015



Source: OTE, a.s., and the ERO's own editing

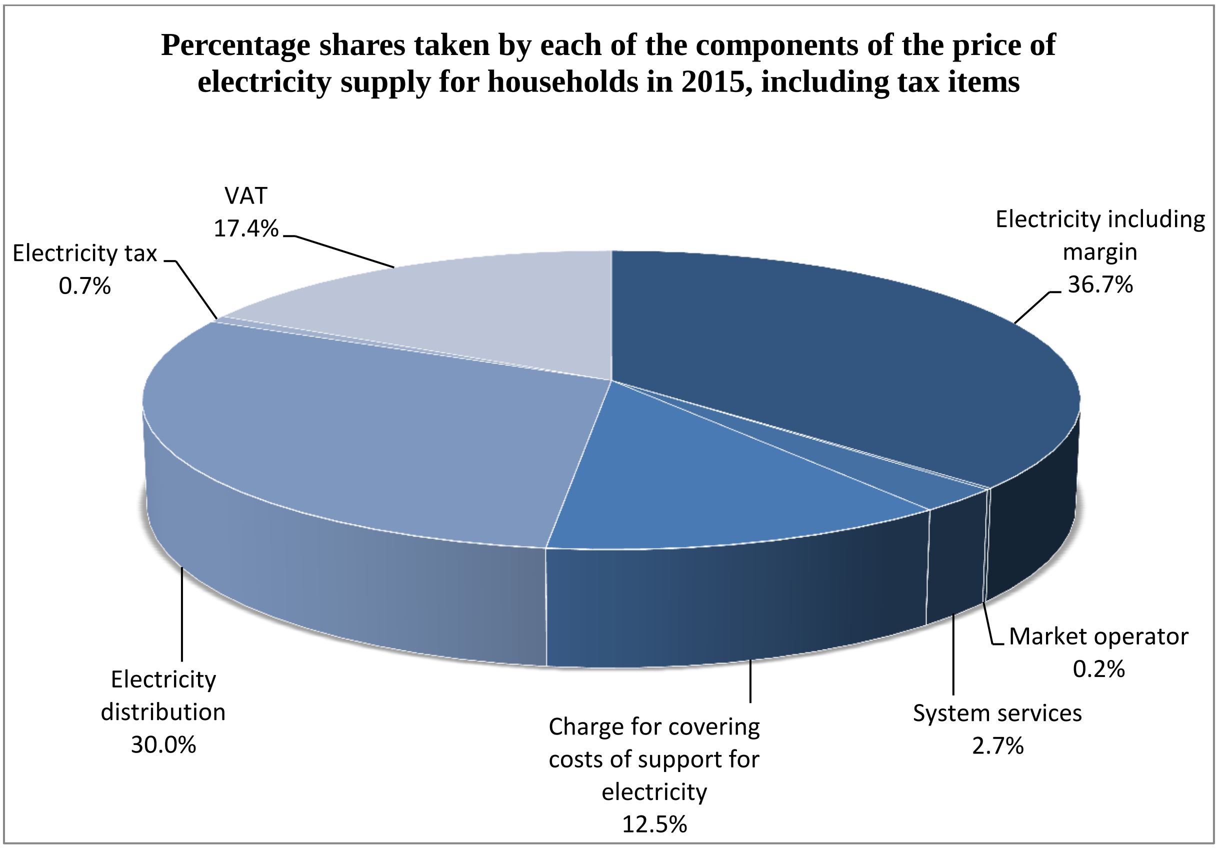
Under Section 11a of the Energy Act, electricity trading licence holders shall publish, in a manner allowing remote access, their terms and conditions of electricity supply and electricity supply prices for households and for sole proprietorships taking electricity at the LV level. Licence holders shall publish changes in electricity supply prices or changes in other electricity supply conditions not later than 30 days before the effective date thereof. This ensures price transparency and customer protection.

The overall price of electricity supply for customers at the LV level is made up of the regulated items of charges for distribution and related services and the unregulated prices of electrical energy products, which are determined by the supplier selected by the customer. The Office sets out the regulated components of the price in its binding price decisions, where the charge for system services, the charge to cover the costs incurred in support for electricity and the charge for the market operator's services are the same for all final customers in the Czech Republic regardless of the connection point, voltage level, or selected supplier. Distribution charges depend on the place of connection, i.e. on the distribution company to whose network the supply point is connected. Thus, customers cannot select their distribution system operator. However, customers at the LV level can change their distribution tariff subject to meeting the conditions for obtaining the tariff; or by changing the main switch upstream of the electricity meter they can influence the fixed components of the regulated charges for transmission and distribution (this is analogous to booked capacity at higher voltage levels).

Customers have the right to select, at their own discretion, any supplier of electrical energy and the most suitable product on offer with regard to the nature and size of their demand. The number of supplier switches is published, on a monthly basis, in the statistics section on the website of the electricity and gas market operator, OTE, a.s., broken down by voltage level and customer category. Table 3 above shows electricity supplier switching in 2015.

Chart 8 shows the percentage shares (including VAT and electricity tax) of the various components in the resulting price of electricity supply for households in 2015.

Chart 8: Percentage shares taken by each of the components of electricity supply price for households in 2015



Source: ERO

Traders must provide distribution system operators with identification details of the customers whom they supply under agreements on bundled supply services. Electricity traders' obligation is to promote energy services and offers thereof. Electricity traders have the right to receive, from the market operator, the information that they need for billing electricity supply to customers whose supply point is registered with the market operator.

3.2.3 Recommendations on supply prices, investigations and measures to promote effective competition

Under Article 37(1)(o) of Directive 2009/73/EC, the Office publishes, in accordance with Section 17(7)(l) of the Energy Act, recommendations in relation to electricity supply prices for households. Section 17c of the Energy Act provides for the Office's cooperation with the Office for the Protection of Competition (ÚOHS). The Office is also required to advise ÚOHS of market participants' practices that there exist good reasons to believe that they distort or restrict, or result in the distortion or restriction of, competition, of the use of restricting or unfair terms and conditions in contracts in the electricity market, and of the methods of electricity pricing for households.

In 2015, the ERO continuously monitored, within its remit and in line with Section 17 of the Energy Act, the use of restricting or unfair conditions in contracts on the electricity market, restricting or excluding customers' rights, and also monitored competition on the wholesale and retail electricity markets. In this monitoring, the Office did not find any practices or instruments restricting customers' rights or distorting competition in the electricity market, and in 2015 it therefore did not impose any measure to eliminate the causes of non-existent effective competition on the electricity market.

