

**National Report of the Energy Regulatory
Office on the Electricity and Gas Industries
in the Czech Republic in 2018**

July 2019

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Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
BSD	security standard for gas supply
CEER	Council of European Energy Regulators
ČOI	The Czech Trade Inspection Authority (<i>Česká obchodní inspekce</i>)
CR	Czech Republic
VAT	Value-added tax
DPI	Supplier of last resort
EC, Commission	European Commission
Energy Act	Act No 458/2000 on conditions of business and state administration in energy industries and amending certain laws
ERO, Office	Energy Regulatory Office
EC	European Community
EU, Union	European Union
FO, PO	natural person (<i>fyzičká osoba</i>), juristic person (<i>právnícká osoba</i>)
PV	photovoltaic power plant
ISMS	Information Security Management System
CHP	combined heat and power generation
MF	Ministry of Finance of the Czech Republic
MODOM	customer category: low-demand business customers and household customers
MPO	Ministry of Industry and Trade of the Czech Republic
MZV	Ministry of Foreign Affairs of the Czech Republic
MŽP	Ministry of the Environment of the Czech Republic
REMIT	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT)
NN	low voltage
OTE	OTE, a.s., the market operator
RES	renewable energy sources
PCI	Projects of Common Interest
SES	supported energy sources
RP	regulatory period
NEP	National Energy Policy
TA ČR	Technology Agency of the Czech Republic
TYNDP	Ten Year Network Development Plan
ÚOHS	Office for the Protection of Competition (<i>Úřad pro ochranu hospodářské soutěže</i>)
ÚRSO	Regulatory Office for Network Industries (<i>Úrad pre reguláciu sieťových odvetví</i>), Slovakia
V4	The Visegrád Four
PCP	public consultation process
government	The Government of the Czech Republic (Cabinet)
VOSO	customer category: high-demand and medium-sized demand customers
VN	medium voltage (in Czech <i>VN</i> , <i>vyšoké napětí</i> , i.e. ‘high voltage’)
VVN	high voltage (in Czech <i>VVN</i> , <i>velmi vysoké napětí</i> , i.e. ‘extra high voltage’)
ERO website	the website of the Energy Regulatory Office

The winter package ...a package of the Commission's legislative proposals known as *Clean Energy for All Europeans*

1 Foreword

For the fifteenth time, the Energy Regulatory Office is presenting its *National Report on the Electricity and Gas Industries* to the European Commission (EC) and the Agency for Cooperation of Energy Regulators (ACER), thereby meeting its reporting and notification obligation set out in the applicable EU Directives and Regulations, and it also presents the eighteenth *Report on the Activities and Finances of the Energy Regulatory Office* for the relevant calendar year.

The Energy Regulatory Office ('the ERO' or 'the Office') has been operating under Act No 458/2000 on conditions of business and state administration in energy industries and amending certain laws (the Energy Act), as amended, as an administrative authority for regulation in the energy industries since 1 January 2001.

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

2018 saw some changes in ERO management. With effect from 1 August 2018, the Czech Government appointed Vratislav Košťál as the new Chairman of the ERO Board; he also retained his mandate as ERO Board member for the following five-year period. At the same time the Czech Government decided to remove Vladimír Outrata from the position as ERO Board Chairman, but he continued to be a member of the ERO Board. Vratislav Košťál resigned as the ERO Board Chairman and also stepped down from the ERO Board as of 30 November 2018. Thus, since 1 December 2018 the ERO Board worked as a four-member body. Its members were Rostislav Krejcar, Vladimír Outrata, Jan Pokorný, and Vladimír Vlk.

Throughout that time, the ERO Board has been approving proposals for implementing legislative acts, proposals for the principles of price controls, and proposals for price decisions, and also the plan of the ERO's activities, the draft budget, the final accounts, and the report on the activities and finances of the Energy Regulatory Office. The ERO Board also decides on remedies lodged against the decisions issued by the ERO at the level of the first instance.

In 2018, the Office focused on implementing the measures following from the new system of ERO governance in addition to its standard activities arising from its duties and competences specified in the Energy Act and related legislation. In January 2018, the ERO Board approved an extension of the effect of the *Price Control Principles for the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries* to cover 2019 and 2020. In late June 2018, the ERO Board approved its seminal document, *The Strategy of the Energy Regulatory Office*. The document sets out a long-term vision and strategic objectives within the competences vested in the Office. The Energy Regulatory Office intensified its cooperation with the Office for the Protection of Competition. In the interest of consumer protection, the two Offices jointly adopted measures directed against restriction of competition in the energy market. A number of measures and actions were carried out jointly with the Ministry of Industry and Trade and the Czech Trade Inspection Authority for consumer protection and against energy traders' unfair practices.

The Energy Regulatory Office actively cooperated with state administration authorities and other specialised institutions such as the Technology Agency of the Czech Republic (TA ČR), universities, etc.

In 2018, the Office was actively involved in a number of international activities, in particular within the EU's institutions. It intensively cooperated primarily with ACER, CEER and, since October 2018, ERRA (Energy Regulators Regional Association), which brings together Central and Eastern European countries' and some other countries' regulatory authorities. An ERO representative, Martin Šik, elected by the CEER General Assembly in October 2017, continued to serve as the Vice-President of the CEER Board of Directors in 2018.

The Office also continuously consulted its positions with V4 countries' regulators. Concurrently with its international relations activities, the Office also devoted increased attention to the promotion of regional cooperation and to boosting bilateral contacts.

Cooperation with ACER and CEER mainly consisted of active participation in the meetings of working groups and task forces for the electricity industry, the gas industry, consumer protection and REMIT; these platforms also prepared the underlying materials for the development and amendment of European energy legislation and the framework guidelines and guidance for its implementation at the national level. In particular in respect of network codes and the development of proposals for amendments to EU Regulations, a paper on the monitoring of the implementation of EU energy legislation and the condition of energy markets was drawn up with a view to pursuing the objective of a single energy market. Issues such as market transparency and competitiveness, cross-border interconnections, consumer protection, supply security and quality, sustainable development, and cyber security were addressed.

Highlights of 2018

Further to the requirements of the European and Czech legislation, the *National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic for 2017* was published in 2018.

As part of its competences, the Office also publishes reports on the operation of the electrical grid, the gas system, and heat supply systems on a regular basis. In 2018 the Office issued, for each of the energy industries, four quarterly reports and a yearly report on operation, which included data for 2017. The Office collected this input data from regulatory reports received from market participants. The reports on operation also constituted the basic source of data for governmental and non-governmental institutions and for experts and the general public.

ERO representatives attended meetings of the committees and subcommittees of both chambers of Czech Parliament as needed.

During the year, the annual evaluation of the ERO's *Internal Anti-corruption Programme* was carried out and an annual report was drawn up on its running and on the remedial measures adopted.

The Office prepared an *Electricity and Gas Traders' Model Code of Ethics*. The model code of ethics lays down the rules for communication between traders and consumers. The Office thereby motivates fair suppliers to prepare their own codes of ethics. For the consumers, the model code of ethics offers a list of issues on which they should focus in their dealings with suppliers.

Through the Public Administration Portal, in 2018 the Office posted 12 issues of the *Energy Regulation Gazette* with three ERO Price Decisions on prices of the related services in the electricity industry, three ERO Price Decisions on prices of the related services in the gas industry, one ERO Price Decision on thermal energy prices, and two ERO Price Decisions on support for SES. All ERO Price Decisions were also promulgated through

communications in the Official Gazette. All of the *Energy Regulation Gazette* editions were also posted on the ERO website.

With a view to providing all the stakeholders with transparent and clear information, the Office consolidated its website, primarily in respect of consumer protection. In 2018, the Office posted on its website ten explanatory statements on the provisions of the legislation relevant for the ERO's competences, which the Office takes into account in its decision-making.

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

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

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

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

As part of the V4 regulators' cooperation, a project was launched in the electricity industry in 2018, the objective of which is to interconnect the Czech Republic, Poland, Slovakia, Hungary and Romania in a multi-regional price-related market coupling scheme.

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

2 Main developments in the electricity and gas markets

Main developments in the electricity market

The Energy Regulatory Office operates under the Energy Act (Act No 458/2000, as amended), into which the Czech Republic has incorporated 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 2018, some 570,000 customers switched their electricity supplier. The most important changes were caused by company mergers & acquisitions. The electricity market is fully competitive and customers are benefiting from the strong competition amongst electricity traders, for they are able to negotiate more advantageous prices. One of the results of this high level of competition is the fact that in 2018, some traders failed to manage their business risk and discontinued their business. In all these cases the mode of the supplier of last resort worked well, and customers were not left without electricity supply. We could also see an upward trend in the country's electricity demand.

The price of electrical energy increased significantly in 2018. At the beginning of 2018, the price of the annual base load product for 2019 was around EUR 37/MWh, while at the end of the year the annual base load product for 2019 was traded for approximately EUR 55/MWh. The rising price of electrical energy influenced electricity traders' offers and also the regulated prices for the use of the transmission system and distribution system networks.

Regulated prices related to electricity supply decreased year-on-year for customers connected to the medium voltage and high voltage levels, while increasing somewhat for households and small businesses. In addition to the off-take type, the changes in regulated prices also depended on the locality, i.e. the distribution area within which the customer is located. The year-on-year increase in regulated prices for customers connected to low voltage was 2.1 per cent on average for 2019. For customers connected to medium voltage, average regulated prices declined by 2.2% year-on-year and for customers connected to high voltage the regulated prices declined by 4% on average year-on-year.

In 2018, ERO representatives attended several meetings of the Florence, Madrid and Dublin forums, workshops, meetings of regional groups responsible for listing Projects of Common Interest (PCI) and other ACER and CEER groups. Other bilateral and multilateral meetings concerned electricity market integration, consumer protection, and competitiveness.

Main developments in the gas market

The first quarter of 2018 saw increased usage of the Czech gas infrastructure due to the low temperatures prevailing in a large part of Europe in that period. Gas consumption increased by up to 30% on some days compared with the normal levels. Thanks to the Czech gas system being sufficiently robust and to the appropriate coordination of the activities of the operators of all elements of the gas system, not only did the gas infrastructure in the Czech Republic meet, and without any problems, the domestic gas demand, but all transmission obligations to neighbouring market zones were also performed in full.

In the second half of 2018, gas transmission between the Czech Republic and Austria was started as part of a pilot project for mutually direct access to these gas markets (the TRU

project). However, interest in the use of this service was only registered in the direction from the Czech Republic to Austria.

Due to the high prices of electrical energy, increased output of electrical energy was registered for combined cycle units, which were therefore used more than as normal operating backup. This production was significantly reflected in gas consumption in the Czech Republic in 2018, because it was profitable to use large gas-fired and combined cycle units given the lower production costs, primarily gas prices, and the high price of electrical energy.

The retail gas market saw a continuing upward trend in the number of gas supplier switches: more than 263,000 customers changed their gas supplier in 2018. In terms of the level and effectiveness of gas market opening and competition it can therefore be noted that the current legislative framework for supplier switching meets the requirements for putting in place a competitive consumer-focused environment. Unfortunately, the large number of supplier switches was also attractive for entities that use unfair commercial practices, thereby damaging customers. In 2018, the Office therefore prepared a number of measures intended to eliminate the negative impacts on customers, while, however, reducing the frequency of unfair practices in the ideal case.

In view of the number of gas suppliers, the gas market can be said to be saturated. Going forward, changes in the number of active traders can primarily be expected to be caused by changes in the ownership structure of certain suppliers or by the potential termination of their business activities.

In 2018, the high level of gas market competition also caused several cases of gas traders being no longer able to supply gas to their customers. In such cases, the customers could use the accelerated supplier switching procedure or, where they met the conditions laid down in the Energy Act, their supply points were transferred to a supplier of last resort. In all these cases the mode of the supplier of last resort worked very well, and customers were not left without gas supply.

