

Energy Regulatory Office Price Decision 10/2022 of 30 September 2022 amending Energy Regulatory Office Price Decision 4/2021 of 16 September 2021 on thermal energy prices

Under Section 2c of Act No 265/1991 on the Competences of the Czech Republic's Authorities in the Area of Prices, as amended, under Section 17(6)(d) of Act No 458/2000 on the Conditions for Business and State Administration in the Energy Industries and Amending Certain Laws ('the Energy Act'), as amended, and under Section 6 of Act No 526/1990 on Prices, as amended, the Energy Regulatory Office ('Office' or 'ERO') hereby issues its Price Decision on thermal energy prices that amends its Price Decision 4/2021 of 16 September 2021 on thermal energy prices.

Article I

Energy Regulatory Office Price Decision 4/2021 of 16 September 2021 on thermal energy prices is amended as follows:

1. In the text of point (1.1), the words “, which are directly related to thermal energy production and/or distribution in the calendar year,” are inserted before the word “can”.
2. In point (2.1), the word “calendar” is omitted.
3. Point (2.2.1.2), including footnotes 6 to 9, reads as follows:

“The costs of fuel for thermal energy production may not include the excise duty⁶, the tax on natural gas and certain other gases⁷ or the tax on solid fuels⁸ if the supplier is exempt from these taxes and duties under the law or if it has met the conditions for acquiring tax exempted natural gas or other gases or solid fuels under a different piece of legislation^{7,8}, including cases where the supplier did not apply for a permission to acquire gas or solid fuels exempt from those taxes and duties. The costs of fuel for thermal energy production are reduced by income from aid to heat under a different piece of legislation⁹.

⁶ Act No 353/2003 on Excise Taxes, as amended

⁷ Part 45 of Act No 261/2007 on the Stabilisation of Public Budgets, as amended

⁸ Part 46 of Act No 261/2007 on the Stabilisation of Public Budgets, as amended

⁹ Act No 165/2012 on Supported Energy Sources and Amending Certain Laws, as amended“.

4. After point (2.2.1.3), a new point (2.2.1.4) is added and reads as follows:
“(2.2.1.4) A fixed amount in the cost of fuel or bought thermal energy or other forms of energy, which is independent of the quantity of fuel, thermal energy or other form of energy taken, and also the cost of fuel and bought thermal energy or other forms of energy corresponding to thermal energy losses in the distributing thermal installation can be included in economically justified fixed costs in the thermal energy price.”.
5. Point (2.2.3.1) is omitted.
The hitherto point (2.2.3.2) is renumbered as point (2.2.3.1).
6. At the end of point (2.3.3.1), the following sentence is added: “If the sum of all amounts of rent for assets related to thermal energy production and/or distribution in the price locality does not exceed 10% of the thermal energy supplier's fixed costs in the price locality, a rent customary at the place and time can be passed through to the thermal energy price.”.
7. Point (2.3.5.2) reads as follows:
“(2.3.5.2) Part of the administrative overheads are the costs of emoluments for
 - a) members ('Directors') of the management board or board of directors of the thermal energy supplier that has the legal form of a public limited company [*akciová společnost* in Czech], however, in aggregate up to no more than six times the average gross monthly wage in 'Electricity, gas, steam and air conditioning supply' published by the Czech Statistical Office for

the year preceding the year in which the thermal energy supplier is calculating the thermal energy prices for the following calendar year, or

- b) members ('Directors') of the governing body of the thermal energy supplier that has a legal form other than public limited company, however, in aggregate up to no more than two times the average gross monthly wage in 'Electricity, gas, steam and air conditioning supply' published by the Czech Statistical Office for the year preceding the year in which the thermal energy supplier is calculating the thermal energy prices for the following calendar year.

The costs of emoluments for a Director can be included in the thermal energy price only for the calendar months for which the Director performed his/her office. If the costs of emoluments for the thermal energy supplier's Directors calculated under a) or b) above plus the costs of mandatory insurance under point (2.3.5.3) exceed, in aggregate, 3% of the **CAPEX** value calculated under (3.1), these costs can be included in the thermal energy price only up to 3% of the **CAPEX** value calculated under (3.1)."