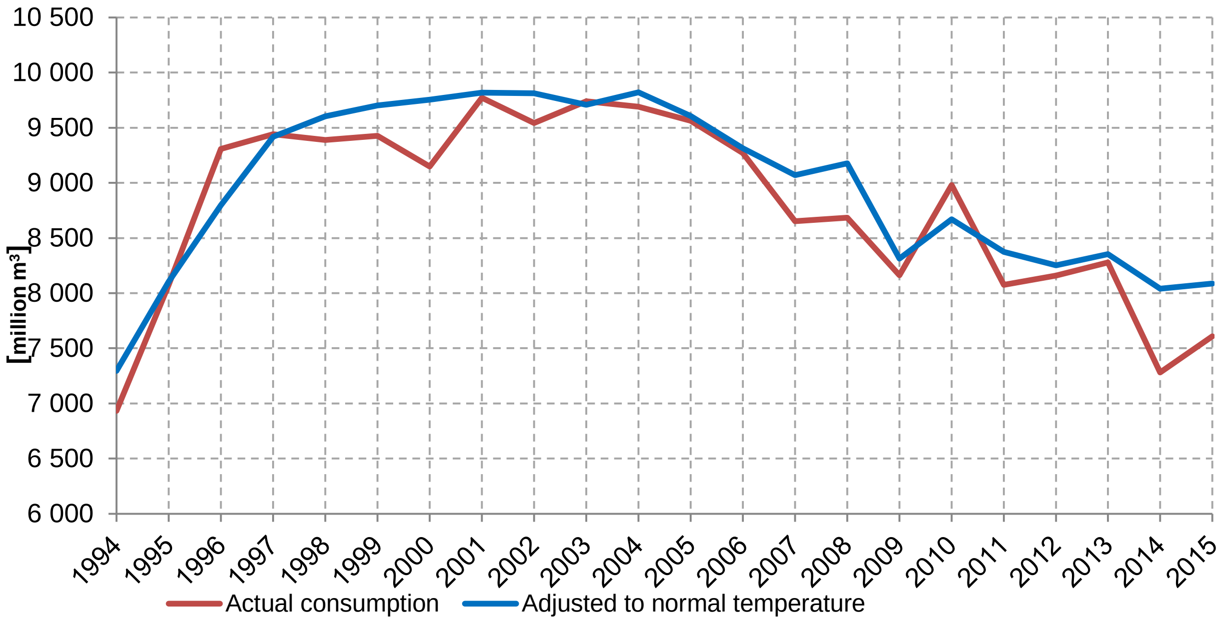
The ERO has certain reservations to fixed-term contracts with automatic extension. Although traders and customers enter into such contracts on a voluntary basis, this type of contract is, in particular when combined with other obligations (lease of bulbs, discounts paid out in advance etc.), usually unclear for customers, mainly in terms of identifying the dates and conditions on which contracts can be terminated.

4. The gas market

In 2015, actual gas consumption in the Czech Republic amounted to 81,067.9 GWh (7,607.6 million m^3). Although relatively warm weather prevailed in the winter months, compared with 2014 actual consumption slightly rose by 4.5%. Monthly consumption peaked in January at 11,492.8 GWh (1,081.3 million m^3). Daily gas consumption peaked on 5 February 2015 at 453.1 GWh (42.6 million m^3), with an average daily temperature of -3.4 °C.

Adjusted to long-term normal temperatures, actual gas consumption amounted to 86,156.1 GWh (8,085.4 million m^3) in 2015, up by 0.6% on 2014. The country's actual and adjusted gas consumption between 1994 and 2015 is shown in Chart 9.

Chart 9: Annual gas consumption (1994-2015)



Source: ERO

4.1 Network regulation

Due to the obligation to transpose Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (which has a higher priority) into the national gas market model, the latter half of 2015 saw another major amendment to ERO Price Decision 4/2014 of 25 November 2014 on regulated prices related to gas supply, as amended in Price Decision 2/2015 of 4 September 2015, amending ERO Price Decision 4/2014 on prices and conditions for their application for 2015. Mainly the price decision's provisions that set out the charges for transmission capacity booking were changed so that the price structure and the underlying philosophy of the various capacity products would comply with the above Regulation.

Regulated prices related to gas supply are set every year under the applicable legislation. In 2015, regulated prices for 2016 were set out in ERO Price Decision 6/2015 on the basis of the Energy Act, public notice no. 195/2015 on methods of price regulation and procedures for price controls in the gas industry, public notice no. 196/2015 on methods of price regulation and procedures for regulating the prices for the market operator's activities in the electricity and gas industries, and the Price Control Principles for 2016-2018 in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries. The above price decision lays down regulated prices for gas transmission and distribution and for the market operator's services for the calendar year 2016.

4.1.1 Unbundling

The Czech transmission system operator, NET4GAS, s.r.o., was granted an independence certificate in 2013. In 2015, the ownership structure of NET4GAS, s.r.o. did not change and no circumstances inconsistent with the ERO's decision or the European Commission's opinion of 2013 occurred, and so no reasons were found for TSO re-certification.

Article 26 of Directive 2009/73/EC of the European Parliament and of the Council lays down the requirements for distribution system operators' unbundling and the criteria on the basis of which the requirements are to be satisfied. This article of the directive was implemented in Czech legislation through Section 59a of the Energy Act.

Under Section 59a(1), where the distribution system operator is a part of a vertically integrated gas undertaking it shall, as of 1 January 2007, be independent in terms of its legal form, organisation and decision-making of any other activities unrelated to gas distribution, gas transmission and gas storage. The unbundling under the Energy Act is not required in the case of vertically integrated gas undertakings that provide services for less than 90,000 connected customers.

Unbundling has also necessitated provisions for meeting the obligation of non-discriminatory access to distribution systems; for oversight in this respect, a compliance programme has been established. DSOs must adopt a compliance programme in their internal regulations. A compliance officer, appointed or otherwise installed by the DSO, oversees the execution of the programme. Compliance officers prepare and submit to the ERO by 30 April, annual reports on measures adopted for compliance programme execution for the past year.

In 2015, the ERO received annual reports on measures adopted for compliance programme execution for 2014 from all the distribution system operators to which this obligation applies.

4.1.2 Technical functioning

The public notice on Gas Market Rules is the key document for gas market functioning. This statutory instrument provides for the processes and timeframes that are required for putting in place the rules for the various gas market participants' operation, which help to ensure this market's transparent and non-discriminatory functioning. The design of these processes reflects the requirements of higher-level legislation, i.e. the Energy Act and the relevant EU regulations. The application of the principles of Commission regulations to the corresponding design of the gas market model must not pose risk to the various gas market participants' operations.

Supply security and reliability standards, quality of service and supply

Because of the summer/winter swings in gas demand UGS facilities, which serve for gas storage in summer and gas production in winter when daily demand exceeds the daily contract quantities imported from abroad, help to provide for balanced supply and demand. The technical storage capacity of UGS facilities for the Czech Republic's needs totals 2.931 bcm, which in 2015 accounted for about 40% of the country's annual gas demand. A UGS facility connected only to the Slovak gas network and owned by SPP Storage, s.r.o., with a capacity of 576 mcm, is also located in southern Moravia. This UGS facility is not connected to the Czech gas system, and its capacity is therefore not included in the country's overall storage capacity. The technical parameters of UGS facilities in the Czech Republic (storage capacity, maximum daily withdrawal capacity and maximum daily injection capacity) are shown in Table 4.

Table 4: Gas storage facilities in the CR and their technical parameters

SSO	UGS facility	Storage capacity [million m³]	Maximum daily withdrawal capacity [million m³/d]	Maximum daily injection capacity [million m³/d]
RWE Gas Storage, s.r.o.	Háje	64	6.0	6.0
	Dolní Dunajovice	900	17.0	12.0
	Tvrdonice	535	8.0	8.0
	Lobodice	177	5.0	2.5
	Štramberk	500	7.0	7.0
	Třanovice	530	8.0	6.0
	Total	**2,696**	**51.0**	**35.0**
MND Gas Storage a.s.	Uhřice	235	6.0	2.6
Total Czech Republic		**2,931**	**57.0**	**37.6**
SPP Storage, s.r.o. (connected only to the Slovak transmission system)	Dolní Bojanovice	576	9.0	7.0

Source: ERO

In 2015, completing work was under way for the planned commissioning of the new UGS facility of Moravia Gas Storage a.s. in Dambořice. The plant's total capacity is designed for 448 million m^3 of gas, and its withdrawal capacity for 17 million m^3/day.

In 2015, work was started to expand the Uhřice UGS facility operated by MND Gas Storage a.s. The increase in storage capacity to 255 million m^3 and in the withdrawal capacity to 10.4 million m^3/day is to be completed in 2016.

