

The 2010 Report
on the Activities and Finances
of the Energy Regulatory Office

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The Chairman's Statement



In 2010, the Energy Regulatory Office focused primarily on legislative and licensing activities, and on the provision of public service.

In respect of legislation, the Office's efforts mainly centred around the implementation of the new directives and regulations of the European Parliament and of the Council, the so-called third energy package, into an amendment to the Energy Act. Together with the Ministry of Industry and Trade (the sponsor), the Office, as the co-sponsor, prepared the bill to amend the Energy Act and presented the bill to the Government of the Czech Republic in late 2010.

In the energy sector, other required pieces of legislation included amendments to Act No. 180/2005 on support for electricity generation from renewable energy sources. These amendments were required for the Office to be able to respond as the renewable energy sources situation changes and issue the respective price decisions that would restore balance to the support provided for the various renewable sources.

As in 2009, a further extreme increase in the installation of photovoltaic plants was also registered in 2010 regarding electricity generation from renewable energy sources. In 2010, the Office received more than 7,000 applications for licences for the operation of new electricity generating plants using photovoltaic energy. The boom in the development of photovoltaic

plants caused a considerable increase in government support provided for electricity buyout from renewable sources, which ultimately also meant a significant increase in electricity prices for final customers.

The Office therefore sought to inform politicians and the general public about the impacts of the development of the above sources on electricity prices for final customers. The result of the intensive work of the Office's employees was the adoption of some legislative changes, on the basis of which the Office was then able to publish, in late 2010, the feed-in tariffs and green premiums for renewable electricity production for 2011.

In respect of photovoltaic power producers, the result is lower tariffs for new installations commissioned after 2010; for some categories, electricity feed-in tariffs have dropped by more than 50 percent. This drop has resulted in the equalising of what until recently were disproportionate conditions for investment in photovoltaic sources with those for investment in other renewable sources, including, in particular, a change of the optimum payback period and rate of return.


From the perspective of the long-term regulatory settings, the year 2010 was the first year when the rules for the third regulatory period applied in the electricity and gas industries. The purpose of this regulatory period is to motivate regulated companies to continuous cost cutting and to improving their operating efficiency while ensuring adequate quality of the services provided to their customers.

More than 75,000 customers used the opportunity to select a new gas supplier, which is an increase of 170 percent on 2009.

The year 2010 also saw the start of the construction of new infrastructure in the Czech Republic, and not only for the country's own needs. A major capital investment project that was launched is the Gazelle gas pipeline, which will connect southern Europe via the Czech Republic to Russian gas flowing to Europe through the so-called Northern Route.

The Office's international activities could mainly be seen in ERO employees' participation in some working groups and task forces as part of its long-term co-operation with the Council of European Energy Regulators (CEER) and the European Regulators' Group for Electricity and Gas (ERGEG). The working groups discussed the inputs for new EU legislation, the preparations for projects related to sustainable support for renewable energy sources, energy supply quality, and the issues of intelligent meters and networks, empowerment of customers, and the transparency and development of a single competitive European energy market. The Czech Republic's interests were defended at all of these meetings.

This report on the Office's activities also covers the management of the ERO budget. The Office's results indicate that it maintained budgetary discipline, did not exceed the approved budget, and met all the mandatory targets.



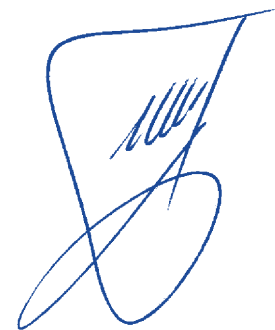
In terms of the Office's operations, the year 2010 was not easy. It was marked by a number of significant changes in the Office's regulatory mechanisms, primarily in respect of support for renewable energy sources. I am convinced that in this context, and considering its competences, the Office did its best for the protection of final customers. Thanks to its consistent activity, a significant increase in the final electricity price was prevented, and the timely adoption of the respective amendments to statutory instruments helped to put in place the energy market rules for all market players.

I would also like to highlight one important anniversary of our Office. The Energy Regulatory Office launched its operation in January 2001 and it has been working as a central state administration authority in energy regulation for 10 years. Over the time of its existence, the Office has been confronted by a number of difficult tasks stemming from the country's economic development and related to the Czech Republic's accession to the European Union, provisions for energy market liberalisation in the Czech Republic, and the formulation of objective rules for the electricity and gas markets and regulatory mechanisms in each of the regulatory periods.

The Office itself has evolved, in terms of recruiting the required number of employees at the beginning of its operation, the development of its organisational structure, finding its position and consolidation thereof within the overall structure of central state administration authorities, etc.

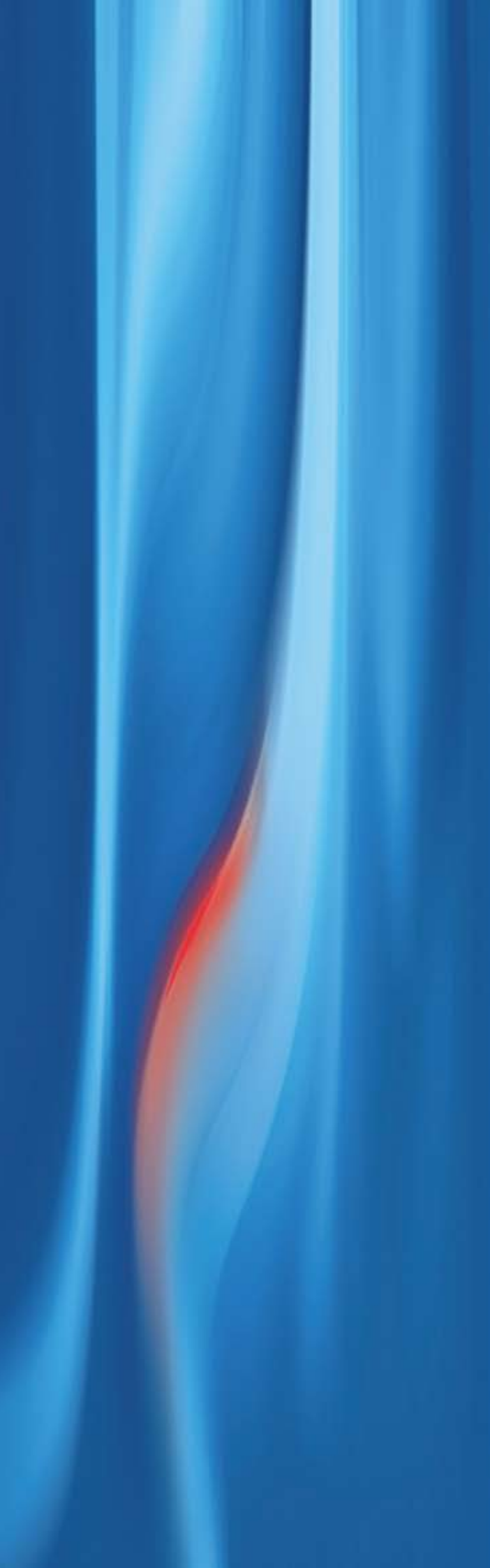
I am convinced that our Office managed all the tasks of 2010 with honour. I firmly believe that it will successfully carry out its mission in the years to come and that it will continue to be a respected partner of energy entities in the Czech Republic and of institutions and organisations in the European Union.

In conclusion, I would like to extend sincere thanks to all those who contributed to the Office's work in the past period. Above all, let me thank my colleagues and their teams, who carried out the Office's everyday as well as extraordinary tasks on time and consistently thanks to their hard work and commitment.



Josef Fiřt

Chairman, Energy Regulatory Office



1

INTRODUCTION

1 Introduction

Under Act No. 458/2000, on the Conditions of Business and State Administration in the Energy Industries and Changes to Certain Laws, as amended (hereinafter also referred to as “the Energy Act”), the Energy Regulatory Office (hereinafter also referred to as “ERO” or “the Office”) has been operating as an administrative authority for regulation in the energy sector since 1 January 2001.

The Office’s main responsibilities include market regulation to substitute free market mechanisms and protect consumers’ and licence holders’ interests in the areas of energy industries in which competition is not feasible; support for competition; support for the use of renewable and secondary energy sources; and oversight over licence holders’ adherence to conditions of business, thereby creating the preconditions for reliable electricity, natural gas and heat supplies.

1.1 Highlights of 2010

In 2010, the Office focused on two areas. One was its involvement in the drafting of legislation, i.e., laws and statutory instruments (public notices), the other concerned renewable energy sources (RES).

In the former area, 2010 saw the drafting of an amendment to Act No. 458/2000, on the Conditions of Business and State Administration in the Energy Industries and Changes to Certain Laws (the Energy Act); the purpose of the amendment was to implement new directives and regulations of the European Parliament and of the Council, the so-called third energy package. In keeping with the Plan of the Government’s Legislative Work, the Ministry of Industry and Trade of the Czech Republic and the Energy Regulatory Office were appointed as the sponsor and the co-sponsor, respectively, of the bill.

During the drafting of the bill the Office significantly contributed mainly to the formulation of the provisions concerning the strengthening of the consumers’ position, i.e., the ownership unbundling and the certification of the electricity transmission system operator and the gas transmission system operator, and the position and competences of the Energy Regulatory Office as the Czech Republic’s national regulatory authority.

As regards other legislative work, the Office helped to draft three laws that were passed in 2010 and amended Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources and on Changes to Certain Laws (the law on support for the use of renewable sources).

In relation to the amendments to the laws, the Office prepared amendments to a number of public notices.

In the other area, the Office addressed the issue of renewable energy sources. During 2010, the Office registered a considerable increase in the number of applications for electricity generation licences, mostly for electricity generating plants using solar radiation. These mainly involved 5 to 15 kW plants. In 2010, investors expected a change to the law, which would authorise the Office to reduce feed-in tariffs for new plants by more than five percent year-on-year, and the result of their increased activity was almost 7,000 applications for the completion of new electricity generating plants based on photovoltaic energy.

In 2010, the Office sought to inform the general public about the impacts of the development of photovoltaic plants on electricity prices for final customers. The Office organised a meeting with journalists at which it provided detailed comments on, and illustrated with the help of many calculations and statistics, the development in the area of photovoltaic plants, presented its own scenarios, and specified the range of the resulting price hikes.

At the same time the management of the Office provided information about its co-operation with the other departments and ministries within the so-called monitoring committee, which had been set up by the government and tasked with finding some other viable ways of providing compensation for the extra costs of support for renewable energy sources to prevent the payment of such compensation through electricity prices.

As the result of the intensive work of the Office’s employees and thanks to the support provided by the completed legislative process, in late 2010 the Office was able to publish the feed-in tariffs and the level of green premiums for 2011, including the markedly reduced feed-in tariffs for photovoltaic plants.

1.2 The ERO’s ten-year anniversary

In 2011, the Energy Regulatory Office will celebrate ten years of its operation on energy markets. On this occasion, the Office has decided to produce a publication that will offer a summary of the experiences acquired by the Office’s staff over this period.

Energy industries are some of the market segments in which the problems caused by a high degree of monopolisation and a strong concentration of monopolies’ market power, and the problems caused by abrupt changes in the ownership and organisational structures, could be felt in their most transparent form. For all those who are interested in the evolution of the regulatory practice so far the Office has therefore prepared an overview of the approaches to and the setting of the regulatory framework, and the working of regulatory institutions and the regulatory methods over the past ten years.





2

LEGISLATIVE ACTIVITIES

2 Legislative activities

2.1 Drafting of the amendment to Act No. 458/2000 (Energy Act)

In line with the plan of the Cabinet's legislative work, late 2009 saw the launch of preparations for a bill to amend Act No. 458/2000, the Energy Act, the main purpose of which is the following:

- implement into Czech law the obligations under Directive 2009/72/EC of the European Parliament and of the Council concerning common rules for the internal market in electricity and under Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas;
- adapt Czech law to the directly applicable EU *acquis*, in particular Regulation (EC) No 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 and Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005;
- adapt the Energy Act and the regulatory framework created by the Office to Regulation (EC) No 713/2009 of the European Parliament and of the Council establishing an Agency for the Cooperation of Energy Regulators, and put in place a framework for the Office's co-operation with the new Agency for the Cooperation of Energy Regulators;
- to the minimum extent, clarify and additionally adjust the current wording of the Energy Act with a view to effective regulation and to minimising the difficulties with its interpretation.

Another EU regulation to which Czech law had to be adjusted was Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

An amendment to Act No. 458/2000, the Energy Act, as amended, was chosen as the best vehicle for transposing the pieces of legislation comprising the so-called third energy package.

Preparatory work on the amendment to the Energy Act was under way throughout the first half of 2010. During the drafting of the bill, the Office significantly contributed mainly to the formulation of provisions that concern the following:

- the strengthening of the consumer's position vis-à-vis electricity and gas suppliers and their right to supplier switching, for example, when the pricing terms are changed or in the case of other changes to the agreed contract terms;
- the so-called ownership unbundling of the transmission system operators;
- the so-called independent transmission operator (ITO; gas transmission is concerned) in the case where the ownership unbundling of the gas transmission system operator is not effected;
- certification of the transmission system operators in terms of their compliance with the conditions of their independence;
- the position and competences of the Energy Regulatory Office as the Czech Republic's national regulatory office, in particular as regards adjudication of disputes between electricity and gas market participants, certification of the transmission system operators, regulation of the relationships between the independent gas transmission operator and other entities within the group, supervision over the performance of the obligations set out in the Energy Act, directly applicable EU regulations, the duties set out in the law on consumer protection in the electricity and gas industries, imposition of penalties, monitoring of electricity and gas markets, etc.


As part of the drafting of the proposed amendment to the Energy Act, consultations were held with a view to discussing the potential alternative options with the entities concerned and to making it possible for the entities to comment on the potential alternative options, which would provide feedback to the Ministry of Industry and Trade and the Energy Regulatory Office as the sponsors of the bill.

The bill was sent to the inter-departmental procedure on 22 June 2010; following the settlement of comments, representatives of the Ministry of Industry and Trade and the Energy Regulatory Office presented the bill for debate in the bodies of the Government's Legislative Council. The bill was then debated in the Private Law Commission on 10 September 2010, in Public Law Commission III – labour law and social affairs on 17 September 2010 and then in Public Law Commission I – administrative law commission no. 1 on 20 September 2010, and finally in Public Law Commission II – financial law on 23 September 2010. Following some changes to the bill in line with the recommendations of the working commissions of the Government's Legislative Council, in December 2010 the bill, together with the opinion of the Chairman of the Government's Legislative Council, was laid before the Government of the Czech Republic for debate in early 2011.

2.2 Drafting of amendments to Act No. 180/2005

The Office contributed to the drafting of three laws that were passed in 2010 and amended Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources and on Changes to Certain Laws (the law on support for the use of renewable sources).

The first of the amendments was Act No. 137/2010, which was drawn up in 2009 but only debated in the Chamber of Deputies and then in the Senate in 2010. This law amended the conditions under which the Energy Regulatory Office can reduce the feed-in tariffs for newly commissioned plants by more than five percent year-on-year. The original wording of Section 6(4) of the law on the use of renewable energy sources was the reason why regardless of the current development in the prices of inputs (in particular the prices of equipment) the Energy Regulatory Office was unable to legally set feed-in tariffs for the following year at a level lower by more than five percent in comparison with the feed-in tariffs in the respective year. This anomaly was removed by Act No. 137/2010, but this law only applies to feed-in tariffs set by the Office for new plants commissioned in 2011. Act No. 137/2010 came into force on 20 May 2010.



The second of the amendments was Act No. 330/2010, which newly lays down the conditions for claiming support for electricity production in plants using solar radiation. These mainly include the condition of placing solar panels on the roof or the outer walls of buildings (i.e., no longer on land), and conditions for their connection to the Czech grid and a limitation of their installed capacity to 30 kW. Act No. 330/2010 came into force on 1 January 2011, and some of its provisions only came into force on 1 March 2011.

The last of these amendments was Act No. 402/2010, which is the most extensive of the amendments in terms of substance. In the amendment, the Office formulated the provisions of Section 6a and 6b of this law, which from 2011 provide for new regulation of the multi-source system for meeting the costs related to support for renewable electricity incurred by regional distribution system operators and the transmission system operator. Henceforth, these costs will partly be offset through subsidies from the national budget and partly through a component of the charge for electricity transmission or the charge for electricity distribution. Act No. 402/2010 came into force on 28 December 2010.

2.3 Drafting of the bill on supported energy sources

In 2010 the Office also worked with the Ministry of Industry and Trade, as the sponsor, on the drafting of a new law that would implement Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC into Czech law and also replace the current legislation on support for environmentally friendly and highly efficient electricity and thermal energy production, the fragments of which are scattered in a number of legal regulations (in particular as regards support for electricity production from renewable energy sources set out in Act No. 180/2005 or support for highly efficient heat and power generation and support for the use of secondary energy sources provided for in Act No. 458/2000).

The purpose of the proposed law on supported energy sources was to put in place and enact long-term stable and sustainable conditions for support for electricity generation from renewable energy sources for investors, with the least possible impacts on customers, employing the method of directly deriving the amount of support to be provided to the electricity producers from the market price of electricity on the spot electricity market.

The bill on supported energy sources was sent to the inter-departmental procedure in May 2010, and the procedure was completed in June 2010. On 12 August 2010 the bill was debated in Public Law Commission II – financial law, and on 16 August 2010 in Public Law Commission I – administrative law commission no. 2 of the Government's Legislative Council. There were fundamental problems and subsequent failure to reach agreement with the Ministry of the Environment on the formulation of the provisions of the bill which would, through a change to Act No. 185/2001, on Wastes and on Changes to Certain Other Laws, as amended, provide for a future system of obligatory disposal of plants using solar radiation upon the end of their useful technical life; this caused a relatively major delay in the preparation of the final version of the bill on supported energy sources and its submission to the government for discussion. The government therefore had not managed to discuss and approve the bill on supported energy sources by the end of 2010.

2.4 Key changes to legal regulations within the ERO's remit

The Office promulgated the following implementing regulations [statutory instruments] in relation to Act No. 458/2000, on the Conditions of Business and State Administration in the Energy Industries and Changes to Certain Laws (the Energy Act), as amended, and Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources and on Changes to Certain Laws (the law on support for the use of renewable sources), as amended:

- **Public notice no. 41/2010 amending no. 540/2005 on the quality of electricity supplies and related services in the electricity industry**

The amendment has extended the time limits for claiming compensations for violations of standards and, in view of the growth in the regulated prices of electricity distribution from the date of effect of the public notice, it also increased the compensations for violations of standards. The amendment has unified the calculation of the supply continuity indicators and has made it possible to use them as a parameter on the basis of which it will be possible to reflect the supply quality in the economic regulation of distribution and transmission systems for the subsequent regulatory period.

- **Public notice no. 81/2010 amending no. 51/2006 on conditions for connection to the electricity grid**

The instrument has laid down uniform general conditions for the connection of electricity market participants, specified the [payable] share of the costs incurred in the connection and in the supply of the required booked power to the applicant using a unit price, and it has also specified the share of the costs of reconnection to the grid after a reduction or interruption in electricity supply due to illegal consumption of electricity. The specification of the share of the costs of reconnection to the electricity grid due to illegal consumption was necessitated mainly by the problematic practices of system operators in their calculation of the actual costs caused by illegal consumption. The Office has therefore arbitrarily set, within the limits of its statutory authority, the share of the costs of the reconnection to the grid with a view to preventing disputes between distribution system operators and customers over the amount of these costs.

- **Public notice no. 264/2010 amending no. 140/2009 on regulatory methods in the energy industries and procedures for price control**

Public notice no. 140/2009 sets out the regulatory methods in the electricity, gas and heat supply industries and the procedures for price control in these energy industries. In accordance with the law on support for the use of renewable energy sources, it also provides for the method of reflecting the transmission and distribution system operators' costs related to the renewable electricity producers' imbalances, in the regulated charges for electricity distribution and transmission.

In connection with the recent developments on the energy market and in connection with the developments that are expected due to the adoption of the third energy package, the regulatory methodology also had to be adjusted. The extension of the market operators' (OTE, a.s.) business to include the gas industry in addition to the electricity industry can be regarded as the most fundamental change. The latest extensive amendment to the Energy Act, promulgated in Act No. 158/2009, has provided for the extension of the market operator's remit. To prevent the market operator from taking different approaches to electricity and gas market participants in the performance of its activities and to achieve synergic effects, the processes involved in the performance of these activities had to be adjusted and unified. The key change related to the adoption of the third energy package was the transition from capacity booking in gas transmission from the point-to-point system to the entry/exit basis.

- **Public notice no. 300/2010 amending no. 475/2005 which implements certain provisions of the law on support for the use of renewable energy sources, as amended**

The year 2010 saw an amendment to the law on the use of renewable energy sources, which was passed as Act No. 137/2010 with effect from 20 May 2010. The amendment concerned Section 6(4) of the law, in which the second sentence was replaced with the following sentence: "The provisions of the first sentence shall not apply to the setting of feed-in tariffs for the subsequent calendar year in respect of the types of renewable sources for which a payback period of less than 11 years was achieved in the year in which the decision on a new level of feed-in tariffs is to be made." At the same time, a transitory provision was changed; in this case the Office shall first proceed pursuant to the second sentence of Section 6(4) of the law on support for the use of renewable energy sources, in the wording effective since the day of effect of this law, on the occasion of setting the feed-in tariffs for plants commissioned in 2011.

The purpose of public notice no. 475/2005 is, in accordance with Section 6(3)(b)(1) of the law on support for the use of renewable energy sources, to specify the technical and economic parameters, which under the law include mainly the costs per installed unit of capacity, efficiency of the use of primary energy contained in renewable sources, and the time for which the installation is used.

With regard to the continuous development and improvement of the technologies that use renewable sources on the one hand, and the changes in the prices of inputs on the other hand, these technical and economic parameters need to be changed over time. The key area of the amendment to the public notice was an update of the technical and economic parameters of photovoltaic plants, the unit capital expenditure on which is significantly decreasing over time. The parameters of all the other renewable sources have remained unchanged since an analysis of the current situation did not indicate any need to change these parameters.

- **Public notice no. 370/2010 amending no. 365/2009 on Gas Market Rules**


Although only a relatively short time had passed from the promulgation of no. 365/2009 on Gas Market Rules (it came into effect on 1 January 2010), it had to be amended to reflect the requirements of the third energy package concerning a single principle of capacity booking in the transmission system. The amendment was also based on market participants' comments and practical experiences.

From the traders' point of view, three key aspects were changed. These include the unification of international and national transmission under a single regime, simplification of transmission capacity booking in gas imports, and the introduction of new products offered by the transmission system operator and a change in the organisation of trading on the Czech gas market. In the case of the Czech Republic, the new principle of capacity booking in the transmission system has unified the rules for national and international transmission. The principle was discussed as early as 2009, but because of the large extent of this issue, including its relation to the principle of price controls for the transmission system operator, it became the main object of this amendment to no. 365/2009, which came into effect on 1 January 2011. The discussions were also reflected in public notice no. 264/2010 that amends no. 140/2009 on regulatory methods in the energy industries and procedures for price control, which came into effect on 15 September 2010.

From the customers' point of view, the most important change is the modification of the gas supplier switching process. A new feature will be the opportunity to change the supplier with effect as of any day, while earlier this process was always tied to the first day of a month. From the practical point of view, customer protection will be enhanced in cases where they have an agreement with the supplier in place, the term of which ends on a different day than the end of the month. This will minimise the probability of penalties or even gas supply interruptions. Supplier switching by way of data registration has therefore lost its justification, and will be abolished.

- **Public notice no. 400/2010 amending no. 541/2005 on Electricity Market Rules and principles of pricing the electricity market operator's activities and on the execution of certain other provisions of the Energy Act, as amended.**

The Office was motivated to issue an amendment to public notice no. 541/2005 on Electricity Market Rules and principles of pricing the electricity market operator's activities (Electricity Market Rules) by two main reasons. One was the fact that on 31 August 2009, the Czech and Slovak day-ahead markets were interconnected and trading was launched on the principle of implicit auctions. This step brought the Czech Republic and Slovakia to the ranks of the very first European countries with integrated markets. The process of electricity market integration continues throughout Europe; the integration of the Czech and neighbouring countries' intra-day electricity markets appeared to be the next logical step. This process required modifications to the electricity market rules, in particular as regards terminology, the closing



times on each of the markets and the currency for the settlement of transactions. The other reason was the fact that in connection with the global economic developments and the resulting drop in the prices of energy commodities, in 2009 the Czech electricity market saw the collapse of a major electricity supplier and deterioration in many other electricity suppliers', and also electricity customers', economic situation. This situation caused financial losses of tens of millions of crowns for some trading partners of the insolvent supplier and, in particular, for the market operator, which in the Czech Republic is responsible for the evaluation and clearing of imbalances in electricity consumption. Through the modification of the electricity market rules, the Office sought to prevent the recurrence of such events and to put in place more credible conditions for energy business for the electricity market players in the Czech Republic. The amendment to the electricity market rules allows changing the financial security deposit with the market operator so that the amount of the financial security deposit directly reflects the size of the particular entity on the electricity market. An essential prerequisite for changing the financial security deposit is, in the case of imbalance settlement, transition from working days to calendar days.

For the above reasons, in particular the following changes were reflected in the public notice. The interconnection of the Czech intra-day electricity market with foreign markets has been enabled. This modification offers room for connecting the Czech intra-day market with neighbouring countries' markets, and also moves the closing time of this market to one hour before actual trading. This change will result in the market's higher liquidity and also help the entities to better balance their trading position. The modification has also provided for the currency in which transactions are settled. The conditions for the financial security deposited with the market operator have been adjusted. This change will support a clear-cut specification of the amount of this guarantee on the basis of the size of the cleared entity and its trading, i.e., the amount of the financial security is directly proportional to the supply base and the structure of customers. This measure ensures a fairer approach to all market players by abolishing the fixed amount of the guarantee, which was a barrier to small players' entry into the market. Another essential prerequisite for changing the financial security deposited with the market operator is the transition of the imbalance clearing system from working days to calendar days, i.e., seven days a week, with effect from 1 May 2011. The modification itself of the system of financial security granted to the market operator will most probably be implemented by mid-2011.

- **Public notice no. 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**

Under Section 17(5)(f) of the Energy Act, the Energy Regulatory Office is competent to approve, or set out, Operating Rules of electricity system operators, the market operator's commercial terms and conditions, and Codes of gas system operators, including the storage system operator. More detailed provisions, in terms of both substance and procedure, on the approval of the Operating Rules and Codes, or the conditions under which Operating Rules and Codes are laid down, are contained in Section 97a of the Energy Act. In relation to these provisions, the Energy Act also authorises the Energy Regulatory Office to lay down the required content of the Operating Rules and Codes (Section 98a (2)(b) of the Energy Act).

The public notice sets out the required content of the Operating Rules and Codes, in particular the basic (technical) conditions for the use of systems, including, for example, the methods employed for connection to systems, operating arrangements for systems, operating regulations including maintenance, system operation and development planning rules, and the scope of information to be transmitted between system operators, which is required for the reliable operation and development of the systems.

The main reason for the laying down of the required content of the above documents by the Office is the fact that although they contain operating and technical, or commercial, conditions for the performance of the licensed business of one licence holder, the provisions on these conditions ultimately affect large groups of market players, including all customers. These documents must not be at variance with legal regulations and at the same time should reflect the broad range of market players' interests; they must not establish any inequalities in market players' rights and obligations; and they should pursue the functions for which licence holders prepare these documents.

- **Public notice on conditions for connection to the gas system and on a change to Ministry of Industry and Trade public notice no. 251/2001 that lays down the rules for the operation of the gas transmission and distribution systems**

Act No. 158/2009, which amends the Energy Act, pares down the provision authorising the Energy Regulatory Office, while the competences to determine the way of compensation for damage caused by illegal gas consumption were transferred to the Ministry of Industry and Trade. The authorising provision was moved to Section 98a of the Energy Act, which therefore covers all authorising provisions in a comprehensive manner. Thus, under Section 98a(2)(g) of the Energy Act, the Energy Regulatory Office should lay down, in a public notice, the conditions for the connection of gas production plants, distribution systems, underground gas storage facilities and customers' supply points to the gas grid and the method for calculating the payable share of costs incurred in the connection and in providing gas supply.

The inter-departmental procedure for the proposed statutory instrument was completed on 4 November 2010 and the document was discussed in the working commissions of the Government's Legislative Council. The expected date of effect of the public notice was set for the first quarter of 2011.

The forthcoming draft of the public notice is based on the following principles: lay down uniform general conditions for the connection of the various gas market participants, determine the payable share of the justifiable costs incurred in the connection and in gas supply, and determine the payable share of the costs of the resumption of gas supply following a curtailment or interruption in gas supply due to illegal gas consumption, transmission or distribution.



2.5 Customers and their position on the liberalised market

The Office devotes adequate attention to consumer protection in the energy industries. On its website (www.eru.cz), the Office provides customers, on a regular basis, with all the information that they may need to better find their way around the liberalised energy markets. This includes, for example, information and recommendations concerning the customer's procedure in electricity/gas supplier switching or warnings of some unfair business practices used by electricity/gas suppliers and recommendations of the ways of avoiding problems with such suppliers, or what steps to take if the customer already has a contract in place with such an electricity/gas supplier.

On its website, the Office also offers customers a ready reckoner of payments for electricity supply, which can make it much easier for them to select an electricity supplier as it helps to compare year-on-year changes in the prices and offering of each of the suppliers. The ready reckoner includes the offers of 14 electricity suppliers subject to their consent. Information about customers' right to receive energy supply at the required level of quality, for failure to keep which the customers are entitled to a specified compensation; information about the administrative authorities and associations the remit of which includes issues of consumer protection and to which customers can also resort in the case of difficulties is also available. The website also offers information about the development of legislation on consumer protection, both EU legislation and national legal regulations.

Specific answers to the most frequently asked questions and the key issues concerning electricity, gas and heat supply are available under the FAQ link.

2.6 Administrative proceedings

A list of administrative proceedings in 2010 is contained in Appendix 1.

2.6.1 Administrative proceedings concluded in 2010

- **Adversarial proceedings in 2010**

THE ELECTRICITY INDUSTRY

In 2010, 71 administrative proceedings were concluded in the **electricity industry**, which implies a considerable increase compared with 2009. The significant rise in the number of submitted petitions for the adjudication of disputes was caused by the developments in this area, i.e., the comprehensive nature of the assessment of renewable electricity generating plants connected to the electricity grid and their influence on the operation of the grid, and also the number of the favourable positions issued on applications for connection, the issue of the regulation of these generating plants, overall grid balance, and other related criteria and aspects in relation to the Czech electricity grid as a whole. It has been noted on the basis of the results of such assessments that the latest development of uncontrollable plants urgently requires changes to the technical and organisational conditions. One of the key problems was the submission, completely escaping any coordination, of requests for almost immediate connection, disregarding the realistic possibilities of network operation and development. The above resulted in an increase in the number of submissions to the Office in this area.

Most of them concerned disputes over failure to enter into an agreement under the Energy Act, specifically an agreement on the connection of new electricity generating plants, because of the rising number of the renewable electricity generating plants that were being connected and the related impacts on the electricity grid.

Another group of disputes included those arising from contractual relationships – letters of intent to enter into a connection agreement. Two administrative proceedings concerned illegal electricity consumption.

As mentioned earlier, 2010 saw a continued upward trend, which first emerged in 2008 and 2009, in the volume of dispute adjudication in the electricity industry, which has become the most prominent part of the agenda. In the light of the adopted measures, in particular the passing of Act No. 330/2010 amending Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources and on Changes to Certain Laws (the law on support for the use of renewable energy sources), as amended, there are reasons to believe that the number of disputes of the same type, i.e., over the connection of new, in particular photovoltaic plants has peaked and can be expected to take a downward trend.

THE GAS INDUSTRY

In 2010, ten administrative proceedings were concluded in the **gas industry**, which is a marked increase compared with the preceding years when two (2009) and three (2008) proceedings were concluded. But it should be added that seven administrative proceedings concerned a case that was identical as to the facts. The smallest number of disputes was addressed in the gas industry over a long time, but despite their small number, they are usually conducted between the largest undertakings on the gas market, and the decisions in these disputes have a considerable influence on the operation of the gas market.

THE HEAT SUPPLY INDUSTRY

In 2010, eleven administrative proceedings were concluded in the **heat supply industry**. This means a reduction in the adjudication agenda for in 2009, 18 administrative proceedings were concluded (as to their type, six of them were conducted with a number of customers submitting similar claims) and in 2008 twelve administrative proceedings were concluded. It should also be noted that in some administrative proceedings, the same suppliers were repeatedly appearing, while the thermal energy generation and distribution licences of LENOXA a.s. were revoked in the meantime. Most cases concerned disputes over the entry into an agreement on thermal energy supply, or a price addendum thereto for the respective year. The price of thermal energy was also the main reason for failure to execute the agreement.

- **Proceedings on fines for violations of regulations on prices**

Inspections of the observance of the obligations laid down in Act No. 526/1990 on prices, as amended, and in the regulations on prices issued under this law, were initiated in response to customers' complaints and on the basis of the Office's own findings. In 2010 fines were imposed on five entities with finality.

- **Proceedings on disciplinary fines**

In 2010, the Office addressed two cases of disciplinary fines, because the inspected companies again failed to furnish the required documents within the time limit, thereby failing to provide the required co-operation, and thus failed to provide the basic conditions for the conduct of a price inspection.

2.6.2 Remonstrance proceedings in 2010

Decisions on remonstrance as a remedy against the Office's decision in the first instance fall, under Act No. 500/2004, Rules of Administrative Procedure, as amended, within the remit of the ERO Chairman who decides on remonstrances on the basis of proposals by the remonstrance commission that he shall appoint.

In 2010, the ERO Chairman decided, upon the remonstrance commission's proposals concerning the remonstrances filed by parties to the proceedings, in 49 remonstrance proceedings, in which a decision on the merits was delivered. The ERO Chairman also decided on 18 remonstrances filed by parties to the proceedings against other first-instance decisions.

- **Adversarial proceedings in 2010**

In 2010, the Office dealt with 13 adversarial proceedings in the electricity industry, three proceedings in the gas industry and five proceedings in the heat supply industry.

- **Licence proceedings**

Four licence proceedings were held in 2010.

- **Proceedings on the imposition of the obligation of supply over and above a licence and provision of energy facilities**

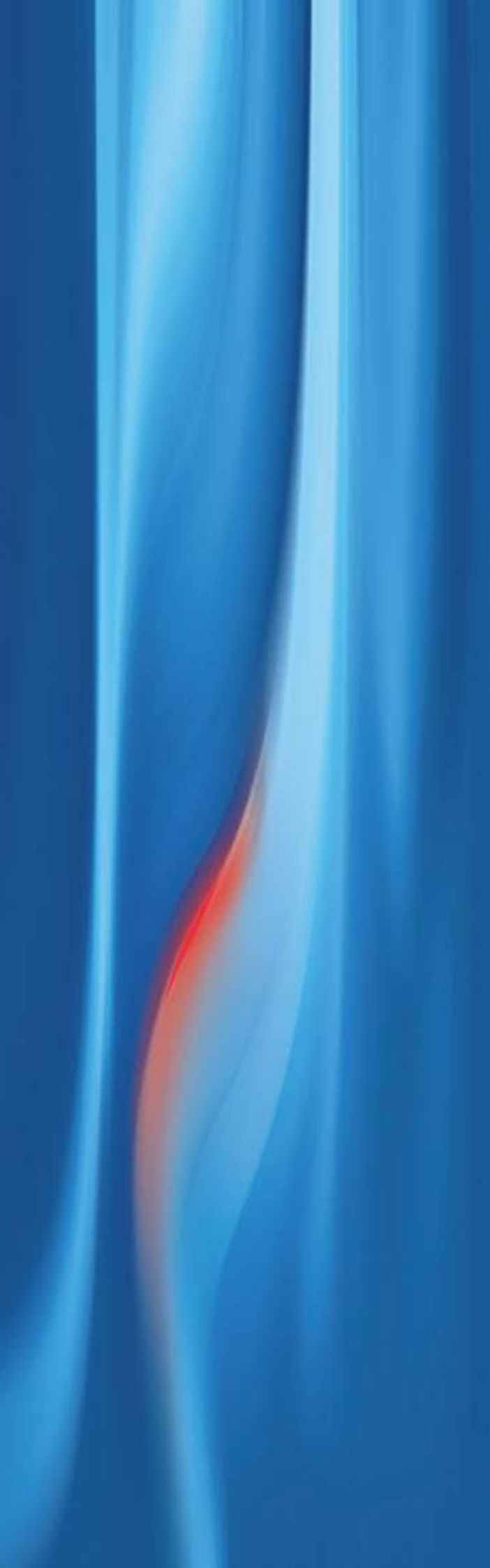
Only one such proceeding took place in 2010.