From the perspective of gas market liquidity, the volume of trades in the within day gas market amounted to a new annual maximum of 3,041 GWh in 2018, down by 18.8% on 2017 when market participants had executed trades totalling 3,744 GWh.

Regulated prices related to gas supply, set in 2018 for 2019, will be comparable with those applicable in 2018. Depending on the off-take type and on the distribution area, they will either not change at all or slightly decline. Regulated prices will go down by approximately 0.6% on average. The regulated component of the price related to gas supply accounts for approximately one-fifth of the total price, and the effect of the reduction in this component on the total price will therefore be almost negligible.

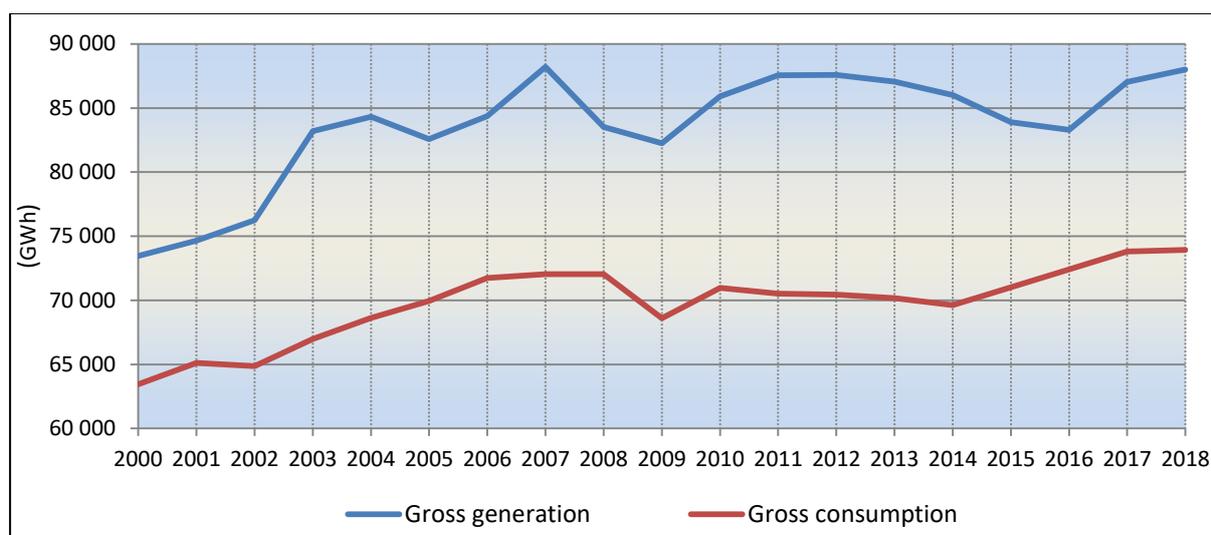
In the context of international cooperation, the acceptance of the South South-East GRI co-chairmanship as of February 2018 was a major development.

3 Electricity

In 2018, gross electricity generation totalled more than 88 TWh, up by 1.1% year-on-year. The largest electricity quantity was produced in March, 8,448 GWh; one of the reasons was higher demand due to colder weather. The largest year-on-year change in gross electricity generation in fuel-fired power stations was registered in nuclear power plants, up by 1.6 TWh (+5.6%). On the other hand, gross electricity generation declined by 361 GWh (-0.8%) in thermal power stations, by 32 GWh (-0.8%) in combined cycle plants, and by 29 GWh (-0.8%) in gas-fired power stations. While electricity generation from brown coal increased by 756 GWh (+2.0%), generation from hard coal dropped by 999 GWh (-22.4%) year-on-year. Generation from natural gas increased by 100 GWh (+2.9%). Electricity generation in pumped-storage hydroelectric power stations dropped by 120 GWh, i.e. down by 0.2% year-on-year.

Gross electricity generation from renewable energy sources decreased by 214 GWh (-2.2%) year-on-year to a total of 9,404 GWh. At the same time, national gross consumption is continuously rising and the share of gross electricity generation from renewable sources in total consumption dropped to 12.7%. Generation from biologically degradable municipal waste, BDMW, also decreased, specifically by 14 GWh (-12.3%). As regards renewable electricity generation, the largest increase was registered for photovoltaic plants, by 146 GWh (+6.7%), while their installed capacity almost did not change. Wind power plants produced 18 GWh more, while their installed capacity rose by 8 MW (+2.6%). The largest year-on-year change in generation was registered for hydroelectric power stations, a drop by 241 GWh (-12.9%) with an unchanged installed capacity. While electricity generation in large hydroelectric power stations declined by 6.6% year-on-year, small hydroelectric power stations experienced a significant drop in generation by 187 GWh (-17.6%).

National gross consumption of electricity continued to grow slightly and in 2018 amounted to 73.9 TWh (+0.2%), the highest value over the time it has been monitored. Consumption only increased in the segment of high demand from VVN, up by 76 GWh (+1.0%), and in the segment of high demand from VN, up by 455 GWh (+1.9%). Electricity consumption declined by 45 GWh (-0.6%) year-on-year in the low-demand business segment and in the household segment by almost 162 GWh (-1.1%). Region-wise, Prague registered a significant decrease in consumption, namely by 47 GWh (-3.1%). Household consumption in other Regions was almost the same as in the preceding year (declined by 0.7 to 1.3%).

Chart 1 Development of annual electricity generation and consumption (2000–2018)

Source: ERO

3.1. Network regulation

The Czech electricity market is experiencing a number of changes that are reshaping it. These changes have been precipitated mainly by the EU policy visions for environmental and climate protection. Some of these changes are quite minor ones, but some are transforming the market participants' hitherto deep-rooted behavioural patterns in electricity generation, transmission, distribution, trading, and consumption.

The dynamics of these changes is also visible in respect of network regulation. The Czech electricity market is currently in a condition that can be described as a free electricity market. Customers can find their way around it and fully use all the benefits offered by the liberalised market.

3.1.1. Unbundling

As regards unbundling, the past period saw modifications to distribution system operators' information systems, which has also considerably influenced service provision to customers (supplier switching, changing the distribution tariff, etc.). Nevertheless, the Czech energy market is stable from the perspective of the changes that have taken place.

Unbundling has also necessitated some measures 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 annual reports on measures adopted for compliance programme execution for the past year and submit them to the Office by 30 April.

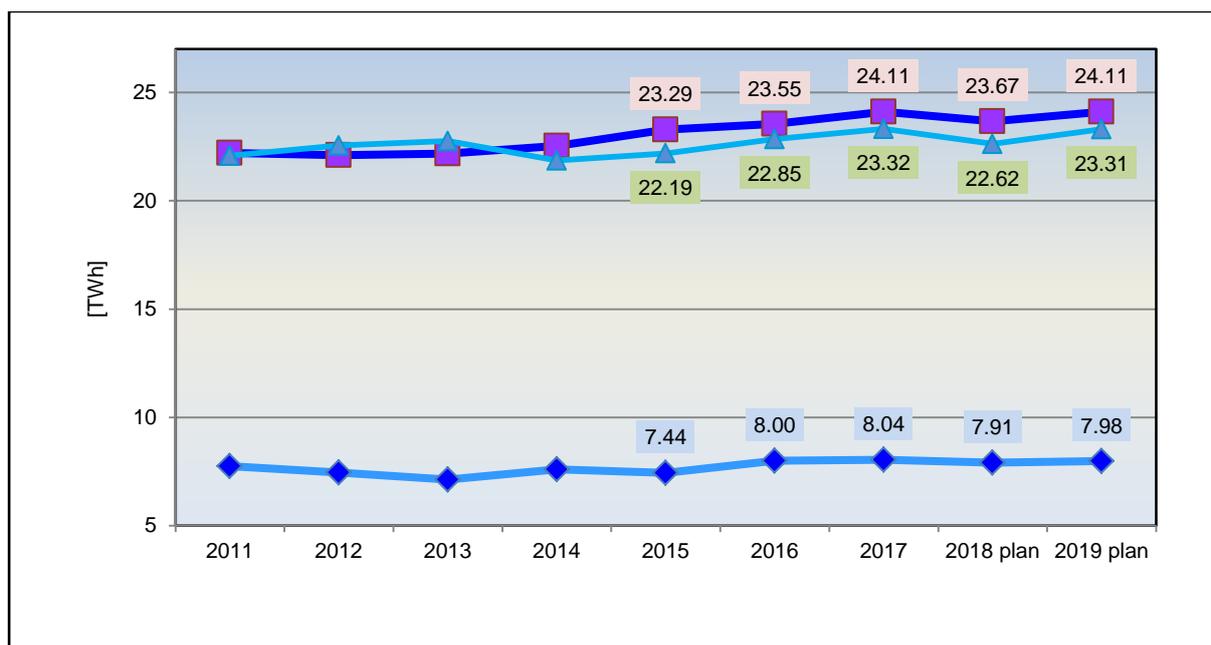
Based on evaluating compliance with the above obligations, in 2018 the Office did not have to take any measures for ensuring compliance with the obligations under Directive 2009/72/EC of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.

3.1.2. Technical functioning

ČEPS, a.s. is responsible for the operation of the Czech electrical grid's backbone system (the transmission system that includes 400 kV and 220 kV lines and selected 110 kV lines), and hence for the reliable operation and overall balance between generation and demand. ČEPS provides for the quality and reliability of electricity supply at the level of the transmission system by using system services over the short term, while over the long term it seeks to further reinforce and develop the transmission system. Distribution system operators are responsible for the operation of the Czech electrical grid at the level of 110 kV and at lower levels. The funds to pay for these services are provided through regulated prices billed to customers for the electricity quantity that they take. The respective DSOs are responsible for distributing electricity to final customers. Under Section 17(7)(g) of the Energy Act, the Office approves or lays down the grid code/operating rules for the transmission/distribution systems. At the request of the TSO and DSOs, in 2018 the Office approved an amendment to the transmission system operating rules (the grid code) and also amendments to 43 rules for distribution system operation. Most of the amendments to both types of these documents were related to the implementation of network codes and guidelines, i.e. the legislation in the EU's third energy package. The key objective of the approval process was to ensure that grid codes/operating rules were the basis for the transparent and predictable performance of the licensed activity and did not cause any disequilibrium between the various electricity market participants. Another requirement was that the operating codes/rules contain provisions deriving from legislation, be in compliance with the applicable legislation, and also contain the findings gathered in the activities of the transmission system and distribution system operators.

3.1.3. Network tariffs for connection and access

Under the Energy Act, public notice no. 194/2015 on methods of price regulation and procedures for price controls in the electricity and heat supply industries, and 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, the Energy Regulatory Office determines, every year, the charge for 'the related service' in the electricity industry, which is composed of the charge for electricity transmission/distribution, the charge for system services, the component of the price covering support for electricity from supported energy sources (SES) and the charge for the market operator's services. This charge is heavily influenced primarily by system operators' investment activity, the price of electrical energy for covering losses in networks, and the size of overall electricity consumption.

Chart 2 Electricity off-take at the high, medium and low voltage levels

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

The electricity transmission charge

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

The charge for booked transmission capacity is the result of dividing adjusted allowed revenues from electricity transmission by the value of the capacity booked in the transmission system.

The charge for using transmission system networks is determined by the cost of electrical energy for covering losses in the transmission system adjusted by the correction factor and subsequently divided by the electricity quantity planned to be transmitted.

Charge for system services

The charge for the provision of system services is intended to cover the costs of balancing the generation and consumption of electricity. The transmission system operator primarily ensures balancing by purchasing ancillary services. The charge for system services is the result of dividing the TSO's adjusted allowed revenues from system service provision by the electricity quantity expected to be taken by customers connected to the electrical grid.

Electricity distribution charge

The charge for electricity distribution at high voltage and medium voltage levels is composed of a charge for capacity booked in the distribution system and a charge for network use in the distribution system. The charge for electricity distribution at the low voltage level is composed of a charge for power input determined by the rated current of the main circuit breaker upstream of the electricity meter and the charge for the electricity quantity distributed.