Monitoring time taken to connect and repair

Under the applicable legislation, the TSO, DSOs and SSOs are obliged to specify plans of shutdowns of their gas facilities and to post these plans on their websites. Shutdowns must be notified at least 30 days before the day on which the shutdown is to start. The most frequent reasons for shutdowns include repair and maintenance of equipment, underground well repair, and stabilising reservoir pressures in each plant. Shutdowns of the virtual UGS facility are also declared for reasons attributable to the transmission system operator. In 2015, the above time limit was kept at all times. Furthermore, the repair work did not impair the required quality of the supply and services provided by the respective gas infrastructure operator.

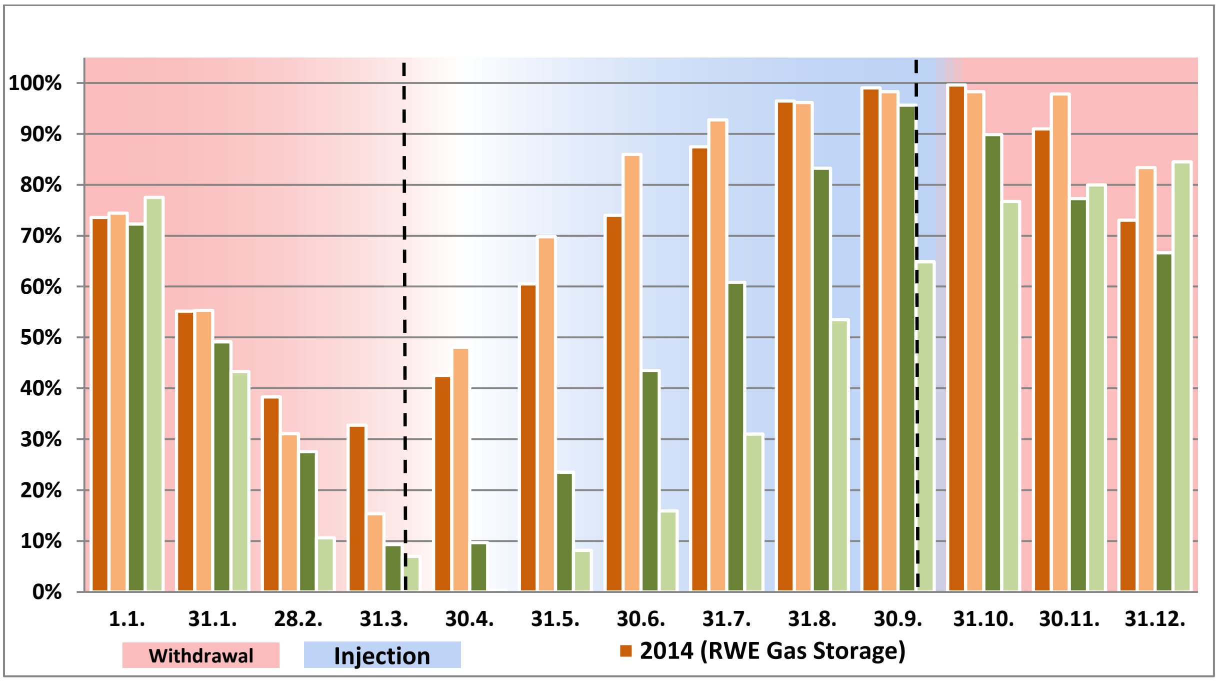
Monitoring access to storage, line pack and other ancillary services

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

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

The reasons for a greater use of withdrawal from UGS facilities in 2015 can be seen in gas traders' expectations and their effort to procure for the coming heating season 2016, gas the price of which would copy the trend of the extreme drop in oil prices. The released storage capacity could therefore be used for storing much cheaper gas. Chart 10 shows a comparison between gas stores in Czech UGS facilities from 1 January 2014 to 31 December 2015.

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



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

Source: RWE Gas Storage and MND Gas Storage

Monitoring the correct application of the criteria that determine the model of access to storage

SSOs have adopted a compliance programme the purpose of which is to ensure a non-discriminatory position for all gas market players who use or want to use storage services.

Access to gas storage facilities is based on the principle of negotiated third-party access. In the relevant regulations, the Office sets out the particulars of which applicants for storage capacity must be aware before storage capacity is sold and allocated using an auction mechanism. The terms and conditions of every auction are posted on the SSO's website. The Office continuously monitors and evaluates these conditions. In 2015, no discriminatory practices towards gas market participants occurred.

Monitoring safeguard measures

In 2014, the European Commission requested all EU member states to carry out stress tests of the readiness of gas systems (including storage facilities) for the forthcoming winter. Four scenarios that could materialise in the case of a disruption in gas supply from Russia across Ukraine for a certain period of time were defined for this simulation of a potential gas supply disruption. They also took into account information such as the technical data of the gas system, capacities in the gas system, reverse flow, number of customers, method of gas consumption control in emergency, etc.

The results of the stress tests proved that gas supply for the Czech Republic was ensured for the 2015 winter season. Only in the case of one of the tested scenarios (disruption in gas supply from Russia to EU countries for six months) a relatively low probability existed for a situation where gas customers in the Czech Republic would have to be constrained more significantly.

Timely decisions on efficient supply controls also require current and clear information from the European Commission; such information will make it possible to estimate the scope and impact of the problem correctly, including its potential duration. These requirements are met by the earlier agreed Early Warning Mechanism, a tool for transmitting timely and clear information.

4.1.3 Network tariffs for connection and access

Tariffs

The Office regulates charges for gas transmission and distribution, charges for the market operator's services, and the gas prices of the supplier of last resort under Section 17(11) of the Energy Act. The prices of the supplier of last resort are controlled on the cost-plus basis.

The Office based its calculation of regulated charges for gas transmission and distribution and charges for the market operator's services, applicable in 2015, on public notice no. 195/2014 on methods of price regulation and procedures for price controls in the gas industry, which set out the procedures for determining regulated prices for the third regulatory period extended by one regulated year (the period 2010-2015).

A regulatory method based on the revenue cap principle was used in the third regulatory period. Set parameters together with other eligible variables are inputs into 'adjusted allowed revenues', from which the relevant regulated prices are derived. The regulatory method remains unchanged throughout the regulatory period to ensure a stable and predictable environment for all gas market participants.

The relevant regulated charges for gas transmission are calculated using the adjusted allowed revenues for the TSO, which are allocated to the entry and exit points in the transmission system based on the expected use of these points. The charge for gas transmission determined for customers on the Czech gas market (to the 'domestic point') is integrated within gas distribution charges, and is therefore billed to customers as part of the distribution charge.

Gas transmission charges are double-component prices and have a fixed and a variable component. The fixed component is the payment for the booked firm transmission capacity at the respective entry or exit point in the transmission system. The variable component of the charge is determined so as to cover the TSO's costs related to the actually transported gas quantity.

The same method of gas distribution pricing is used for all DSOs. Adjusted allowed revenues are determined for each operator of a distribution system that is directly connected to the transmission system on the basis of the data reported by the operator. Depending on booked distribution capacity and the gas quantity planned to be distributed, the adjusted allowed revenues so determined are then allocated to the prices for each customer category. Operators of distribution systems connected to other distribution systems can use regulated prices up to the level of the prices set for the higher-level distribution system, or request the ERO to determine individual prices for them.

