

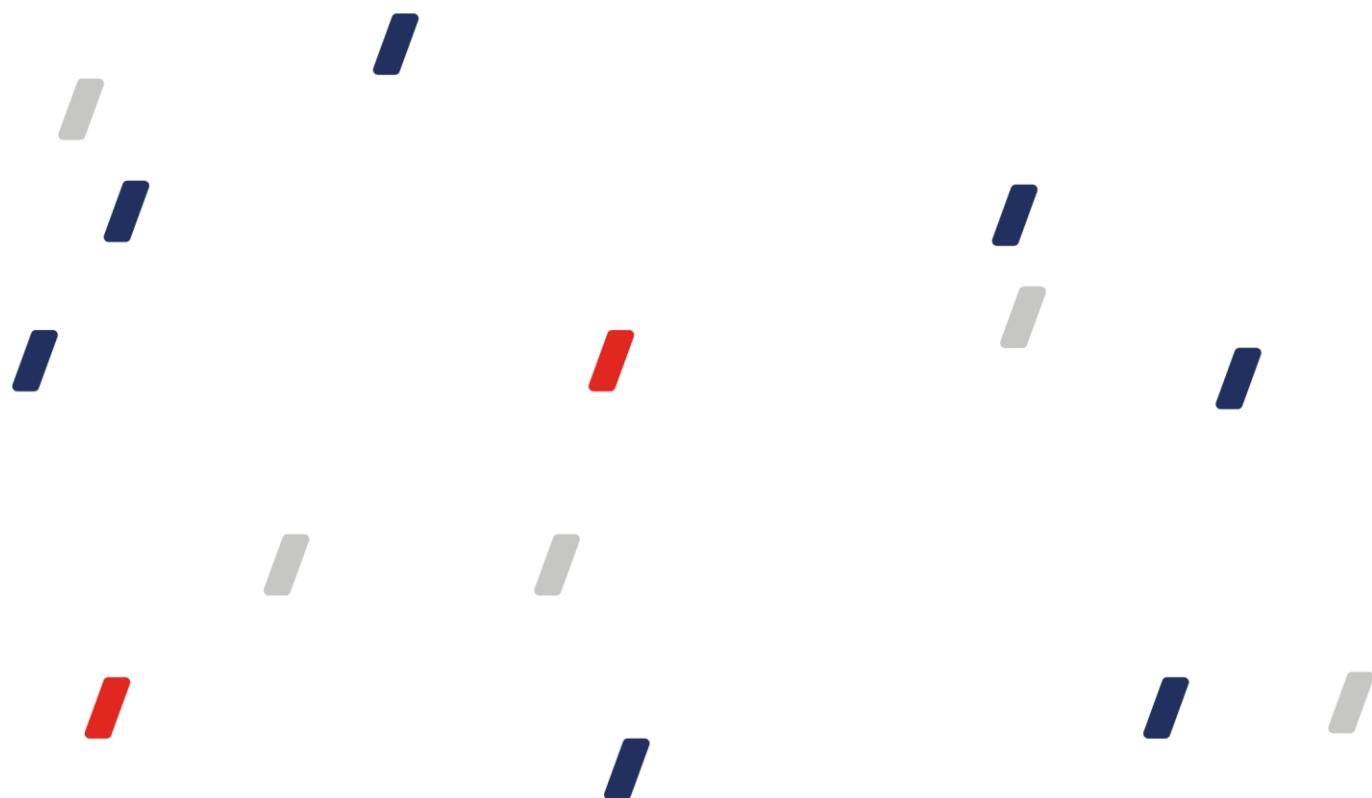
# COMBINED PUBLICATIONS

Report on the Activities and Finances  
of the Energy Regulatory Office

&

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

**2021**



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## 1 INTRODUCTION

Under Section 17 (10) of the Energy Act, the Energy Regulatory Office (the ERO or Office) presents the Report on the Activities and Finances of the ERO for 2021 [annual report] to both Chambers of Parliament of the Czech Republic, the Czech Government, the European Commission (EC), and the Agency for the Cooperation of Energy Regulators (ACER). The ERO also presents its National Report on the Electricity and Gas Industries in the Czech Republic for 2021 [national report] to the EC, including ACER, and the Council of European Energy Regulators (CEER).

Under the Energy Act, the ERO has been operating as an administrative authority for regulation in the energy industries since 1 January 2001. The ERO regulates the electricity, gas, and heat supply industries and determines aid for supported energy sources (SES, or POZE in Czech). The ERO is headed by a five-member body, the Board, the members of which are appointed by the Czech Government for a predefined term of office.

This publication, combining the annual report and the national report for 2021, covers the same issues and data as in the preceding years. The content that is shared by both reports and essential for the national report is mainly concentrated in the first six chapters on, progressively, a summary of the development in the electricity and gas markets, including consumer issues (Chapter 3), the electricity industry (Chapter 4) and the gas industry (Chapter 5), REMIT (Chapter 6), and the international activities, including ACER's and CEER's working groups (Chapter 10). The remaining parts cover primarily the annual report's content important for experts in the Czech Republic (the heat supply industry and supported energy sources) and Czech national institutions, such as the chapters on the ERO's budget management, human resource management, and internal control.

### 1.1 The ERO Board

In 2021, Stanislav Trávníček (right) was the ERO Board Chairman, and (from left) Petr Kusý, Markéta Zemanová, Ladislav Havel, and Martina Krčová were the other members.



## 2 FOREWORD

Dear Readers,

The year 2021 was unprecedented in many respects. The heavy volatility in the European energy market gradually mutated into what we call the energy crisis today. The root cause consisted of a number of factors, more specifically their critical coincidence at a single moment. The rising prices of emission allowances in connection with the global economic recovery spurred by the easing of the anti-pandemic measures, and also the unfavourable natural factors reducing output from renewable energy sources certainly played their role. Russia was intentionally destabilising the EU's single energy market through expedient reductions in its gas supply from as early as mid-2021; its steps had profound impacts.

In the Czech Republic, the collapse of the companies in the BOHEMIA ENERGY entity Group was the most visible consequence of these developments. Although as late as 2021 the Group was reporting a profit after tax of more than CZK 600 million, the record surges in prices at the exchange combined with its risky business model resulted in the Group discontinuing, literally overnight, electricity/gas supply to approximately 900,000 customers in late 2021.

Suppliers of last resort immediately took over the customers for whom this Group and other companies ended energy supply during the autumn of 2021. Thus, nobody was deprived of electricity/gas supply and this safety net passed muster in this historical stress test. However, the problem was the price of this energy supply because the suppliers of last resort had to buy this energy on the spot market, which was extremely expensive at that moment.

As part of determining the cost-plus prices to be charged by the suppliers of last resort, the Energy Regulatory Office reduced, as early as during the initial discussions, the prices suggested by these suppliers by CZK 500/MWh on average. However, not even this reduction could prevent the prices from surging for the affected customers if the Office was to comply with the statutory conditions for cost-plus pricing, which guarantee suppliers of last resort the recouping of justifiable costs. At least short-term assistance was provided to customers through an option to reduce their down payments temporarily on the basis of a memorandum initiated by the ERO and the Ministry of Industry and Trade. Nevertheless, this memorandum also stated that it was a temporary measure and only granted some time for activating the social system.

Although this was *not* the first ever collapse of a comparable size, the fall of such a big supplier naturally triggered debate on the role of the regulator and the options of supervision offered by the Energy Act as then in force and by the EU rules. The technical part of the discussions focused on the required legislative changes because in the unregulated part of the market, which also includes energy suppliers, the Energy Regulatory Office has only limited competences consisting mainly of consumer protection in cases specified by the law. However, the ERO is not allowed to interfere with suppliers' business strategy.

For illustration, in 2021 more than 22,000 consumers approached us for advice or help, i.e. twice the number in 2020. Moreover, the largest part of this increase was concentrated in the last quarter and entailed questions and requests for help related to migration to the supply of last resort and, subsequently, to standard products. We also greatly appreciate the help provided by the cooperating organisations, which were training in this issue from the very beginning: the call centre of the Ministry of Industry and Trade, employees of the Labour Office of the Czech Republic (*Úřad práce ČR*), members of the Czech Union of Towns and Municipalities, and a number of non-governmental, including consumers' organisations. The Office of the Public Defender of Rights (Ombudsman), among others, appreciated this often less visible work in the conclusions of its related inquiries.

In late 2021, the Energy Regulatory Office approached the newly appointed Government of the Czech Republic with a set of proposals for measures. The proposals, some of them also based on the experience of other countries' regulators, suggested certain legislative changes and the State's measures with a view to arresting the growth of energy prices and preventing additional suppliers from collapsing. In this respect, our effort continues also in 2022.

The Energy Regulatory Office did not deal with the crisis only. During the year, it issued a number of Price Decisions on the scheduled dates. As regards changes, worth mentioning is, primarily, the new Price Decision for the heat supply industry, which was issued in September and followed up on the 2020 Price Decision. Through these two Price Decisions, the current ERO Board has put in place a new underlying policy for the heat supply industry. In addition to boosting the transparency and fairness of pricing calculations, the policy also seeks to remedy the fundamental deficiencies of the preceding Price Decision, which had last been updated in 2013.

In the Price Decisions for the electricity and gas industries, which are fundamental for the size of the regulated component of energy supply prices, the Office managed to keep the increases below inflation, although during 2021 the energy exchange was already generating strong pressures for hiking certain regulated charges in which the prices of energy as a commodity are reflected. This result is also attributable to intensive talks with the Ministry of Industry and Trade and other ministries, which were running from the summer of 2021 when the Office detected the risk of the energy supply price's regulated component rising, with impacts mainly on large-demand industrial customers for electricity.

The passing of the 'intermediaries' amendment to the Energy Act by Czech Parliament was the highlight in the legislative area. Thus, in September 2021 the country adopted an amendment for which the Energy Regulatory Office had been calling and to the drafting of which it had been contributing since the spring of 2018. As the informal name of this amendment indicates, the law redefines the activities of intermediaries in the energy sector as business, including the required rules. Further to the effect of this law, in 2022, a register of intermediaries is being developed and the Office is also gradually obtaining the required competences in supervision over a profession that has become notorious for massively damaging consumers' rights. However, the expected positive effects are being eroded by the fact that the significant extension of our duties, which will require a completely different type of supervision, is not accompanied by the required increase in our personnel capacities.

Mentioning the scope of the Office's agenda, the number of licences was 29,199 at the end of last year. At the same time, last year alone the Office handled 2,227 applications for licence grant or change. Thus, there is a continuous increase, and it will be further augmented by the development of distributed generation intended to reinforce the self-sufficiency and security of energy supply in the Czech Republic. In respect of the registration of intermediaries, the Office also expects to handle up to thousands of new applications, at least initially.

Dear readers, please accept my sincere thanks for your interest in the Energy Regulatory Office's operation, work, and results described in this Report.

Stanislav Trávníček  
ERO Board Chairman



## 3 DEVELOPMENT IN THE ENERGY MARKET AND CONSUMERS

### 3.1 Electricity industry

In 2021, the activities related to the development of the Czech electricity market continued, *inter alia*, in the context of the development of the EU's synchronous area. This effect was felt the most strongly in the spot electricity market, where Single IntraDay Coupling, completed in 2019/2020, also helped to complete Single Day-ahead Coupling and, partly, the interconnection of spot electricity markets within the European Economic Area. Thanks to a local project, with a working name of Interim Coupling, June 2021 saw the interconnection of the countries involved in Multi Regional Coupling (MRC) with the countries involved in 4M Market Coupling (4M MC), resulting in the elimination of explicit auctions on six national borders (PL-DE, PL-CZ, PL-SK, CZ-DE, CZ-AT, and HU-AT) and the replacement thereof with implicit allocations. Electricity sale/purchase and obtaining the required cross-border transmission capacity therefore take place at a single point for all the bidding zones involved and the relevant national borders. This is a historical milestone in electricity trading in the Czech Republic.

In the intraday electricity market organised by the market operator, 5,213 GWh of electricity was traded, i.e. up by approximately 17% on 2020. In 2021, the weighted average of the prices of electricity traded in the intraday market skyrocketed to EUR 106.09/MWh. At the end of 2021, 122 market participants had access to the electricity spot market (the figure was 119 in 2020).

### 3.2 The gas industry

In 2021, the Capacity4Gas project was put into operation; work continued on the Moravia Capacity Extension project and on the connection of new storage capacities of the Dolní Bojanovice UGS facility, owned by SPP Storage, s.r.o., to the Czech transmission system.

For the gas industry, the highlight of 2021 was the EC's initiative to introduce a legislative package significantly changing the European energy market in the context of its decarbonisation. The package primarily included the Proposal for a Regulation on the internal markets for renewable and natural gases and for hydrogen (recast), the Proposal for a Directive on common rules for the internal markets in renewable and natural gases and in hydrogen, and the Proposal for a Regulation on methane emissions reduction in the energy sector and amending Regulation (EU) 2019/942 (the Decarbonisation Package).

A total of 4,007 GWh of gas was traded in the within-day gas market organised by the market operator. In 2021, the weighted average of the price of gas traded in the within-day market shot up by 486% on 2020 to EUR 46.25/MWh. Towards the end of 2021, natural gas prices in the spot market even exceeded EUR 170/MWh. At the end of 2021, 115 market participants had access to the spot gas market (the figure was 104 in 2020).

In recent years, the prices in the Czech within-day gas market have been closely following the prices of comparable products in the German market area, Trading Hub Europe (THE within NCG), traded on the PEGAS platform operated by European Energy Exchange AG (EEX).

### 3.3 The ERO's response to the energy market crisis

Energy markets experienced unexpected developments in 2021. In the Czech Republic, one of the biggest energy suppliers, BOHEMIA ENERGY entity s.r.o., and then several other smaller suppliers discontinued their operation, which resulted in almost one million customers landing in the mode of the supplier of last resort (SoLR). SoLR supply was accompanied by a surge in supply prices resulting from the currently high electricity and gas prices in the spot market. For illustration, in mid-2020, one MWh of gas was traded for



EUR 12.45 in the Czech spot market, while in mid-2021 the price was as much as EUR 97.55, with electrical energy prices also rising in trading. However, the rising gas and electricity prices did not affect the SoLR customers only. Standard suppliers responded to the rising prices by changing their price lists or converting their products to spot products or by terminating contracts.

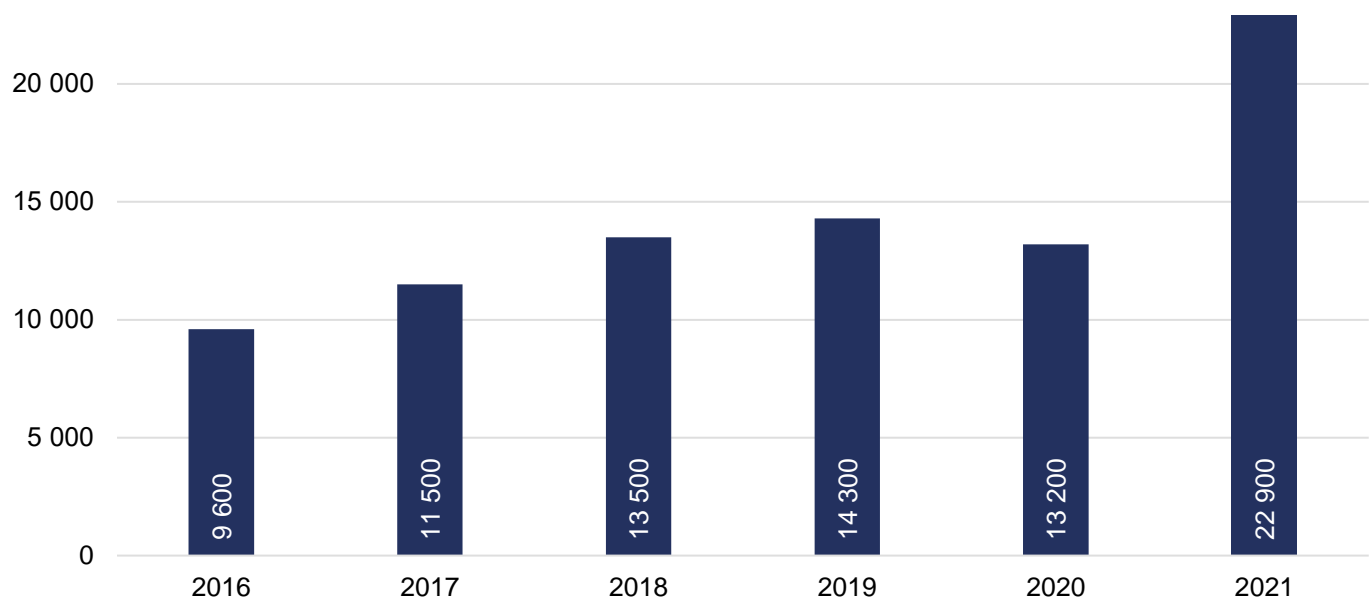
The Office addressed the energy market situation at multiple levels. Besides directly communicating with consumers, when it also started local cooperation with non-profit consumer organisations and self-governments whose representatives are the closest to consumers, it also suggested and consulted system measures with a number of stakeholders, including the State's institutions.

At the end of 2021, the Office informed the leaving and new cabinet members about the situation, offering a number of proposals for the current problems and system measures.

### 3.3.1 Advice

While in 2020 the Office received 13,200 submissions from consumers, their number almost doubled to 22,900 in 2021.

**Chart 1** Number of submissions from consumers



Source: ERO

At the expense of some other lines of its activity, the Office had to reinforce its personnel capacity heavily to be able to handle all the submissions from consumers (the number of telephone calls per day was more than ten times higher); the Office also used its other units' personnel (in addition to the Consumer Protection Unit) until the end of 2021, being aware that reinforcements in this line of activity would also be needed in 2022.

The Ministry of Industry and Trade (MIT) set up a special telephone line, which provided guidance in cooperation with the Office. The continuously updated and supplemented FAQ document posted on the ERO's website also served for these purposes. The Office also organised quite a few training courses for counselling services and their staff, and for consumers themselves (see below).

Most of consumers' submissions requested advice for them on their correct approach to suppliers in their private-law cases (for more details see 3.4).

### 3.3.2 Prevention and public education

In addition to direct communication as part of advice provision, the Office reinforced its information channels on its website and the social media (Facebook, LinkedIn, and Twitter). On its website, it posted articles, advice, appeals, warnings, and a frequently visited FAQ document, which reflected consumers' submissions; naturally, some new questions would appear in large numbers because of the situation.

When the number of questions (in particular via e-mail) multiplied the Office put in place comprehensive automatic answers for the consumers to receive a response right away before obtaining a specific answer from an ERO employee; in many cases, such response could in fact be quite sufficient for the consumers, who could then continue to tackle their problems on their own only with their suppliers.

The Office also intensified its cooperation with the media on both technical and consumer issues. From August 2021, it released, through its communications, in particular the following:

- // Warnings to customers whose suppliers were not behaving transparently (termination of contracts with prices fixed for a certain period);
- // Advice on further steps for customers landing in the SoLR mode;
- // Appeals to other customers and producers (to/from whom their trader had stopped selling/taking and who were not in the SoLR mode) to obtain new contracts in the market;
- // Requests to the original suppliers to provide the data necessary for customers to switch to new suppliers;
- // Alerts to the behaviour of 'energy scumbags' (in the social media, the Office released the *Ten Commandments of Defence against Energy 'Scumbags'* series and then a new series on *Unfair Practices in the Energy Sector*, both also posted on its website).

### 3.3.3 Provision of informed third-party assistance

It was obvious as early as the first quarter of 2021 that the number of consumers' submissions would continue to rise. In order to provide information to the general, both expert and lay public, in June the Office organised a press conference to present statistics on consumers' submissions and the actual problems addressed by consumers, including the tools and procedures for addressing them. The amendment to the Energy Act intended to regulate 'energy intermediaries' was a frequently discussed issue during the year. Thanks also to the ERO's effort, it was passed in October. The Office kept informing the public on a regular basis about the changes for consumers from 2022 caused by the progressive regulation of intermediation.

For non-profit organisations, consumer associations, and local self-governments' representatives the Office organised educational webinars (online seminars due to the need to respond to consumers' problems quickly, and also to the continuing restrictions caused by the COVID-19 pandemic) on current issues for them to be able to provide advice and information to their clients or to citizens and at their local chapters or workplaces. Thanks to regular cooperation, the attendees included representatives of the Czech National Disability Council's local chapters (e.g. Liberec and Olomouc), citizen counselling services (e.g. Pardubice and Rokycany), universities (Brno, České Budějovice, and Hradec Králové), People in Need, the Czech Trade and Tourism Association, the Czech Union of Towns and Municipalities, and of many local self-governments.

On 22 October 2021, a few days after the fall of the suppliers in the Bohemia Energy Group, the Office held a separate dedicated press conference. It explained to the expert and lay public what had actually happened in the market and described the options for addressing the new situation for the various groups of customers. The press conference was then widely promoted in the media. During the autumn and winter, the ERO Board members appeared on many television and radio shows and round tables on the market situation and advice to consumers. It also held a press briefing on the current issues on 2 November 2021;

it clarified the problems that had gradually emerged in connection with suppliers falling and their customers migrating to the SoLR mode.

In closer cooperation with self-governments, on 30 November 2021 the Office released a leaflet for the senior citizens who may have been in the SoLR mode at that time, but quite unaware thereof. The SoLR mode could last for no more than six months and so there was a need to identify 'incommunicado' customers and urge them to switch their supplier as soon as possible, including because of the high prices. On this occasion the Office also released a manual for local self-governments, consumer organisations, and counselling services, which were the closest to consumers, i.e. in the area of their residence.

November saw a second webinar on Consumer Protection in the context of the current energy situation. Then in December, two more webinars took place on *Help for SoLR Seniors, and Supplier Switching*. They focused on, among other things, the leaflet for senior citizens and a manual for those who could help them. In the light of the need for the webinars and the great interest in these issues in 2021, the Office planned additional webinars for 2022 on a broad array of topics for various target groups.

### **3.3.4 Talks with suppliers of last resort and the MIT**

From the October fall of several suppliers, the Office would call, several times every week, working groups attended by distributors, SoLR and, sometimes, other suppliers. Initially, the talks with distributors and suppliers were held separately but from November, they were held jointly, including the market operator.

The meetings addressed primarily the problems entailed in the transmission of customer data and in contacting the customers and producers who had lost their suppliers, the issue of the SoLR price levels and the related amounts of down payments, and many other issues of the current situation. In late 2021, the Office tackled the issue of the end of the SoLR mode for the first supply points (14 April 2022) and the customers who had not yet started to leave their SoLR. At the end of the six-month period, they would fall into illegal offtake and could be disconnected. The Office made a considerable effort in respect of, in particular, innogy to prevent this company from disconnecting – before the end of 2021 – final customers on account of their failure to pay advances: some of them may have failed to pay unintentionally, only because of their being unaware, or for social/financial reasons.

The meetings resulted in all parties taking a coordinated approach and in the timely identification and tackling of the problems that kept arising when large numbers of customers were being migrated to and then switching from a SoLR, or when they were migrating to a standard product at their SoLR.

#### **SoLR prices**

SoLR prices continued to be cost-plus prices in 2021, and therefore only economically justifiable costs and reasonable profit could be passed through into them. The price cannot be capped or reduced under the cost level as the Czech legislation does not allow it (unlike, for example, the situation in Slovakia where the law still permits market price controls for households and SoLR). The SoLR prices were very high due to the high costs of the commodity, which was being bought at exchanges for extremely high prices.

The Office requested all SoLR to provide it with their methodology for calculating the prices of supply of last resort and checked these methodologies every month. The meetings with SoLR also resulted in a reduction in certain items forming the resulting SoLR price. Thanks to the Office, prices were cut by units of per cent.

With suppliers, the Office agreed on a transparent publication of prices and information for customers; for example, also in the online price checkers, which gained importance for consumers at that time. The Office requested all suppliers to send their current price lists to the Office's online calculator, which helps consumers to compare quotations in the electricity market completely independently.

### Down payments to SoLR

In cooperation with the MIT and based on intensive talks with SoLR, the Office pushed through a reduction in down payments for all households: in November and December 2021, they could use a reduction of 50% and 40% respectively. The purpose was the quickest possible assistance to the people who were tackling surges in electricity and gas prices after the Bohemia Energy Group companies and other traders discontinued their energy supply. The reduction in the down payments that had to be paid softened the heavy social 'shock' and gave governmental institutions some time to prepare social assistance. Coordinating with the SoLR, the Office informed customers about the practical implementation of this relief.

### Exiting the SoLR mode

Based on the ERO's talks with the SoLR, suppliers reinforced their call centres. Communication had to be maintained with hundreds of thousands of customers motivated not only by the need to change their supplier within six months but also the lower prices of standard products compared with SoLR prices.

During the talks, the Office requested SoLR several times to maximise the speed of supplier switching from the SoLR mode. With all SoLR, it agreed on the option for customers to communicate via a web interface – a form for completing customers' contact details at their SoLR and a form supporting supplier switching over the internet.

### Range of products: an appeal to all suppliers to widen their range of products

In the first days, suppliers offered limited variants of products (e.g., only three-year periods with fixed prices). The Office repeatedly asked them to extend their products to include more variants of fixed-price fixed-term contracts and an offer of a product for an unlimited period. The pressure exerted by the Office made SoLR (under the hat of a standard supplier) and other suppliers offer a broader range of product variants. However, the Office had to make such requests repeatedly and it also discussed, as a precaution, this issue with the Office for the Protection of Competition from the perspective of potential abuses of the market situation.

### Customer data transmission to the SoLR and distributors

An initial problem, which nevertheless was resolved soon, was the Bohemia Energy Group companies' unwillingness to transmit their customer data to the SoLR and distributors. The Office even had to ring up and remind the Bohemia Energy Managing Director, who eventually promised to start to transmit the data on 22 October 2021.

### 3.3.5 Addressing the social impacts

The Office warned of the high energy prices used in the calculation of the SoLRs' cost-plus prices. The cabinet had to begin addressing the potential social impacts. The Office has no competences in the social area, but it attended the meetings with the MIT and the Ministry of Labour and Social Affairs (MoLSA) on the options to seek relief for customers affected by the high prices in the electricity and gas markets, especially as regards SoLR's price levels and down payments to SoLR, including the provision of the required data by the Office. The talks resulted in proposals for the MIT's measures and a housing benefit (the MoLSA laid the proposal before the cabinet in less than a month from the beginning of the crisis). Gradually, additional, rather minor supportive measures were put in place and the Office focused mainly on advising the consumers on the options for assistance provided by the State. However, it was obvious from the very beginning that *pro futuro*, system tools for helping vulnerable customers in the wake of the recurring energy price hikes would have to be sought. The Office is prepared to cooperate with the relevant ministries continuously in this respect, provide the required data, and continue to contribute to operational solutions within its competences. Exiting from the SoLR mode did not imply return to the original, autumn

2021 prices; it therefore became very clear before the end of the year that the cabinet would have to offer a comprehensive solution in this respect.

### 3.3.6 Talks with the Ombudsman and the Office for the Protection of Competition

The year saw several meetings with the Ombudsman, focused on the comprehensive nature of the Office's help for consumers. Naturally, this issue became much more prominent in the second half of the year as the changes and potential problems affected almost a million customers. Following his meetings with the Office, the Ombudsman noted in a press release that the Office was taking the right steps in consumer protection and was using all the options vested in it by the law.

In addition to the above-mentioned limitation of their range of products by suppliers, the talks with the Office for the Protection of Competition also dealt with the risk to competitiveness. The parties noted that the high prices did not *per se* imply any distortion of competition; similarly, the end of certain suppliers' business was more of a phenomenon associated with the working of the free liberalised market, which is the target set in the European and, in turn, national legislation.

### 3.3.7 International meetings

The Office attended scheduled and *ad hoc* ACER and CEER meetings (more details in Chapter 10), where the agenda also included the rising wholesale prices and their impact on retail trade and consumers. The Office continuously monitored the developments in other national markets and the approaches adopted by the European countries' regulators and governments, which were being progressively suggested and adopted with a view to mitigating the impacts of the crisis and to preventing such situations from recurring. One of the issues was also the fact that traders' activities could not be regulated. On the occasion of his visit to Prague, during a meeting with ERO representatives Christian Zinglensen, ACER Director, confirmed that the ERO's approach was correct in this respect: *"I am not aware of any of the European regulators overseeing the selection of a business strategy by a particular energy supplier or the way the supplier manages its risks and uses market opportunities. This is not a basic role for regulators."*

### 3.3.8 Talks with the financial sector

The Office initiated talks on the options for cooperation in the design of banking products for customers having problems paying the high energy prices. The cabinet's effort to prepare a system of MoLSA benefits will not cover all types of customers who may land in desperate straits and need to spread costs over time more than anything else.

The Office organised several meetings with the Czech Banking Association (CBA), Česká spořitelna (a savings bank), and the MIT. Unfortunately, because of their attitudes to the proposals, the talks with banks did not generate any specific solution for customers.

### 3.3.9 New consumer legislation for 2022

#### The ERO's public notice on billing

Two fundamental changes that would have a very direct bearing on consumers in practice from 1 January 2022 included the requirement to state the date of contract termination on the bill sent to consumers and the firmly fixed – for the first time – date for sending the bills, specifically within 15 days from the taxable supply. (See point 11.1.1 for more amendments to the public notice on billing.)



### The ‘intermediaries’ amendment to the Energy Act

As from 1 January 2022: it will be easier and free of charge to terminate contracts concluded via an intermediary; the required details of intermediation contracts have been redefined; the intermediary is obliged to inform the consumer that they are acting in the role of an intermediary; the term of the power of attorney is limited to no more than 12 months; there is a new obligation to deliver the contract in writing to the consumer without any delay.

As from 1 July 2022: a register of intermediaries will start to operate and the Office will oversee intermediaries’ activities and address disputes arising from intermediation contracts; thus, the competences over energy intermediaries will completely pass to the Office.

#### 3.3.10 The ERO’s proposal for legislative changes

Stanislav Trávníček, ERO Board Chairman, outlined the ERO’s proposals intended to address certain problems on 2 December 2021 at a meeting organised by *Institut pro veřejnou diskuzi* (Public Debate Institute) in a presentation on *The ERO’s Proposals for Potential Amendments to the Legislation – Changes after the Crisis*. The ERO sent the first proposals of early December 2021 to government representatives at the end of the year and prepared the second batch of the proposals for January 2022. In addition to those for changes in the monitoring and operation of standard suppliers, the ERO’s proposals also included changes to the SoLR mode.

## 3.4 Consumer protection in the Czech Republic

While in the first half of 2021 more than one half of the issues in consumers’ submissions addressed by the Office concerned intermediation, in September 2021 complaints about suppliers’ practices started to appear in response to the rising energy prices. Such practices entailed suppliers’ effort to change unilaterally the content of the contract (frequently to spot products) or to terminate contracts with consumers, which were disadvantageous for the suppliers, for no good reason. Since each set of contract terms and conditions is different it was not possible to conclude each and every case by holding that the supplier’s course of action was in breach of the respective contract.

Following the collapse of the Bohemia Energy Group suppliers and some other suppliers, almost a million customers found themselves in the SoLR mode in a few days. Thus, the provision of advisory and information services to consumers by the Office was highly valuable for the consumers to find their way around the market and their choice of further steps, and this activity of the Office assumed greater importance.

Consumers were urgently tackling problems related to the rising prices of energy supply (through contract amendments), supply of last resort, and supplier switching. They were coping with ambiguities related to the billed consumption amount; unilateral increases of down payments; uncertainty whether supply would continue: the offering of contracts was limited (as to the contract terms or the price terms) for several weeks. The consumers were facing inaccessibility of suppliers and congestion of their telephone lines, customer service centres, etc. In the light of the confusion in the market, many consumers were considering whether or not they should terminate their contracts with a supplier due to a price hike when they were not sure that they would find a better quotation from an entity ensuring back-to-back energy supply. Customers therefore also turned to the Office in specific contractual matters that the Office was unable to resolve *ex officio* in lieu of their supplier. The primary basis is the content of the contract and the agreed business terms and conditions. Rights must be exercised and sought, and interests defended directly vis-à-vis the other contracting party. As part of its advisory activities, the Office has helped to raise awareness of consumer rights and the options to exercise them. The Office coordinated the steps and help to customers and consumers within working groups.

The extreme number of submissions in late 2021 was far beyond the Office's capacity; unlike most of the suppliers, it does not have any customer service centres and telephone operators. It had to adopt operating measures at already most complicated times of capacities reduced by the COVID-19 pandemic. With a view to providing quickly the information needed for tackling the situation effectively, the Office reinforced its telephone lines, increased provision of information about the current situation in the energy market via its website and offered public education and lectures for consumers and self-governments via webinars, including a manual to help the consumers who would turn directly to municipalities for help. Initial and timely information was also provided by preparing and sending comprehensive automatic answers to the most frequently asked questions in consumers' submissions.

Despite the very complicated situation, the Office successfully handled the submissions through explanations of the problems, references to the relevant legislation, and advice on consumer rights in the energy industries. In quite a few cases, the Office helped to set up communication between the supplier and consumer and they successfully reached agreement and resolved their problem. ADR between the consumer and supplier has turned out to be still the quickest and most effective approach to addressing disputes arising from contracts with suppliers.

In 2021, the Office received 138 applications for opening proceedings on consumer disputes; 107 of them were decided with finality. Typical disputes involved deciding on the supplier's failure to meet its contract obligation of billing electricity/gas supply as due or on its failure to pay the overpayment arising from billing and determining the date of establishment and/or discharge of an electricity/gas supply contract.