The charges for booked capacity at the various voltage levels are mainly influenced by the agreed technical parameters of booked capacity, the amount of investment at the respective voltage level, and the charge for capacity booking in the higher-level transmission system.

The charges for electricity transmission/distribution are further broken down to the charge for booked capacity, set as a standing monthly charge related to electric power taken, and the charge for network use per unit of electricity taken.

The component of the price for support of electricity from SES is determined based on booked input power. The maximum payable amount of the price component for support of electricity has been preserved at the same level and continues to be determined as the product of the total electricity quantity taken and CZK 495/MWh. The costs in excess of income from the payments of the price component for support of electricity from SES are met from the national budget under Act No 165/2012, i.e., a subsidy from the national budget.

In 2018, there was no change in the method of calculating the applicant's share of the costs incurred in the connection and in supplying the required power, as the method is set out in public notice no. 16/2016 on the conditions of connection to the electrical grid. The technical conditions for connection are stipulated in the transmission/distribution system operating rules.

Prevention of cross-subsidies

Cross-subsidies between regulated entities or between regulated and unregulated entities are prevented by the suitable design of regulatory reporting that, following the accounting and legal unbundling, strictly requires that costs directly allocable to each of the regulated activities be reported. As part of secondary legislation, the Office 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 electrical grid is part of the synchronised zone of continental Europe. The Czech electrical grid has cross-border interconnections on the national borders with Germany, Poland, Austria, and Slovakia, constituting cross-border interconnections with five transmission systems: 50Hertz and TenneT (Germany), PSE (Poland), SEPS (Slovakia), and APG (Austria). At the respective cross-border point transmission capacities continue to be 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.

In 2018, joint implementation of the requirements, i.e. network codes and guidelines, was taking place with a view to harmonising the procedures in the electricity market and creating a single electricity market. The key element of this harmonisation is the development of a methodology for transmission capacity allocation based on physical flows, i.e. the flow-based method. Once the methodologies for the day-ahead and intraday markets have been approved the forward capacity allocation methodology based on the flow-based method will also be prepared.

¹ The regions for coordinated congestion management are defined in point 3.2 of Annex I to Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, while Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management sets out the method for determining capacity calculation regions; these may differ in terms of their composition.

Cross-border transmission capacity has so far been allocated for various periods of time: a year, a month, or a day. Cross-border capacities are allocated on a coordinated basis by an auction office, Joint Allocation Office (JAO). Since October 2018, JAO has been providing services to all transmission system operators who follow the EU legislation in this respect. JAO operates under Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation. Under this Regulation, in 2017 EU national regulatory authorities approved JAO as the single allocation platform responsible for auctions of long-term transmission rights on the national borders of all EU member states.

Transmission capacity allocation for cross-border transmission takes place under auction rules, which in fact constitute the rules for coordinated auctions of transmission capacity and also set out the terms and conditions for access to cross-border infrastructures within the meaning of Article 37(6)(c) of Directive 2009/72/EC. Available transmission capacities continue to be calculated on the basis of netting and the calculation applies to the cross-border interconnectors with the 50 Hertz, TenneT, PSE, and APG transmission systems. On the bidding zone interconnector with Slovakia, a different cross-border capacity allocation method was used throughout 2018. Long-term nominations took place there without the need to book separately cross-border transmission capacity, for which market participants could apply until two days before the cross-border transmission was to take place. Should it be exceeded, the matched values of nominations in the respective trading hours were curtailed. The curtailment was proportional for all matched values of nominations in the respective direction. Curtailment was carried out with rounding down to positive integers. In 2018, two national regulators, the Energy Regulatory Office and Slovakia's ÚRSO [Regulatory Office for Network Industries] agreed, in compliance with Commission Regulation (EU) 2016/1719, to change this capacity allocation system and as of 1 January 2019 capacities at the interconnector with the Slovak bidding zone would be allocated based on the JAO auction principles.

On all Czech cross-border interconnectors, intraday transmission capacities are allocated on the First Come First Served basis. The current system of capacity allocation does not make charges possible, and therefore does not support the efficient pricing of the limited resource, i.e. transmission capacities. This change should be brought by the intraday capacity pricing methodology under Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, the wording of which was intensively discussed by regulators in 2018. The intraday allocation of cross-border transmission capacities and the contracting for cross-border transmission over all of ČEPS's cross-border interconnectors takes place identically and in this respect ČEPS, a.s. operates as the main Transmission Capacity Allocator, including the cross-border interconnectors that do not directly fall within ČEPS's control area (i.e. PSE/50Hertz, PSE/SEPS, MAVIR/APG, and SEPS/MAVIR).

Cooperation with other regulatory authorities and ACER

In 2018, the Office's involvement in ACER and CEER working groups focused on continuing the work on the relevant electricity issues related to the development and amendment of European energy legislation and its implementation at the national level, and also on preparing the future implementation of the Commission's legislative proposals discussed as part of Clean Energy for All Europeans, i.e. the winter package.

For the Office's employees involved in the activities of the ACER and CEER electricity working groups, 2018 was primarily marked by intensive work on the implementation of already applicable network codes and guidelines in the EU's third energy package,

with the actual implementation consisting in transposing this package of legislation into the environment of the Czech electricity market. In the ACER and CEER working groups, the Office helped to draw up position papers on the methodologies, i.e. those that arise from the network codes and guidelines, that are being prepared and submitted to the Office by market participants, specifically transmission system operators and nominated electricity market operators ('NEMO'). Within Czech state administration, close cooperation with MPO was under way.

Through its involvement in the working groups, the Office's specialist unit (Networks and Market Organisation Unit of the Electricity Industry Regulation Section) actively participated in meetings on the implementation of the network codes and guidelines covering trade (the guideline on capacity allocation and congestion management, the guideline on forward capacity allocation, and the guideline on electricity balancing), grid connection (the network code for grid connection of generators, the network code for demand connection, and the network code on high voltage direct current connections and DC connected power park modules), and system operation (the guideline on electricity transmission system operation and the network code on electricity emergency and restoration).

The Energy Regulatory Office is represented in the working group for the XBID (Cross-border Intraday Market) Project, where the Office's representative serves as the delegated representative of national regulatory authorities in relation to the EU. The activities of the Office's employees in international working groups are coordinated, on a long-term basis, with other entities (market participants) in the Czech Republic with a view to achieving the maximum possible in promoting Czech interests and minimising the potential negative impacts. The Office's employees actively participated in and contributed to these groups through continuously providing the relevant information, the requested documents, and their own feedback.

Equally importantly, the Office's competent employees actively participated in and contributed to these groups through continuously providing the relevant information, raising comments and national positions, or heading individual projects, specifically in the working group on the implementation of the guideline on forward capacity allocation.

The Energy Regulatory Office promotes relationships with the regulatory authorities of the V4 countries on a long-term basis. In respect of electricity, for 2018 some specific examples include the launch of a project for interconnecting the Czech Republic, Poland, Slovakia, Hungary, and Romania into a multi-regional price coupling scheme intended to simplify cross-border electricity trade. In late 2018, cross-border cooperation was also started with Germany, Austria, and Poland and the 4M MC countries (the Czech Republic, Hungary, Slovakia and Romania), launching a project for integrating these markets in a joint market coupling scheme of the Multi-regional Coupling (MRC) project.

3.1.5. Compliance

The Energy Regulatory Office exercises its powers under the relevant provisions of the Energy Act, which lay down the rights and obligations arising from the relevant provisions of EU legislation, i.e., in particular, Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003, Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency and Directive

2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC. The Czech legislation is fully harmonised with the above EU legislation.

The Office also exercises its supervisory powers under the Energy Act so as to ensure the efficient monitoring of all electricity market participants' compliance with EU and Czech law and with its relevant legally binding decisions, and imposes effective, proportionate and dissuasive penalties on the electricity undertakings that breach their obligations. The Office oversees compliance of the electricity transmission company's, distribution companies', system owners' and other 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 the independence of the electricity transmission system operator.

At the end of November 2016, the European Commission presented a package of legislative proposals with broad-ranging impacts on the working of the European electricity market, i.e. the winter package; 2018 was marked by preparations for trilogues on all eight legislative proposals in the winter package. The Office closely cooperated with MPO, MZV and the Office of the Government and also with other European regulators in CEER.

By the end of 2018, four out of the eight legislative acts in the winter package had been adopted: Directive (EU) 2018/844 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency, Directive (EU) 2018/2002 amending Directive 2012/27/EU on energy efficiency, Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action, and Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources.

Political agreement was also reached on the remaining four legislative acts in the winter package: the regulation on the Agency for the Cooperation of Energy Regulators, the regulation on risk preparedness, the directive on the internal electricity market, and the regulation on the internal electricity market. The agreement was reached in December 2018 and the above could be expected to be adopted in March 2019.

The Energy Regulatory Office was preparing position papers on and amending proposals for the legislative proposals in the winter package, which constitutes a set of amendments to the key legislation in the electricity industry for the upcoming period.

3.2. Promoting competition

3.2.1. Wholesale markets

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

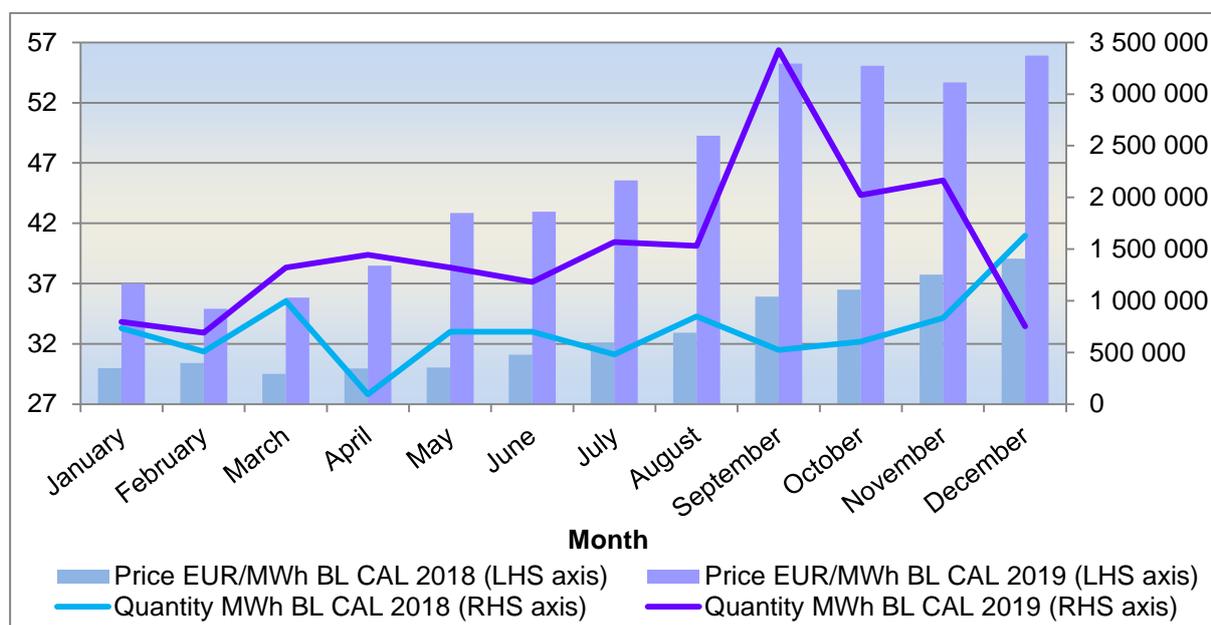
The REMIT regulation has an impact on everyone who participates in or whose behaviour is influenced by wholesale energy markets. The purpose is that prices set on wholesale energy markets reflect a fair and competitive interplay between supply and demand and that no profits can be drawn from market abuse. For effective oversight and to prevent wholesale energy market abuse the REMIT envisages cooperation between energy regulators and other authorities, primarily financial authorities of the Member States and competition authorities.

