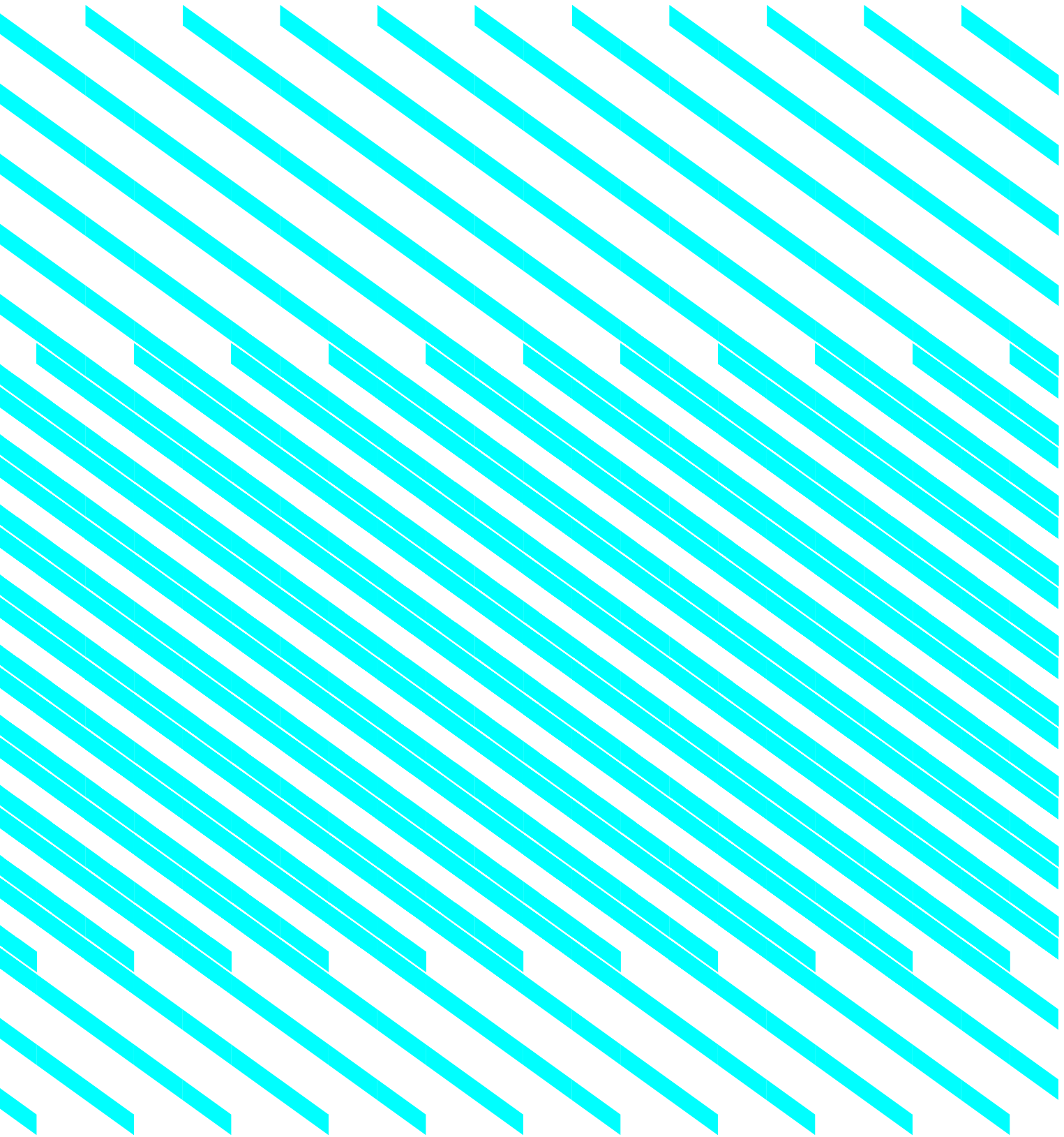




# The 2011 Report on the Activities and Finances of the Energy Regulatory Office



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## The Chairwoman's Statement

The year 2011 saw the most extensive changes in the Energy Regulatory Office's remit in many years, with impacts on its technical activities and its position within the state administration system. The Office had to respond accordingly.

The changes stemmed in particular from the extensive amendment to the Energy Act, of which the Office was a co-sponsor together with the Ministry of Industry and Trade. Following its approval by the Government in late 2010, in May 2011 the amendment was passed by the Chamber of Deputies and then in June 2011 by the Senate of Parliament of the Czech Republic.

This amendment is mainly based on the third energy package of EU Directives, and its objective is to further liberalise the energy market and to empower customers on this market.

The Office's powers of supervision over the operation of the electricity and gas markets and in the protection of customers' rights were therefore extended in 2011. The Office set up a new unit, whose remit is to protect consumers and, among other things, provides support to consumers, in particular as regards supplier selection and switching, termination of contractual relationships, addressing complaints about suppliers' conduct, and prevention of disputes. It also deals with the

suggestions and complaints related to the activities of alternative energy sellers. The amendment to the law has also vested another new competence in the Office, namely to adjudicate disputes over complaints about billing and over failure to reach agreement on the refund of potential overpayments.

The amendment has also transferred inspection powers from the State Energy Inspectorate (SEI) to the Energy Regulatory Office. This mainly entails supervision over the performance of the duties laid down in the Energy Act in the electricity, gas and heat supply industries, checks of the duties laid down in the Act on Prices in these energy industries, and supervision over compliance with selected provisions of the Act on Consumer Protection.

The method of ERO funding has also been fundamentally changed. Beginning in 2012, the Office's budget is covered from fees for electricity and natural gas sales, with a tie to the national budget.

In 2011, the Office significantly contributed to the drafting of and debate on the act on supported energy sources. It prepared some analyses, which - responding to the evolution of the content of the new law and the amending proposals raised - addressed their practical impacts and offered a realistic view of the issues addressed by the new legislation.

The ERO was involved in a number of international activities, primarily in EU institutions. It maintained intensive co-operation with the Council of European Energy regulators (CEER), Agency for the Cooperation of Energy Regulators (ACER) and, until its dissolution (1 July 2011), the European Regulators' Group for Electricity and Gas (ERGEG), which had served as the European Commission's formal advisory group.

At meetings of CEER and ACER working groups, the ERO's representatives focused on coordinating approaches and promoting positions of the Czech Republic in respect of electricity and gas markets, issues related to customer protection, and the implementation of the EU Directives in the third energy package. The Office's employees were also active in a number of working groups that discussed the unification of connection conditions, cross-border capacity allocation and congestion management. Further, positions on the development of electricity TSOs' ten-year investment plans were formulated. As part of regional initiatives, they were involved in the issue of the 'cross-border power flows' in electricity transmission networks caused by the high output of offshore wind farms in northern Germany.

The Office's work on the international scene also had a positive effect in the project for the coupling of the Hungarian and Czech-Slovak electricity markets, which helps to create a single European electricity market.

In connection with my taking over as Chairwoman of the Energy Regulatory Office in August 2011, the rest of the year saw several

organisational changes that already followed up on the amendment to the Energy Act; also, the Office's new priorities for the coming years were put in place. I have formulated my vision of the Office's reorganisation in three packages: *Legacy*, *Transformation*, and *Quo Vadis*, ERO. In *Legacy*, I mainly emphasise renewable energy sources and the elimination of the impacts produced by decisions taken in the past years, which would be unfavourably reflected in electricity prices over the long haul. The *Transformation* package includes steps related to the reorganisation of the Office in response to the amendment to the Energy Act, and the third package, *Quo Vadis*, means more intensive co-operation with the EU and its institutions at very early stages of the drafting of the various decisions and consistent protection of Czech national interests.

I am pleased to note that the Energy Regulatory Office carried out all the tasks brought about by 2011. That year was not easy either for me or for the employees. Nevertheless, our effort was to put in place - within the bounds of the competences vested in the Office - the conditions for the development of a regulatory environment acceptable for all electricity, gas and district heating market players, the ultimate result of which is all market participants' satisfaction.

**Alena Vitásková**  
Chairwoman, Energy Regulatory Office



# 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.

The new ERO Chairwoman took over in August 2011. In this connection, some organisational changes were made in response to an amendment to the Energy Act, and, in turn, the Office’s new priorities in the coming years.

The year 2011 saw the most extensive changes in the Office’s remit in many years, and the Office had to respond accordingly.

The Office significantly contributed to the drafting and discussion of the law on supported energy sources. In this connection it also prepared some analyses, which – responding to the evolution of the content

of the new law and the amending proposals raised – addressed their practical impacts and offered a realistic view of the issues in question.

In 2011, the Office’s powers of supervision over the operation of the electricity and gas markets and in the protection of customers’ rights related to the execution of agreements on supply conditions were extended and a number of changes took place in the Office’s work, which were related to the drafting of, debate on, and entry into force of an extensive amendment to the Energy Act. This amendment responded to the third energy package, the implementation of which will result in a single European electricity and gas market.

The amendment to the Energy Act has also transferred inspection powers from the State Energy Inspectorate (SEI) to the ERO, both as regards supervision over the operation of energy markets and also the extensive field of consumer rights protection.

The method of ERO funding has also changed. Beginning in 2012, the Office’s budget is covered from fees for electricity and natural gas sales, without any direct ties to the national budget.





## 2 Legislation and administration

### 2.1 Preparing an amendment to Act No 458/2000 (Act No 211/2011)

In line with the plan of the Cabinet's legislative work, in early 2011 the Cabinet laid before the Chamber of Deputies of Parliament of the Czech Republic a bill amending Act No 458/2000 on the Conditions for Business and State Administration in Energy Industries and on Changes to Certain Laws (the Energy Act), as amended. It was a 'transposition amendment' to the Energy Act, because its object was to transpose the EU's legislation that forms the third energy package into Czech national law. The objectives of the bill amending the Energy Act therefore included, in particular, the following:

- implement into Czech law the obligations of the Czech Republic under Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in electricity, repealing Directive 2003/54/EC, and under Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC;
- adapt Czech law to the directly applicable EU *acquis*, in particular Regulation (EC) No 714/2009 of 13 July 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 13 July 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 13 July 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;
- adapt the Energy Act to 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.

During the drafting of the bill, the Office significantly contributed primarily to the formulation of provisions that concern the following:

- the strengthening of consumers' 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 electricity and gas transmission system operators;
- the so-called independent gas transmission operator (gas ITO) in the case that the ownership unbundling of the gas transmission system operator is not effected;
- certification of the electricity and gas transmission system operators in terms of the satisfaction of the conditions for their independence;
- the boosting of the Energy Regulatory Office's independent position and performance as the Czech Republic's national regulatory authority.

The Act that amends Act No 458/2000, the Energy Act, and other related laws, was promulgated in the Official Gazette in Part 75 under number 211/2011 on 19 July 2011.

### 2.2 Drafting of the government bill on supported energy sources

In line with the plan of the Cabinet's legislative work, in early 2011 the Cabinet laid before the Chamber of Deputies a bill on supported energy sources and on changes to certain laws; the reason was the implementation of 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. The objective of implementing Directive 2009/28/EC is to put in place stable and sustainable conditions of support for energy generation from renewable sources with a view to meeting the mandatory target of a 13% share of energy from these sources in gross final energy consumption by 2020. The law on supported energy sources also removes the deficiencies of the current system of support for renewable electricity, laid down in Act No 180/2005, on support of electricity generation from renewable energy sources and on changes to certain laws, as amended.

In addition to transposing Directive 2009/28/EC, the new law on supported energy sources also provides for, in particular, a more efficient functional system of support that will take into account the envisaged volumes of production from renewable sources in the target situation in 2020, uniform support for all supported energy sources, the introduction of support for heat production from renewable energy sources, secondary sources and high-efficiency combined heat and power generation, the specification of the parameters in respect of support for the efficient use of these sources in terms of both energy and economy, guarantee of origin of electricity produced from renewable energy sources and certificate of origin for electricity from combined heat and power generation, and for opportunities for creating joint international projects and statistical transfers of electricity from renewable energy sources related to the achievement of national targets.

The Chamber of Deputies passed the bill on 9 November 2011 and it was then sent to the Senate.

### 2.3 Key changes to legal regulations within the ERO's remit

In 2011, 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. 62/2011, on the conditions of connection to the gas system and on changes to Ministry of Industry and Trade public notice no. 251/2001, which lays down the Operating Rules for the Gas Transmission and Distribution Systems**

Act No 158/2009, which amends the Energy Act, pares down the provision authorising the Energy Regulatory Office, transferring the competences to determine the way of compensation for damage caused by illegal gas consumption to the Ministry of Industry and Trade. The regulation lays down uniform general conditions for the connection of the various gas market participants, determines the payable share of the justifiable costs incurred in the connection and in gas supply, and determines the payable share of the costs of gas supply resumption following gas supply curtailment/interruption due to illegal gas consumption, transmission or distribution.

The commenting procedure on the proposed regulation and debates thereon in the working commissions of the Government's Legislative Council took place in 2010, and the public notice came into force on 1 April 2011.

- **Public notice no. 210/2011, on the scope, essentials and dates of the billing of electricity, gas and thermal energy supply and related services**

Under Section 98a(2)(j) of the Energy Act, as amended by Act No 211/2011, the ERO is authorised to issue regulations that lay down the scope, essentials and dates of the billing of electricity, gas and thermal energy supply and related services.

Public notice no. 210/2011 lays down a certain minimum standard for the billing provided to customers by electricity, gas and thermal energy suppliers and distribution system operators; it proceeds from, *inter alia*, the requirements set out in Directive 2009/72/EC, Directive 2009/73/EC and Directive 2006/32/EC in connection with energy supply billing<sup>1</sup>. The provisions of no. 210/2011 are based on the key assumption that billing should be convenient in particular for customers. The purpose of the public notice is to lay down and standardise the requirements for the content of electricity, gas and thermal energy bills so that customers have access to reliable, true and transparent information about their energy consumption in an intelligible and easily comprehensible form helping them to easily check the accuracy of the billing and the costs incurred in energy consumption and compare offers from competing suppliers.

The public notice differentiates between regular bills, which the supplier or distributor renders at the end of the whole regular billing period, and extraordinary billing made during the course of the

<sup>1</sup> Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC

billing period for the respective part of the billing period or when customers stop taking electricity or gas at their supply points, or on the occasion of switching their electricity or gas supplier or distribution system operator.

Electricity, gas and thermal energy suppliers and distribution system operators are obliged to follow this regulation when they provide bills for the billing period, or a relevant part thereof, ending after 31 January 2012.

On 19 July 2011, public notice no. 210/2011 was promulgated in the Official Gazette and the collection of international agreements. It came into force on 15 December 2011.

- **Public notice no. 371/2011, 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 ERO is authorised to issue the above regulation under Section 98a(2)(h) of the Energy Act. Public notice no. 541/2005 was amended primarily in relation to the adoption of no. 210/2011, i.e., provisions on the required content of bills for electricity supply and related services and bills for electricity distribution, which are now contained in no. 210/2011, were repealed. Additional changes to no. 541/2005 were adopted in connection with the growing competition on the electricity market and rising numbers of supplier switches. Certain weaknesses were identified in the supplier switching process, which could result in electricity market participants' uncertainty, especially in cases where the customer subsequently rescinds an executed agreement, when an agreement is terminated, etc.

The motivation to change the existing legislation was an effort to clearly specify the sequence of steps and the authorisations of the various entities involved in the supplier switching process to stop or enable each of the steps so that the negative impacts on customers would be minimised. At the same time, the supplier switching processes in the electricity and gas markets have been unified, and processes have also been unified for standard supplier switching and for the first electricity supply to a new supply point.

Public notice no. 371/2011 came into force on 6 December 2011.

- **Public notice no. 392/2011, amending no. 426/2005 on the details of licensing for business in energy industries**

The drafting of a regulation to amend no. 426/2005 was necessitated by the passing of the amendment to the Energy Act, because the authorisation under Section 98a(2)(a) of the Energy Act had been extended: under the amendment, the ERO shall also lay down, in an implementing regulation, the required details of applications for the recognition of business authorisations granted in other EU member states. The other changes to the public notice were precipitated by the need to incorporate therein the changes stemming from practical experience, in particular experience with the demonstration of technical qualifications; further, some changes of a technical nature were proposed, which clarify, but do not substantially change, the requirements set out in the public notice.

The public notice came into force on 27 December 2011.

- **Public notice no. 393/2011, amending no. 140/2009, on regulatory methods in the energy industries and procedures for price control**

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 lays down the method of reflecting the transmission and distribution system operators' costs incurred in connection with renewable electricity producers' imbalances in the regulated charges for electricity distribution and transmission.

Act No 211/2011 imposes new obligations on the electricity transmission system operator and also modifies the ERO's remit related to the operator's investing activities related to the transmission system and its planning. The ERO will receive detailed information about the investments in the electricity transmission system, as planned for the next ten years, on an annual basis. The public notice lays down a new regulatory system to enable the electricity transmission system operator to carry out its long-term investment plan even if unable to finance a capital project using its own or borrowed funds, but the regulatory system is also based on the requirement to minimise the increase in allowed revenues and, in turn, tariffs for customers.

The reason for changing the public notice was the significant increase in the number of plants producing renewable electricity and the impact caused by the amount of the support for such renewable electricity on controlled electricity prices. The ERO has modified the calculation of the correction factor

for DSOs in the electricity and gas industries. Another major change was made in connection with gas facility leases: the ERO has laid down a methodology for gas facility lease with a view to regulating DSOs' activities in respect of justifiable eligible costs related to gas facility lease, but without interfering with contractual relationships directly.

The public notice came into force on 12 December 2011.

- **Public notice no. 396/2011, amending no. 545/2006 on the quality of gas supply and related services in the gas industry**

In no. 545/2006, the ERO laid down the required quality of gas supply and of services incidental to regulated activities in the gas industry, including the amount of compensation for non-compliance, the time limits for claiming compensation, and the reports on keeping the required quality of supply and services. The required quality of gas supply and of services incidental to regulated activities in the gas industry and the parameters of such quality are expressed as standards for gas transmission, distribution and storage and gas supply standards. Under the law, compensation in the amount set out in the public notice shall be provided for failure to keep the standards.

Experience acquired since the entry into force of the 'old' public notice indicated that it was difficult for customers to meet the time limits for claiming compensation for non-compliance with the standards, because the time limits were too short. The amendment has extended the time limits for claiming compensations for non-compliance with standards and, in view of the growth in the regulated charges for gas supply since the entry into force of the public notice, it has also increased compensations for non-compliance with standards. In respect of the standard applicable to the time limit for handling complaints about metering, the time limit for meter replacement and meter testing has been extended to 90 days, because the previous time limit appeared to be too short in practice and caused unreasonable costs to system operators, with the ultimate impact on customers.