- **Proceedings on fines for a violation of regulations on prices**

A fine for a violation of price regulations was imposed on five companies in 2010.

- **Disciplinary fines imposed during a price inspection**

Upon the remonstrance commission's proposal, the ERO Chairman rejected two remonstrances filed against a decision to impose a disciplinary fine on natural persons for a violation of the law on State inspection as part of a price inspection under the law on prices. The disciplinary fines, amounting to CZK 50,000 and CZK 40,000, were imposed on two natural persons who through their acts had caused the inspected entity's failure to meet the obligation to provide co-operation adequate to the authority of the inspection staff under Section 11 of the law on State inspection.



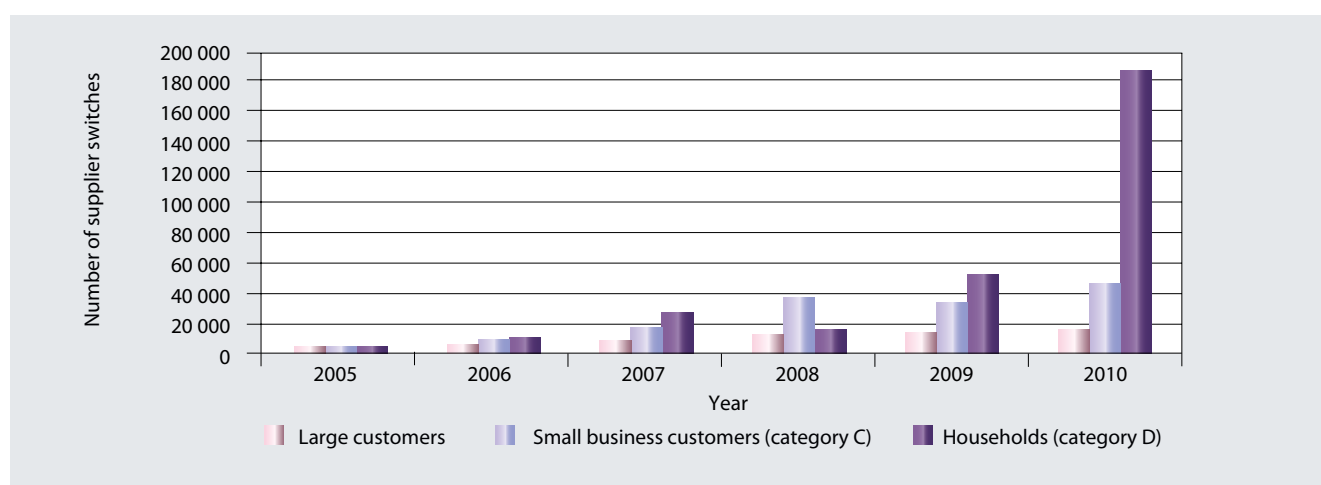
3

REGULATION
IN THE ELECTRICITY
INDUSTRY

3 Regulation in the electricity industry

In 2010, the Office's efforts focused on enhancing the operation of the electricity market and on improving information for electricity customers. The lingering effects of the economic and financial crises still affected electricity consumption, resulting in stagnant prices at energy exchanges. It was not feasible to clearly forecast energy prices for the short term, which resulted in a stronger competition on the market and also made it possible for electricity suppliers to pursue a different strategy in electricity purchases, and so extend the range of the products they offered. In 2010, competition could be felt in full in all customer segments; according to the data recorded by OTE, a.s. for households, almost four times more households switched their supplier in 2010 on a year-on-year basis (184,000 in 2010 versus 54,000 in 2009). In the other customer categories the number of supplier switches approximately doubled; on the whole, in 2010 almost 250,000 customers changed their electricity supplier (in 2009 the figure was less than 97,000). Development in the number of electricity supplier switches can be seen in Chart 1.

Chart 1 Annual electricity supplier switching in the main customer categories



Source: OTE, a.s.

3.1 Price formation and setting

The resulting price of electricity supply to customers is generally composed of two main parts:

- 1) The price of the commodity, i.e., electrical energy itself, which the customer buys from the electricity trader. This is a contractual price and depends on the selected product from the trader, and the Office has no opportunities to influence its level. The price of energy accounts for about 40 to 60 percent of the resulting price of electricity supply (depending on the voltage level and the customer's consumption);
- 2) Regulated items set by the Office, which include the transmission and distribution charges, the charge for system services, the charge for covering the extra costs of support for environmentally friendly plants and the charge for the market operator's activity. In accordance with the applicable legislation, the Office reflects in these prices only the distributor's accurately documented and justifiable asset, depreciation and cost items that are directly related to electricity supply to customers.

Since 2008, an environmental tax on electricity has been a part of the electricity supply price as an additional item under Act No. 261/2007, on the Stabilisation of Public Budgets.

The basic range of tariffs at the low voltage level makes it possible for customers to optimise their costs of the services related to electricity supply depending on the nature and level of their demand.

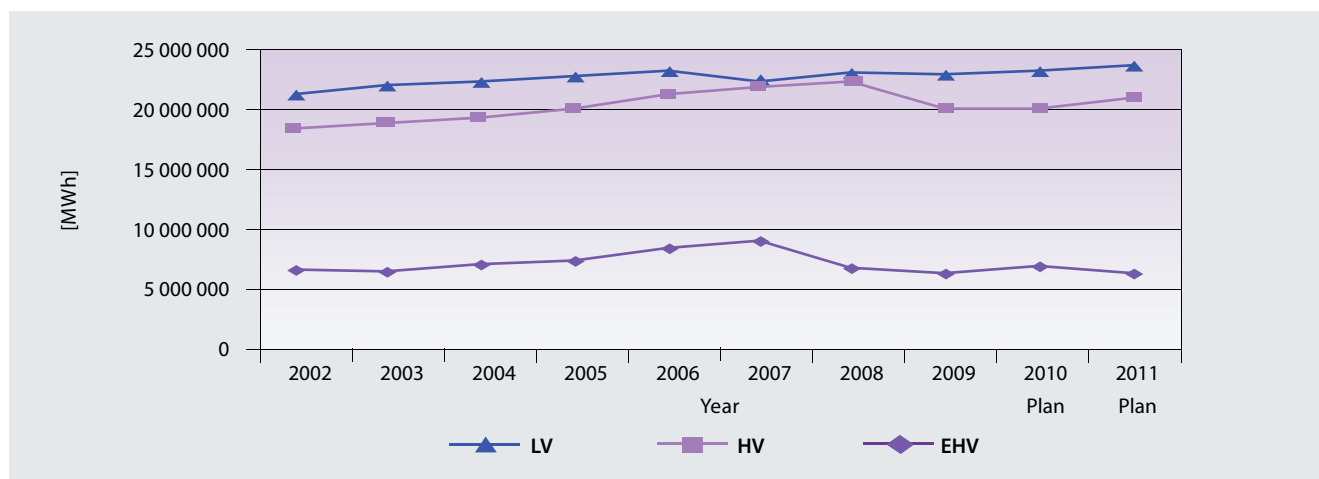
The year 2010 was – from the perspective of the long-term regulatory settings – the first year of the applicability of the rules for the third regulatory period in the electricity industry. A five-year regulatory period was selected (1 January 2010 to 31 December 2015) and the regulatory methodology, based on the revenue cap approach, is similar to that in the preceding period. The key feature of this methodology is to motivate companies to continuous cost cutting and to improving their operating efficiency while ensuring adequate quality of the services provided to customers.

The new mechanism, which was first included in regulation at the beginning of 2010, was based on support for the carrying out of future investment in the upgrade and development of systems. For regulated companies, the selected principle has brought a faster growth in the regulatory asset base (RAB) and a gradual convergence of the regulated asset values with the reappraised book values depending on their investment activity.

3.1.1 Prices of regulated services related to electricity supply

For 2011, the prices of the services related to electricity supply have been set in line with the adopted conclusions of the third regulatory period and public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control. Their levels are heavily influenced mainly by inflation factors, the level of overall consumption (Chart 2), the price of electrical energy for covering network losses, and, last but not least, the rapid increase in renewable electricity generation, primarily in photovoltaic plants.

Chart 2 Czech Republic – consumption at the EHV, HV and LV levels



Key components of regulated prices for 2011

Charge for network services

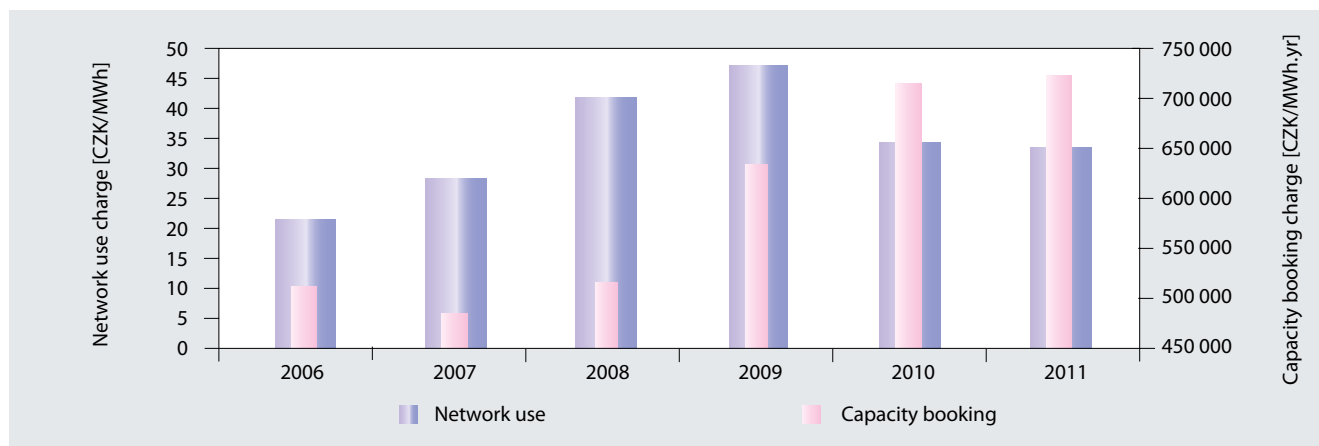
The network service charges are composed of charges for transmission and distribution services. The charges for transmission and distribution services are usually double-component charges composed of a charge for network use and a charge for booked network capacity.

Transmission service charge

The charge for using the transmission system networks is influenced by losses in the transmission system and the price of energy for covering these losses. The expected level of losses did not change almost at all year-on-year and so the main factor is the drop in energy prices on the wholesale market. The result is a decrease in the charge for network use from CZK 33.73/MWh in 2010 to CZK 33.18/MWh in 2011.

The charge for capacity booking in the transmission network rose by 1.1 percent year-on-year, mainly due to inflationary factors. Chart 3 shows the electricity transmission charge.

Chart 3 Components of the electricity transmission charge



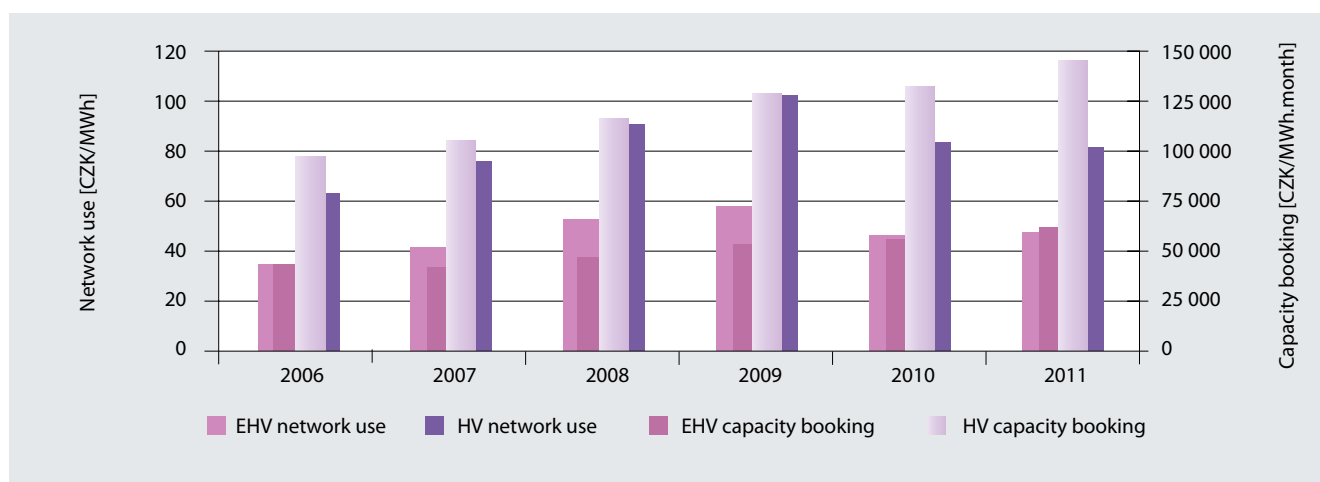
Distribution service charge

As in transmission, the charge for network use in distribution serves for covering network losses. Its level for 2011 has also been favourably influenced by the prices of energy. At the level of EHV distribution networks, this item is stable and at the HV level it has declined to about 94 percent of the charge in 2010.

The charges for booked capacity at the various voltage levels are mainly influenced by the agreed technical parameters of capacity, the volume of investment at the respective voltage level, and the charge for capacity booking in the higher-level transmission system. Reflection of inflation and the decrease in the capacity booked by customers, together with the correction factors for 2009, have an unfavourable effect on the unit charge for capacity booking in distribution networks. For this reason, for 2011 this item has increased by 8.1 percent at the EHV level and by 6.3 percent at the HV level year-on-year.

Chart 4 shows the two components of the distribution charge from 2006 to 2011.

Chart 4 Components of the charge for electricity distribution at the EHV and HV levels



The charge to meet the extra costs incurred in support for electricity from renewable energy sources (RES), combined heat and power generation (CHP) and secondary sources (SeS)

The considerable rise in extra costs in 2011 is mainly caused by the large amount of electricity planned to be produced in photovoltaic plants, but also from biogas, biomass and wind. Overall extra costs of RES, CHP and SeS, together with the correction factor and the calculated imbalance, amount to about 32 billion crowns compared to the less than 8 billion crowns in 2010 prices. This surge in the extra costs for support of RES, CHP and SeS electricity therefore has a heavy impact on the final customers' uniform nationwide contribution to this support.

Thanks to the successfully completed legislative process concerning the amendment to Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources, and the measures subsequently adopted before the end of 2010, a government subsidy of CZK 11.7 billion could be included in the resulting prices, thereby reducing the contribution to CZK 370/MWh from the originally set CZK 578/MWh. However, this item continues to play the key role in the overall growth in controlled prices.

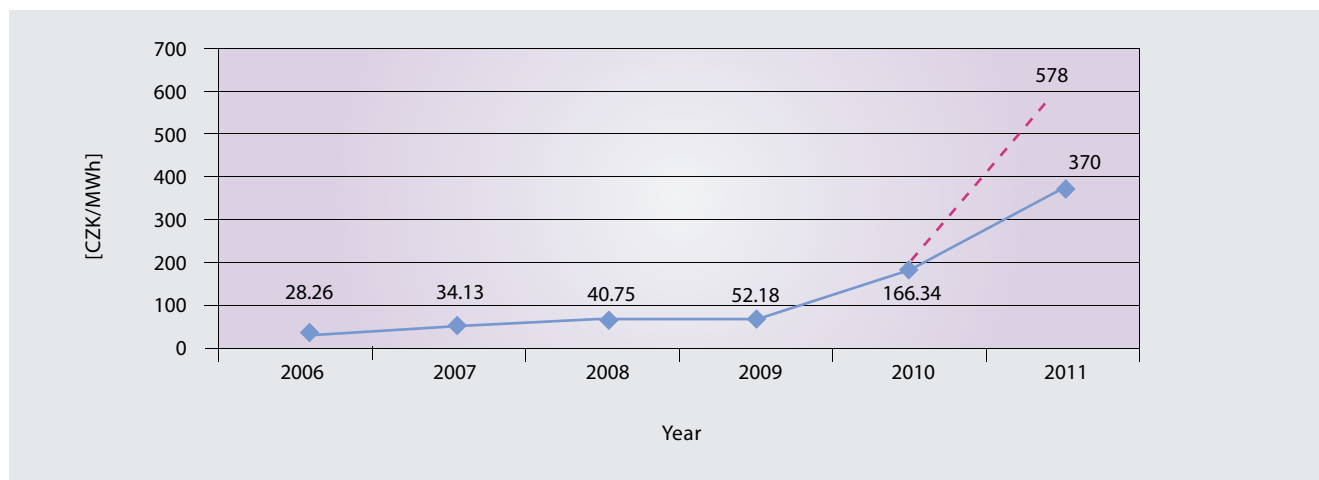
Table 1 shows how the resulting price of electricity supply at the various voltage levels would have increased without the government subsidy, the current level of prices, and how the prices would have decreased had the contribution to supported plants stayed at the 2010 level.

Table 1 Influence of the contribution to support for green capacities on the average price of electricity supply

	2011/2010		
	EHV	HV	LV
Increase in overall price with the government subsidy	5.3%	5.0%	4.6%
Increase in overall price without the government subsidy	14.6%	13.1%	10.8%
Drop in overall price in the case of the same contribution to RES, CHP and SeS as in 2010	-3.8%	-2.1%	-1.4%

Levels of the contribution between 2006 and 2011 are shown in Chart 5, with the red line showing the calculated value (without the government subsidy); the amount of CZK 370/MWh results from the application of the government subsidy and this price is actually used in the calculation of controlled prices.

Chart 5 Charge to cover the extra costs incurred in support for electricity generation from RES, CHP and SeS



Electricity prices for households and low-demand (small) business customers

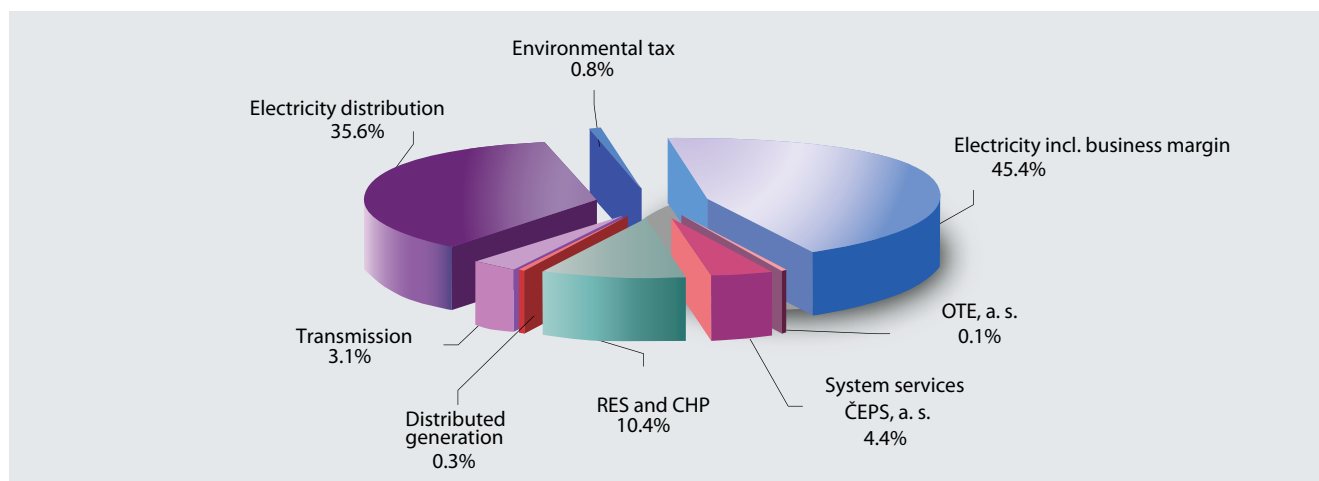
The overall price of electricity supply for customers connected to low voltage is composed of regulated charges for distribution and the related services, and the unregulated price of energy products, the level of which is determined by the supplier selected by the customer.

The increase in the part of the regulated prices for customers connected to low voltage which is set by the Office reflects external factors having technical and financial impacts on the operation of networks (particularly the development of electricity production in supported environmental capacities, line losses, the development of the size and structure of demand, and the rate of inflation).

The average increase in the overall price of electricity supply for households in 2011 is 4.6 percent, while the figure for small business customers is 4.5 percent (not including the tax items). The change in the price of electricity for each individual customer may differ from this value depending on the selected tariff, the rated current of the main circuit breaker upstream from the electricity meter, the nature and size of demand and, also importantly, on the electrical energy supplier.

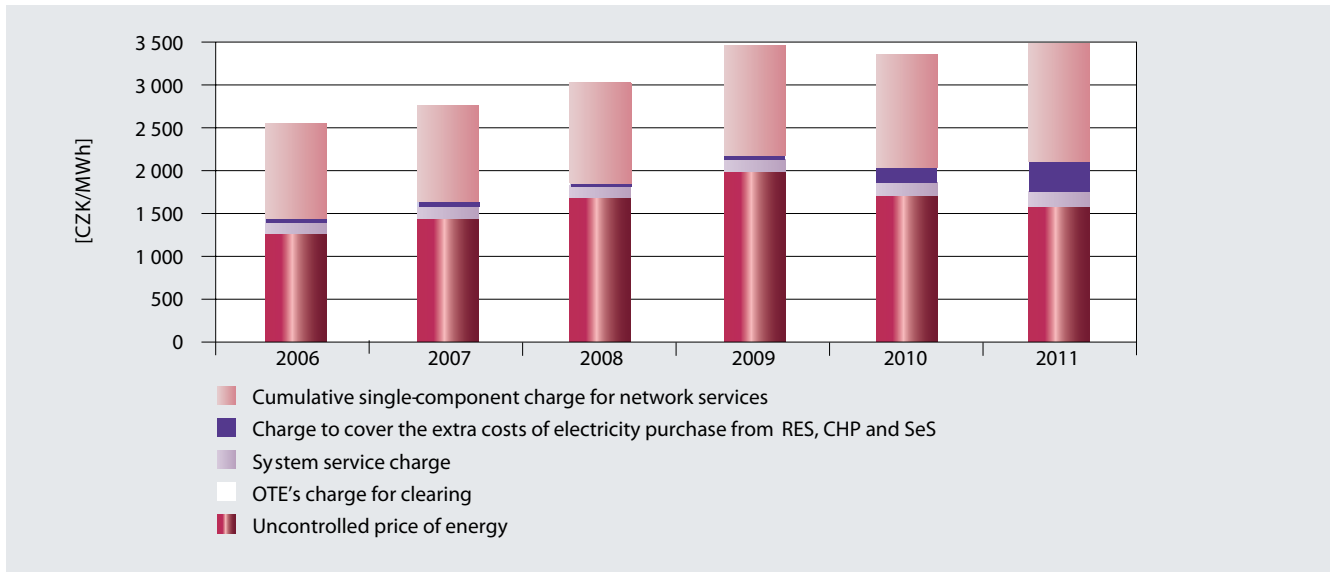
Chart 6 shows the percentage shares of these components in the resulting price of electricity supply for households in 2011.

Chart 6 Percentage shares taken by each of the components that make up the price of electricity supply for households in 2011, for customers connected to the low voltage level (including the environmental tax)



Average prices of electricity supply for households and their components since 2006 are shown in Chart 7.

Chart 7 Average prices of electricity supply for households



Charge for the market operator

For 2011, the charge for the market operator’s activities has been left at the level of the preceding year, i.e., CZK 4.75/MWh. This charge covers the costs incurred by OTE, a.s. in activities laid down in the Energy Act for the electricity industry, which include, in particular, the processing of balances of electricity supply offers and electricity take bids, the clearing of imbalances, the organising of spot electricity markets, and some others.

Charge for system services

The transmission system operator provides system services by purchasing ancillary services; system services help to secure the Czech electricity grid and to balance electricity generation and demand. The competitive environment amongst the ancillary service providers, and therefore the lower bid prices in tendering processes, were unfavourably offset by a higher need to buy ancillary services in view of the expected increase in renewable electricity generation. Due to these facts, the charge for system services in 2011 has been left at CZK 155.40/MWh.

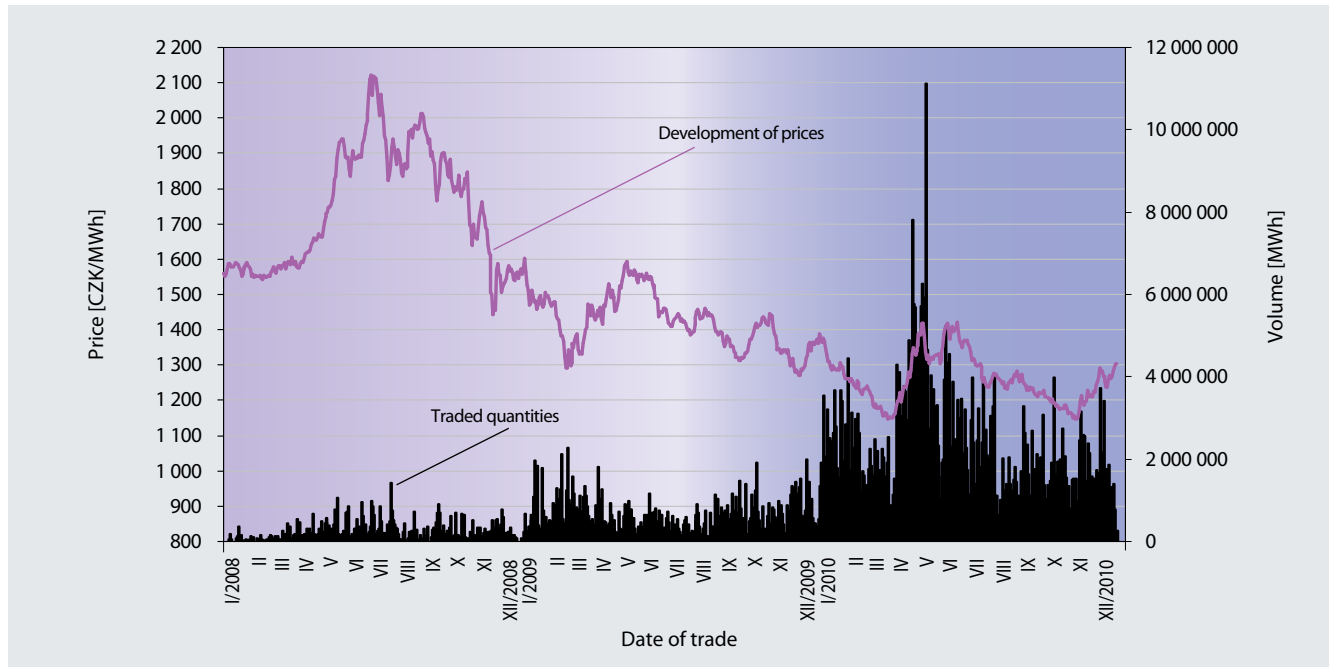
3.1.2 Unregulated energy price

On the liberalised market customers can, by choosing their supplier, influence the uncontrolled component of their resulting electricity supply price, which is the commodity itself (energy), including the supplier’s business margin.

On today’s liberalised market, the price of energy mainly depends on the prices of the products traded at power exchanges. For the Czech market, trading at EEX in Germany (European Energy Exchange AG) and the energy exchange in Prague (Power Exchange Central Europe) is relevant.

The prices of electricity futures (products traded at the exchange) for 2011 were stable or slightly declined between the autumn of 2009 and the end of 2010, i.e., in a period when most traders bought electricity for 2011. This development, including the respective traded volumes, is apparent in Chart 8, which depicts the development of the base load price for 2011 (BASE CAL 10) at EEX, converted to the Czech currency (an EEX chart is used here because of its higher liquidity compared with the Prague energy exchange). Ultimately, the development of exchange prices resulted in a drop in the energy prices quoted by suppliers – on average by five percent (suppliers’ quoted prices differ in relation to their business strategy and the time when they bought electricity on the wholesale market).

Chart 8 Base load prices for 2011 at the energy exchange
(EEX – Baseload Cal 11)



3.2 Renewable energy sources, combined heat and power generation, and secondary sources

The year 2010 brought a number of changes in respect of renewable energy sources in connection with the adoption of several amendments to Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources.

Subsequently, the Office updated the technical and economic parameters for photovoltaic capacities listed in Appendix 3 to public notice no. 475/2005, which implements certain provisions of the law on support for the use of renewable energy sources, as amended. For the first time, the parameters for newly installed over 100 kW photovoltaic plants were differentiated to differentiate support provided to small and large plants.

Taking into account the current technical and economic parameters and the greater than 5% cut in support, which was allowed by the amendment, the Office significantly reduced support for new photovoltaic installations in its price decision. The technical and economic parameters of the other types of renewable energy sources remained unchanged.


In setting the level of support for the existing installations, the Office proceeded in accordance with public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control. This legal regulation provides that feed-in tariffs and green premiums shall apply throughout the life of electricity generating plants and at the same time that feed-in tariffs shall be annually increased in line with the industrial price index by at least two percent and by no more than four percent, with the exception of plants burning biomass and biogas. For biogas stations in the AF1 and AF2 categories and for all biomass categories, the prices in 2011 are the same as in 2010.

The calculation of green premiums in the case of electricity production by fossil fuel and biomass co-firing took into account the current prices of the fuels and the prices of CO₂ emission allowances. For the S3 and P3 categories, the green premiums were reduced quite significantly to preserve a higher degree of the utilisation of biomass material prior to its burning.

In accordance with the Energy Act, support for combined heat and power generation is provided in the form of a regulated premium on the market price of electricity.

The calculation of the support for small cogeneration capacities took into account primarily natural gas prices and the market price of electrical energy. For large cogeneration units over 5 MW and also for all CHP categories where renewable sources or drained gas are burned, the incentivising level of the premium was preserved. At the same time, the alternative option of selecting the duration of the high-rate period for 8 or 12 hours per day has been preserved. The option to select the duration of the applicability of the rate once per month has been preserved as it contributes to a more efficient use of cogeneration units.

In the case of secondary sources, the two existing categories have been preserved, electricity production from drained gas and electricity production from other secondary sources.



The resulting level of support for all types of renewable sources was published in price decision no. 2/2010 together with electricity price premiums for combined heat and power generation and secondary sources.

Another change in respect of renewable energy sources in 2010 was the adoption of the National Action Plan of the Czech Republic for Energy from Renewable Sources, prepared by the Ministry of Industry and Trade, which is a strategic document for the country from the perspective of the further development of these capacities. The document proposes a target share of 13.5 percent of renewable energy in gross final energy consumption and the meeting of the target for a share of 10.8 percent of renewable energy in gross final consumption in transport. The document was prepared with a view to meeting the required targets on the basis of real current and forthcoming projects and a realistic forecast of the future development relying on statistical monitoring of trends, taking into account the subsidy policy where applicable. It is expected for 2011 that together with the forthcoming law on supported sources, the document will serve as a strategic paper for the further development of these capacities in the following way: it should reflect the country's potential for energy production from renewable energy sources and at the same time should be financially acceptable for the end users of energy.

In January 2010, the Office published on its website an estimate of the impacts of the development of photovoltaic plants on electricity prices for final customers, and on every tenth day of the following month it updated the information about the number of awarded licences and the aggregate installed capacity of all licensed plants. In early September 2010, the media reported that due to the uncontrollable development of photovoltaic plants the year-on-year growth in electricity prices for households could be more than 20 percent. Representatives of photovoltaic operators, businesses and investors responded to these reports by noting that such impacts were highly overestimated and unrealistic and that there was no reason for electricity prices rising by more than five percent.

In this situation, the Office organised a meeting with journalists, at which it provided detailed comments and illustratively demonstrated, with the help of calculations and statistics, the development in photovoltaic until then, presented its own well-supported scenarios, and specified the range within which the resulting price hikes could fall. At the same time the management of the Office provided information about its co-operation with other departments and ministries in the so-called monitoring committee, which was set up by the Cabinet and tasked with finding another viable way for the payment of the extra costs of support for renewable energy sources to prevent the payment of all of these costs through electricity prices.

In early October 2010, the Office published the feed-in tariffs and green premiums for 2011, including the significantly reduced feed-in tariffs for photovoltaic plants.

At the same time, the Office provided information about a more accurate estimate of the total installed capacity at the end of 2010, which was 1,600 MW.

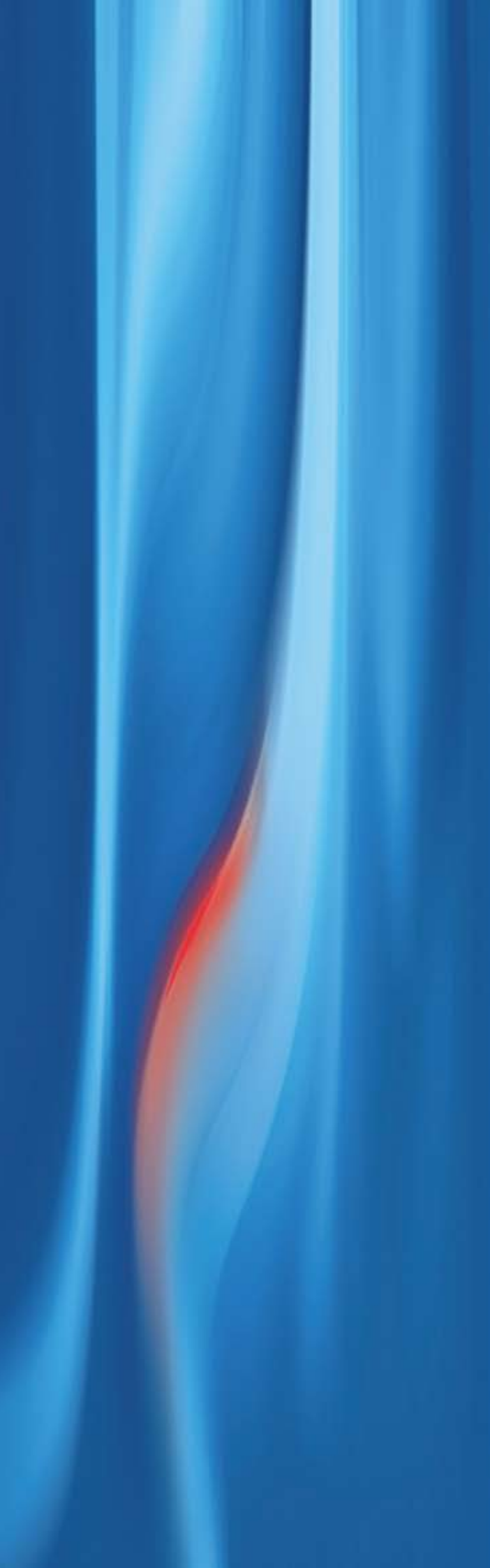
Under the applicable legislation, at the end of November the Office had to issue its price decision no. 4/2010. In the explanatory notes to the decision the Office noted that in the event of failure to pass the amendment to Act No. 180/2005, allowing multi-source financing, electricity prices could go up, on a year-on-year basis, by up to 11.2 percent for households (averaged for the whole Czech Republic) and by up to 14.5 percent on average for large customers. The main cause of this rise was the increase in the component of the electricity transmission and distribution charges which serves for covering the cost of support for electricity from renewable and secondary energy sources and from cogeneration, from CZK 166/MWh in 2010 to CZK 578/MWh for 2011.

At the same time the Office noted that no such increase in electricity prices would take place for any customer category provided that the then running legislative process related to the adoption of the amendment to Act No. 180/2005 would be completed successfully by the end of 2010. The Office stated that in such a case, it would promptly issue an amendment to the price decision. The Office also provided information that following such amendment, households and large customers connected to higher voltage levels would pay, on average, only 4.6 percent and 5.2 percent, respectively, more in 2011 in comparison with 2010.

In the last days of 2010 the Office responded to the adopted amendment to Act No. 180/2005 and reflected a subsidy of CZK 11.7 billion in the regulated prices, and reduced the contribution to support for renewable and secondary energy sources and cogeneration to the expected CZK 370/MWh; the Office released a press statement on these steps.

As at 31 December 2010, the final capacity of connected photovoltaic plants was 1,820 MW (these are installations that had a valid licence and also a connection agreement in place).





4

REGULATION
IN THE GAS
INDUSTRY

4 Regulation in the gas industry

4.1 The gas market in 2010

From the perspective of the gas industry, 2010 can be called the year of gas supplier switching in the household category. After 2009, when household customers started to take advantage of the benefits stemming from the gas market opening to a larger extent, 2010 saw massive migration of household customers from incumbent suppliers to new traders. Further, because of subnormal temperatures and economic recovery during the year, gas consumption increased significantly, approximately by ten percent compared with 2009. Following years of stagnation and decline, gas consumption amounted almost to 9 bcm.