The Office's exercise of its oversight competence as regards suppliers' compliance with, in particular, the Energy Act, the Consumer Protection Act, and the Act on Prices is also crucial for enhancing consumer protection in the energy sector. In this respect, the important aspect is, primarily, the preventive role of inspections, intended to clearly show the limits of the supplier's conduct in relation to consumers. The primary object of overseeing compliance with the Consumer Protection Act was compliance with the obligations inherent in business in the energy industries (laid down in Section 4(4) of the Consumer Protection Act), and hence the aggressive commercial practices committed by the business owner when demanding from the consumer an immediate or deferred payment for services that it supplied to the consumer although the latter had not placed an order for such services. Table 1 lists the types and number of inspections and sanction proceedings.

**Table 1**      **Number of checks and number of inquiries referred to sanction proceedings in 2021**

<b>Checks</b>	<b>Under the Consumer Protection Act</b>	<b>Other laws</b>
opened	0	265
completed	0	266
<b>Total number of inquiries for breaches of law, of which under</b>		<b>264</b>
the Energy Act		253
the Consumer Protection Act		7
the Price Act		4

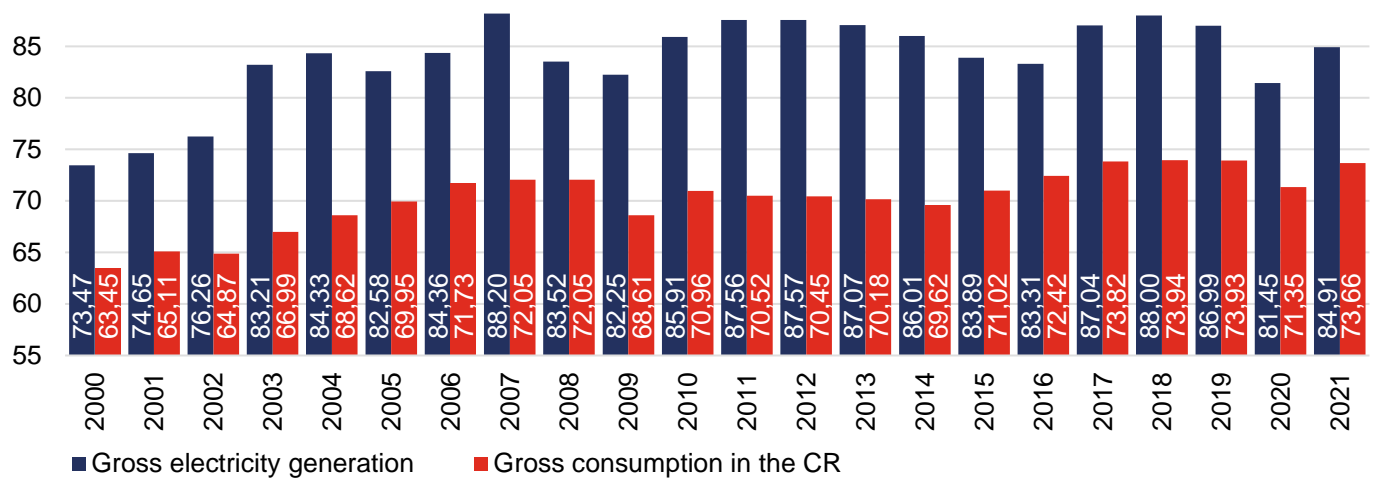
Source: ERO



## 4 THE ELECTRICITY MARKET

In 2021, gross electricity generation totalled 84.9 TWh, up by 3.5 TWh (+4.3%) on 2020. Nuclear power plants and hydroelectric power stations, whose output did not exceed only the 2013 output when compared over ten years, contributed to this increase in generation. Gross domestic electricity consumption also increased, to 73.7 TWh (+3.2%). Net domestic consumption in 2021 registered the highest ever measured value (62.8 TWh). Electricity consumption rose in almost all demand categories, except for low-demand businesses where, conversely, it decreased by 40.7 GWh (-0.5%). The following Chart shows electricity generation and consumption.

**Chart 2 Electricity generation and consumption [TWh]**



Source: ERO

### 4.1 Infrastructure, network regulation and technical functioning

Network operation is monitored, analysed, and evaluated so that the network infrastructure is prepared for random situations as well as continuous development in the electricity industry. For example, storage appliances in households (including batteries) and prosumers' activities in the market (supply of self-generated electricity to the grid and offer of ancillary services) require optimised network capacity and control. The rollout of digital technology for network control and remotely controlled electronic devices to meter electricity consumption also at customers connected to the low voltage level, and the new requirements for the format and structure of the data exchanged between market participants and for the connection and control of power generating facilities, etc., should contribute to this.

ČEPS, a.s., the operator of the Czech transmission system, is the company responsible for the operation of the Czech electricity grid's backbone system (the transmission system that includes 400 kV and 220 kV lines and certain 110 kV lines), and hence for the reliable operation and overall generation/demand balance. ČEPS provides for the quality and reliability of electricity supply at the level of the transmission system by using system services on a short-term basis while over the long term, it seeks to further reinforce and develop the transmission system by building new lines and installations for electricity transmission.

Distribution system operators are responsible for the operation of the Czech electricity grid at the level of 110 kV and at lower levels (ČEZ Distribuce, a.s., EG.D, a.s., and PREDistribuce, a.s., and a number of rather small, local operators).

Along the technical line, the Office approves the operating documents and issues the statutory instruments within its remit. Under Section 17(7)(g) of the Energy Act, the Office approves or lays down the operating rules for the transmission/distribution systems (see the public notices below). The key objective of the approval process is to ensure that the operating rules constitute the basis for the transparent and predictable performance of the licensed activity and do not cause any disequilibrium between the various electricity market participants. Another requirement is that the operating rules comply with the applicable legislation and contain the findings gathered in the transmission system and distribution system operators' operation. In 2021, the Office conducted consultation processes: on the draft public notice on connection to the electricity grid and on the draft Electricity Market Rules.

The first group of amendments to the public notice on connection to the electricity grid concerns the applicant connectee's share of the distribution or transmission system operator's reasonable costs incurred in the connection and in providing the required input/output power, specifically a change of this share, which no longer matched system operators' costs, and a clarification of the rules for paying this share. The other group reflects the amendment to the Energy Act and the SES Act and concerns reserved input power for the delivery point, the size of which must now be agreed in the connection contract. Equally importantly, some of the amendments reflect the developments in the electricity market; they include a simplified procedure for entering into a connection contract where the customer at a supply point connected to the LV level changes, the inclusion of an exhaustive list of the types of equipment that can be connected to a distribution system for a short time, provisions on simplified connection of small capacities (up to 10 kW) provided that the installed capacities total no more than 800 W, a clarification of system operators' procedure in the case of connection at a different connection point or under different conditions than those required by the applicant, and a modified procedure for installing a piece of storage equipment in an existing power generating facility, where an application for connection must be filed in this case.

Amendments to the Electricity Market Rules include the following: modified procedures for registering supply and delivery points, for capacity booking, and for pricing balancing energy for the purpose of evaluating imbalances; they also render types of electricity metering compliant with the public notice on electricity metering (type B metering abolished). The modified procedure for registering supply and delivery points also precipitated related changes in the procedure for imbalance evaluation, clearing, and settlement, in the extent of data transmission by distribution system operators for the purpose of imbalance determination and clearing, in the procedure for selecting and changing electricity supplier, in the procedure for data transmission for the billing of the supply of electricity and related services, in the procedure for gaining access to the transmission and distribution systems, in the procedure for capacity booking, and in the procedure for SoLR supply arrangements. The changes in the capacity booking procedure are related to the proposed changes in the registration of supply points and delivery points and also, primarily, reflect the development in the provision of ancillary services and balancing energy in the electricity market (relaxing the conditions for functioning in the balancing energy market). The modifications reflect the EU legislation's requirements and the changes in the balancing services market (transition to merit order pricing of balancing energy). Additional changes were related to the SES Amendment (e.g., modification of the procedure for determining the difference between the hourly price and the feed-in tariff, reference feed-in tariff, or reference auction price, and the payment for the difference, the procedure for determining the hourly green premium and the hourly auction premium on electricity) or to the application of the current procedures in practice.

The Office also attended discussions on the National Action Plan for Smart Grids (NAP SG), the objective of which is to prepare the electricity industry for new trends, in 2021.

At the international level, network development and optimisation were primarily a matter of coordination. Working groups jointly coordinated the implementation of network codes' and framework guidelines'

requirements at the national level. These mainly included the requirements of Regulation (EU) 2016/631, Regulation (EU) 2016/1388, Commission Regulation (EU) 2017/1485, and Regulation (EU) 2017/2196. Work related to complying with the obligations laid down in Regulation (EU) 2019/943 was under way in 2021. In this context, the Office used the provisions of this Regulation and granted the TSO two derogations. One concerned compliance with Article 16 of Regulation (EU) 2019/943, which requires a percentage limit on the provision of cross-border transmission capacities by the TSO. The other concerned compliance with Article 6 of Regulation (EU) 2019/943, which requires that a certain part of ancillary services be procured at the day-ahead balancing energy market. Additional activities focused on optimised control of the European synchronous areas of electricity systems, particular attention being paid to the new design of operation regions, within and between which the TSOs cooperate with each other.

#### **4.1.1 Projects for smart grid development and local cooperation**

ACON Smart Grids is a major smart grid development project and has been included in the list of the EU's Projects of Common Interest (PCI) with expected implementation between 2018 and 2024. It is also subsidised under the CEF Energy programme, capital expenditure amounting to EUR 180 million. EG.D's capital expenditure is EUR 90 million and the expected support by the EU is 50%. In the future, ACON should help to deploy modern technologies, such as a greater RES penetration, integration of electric vehicle charging points, use of power storage equipment, and rollout of a smart communication network for sharing data from smart devices. Another purpose of the project is enhancing the safety and stability of the distribution network's operation in crisis situations with a view to technically make possible mutual assistance similar to that provided in 2021 to the Czech Republic by Slovakia in the wake of the tornado in southern Moravia, which fatally damaged some electricity lines.

Gabreta Smart Grids is another mainstay project implemented by distribution companies EG.D and, in Germany, Bayernwerk. In 2022, the project was included in the PCI list and the next step will be applying for a grant of EUR 300 million and kick off in 2023.

#### **4.1.2 Safe and reliable regulation**

2021 was the first year of the fifth regulatory period. The regulatory methodology set out in Price Control Principles 2021–2025 was applied as usual.

Under Section 21 of the public notice on the quality of electricity supply and related services in the electricity industry, the Office monitors the level of supply quality achieved in distribution systems measured by electricity supply continuity indicators. The public notice defines the basic continuity indicators 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 following Table shows the monitoring of continuity indicators for 2021. In 2021, EG.D had higher SAIDI levels, mainly due to the June tornado that hit a part of southern Moravia and precipitated a state of emergency.

**Table 2 Electricity distribution continuity indicators in 2021**

Indicator	ČEZ Distribuce, a. s.	EG.D, a.s.	PREdistribuce, a.s.	CR
SAIFI [interruptions/year]	2.65	1.99	0.35	2.17
SAIDI [minutes/year]	327.57	451.42	30.18	319.30
CAIDI [minutes]	123.8	226.35	86.36	147.01

Source: ERO

Note: System indicators covering all categories of interruption under Appendix 4 to public notice on quality in the electricity industry

### 4.1.3 Cross-border issues, implementation of Network Codes and guidelines

The integration of the day-ahead markets in the Czech Republic, Hungary, Slovakia, Romania, and Poland with the countries involved in the Multi Regional Coupling (MRC) project continued to be a key cross-border cooperation project in 2021, which saw an important milestone in the history of electricity trading in the Czech Republic: until June, the day-ahead electricity market in the European electricity grid was divided into two market areas, MRC and 4M MC. For trade between them, cross-border transmission capacity and electricity had to be procured at two different points (referred to as explicit auction). In June 2021, Interim Coupling was put in place, causing the elimination of explicit auctions on six national borders (PL-DE, PL-CZ, PL-SK, CZ-DE, CZ-AT, and HU-AT) and the replacement thereof with implicit allocations. Electricity sale/purchase and obtaining the required cross-border transmission capacity therefore take place at a single point for all the bidding zones involved and the relevant national borders.

The implementation of network codes and guidelines is under way concurrently at several levels: the Union level, the regional level, and the national level. In respect of the connection codes, earlier cooperation continued. At the national and regional levels, 2021 saw work in ACER working groups focused on drawing up guidance and supervising the implementation of requirements at the national level (monitoring was conducted through questionnaire polls).

The most intensive activities were in the working groups focused on cross-border electricity trade (CACM and FCA). It is particularly important to mention the drafting of amendments to Regulation (EU) 2015/1222, which ACER coordinated with all national regulators. Intensive work was also under way for launching flow-based market coupling within the CORE region, which also includes the Czech electricity grid. This project has suffered a considerable delay caused by, among other things, the COVID-19 pandemic.

In ACER's working groups and task forces, national regulators were also preparing a number of position papers, in particular those on TSOs' proposals, such as on amendments to already approved methodologies or drafting new methodologies arising from, primarily, the requirements of Regulation (EU) 2019/943 (methodologies on the regional coordination centres' activities). Primarily the proposals for amendments to methodologies usually responded to experience from the practical application in the field (e.g., amendments to the balancing energy pricing methodology and the introduction of a technical limit with dynamic elements, or the changed parameters of the nomination of long-term transmission rights, etc.).

The implementation of the EU legislation has also progressed to the national level. The Office dealt with system operators in the process of the development and approval of changes to the Transmission System Operating Rules (such as introducing the options for aggregation in the provision of balancing services) or

the Distribution System Operating Rules (changes in procedures for connecting power generating facilities and electricity loads or in the provision of non-frequency ancillary services). A number of the changes have been precipitated by new trends in the electricity market.

It is equally important to mention the amended Electricity Market Rules (more details in this point 4.1 above), which now reflect the first stage of the harmonisation of imbalance netting systems under the applicable EU rules, in particular Commission Regulation (EU) 2017/2195. The first stage included a modification of the procedure for balancing energy pricing and imbalance pricing. This was the basis for switching over from the proportional mode of activating the frequency restoration reserves service (aFRR) to merit order activation.

## **4.2 Competition and market functioning**

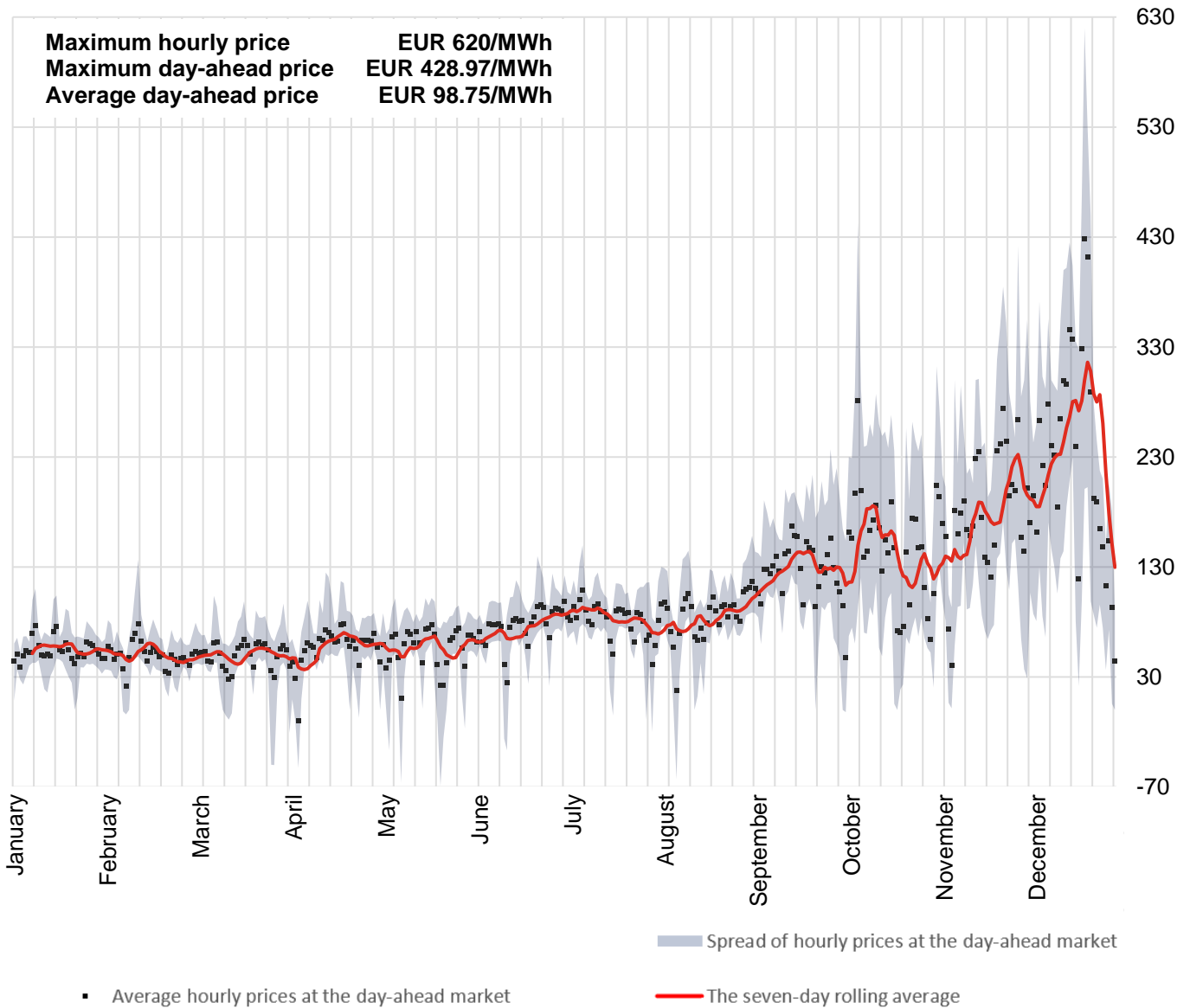
### **4.2.1 Wholesale markets**

At the wholesale level in the Czech Republic, electricity is traded via EEX (European Energy Exchange), through bilateral [OTC] contracts, and in spot markets organised by the market operator.

From the perspective of spot and forward electricity prices, 2021 was more volatile than other years. In the first half of the year, wholesale electricity prices varied within the relatively normal price levels of EUR 50–70/MWh, but they started to surge in the second half of the year.

At the end of the year, the intraday price peaked at EUR 620/MWh. In the autumn of 2021, the high electricity prices were caused by the rising prices of natural gas, emission allowances, and other energy commodities. The following Chart, which shows the daily price volatility, average intraday prices, and seven-day rolling averages of average intraday prices, illustrates the development of prices.

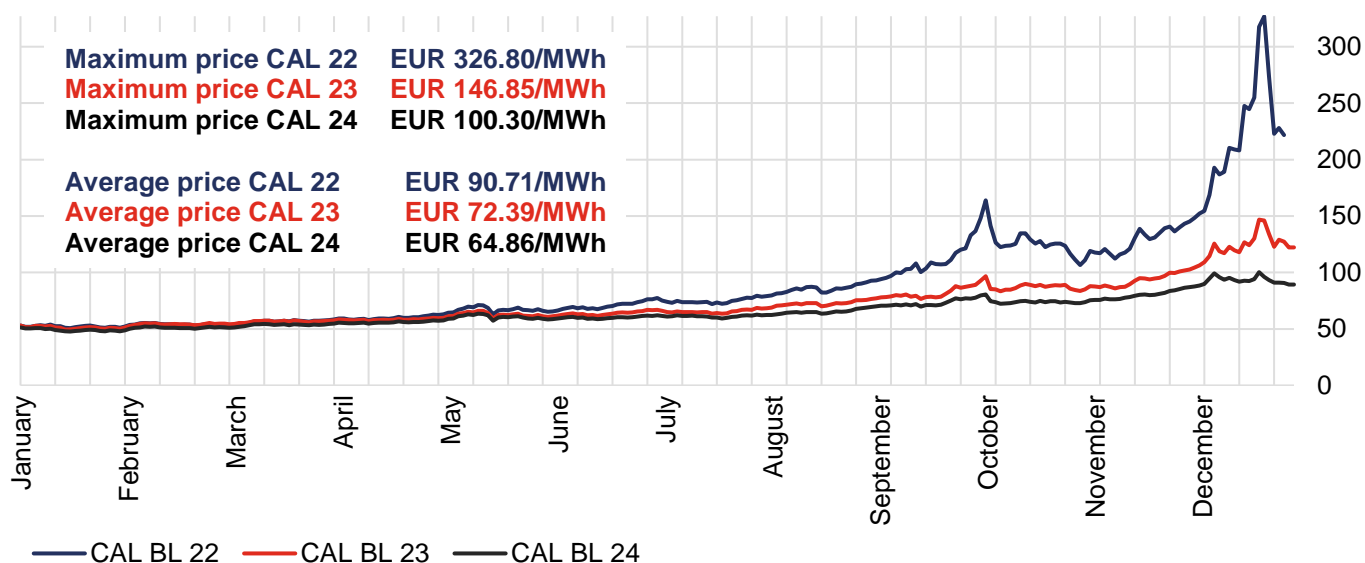
Chart 3 Spot market – electricity (day-ahead market) in 2021 [EUR/MWh]



Source: OTE, a.s.

The forward market copied the price hikes at the spot market. The following Chart shows the development of electricity forward prices with settlement in 2022, 2023, and 2024. Expecting high prices for 2022, the CAL 22 price peaked at EUR 326.80/MWh. The price for 2023 peaked at EUR 146.85/MWh.

Chart 4 Forward market – electricity (forward prices and the CAL 22 product) [EUR/MWh]



Source: EEX

Table 3 Electricity wholesale market indicators

	2016	2017	2018	2019	2020	2021
<b>Electricity production</b> [GWh]	83,305	87,041	88,002	86,991	81,445	84,907
<b>Participants in spot electricity markets</b> [-]	105	106	113	121	120	122
<b>Total electricity demand</b> [GWh]	72,420	73,819	73,942	73,932	71,355	73,661
<b>Imports volume</b> [GWh]	8,608	10,388	10,431	10,955	13,126	9,743
<b>Exports volume</b> [GWh]	19,447	23,576	24,310	23,622	22,856	21,151
<b>Volume traded in the spot electricity market</b> [GWh]	20,377	22,329	23,459	24,909	26,853	29,578
<b>Volume traded at PXE futures market</b> [GWh]	19,856	17,358	26,410	31,511	27,063	33,793
<b>Total traded volume</b> [GWh]	40,233	39,687	49,869	56,420	53,916	63,371
<b>Average incremental price in the day-ahead market</b> [EUR/MWh]	31.15	36.46	46.02	40.21	33.62	100.66

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



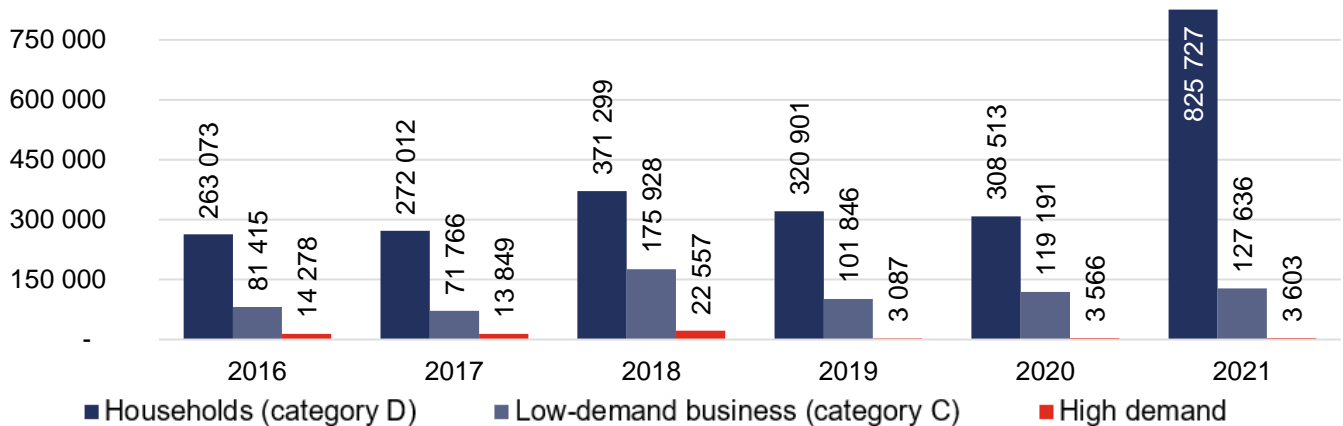
Germany is the decisive wholesale market for the Czech market due to the several times higher liquidity in the German forward market. Because of the interconnection of electricity grids, the development of the wholesale price in the Czech and the German-Luxembourgian bidding zones is also correlated.

#### 4.2.2 Retail markets

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

At the end of 2021, the retail electricity market had 102 active suppliers (SDPs in more than one distribution area). Approximately a million customers changed their electricity supplier, up by 126% on 2020 when some 445,000 customers switched their supplier. In the high-demand segment and the low-demand business segment, the year-on-year increases in the number of electricity supplier switches were almost the same. In the household segment, the year-on-year increase in electricity supplier switches was 168%, i.e. up by 500,000 customers. The reason for this extreme supplier switching increase is the fact that in the autumn of 2021, several suppliers terminated their activities and SDPs were migrated to the SoLR; customers must leave the SoLR mode within six months. The numbers of supplier switches over the past ten years are shown in the following Chart.

**Chart 5** Yearly electricity supplier switches in the key customer categories



Source: OTE, a.s., ERO editing

**Table 4** Retail electricity market indicators – households

	2016	2017	2018	2019	2020	2021
<b>Consumption</b> [GWh]	14,819	15,211	15,049	15,256	15,972	17,260
<b>Number of customers</b> [-]	5,095,897	5,157,527	5,193,987	5,267,209	5,312,956	5,348,516
<b>Switching rate</b> [%]	16	10	10	5	5	13

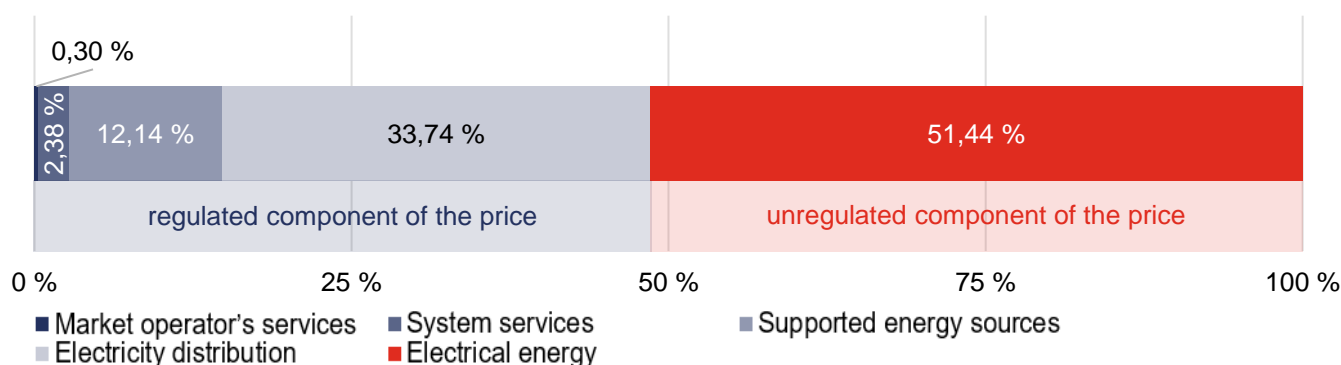
Source: OTE, a.s., ERO

**Table 5 Retail electricity market indicators – non-households**

	2016	2017	2018	2019	2020	2021
<b>Consumption</b> [GWh]	8,027	8,109	8,064	8,019	7,789	7,748
<b>Number of customers</b> [-]	746,307	745,489	746,324	754,364	766,052	732,320
<b>Switching rate</b> [%]	5	3	5	2	2	2

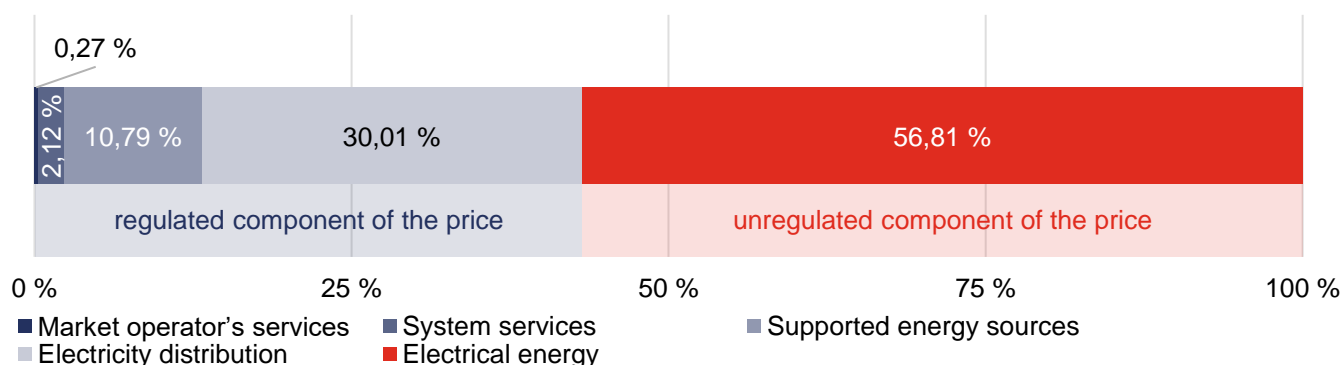
Source: OTE, a.s., ERO

In the low-demand business segment the average planned regulated component of the price related to electricity supply for 2021 was approximately CZK 2,220/MWh. For households, the average planned regulated component of the price related to electricity supply for 2021 was approximately CZK 1,904/MWh.

**Chart 6 Percentage shares taken by each of the components of electricity supply price for households on 1 January 2021**


Source: ERO

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

**Chart 7 Percentage shares taken by each of the components of electricity supply price for households on 31 December 2021**


Source: ERO

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

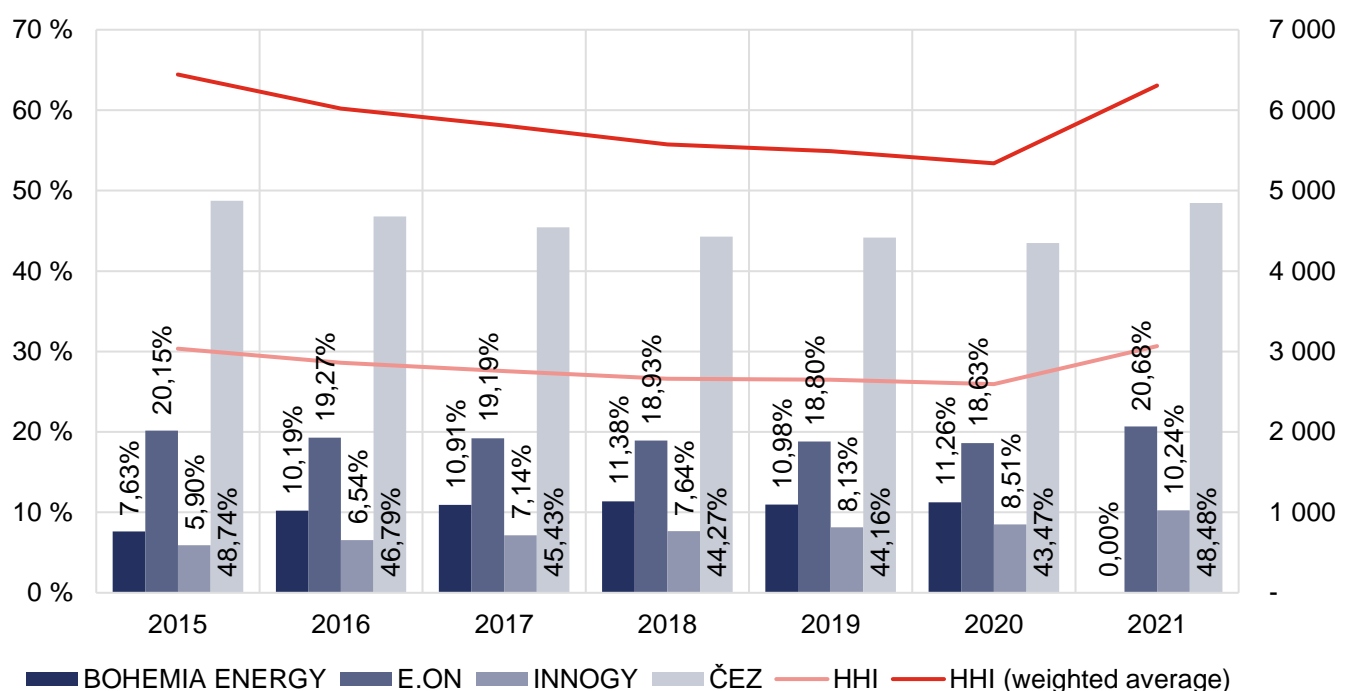
In 2020, the Office began monitoring the commonly accepted measure of market concentration, Herfindahl-Hirschman Index (HHI). Its value over 2,700 points (together with a large market share of the three largest suppliers) shows that the Czech retail electricity market is heavily concentrated. Another result of monitoring in 2021 is the market concentrations by the former monopoly areas, which correspond to the current areas of the three regional distribution systems. The former monopolies (incumbents) enjoy a very strong position in their 'home' areas; they typically control almost 70% of the market in terms of SDPs. This is also reflected in the very high level of HHI, considering the historical structure of the Czech market: 6,308 points (a weighted average of the values for the three regional distribution areas). This geographically more detailed view thus paints a picture different from that of the approach whereby the whole Czech Republic is regarded as the relevant market with 3,067 points.