The public notice came into force on 1 January 2012.

- **Public notice no. 442/2011, amending no. 365/2009 on Gas Market Rules, as amended by no. 370/2010**

Quite a short time had passed since the promulgation of no. 365/2009 on Gas Market Rules, which came into force on 1 January 2010, and since the coming into force of an amendment thereto on 1 January 2011, and yet a need was felt to change the public notice to also make limited access to the gas transmission system and gas storage facilities possible for foreign natural and juristic persons who are not cleared entities registered with the market operator, and do not want to become such entity because of the administrative burden, but want to use the gas transmission system or gas storage facilities. Another major change was the unification of the timeline and procedures for supplier switching in the gas and electricity industries.

The public notice came into force on 1 January 2012, with the exception of certain provisions that came into force on 1 March 2012.

- **Public notice on the required details of applications for approval of the appointment, election or other installation in office, and discharge, of the bodies of the independent gas transmission operator**

Under Section 98a(2)(1) of the Energy Act, as amended by Act No 211/2011, the ERO is authorised to issue an implementing regulation laying down the required details of applications for the approval of the appointment, election and discharge of the governing body, or members of the governing body, and members of the Supervisory Board of the independent gas transmission operator, the required details of applications for the approval of the appointment or other installation in office, and discharge, of the compliance officer of the independent gas transmission operator, and the methods for demonstrating the compliance officer's professional competence.

The regulation lays down the specific details, information and documents that the independent gas transmission operator, i.e. the persons nominated for the office of the governing body, or members of the governing body, and members of the Supervisory Board and the compliance officer of the independent gas transmission operator, are to submit to the ERO together with the application for the approval of the appointment or election or other installation of such persons in office, and applications for the approval of the discharge from or other termination of the office of such person. On the basis of the above details, the ERO will be able to assess, within the statutory time limit of three weeks, whether or not the requirements and conditions laid down in the Energy Act have been satisfied. The purpose of the proposed statutory instrument is to provide legal certainty to the persons who are subjected to the approval procedure, and

also to the independent gas transmission operator itself, to enhance transparency of the ERO's decision-making, and to reduce the administrative burden caused by this procedure.

In 2011, the inter-departmental commenting procedure on the proposed regulation took place, and it was then debated in the working commissions of the Government's Legislative Council.

- **Public notice no. 338/2011, amending no. 475/2005 which implements certain provisions of the law on support for the use of renewable energy sources, as amended**

The subject matter of public notice no. 475/2005 as amended is, in accordance with Section 6(1)(b)(1) of 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, specification of the technical and economic parameters, which under the law mainly include the costs per unit of installed capacity, the efficiency of the use of the primary energy content in the renewable source, and the load factor.

The comprehensive definition of these factors and the specification of indicative parameters make it possible to prevent the exclusion of producers who exceed a technical or economic parameter but have the prerequisites for achieving the required payback period thanks to the combination of all other parameters, from the guarantee of the 15-year payback period for the investment.

With regard to the continuous development and improvement of technologies using renewable sources on the one hand, and the changes in the cost of inputs on the other hand, these technical and economic parameters need to be changed over time. The subject matter of the amendment to the public notice was therefore an update of the technical and economic parameters of small hydroelectric power stations, generating plants using biogas energy, and photovoltaic plants, the unit investments costs of which change 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.

The public notice came into force on 23 November 2011.

## **2.4 Administrative proceedings**

A list of administrative proceedings in 2011 is contained in Appendix 1.

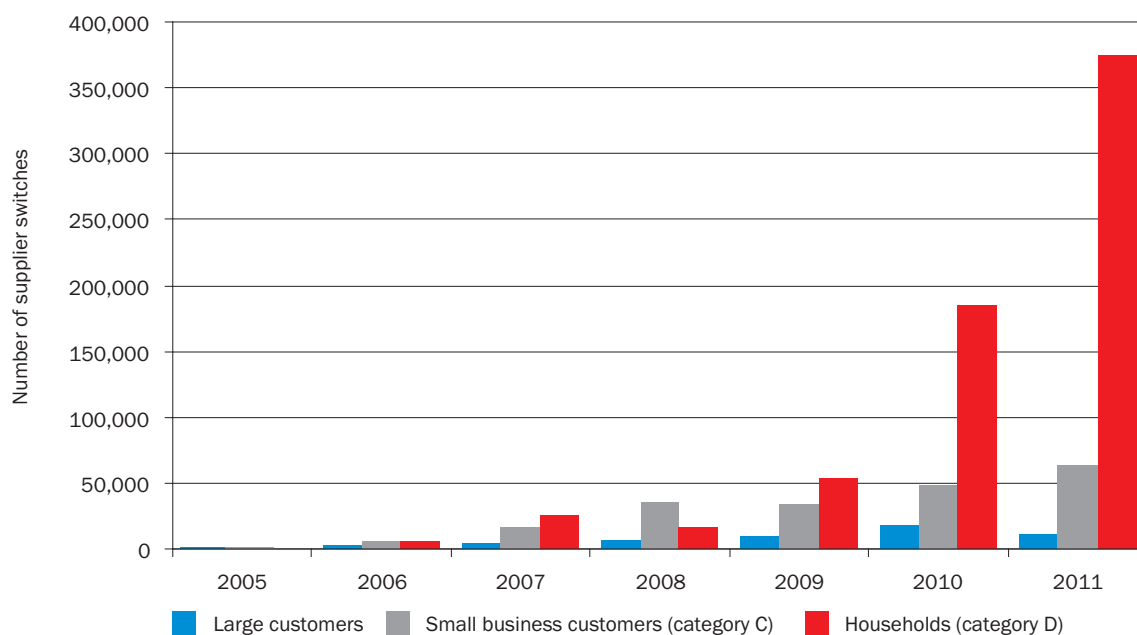


## 3 Regulation of network industries

### 3.1 The electricity industry

In connection with competition on the market, with more and more businesses striving to supply electricity to customers, new business strategies emerged and the range of product offering broadened significantly. The trend of looking for the best conditions of electricity supply intensified, and the rise in the number of supplier switches continued. According to the data recorded by OTE, a.s. for households, two times more households switched their supplier (374,000 in 2011 versus 184,000 in 2010). On the whole, in 2011 almost 450,000 customers changed their electricity supplier (in 2010 the figure was approximately 250,000). 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.

The key principles of the calculation of controlled prices are the same for each of the years in the regulatory period, and the same applies to the scope and structure of the various distribution tariffs for customers connected to the LV level.

The total price of electricity supply for final customers in the liberalised Czech market is composed of 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) and the uncontrolled price of energy offered by the various suppliers – electricity traders and producers. This is a contractual price and depends on the selected product provided by 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).

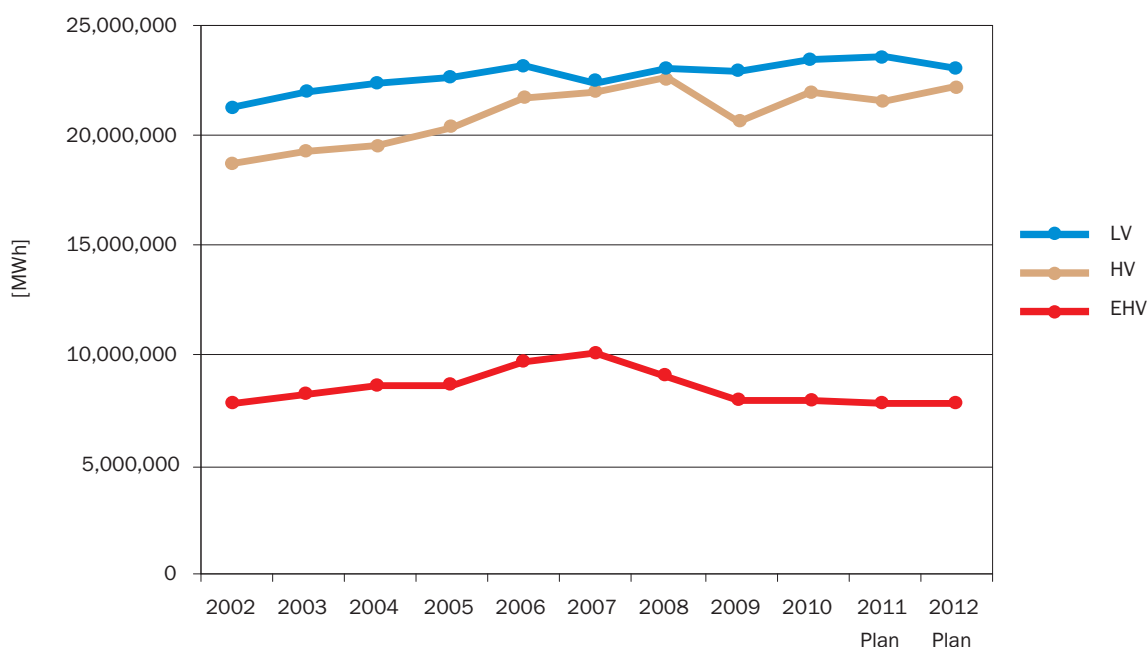
Since 2008, an environmental tax on electricity has been a part of the electricity supply price as an additional item under Act No 261/2007, on the Stabilisation of Public Budgets.

### 3.1.1 Prices of regulated services related to electricity supply

Under the Energy Act and public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control, the Office sets, on an annual basis, the charges for regulated services incidental to electricity supply. 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 the rapid increase in renewable electricity generation, primarily in photovoltaic plants.

The year 2011 was the second year of the applicability of the rules within the five-year third regulatory period. The regulatory methodology, based on the revenue cap approach, is similar to that in the preceding regulatory period. The key feature of this methodology is to motivate companies to continuous cost cutting and to improve their operating efficiency while ensuring adequate quality of the services provided. For regulated companies, the mechanism supports 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 capital expenditure.

**Chart 2 Consumption at the EHV, HV and LV levels**



### Key components of regulated prices for 2012

#### Charge for network services

The items include charges for transmission and distribution services, namely the charge for network use and the charge for booked network capacity.

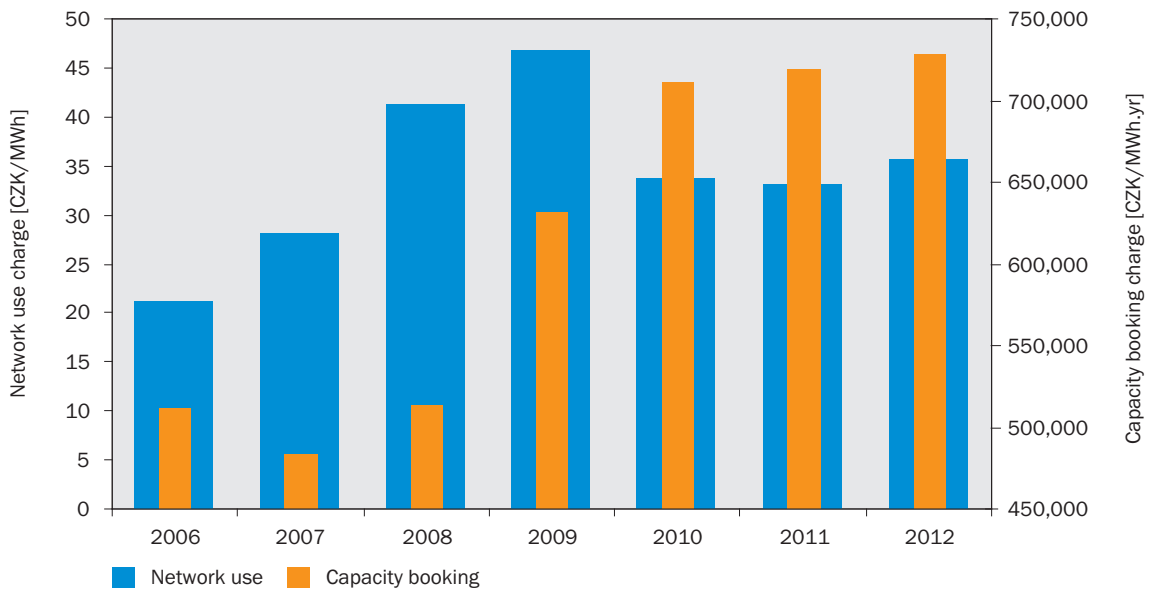
#### Transmission service charge

The charge for capacity booking in the transmission system is no longer subsidised from revenues of ČEPS, a.s., the fund of cross-border capacity auctions. In 2011, all the money accumulated in this fund during the preceding regulatory periods was used to subsidise prices. On the contrary, in the charge for capacity booking in the transmission system for 2012, the unmet costs of the ITC mechanism are subsidised by about CZK 70 million. This fact is the fundamental cause of the increase in this component of the charge by 1.34 percent over the 2011 level.

Chart 3 shows the electricity transmission charge between 2006 and 2012.



**Chart 3 Components of the electricity transmission charge**



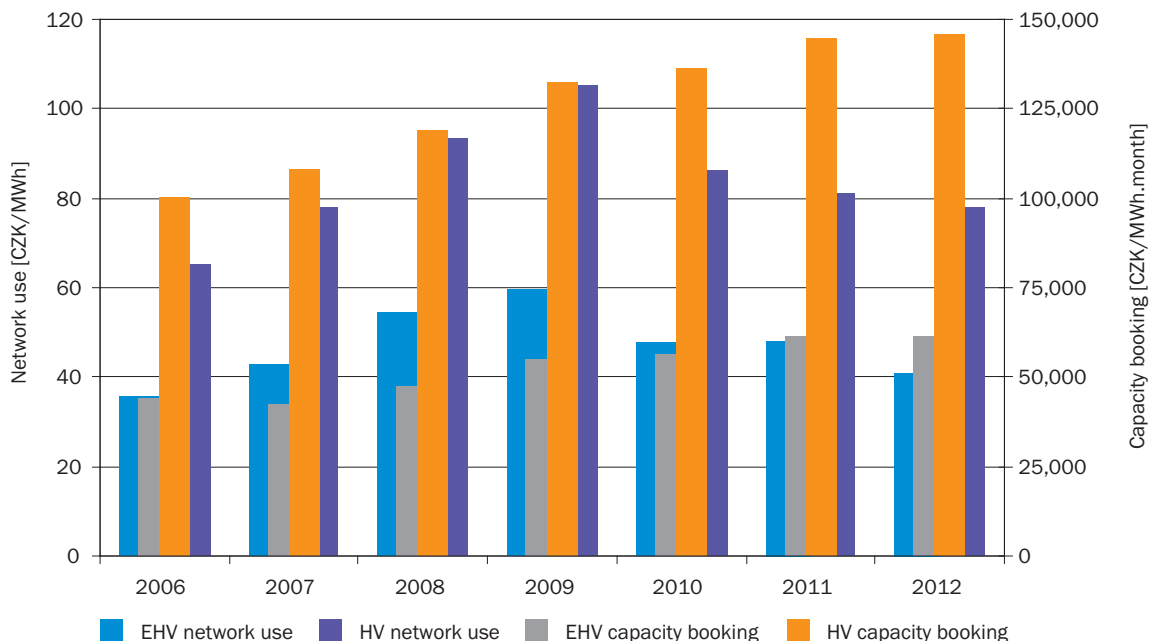
Distribution service charge

The charge for capacity booked with the various distribution companies is influenced by the basic economic parameters and also by correction factors and the total amount of booked capacity. These factors are reflected in different ways in each of the companies and also result in different annual indexes of this component of the charge. On the national average, the cumulated price of this regulated component (including the reflection of the charge for capacity booking in the transmission network) grows only slightly (about 0.1 percent at the EHV level and about 0.8 percent at the HV level).

The charge for network use has been unfavourably influenced by the increased price of electrical energy for covering losses in distribution systems, while a favourable factor was the abolishment of the charge for distributed generation; thus, it has a downward tendency in general (EHV 14.7 percent, HV 4.2 percent); however, the proportions of these effects differ very much for each distribution company, depending on how these factors work for the particular company.

Chart 4 shows the two components of the distribution charge from 2006 to 2012.

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

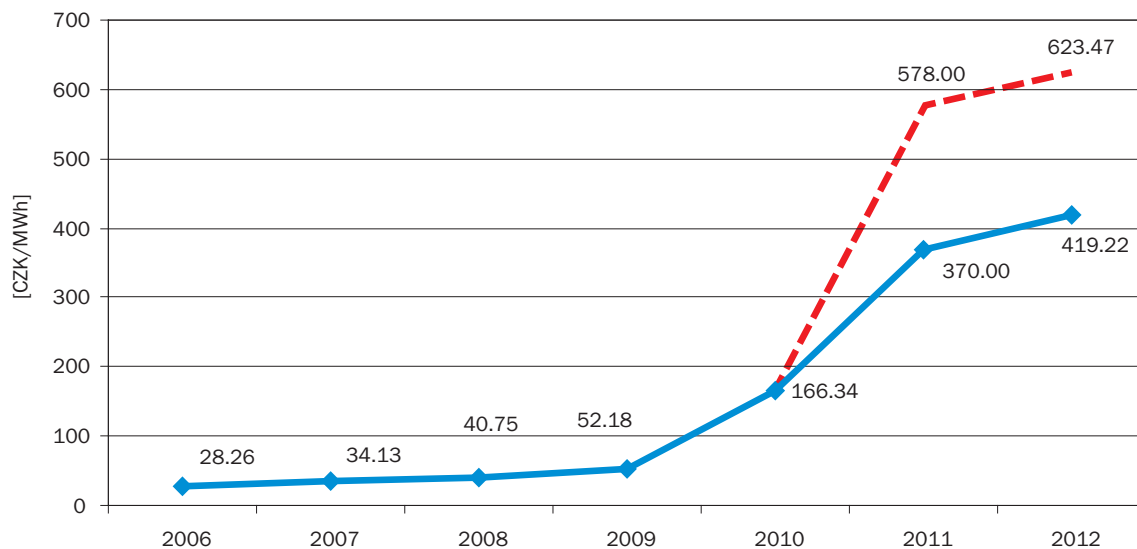


### **The charge to meet the extra costs incurred in support for electricity generation from renewable energy sources (RES), combined heat and power generation (CHP) and secondary sources (SeS)**

This regulated component has significantly increased, primarily because of electricity generation in completed photovoltaic plants, but also due to the considerable increase in electricity production in biogas plants and biomass firing plants. The correction factor from 2010 also plays a significant role. To reduce the unfavourable impact of renewable electricity production on electricity prices, the government allocated a subsidy of CZK 11.7 billion. Another mitigating factor is the spreading of the correction factor over two years, and so the resulting increase in the contribution to prices is 13.3 percent, i.e., from CZK 370/MWh to CZK 419.22/MWh. In spite of that, this item strongly influences the total regulated price for final customers, in particular those connected to higher voltage levels.