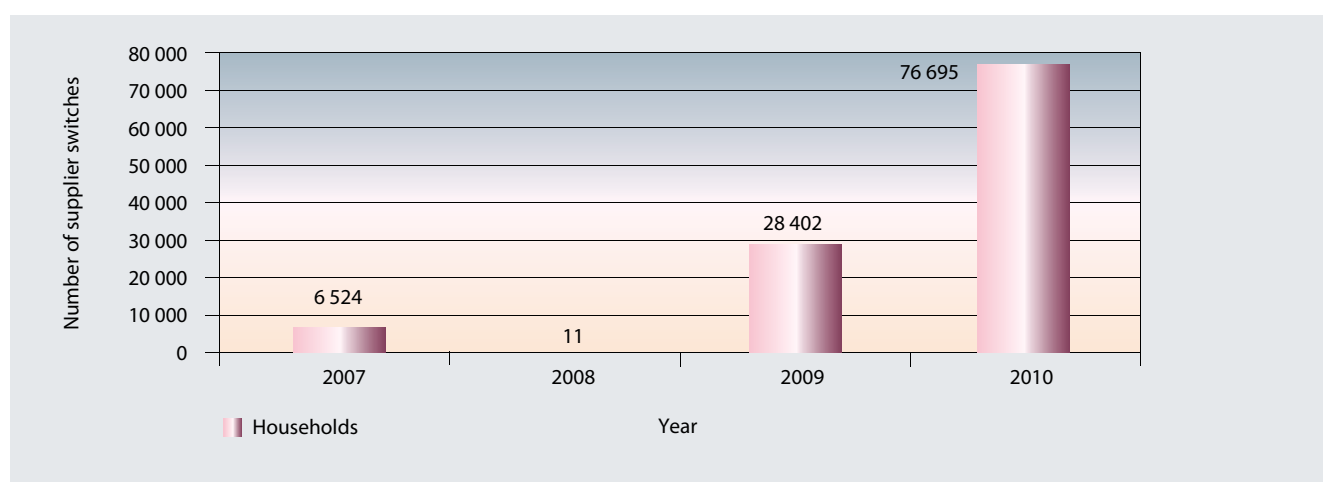
4.1.1 Development of gas market competition

The gas market liberalisation process, launched in 2005 for selected customer categories, turned into a process encompassing the whole gas market in 2007. While the initial years were characterised by new traders entering the market and focusing their effort on acquiring customers in the large customer category and later also in the medium-sized customer category, in 2009, and especially in 2010, a group of new traders appeared on the market, who concentrated on winning customers in the small business and, in particular, household categories.

A total of 84,424 customers changed their gas supplier on the Czech gas market in 2010, which accounts for 2.97 percent of the total number of customers. Compared with 2009, the number of gas supplier switches therefore grew by 153 percent. The single largest number of gas supplier switches took place in the category with the largest number of customers, i.e., the household category, specifically 76,695 switches. Compared with 2009, the number of supplier switches in this category grew by 170 percent, and the largest number of switches took place in the fourth quarter of 2010. It can be expected that the reason was new traders' extensive advertising campaigns running throughout the year. New traders won customers over thanks to offering lower prices.

The other customer categories also saw a considerable number of gas supplier switches in 2010. In the case of the largest customers, 213 changed their gas supplier, which implies a growth of 40 percent compared with 2009. The largest number of switches in this category took place in January 2010, specifically 118 switches. The reason is the fact that customers' agreements with their then current suppliers terminated on 31 December 2009 and they migrated to new traders, who were offering lower prices or some additional services that are important for these customers, such as reliability and security of supply. In the medium-offtake customer category the number of supplier switches increased by 152 percent, and the figure was 52 percent for small businesses. The numbers of customers who changed their supplier can be seen in Chart 9.

Chart 9 Annual gas supplier switches in the household category



Incumbent and new traders started to procure gas by reselling it to one another on the Czech market and by gas purchases from abroad.

The growth in gas imports was a response to the Office's effort to encourage competition on the Czech gas market by putting in place a level playing field for gas suppliers who have available storage capacity, i.e., flexibility in gas supply for customers to cater to their needs, in the Czech territory and for gas suppliers who do not have this advantage and have to obtain flexibility outside the Czech Republic. The conditions for the gas market organisation in the Czech Republic were adjusted, and set out in the Gas Market Rules; further, the charges for gas transmission at the Czech Republic's national border were significantly reduced and set at the same level as charges for transmission to underground gas storage facilities in the Czech Republic.



Another reason for the growth in gas imports were changes in the opportunities for gas purchase, and especially its price, on international markets. The year 2010 was exceptional in that the prices earlier agreed in long-term contracts, i.e., incumbent importers' multi-year agreements on gas purchase from Russia and Norway, were higher than prices on the spot market, where the commodity could be bought virtually overnight. On the spot market, gas companies tried to sell the gas that was not taken by their customers due to the economic crisis, but that the companies had to take from the producers or suppliers under the conditions of gas purchase agreements. This resulted in prices on these markets plunging to levels 30 to 40 percent lower than the price of the gas imported under long-term contracts. The "cheap" gas so imported then helped the new traders to offer their customers gas significantly below the price offered by incumbent traders.

4.1.2 Annual gas consumption

According to the Office's preliminary data, the Czech Republic's natural gas consumption amounted to 8.980 bcm of gas (95.143 TWh) in 2010, up by ten percent in comparison with 2009. Average annual temperature in the Czech Republic was 7.6 °C, i.e. 0.4 °C lower than the long-term normal temperature. Adjusting it to normal temperatures, natural gas consumption in the Czech Republic increased by 4.3 percent to 8.669 bcm, i.e., 91.847 TWh, in 2010.

The rise in gas demand was attributable to several key factors. One of them was the colder weather: the proportionality of consumption to temperatures is the most visible mainly in the first and fourth quarters of 2010, which was one of the coldest years from 1996 from the long-term point of view. Another factor that caused a higher consumption of gas than in 2009 was the environmental tax on all types of fuel, with gas enjoying a tax relief, and the continuously evolving competitive environment on the gas market.

In terms of gas consumption by customer category in 2010, the large customer category took the largest share of total consumption. However, this share has been slightly declining over the past few years while the small business and household categories' shares have been increasing, which is mainly attributable to the long-lasting decline in industrial production and the recovery in the building of new connections to gas supply related to new housing and other development.

4.1.3 New infrastructure

The year 2010 was also marked by the development of new infrastructure in the Czech Republic, and not only for the needs of the Czech Republic but also for international users. New infrastructure is being developed primarily in response to the European institutions' extreme interest in such development – the motivation is to ensure gas supply security and reliability, emphasising the diversification of transport routes: gas flows from Russia and Norway to central, eastern and a part of western Europe; new gas storage capacities are also being built, and reverse gas flows in transmission systems will be supported.

The first major capital investment project that was launched in 2010 was the construction of the Gazelle gas pipeline, which will connect the Czech Republic to Russian gas that flows to Europe via the Northern Route. The Northern Route will comprise the Nord Stream gas pipeline, running on the bottom of the Baltic Sea from Russia to Greifswald, Germany. It connects to the OPAL gas pipeline running to the national border between Germany and the Czech Republic, near the village of Brandov. Late 2010 saw the connection of OPAL with Gazelle near Brandov; Gazelle is expected to be put into operation in late 2012. Gazelle will help to release capacities in the Czech transmission system, which will enable new gas flows from Brandov and Lanžhot and therefore bring a higher degree of gas supply security and reliability for all EU member states and the Central European region. The flexibility of the existing system will be enhanced and various combinations of direct forward flows and reverse flows will be made possible (mainly on the Olbernu/Hora Sv. Kateřiny – Lanžhot route) between the borderline points. The capacity released in the Czech gas transmission system will be important from the short-term point of view, for example, in the case of gas supply disruption, and also from the long-term point of view - for example, it will be possible to use the border transfer point at Brandov, providing additional entry capacities, for the purpose of long-term agreements on gas supply for the Czech Republic's own needs.

The other gas pipeline, which is expected to be completed in late 2011, is a connection between the Czech and Polish gas systems near Český Těšín.

In the wake of the January 2009 events, when gas transit across Ukraine was disrupted, curtailing supplies to customers mainly in eastern Europe, the European Commission allocated EUR 2.3 billion for 43 electricity and gas projects that would receive a subsidy under the European Energy Programme for Recovery (EPR). The European Commission launched the programme in March 2009 with a view to mitigating the impact of the financial crisis and reinforcing the European energy infrastructure¹.

¹ Regulation (EC) No 663/2009 of the European Parliament and of the Council of 13 July 2009 establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy



Under the above schemes, four projects in the Czech Republic were approved. One is for an expansion of the storage capacities of RWE Gas Storage, s.r.o., which represents an additional working volume of 450 million cubic metres in the Tvrdonice and Třanovice gas storage facilities. The other three projects concern the TSO and relate to the implementation of the reverse gas flow from the west to the east, benefiting mainly eastern European countries that are currently almost fully dependent on gas imports from Russia across Ukraine.

4.2 Price formation and setting

In the gas industry, this applies to the regulation of the charges for gas transmission and distribution and charges for the market operator's activities. The Office is also responsible for the prices charged by suppliers of last resort, which have the obligation to supply gas to the households and small businesses that have the right to select their supplier but for various reasons do not have one. In 2010, no customer was placed under the regime of the supplier of last resort.

The uncontrolled part of the price of gas supply is comprised of the charge for commodity and trade and the charge for the flexibility service, which helps to cover customers' varying needs for gas in the course of the year.

4.2.1 Controlled parts of the gas supply price

The method for calculating the regulated charges for gas transmission and distribution and for the market operator's activities is set out in public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control, as amended. It is explained in more detail and substantiated in the ERO's Final Report on the Regulatory Methodology for the Third Regulatory Period in the Electricity and Gas Industries, which is available on the Office's website.

Gas transmission charges

Gas transmission is the first link in the chain of operations to deliver gas to customers. Transmission charges, which are based on allocated allowed revenues, are double-component charges composed of a fixed component for booked transmission capacity and a variable component for transported gas quantity. Since 2010, the TSO's allowed revenues related to gas supply to customers in the Czech Republic have been integrated into the gas distribution charge.

For 2011, the TSO's allowed revenues have dropped by almost 13 percent. The main reason for this decrease is a significant correction factor, which represents the difference between the expected and actual revenues from transmission in the period under review, in this case for 2009 when due to a significant increase in gas imports by new gas suppliers the transmission system was used more than before. The other factors include a decline in the TSO's profit and lower costs incurred in the procurement of the services for the stability of the system.

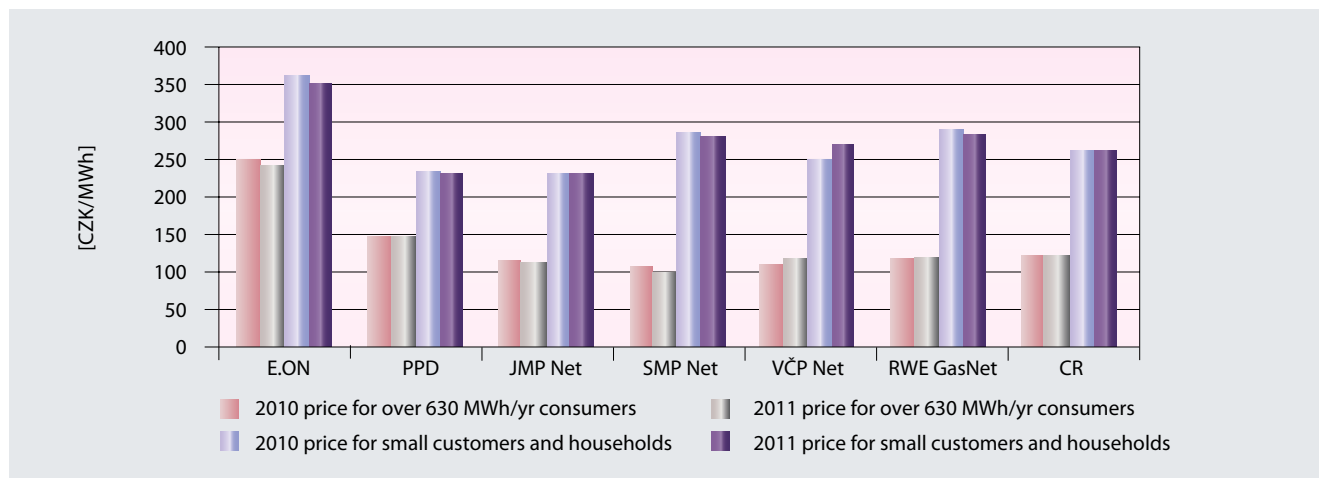
In setting the charges for the use of the transmission system's entry points on the national border, the Office proceeded in line with the earlier declared objective of supporting gas import into the Czech Republic, and therefore kept them at the same level as in the preceding period. The charges at the exit points connecting the underground gas storage facilities also stayed at the level of 2010 for 2011. At the exit points on the national border, the fixed components of the charge slightly decreased by approximately three percent. Variable parts of the charges have been set, with the help of a coefficient, so as to cover the TSO's fuel gas consumption at compressor stations, which are required for controlling the pressure in the network and smooth supply to customers. The above decrease has therefore been mainly reflected in the charges for gas transmission for customers in the Czech Republic.

Gas distribution charges

The gas distribution charge is a double-component charge for all customer categories. For large- and medium-offtake customer categories, the fixed component is calculated using a logarithmic formula. For low-offtake and household categories it is given by the amount of the standing monthly charge. For all customer categories, the variable component of the distribution charge depends on the gas quantity taken and is set as a fixed rate for gas taken in CZK/MWh.

For 2011, the gas distribution charge for gas customers, which also includes gas transmission, was not changed in terms of the national average, or, rather, it declined by 0.4 percent, see Chart 10. The only distribution company that reports a year-on-year increase in average gas distribution charges, including transmission, is VČP Net s.r.o. Its increase in prices of almost eight percent is, however, caused by the gradual offsetting of the negative correction factors from previous periods, which was adopted with a view to the stable development of gas distribution charges in the past.

Chart 10 Average gas distribution prices



Note: The assumption of the same distributed quantity in the two years must be adopted for comparing the y/y change in prices.

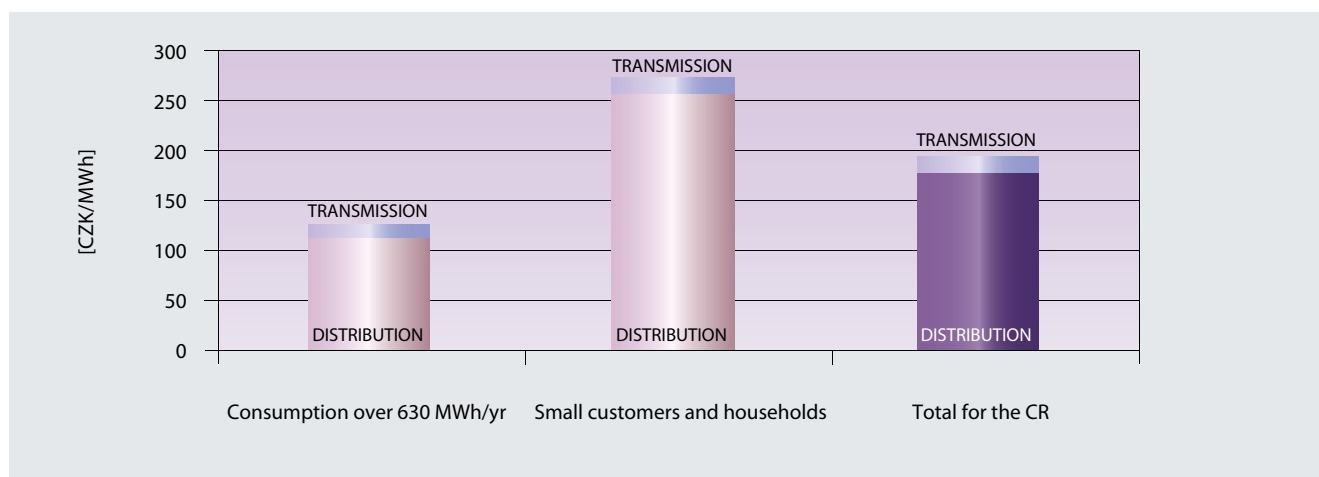
The drop in the distribution system operators' profit, the drop in correction factors for 2009 compared with 2008, and also the above drop in the transmission charge have a favourable influence on distribution charges for 2011.

The 2009/2010 winter season, when temperatures stayed under 0 °C for an unexpectedly long time, caused a relatively large number of customers to exceed their booked distribution capacities. Having evaluated these facts, as of 2011 the Office introduces an opportunity for customers to opt for a new product that eliminates the risk of having to pay for such overstepping. Normally, customers book distribution capacity for an unspecified period of time with the option of changing this capacity with effect for at least the 12 following months. In the case of need, they can buy, in addition to this booked capacity, monthly distribution capacity or the so-called rolling distribution capacity for up to two months, depending on the starting date of the distribution of this capacity. The main advantage of the new product is that customers who for any reason do not, or cannot, work with a combination of the above annual and short-term products can now book distribution capacity at the level of the historically actually achieved maximum daily consumption while avoiding the consequences of exceeding the agreed distribution capacity.

However, it is to be noted that working with distribution capacity and the adequate booking thereof is necessary for the correct pricing on the gas market. Customers should therefore take an active approach to booking distribution capacity with a potential combination of annual and short-term distribution capacities. This approach is more advantageous for customers financially, while it does not cause transfers of distribution costs between customers taking different approaches to distribution capacity booking.

The following Chart 11 shows the share of the transmission charge in the total distribution charge. In 2010, transmission accounted for 9.4 percent of the distribution charge, i.e., including transmission. For 2011 the share of transmission comes out 1.5 percent lower (i.e., 7.9 percent). The reduction in the percentage share of transmission was caused by the above drop in transmission charges.

Chart 11 Structure of the overall average charge for gas distribution



Gas customers are billed the so-called fixed charge for clearing, in CZK/MWh, which meets the costs incurred in the market operator's gas activities. The charges for the market operator's clearing effective from 1 January 2011 have risen slightly in comparison with those applicable in 2010, from CZK 1.01/MWh to CZK 1.10/MWh. The cause of this change is the continuously decreasing gas consumption.

4.2.2 Uncontrolled parts of the gas supply price

The uncontrolled part of the gas supply price is comprised of the charge for commodity and trade and the price for the flexibility service that helps to cover customers' varying demand for gas in the course of the year. As regards the uncontrolled part of the price, it is only at the traders' discretion in what way they will offer gas to their customers. This means that on the basis of their business policy they can design their own structure of offtake bands for the purpose of customer segmentation, and their own structure of the price reflecting the proportion of the variable and fixed part; the period of price applicability may differ, etc.

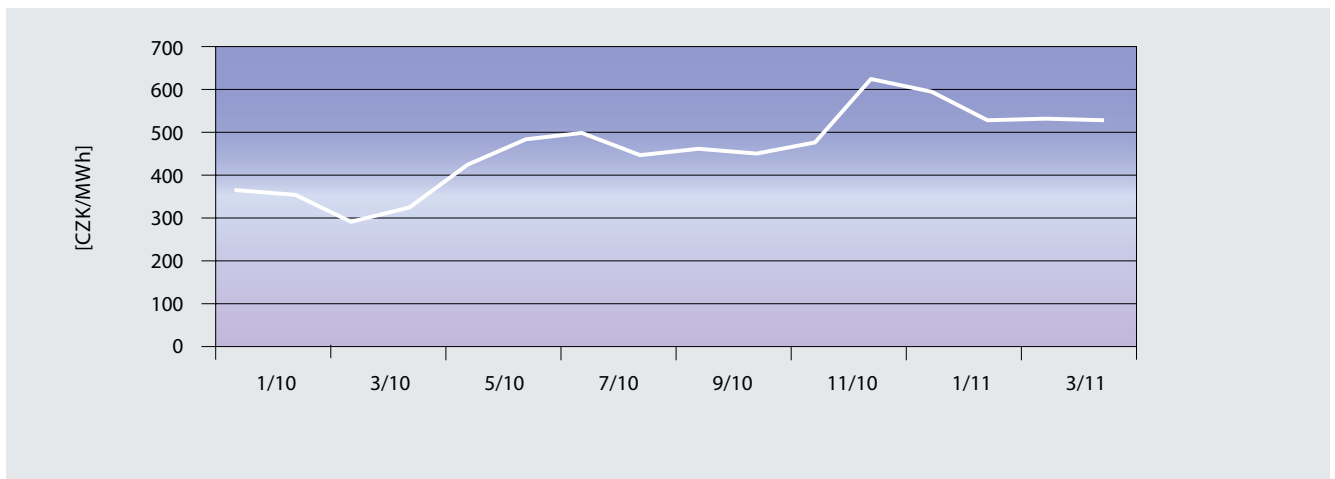
The commodity charge is the key variable in the overall gas supply price. The commodity charge depends on the situation on the world markets and on the gas traders' margin, which contains their business costs and profit. Traders allocate the costs of flexibility, in respect of which storing in gas storage facilities is one of the viable options for gas suppliers, to their customer segments again on the basis of their business policy, and also in relation to the structure of their customer portfolio.

Commodity purchase price

In 2010, the commodity charge was no longer influenced by long-term contracts as had been the case previously, but mainly by short-term (spot) gas markets. This is borne out by the incumbent suppliers' adaptation to the prices on these markets, which may result in gas sales below the cost, i.e., below the gas purchase costs under the long-term contracts in place. The German spot market is the relevant market for the Czech Republic.

In 2010, the gas prices on the world markets did not go through any dramatic development. The trend in the commodity prices last year was growth, as illustrated in Chart 12. Following a slight decline in gas prices in early 2010, stable growth ensued, with more significant values in December. This growth may have been caused by increased demand for the commodity due to higher gas consumption caused by the abnormally lower average temperatures in that month. In 2011, the gas price on the world markets is expected to slightly decline according to forecasts.

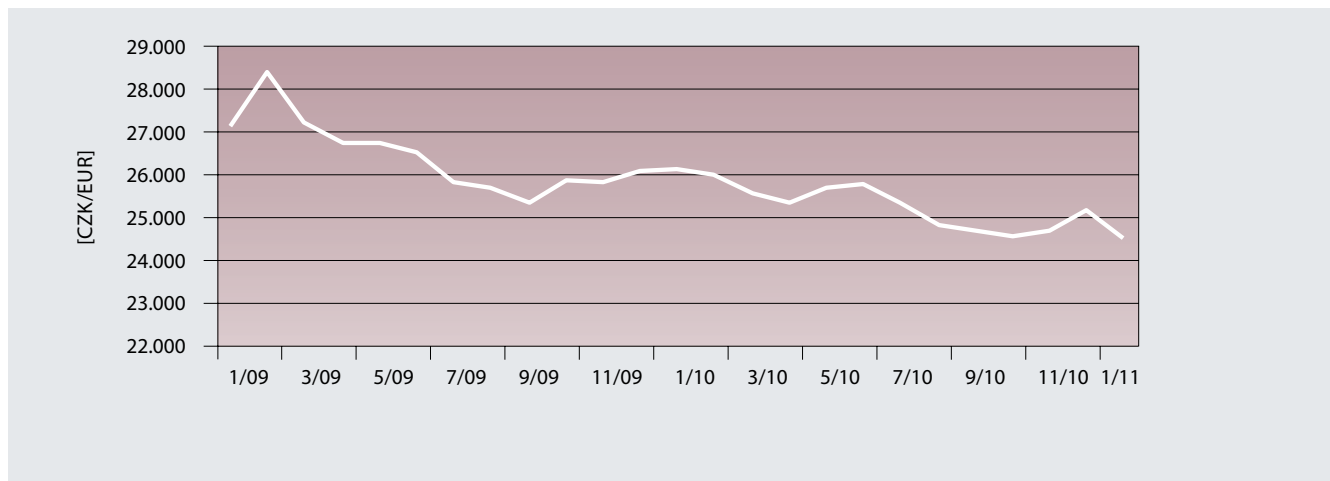
Chart 12 Gas prices at the European Energy Exchange in 2010 and forecasts for 2011



Source: European Energy Exchange

A factor that has a heavy impact on the commodity purchase prices is the Czech currency's euro rate. In 2010, the Czech crown appreciated as can be seen from Chart 13, which had a favourable effect on gas prices in the Czech Republic. According to forecasts, the crown/euro rate is to follow the same trend in 2011 as in 2010.

Chart 13 CZK/EUR monthly averages



Source: CNB

Gas storage prices

In the gas storage business, a qualitative change that probably nobody had expected took place between 2005 and 2010. At the beginning of the gas market liberalisation process in 2005, obtaining the gas storage capacities that they needed for covering the uneven profile of customers' gas consumption in the course of a year was an almost insurmountable barrier for new traders. Storage capacities were completely "sold out" under contracts and no free capacity was available. The only option for them was to obtain storage capacities abroad. The cost of these capacities, and the cost of transporting this gas to the Czech Republic, caused a competitive disadvantage to these suppliers. The Office was fully aware of this situation and opted for a solution in the form of an amendment to the Gas Market Rules and adjustments to the transmission charges at the entry to the Czech gas system in its price decision.

This amendment laid down an obligation for storage system operators to sell released or new storage capacities in on-line auctions. Transmission charges at the entry points to the Czech Republic were set at a level that did not increase the price of imported gas in any significant way in cases where traders used foreign storage capacities. From the Office's point of view, this step put in place non-discriminatory conditions for gas traders in respect of gas storage.

The results of these measures could be felt extremely positively in 2010. Further, the effect of low gas prices on German spot markets could also be felt in the Czech Republic in 2010, with sufficient gas quantities also available in the winter season. For gas traders, an opportunity arose to address the issue of supply flexibility by importing gas from abroad.

The above circumstances caused a considerable downward pressure on storage prices. However, in 2010 the free storage capacities offered were not sold. Storage system operators, who have prepared projects for new storage capacities, must reconsider their requirements vis-à-vis customers due to the drop in the storage prices. Auctions for the coming storage years are being prepared, with much lower minimum bidding prices.

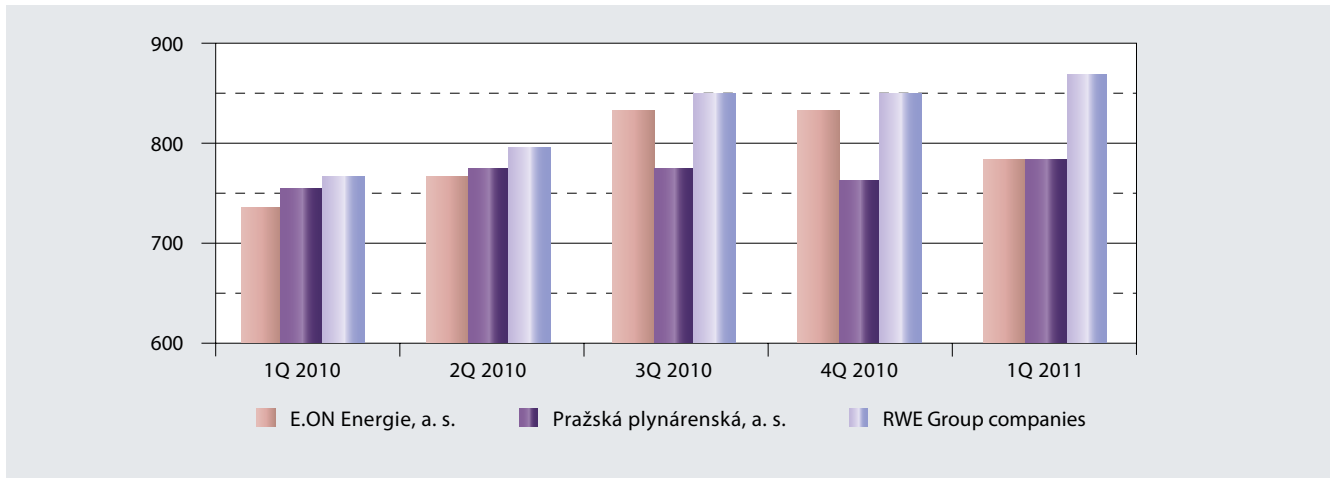
However, forecasts of further development need to take into account that the unusually low prices on foreign spot markets will soon come to an end and traders will be compelled to use the traditional method of security, i.e., gas storage, for providing flexibility. It can be expected that the market itself will find a well-balanced storage price, acceptable for both parties - traders and storage system operators.

4.3 Gas supply prices for households

In the household category, 2010 was marked by a significant increase in the number of gas supplier switches. As in 2009, Bohemia Energy entity, s.r.o. was one of the most active traders on the market for households, and ČEZ Prodej, s.r.o. became one of such traders in 2010. However, the RWE Group's trading companies, Pražská plynárenská, a.s. and E.ON Energie, a.s. continue to be the most important suppliers in the category.

Average prices of natural gas supply to households from the above gas suppliers are shown in Chart 14, which is based on the price lists applicable to the respective period and published by the companies. The prices include the commodity charge, trade, transmission, flexibility and the market operator's services. The distribution charge and VAT are not included in these prices.

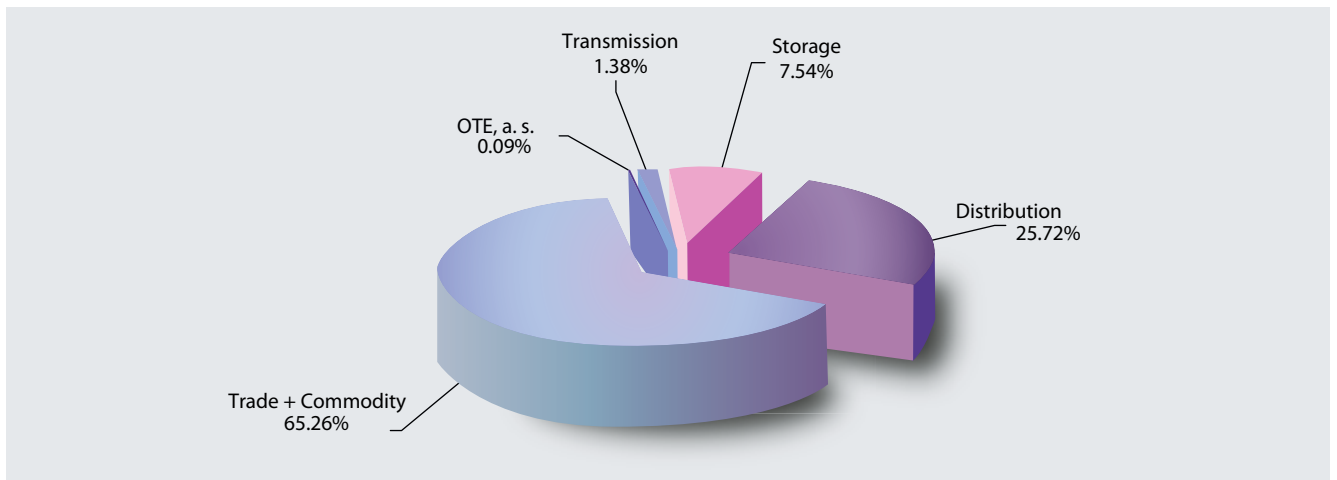
Chart 14 Average prices of natural gas supply to households



Source: Trading companies' price lists

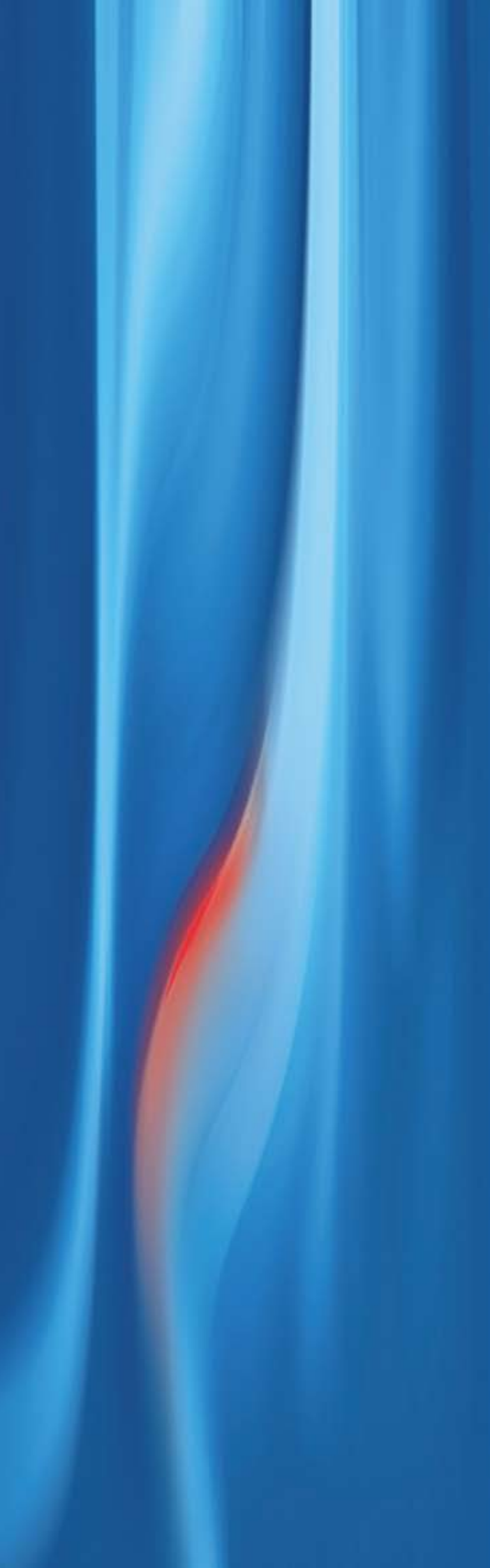
The commodity charge makes up the largest portion of the price of supply, see Chart 15. In 2010, the gas prices for households for gas from the largest three gas suppliers in the Czech Republic followed an upward trend, with the exception of the fourth quarter when the average prices of gas supply for households stayed at almost the same level as in the third quarter. The rise in the average price of overall gas supply continued in the first quarter of 2011.

Chart 15 Structure of the average gas supply prices for household customers in 2010



In the latter half of 2010, gas traders started to approach their household customers more actively with offers of various products, where the overall price of gas supply no longer needs to exactly follow the situation on the commodity market. The products so offered include, for example, products that guarantee a fixed price of supply for a certain period of time or a guarantee of lower costs of energy supply subject to certain conditions satisfied by the customer.





5

REGULATION
IN THE HEAT SUPPLY
INDUSTRY

5 Regulation in the heat supply industry

5.1 The heat supply market

The heat supply industry is an important part of the energy sector. Through the district heating systems (DHS), it meets the need for thermal energy of residents of municipalities and various business and non-business entities; it also provides for a considerable part of electricity production. District heating systems can be comprised of interconnected heat and power plants, heating plants, thermal networks of various sizes, transfer stations and heat consuming installations.

A large number of various entities that carry on business in thermal energy production and distribution operate in the heat supply industry. Thermal energy producers and distributors can operate their business under a licence for thermal energy production and distribution, awarded by the Energy Regulatory Office, or, in the case of thermal energy generating plants in various properties, under a trade permit certificate or only under a trade licence depending on the thermal capacity installed.

Approximately one third of Czech households take heat from DHS. The Czech Republic's heat supply industry registers almost 2,000 plants that produce thermal energy on a centralised basis; of these, 35 largest companies control more than 90 percent of the heat supply market. In 2010, there were 627 valid licences for production and 675 licences for distribution of thermal energy. Because of the nature and extent of thermal energy supply from DHS in the various localities, in many cases such supplies can be regarded as natural local monopolies.

5.2 Thermal energy price control

Regulation of the prices of thermal energy, i.e., heat and cold, is based on the cost-plus method, which consists of the laying down of the conditions for pricing arrangements and calculations under Section 6 of Act No. 526/1990, on Prices, as amended. In a calendar year, the thermal energy price can only reflect economically justifiable costs, reasonable profit and VAT. The fact that generally applicable rules for pricing arrangements have been put in place protects thermal energy customers against potential abuse of thermal energy suppliers' dominant position.

ERO price decision no. 7/2008 of 2 September 2008, on thermal energy prices, amended in no. 12/2008 of 24 November 2008 and in no. 3/2009 of 12 October 2009, applied to the calculation of and arrangements on thermal energy prices in 2010. The changes to the conditions for 2010 were mainly motivated by the need to improve the efficiency and economy of thermal energy production and distribution.