8. In points a) to c) of point (2.3.5.5), the words "or the preceding three complete fiscal periods where the supplier's fiscal period differs from calendar year" are inserted after the words "calendar years".
9. In point b) of point (2.3.5.9), the words "own use of thermal energy" are replaced with the words "the supplier's own use".
10. After point (2.3.7.2), new points (2.3.8), (2.3.8.1) to (2.3.8.3) are inserted as follows:

"(2.3.8) A portion of the costs of fuel or bought thermal energy or other forms of energy, which constitutes a fixed amount independent of the quantity of fuel, thermal energy or other form of energy taken

(2.3.8.1) The costs of booking the transmission and/or distribution capacity equalling the expected demand for booked transmission and/or distribution capacity in the given calendar year can be included in the price of thermal energy produced from gas. Additional costs incurred when exceeding the booked transmission and/or distribution capacity or when either exceeding or failing to take the contract quantity of fuel or energy, including those of a penalising nature, can increase the economically justified variable costs in the thermal energy price.

(2.3.8.2) The costs of fuel and bought thermal energy or other forms of energy can be passed through to the thermal energy price as economically justified fixed costs to the extent of the fixed amounts independent of the quantity of fuel or energy taken.

(2.3.8.3) The costs of fuel and of bought thermal energy or other forms of energy corresponding to losses in the distributing thermal installation can be passed through to the thermal energy price as economically justified fixed costs."

11. Point (2.4.1.2) reads as follows:

"(2.4.1.2) The shared costs are not allocated when all electricity generated in cogeneration is utilised as the supplier's own process use."
12. After the text in point (2.4.1.3), the following sentence is inserted: "The electricity distribution capacity booking cost, contained in the costs of electricity purchase under the first sentence, can be included in the thermal energy price only up to the amount equalling the ratio of own use of electricity for heat production or use for other production and/or distribution installations, in MWh, to total electricity purchased, in MWh."
13. In point (3.1), after the words "supplier's administrative overheads" the following words are inserted: "; if any form of subsidy was granted for acquiring the assets required for thermal energy production and/or distribution, **CAPEX** includes the acquisition costs of these assets net of the subsidy granted".
14. In point (3.1), text "1992" is replaced with text "1991".
15. In point (3.3), the last sentence is omitted.
16. After point (3.4), a new point (3.5) is inserted and reads as follows:

"(3.5) For assets required for thermal energy production and/or distribution, on which a technical capital improvement was made after 31 December 2022, factor **t** is used for the technical capital improvement from the calendar year following the capitalisation [posting to assets] of the technical

capital improvement of these assets. The technical capital improvement under the first sentence constitutes a separate **CAPEX** item for the purpose of determining the reasonable profit.”.

The hitherto point (3.5) is renumbered as point (3.6).

17. Point (4.1) reads as follows:

“(4.1) The supplier determines price localities for thermal energy pricing. A price locality is understood to be an area determined by the supplier

- a) for one or more thermal installations operated by the supplier, comprising a self-standing source of thermal energy and/or distributing thermal installation,
- b) for one or more thermal installations operated by the supplier, comprising sources of thermal energy and/or distributing thermal installations in a single municipality, connected or unconnected by piping,
- c) for one or more thermal installations operated by the supplier, comprising sources of thermal energy and distributing thermal installations in multiple municipalities connected by piping,
- d) for one or more thermal installations operated by the supplier, comprising unconnected sources of thermal energy and distributing thermal installations in multiple municipalities within the same administrative limits of a municipality with extended competences²⁶, or
- e) an area comprised of multiple price localities under a) to d), which are completely situated within a single Region, provided that more than one half of thermal energy produced in each of the price localities is produced from the same type or group of fuels based on the following breakdown:

- 1 coal or biomass,
- 2 other renewable or secondary energy sources,
- 3 gas,
- 4 fuel oils, or
- 5 other fuels or energy.

A price locality with a thermal energy source that produces cooling or a thermal energy source with an installed thermal output of more than 100 MW cannot be part of a price locality under point e).”.