Levels of the contribution between 2006 and 2012 are shown in Chart 5, with the red line indicating the contribution without the government's subsidy; CZK 419.22/MWh is the final amount resulting from the above-described application of the government's subsidy and the split correction factor.

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



### **Electricity prices for households and low-demand [small] business customers**

For 2012, the overall average year-on-year increase in the cost of electricity supply for households, adjusted to the same basis of comparison, i.e., the same nature and amount of consumption, is 3.4 percent (disregarding the effects of VAT and electricity tax), while the average increase in the regulated components of the price of electricity supply for households is only 0.5 percent.

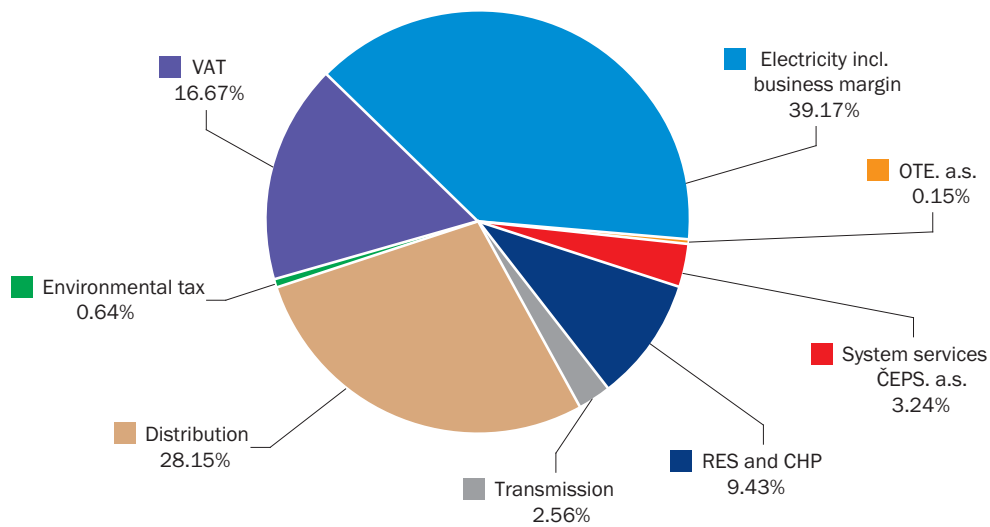
The unregulated price of energy, including the business margin, will go up 7.3 percent on average. In the case of small business customers connected to the LV level, the total year-on-year average increase is 4.3 percent on a comparable basis in terms of the nature and amount of consumption.

However, the change in prices for each particular customer will differ depending on the region in which the customer is connected to the grid due to the strong regional effects felt in the respective distribution systems. Differences may also be caused by the selected tariff, different nature and size of demand and, primarily, selection of the electricity supplier.

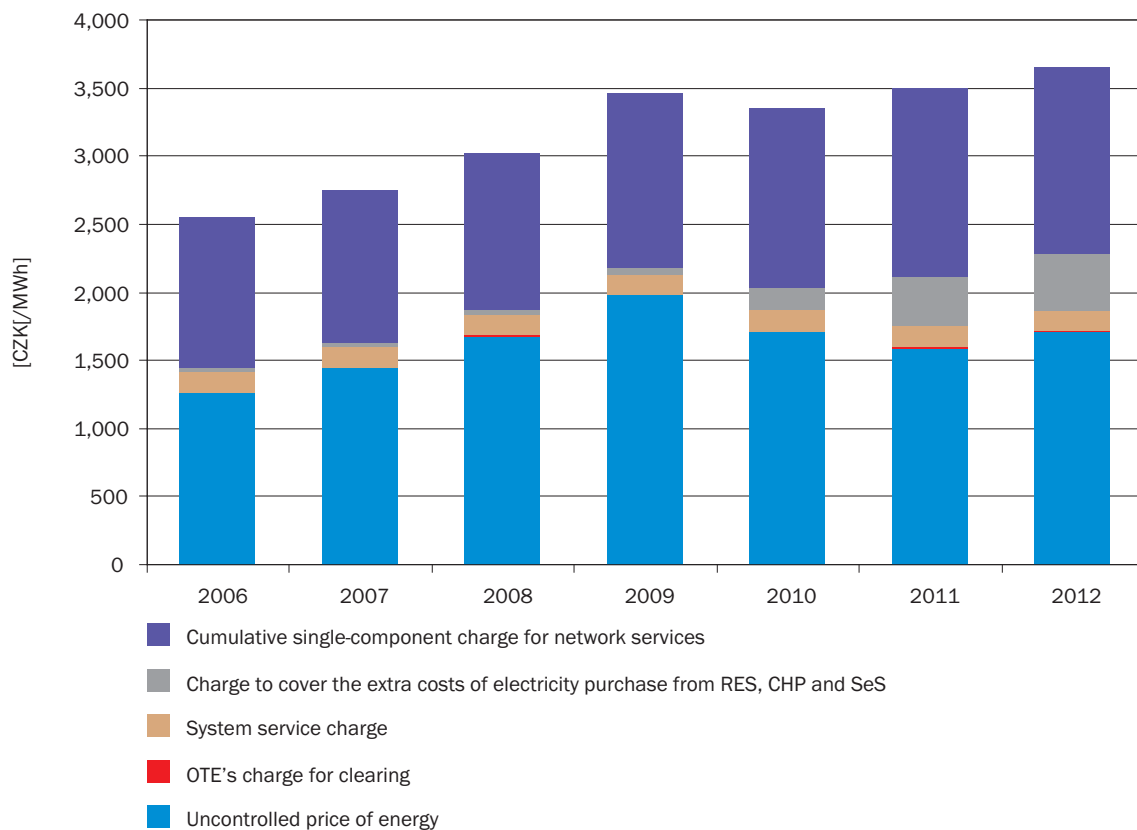
Chart 6 shows the percentage shares (including VAT and electricity tax) of the various components in the resulting price of electricity supply for households for 2012.

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

**Chart 6 Percentage shares taken by each of the components of the price of electricity supply for households in 2012 (including tax items)**



**Chart 7 Average prices of electricity supply for households**



### Charge for the market operator

This item covers the costs incurred by OTE, a.s. in its activities stipulated in the Energy Act for the electricity industry, including, 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. The ERO set the clearing charge at CZK 6.75/MWh for 2011. The year 2012 is the first when this charge also includes a special fee of CZK 2/MWh for the activities of the Energy Regulatory Office under Section 17d(1) of the Energy Act.

### 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 consumption. The charge for system services has dropped by 7.3 percent to CZK 144/MWh; the bargain purchases and optimisation of the mix of the various types of ancillary services can be felt positively in this respect.

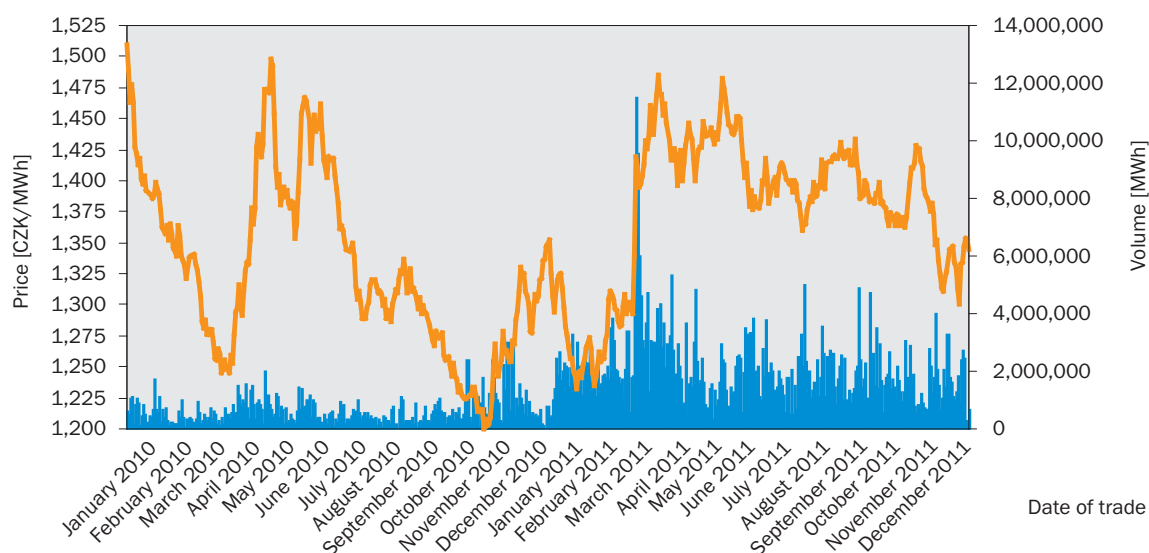
### 3.1.2 Unregulated energy price

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 (European Energy Exchange AG) in Germany and at the Prague energy exchange (Power Exchange Central Europe, PXE) is relevant.

The price of electricity futures (yearly, quarterly and monthly products traded at the exchange) for 2012 initially slightly decreased between the autumn of 2010 and the end of 2011, i.e., in a period when most traders bought electricity for 2012, and then slightly increased, which was followed by a surge in futures caused by the shutdown of nuclear power plants in Germany in the wake of the Fukushima NPP accident. In July 2011, the price started to decline to levels of early 2011. This development, including the respective traded volumes, is apparent in Chart 8, which depicts the development of the base load price for 2012 (BASE CAL 11) at EEX, converted to the Czech currency (an EEX chart is used here because of its higher liquidity compared with the Prague energy exchange). The development of the prices of other futures at exchanges was similar.

**Chart 8 Base load prices for 2012 at the energy exchange (EEX – Baseload Cal 11)**



### 3.1.3 Assessment of the development plan for the electricity transmission system

For the ERO and the transmission system operator, ČEPS, a.s., the transposition of the requirements of the third energy package into the Energy Act has brought some new rights and obligations related to the preparation and approval of ten-year investment plans. The underlying idea of the whole process of long-term planning for the development and modernisation of energy infrastructure is to find the best way for the gradual integration of energy markets in Europe.

This fundamental change is defined in Section 24(10)(j), which requires ČEPS, a.s. to prepare, on an annual basis, a ten-year plan for the development of the electricity transmission system, including an investment plan. At the same time, however, under Section 58l(5), the costs incurred by the TSO in making the investments under the ten-year plan will be regarded as costs of ensuring efficient performance of licensed activity.

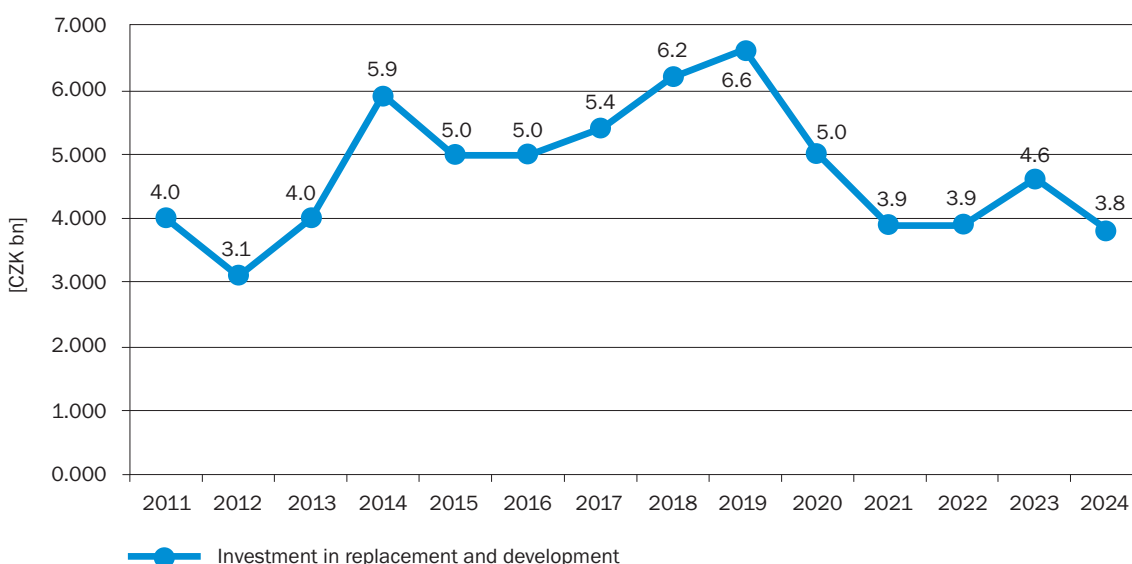
From the ERO's perspective, the investments planned in the investment programme had to be assessed in detail as early as 2011. The assessment also included an analysis of the submitted substantiation for the various investment plans. In respect of some of the investments necessitated by customers, the procedure of executing letters of intent or connection agreements was also subjected to scrutiny.

The investment plan submitted by ČEPS, a.s., worth some CZK 66 billion, covered the period 2011–2024 and proposed an extension of the system by about 20 percent and average capital expenditure of CZK 4.7 billion every year. The investment programme included the construction of five new 400 kV substations (there are 24 substations now) and the rollout of 675 km of new 400 kV lines (there are 3,479 km now).

The requirements for connection to the grid included, among others, investments in network expansion due to the completion of the Temelín NPP, investments in the transmission system in northern Bohemia where the Ledvice, Tušimice and Prunéřov power stations are to be retrofitted and upgraded, and investment in network development in central Bohemia.

Investments in the renovation of lines include, in particular, refurbishment of obsolete lines built in the 1970s, where replacement is necessary with regard to the safety and reliability of supply in the coming years.

**Chart 9 Investment in the replacement and development of the transmission system**



### 3.1.4 Renewable energy sources, combined heat and power generation, and secondary sources

Following the entry into force of Act No 330/2010 on support for the use of renewable sources, 2011 saw changes precipitated by this law primarily in the development of photovoltaic systems. On 1 January, support for island systems was discontinued, and on 1 March support for new photovoltaic plants was limited to roof structures with capacities of up to 30 kWp. Due to the earlier amendments to the above law, a tax on electricity generated from solar radiation and multi-source financing of subsidies from the national budget were introduced; the latter influences the level of the contribution supporting renewable and secondary sources and cogeneration. Business in renewable electricity production was also affected by an amendment to the income tax law, which abolished the tax holiday and changed the depreciation of photovoltaic components.

Almost the entire 2011 was marked by the “stop”, whereby DSOs did not connect photovoltaic and wind power plants to the grid for reasons set out in the Energy Act. The outputs of the press conferences organised by the Czech Association of Regulated Electricity Companies clearly indicated that the impact of volatile capacities on the grid had been assessed. In the last days of 2011, ČEPS, a.s. and the various DSOs updated the Agreement on Connection to the Transmission System of the Czech Republic, and appropriate conditions were put in place again for granting applications for the connection of hardly predictable generating plants, i.e. photovoltaic and wind power plants.

In the periodical update of public notice no. 475/2005, which implements certain provisions of the law on support for the use of renewable energy sources, as amended, in 2001 the ERO took into account the changes in the prices of the equipment available on the market and the impact of the amendments to the law on support for the use of renewable sources, and updated the technical and economic parameters of all RES listed in Appendix 3 to the public notice. The update included the parameters of small hydroelectric power stations, photovoltaic and wind power plants, and biomass and biogas plants, which had last been updated to such an extent in 2009.

On the basis of these already updated parameters, on 23 November 2011 the ERO issued its Price Decision 7/2011, setting out support for electricity generation from renewable energy sources, combined heat and power generation, and secondary energy sources for 2012. For new generating plants commissioned in 2012, feed-in tariffs were reduced for photovoltaic plants, the amount of support for capacities using wind energy and firing biomass and biogas was maintained at the same level, and the feed-in tariff was slightly increased for small hydroelectric power stations.

A new provision in this price decision is point 1.6.2, which in respect of biogas stations in the AF 1 category (agricultural biogas plants) commissioned after 1 January 2012 sets a condition for the granting of support as follows: production of thermal energy and efficient use thereof at least at a level of 10% compared with electricity produced in the respective year. If a biogas plant fails to meet this condition it is only entitled to support at the level of support for AF 2 biogas plants (municipal biogas plants). The ERO's motivation was to improve the efficiency of biomass processing in biogas plants.

Support for the existing capacities that produce electricity from renewable energy sources was increased by two percent under ERO public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control, Section 2(8), with the exception of biomass and biogas firing capacities.

During 2011, a new bill on supported energy sources was drafted under the responsibility of the Ministry of Industry and Trade; the bill was debated in the Chamber of Deputies. The ERO categorically opposed the inclusion of biomethane as a new supported source and requested the MPs to reconsider their approach to support for biomethane injection into the gas system.

The amount of support for combined heat and power generation, provided for in the Energy Act in the form of a premium on electricity price, was last differentiated in ERO Price Decision No 7/2011 primarily by the size of the plants' installed capacity. In October 2011 the Office released a press statement noting that on the basis of an analysis of the distribution of installed capacities and the feedstock used by the various plants, it would soon design a new structure of support for CHP. The ERO's activities in this area are directly related to the debated bill on supported sources, under which the Office is expected to differentiate, in the future, the level of support for each of the CHP plants by the price of primary energy sources.

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

In the case of fossil fuel and biomass co-firing in categories S and P, electricity producers are, under Section 4(6) of Act No 180/2005, granted support only in the form of green premiums. The reason for keeping the level of green premiums in 2012 at the level of 2011 is the mutual neutralisation of the effect of the key factors determining the cost of production in these capacities. These include in particular an about 7% rise in the price of the replaced coal, the expected drop in the price of CO<sub>2</sub> emission allowances to EUR 12.93, and the growth in the price of electrical energy.

## **3.2 The gas industry**

In 2011, the gas market experienced dynamic development related to the rising number of supplier switches, also supported by the fact that gas traders' price quotations differed significantly and large savings could be achieved by supplier switching. The amendment to the Energy Act enhanced customers' rights and options in respect of gas supplier switching. This opportunity was used by 361,941 supply points, i.e. almost 13 percent of their total number; the number of switches rose by almost 335 percent year-on-year.

The strongest migration was registered in the segment of small businesses and households, namely 360,262 supplier switches accounting for 99.5 percent of the total number of switches.