In October 2010, the Office issued a new price decision, no. 1/2010, effective for thermal energy prices from 2011. Compared with the rules in place until then, the new decision specified more accurately certain cost items that can be passed through to thermal energy prices, set out the minimum period for the depreciation of the assets used in thermal energy production and distribution and commissioned after 1 January 2011, and specified cost allocation to price calculations within a single price location and the procedure for changing price calculation in the course of a calendar year.

5.3 Thermal energy price inspections

In its capacity of a price inspection authority within the meaning of Section 2c of Act No. 265/1991 on the Competences of the Czech Republic's Authorities in the Area of Prices, the Office performs inspections of prices in the energy sector in addition to issuing legal regulations for price inspection in the energy sector. The Office also has the remit to perform inspections in the heat supply industry under the Energy Act, under which the Office reviews licence holders' observance of their obligations and imposes fines under a separate legal regulation, which is the law on prices.

Every year, the Office checks and inspects a large number of thermal energy prices on the occasion of preparing an overview thereof, monitoring the development thereof, addressing disputes over price levels between suppliers and customers and handling customers' complaints, and also on the basis of its own findings. In a current year, the Office focuses on compliance with the conditions related to thermal energy prices that exceed their customary level, or when these higher prices are further increased by thermal energy suppliers. Where shortcomings are identified, the supplier is immediately requested to remedy the situation, or a price inspection is initiated or a suggestion is sent to the State Energy Inspectorate for an inspection.

In 2010, the Office carried out eight inspections, during which it checked 20 price locations. Table 2 lists the inspections. They were carried out to check whether the conditions for cost-plus control and the thermal energy suppliers' information obligation were observed.

Table 2 Inspections performed under Act No. 552/1991 on State inspection

Year	Number of thermal energy generation and distribution licence holders	Number of price locations	Number of inspections	Number of price locations inspected	Thermal energy quantity subjected to review [GJ]
2007	752	1,545	2	3	14,376,931
2008	696	1,878	5	27	277,466
2009	777	2,109	8	10	805,502
2010	760	2,186	8	20	499,479

In most of these inspections, either no shortcomings were found, or only less serious shortcomings were identified, which the suppliers promptly remedied upon the Office's request. The Office only initiated inspections of preliminary prices of thermal energy in more serious cases where serious shortcomings were identified, in particular an incorrect allocation of costs and their unusual level, an unreasonable profit, and an incorrect calculation of the fixed component of the price where a double-components thermal energy price is applied.

5.4 Comparison and development of thermal energy prices

The Office uses data in the regulatory reports that thermal energy generation and distribution licence holders must return under public notice no. 408/2009 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports, for analysing the development of thermal energy prices. Licence holders return regulatory reports for the past calendar year, and the Office therefore receives the key economic and technical information from the heat supply industry.

Chart 16 shows the development of average thermal energy prices for final customers since 2001. A significant increase in thermal energy prices is visible in 2008; the reasons included higher fuel prices, the introduction of the environmental tax, and an increase in the lower VAT rate. In 2008 and 2009 the number of complaints about thermal energy prices rose; in addition, there were a larger number of customer disconnections from district heating systems in some locations, which exacerbated the situation in the heat supply industry. In 2010, the prices of thermal energy produced from 'other fuels' (mainly gas and fuel oil) decreased slightly, when the average price was CZK 558.15/GJ; on the other hand, the average price of thermal energy produced from coal rose to CZK 454.65/GJ.

Chart 16 Average thermal energy prices for final customers

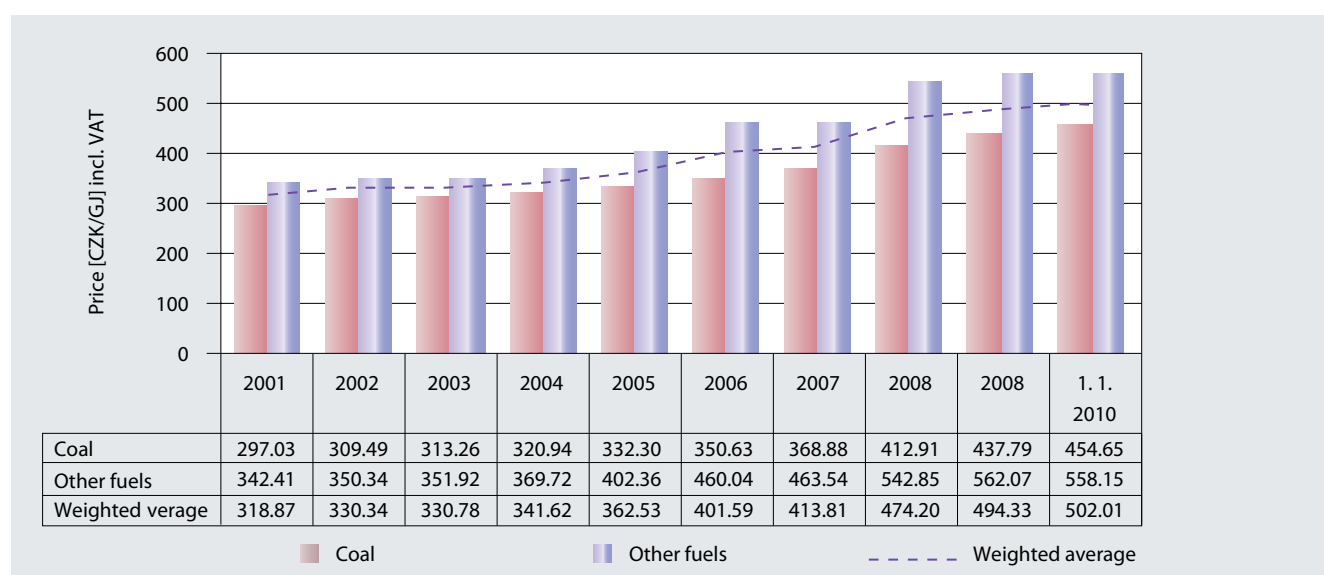


Chart 17 Thermal energy quantities and prices in 2009 and on 1 January 2010

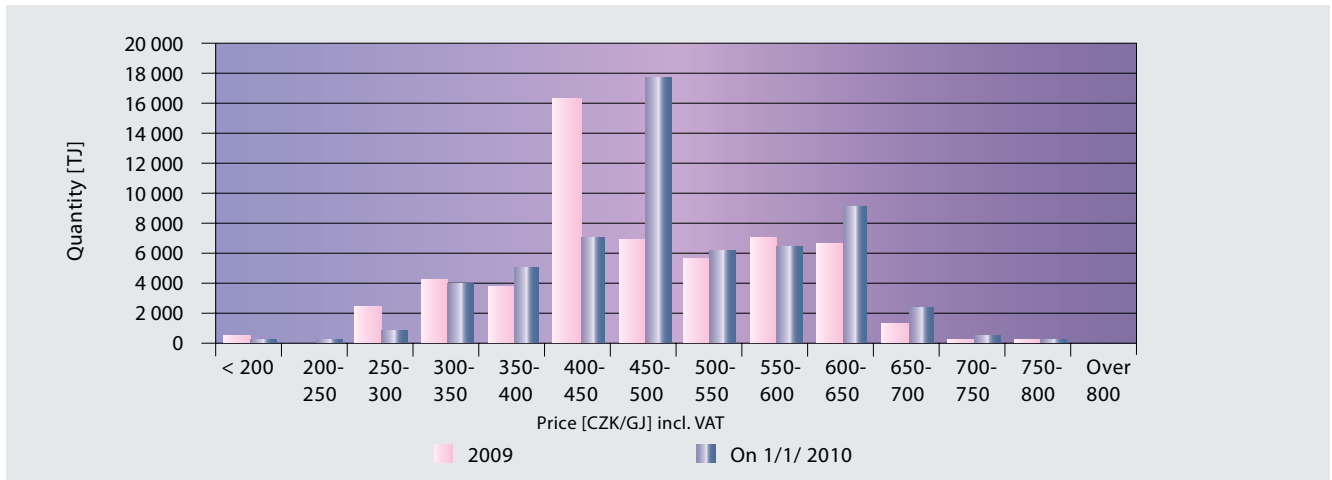
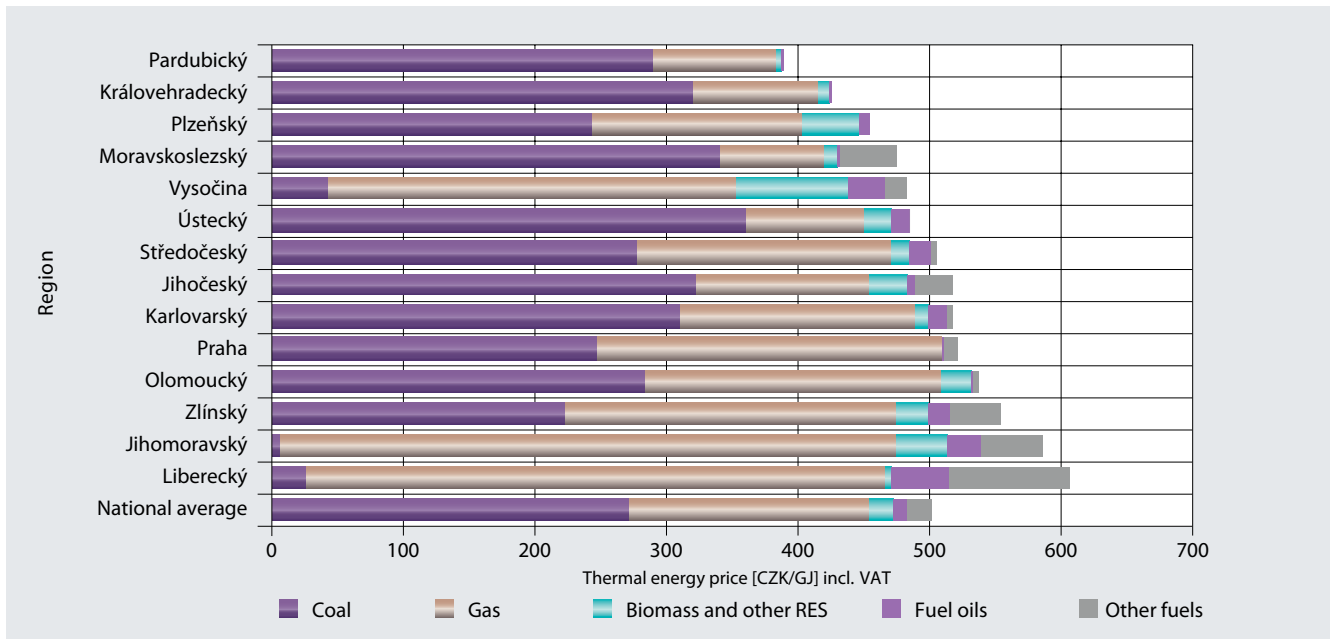


Chart 17 compares the thermal energy quantities supplied from DHS for prices applicable in 2009 and on 1 January 2010, which are allocated to price bands. In 2009, the single largest quantity of thermal energy was supplied in the price band from CZK 400 to 450/GJ, and from 1 January 2010 in the price band from CZK 450 to 550/GJ. The largest quantity of thermal energy is supplied from extensive DHS, in which most of the thermal energy is produced from coal.

Chart 18 shows average thermal energy prices and shares of fuels for its production in each region. The lowest average thermal energy prices for final customers are in regions with large DHS, which mainly use coal-fired CHP generation plants. On the other hand, the highest average thermal energy prices are in the DHS that use a large proportion of gas and fuel oils for thermal energy production and at the same time have steam distributions. On 1 January 2010, the lowest average prices under CZK 400/GJ were in the Pardubice Region, while the highest prices, around CZK 600/GJ, were in the Liberec Region and South Moravian Region. The Vysočina region has the largest share of biomass and other renewable sources, while the region's average thermal energy price is below the country's national average.

Chart 18 Average thermal energy prices for final customers in the regions as of 1 January 2010



The share of fuels in thermal energy generation as at 1 January 2010 is depicted in Chart 19, which clearly suggests that coal takes the largest share in thermal energy production (54%), followed by gas (36%). Biomass and other renewable sources have been increasingly used in thermal energy production in recent years. However, if the coal mining limits are not lifted, the other fuels will have only a limited chance to substitute coal in thermal energy production; the consequences will include thermal energy price hikes in the years to come and a further deterioration in the heat supply industry's position.

Chart 19 Share of fuels in the generation of thermal energy intended for final customers, on 1 January 2010

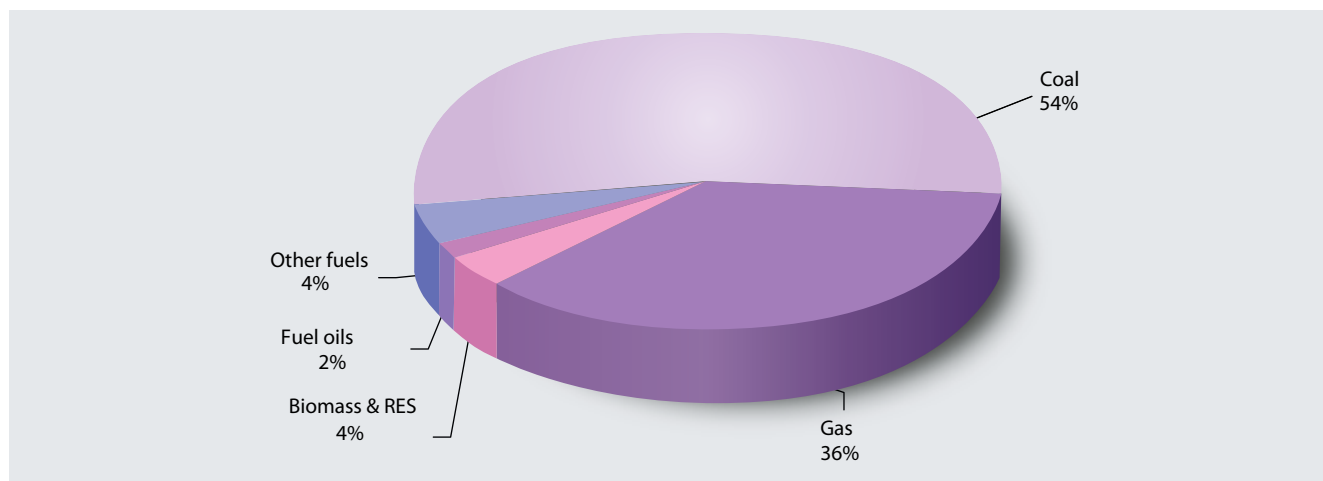


Chart 20 shows prices for final customers in the case of thermal energy production in which at least 80 percent of biomass or another renewable source is used, and plants' installed thermal capacity up to 10 MW and over 10 MW, and at different levels of thermal energy transfer. The price of thermal energy from biomass and renewable energy sources is lower than CZK 500/GJ in most cases.

Consumption of biomass and thermal energy quantities produced from biomass between 2004 and 2009 can be seen in Chart 21. Over that period, biomass consumption almost doubled, and it was used for both heat and power production; and the cost of what originally was a relatively inexpensive fuel has been rising in the last few years. In 2009, thermal energy production from biomass exceeded 20,000 TJ. The largest occurrence of biomass suitable for energy use can be found in the Vysočina, South Moravian, Plzeň and Central Bohemian Regions. On the other hand, the smallest amounts of biomass are in the Liberec and Ústí Regions and around large cities such as Prague, Plzeň, Brno and Ostrava.

Chart 20 Prices of thermal energy from biomass and other RES for final customers on 1 January 2010

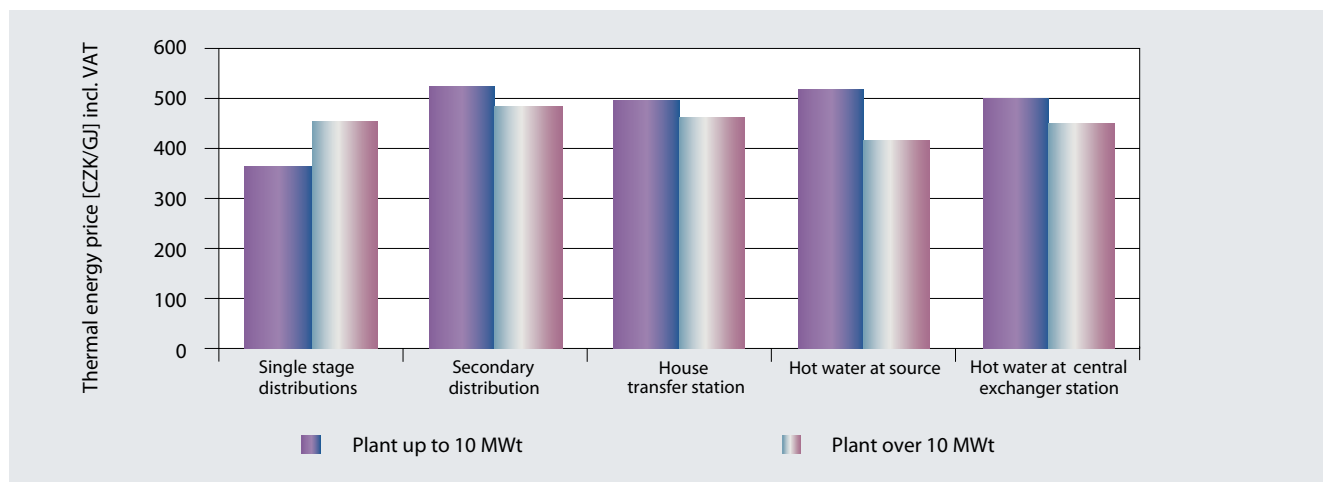
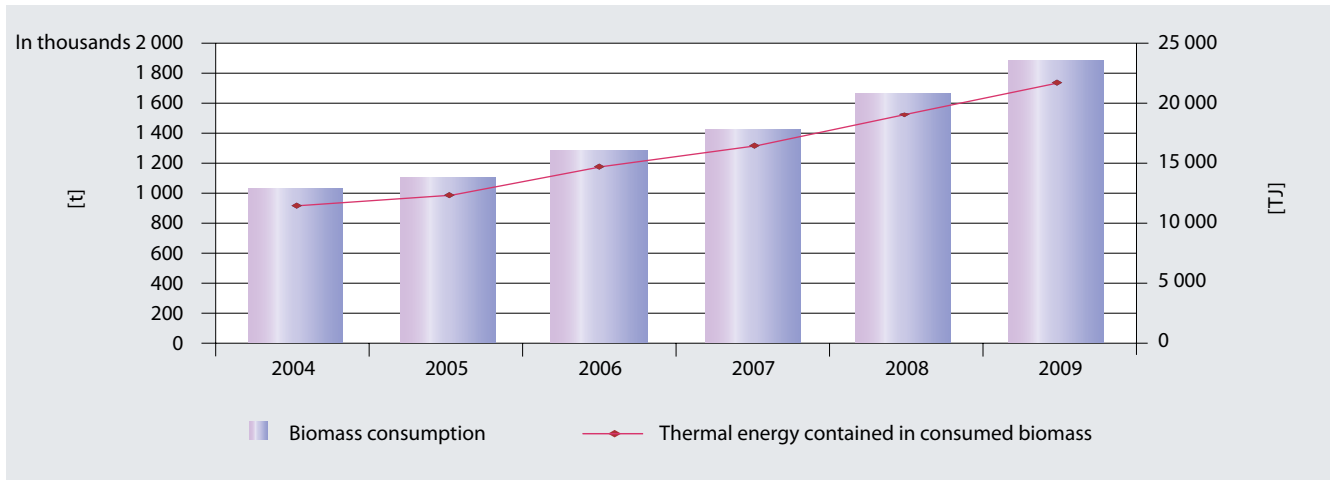
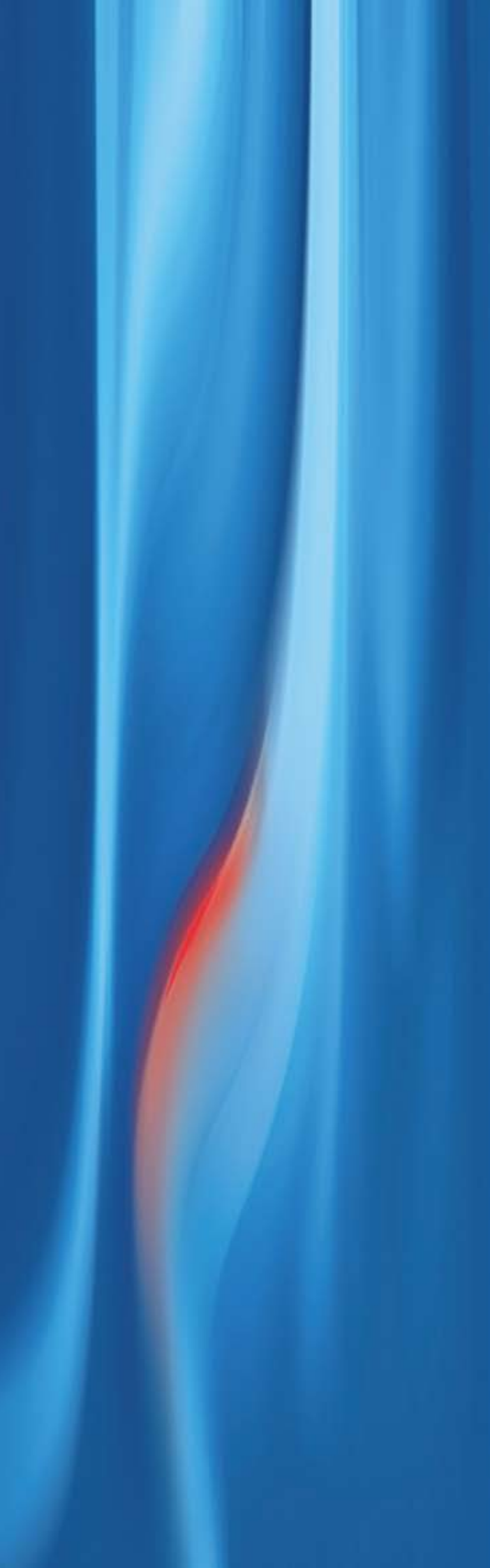


Chart 21 Biomass consumption and thermal energy quantity produced from biomass







6

LICENSING
POLICY

6 Licensing policy

6.1 Licences for business in energy industries

6.1.1 Licence award procedure, change of licence award decisions

In 2010, the licensing department's work mainly centred on licensing renewable electricity generation, in particular photovoltaic. The number of electricity trading licence holders rose only slightly while the gas market saw the entry of new gas traders.

The number of licences for electricity distribution rose slightly, and it remained the same for gas distribution. In the heat supply industry, the trend of customers' transition from the existing district heating systems to heat supply using each property's or facility's own capacities continued. Table 3 lists the number of valid licences at the end of the respective year.

Table 3 Numbers of valid licences between 2005 and 2010 by object of business

Licences	2006	2007	2008	2009	2010
Electricity generation	1,467	1,702	2,989	7,223	13,301
Electricity distribution	282	281	281	281	300
Electricity trade	285	293	310	312	321
Gas production	13	13	14	15	15
Gas distribution	103	99	92	87	87
Gas trade	83	85	103	105	122
Gas storage	4	4	4	4	4
Thermal energy generation	674	672	655	641	627
Thermal energy distribution	721	719	699	689	675
Total	3,632	3,868	5,147	9,357	15,452

Table 4 Number of licensing proceedings between 2005 and 2010 by purpose

Licence proceedings	2006	2007	2008	2009	2010
New licences	413	540	1,420	5,159	6,997
Licence changes	542	504	598	1,154	1,708
Revoked licences	229	174	163	204	264

Table 4 lists the number of all licence proceedings, i.e., including those that were not concluded by a decision on licence award or change but by a decision to discontinue the proceedings. As regards applications for electricity generation licences for plants using solar radiation, they mostly concerned plants with an installed capacity of 5 to 15 kW (i.e., primarily plants installed on roofs). Compared with 2009, the share of plants with an installed capacity of 0.1 MW and more increased. The significant growth in the number of applications for electricity generating licences and the rising installed capacities of plants using solar radiation are attributable to information about the forthcoming legislation on the regulation of support for renewable electricity generation, which was intended to allow more efficient regulation conducive to a significant reduction in support for electricity from sunshine. This is why throughout 2010, and in particular in late 2010, investors in solar electricity tried to meet the conditions for the award of support for renewable electricity applicable to plants commissioned in 2010. As a result, almost 7,000 new electricity generating plants using photovoltaic energy were completed. As the number of awarded licences increased, the number of applications for licence change or revocation also increased. In this connection, growth in the agenda concerning changes to awarded licences can be expected going forward. To provide for the licensing work, the Office accepted ten new employees for the period from June to the end of 2010.

In 2010, the number of licences awarded for electricity generation in wind power plants and from biogas in cogeneration increased slightly as evident from Charts 23 and 25 and Table 5.

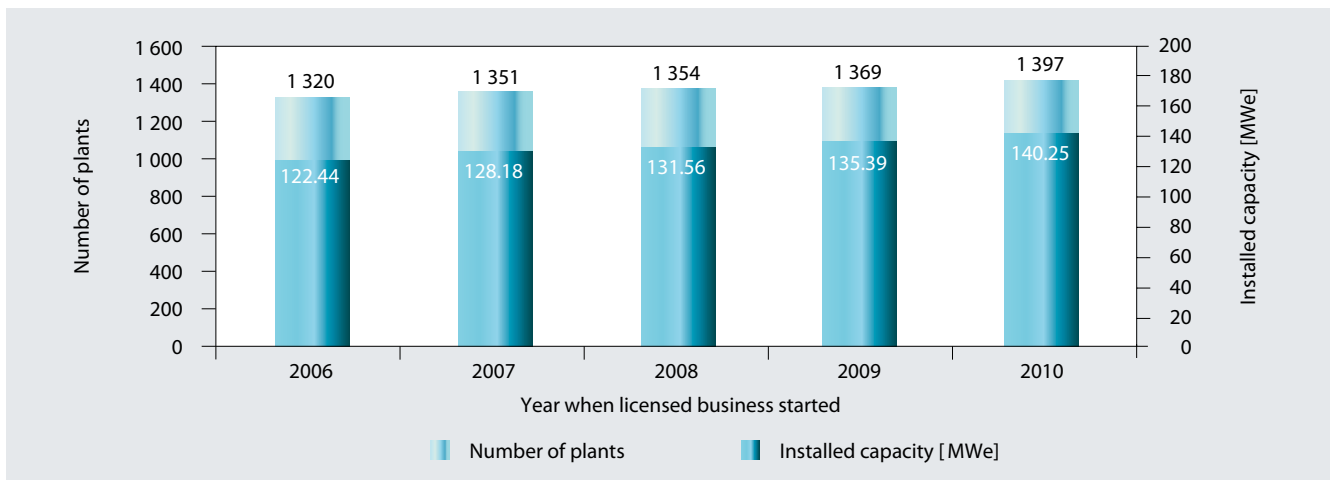
Table 5 Number of electricity generating operations and installed capacities, 2006 to 2010, by type of renewable energy

Operations		2006	2007	2008	2009	2010
Hydro	Number	1,320	1,351	1,354	1,369	1,397
	Capacity [up to 1 MW]	122.44	128.18	131.56	135.39	140.25
Wind	Number	57	69	77	85	93
	Capacity [MW]	44.50	117.52	149.71	192.86	214.78
Solar	Number	28	249	1,475	6,032	12,861
	Capacity [MW]	0.35	3.40	65.74	462.92	1,952.70
With a share of biogas	Number	56	83	115	157	180
	Capacity [MW]	17.33	31.68	51.24	80.10	103.02
Landfill gas	Number	33	53	58	62	61
	Capacity [MW]	8.43	20.76	21.94	23.18	22.63
With a share of biomass	Number	36	39	38	48	56
	Capacity [MW]	1,994.01	1,995.11	1,947.40	2,041.00	1,676.37

Table 5 shows that in the renewable electricity segment, the number of operations is growing at a high rate (and therefore also installed capacity is increasing), which is a consequence of support for electricity generation from renewable energy sources under Act No. 180/2005, as amended.

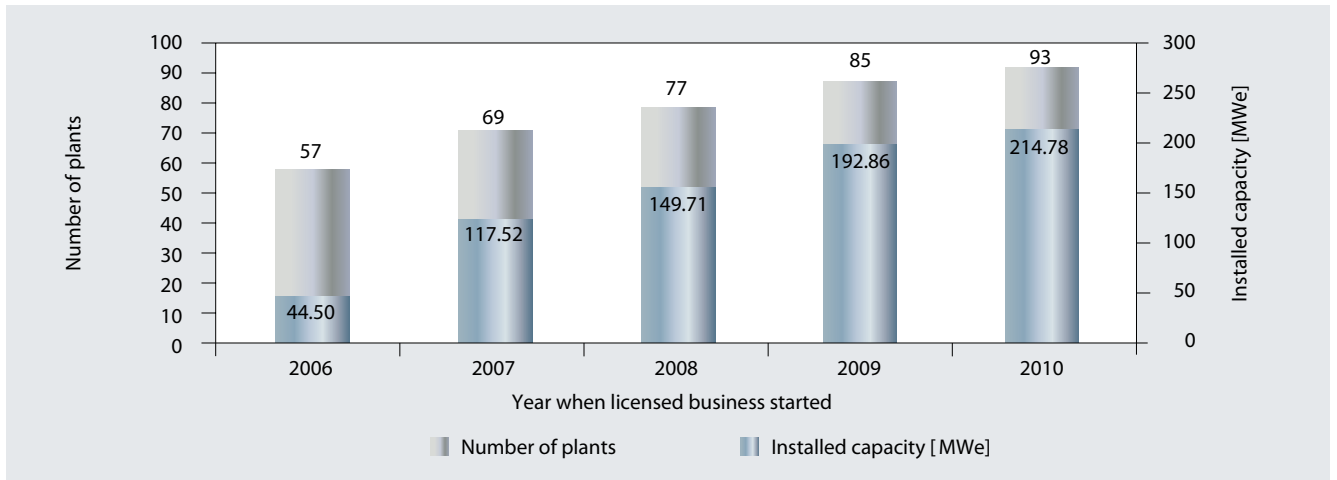
The following graphs show the development of the number and installed capacity of electricity generating plants by the type of renewable source.

Chart 22 Hydroelectric power stations (up to 1 MWe installed capacity)



The growth in the number of hydroelectric power stations almost stopped in 2010 and therefore the installed capacity of these power stations increased only slightly. The main reason is that there are no longer many sites on which new capacities could be built. In addition to the minimum construction of new hydroelectric power stations, operations commissioned earlier are being refurbished. Since for the above reasons changes in the number and total installed capacity of licensed hydroelectric power stations only take place for low-output installations, the graph illustrating annual changes in the number and total installed capacity only covers operations with a total installed capacity of up to 1 MWe per operation for better clarity.

Chart 23 Wind power plants



Growth in the number of operations and installed capacity is almost constant for wind power plants, i.e., investors continue to be interested in developing and operating these electricity generating plants.

Chart 24 Photovoltaic plants

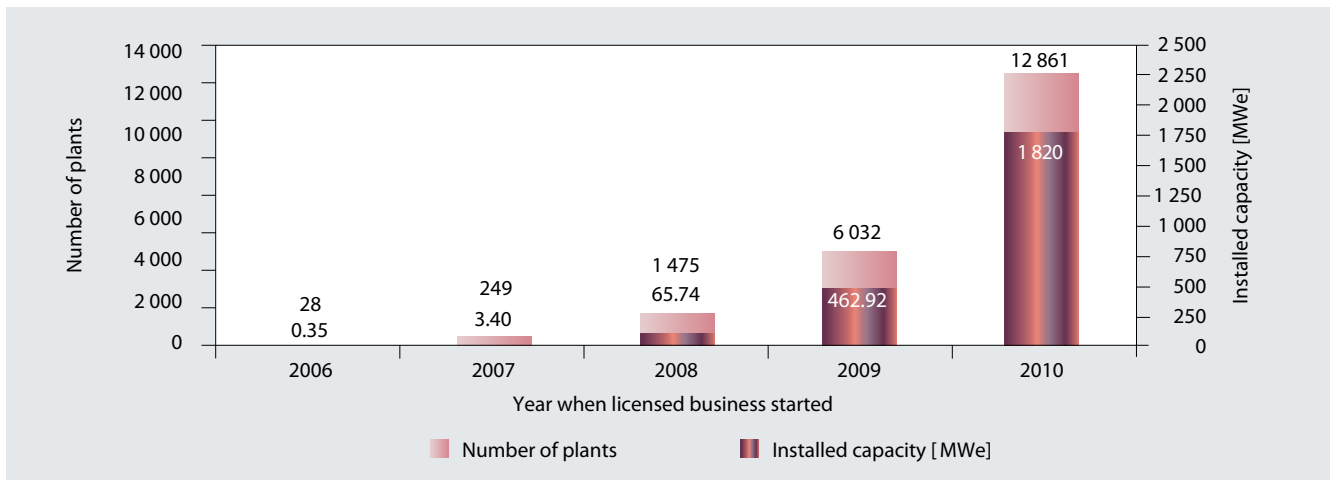


Chart 24 shows the recent significant growth, unexpected as to its rate, in the number of operations and installed capacity. In 2010, the licensing department's activity related to the issue of licences for electricity generation from photovoltaic plants was therefore dominant.

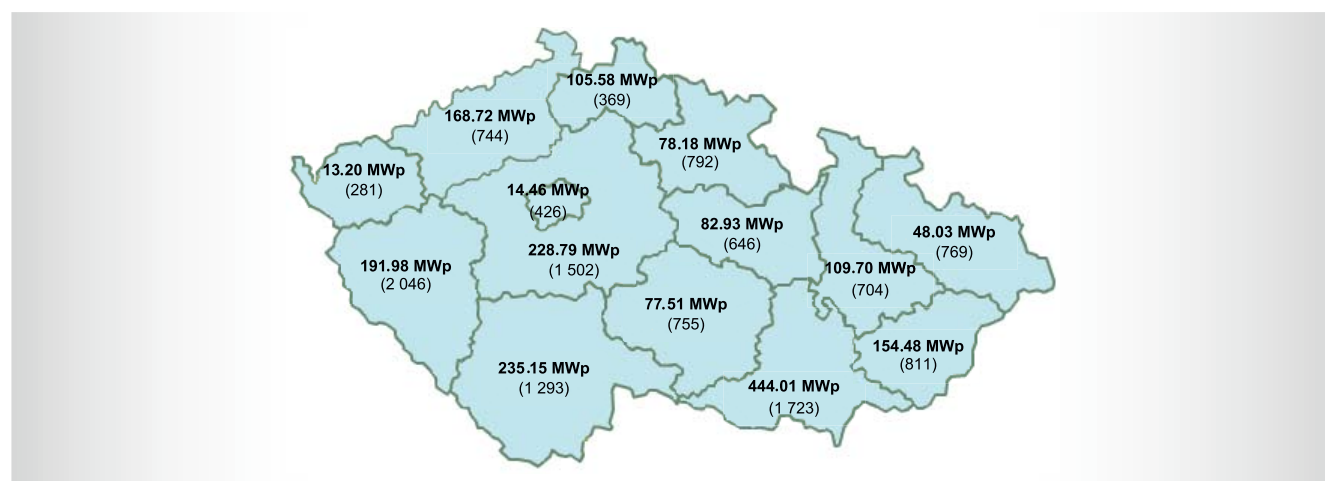
Table 5 shows that by 31 December 2010, licences for electricity generation in plants using solar radiation had been awarded for a total installed capacity of 1,952.70 MW; as at the same date, the installed capacity of the plants that had been commissioned by the end of 2010, i.e., which were connected to the distribution or transmission system, started to produce electricity, and for their electricity production the producer was awarded an electricity generation licence that became final by the end of 2010, was 1,820 MW.