**Table 6 Retail electricity market indicators – suppliers and HHI**

	2016	2017	2018	2019	2020	2021
<b>Number of active electricity suppliers</b> [-]	61	68	79	83	119	102
<b>Market share of the three largest suppliers by supply points</b> [%]	74.5	73.5	72.2	72.4	71.9	77.9
<b>Number of retailers with market shares &gt; 5%</b> [-]	5	5	5	5	5	4
<b>Herfindahl-Hirschman Index</b> [-]	2,861	2,756	2,661	2,647	2,594	3,067

Source: OTE, a.s., ERO

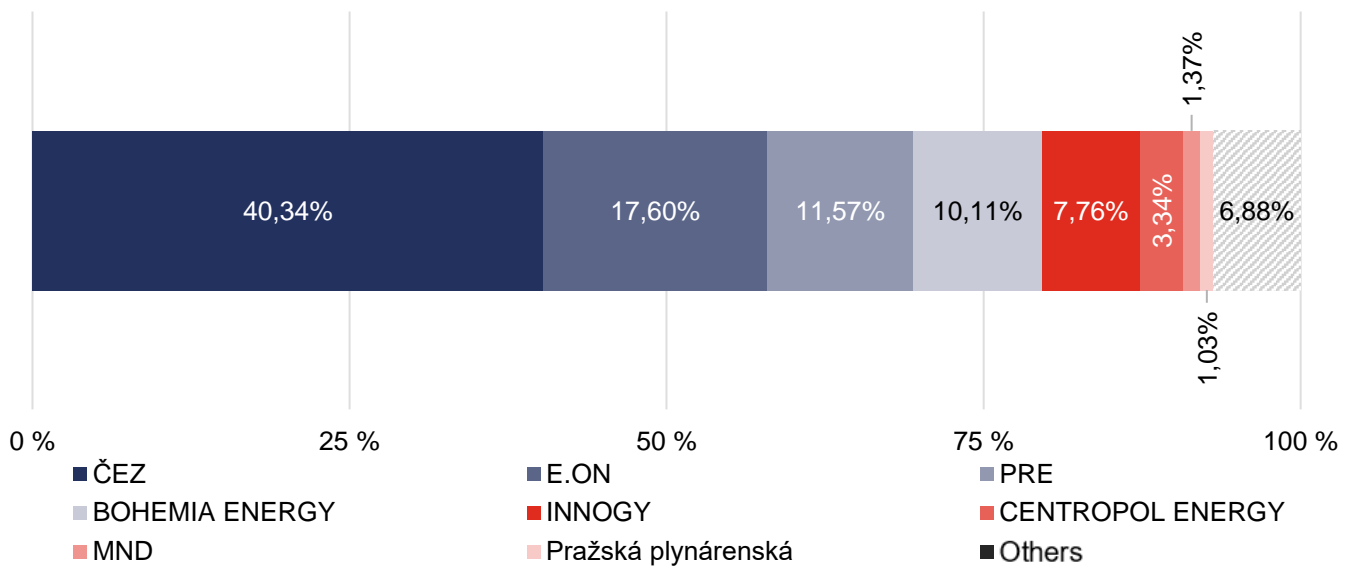
**Chart 8 Market shares and HHI**



Source: ERO

In the electricity market, ČEZ Group continues to be the largest supplier; it supplied electricity to 40% of SDPs in the country. It is followed by E.ON Energie, a.s. with almost 18% and PRE, a.s.'s group with 12%. The Charts depict the periods before and after the fall of large energy suppliers, when the market shares changed.

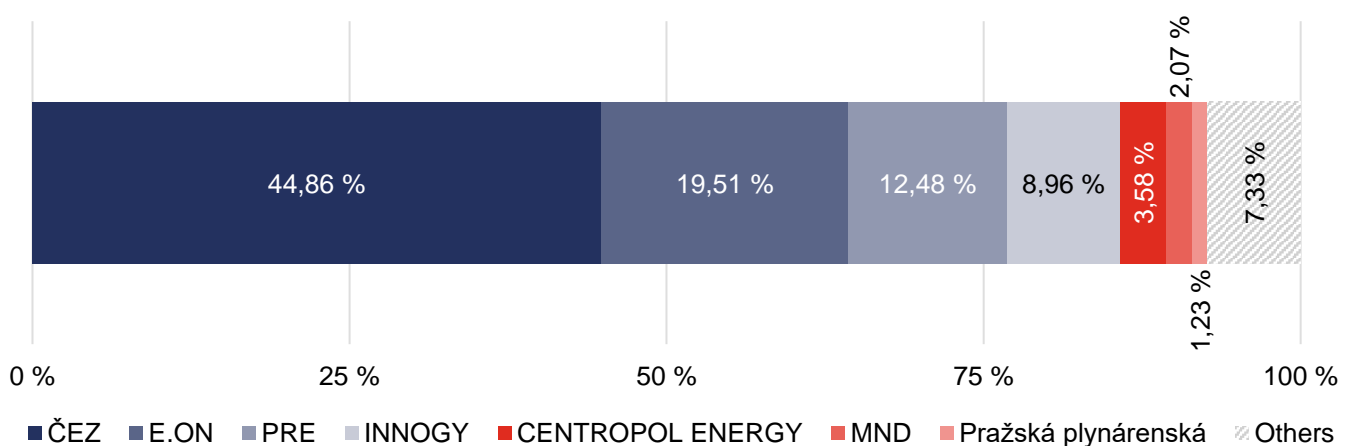
**Chart 9 Electricity traders' shares of SDPs on 30 September 2021**



Source: ERO

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

**Chart 10 Electricity traders' shares of SDPs on 31 December 2021**



Source: ERO

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

### 4.3 Price controls – network tariffs

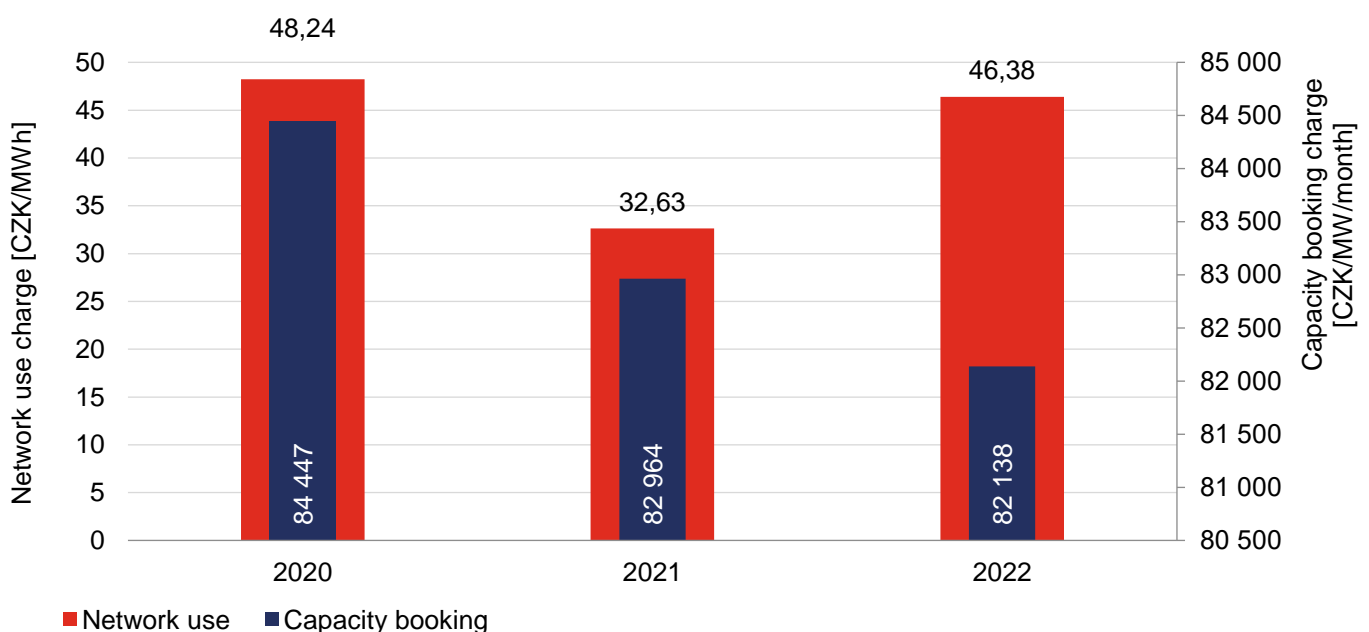
The funds to defray the costs incurred in operating the electricity grid and the related services at all levels are raised through regulated prices billed to customers. The various regulated prices are intended to cover

various types of costs; fully in compliance with the applicable methodology and the best regulatory practice, the Office seeks the best possible cost-causative linkage between the cost driver and the price paid by customers. Under the Energy Act and public notices on the methods of price control in the electricity and heat supply industries and on the method of regulating the price for the market operator's activities in the electricity and gas industries, every year the Office determines the charge for 'the related services' in the electricity industry, which is composed of the charge for electricity transmission/distribution, the charge for system services, the price component covering support for electricity from supported energy sources (SES), and the charge for the market operator's services. These charges are heavily influenced primarily by system operators' investment activity, the price of electrical energy for covering losses in networks, the size of overall electricity consumption, and the amount of funds from the national budget for subsidies allocated to aid to electricity generation from supported energy sources.

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

The charge for reserved transmission capacity for 2022 decreased by 1% year-on-year; the impact of the TSO's capital expenditure, which caused an increase in adjusted allowed revenues from electricity transmission, was offset by an increase in reserved capacity. The charge for using the transmission system networks increased by 42.14% for 2022 year-on-year, which is mainly attributable to the significant year-on-year increase in the cost of electricity for covering losses in the transmission system. The following Chart shows the charges for electricity transmission.

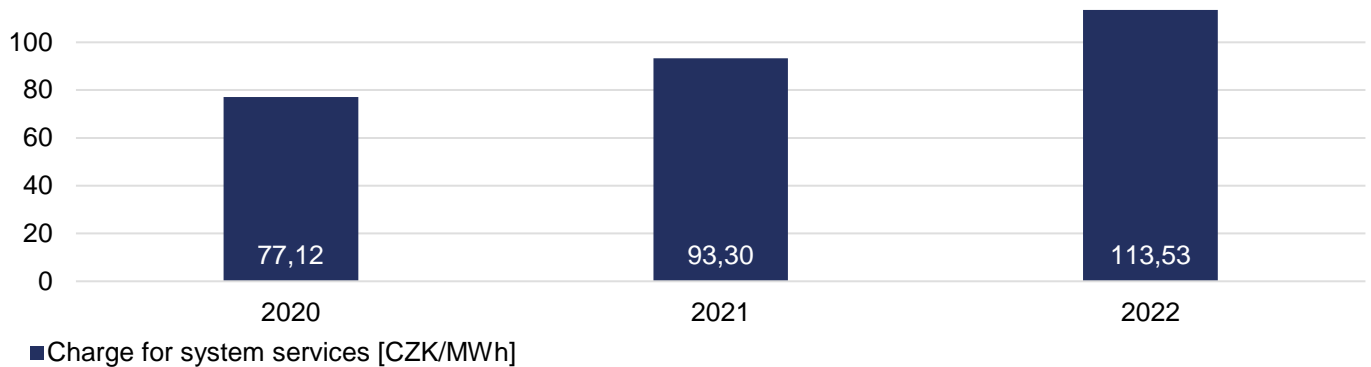
**Chart 11 Charges for reserved capacity and network use in the transmission system**



Source: ERO

The charge for system services is the result of dividing the TSO's adjusted allowed revenues from system service provision by the electricity amount expected to be taken by customers connected to the electricity grid. The charge for system services for 2022 rose by 21.68% year-on-year due to the increased payments to ancillary service providers, including the correction factor, which is reflected in the level of the adjusted allowed revenues. The following Chart shows the prices for system services.

**Chart 12 Prices for system services [CZK/MWh]**

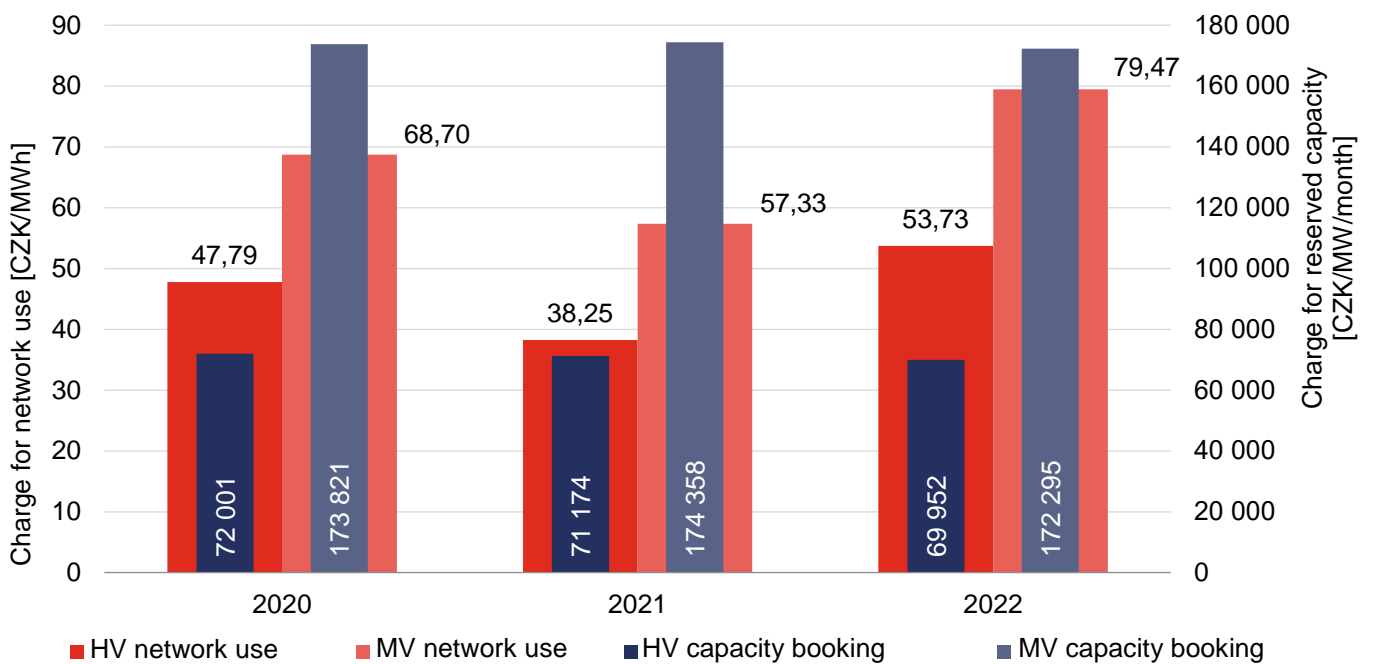


Source: ERO

The charge for electricity distribution at the high voltage and medium voltage levels is composed of a charge for capacity reserved in the distribution system and a charge for network use in the distribution system. The charges for reserved capacity at each of the voltage levels are mainly influenced by the agreed technical parameters of reserved capacity, the amount of investment at the respective voltage level, and the charge for capacity booking in the higher-level transmission system. The charge for capacity reserved in the distribution system at the HV level declined by 1.72% year-on-year and at the MV level by 1.18% year-on-year for 2022.

The charge for using distribution system networks increased by 40.47% year-on-year at the HV level and by 38.62% at the MV level for 2022; again, an important factor was the rising price of electrical energy for covering losses in distribution systems, which is bought at power exchanges, similarly as in the case of the charge for using the transmission system networks, and also the increase in the charge for using the transmission system networks, which is reflected in the price for using networks in distribution systems. The following Chart depicts the development of the two components of the price for electricity distribution.

**Chart 13 Charges for reserved capacity and use of MV and HV distribution system networks**

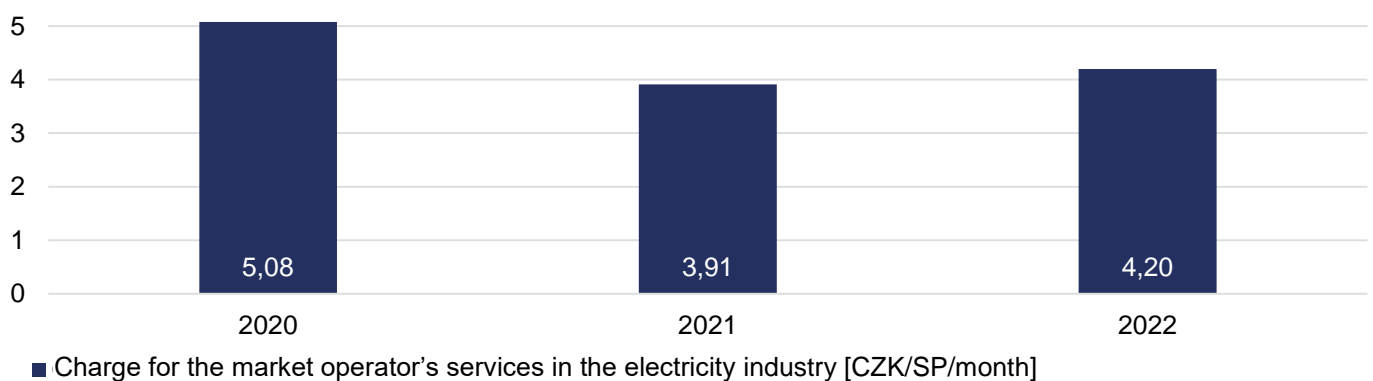


Source: ERO

At the low voltage level (the household and low-demand business categories), the regulated prices are calculated in a more complicated way for a larger number of distribution tariffs. The charge for electricity distribution at the LV level is composed of a charge for power input determined by the rated current of the main circuit breaker upstream of the electricity meter and the charge for the electricity amount distributed. The year-on-year changes in the various electricity distribution charges at the LV level for 2022 differ depending on the agreed distribution tariff and therefore average values must be used for year-on-year comparisons. The charge for electricity distribution at the LV level rose by 5.26% year-on-year on average; combined with the other regulated prices, this caused an increase in the average regulated component of the price for electricity supply at the LV level by 3.72% year-on-year.

The charge for the market operator's services in the electricity industry rose by 7.42% year-on-year to CZK 4.2/SP/month for 2022. The following Chart shows the charges for the market operator's services.

**Chart 14 Charge for the market operator's services [CZK/SP/month]**



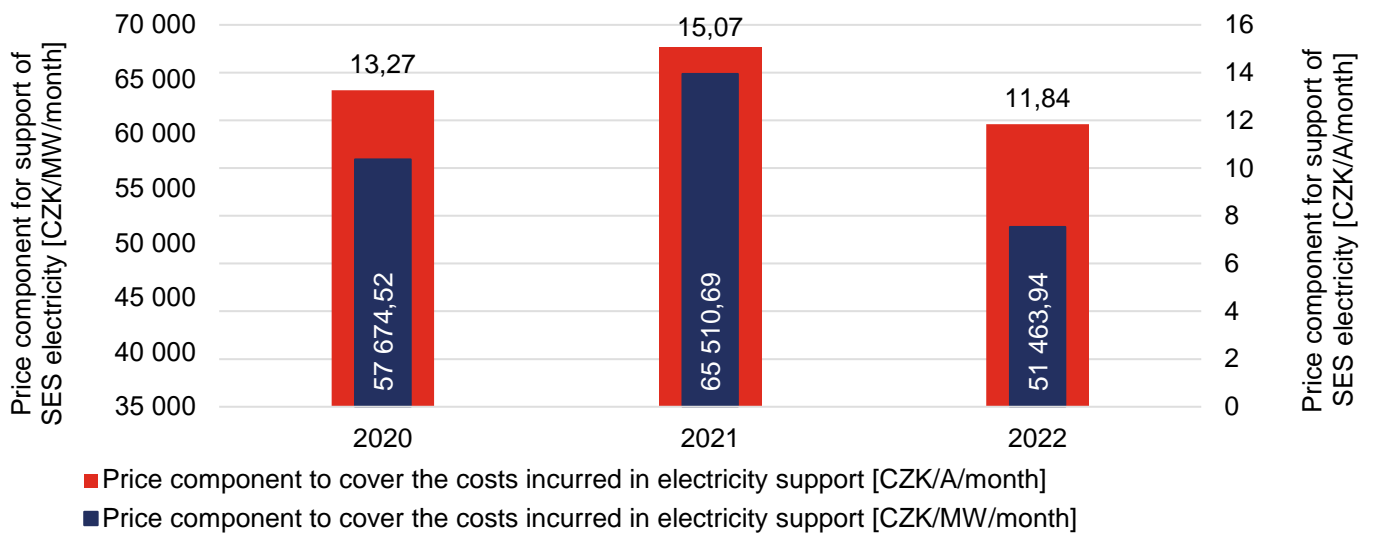
Source: ERO



The price component for support of SES electricity for 2022, determined on the basis of the contract power input reserved, declined by 21.44% year-on-year. The main reason for this price component to decline for 2022 was the significant growth of electricity prices at exchanges. The total expected amount of funds recovered from customers through the price component for SES support dropped by CZK 2 billion year-on-year. The maximum payable amount of the price component for support of SES electricity has been preserved at the same level and is determined as the product of the electricity quantity taken and CZK 495/MWh.

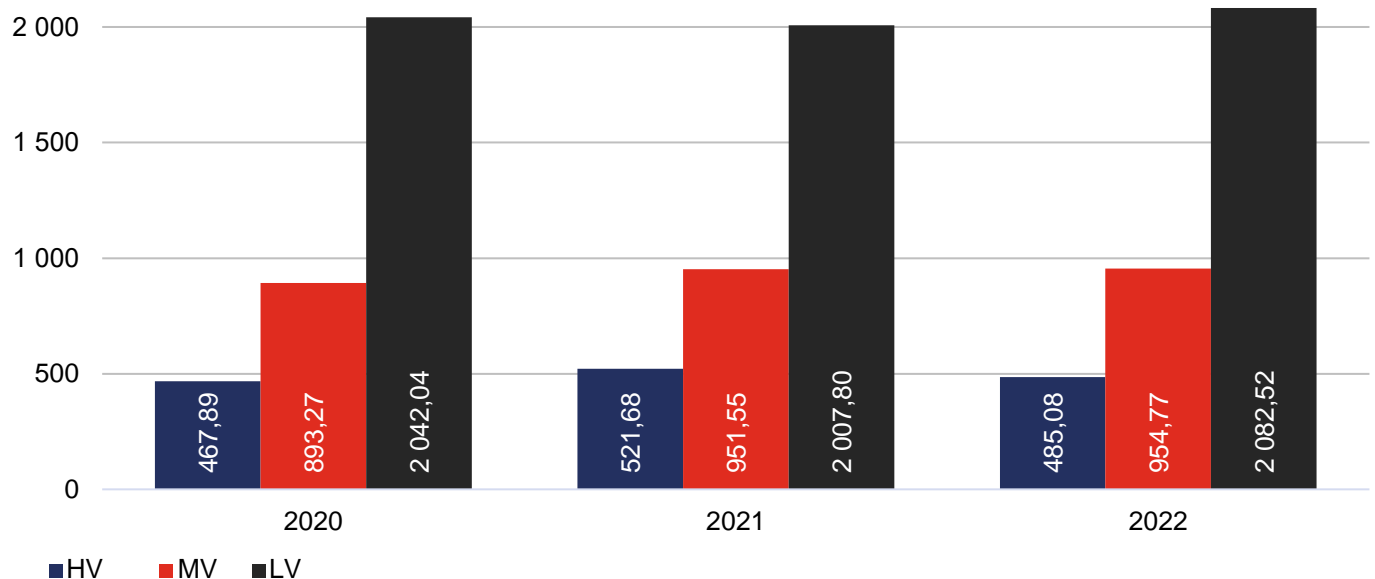
The following Chart shows the development of the charge for renewable electricity support.

**Chart 15 Development of the charge for renewable electricity support**



Source: ERO

**Chart 16 Average total regulated prices at each of the voltage levels [CZK/MWh]**



Source: ERO

### 4.3.1 Tariff structure innovation design

In 2021, the Office launched a project for designing a tariff structure innovation in the electricity industry; the design should define the future objectives and principles in respect of controlled prices and propose measures helping to meet those objectives. The current tariff structure no longer fully reflects the condition of the sector and the market development, and so it also is not ready for the new trends in the electricity industry.

The tariff structure at the LV level has many distribution rates based on the type of the customer, the size of consumption, and primarily the purpose of electricity use, which mostly derives from the structure of the customer's appliances. However, the structure of customers' appliances and equipment is currently changing, becoming more variable and complex, and larger numbers of more dominant appliances are being connected at supply points. Wherever possible, a technologically neutral approach to customers in the future is therefore a proposition at hand. In the future, large numbers of customers will use appliances for space heating of properties and for charging electric vehicles, moreover in combination with distributed electricity generation, and possibly storage. The decisive factor will therefore be whether the nature of the load helps or, on the contrary, unnecessarily burdens the distribution system. A corroborating argument for this approach is the fact that some customers do not request a change of their distribution rate although they no longer use the appliance on the basis of which they were this rate.

The tariff structure at the HV and MV levels fails to incentivise the optimisation of customers' requirements for reserved power input. Thus, customers' reserved power input is often oversized, which may even result in ineffective reinforcements of system capacities and cost increases for all customers.

To facilitate the transition to 'new energy', it is crucial to design the tariff structure so as to support strong development of renewable energy sources and electricity sharing (community energy), development of electric mobility and storage, and provision of flexibility, and fully use the features of the new generation of electricity meters.

The principles that the Office will follow when designing the tariff structure will include simplicity, easy applicability, non-discrimination, cost-causative linkage between the cost driver and the price paid by customers as so far, a level playing field for similar technologies, and no barriers to prosumers.

The new tariff structure design will result in the price paid by the customer matching the costs that the customer causes in the system. Also, a tariff system that will be predictable for a long time and directed towards new energy will be designed.

Based on some individual proposals processed in 2021, the measures for objective implementation will be carried out one by one, starting with the option to share electricity in residential properties and modified tariff structure at the HV and MV levels.

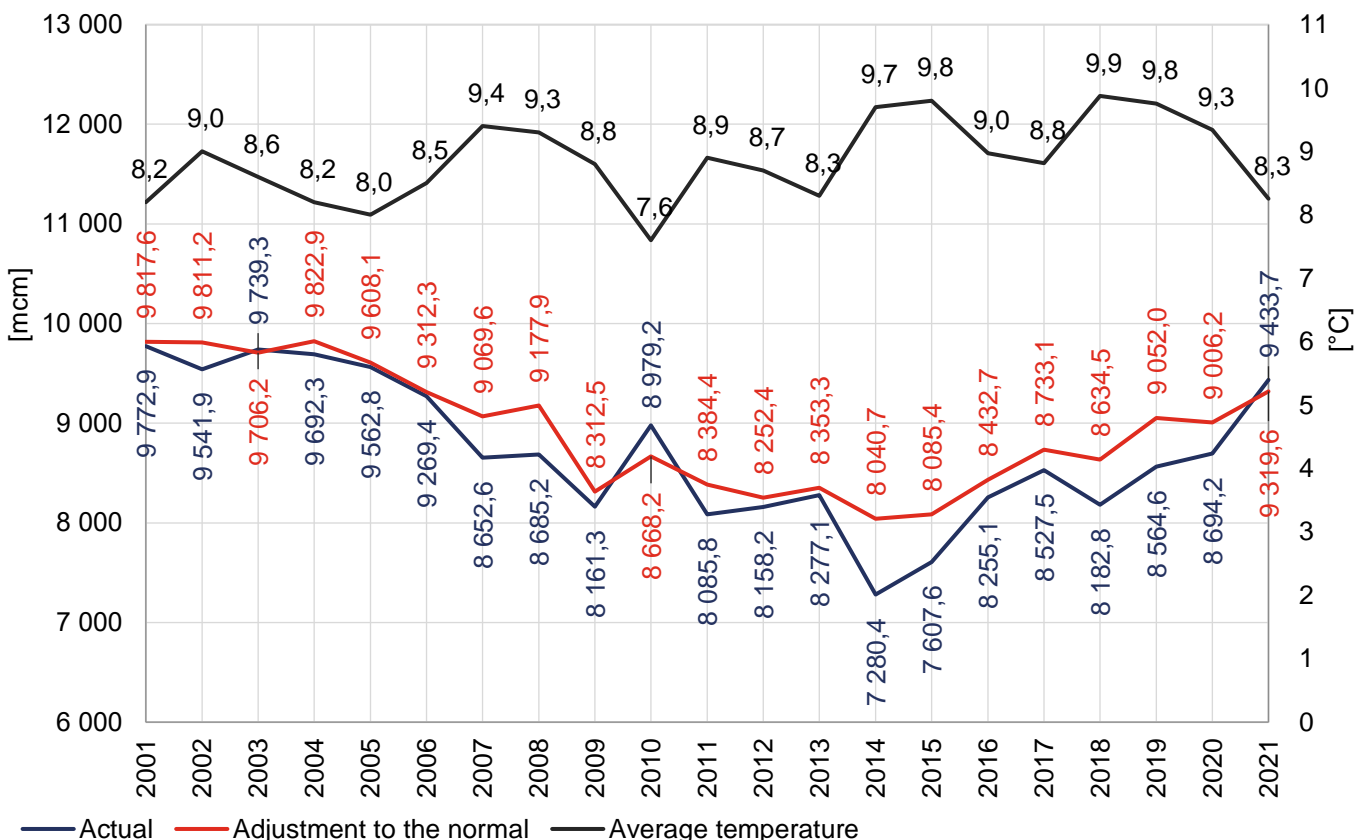
## 5 THE GAS MARKET

In 2021, actual natural gas consumption in the Czech Republic totalled 9,433.7 mcm, i.e. 100,737.5 GWh (in the Czech Republic, the average gross calorific value was 10.68 kWh/m<sup>3</sup>, i.e. 38.46 MJ/m<sup>3</sup>). Compared with 2020, actual consumption increased by 8.5%. Average annual temperature was 9.3 °C and the difference from long-term normal temperature was -0.3 °C and from average temperature in 2020 it differed by -1.1 °C. Gas consumption in the heating season accounted for about 68% of total annual consumption. The highest monthly consumption was registered in January (1,273 mcm, i.e. 13,599 GWh) and the lowest in August (363 mcm, i.e. 3,874 GWh). An increase in consumption compared with the same period of 2020 was registered mainly in the first half of the year. Adjusted to long-term normal temperature using temperature gradients, in 2021 natural gas consumption amounted to 9,320 mcm, i.e. 99,519 GWh, up by 3.5% year-on-year.

Natural gas consumption in the Czech Republic slightly increased over the last ten years and 2021 saw the highest value of this period. The higher increase in natural gas consumption in recent years is mainly attributable to gas supply for electricity generation and, to some extent, gas supply to CNG stations.

Over the long term, natural gas consumption exceeded 9 bcm (96 TWh) for the first time since 2007, even though between 1996 and 2006, this level was significantly exceeded each year. Natural gas consumption in the Czech Republic is heavily influenced by air temperatures, which have been above the long-term normal temperature for almost the whole of this ten-year period, except for 2021.

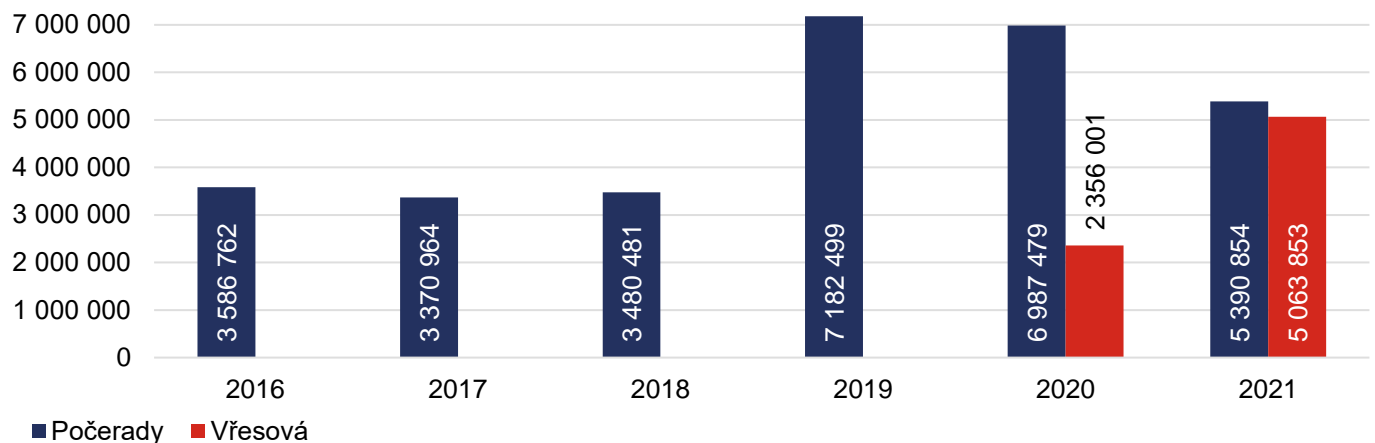
**Chart 17 Overall evaluation of gas consumption in the Czech Republic between 2002 and 2022, also showing adjustment to long-term normal temperature**



Source: ERO

The Počerady combined cycle unit, which has become an important element in the gas system, was operated to full capacity throughout 2021 except for a few months. Its consumption totalled 5,391 GWh of gas. Due to the transition of the Vřesová combined cycle plant in the Karlovarský Region to full capacity, total natural gas consumption significantly increased. This power station used 5,064 GWh of gas for electricity generation in 2021. Higher electricity generation from gas was reflected in the rising curve of the quantities traded at spot markets.

**Chart 18 The Počerady and Vřesová combined cycle plants – natural gas supply for electricity generation [MWh]**



Source: ERO

## 5.1 Infrastructure, network regulation, storage facilities and technical functioning

On 4 January 2021, NET4GAS, s.r.o., the Czech TSO, put into operation a new high-pressure gas pipeline built under the Capacity4Gas project. The objective of Capacity4Gas was rolling out a new gas infrastructure, primarily in the Ústecký Region and Plzeňský Region, and integrating it with the existing transmission system and the EUGAL gas pipeline in Germany. The project increases the capacity of the transmission system (at entry by approximately by 35 bcm/yr) for gas supply to the Czech Republic and for further transit across Slovakia. The new infrastructure will be connected, at various points, to the existing Czech transmission system, which will make it possible to supply natural gas to the domestic distribution systems.