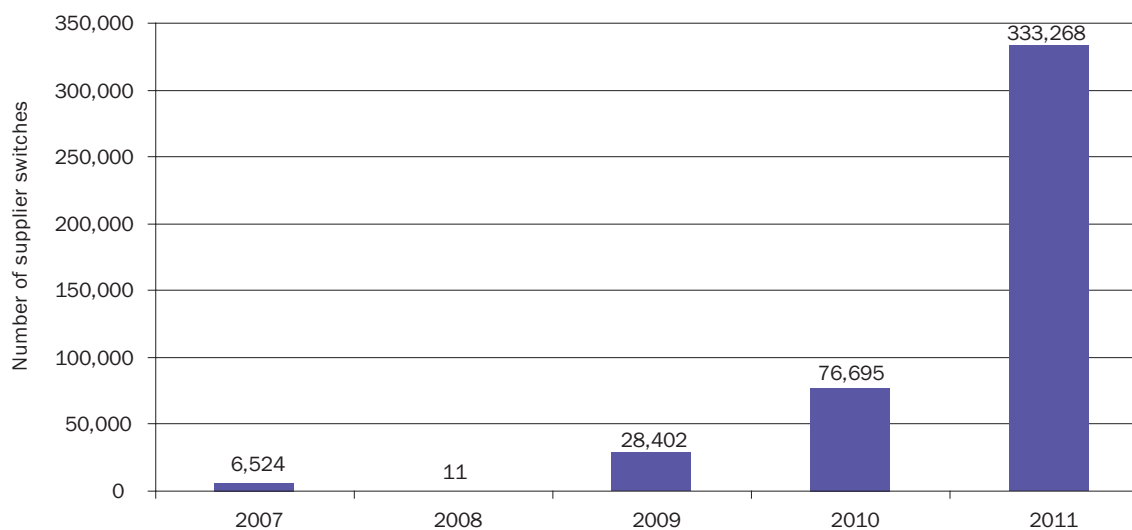
In the high-demand customer category, almost one third (31 percent), i.e. 537 entities, changed their gas supplier in 2011.

In the medium-sized demand category, 1,142 customers decided to change their gas supplier, up by 69 percent over 2010.

The single largest number of supplier switches in the high and medium-sized demand categories took place in January, when three-fifths of all the changes made in 2011 took place. The reason is the usual one-year term of supply agreements, which provide for termination as of the end of a calendar year.

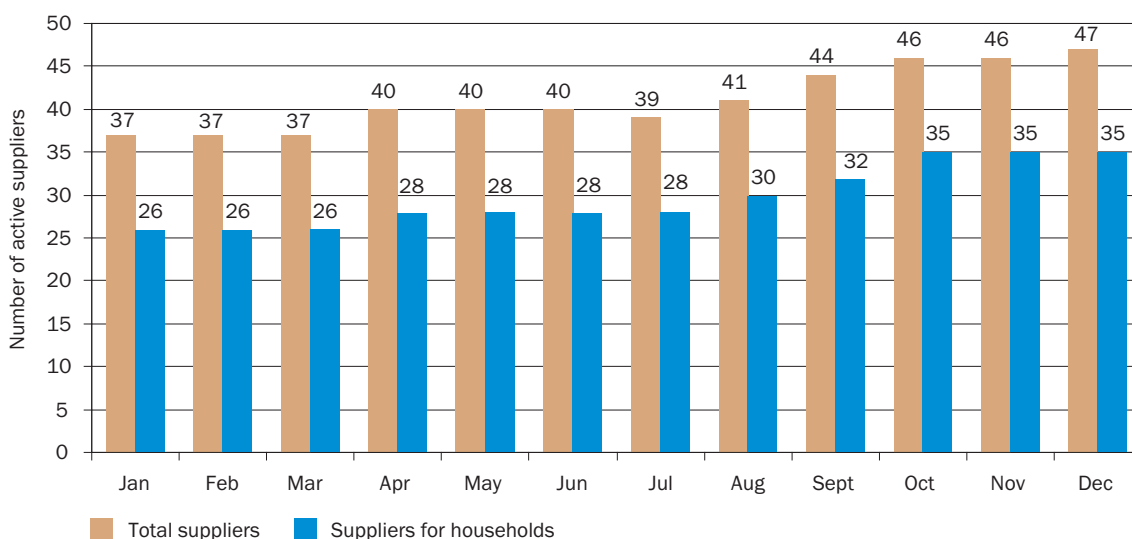
The number of households that changed their supplier can be seen in Chart 10.

**Chart 10 Annual gas supplier switches in the household category**



Several new traders entered the market in 2011. Not all of the suppliers offered gas supply to all gas customer categories; some traders specialise only in the high and medium-sized demand segments. Chart 11 indicates the development of the number of active gas traders.

**Chart 11 Development of the number of active gas traders in 2011**



Incumbent and new traders procured gas for their customers by reselling gas to one another on the Czech market and by gas purchases from abroad in 2011.

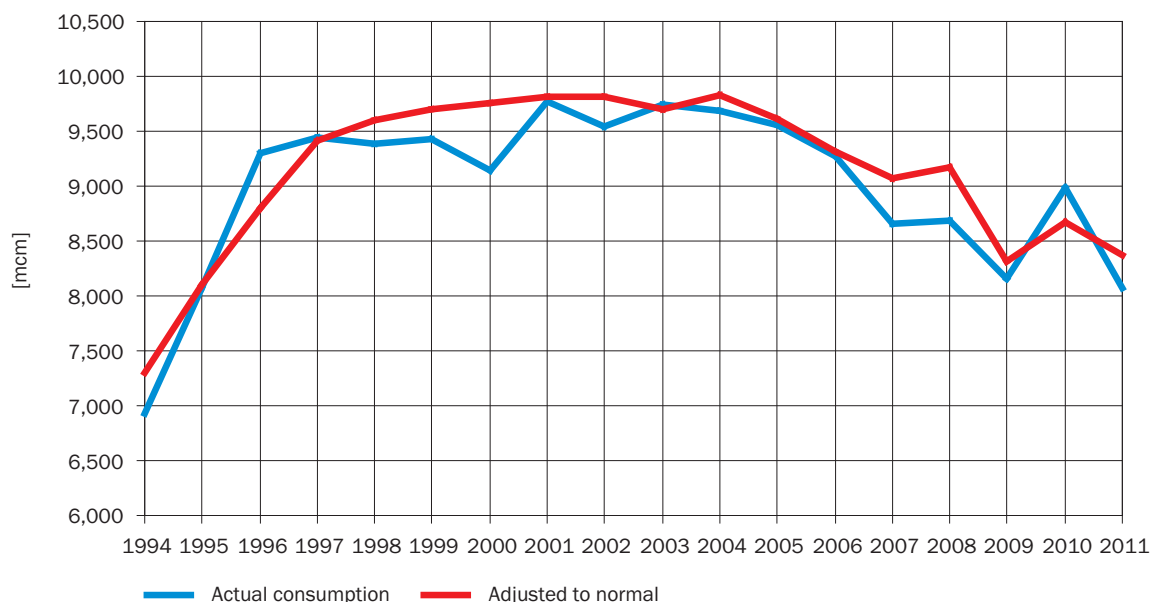
A trend continuing from 2010 was the increasing gas imports from abroad, which was attributable to two main reasons. One was the Office's effort to encourage competition on the Czech gas market (adjustment of the gas market organisation, reduction in the charges for gas transmission at the Czech Republic's national border and the setting thereof at the same level as charges for transmission to gas storage facilities), and the other was changes in the opportunities for gas purchase and in particular gas prices (spot market prices were lower than prices under incumbent importers' long-term contracts).

According to preliminary data, the Czech Republic's natural gas consumption totalled 8.079 bcm (85.570 TWh) in 2011, down by 10 percent compared with 2010, see Chart 12. Adjusted to long-term normal temperatures, natural gas consumption decreased by 3.4 percent to 8.377 bcm (88.732 TWh). Average annual temperature in the Czech Republic was 8.9 °C in 2011, i.e. 0.9 °C higher than the long-term normal temperature. The decline in gas consumption was attributable to several factors, including

warmer weather (the demand v temperature relationship is most visible in the first and fourth quarters of 2011), growing gas prices, lower rate of economic growth, and a number of austerity measures on the part of customers.

In terms of customer category, with its 44 percent the high-demand category had, as usual, the largest share of total consumption, followed by households with 30 percent and small business customers with 14 percent. The medium-sized demand category accounted for 10 percent of consumption.

**Chart 12 Annual gas consumption (1994-2011)**



### 3.2.1 Controlled parts of the gas supply price

In 2011, the ERO set the 2012 prices for the following regulated activities: gas transmission, gas distribution and the market operator's services. The price is comprised of a regulated component and unregulated component. The unregulated component is comprised of the charge for commodity and trade and the charge for flexibility.

The ERO sets prices for regulated activities with effect from 1 January for the whole calendar year.

Gas supply prices for suppliers of last resort, for which the ERO is also responsible, were not set in 2011 because no customer reached the last resort situation.

#### Gas transmission charges

The TSO's operation is the first link in the chain of operations to deliver gas to customers' supply points. 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. The TSO's allowed revenues related to gas supply to customers in the Czech Republic have been integrated into the gas distribution charge.

For 2012, the TSO's allowed revenues have dropped by almost 5.5 percent. The reason is a significant value of the correction factor, which represents the difference between the planned and actual revenues from transmission in the period under review, in this case for 2010 when the trend from the preceding year continued - due to a significant increase in new gas suppliers' gas imports the transmission system was used more than before. Another major factor is lower costs incurred in the procurement of the services required for ensuring the stability of the system, specifically by more than 50 percent.

In setting the charges for the use of the transmission system's entry points on the national border, the Office proceeded in line with its objective, stated earlier, of supporting gas imports into the Czech Republic, and kept them at the same level as in the preceding year. The charges at the exit points to gas storage facilities have also stayed at the level of 2011 for 2012. As in 2011, the variable parts of the charges have been set, with the help of a coefficient, with a view to covering the TSO's fuel gas consumption at compressor stations, which are needed for controlling pressure in the network and smooth supply



to customers. At the exit points on the national border, the fixed components of the charge slightly decreased by approximately 4 percent.

### Gas distribution charges

Distribution of gas means transporting gas to the customers' supply points over the distribution system serving the respective area. The gas distribution charge is a double-component charge. The variable component of the distribution charge depends on the gas quantity distributed to the supply point. The fixed component reflects the load on the distribution system caused by the nature of demand. Customers taking up to 63 MWh of gas per year are charged the fixed component for gas distribution in the form of the standing monthly charge. Customers taking more than 63 MWh of gas per year pay the fixed component through the fixed charge for daily booked distribution capacity. The fixed charge for daily booked distribution capacity for customers in the high and medium-sized demand categories is determined for each individual supply point using a formula depending on daily booked distribution capacity for an unspecified period of time.

Compared with 2011, the average gas distribution charge for 2012 has decreased by almost 3 percent on average across the country. All DSOs' prices have decreased, with the exception of VČP Net, s.r.o., see Chart 13. VČP Net, s.r.o.'s average price rose by 2.92 percent over 2011 due to the gradual offsetting of the positive correction factors from previous periods, which was adopted with a view to stabilising the development of prices. The decrease in the other DSOs' average distribution charges is due to the negative values of correction factors.

**Chart 13 Comparison of distribution charges between 2011 and 2012, by distribution company**



In 2011, pricing products were analysed on the basis of submitted values, and their use in 2010 was evaluated. The analysed products included, for example, the single-component distribution charge, which is primarily intended for customers with a markedly seasonal nature of load (for example, peak-shaving heat generating plants), and the booking of daily booked firm distribution capacity to the extent of the maximum daily gas offtake achieved in the relevant period. The Office also evaluated the extent to which short-term distribution agreements on monthly or sliding distribution capacity were used. It included again all of the above pricing products into the price decision for 2012 on the basis of the results.

### Charge for the market operator's services

All customers and all other gas-consuming entities in the Czech Republic pay a fixed charge for clearing performed by the market operator; this charge serves for meeting the costs of the market operator's activity in the gas industry. As of 2012, the clearing charge contains a special fee of CZK 1/MWh for the ERO's activity under Section 17d(1) of the Energy Act. The clearing charge set by the ERO for 2012 amounts to CZK 2.10/MWh and its year-on-year increase by CZK 1/MWh is due to the inclusion of the above fee.

### 3.2.2 Uncontrolled parts of the gas supply price

The uncontrolled part of the gas supply price is comprised of the commodity charge and the flexibility charge. As regards the uncontrolled part of the price, the traders can, on the basis of their business policy, design their own structure of offtake bands for the purpose of customer segmentation, and their own structure of the price for gas quantity taken, including the proportions of the variable and fixed parts. Traders can also set the period of applicability and updates for their price lists. If the price of gas purchased from a producer changes and circumstances require it from the trader's point of view, prices can also be changed during a month in addition to changes as of the first day of a month.

Traders raise their prices when the costs of gas procurement exceed the level that they could, on the basis of their own predictions of purchase price development, recoup through sales in the following period. If on the other hand sales in the preceding period exceed the gas procurement costs, traders lower their prices for the following period, depending on predictions of purchase prices, to remain competitive.

The commodity charge depends on the situation on the world markets, i.e., the price for which the commodity has been bought, and on the gas traders' margin, which contains their business costs and profit. Traders allocate the charge for flexibility, where gas storage is one of the viable options, 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

The charge for commodity and trade is the single largest part of total gas costs. Traders buy the commodity under long-term contracts or on spot markets (exchanges).

The commodity price is not set as a fixed price in long-term contracts; it is created using a price formula and therefore depends on input values such as the prices of heavy fuel oil (HFO) and gas oil (GO), coal, and the dollar/euro rate.

For determining the commodity price on spot markets, the development of the spot gas prices at the NetConnect Germany GmbH & Co. exchange, the platform at European Energy Exchange for gas trade (NCG), where the price is formed by the current supply of and demand for the commodity, is relevant for the Czech Republic.

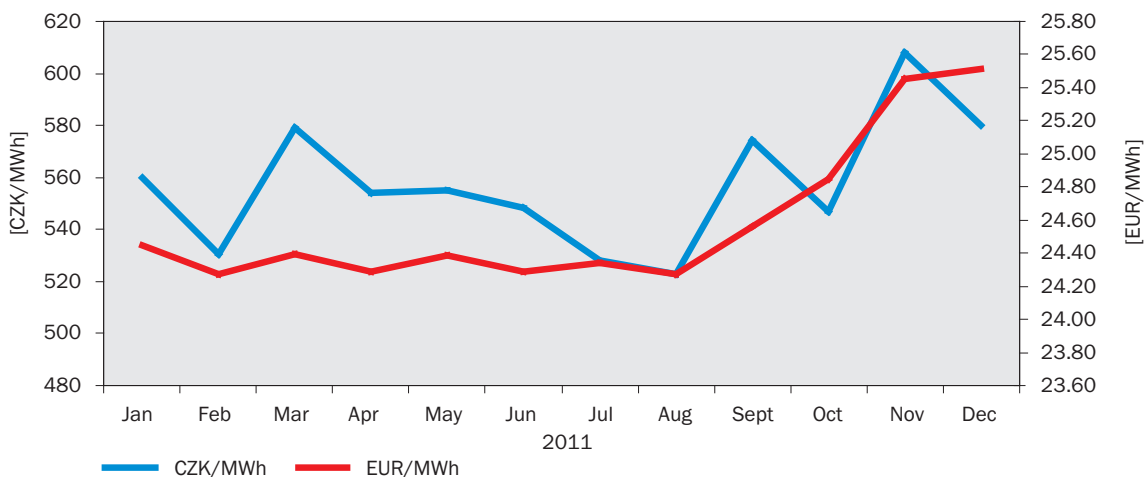
Both of these commodity prices, the formula-based price and the spot price, develop in line with the situation on the gas market and the markets of gas substitutes.

In 2011, the proportions of gas bought under long-term contracts and gas bought at spot markets were approximately equal.

In the first two thirds of 2011 the NCG commodity prices were quite even without any significant ups and downs. However, for traders offering gas in the Czech Republic the price was influenced by the development of the EUR/CZK rate. Thus, the price in CZK/MWh varied much more than the price in EUR/MWh, in which gas is traded at NCG (Chart 14).

In the last third of 2011 the commodity price surged on the spot markets that are relevant for central Europe. In that period, the EUR/CZK rate influenced the gas price rather positively for Czech traders and slightly offset the gas price hikes on the market.

**Chart 14 Gas prices at European Energy Exchange**



Source: European Energy Exchange, Czech National Bank

## Gas storage prices

In 2011, the prices for the entry and exit points of the virtual gas storage facility stayed at their 2010 level.

Storage capacities were fully priced by the free market mechanism in 2011. In 2011, SSOs called 12 auctions for storage capacity sale for the following storage years. The effect of extremely low gas prices on spot markets in Germany throughout the year could be felt positively by gas traders in terms of the much lower opening bids and outcomes of these auctions.

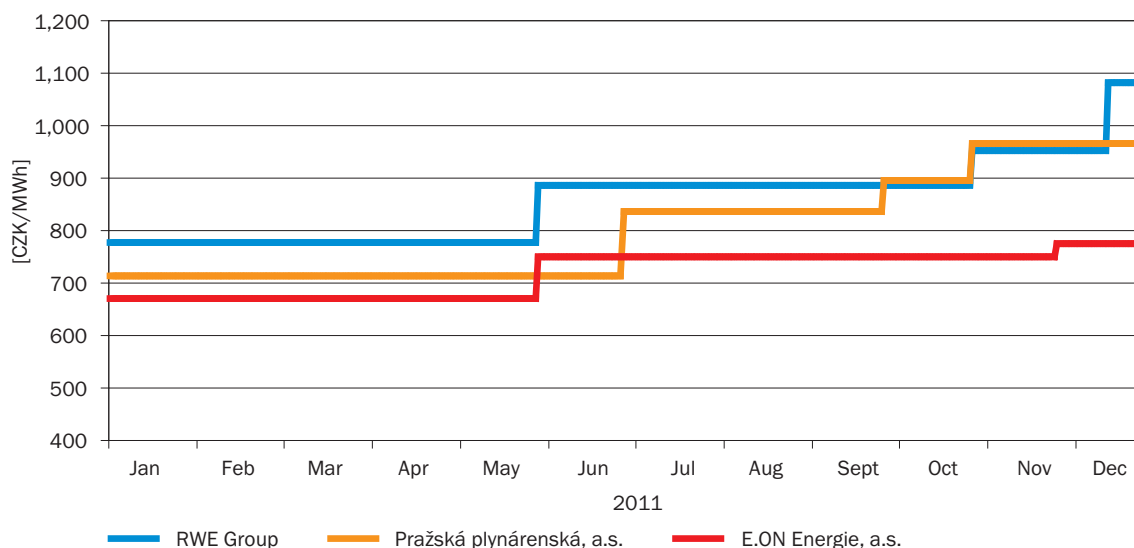
Forecasts of further development should take into account the development on spot markets, where the end to the unusually low prices can probably be expected. Traders will therefore be compelled to use the traditional method of providing for flexibility, i.e., gas storage. A new factor that can be expected to affect the storage capacity price is the new duty to adopt measures to provide for gas supplies to protected customers, the so-called security standard. Traders are obliged to keep 20 percent of their security standard in gas storage facilities between 30 September and 1 April. On the other hand, the expected tendency towards rising prices for storage capacity booking will be countered by SSOs' projects for the expansion of the existing and preparation of new storage capacities.