Table 6 Number of installed electricity generating plants using solar radiation, by capacity [MWp]

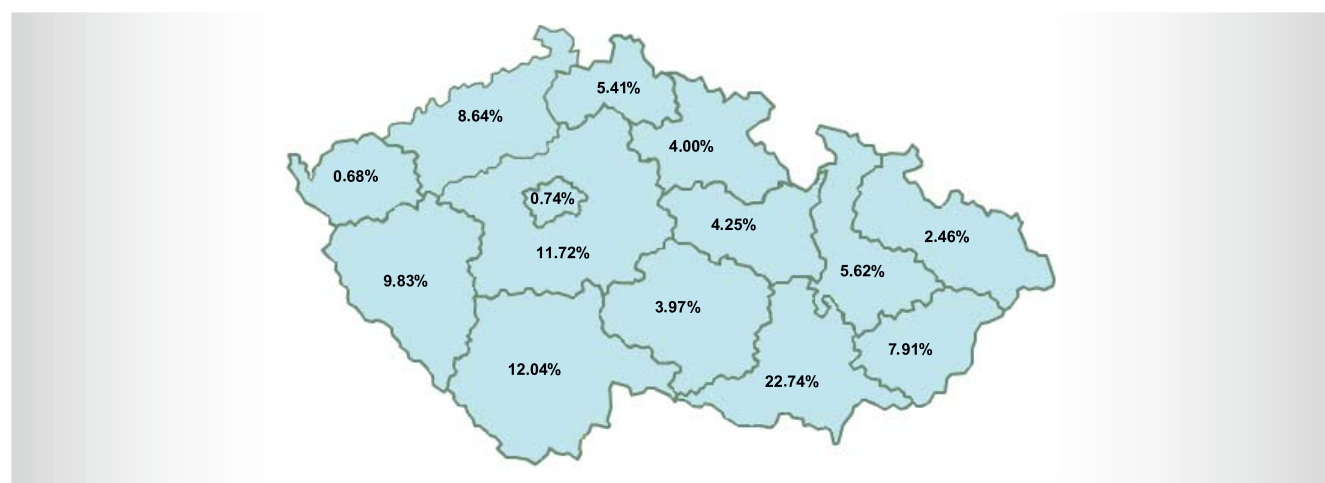
	0-0.01	0.01-0.03	0.03-0.1	0.1-0.5	0.5-1	1-3	>3
Number of installed PHV plants	8,236	2,227	855	703	335	365	140
Number of installed PHV plants [%]	64.04	17.32	6.65	5.47	2.60	2.84	1.09
Total installed capacity [MWp]	41.96	42.57	51.61	172.28	254.94	638.33	750.99
Total installed capacity [%]	2.15	2.18	2.64	8.82	13.06	32.69	38.46

Table 6 clearly shows that more than 80 percent of photovoltaic plants licensed for electricity generation have a capacity of up to 0.03 MWp. However, these plants' total installed capacity accounts for only 4.33 percent of the total installed capacity of all power stations. On the other hand, large electricity generating plants with an installed capacity of more than 1 MWp, which account for only about four percent of all photovoltaic plants, contribute 71 percent to the total installed capacity of these power plants that were licensed for electricity generation.

Map 1 Total installed electrical output of PHV plants in the regions and the number of operations – PHV plants (in brackets) by region as at 31 December 2010



Map 2 Regions' share of the total installed electrical capacity of photovoltaic plants in the Czech Republic



Maps 1 and 2 show the regions' share of photovoltaic in the total installed electrical capacity of such plants that use solar radiation; this suggests that the southern part of the Czech Republic holds an important position in this respect.

Chart 25 Biogas share

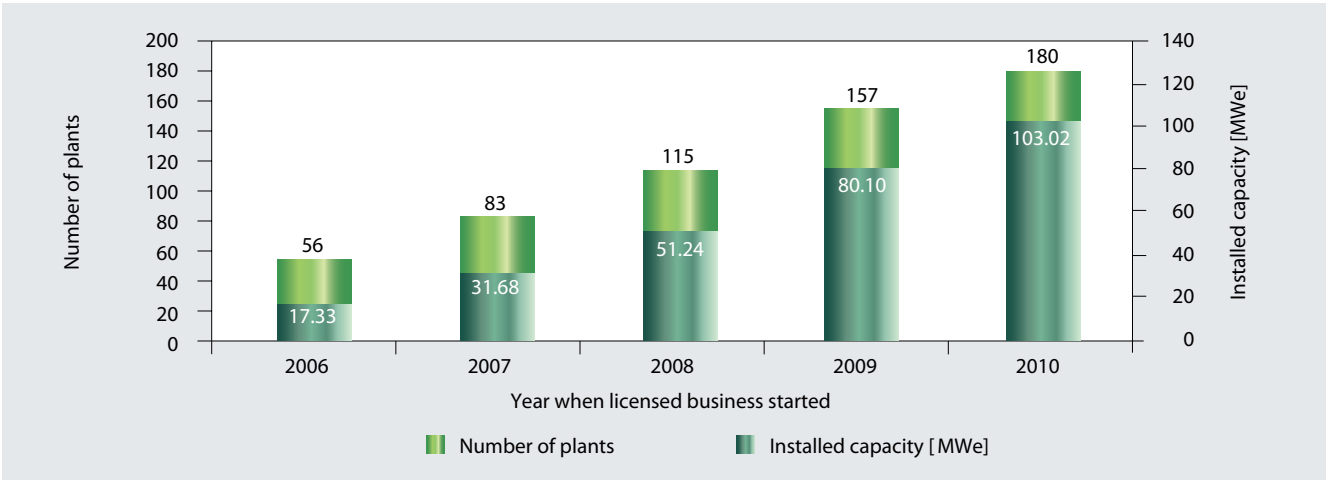


Chart 25 suggests stable interest in the development of electricity generating plants that use biogas. The building of biogas stations for electricity generation is developing in rural areas, in particular as a complement to farming. From this perspective, this is a promising industry and therefore growth in the number of operations and installed capacity can be expected in the coming years.

Chart 26 Landfill gas share

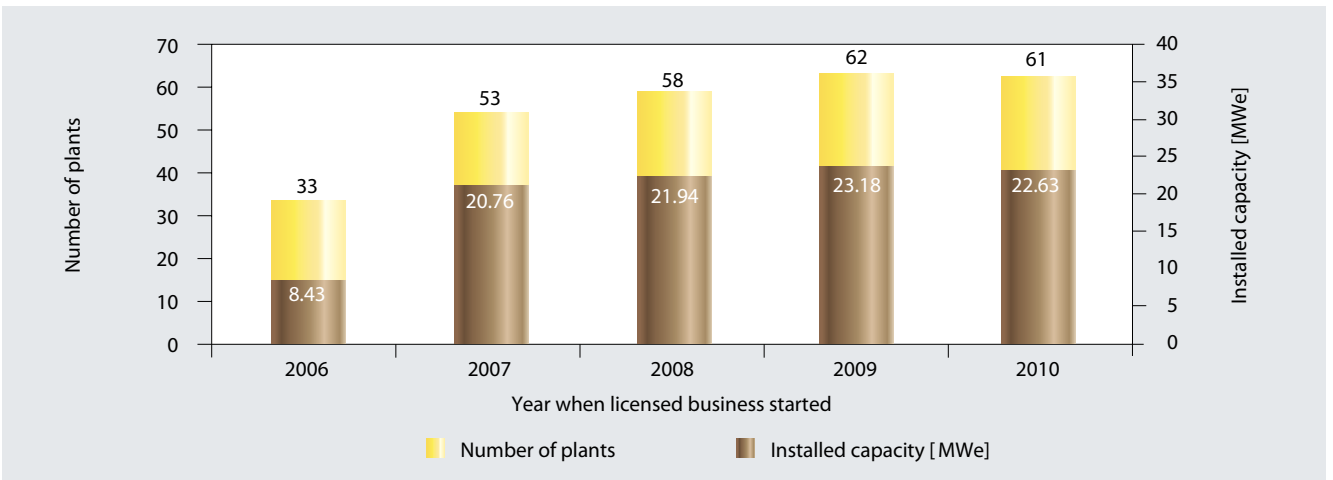
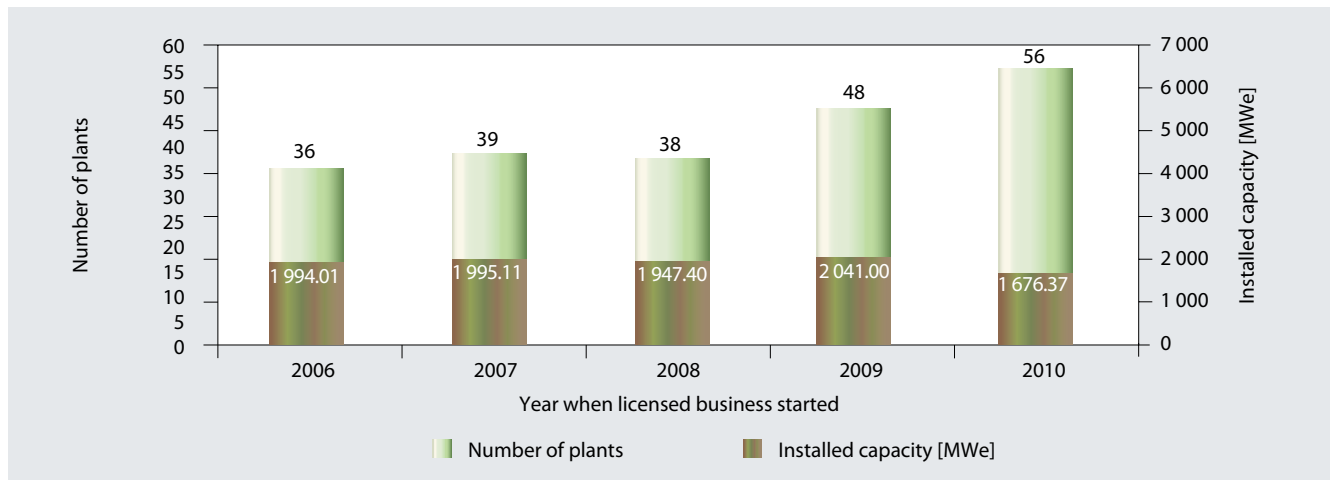


Chart 26 shows that electricity generating plants that use landfill gas are the only RES segment in which 2010 did not see any growth in the number of operations or total installed capacity.

Chart 27 Biomass share



Although Chart 27 indicates some growth in the number of biomass operations, at the same time the reported installed capacity of these electricity generating plants decreased; the reason is a change in the approach to support for electricity generation that uses biomass for co-firing with coal. This change caused the usable capacity that can be included in this RES category to decline.

Information about the licences awarded for business in the energy industries, and about changes and revocation of these licences, is published in the *Energy Regulation Gazette* on an ongoing basis. The Office posts a list of decisions on licence award on its website in the form of a list of licence holders structured by licence groups. On this page, a free web application helps to find information about specific licence holders. Subject to electricity and gas traders' consent, their contact details are published to facilitate the search for potential electricity and gas suppliers.

6.1.2 Licence revocation proceedings

LENOXA a.s.

In proceedings commenced in May 2010, the Office decided to revoke the thermal energy production and distribution licence of LENOXA a.s. In September 2010, the decision was upheld in remonstrance proceedings by the ERO Chairman. The reason for licence revocation was the fact that the licence holder no longer satisfied the licensing conditions.

ENERGOM Praha s.r.o.

In proceedings commenced in August 2010, the Office decided to revoke the electricity distribution licence of ENERGOM Praha s.r.o. The reason for licence revocation was the fact that the licence holder no longer satisfied the licensing conditions.

Escorial s.r.o.

In proceedings commenced in August 2010, the Office decided to revoke the electricity distribution licence of Escorial s.r.o. The reason for licence revocation was the fact that the licence holder no longer satisfied the licensing conditions.

MARSERVIS, s.r.o.

In July 2010, the Office commenced proceedings and revoked the thermal energy distribution licence. The reason for licence revocation was the fact that the licence holder no longer satisfied the licensing conditions. Subsequently, in the review proceedings this decision was reversed on the grounds of insufficiently established situation in the case.



6.1.3 Proceedings on the imposition of the obligation of supply over and above a licence and provision of energy facilities

One of the Office's important competences is to take action to provide for energy supply when there is a risk of an interruption or curtailment of such supply and damage to property and people's health is imminent because of the current licence holder stopping to perform its licensed business. To protect final customers, in such cases the Office orders licence holders or energy facility owners to provide, in the public interest, their installations to other licence holders, selected by the Office, who then operate the installations, thereby ensuring that electricity, gas or heat continues to be supplied. This measure may stay in effect for up to one year, during which the entities that are still interested in such supply have to make arrangements for future energy supply. In 2010, the obligation of supply over and above a licence was applied in the following cases:

LENOXA a.s.

In early 2010, the Office decided on the termination of the obligation to provide an energy facility for thermal energy production and distribution at Rovná near Sokolov that had been imposed on LENOXA a.s. and on the termination of the obligation of Dalkia Mariánské Lázně, s.r.o. to supply, using this facility, thermal energy over and above its licence, before the expiry of the 12 months, because thermal energy supply was arranged contractually.

LENOXA a.s.

In proceedings on imposing the obligation to provide an energy facility and the obligation to supply thermal energy over and above the licence, the Office ordered the holder of thermal energy production and distribution licences, LENOXA a.s., by an interim injunction, and later decided on the merits by imposing an obligation in seven localities (Doksy, Ralsko–Kuřívody, Višňová, Krajková, Třemošnice, Brno and Kuřim), to provide its energy facility for thermal energy production and distribution to ČEZ Teplárenská, a.s. At the same time, the obligation to provide the energy facility was imposed on the equipment owners, who were a leasing company, EFIS s.r.o., and the municipalities of Višňová and Krajková. ČEZ Teplárenská, a.s. was obliged to supply thermal energy over and above its licence.

MORAVAN akciová společnost

The Office decided to terminate the obligation to provide its electricity distribution facility imposed on MORAVAN akciová společnost and to terminate the obligation of Energetika Malenovice, a.s. to use this facility for electricity distribution over and above its own licence before the expiry of the 12 months, because the facility was taken over by another owner who provided for electricity distribution from 1 January 2010.

MORAVAN akciová společnost

The Office decided to terminate the obligation to provide its energy facility for thermal energy distribution, imposed on MORAVAN akciová společnost, and to terminate the obligation of Teplárna Otrokovice a.s. to use this facility to supply thermal energy over and above its own licence before the expiry of the 12 months, because the facility was taken over by another owner who provided for thermal energy supply from 1 January 2010.

ENERGOM Praha s.r.o.

In proceedings on imposing the obligation to provide an energy facility for electricity distribution, in August 2010 the Office ordered in an interim injunction and later in a decision on the merits, the electricity distribution licence holder, ENERGOM Praha s.r.o., to provide the electricity distribution facility to PREdistribuce, a.s., imposing on the latter the obligation to provide electricity distribution over and above its licence.

MARCO CASTINARO, a.s.

In proceedings on imposing the obligation to provide an energy facility for electricity distribution, in July 2010 the Office ordered, in an interim injunction, the owner of the electricity distribution facility, MARCO CASTINARO, a.s., to provide this electricity distribution facility to ČEZ Distribuce, a.s., imposing on the latter the obligation to provide electricity distribution over and above its licence. The ERO Chairman upheld the decision on the interim injunction in remonstrance proceedings.

6.1.4 Proceedings on administrative fees

In connection with proceedings on the award, change or revocation of licences for business in energy industries, 116 proceedings were conducted in 2010 in respect of the refund of the administrative fee.



6.2 Recognition of professional qualifications

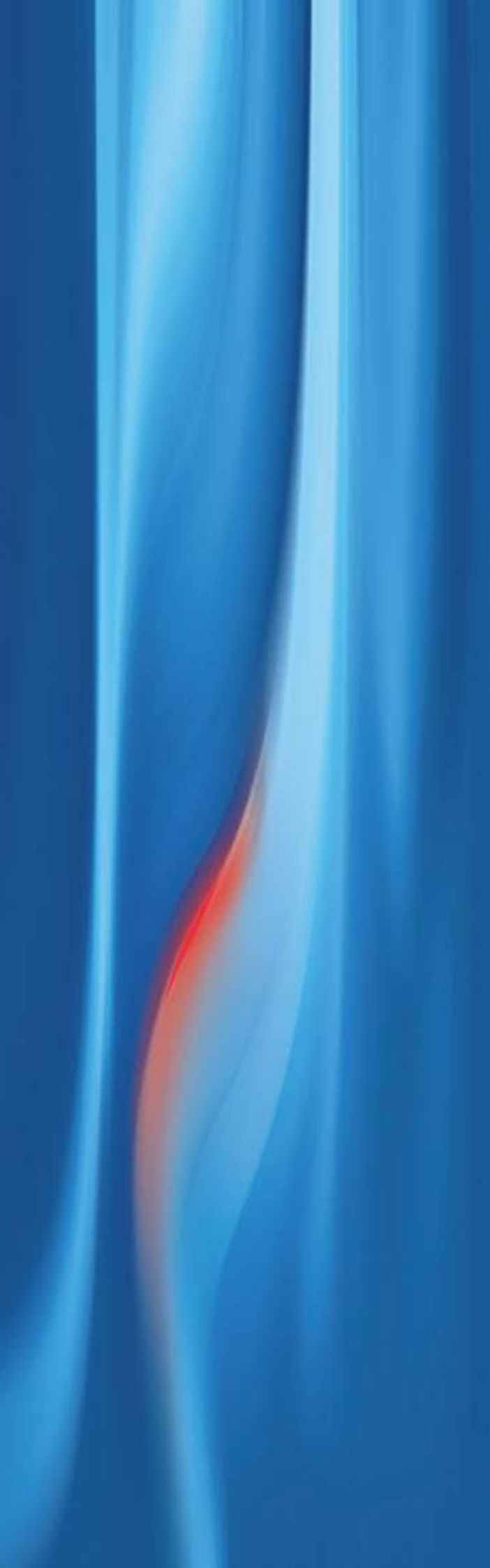
In 2010, the Office decided in five administrative proceedings on the recognition of professional qualifications, with favourable results. No compensation measures within the meaning of Act No. 18/2004, on the recognition of professional qualifications, as amended, were required. More complicated cases were consulted with the national coordinator, Ministry of Education, Youth and Sports of the Czech Republic. The Office is involved in a project for an information system of the internal market for effective administrative co-operation and mutual communication between the EU member states' recognition authorities.

6.3 The Energy Regulatory Fund

In accordance with Section 14 of Act No. 458/2000, the Energy Act, the Office must hold funds in a separate account kept with the Czech National Bank (CNB), which are intended for compensating the losses conclusively suffered by licence holders that perform the obligation of supply over and above their licence. As at 1 January 2010, the opening balance in the Energy Regulatory Fund stood at **CZK 44,788,650**. In 2010, a total of **CZK 3,306,560** was paid from the Energy Regulatory Fund account in compensation for demonstrable losses suffered due to the obligation of thermal energy supply over and above the licence. In 2010, contributions to the Energy Regulatory Fund were collected, and totalled **CZK 5,211,350** (CZK 5,190,470 was paid). Adding the interest accrued, the closing balance in the Energy Regulatory Fund account stood at **CZK 46,891,470** as at 31 December 2010.

This balance in the Energy Regulatory Fund is lower than the limit set out in the Energy Act, which is CZK 50,000,000. Since in 2010 the Office paid financial contributions for the compensation for demonstrable losses suffered due to the obligation of thermal energy supply over and above the licence only in an amount of CZK 3,306,560 and the balance in the Energy Regulatory Fund account therefore did not decrease under the limit of CZK 45,000,000, which is required by the Energy Act, in 2011 the Office will not collect contributions to the Energy Regulatory Fund from licence holders in the heat supply industry.

Under the Energy Act, an independent audit of the Energy Regulatory Fund was carried out; the audit confirmed that the disclosures were correct, see Appendix 2.



7

EXTERNAL
RELATIONS

7 External relations

7.1 Co-operation with central state administration authorities

Within its remit, the Office closely cooperates mainly with the Ministry of Industry and Trade (MPO), Ministry of Foreign Affairs (MZV), Ministry of Finance (MF), Ministry of the Environment (MŽP), Office for the Protection of Competition (ÚOHS), State Energy Inspectorate (SEI) and other administrative authorities in the energy sector in accordance with the Energy Act and other general and special legislation. In 2010, the Office's co-operation with the MPO focused on working with their energy and legal experts in the evaluation of the experiences with the application of the Energy Act as the basic framework creating the environment for energy market players' activities. An analysis of shared experiences serves as the basis for preparing amendments to implementing regulations issued by the Energy Regulatory Office and the Ministry of Industry and Trade. During the year, the Office also consulted some issues of the inflationary impacts of energy prices on the country's macroeconomic stability with the Czech National Bank (CNB). The Office also closely cooperated with the MZV in the drafting of materials for the Czech Republic's positions on the various documents that were received from European institutions for comments and assessment.

In general, the largest part of the co-operation is geared towards the preparation and application of laws and implementing regulations for the areas of regulation and competition and the development of an effective framework for energy markets' functioning.

For meetings of the members of the Council of Economic and Social Consensus (RHSD), in the latter half of 2010 the Office drew up a detailed report on the expected development of the prices of energy from renewable sources, highlighting photovoltaic. The report, which forecast the development of the prices of electricity from photovoltaic plants, was also provided to the Cabinet members.

The Office also coordinates data processing for the electricity industry within the entire state administration and has become the central institution responsible for the collection of this data.

7.2 Co-operation with the Czech Parliament

Throughout the year, the Office continuously kept in touch with representatives of the committees of the Chamber of Deputies, especially the Economic Committee and its Energy Subcommittee, the Committee for Public Administration and Regional Development, the Environment Committee, and the Audit Committee; one of the reasons was that in 2010, energy legislation was one of the most important areas debated in almost all of the committees involved.

The Office's representatives attended all meetings of the committees and subcommittees of the Chamber of Deputies and the Senate of the Parliament of the Czech Republic, which were called in connection with the amendment to Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources, as amended. They also took an active part in seminars on the amendments to the above law, where they actively used the opportunity to present the Office's views and positions.

As part of the drafting and discussion of the amendments to the law on support for renewable energy sources, the Office prepared several analyses that addressed – in response to the development of the proposed content of the amended law and the progressively presented amending proposals – the practical impacts of the proposed changes and modifications, and offered a realistic view of the respective issues. Upon requests from the various committees and subcommittees, in particular those related to points on photovoltaic plants and feed-in tariffs for renewable electricity, the Office also prepared some informative materials and studies.

In the Senate, the Office worked with the Committee for Economy, Agriculture and Transport and its Subcommittee for Energy, the Committee for Regional Development, Public Administration and the Environment, and the Committee for Education, Science, Culture, Human Rights and Petitions. Here too the Office's representatives actively participated in meetings and technical seminars and public hearings; they particularly highlighted the issue of photovoltaic plants. For the Senate's committees and subcommittees, the Office prepared a number of informative materials and studies.

7.3 Public and media relations

7.3.1 Information provision

Under Act No. 106/1999 on free access to information, as amended, the Office provides information about its work and about options for addressing problems that fall within its competences. In 2010, 166 applicants for information approached the Office, i.e., 105 more than in 2009.

Number of received and handled requests for information in 2010

Area	Number of requests
Electricity industry regulation	131
Licensing	20
Strategy	1
Legislative and legal	4
Other	10
Total	166

As in previous years, the subject of requests for information was mainly regulation in the electricity industry, especially from the perspective of the issued price decisions and public notices. In 2010, there was extreme interest in information about renewable energy sources, in particular solar plants. A number of questions also concerned heat price controls, which in particular included requests from condominiums, and also requests for information about energy supplier switching and the licensing procedure.

All requests for information were answered within the required time limit and answers were provided free of charge as in previous years.

As the public's interest in the energy sector increases the number of questions is also rising; during the year, the Office's relevant technical departments handled some 1,000 questions as part of their everyday correspondence. With the expanding energy market, development of renewable electricity production, and the generally growing importance of energy as a whole, the questions are becoming more and more technical and preparing answers to these questions is therefore more time consuming and requires technical expertise.

In 2010, the Office received 162 submissions that were, in the light of their nature and content, treated as complaints under an internal regulation, Chairman's Measure No. 3/2006 – Guidelines on Complaint Handling. In 2010, the Office received a total of 162 complaints, of which 25 were treated as justifiable and 123 as unfounded. There were seven complaints, which were categorised as falling under Section 175 of Act No. 500/2004, Rules of Administrative Procedure, and also seven complaints that the Office referred to a different state administration authority.


In relation to both expert circles and the lay public, the Office's competences provide large room for developing its communication strategy. Due to the shift in regulation in response to the respective legislative changes, primarily those concerning renewable sources, the presentation of the Office's position and activity mainly centred around its individualised approach to the media, in particular the trade press and the journalists who cover energy issues, with a view to informing both the lay public and experts circles about the forthcoming changes on time. The aim of informal discussions held with the Office's representatives on the impacts of support for renewable electricity or on the amendment to the public notice on the conditions for connection to the electricity grid was to help clarify the relevant facts. Emphasis was placed on the specific technical nature of the interviews and other appearances of the Office's senior personnel in the regional and national media. The Office's employees also published a number of articles in the trade press and contributed to the content and focus of these periodicals by their participation in editorial boards. They also contributed to the preparation of the content of and spoke at a number of technical seminars and conferences organised by economic periodicals. The Office also promoted regular co-operation with the Czech News Agency and other news agencies and news servers.

7.3.2 Publications

Under the Energy Act, the Office produces the *Energy Regulation Gazette*, which appeared with a circulation of 520 in 2010 (492 copies were distributed on the basis of subscription). SEVT, a.s. was responsible for the administration of the *Gazette* as in previous years.

Eleven issues of the *Gazette* appeared in 2010; three of them were more voluminous as they carried a list of holders of licences awarded for business in the energy industries, broken down to licences awarded, revoked and discharged. The other documents published in the *Gazette* included price decisions, of which the Office issued six in 2010: four on electricity prices, one on gas prices and one on thermal energy prices. The *Gazette* also carried three notices - the approval of the rules for the operation of energy grids, a notice on the share of renewable electricity in gross electricity consumption and on the expected impacts of support for renewable electricity on the overall prices for final customers, a notice on the approval of the commercial terms and conditions of OTE, a.s., a report on the management of the Energy Regulation Fund for 2009 and the budget proposed for the Fund for 2010, a report on the level achieved in maintaining electricity transmission and distribution continuity for 2009 (The Quality Report) and a list of concluded disputes and administrative proceedings in the Regulation Section and Licensing Department.

Under Section 10(2) of Act No. 526/1990 on Prices, as amended in Act No. 230/2006, the ERO is, as a price control authority, obliged to promulgate in the Official Gazette notices of regulations on price controls which have been published in the *Energy Regulation Gazette*, i.e., price decisions. Their publication must be notified through the Official Gazette in the form of a communication under Section (2)(1)(e) of Act No. 309/1999 on the Official Gazette and on the Collection of International Treaties, as amended. The Office became obliged to do so upon the coming into force of Act No. 230/2006 of 29 May 2006.



Both as hard copy and in electronic form, in both Czech and English, the Office also produced its Report on the Activities and Finances of the Energy Regulatory Office for 2009, which it submitted to the Czech Government and the Chamber of Deputies of the Czech Parliament in compliance with the Energy Act.

Since in 2010 the Office carried out a project co-financed from the EU Structural Funds, a section on ERO – Structural Funds, in which the Office informed about the project, was set up on its website.

Under Section 17 of Act No. 458/2000, the Energy Act, as amended, the Office publishes annual and monthly reports on the operation of the Czech electricity grid. All businesses active in the electricity industry furnish the Office, on a regular basis, with sets of operating and technical data, which form the basis for preparing these reports. These businesses include approximately 13,293 electricity producers, 313 electricity distributors, 323 electricity traders, the TSO and the company licensed as the electricity market operator.

The monthly reports on operation are prepared by the end of the month following the end of the period under review and are published on the Office's website. Abridged reports are provided to the media.

Once a year, the Office produces an *Annual Report on the Operation of the Czech National Electricity Grid*, which appears in Czech, while an executive summary of the report is also published in English (both hardcopy and CD-ROM).

In its position as the central institution for the processing of operating and technical data on the electricity industry, the Office also coordinates data processing for the electricity industry.

The Czech Statistical Office, Ministry of the Environment, Ministry of Industry and Trade, and some Regional Authorities currently take outputs from the Office's databases.

Both as hard copy and in electronic form, in both Czech and English, the Office also produces its *Reports on the Activities and Finances of the Energy Regulatory Office* for the respective year. The Office submits this annual report to the Czech Government and the Chamber of Deputies every year in accordance with the Energy Act.

7.4 The Chairman's Advisory Corps

Experts from the state administration, consumer and business associations, trade unions and consultancies, who contribute their opinions and suggestions to the Office's decision-making, in particular as regards the strategic regulatory issues and the Office's positions as part of its activity in the EU, are members of the ERO Chairman's Advisory Corps. They met four times in 2010.

At the April meeting, the advisory corps received information about the key changes to Act No. 180/2005, on Support for Electricity Generation from Renewable Energy Sources (Act No. 137/2010) and also about the drafting of a new bill on support for the use of energy from renewable and secondary sources and from highly efficient combined heat and power generation (law on supported energy sources). The advisory corps also received information about the number of the applications for a licence for electricity production in photovoltaic plants filed in late 2009 and about the development expected in this area in 2010. They further discussed the notice published by ČEPS, a.s., and the distribution companies' reaction thereto, that the company would not issue any further consents to the connection of new photovoltaic plants to the grid. In connection with the development in the construction of photovoltaic plants, there was also detailed discussion on the option to categorise photovoltaic plants by their siting (farmland, roofs etc.) and on abuse of support (failure to connect to the grid). The main principles of public notice no. 81/2010, which amended no. 51/2006 on the conditions for connection to the electricity grid, were also discussed.

In relation to the forthcoming amendment to the Energy Act and to the law on support of the use of renewable sources, the advisory corps expressed their agreement with the Office's approaches and proposals in the discussion of these documents at all levels of the legislative process.

Because of the progress of work on amendments to Act No. 458/2000 and Act No. 180/2005, in June the advisory corps received information about the proposed changes to these two laws, in particular the Office's procedure to implement the requirements arising from EU directives and regulations in the amendment to the Energy Act. The advisory corps also received information about the situation in photovoltaic and emphasised that there was an urgent need to address the general development in renewable energy sources, which would subsequently result in an unfavourable impact on overall electricity prices for the various customer categories in 2011. Discussion also touched upon some serious problems such as the categorisation of biomass as part of determining support for electricity production from renewable energy sources and combined heat and power generation. The advisory corps also discussed, among other things, the issue of the disposal of photovoltaic panels following the end of their useful life, including the variant supported by the Office, and the removal of land from the stock of land for the construction of photovoltaic plants.



At the September meeting the advisory corps received information about the status of the debate on the amendment to the Energy Act and also detailed information about the changes arising from the implementation of EC directives and regulations (support for competition, consumer protection, extension of national regulators' powers), and about the provisions on the Office's position and its inspection competences. The advisory corps also received information about further steps to be taken in respect of the forthcoming new bill on support for the use of renewable sources, and about the key changes in relation to the Czech Republic's National Action Plan for energy from renewable sources. Concerns were voiced about the EU's potential sanctions for failure to keep the time limit for the effect of the law, which was running from the implementation of the EU directive².

Under the next point on the agenda, the role of the gas ITO and the unfair practices of certain electricity traders related to supplier switching were mentioned. During discussion, support was expressed for the view – in connection with the forthcoming amendment to the Energy Act – that the Office should take over all inspection competences from the State Energy Inspectorate in the electricity, gas and heat supply industries.

The November meeting again dealt with the amendment to the Energy Act (probability of failure to ensure that the law would become effective on 3 March 2011) and discussed the forthcoming amendments to Act No. 180/2005 (which were promulgated as Act No. 330/2010 and Act No. 402/2010). The information also covered the then current situation in the connection of photovoltaic plants to the electricity grid, the issue of island operation, and the standardised procedure for filing applications for photovoltaic licences, which had been posted on the Office's website. The advisory corps received information about an internal guideline for the Office's employees (measures to counter the emergence of a corrupt environment). It was emphasised that the Office had at all times proceeded in compliance with legislation, which was also confirmed by a legal analysis. The advisory corps also received information about the main changes to amendments to public notices on the Electricity Market Rules and the Gas Market Rules and about the forthcoming ERO price decisions for 2011.

Extensive discussion was also held on the information appearing in the media, which challenged the Office's qualified estimates of the impact of support for renewable sources on electricity prices. The advisory corps expressed their consent and full support for the Office in respect of the drafting and discussion of new primary and secondary energy legislation and the preparation of price decisions.

7.5 Activities related to membership of the regulatory reform and effective public administration panel

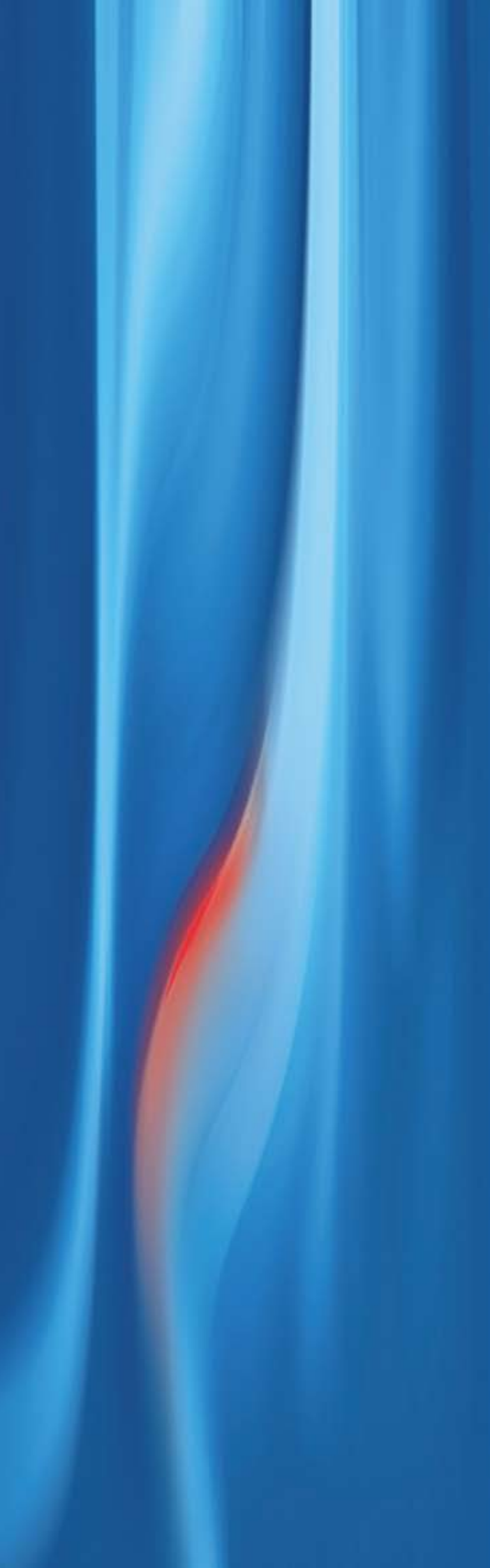
As in the previous years, in 2010 the Office delegated its representative to the regulatory reform and effective public administration panel and committees thereof.

Through the panel, the Office took part mainly in the adoption of positions on legislative proposals submitted to the government from the perspective of the assessment of their impacts and the bureaucratic burden that they may cause, and also approval of proposed projects aimed at making public administration more efficient and subsidised from the EU Structural Funds.

As part of this activity, the Office carried out a project co-financed from the EU Structural Funds and related to the Czech Republic's e-Government strategy, which is described in a strategic document adopted by the Czech Government, Effective Public Administration and Friendly Public Services – Strategy for Implementing Smart Administration between 2007 and 2015.

On the basis of its co-operation with the Project Office at the Ministry of the Interior, the Office prepared a project called ERÚ – Kompatibilita spisové služby [ERO – Filing Service Compatibility] under registration number CZ 1.06/1.1.00/03.05957, implemented under call no. 03 – continuous calls for areas of support 1a and 1b – public administration modernisation under the Integrated Operational Programme. The application for subsidy to the project was submitted in the summer of 2009, and the selection commission approved it in the autumn of 2009; thereupon the Ministry of the Interior issued a legal act. On the basis of the Project Monitoring Report and the approved Application for Payment, on 1 June 2010 a contribution was granted to the Office from the European Regional Development Fund, amounting to CZK 2,894,493, which accounts for 85 percent of the total eligible costs of the project.

² Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources



8

INTERNATIONAL
ACTIVITIES

8 International activities

8.1 The National Report

Beginning in 2005, the Office has been submitting *The Czech Republic's National Report on the Electricity and Gas Industries* to the European Commission every year under the reporting obligation; the national report describes the progress achieved by the Czech energy markets for the past year. In 2010, the national report, which provided a graphic description of the competitive environment in the electricity and gas markets for 2009, was delivered to the European Commission on 31 August 2010. The Ministry of Industry and Trade and the Office for the Protection of Competition contributed to the preparation of the national report.

8.2 CEER, ERGEG and ACER

As part of its long-term co-operation with associations of European energy regulators, the Council of European Energy Regulators (CEER) and the European Regulators' Group for Electricity and Gas (ERGEG), which serves as the European Commission's formal advisory group, the Office's employees took an active part in projects concerned with sustainable development of support for renewable sources, supply quality, the issue of smart meters and smart grids, empowering consumers, transparency and the creation of a single competitive European energy market.