In the Czech Republic, electricity trades take place on the EEX platform (European Energy Exchange), through bilateral [OTC] contracts, and at spot markets organised by OTE, a.s. On 21 June 2016, European Energy Exchange (EEX) and POWER EXCHANGE CENTRAL

EUROPE (PXE) signed an agreement in which they announced plans for their closer cooperation. As the result EEX has acquired 66.67% of PXE shares, thereby becoming its majority owner. EEX and PXE successfully migrated the contracts previously listed at PXE to the EEX T7 platform. This transfer concerned financially settled electricity futures for the Czech Republic, Hungary, Slovakia, Romania, and Poland. The trades on this platform follow the EEX rules.

In 2017, a total of 3,217 base load contracts totalling 14.6 TWh (of which 989 annual contracts for 8.6 TWh with settlement in 2018) were traded, while 5,737 base load contracts for 58.6 TWh were traded in 2018 (of which 2,081 annual contracts for 18.2 TWh with settlement in 2019). Chart 3 shows a comparison of the volume and prices of the BL CAL 2018 and BL CAL 2019 products traded via the EEX platform.

Chart 3 Comparison of annual contracts for BL CAL 2018 and BL CAL 2019 futures



Source: PXE, a.s.

A part of the electricity quantity is traded at the spot market (day-ahead, intraday, balancing, and block markets) organised exclusively by OTE, a.s. or under OTC (bilateral) contracts (not registered at the energy exchange). In 2018, 22,892 GWh of electricity was traded at the day-ahead market; under bilateral contracts registered in the OTE system between market participants, 95,054 GWh was traded, 17 GWh was traded in the block market, and 550 GWh of electricity was traded on the intraday market. All cleared entities (= balance responsible parties), i.e. not only traders and producers but also the customers who are responsible for imbalances, can go to the spot market to procure electricity.

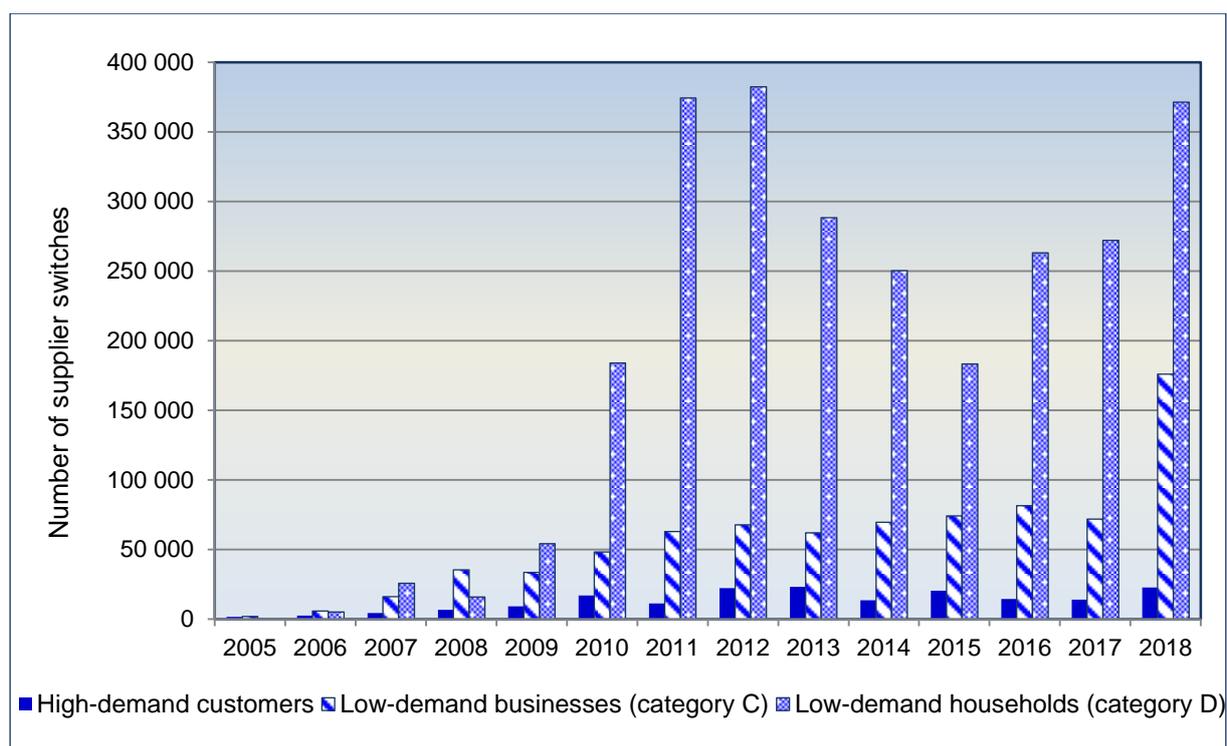
3.2.2. Retail market

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.

Since 2006, all customers have been able to change their electricity supplier. In 2018, the number of electricity trade licensees amounted to 400 licences awarded. Electricity suppliers use a number of tools for approaching customers, such as door-to-door sales, participation in mass-scale e-auctions, and the acquisition of weaker competitors. In 2018, almost 570,000 customers changed their electricity supplier in the Czech Republic, up by 60% year-on-year. However, in terms of the customer categories, the structure of the supplier switching varied. In the high-demand segment, the number of supply point transfers to a different supplier increased by 62.9% year-on-year, and in the low-demand business segment the figure was as high as 145.1%. In the household segment, supplier switching rose by 36.5% year-on-year.

Chart 4 Annual electricity supplier changes in the main customer categories

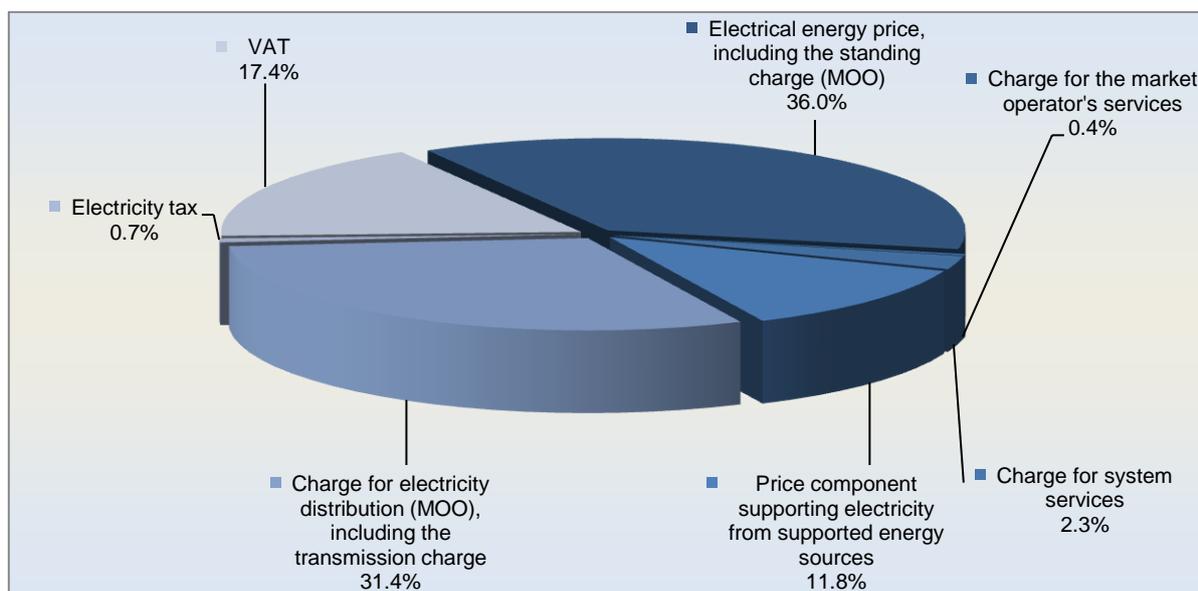


Source: Market operator, OTE, a.s., edited by ERO

The overall price of electricity supply for customers at the LV level is made up of the charge for the distribution system service and the unregulated price of electrical energy, which is determined by the supplier selected by the customer. The Office sets out the charge for the distribution system service in its binding price decisions. The charge for system services, the component of the price for support of electricity from supported energy sources, 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 or selected supplier. The charge for electricity distribution depends on the place of connection, i.e. on the distribution system to which the supply point is connected. However, customers at the LV level can change their distribution tariff subject to meeting the conditions for obtaining the tariff; or they can influence the fixed component of the regulated charge for electricity distribution by changing the main switch upstream of their electricity meter.

Chart 5 shows the percentage shares (including the VAT and electricity tax) of the various components in the resulting price of electricity supply for households in 2018.

Chart 5 Percentage shares taken by each of the components of electricity supply price for households in 2018



Note: The charge for OTE's services includes a special fee for the ERO's activities under Section 17d of the Energy Act.

Source: ERO

MOO: Low demand customers – households

Traders must provide distribution system operators with identification details of the customers whom they supply under agreements on bundled electricity 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.

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

Under Section 17(7)(l) of the Energy Act and in accordance with Article 37(1)(o) of Directive 2009/72/EC, the Office publishes recommendations in relation to electricity supply prices for households. Section 17c of the Energy Act provides for the Energy Regulatory Office's cooperation with the Office for the Protection of Competition (ÚOHS). Under this Section the Office is required to advise ÚOHS of market participants' practices where good reasons exist 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 2018, the Office 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 in the wholesale and retail electricity markets. In 2018, the Office did not find any barriers in the functioning of effective competition in the electricity market, and it therefore did not have to impose any measures.

3.3. Security of supply

The Ministry of Industry and Trade is the competent authority in this respect. The market operator is responsible for preparing demand scenarios, based on which the Ministry of Industry and Trade then adjusts its supply security policy.

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

In respect of electricity supply quality, the Office primarily monitored the level of electricity supply quality achieved and compliance with the quality standards required by public notice no. 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended. The level of supply quality in distribution systems is measured by electricity supply continuity indicators under Section 21 of the above public notice. The 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 2018 are shown in Table 1.

Table 1 Electricity distribution continuity indicators in 2018

Indicator*	ČEZ Distribuce	E.ON Distribuce	PREdistribuce	Czech Republic
SAIFI [interruptions/year]	2.74	2.01	0.40	2.24
SAIDI [minutes/year]	307.09	249.79	34.06	256.05
CAIDI [minutes]	112.26	123.98	85.40	114.33

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

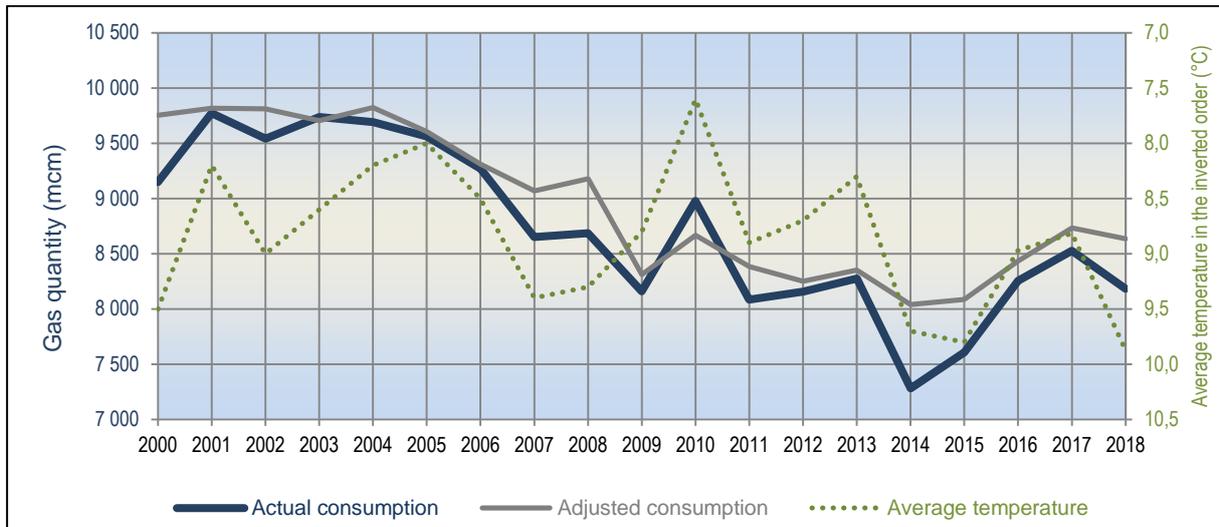
In 2018, the Office issued five reports on the operation of the electrical grid. They include quarterly reports for 4Q 2017 and for 1Q, 2Q and 3Q 2018, and also the yearly report for 2017. These reports contain purely technical information such as electricity generation broken down by technology and by fuel, electricity consumption broken down by customer category and by sector, cross-border flows, installed capacities, and other statistical data. The yearly report also includes a chapter on electricity supply quality, evaluating the continuity of supply; its data constitutes inputs into the regulatory mechanism.