### 5.1.1 Balancing

The Office continued in its evaluation of the efficiency of the model for gas balancing in the system, which had been in place since 1 July 2016 and then since 1 January 2019 when the processes in place were first subjected to major changes with a view to making the model reflect the gas market's needs and the requirement to minimise the costs incurred by the TSO with regard to impacts on regulated prices.

Based on this regular evaluation, the Office drafted an amendment to the Gas Market Rules (public notice 277/2021). The amendment brings several changes directly concerning the system balancing mechanism; the most important of them is the modified size of aggregated flexibility. The rules for determining (calculating) aggregated flexibility, i.e. the part of the line pack in the transmission system, which is gratuitously used by balance responsible parties (BRP; also 'cleared entities') to cover the imbalances between off-take and input, had been put in place in 2015 on the basis of a methodology that no longer

matched, if only because of the changes in gas flows, the transmission system's actual capabilities in all cases. The broad flexibility band combined with using only commercial tools for physical system balancing (i.e. gas purchase and sale at the virtual trading point) caused a number of problems in operating the transmission system, such as the occurrence of extreme physical imbalances between input and off-take without having the option of an effective physical system balancing.

Another change to the flexibility rules relaxed the until then strict requirements for the TSO to perform a balancing action, providing the TSO with an option to reduce the provided flexibility depending on the current use of the transmission capacity in three steps, where the provided flexibility decreases with the increasing utilisation of transmission capacities.

In general, the amendment updates the formerly set transmission system balancing processes with a view to the rules for the TSO's performance of balancing actions boosting the role of the economical operation of the transmission system in respect of the optimisation of the costs of operating compression stations, because these costs are recouped through regulated prices. The new rules also make it possible to better respond to imbalances caused by off-takes of varying sizes during the gas day; the off-takes may increase or decrease in the context of gas flow changes, thereby making system control even more demanding.

The amendment also prevents the cross-subsidisation of the prices for the gas transmission service in the context of compressor station operation; under Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas, cross-subsidisation is regarded as undesirable. It also prevents a potential breach of the principle set out in Commission Regulation (EU) No 312/2014, under which 'Network users are to bear the responsibility of balancing their inputs against their off-takes'.

## 5.1.2 Cross-border issues, implementation of network codes and guidelines

### CMP

The procedures and dates/times that are required for the proper implementation of NC CAM and CMP rules are set out in the Gas Market Rules. The Office continuously reviews the efficiency of regulation to ensure that the rules in place match the development in the gas market in the Czech Republic and in the international context.

Under the CMP rules, the TSO informs the Office and the BRP or foreign participant concerned about unused booked transmission capacity following the end of the period under review.

In 2021, several cases occurred where CMP rules were applied to a cross-border point. Compared with 2020, the application of the Long Term UIOLI in the Czech market dropped by more than 30% in 2021. On the other hand, the rate of using the 'Surrender of contracted capacity' measure increased significantly in 2021 compared with 2020.

### NC TAR

The motivated decision required in Article 27(4) NC TAR was published in Part 3/2019 of the *Energy Regulation Gazette*. Further to this decision, the relevant prices for the gas transmission service were set for 2022 and published in ERO Price Decisions.

Under Article 28 NC TAR, the Office consults, on an annual basis, the discounts, multipliers, and seasonal factors. It then projects the outcome from this consultation into the wording of its price decision.

Under Article 29 NC TAR, the Office published the reserve prices of the standard capacity products for firm and interruptible capacity and the multipliers applied to the reserve prices of other than standard yearly capacity products, doing so by way of issuing its Price Decision 3/2021 of 27 May 2021.

On 1 December 2021, the Office published on its website the information required in Article 30 NC TAR. The Office is obliged to publish the information required by Articles 29 and 30 NC TAR every year.

## NC CAM and NC INT

In 2021, the Office was deciding on the Ten-Year Czech Transmission System Development Plan for 2022-2031 (TYNDP). The plan specifies the parts of the transmission system that have to be built or extended in the following ten years and specifies in detail all investments in the transmission system on the implementation of which the applicant had decided and new investments that have to be made in the following three years. The timeframes for such investment projects are also set out in the plan.

One of the important TYNDP projects is the Czech-Austrian interconnection, against which the concerned entities raised objections in the context of its economic and technical relevance in connection with the existing system. Nevertheless, the Office did not find any legally relevant facts justifying the removal of this project from TYNDP. In particular the following are major changes compared with the preceding TYNDP:

- // For the TRA-N-134 project (Czech-Austrian Interconnection) the expected commissioning date was deferred to 2028;
- // The DZ-3-002 project is regarded as a purely national project following the discontinuation of the Polish-Czech Interconnection (TRA-N-136) project;
- // The DZ-3-009 project for increasing the capacity of the national transmission system was included in the plan;
- // For the UGS-4-003 project, the category of the connection of new storage capacities, the year of expected commissioning was moved from 2022 to 2023;
- // The TRA-N-137 project (Polish-Czech Interconnection) was cancelled due to the failed incremental capacity auction in July 2021.

The plan submitted to the Office for assessment already took into account the technical and economic responses provided during the public consultation organised by the TSO. In this respect, the Office therefore examined its content from the perspective of the requirements of the Czech and EU legislation, its benefits for the continuous development of the Czech gas market and for meeting the needs of consumers in the Czech Republic, and also from the perspective of overall impacts on final consumers. The plan was then approved on 10 December 2021.

In 2021, preparatory work continued for issuing coordinated decisions on incremental capacity projects between the Czech Republic and the neighbouring Member States.

In relation to the *Project Proposal for Incremental Capacity between Entry/Exit Systems of the Czech Republic (CZ) and Austrian Market Area East (AT)*, towards the end of the process, on 20 April 2021, the Austrian national regulator, E-Control, notified the Office that on the Austrian side, it would not be possible to issue the decisions required for approving the project proposal before 5 May 2021. For this reason, the two regulators decided to apply to ACER for an extension of the time for issuing the decision in question. On 23 July 2021, ACER accepted this application and, in its decision, allowed the two regulators to achieve agreement on the proposed project until 5 November 2021.

In the meantime, on 30 June 2021, NET4GAS submitted to the Office an amended project proposal, which primarily reflected the shifting of the expected date of the incremental capacity auction to 2022, i.e. the submission of an amended proposal of Gas Connect Austria GmbH.

Under Article 28(1) NC CAM, on 1 October 2021, the Office and E-Control approved, in their coordinated decisions, each of them separately, the amended version of the project proposal for incremental capacity between the Czech Republic and Austria, presented by the relevant TSO concerned (by NET4GAS in the



Czech Republic and by Gas Connect Austria GmbH in Austria). The incremental capacity related to the project was slated for offering in the auction of yearly transmission capacities in July 2022.

In relation to the proposed *Incremental Capacity Project for the Border between Poland and the Czech Republic*, 5 July 2021 saw an annual auction of incremental capacity. Thus, the respective transmission system operators concerned, GAZ-SYSTEM S.A. in Poland and NET4GAS in the Czech Republic, completed the preparation process on the basis of the decisions of the national regulatory authorities in charge of approving proposals for incremental capacity projects (decision DRR.WRG.748.9.2020.Abu1 dated 29 April 2021 of the Polish regulatory authority's Chairman and ERO Decision 09654-15/2020-ERU of 5 May 2021). No market participant booked incremental capacity in the above annual auction, and the economic test therefore ended with a negative result on both sides of the Czech-Polish national border. Under Article 22(3) NC CAM, the relevant incremental capacity process was terminated.

With regard to the NC CAM rules in Article 26, under which demand indications must be assessed at least every two years, NET4GAS and the relevant adjacent TSOs assessed non-binding demand indications submitted between 5 July 2021 and 30 August 2021. Again NET4GAS and GAZ-SYSTEM S.A. received non-binding demand indications of firm transmission capacity at interconnection points between the PL and CZ entry/exit systems for the upcoming period. The two-month public consultation was planned for 17 January to 17 March 2022. The date of the incremental capacity auction was tentatively set for 3 July 2023 as part of the annual auction of capacities.

### **5.1.3 Gas storage facilities – regulated and unregulated access to storage facilities**

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

In 2021, the storage system operators, RWE Gas Storage CZ, s.r.o., MND Gas Storage a.s., and Moravia Gas Storage a.s., called a total of 29 auctions to sell storage capacities. Seasonal price differentials (spreads) continue to be the main instrument for storage capacity valuation.

Storage system operators follow an Equal Treatment Programme, the purpose of which is to provide for an equal and non-discriminatory position of all gas market participants who are using or want to use the company's services. Access to storage facilities is based on the principle of negotiated third-party access (TPA). The Office does not regulate the price for gas storing; this price is made by the market based on the results of auctions in which available storage capacity is offered as part of various products (packages). In the relevant legislation, the Office sets out the particulars, i.e. the framework of minimum conditions, of which applicants for storage capacity must be aware before storage capacity is offered using an auction mechanism.

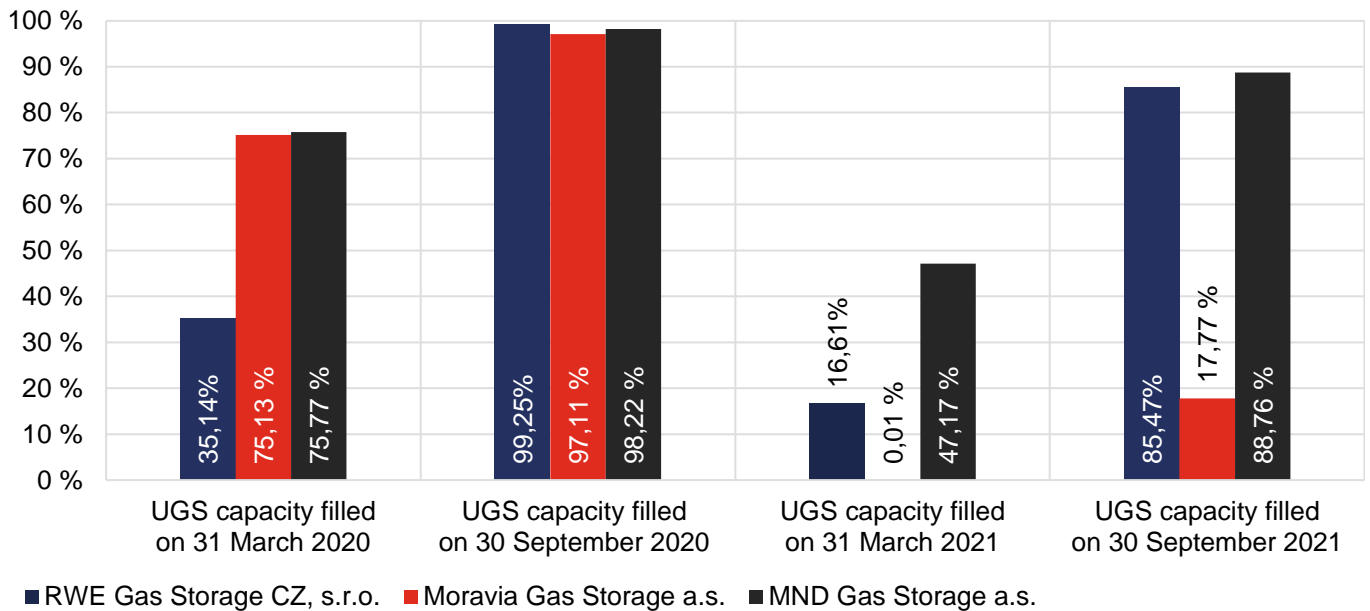
The terms and conditions of every auction, including the reserve price, are fully within the SSO's competence and are posted on the SSO's website, including the subsequent results. Thus, the Czech storage capacity market is one of the most transparent in the EU. The Office continuously monitors and evaluates these terms and conditions. No discriminatory treatment of gas market participants occurred in 2021.

Another important criterion for gas storage facilities is the level to which they are filled before the beginning of the heating season and at the end of the storage year. When gas stores in them are too low (which mainly happens at the end of the storage year), for technological reasons storage facilities are unable to offer the full withdrawal capacity and fully respond to temperature changes and so supply sufficient gas quantities to the market. On 1 October 2021, the day that is regarded as the beginning of the heating season and when conventional customs dictate the start of gas withdrawal from facilities, all storage



facilities were filled to approximately 85% of their capacities. The main reason was the low level of gas stores in the facilities at the end of the last withdrawal season due to the long winter 2020/2021. In March 2021, the stored level was much lower than in 2020 when facilities were filled to more than 35–76% after the season. The following Chart compares gas quantities in storage facilities after the withdrawal season and before the withdrawal season of 2020 and 2021.

**Chart 19 Comparison of gas volumes in storage facilities between 2020 and 2021**



Source: [www.rwe-gasstorage.cz](http://www.rwe-gasstorage.cz), [www.moravia-gs.cz](http://www.moravia-gs.cz), [www.gasstorage.cz](http://www.gasstorage.cz)

Note: The percentage expresses the ratio of the gas quantity in the facility and its technical capacity.

#### 5.1.4 Gas supply security standard (GSSS)

As part of its competences, the Office monitors and evaluates adherence to the security standard for gas supply in the Czech Republic (GSSS). In its Monthly Reports on the Evaluation of the GSSS in the Czech Republic, the Office also pursues 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 the applicable legislation, all gas traders send information concerning the obligation to provide for GSSS to the Office before every winter season. The Office found that on 31 December 2021, of all the licensed entities a total of 148 gas traders provided for GSSS for their own operation or for some other gas traders.

In 2021, GSSS was provided for January to March and October to December. According to the information in the returns received by the Office, GSSS was ensured for the whole heating season, including the at least 30% of gas stored in storage facilities in the EU. Most gas traders supplied a confirmation that they had another gas market participant providing for their GSSS. This means in practice that one trader provides GSSS for several other traders, including through gas storage for 30% of GSSS. A detailed analysis of each of the gas storage facilities has shown that despite indications to the contrary, the use of gas storage facilities has not changed, and they are being used in the traditional manner (injection in summer and withdrawal in winter). However, compared with the past, injection in summer is less even and depends on gas prices at exchanges. Before the winter season, storage facilities in the Czech Republic contained approximately 2.93 bcm of gas, which currently accounts for 32% of yearly gas consumption and for 45% of gas consumption in the heating season in the Czech Republic. The gas covered by GSSS is sufficient for companies to ensure gas supply to customers in the event of emergencies.

According to data from gas traders and gas producers, by 1 December 2021, GSSS had been in place for the following cases in the following quantities:

- ▮ in the event of a seven-day temperature peak: 394,643 MWh;
- ▮ in the event of at least 30 days of exceptionally high demand for gas: 9,444,754 MWh; and
- ▮ in the event of an at least 30-day disruption of the single largest gas infrastructure: 7,300,667 MWh.

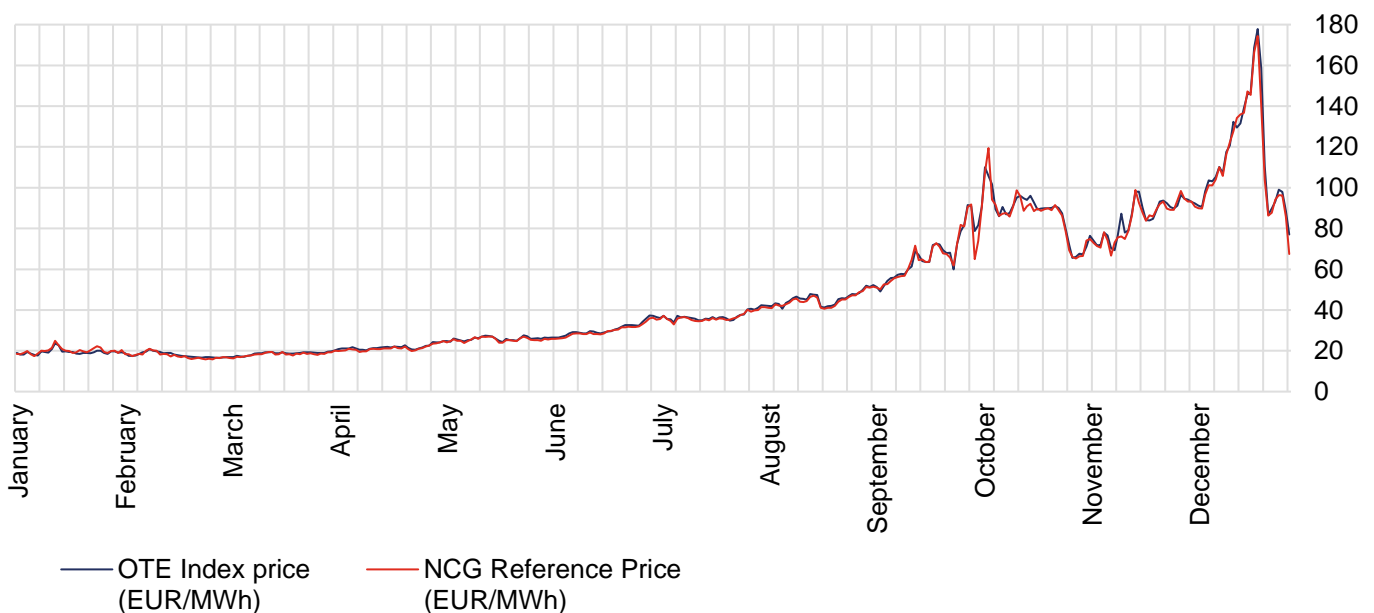
## 5.2 Competition and market functioning

### 5.2.1 Wholesale market

A total of 4,007 GWh of gas was traded in the within-day gas market organised by the market operator. In 2021, the weighted average of the price of gas traded in the within-day market skyrocketed by 485.8% compared with 2020, to EUR 46.25/MWh. In the spot market, natural gas prices even exceeded EUR 170/MWh in late 2021. At the end of 2021, 115 market participants had access to the spot gas market.

In 2021, the prices in the Czech within-day gas market again closely followed the prices of comparable products in the German bidding zone, NCG, and since 1. 10. 2021 at Trading Hub Europe (THE within NCG), traded on the PEGAS platform operated by European Energy Exchange AG (EEX), as evident in the following Chart.

**Chart 20 Comparison of the OTE Index and EEX NCG/THE spot prices in 2021 [EUR/MWh]**



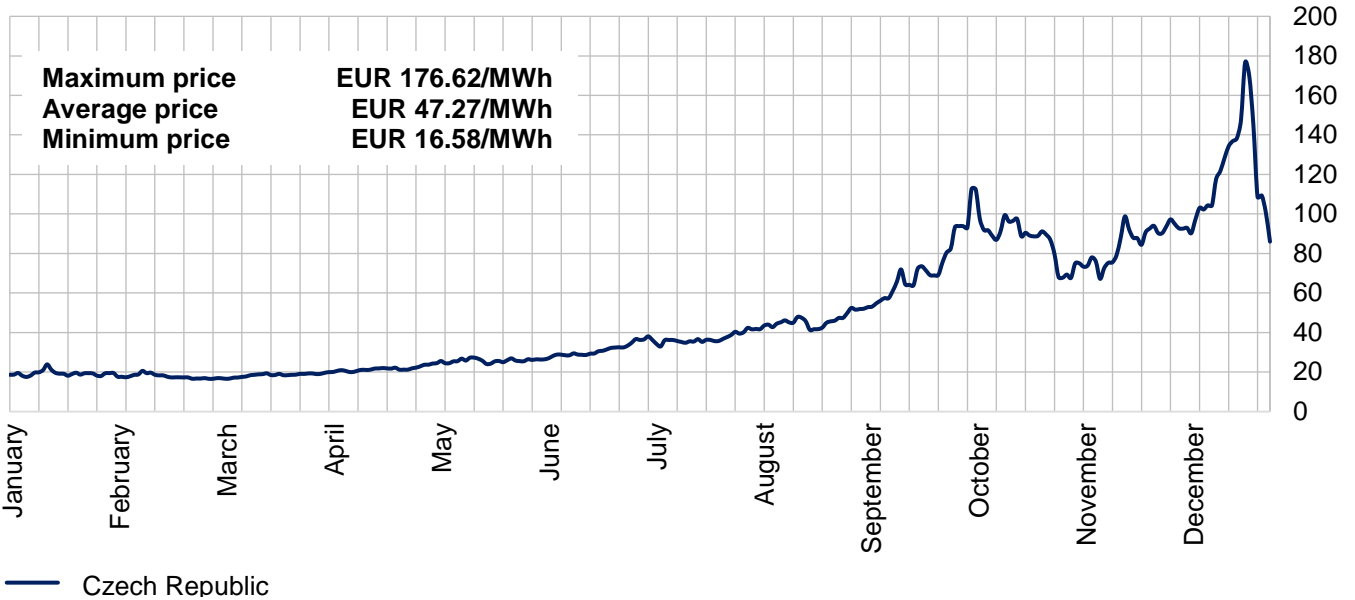
Source: OTE, a.s., EEX

Development like the above could also be seen in the prices in adjacent countries' markets (TTF, Gaspool, and CEGH). The Czech within-day gas market, organised by the market operator, can therefore be described as a fully functional wholesale venue. 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.

From early 2021, the spot gas price was slowly rising; as in the case of the electricity price, in the second half of the year its growth was more rapid, creating two distinct peaks. The first peak appeared

in mid-October when the price climbed to EUR 112.61/MWh. The other peak in late December hit EUR 176.62/MWh, whereupon it started to plunge over the Christmas holidays.

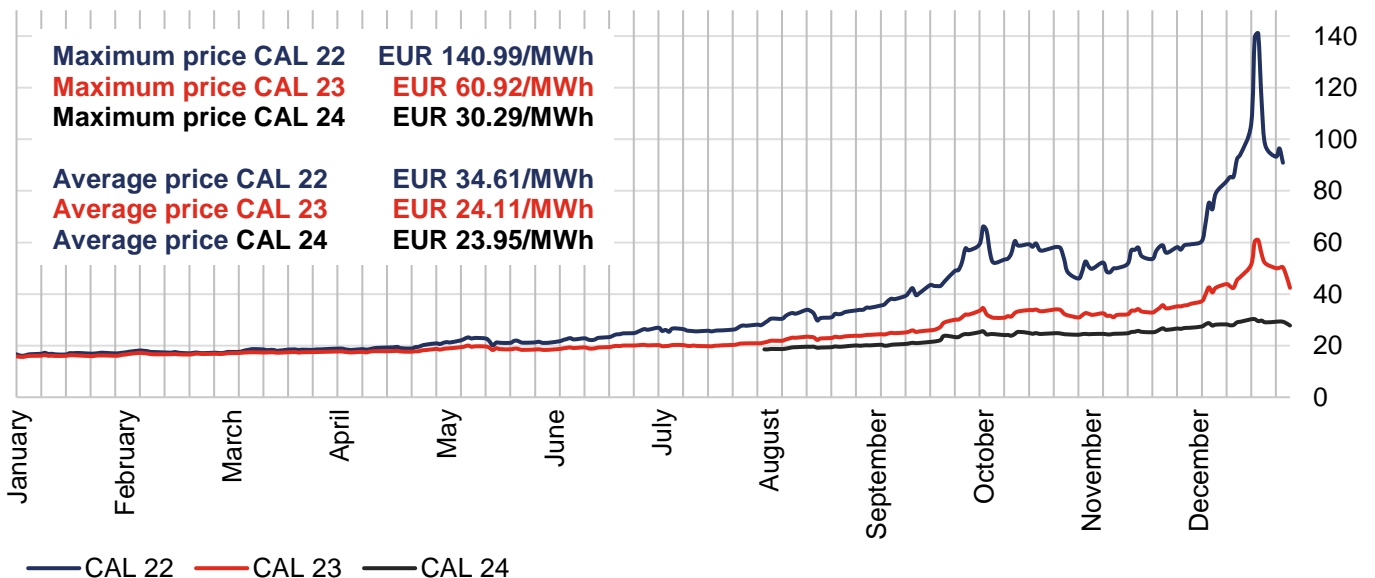
**Chart 21 Natural gas – spot market (day-ahead market) in 2021 [EUR/MWh]**



Source: EEX

The following Chart shows the forward price of natural gas, with settlement in 2022; in late December it climbed to EUR 140.99/MWh. The maximum forward prices for subsequent years climbed to CZK 60.92/MWh (CAL 2023) and EUR 30.29/MWh (CAL 2024). The average yearly price of the CAL 2022 product was EUR 34.61/MWh.

**Chart 22 Natural gas – forward market (forward prices and CAL 2022) [EUR/MWh]**



Source: EEX

The total traded volume rose by 5.5% to 13,577 GWh. The portion traded at the forward market through PXE Czech Gas Futures increased while the volume traded at the spot market (Czech Gas Spot) decreased.

**Table 7 Wholesale gas market indicators**

	2016	2017	2018	2019	2020	2021
<b>Gas production</b> [GWh]	1,473	1,580	1,477	1,410	1,334	1,384
<b>Spot market participants</b> [-]	95	97	97	98	104	115
<b>Total gas demand</b> [GWh]	88,243	90,996	87,306	91,398	92,894	100,737
<b>Imports volume</b> [GWh]	362,845	373,374	424,107	385,378	464,284	486,992
<b>Exports volume</b> [GWh]	276,070	278,592	338,775	283,857	383,388	394,172
<b>Volume traded in spot markets</b> [GWh]	2,088	3,747	6,542	11,198	8,968	4,007
<b>Traded volume in futures market</b> [GWh]	-	-	4,210	2,554	3,901	9,570
<b>Total traded volume</b> [GWh]	-	-	10,752	13,752	12,869	13,577
<b>Weighted average of prices in the within day market</b> [EUR/MWh]	15.09	18.02	23.88	14.12	9.52	46.25

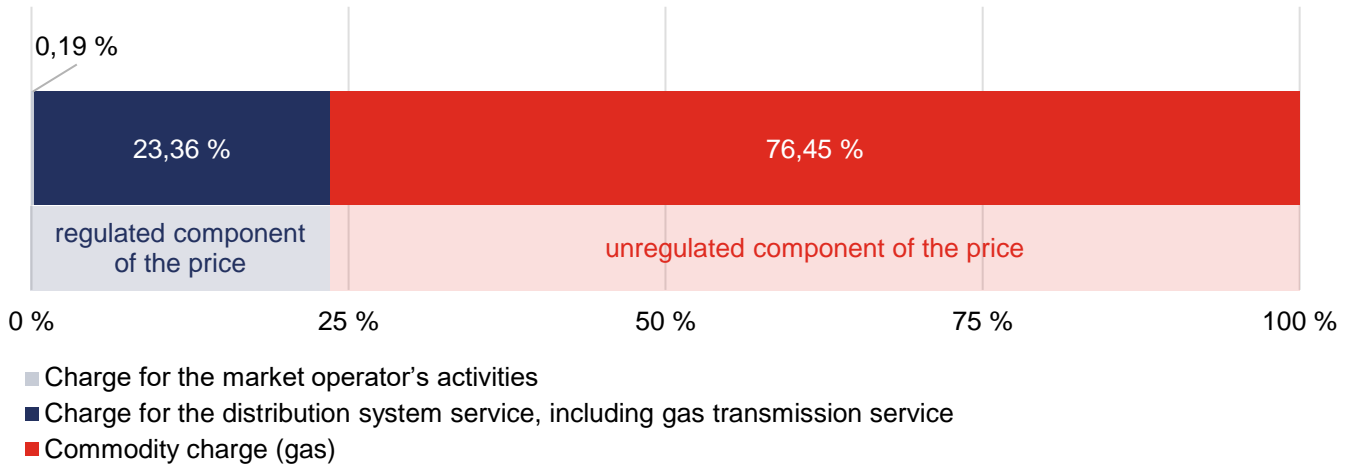
Source: OTE, a.s., PXE, a.s., ERO

### 5.2.2 Retail markets

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 2021, the Office held records of 2,820,013 gas customers' SDPs connected to regional distribution systems. Compared with 2020, the number of registered supply points therefore declined by 9,119.

The average regulated component of the price for gas supply for 2021 was planned at CZK 298.62/MWh for low-demand business and household customers (the MODOM category).

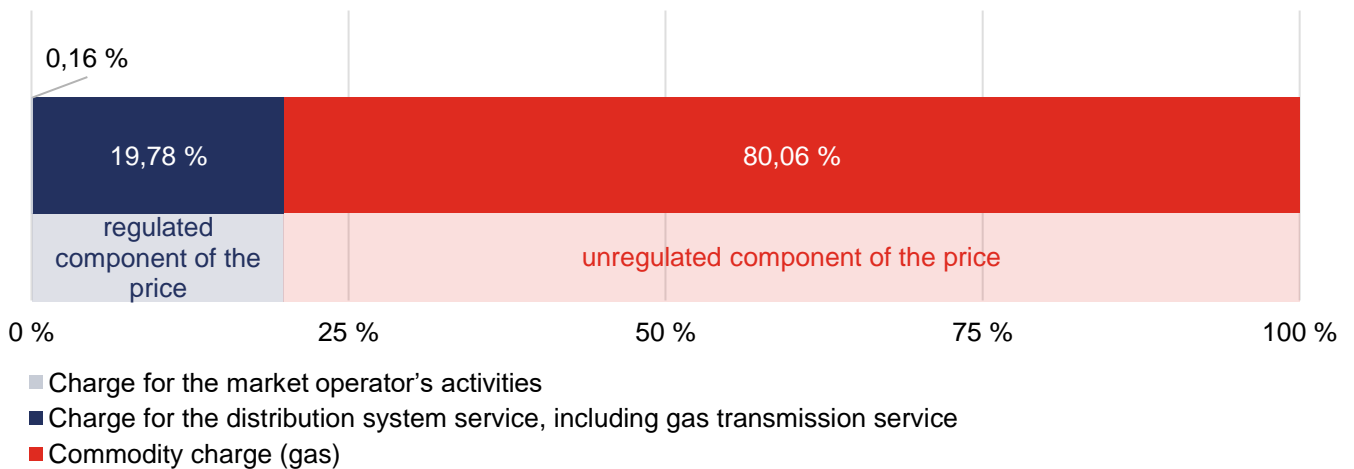
**Chart 23 Percentage shares taken by each of the components of gas supply price for households on 1 January 2021**



Source: ERO

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

**Chart 24 Percentage shares taken by each of the components of gas supply price for households on 31 December 2021**



Source: ERO

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

The gas market had 121 active gas traders as at 31 December 2021. The following Table provides more details about the retail market.

**Table 8 Certain indicators of the retail gas market – traders and HHI**

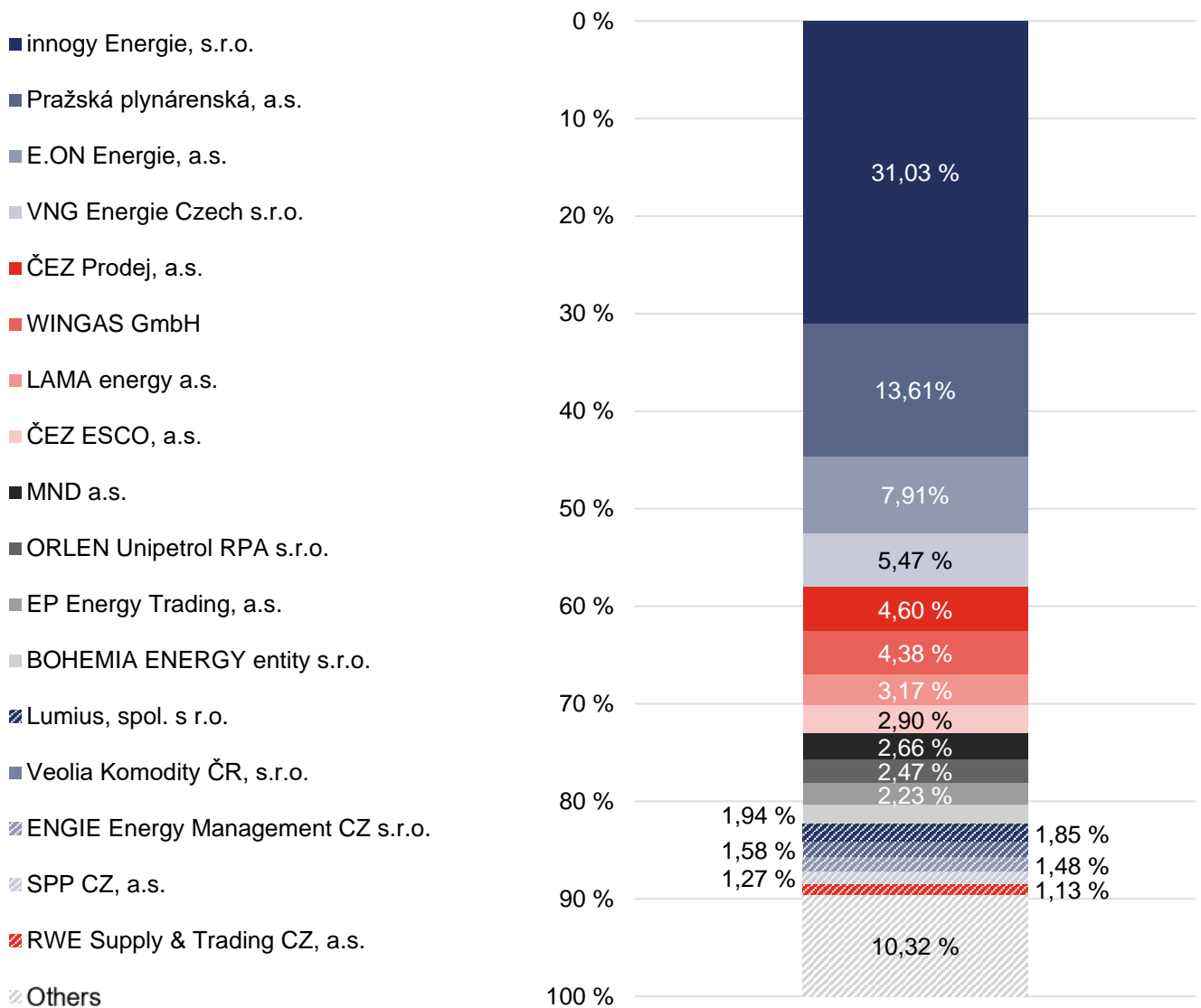
	2016	2017	2018	2019	2020	2021
<b>Number of registered suppliers</b> [-]	213	227	236	243	247	256
<b>Number of active gas suppliers</b> [-]	98	110	119	125	133	121
<b>Market share of the three largest suppliers by consumption</b> [%]	57.13	52.55	53.69	52.15	52.18	52.56
<b>Number of suppliers with market shares (in terms of customer numbers) &gt; 5%</b> [-]	4	4	5	4	4	4
<b>Herfindahl-Hirschman Index</b> [-]	1,601	1,341	1,377	1,259	1,297	1,337

Source: ERO

The Office monitors market concentration in the former monopoly areas. Although in the regional breakdown the gas market is more concentrated than from the nationwide perspective, the values stay deep below the threshold of a heavy market concentration. It can therefore be noted that the retail gas market is not heavily concentrated, and its structure is significantly in favour of effective competition.