This activity was particularly visible in the group for incentive regulation models based on efficiency benchmarking (WS EFB), where the Office's representatives initiated the extension of the document to include an analysis of the regulatory asset base (RAB), and in the group for retail markets and consumers, where the Office advocated a balanced approach to the preparation of recommendations for the parameters that should be taken into account in the assessment of the costs and benefits, which will precede the roll out of intelligent meters.

In connection with the adoption of the third energy package and the launch of the work to set up the Agency for the Cooperation of Energy Regulators (ACER), the transformation of these organisations of regulators was launched so that the tasks carried out by national regulatory authorities would be pushed through at the EU level. In this respect, the Office's representatives focused on coordinating the steps and pushing through the Czech Republic's positions at the meetings of the working groups for electricity, gas, customers, and implementation of the legislative acts of the third energy package. The Office's employees were active in the working groups that discussed the unification of the connection conditions, capacity allocation and congestion management; further, positions on the creation of TSOs' ten-year investment plans were formulated. Non-legislative steps concerning the relationship between retail and customers and taken on the basis of the Citizens' Energy Forum, which have the nature of voluntary self-regulatory measures, were also coordinated.

8.3 Regional initiatives

8.3.1 Electricity, Central and Eastern Europe


In 2010, primarily the questions of congestion management and transmission capacity allocation on cross-border interconnectors were discussed as part of the regional activities of the CEE (Central and Eastern Europe) Region. Although for the whole of 2010 the calculation and allocation of capacities for cross-border exchanges continued to take place on the principle of coordinated explicit auctions based on the NTC method only between Poland, Germany, Slovakia and the Czech Republic, in late 2010 the remaining countries of the region such as Austria, Hungary and Slovakia expressed their will to join this system because of the persisting problems with the implementation of the flow-based method.

Following the change in the above countries' attitude, the latter half of 2010 saw the completion of the process of the development and approval of uniform auction rules for the allocation of cross-border transmission capacities. In December 2010, the result of this effort was the successful organisation by the Freising auction office of the first annual and monthly auctions for cross-border capacities for 2011 within the whole region; on 1 January 2011, daily auctions for transmission capacities were also successfully launched in the whole region. Nevertheless, these activities did not constrain in any way the working of the daily implicit auctions between the Czech Republic and Slovakia; since their introduction, the volumes of traded and transmitted electricity have been increasing.

In late 2010, a cross-border intra-day transmission capacity market was also working on all national borders with the Czech Republic, and all TSOs in the region put in place standardised scheduling (market close and data transmission). These steps facilitate trading between countries for the electricity market players themselves, and are also fully in line with the target model of the electricity market in continental Europe.

8.3.2 Gas, South South East

The purpose of the gas regional initiatives is to strengthen and further the development of regional gas markets, eliminate barriers to competition on the market, and integrate the national markets. As part of the regional initiatives on the gas market, the organisation of meetings of regional initiative groups was addressed in 2010 with a view to achieving the maximum possible efficiency. The Czech Republic has been included in the South South East Region (SSE), led by the Italian, Autorità per l'Energia Elettrica e il Gas (AEEG), and the



Austrian regulator, Energie-Control GmbH (E Control). The main purpose of the meetings was to inform the participants about the latest developments in each of the countries, and, if applicable, the co-operation between the respective countries. A shared topic was security of supply. Talks focused on the implementation of the EU legislation at the regional level and also on technical provisions, i.e., on ensuring sufficient diversification of transmission routes for gas supplies.

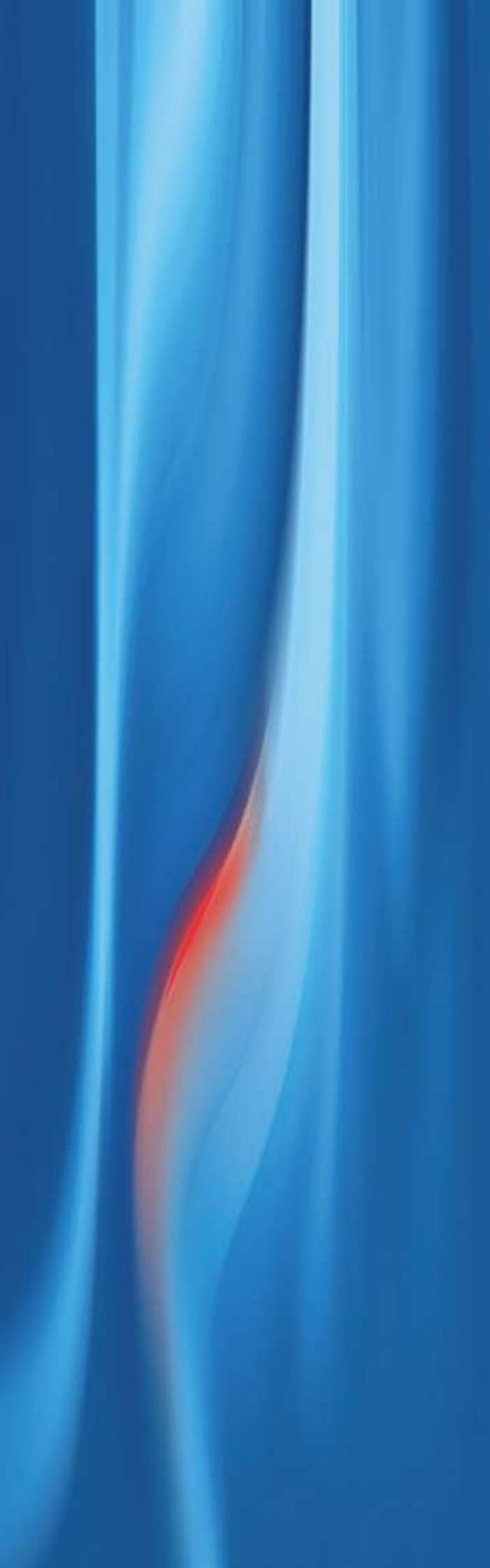
8.4 Trips to other countries

In 2010, the Office's employees participated in business trips to the meetings of the working groups, task forces etc. of the Council of the EU, CEER and ERGEG, meetings with representatives of counterpart regulators, and conferences, technical seminars and study visits in line with the Office's mission in respect of international co-operation and involvement in the activities pursued by international organisations. Business trips to other countries also brought some new experience related to issues such as the development of regulation and its models, and new knowledge on various issues.

For example, a visit to a biogas station in Germany was stimulating in connection with the forthcoming changes to Czech legislation; the presentations there covered the options and modern methods of the production of biomethane suitable for injection into gas pipelines and legislation on relations between biomethane producers, gas distributors and gas traders.

Centred around auction coordination, a seminar at Lundshut was important international experience, on the occasion of which the Office's delegates had an opportunity to actively influence the development of the methodology for cross-border auctions in Central Europe and create the conditions for Czech producers' successful operation on the regulated market in the liberalised environment.

One of the beneficial events was the participation of the Office's representative in a seminar on investments in photovoltaic plants, organised in Bratislava; in his presentation on support for electricity production from renewable sources he provided information on, for example, the applicable legislation, producers' obligations, and reporting of statistical data on renewable electricity production in the Czech Republic.



9

HUMAN
RESOURCES

9 Human resources

9.1 Personnel management agenda

The year 2010 was also extremely challenging in respect of the Office's staffing. During the year, the Office had to flexibly respond to the situation in the licensing of electricity production in photovoltaic plants, and the Licensing Department therefore had to be reinforced by 19 employees in excess of the planned staffing level; of these, nine employees were hired on the basis of 'agreements to perform work' and 'agreements to complete a job'. The term of employment was until 31 December 2010 in all cases.

Despite the difficult situation, the required number of employees with adequate qualifications in the Office's other departments was achieved. However, it is to be noted that due to the payroll restrictions, employee turnover is gradually rising because of salaries, which is particularly true for young employees.

9.2 Education and training

In 2010, the entire area of education and training was heavily affected by austerity measures. A total of CZK 1,299,420, which is 60.28 percent of the amount in 2009, was spent on educational activities. In spite of that, the basic obligations and tasks were carried out. As in previous years, the Office planned educational activities in accordance with Government Resolution No. 1542/2005 of 30 November 2005 on the rules of administrative authority staff training and with Government Resolution No. 40 of 11 January 2006 on the National Programme of Administrative Authority Staff Training to Provide for the Czech EU Presidency. These documents had previously been implemented in the Office's internal standards, which were updated and adjusted to the Office's needs and funding capabilities in 2010.

Initial training

a) Introductory initial training

All employees took this course once their employment contract came into effect; 20 employees were involved;

b) Continued initial training

This is organised in co-operation with the Institute of State Administration and 11 employees were involved.

Advanced training

a) Advanced managerial training

It had the nature of a team training course attended by 16 managers. The programme also focused on assertive behaviour and stress prevention and control – 2 employees, and communication with the media – 1 employee. Training courses were also organised in the area of preventive measures and procedures in the prevention of corrupt behaviour and situations of corruption in state administration – 17 managers and 33 other employees. One employee completed his LL.M. course.

b) Language training

In 2010, the whole system of language training was reconsidered. As part of austerity measures, language training was significantly pared down, because in previous years considerable funds had been spent and the required level of linguistic knowledge had been achieved. Classes therefore continued for a limited number of employees who represent the Office at the international level.

The ERO Chairman newly specified 71 official positions for which knowledge of a world language is prerequisite qualification. This qualification requirement was met by 97.18 percent of employees out of the total number of positions requiring this qualification. The long-term target set in accordance with the Government's above resolutions was therefore achieved.

The ERO Chairman also specified 13 positions for which knowledge of a second foreign language was a prerequisite.

Table 7 Employees' command of languages as at 31 December 2010

	Number of selected positions subject to the qualification requirement of standardised language examinations, in the order of proficiency				Total number of specified positions
	1st level	2nd level	3rd level	4th level	
English	39	27			66
German	5	-			5
Total	44	27			71

c) Other advanced training covered the following in particular:

Knowledge of operation with data mailboxes and of Act No. 300/2008 on electronic acts and authorised document conversion; training in the various amendments to legal regulations, issues related to Act No. 500/2004, Rules of Administrative Procedure (administrative proceedings), occupational health and safety, fire protection, issues related to public notice no. 50/1978, on professional competence in the electricity industry.

Employees were delegated to a number of seminars and conferences on financial analyses and on issues related to regulation in the electricity industry, gas industry and heat supply industry.

Altogether 137 training events, i.e., various courses, seminars and conferences, were held.

Education and training expenses totalled **CZK 1,299,420**, accounting for 2.67 percent of the actual payroll costs related to employees under employment contracts.

The structure of education, training and professional development expenses is shown in Table 8.

Table 8 Structure of education and training expenses

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
Amount	742,020	557,400	1,299,420

In 2010, 32 ERO employees attended 18 domestic and foreign conferences and seminars dedicated to regulation in the electricity, gas and heat supply industries, energy security, biogas and renewable sources. Further, in 2010 four employees attended an intensive language course in the Czech Republic and two employees attended an intensive language course outside the Czech Republic.

9.3 Employees

The approved budget of the ERO chapter, in respect of the 'mandatory standard target' of 'salaries for employees and other payments for work', was met at a level of 101.46 percent, **CZK 49,625,670**; of this, the mandatory standard target of salaries for employees was met at a level of 101.97 percent, **CZK 47,003,000**. The budget was exceeded by the additional employees at the Licensing Department hired for a limited time, and in terms of the budget, this increase was covered using the claims related to unused expenses from preceding periods. The whole issue was discussed with and approved by the Ministry of Finance.

In 2010, the average number of FTE employees was **105**, and the planned number was 102, i.e., the plan was met at 102.94 percent. Of the above number of employees, six reinforced the Licensing Department. Compared with 2009, the staffing level increased by seven employees. The Office had 108 employees as at 31 December 2010, of whom ten reinforced the Licensing Department and terminated their employment on 31 December 2010.

Tables 9 and 10 show the structure of employees by selected indicators.

Table 9 Incoming and outgoing employees in 2010

	New staff	Leaving staff
Number	20	20

Of the overall number of 108 employees as at 31 December 2010, 71 worked in Jihlava and 37 in Prague [worked within the meaning of the place of performance of work / agreement on regular workplace].

Table 10 Employee structure by age and sex as at 31 December 2010

Age category	Men	Women	Total	Share of total staff [%]
Up to 20 years	1	0	1	0.9
21 - 30	11	9	20	18.5
31 - 40	18	11	29	26.9
41 - 50	10	15	25	23.1
51 - 60	17	10	27	25.0
61 years and older	6	0	6	5.6
Total	63	45	108	100.0
Percentage	58.3	41.7	100.0	-

Compared with the preceding period, the number of employees aged 61 and more decreased. The number of employees in the important age groups from 21 to 60 years is quite balanced, but the number of employees aged 21 to 30 decreased.

Table 11 Staffing breakdown by education and sex as at 31 December 2010

Education	Men	Women	Total	Share of total staff [%]
Primary	0	0	0	0
Vocational	1	0	1	0.9
Vocational secondary	0	0	0	0
Complete secondary	0	0	0	0
Complete vocational secondary	10	22	32	29.7
Higher education college	1	0	1	0.9
University	52	22	74	68.5
Total	64	44	108	100.0

In absolute terms, the number of employees with university education was the same as in 2009. The structure of employees by education, with university graduates accounting for 68.5 percent of the overall number, slightly deteriorated compared with 2009. However, this is due to the employees who were hired to the Licensing Department only for a fixed term.

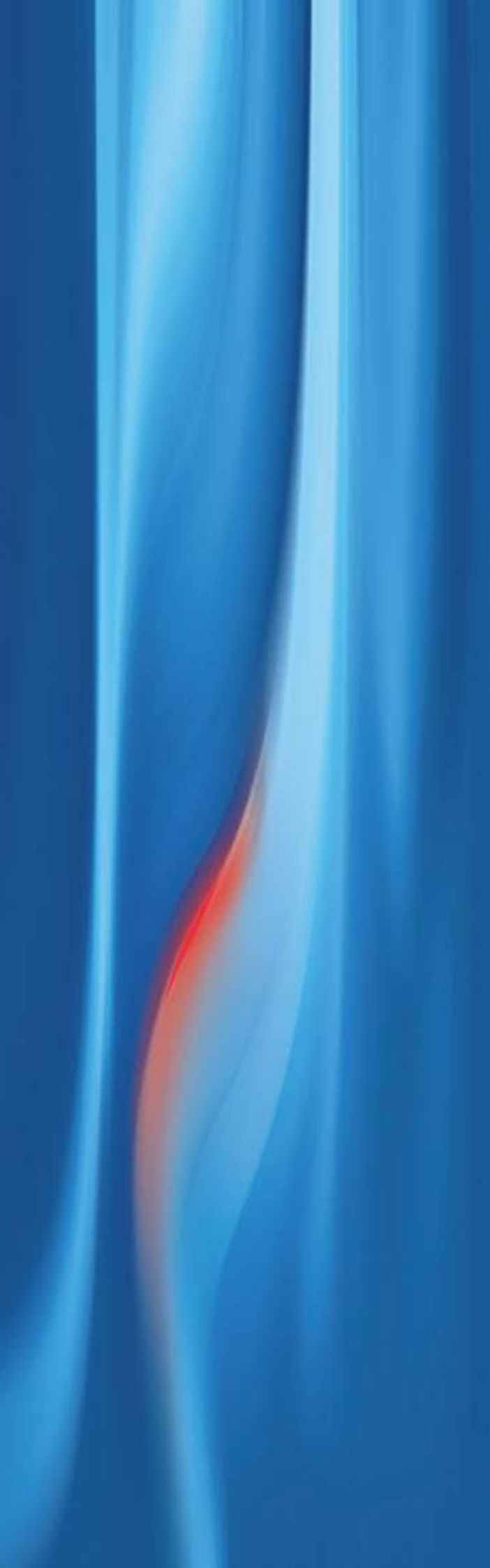
Table 12 Duration of employment as at 31 December 2010

Employment	Number	Share of total staff [%]
Up to 5 years	41	38.0
Up to 10 years	67	62.0
Total	108	100.0

9.4 Organisational activities

The year 2010 was also marked by a visible turnaround in respect of the issuing of internal regulations required for supporting the Office's own functioning. With regard to the development and impacts of general legislation and also with regard to the Office's current needs and the development of its budget management, 32 new internal regulations were issued, of which 26 were ERO Chairman Measures and six were methodological guidelines.





10

ERO BUDGET
MANAGEMENT

10 ERO budget management

10.1 The Chapter's budget

The budget for Chapter 349, Energy Regulatory Office, was approved at a total of CZK 112,023,000. The level of the budget was not changed.

In 2010, the Office carried out budgetary measures under Act No. 218/2000 on budgetary measures, as amended. In the period under review, the Office carried out **seven budgetary measures**, all of them falling within its own remit, and none of them falling within the remit of the Ministry of Finance. In respect of some of the budget items, the originally budgeted expenses had to be corrected during the course of the year to adjust them to the Office's new plans and also to reflect the actual drawdown of funds.

These measures resulted in a transfer of finances between budgetary items within the specific target Outlays to Support the ERO's tasks. The scope and detailed structure of the budgetary measures are provided in detail in the proposed State Final Account for this chapter.

The Office did not carry out any budgetary measure resulting in an increase or decrease in the approved budget or in the mandatory targets of income and expenditure for 2010, or standard and specific targets.

For the sake of comparison, in 2009 eight budgetary measures were carried out, of which three within the remit of the Ministry of Finance and five within the Office's remit.

In respect of the budget for the chapter, the Office complied with all the mandatory, standard and specific targets in line with the approved budget. The planned volume of funds was not exceeded under any of the mandatory targets without approval. Overstepping of selected mandatory targets was discussed with and approved by the Ministry of Finance and funded by deductions from claims on unused expenses from previous years.

The chapter is not authorised to provide subsidies or loans. The chapter does not pursue any economic activities. The chapter has no other subordinated organisational components. There were no individual subsidies, or individually assessed expenses in the budget. A staffing level of 102 was approved for 2010.

10.2 Revenues to the chapter

The following targets were planned and set on the income side. The revenues to the chapter are listed in Table 13.

Table 13 Revenues to the chapter

Budget item	Type of revenue	Approved budget [CZK]	Budget after changes [CZK]	Actual [CZK]
	Total income	1,000,000	1,000,000	20,758,320
	Tax revenues	1,000,000	1,000,000	16,397,350
	Total non-tax revenues, capital revenues, and subsidies	0.00	0.00	4,360,970
	of which: Income from EU budget w/o SZP – programming period 2007 to 2013, total	0.00	0.00	2,894,490
	Other non-tax revenues, capital revenues and subsidies, total	0.00	0.00	1,466,480
	Other non-tax revenues, capital revenues and subsidies, total			
	of which:			
2111	Revenues from the provision of services and products			8,560
2141	Interest accrued on accounts – FKSP, deposit account			1,080
2212	Penalties (fines) received			789,000
2310	Proceeds from the sale of current and low-value fixed assets			470
2322	Insurance compensation received (claims related to the Office's automobiles)			223,510
2324	Non-capital contributions and compensations received (billing of subscription, credit notes for services provided in previous years)			74,780
2329	Other non-tax income not included elsewhere (transfer of the balance in the payment card account as at 31 December 2008)			5,300
3113	Proceeds from the sale of other tangible fixed assets			700
4132	Transfers from other funds (transfer of undrawn funds for wages, including insurance for 12/2009, from the deposit account)			363,080

Revenues totalling CZK 1,000,000 (administrative fees related to the Office's licensing activity) were planned.

However, in reality revenues of CZK 20,758,320 are reported, i.e., performance vs. budget of 2,075.83 percent. This performance on the income side is mainly attributable to higher collection of administrative fees (CZK 16,397,350) in relation to the award of licenses for solar plants. Another very important item is the contribution received from the EU Structural Funds, amounting to CZK 2,894,490, and the payment of fines imposed in administrative proceedings (CZK 789,000). The other revenues to the chapter include one-off income items such as compensations received from the insurance company (CZK 223,510), received refunds and credit notes for the press (CZK 74,780) and the transfer of unused funds for wages and related insurance premiums for December 2009 from the deposit account (CZK 363,080).

The funds on the income side were transferred to the national budget through a special account for administrative fees and a special account for administrative fines, and also the chapter's income account.

10.3 Meeting the 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 Table 14.

Table 14 Meeting of mandatory targets

Mandatory targets	Approved budget [CZK]	Budget after changes [CZK]	Actual [CZK]	Actual / budgeted [3/2] [%]
	1	2	3	4
Aggregate targets				
Total income	1,000,000	1,000,000	20,758,320	2,075.83
Total expenditure	112,023,000	112,023,000	110,916,070	99.01
Specific targets – income				
Tax revenues	1,000,000	1,000,000	16,397,350	1,639.74
Non-tax revenues, capital revenues and transfers received	0	0	4,360,970	0
Specific targets – expenditure				
Outlays to support the ERO's tasks	112,023,000	112,023,000	110,916,070	99.01
of which: outlays related to the Czech EU presidency	0	0	0	0
other outlays on the ERO's tasks	112,023,000	112,023,000	110,916,070	99.01
Standard targets				
Salaries for employees and other payments for work	48,913,000	48,913,000	49,625,670	101.46
Salaries for employees under employment contract	46,093,000	46,093,000	47,003,000	101.97
Salaries for employees under employment contract derived from salaries of constitutional officials	1,655,000	1,655,000	1,655,000	100.00
Statutory insurance premiums paid by the employer	16,631,000	16,631,000	16,675,530	100.27
Allocation to the Fund of Cultural and Social Needs (FKSP)	955,000	955,000	973,000	101.88
Arrangements for crisis situations under Act No. 240/2000	0	0	0	0
Total outlays on programmes co-financed from the EU's funds w/o SZP – programming period 2007-2013	0	0	0	0
of which: from the national budget	0	0	0	0
covered by income from the EU budget	0	0	0	0
Expenses on ISPOROFIN programmes	19,426,000	19,426,000	18,145,170	93.41

The planned volumes for selected standard targets were exceeded due to the tackling of the licensing problem, which necessitated a significant increase in the staffing level of the Licensing Department. This increase was covered by funds related to claims for unused expenses from previous years, amounting to CZK 5,975,000. The whole issue was discussed with and approved by the Ministry of Finance.

An average salary of CZK 39,010 was planned for 2010. The actually achieved average salary was CZK 38,617, index 98.99 percent. The 2010/2009 index of the actually achieved average salary was 97.48 percent. The decrease in salaries was mainly attributable to the need to tie one percent of payroll funds under the Government's relevant resolution and also the temporary increase in the staffing level to provide for the licensing activity.

As regards expenses on other payments for work (item 5021), the budgeted costs were not exceeded and the drawdown was 83.06 percent, CZK 967,670.

Of the above amount:

	CZK
• Work related to the preparation of expert calculations and consultations	272,840
• Activities related to the remonstrance commission and expert services	216,120
• Other work in licensing	379,900
• Cleaning work	94,920
• Undrawn funds in the deposit account (i.e. income in 2011)	3,890

10.4 Cash funds

Fund of Cultural and Social Needs

The Fund of Cultural and Social Needs (FKSP) was accumulated and used in line with the Office's internal principles. As at 31 December 2010, the funds in the Office's FKSP account amounted to **CZK 431,340**. Because of a change in generally applicable legislation, in late 2010 internal changes had to be adopted in respect of the use of FKSP funds. These changes have been applied since 1 January 2011 and respond to the reduced volume of funds under applicable legislation; they also heavily influence the amounts drawn.

Reserve Fund

The balance in the Reserve Fund as at 31 December 20q0 was **null**. During 2009, the entire balance of CZK 14,258,510 was transferred to general treasury administration (the VSP chapter).

Table 15 Funds transferred to the Reserve Fund and their use

Item	Amount [CZK]
Balance of funds transferred to the RF as at 31 December 2010	0.00

10.5 Administrative fees and fines

As part of the income mentioned in the foregoing, the Office collected **CZK 16,397,350** through its administrative fee account no. 3711-2421001/0710 between January and December 2010. These are administrative fees collected by the Office from businesses in connection with licensing – award of licences for electricity production in photovoltaic plants.

In 2010, the Office imposed seven administrative fines totalling CZK 418,000 (for comparison, in 2009 the Office imposed ten fines totalling CZK 1,728,000). These are fines in administrative proceedings, related to inspections of compliance with Act No. 526/1990 on Prices, as amended.

In 2010, administrative fees totalling CZK 789,000 were paid to a special account no. 3754-2421001/0710 (revenues to the national budget). Two outstanding administrative fees, totalling CZK 850,000 (CZK 750,000 and CZK 100,000) are reported in the balance sheet in the annual financial statements for 2010 as the Office's receivables from Lenoxa a.s. (the company is now in receivership).

10.6 Budget management results

The total amounts actually drawn from the budget can be seen in Table 16.

Table 16 Total amounts actually drawn from the budget

Amounts draw from the budget	Expenditure [CZK]	Percentage [%]
Total expenditure	110,916,070	99.01
of which:		
capital expenditure drawn	8,117,140	84.21
current expenditure drawn	102,798,930	100.41

The actual disbursements from the budget are influenced by the tying of funds, mainly in capital expenditure. The higher current expenditure is due to the temporary increase in the number of employees in the Licensing Department and the related higher expenses, which were met from funds related to claims for unused expenses from previous years.

10.6.1 Current and capital expenditure savings

Total financial savings for 2010 of **CZK 1,413,000**, which the Office reports as claims for unused expenses under Section 47 of Act No. 218/2000 on budgetary rules, as amended (budgetary rules), can be broken down as follows:

- 'other personnel expenses, incl. premiums and FKSP' CZK 568,800
- programme financing EDS/SMVS-ISPROFIN CZK 50,200
- 'other current expenditure' (w/o EDS/SMVS-ISPROFIN) CZK 794,000

As at 1 January 2010, the ERO chapter reported, under Section 47 of Act No. 218/2000 on budgetary rules, as amended, claims for unused expenses (NNV claims) totalling **CZK 18,351,790**. This amount included money saved for the fiscal year 2008, CZK 11,882,960, and for 2009, CZK 6,468,830. In 2010, total NNV claims were reduced by CZK 5,975,000 in connection with the provisions for the licensing agenda, by CZK 185,790 on account of the completion of the ERÚ - Kompatibilita spisové služby [Filing Service Compatibility] project co-financed from the EU Structural Funds, and by CZK 6,189,000 under Government Resolution No. 552 of 28 July 2010, on the proposed measure to provide for a share of public budget deficit in GDP of 5.3 percent in 2010. As at 31 December 2010, Chapter 349 – Energy Regulatory Office reported NNV claims totalling **CZK 6,002,000**, of which

- 'major expenses' (EDS/SMVS-ISPROFIN) CZK 628,800
- 'minor expenses' (other expenses outside EDS/SMVS-ISPROFIN) CZK 5,373,200

For the fiscal year 2010, NNV claims were determined in line with Appendix 7 to public notice no. 449/2009, 'on the method, dates and scope of the data reported for the evaluation of the performance of the national budget, budgets of State funds, budgets of self-governing regions, budgets of voluntary associations of municipalities and budgets of Regional Councils of Cohesion Regions', as amended, and are reported at CZK 1,413,000 (see the calculation below), of which

- 'major expenses' (EDS/SMVS-ISPROFIN) CZK 50,200
- 'minor expenses' (other expenses outside EDS/SMVS-ISPROFIN) CZK 1,362,800

Total NNV claims as at 1 January 2011 are reported at **CZK 7,415,000** for Chapter 349 – ERO, of which

- 'major expenses' (EDS/SMVS-ISPROFIN) CZK 679,000
- 'minor expenses' (other expenses outside EDS/SMVS-ISPROFIN) CZK 6,736,000

These funds can therefore be used for financing the Office in 2011.

Savings for 2010 are shown in Table 17.

Table 17 Current and capital expenditure savings

Sub-groups of items	Description	Amount [CZK]
	Total current and capital expenditure savings	1,413,000
	of which:	
502	Other payments for work	303,000
503	Statutory premiums paid by the employer	265,000
513	Purchase of materials	138,000
516	Purchase of services	206,000
517	Other procurement	329,000
519	Expenses on non-investment procurement, contributions, compensations	40,000
542	Compensation for wages at the time of illness	59,000
612	Procurement of tangible fixed assets	44,000
	Other items of the budget	29,000

10.6.2 Programme financing

In the system for financing programmes of asset replacement, for 2010 only one programme is included, no. 149 010 - Development and Replacement of the Technical Facilities of the ERO (hereinafter 'Programme'), which consists of two sub-programmes:

- sub-programme 149 011 – ERO ICT Procurement, Replacement and Operation
- sub-programme 149 012 – ERO Asset Procurement and Replacement

Eight approved projects have been launched and are being monitored and evaluated under these sub-programmes.

The ERO chapter was given a mandatory target, Total Expenses Kept in ISPROFIN, the approved amount being **CZK 19,426,000**. This amount is in line with the documentation on the new programme for the financing of asset replacement, which was drawn up in 2007 for the period 2008-2013 and approved by the Ministry of Finance.

Under the Government's relevant resolutions, the national budget's funds of CZK 2,680,000 were tied in the budget and NNV claims were applied in connection with the provisions for the licensing agenda, in an amount of CZK 1,450,000 in 2010. The closing amount of the available budget was CZK 18,196,000.

The mandatory target, Total Expenses Kept in ISPROFIN – programme number 149 010 – Development and Replacement of the Technical Facilities of the ERO – was met at 93.41 percent, i.e., the actual figure was **CZK 18,145,170**. The actual figure reported without the application of NNV claims is **CZK 16,695,190**, i.e., 85.94 percent.

Table 18 shows results for 2010 by sub-programmes and Table 19 shows results by current and capital expenditure. In line with the Office's priorities, for 2010 the largest amount of funds was allocated to IT (sub-programme 149 011 – ICT).

In the period under review, all procurement and projects under ISPROFIN programme financing complied with the approved targets of the chapter and documentation on programme financing for the period 2008-2013.

Table 18 Results by sub-programme for 2010

	Approved budget [CZK]	Budget after changes [CZK]	Actual [CZK]	Percentage [%]
Total, Programme No. 149 010	19,426,000	19,426,000	18,145,170	93.41
of which:				
Sub-programme 149 011 – ICT	17,826,000	18,067,000	17,137,090	94.85
Sub-programme 149 012	1,600,000	1,359,000	1,008,080	74.18

Table 19 Results by current and capital expenditure for 2010

	Approved budget [CZK]	Budget after changes [CZK]	Actual [CZK]	Percentage [%]
Total programme financing	19,426,000	19,426,000	18,145,170	93.41
of which:				
Current expenditure	10,572,000	9,787,000	10,028,030	102.46
Capital expenditure	8,854,000	9,639,000	8,117,140	84.21

The 2010 mandatory standard target for programme financing was not exceeded.

Information and telecommunications technology at the Office

In line with the Office's priorities, in 2010 the largest amount of funds was spent on IT financing (94.44 percent). The actual costs under sub-programme 149 011 amount to CZK 17,137,090, i.e. 94.85 percent of the funds planned for this sub-programme, while the costs under the other sub-programme, no. 149 012, amount to CZK 1,008,080, i.e. 74.18 percent of the funds planned for this sub-programme. The disbursement of the funds under the whole programme was continuously adjusted as needed in relation to current developments and the Office's new needs in 2010.

As part of software replacement and procurement, the first quarter of 2010 saw an upgrade of the licences module in the integrated information system in connection with the award of licences to entities operating in the electricity industry; the upgrade helped to improve the procedures in administrative proceedings on licensing for business in the energy industry, including the monitoring of the progress at any given time in each of the stages of the activity.

To achieve financial savings in the processing and evaluation of electricity supply quality under ERO public notice no. 540/2005, as amended, the migration of the whole system operated in SAS, which is unsatisfactory in terms of costs, to the ERO's integrated information system was started. The project was launched in late 2010 and will continue in 2011.

As part of hardware replacement and procurement, funds allocated for 2010 were spent on creating virtual segments of the Office's local network infrastructure; the remaining obsolete active elements of the network, which were prone to failures, were replaced and new ones were added.

To enhance the security and availability of the Office's access to the Internet, a cluster firewall was implemented; in the case of a failure it will provide for rerouting, thereby preventing mainly interruptions in the Office's e-mail communication and access to the Internet, including the services of the web calculator as part of the Office's presentation.

To improve the security of the internal network, elements and probes were implemented in various segments of the local IT network, including the functionality of security incident archiving and evaluation.

10.6.3 Assets, receivables and liabilities

The assets that the Office is authorised to manage are listed in Table 20.

As at 31 December 2010 these assets were worth a total of **CZK 134,279,650**.

Table 20 Assets as at 31 December 2010

Account no.	Account name	Amount [CZK]
	Total assets as at 31 December 2010	134,279,650
	of which:	
013	intangible fixed assets – software	34,864,710
018	low-value intangible fixed assets	3,355,600
021	buildings	40,269,570
022	plant and equipment	38,727,060
028	low-value tangible fixed assets	13,359,320
031	land	3,412,150
032	objects of art	291,240
041	intangible fixed assets in progress	0.00

In 2010, the total value of assets increased by CZK 8,149,920 in comparison with 2009, which is mainly attributable to the development and replacement of the Office's technical facilities (chiefly IT procurement and replacement).

Under Act No. 563/1991 on Accounting, as amended, taken together with implementing regulation no. 410/2009, which implements certain provisions of Act No. 563/1991 on Accounting, as amended, for accounting units that are self-governing territorial units, semi-autonomous organisations, the State's funds, and instrumentalities of the State, i.e., also the ERO chapter, the Office does not depreciate assets. Assets are carried in books at cost throughout the time for which they are used.

As at 31 December 2010, receivables totalled **CZK 1,392,530**. Of this amount, CZK 850,000 was overdue receivables (they include fines imposed in administrative proceedings as a result of reviews of compliance with Act No. 526/1990 on Prices, as amended). The Office reports operating advance payments provided to suppliers, CZK 537,530, receivables from employees, CZK 5,000 (loans from FKSP) and claims for budget income, CZK 850,000 (see the above two fines in administrative proceedings, Lenoxa a.s.).

As at 31 December 2010, liabilities totalled **CZK 54,351,440**. They included liabilities to employees, liabilities under social security and health insurance and income tax liabilities related to employees totalling CZK 7,353,710, resulting from wage accounting for December 2010. Liabilities also included the Energy Regulation Fund, CZK 46,891,470, the balance in the payment card account at ČSOB, CZK 850, and the balance of the allocation to FKSP for 2010 in the deposit account, CZK 105,420. The Office had no payables to suppliers; suppliers' invoices received by the Office before the end of 2010 were paid. **The Office had no overdue liabilities as at 31 December 2010.**

10.6.4 Expenses on business trips abroad

Expenses on business trips abroad totalled **CZK 1,850,350** and are shown in Table 21.

Table 21 Expenses on business trips abroad

Item no.	Description	Amount [CZK]
	Total expenses on business trips abroad	1,850,350
	of which:	
5169	Purchase of other services	3,570
5173	Travel expenses (subsistence, pocket money, air fare, accommodation)	1,513,230
5176	Conference registration fees	8,960
5179	Other purchases (visas)	5,740
5196	Reimbursements and contributions related to holding a constitutional office	318,850

Compared with 2009, expenses on business trips abroad dropped significantly (by CZK 388,370) which reflects the implementation of the adopted austerity measures. Savings in the Office's expenses were also achieved thanks to the consistent refund of the travel costs incurred by the Office's delegates in relation to meetings under the responsibility of the Council of the EU.

In the area of 'non-investment transfers to international organisations', item 5511, the actual expenditure reported as at 31 December 2010, **CZK 724,300 (EUR 28,438)**, relates to the annual membership dues to CEER for 2010.

10.6.5 Costs incurred in twinning with Ukraine

Early 2010 saw the definitive financial settlement of the **Regulatory and Legal Capacity Strengthening of Energy Regulation in NERC** project in Ukraine under Twinning Contract no. UA/2006/PCA/EY/02, where the Office worked in the position of a junior partner from 2008. On 25 January 2010, a special foreign currency account was closed. Under the EU's legislation, project accounts were kept completely independently and separately from the national budget, Chapter 349 Energy Regulatory Office, by an external company; the funds were kept in a separate euro account at ČSOB, a.s. It was a joint project headed by the Italian regulator, Autorità per l'Energia Elettrica e il Gas (AEEG), which worked as the administrator from a member state in co-operation with the ERO, and the Austrian regulator, E-Control.