4 Gas

In 2018, natural gas consumption in the Czech Republic totalled 8.183 bcm, i.e. 87,306 GWh (in the Czech Republic, the average gross calorific value was 10.67 kWh/m³, i.e. 38.42 MJ/m³). Compared with 2017, actual consumption declined by 4%. The average annual temperature was 9.9 °C, and the difference from long-term normal temperature was +2 °C and from average temperature in 2017 it differed by +1.1 °C. 2018 was the warmest year over the past 30 years. Gas consumption in the heating season accounted for about 73% of total annual consumption. The lowest monthly consumption was measured in June (324 mcm, i.e. 3,464 GWh) while the peak consumption was registered in February (1,157 mcm, i.e. 12,345 GWh). The largest drop in consumption compared with the same period of 2017 was registered in the second quarter and the largest increase was observed in the first quarter of the year in February and March. Adjusted to long-term normal temperature using temperature gradients, in 2018 natural gas consumption amounted to 8.634 bcm, i.e. 92,125 GWh, down by 1.1% year-on-year.

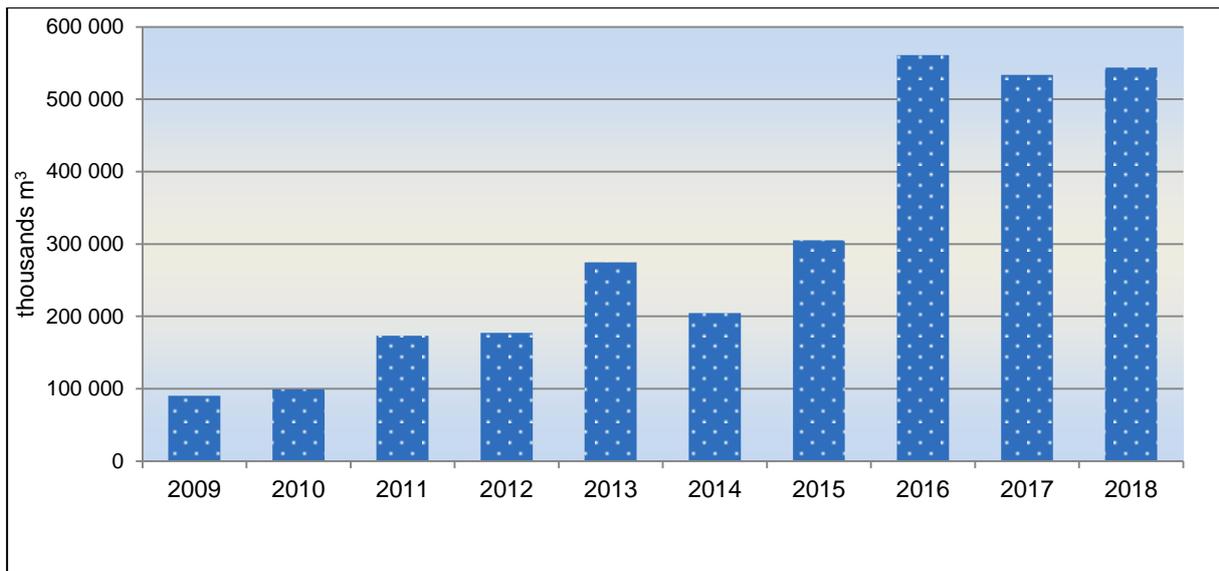
With the exception of 2010, natural gas consumption in the Czech Republic has been stable for the past ten years, although between 2015 and 2017 it was slightly increasing. This growth was mainly due to the colder weather and the growth in natural gas consumption in electricity generation, which was also felt in 2018. Natural gas consumption in the Czech Republic is heavily influenced by ambient temperatures, which have been above the long-term normal temperature for almost the whole of this ten-year period. The highest consumption over the past ten years was registered in 2010, when also the lowest average temperature was recorded. On the other hand, the lowest consumption was registered in 2014. The difference between the highest consumption in 2010 and the lowest consumption in 2014 was approximately 1.7 bcm (17.7 TWh). The largest drop in consumption, by 12%, was observed in 2014 when it totalled 7.3 bcm (77.5 TWh), the very lowest gas consumption from 1995. With its natural gas consumption, 2018 approximated 2009 and 2012, but the annual temperature was much higher then. Chart 6 depicts an overall evaluation of gas consumption in the Czech Republic, showing the adjustment to the long-term normal temperature, between 2000 and 2018. Chart 7 shows the development of gas consumption for electricity generation between 2009 and 2018. In terms of the amount of gas consumed for electricity generation, the Počerady combined cycle unit dominates; its demand is depicted in Chart 8.

Chart 6 Overall evaluation of gas consumption in the Czech Republic between 2000 and 2018 (also showing adjustment to long-term normal temperature)

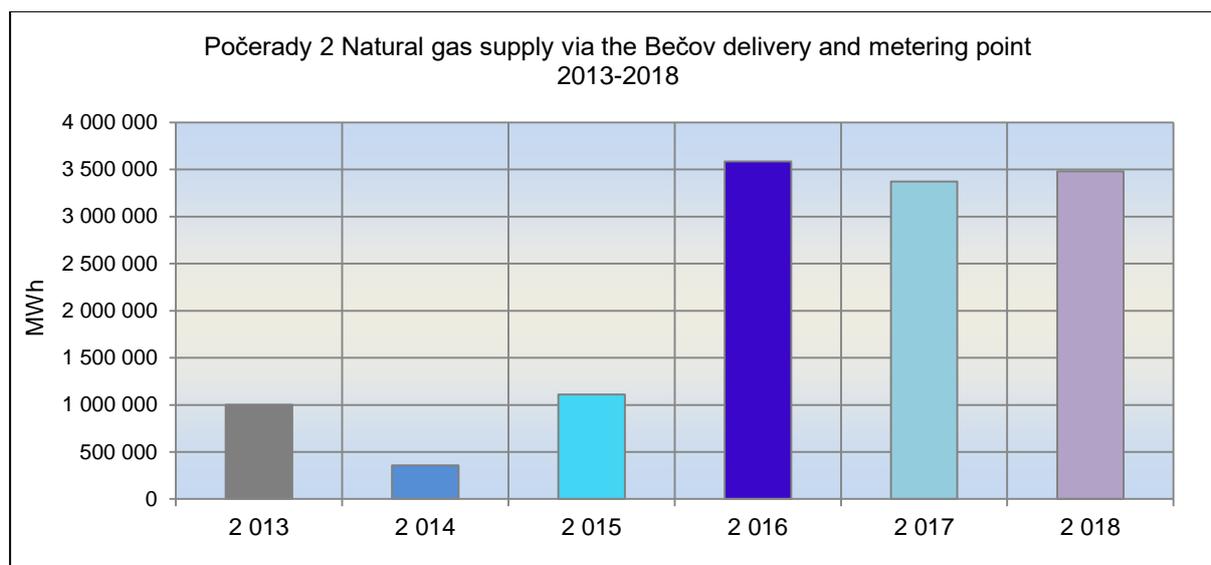


Source: ERO

Chart 7 Gas consumption for electricity generation between 2009 and 2018



Source: ERO

Chart 8 The Počerady combined cycle unit's gas consumption between 2013 and 2018

Source: ERO

4.1. Network regulation

4.1.1. Unbundling

The Czech transmission system operator, NET4GAS, s.r.o., was granted an independence certificate in 2013. In 2018, the ownership structure of NET4GAS, s.r.o. did not change and no circumstances inconsistent with the Office's decision or the European Commission's opinion of 2013 occurred, and so no reasons were found for TSO re-certification.

Under Section 59a(1) of the Energy Act, where the distribution system operator is 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.

Under Section 60a(1) of the Energy Act, a similar condition also applies to storage system operators.

Based on evaluating compliance with their obligations by the transmission system operator, distribution system operators and storage system operators, the Office did not have to take any measures in 2018 for ensuring compliance with the obligations under Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.

4.1.2. Technical functioning

The Czech gas system is an integrated system of installations for gas production, transmission, distribution and storage, including control, signalling and safety systems. The gas transmission system is comprised of 3,822 km of high-pressure gas pipelines serving for both international transit and national gas transport. The branches of the system are interconnected at the key distribution hubs in Malešovice, Hospozín, Přimda and Rozvadov. The required pressure is provided by compressor stations at Kralice nad Oslavou, Kouřim,

Břeclav and Veselí nad Lužnicí. In 2018, the installed capacity of compressor stations totalled 243 MW.

From the transmission system, gas is further delivered via delivery stations into distribution systems, to supply points of customers directly connected to the transmission system, or to gas storage facilities. Table 2 lists the lengths of the gas pipelines and service pipes of regional distribution companies.

Table 2 Lengths of gas pipelines and service pipes on 31 December 2018 by pressure level

	HP [km]	IP [km]	LP [km]
Pražská plynárenská Distribuce, a.s.	372	2,870	1,207
GasNet, s.r.o.	11,277	41,076	12,606
E.ON Distribuce, a.s.	1,221	2,979	394

HP – high pressure, IP – intermediate pressure, LP – low pressure

Source: ERO

Gas storage facilities located in the Czech Republic have a good standard in terms of both capacity and technical parameters. In 2018, three storage system operators operated eight storage facilities in the Czech Republic with an aggregate storage capacity of 3.257 bcm. Table 3 lists the highest levels of operating stores in the storage facilities of the various SSOs.

Supply security and reliability standards, quality of service and supply

As part of its competences, the Energy Regulatory Office monitors and evaluates compliance with the security standard for gas supply in the Czech Republic. The obligation to provide for this standard is laid down in Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010. This regulation has been implemented in Czech law through the Energy Act and through Ministry of Industry and Trade Public Notice 344/2012 on states of emergency in the gas system and on methods for ensuring the security standard of gas supply, as amended. In this connection, the Office prepares Monthly Reports on the Evaluation of the BSD in the Czech Republic on a regular basis and posts them on its website during the heating season. The Office has repeatedly stated that one of the key pillars of its activity is adopting measures that will ensure safe and reliable gas supply to customers in the Czech Republic (including review mechanisms), and it therefore devotes great attention to monitoring gas traders' compliance with the obligation to keep the supply security standard.

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 equipment repair and maintenance, repair of wells at storage facilities, and the stabilisation of reservoir pressures, and gas pipeline cleaning. Shutdowns of the virtual storage facility are also declared due to reasons on the part of the transmission system operator.

There was no case of failure to keep the abovementioned time limit in 2018. Furthermore, the repair work did not impair the required quality of the supply and services provided

by the respective gas infrastructure operator. However, some cases appeared where the repairs had been planned for the period when quantities of gas are taken for heating.

Monitoring access to storage, line pack and other ancillary services

Storage system operators have adopted an Equal Treatment Programme, the purpose of which is to provide for a non-discriminatory position of all gas market participants who are using or want to use the storage services. They are obliged to inform the Office about their performance under this programme once per year. In the period under review, no breach of these programmes was identified.

In the relevant legislation, the Energy Regulatory 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.