## Gas supply prices for households

Most of the incumbent gas suppliers registered increased attrition in 2011. These suppliers have procured gas under long-term contracts to a larger extent, and the price under long-term contracts was higher than on spot markets in 2011. Alternative suppliers, who are not tied by long-term contracts and buy gas on spot markets, were therefore able to offer more favourably priced gas to their customers.

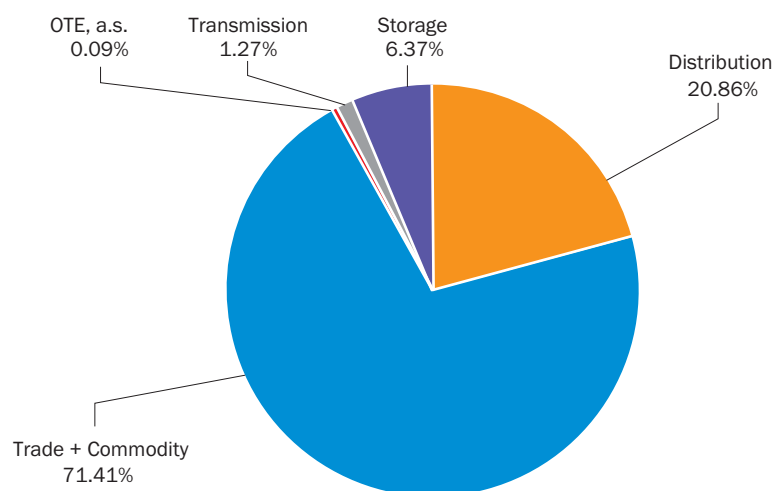
Despite the attrition, major suppliers for households continue to be E.ON Energie, a.s., Pražská plynárenská, a.s. and RWE Group companies. Average prices of the above gas suppliers' natural gas supply for households are shown in Chart 15, which is based on the price lists applicable to the respective period and published by the companies. The values have been adjusted on the basis of the gas quantities supplied in each of the offtake bands in the household category. The prices include only the commodity and trade charge; they do not include VAT or the gas tax, from which households are exempt.

Chart 15 Average prices for commodity and trade for households



The commodity charge makes up the largest portion of the gas supply price and therefore the development of commodity prices considerably influences the final price for customers. In the case of RWE Group and Pražská plynárenská, a.s., the commodity price mainly depends on the price formula in their long-term contracts. Because of the rising prices of competing fuels (GO, HFO, coal), from which the gas price is derived, and the Czech currency's dollar rate at which most of the commodity is traded, these suppliers have introduced more frequent price list updates than quarterly updates to offset the rising costs of commodity procurement. The most visible increase in commodity prices was registered in November and December 2011.

**Chart 16 Structure of the average gas supply price for household customers in 2011**



### 3.2.3 Assessment of the development plan for the gas transmission system

The adoption of the third energy package and its implementation in the Energy Act has resulted in a duty for the TSO to establish an independent transmission operator. NET4GAS, s.r.o. was therefore obliged to unbundle its transmission system operation from its other business lines of gas supply and production.

As an independent transmission operator, the company also has some other obligations under the Energy Act, for example, to prepare a ten-year plan for transmission system development on an annual basis and present it for public consultation with all market participants with a view to, in particular, identifying and subsequently executing all the projects that are necessary for the development and safe operation of gas transmission systems.

NET4GAS, s.r.o. submitted, in accordance with Section 58k(1) of the Energy Act, its ten-year development plan to the ERO by the required date. The ERO posted the plan on its website and invited market participants to provide comments. The ERO also evaluated the compatibility of the national ten-year plan with the Community-wide network development plan.

The ten-year plan for the development of the gas transmission system in the Czech Republic that was submitted in 2011 analyses the development of gas demand and the adequacy of the entry/exit capacity of the domestic zone in the Czech Republic for 2012-2021. The TSO based the preparation of this plan on the historical and forecast supply and demand. To obtain the relevant data, the TSO analysed the evolution of gas production, supply, and import and export, taking into account investment plans of the operators of the distribution systems connected to the transmission system and of SSOs, and the Community-wide network development plan. Each of the investment plans was examined from the perspective of safe gas system operation, gas supply reliability, environmental impacts, technologies, and economic effectiveness.

On the basis of the data and contexts contained in the document, full agreement can be expressed with the published conclusion that the existing transmission system, including the forthcoming investment projects, has sufficient entry capacity to meet the maximum daily consumption in the Czech Republic for the ten-year period covered by the plan.

The planned investment projects relate to the connection of new gas-fired power stations (for example in Bečov) and also the reinforcement of the exit capacity to the domestic zone (for example, connection of a new part of RWE GasNet, s.r.o.'s distribution system for the village of Brandov). Additional investments have been prompted by applications for the connection of new storage capacities (for example, the Tvrdonice underground gas storage facility) and the requirement for boosting cross-border capacity (one of the results is the Czech/Polish STORK interconnector). In an effort to improve the flexibility of its transmission system and diversify transmission flows, NET4GAS, s.r.o. has started to implement a set of investment projects to enhance the possibilities for natural gas transport in the opposite direction, i.e., from the west to the east, known as the reverse flow. This was the reason for projects such as Hospozín, Kralice nad Oslavou and Malešovice, which mainly entailed modifications to pipe distributions and equipment at border transfer stations, certain compression stations, and distributing hubs. The ERO found the ten-year development plan submitted in 2011 to be complete and free of defects.

### 3.3 The heat supply industry

District heating has a very long tradition in the Czech Republic. In addition to supplying heat to households and various business and non-business entities it also plays an important role in electricity production. CHP technologies can use various fuels for electricity and heat production and achieve high savings of primary energy. District heating systems also bring environmental benefits as unlike many local heat supply facilities, they can meet stringent environmental requirements.

The heat supply industry is characterised by a large number of small, medium-sized and large generating capacities and distribution facilities operating various types of CHP and heat distribution equipment. Thermal energy producers and distributors can operate their business under licences for thermal energy production and distribution, which are awarded by the Energy Regulatory Office. Thermal energy generating plants for various properties are operated under a trade permit certificate or only under a trade licence.

Because of the nature and scope of district heating systems, competition is limited in most localities. However, local sources of thermal energy currently feature a high level of efficiency with only minimum harmful emissions, and therefore can be important competitors for district heating systems with their extensive distributions, which frequently report higher thermal losses. Thermal insulation and heat demand optimisation of heated properties is causing thermal energy supply to decline, which results in some district heating systems becoming oversized and their operation becoming less efficient and economical. As fuel prices grow, some prices for thermal energy supply from district heating systems are high. To keep district heating systems competitive and arrest customers' disconnection, these systems should be retrofitted and upgraded and their operation optimised; highly efficient technologies should be used; and transparent thermal energy prices should be charged.

#### 3.3.1 Thermal energy price control

Thermal energy prices are subject to cost-plus control, which consists in the laying down of the conditions for pricing arrangements and calculations under Section 6 of Act No 526/1990, on Prices, as amended. The ERO specifies these conditions in its price decisions on thermal energy prices. Price Decision 1/2010 of 11 October 2010 applied to thermal energy prices in 2011.

The thermal energy price may only reflect the required economically justifiable costs of thermal energy production and distribution, reasonable profit, and VAT. The changes in the conditions for 2011 related to the method of cost allocation to each of the price calculations in a single price location and the minimum depreciation period for assets used for thermal energy production and distribution to match the customary useful life of such assets, and also clarified the information duty of suppliers that charge high thermal energy prices in certain locations.

The purpose of regulation is to mitigate the impacts of market imperfections and protect customers against potential abuse of thermal energy suppliers' dominant position. The regulatory method allows thermal energy suppliers to take into account their specific conditions in thermal energy production and distribution. The conditions have also been put in place with a view to motivating thermal energy suppliers to enhance the efficiency and economy of their thermal energy production and distribution.

#### 3.3.2 Examination and evaluation of thermal energy prices

In 2011, the Office examined a large number of thermal energy prices on the occasion of, for example, submission of calculations under the respective price decision and receipt of customers' complaints, and the disputes over price levels between suppliers and customers that were referred to the Office, and in preparing overviews of thermal energy prices. The Office focuses mainly on compliance with the conditions in the case of thermal energy prices that exceed the customary levels, 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, as in the first half of 2011, a suggestion for inspection was sent to the State Energy Inspectorate (SEI). As of August 2011, when the amendment to the Energy Act came into force, only the ERO inspects thermal energy prices.

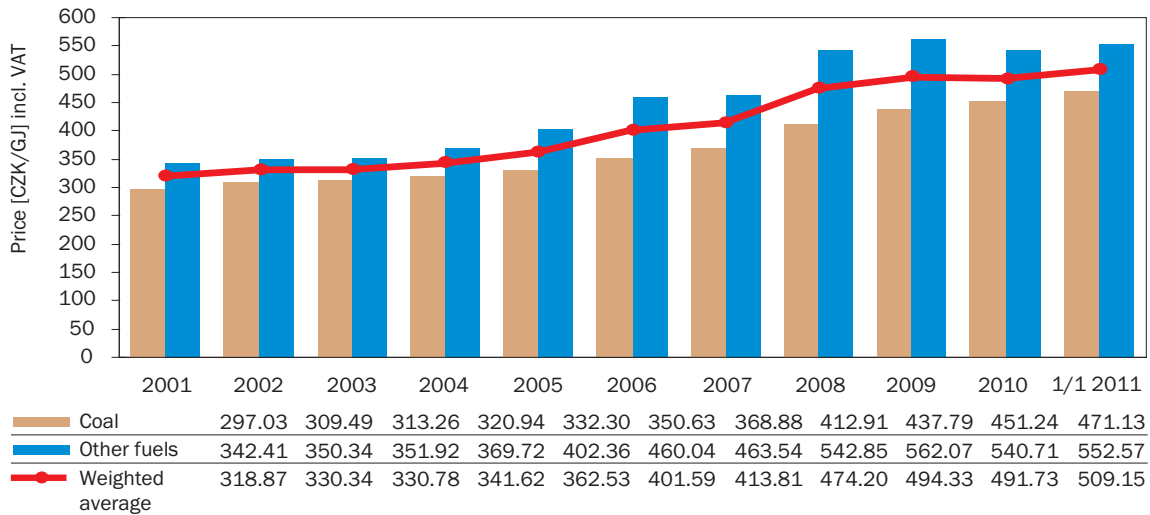
The Office compares thermal energy prices, economically justifiable costs, and profit from thermal energy production, and calculates their customary long-term levels, on the basis of the data in the regulatory reports that thermal energy generation and distribution licence holders return to the Office every year. The regulatory reports contain technical and economic information and thermal energy price calculations, which also help to evaluate the situation in the heat supply industry, prepare overviews of thermal energy prices, and identify impacts of regulation.

#### 3.3.3 Development of thermal energy prices

The ERO has been processing and evaluating the development of thermal energy prices since 2001. Chart 17 shows the development of average thermal energy prices for final customers by 1 January 2011.

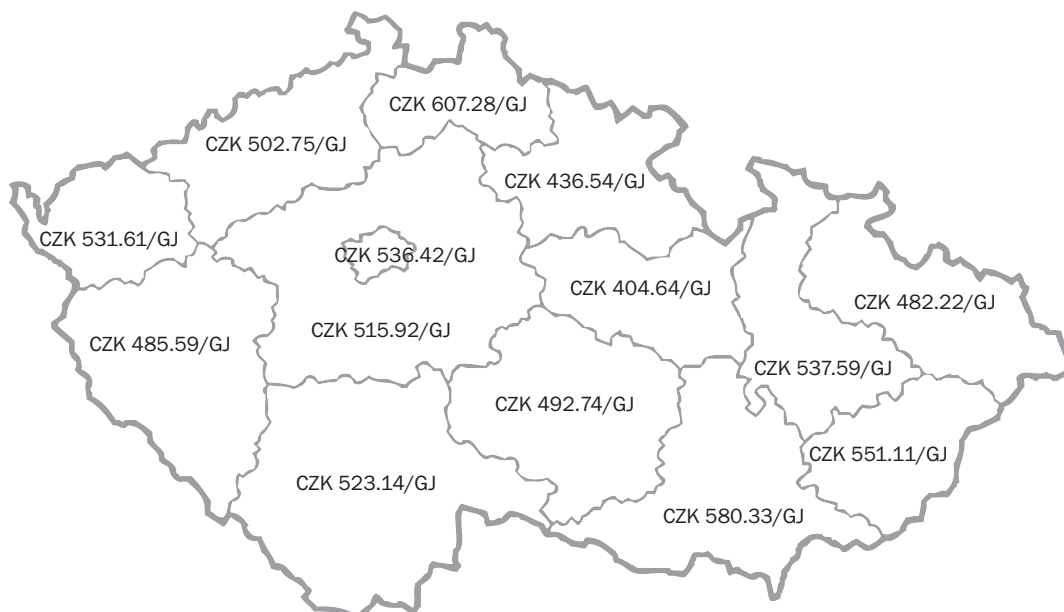
Their significant increase is visible in 2008; the reasons included fuel price hikes, the introduction of the environmental tax, and the raising of the lower VAT rate. In connection with rising heat prices, in 2008 and 2009 the Office addressed a larger number of complaints; in addition, there were many more cases of customers disconnecting from district heating systems. A further increase in the lower VAT rate from 9 to 10 percent took place as of 1 January 2010. As at 1 January 2011, a slight increase in the average thermal energy price over 2010 was registered again. The price of thermal energy produced from coal and from 'other fuels' rose 4.4 percent and 2.18 percent, respectively, on a year-on-year basis. In particular fuel price hikes caused the increase in thermal energy prices in 2011. Coal is the most frequently used fuel, with its price growing slowly, but steadily, followed by gas, the price of which shows much more distinct annual changes.

**Chart 17 Average thermal energy prices for final customers**



Map 1 shows average thermal energy prices for each of the regions as at 1 January 2011. Map 2 shows the percentage shares of fuels used for thermal energy production for final customers in each of the regions as at 1 January 2011. The highest average thermal energy price for final customers, CZK 607.28/GJ, was in the Liberec Region; the second highest, CZK 580.33/GJ, was in the South Moravian Region. In these two regions mostly gas and fuel oils are used for thermal energy production and at the same time they have steam distributions. On the other hand, the lowest average prices were in the Pardubice Region, CZK 404.64/GJ, and in the Královhradecký Region, CZK 436.54/GJ, where mainly coal is fired in CHP generation.

**Map 1 Average thermal energy price, including VAT, in the regions as at 1 January 2011**



Map 2 Fuel shares in the regions as at 1 January 2011

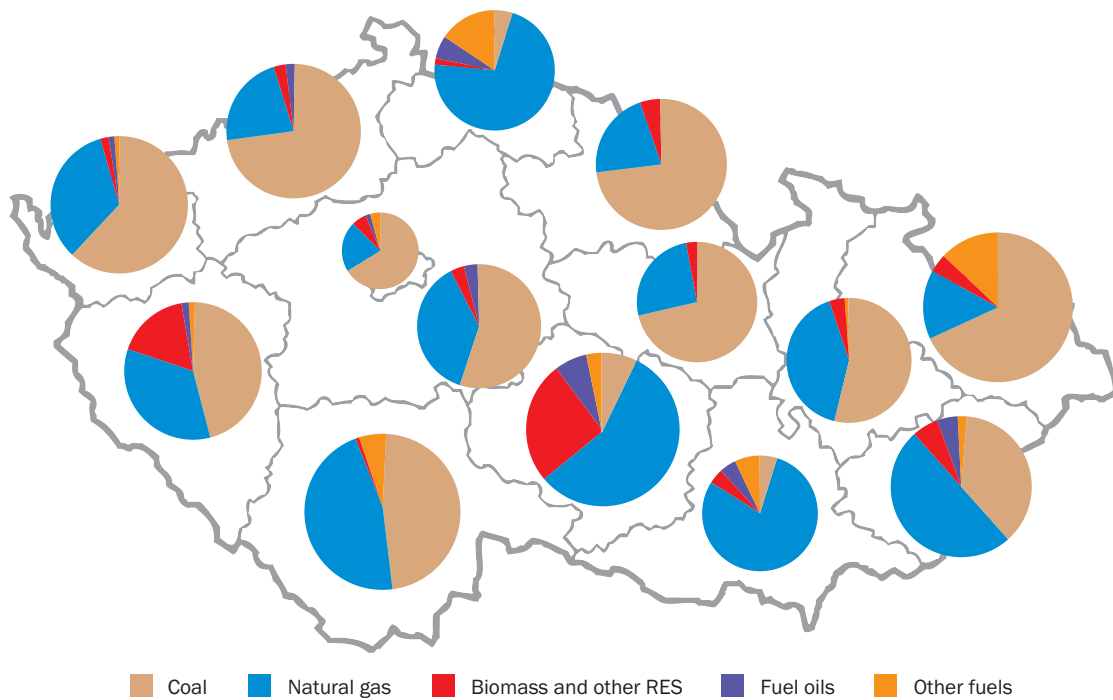


Chart 18 shows the supplied thermal energy quantity broken down by price range. The chart indicates the gradual migration of thermal energy quantities to higher price ranges. The single largest volume of thermal energy was supplied in the range between CZK 450/GJ and CZK 500/GJ in 2011.