Another important indicator of competition in the retail market is the various suppliers' market shares. In line with the good practice of supervision over competition, in 2020 the Office started to monitor suppliers in groups. In terms of the quantity supplied, with its 31% innogy Energie, s.r.o. continues to be the largest gas supplier, followed by Pražská plynárenská, a.s. with 14% and E.ON Energie, a.s. with 8%. The following Chart provides a more detailed picture of gas traders' shares of supply to customers.

**Chart 25 Gas suppliers' share of gas consumption in 2021**

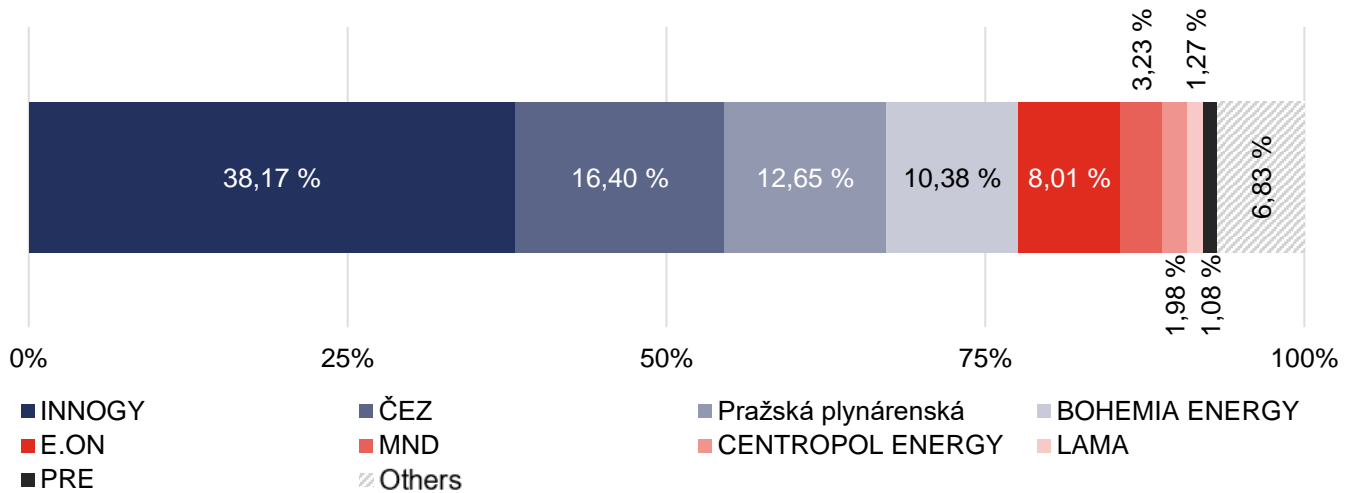


Source: OTE, a.s.

Traders with less than 1% are included in the Others item.

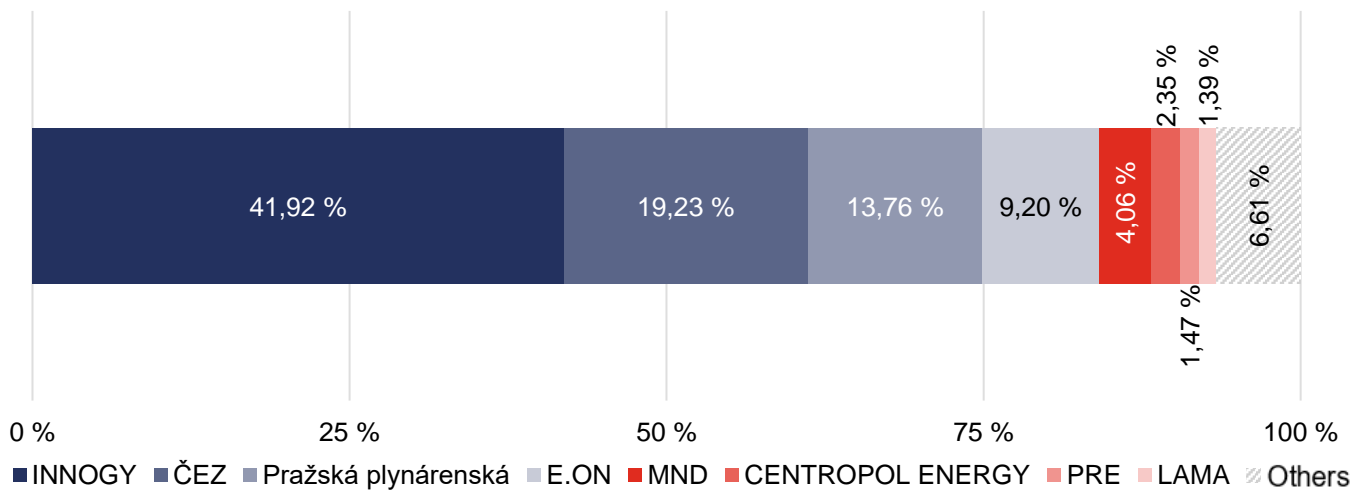
The following Charts show gas market shares in 2021. In terms of the number of SDPs, on 30 September 2021, innogy Energie, s.r.o. was number one in the market with 38%, followed by ČEZ, a.s. with a little less than 13% and Bohemia Energy, a.s. with 10%. The other Chart shows the situation on 31 December 2021 in the wake of many suppliers' collapses in the autumn. With 42%, innogy Energie was the largest gas supplier, followed by ČEZ with 19% and Pražská plynárenská with 14%.

**Chart 26 Traders' gas market shares in terms of SDP on 30 September 2021**



Source: OTE, a.s., ERO edited

**Chart 27 Traders' gas market shares in terms of SDP on 31 December 2021**

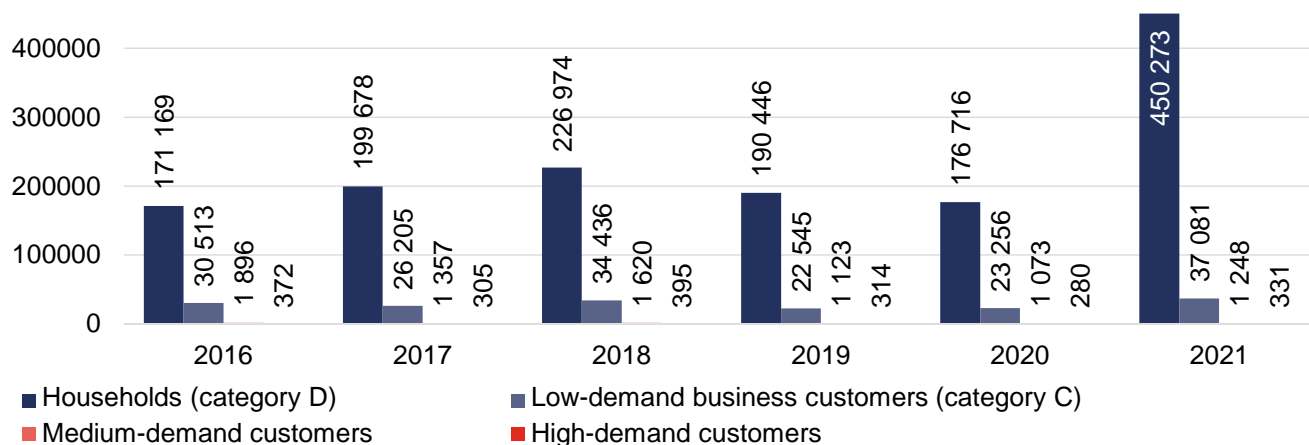


Source: OTE, a.s., ERO edited

Due to the market situation, in 2021 almost 489,000 customers changed their gas supplier. The following Chart shows the structure of the gas supplier switching in more detail. The Table below lists the number of supplier switches to the number of supply points (switching rate).



**Chart 28** Number of gas supplier switches in the key customer categories



Source: OTE, a.s., ERO editing

**Table 9** Selected retail market indicators – households

	2016	2017	2018	2019	2020	2021
<b>Gas consumption</b> [GWh]	25,309	25,902	24,279	23,200	23,984	26,899
<b>Number of customers *</b> [-]	2,632,037	2,632,599	2,626,417	2,619,793	2,614,120	2,604,725
<b>External switching rate</b> [%]	6.6	7.6	8.6	7.3	6.76	17.29

Source: OTE, a.s., ERO

\* The number of supply points for 2021 is not final; it does not include supply points in local distribution systems.

**Table 10** Selected retail market indicators – non-households

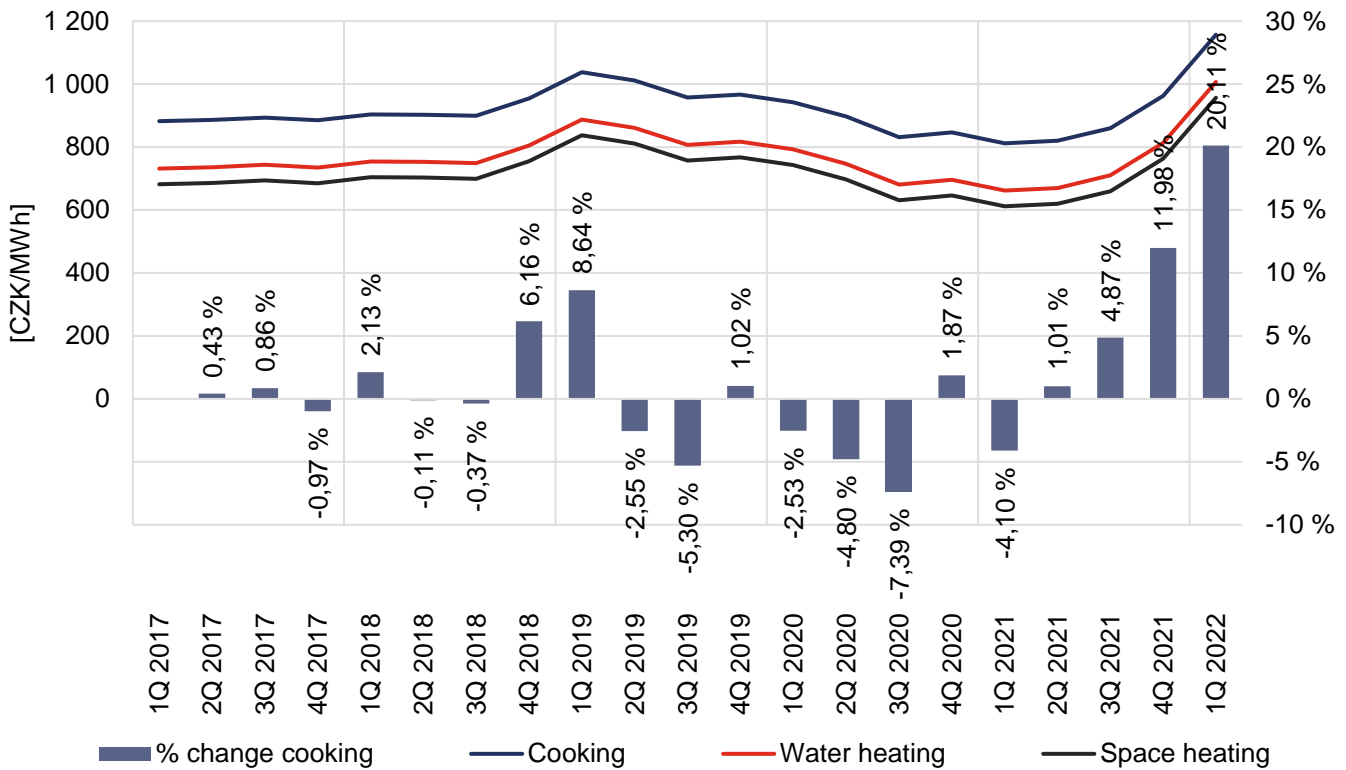
	2016	2017	2018	2019	2020	2021
<b>Gas consumption</b> [GWh]	61,906	63,942	61,618	66,582	67,931	72,495
<b>Number of customers</b> [-]	208,436	211,658	214,202	214,716	215,012	215,288
<b>Switching rate</b> [%]	14.9	13.2	17.0	11.2	11.45	18.0

Source: ERO, OTE, a.s.

As part of consumer protection under Section 17(4) of the Energy Act, the Office continued to post indicative prices of gas supply services on its website with a view to improving information for consumers. The indicative prices are non-binding and constitute information on the prices for which customers can buy the gas supply service, which reflect the actual situation in the retail gas market. The indicative prices of gas supply services reflect the wholesale prices of gas traded at energy exchanges, for which gas traders can buy gas for the relevant period. They also contain traders' margin, which covers their costs incurred

in ensuring the gas supply service for their customers, and reasonable profit. Indicative prices do not include regulated prices for distribution and for the market operator's services, which are set out in the Office's price decisions and customers cannot influence them by changing their gas trader. The developments in the wholesale gas market were one of the reasons for the extreme growth of this indicative price.

**Chart 29 Indicative gas prices for offtake having the nature of heating**



Source: ERO

### 5.3 Price controls – network and LNG tariffs for connection and access

Satisfying the requirements of Directive 2009/73/EC, implemented in the national legislation, the Office puts in place rules that provide for the gas market's secure and non-discriminatory functioning and promote a competitive environment. The Czech gas market has been fully liberalised, and the Office is only authorised to control the prices that cannot, for technical or organisational reasons, be formed by market mechanisms in a competitive environment. Under Section 17(11) of the Energy Act, the Office is authorised to control the prices of the gas transmission service, the distribution system service, and the SoLR gas price on a cost-plus basis. It also has the remit to decide to regulate the transmission system operator's and distribution system operators' other activities and the market operator's services. The Office is not competent to set the price for gas supply. These uncontrolled prices are fully within the respective gas trader's competence and depend on the trader's business strategy and its contracts with customers.

In 2021, the Office issued two price decisions for 2022 laying down the regulated prices and the conditions for applying them. In late May, it issued ERO Price Decision 3/2021 of 27 May 2021 on regulated prices related to gas supply, laying down the charges for the service of gas transmission for the cross-border points of the transmission system and the conditions for applying the charges. In late November, it issued

ERO Price Decision 7/2021 of 30 November 2021 on regulated prices related to gas supply, laying down other regulated prices.

The Office set out the regulated prices for 2022 in compliance with the Energy Act, the public notices on the methods of price control in the gas industry and on the method for regulating the price for the market operator's activities, and the published Price Control Principles 2021–2025.

Under the above legislation and the Price Control Principles 2021–2025, the Office determined the adjusted allowed revenues, applicable to the distribution system operators, the transmission system operator, and the market operator, from which it calculated the regulated prices for 2022. 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.

In compliance with the EU legislation and the decision under Article 27(4) NC TAR, the tariffs for gas transmission at the transmission system's entry and exit points were calculated using the capacity weighted distance (CWD) reference price methodology. Based on their expected utilisation, the transmission system operator's set revenue was allocated to the entry and exit points of the transmission system and included in the calculation of the regulated charges for gas transmission accordingly. The charge for the gas transmission service to the 'domestic point' (i.e. for customers in the Czech Republic) is integrated within gas distribution charges and is billed to customers as part of the charge for the distribution system service.

The TSO's adjusted allowed revenues for 2022 rose by almost one third. This increase was mainly related to the construction of the new Moravia Capacity Extension transmission pipeline.

Because of the planned development of consumption and transmission capacity bookings, in 2022 the average charge for the service of gas transmission to the domestic point rose by 28.76% on 2021, from CZK 14.57/MWh to CZK 18.76/MWh. This charge is integrated in the regulated prices of the distribution system service and, depending on the customer category (households and low-demand business, medium-demand, or high-demand customers), accounts for around 1-2% of the total price for the gas supply 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 firm transmission capacity booked at the respective entry/exit point in the transmission system. The variable component covers the TSO's costs related to the gas quantity actually transported via the exit points of the transmission system.

Another regulated activity is the distribution system service. As in the case of the TSO, adjusted allowed revenues are set for distribution system operators every year, and the regulated prices for the distribution system service are then determined on their basis.

The distribution system service charge is calculated in two forms. One of the forms is the single-component price, which is intended for customers having a certain specific nature of their supply point usage. At such supply points, the largest part of the yearly offtake is consumed over only a few days during the year. The other and most frequently used form of the distribution system service charge is a double-component price, which is composed of a variable and a fixed component as in the case of the gas transmission service.

In the double-component price, the variable component of the price for the distribution system service is determined by a fixed price for gas taken, in CZK/MWh. The standing monthly charge for available capacity constitutes the fixed component of the prices for customers in the household and low-demand business categories, who take up to 63 MWh of gas per year. Its level depends on the distribution area and on the customer's inclusion in an offtake band, which is determined by the adjusted annual consumption at the supply point. Low-demand business and household customer categories (MODOM) taking over 63 MWh

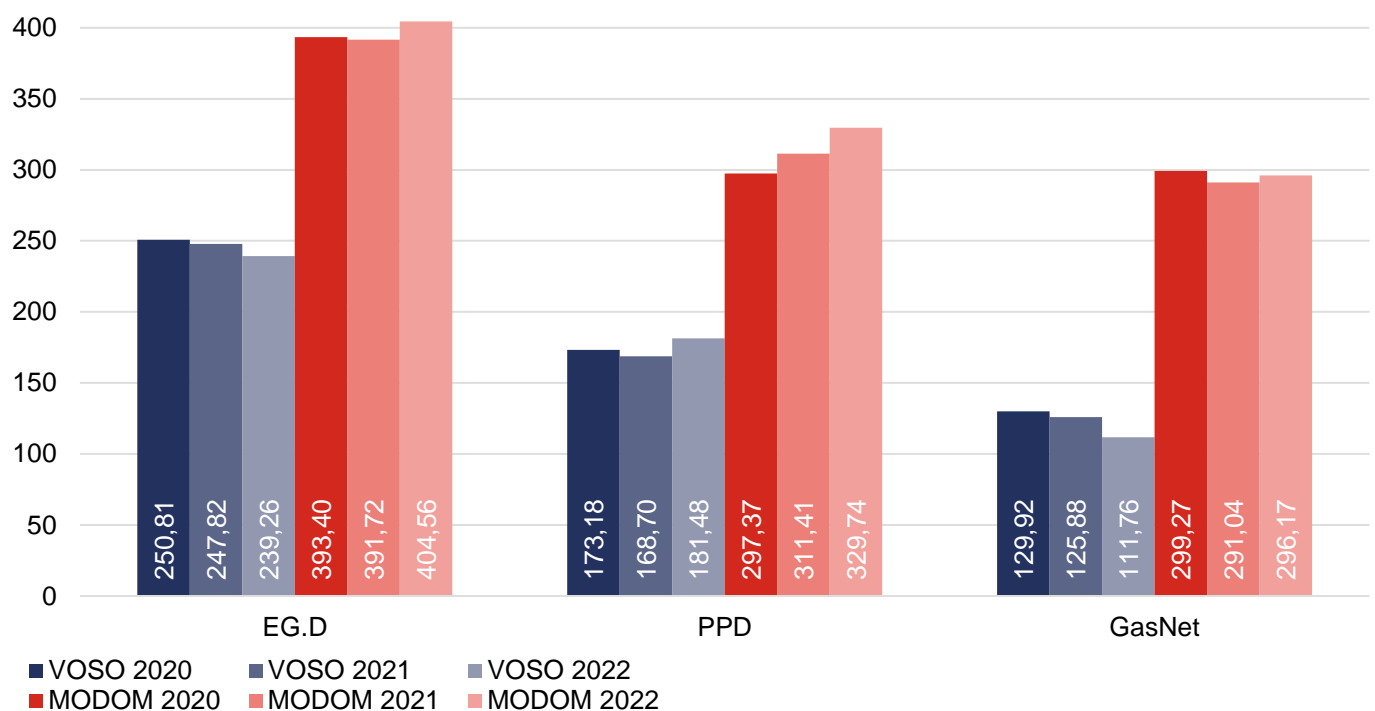
of gas per year pay the fixed component of the price through the fixed price for daily booked distribution capacity. For the high-demand and medium-demand customer categories (VOSO), this component of the price is based on the calculation of a logarithmic formula depending on the daily booked distribution capacity for an indefinite period. Customers most often pay it monthly as a fixed price for daily booked distribution capacity.

Total adjusted allowed revenues for operators of distribution systems connected to the transmission system increased by 2.4% for 2022. The rising price of gas at exchanges, which is reflected in the regulated costs of loss coverage, contributed to this increase considerably. The average charge for the distribution system service, which also includes the service of gas transmission to the domestic point, for 2022 decreased, on average, by 4.9% on 2021. This decrease is due to calculating the average charge as the ratio of adjusted allowed revenues and the planned number of technical units, which rose by almost 11% for 2022.

The following Chart shows a comparison of changes in the average charge for the distribution system service, including the service of gas transmission to the domestic point, for the various customer categories by distribution system operator between 2019, 2020 and 2021.

Another regulated component of the price is the charge for clearing paid to the market operator; for 2022, it was set at CZK 0.70/MWh, down by CZK 0.40 year-on-year.

**Chart 30 Comparison of average regulated charges for gas distribution (distribution, transmission, market operator) by distribution system operator [CZK/MWh]**



Source: ERO

Note: The charge for the market operator's clearing includes a fee under Section 17d of the Energy Act.

The Office did not apply any special tariffs for LNG in the Czech Republic in 2021.

Those who want to be connected have the right to be connected if the required capacity is available and the connection does not have a negative impact on the system's safe and reliable operation. There is no

charge for connection itself. In the case of the transmission system, the applicant pays a certain portion of the costs incurred in the applicant's connection. The portion is calculated using the algorithm laid down in the conditions for connection to the gas system. In the case of connecting a gas offtake installation to the distribution system, the applicants pay all costs on their part and also the DSO's justified costs.

## 6 REMIT

REMIT is crucial for the ERO's oversight activities. The purpose of REMIT is to prevent energy market abuse (in particular, prohibition of insider trading and of market manipulation) and to foster open and fair competition in this market. REMIT also lays down market participants' obligation to register for inclusion in the National Register of Market Participants (CEREMP) and to keep this information up to date, to report transactions, including orders to trade, and fundamental data to ACER, and to publicly disclose inside information.

As part of oversight, the Office identified additional cases of a possible breach of REMIT (Articles 3, 4, 5, and 8). These suspicions are now being investigated. Where a breach of REMIT is proved, administrative proceedings with the participants concerned will be brought. In 2021, the Office issued nine administrative decisions; in six cases it levied sanctions for Article 8 breaches and in four cases sanctions for Article 9 breaches.

The consistence of the details specified in the companies register and in the National Register of Market Participants is being continuously audited. Persons professionally arranging transactions (PPAT) are also subject to an audit every year. Further to the development of ACER's oversight and activities, the Office addressed in more detail the issue of compliance with the obligation to report fundamental data under Article 8(5) REMIT, which is closely related to compliance with Commission Regulation (EU) No 543/2013.

In late 2021, the Office gained *de facto* access to the DataSharing module, a system for sharing the transactional and fundamental data that market participants must report under Article 8 REMIT. Before DataSharing was put into operation, all information had to be obtained from each of the market participants and PPATs. In DataSharing, the Office has obtained a unique source of information about wholesale energy products on a daily basis.

As part of the activities of transnational working groups organised by ACER and CEER, in ACER REMIT Committee, ACER's REMIT Policy Task Force, ACER's Market Monitoring Standing Committee, and ACER's Market Integrity and Transparency Working Group, the Office contributed to the development of documents on REMIT application. In 2021, these activities resulted in, for example, the release of QUESTIONS AND ANSWERS ON REMIT FEES, an updated version of Guidance on REMIT Application, an updated version of the Transaction Reporting User Manual, an updated version of the Q&A on REMIT document, and The Open Letter on the extension of the possibility to disclose inside information through corporate websites as a backup solution in the case of Inside Information Platform (IIP) unavailability.

## 7 THE HEAT SUPPLY INDUSTRY

The Czech heat supply industry has a long and colourful history. The initial reason for building thermal energy supply systems based on heat production from coal was the development of industry in towns and cities, the operation of which required large quantities of thermal energy (heat). Heat was also used for space heating of workers' residential areas. The 1970s and 1980s, with their development of large housing estates ('panel houses') and their gas-fired heating plants serving blocks of flats, was another milestone.

Typical of the Czech Republic are extensive thermal energy supply systems; their characteristic feature is their large diversity: they differ in terms of size, production technology, extent of thermal equipment and, recently, the age of the various installations. Some 800 holders of heat production and/or distribution licences and also some 580 entities having a 'concession' are carrying on the heat supply business in the Czech Republic.

The new trends and the inevitable transition to green energy have become an impetus for the transformation of the Czech heat supply industry. Heat suppliers must respond to their customers' increasing requirements and the opportunity for them to opt for a different source of heat. Thus, the heat supply industry is experiencing competition between heat supply systems and people's own local sources.

Heat supply is a regulated activity. Because of the considerable diversity of the heat supply industry and the large number of the entities subject to regulation, cost-plus price control has been applied in the heat supply industry since the very beginning. For heat suppliers, the Office lays down the conditions for calculating and agreeing on thermal energy prices. The rules in place allow the heat supplier to reflect the 'economically justified' [eligible] costs that it necessarily incurs in heat production and/or distribution, a reasonable profit, and the value-added tax (VAT), in its thermal energy price. Prices lower than the 'limit price', to which the rules do not apply, are exempted from cost-plus pricing. For 2021, the limit price was set at CZK 152.86/GJ excl. VAT.

The transformation of the heat supply industry has also necessitated a change in the approach to price controls. The purpose of the new regulatory policy for the heat supply industry is to promote heat suppliers' business for them to prosper over the long term, acquire new customers, and expand and increase their heat supply in competition with other heat sources, while protecting customers against suppliers' ulterior motives.

The Office started to develop the new regulatory policy for the heat supply industry in 2020. Some of the changes were reflected in its price decision for 2021. In 2021, the new approach was fully reflected in the price decision on heat prices for 2022. The elements of the new policy incentivise to investing in the inevitable transformation of the heat supply industry through clear-cut rules for determining reasonable profit, which has been discussed for a long time, and its application in the heat price. Clear-cut rules are now in place for pricing, while ensuring sufficient flexibility to respond to customers' requirements and to preserve thermal energy supply systems. The clearly stated rules also render the Office's supervision more effective.

The latter half of 2021 saw energy prices skyrocketing at the world markets. The gas price grew from the initial EUR 17/MWh to around EUR 109/MWh, i.e. by approximately 600%, between January and December and in some periods of time it climbed to EUR 180/MWh. These changes were felt in the heat supply industry, in which some 20% of thermal energy is produced from gas, almost immediately. Some thermal energy suppliers had to cope with curtailed gas supply or their gas supplier's collapse towards the end of the year. They had a very short time for concluding contracts with new gas suppliers under the then prevailing pricing terms tied to the spot market. Input fuel costs also enormously grew for the suppliers who had gas prices tied to the spot market under contracts concluded earlier. Some of these suppliers reflected this enormous growth of variable input costs in their thermal energy prices already in late 2021.



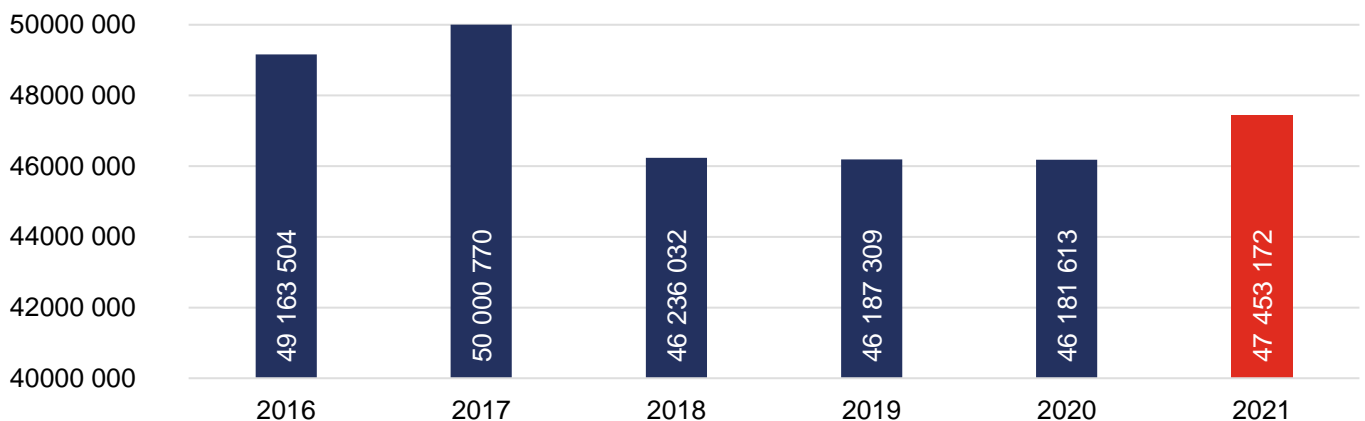
But most of the thermal energy suppliers only increased their prices as of 1 January 2022, and they are likely to change prices also in 2022 because of the turbulent spot markets. The other heat suppliers whose feedstock is gas can be expected to raise their prices at the end of the fixed-price period agreed earlier.

Thermal energy suppliers subject to EU ETS are also in a complicated situation. The prices of emission allowances have been rising continuously since 2017, when they were around EUR 7/tCO<sub>2</sub>, i.e. CZK 178/tCO<sub>2</sub>. The extreme surge in prices, also since September 2021, some EUR 50/tCO<sub>2</sub>, meant allowance prices around EUR 90/tCO<sub>2</sub> at the end of 2021. The annually decreasing quantity of emission allowances allocated for heat production free of charge is another cost driver for emissions allowances purchased.

The average heat prices shown below in the Charts and Tables for 2021 do not reflect the above changes – electricity and gas price hikes – at wholesale markets, because these prices are preliminary only, calculated by heat suppliers in late 2020 and early 2021.

More than other sectors, heat supply depends on the weather conditions, but despite that, a slightly downward trend in consumption can be discerned over the last three years. The decline is caused mainly by energy savings on the part of customers, customers opting for a different source of heat and, recently, also more efficient production in technologically more efficient plants and the installation of distribution equipment having relatively lower losses, which are being put into operation as part of the transition to green energy.

**Chart 31 Heat supply to end consumers [GJ]**



Source: ERO

Note: The expected value is shown for 2021.

Heat prices for final consumers, averaged over all fuels, were basically stable in 2021; the change between the preliminary heat price for 2021 and the resulting one for 2020 is 0.29%. However, differences can be seen in the case of each of the fuels since the heat price follows the development of the price of each of the feedstock fuels. Thus, the price of heat from coal is slightly rising, by around 1.21%, which also reflects the gradual increase in the prices of emission allowances since 2017. The biomass price is also rising, by around 2.72%, as the current development of demand and supply from abroad is reflected in biomass prices. Conversely, the price of heat from gas is declining by around 1.31%. However, please note that the 2021 prices are based on the preliminary prices calculated in late 2020 and early 2021. The resulting price of heat from gas is likely to be higher for 2021. This will, naturally, also impact on the resulting overall average price for 2021. The price of heat from other fuels, in particular waste, and also fuel oils, electrical energy etc. rises by around 0.47%.