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

Access to storage facilities is based on the principle of negotiated third-party access (TPA). The terms and conditions of every auction are posted on the SSO's website in a transparent manner and well in advance. The Office continuously monitors and evaluates these terms and conditions, and also all the services offered by SSOs. No discriminatory treatment of gas market participants or breaches of the obligation to publish auction terms before it is held occurred in 2018.

Monitoring safeguard measures

No crisis in the gas market or threat to the physical safety of people, apparatus or installations or system integrity occurred in 2018 and so no safeguard measures had to be taken in 2018.

Quite the opposite, in fact: when temperatures plunged in late February and early March 2018 the Czech gas system contributed, thanks to its robustness, to the supply of the required gas quantities to places of consumption or trading in neighbouring countries.

4.1.3. Network tariffs for connection and access

Tariffs

Under Section 17(11) of the Energy Act, the Energy Regulatory Office is authorised to regulate, in the gas industry, the charges for related services in the gas industry and the gas prices of the supplier of last resort. The charge for the related service in the gas industry is understood to be the charge for the gas transmission service or the charge for the distribution system service, which also include the charge for the market operator's activities. The gas prices of the supplier of last resort are controlled on the cost-plus basis.

The regulated prices for each of the years in the fourth regulatory period are fixed in accordance with the Energy Act, public notices no. 195/2015 on methods of price regulation and procedures for price controls in the gas industry and 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 published *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 effect of which has been extended to 31 December 2020.

Under the above legislation and the price control principles, the Office fixed adjusted allowed revenues for the year, applicable to the distribution system operators, the transmission system

operator and the market operator, from which the relevant regulated prices were calculated. The revenue cap regulatory method is used for calculating the allowed revenues for distribution system operators and the market operator. In the case of the transmission system operator's revenues, a combination of the revenue cap and price cap principles is used.

The TSO's adjusted allowed revenues are one of the inputs to the calculation of the regulated prices of gas transmission; the revenues are allocated to the entry and exit points in the transmission system based on the expected use of these points. The charge for the gas transmission service determined for customers in the Czech Republic (to the 'domestic point') is integrated within gas distribution charges, and is therefore billed to customers as part of the charge for the distribution system service.

The prices for the gas transmission service are set as 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/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 gas quantity actually transported via the exit points of the transmission system. For operators of distribution systems that are directly connected to the transmission system, the same pricing method is applied, and their adjusted allowed revenues are determined on the basis of the data reported by the respective operator. Depending on booked distribution capacity and the gas quantity planned to be distributed, the adjusted allowed revenues are then allocated to the prices for each customer category, which are as follows: categories of high-demand customers, medium-sized demand customers, low-demand customers, and households.

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 Office to determine individual prices for them.

Regulated prices for the distribution system services are also usually double-component prices with a fixed and a variable component, similarly as the price for the gas transmission service. 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 off-take 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.

Every year, the Office also sets adjusted allowed revenues for the market operator's services, on the basis of which the fixed charge for clearing, related to the gas quantity taken, is then calculated.

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 include the charge for commercial services and the charge for gas supply structuring and flexibility, and are fully within the respective gas trader's competence, depend on the trader's business strategy, and are subject to its contractual relationships with customers.

The Office did not apply any special tariffs for LNG in the Czech Republic in 2018.

In 2018, the Office analysed some products the use of which has certain special features, which are defined in the price decision for customers using distribution system services. Based on the evaluated data the Office found that all products are actually used by market

participants and therefore create the conditions for the efficient and reliable consumer-focused operation of distribution systems.

On 1 October 2018 Office launched, under Commission Regulation (EU) 2017/460, a public consultation on the applied methodology (the capacity weighted distance reference price methodology) for calculating reference prices and on the prices set. The Office also posted an English version of the consultation documents on its website. The gas market participants were given three months (unlike the two months required by the Regulation), i.e. until 31 December 2018, to send their suggestions and comments on the consultation document.

Prevention of cross-subsidies

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 prevents cross-subsidies.

Negotiated access to storage

As other liberalised markets in Europe, the Czech Republic has also experienced an expansion of the traditional role of gas storage. Storage capacity helps to cover seasonal and short-term changes in demand for gas, provide for supply security, and optimise the whole gas chain; in addition, the results of the storage capacity market are reflected in the financial sector where gas storage is used for generating seasonal and spot arbitrage pricing. The seasonal differences in gas prices therefore continue to be the principal tool for storage capacity valuation. Thus, the effects of increasing competition in the European flexibility market, which in turn increases the pressure for maintaining the profitability of gas storage, is being reflected in the Czech national environment to the full extent.

Gas storage facilities play an important 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.

The Office does not regulate the price for gas storing in storage facilities; this price is made by the market based on the results of auctions in which available storage capacity is offered.

In 2018, storage system operators, innogy Gas Storage, s.r.o., MND Gas Storage a.s., and Moravia Gas Storage a.s., called a total of 25 auctions to sell storage capacities for subsequent storage years.

The reserve prices in storage capacity auctions were lower than in 2017, which can be attributed to the influence of declining gas prices on spot markets and the minimum difference between the summer and winter prices. This trend, in principle negative for SSOs, directly helps to improve the operating efficiency of gas storage facilities in a fully market environment. On the other hand, there is a positive effect of lower extra costs for gas traders, which are also passed through to the final prices for customers through business models.

Another criterion for assessing the rules applicable to access to storage facilities is the level to which they are filled. This figure is important before the beginning of the heating season and at the end of the storage year when, in case of temperature changes, for technological reasons storage facilities are unable to offer the full withdrawal capacity when gas stores in them are too low. On 1 October, the day that is regarded as the beginning of the heating season and when conventional customs dictate the start of gas withdrawal from facilities, none of the storage facilities was 100% filled. Nevertheless, the temperature profile in 2018

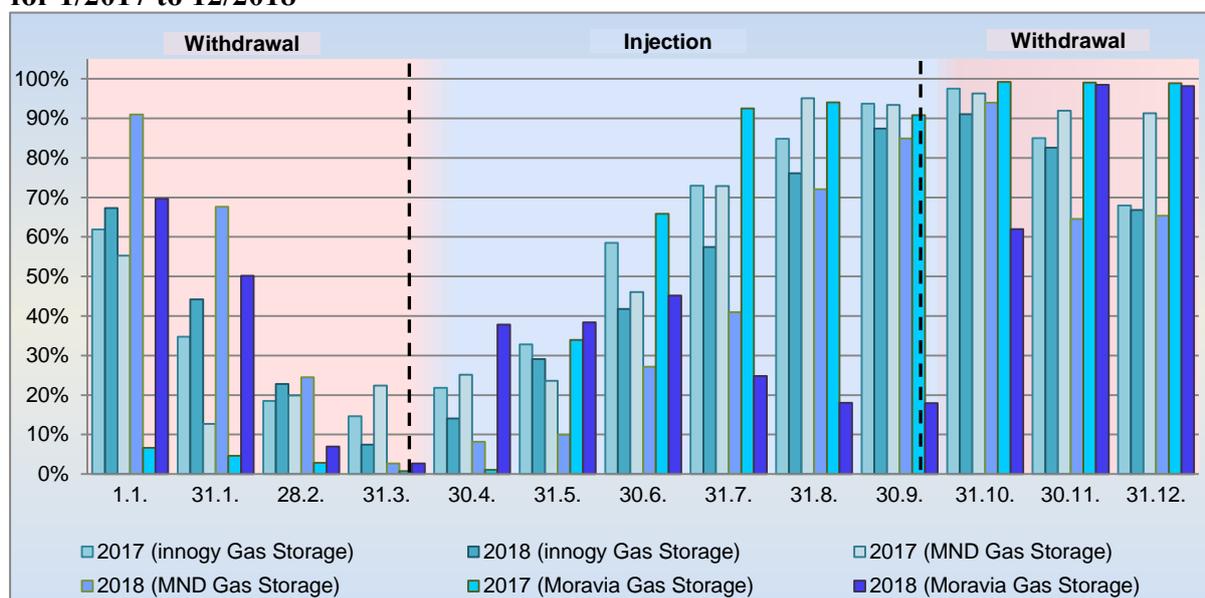
allowed gas injection into storage facilities after 1 October; Table 3 shows the maximum levels of gas stored in storage facilities 3.

Table 3 Dates on which gas stores reached the maximum percentage of capacity in 2018

Company	Date of the maximum	Maximum achieved percentage of filling the facility (v %)
innogy Gas Storage, s.r.o.	27 October 2018	91.15
MND Gas Storage a.s.	19 October 2018	96.81
Moravia Gas Storage a.s.	9 December 2018	98.59

Source: <https://agsi.gie.eu>; www.gasstorage.cz; www.moravia-gs.cz

Chart 9 Comparison of the levels of gas stores in storage facilities in the Czech Republic for 1/2017 to 12/2018



Source: www.innogy-gasstorage.cz; www.gasstorage.cz; www.moravia-gs.cz

Table 4 Comparison of gas volumes in facilities before and after the heating season

Company	Level in the facility (in %) on 30 September 2017**	Level in the facility (in %) on 31 March 2018**
innogy Gas Storage, s.r.o.	93.75	7.42
Moravia Gas Storage a.s.	90.87	2.69
MND Gas Storage a.s.	93.69	2.66

** The percentage expresses the ratio of the gas quantity in the facility and its technical capacity

Source: www.innogy-gasstorage.cz; www.gasstorage.cz; www.moravia-gs.cz

4.1.4. Cross-border issues

Virtualisation of interconnection points

Complying with the obligation to implement a virtual interconnection point, laid down in Article 19 of Commission Regulation (EU) 2017/459 of 16 March 2017 establishing

a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013, in 2018 the transmission system operator established a virtual interconnection point at Brandov. ERO Price Decision 1/2018 set out regulated prices for established or envisaged virtual interconnection points at Brandov, Waidhaus and Lanžhot, with a view to making it possible to continue offering the gas transmission service in case such points would be established. Since the establishment of the Brandov virtual interconnection point, the transmission capacity between the Czech Republic and the German GASPOOL trading zone has been offered solely via this point. The transmission system users who have booked transmission capacity at the relevant delivery points of the transmission system can migrate their contracts to the new virtual interconnection point under conditions known in advance.

Due to the need to carry out some technical modifications at interconnecting points, the virtual interconnection point between the Czech Republic and the German NCG trading zone was planned to be implemented as of 1 March 2019.

Pilot project for direct access to gas markets between the Czech Republic and Austria

The Trading Region Upgrade (TRU) service, which interconnects the Austrian and Czech gas markets and the main objective of which is to simplify transaction procedures and reduce the costs incurred in gas transmission between the Czech and Austrian trading zones, continued in the pilot stage intended to gauge traders' demand for this service. Under the pilot project, the service was first offered as a yearly product: 90,000 kWh/h out of the total offered capacity of 112,686 kWh/h in the direction from the Czech Republic to Austria was sold. The service was then also offered as a quarterly product, and 22 000 kWh/h in the direction from the Czech Republic to Austria was sold in quarterly auctions. For 2019 an offer of using monthly capacity or day-ahead capacity is expected to be prepared.

There was no demand for using the service in the direction from Austria to the Czech Republic in 2018.

Cooperation with other regulatory authorities and ACER

In 2018, the Office intensively cooperated, in the ACER working group, in the drafting of a report on the methodologies and parameters employed for determining allowed or target revenue for transmission system operators, which ACER prepared under Article 34 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.

In February 2018 the Office also fully took over as a co-chair of SSE GRI, Gas Regional Initiative – South South-East. As part of this new role in June 2018 it organised a two-day meeting of representatives of regulatory authorities from the countries in the region, which was also attended by gas market stakeholders (the Stakeholder Group Meeting).

The gas working groups in which the Office's staff members participated focused on facilitating the implementation of the relevant provisions of applicable regulations in the national gas market models. They also started intensive discussions on the direction to be followed by the gas industry; it should reflect the requirements for gas use sustainability and also requirements for the transition to low-carbon technology and for absorbing digital technology development.