Chart 18 Thermal energy quantities by price range

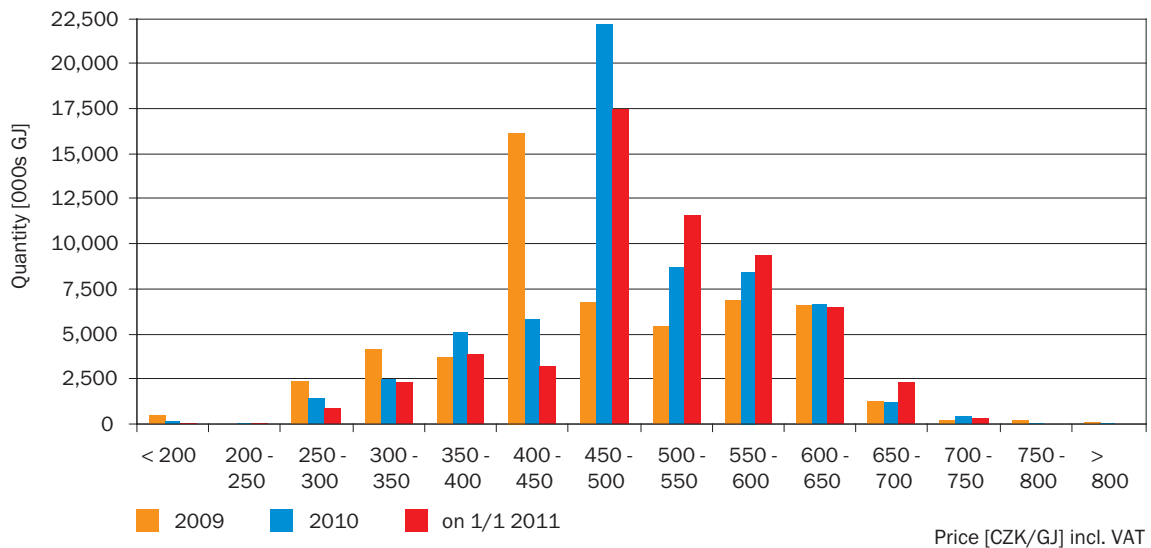
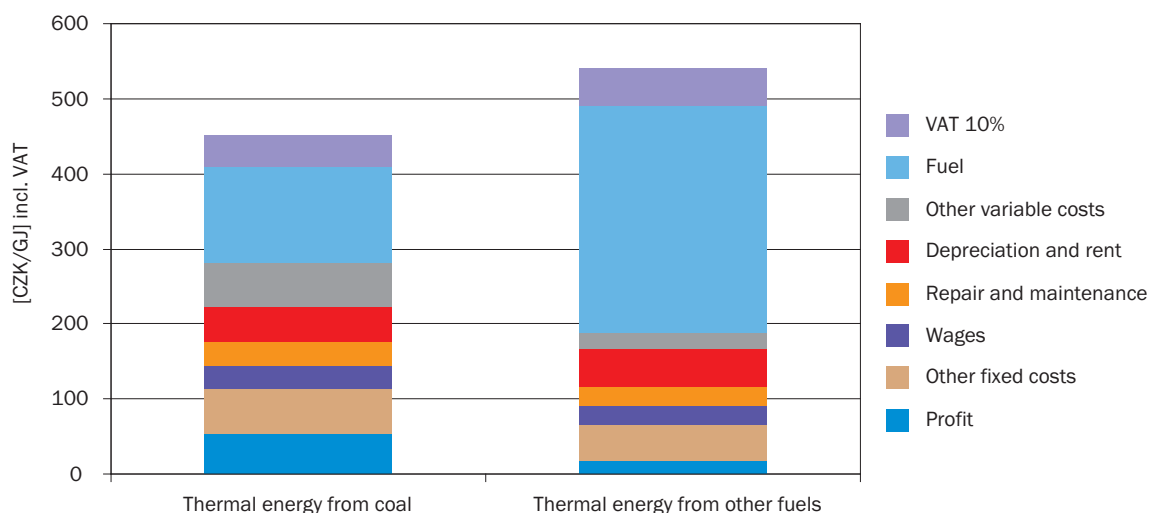


Chart 19 shows the structure of the prices of thermal energy produced from coal and from ‘other fuels’, standing for gas in particular. The chart indicates the distinctive share of fuel, which constitutes the largest cost item in thermal energy prices. Variable costs account for about 40 percent of the total price of thermal energy produced from coal. In prices of thermal energy produced from other fuels, variable costs account for almost 60 percent on average. In addition to the various costs items, VAT also contributes a large part to the price.

**Chart 19 Average shares of cost items in the price of thermal energy produced from coal and from other fuels**



### 3.4 Licensing policy and its development

In 2011, there were no more than 270 new applications for licences; compared with 2010 the situation stabilised, primarily due to the smaller number of applications for licences for renewable electricity production. Total installed RES capacity amounted to 4,160.74 MW at the end of 2011. In respect of licensing in 2011, the growth in the number of applications slowed down mainly in the case of licences for photovoltaic electricity generation. The largest number, 229, of new licences were awarded for electricity generation (of which 158 for photovoltaic).

There was an increase in the number of applications for electricity and gas trading licences. In the heat supply industry, changes mainly related to licences for thermal energy production and distribution, primarily on account of equipment changes, asset transfers, and capacity decentralisation. The number of applications was roughly the same as in 2010.

In connection with the amendment to the Energy Act, which now contains a section on the recognition of business authorisations, two administrative proceedings were conducted for the recognition of electricity and gas trade authorisations issued in other EU member states.

Early 2011 also saw a number of inspections at larger photovoltaic plants, primarily in response to distributors' and citizens' suggestions. The purpose of these checks was to see whether the capacities specified in the licence equalled the actually achieved capacities.

Table 1 lists the number of valid licences by object of business.

**Table 1 Numbers of valid licences between 2004 and 2011 by object of business**

Licences	2004	2005	2006	2007	2008	2009	2010	2011
Electricity generation	1,353	1,407	1,467	1,702	2,989	7,223	13,301	13,530
Electricity distribution	348	321	282	281	281	281	300	307
Electricity trade	146	274	285	293	310	312	321	353
Foreign authorisations for electricity trade	-	-	-	-	-	-	-	1
Gas production	12	14	13	13	14	15	15	15
Gas distribution	135	124	103	99	92	87	87	86
Gas trade	31	69	83	85	103	105	122	143
Foreign authorisations for gas trade	-	-	-	-	-	-	-	1
Gas storage	4	4	4	4	4	4	4	4
Thermal energy generation	693	689	674	672	655	641	627	619
Thermal energy distribution	747	737	721	719	699	689	675	663
<b>Total</b>	<b>3,469</b>	<b>3,639</b>	<b>3,632</b>	<b>3,868</b>	<b>5,147</b>	<b>9,357</b>	<b>15,452</b>	<b>15,720</b>



In 2011, the Office issued 1,029 new decisions on amendments to licences in all energy industries. Most of the administrative proceedings on licence amendment were conducted in relation to changes of responsible representatives, changes in installed capacity and changed number of operations. Installations were also frequently transferred to a different licence holder (in particular PV plants), largely between natural and juristic persons. In respect of licences for electricity and thermal energy distribution the changes mainly related to a reduction or extension of the delineated area served. The number of received applications for licence revocation remained stable; here, administrative proceedings were most frequently initiated by licence holders. Table 2 lists the number of administrative proceedings on licence award, change and revocation.

**Table 2 Number of licensing proceedings between 2004 and 2011 (by purpose)**

Licence proceedings	2004	2005	2006	2007	2008	2009	2010	2011
New licences	312	372	413	540	1,420	5,159	6,997	560
Licence changes	793	495	542	504	598	1,154	1,708	1,029
Revoked licences	194	228	229	174	163	204	264	264

As regards renewables, last year saw a slight increase in the number of applications for licences for electricity production at biogas and wind power plants, see Table 3. The low growth in applications for these renewables is mainly due to the fact that capital expenditure on these installations is very high and the projects are planned for a long term.

**Table 3 Number of electricity generating operations and installed capacities, between 2006 and 2011, by type of renewable energy used**

Operations		2006	2007	2008	2009	2010	2011
Hydro	Wind	1,320	1,351	1,354	1,369	1,397	1,420
	Capacity [up to 1 MW]	122.44	128.18	131.56	135.39	140.25	141.77
Wind	Number	57	69	77	85	93	95
	Capacity [MW]	44.5	117.52	149.71	192.86	214.78	217.92
Solar	Number	28	249	1,475	6,032	12,861	13,019
	Capacity [MW]	0.35	3.4	65.74	462.92	1,952.70	1,961.75
With a biogas share	Number	56	83	115	157	180	264
	Capacity [MW]	17.33	31.68	51.24	80.1	103.02	167.97
Landfill gas	Number	33	53	58	62	61	63
	Capacity [MW]	8.43	20.76	21.94	23.18	22.63	56.5
With a biogas share	Number	36	39	38	48	56	63
	Capacity [MW]	1,994.01	1,995.11	1,947.40	2,041.00	1,676.37	1,617.64

The list of licence holders is periodically updated on the Office's website by licence group. On this website, a 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.

### 3.4.1 Recognition of professional qualifications

In 2011, the Office decided on the recognition of professional qualifications in two administrative proceedings, with favourable results and without any requirement for compensation measures under Act No 18/2004 on the recognition of professional qualifications, as amended. 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.

### **3.4.2 The Energy Regulatory Fund**

Under 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), account number 3029001/0710, which are intended for compensating for losses conclusively suffered by licence holders performing the obligation of supply over and above their licence.

As at 1 January 2011, the opening balance in the Energy Regulatory Fund stood at CZK **46,891,465.85**. In 2011, a total of **CZK 1,102,966** was paid from the fund's account to a district heating company that was ordered by the ERO's decision to provide supplies over and above its licence. Adding the interest accrued (under the amendment to the Energy Act), the closing balance in the Energy Regulatory Fund current account stood at **CZK 45,849,353.58** as at 31 December 2011.

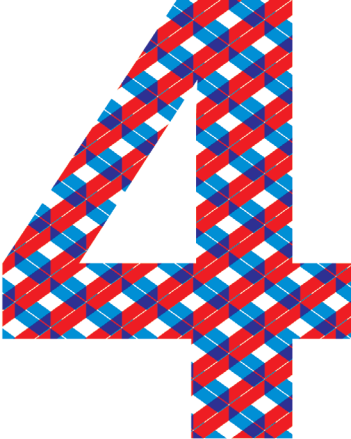
Under Section 14(10) of the Energy Act, the ERO is required to submit an audit of the fund for the respective calendar year. Complying, the ERO had the fund audited under the audit guidelines issued by the Chamber of Auditors of the Czech Republic. According to the auditor's report, the books of the fund were maintained in accordance with the legal regulations in force, and truly and fairly reflected its situation for the accounting period of 2011.

Since 2010, the ERO has carried in its records CZK 7,134 in outstanding contributions to the fund in respect of three companies. It was not feasible to collect these amounts in execution proceedings because realisable assets could not be found or because of insolvency proceedings. The Office will commence proceedings on licence revocation with these entities on the grounds of a breach of obligation under Section 10(3)(c) of the Energy Act.

### **3.4.3 Proceedings on administrative fees**

In proceedings on licence award, change or revocation, the Office collected fees amounting to CZK 1,186,050 (in duty stamps) and to CZK 10,405,300 (transfers to the ERO's bank account and payments in cash at the ERO); administrative fees totalled CZK 11,591,350.

Refund of administrative fees was requested by 88 entities; 87 applications were granted, and CZK 372,000 was refunded.



## 4 Oversight

In August 2011, Act No 211/2011, amending the Energy Act, came into force. The amendment has caused major changes in the system of administrative authorities with remit in the energy industries, including their competences. The ERO's powers of supervision over market operation and consumer protection have been extended, and inspection competences have been transferred to the ERO from the SEI.

The ERO's oversight activities were divided into three key areas. These included supervision over compliance with the various laws falling within the Office's remit, in particular supervision over compliance with the Energy Act in the electricity, gas and heat supply industries, supervision over compliance with price regulations, i.e. Act No 526/1990 on Prices, as amended, and the ERO's price decisions effective in the year under review, and supervision over performance of the duties laid down in Act No 634/1992 on Consumer Protection, as amended, in the gas and electricity industries. The ERO carried out inspections and checks on its own motion or upon other persons' and authorities' suggestions, and followed Act No 552/1991, on State Control, as amended, in performing oversight, unless the Energy Act stipulated otherwise.

### 4.1 Electricity and gas industries

In the electricity and gas industries the ERO carried out, under the Energy Act, a total of 38 of its own oversight actions and *ad hoc* checks (where it used its findings from market monitoring and suggestions received from consumers and final customers), specifically focused on producers of renewable electricity in the photovoltaic category, and also checks centred mainly on electricity and gas traders' practices in the energy supplier switching process and in performing under agreements in place, and inspections at distribution system operators focused on their approach to the refurbishment of installations in the electricity grid, and, equally importantly, it also followed cases of illegal electricity and gas consumption consisting in tampering with meters to change consumption data, and offtake from unmetered parts of consuming equipment. Towards the end of 2011 the Office carried out (on the basis of suggestions from the outside, contained in consumers' submissions) two inspections for suspicion of violations of consumer protection legislation (in particular prohibition of unfair business practices) in respect of the rights incidental to contract rescission.

The Office placed a special emphasis on handling the submissions and suggestions received from juristic and natural persons (customers and consumers). The Office received 170 submissions by post and via its electronic mail room. Citizens' suggestions and enquiries can be categorised into two areas. One included submissions that did not fall within the ERO's competences and were referred to the competent authorities, while the other included issues (justifying suspicion of violations of legislation falling within the ERO's oversight powers) that were addressed by way of qualified answers (cases in the domain of private law) or by way of an inspection based on a submission and subsequent measures taken by the Office.

#### Oversight in the electricity industry

Another part of the Office's oversight activity was geared towards supervising compliance with particular provisions of the Energy Act. These checks related to, for example, violations of the prohibition of activities in the protection zones of electricity grid installations, compliance with the rules for the allocation of electricity procurement costs (when electricity was provided to another person without a licence), evaluation and billing of electricity taken at the LV level, and failures to keep the standards of supply and service quality in the electricity industry; the Office also checked the technical condition of equipment through which electricity is supplied to final customers.

## **Oversight in the gas industry**

Oversight in the gas industry centred mainly on compliance with the Energy Act on the part of holders of the respective licences, final customers and other persons. A special area of oversight in the gas industry included checks of compliance with the prohibitions and constraints related to activities in the protection and safety zones of the gas system. Checks of the responsibilities of owners of properties into which gas is supplied for customers in the properties were made to see whether shared consuming equipment serving for gas supply was maintained in a condition consistent with legislation, technical standards and technical rules ensuring safe and reliable gas supply, to prevent such equipment from causing risk to life, health or property.

## **4.2 The heat supply industry**

The amendment to the Energy Act (Act No 211/2011) has vested new competences in the ERO as regards oversight in the heat supply industry. Supervision over compliance with the Energy Act has been transferred from the SEI to the ERO. The Office already was responsible for overseeing compliance with price regulations in the heat supply industry prior to the amendment to the Energy Act.

Accordingly, the SEI transferred to the ERO inspections to be commenced, including inspections of prices, and proceedings on fines which had been commenced by the SEI but not concluded with finality by 18 August 2011. Checks of performance of duties under the Energy Act, which the SEI had initiated, passed to the ERO as of the day of effect of the amendment to the Energy Act, and the ERO is obliged to finalise them.

The ERO received from the SEI 66 submissions in the heat supply industry, of which only 7 concerned duties under the Energy Act and 45 concerned violations of price regulations, and 14 submissions contained complaints about the allocation of thermal energy costs inside a property. By the end of 2011 the number of submissions had almost doubled.

### **Oversight under the Energy Act**

Supervision over compliance with the Energy Act centres on performance of duties under the Energy Act and also under the relevant implementing regulations.

In 2011, the Office carried out checks under the Energy Act on the basis of its own findings and customers' submissions. Checks mainly entailed investigating whether thermal energy suppliers supplied thermal energy in line with their government authorisation, which has the form of licences for thermal energy production or thermal energy distribution, or whether they interrupted/curtailed thermal energy supply legally and in accordance with the Energy Act. Customers' requests for checks of compliance with implementing regulations under the Energy Act most frequently concerned the method employed for the allocation of heat supply costs where a common meter of heat consumed for hot water preparation was installed for multiple supply points; such cases were governed by Ministry of Industry and Trade Public Notice 366/2010, on the way of the allocation of costs of thermal energy supply with a common meter of heat consumed for hot water preparation for multiple supply points.

### **Oversight under the Price Act**

Overseeing compliance with price regulations, ERO employees check compliance with Act No 526/1990, on Prices, as amended, and with the ERO's price decisions effective for the respective calendar year under review. In 2011, a considerable part of the work involved scrutiny of the resulting prices for thermal energy, which entailed reviews of adherence with the rules for cost-plus pricing of thermal energy under the respective price decision. Most of the suggestions received by the ERO were requests for checking the prices charged to customers.

Price checks are some of the most time-consuming oversight actions. The findings rely on documents in the thermal energy supplier's accounts, and it is frequently necessary to survey all of the supplier's price locations or see whether in one price location the supplier calculates heat prices in the same and conclusive way for all supply points or groups of supply points. In this connection, surveys were commenced under Section 14 of Act No 526/1990, on Prices, on the basis of 54 requests for checks of thermal energy prices, and one action was initiated under Act No 552/1991, on State Control. Proceedings on fines conducted by the ERO for violations of price regulations are listed in Appendix 1, points 1 and 2.

### **Allocation of thermal energy costs inside properties**

The Office also addressed a number of requests for examining the costs of heat production for space heating and hot water preparation and complaints about the procedures followed by the property owners, or managers designated by property owners, to allocate costs to users of flats and non-residential areas.

The ERO does not have competences *in rem* to intervene with relationships between the user (tenant, owner) of a flat and the service provider (owner or manager of the house), or the person in charge of allocating service costs. The allocation of the costs of services to each of the final consumers in a property is a civil relationship and disagreements can only be resolved in litigation, disputes under civil law, between the property owner and the final consumer. The main reason for this is the fact that a breach of the rules applicable to the allocation of thermal energy costs under Ministry for Regional Development Public Notice 372/2001, which lays down the rules for the allocation of costs of thermal energy for space heating and costs of the provision of domestic hot water to final consumers, does not establish liability under administrative law, and it therefore does not constitute an administrative offence [infraction of administrative law] under of the Energy Act, and the ERO would therefore be unable to penalise breaches of these rules in any way.

### 4.3 Administrative proceedings

Seventeen administrative fines totalling CZK 406,000 were issued in 2011. On the basis of the results of inspections carried out by the SEI, which were transferred to the ERO under the transitory provisions of Act No 211/2011 amending Act No 458/2000, in relation to violations of the prohibition of activities in the protection zones of electricity and gas distribution systems, fines were levied on 9 juristic persons: IPS ENGINEERING a.s., BAULINE s.r.o., MAO a.s., Skanska a.s., STAVITELSTVÍ ŘEHOR, s.r.o., PLASTMONT inženýrské sítě s.r.o., COLAS CZ, a.s., Vodohospodářské stavby, s.r.o. and GASPRO, spol. s r.o., on a gas distribution licence holder: KOVOHUTĚ HOLDING DT, a.s. for failure to perform obligations as a gas distribution system operator, and a thermal energy generation licence holder: Ústav jaderného výzkumu Řež a.s. for failure to notify a change in the conditions for licence award. On the basis of inspections carried out through the ERO in relation to violations of the prohibition of activities in the protection zones of installations of gas distribution systems, two fines were levied on VAŠSTAV, s.r.o.

Fines were levied on four natural persons in collection proceedings for arbitrary interference with gas or electricity consumption equipment without obtaining prior consents from the respective distribution system operators.