The project had no financial impacts on the budget of the chapter and therefore did not burden the national budget.

10.6.6 Evaluation of the economy, efficiency and efficacy of the Office's financial management

The above obligation to continuously monitor and evaluate the economy, efficiency and efficacy of the costs spent under the whole chapter is imposed on the manager of the chapter's budget by Section 39(3) of Act No. 218/2000 on budgetary rules, as amended.

The Office evaluates the spending of the chapter's budgetary funds on the basis of quarterly reports on financial management and in a summary annual evaluation. In the chapter's closing account the Office always includes an overview of the cost intensity of the chapter for a longer period of time. Expenses in absolute and relative terms are listed in Table 22, and are broken down by cost category.

Various factors have an impact on the level of these indicators every year. For specific year-on-year comparisons of expenditure items to be objective, additional data and information therefore need to be available. Expenditure should therefore be viewed within the specific context and situation in the respective year.

For example, the actual amounts of capital expenditure used have a heavy influence on the year-on-year comparison of overall expenditure.

The Office evaluates the criteria of economy, efficiency and efficacy as part of the *ex ante* and *ex post* management inspection before and after the liability occurs, and also as part of ongoing management inspections. This approach is a practical application of Act No. 320/2001 on financial control in public administration and changes to certain laws (the Financial Control Act), as amended, and the relevant implementing regulation, no. 416/2004, as amended.

Furthermore, the Office prepares interim analysis of selected expenditure items as may be needed.

All budgeted funds were spent efficaciously on the Office's efficient running. In 2010, relations with suppliers were repeatedly reviewed, and new tendering procedures were organised with a view to financial savings.

The figures in Table 22 indicate that in 2010 the chapter's expenses per employee were 10.28 percent lower than in 2009 (without NNV claims, lower by 9.94 percent); payroll and social expenses per employee were down by 1.69 percent (without NNV claims, up by 0.77 percent). A very strong effect of austerity measures is visible in programme financing expenses per employee, which were 20.28 percent lower than in 2009 (without NNV claims, lower by 22.58 percent), and in other expenses per employee, which were down by 21.43 percent (without NNV claims, down by 23.70 percent) year-on-year. The year-on-year decline in the chapter's total expenditure per employee is mainly attributable to the tying of the national budget funds under Government resolutions.

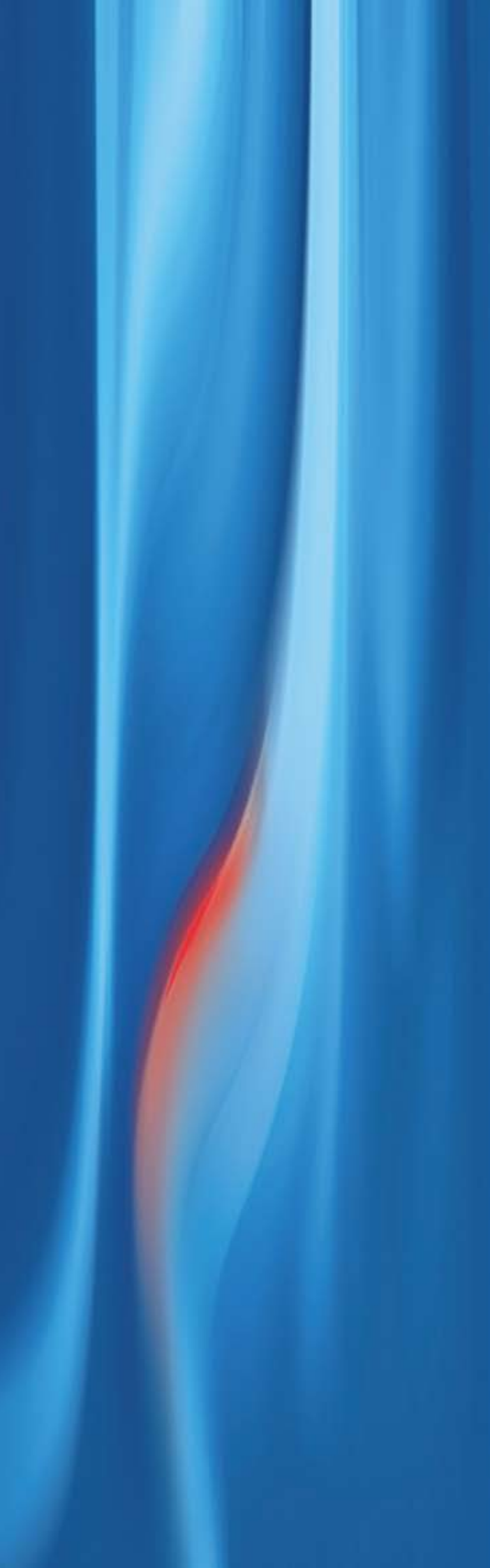
Table 22 Comparison of actual expenses under Chapter 349 – Energy Regulatory Office, for the period 2001-2010

Item	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005
Total expenses	97,487	77,637	93,978	116,770	105,018
of which:					
- Salaries, other payments, insurance premiums and FKSP	19,955	36,081	41,772	46,967	48,532
- Expenses on the asset replacement financing programme	54,201	11,976	15,741	15,561	19,526
- Total other expenses	23,331	29,580	36,465	54,242	36,960
of which:					
- Allocations to the Reserve Fund	2,142	2,299	2,351	27,200	2,602
- Other expenses w/o RF	21,189	27,281	34,114	27,042	34,358
Expenses on salaries and other payments for work	14,741	26,470	30,656	34,397	35,493
Salaries to employees	14,158	26,001	30,197	34,122	35,225
Staffing levels (FTE)	40	73	82	89	90
Average monthly salary	29,496	29,682	30,688	31,949	32,616
Payroll and social costs per employee	499	494	509	528	539
Programme financing costs per employee	1,355	164	192	175	217
Other expenses per employee	583	406	445	609	411
Total expenses per employee	2,437	1,064	1,146	1,312	1,167
Other expenses per employee w/o RF	530	374	416	304	382
Total expenses per employee w/o RF	2,384	1,032	1,093	1,007	1,138

Item	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Index 10/09
Total expenses (incl. use of NNV claims)	98,556	101,130	107,906	115,377	110,916	96.13
of which:						
- Salaries, other payments, insurance premiums and FKSP	52,524	56,986	60,774	63,937	67,274	105.22
- Expenses on asset replacement financing programme	16,006	15,938	18,437	21,232	18,145	85.46
- Total other expenses	30,026	28,206	28,695	30,208	25,497	84.40
of which:						
- Allocations to the Reserve Fund (RF)	0	0	0	0	0	
- Other expenses w/o RF	30,026	28,206	28,695	30,208	25,497	84.40
- Use of NNV claims					5,975	
Expenses on salaries and other payments for work	38,466	41,619	44,431	47,186	49,625	105.17
Salaries to employees incl. Chairman	37,953	41,347	44,115	46,590	48,658	104.44
Staffing levels (FTE)	93	95	95	98	105	107.14
Staffing levels (FTE) w/o NNV claims					99	
Average monthly salary	34,008	36,269	38,698	39,617	38,617	97.48
Payroll and social costs per employee	565	600	640	652	641	98.31
Programme financing costs per employee	172	168	194	217	173	79.72
Other expenses per employee	323	297	302	308	242	78.57
Total expenses per employee	1,060	1,065	1,136	1,177	1,056	89.72
Payroll and social costs per employee w/o RF and NNV	565	600	640	652	657	100.77
Programme financing costs per employee w/o RF and NNV	172	168	194	217	168	77.42
Total expenses per employee w/o RF and NNV	323	297	302	308	235	76.30
Total expenses per employee w/o RF and NNV	1,060	1,065	1,136	1,177	1,060	90.06

Note: The figures are in CZK thousands (with the exception of the staffing levels, average wages and indices, %).





11

OVERSIGHT

11 Oversight

11.1 External inspections

In 2010, two outside inspections of the Office were carried out. One was conducted by the District Social Security Administration in Jihlava on 18 October 2010 and concerned insurance premiums and the meeting of obligations related to sickness insurance and contributions to pensions. No defect was found and no overpayment or arrears on premiums and contributions were identified.

The other inspection was carried out by Všeobecná zdravotní pojišťovna ČR in Jihlava on 9 December 2010 and concerned payments of insurance premiums and observance of the other obligations of the premium payer. No material defect was found, and no obligation to pay a penalty arose.

11.2 Internal inspections and internal audit

The Internal Audit Unit worked in compliance with the requirements and content of Act No. 320/2001 on financial control. Its activity in 2010 followed the annual plan, which was based on the risk maps compiled by the Office's organisational units. It also used the results of audits from previous years and the monitoring of the effect of the recommendations proposed in previous years.

The Internal Audit Unit carried out eleven planned audit actions and four extraordinary audit actions. The audit actions focused on examining compliance with laws, fiscal and financial discipline, management of public funds, ISMS, and compliance with legal regulations and their reflection in the Office's internal regulations. Audits in 2010 focused on the working operations and processes at the Office, which arise from the Office's tasks and mission under Act No. 458/2000, the Energy Act, as amended, the management of the Office as an instrumentality of the State, and the management of the Office as an independent accounting unit of public administration.

In 2010, internal auditors put forth 23 recommendations, which were approved by the ERO Chairman and transformed into measures. In 2010, 19 of these recommendations were carried out; for two recommendations the time limit for implementation was extended to 2011 and for two recommendations a date in 2011 was set for their implementation. The report on the implementation of the measures was approved by ERO management, and the ERO Chairman was also provided with the annual report on ERO internal audit.

The other component of the internal inspection system is **management inspections carried out by managerial personnel** under their powers and responsibilities. In connection with work-related duties, the provisions of Act No. 320/2001, on financial control, are continuously performed, i.e., *ex ante*, ongoing, and *ex post* inspections. The *ex ante* review of public spending, as the most important part of the internal inspection system, is provided for in the Guidelines on Accounting Document Circulation and it works efficiently as the results of audit actions in this area confirm. In addition to requirements for the justification of accounting documents, the Guidelines on Accounting Document Circulation also set out the managerial personnel's powers and responsibilities in respect of ongoing and *ex post* management inspections of accounting documents.

The audit actions did not identify any serious shortcomings such as suspicion of a minor offence or a criminal offence. All audit actions examined the possibility of corruption or fraud, and did not identify any failures in this respect. On the basis of the findings and recapitulation of the results of the Internal Audit Unit's work in 2010 it can be noted that the internal control and inspection system in place is sufficiently efficient and provides reasonable assurance that the public expenses reported under the chapter's budget are made in accordance with external and internal regulations.

The report on the result of the 2010 financial reviews, approved by the ERO Chairman and submitted to the Ministry of Finance, which contains a general evaluation of the Office's internal review, inspection and audit activities, notes that the system meets the needs and requirements.

In 2010 there were no material findings within the meaning of Section 22(6).

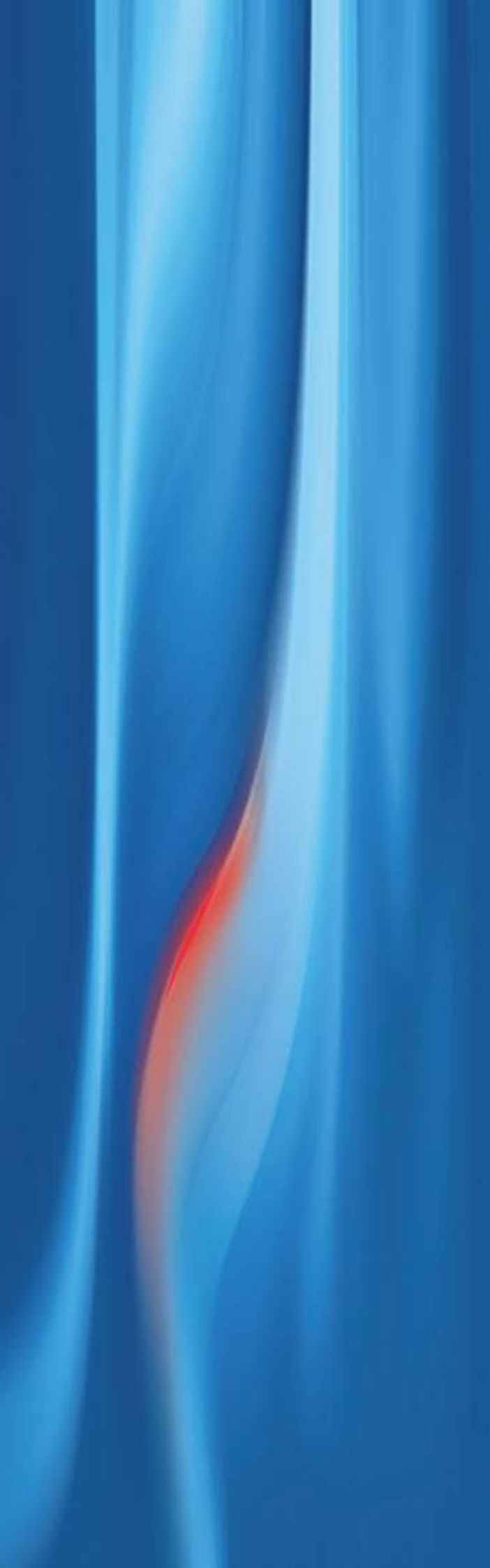
11.3 Information Security Management System (ISMS)

As in previous years, the Office paid great attention to the information security management system. The year saw a further update of internal regulations and procedures with a view to preparing the Office for its recertification in October 2010.

Having retained its national certificate CQS 191/2008 and international certificate IQNet CZ-191/2008 for its information security management system, the Office continued to be entitled to use the CQS and IQNet logos in line with the requirements of ČSN ISO/IEC 27001.







12

CONTACTS

12 Contacts

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Administrative proceedings, an overview

1) Administrative proceedings completed in 2010

Adversarial proceedings in 2010

Electricity industry

Mr Jiří Čmiel v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of the petitioner's plant using solar radiation to the distribution system. The proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in his application within the set time limit, preventing the proceedings from being continued.

Mr David Foltin v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of a plant using solar radiation to the respondent's distribution system. The Office rejected the petition, because the respondent proved a shortfall in the capacity of the distribution facility at the connection point, which fact was, under Section 25(11)(a) of the Energy Act, grounds for rejecting the connection of the electricity generating plant to the distribution system.

Ravikon a.s. v ČEZ Distribuce, a.s.

This adversarial proceeding involved a dispute arising from a contractual relationship governed by Section 17(5)(a) of the Energy Act; the dispute arose from a letter of intent on connection to the distribution system. The petitioner sought a change of the respective provisions of the agreement so that the connection of the facility to the distribution system would be effected by 31 December 2010. Under Section 96(1) of the Energy Act, the Office is competent to decide disputes over the rights and obligations arising from contracts if the respondent consents to the Office's competence to adjudicate the dispute simultaneously with the filing of the petition for a decision in the dispute or within 15 days of the day of service of a notice of the filing of the petition for a decision in the dispute. In this case, ČEZ Distribuce, a.s. expressed its disagreement with the Office's competence to adjudicate the dispute and therefore the key condition for adjudicating this type of dispute by the Office was not met, and the Office therefore set the case aside.

Rolnické družstvo „Úhlava“ v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute between the petitioner, Rolnické družstvo „Úhlava“, and the respondent, ČEZ Distribuce, a.s., over the connection of a biogas station to the distribution system. Administrative proceedings were, under Section 66(1)(c) of the Rules of Administrative Procedure, discontinued, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

SOLAR HK s.r.o., v ČEZ Distribuce, a.s.

These adversarial proceedings involved a dispute arising from a contract within the meaning of Section 17(5)(a) of the Energy Act; the dispute arose from an executed letter of intent on connection to the distribution system. The petitioner sought a change of the respective provision of the letter of intent so that the connection of the installation to the distribution system would be effected by 31 December 2010. Under Section 96(1) of the Energy Act, the Office is competent to decide disputes over the rights and obligations arising from contracts if the respondent consents to the Office's competence to adjudicate the dispute simultaneously with the filing of the petition for a decision in the dispute or within 15 days of the day of service of a notice of the filing of the petition for a decision in the dispute. In this case, ČEZ Distribuce, a.s. expressed its disagreement with the Office's competence to adjudicate the dispute and therefore the key condition for adjudicating this type of dispute by the Office was not met, and the Office therefore set the case aside.

Jablonecká 46 a.s. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of the petitioner's plant using solar radiation to the distribution system. Administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

Mr Jaroslav Věšín v E.ON Distribuce, a.s.

The petitioner sought a decision from the Office that at a supply point in Bítov, in the District of Tábor, no illegal consumption of electricity took place as the discrepancy in metered values was caused by technical problems of the instrument owned by the respondent. Evidence presented by the respondent, a certificate of results of examination, indicated that under Section 11(4) of Act No. 505/1990 on metrology, as amended, an authorised metrology centre examined the electricity meter and confirmed that this instrument met the requirements set out in the type approval certificate, the relevant regulation for the examination of the meter (TPM 2440-99), and a notice issued by the Czech Office for Standards, Metrology and Testing. Adduced evidence proved that the metered (incongruous) values for the supply point were not a consequence of facts consisting in the technical nature of the meter. It was also found that an aluminium braided cable was led from the house service box while a copper cable entered the distribution box for the electricity meter. On the basis of the above facts, the Office rejected the petition.

AUTOCENTRUM - Bohušovice, s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of the petitioner's plant using solar radiation to the distribution system. Administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

Mr Petr Kunc v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of the petitioner's plant using solar radiation to the distribution system. Administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

Mr Milan Cvak v E.ON Distribuce, a.s., Mr David Čermák v E.ON Distribuce, a.s., Mr Vojtěch Henek v E.ON Distribuce, a.s., Jabor pro, s.r.o. v ČEZ Distribuce, a.s., Mr Martin Kalianko v E.ON Distribuce, a.s., Mr Antonín Klátil v ČEZ Distribuce, a.s., Mr Marek Kumprecht v E.ON Distribuce, a.s., Majterba s.r.o. v ČEZ Distribuce, a.s., Mr Pavel Malimánek v E.ON Distribuce, a.s., Mr Jiří Mikeš v E.ON Distribuce, a.s., Mr Ondřej Najman v ČEZ Distribuce, a.s., Mrs Markéta Nechvátalová v ČEZ Distribuce, a.s., Mrs Jana Baštová v ČEZ Distribuce, a.s., Mrs Božena Novotná v E.ON Distribuce, a.s., Mr František Tichánek v E.ON Distribuce, a.s., Mrs Barbora Paulerová v E.ON Distribuce, a.s., Mr Kamil Pelikán v E.ON Distribuce, a.s., Mr Marcel Paulus v ČEZ Distribuce, a.s., Mr Václav Prokop v E.ON Distribuce, a.s., Mr Pavel Popelínský v E.ON Distribuce, a.s., Mr Petr Příkryl v ČEZ Distribuce, a.s., PVE400 s.r.o. v E.ON Distribuce, a.s., RELAXA a.s. v ČEZ Distribuce, a.s., Mr Stanislav Trinkl v ČEZ Distribuce a.s., Mr František Varmuža v E.ON Distribuce, a.s., Mr Stanislav Vašíček v E.ON Distribuce, a.s., Mr Petr Staffa v E.ON Distribuce, a.s., Mrs Květa Stuchlíková v E.ON Distribuce, a.s., SUNNY ENERGO CZECH s.r.o. v E.ON Distribuce, a.s., Mr Zdeněk Šimek v E.ON Distribuce, a.s., Mr Jiří Křištof v ČEZ Distribuce, a.s., Mr Jiří Sebořský v E.ON Distribuce, a.s., JTC Mnichovice, s.r.o. v ČEZ Distribuce, a.s., ACword spol. s r.o. v ČEZ Distribuce, a.s., Mr Jaromír Kopecký v ČEZ Distribuce, a.s., Mrs Lenka Kaška v ČEZ Distribuce, a.s., Mr Pavel Patrovský v ČEZ Distribuce, a.s., GEOSAN spol. s r.o. v E.ON Distribuce, a.s., Mr Petr Reinhold v ČEZ Distribuce, a.s.

The subject matter of these administrative proceedings, very similar as to the facts, was a dispute over the connection of a plant using solar radiation to the respondent's distribution system. The Office rejected the petitions, because the respondent proved in the proceedings the existence of a risk to the reliable operation of the distribution system, which was, under Section 25(11)(a) of the Energy Act, grounds for rejecting the connection to the distribution system.

EcoSun Energy s.r.o. v ČEZ Distribuce, a.s.


Administrative proceedings on a dispute over the connection of a power generating plant to the distribution system. The Office rejected the petition of EcoSun Energy s.r.o. for the Office to order ČEZ Distribuce, a.s. to issue, in eight days, new conditions for connection on the basis of the petitioner's three applications (3 x 97 kW on parcel no. 4682/35, Dětmarovice cadastre), whereby total output would be exited from one 0.4 kV transformer station with only one transformer and a single commercial meter.

Mr Marek Chvojan v ČEZ Distribuce, a.s.

Administrative proceedings on a dispute over the execution of an agreement on the connection of a transformer station to the distribution system of the respondent, ČEZ Distribuce, a.s. The Office granted the petition, because it was proved in the proceedings that the petitioner was the owner of the facility being connected and it was therefore the DSO's duty to connect such facility upon request.

Mr Milan Lukáš v E.ON Distribuce a.s.

Administrative proceedings on a dispute over the execution of a connection agreement. The parties actually executed a connection agreement in the wording required by the petitioner, and the Office therefore discontinued the proceedings.



Mátl & Bula, spol. s r.o. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of a plant using solar radiation to the respondent's distribution system. The Office rejected the petition, because the respondent proved a shortfall in the capacity of the distribution facility at the connection point, which fact was, under Section 25(11)(a) of the Energy Act, grounds for rejecting the connection of the power generating plant to the distribution system.

MANAG SMZ a.s. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of a plant using solar radiation to the respondent's distribution system. The Office rejected the petition, because the respondent proved a shortfall in the capacity of the distribution facility at the connection point, which fact was, under Section 25(11)(a) of the Energy Act, grounds for rejecting the connection of the power generating plant to the distribution system.

Mr Tomáš Večerka v PREDistribuce, a.s.

Administrative proceedings, the subject matter of which was a dispute over the connection of the petitioner's supply point to the distribution system operated by PREDistribuce, a.s. Administrative proceedings were discontinued under Section 66(1)(g) of the Rules of Administrative Procedure, because the parties to the dispute reached settlement.

Synthesisia, a.s. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of the petitioner's plant using solar radiation to the distribution system. Administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

Mr Martin Šimerda v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was dispute over the connection of the petitioner's plant using solar radiation to the distribution system. Administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

AGRAS Želatovice, a.s. v ČEZ Distribuce, a.s.

Administrative proceedings the subject matter of which was a dispute over the execution of an agreement on the connection of a biogas station to the distribution system operated by ČEZ Distribuce, a.s. The Office granted the petition and in its decision laid down the connection agreement, because the respondent failed to prove a shortfall in the capacity of its distribution facility or any other reason preventing the connection of the station to the distribution system.

Mrs Alena Gajdová v ČEZ Distribuce, a.s.

In her petition the petitioner sought a decision on the execution of an electricity supply agreement with ČEZ Distribuce, a.s. The Office rejected the petition, because electricity traders are not subject to any statutory duty to enter into contracts and the execution of an electricity supply agreement is exclusively a contractual matter between the parties to the agreement.

TEMPLUM-společenské hry s.r.o. v PREDistribuce, a.s. and Pražská energetika, a.s.

Dispute over a reduction or interruption in electricity supply due to illegal consumption. The petitioner sought the Office's decision ordering PREDistribuce, a.s. to return the electricity meter to the respective supply point and resume full electricity supply within 24 hours of the finality of the decision, and also a ban on electricity supply interruption and on removing the electricity meter from the petitioner's supply point, which was satisfactory in technical terms. In respect of Pražská energetika, a.s., the petitioner sought the return and installation of a proper electricity meter at the supply point and resumption of electricity supply within 24 hours of the service of the decision, noting that this company was not authorised to withhold or interrupt electricity supply or remove the electricity meter from the petitioner's supply point. The Office rejected the petition on all points, because it was proved that at the petitioner's supply point illegal consumption of electricity under Section 51(1)(c) and (e), point 2, of the Energy Act had taken place. Since the petitioner failed to pay for the damage caused by illegal electricity consumption, the distribution system operator was not obliged to resume electricity supply.

Mr Oldřich Michera v PREDistribuce, a.s.

The subject matter of the dispute was the execution of an agreement on the payment of regulated charges for electricity produced from a renewable energy source, under the law on support for the use of renewable sources. The Office discontinued the proceedings, because the parties actually executed the agreement.

Lumen Energy, a.s. v KS-Europe s.r.o.

The subject matter of the administrative proceedings was a petition for the declaration of validity of an agreement on bundled electricity supply services between the petitioner and the respondent. Under Section 43(1)(b) of the Rules of Administrative Procedure, the petition was set aside, because the petition was a submission to the disposal of which no administrative authority is competent.

Rakovnické tvářecí stroje, s.r.o. v PQS energo, s.r.o.

The subject matter of the dispute was the execution of an agreement on electricity distribution to the petitioner's supply point. The Office discontinued the proceedings, because the petitioner withdrew its petition.

Mr Bořek Riess v ČEZ Distribuce, a.s.

The subject matter of the dispute was the execution of an agreement on the connection of an electricity generating plant to the distribution system operated by ČEZ Distribuce, a.s. The Office rejected the petition, which requested the Office to lay down an agreement on the connection of the 20 kW plant using solar radiation in the municipality of Starý Jičín.

Mr Martin Drtina v BOHEMIA ENERGY entity s.r.o.

The subject matter of the administrative proceedings was a petition for the declaration of validity of an agreement on bundled electricity supply services between the petitioner and the respondent. Under Section 43(1)(b) of the Rules of Administrative Procedure, the petition was set aside, because the petition was a submission to the disposal of which no administrative authority is competent.

Mr Bořek Riess v ČEZ Distribuce, a.s.

The petitioner turned to the Office with a petition for the Office to order ČEZ Distribuce, a.s. to issue, within eight days, a positive opinion on the connection, and to set the technical conditions for the connection, of the petitioner's 100 kW photovoltaic plant in the village of Šenov near Nový Jičín. The Office discontinued the proceedings under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy the material defects in its application within the set time limit, preventing the proceedings from being continued.

Mrs Martina Dvořáková v ČEZ Distribuce, a.s.

In her petition to the Office, the petitioner sought a decision of the Office that would require a new agreement on the connection of a supply point in Velká Dobrá, of which the petitioner had become the owner. Electricity was supplied to the property under an agreement on bundled supply services with Mr Petr Šťastný. Administrative proceedings were stayed for more than one month to enable the petitioner to submit an application for the connection of the supply point, or, if applicable, an opinion of ČEZ Distribuce, a.s. on this application. The Office subsequently rejected the petition, because the petitioner failed to furnish the requested documents and did not prove that she in fact requested the respondent to connect the supply point.

Vavřinec UJ a.s. v ČEZ Distribuce, a.s.

The subject matter of the dispute was the execution of an agreement on connection to the distribution system operated by ČEZ Distribuce, a.s. The Office then discontinued the proceedings, because the petitioner withdrew its petition.

Mlékárna Otínoves s.r.o. v E.ON Distribuce, a.s.

The subject matter of the dispute was the execution of an agreement on the connection to the distribution system operated by E.ON Distribuce, a.s. The Office granted the petition and in its decision it laid down the connection agreement, because the respondent did not prove any reason for which it would not be possible to connect the petitioner's installation.

Bioplyn Třeština s.r.o. v E.ON Energie, a.s.

Bioplyn Třeština s.r.o. requested the Office to order E.ON Energie, a.s., under an agreement on electricity supply involving the acceptance of the obligation to supply electricity to the electricity grid, to pay Bioplyn Třeština s.r.o. for the electricity that the petitioner supplied to the distribution system of E.ON Distribuce, a.s. between April 2009 and April 2010. Under Section 43(1)(b) of the Rules of Administrative Procedure, the case was set aside, because the petition was a submission to the disposal of which no administrative authority is competent.

FVE Letohrad s.r.o. v ČEZ Distribuce, a.s.

The dispute concerned performance under a letter of intent on connection. The dispute arose from a contract between the licence holder and the customer in a case in which a court would otherwise have been competent to decide the dispute. The Office's competences only cover such cases when all parties to the proceedings consent to this competence to decide the dispute (Section 96(1) of the Rules of Administrative Procedure). In this case, ČEZ Distribuce, a.s. did not agree with the Office's competence and the Office therefore set the petition aside under Section 96(1) of the Energy Act.

E.E., a.s. v ČEZ Distribuce, a.s.

The Office received from E.E., a.s. a petition for a decision in a dispute under Section 17(5)(c) of the Energy Act over the connection of a plant using solar radiation. ČEZ Distribuce, a.s. issued a favourable opinion on the petitioner's request for the connection of the plant to the distribution system, with effect until 19 August 2009. On 17 March 2009, the petitioner and the respondent executed a letter of intent. Although the petitioner had in place a letter of intent on the connection of the plant, it repeatedly requested ČEZ Distribuce, a.s. to extend the period of commitment under the above opinion; however, following the effective date of public notice no. 81/2010, ČEZ Distribuce, a.s. refused to extend the period of commitment under the opinion. The petitioner held the view that the letter of intent on connection had been executed as early as 17 March 2009 and that, therefore, all conditions were met for the extension of the validity of the opinion, but the respondent claimed that the letter of intent on connection was discharged due to a condition subsequent because of the failure to pay the share of the justifiable costs incurred in the connection and in the provision of the required capacity and power. Thus, the dispute concerned a declaration of the validity or otherwise of the legal relationship, and only a court is competent to decide in such dispute. For the above reasons the Office set the petition aside.

The gas industry

E.ON Energie, a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. The Office rejected the petition filed by E.ON Energie, a.s. for the Office to deliver a decision imposing an obligation on RWE Gas Storage, s.r.o. to allow E.ON Energie, a.s. access to the underground gas storage facilities operated by RWE Gas Storage, s.r.o., and to do so on the basis of requests for storage capacity booking of 18 February 2008 and 19 February 2008, and to enter, no later than within three days of the finality of the decision, with E.ON Energie a.s. into annual agreements on firm capacity gas storage in the virtual underground gas storage facility of RWE Gas Storage, s.r.o. in which the gas storage price requested by the petitioner would be specified.

Česká energie, a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. The Office rejected the petition filed by Česká energie, a.s. for the Office to deliver a decision imposing an obligation on RWE Gas Storage, s.r.o. to allow Česká energie, a.s. access to the underground gas storage facilities operated by RWE Gas Storage, s.r.o., and to do so on the basis of a request for storage capacity booking of 15 February 2008, and to enter, no later than within five days of the finality of the decision, with Česká energie, a.s. into an annual agreement on firm capacity gas storage in the virtual underground gas storage facility of RWE Gas Storage, s.r.o.

Česká plynárenská a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. The Office rejected the petition filed by Česká plynárenská, a.s. for the Office to deliver a decision imposing an obligation on RWE Gas Storage, s.r.o. to allow Česká plynárenská, a.s. access to the underground gas storage facilities operated by RWE Gas Storage, s.r.o., and to do so on the basis of a request for storage capacity booking of 15 February 2008, and to enter, no later than within five days of the finality of the decision, with Česká plynárenská, a.s. into an annual agreement on firm capacity gas storage in the virtual gas storage facility of RWE Gas Storage, s.r.o.

ČEZ, a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. The Office rejected the petition filed by ČEZ, a.s. for the Office to deliver a decision imposing an obligation on RWE Gas Storage, s.r.o. to allow ČEZ, a.s. access to the underground gas storage facilities operated by RWE Gas Storage, s.r.o., and to do so on the basis of a request for storage capacity booking of 19 February 2008, and to enter, no later than within three days of the finality of the decision, with ČEZ, a.s. into an annual agreement on firm capacity gas storage in the underground gas storage facility of RWE Gas Storage, s.r.o.

MORAVIA ENERGO, a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. According to the petitioner, in 2008 there were no reasons for denying the petitioner access to the underground gas storage facilities operated by the respondent. In this case the petition was withdrawn and the proceedings were discontinued.

Pražská plynárenská, a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. The Office rejected the petition filed by Pražská plynárenská, a.s. for the Office to deliver a decision imposing an obligation on RWE Gas Storage, s.r.o. to allow Pražská plynárenská, a.s. access to the underground gas storage facilities operated by RWE Gas Storage, s.r.o., and to do so on the basis of a request for storage capacity booking of 19 February 2008, and to enter, no later than within three days of the finality of the decision, with Pražská plynárenská, a.s. into an annual agreement on firm capacity gas storage (as specified in the petition) in the virtual underground gas storage facility of RWE Gas Storage, s.r.o.

United Energy Trading, a.s. v RWE Gas Storage, s.r.o.

The subject matter of the dispute was access to underground gas storage facilities. The Office rejected the petition filed by United Energy Trading, a.s. for the Office to deliver a decision imposing an obligation on RWE Gas Storage, s.r.o. to allow United Energy Trading, a.s. access to the underground gas storage facilities operated by RWE Gas Storage, s.r.o., and to do so on the basis of a request for storage capacity booking of 19 February 2008, and to enter, no later than within three days of the finality of the decision, with United Energy Trading, a.s. into an annual agreement on firm capacity gas storage in the underground gas storage facility of RWE Gas Storage, s.r.o.

Česká naftařská společnost s.r.o. v MND a.s.

A dispute over the execution of a connection agreement and an agreement on gas transport through a production pipeline. The Office's decision laid down the connection agreement and the agreement on gas transport through the production pipeline, because under Section 57 of the Energy Act, the gas producer has the right to set up and operate production pipelines, to the connection and access of the gas production plant or the production pipeline to the transmission or distribution system or to a production pipeline of another gas producer or to an underground gas storage facility, and it has the duty to connect to the production pipeline anybody who requests so and meets the connection conditions and to ensure the safe and reliable operation of the gas production plant and the production pipeline and to provide non-discriminatory conditions for access to the production pipeline.

VÍTKOVICE HEAVY MACHINERY a.s. v ArcelorMittal Ostrava a.s.

The subject matter of this dispute was the execution of a gas distribution agreement between the petitioner and ArcelorMittal Ostrava a.s. ArcelorMittal Ostrava a.s. operates a local distribution system connected to the regional distribution system of SMP Net, s.r.o. As of 30 September 2009, the petitioner terminated an agreement on bundled gas supply services because of its effort to select a different gas trader. The petitioner therefore requested the respondent to enter into a gas distribution agreement with effect from 1 October 2009. However, the respondent failed to register its distribution system and the petitioner's supply point, Kovárna Kunčice, with the market operator, which fact prevented gas supplier switching. The Office's decision laid down the gas distribution agreement in respect of the material particulars of the agreement under Section 72(6) of the Energy Act.

Elektroporcelán Louny a.s. v RWE Energie, a.s.

Dispute over a potential gas supply interruption due to illegal consumption. The parties held as controversial whether a price under a price formula or a fixed price should be paid for the supplied gas. Administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure, because the petitioner withdrew its petition.


The heat supply industry

Společenství vlastníků Milíčova 3042/15 v Dalkia Česká republika, a.s.

Dispute over the validity of a heat supply agreement. The petitioner sought the Office's decision declaring the invalidity of the heat supply agreement executed between the above entities, and imposing an obligation on the respondent to enter with the petitioner into a new heat supply agreement. The petitioner also requested the Office to conduct an inspection concerning the determination of the thermal capacity under the fixed component and the amount of the variable component of the multi-component thermal energy price. The Office concluded that it was not primarily competent to decide on the question of the validity or otherwise of the heat supply agreement and therefore requested the petitioner to bring a statement of claim before the competent court. Since the time limit for filing the application with the competent authority passed in vain, the Office continued in the proceedings aware of the need to form its own opinion on the preliminary question. By the Office forming its own opinion on the preliminary question within the meaning of Section 57(1)(c) of the Rules of Administrative Procedure, and acknowledging the involved entities' right to enter into a heat supply agreement, i.e., not challenging its validity, it de facto dismissed the petitioner's basic argument. In the part of the petition concerning the proposal for conducting an inspection of the determination of the thermal capacity under the fixed component and of the amount of the variable component of the multi-component thermal energy price, the Office did not find in the documents furnished to it any reason for conducting such inspection. Because of the above, the petition was rejected.

Společenství pro dům Pražská 622, 623, Doksy, Společenství pro dům Hálkova 725, 726, Doksy, Společenství pro dům Hálkova 885, 886, Doksy, Společenství pro dům Hálkova 723,724, Doksy v LENOXA a.s.