The ERO determines regulated gas distribution prices for each category of customers, which are as follows: high-demand customers, medium-sized demand customers, low-demand customers, and households. These prices are also usually double-component prices with a fixed and a variable component, similarly as the gas transmission charge. The fixed component of the prices for high-demand and medium-sized demand customer categories depends on the total daily booked capacity and is calculated using a formula set out in the applicable price decision. For the low-demand and household category customers, the fixed component of the price is determined by the amount of the standing monthly charge in the relevant offtake band. For all customer categories, the variable component of this price is the fixed price for gas taken, which is related to the quantity of gas consumed.

Finally, the Office also regulates the charges for the market operator's services in the gas industry. Every year, the Office also sets adjusted allowed revenues for the market operator's services in the gas industry, on the basis of which the fixed charge for clearing carried out by the market operator is calculated. The payment for the fixed charge for clearing depends on the gas quantity taken.

Due to the fact that the Czech gas market has been liberalised the Office only sets the prices for the above activities, which are necessary for ensuring gas supply to customers' supply points. Uncontrolled prices, which include the charge for commercial services and the charge for gas supply structuring and flexibility, are fully within the respective gas trader's competence and fully depend on the trader's business strategy and agreement with customers.

Prevention of cross-subsidies

Cross-subsidies are prevented by the suitable structure of regulatory reporting that, following the accounting and legal unbundling, strictly requires the reporting of costs directly allocable to each of the regulated activities.

Regulated and negotiated access to storage

In respect of access to storage capacities, Czech national legislation requires storage system operators to sell released or new storage capacity in online auctions.

In 2015, SSOs (RWE Gas Storage, s.r.o. and MND Gas Storage, a.s.) called a total of 11 auctions to sell storage capacity for the coming years. Storage capacity was offered for 1 to 5 years. RWE Gas Storage, s.r.o. offered storage capacity in 10 auctions, ranging from 2.9 million m^3 to 33 million m^3. In 2015, MND Gas Storage, a.s. called one auction for five-year capacity, offering an operating volume of 76 million m^3.

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

4.1.4 Cross-border issues

Procedures for capacity allocation and congestion management

In compliance with Regulation (EU) No 715/2009, the gas transmission system operator has implemented, at border transfer stations, measures for capacity allocation in the case of congestion. Although the Czech Republic has sufficient transmission capacities at the entry and exit border points of the transmission system, ACER has, on the basis of an analysis of the data available on ENTSOG's Transparency Platform, identified some border points at which the use of a firm day-ahead use-it-or-lose-it mechanism should result in a higher and more efficient use of the transmission system's technical capacity.

Cooperation with other regulatory authorities and ACER

In 2015, ERO participated in meetings organised as part of the V4 Gas Forum, which had been set up upon the initiative of the V4 countries' competent ministries. The key topics included the various tasks focused on issues concerning regional projects pursuing the objective of creating a trading region covering several countries.

Upon the ERO's suggestion, a consultation platform at the level of the V4 regulators was set up; in 2015, its key topics included gas supply security, development of the gas infrastructure in the V4 region, cross-border gas market integration with a view to maximising the use of the current and new infrastructure, and the V4 NRAs' work in international organisations.

In 2015, the ERO continued attending the working group on the integration of the Czech and Austrian gas markets. The working group, composed of the two countries' NRAs and TSOs, discussed the viable approaches to gas market integration between these two countries, seeking a concept that could, following a public consultation process and the required legislative amendments, become the cornerstone for gas market integration between the two countries and, possibly, within the entire Central European region in the future.

Cooperation at the level of the various working groups and task forces of CEER and ACER and working groups under the European Commission took place, with the participation of ERO employees, as part of everyday agenda. The main meetings covered topics such as the continuing evaluation of candidate projects for the CPI list, unit investment costs, and gas supply security and the Commission's related public consultation on Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply, and the drafting of the network code for tariffs. Other lines of cooperation included data collection and evaluation, analysis of the status of the internal gas market, preparation of framework guidelines and network codes, and tackling both formal and informal issues.

Monitoring of the investment plan and assessment of its consistency with the Community-wide network development plan

Further to the implementation of Directive 2009/73/EC into the Energy Act, the TSO is required to prepare every year, a ten-year plan for the development of the gas transmission system in the Czech Republic (the Development Plan). Under Section 58k of the Energy Act, the ERO assesses the Development Plan and approves it by its decision. In 2015, the TSO submitted a Development Plan for 2016 to 2025 for approval. The TSO evaluated every investment plan in the development plan in terms of the security of the operation of the gas system, gas supply reliability, environmental impacts, available technologies and economic effectiveness.

The process of consultation on the Development Plan for 2016 to 2025 was conducted at two levels: at the level of the TSO and at the level of the ERO. The Office notified gas market participants of the launch of the consultation process at the TSO level, with a view to boosting the stakeholders' interest in the Development Plan and, in turn, helping to improve the quality of the plan.

Further to the requirement in the Energy Act, the TSO submitted the final version of the Development Plan on 30 October 2015, requesting the Office to approve the plan. In the submitted plan the ERO assessed, in particular, its compliance with the Union-wide Ten Year Network Development Plan 2015, issued on 16 March 2015 by ENTSOG. Simultaneously, the Office assessed the treatment of the comments emerging from the consultation process.

Under Section 17e(2) of the Energy Act, the Office consulted the submitted Development Plan with gas market participants in a manner enabling remote access, and then issued a decision approving the plan.

The Development Plan for 2016-2025 includes planned investment decisions with a cross-border reach, intended to increase cross-border capacity, in particular the following:

- The Poland – Czech Republic interconnector (the Libhošť-Hať gas pipeline (STORK II))
- The Tvrdonice-Libhošť gas pipeline (Moravia), including the retrofit of the Břeclav compression station
- The bi-directional interconnector between Austria and the Czech Republic (BACI)
- The connection to Oberkappel – an interconnection between the southern part of the Czech gas transmission system and the Austrian gas transmission system at the Oberkappel point

NET4GAS, s.r.o. submitted all of these projects as candidates for the second PCI list. On the basis of the methodology, NRAs' assessment, and bilateral talks, the Commission included the following in the second PCI list: the BACI project and the Czech-Polish interconnector (STORK II, including a *pro rata* section of the Moravia gas pipeline and the Břeclav compression station retrofit), the implementation of which will have direct impacts on the Czech Republic, i.e. on prices for consumers. In 2015, the STORK II project successfully applied for a contribution under the Connecting Europe Facility (CEF), when a total contribution of EUR 62,659,000 for work related to its implementation was promised for the project on the Czech and Polish sides. Agreements on the drawdown on this contribution were not signed in 2015. In 2015, NET4GAS, s.r.o. did not take a final investment decision on the implementation of these projects.

4.1.5 Compliance

The Office exercises its powers on the basis of the relevant provisions of the Energy Act, which lay down its rights and obligations arising from the relevant provisions of the EU legislation, i.e. Directive 2009/73/EC, Regulation No 715/2009/EC, and Regulation No 994/2010/EC. Czech legislation is fully harmonised with this EU legislation thanks to amendments to the Energy Act and implementing acts.

The Office also ensures that the TSO and DSOs, and, if applicable, the relevant owners of the systems, perform their obligations under the relevant legislation at the European and national levels.

The Office also exercises its supervisory powers under the relevant provisions of the Energy Act so as to ensure the efficient monitoring of all gas market participants' compliance with EU and Czech law and with the ERO's and ACER's relevant legally binding decisions, and imposes effective, proportionate and dissuasive penalties on the gas undertakings that breach their obligations. The Office oversees compliance of the gas transmission company's, distribution companies', system owners' and other gas undertakings' activities with the relevant EU legislation, including the cross-border issues. To this end, the Office primarily monitors and oversees compliance with the relevant provisions of the Energy Act on the independence of the gas transmission system operator and with the certification decision. Should it find a breach of the relevant provisions of the Energy Act in this respect, the Office has the power to impose the respective penalties laid down in the legal system under Article 41(4)(d) of Directive 2009/73/EC, and also the power to revoke the independence certificate under statutory conditions.