4.1.5. Compliance

The Energy Regulatory Office exercises its powers under the relevant provisions of the Energy Act, which lay down the rights and obligations arising from the relevant provisions of EU legislation, i.e., in particular, Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010, Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency, and Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC. The Czech legislation is fully harmonised with the above EU legislation.

The Office also exercises its supervisory powers under the Energy Act so as to ensure the efficient monitoring of all gas market participants' compliance with EU and Czech law and with its 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.

4.2. Promoting competition

4.2.1. Wholesale markets

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

In compliance with the third energy package, the Czech gas market has been fully liberalised since 2007. The Office does not have the competence to set the prices of the gas traded at wholesale markets. Effective competition exists in the wholesale market, which does not have to be substituted by ERO regulation. Wholesale prices are created on the basis of agreement between the entities in relation to the current market situation.

Traders operating in the wholesale gas market can buy gas at commodity exchanges, under long-term contracts, or from other traders. Long-term contracts are currently no longer preferred by gas suppliers. However, a significant quantity of gas which is traded between gas market participants is imported into the Czech Republic under historical contracts.

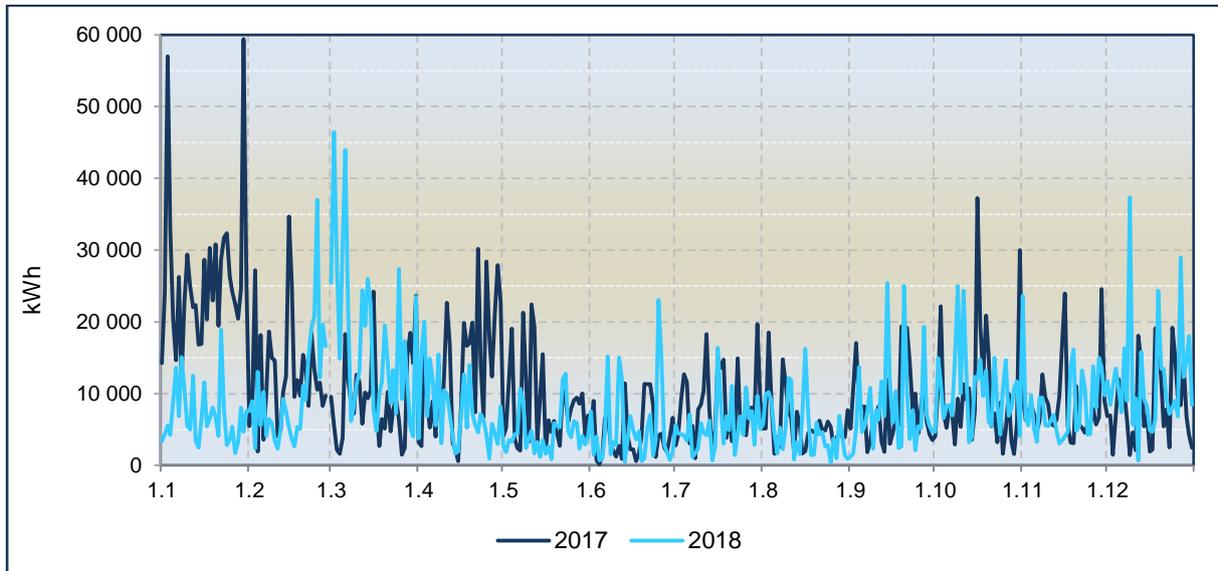
Spot gas market

Under Section 20a of the Energy Act, the spot gas market is organised by the holder of the exclusive licence for the activities of the market operator. In response to the gas market

participants' negligible interest in the day-ahead gas market in recent years, since 2017 only the within day (intraday) gas market is being organised.

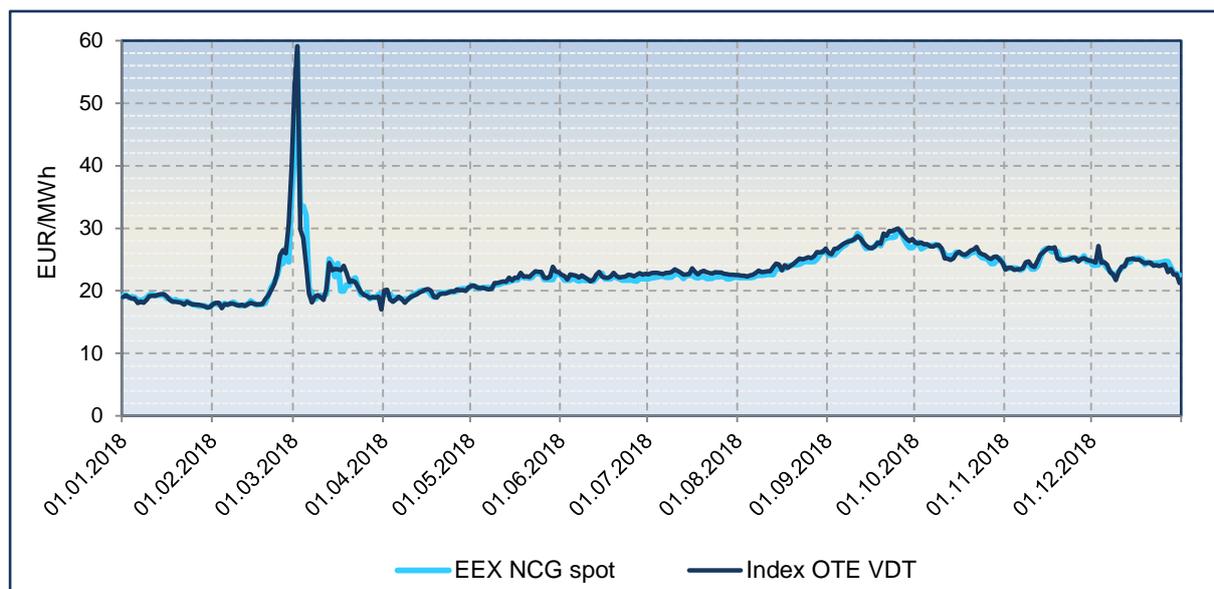
Compared with 2017, the within day gas market experienced a slight decline in usage. In 2018 a total of 3,059 GWh of gas was traded at the within day market. The weighted average of the prices of the gas traded at the within day gas market stood at EUR 23.88/MWh in 2018.

Chart 10 Traded gas quantities in 2017 and 2018



Source: OTE, a.s.

The weighted average of the prices at the within day gas market organised by the market operator in 2018 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, the PEGAS platform). A more detailed comparison of the prices at some within day markets is shown in Chart 11.

Chart 11 Comparison of the OTE Index and EEX NCG spot prices in 2018

Source: OTE, a.s. and Powernext SAS

Weighted daily averages of the prices of the gas traded at the within day market in 2018 directly correlated with the development of prices at the other trading platforms in neighbouring countries, on which gas is traded (NCG, TTF, Gaspool, and CEGH). The gas market participants' interest in using the within day market continued in 2018, and it can therefore be regarded as a fully-fledged platform on which commercial plans can be carried out. The execution of transactions at the within day gas market, which runs on a 24x7 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.

It can therefore be noted that the within day gas market organised by the market operator in the Czech Republic is a fully functional tool for gas procurement in the wholesale market. An important aspect for gas market participants is that the within day gas market has the capacity to satisfy occasional bids for large daily gas volumes for prices comparable with other key trading platforms relevant for the Czech Republic, while the price remains lower than at the Austrian CEGH hub.

POWER EXCHANGE CENTRAL EUROPE

Power Exchange Central Europe (PXE) also operates an exchange market for gas trading with delivery at the virtual trading point in the Czech market. As part of gas trading (Czech Gas Futures) 1,851 contracts totalling 4,210 GWh valued EUR 91,995,957 EUR were traded at PXE in 2018. In spot market trading (Czech Gas Spot) 123,531 contracts totalling 3,483 GWh valued EUR 85,008,406 were traded at PXE in 2018. Compared with 2017, PXE registered an increase in the number of executed contracts and the gas quantity traded.

4.2.2. Retail market

An environment where gas traders offer and sell services related to gas supply to customers is understood to be the retail market. As at 31 December 2018, the Office held records of a total of 2,840,619 supply points connected to regional distribution systems in the Czech

Republic. Compared with 2017, the number of registered supply points therefore slightly declined (by 3,644 supply points). A more detailed overview of the structure of customers taking gas in the Czech Republic is contained in Table 5.

Table 5 Number of gas supply points in 2018

Customer category	Number of supply points	Share [%]
High-demand customers	1,692	0.06
Medium-demand customers	6,817	0.24
Low-demand customers	205,693	7.24
Households	2,626,417	92.46
Total	2,840,619	100.00

Source: ERO

A total of 263,425 gas supplier switches were registered in 2018; of those, 226,974 took place in the most populated customer category, i.e. households. Table 6 shows the structure of gas supplier switching in more detail. The increase in the number of supplier switches was caused by the significant changes in prices in wholesale prices in the second half of 2018, which gas suppliers did not cover from their margins but passed them through into their gas supply prices. When gas traders increased their prices of gas supply services customers had, under Section 11a of the Energy Act, the option to terminate their contract free of charge under the contract terms and conditions and arrange for gas supply through a supplier that better satisfied the customers' requirements for the price of the gas supply services.

In terms of the level and effectiveness of gas market opening and competition it can therefore be noted that the current legislative framework for supplier switching meets the requirements for putting in place a competitive and safe consumer-focused environment.

Table 6 Number of gas supplier switches between 2011 and 2018

	2011	2012	2013	2014	2015	2016	2017	2018
High-demand customers	537	979	449	330	329	617	305	395
Medium-demand customers	1,142	2,951	3,061	1,572	1,326	1,973	1,357	1,620
Low-demand customers	26,994	27,829	29,091	23,704	21,642	28,411	26,205	34,436
Households	333,268	316,297	264,680	174,783	154,465	172,949	199,678	226,974
Total	361,941	348,056	297,281	200,389	177,762	203,950	227,545	263,425

Source: OTE, a.s.

Table 7 shows the number of supplier switches to the number of supply points (the switching rate) broken down by customer category in 2018.

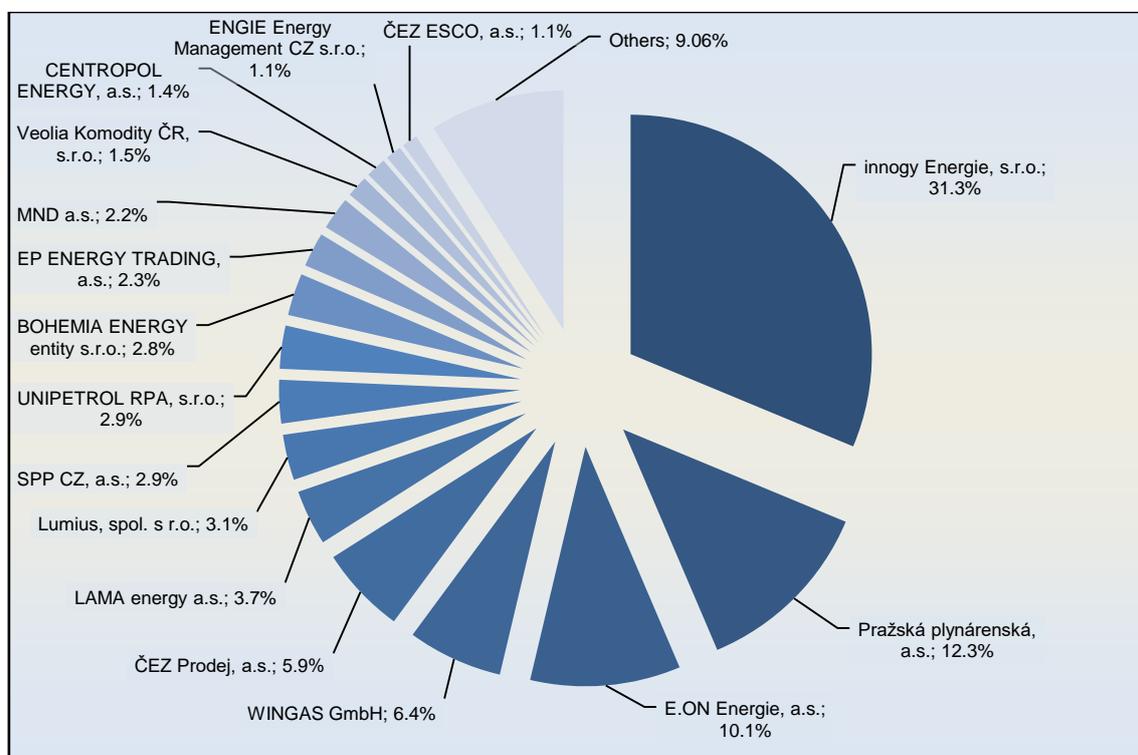
Table 7 Number of gas supplier switches in 2018

Customer category	Number of supplier switches	Total number of supplier switches	Switching [%]
High-demand customers	395	1,692	23.3
Medium-demand customers	1,620	6,817	23.8
Low-demand customers	34,436	205,693	16.7
Households	226,974	2,626,417	8.6
Total	263,425	2,840,619	9.3

Source: ERO, OTE, a.s.