**Table 11 Average preliminary thermal energy prices for end consumers, including the percentage change [CZK/GJ] (w/o VAT)**

	<b>Preliminary price for 2021</b> [CZK/GJ]	<b>Percentage change 2021/2020</b> [%]
<b>Coal</b>	551.48	1.21
<b>Gas</b>	519.29	-1.31
<b>Biomass and other RES</b>	509.76	2.72
<b>Other fuels</b>	524.57	0.47
<b>Weighted average</b>	<b>534.03</b>	<b>0.29</b>

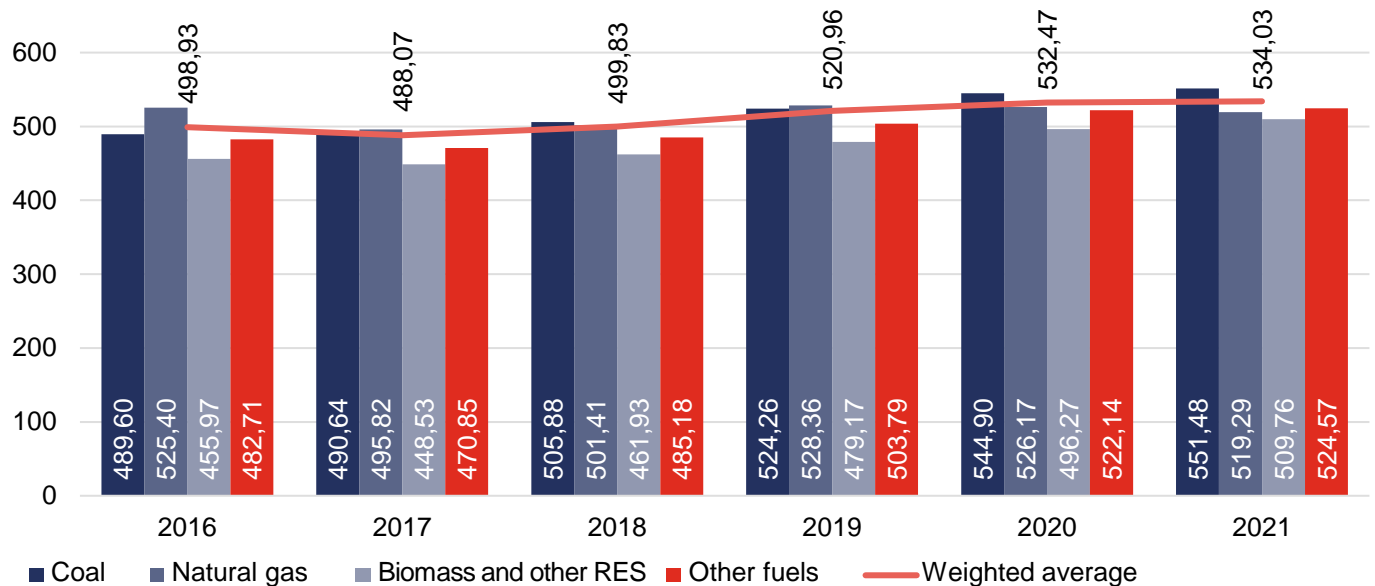
Source: ERO

Note: Other fuels include, in particular, waste, and also fuel oils, electrical energy, etc.

The evolution of the prices of heat produced from the various fuels and of these fuels' contributions to heat production confirms the Czech heat supply industry's gradual transition to green energy as a result of the serviceability of the adopted EU instruments; see the following Charts.

The price of heat from coal is rising. Since 2020, heat from coal has been, on average, the most expensive thermal energy (except for heat from fuel oils), while coal's contribution to heat production is declining (from 60% in 2010 to 50% in 2021). The opposite trend is apparent in the case of, in particular, biomass with its contribution to heat production rising by 7% to the current 12% over ten years; thermal energy from biomass is becoming less and less expensive compared with coal. Heat from gas is relatively stable, with the contribution of natural gas to heat production hovering around 20%. The price of heat from gas has been declining since 2019. In view of the gas prices at spot markets since mid-2021 it is possible that the price of heat from gas will rise again. Thus, the gap between the prices of heat from coal and from other fuels is widening at the expense of coal. Conversely, coal's contribution to heat production is declining for the benefit biomass and other RES and gas. Given the current trend in energy prices at wholesale markets, the Czech heat supply industry's expected further transition to a larger use of natural gas may be subject to additional discussions.

**Chart 32 Average heat prices for end consumers between 2016 and 1 January 2021 [CZK/GJ] (w/o VAT)**



Source: ERO

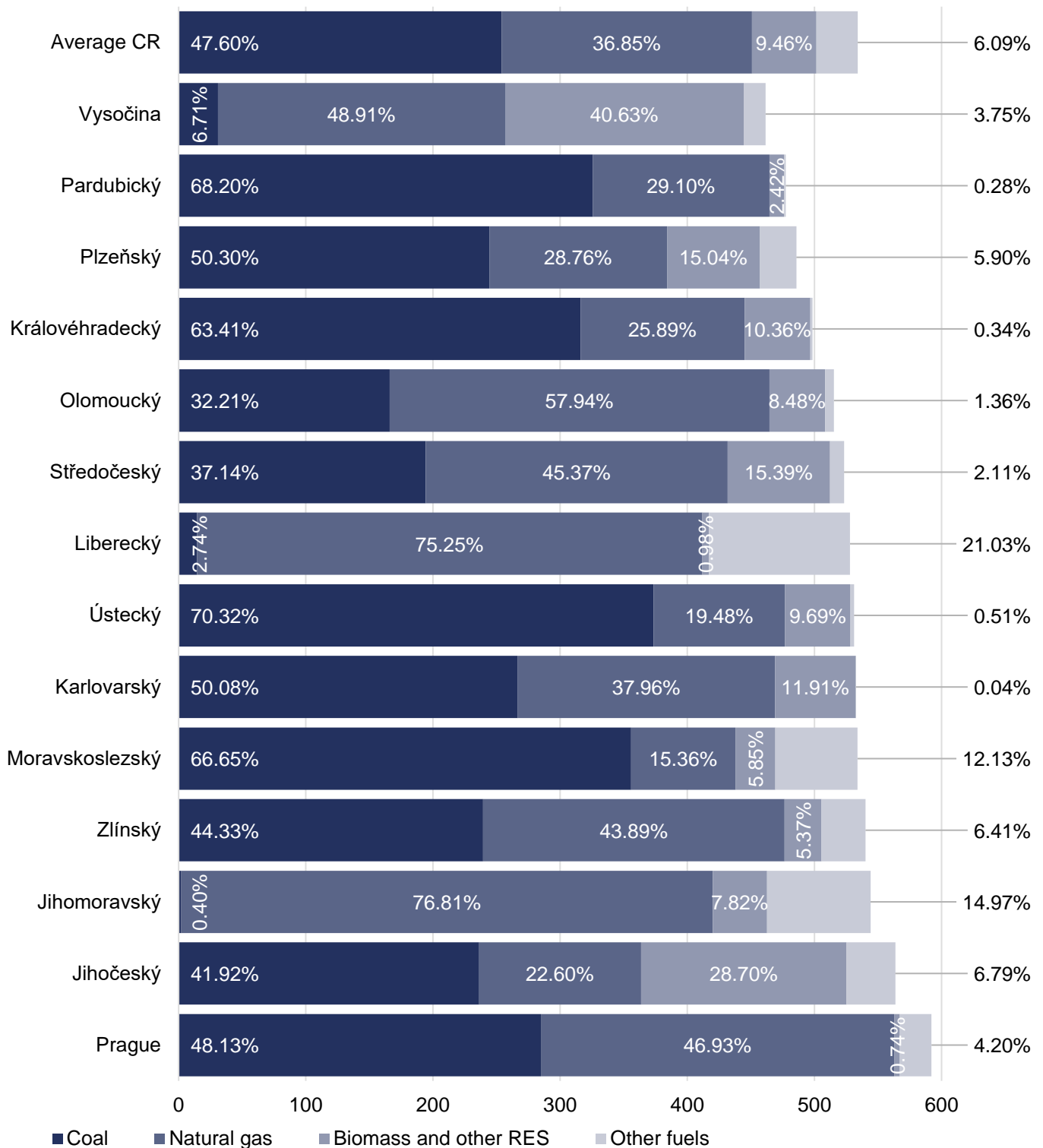
Note: The expected value is shown for 2021.

The relative differences between average heat prices for end consumers in the various Czech Regions remained similar to those in the preceding years in 2021. In 2021, the cheapest heat could be bought in the Vysočina Region for CZK 507.76/GJ excl. VAT, followed by the Pardubický Region and the Plzeňský Region; with its CZK 651.26/GJ excl. VAT, Prague was the most expensive. The reason in Prague is primarily the high complexity and large extent of distribution installations depending on the area development pattern, and lower offtake for such an extent of installations than in other Regions.

The use of fuels in heat production differs considerably between Czech Regions. The largest quantity of heat from coal is produced in the Pardubický, Ústecký, and Moravskoslezský Regions. The Jihomoravský and Liberecký Regions have the minimum share of coal in heat production and gas predominates there to a significant extent. The largest share of biomass and other RES in heat production can be found in the Vysočina Region.

When determining the resulting prices for 2021 in the various Regions, the developments at spot markets will be felt more strongly in average heat prices in Regions having a larger contribution of gas to heat production (Jihomoravský and Liberecký) than in those having its smaller contribution to heat production (Moravskoslezský and Ústecký).

**Chart 33 Average preliminary heat prices [CZK/GJ] (w/o VAT) for end consumers, showing the percentages of fuels [%], in 2021**

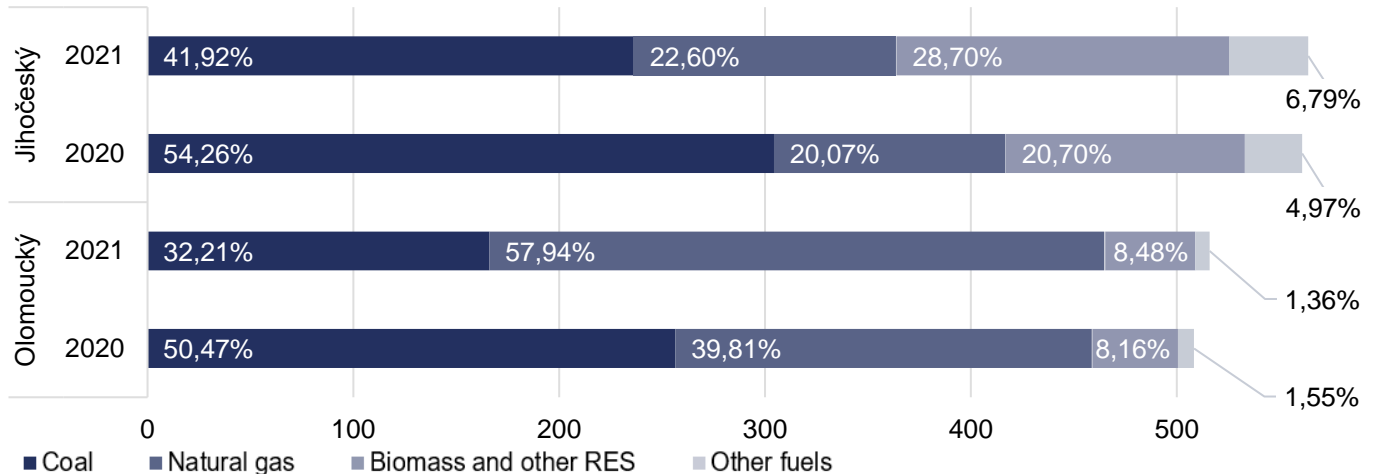


Source: ERO

A significant difference between the Olomoucký and Jihočeský Regions in the proportion of fuels occurred from 2020 to 2021. Coal is being replaced with gas, mainly in the Olomoucký Region, and with biomass,

most of all in the Jihočeský Region. The reason can be found in the innovation of production installations that use green low-emission feedstocks.

**Chart 34 Average heat prices [CZK/GJ] (w/o VAT) for end consumers in selected Regions, showing the percentages of fuels [%]**



Source: ERO

Note: The expected value is shown for 2021.

## 7.1 Addressing problems with thermal energy supply

In 2021, the Office proactively addressed several cases of risk to thermal energy supply to households from district heating systems; they were caused by changes to thermal energy production/distribution licences. In these cases, the Office applied various tools within its competence, including the conduct of adversarial proceedings, the imposition of interim injunctions, the exercise of supervision, and sanction proceedings, including talks in person and ADR efforts (mediation).

### Strakonice

In connection with disputes over the performance of obligations arising from sublease agreements and disputes over ownership (under private law), primarily between Teplárna Strakonice, a.s. and Energo Strakonice, s.r.o., several sets of proceedings were conducted on a change of the licence for thermal energy distribution in the town of Strakonice. The Office concluded that in those contentious localities, the licence had to be granted to Energo Strakonice, s.r.o. as the entitled user of thermal distribution installations. In connection with these disputes and the necessity to conclude new agreements on thermal energy supply, 2021 saw several cases of curtailed heat supply to final customers due to the alleged failure to perform the agreed payment obligations. The Office examined the cases from the perspective of a possible breach of the law. During the year, the Office repeatedly held talks with the parties concerned in order to achieve an amicable solution; in one case, the Office imposed an interim injunction for the purpose of securing heat supply.

### Velké Hamry

Further to the planned connection of the municipality to the gas supply system and the disconnection of a significant portion of customers from the district heating system, the operation of the licensee, GOLEM Velké Hamry, a.s., experienced financial problems and there was a risk that no entity would be able to carry on the licenced activity. The Office repeatedly held talks with the parties concerned, which resulted

in certain amendments to licences for thermal energy distribution; thermal energy supply in the 2021/2022 winter season was ensured with the participation of additional entities. At present, the Office is taking steps in cooperation with the insolvency practitioner administering GOLEM Velké Hamry, a.s.

### **Praha – Újezd nad Lesy**

In connection with the long-planned closedown of the thermal energy producing plant and a partial termination of the licensed activity by Veolia Energie Praha, a.s., there was a risk that from 1 January 2022, the customers would not receive any heat supply because of the imminent failure to commission new heat production installations in each of the houses on time. Subject to agreement with the licensee, in December 2021 the Office ordered, for a limited period, the operation of the plant in question in the mode of the ‘obligation over and above the licence’.

## 8 SUPPORTED ENERGY SOURCES

For SES, 2021 was an important year: the long-awaited amendment to the SES Act (the SES Amendment; enacted in Act No 382/2021) was passed. The SES Amendment was distributed through the Official Gazette in October 2021. But for some exceptions, its effect was set from 1 January 2022.

When the SES Amendment was passed, the Office started to amend the relevant implementing acts for which it is responsible and changes to which were necessitated by the SES Amendment. Before the end of 2021, the registration public notice and the amendment to the Electricity Market Rules were promulgated in the Official Gazette. Another key public notice, on the technical and economic parameters, had passed through the public consultation process and the inter-ministerial commenting procedure by the end of 2021, with its expected promulgation in the Official Gazette in the first quarter of 2022. In addition to those within its competence, the Office worked with the MIT on amendments to some other public notices (those on biomass parameters, on SES energy reporting, on adequacy, and on modernisation).

In 2021, the Office also closely cooperated with the MIT in the notification procedures whereby public aid was declared compatible with the EU's internal market. However, no notification procedure had been carried out by the end of 2021. Nor were any public aid schemes subsumed under 'block exemptions' (GBER).

The Office's key output for SES was ERO Price Decision 6/2021 of 29 September 2021 laying down operating aid for 2022, which was published on the same day in *Energy Regulation Gazette* 8/2021.

On the same day, the Office also issued ERO Price Decision 5/2021 laying down the price for mandatory buyers' activities and prices related to guarantees of origin. The price decisions were issued on the dates required by the law and under the legislation before the SES Amendment. Thus, ERO Price Decision 6/2021 laid down aid amounts solely for the existing SES commissioned before the end of 2021. It did not lay down operating aid for any new power/heat generating/producing facilities commissioned in 2022.

Already at the time of issuing the price decisions some changes and amendments further to the forthcoming Government Edict under Section 3 of SES Amendment and notifications of the compatibility of new operating aid schemes with the EU's internal market were being expected. None of these expectations materialised before the end of 2021. In view of the above, on 10 December 2021 the Office released a communication on ERO Price Decision 6/2021 noting, *inter alia*, that from 1 January 2022, the law would not provide any support for the payment of operating aid, laid down in this price decision, in certain cases (aid for renewable electricity in the case of electricity originating from a co-firing process, aid for renewable heat amounting to CZK 56/GJ). The communication also noted that following notifications that the new aid schemes were compatible and the issue of the Government Edict, the Office would promptly amend this price decision.

In the price decision, the Office laid down annual aid for the existing power/heat generating/producing facilities. Under Section 12(1)(b) and Section 26(4) of the SES Act, the Office applied an annual increase of 2% to feed-in tariffs and green premiums on heat from biomass. The amount of the green premiums on electricity, laid down in ERO Price Decision 6/2021, significantly dropped year-on-year across the SES sector. The reason was the surging wholesale prices of energy commodities.

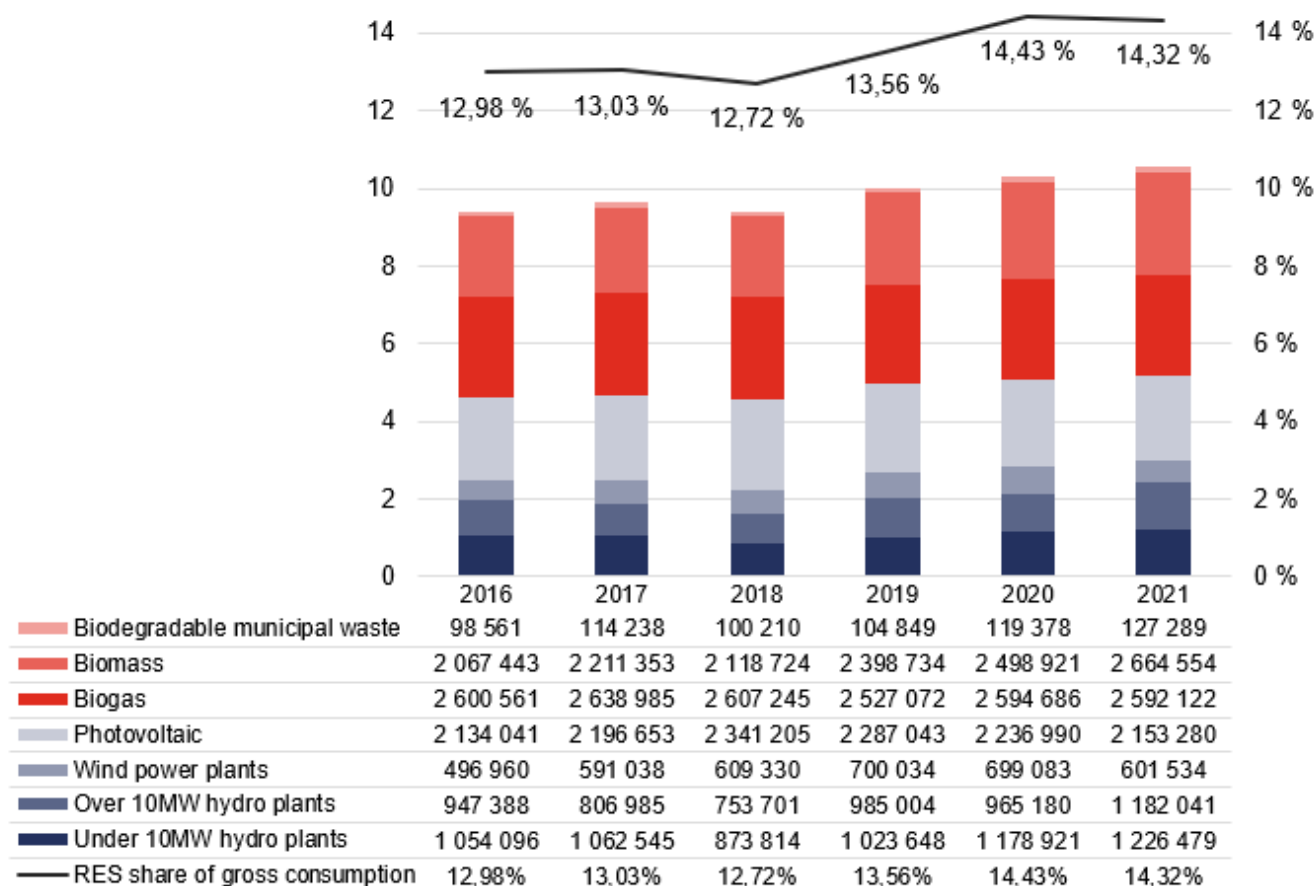
Given the SES Amendment, 2021 was the last year when the Office was authorised to check licensees' compliance with their obligations related to SES operation, their energy metering methods, and their meeting of the technical conditions for receiving aid under the SES Act.

The Office's oversight activities in respect of SES concerned the holders of licences for business in energy industries who usually receive aid in the form of feed-in tariffs or green premiums on the electrical/thermal energy they generate. In 2021, the Office carried out inspections in order to check the condition of energy



installations and the details specified in the current licences, and whether biomass electricity generators and biomass fuel suppliers (biomass producers, processors, and distributors) were keeping complete and true documents and records of the used types of fuel from biomass. It started eight inspections under the SES Act and had concluded seven of them by the end of 2021.

**Chart 35 Gross electricity generation from RES and its share of the country's gross consumption [TWh]**



Source: ERO

Note: The RES share of gross consumption is the simple ratio of gross electricity generation from RES and the country's total gross electricity consumption.

## 8.1 Community energy

In respect of SES, the Office continued to work on support for the development of community and local energy through energy communities, already introduced in Directive (EU) 2018/2001 and Directive (EU) 2019/944. The EU's energy and climate legislation currently in force states new roles and new mechanisms of the energy sector's functioning, emphasising consumer protection and consumers' greater comfort in arranging for their own energy needs; one of the key areas is energy self-sufficiency of the customer or group of customers and opportunities for developing energy communities and community energy using renewable energy sources.

Going forward, special emphasis will increasingly be placed on the development of community energy, which is behind the economic, environmental, and social benefits on the local, national, and global scale and the development of which is accompanied by local investments, broader choice for consumers, and

citizens' increased participation in energy transition. For community energy to develop effectively, the Office and the MIT set up a joint project called Community and Local Energy with a view of adapting the concept of energy community to the Czech environment through five working groups. The project participants include additional ministries that are relevant for the issue, such as the Ministry for Regional Development (MfRD) and the Ministry of the Environment (ME), the various stakeholders from the energy market (distribution and transmission licensees, traders, the market operator), and non-profit organisations and consumer associations. One of the key project outputs was a draft bill intended to implement energy communities in the new Energy Act. Through its specialist units, the Office contributed to the drafting of the bill and to the development of electricity sharing models; the first sharing variant envisages residential houses' engagement from 1 January 2023 based on an amendment to the Electricity Market Rules. In respect of community energy, the Office systematically monitors the ongoing and planned projects of various municipalities, with which it maintains intensive communication. These projects, at various stages of preparation or implementation, constitute a clear emphasis on the proactive approach to addressing this issue in the Czech Republic and represent a major part of the market having the potential for significant municipal energy development. It is through community energy development that SES, the core of energy communities, are well positioned to grow. The Office is doing its best to ensure that adequate attention is devoted to all aspects of this development: legislative provisions, models, topologies with regard to higher-level networks, data sharing, the financial and subsidy aspects of the development, and regional scale impacts. The activities launched in 2021 will continue to be pursued in projects and working groups.

## 9 THE ERO'S ACTIVITIES IN RESEARCH AND DEVELOPMENT

The Office continuously contributes to support for research, development, and innovation (R&D&I) in areas relevant for its activities, thereby helping to harmonise the scientific and research environment and to apply the R&D&I outputs in practice in energy regulation.

Under TA CR schemes, the Office is active under the BETA 2 and THETA programmes. In 2021, the *Evaluating the effectiveness of investments in the regulated energy sectors in the Czech Republic* project was successfully completed; its key deliverables are certified methodologies for evaluating the effectiveness of investments in the electricity, gas, and heat supply industries. The *System for processing, analysing, and evaluating the ERO's statistical data* project continued in 2021.

In 2021, the *Comprehensive innovation of the tariff structure in the electricity industry* and *Development of a software tool for comparing electricity and gas suppliers' price quotations (The ERO's Price Calculator)* projects were launched. It was also decided that the BETA 2 programme would also be used for developing a tool for wholesale energy market monitoring, for which the ERO's REMIT Unit is responsible.

Under the THETA programme, one project for developing new regulatory methodologies for distributed energy conditions and three projects for testing the options of smart metering deployment in the Czech Republic, and the related regulatory issues, continued. In 2021, the fourth public competition under the THETA programme was organised; three projects for which the Office accepted the role of the application guarantor were endorsed, specifically:

- *Economically justified costs in the regulated electricity and gas industries;*
- *Impacts of community energy on the environment of energy markets and networks;*
- *Comprehensive environment for the development of energy communities – proposal for legislative, organisational, and incentivising measures to eliminate barriers to development.*

The implementation of the above projects will help the Office to modernise and improve its price controls and technical regulation, reflecting the current and future trends associated with energy transition. The Office cooperates with other state administration bodies (in particular, the MIT, the ME, and the MfRD) on the above projects as well as on seminal development issues.

The Office's R&D&I cooperation with TA CR and MIT also resulted in arrangements for another workshop helping to interconnect the research teams and their projects with state administration. The second workshop titled *Advanced Trends in Network Operation: Smart Grids and Smart Metering in R&D&I Projects* attracted 60 participating partners from research projects, state administration, and the academia.

## 10 INTERNATIONAL COOPERATION

In 2021, the Commission issued two packages of seminal legislative proposals that would influence the internal energy market. In July, it was a package of 13 measures called *Fit for 55*, intended to result in a 55% reduction in the EU's greenhouse gas emissions by 2030 compared with 1990. The package contains proposals amending some existing Directives and Regulations, as well as completely new legislative proposals. Legislative proposals relevant for the Office include a revision of the Renewable Energy Directive, revision of the Energy Efficiency Directive, and a Regulation establishing a Social Climate Fund. In December 2021, the Commission issued a package of measures for hydrogen and decarbonised gas markets, which contains one new Regulation and a recast Directive and Regulation. Together with this package, it issued a proposal for a revision of the Energy Performance of Buildings Directive. The July package promotes demand for and production of renewable and low-carbon gases, including hydrogen. The December package enables gas market decarbonisation.

Under the reporting and notification obligation arising for the Czech Republic, as an EU member state, from Directive (EU) 2019/944 and Directive 2009/73/EC, the ERO delivered the Czech and English versions of the *National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic for 2020* in August 2021.

### 10.1 Response to high energy prices

In response to the rising energy prices in 2021, on 13 October 2021 the Commission released a Toolbox that offered measures helping to cope with the unprecedented energy price rises at wholesale markets as effectively and expeditiously as possible. The purpose of the Communication on Energy Prices was, primarily, to provide member states with an overview of the tools that were immediately implementable and not in conflict with the existing EU legal framework for the energy market.

Further to the Toolbox and the Commission's request, on 15 November 2021 ACER released its Preliminary Assessment of Europe's high energy prices and the current wholesale electricity market design, in which it summarised its analysis of the record high energy prices in the autumn. The ACER report also discussed the resulting impact on electricity prices. ACER's Final Assessment was released on 29 April 2022.

The issue of high energy prices and their impacts was also addressed across ACER and CEER working groups and task forces; the members shared information about the current developments and the specific measures implemented in each of the countries.

In November 2021, the Office had the honour of welcoming to Prague Christian Zinglensen, ACER Director, who arrived as part of his planned visits of regulators across the EU. In addition to discussion on the European energy regulation and long-term cooperation between various organisations, the conversation between Stanislav Trávníček, ERO Board Chairman, and Christian Zinglensen also covered the surging prices at energy markets in the autumn and the related collapse of energy suppliers in the Czech Republic.

### 10.2 Working in international groups

In the EU, the Office pursued international activities mainly within ACER and CEER. The ERO staff members were actively involved in their electricity and gas, REMIT, consumer protection, and retail working groups. In 2021, the participants in the working groups and task forces had an opportunity to take part in an analysis of the impacts of the above-mentioned new legislative proposals. The Office also continuously consulted its positions with the V4 countries' regulators and joined ERRRA's activities.

CEER's Ad Hoc COVID-19 Group continued working; the result was the final report summarising the impact of the pandemic on the European energy sector during the pandemic. The situation was improving and so the Group's meetings were less frequent.

The pandemic considerably affected mainly the first half of 2021. Following an 18-month standstill, ERO staff members were again able to attend the working groups' meetings in person. Four business trips abroad took place for this purpose. As in the preceding year, all training courses were held online in 2021. Via videoconferencing, ERO employees also attended the Florence, Madrid, and Dublin forums, specialised workshops, and CEER's five specialised training courses.

ACER's electricity working groups mainly addressed issues related to the implementation of network codes and framework guidelines; among other things, changes to several methodologies were registered. Important meetings at ACER concerned CACM 2.0, which recommends establishing a single legal entity that would manage all the tasks associated with market interconnection. An equally important issue was the implementation of and the adoption of the necessary steps for the Core Flow-Based Market Coupling (CORE FBMC) scheme.

In 2021, CEER's Electricity Working Group released five studies. In addition to the annual report on wholesale electricity market monitoring in 2020, it also released Long-Term Generation Investment Signals in a Market with High Shares of Renewables.

The pivotal topic in the gas industry was the introduction of the Proposal for a Regulation of the European Parliament and of the Council on the internal markets for renewable and natural gases and for hydrogen (recast) and the Proposal for a Directive of the European Parliament and of the Council on common rules for the internal markets in renewable and natural gases and in hydrogen and the Proposal for a Regulation on methane emissions reduction in the energy sector and amending Regulation (EU) 2019/942, and the debated final wording of the revised Regulation (EU) No 347/2013 in terms of the drafting of the Position Paper on the Key Regulatory Requirements to Achieve Gas Decarbonisation, in particular with regard to defending current and future consumers' interests, and for ensuring the efficiency of the energy system. The latter Regulation will be revised with the EU's climate targets, i.e. the Green Deal for Europe, by way of replacing gas categories with low-carbon ones in the future PCI lists. The Office oversaw the outputs related to the implementation of the requirements of Commission Regulation (EU) No 312/2014.

In 2021, CEER's Customers and Retail Markets Working Group, which focuses on consumers and the retail market, organised a number of meetings and released two key reports: Innovative Business Models and Consumer Protection Challenges, and Billing Issues in the Clean Energy for All Europeans Package, and, in cooperation with ACER, the ACER-CEER Annual Monitoring Report on Energy Retail and Consumer Protection. ERO employees also contributed to these activities.

In January 2021, ACER set up a new working group for retail, the ACER Retail WG. Its key activities include the preparation and publication of the ACER-CEER Annual Monitoring Report on Energy Retail and Consumer Protection.

In 2021, the mainstay activity of CEER EWG's Renewables Work Stream was drawing up the CEER 2nd Paper on Unsupported RES and the Paper on Status of Transposition of RED II. The other pivotal issues included responses prepared as part of public consultation processes on the forthcoming revisions of Directive (EU) 2018/2001 (RED) II and Communication from the Commission C/2022/481 (CEEAG), which have already entered into force.

ERO staff members were also actively involved in REMIT working groups; for more details see Chapter 6.

## 11 LEGISLATIVE AND ADMINISTRATIVE ACTIVITIES

### 11.1 Legislative activities

#### 11.1.1 Changes to laws and regulations within the ERO's competence

In 2020, the Office issued eight public notices [statutory instruments]:

##### **Public notice 125/2021 amending 408/2015 on Electricity Market Rules, as amended**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(h) of the Energy Act, under which the ERO shall issue a public notice laying down the Electricity Market Rules. For more information please see point 4.1.

The public notice came into effect on 1 January 2022, except for certain provisions that came into effect on 1 April 2021.

##### **Public notice 207/2021 on the billing of supply and related services in the energy industries**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(j) of the Energy Act. It lays down the scope, essentials, and dates of the billing of electricity, gas, and thermal energy supply and the related services in the electricity and gas industries, with a view to complying with the billing requirements laid down in Directive (EU) 2019/944 and Directive (EU) 2018/2002. Compared with the repealed public notice 70/2016, the details explicitly required by the two Directives were added to the content of bills, and the dates for regular and extraordinary bills were modified. A shared parameter of the provision of regular and extraordinary bills is the requirement that it be free of charge. Another purpose of the new legislation was to harmonise, as much as possible, the requirements for billing in the electricity and gas industries and to make it easier for customers to find their way around the bills.

The public notice came into effect on 1 January 2022.

##### **Public notice 277/2021 amending 349/2015 on the Gas Market Rules, as amended**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(i) of the Energy Act, under which the ERO shall set the Gas Market Rules. The amendment updates the procedures for transmission system balancing (see point 5.1.1).

The rules of access to storage capacity were also changed. The public notice eliminates certain limit constraints associated with storage capacity booking in response to the increasing competition in the flexibility market. It lays down the conditions for a further extension of the portfolio of the storage capacity products offered. The changed rules for offering interruptible transmission capacity include an upper limit at the level of the maximum technical capacity, which will clarify the offering of transmission capacities without constraining system users. The provisions where a possibility of an ambiguous interpretation of the designed processes have been amended and clarified.

The public notice came into effect on 1 August 2021.

##### **Public notice 487/2021 amending 16/2016 on conditions for connection to the electricity grid**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(g) of the Energy Act, under which the Office shall issue a public notice laying down the conditions for connecting power generating facilities, distribution systems, and customers' supply points to the electricity grid, the method for calculating the allocation of the costs incurred in connection and in ensuring the required power input or power output, the rules for examining concurrent requests for connection, and the procedures and



conditions for reaching agreement on available capacity (power input) at the supply point. More details in point 4.1.

The public notice came into effect on 1 January 2022.

### **Public notice 488/2021 on conditions for connection to the gas system**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(g) of the Energy Act, under which the Office shall issue a public notice laying down the conditions for connecting gas production facilities, distribution systems, gas storage facilities, and customers' supply points to the gas system, including the method for calculating the allocation of the costs incurred in connection and in ensuring the required capacity, the rules for examining concurrent requests for connection, the technical requirements for the construction of the withdrawal gas pipeline being bought by the distribution system operator, and the conditions for installing equipment in biomethane production facilities under Section 57(9) of the Energy Act. The public notice maintains the substantive principles introduced by the preceding public notice 62/2011 and sets out the connection process, from the connection applicant filing the request for connection, the operator of the higher-level system examining the request with regard to the satisfaction of the statutory conditions for connection, to the presentation of the draft connection agreement. Annexes to the public notice specify the required details of the request for connection depending on the type of equipment to be connected. The public notice also treats the issue of the costs incurred in connection and in ensuring the required capacity and specifies the rules for calculating the applicant's share of the justifiable costs incurred in connecting the applicant's facility to the transmission system. It also newly lays down the technical requirements for the construction of the withdrawal gas pipeline connecting a biomethane production facility to the distribution system, the pipeline being bought by the distribution system operator. The public notice clarifies the time limits and procedures to be followed and steps to be taken at each stage of the connection process, lays down the rules for booking the required capacity, and emphasises the minimisation of the costs spent by the TSO, including more precise rules for defraying the costs incurred in connection. The details required in requests for connection were also revised.