As regards complying with the Agency's and the European Commission's binding decisions by the Office, no such decisions were made in respect of the Office in 2015.

All changes that the ERO made to legislation in 2015 were consulted with all the stakeholders. When developing or amending legislation, the Office at all times emphasises the maximum transparency, non-discriminatory approach, and elimination of negative impacts on the Czech gas market.

In line with its authorisation under the Energy Act, the Office issued new implementing acts within its remit in 2015.

In 2015, the ERO promulgated public notice no. 195/2015 on methods of price regulation and procedures for price controls in the gas industry. It lays down the foundations of regulation for the new regulatory period from 1 January 2016 to 31 December 2018. The rules of regulation contained in the Price Control Principles are based on the principles applied in the previous regulatory period to a considerable extent. However, they reflect the changes in the gas market, and therefore are bound to differ from the previous rules in some aspects. The basic principle is to maintain continuity in price controls in the gas industry.

In 2015, the ERO also promulgated new public notice no. 262/2015 on regulatory reporting. The main reason for the new public notice was the amendment to the Energy Act, enacted in Act No 131/2015, which necessitated changes to certain reporting forms and the related provisions of the public notice. Nevertheless, the legislation on regulatory reporting largely follows up on the previous public notice, which provided for this issue, and thus continuity in regulatory reporting has been maintained. In 2015, the ERO also promulgated public notice no. 349/2015 on Gas Market Rules, which supersedes the previous Gas Market Rules, the content of which it preserves to a considerable extent. When issuing the public notice, the ERO proceeded with a view to ensuring that this statutory instrument is viable in terms of both practical implementation and its timing, while providing non-discriminatory rules for all gas market participants.

The Gas Market Rules, in the wording approved in 2015, contain some changes to the gas market model, which can be divided into four basic groups. The first group of changes is based on the ERO's practical experience with the functioning of the gas market model and the suggestions delivered by gas market participants in January 2015 in response to an invitation to send comments on changes to the Gas Market Rules, which was posted on the ERO's website. The second group of changes emerged from the obligation to implement Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks. The public consultation process for these changes was launched in December 2014. On the basis of the delivered comments and suggestions, February 2015 saw the launch of the second part of the public consultation process through the presentation of a specific proposal for the balancing model. Traders and distributors took a positive view of the model as it used the advantages of the existing balancing mode as much as possible and had been designed with a view to minimising impacts on gas market participants. As regards the third group of changes, the first half of 2015 saw a public consultation process on the implementation of Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009. The last, fourth group that was intensively discussed was related to the impacts of the amendment to the Energy Act effective since 1 January 2016 (Act No 131/2015), which also brought certain changes in the conditions for carrying on business in the gas industry. These changes then had to be reflected in implementing acts as well. They include, for example, the introduction of rules for trial operation, the purpose of which is to test the equipment, and changes in the gas supplier switching process. These legal provisions therefore have a primarily technical nature.

4.2 Promoting competition

4.2.1 Wholesale markets

4.2.1.1 Monitoring the level of prices, the level of transparency, and the level and effectiveness of market opening and competition

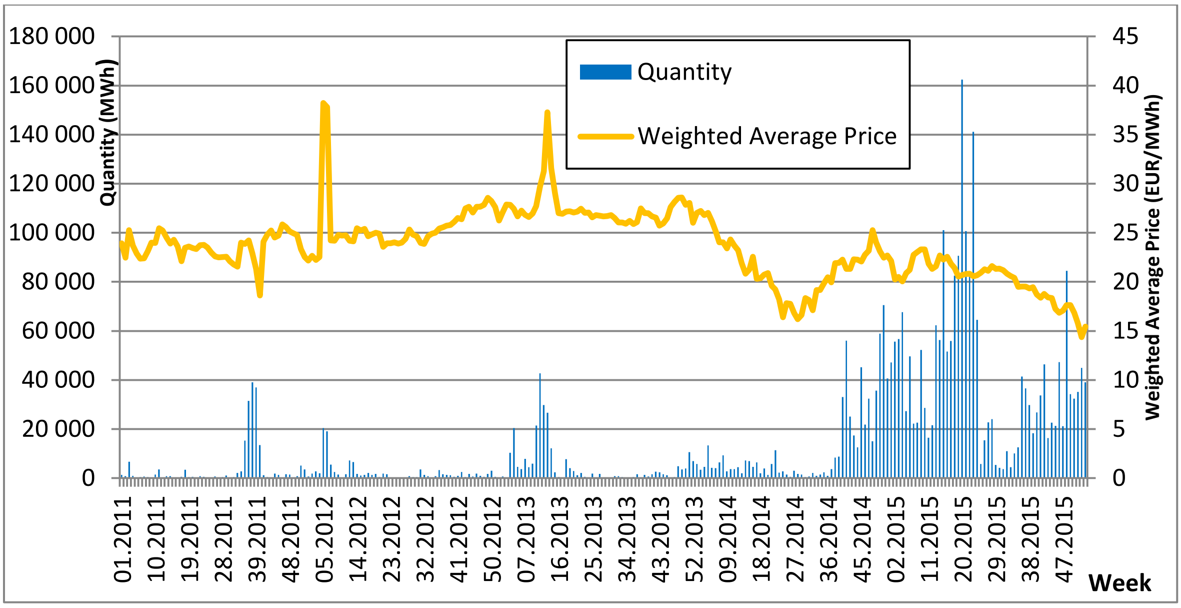
Entities trading at the Czech wholesale gas market can buy gas under long-term contracts, on commodity exchanges or from other traders. Long-term contracts with Russian and Norwegian gas producers probably still have the most significant influence on the formation of wholesale prices. Long-term contracts are usually entered into for very long terms of up to 30 years. Earlier, certain changes to the gas price formulae were made in these contracts, but long-term contracts themselves have not been abandoned.

The ERO does not set or influence the prices of gas traded at wholesale markets. The Czech gas market has been fully liberalised since 2007. Wholesale prices depend solely on agreement between the entities and on the current market situation.

Day-ahead and intra-day gas market

The holder of the exclusive licence for the activities of the market operator in the Czech Republic, OTE, a.s., has been organising a spot gas market since 2010. In 2015, trading at the intra-day [i.e. within day] gas market organised by the market operator increased enormously. The volume of trades there totalled 2,228 GWh. The year-on-year increase was a record 236% on 2014, when counterparties executed trades totalling 661 GWh. In 2015, the average price of gas traded at the intra-day market was EUR 20.25/MWh. Chart 11 shows the volume of executed trades and the weighted average of prices at the intra-day gas market between 2010 and 2015.