### 4.4 Consumer protection

The Office devotes adequate attention to consumer protection in the energy industries. On 1 August 2011, the Office set up its consumer protection unit with 6 work positions; it is mainly in charge of handling suggestions, enquiries, submissions and complaints. The unit is therefore responsible for addressing submissions that can be handled by providing verbal or written expert advice, sending forms that may be needed, etc. The unit's remit includes the handling of suggestions and complaints related primarily to issues such as 'door-to-door' electricity and gas marketing, electricity and gas supplier switches in relationships between the new/old supplier and the customer, contracts and commercial terms and conditions, electricity and gas supply billing, publication of commercial terms and conditions for electricity/gas supply, and electricity/gas supply prices and changes thereof, and also the provision of information about the ERO's competences to adjudicate disputes, and other related matters.

On its website ([www.ero.cz](http://www.ero.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 to avoid problems with such suppliers, or what steps to take if the customer already has a contract in place with such an electricity/gas supplier.

One of the services offered by the Office on its website to customers is 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 the offering of each of the suppliers. The ready reckoner includes the offers of 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 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 and national legislation.

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

5

# 5 International and internal relations

## 5.1 International activities

In 2011 the ERO was involved in a number of international activities, primarily in EU institutions. It maintained intensive co-operation with the Council of European Energy regulators (CEER), Agency for the Cooperation of Energy Regulators (ACER) and, until its dissolution (1 July 2011), the European Regulators' Group for Electricity and Gas (ERGEG), which had served as the European Commission's formal advisory group.

### 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. As part of its reporting and notification obligations under Directives 2003/54/EC<sup>2</sup> and 2003/55/EC<sup>3</sup> the Office was responsible for coordinating the work on *The Czech Republic's National Report on the Electricity and Gas Industries for 2010*, which was delivered to CEER and the European Commission on 31 July 2011 (Czech version) and 31 August 2011 (English version). The Ministry of Industry and Trade and the Office for the Protection of Competition contributed to the preparation of the national report.

### 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 served as the European Commission's formal advisory group, the Office's employees took an active part in projects on sustainable development of support for renewable energy sources, supply quality, smart meters and smart grids, empowering consumers, transparency, and the creation of a single competitive European energy market.

Ljubljana-based ACER officially started its activities on 3 March 2011, and ERGEG was therefore phasing out its activity from the beginning of last year, and discontinued them completely as of 1 July 2011.

At meetings of CEER and ACER working groups, the ERO's representatives centred on coordinating approaches and promoting positions of the Czech Republic in respect of electricity and gas markets, issues related to customers, and the implementation of the legislation in the third energy package. The Office's employees were also active in the working groups that discussed the unification of connection conditions, capacity allocation and congestion management; further, positions on the development of TSOs' ten-year investment plans were formulated.

### New legislative proposals - REMIT

On 10 December 2010 the European Commission published a proposal for a regulation<sup>4</sup> on wholesale energy market integrity and transparency (REMIT). Following a period of disagreement on the responsibility for this regulation, in the end the ERO was put in charge; the ERO drew up a Framework Position on this proposal for Czech Parliament, prepared instructions for and attended the energy working group's meetings, and prepared instructions for COREPER 1 meetings and the relevant parts of the mandate for TTE Council meetings, the energy part. The regulation was published on 8 December 2011 in the Official Journal of the European Union, L 326 Volume 54, and it entered into force on 28 December 2011.

<sup>2</sup> Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in electricity and repealing Directive 96/92/EC

<sup>3</sup> Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC

<sup>4</sup> Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency



## **Regional initiatives**

### **Electricity, Central and Eastern Europe**

Under the electricity regional initiatives, 2011 again saw the issue of trading in cross-border capacities in the Central and Eastern Europe Region (CEE) from the perspective of creating a single internal electricity market by 2014.

Meetings on this issue, which is carefully monitored by the European Commission, took place at several levels. The Implementation Group on Congestion Management, a working group of regulators, transmission system operators and the auction office (CAO) in the CEE region, has long been discussing the introduction of the flow-based method, intended to serve as a single method for calculating daily cross-border capacities throughout continental Europe. Following several years of testing, TSOs have presented four alternative variants of the flow-based method, which can be implemented in this region in 2012. However, the TSOs themselves have been unable to reach agreement and their talks have stalled since September 2011. While the Czech Republic, Slovakia and Hungary prefer market integration through market coupling (implicit auctions based on the NTC method) and subsequent implementation of a single flow-based method for the whole continental Europe, the other countries in the region (Germany, Austria, Slovenia and Poland) want to implement the flow-based method in the CEE region first, and only then integrate national electricity markets on a commercial basis.

The above problem, which is being addressed in the region, will have a direct impact on the very process of developing a single electricity market in the EU by 2014. Thus, the current situation is the subject of the European Commission's infringement procedure and is being discussed at a number of other forums: Regional Coordination Committee (RCC); meetings of the Implementation Group on Congestion Management; CEE Forum; etc.

In late 2011, the talks on regional market integration and cross-border capacity allocation were escalated to ACER. With ACER providing support, a common platform for addressing different positions is being sought. A strategic document that is being jointly prepared contains three variants of further steps. The Czech, Hungarian and Slovak regulators support the option whereby preference will be given to a further expansion of markets between these countries on the basis of the current NTC methodology for capacity calculation, and the flow-based method will be developed so as to be compatible with North West Europe (NWE), and will not be applied until then. In early 2012 the promising variant appears to be that ACER and the EC will prefer, in line with the Czech Republic's, Slovakia's and Hungary's views, to prioritise market coupling and subsequently implement the flow-based method throughout Europe.

### **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.

The meetings of the gas regional initiative mainly centred on the target gas market model and also the Madrid Forum's conclusions. In late 2011, the Vienna meeting discussed the impacts of the Madrid Forum's recommendations, according to which the regional initiative is to serve as a platform to identify the options for the implementation of the target gas market model.

Priorities for the regional initiative's action plan until 2014 were set as follows: interoperability, capacity allocation and bundled products, facilitation of market integration, infrastructure and investments.

### **Trips to other countries**

In 2011, the Office's employees took 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.

## **5.2 Internal relations**

### **Co-operation with central state administration authorities and Czech Parliament**

Within its remit, in 2011 the ERO centred on direct communication with central state administration authorities. The Office's co-operation with the MPO's energy and legal experts, in particular in the evaluation of the experience with the application of the Energy Act as the basic framework creating the environment for energy market players' activities, can be regarded as fundamental. These joint positions then serve as the basis for preparing amendments to implementing regulations issued by the Ministry of

Industry and Trade and the Energy Regulatory Office. The outcomes of the co-operation between the experts of the two central state administration authorities and of other institutions served as the basis for drafting a comprehensive amendment to the Energy Act.

The Office's representatives attended all debates on the amendment to the Energy Act in the committees of both houses of Czech Parliament and also participated in the debate on the new law on supported energy sources. During the drafting of and debates on this law, the ERO prepared several analyses, which - responding to the evolution of the content of the new law and the amending proposals - addressed the practical impacts of the proposed changes and offered a realistic view of the issues in question. The views and positions held by the ERO's representatives were not always identical with the views and approaches of the two houses of Czech Parliament.

As part of co-operation with the Ministry of the Interior, the Office carried out its responsibilities related to the regulatory reform and effective public administration panel (an inter-departmental advisory and coordinating body for regulation in public administration). In 2011, the panel commented on 101 legislative proposals put forth by central authorities and discussed the revised Smart Administration Strategy and a List of Project Plans and Projects extending the list of strategic plans approved by Government Resolution no. 536 of 14 May 2008 on strategic project plans for drawing on the EU Structural Funds as part of Smart Administration - attachment to the Effective Public Administration and Friendly Public Services strategy.

In co-operation with the Czech Statistical Office, the ERO offers, and provides natural persons applying for a licence who have not yet been issued with an identification number with assistance with the related procedure. To reduce the administrative burden on businesses, the Office also obtains criminal record certificates and copies of entries in real estate cadastres from an electronic database for licence applicants on the basis of the details supplied by them. In respect of the recognition of professional qualifications the ERO, as the recognition authority, works with the Ministry of Education, Youth and Sports, which plays the role of the national coordinator under the IMI project with the Ministry of Industry and Trade.

## **Public and media relations**

### **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 2011, the Office was approached by 129 applicants for information.

#### **Number of received and handled requests for information in 2011**

Area	Number of requests
Energy regulation	96
Licensing	25
Legislative and legal	4
Other	4
Total	129

The subjects of requests for information mainly included regulation in the electricity industry, especially from the perspective of the issued price decisions and public notices. There was extreme interest in information about renewable energy sources, in particular solar plants. All requests for information were answered within the required time limit.

As the public's interest in the energy sector increased, there was a general increase in the number of questions that the Office's relevant technical departments handled during the year as part of their everyday correspondence; they mainly concerned supplier switching in relation to market liberalisation, prices, and issues of the development of renewable electricity production. The importance of energy as a whole is also highlighted by the fact that questions are becoming more and more technical and preparing qualified answers to these questions is therefore more time consuming and requires greater technical expertise.

The ERO also continues to develop 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 expert circles about the forthcoming changes on time.

## **Publications**

Under the Energy Act, the Office produces the *Energy Regulation Gazette*, which appeared with a circulation of 520 in 2011 (448 copies were distributed on the basis of subscription). SEVT, a.s. was responsible for the administration of the *Gazette* as in previous years.

Nine issues of the *Gazette* appeared in 2011; they contained, among other things, price decisions, report on the management of the Energy Regulation Fund for 2010 and the budget proposed for the fund for 2011, and a report on the level achieved in maintaining electricity transmission and distribution continuity for 2010 (The Quality Report).

Once the amendment to the Energy Act came into force on 18 August 2011, the Office also accepted the duty to issue the *Energy Regulation Gazette* via a public administration gateway, i.e., only in electronic form.

Under Section 10(2) of Act No 526/1990 on Prices, as amended, 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. Complying with this requirement, the Office performed its duties in 2010.

Under the Energy Act, 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 13,530 electricity producers, 307 electricity distributors, 353 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.

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.

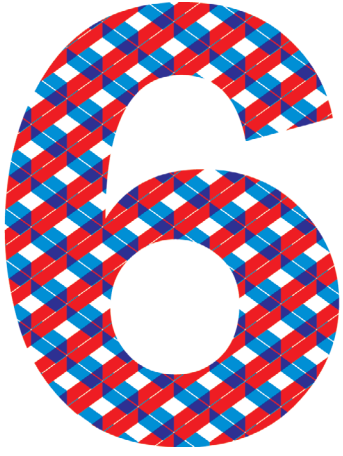
The Czech Statistical Office, Ministry of the Environment, Ministry of Industry and Trade, and some Regional Authorities currently take outputs from the Office's databases.

Both as hard copy and in electronic form, both in Czech and English, the Office also produced its Report on the Activities and Finances of the Energy Regulatory Office for 2010, which it submitted to the Czech Government and the Chamber of Deputies of Czech Parliament in compliance with the Energy Act. On the occasion of an energy conference organised by the Office in June 2011, the *Ten Years of the Liberalisation and Regulation of the Energy Sector in the Czech Republic* booklet was published.

### **5.3 The Chairwoman's Advisory Corps**

The advisory corps works for the Chairwoman in an advisory capacity at the independent Energy Regulatory Office. Its members provide their expert opinions and submit their proposals to the ERO Chairwoman.

In the autumn of 2011, the advisory corps, in a new composition, became a fully-fledged body comprising a broad range of experts who contribute their experience to the objective and comprehensive information mix for the ERO Chairwoman.



## 6 ERO budget management

### 6.1 The Chapter's budget

The budget for Chapter 349, Energy Regulatory Office, was approved as part of Act No 433/2010 on the National Budget for 2011 of 15 December 2010, with income totalling CZK 1,000,000 and expenditure totalling CZK 100,725,000.

The originally approved ERO budget (the budget after changes) was adjusted to CZK 109,725,000 in respect of total expenditure and the final budget was adjusted to CZK 117,653,000. Budget adjustments were made due to Act No 211/2011, amending the Energy Act. In 2011, the Office made 15 adjustments to budgeted expenditure. The scope and detailed structure of the budgetary measures are described in detail in the proposed 2011 State Final Account for this chapter.

The chapter is not authorised to provide subsidies or loans, it does not pursue any economic activities and has no subordinated organisational components. There were no individual subsidies, or individually assessed expenses in the budget.

### 6.2 Revenues to the chapter

For Chapter 349, Energy Regulatory Office, total income was budgeted at **CZK 1,000,000** for 2011; of this amount, tax revenue of CZK 1,000,000. For 2011, total actual income is reported at CZK **11,762,730**, i.e. performance at 1,176.27 percent; of this amount, tax revenue was CZK 10,405,300. This revenue is mainly attributable to higher collection of administrative fees (budget item 1361) in licensing.

No non-tax revenue was budgeted for 2011; as at 31 December 2011, actual non-tax revenue was reported at CZK 1,357,430. This revenue includes random income, for example, insurance benefits received (budget item 2322), penalty payments received, fines (budget item 2212) and proceeds from the sale of 'other fixed tangible assets' (budget item 3113). For 2011, income from EU budget w/o SZP [social security and health insurance] was budgeted, and the actual income was reported at nil as at 31 December 2011.

### 6.3 Meeting of mandatory targets

The Office complied with all the mandatory targets. The planned amount of funds was not exceeded under any of the mandatory targets without approval, see Table 4.

**Table 4 Meeting of mandatory targets**

Mandatory targets	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/2 [%]
	1	2	3	4	5
<b>Aggregate targets</b>					
Total income	1,000,000	1,000,000	1,000,000	11,762,730	1,176.27
Total expenditure	100,725,000	109,725,000	117,653,000	111,290,590	101.43
<b>Specific targets - income</b>					
Tax revenues	1,000,000	1,000,000	1,000,000	10,405,300	1,040.53
Non-tax revenues, capital revenues and accepted transfers	0	0	0	1,357,430	0
<b>Specific targets - expenditure</b>					
Outlays to support the ERO's tasks	100,725,000	109,725,000	117,653,000	111,290,590	101.43
<b>Standard targets</b>					
Salaries for employees and other payments for work	44,137,000	48,904,000	49,680,000	49,449,220	101.11
Salaries for employees under employment contract	41,475,000	46,109,000	46,109,000	46,109,000	100.00
Salaries for employees under employment contract derived from salaries of constitutional officials	1,569,000	1,452,000	1,452,000	1,292,260	89.00
Statutory insurance premiums paid by the employer	15,008,000	16,629,000	16,629,000	16,410,180	98.68
Allocation to the Fund of Cultural and Social Needs (FKSP)	430.00	475.00	475.00	475.00	100.00
Arrangements for crisis situations under Act No 240/2000	0	0	0	0	0
Total outlays co-financed from the EU budget w/o SZP	0	0	0	0	0
of which: from the national budget	0	0	0	0	0
share from the EU budget	0	0	0	0	0
Expenses on ISPROFIN programmes	18,710,000	20,710,000	21,902,000	20,811,080	100.49

In respect of the budget for the chapter, the Office complied with all the mandatory standard and specific targets and the planned volume of funds was not exceeded without approval. The overstepping of selected mandatory targets is funded by deductions from claims on unused expenses (NNV) from previous years, CZK 7,415,000, and using the insurance benefits received, CZK 513,000.

#### **6.4 Analysis of employment and payroll funds**

The Office's personnel and organisational activities were mainly geared towards the following tasks in 2011:

##### **Personnel management agenda**

On the basis of the budget approved for 2011, the Office's staffing level was set at 102. The amendment to the Energy Act had significantly broadened the Office's competences and therefore in co-operation with the Ministry of Finance the respective budgetary measure was carried out, which was also reflected in the personnel area. There was an overall increase by 76 employees, while an increase by 44 employees was included in the budget for 2011. The final budget for 2011 stated 146 employees. The remaining number of employees is included in the budget for 2012, which is planned for 178 employees. Among the 44 employees added in 2011, 17 positions were filled with employees transferred to the ERO from the SEI.

The Office's organisational structure as at 31 December 2011 is shown in Appendix 4.

## Education and training

In 2011, the education and training programme was heavily affected by austerity measures and employees' available time. A total of CZK 401,690, which is 30.91 percent of the actual amount in 2010, was spent on educational activities; the drop is CZK 897,730 in absolute terms.

### Initial training

- a) Introductory initial training  
39 employees took this course once their employment contracts came into effect;
- b) Continued initial training  
This is organised in co-operation with the Institute of State Administration and 2 employees were involved.

### Advanced training

- a) Advanced managerial training  
This course was attended by 24 managers. Training courses were also organised on the subject of preventive measures and procedures in the prevention of corrupt behaviour in state administration, and were attended by 77 employees;  
In 2011, one manager completed doctoral studies.
- b) Language training  
- In 2011, classes continued for a very limited number of employees who represent the Office at the international level.  
- The ERO Chairman specified 102 official positions for which knowledge of a world language is prerequisite qualification. As at 31 December 2011, ten of these official positions were vacant. In the 92 official positions that were filled, 83 employees fully met the language qualification requirement. As at 31 December 2011, the language qualification requirements were therefore met by 90.22 percent of the set and filled number of official positions.

**Table 5 Employees' command of languages as at 31 December 2011**

	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	63	30			93
German	8				8
French		1			1
<b>Total</b>	<b>71</b>	<b>31</b>			<b>102</b>

- c) Other advanced training covered the following:  
Training in occupational health and safety, fire protection, and drivers' professional competence, training in public notice no. 50/1978 on professional competence in electrical engineering and on Act No 500/2004, Rules of Administrative Procedure (administrative proceedings); ongoing training in amendments to legislation; IT training.

Altogether 53 training events were held, which was much fewer compared with the 137 events in 2010. Education and training expenses totalled **CZK 401,690**, accounting for 0.85 percent of the actual payroll costs related to employees under employment contracts (including the Chairperson's salary).

**Table 6 Structure of education and training expenses**

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
<b>Amount</b>	77,480	324,210	401,690

## Employees

The approved budget for 2011, in respect of the ‘mandatory standard target’ of ‘salaries for employees and other payments for work’, was at a level of CZK 44,137,000. Following the execution of all budgetary measures the final budget of CZK 49,680,000 was met at a level of 99.54 percent, **CZK 49,449,220**; of this, the mandatory standard target of salaries for employees, CZK 46,109,000, was met 100 percent, **CZK 46,109,000**, and the mandatory standard target of salaries for employees derived from those of constitutional officials was met at a level of 89 percent, CZK 1,292,260.

An average salary of CZK 35,074 was planned for 2011 following the budgetary measures. The actually achieved average salary was CZK 37,620, index 107.26 percent. The 2011/2010 index of the actually achieved average salary was 97.42 percent.

As regards expenses on other payments for work (subgroup of items 502), a total of CZK 2,047,950 was paid (of which CZK 776,400 in severance pay for the ERO Chairman in connection with the end of his term in office).