The public notice came into effect on 1 January 2022.

### **Public notice 489/2021 on procedures for registering aid with the market operator and implementing certain other provisions of the law on supported energy sources (the registration public notice)**

This statutory instrument was issued under the Office's authorisation in Section 53(2)(c) to (f) and (i) of the SES Act and responds to the SES Amendment effective since 1 January 2022 (Act No 382/2021), which puts in place new operating aid schemes until 2030. The newly specified extent of operating aid should be registered in the market operator's system, and the public notice therefore lays down the procedures for recording and identifying SES producers and generating facilities in the market operator's system, the procedures and time limits for registering aid and any change of aid or its form, the required details in the content of registration, the procedures and time limits for the market operator to check the recorded details, and the method of communication between market participants via the market operator's system for the purpose of meeting obligations and exercising rights under the SES Act. The principle that the producer shall initiate aid registration has been maintained. The day on which the producer submits complete and accurate details to the market operator's system is deemed to be the day on which aid registration was completed. The public notice clarifies the rules on the aid registration process, lays down the basic framework for updating the recorded details, and newly lays down an obligation for the market operator to provide, in the relevant cases, the producer with the reasons why it did not execute the registration.

The public notice came into effect on 1 January 2022.



### **Public notice 490/2021 amending public notice 408/2015 on Electricity Market Rules, as amended**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(h) of the Energy Act and in Section 53(2)(g), (h), (j) and (k) of the SES Act. This amendment also adapts the public notice to Regulation (EU) 2019/943 and Commission Regulation 2017/2195. The public notice shortens the evaluation interval for trading products and the imbalance settlement period to 15 minutes (from 1 July 2024), the block electricity market was cancelled, the day-ahead market's gate closure time was changed, the procedure for the settlement of balancing energy was modified, and the procedure was specified for balancing energy pricing for the purpose of imbalance settlement, where the price will newly be derived from the balancing energy price created on the platform for exchanges of standard products from frequency restoration reserves with automatic activation and restoration of system balance. In response to the SES amendment effective since 1 January 2022, the public notice also lays down the procedure for determining the difference between the hourly price and the reference feed-in tariff or reference auction price, and the procedure for determining the hourly green premium on electricity, the hourly green premium on the reference feed-in tariff, and the auction premium on electricity. It also lays down the procedure for data reporting for the purpose of making regulated payments to the local distribution system operator and the generator in connection with the introduction of the exemption of loads for electric traction from making these payments.

The public notice came into effect on 1 January 2022, except for certain provisions that came into effect on 1 April 2022, and except for certain provisions that would come into effect on 1 July 2024.

### **Public notice 513/2021 amending 262/2015 on regulatory reporting, as amended**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(e) of the Energy Act. The changes to reporting in the electricity industry respond to the approved Price Control Principles 2021–2025. The changes to reporting in the gas industry concern unification of the approach with that in the electricity industry. The changes to reporting in the heat supply industry were necessitated by the new regulatory policy for the heat supply industry, constituted by the price decision on thermal energy prices for 2022. The other changes concerned updates of certain regulatory returns and clarified and simplified their structure.

The public notice came into effect on 1 January 2022.

In 2021, the Office also started to draft one bill for a new public notice and two amendments:

- ▮ Public notice on the technical and economic parameters for determining the reference feed-in tariffs and green premiums and on the implementation of certain other provisions of the law on supported energy sources, will supersede public notice 296/2015;
- ▮ Public notice amending public notice 8/2016 on the details of licensing for business in energy industries;
- ▮ Public notice amending public notice 207/2021 on the billing of supply and related services in the energy industries, with regard to the extension of the ERO's authorisation in Section § 98a(2)(j) of the Energy Act to determine the extent of, and required details of information about, the billing of electricity supply and the related services in the electricity industry and thermal energy supply, and dates for providing information about billing.

The above regulations were expected to be issued in 2022.

### 11.1.2 Information on amendments to laws

In 2021, Czech Parliament debated and passed amendments to two laws that are crucial for the ERO and its service: the Energy Act and the SES Act. The Office systematically monitored the law-making process and expressed its views on MPs' amending proposals raised for both of the amending bills.

## 11.2 Administrative activities

### 11.2.1 Remonstrance proceedings in 2021

The authority to decide on remonstrance [administrative appeal] as a remedy against decisions delivered by the Office in the first instance under Section 152 of the Rules of Administrative Procedure is vested in the ERO Board. The ERO Board decides on administrative appeals based on recommendations provided by the remonstrance commissions set up under Section 152(3) of the Rules of Administrative Procedure. The Office has currently three remonstrance commissions: one for SES, one for energy infrastructure and trade, and one for consumer protection. The following Table lists the appeals decided in 2021, by agenda.

The ERO Board's remonstrance commissions examined 177 appeals and suggestions for review in 2021. Based on these considerations, decisions on 64 of them were delivered. Decisions on 113 appeals that the remonstrance commissions examined in 2021 had not been made by the end of 2021. In 2021, the ERO Board also decided on 58 appeals that the remonstrance commission had examined in 2020. The ERO Board decided on 119 appeals overall in 2021.

In terms of the agenda, the decision-making clearly shows an increase in cases concerning SES disputes and, on the other hand, a decrease in disputes concerning the gas industry or licences.

**Table 12 Overview of appeals decided in 2021, by agenda**

<b>Appeals against decisions in adversarial proceedings, of which</b>	<b>67</b>
Electricity industry	18
Gas industry	2
Heat supply industry	3
Supported energy sources	44
<b>Appeals against decisions on administrative offences, of which</b>	<b>37</b>
Under the Energy Act	18
Under the Act on Prices	10
Under the Consumer Protection Act	1
Under the Consumer Protection Act and the Energy Act	8
<b>Appeals in cases of requests for information</b>	<b>3</b>
<b>Appeals against licensing decisions</b>	<b>8</b>
<b>Appeals against measures to remedy illegal situations</b>	<b>4</b>
<b>TOTAL</b>	<b>119</b>

Source: ERO

### **11.2.2 Adversarial proceedings**

In 2021, the Office adjudicated on disputes in the electricity, gas, and heat supply industries under Section 17(7)(a) to (e) of the Energy Act, proceeding under Section 141 of the Rules of Administrative Procedure. You can find a summary in the Table below.

Upon applications of customers in the position as consumers taking electricity, gas or thermal energy for household consumption or customers in a self-employed position, the Office decided consumer disputes under Section 17(7)(e)(1) and (2) of the Energy Act.

Consumer disputes concerned the performance of obligations under agreements on electricity/gas supply/distribution and the determination of whether the legal relationship between the customer and licence holder, the business of which is electricity, gas, or heat supply/distribution, had come into existence, continued to exist, or had ceased to exist, and when this happened. Typical cases included the supplier's failure to perform the obligation to bill electricity/gas properly and disputes over the establishment and discharge of a legal relationship between the customer and supplier. Consumer disputes negatively mirror the effect of intermediation and representation, which consumers accept without evaluating the benefits thereof.

In 2021, the Office conducted 138 sets of proceedings on consumer disputes under Section 17(7)(e)(1) and (2) of the Energy Act; it concluded 107 of them with finality in 2021.

In the electricity, gas, and heat supply industries the Office was conducting 114 sets of proceedings under Section 17(7)(a) to (d) in 2021, concluding 38 of them with finality.

Under Section 17(7)(a) to (c) of the Energy Act, the subject matter of those proceedings included disputes over the conclusion of a contract under the Energy Act, disputes over the curtailment, interruption, or restoration of electricity/gas supply/distribution on account of illegal offtake or illegal distribution, and disputes over connection or access to installations in the electricity grid or the gas system.

A special type of disputes in the electricity industry was those under Section 17(7)(d) of the Energy Act taken together with Section 52 of the SES Act. In 2021, the ERO registered, in consequence of a judicial interpretation of Section 52(2) of the SES Act, an increased number of disputes over the surrender of unjustified enrichment and over damages due to unauthorised utilisation of aid for electricity generated. These cases are complex as to the facts and as to the law and require an individual assessment of the electricity market participant's rights and obligations related to the right to support for electricity or heat.

For a long time, the smallest number of disputes has been conducted in the gas and heat supply industries. In many cases disputes between gas market participants and between licensees and customers in the heat supply industry are resolved by the parties' agreement without a need for the ERO's decision.

### **11.2.3 Approval proceedings**

In 2021, the Office decided under Section 17(7)(g) and (i) of the Energy Act on the approval of the Electricity Transmission System Operating Rules and Electricity Distribution System Operating Rules, the market operator's commercial terms and conditions, the Gas TSO Code, the SSO Codes and Gas DSO Codes, and the ten-year gas and electricity transmission system development plans. Under Section 17(4) of the Energy Act, in 2021 the Office also exercised the competences of the regulatory authority under the relevant EU Regulations. The Office conducted 54 sets of approval proceedings and concluded 45 of them with finality in 2021.

**Table 13 Adversarial and approval proceedings conducted and concluded with finality, by ERO competence**

Type of proceedings	Conducted sets of proceedings	Concluded sets of proceedings
<b>Adversarial proceedings, of which</b>	<b>114</b>	<b>38</b>
Electricity industry	103	32
Gas industry	3	3
Heat supply industry	8	3
<b>Consumer disputes</b>	<b>138</b>	<b>107</b>
<b>Approval proceedings</b>	<b>54</b>	<b>45</b>

Source: ERO

#### 11.2.4 Proceedings under the law on free access to information

In 2021, the Office handled 86 requests for information under Act No 106/1999 on Free Access to Information.

In 2021, the Office issued eight dismissals of requests under the above Act. The Office refused to provide information when it did not possess the requested information, or the requested information could not be provided to the applicants under this law.

One complaint was lodged against the handling of a request for information provision and the ERO Board found it to be unfounded.

Under the law on free access to information, the Office posted *The ERO Annual Report on Activities in Information Provision* on its website.

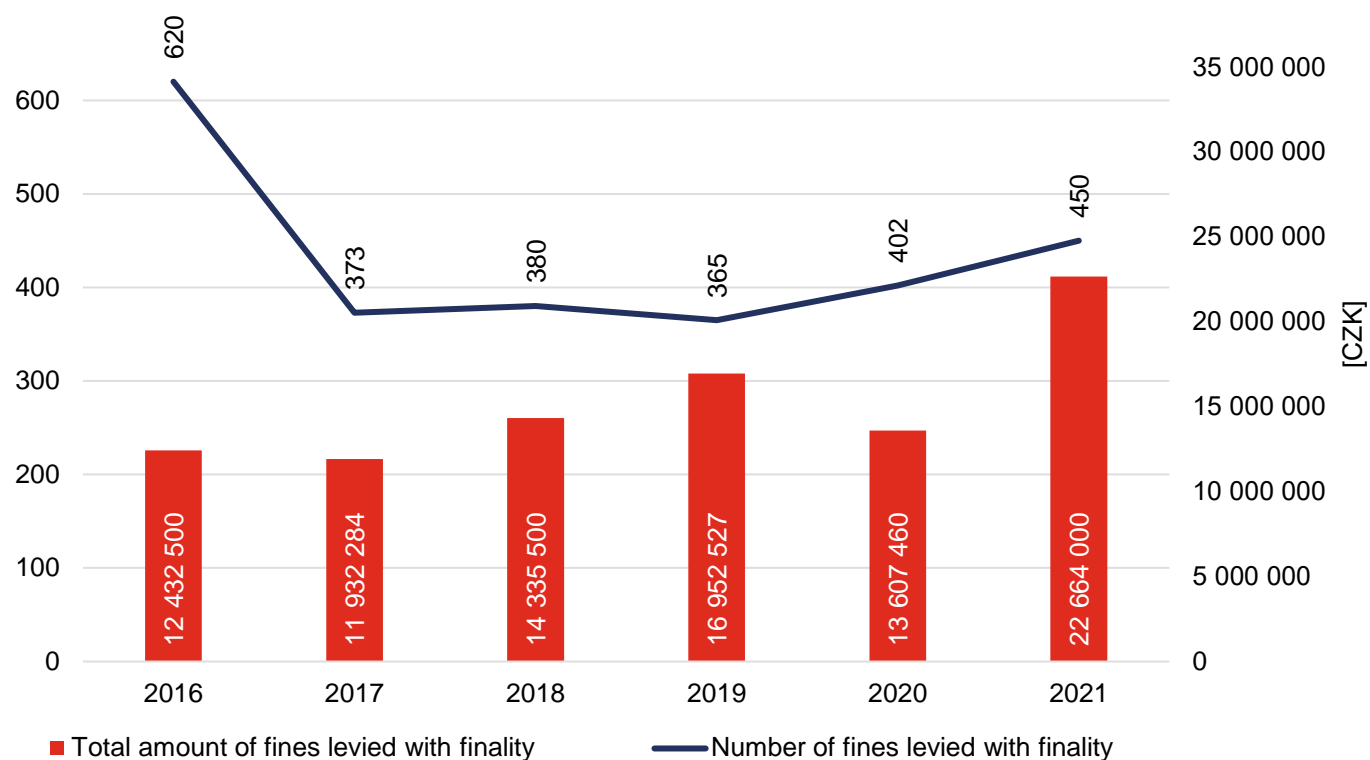
#### 11.2.5 Sanction proceedings

In exercising its surveillance competence the Office conducts, under Section 18(3) of the Energy Act, proceedings on administrative offences under the Energy Act, the Act on Prices, the Consumer Protection Act, and the SES Act.

In 2021, the Office received 824 applications for bringing administrative proceedings. They included those based on the Office's own findings from inspections carried out under the Oversight Rules and those received from outside sources, including primarily results of investigations conducted by the Czech Police. In 2021, the Office brought 525 sets of administrative proceedings for suspicion of administrative offences and decided not to proceed in 306 cases. These mostly included those received from the Czech Police, where the offender was unknown.

In 2021, the Office decided in 502 sets of administrative proceedings with finality, levying fines totalling CZK 22,664,000 on parties to the proceedings in 450 cases with finality.

**Chart 36 Fines levied with finality**



Source: ERO

## 12 LICENCES

### 12.1 Development

As regards licensing, 2021 was marked by a slight increase in the number of active licences. The Office received a total of 2,227 applications for licence grant/amendment/revocation. The following Table lists the number of active licences in 2016–2021.

**Table 14 Numbers of valid licences by object of business**

	2016	2017	2018	2019	2020	2021
<b>Electricity</b>						
Generation	26,357	26,282	26,321	26,405	26,604	26,792
Distribution	254	254	254	254	257	268
Transmission	1	1	1	1	1	1
Trade	380	388	403	411	409	423
Cross-border trade	27	29	33	34	39	37
<b>Gas</b>						
Production	14	13	12	12	12	12
Distribution	67	68	69	67	69	69
Transmission	1	1	1	1	1	1
Trade	213	227	236	243	240	255
Cross-border trade	29	27	27	29	37	39
Storage	5	4	4	4	4	4
<b>Thermal energy</b>						
Production	673	663	663	658	655	657
Distribution	658	652	650	649	645	640
<b>Market operator</b>						
Market operator's activities	1	1	1	1	1	1
<b>TOTAL</b>	<b>28,677</b>	<b>28,610</b>	<b>28,675</b>	<b>28,769</b>	<b>28,974</b>	<b>29,199</b>

Source: ERO

A general view of the electricity generating installations by SES type clearly shows an almost stable number of energy installations again in 2021 compared with 2020. The increase in the number of newly installed PHV plants was similar to that in 2020, which was a continuing result of the MIT's investment subsidy scheme for energy savings. The following Table shows the number of operations and installed capacities.

**Table 15 Number of electricity generating installations and installed capacities by type of RES used**

<b>Operations</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Up to 10 MW hydro</b>	Number [-]	1,625	1,603	1,596	1,604	1,608	1,608
	Capacity [MW]	349.23	351.11	350.66	352.51	352.62	353.95
<b>Wind</b>	Number [-]	125	119	122	123	121	120
	Capacity [MW]	284.91	310.95	319.75	342.29	342.23	342.23
<b>Solar</b>	Number [-]	28,351	28,348	28,412	28,554	28,880	29,140
	Capacity [MW]	2,127.16	2,130.39	2,119.47	2,127.54	2,148.71	2,157.14
<b>With a biogas share</b>	Number [-]	423	420	420	419	419	418
	Capacity [MW]	333.52	332.20	332.95	332.09	333.64	334.46
<b>Landfill gas</b>	Number [-]	68	69	69	69	70	70
	Capacity [MW]	58.46	58.65	58.65	58.65	58.94	58.94
<b>With a biomass share</b>	Number [-]	92	91	89	89	85	83
	Capacity [MW]	2,987.62	2,988.13	2,972.99	2,889.03	2,820.31	2,848.63

Source: ERO

In 2021, the Office issued 679 new decisions to grant licences. In addition, 1,141 sets of administrative proceedings on licence amendments were conducted in relation to changes of responsible representatives, changes in installed capacity, and changed numbers of operations. Installations were again frequently transferred to a different licence holder (primarily small photovoltaic plants), mainly between family members or between natural and juristic persons in connection with the sale of real estate. There were 407 sets of administrative proceedings on licence revocation. Licences were most often revoked at the licence holder's request, mainly in connection with the above transfers of energy installations from one licence to another. The following Table lists the numbers of sets of administrative proceedings overall and by type between 2016 and 2021.



**Table 16 Numbers of licence proceedings between by purpose of application**

	2016	2017	2018	2019	2020	2021
<b>New licences</b>	513	519	512	569	669	679
<b>Licence changes</b>	1,122	1,167	1,004	1,099	1,120	1,141
<b>Revoked licences</b>	487	501	383	416	401	407
<b>TOTAL</b>	<b>2,122</b>	<b>2,187</b>	<b>1,899</b>	<b>2,084</b>	<b>2,190</b>	<b>2,227</b>

Source: ERO

More detailed information about licence holders and the various operations can be found on the Office's website.

## 12.2 Recognition of professional qualifications

In 2021, the Office received seven applications for the recognition of professional qualifications within the meaning of the law on the recognition of professional qualifications. It decided to recognise professional qualifications in all seven cases.

## 12.3 The Energy Regulatory Fund

Under Section 14(10) of the Energy Act, the Office is required to submit an audit of the Fund for the respective calendar year (Annex 1). Complying, the Office had the Fund audited under the audit guidelines issued by the Chamber of Auditors of the Czech Republic. According to the auditor's report of 7 March 2022, delivered by kratkyaudit s.r.o., K nádraží 225, 664 59 Tělnice, Company No. 07084153, represented by Ondřej Krátký, company director, the accumulation and utilisation of the Fund complied with the applicable legislation and the Fund was truly and fairly reflected in the ERO's financial statements for the accounting period 2021.

As at 1 January 2021, the opening balance in the Fund stood at CZK 45,444,392. In 2021, no compensation was paid from the Fund's account for a conclusive loss from activity over and above a licence (public notice on the Energy Regulatory Fund). No income or expenditure was recorded in this account of the Fund in 2021 and the balance in the Fund's special current account as at 31 December 2021 stood at CZK 45,444,392.

## 12.4 Proceedings on administrative fees

In proceedings on licence grant, amendment or revocation, the Office collected fees amounting to CZK 6,910,495. Some entities applied for the refund of administrative fees and CZK 88,500 was refunded from the ERO's account. The net amount collected was CZK 6,821,995.

## 13 ERO BUDGET MANAGEMENT

The budget for Chapter 349 Energy Regulatory Office was approved as part the law on the national budget of the Czech Republic for 2021 on 18 December 2020.

**Table 17 Chapter 349 budget**

<b>Total revenues [CZK]</b>	318,848,000
<b>Total expenditure [CZK]</b>	292,164,730

Source: ERO

### 13.1 Revenues to the Chapter

**Table 18 Revenue breakdown**

<b>Tax revenues [CZK]</b>	298,848,000
<b>Non-tax revenues [CZK]</b>	20,000,000

Source: ERO

Funds under the mandatory target 'income from the EU budget without the common agricultural policy' were not budgeted.

The following Table lists the total actually received revenue and a comparison with the approved budget of revenue for 2021.

**Table 19 Actual performance – total revenues for 2021**

	<b>Budget of revenue [CZK]</b>	<b>Actual [CZK]</b>	<b>Performance v budget [%]</b>	<b>Performance v actual in 2020 [%]</b>
<b>Total revenues, of which</b>	<b>318,848,000</b>	<b>319,056,590</b>	<b>100.07</b>	<b>102.57</b>
Tax revenues	298,848,000	302,561,430	101.24	102.47
Non-tax revenues	20,000,000	16,495,160	82.48	104.44

Source: ERO

The tax revenues were received from collecting administrative fees for licence grant, amendment and renewal for entities carrying on business in the energy sector, CZK 6,825,190, and, primarily, from the fees paid for the ERO's activities, CZK 295,736,240.

Non-tax revenues are mainly received from fines. In 2021, 424 fines levied in administrative proceedings were paid, totalling CZK 16,065,400 (without the costs of proceedings), i.e. up by 4.26% on 2020 (in absolute terms CZK 657,100). Other *ad hoc* income amounted to CZK 429,760.

The number of paid fines increased by 4.18% (i.e. by 17 fines) on 2020.

In respect of fines levied with finality, there were 362 outstanding receivables totalling CZK 14,065,710 (without costs of proceedings), i.e. up by 70,91 % (by CZK 5,835,600) on 2020.

## 13.2 Expenditure

For 2021, total expenditure was budgeted at CZK 292,164,730 (approved budget), and during 2021 it was adjusted to CZK 292,968,120 (budget after changes). Due to the use of the claims on unused expenses ('NNV') (Section 47 of the law on budgetary rules) totalling CZK 45,243,810 and funds tied to vacancies amounting to CZK 14,247,420, the final budget for the Chapter's total expenditure stood at CZK 323,964,510.

The total amounts actually drawn on the budget and a comparison with the final budget of expenditure for 2021 can be seen in the following Table.

**Table 20 Total amounts actually drawn – total expenditure for 2021**

	<b>Final budget of expenditure [CZK]</b>	<b>Actual [CZK]</b>	<b>Performance v final budget [%]</b>	<b>Performance v actual in 2020 [%]</b>
<b>Total expenditure, of which</b>	<b>323,964,510</b>	<b>285,861,690</b>	<b>88.24</b>	<b>97.81</b>
Capital expenditure	19,725,000	2,778,200	14.08	47.06
Current expenditure	304,239,510	283,083,490	93.05	98.86

Source: ERO

In each case of expenditure, the funds were spent as effectively, economically, and efficiently as possible, with a view to always achieving the maximum benefit for the Office and its activities. Thanks to the above, savings were achieved versus the budget of expenditure, amounting to CZK 38,102,830.

**Table 21 Breakdown of expenditure budget savings in 2021**

<b>Salaries and other personnel expenses, incl. insurance premiums and FKSP</b>	<b>CZK 4,131,190</b>
<b>Programme financing EDS/SMVS</b>	<b>CZK 16,946,800</b>
<b>'Other current expenditure'</b>	<b>CZK 17,024,840</b>

Source: ERO

Total claims on unused expenses (NNV) as at 1 January 2021 amounted to CZK 91,574,070.

**Table 22 Breakdown of claims on unused expenses**

<b>'Major expenses'</b>	<b>CZK 45,274,700</b>
<b>'Minor expenses'</b>	<b>CZK 46,299,370</b>

Source: ERO

### 13.3 Programme financing

In the system for financing the programmes of assets, one programme was included for 2021: programme 149 020 *Development and Replacement of the Technical Facilities of the ERO*. The programme consists of two sub-programmes:

- ▮ sub-programme 149 021 – *Procurement and replacement of the ERO's information and communication technology (ICT)*
- ▮ sub-programme 149 022 – *Procurement and replacement of the ERO's other assets*

The fundamental objective of the programmes is to ensure the development of adequate facilities for the Office, with the heaviest emphasis on ICT.

Since most of the Office's agendas are concentrated in its Integrated Information System, most of the funds under the ICT sub-programme were drawn for its development. In 2021, primarily the following ICT activities were carried out:

- ▮ The ERO's Integrated Information System
- ▮ Procurement and replacement of hardware and software
- ▮ Cyber and information security

The following Table shows the results of programme financing management in 2021 by sub-programme. In line with the Office's priorities, the largest amount of funds was allocated to ICT (sub-programme 149 021) for 2021.

**Table 23 Results by sub-programme for 2021**

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
<b>Programme 149 020</b> , of which	<b>19,725,000</b>	<b>2,778,200</b>	<b>14.08</b>
Sub-programme 149 021	17,325,000	2,159,090	12.46
Sub-programme 149 022	2,400,000	619,110	25.80

Source: ERO

### 13.4 Expenses on business trips abroad

Due to the COVID-19 pandemic, 2021 saw only four business trips abroad made by ERO employees. For comparison, 2020 saw 11 trips. During the year, ERO employees were taking part in the CEER, ACER, and ERRA working groups' and task forces' deliberations, various workshops, the Commission's working groups, and conferences via videoconferencing or in a hybrid form. In 2021, ERO employees attended five online training courses as part of CEER's educational activities.

Expenses on business trips abroad totalled CZK 97,870 in 2021 (CZK 139,610 in 2020). Compared with 2020, the number of business trips abroad dropped by 63.64%. Total expenses dropped by 29.90% compared with 2020.

For the payment of the membership dues in CEER and ERRA (budget item 5532 other non-investment transfers abroad) CZK 954,710 was spent as at 31 December 2021.

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

Section 39(3) of the law on budgetary rules requires the chapter administrator to continuously monitor and evaluate the economy, efficiency, and effectiveness of spending under the chapter that it administers. Having the above obligation, the Office therefore regularly evaluated the spending of the funds in its chapter, using regular quarterly reports on financial management and a summary annual evaluation.

Under the relevant legislation, the Office also evaluated the criteria of the economy, efficiency, and effectiveness both as part of *ex ante* management inspections before and after the emergence of the liability, and as part of ongoing and *ex post* management inspections under the law on financial control in public administration and the relevant implementing regulation, which implements the law on financial control in public administration. In public procurement, the Office, being a contracting authority, proceeded under the law on public procurement and in line with its internal directive on the procedure for awarding low-value public contracts and other regulations concerning public procurement.

### 13.6 Meeting of mandatory targets

The Office complied with all the mandatory targets. The planned amount of funds was not exceeded under any of the mandatory targets without approval (see Annex 2). A detailed analysis of performance versus budget is contained in the relevant parts of the draft of the closing account of Chapter 349 for 2021, including the spreadsheets and listings.

### 13.7 Cash funds, assets, receivables, and liabilities

There were no transfers from cash (own) funds to revenues of Chapter 349 in 2021.

**Table 24 Cash funds as at 31 December 2021**

<b>FKSP</b>	CZK 1,292,880
<b>Legal reserves</b>	CZK 0

Source: ERO

**Table 25 ERO's assets as at 31 December 2021**

<b>Acquisition cost of assets</b>	CZK 233,123,280
<b>Net book value of assets</b>	CZK 77,420,610

Source: ERO

In 2020, the total value of assets at acquisition cost increased by CZK 12,788,770 on 2020.

**Table 26 Total receivables as at 31 December 2021**

<b>Total receivables</b>	CZK 17,177,740
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Source: ERO

Fines levied in administrative proceedings (including costs of proceedings), amounting to CZK 14,247,710, made up the largest part of total receivables.

**Table 27 Total liabilities as at 31 December 2021**

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<b>Total liabilities</b>	CZK 65,376,380
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Source: ERO

The money in the Energy Regulatory Fund, amounting to CZK 45,444,390, made up the largest part of total liabilities.

The Office had no liabilities to suppliers; suppliers' invoices recorded by the Office by 31 December 2021 were paid. The Office had no overdue liabilities as at 31 December 2021.

## 14 HUMAN RESOURCES

### 14.1 Personnel management agenda

In the budget and in the schedule of positions approved for 2021, the ERO's headcount was set at 289 scheduled (established) positions, seven positions fewer than in 2020.

Of the overall actual number of 251 employees, 106 worked in Jihlava, 70 in Ostrava, and 75 in Prague as at 31 December 2021.

In 2021, the Office organised 191 recruitment procedures for civil service positions, four procedures for service positions governed by the Labour Code, and four for employment under the Labour Code. Despite the completed recruitment procedures, the planned number of civil service positions was not filled in 2021. A frequent cause is the lengthy process of acceptance to civil service due to the specified time limits in the recruitment process, and, with its initial salary, the public-sector authority's inability to compete with the wages offered in the private sector, energy in particular. Moreover, many candidates are not comfortable with the specificities and conditions of public service as such.

The Office organises civil service examinations in the '29 – Energy' field for state administration as a whole. In 2021, civil service examinations could be taken on nine dates, on which 13 ERO civil servants and 11 civil servants of other institutions successfully passed the civil service examination.

### 14.2 Education and training

The Office had enough budgeted funds for education and was therefore able to provide for the required education and training in full. CZK 2,085,810 was spent on staff education and training. Compared with 2020, this is an increase of 48.27%, i.e. by CZK 679,060. Total expenses on education in 2021 therefore accounted for 1.26% of the actual cost of salaries for employees under employment contracts and under civil service agreements (including ERO Board members' salaries), i.e. an increase compared with 2020 (0.84%, CZK 1,406,750).

Forty-three employees went through introductory initial training. Continued initial training was organised in cooperation with the Institute for Public Administration; 12 employees attended the training. Its purpose was to teach the participants the basics of the legal system, explain the working of public administration and issues of public finances, etc.

The Office sees to the continuing education of managerial personnel and superiors. In 2021, training focused on managerial skills was held and attended by two employees; one employee attended *The Manager's Three Challenging Situations* training course.

Language training was more extensive in 2021. Some of the new employees were included in it. A total of 70 scheduled positions for which command of one of the world languages was a qualification requirement were determined for 2021. As at 31 December 2021, 100% of employees in the filled scheduled positions fully met the language requirements.

A total of 103 training events were held on topics such as state administration, cyber security, ethics, corruption and whistleblowing, MS Office, professional competence training, OHS, fire protection, work at height, and other technical and ongoing training courses arising from current legislative changes. The equivalent of 1,078 employees were trained (in 2020, the figures were 271 employees and 56 training events).

CZK 868,850 was spent on language training in 2021, less than in 2020 (CZK 1,044,180). Spending on other education and training was significantly higher than in 2020 (CZK 362,570).



### 14.3 Employees

The budgeted average salary for 2021 was planned at CZK 51,223 (approved budget). The actually achieved average salary was CZK 56,203, index 109.72%. A year-on-year comparison of the actually achieved average salary indicates the 2021/2020 index at 104.69%. A slight year-on-year increase in the total average salary is attributable to pay raises for employees, compensations for ordered overtimes, and granting other components of salaries. The targets for 2021 are summarised in the following Table.

**Table 28 Budget targets – salaries**

	<b>Approved budget 2021</b> [CZK]	<b>Final budget 2021</b> [CZK]	<b>Actual 2021</b> [CZK]	<b>Index</b> [%]
<b>Salaries for employees and other payments for work</b>	179,955,360	170,776,930	167,876,410	98.30
<b>Salaries for employees under employment contract, except for employees in civil service positions</b>	26,732,740	26,647,700	26,106,530	97.97
<b>Salaries for civil servants under the Civil Service Act</b>	142,250,290	132,435,460	130,878,670	98.82
<b>Salaries for employees under employment contract, derived from salaries of constitutional officials</b>	8,656,800	8,656,800	8,656,800	100.00

Source: ERO

Under the mandatory standard target *Salaries for employees and other payments for work* claims on unused expenses (NNV) were used, CZK 721,440, due to the payment of termination settlement (*odbytné*) in connection with the impacts of the rescheduling of positions as of 1 January 2020. Budgetary measures were taken to increase this target by CZK 591,600 to defray the costs incurred in seconding an ERO employee to an EU institution, and to decrease it by CZK 10,491,470 due to the tying of national budget funds for vacancies. The funds for salaries were utilised proportionally to the share of the scheduled positions filled.

**Table 29 The average FTE staffing level and the actual headcount**

	<b>Plan 2021</b> [-]	<b>Actual 2021</b> [-]	<b>Index</b> [%]
<b>Average FTE staffing level, of whom</b>	<b>289</b>	<b>245.60</b>	<b>84.98</b>
Civil servants	236	193.05	81.80
Employees under the Labour Code	48	47.55	99.06
ERO Board members	5	5	100.00
<b>Actual headcount, of whom</b>	<b>289</b>	<b>251</b>	<b>86.85</b>
Civil servants	236	198	83.90
Employees under the Labour Code	48	48	100.00
ERO Board members	5	5	100.00

Source: ERO

CZK 1,512,970 was drawn for other personnel costs, by way of 'agreements to complete a job' or 'agreements to perform work' for the delivery of work.

In 2021, the proportion of university educated employees was 83.66%. The structure of education corresponds with the very high demands placed on ERO employees.

The Office promotes gender equality and diversity in executive positions. In the ranks of superiors and managers, 45 positions were filled out of the 48 planned positions, 15 of them by women, i.e. 33.33%, as at 31 December 2021. The total headcount comprised 47.84% men and 52.19% women, and the trend of increasing numbers of women is apparent. This situation is obvious primarily in the groups of candidates signing up for the recruitment procedures run to fill vacant scheduled positions.

## 15 INTERNAL CONTROL SYSTEM

The Office has put in place an adequate internal control system in line with the Financial Control Act and its own policy, plans, and objectives, thereby creating the conditions for an oversight environment favourable for the management of public funds.