Chart 11: Volume of executed trades and weighted average of prices, in EUR/MWh, at the intra-day gas market between 2011 and 2015



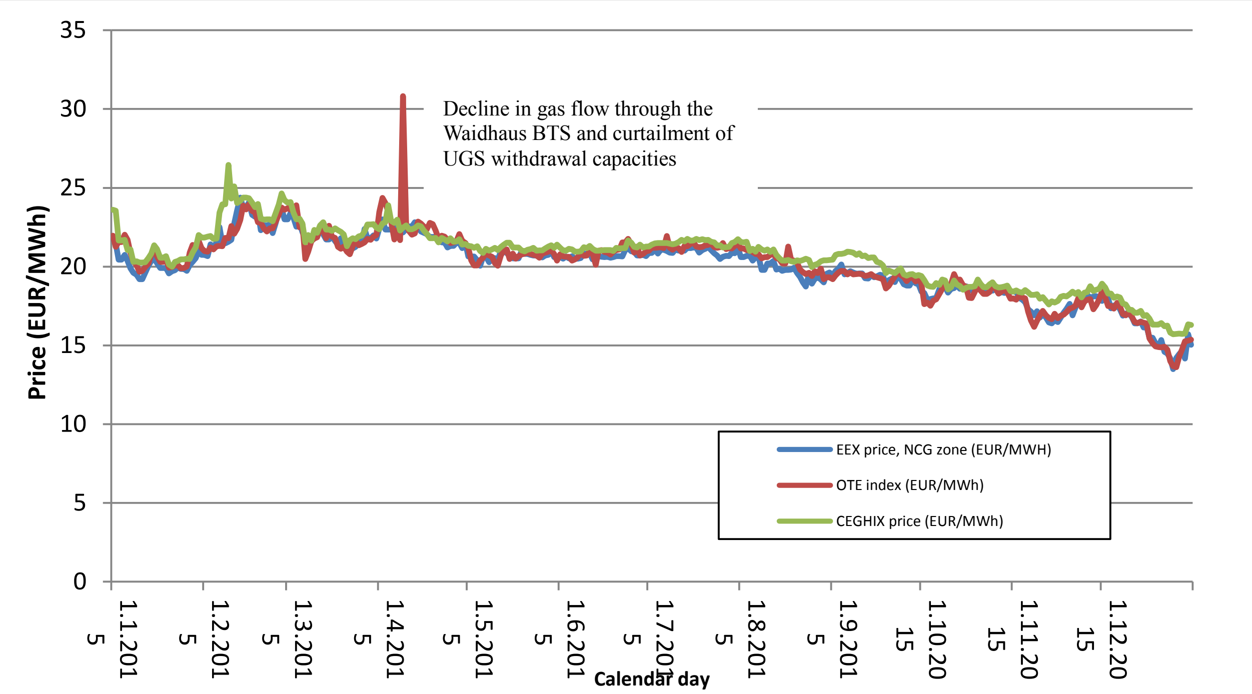
Source: OTE, a.s.

Thanks to the significant increase in liquidity the organised gas spot market, launched in the Czech Republic in 2010 as a day-ahead and intra-day market, constitutes a reliable guarantee for market participants that they can very flexibly respond to the current situation in the market or in the gas system. The intra-day gas market also works as a price-setting element, because the price achieved in the transactions at this market is being increasingly used as guidance for pricing other contracts. The execution of trades at the intra-day gas market, which runs on a 24 x 7 basis, is based on the principle of automatic bid and offer matching. Trading takes place in the euro and one gas day is the trading period. Executed trades can be cleared in the euro or Czech crowns. The delivery point for gas under executed trades is the Czech virtual trading point (VTP) organised by the market operator.

As at 31 December 2015, a total of 92 counterparties were active at the intra-day gas market. Their number increased by 15 year-on-year and is gradually approaching the number of those at the electricity market.

The weighted average of the prices at the intra-day gas market organised by OTE, a.s. in 2015 copied the profile of the weighted average of the prices of the comparable product on the NCG platform, traded at the spot market of European Energy Exchange AG (EEX). A comparison of the weighted average of the prices in transactions executed in 2015 at the intra-day market, at NCG, and at CEGH, indicates that the prices of the gas traded at the intra-day gas market correspond to the prices on the NCG platform, which the most liquid trading hub in the region. A more detailed comparison of the prices at some intra-day markets is shown in Chart 12. From the perspective of 2015, OTE's organised intra-day gas market can be described as a viable trading platform that has confirmed its potential for a further significant growth in the context of the continued development of the Czech gas market. Thanks to the market participants' rising interest, it can be regarded as a fully-fledged platform on which commercial plans can be carried out.

Chart 12: Comparison of weighted averages of prices at the intra-day market, NCG and CEGH, in EUR/MWh



Source: OTE, a.s.

4.2.2 Retail market

4.2.2.1 Monitoring the level of prices, the level of transparency, and the level and effectiveness of market opening and competition

An environment where gas traders provide services related to gas supply to customers (i.e. final customers within the meaning of Directive 2009/73/EC) is understood to be the retail gas market. In 2015, 88 gas trade licence holders (traders) supplied gas to customers in the Czech Republic. The most significant changes in 2015 were occasioned by the regrouping of ownership interests in some suppliers. Thus, some traders have expanded their gas market share through acquisitions of assets and customer portfolios from competing traders.

Earlier, alternative suppliers benefited mainly from the outflow of customers from incumbent traders. In recent years, the dominant suppliers have been successful in fending off this outflow through their more proactive approach to customers and offers of more comprehensive customer services. Dissatisfied with alternative suppliers, some customers are even returning to the incumbent gas traders.

The competitive environment in the retail gas market is highly developed and it is therefore very difficult for new traders to gain a foothold and keep their position on the market. As in 2014, in 2015 we again saw a trend amongst traders to retain their current customers through offering better prices for gas supply services than those set out in their basic price lists. However, these more favourable quotations are associated with signing fixed-term agreements on gas supply services for two to three years, lacking an option of an earlier termination of such agreements without a penalty. The companies that supply electrical energy in addition to gas, and therefore have an extensive portfolio of customers whom they can approach directly in marketing campaigns acquired the largest number of new gas customers in 2015.

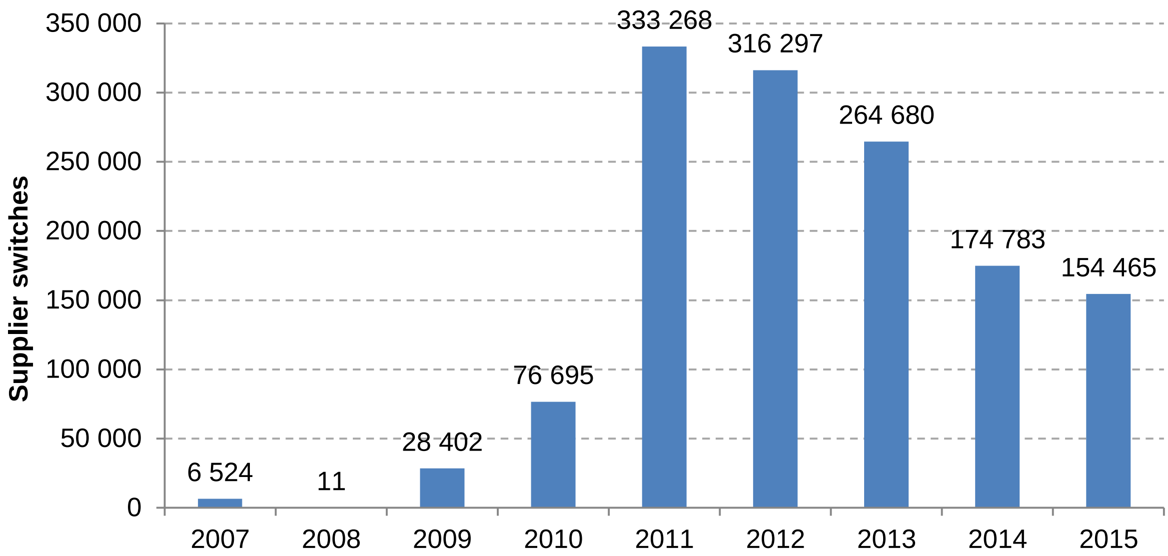
As at 31 December 2015, the ERO registered 2,844,334 supply points of customers, down by 4,825 supply points on 2014.