The petitioners turned to the Office with their dispute over the amount of the preliminary thermal energy price for 2010 in the Doksy price locality, with the heat supplier, LENOXA a.s. In administrative proceedings under Section 17(4)(b) and (c) of the Energy Act, conducted on the imposition of an obligation to provide an energy facility for thermal energy production and the obligation to supply thermal energy over and above the licence in Doksy in accordance with the interim injunctions that were delivered, the decision was made that LENOXA a.s. and EFIS s.r.o. were obliged to provide facilities for thermal energy production and distribution in the delineated area included in the list



of delineated areas in the thermal energy production and distribution licence. In view of the above facts, continuation of the administrative proceedings would not have led to the required result, and the administrative proceedings were therefore discontinued under Section 66(1)(g) of the Rules of Administrative Procedure, because the request became manifestly irrelevant.

Společenství domu čp. 312 - 313, Třemošnice v LENOXA a.s.

The petitioner applied for administrative proceedings on a decision in a dispute over the wording of an agreement on thermal energy supply and take, i.e., the pricing arrangements for the determination of the preliminary thermal energy price for 2009 in the Třemošnice price location. In the part concerning the delivery of an interim injunction, the petition was rejected. Since despite the Office's request LENOXA a.s. failed to furnish calculations of thermal energy prices for 2009, or any other information required for determining the thermal energy price in Třemošnice, the calculation of the thermal energy price for 2009 was based on the thermal energy price as of 1 January 2009 charged by other thermal energy suppliers who had comparable conditions for thermal energy production and distribution. The Office set out the price addenda to the agreement on thermal energy supply.

Společenství pro dům 157 a 158 Ruprechtická Liberec v LENOXA a.s.

On 1 January 2010, a contractual 'vacuum' was set in between Společenství pro dům 157 a 158 Ruprechtická Liberec, as the thermal energy customer, and LENOXA a.s., as the thermal energy supplier because of disputes between the parties on the occasion of entering into an agreement on thermal energy supply. The thermal energy supplier notified the petitioner that from 1 January 2010 it would not be obliged to supply thermal energy. For the above reasons, the petitioner applied to the Office to initiate administrative proceedings on the dispute over the execution of the thermal energy agreement and to deliver an interim injunction. The Office provided for the continuity of thermal energy supply by delivering the interim injunction, which, however, was revoked towards the end of the administrative proceedings, because the petitioner withdrew its petition, thereby eliminating the reason for which the interim injunction was imposed. Administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure under which an administrative authority shall discontinue the proceedings on an application when the petitioner withdraws its application.

Společenství vlastníků jednotek pro dům čp. 2773 a 2772, ulice Želátovská 25 a 27 v Přerově v Teplo Přerov a.s.

Dispute over a change to an agreement on thermal energy supply. The Office rejected the petition for changes to specified points in the agreement and in the Price Agreement (appendix 4 to the agreement), i.e. a petition requesting the Office to deliver a decision laying down the specified points of the agreement as required by the petitioner.

Czech Coal Services a.s. v United Energy, a.s.

Dispute over the execution of price addenda to thermal energy supply agreements. The proceedings were discontinued because the respondent, as the hitherto supplier of thermal energy, ceased to be the holder of a thermal energy distribution licence for the distribution facilities in question. The Office cannot adjudicate a dispute where an entity has ceased to be the holder of a licence for the relevant distribution facility, because the Office is competent to adjudicate disputes where a licence holder is a party to the proceedings.

Město Ralsko v LENOXA a.s.

Dispute over the execution of price addenda to thermal energy supply agreements. Město Ralsko, as the thermal energy customer, challenged the preliminary thermal energy price for 2010, because for 2009 the thermal energy price was CZK 995/GJ while in 2010 LENOXA a.s., as the thermal energy supplier, billed advances for a price in excess of CZK 1,000/GJ, and the parties therefore failed to reach agreement to sign pricing arrangements for 2010. During the administrative proceedings LENOXA a.s. failed to provide the co-operation required for the review of the double-component thermal energy price, and did not furnish any documents, and the Office therefore had to set a customary price charged by other thermal energy suppliers with comparable conditions for thermal energy production and distribution. The Office therefore laid down the 2010 price addenda to two valid agreements on thermal energy supply, where the thermal energy price, including the dates and method of payment for thermal energy taken and of advances, is a material particular of these agreements.

„Společenství vlastníků jednotek pro dům Praha 8 – Libeň, čp. 2407“ v České teplo s.r.o.

Dispute over the execution of an agreement on thermal energy supply. In respect of the agreement presented by the respondent, "Společenství vlastníků jednotek" (condominium) did not agree with the condominium's obligation to buy the exchanger station and the hot water pipe in the case of contract termination by the condominium. The condominium also requested a review of the calculation of the thermal energy price for 2010. In the administrative proceedings, a thermal energy supply agreement was laid down in respect of the material particulars set out in Section 76(3) of the Energy Act, while the obligation to buy the exchanger station was omitted from the agreement because this does not constitute any material particular of such agreements. For the Office to be able to lay down this agreement, it had to review the thermal energy price so that a price compliant with legal regulations would be the result of the agreement so laid down. Following changes of the Depreciation, Profit, and Interest on Loan items in the calculation of the preliminary thermal energy price for 2010 for the V Zahradách price locality, the Office set out in its decision the preliminary price for thermal energy supply and also reduced the amount of monthly advances.

Společenství pro dům č.p. 450, ulice Místecká, Praha 18 - Letňany v AVIA, a.s.

Dispute over a violation of public notice no. 194/2007 that lays down the rules for space heating and hot water supply, indicators for metering thermal energy consumption for space heating and hot water preparation, and the requirements on the furnishing of indoor thermal installations of buildings with instruments regulating thermal energy supply to final customers and compensation for damage. The customer sought a decision that the supplier acted illegally when, in the customer's opinion, the supplier violated public notice no. 194/2007. The customer also sought a decision that the respondent was obliged to pay compensation for the damage that the petitioner suffered by this illegal act. Under Section 43(1)(b) of the Rules of Administrative Procedure, the case was set aside.

Společenství pro dům č.p. 1034, Praha, Řeporyje v České teplo s.r.o.

Dispute over the execution of an agreement on thermal energy supply. The condominium contested the agreement presented by the respondent on points concerning the substitute method for evaluating thermal energy supply, due date of invoices, the thermal energy price and its structure, and the confirmation of the meter readings and the number of the meter. The Office laid down a thermal energy supply agreement in terms of its material particulars set out in Section 76(3) of the Energy Act. For the Office to be able to lay down this agreement, it had to review the thermal energy price so that a price compliant with legal regulations would be the result of the agreement so laid down. Following a change to the Depreciation item and omitting the costs of easements unrelated to thermal energy production and distribution, the Office set the preliminary thermal energy price for 2010 and adjusted the amount of the components of the double-component price of thermal energy.

Okresní stavební bytové družstvo Česká Lípa, Společenství pro dům Pražská 631, 632, 633, Doksy, Společenství vlastníků pro dům č.p. 818-819, ul. Sochorova, Doksy, Společenství pro dům Sochorova 815, 816, 817, Doksy a Město Doksy v LENOXA a.s.

Dispute over the execution of price addenda to thermal energy supply agreements. The petitioners requested the initiation of administrative proceedings on the wording of Appendix 2 to thermal energy supply agreements – Agreement on the Preliminary Price and Advances – between each of the thermal energy customers and LENOXA a.s. as the thermal energy supplier. In its decision, the Office laid down Appendices 2 to thermal energy supply agreements, where the variable part of the thermal energy price was left at the level proposed by the supplier and the fixed part of the thermal energy price was reduced to reflect the difference from the highest customary comparable price of thermal energy for 2010.

Proceedings on fines for violations of price regulations

GOLEM Velké Hamry, a.s.

The Office decided to impose a fine of CZK 150,000 on GOLEM Velké Hamry, a.s. for demanding or setting a preliminary thermal energy price for 2009, the level or calculation of which failed to meet the condition of cost-plus pricing under Section 6(1) of the law on prices.

LENOXA a.s.

The Office decided to impose a fine of CZK 100,000 on LENOXA, a.s. for failure to meet the information obligation under Section 12(1) of the law on prices. LENOXA a.s. failed to furnish the Office with the required information about the way in which it remedied the identified shortcomings indicated by the conclusions of the report on the price inspection in 2008.

KA Contracting ČR s.r.o.

The Office decided to impose a fine of CZK 90,000 on KA Contracting ČR s.r.o. for a violation of price regulations under Section 15(1)(c) of the law on prices; the company did not follow the mandatory procedure for thermal energy pricing and for calculating this price under Section 6 of the law on prices, which had been laid down by price control authorities for preliminary 2009 thermal energy prices, in respect of the prices that it charged to its customers in the Louny price location.

LENOXA a.s.

The Office decided to impose a fine of CZK 100,000 on LENOXA a.s. for failure to meet the information obligation under Section 12(1) of the law on prices. LENOXA a.s. breached this obligation by failing, despite the Office's repeated request, to furnish documents related to thermal energy pricing in 2009 in the Brno – Kolaříkova, Brno – Kubíčková, Jindřichovice pod Smrkem, Jiříkov and Ralsko – Kuřívody price locations.

Správa majetku Kynšperk nad Ohří spol. s r.o.

The Office decided to impose a fine of CZK 5,000 on Správa majetku Kynšperk nad Ohří spol. s r.o. for a violation of price regulations under Section 16(3)(c) of the law on prices. The company committed this violation by failing, as the seller, to furnish the Office with information and documents required under ERO Price Decision No. 7/2008 prior to negotiating or billing thermal energy price with/to the thermal energy customers as required in point 3.9 of the price decision.



Proceedings on disciplinary fines

Mr Jan Podolský

Under Section 19 of Act No. 552/1990 on State inspection, as amended, the Office decided to impose a disciplinary fine of CZK 40,000 on Mr Jan Podolský, who as a person authorised to represent LENOX A.s. in respect of the price inspection repeatedly failed to furnish within the set time limit, the documents required by the review staff, thereby failing to provide the required co-operation and, in turn, failing to create the basic conditions for the price inspection.

Mr Jan Černý

Under Section 19 of Act No. 552/1990 on State inspection, as amended, the Office decided to impose a disciplinary fine of CZK 80,000 on Mr Jan Černý, who as the Chairman of LENOX A.s. repeatedly failed to furnish, within the set time limit, the documents required by the review staff, thereby failing to provide the required co-operation and, in turn, failing to create the basic conditions for the price inspection.

2) Remonstrance proceedings in 2010

Adversarial proceedings in 2010

The electricity industry

Mr Pavel Havránek v ČEZ Distribuce, a.s.

The Office granted Mr Pavel Havránek's petition in the dispute over renewed connection of the petitioner's electricity generating plant under Section 17(5)(a) of the Energy Act, under which it is the Office's competence to adjudicate disputes over a reduction or interruption in electricity supply due to illegal consumption. The ERO Chairman rejected the remonstrance filed by ČEZ Distribuce, a.s. as filed too late.

Mr Marek Chvojan v ČEZ Distribuce, a.s.

The Office granted Mr Marek Chvojan's petition in the dispute over the connection of electricity consumption equipment under Section 17(5)(a) of the Energy Act.

The ERO Chairman rejected the remonstrance filed by the respondent, ČEZ Distribuce, a.s., and upheld the challenged decision on the grounds of the petitioner proving in the proceedings his ownership title to the electricity consumption equipment, when he therefore had the right to have it connected to the distribution system.

EcoSun Energy s.r.o. v ČEZ Distribuce, a.s.

The Office granted the petition of EcoSun Energy s.r.o. in the dispute over the connection of an electricity generating plant to the distribution system operated by ČEZ Distribuce, a.s.

On the basis of remonstrance filed by ČEZ Distribuce, a.s., the ERO Chairman reversed the challenged decision upon the remonstrance commission's proposal, and remanded the case for new consideration. The reason for reversing the challenged decision was the fact that the Office had diverged from the applicant's petition in its decision-making.

Lumen Energy a.s. v KS-Europe s.r.o.

The Office set aside the petition of petitioner Lumen Energy a.s. for the declaration of the validity and effect of an agreement on bundled electricity supply services in a dispute under Section 17(5)(b) of the Energy Act, because within the set time limit KS-Europe s.r.o. did not express its consent to the Office's competence to decide in this case.

The ERO Chairman rejected remonstrance filed by Lumen Energy a.s. upon the remonstrance commission's proposal, and upheld the challenged decision.

TEMPLUM–společenské hry s.r.o. v PREDistribuce, a.s. and Pražská energetika, a.s.

In the dispute under Section 17(5)(a) of the Energy Act, the Office rejected the petition of TEMPLUM–společenské hry s.r.o. concerning a dispute over a reduction or interruption in electricity supply due to illegal electricity consumption. In the proceedings the respondents proved the meeting of the conditions for electricity supply interruption due to illegal electricity consumption under Section 51 of the Energy Act.

The ERO Chairman rejected the remonstrance filed by the petitioner, TEMPLUM–společenské hry s.r.o., as unfounded upon the remonstrance commission's proposal.

Panasonic Electric Works Czech s.r.o. v ČEZ Distribuce, a.s.

In a dispute under Section 17(5)(a) of the Energy Act, the Office rejected the petition of Panasonic Electric Works Czech s.r.o., requesting the Office to lay down an agreement on the connection of an electricity generating plant – a cogeneration unit, on the grounds of a demonstrated shortfall in the capacity of the distribution system installations.

On the basis of remonstrance filed by the petitioner the ERO Chairman reversed the challenged decision upon the remonstrance commission's proposal and remanded the case for new consideration. The reason for reversing the challenged decision was the insufficiently established facts of the case in respect of the shortfall in the capacity of the distribution installations claimed by the respondent.

Pavel Havránek – SPARK v ČEZ Distribuce, a.s.

In a dispute under Section 17(5)(a) of the Energy Act over the execution of a connection agreement, the Office laid down an addendum to the connection agreement, the subject matter of which was a change of the total installed capacity of the generating plant.

On the basis of remonstrance filed by the respondent, ČEZ Distribuce, a.s., the ERO Chairman reversed the challenged decision upon the remonstrance commission's proposal and remanded the case for new consideration, because in the remonstrance commission's opinion the facts of the case were not established sufficiently. In the adversarial proceedings, the parties proposed contradictory evidence as regards the demonstration of the fitness of the plant to be connected, and because this difference was not dealt with sufficiently in the proceedings, it was not possible to conclude that the petitioner's plant to be connected met the connection conditions within the meaning of Section 25(11)(a) of the Energy Act.

Cukrovar Vrbátky a.s. v E.ON Distribuce, a.s.

In a dispute under Section 17(5)(d) of the Energy Act over renewable electricity buyout or over the right for the payment of green premiums, the Office rejected the motion for the payment of green premiums by E.ON Distribuce, a.s.

On the basis of remonstrance filed by the petitioner, the ERO Chairman reversed the challenged decision upon the remonstrance commission's proposal and remanded the case for new consideration. The reason for reversing the challenged decision was the insufficiently established facts of the case and incorrect legal assessment of the case. When examining the case again, the Office has to consider whether the petitioner met the statutory conditions for selecting the entitlement to support under Section 4(3) of the law on support for the use of renewable sources and whether it met the statutory conditions for the payment of green premiums for electricity produced in 2009 under the above law.

Mr Milan Řemínek v E.ON Energie, a.s.

In a dispute under Section 17(5)(a) of the Energy Act, the Office rejected Mr Milan Řemínek's petition to the Office to lay down, between the petitioner and the respondent, E.ON Energie, a.s., an addendum to an agreement on electricity supply, involving acceptance of the obligation to supply electricity to the electricity grid, which had been in place between the parties.

The ERO Chairman rejected the petitioner's remonstrance upon the remonstrance commission's proposal as unfounded and upheld the challenged decision. The grounds were the fact that the law on support for the use of renewable sources or the Energy Act do not accord the petitioner any right to execute an addendum to an electricity supply agreement (and do not impose any obligation on the respondent to do so).

ACT FAST s.r.o. v ČEZ Distribuce, a.s.

In a dispute under Section 17(5)(a) of the Energy Act, the Office rejected the petition of ACT FAST s.r.o. requesting the Office to lay down an addendum to a letter of intent on the connection of an electricity generating plant, the subject matter of which was to be a change of the date of the plant's connection to the distribution system.

The ERO Chairman rejected the petitioner's remonstrance upon the remonstrance commission's proposal as unfounded and upheld the challenged decision. The grounds for rejecting the remonstrance were failure to meet the preconditions for dispute adjudication, because the petitioner and respondent already had a letter of intent in place on the connection, including the connection date.

ACT FAST s.r.o. v ČEZ Distribuce, a.s.

In a similar dispute under Section 17(5)(a) of the Energy Act, the Office rejected the petition of ACT FAST s.r.o. requesting the Office to lay down an addendum to a letter of intent on the connection of an electricity generating plant, the subject matter of which was to be a change of the date of the plant's connection to the distribution system.

The ERO Chairman rejected the petitioner's remonstrance upon the remonstrance commission's proposal as unfounded and upheld the challenged decision. The grounds for rejecting the remonstrance were failure to meet the preconditions for dispute adjudication, because the petitioner and respondent already had a letter of intent in place on the connection, including the connection date.

ACT FAST s.r.o. v ČEZ Distribuce, a.s.

In a dispute under Section 17(5)(a) of the Energy Act, the Office granted a part of the petition of ACT FAST s.r.o., and laid down an agreement on the connection of the petitioner's electricity generating plant. It rejected the remaining points of the petition.

Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance filed by the petitioner, ACT FAST s.r.o., against a part of the decision as unfounded and upheld the challenged part of the decision.

On the basis of remonstrance filed by the respondent, ČEZ Distribuce, a.s., against the part of the decision that laid down the connection agreement, the ERO Chairman reversed the challenged part of the decision and remanded the case for new consideration. The grounds for reversing that part of the decision were shortcomings in the content of the agreement that had been laid down on the connection of the electricity generating plant to the distribution system.

Mr Petr Příkryl v ČEZ Distribuce, a.s., MANAG SMZ, a.s. v E.ON Distribuce, a.s., Mr Martin Kalianko v E.ON Distribuce, a.s., Mr Jiří Seborý v E.ON Distribuce, a.s., Mr František Tichánek v E.ON Distribuce, a.s., Mr Milan Cvak v E.ON Distribuce, a.s., Mr David Čermák v E.ON Distribuce, a.s., PVE400 s.r.o. v E.ON Distribuce, a.s., Mr Antonín Klátil v ČEZ Distribuce, a.s., Mr Pavel Popelínský v E.ON Distribuce, a.s., Mr Bořek Riess v ČEZ Distribuce, a.s., MESANA Real, s.r.o. v ČEZ Distribuce, a.s., Mr Pavel Malimánek v E.ON Distribuce, a.s., SUNNY ENERGO CZECH s.r.o. v E.ON Distribuce, a.s., Jabor pro, s.r.o. v ČEZ Distribuce, a.s., Mr Marcel Paulus v ČEZ Distribuce, a.s., ACword, spol. s r.o. v ČEZ Distribuce, a.s., Mr Jaromír Kopecký v ČEZ Distribuce, a.s., JTC Mnichovice, s.r.o. v ČEZ Distribuce, a.s., Mrs Lenka Kaška v ČEZ Distribuce, a.s., Mr Pavel Patrovský v ČEZ Distribuce, a.s., Majterba s.r.o. v ČEZ Distribuce, a.s., Mr Jiří Kryštof v ČEZ Distribuce, a.s., Mr Miloslav Kofroň v ČEZ Distribuce, a.s., Mrs Miroslava Valášková v E.ON Distribuce, a.s.

In these disputes, almost identical as to the facts, conducted by the Office under Section 17(5)(a) of the Energy Act, over the laying down of an agreement on the connection of electricity generating plants using solar radiation to the distribution system, the Office rejected the petitions filed by each of the above petitioners and requesting the Office to lay down the agreement on the connection of the electricity generating plant to the distribution system operated by ČEZ Distribuce, a.s., or by E.ON Distribuce, a.s.

Upon the remonstrance commission's proposal, the ERO Chairman rejected the remonstrance filed by the petitioners as unfounded and upheld the challenged decisions. The grounds for rejecting the remonstrance were the impossibility, demonstrated by the distribution system operator during the proceedings, to connect the plants due to risk to the reliable operation of the distribution system within the meaning of Section 25(11)(a) of the Energy Act. The risk to the reliable operation of the distribution system was caused by the total installed capacity of the connected plants that used renewable energy sources.

The gas industry

Česká naftařská společnost s.r.o. v MND a.s.

The Office granted the petition of Česká naftařská společnost s.r.o. in a dispute under Section 17(5)(a) and (c) of the Energy Act over the connection and access to the gas production pipeline of the respondent, MND a.s., and in its decision laid down an agreement on connection and access to the respondent's gas production pipeline. The ERO Chairman rejected the respondent's remonstrance and upheld the challenged decision on the grounds that the Energy Act accords the petitioner the right of connection and access to the gas production pipeline operated by the gas producer, which the respondent failed to respect.


Elektroporcelán Louny a.s. v RWE Energie, a.s.

In a dispute under Section 17(5)(a) of the Energy Act over gas supply reduction or interruption due to illegal gas consumption, the Office rejected the petition of the petitioner, Elektroporcelán Louny a.s., for the imposition of an interim injunction, because it did not find any reasons for putting in place interim arrangements for the parties' relationship.

On the basis of the petitioner's remonstrance the ERO Chairman reversed the challenged decision and remanded the case for new consideration, as he concluded that the case had not been sufficiently assessed as to the facts and that had the situation been assessed differently, grounds for ordering an interim injunction could have existed.

E.ON Energie, a.s. v RWE Gas Storage, s.r.o.

In a dispute under Section 17(8)(a) and (b) of the Energy Act, as in force at the time of dispute initiation, over access to an underground gas storage facility, the Office rejected the petition of the petitioner, E.ON Energie, a.s., requesting the Office to lay down a gas storage agreement, because with regard to a court's decision on the preliminary question of the validity of the gas storage agreement in place between RWE Transgas, a.s. and RWE Gas Storage, s.r.o., it was not possible to subject the respondent, RWE Gas Storage, s.r.o., to an obligation to enter into an agreement the subject matter of which would have been gas storage using storage capacity that had already been provided to another market participant under contract.



The ERO Chairman rejected the petitioner's remonstrance upon the remonstrance commission's proposal as unfounded and upheld the challenged decision. It was confirmed in the remonstrance proceedings that the respondent, as a the operator of the underground gas storage facility, did not have the required storage capacity available for the storage period in question due its shortage of available storage capacity.

The heat supply industry

Společensví pro dům 157 a 158 Ruprechtická Liberec v LENOXA a.s.

Prior to the conclusion of the dispute under Section 17(5)(a) of the Energy Act over the execution of an agreement on thermal energy supply, the Office delivered an interim injunction whereby it arranged, on an interim basis, for the Parties' relationship. The ERO Chairman rejected the remonstrance filed by the respondent, LENOXA a.s., upon the remonstrance commission's proposal, and upheld the decision on the interim injunction.

Subsequently, the Office reversed the delivered decision on the interim injunction upon the petitioner's motion and discontinued the administrative proceedings on the dispute over the execution of an agreement on thermal energy supply.

Upon the remonstrance commission's proposal, the ERO Chairman rejected remonstrance filed by LENOXA a.s. against the decision that had reversed the interim injunction and against the resolution that had discontinued the adversarial proceedings as unfounded because the decisions had been delivered in compliance with legal regulations.

Společensví domu čp. 312-313, Třemošnice v LENOXA a.s.

In a dispute under Section 17(5)(a) of the Energy Act, in its decision on the merits the Office laid down a price addendum for 2009, on the preliminary thermal energy price, to the agreement on thermal energy supply in place between the petitioner and respondent.

The ERO Chairman rejected remonstrance filed by the respondent, LENOXA a.s. upon the remonstrance commission's proposal and upheld the challenged decision, because in the proceedings the Office had, on the basis of facts found, arrived at the correct conclusion that it was possible to grant the petitioner's request for the execution of the price addendum containing the proposed thermal energy price for 2009.

Okresní stavební bytové družstvo Česká Lípa v LENOXA a.s.

Prior to the conclusion of a dispute under Section 17(5)(a) of the Energy Act over the execution of an agreement on thermal energy supply, the Office delivered an interim injunction whereby it arranged, on an interim basis, the parties' relationship. The ERO Chairman rejected remonstrance filed by the respondent, LENOXA a.s., upon the remonstrance commission's proposal and upheld the decision on the interim injunction, because he found the reasons for the interim injunction to be justified.

Czech Coal Services a.s. v United Energy, a.s.

The Office discontinued the adversarial proceedings conducted under Section 17(5)(a) of the Energy Act over the execution of price addenda to agreements on thermal energy supply in place between the parties. The reason for discontinuing the proceedings was the irrelevance of the application in question, because during the proceedings, the respondent ceased to be a holder of a licence performing the licensed activity on the heat distribution installation in question.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal and upheld the challenged decision, because under Section 17(5)(a) of the Energy Act the Office is competent to adjudicate disputes when an agreement under the Energy Act is not executed between a licence holder and its customer. If a party to the proceedings ceases to be a licence holder during the proceedings, the proceedings cannot be continued.

„Společensví vlastníků jednotek pro dům Praha 8 – Libeň, č.p. 2407“ v České teplo s.r.o.

In adversarial proceedings conducted under Section 17(5)(a) of the Energy Act over the execution of an agreement on thermal energy supply, the Office delivered a decision on the merits whereby it granted a part of the petition and laid down an agreement on thermal energy supply between the parties, rejecting another part of the petition.

The ERO Chairman rejected remonstrance filed by the respondent, České teplo s.r.o., upon the remonstrance commission's proposal as filed too late.



Licensing proceedings

MARSERVIS, s.r.o.

In 2003, in licence revocation proceedings, the Office delivered a decision whereby it revoked the licence of MARSERVIS, s.r.o., the subject matter of which was business in thermal energy distribution. The grounds for licence revocation were the licence holder's failure to meet the conditions for award thereof under the Energy Act.

Subsequently, the remonstrance proceedings were stayed because of the consideration by a court of the existence of the lease. Following the decision on the preliminary question, the remonstrance proceedings continued and the ERO Chairman reversed to decision on licence revocation upon the remonstrance commission's proposal, as he concluded that the Office had commenced the proceedings for licence revocation at variance with the Energy Act.

MARSERVIS, s.r.o.

In proceedings on the revocation of a licence for thermal energy distribution, the Office delivered a decision whereby it revoked the licence of MARSERVIS, s.r.o.. The grounds for the licence revocation were the discharge of the right of use of the heat distributing installation upon the Plzeň Regional Court's decision on the nullity of the agreement on the lease of the heat installation between MARSERVIS, s.r.o. and the City of Chodov.

The ERO Chairman rejected remonstrance filed by MARSERVIS, s.r.o. against the decision on licence revocation as filed too late. In the subsequent summary review proceedings, initiated on the basis of the late remonstrance, the ERO Chairman reversed the final decision on licence revocation because the decision was at variance with legal regulations, and remanded the case to the Office for new consideration.

LENOXA a.s.

In proceedings on licence revocation, the Office delivered a decision whereby it revoked the licence of LENOXA a.s., the subject matter of which was business in thermal energy production. The grounds for licence revocation were the licence holder's failure to meet the conditions for award thereof under the Energy Act.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal and upheld the decision on licence revocation. According to the ERO Chairman, the proceedings demonstrated failure to meet the conditions for licence award under Section 10(2)(a) of the Energy Act.

LENOXA a.s.

In parallel administrative proceedings, the Office delivered a decision whereby it revoked the license of LENOXA a.s., the subject matter of which was business in thermal energy distribution. The grounds for licence revocation were the licence holder's failure to meet the conditions for award thereof under the Energy Act.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal and upheld the decision on licence revocation. According to the ERO Chairman, the proceedings demonstrated failure to meet the conditions for licence award under Section 10(2)(a) of the Energy Act.

Proceedings on the imposition of the obligation of supply over and above a licence and provision of energy facilities

MARCO CASTINARO, a.s.

In proceedings on the imposition of the obligation of electricity distribution over and above the licence and provision of energy facilities, in an interim injunction the Office ordered MARCO CASTINARO, a.s. to provide its energy facilities for the purpose of electricity distribution, and ČEZ Distribuce, a.s. to distribute electricity over and above its licence.


MARCO CASTINARO, a.s. filed remonstrance against the decision on the interim injunction, which the ERO Chairman rejected upon the remonstrance commission's proposal as unfounded because the proceedings demonstrated the need for interim arrangements for the parties' situation.

Proceedings on fines for violations of price regulations

LENOXA a.s.

The Office imposed a fine of CZK 50,000 on LENOXA a.s. for its breach of price regulations under Section 15(1)(f) of the law on prices, because the company failed to perform its information obligation under Section 12(1) of the law on prices when despite the Office's repeated requests it failed to furnish the requested documents related to thermal energy pricing for 2009 in the specified price locations.

On the basis of remonstrance, the ERO Chairman reversed, upon the remonstrance commission's proposal, the challenged decision on the fine and remanded the case for new consideration, because the delivered decision failed to meet the basic requirements of the Rules of



Administrative Procedure as to the content of administrative decisions and it therefore was burdened by defects that could not be remedied in appellate proceedings without causing damage to the parties' rights. Another reason for reversing the decision was well-founded doubts as to the amount of the fine because of its allowed upper limit and the severity of the breach of price regulations.

Following new consideration of the case, the Office delivered a decision whereby it imposed a fine of CZK 100,000 on LENOXA a.s. for a breach of price regulations under Section 15(1)(f) of the law on prices.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal and upheld the challenged decision on the fine, as he concluded that LENOXA a.s. had breached price regulations by its failure to perform its information obligation under Section 12(1) of the law on prices, to furnish, free of charge, the information and documents that the Office, as a price control authority, had requested for the purpose of evaluating price development, for the purpose of price control and price inspection, and for proceedings on a breach on price regulations and decisions.

GOLEM Velké Hamry, a.s.

The Office imposed fine of CZK 150,000 on GOLEM Velké Hamry, a.s. for an administrative offence under Section (16)(1)(d) of the law on prices, consisting of a breach of price regulations.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal and upheld the challenged decision on the fine, as he concluded that through its acts, GOLEM Velké Hamry, a.s. had breached price regulations by its failure to observe the mandatory procedure for thermal energy pricing in its price calculations.

KA Contracting ČR s.r.o.

The Office imposed a fine of CZK 80,000 on KA Contracting ČR s.r.o. for a breach of price regulations.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal and upheld the challenged decision on the fine, as he concluded that KA Contracting ČR s.r.o. had breached price regulations under Section 15(1)(c) of the law on prices by its acts when it failed to observe the set method for calculating thermal energy prices.

LENOXA a.s.

The Office imposed a fine of CZK 100,000 under Section 17(1)(b) of the law on prices on LENOXA a.s. for a breach of price regulations under Section 15(1)(f) of the law on prices, which the company committed by failure to perform the information obligation under Section 12(1) of the law on prices when despite the Office's repeated request its failed to furnish the requested documents related to thermal energy pricing for 2009 in the specified price locations.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal as unfounded and upheld the challenged decision.

České teplo s.r.o.

The Office imposed a fine of CZK 150,000 on České teplo s.r.o. for a breach of price regulations under Section 16(4)(c) of the law on prices, for committing an administrative offence under Section 16(1)(d) of the law on prices, which the company committed by failure to observe the mandatory procedure, set by price control authorities, in thermal energy pricing and in its price calculations.

The ERO Chairman rejected the remonstrance upon the remonstrance commission's proposal as unfounded and upheld the challenged decision.

Auditor's Report

On the audit of a fund established under Section 14 of Act No. 458/2000 on the Conditions of Business and State Administration in the Energy Industries and Changes to Certain Laws ("the Energy Act"), as amended.

The auditor's opinion intended for the institutor of the Energy Regulatory Office

I have audited the fund set up pursuant to Section 14 of Act No. 458/2000 on the Conditions of Business and State Administration in the Energy Industries and Changes to Certain Laws ("the Energy Act"), as amended, in relation to the annual financial statements. The audit has been performed in accordance with the International Accounting Standards and covered the period of 2010.

The governing body of the accounting unit is responsible for bookkeeping and for complete, true and correct accounting. The auditor's responsibility is to obtain all information required for examining the way in which the fund is maintained and relates to the annual financial statements. The audit has been carried out with regard to the extent of the accounting, by examining evidence supporting the amounts and disclosures, taking into account the significance of the disclosures.

In my opinion the fund was maintained and used in accordance with the legal regulations in force, and is truly and fairly reflected in the annual financial statements of the Energy Regulatory Office for the accounting period of 2010.

Recipient of the Report: Management of the Energy Regulatory Office

Name of the accounting unit: Energy Regulatory Office

Registered office: Masarykovo náměstí 5, 586 01 Jihlava

Reg. No. 70894451

Period under review: 2010

A-CONT, s.r.o., represented by its Managing Director

Jiří Makaj
Auditor; Licence No. 1529

Encl.: Breakdown of the balance in the Fund

Jihlava, 31 January 2011



Appendix 3

Balance Sheet as at 31 December 2010

of the State's instrumentalities, self-governing administrative units, semi-autonomous organisations and Regional Councils
(adjusted form, in CZK '000s, rounded to two decimal places)

Reg. No.: 70894451
Name of the accounting unit:
Energy Regulatory Office
Masarykovo náměstí 5
586 01 JIHLAVA

Item	Name	Synthetic account	Current period gross	Current period Adjustment	Current period net	Previous period
			1	2	3	4
	Total assets		212,876.00		212,876.00	180,430.00
	A. Fixed assets		134,280.00		134,280.00	126,129.00
	I. Intangible fixed assets		38,221.00		38,221.00	35,384.00
	3. Software	013	34,865.00		34,865.00	32,265.00
	6. Low-value intangible fixed assets	018	3,356.00		3,356.00	3,119.00
	II. Tangible fixed assets		96,059.00		96,059.00	90,745.00
	1. Land	031	3,412.00		3,412.00	3,412.00
	2. Objects of art	032	291.00		291.00	291.00
	3. Buildings	021	40,270.00		40,270.00	40,270.00
	4. Plant and equipment	022	38,727.00		38,727.00	34,403.00
	6. Low-value tangible fixed assets	028	13,359.00		13,359.00	12,369.00
	III. Long-term investments		0.00		0.00	0.00
	IV. Long-term receivables		0.00		0.00	0.00
	B. Current assets		78,596.00		78,596.00	54,301.00
	I. Inventories		239.00		239.00	107.00
	2. Material in stock	112	239.00		239.00	107.00
	II. Short-term receivables		2,780.00		2,780.00	2,051.00
	4. Short-term advances paid	314	538.00		538.00	801.00
	5. Other receivables, main activity	315	850.00		850.00	1,221.00
	10. Receivables from employees	335	5.00		5.00	29.00
	25. Prepaid expenses	381	1,387.00		1,387.00	
	III. Income accounts of budget management		20,758.00		20,758.00	
	1. Income account of State's instrumentalities	222	20,758.00		20,758.00	
	IV. Short-term financial assets		54,819.00		54,819.00	52,143.00
	5. Other current accounts	245	54,388.00		54,388.00	51,631.00
	10. FKSP current account	243	431.00		431.00	512.00

Item	Name	Synthetic account	Current period	Previous period
			1	2
	Equity and liabilities		212,876.00	180,430.00
	C. Equity		46,925.00	129,162.00
	I. Accounting unit's capital and adjustment items		128,693.00	128,626.00
	1. Accounting unit's capital	401	2,497.00	2,496.00
	3. Subsidies to fixed asset acquisition	403	126,196.00	126,130.00
	II. Accounting unit's funds		436.00	536.00
	2. FKSP	412	436.00	536.00
	III. Result		82,204.00-	
	1. Result of current period	493	82,204.00-	
	D. Liabilities		165,951.00	51,268.00
	I. Expense accounts of budget management		110,916.00	
	1. Separate expense account	223	110,916.00	
	II. Provisions		0.00	0.00
	1. Provisions	441		
	III. Long-term liabilities		46,891.00	44,789.00
	9. Other long-term liabilities	459	46,891.00	44,789.00
	IV. Short-term liabilities		8,144.00	6,479.00
	15. Other liabilities to employees	333	4,120.00	3,697.00
	16. Net liabilities to social security and health insurance institutions	336	2,419.00	1,994.00
	18. Other direct taxes	342	815.00	700.00
	31. Accrued expenses	383	684.00	
	34. Other short-term liabilities	378	106.00	88.00

Energy Regulatory Office
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586 01 Jihlava
www.ero.cz