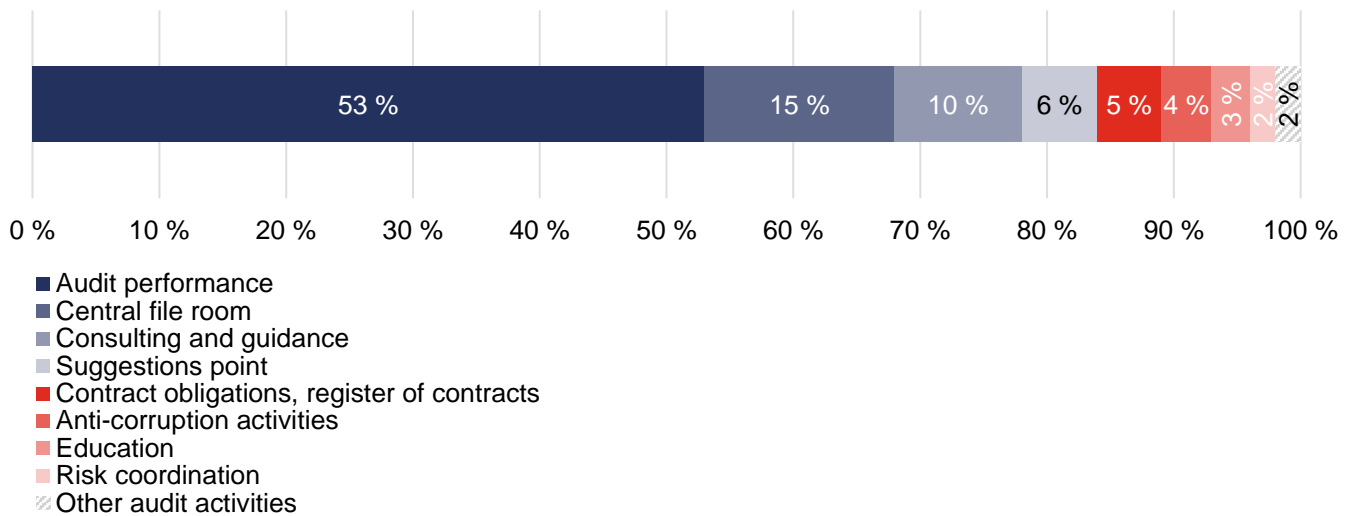
The Office's operation is governed by a system of legal, internal, and service regulations which set out the processes of control and oversight mechanisms. Organisation and delegation of responsibilities is governed by a set of control and oversight tools and procedures for organising, managing, and performing financial controls in accordance with the principles of effectiveness, economy, and efficiency. The Office carries out risk analyses, on the basis of which it plans and carries out internal audits, has in place three tiers of management inspection, publishes the results of decision-making procedures, adopts measures to remedy any identified shortcomings, has in place a system for corruption prevention and detection, and takes other steps required for maintaining and reviewing the efficiency of its internal control system and for ensuring the serviceability of management inspection and internal audit.

Management inspection is carried out by managers and superiors, within their powers and responsibilities, at all levels of management for the purpose of achieving the set objectives and minimising risks. It is carried out in the process of preparing financial operations before they are approved, and during the ongoing monitoring of executed operations until the final settlement and accounting thereof and the subsequent vetting of selected operations in the context of the results achieved and financial management accuracy. Written records are taken down on all approving procedures of management inspection.

Internal audit operates a separate, functionally independent unit, the activity of which is directly managed and coordinated by the ERO Board, which is responsible for it being organisationally separate from the other managerial and executive structures. Internal audit plays an important role in the working of the internal control system and improvements thereto and helps the Office to achieve its objectives by applying a methodical approach to the evaluation and improvement of the risk management system's efficiency and its management and review processes, and the ERO's management and governance.

The unit carried out its activities in accordance with the Internal Audit Plan for 2021 approved by the ERO Board. When planning the audit activities for 2021, the Office took into account its persisting emergency mode of operation and the security measures in place due to the COVID-19 pandemic. Internal audits focused on the key processes in the Office, in which electronic inputs could be used to a reasonable extent and detail as much as possible.

**Chart 37 Internal audit activities in 2021**



Source: ERO

In 2021, audit actions focused on the following:

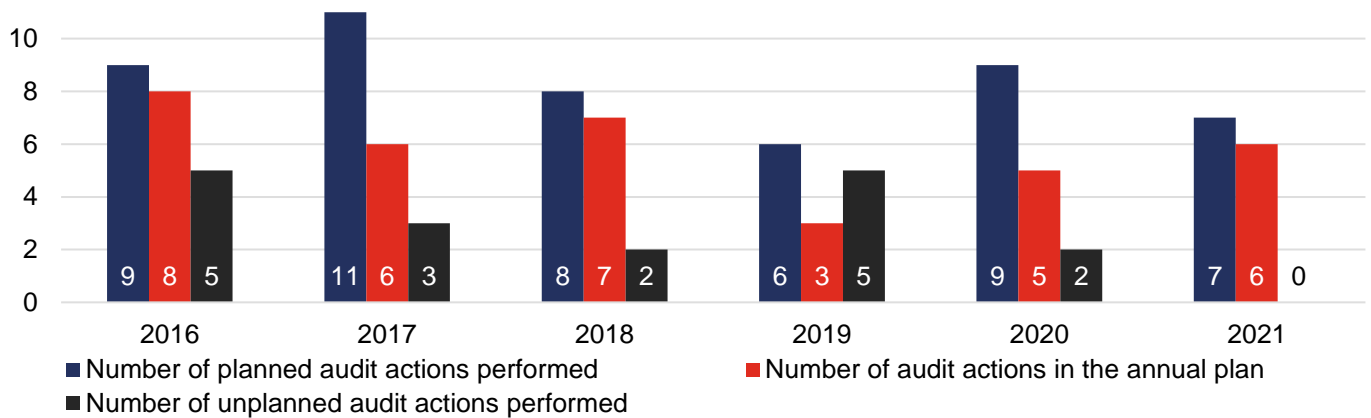
- ▮ compliance with legal, service, and internal regulations,
- ▮ the design of control and oversight mechanisms,
- ▮ checking that public funds are used effectively, economically, and efficiently,
- ▮ checking that accounting is accurate, complete, and based on evidence,
- ▮ process and extent of access rights to the ERO's information systems and observance of information system principles and taking into account the risks,
- ▮ checking the accuracy of the working procedures in the licensing process in energy industries,
- ▮ compliance in public procurement concerning low-value contracts, focusing on the completeness, keeping, and archiving of written documents in all steps related to public procurement,
- ▮ observance of the legislation's rules on personal data processing,
- ▮ execution of anti-corruption measures.

In each of the audited areas, the internal control system was also checked and assessed. Through management inspection, the operating, financial, legal, and other risks related to pursuing the Office's plans and objectives were assessed. The outcomes from internal audits were consulted with the ERO Board and responsible managers of the audited units, who then adopted adequate measures.

Consulting and guidance focused on evaluating and improving the processes in place, primarily in risk management, contract conclusion with connection to the posting of contracts in the contract register, financial management, public contracts, and the filing and archiving service.

In 2021, the Internal Audit Unit carried out five audit actions and one *ex-post* audit, which evaluated the progress in implementing the measures adopted to remedy the shortcomings found in earlier audits. The number of completed audits was comparable with that in 2020, but in comparison with the preceding years their number declined, mainly due to performing a larger number of system audits focused transversally on multiple areas.

**Chart 38** Number of audit actions versus annual plans



Source: ERO

In 2021, internal audits did not identify any serious shortcomings that could trigger the imposition of extensive or system-wide remedial measures or significantly impact on proper governance over the management of public funds and assets. The adopted measures were mainly geared towards improving the processes and working procedures in the audited areas.

Based on the results of internal audits and checks in 2021, reasonable assurance can be provided that the internal control system in place is sufficiently effective, and responds to changes in economic, legal, operating, and other circumstances on time. The various elements of which the internal control system is composed provide reasonable certainty that the ERO has in place a well-working internal control system providing reasonable assurance that public expenditure reported under Chapter 349 of the national budget is being utilised in compliance with the legislative framework.

## 15.1 External inspection

Two external inspections were carried out at the Office in 2021. Between February and August 2021, the regional inspectorate for the Jihočeský Region and the Vysočina Region checked compliance with the obligations specified in the law on labour inspection, focusing on obligations concerning working hours and those concerning employment contracts and agreements on work carried out outside employment. A check identified only one mistake consisting of failure to specify the beginning and end of shifts worked and the beginning and end of overtime work in the job records of a random sample of employees for a period until the end of 2020.

At the beginning of the inspection, the Office provided the inspectors with an update of an internal and service directive covering this issue, in which the Office had set out the relevant remedial measures, putting in place a new system for recording working hours and service hours, overtime work, and standby duty, effective from 1 January 2021.

In late 2021, Všeobecná zdravotní pojišťovna ČR (VZP; health insurer) checked compliance with the reporting obligation, the calculation of the assessment bases and premiums, and the keeping of the due dates for premiums.

The inspection found outstanding liabilities to VZP in the case of one employee, while no deficiencies in record-keeping were found. The arrears to VZP were caused by the migration to a new HR and payroll system, during which the outdated code of the employee's health insurance company was loaded. Thus, payments were being sent to an account kept by another health insurance company. The Office requested it to return the overpayment and the arrears were then sent to VZP.

## ANNEXES

### Annex 1 Auditor's report

/Letterhead: KRATKYAUDIT/

#### INDEPENDENT AUDITOR'S REPORT

To the management of the Energy Regulatory Office

#### **The auditor's opinion**

We have audited the fund set up by the Energy Regulatory Office ("the Company") pursuant to Section 14 of Act No 458/2000 on the Conditions of Business and State Administration in the Energy Industries and Amending Certain Laws, as amended (an element of financial statements), prepared under the Czech Accounting Standards as at 31 December 2021.

In our opinion, the financial disclosures in the balance sheet of the fund, set up pursuant to Section 14 of Act No 458/2000, as at 31 December 2021 have been prepared, in all material respects, in compliance with the Czech Accounting Standards.

#### **Basis for the opinion**

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs), as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the *Auditor's responsibility for the audit* section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities deriving from the said regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Company Directors' responsibility for the financial statements**

Company Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Czech Accounting Standards and for such internal control as Directors determine is necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, Company Directors are required to assess whether the Company is a going concern and, where relevant, to describe in the notes to the financial statements matters relating to its going-concern status and the use of the going-concern basis in the preparation of the financial statements, except in those cases where Company Directors plan to wind up the Company or discontinue its operations, or where they have no other realistic option but to do so.

#### **Auditor's responsibility for the audit of the element of the financial statements**

Our objectives are to obtain reasonable assurance about whether the element of the financial statements is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with the above regulations will always detect a material misstatement when it exists in the element of the financial statements. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users taken on the basis of these financial statements.

As part of an audit in accordance with the above legislation, we are also required to exercise professional judgement and maintain professional scepticism throughout the audit. We are also required:

- To identify and assess the risks of material misstatement in the element of the financial statements, whether due to fraud or error, to design and perform audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for us to be able to express an opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- To obtain an understanding of the Company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made, and disclosures made in the notes to the financial statements in this respect and relating to the audited element of the financial statements by Company Directors.
- To conclude on the appropriateness of the Company Directors' use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the notes to the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions on the Company's ability to continue as a going concern are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We are required to inform those charged with governance of, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

kratkyaudit s.r.o.  
K nádraží 225, 664 59 Telnice  
Registration number 583

Ondřej Krátký  
Registration number 2437

7 March 2022

*L.S. /Auditor's seal/*



# KRATKY AUDIT

## ZPRÁVA NEZÁVISLÉHO AUDITORA

Vedení Energetického regulačního úřadu

### Výrok auditora

Provedli jsme audit fondu zřízeného dle ustanovení § 14 zákona č. 458/2000 Sb., o podmínkách podnikání a o výkonu státní správy v energetických odvětvích a o změně některých zákonů ve znění pozdějších předpisů („prvek účetní závěrky“) Energetického regulačního úřadu („Společnost“) sestaveného na základě českých účetních předpisů k 31.12.2021.

Podle našeho názoru jsou finanční informace v rozvaze ve fondu zřízeného dle ustanovení § 14 zákona č. 458/2000 Sb. k 31.12.2021 ve všech významných (materiálních) ohledech sestaveny v souladu s českými účetními předpisy.

### Základ pro výrok

Audit jsme provedli v souladu se zákonem o auditorech a standardy Komory auditorů České republiky pro audit, kterými jsou mezinárodní standardy pro audit (ISA) případně doplněné a upravené souvisejícími aplikačními doložkami. Naše odpovědnost stanovená těmito předpisy je podrobněji popsána v oddílu Odpovědnost auditora za audit. V souladu se zákonem o auditorech a Etickým kodexem přijatým Komorou auditorů České republiky jsme na Společnosti nezávislí a splnili jsme i další etické povinnosti vyplývající z uvedených předpisů. Domníváme se, že důkazní informace, které jsme shromáždili, poskytují dostatečný a vhodný základ pro vyjádření našeho výroku.

### Odpovědnost statutárního orgánu Společnosti za účetní závěrku

Statutární orgán Společnosti odpovídá za sestavení účetní závěrky podávající věrný a poctivý obraz v souladu s českými účetními předpisy a za takový vnitřní kontrolní systém, který považuje za nezbytný pro sestavení účetní závěrky, tak aby neobsahovala významné (materiální) nesprávnosti způsobené podvodem nebo chybou.

Při sestavování účetní závěrky je statutární orgán Společnosti povinen posoudit, zda je Společnost schopna nepřetržitě trvat, a pokud je to relevantní, popsat v příloze účetní závěrky záležitosti týkající se jejího nepřetržitého trvání a použití předpokladu nepřetržitého trvání při sestavení účetní závěrky, s výjimkou případů, kdy statutární orgán plánuje zrušení Společnosti nebo ukončení její činnosti, resp. kdy nemá jinou reálnou možnost než tak učinit.

### Odpovědnost auditora za audit prvku účetní závěrky

Naším cílem je získat přiměřenou jistotu, že prvek účetní závěrky neobsahuje významnou (materiální) nesprávnost způsobenou podvodem nebo chybou a vydat zprávu auditora obsahující náš výrok. Přiměřená míra jistoty je velká míra jistoty, nicméně není zárukou, že audit provedený v souladu s výše uvedenými předpisy ve všech případech v prvku účetní závěrky odhalí případnou existující významnou (materiální) nesprávnost. Nesprávnosti mohou vzniknout v důsledku podvodů nebo chyb a považují se za významné (materiální), pokud lze reálně předpokládat, že by jednotlivě nebo v souhrnu mohly ovlivnit ekonomická rozhodnutí, která uživatelé účetní závěrky na jejím základě přijmou.

Při provádění auditu v souladu s výše uvedenými předpisy je naší povinností uplatňovat během celého auditu odborný úsudek a zachovávat profesní skepticismus. Dále je naší povinností:

- Identifikovat a vyhodnotit rizika významné (materiální) nesprávnosti prvku účetní závěrky způsobené podvodem nebo chybou, navrhnout a provést auditorské postupy reagující na tato rizika a získat dostatečné a vhodné důkazní informace, abychom na jejich základě mohli vyjádřit výrok. Riziko, že neodhalíme významnou (materiální) nesprávnost, k níž došlo v důsledku podvodu, je větší než riziko neodhalení významné (materiální) nesprávnosti způsobené chybou, protože součástí podvodu mohou být tajné dohody, falšování, úmyslná opomenutí, nepravdivá prohlášení nebo obcházení vnitřních kontrol.
- Seznámit se s vnitřním kontrolním systémem Společnosti relevantním pro audit v takovém rozsahu, abychom mohli navrhnout auditorské postupy vhodné s ohledem na dané okolnosti, nikoli abychom mohli vyjádřit názor na účinnost vnitřního kontrolního systému.
- Posoudit vhodnost použitých účetních pravidel, přiměřenost provedených účetních odhadů a

informace, které v této souvislosti statutární orgán Společnosti uvedl v příloze účetní závěrky vztahující se k auditovanému prvku účetní závěrky.

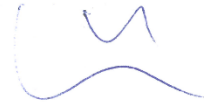
- Posoudit vhodnost použití předpokladu nepřetržitého trvání při sestavení účetní závěrky statutárním orgánem, a zda s ohledem na shromážděné důkazní informace existuje významná (materiální) nejistota vyplývající z událostí nebo podmínek, které mohou významně zpochybnit schopnost Společnosti nepřetržitě trvat. Jestliže dojdeme k závěru, že taková významná (materiální) nejistota existuje, je naší povinností upozornit v naší zprávě na informace uvedené v této souvislosti v příloze účetní závěrky, a pokud tyto informace nejsou dostatečné, vyjádřit modifikovaný výrok. Naše závěry týkající se schopnosti Společnosti nepřetržitě trvat vycházejí z důkazních informací, které jsme získali do data naší zprávy. Nicméně budoucí události nebo podmínky mohou vést k tomu, že Společnost ztratí schopnost nepřetržitě trvat.

Naší povinností je informovat statutární orgán mimo jiné o plánovaném rozsahu a načasování auditu a o významných zjištěních, která jsme v jeho průběhu učinili, včetně zjištěných významných nedostatků ve vnitřním kontrolním systému.

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7. března 2022



**Annex 2 Performance v Budget**
**Table 30 Meeting of mandatory targets for 2021**

Target	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/3 [%]
	1	2	3	4	5
<b>Aggregate targets</b>					
Total income	318,848,000	318,848,000	318,848,000	319,056,590	100.07
Total expenditure	292,164,730	292,968,120	323,964,510	285,861,690	88.24
<b>Specific targets – income</b>					
Tax revenues	298,848,000	298,848,000	298,848,000	302,561,430	101.24
Total non-tax revenues, capital revenues and accepted transfers, of which:	20,000,000	20,000,000	20,000,000	16,495,160	82.48
total income from EU budget w/o CAP	0	0	0	0	0
other non-tax income, capital revenues and accepted transfers	20,000,000	20,000,000	20,000,000	16,495,160	82.48
<b>Specific targets – expenditure</b>					
Outlays to support the ERO's tasks, of which:	292,164,730	292,968,120	323,964,510	285,861,690	88.24
expenses on the performance of European Council presidency	0	0	0	0	0
other expenses to support the ERO's tasks	292,164,730	292,968,120	323,964,510	285,861,690	88.24
<b>Standard targets</b>					
Salaries for employees and other payments for work	179,955,360	180,546,960	170,776,930	167,876,410	98.30
Salaries for employees under employment contract, except for civil servants	26,732,740	26,732,740	26,647,700	26,106,530	97.97
Salaries for civil servants under the Civil Service Act	142,250,290	142,841,890	132,435,460	130,878,670	98.82
Salaries for employees under employment contract derived from salaries of constitutional officials	8,656,800	8,656,800	8,656,800	8,656,800	100.00
Statutory insurance premiums paid by the employer	60,824,910	61,024,870	57,478,750	56,290,040	97.93
Allocation to the Fund of Cultural and Social Needs (FKSP)	3,552,800	3,564,630	3,354,800	3,312,840	98.75
Arrangements for crisis situations under Act No 240/2000	0	0	0	0	0
Total outlays co-financed completely or partly from the EU budget w/o CAP, of which	0	0	0	0	0
from the national budget	0	0	0	0	0
share from the EU budget	0	0	0	0	0
Total expenses recorded in the EDS/SMVS programme financing information system	0	0	19,725,000	2,778,200	14.08

Source: ERO

**Table 31 Comparison of actual expenses under Chapter 349 ERO, for the period 2017–2021**  
(Expenses and other cost items are in CZK thousands)

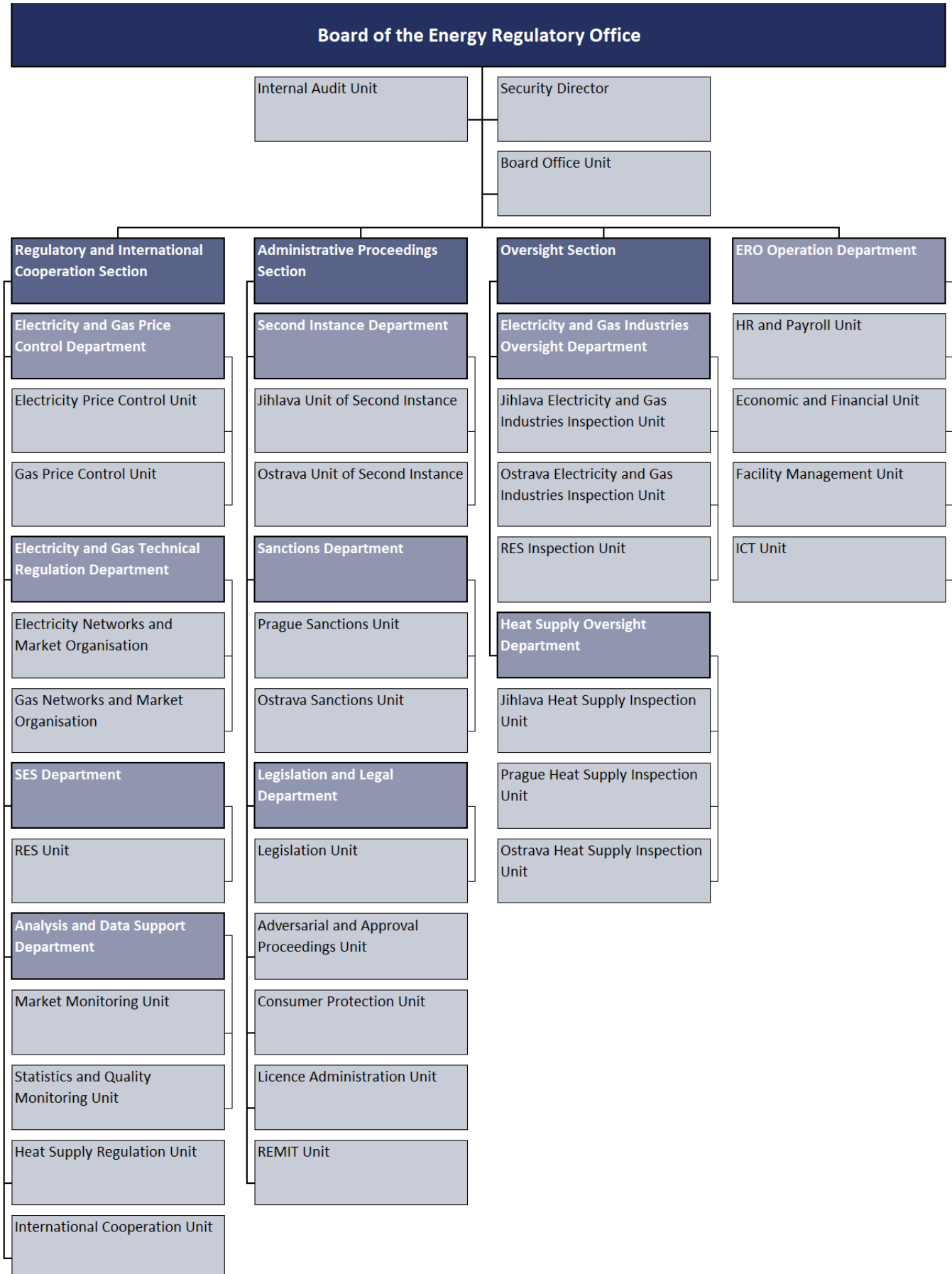
Item	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Index 21/20 [%]
<b>Total expenses, of which:</b>	286,379	294,477	312,466	292,262	285,862	97.81
salaries, other payments, insurance premiums and FKSP	223,145	233,412	236,146	236,892	227,479	96.03
expenses on the asset replacement financing programmes	19,700	10,128	24,893	5,903	2,778	47.06
total other expenses	43,534	50,937	51,427	49,467	55,605	112.41
use of claims on unused expenses (NNV)	39,069	44,978	46,017	33,673	25,808	76.64
<b>Expenses on salaries and other payments for work</b>	164,889	172,208	174,050	176,573	167,876	95.07
<b>Salaries for employees under employment contracts, except those in public service positions, salaries for employees under employment contracts in public service positions under the Public Service Act, salaries for employees under employment contracts derived from salaries of constitutional officials (Chairman, ERO Board)</b>	161,221	168,688	171,698	167,474	165,642	98.91
<b>Staffing levels (Average FTE)</b>	262	276	282	260	246	94.62
<b>Salaries, other payments, insurance premiums and FKSP per employee</b>	852	846	837	911	925	101.54
<b>Programme financing costs per employee</b>	75	37	88	23	11	47.83
<b>Other expenses per employee</b>	166	185	182	190	226	118.95
<b>Total expenses per employee</b>	1,093	1,067	1,108	1,124	1,162	103.38

Source: ERO

**Annex 3 Organisational structure of the Energy Regulatory Office as at 31 December 2020**



**Annex 4 Organisational structure of the Energy Regulatory Office as at 1 January 2021**



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## LIST OF LEGISLATION

### Czech laws

Act No 106/1999 on Free Access to Information, as amended

Act No 218/2000 on Budgetary Rules and Amending Certain Related Laws, as amended

Act No 458/2000 on the Conditions of Business and State Administration in Energy Industries and Amending Certain Laws (the Energy Act), as amended

Act No 320/2001 on Financial Control in Public Administration and Amending Certain Laws, as amended

Act No 18/2004 on the Recognition of Professional Qualifications and Other Competences of the Nationals of the Member States of the European Union and Certain Nationals of Other States and Amending Certain Laws (the law on the recognition of professional qualifications), as amended

Act No 500/2004 Rules of Administrative Procedure, as amended

Act No 251/2005 on Labour Inspection, as amended

Act No 165/2012 on Supported Energy Sources and Amending Certain Laws, as amended

Act No 134/2016 on Public Procurement, as amended

Act No 600/2020 on the National Budget of the Czech Republic for 2021

Act No 634/1992 on Consumer Protection, as amended

Act No 526/1990 on Prices, as amended

Act No 265/1991 on the Competences of the Bodies of the Czech Republic in Respect of Prices, as amended

### Czech statutory instruments (public notices)

Public notice 416/2004 amending Act No 320/2001 on Financial Control in Public Administration and Amending Certain Laws (the law on financial control), as amended in Act No 309/2002, Act No 320/2002 and Act No 123/2003

Public notice 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended in public notice 41/2010

Public notice 545/2006 on the quality of gas supply and related services in the gas industry, as amended in public notice 396/2011

Public notice 280/2007 on the implementation of the Energy Act's provisions on the Energy Regulatory Fund and obligations over and above the licence

Public notice 401/2010 on the required content of the Electricity Transmission System Operating Rules, Distribution System Operating Rules, the Gas TSO Code, DSO Codes, the SSO Code, and the market operator's commercial terms and conditions, as amended in 330/2017

Public notice 30/2012 on the essentials of applications for approving the appointment, election, or other manner of installation in office and the removal of the bodies of the independent gas transmission system operator

Public notice 194/2015 on methods of price regulation and procedures for price controls in the electricity and heat supply industries

Public notice 195/2015 on methods of price regulation and procedures for price controls in the gas industry

Public notice 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

Public notice 262/2015 on regulatory reporting, as amended

Public notice 296/2015 on the technical and economic parameters for determining feed-in tariffs for electricity generation and green premiums on heat and on determining the service life of power generating facilities and heat producing facilities using renewable energy sources ('the technical & economic parameters public notice'), as amended in public notice 266/2016

Public notice 349/2015 on Gas Market Rules, as amended

Public notice 408/2015 on Electricity Market Rules, as amended

Public notice 8/2016 on the details of licensing for business in energy industries

Public notice 16/2016 on the conditions for connection to the electricity grid, as amended in public notice 487/2021

Public notice 404/2016 on the particulars and structure of the returns required for preparing reports on the operation of systems in the energy industries, including the dates, scope, and rules for preparing the returns (the 'statistics public notice'), as amended in public notice 154/2018

Public notice 359/2020 on electricity metering

Public notice 207/2021 on the billing of supply and related services in energy industries

Public notice 488/2021 on conditions of connection to the gas system

Public notice 489/2021 on procedures for registering aid with the market operator and implementing certain other provisions of the law on supported energy sources (the registration public notice)

## EU Regulations

Regulation (EC) No 715/2009

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) No 1227/2011

Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency

Regulation (EU) No 347/2013

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

Commission Regulation (EU)

No 543/2013 Commission Regulation (EU) No 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council

Commission Regulation (EU)

No 312/2014 Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks

Commission Regulation (EU) 2015/703	Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules
Commission Regulation (EU) 2015/1222	Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management
Commission Regulation (EU) 2016/631	Commission Regulation (EU) 2016/631 of 14 April 2016 establishing a network code on requirements for grid connection of generators
Commission Regulation (EU) 2016/1388	Commission Regulation (EU) 2016/1388 of 17 August 2016 establishing a Network Code on Demand Connection
Commission Regulation (EU) 2017/459	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
Commission Regulation (EU) 2017/460	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas
Commission Regulation (EU) 2017/1485	Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation
Commission Regulation (EU) 2017/2195	Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing
Commission Regulation (EU) 2017/2196	Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration
Regulation (EU) 2017/1938	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) 2018/1999	Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council
Regulation (EU) 2019/941	Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk-preparedness in the electricity sector and repealing Directive 2005/89/EC
Regulation (EU) 2019/942	Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators
Regulation (EU) 2019/943	Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity

## EU Directives

Directive 2009/73/EC	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
Directive (EU) 2010/31/EU	Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings
Directive (EU) 2011/83/EU	Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council
Directive (EU) 2012/27/EU	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
Directive (EU) 2018/844	Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency
Directive (EU) 2018/2001	Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources
Directive (EU) 2018/2002	Directive (EU) 2018/2002 of the European Parliament and of the Council of 11 December 2018 amending Directive 2012/27/EU on energy efficiency
Directive (EU) 2019/944	Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU

## ABBREVIATIONS, EXPRESSIONS, AND UNITS

### Note

Names of Czech companies are written the way they are registered in the Companies Register, including cases when they are registered with mistakes.

4M MC	the countries of the 4M Market Coupling region integrated market, specifically the Czech Republic, Hungary, Romania, and Slovakia
ACER	Agency for the Cooperation of Energy Regulators
AT	Austria
GSSS	gas supply security standard
CAIDI	Customer Average Interruption Duration Index in the period under review
CEER	Council of European Energy Regulators
CMP	Congestion management procedures within the meaning of 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
CNG	compressed natural gas
COVID-19	the COVID-19 disease
CWD	capacity weighted distance reference price methodology
CZ, CR	Czech Republic
ČEPS	operator of the Czech electricity transmission system, ČEPS, a.s.
CR, CZ	Czech Republic
DE	Germany
Decarbonisation Package	Proposal for a Regulation on the internal markets for renewable and natural gases and for hydrogen (recast), the Proposal for a Directive on common rules for the internal markets in renewable and natural gases and in hydrogen, and the Proposal for a Regulation on methane emissions reduction in the energy sector and amending Regulation (EU) 2019/942
VAT	value-added tax
SoLR	supplier of last resort
EEX	European Energy Exchange AG
EC, Commission	European Commission
Energy Act	Act No 458/2000 on the Conditions of Business and State Administration in Energy Industries and Amending Certain Laws (the Energy Act), as amended
ERRA	Energy Regulators Regional Association
ERO, Office	Energy Regulatory Office
EU	European Union
FKSP	Fund of Cultural and Social Needs
HHI	Herfindahl-Hirschman Index
LV	low voltage (in Czech <i>NN</i> , <i>nízké napětí</i> , i.e. 'low voltage')
MV	medium voltage (in Czech <i>VN</i> , <i>vyšoké napětí</i> , i.e. 'high voltage')
HV	high voltage (in Czech <i>VVN</i> , <i>velmi vysoké napětí</i> , i.e. 'extra high voltage')



HU	Hungary
Chapter 349	Chapter 349 – Energy Regulatory Office [title of the national budget]
Commission, EC	European Commission
LNG	liquefied natural gas
MfRD	Ministry for Regional Development
MODOM	[a Czech acronym] a customer category: low-demand business and household customers
MIT	Ministry of Industry and Trade
MLSA	Ministry of Labour and Social Affairs
MRC	multi regional coupling
ME	Ministry of the Environment
REMIT	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency
NC CAM	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
NC INT	Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules
NC TAR	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas
NET4GAS	operator of the Czech gas transmission system, NET4GAS, s.r.o.
SES Amendment	Amendment, enacted in Act No 382/2021, to Act No 165/2012 on Supported Energy Sources and Amending Certain Laws, as amended
CNDC	Czech National Disability Council
Market operator	OTE, a.s.
SP	supply point
SDP	supply and delivery point
RES	renewable energy sources
PCI	Projects of Common Interest
PL	Poland
SES (or POZE)	supported energy sources
PPAT	Professional Person Arranging Transactions
PXE	Power Exchange Central Europe
Council (EU)	Council of the European Union
ERO Board	the Board of the Energy Regulatory Office
SAIDI	System Average Interruption Duration Index in the period under review
SAIFI	System Average Interruption Frequency Index in the period under review
SK	Slovakia
CUTM	Czech Union of Towns and Municipalities
CTTA	Czech Trade and Tourism Association
TA CR	Technology Agency of the Czech Republic
Heat	thermal energy
ÚOHS	Office for the Protection of Competition



Office, ERO	Energy Regulatory Office
R&D&I	Research, Development, and Innovation
VOSO	[a Czech acronym] a customer category: high-demand and medium-demand customers
VZP	Všeobecná zdravotní pojišťovna ČR (General Health Insurance Company)
ERO's website	the ERO's website
webinar	on-line seminar
SES Act	Act No 165/2012 on Supported Energy Sources and Amending Certain Laws, as amended
Price Control Principles 2021–2025	Price Control Principles for the 2021-2025 Regulatory Period in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries, and for Mandatory Buyers

### Units

A	amper
EUR	euro, the euro area's currency
GJ	gigajoule
GWh	gigawatt hour
CZK	Czech crown
kV	kilovolt
MW	megawatt
m	million
MWh	megawatt hour
t	tonne
TWh	terawatt hour
W	watt



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