Table 5: Gas supplier switches in 2015

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

Note: * Switching – ratio of the number of gas supplier switches per year and the total number of supply points in that year
Source: ERO

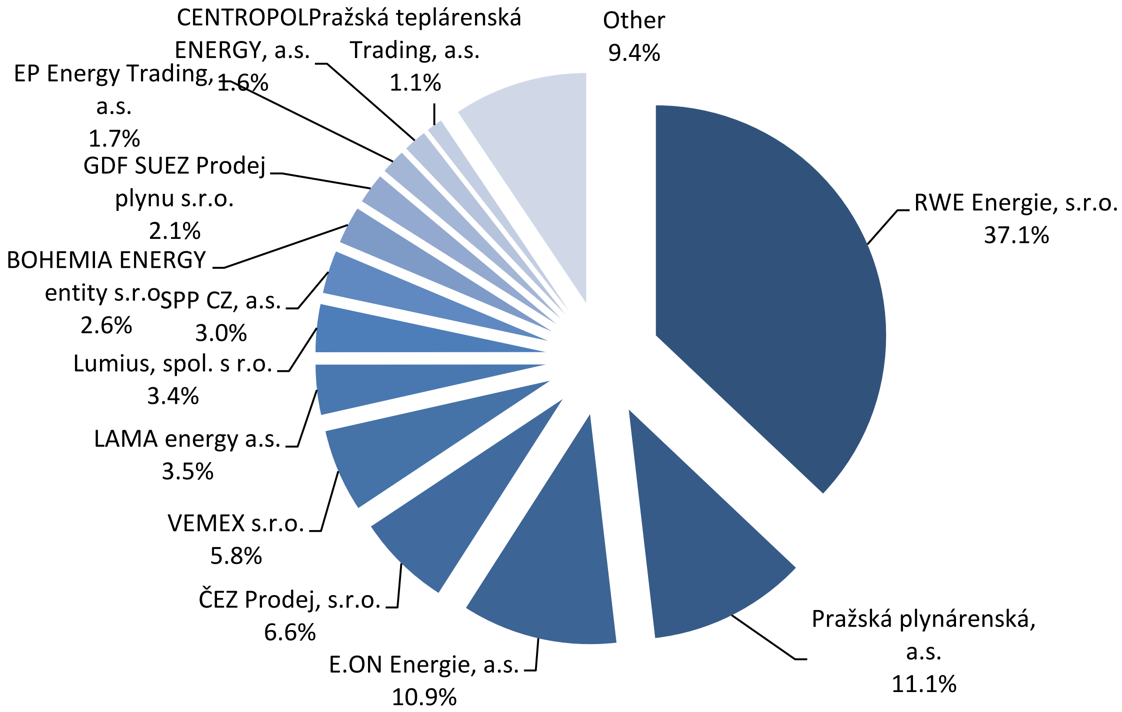
Chart 13 Annual gas supplier switches in the household category



Source: ERO

In 2015, trader RWE Energie, s.r.o. held the largest market share in terms of the gas quantity supplied to customers; it supplied customers with 37.1% of the gas consumed by customers in the Czech Republic. The second largest supplier in terms of gas quantity was Pražská plynárenská, a.s. with a market share of 11.1%, followed by trader E.ON Energie, a.s. with a market share of 10.9%. Chart 14 shows a more detailed picture of traders and their respective shares of gas supply greater than 1%.

Chart 14: Traders' shares of gas supply in 2015



Source: ERO

4.2.3 Recommendations on supply prices, investigations and measures to promote effective competition

Satisfying the requirements of Directive 73/2009/EC, implemented in Czech national legislation, the ERO puts in place rules that provide for the gas market's secure functioning and promote a competitive environment. The gas market has been fully liberalised since 2007 and the ERO only controls the prices that cannot, for technical or organisational reasons, be formed by market mechanisms in a competitive environment. In the Czech gas market several dozen gas traders offering their services to customers have been operating on a long-term basis; in 2015, the Office recorded 88 active gas traders. The Czech gas market works on the basis of a non-discriminatory approach, where every trader can approach any customer, and, vice versa, every customer can enter into a contract with any trader. The prices of the gas supply services and other terms and conditions of gas supply depend only on their agreement with each other. The well-developed competitive environment in the gas market has spawned a broad range of traders' quotations in terms of both the price and the additional commercial terms and conditions. The market's dynamics therefore depends more on customers' ability and willingness to change their supplier and so gain better conditions. The Energy Act and the implementing acts based thereon guarantee the right to switch their gas supplier to all customers. This change is free of charge. Subject to the existing commercial terms and conditions, every customer therefore has the right to select their gas supplier.

In 2015, the ERO continuously monitored, within its remit and in line with Section 17 of the Energy Act, the use of restricting or unfair conditions, restricting or excluding customers' rights, in contracts on the gas market and also monitored competition in the wholesale and retail gas markets. In this monitoring, the Office did not find any practices or instruments restricting customers' rights or distorting competition in the gas market, and in 2015 it therefore did not impose any measure to eliminate the causes of non-existent effective competition on the gas market.

The ERO has certain reservations to fixed-term contracts with automatic extensions. Although traders and customers enter into such contracts on a voluntary basis this type of contract is, in particular when combined with other obligations (lease of bulbs, discounts paid out in advance, etc.), usually unclear for customers, mainly in terms of identifying the dates and conditions on which contracts can be terminated.

5. Consumer protection and dispute settlement in electricity and gas

5.1 Consumer protection

In respect of consumer protection, the Czech Republic provides for consumers' position and rights with a view to ensuring consumer protection, in particular as regards the transparency of contract and billing terms and conditions and the supplier switching process, primarily through the provisions contained mainly in Section 11a of the Energy Act, which transposes Article 3(7) of Directive 2009/72/EC and Article 3(3) of Directive 2009/73/EC, taken together with Annex I, into Czech law.

For consumer protection, the above-cited Section 11a of the Energy Act establishes rights for consumers and imposes matching obligations on traders. First and foremost, it provides for consumers' right to withdraw from the contract without any contractual penalty in the case of their disagreement with a change to the contract terms and conditions, or an increase in the unregulated part of the price for gas or electricity supply. It also lays down the time limits for exercising the right to withdraw from the contract and for the effect of withdrawal in writing, where the consumer also has the right to determine the effective date of withdrawal. The conditions for exercising the right of withdrawal in cases when the contract is concluded away from premises customary for business are also set out.

Under Section 11a of the Energy Act, traders shall publish, in a manner allowing remote access, their terms and conditions of electricity and gas supply and electricity and gas supply prices no later than 30 days before the effective day of changes. Section 11a of the Energy Act also requires traders to offer consumers a choice of non-discriminatory systems of payment for gas or electricity supplied. As regards the billing of advance payments for gas or electricity supply, traders are required to set advance payments reflecting consumption in the preceding comparable billing period, however, no more than gas or electricity consumption reasonably expected in the following billing period. Since 1 January 2016, an amendment to the Energy Act which partially modifies Section 11a has been in effect.

Another aspect conducive to improved protection is consumers' ability to access objective and transparent information about their consumption of energy, the related prices, and the costs of services. Under Section 98a(2)(j) of the Energy Act the Office is authorised to lay down in implementing acts, for the purpose of securing consumers' justifiable interests in connection with their right to be properly informed about their energy consumption, the particulars of the billing of electricity, gas and thermal energy supply and related services. On the basis of this authorisation the Office had earlier promulgated public notice no. 210/2011 on the scope, essentials and dates of the billing of electricity, gas and heat supply and related services, which sets out detailed particulars on the scope, essentials and dates of billing of supply. Billing can be expected to become more transparent and concise in order to be clear and understandable for consumers. The Energy Act does not lay down any obligation for suppliers to provide for consumers' continuous free-of-charge access to their consumption data, and the Energy Act does not lay down the format for such data or the access procedure.