18. Point (4.8) reads as follows:

“(4.8) The calculation of the thermal energy price can include a reasonable profit², **zisk_{kalkul}** [CZK/GJ], up to the following amount:

$$\text{zisk}_{\text{kalkul}} = 1.5 \times \frac{\text{zisk}_{\text{sum}}}{Q_{\text{CL}}},$$

where

zisk_{sum} [CZK] is the value of the maximum reasonable profit derived from a price locality and related in aggregate to thermal energy production and/or thermal energy distribution, determined under point (3.1),

Q_{CL} [GJ] is the amount of thermal energy supplied to thermal energy customers and the thermal energy supplier’s own use in the price locality; if the thermal energy customer has in place a contract for thermal energy supply to a supply point without agreement on the amount of thermal energy, or if the thermal output is expected to be utilised less than would correspond to utilising the agreed thermal output for 1,800 hours per year, an amount of thermal energy corresponding to utilising the agreed thermal output for 1,800 hours per year is used for this thermal energy customer.”.

19. In point (4.17), point a) reads as follows:

“a) the sum of the thermal outputs agreed for distributing thermal installations and consuming appliances connected to the distributing thermal installation at that level of thermal energy transfer and the value of the supplier’s own use of thermal output, to”.

20. In point (4.20), point a) reads as follows:

“a) it further allocates the variable costs allocated under (4.15) to the supplier’s own use and the various thermal energy pricing calculations proportionally to the amounts of thermal energy

supplied to thermal energy customers for the various thermal energy pricing calculations and the supplier's own use.”.

21. After point (5.5), a new point (5.6) is inserted and reads as follows:

“(5.6) If the thermal energy customer has in place a contract for thermal energy supply to a supply point without agreement on the amount of thermal energy, or if the thermal output is expected to be utilised less than would correspond to utilising the agreed thermal output for 1,800 hours per year, the supplier and this thermal energy customers can agree on a profit, contained in the fixed component of the thermal energy price, related to a unit of the agreed thermal output up to the ratio of the unit amount of profit in the price locality under point (4.8) to 1,800 hours.”.

The hitherto point (5.6) is renumbered as point (5.7).

22. In point (6.1), text “2024” is replaced with text “2026”.

23. Annex 1, including footnotes 27 to 40, reads as follows:

“Annex 1: Calculation of thermal energy prices²⁷

Specification of the price locality		
Item	Calculation of the thermal energy price ²⁸	Calculation of the thermal energy price ²⁸
1 Variable costs [CZK]		
1.1 Fuel ^{29, 30}		
1.2 Emission allowances		
1.3 Thermal energy bought ³¹		
1.4 Electrical energy		
1.5 Process water		
1.6 Other variable costs ³²		
2 Fixed costs [CZK]		
2.1 Fixed component of energy costs ³³		
2.2 Wages and mandatory insurance ³⁴		
2.3 Repair and maintenance		
2.4 Depreciation		
2.5 Rent		
2.6 Finance lease		
2.7 Legal reserves ³⁵		
2.8 Production overheads ³⁶		
2.9 Administrative overheads ³⁷		
2.10 Other fixed costs ³²		
3 Profit³⁸ [CZK]		
Total fixed costs and profit³⁹		
Total costs and profit		
Thermal energy amount [GJ, kWh]⁴⁰		
Price excl. VAT [CZK/GJ, CZK/kWh]		

²⁷ Any income from payments for failure to keep the agreed thermal energy offtake values is included as negative values in the relevant items of thermal energy price calculation

²⁸ Within a price locality, the relevant thermal energy price is calculated under (4.11) hereof

²⁹ List of types of fuels used and costs thereof for thermal energy production

³⁰ Any income (e.g. revenues from aid to heat), except for income from payments for failure to keep the agreed thermal energy offtake values, is included as negative values in the item ‘fuel calculation’

³¹ Buying thermal energy from another thermal energy producer or distributor

³² List of other economically justified costs, including any cost adjustments

³³ Includes also fixed components of the costs of thermal and other forms of energy

³⁴ Contains only payroll costs and mandatory insurance directly related to thermal energy production and distribution in the price locality

³⁵ Unused or reversed legal reserves are posted as negative values

³⁶ Share of production overheads related to thermal energy supply and own use

³⁷ Share of the part of administrative overheads, which is related to thermal energy production and distribution

- ³⁸ Profit or, in the case of a negative bottom line for thermal energy production or distribution, loss expressed as a negative value
- ³⁹ Sum of fixed costs (item 2) and profit (item 3)
- ⁴⁰ Where the supplier presents its thermal energy price calculation to a supervisory authority in charge of prices, the amount of thermal energy is shown in gigajoules [GJ].