In 2018, the Office registered 119 active traders that supplied gas to customers during the year. In terms of the gas quantity supplied, in 2018 the largest market share was held by innogy Energie, s.r.o. with 31.3%, followed by Pražská plynárenská, a.s. with 12.3% and E.ON Energie, a.s. with 10.1%. Chart 12 depicts a more detailed breakdown of gas traders' shares in gas supply to customers.

Chart 12 Traders' shares of gas supply in 2018



Note: Traders supplying less than 1% are included in the Others item

Source: ERO

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

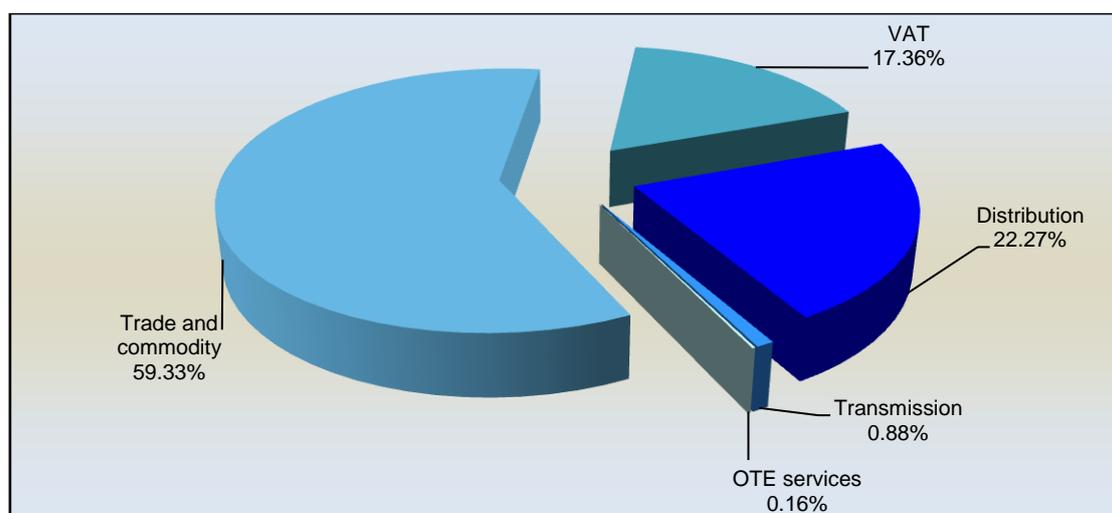
Complying with its obligations laid down in the Energy Act, the Energy Regulatory Office continuously carries out monitoring and investigation concerning the gas market functioning in order to see whether effective competition exists in this market. This activity also includes assessing the conditions for the functioning of the liberalised Czech gas market. Based on its monitoring in 2018 the Office notes that effective competition exists in the gas market and the conditions for the functioning of the liberalised gas market have been put in place correctly. Every customer has the right to select a gas trader that will best meet their requirements. However, compared with the other EU countries, a relatively small part of customers are using their options for supplier switching. As the result, the competitive pressure on gas traders is not so strong and many traders can therefore offer their services for higher prices, because their customers accept such prices.

The Office's 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 gas supplier switching and of indicative gas prices and also facilitates a link to a site offering comparisons of gas suppliers.

The overall price of gas supply for customers is made up of the charge for the distribution system service and the unregulated price of gas, i.e. the commodity, which is determined by the supplier selected by the customer. The Office sets out the charge for the distribution system service in its binding price decisions. The charge for the market operator's services is the same for all final customers in the Czech Republic regardless of the connection point or selected supplier. The charge for gas distribution depends on the place of connection, i.e. on the distribution system to which the supply point is connected.

Chart 16 shows the percentages of the components of the resulting gas supply price for households for 2018 (the percentages include the VAT).

Chart 13 Structure of the average price for the gas supply service for household customers in 2018



Note: The charge for OTE's services includes a special fee for the ERO's activities under Section 17d of the Energy Act.

Source: ERO

Indicative prices

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

Although it was not found in 2018 that effective competition did not exist in the gas market, and therefore there was no need to adopt measures to eliminate the causes of such a situation, the Office continued to post indicative prices of gas supply services on its website. The indicative prices of gas supply services reflect the development of the wholesale prices for which gas traders are able to buy gas (as the commodity) for their customers at energy markets. They also contain traders' reasonable margin, which covers traders' costs necessarily incurred in their business activity and a customary level of profit. The indicative prices therefore constitute non-binding and indicative information for consumers on whether the prices for which they are buying gas reflect the actual situation in the retail gas market.

Indicative prices are published only for customers in the household and low-demand categories and are structured into three groups based on the indicative use of gas and the size of its annual consumption (cooking, water heating, and space heating).

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

Satisfying the requirements of Directive 73/2009/EC, implemented in the Czech legislation, the Energy Regulatory Office puts in place rules that provide for the gas market's secure and non-discriminatory functioning and promote a competitive environment. The gas market has been fully liberalised since 2007 and the Office 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. 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 service 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 related 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 and opportunity to select their gas supplier.

In 2018, the Office continued in the continuous monitoring, within its remit and in line with Section 17 of the Energy Act, of 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 2018 it therefore did not impose any measure to eliminate the causes preventing effective competition in the gas market.

4.3. Security of supply

In this respect, the Ministry of Industry and Trade is the competent authority.

As part of its competences, the Energy Regulatory Office monitors and evaluates adherence to the security standard for gas supply (BSD) in the Czech Republic. In response to the expert circles' interest, the Office has created a Monthly Report on the Evaluation of the Gas Supply Security Standard in the Czech Republic; it is based on data received from gas traders and subjected to periodic evaluation, and posted on the Office's website since the 2015/2016 winter season. In these reports the Office also pursues, among other things, one of its key priorities: identify all factors that might stand in the way of ensuring secure and reliable gas supply to final customers in the Czech Republic.

Under applicable legislation, before every the winter season all gas traders send the Office information concerning the obligation to provide for BSD. The Office found that as at 31 December 2018, of all the licensed entities a total of 140 gas traders provided for BSD for their own operation or for some other gas traders.

In 2018, BSD was provided for January to March and October to December. Most gas traders supplied a confirmation that they had another gas market participant providing for their BSD, i.e. one trader provides BSD for several other traders, including through gas storage for 30% of BSD.

In the light of suspicion that certain companies failed to ensure the required 30% in a storage facility at the end of the 2017/2018 winter season, the Office requested storage system operators to provide data on the daily quantities of gas stored in the relevant period, broken down by gas trader. Based on this poll, the Office conducted inspections at some of the companies with a view to checking each of the traders' actual provisions for BSD, since customer protection in the Czech Republic is one of the Office's key missions.

5 Consumer protection and dispute settlement in electricity and gas

5.1. Legal protection of consumers and international activities

In the first half of 2018, the Energy Regulatory Office, MPO and ČOI publicly stated that they would intensify their activities in and follow a joint approach to consumer protection. In cooperation with ČOI, the issue of disputes over the sale of LED bulbs in connection with energy supplier switching arranged outside premises customary for business was resolved. Based on coordinated procedure, a situation has been achieved in the electricity and gas markets where no supplier is making the conclusion of a contract for more advantageously priced LED bulbs conditional on concluding a bundled services agreement any longer. In 2018, the Office and ČOI also cooperated in addressing consumers' complaints concerning the activities of entities carrying on business outside the scope of the Energy Act; they offer consumers that they will intermediate electricity or gas supply contracts for them in tendering procedures or auctions. Further to the Office's suggestions, ČOI conducted a review action focused on such entities' activities and in many cases found them transgressing the law of consumer protection. The outcome of the Office's and ČOI's coordinated procedure is a situation where many suppliers are refraining from using this method of customer acquisition or at least do not insist on consumers' strict compliance with the obligations arising from contracts so concluded and seek to settle such obligations through agreement. As part of prevention, the Office also organised a number of lectures on consumer protection and their defence against unfair practices, directing its educational activities at, primarily, elderly citizens as a major group of particularly vulnerable consumers.

Ten Commandments of Defence against Energy 'Scumbags'

With a view to improving information for consumers, giving them an opportunity to find their way around the energy market more easily and reducing the risks that consumers, being the weaker party in contractual relationships entered into with suppliers, are facing precisely due to the information deficit, the Office posted on its website and subsequently ensured broad-ranging media coverage for its *Ten Commandments of Defence against Energy 'Scumbags'*.

Addressing submissions

In 2018, the Energy Regulatory Office received a total of 13,489 submissions from consumers, of which 9,448 over the telephone, 3,837 in writing, and 204 in person. Consumers resorted to the Office primarily with questions and requests for help, which concerned the justifiability of claims for the payment of contract penalties by suppliers, conditions for terminating or withdrawing from electricity/gas supply agreements, and identification of particular traders and supply history at supply points. Submissions also concerned the accuracy and timeliness of consumption billing and other conditions of electricity or gas supply, including the pricing conditions, peddling, the intermediation

of supplier switching by intermediary and auction companies, the supplier switching procedure, and the circumstances of the emergence and implications of illegal off-take.

Consumer protection – international relations

In respect of consumer protection and the retail market, in 2018 the Office was intensively involved in the activities of CEER, which pursues the objective of helping the most populated consumer segment to find their way around as they may need in the liberalised market, primarily as regards energy prices and the quality of supply.

On 30 November 2016, the European Commission presented a package of legislative proposals with broad-ranging impacts on the working of the European electricity market, as part of the winter package that addresses consumer issues and retail markets primarily through a recast of Directive 2009/72/EC concerning common rules for the internal market in electricity; thereupon, 2018 was marked by preparations for trilogues and finalising the relevant articles of the directive. The Office also closely cooperated with MPO, MZV and the Office of the Government, and also with other European regulators, on issues concerning consumer protection.

The initiative focused on consumers and retail, the PEER (Partnership for the Enforcement of Energy Rights) initiative, continued under CEER's auspices. The idea was to boost communication, to exchange information and to reinforce collaboration between the various parties in order to identify and address critical issues related to the rights of energy consumers and their protection, in particular as regards 'bundled products'.

Cooperation with ACER, namely in the preparation of the Market Monitoring Report, is another systematic activity.

5.2. Dispute settlement

Under Section 20e(c) of Act No 634/1992 on Consumer Protection, as amended, the Energy Regulatory Office is one of ADR (Alternative Dispute Resolution) bodies. Its Adversarial and Approval Proceedings Department decided on motions filed by customers in the position as consumer under Section 17(7)(e) of the Energy Act:

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

In 2018, proceedings were conducted on 140 motions, of which 94 were concluded with finality in 2018.