The Energy Act also enhances consumer protection by providing for the conditions of supply provided by suppliers of last resort, when consumers are also supplied with electricity/gas in this mode in cases when their supplier loses the authorisation to supply.

In 2015, the ERO actively addressed the protection of energy customers' and consumers' interests; they were significantly empowered earlier through the above-mentioned amendment to the Energy Act, which made the process of terminating contracts with suppliers much more easier. During the year, the Office also sought to introduce simplified billing for bundled electricity/gas supply services with a view to rendering the bills more understandable for customers.

In connection with the broadening of legislation on consumer protection the Office set up a Department for Legal Protection of Consumers as of 1 July 2015; its energy ombudsman was included in the department, and the Consumer Protection Unit is now also a part of the department. Thus, the Office has a specialised department competent to provide assistance to consumers in accordance with the Energy Act. The department is also tasked with receiving, and resolving amicably, submissions from consumers such as questions, suggestions, requests and complaints. In 2015, the Office received 7,107 submissions in writing and over the telephone; this figure also includes consultations in person. The number of submissions classified as complaints was 3,620, of which 2,170 complaints concerned electricity and 1,450 concerned gas. The largest number of complaints, for both electricity and gas, concerned contracts and sales (560 and 328 respectively), provider change (475 and 302 respectively) and invoicing/billing and debt collection (449 and 257 respectively). More detailed information is listed in Table 6.

Where an amicable resolution of a complaint is not achieved such complaints can be addressed in adversarial proceedings or in inspection proceedings, see point 5.2 Dispute settlement. Customers can also find the options for tackling their problems with suppliers on the ERO's website in the Customer Information Centre section.

Table 6: Consumer complaints in 2015

Complaint category *	Electricity		Gas	
	Number	Share [%]	Number	Share [%]
Connection to the grid	12	0.55	11	0.76
Metering	52	2.40	17	1.17
Quality of supply	35	1.61	26	1.79
Unfair commercial practices	292	13.46	286	19.72
Contracts and sales	560	25.81	328	22.63
Activation	0	0	0	0
Disconnection due to no or late payment	97	4.47	61	4.21
Invoicing/billing and debt collection	449	20.69	257	17.72
Price/tariff	186	8.57	152	10.48
Redress	2	0.09	2	0.14
Provider change / switching	475	21.89	302	20.83
Customer service	10	0.46	8	0.55
TOTAL	**2,170**	**100.00**	**1,450**	**100.00**

* It is not always possible to determine the complaint category exactly, and the above numbers are therefore not completely accurate; rather, they express a qualified estimate. The numbers do not include all submissions but only those that were classified as complaints.
Source: ERO

5.2 Dispute settlement

As part of its competences, the Office protects primarily customers' and consumers' justifiable interests in the energy industries.

The Office's competence to decide disputes is established by Article 3(7) of Directive 2009/72/EC (similarly Article 3(3) of Directive 2009/73/EC), under which the Member States shall ensure high levels of consumer protection also with respect to dispute settlement mechanisms. In this connection, the amendment to the Energy Act enacted in Act No 211/2011 had transposed the relevant provisions of Directive 2009/72/EC and Directive 2009/73/EC, taken together with Annex I, into the Energy Act earlier, with effect as of 18 August 2011.

Under Section 17(7)(e) of the Energy Act, as in force until 31 December 2015, the ERO decides, upon motions filed by customers taking electricity or gas for household consumption or customers who are sole traders, on the following:

1. Disputes between customers and licence holders over the performance of obligations under agreements on gas or electricity supply or distribution;

2. The ERO declares whether the legal relationship between the customer and licence holder, the subject matter of which is electricity or gas supply or distribution, has come into existence, continues to exist, or has ceased to exist;

3. The ERO decides on the award of compensation for failure to keep the set standards of supply and service quality in the electricity and gas industries.

In procedural terms, the ERO proceeds under Section 141 of Act No 500/2004, Rules of Administrative Procedure. Adversarial proceedings are initiated upon the consumer's motion, the electricity/gas supplier/distributor being the respondent party. In such proceedings the ERO relies on the evidence adduced by the parties to the proceedings. If the adduced evidence is not sufficient for finding the state of affairs, the ERO can also take other evidence.

Under Article 37(11), Article 37(5)(c) and Article 37(4)(e), in 2015 the ERO made one final decision to discontinue the proceedings for failure to remedy defects in the submission; in four cases it made final decisions to discontinue the proceedings due to amicable dispute settlement; and in four cases it made final decisions on the merits. As an example, the following is one of the most interesting cases:

A customer versus BOHEMIA ENERGY entity s.r.o. ('BEE'): a dispute over whether the legal relationship between the customer and BEE, established by a framework agreement on electricity provision dated 2 March 2010, was discharged by the elapse of the term on 2 March 2014; the customer sent to BEE his disagreement with an automatic extension of the fixed-term agreement for another 24 months, but BEE billed him a deactivation charge due to an early termination of the agreement. In its decision the ERO declared that the legal relationship between the customer and BEE was discharged as of 2 March 2014, because the customer met all the requirements set out in the commercial terms and conditions for preventing an automatic extension of the agreement; the agreement was therefore terminated at the end of the term for which it had been concluded; BEE made conflicting acts when it did not accept the termination of the agreement but at the same time billed the customer deactivation charges for an early termination.

In the gas industry, under Article 41(11) and Article 41(4)(e) the ERO made two final decisions to discontinue the proceedings for failure to remedy the defects in the submission and made two final decisions on the merits. The following is an illustrative example:

A customer versus CENTROPOL ENERGY, a.s. in the case of a declaration of whether the legal relationship between the customer and CENTROPOL ENERGY, a.s., established by an agreement on bundled gas supply services, was discharged on the basis of a proper withdrawal from the agreement as of 31 December 2014. The customer noted that she was not duly notified of the withdrawal option as she did not receive the model form for withdrawal and therefore could withdraw from the agreement in an extended period of one year and 14 days. CENTROPOL ENERGY, a.s. did not accept this withdrawal, claiming that it was not obliged to furnish the customer with the model form and that it only sufficed to inform her about the form. In its decision the ERO declared that the legal relationship between the customer and CENTROPOL ENERGY, a.s. was discharged on the basis of withdrawal, because the customer had the right to withdraw from the agreement in an extended period. To the extent of the part determining 31 December 2014 as the day of the discharge of the legal relationship, the claim was rejected, because the discharge already occurred upon the delivery of the notice of withdrawal. The ERO considered that the Civil Code requires the trader to provide the consumer with proper advice of the right to withdraw from the agreement, and the obligation to provide a model form for withdrawal is related thereto. This form was not provided, and CENTROPOL ENERGY, a.s. only referred to the piece of legislation in which the form could be found, which was insufficient. If the consumer is not sufficiently and fully advised of the right to withdraw, then in the case that the contract was concluded away from the undertaking's business premises the time limit for withdrawal is extended by one year. The insufficiency of the notice of the option to withdraw from the agreement must therefore also apply to failure to provide a model form for withdrawal. The customer therefore withdrew from the agreement in a due manner within the extended time limit and the legal relationship between her and CENTROPOL ENERGY, a.s. was discharged on the basis of the withdrawal. It was discharged already on the day on which the notice of withdrawal was delivered.