24. In Annex 2, the words “its own use in heat production and/or distribution” are replaced with the words “the supplier’s own use”.
25. In Annex 2, the following sentence is inserted after the second sentence: “In the case of emission allowances in combined heat and power generation the thermal energy supplier can also determine the required number of emission allowances attributable to thermal energy production using the algorithm in method (4) herein.”.
26. In Annex 2, what now is the fourth sentence is replaced with the following sentence: “The supplier determines the value of the allocation coefficient for allocating a cost item to thermal energy β_{ti} at no more than $\beta_{t,max}$ determined by one of the permissible methods (1) to (3) set out in this Annex.”.
27. In Annex 2, the words “own process use in the thermal installation” are replaced with the words “own process use”.
28. In point (2.2) of Annex 2, the words “in which the preliminary prices of thermal energy are calculated” are replaced with the words “for which the preliminary prices of thermal energy are calculated”.
29. In point (3) of Annex 2, the words “the CHP plant’s” are omitted.
30. In Annex 2, after the end of the text, point (4) is inserted and reads as follows, including footnote 41:

“(4) Method for determining the number of emission allowances in cogeneration

In cogeneration, the required number of emission allowances for heat production is determined from the factor for assigning emissions to heat, $F_{CHP, Heat}$ and the factor for assigning emissions to electricity, $F_{CHP, El}$ from the total emissions reported, while the cost of allowance purchase can be included in the thermal energy prices to the extent of the factor for assigning emissions to heat.

The factor for assigning emissions to heat $F_{CHP, Heat}$ [-] and the factor for assigning emissions to electricity $F_{CHP, El}$ [-] are calculated as follows:

$$F_{CHP,Heat} = \frac{\frac{\eta_{heat}}{\eta_{ref,heat}}}{\frac{\eta_{heat}}{\eta_{ref,heat}} + \frac{\eta_{el}}{\eta_{ref,el}}},$$

$$F_{CHP,El} = \frac{\frac{\eta_{el}}{\eta_{ref,el}}}{\frac{\eta_{heat}}{\eta_{ref,heat}} + \frac{\eta_{el}}{\eta_{ref,el}}},$$

where

η_{heat} [-] annual average efficiency of heat production, calculated as

$$\eta_{heat} = \frac{Q_{net}}{E_{IN}},$$

where

Q_{net} [TJ] is the annual net amount of heat produced by the cogeneration unit,

E_{IN} [TJ] is the energy input from fuels, related to the fuel’s net calorific value,

$\eta_{ref, heat}$ [-] is the reference efficiency of heat production in a self-standing water heater,

η_{el} [-] is the annual average efficiency of electricity generation, calculated as

$$\eta_{el} = \frac{E_{el}}{E_{IN}},$$

where

E_{el} [TJ] is the annual net amount of electricity produced by the cogeneration unit,

$\eta_{ref, el}$ [-] is the reference efficiency of electricity generation without cogeneration.

For reference efficiencies $\eta_{\text{ref, heat}}$ and $\eta_{\text{ref, el}}$, use the values for the specific fuel under the EU's regulation reviewing harmonised efficiency reference values for separate production of electricity and heat⁴¹, but without applying the correction factors for avoided grid losses set out in Annex IV to that regulation.

⁴¹ Commission Delegated Regulation (EU) 2015/2402 of 12 October 2015 reviewing harmonised efficiency reference values for separate production of electricity and heat in application of Directive 2012/27/EU of the European Parliament and of the Council and repealing Commission Implementing Decision 2011/877/EU."

Article II

This Price Decision comes into effect on 1 January 2023.

Stanislav Trávníček

Energy Regulatory Office Board Chairman, *m.p.*