In 2011, the average number of FTE employees was 105, and the planned number was 113, i.e., the plan was met at 92.92 percent. More significant recruitment took place again as late as early 2012. The average number of employees did not increase year-on-year because in 2010 the Office had recruited, as a matter of urgency, temporary employees to reinforce the licensing department. The actual number of employees registered as at 31 December 2011 was 131, while the plan was 146. This was 23 more employees than the staffing level as at 31 December 2010.

Because of the competition in the energy sector in terms of remuneration, it is only with considerable difficulties that new skilled employees are recruited. In spite of that, the Office’s fundamental needs were met in terms of both the number and professionalism of the employees in the various parts of the organisation.

**Table 7 Incoming and outgoing employees in 2011**

	New staff	Leaving staff
<b>Number</b>	39	8

Of the overall number of 131 employees as at 31 December 2011, 79 worked in Jihlava and 52 in Prague [worked within the meaning of the place of performance of work / agreement on regular workplace].

**Table 8 Employee structure by age and sex as at 31 December 2011**

Age category	Men	Women	Total	Share of total staff [%]
Up to 20 years	0	0	0	0
21 - 30	14	12	26	19.8
31 - 40	25	17	42	32.1
41 - 50	8	16	24	18.3
51 - 60	19	12	31	23.7
61 years and older	5	3	8	6.1
<b>Total</b>	<b>71</b>	<b>60</b>	<b>131</b>	<b>100.0</b>
Percentage	54.2	45.8	100.0	-

Compared with the preceding period, the percentage of women was much higher, by 4.1 percent.



**Table 9 Employee structure by education and sex as at 31 December 2011**

Education	Men	Women	Total	Share of total staff [%]
Primary	0	0	0	0
Vocational	1	0	1	0.8
Vocational secondary	0	0	0	0
Complete secondary	0	0	0	0
Complete vocational secondary	6	22	28	21.4
Higher education college	1	0	1	0.8
University	63	38	101	77.0
<b>Total</b>	<b>71</b>	<b>60</b>	<b>131</b>	<b>100.0</b>

In absolute terms, the number of employees with university education increased by 27 in 2011 over 2010. University graduates accounted for 77 percent of employees (in 2010, the figure was 68.5 percent).

**Table 10 Duration of employment as at 31 December 2011**

Employment	Number	Share of total staff [%]
Up to 5 years	65	49.6
Up to 10 years	42	32.1
Over 10 years	24	18.3
<b>Total</b>	<b>131</b>	<b>100.0</b>

#### Organisational activities

In 2011, a total of 20 internal regulations were issued, of which 16 were ERO Chairman Measures required for supporting the Office's own functioning, and 4 were ERO Chairman Decisions relating to changes in the Office's organisational structure, mainly those arising from the amendment to the Energy Act.

## 6.5 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 in 2011. As at 31 December 2011, the funds in the Office's bank account amounted to **CZK 186,050**.

#### Reserve Fund

The balance in the Reserve Fund as at 31 December 2011 was nil.

## 6.6 Administrative fees and fines

As part of the income mentioned in the foregoing, the Office collected CZK 10,405,300 through its administrative fee account no. 3711-2421001/0710 between January and December 2011 (administrative fees for licensing).

In respect of issued fines, as at 31 December 2011 the Office's books carried 21 outstanding receivables (account 315 Other receivables from main activity) totalling CZK 9,146,130; of these, 18 receivables have been referred to a court and total CZK 9,068,130. They mainly include receivables from LENOXA a.s., Liberec, which is in receivership proceedings – 8 fines totalling CZK 5,051,730, from TEPLO NOVÝ BOR spol. s r.o. – 2 fines totalling CZK 1,459,640, and from Zásobování teplem, s.r.o. Blansko – 1 fine of CZK 1,008,730. Of a total of CZK 9,068,130 in receivables (fines) claimed in courts, CZK 7,717,130 is attributable to 15 fines transferred to the ERO from the SEI in connection with the amendment to the Energy Act. These are fines in administrative proceedings and collection proceedings initiated by SEI's and ERO's checks of compliance with Act No 458/2000, the Energy Act, as amended, and Act No 526/1990 on Prices, as amended.

In 2011, eleven companies paid fines totalling CZK 768,000; the highest fines were paid by PPT POTRUBNÍ TECHNIKA s.r.o., Plzeň, CZK 251,000, České teplo s.r.o., Praha, CZK 150,000, and Dalkia Česká republika, a.s., Ostrava, CZK 100,000. The Office refunded one paid fine, levied by the ERO's

decision on TERMIZO a.s., Liberec at CZK 500,000 in 2009. The closing balance in the bank account therefore stood at CZK 268,000 as at 31 December 2011.

## 6.7 Budget management results, expenditure

The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2011 can be seen in Table 11.

**Table 11 Total amounts actually drawn – total expenditure for 2011**

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
<b>Total expenditure</b>	<b>117,653,000</b>	<b>111,290,590</b>	<b>94.59</b>
of which:			
capital expenditure drawn	8,227,000	8,011,210	97.38
current expenditure drawn	109,426,000	103,279,380	94.38

### 6.7.1 Current and capital expenditure savings

As at 1 January 2011, 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 7,415,000**. These funds were used for meeting increased costs related to the entry into force of the amendment to the Energy Act. The closing balance of NNV claims for use was nil as at 31 December 2011.

Since in 2011 the actual expenditure savings totalled CZK 6,362,410, the ERO reports, under Section 47 of Act No 218/2000 on budgetary rules, as amended, only **CZK 6,306,000** as NNV. The difference of CZK 56,410 represents undrawn NNV funds, undrawn dedicated VPS funds, and rounding. Total financial savings can be broken down as follows:

- 'other personnel expenses, incl. premiums and FKSP'	CZK 450,000
- programme financing EDS/SMVS-ISPROFIN	CZK 1,090,000
- 'other current expenditure' (w/o EDS/SMVS-ISPROFIN)	CZK 4,766,000

These funds can therefore be used for financing the Office in 2012.

### 6.7.2 Programme financing

In the system for financing the programmes of asset replacement, for 2011 only one programme was included, 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.

For 2011, the ERO chapter was given a mandatory target, Total Expenses Kept in ISPROFIN, the approved amount being CZK 18,710,000.

In 2011, budgetary measures were executed to increase the approved Expenses Kept in ISPROFIN mandatory target to **CZK 20,710,000** and the final budget of expenditure to **CZK 21,902,000**. The final budget was met at a level of 95.02 percent and the budget of expenditure, following the change of this mandatory target, at a level of 100.49 percent, **CZK 20,811,080**.

Table 12 shows results for 2011 by sub-programmes and Table 13 shows results by current and capital expenditure. In line with the Office's priorities, the largest amount of funds was allocated to IT (sub-programme 149 011 ICT) for 2011.

**Table 12 Results by sub-programme for 2011**

	<b>Final budget of expenditure [CZK]</b>	<b>Actual [CZK]</b>	<b>Percentage [%]</b>
<b>Total, Programme No. 149 010</b>	<b>21,902,000</b>	<b>20,811,080</b>	<b>95.02</b>
of which:			
Sub-programme 149 011 - ICT	18,940,000	17,999,200	95.03
Sub-programme 149 012	2,962,000	2,811,880	94.93

**Table 13 Results by current and capital expenditure for 2011**

	<b>Final budget of expenditure [CZK]</b>	<b>Actual [CZK]</b>	<b>Percentage [%]</b>
<b>Total programme financing</b>	<b>21,902,000</b>	<b>20,811,080</b>	<b>95.02</b>
of which:			
Current expenditure	13,675,000	12,799,870	93.60
Capital expenditure	8,227,000	8,011,210	97.38

### **Information and telecommunications technology at the Office**

Software replacement and procurement mainly focused on completing the number of licences for new employees who joined the Office in connection with the amendment to the Energy Act. New agendas will be processed in the Office's information system, and therefore work was started on a new module for inspections. Also in respect of software, the migration of the SAS system for electricity supply quality processing and evaluation to the ERO's integrated information system was completed, which has resulted in significant savings.

The first half of 2011 saw the repair of cabling at another unit of the Office in Jihlava, including the inclusion of the unit into the Office's other infrastructure.

October 2011 saw a recertification audit of the Information Security Management System (ISMS) under ČSN ISO/IEC 27001 and the Office continues to be entitled to use the national certification logo, CQS, and the international certification logo, IQNet.



### **6.7.3 Assets, receivables and liabilities**

As at 31 December 2011, the ERO held assets valued CZK 142,758,840 at acquisition cost, and carried at a book value of CZK 87,601,870 following accumulated depreciation (public notice no. 410/2009 executing certain provisions of Act No 563/1991 on Accounting, as amended, for certain selected accounting entities). The assets that the Office is authorised to manage are listed in detail in Appendix 3. In 2011, the total value of assets, at acquisition cost, increased by CZK 8,479,190 over 2010, which is mainly attributable to the development and replacement of the Office's technical facilities.

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, the Office started to depreciate assets on 1 January 2012; accumulated depreciation of the assets was effected as at 31 December 2011.

As at 31 December 2011, receivables totalled CZK 9,786,740. Of this amount, CZK 78,000 was receivables before due date, and CZK 9,068,130 overdue receivables (fines in administrative proceedings due to checks of energy entities as to compliance with Act No 458/2000, the Energy Act, and Act No 526/1990 on Prices), operating advance payments to suppliers amounting to CZK 635,610, and receivables of CZK 5,000 from employees (damages).

As at 31 December 2011, liabilities totalled **CZK 53,681,270**. They included liabilities to employees, liabilities under social security and health insurance and income tax liabilities related to employees totalling CZK 7,744,370, resulting from wage accounting for December 2011, which were paid on the payday on 10 January 2012. Liabilities also included the Energy Regulation Fund, CZK 45,849,350, the balance in the payment card account at ČSOB, CZK 700, and the balance of the allocation to FKSP for 2011 in the deposit account, CZK 86,850. The Office had no payables to suppliers; suppliers' invoices received by the Office before the end of 2011 were paid. The Office had no overdue liabilities as at 31 December 2011.

#### **6.7.4 Expenses on business trips abroad**

Expenses on business trips abroad totalled **CZK 1,873,480**, of which CZK 1,742,180 paid in travel expenses.

Costs of trips related to CEER/ERGEG/ACER and of trips organised by the EU totalled CZK 1,339,383.72. Expenses on business trips to other meetings abroad, for example, those to bilateral meetings, workshops and forums held by other organisers, amounted to CZK 534,092.48.

Altogether CZK 1,873,476.20 was spent on 123 business trips abroad in 2011.

Compared with 2010, expenses on business trips abroad slightly increased (by CZK 23,130).

In the area of 'non-investment transfers to international organisations', item 5511, the actual expenditure reported as at 31 December 2011, **CZK 726,240 (EUR 30,144)**, relates to the annual membership dues to CEER for 2011.

#### **6.7.5 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 incumbent on the manager of the chapter's budget under Section 39(3) of Act No 218/2000 on budgetary rules, as amended. The Office fully applies the approach under 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.

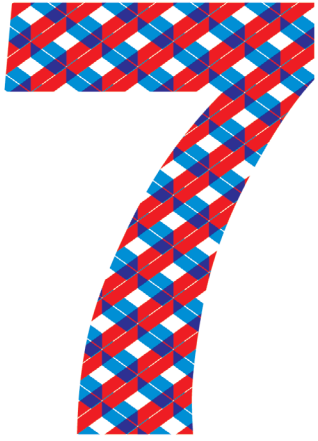
The Office evaluates the spending of the chapter's budgetary funds on a regular basis. In the chapter's closing account the Office always includes an overview of the cost intensity of the chapter for a longer period of time.

Expenses in absolute and relative terms are listed in Table 14, and are broken down by cost category. In 2011, the influence of the amendment to the Energy Act is visible in expenses on programme financing per employee, which were higher by 14.45 percent year-on-year (cost of setting up new workplaces).

**Table 14 Comparison of actual expenses under Chapter 349 – Energy Regulatory Office, for the period 2001–2011**

Item	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006
<b>Total expenses</b>	<b>97,487</b>	<b>77,637</b>	<b>93,978</b>	<b>116,770</b>	<b>105,018</b>	<b>98,556</b>
of which:						
- Salaries, other payments, insurance premiums and FKSP	19,955	36,081	41,772	46,967	48,532	52,524
- Expenses on asset replacement financing programme	54,201	11,976	15,741	15,561	19,526	16,006
- Total other expenses	23,331	29,580	36,465	54,242	36,960	30,026
of which:						
- Allocations to the Reserve Fund (RF)	2,142	2,299	2,351	27,200	2,602	0
- Other expenses w/o RF	21,189	27,281	34,114	27,042	34,358	30,026
Expenses on salaries and other payments for work	14,741	26,470	30,656	34,397	35,493	38,466
Salaries to employees	14,158	26,001	30,197	34,122	35,225	37,953
Staffing levels (FTE)	40	73	82	89	90	93
Average monthly salary	29,496	29,682	30,688	31,949	32,616	34,008
<b>Payroll and social costs per employee</b>	<b>499</b>	<b>494</b>	<b>509</b>	<b>528</b>	<b>539</b>	<b>565</b>
<b>Programme financing costs per employee</b>	<b>1,355</b>	<b>164</b>	<b>192</b>	<b>175</b>	<b>217</b>	<b>172</b>
<b>Other expenses per employee</b>	<b>583</b>	<b>406</b>	<b>445</b>	<b>609</b>	<b>411</b>	<b>323</b>
<b>Total expenses per employee</b>	<b>2,437</b>	<b>1,064</b>	<b>1,146</b>	<b>1,312</b>	<b>1,167</b>	<b>1,060</b>
Item	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Index 11/10
<b>Total expenses (incl. use of NNV claims)</b>	<b>101,130</b>	<b>107,906</b>	<b>115,377</b>	<b>110,916</b>	<b>111,291</b>	<b>100.34</b>
of which:						
- Salaries, other payments, insurance premiums and FKSP	56,986	60,774	63,937	67,274	66,334	98.60
- Expenses on asset replacement financing programme	15,938	18,437	21,232	18,45	20,811	114.69
- Total other expenses	28,206	28,695	30,208	25,497	24,146	94.70
of which:						
- Allocations to the Reserve Fund (RF)	0	0	0	0	0	0
- Other expenses w/o RF	28,206	28,695	30,208	25,497	24,146	94.70
- Use of NNV claims				5,975	7,395	123.77
Expenses on salaries and other payments for work	41,619	44,431	47,186	49,625	49,449	99.65
Salaries to employees incl. Chairman	41,347	44,115	46,590	48,658	47,401	97.42
Staffing levels (FTE)	95	95	98	105	105	100.00
Average monthly salary	36,269	38,698	39,617	38,617	37,620	97.42
<b>Payroll and social costs per employee</b>	<b>600</b>	<b>640</b>	<b>652</b>	<b>641</b>	<b>632</b>	<b>98.60</b>
<b>Programme financing costs per employee</b>	<b>168</b>	<b>194</b>	<b>217</b>	<b>173</b>	<b>198</b>	<b>114.45</b>
<b>Other expenses per employee</b>	<b>297</b>	<b>302</b>	<b>308</b>	<b>242</b>	<b>230</b>	<b>94.65</b>
<b>Total expenses per employee</b>	<b>1,065</b>	<b>1,136</b>	<b>1,177</b>	<b>1,056</b>	<b>1,060</b>	<b>100.38</b>

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



# 7 Internal oversight system

## 7.1 External inspections

There was no outside inspection of the Office in 2011.

## 7.2 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 in 2011. Its activity followed the annual plan of internal audits. The basis for this activity was the risk maps compiled by the Office's organisational units, and the results of audits from previous years and the monitoring of measures from previous years.

The audits centred on the performance of the assignments laid down in Act No 458/2000, the Energy Act, and related to the management of the Office as an instrumentality of the State and the management of the Office as an independent accounting entity of public administration. The audit actions centred 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. In accordance with the law, an annual report on internal audit was submitted to the ERO Chairwoman. The other component of the internal oversight system was management inspections carried out by managerial personnel under their powers and responsibilities.

No serious shortcomings such as suspicion of minor offences or criminal offences were identified. On the basis of the findings and recapitulation of the results of the Internal Audit Unit's work in 2011 it can be noted that the internal control and inspection system in place is sufficiently efficient and provides reasonable assurance that public expenditure reported under the chapter's budget was used in accordance with external and internal regulations.

# Appendix 1



# Administrative proceedings, an overview

## 1) Administrative proceedings completed in 2011

### Adversarial proceedings in 2011

#### The electricity industry

In 2011, eighty administrative proceedings were concluded in the **electricity industry**, which implies a slight increase compared with 2010 when 71 administrative proceedings were concluded. However, this indicates, in general, a continued growth in the number of adjudicated disputes compared with preceding years when, for example, only 10 administrative proceedings were concluded in 2009.

The motions for the ERO to decide in disputes related to

- a) disputes over failure to enter into an agreement under the Energy Act, specifically agreements 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;
- b) disputes over the amount of support for renewable electricity, in particular that from photovoltaic plants, where the subject matter of the disputes was the issue of determining the moment of the commissioning of the electricity generating plant and the issue of taxes on electricity from solar radiation under Section 7a *et seq.* of Act No 180/2005 on support for the use of renewable sources;
- c) disputes arising from contractual relationships, in particular in the case of letters of intent for connection agreements.

Two administrative proceedings concerned electricity supply interruption due to illegal electricity consumption.

The tendency that emerged in the preceding period continued in 2011: the ERO's workload caused by disputes in the electricity industry, which have become the most prominent part of the Office's adjudicating agenda. In view of the end of the "photovoltaic boom" there are reasons to believe that the number of disputes over photovoltaic capacities peaked in 2011 and that, going forward, there are reasons to expect this number to decline. On the other hand, the number of adjudicated disputes can be expected to grow in the area of 'consumer disputes' under Section 17(7)(e) of the Energy Act. The power to decide consumer disputes has been vested in the ERO by Act No 211/2011, which amended the Energy Act with effect from 18 August 2011.

On 1 August 2011, the agenda of disputes under Section 17(7)(a) to (e) of the Energy Act was delegated to the new Approval and Adversarial Proceedings Department, which is part of the Legislation and Legal Section.

Overview of disputes referred to the ERO for adjudication

#### **Mr Pavel Havránek v ČEZ Distribuce, a.s.**

Dispute over a change in the capacity of a generating plant, a small hydroelectric power station, in the connection agreement; the petitioner sought agreement on a change in the capacity of the electricity generating plant from 9 kW to 15 kW.

**GPSENERGY, s.r.o. v ČEZ Distribuce, a.s., Erinomea s.r.o. v ČEZ Distribuce, a.s., SUNINVEST MORAVIA s.r.o. v ČEZ Distribuce, a.s., SUNINVEST SLOVÁCKO s.r.o. v ČEZ Distribuce, a.s., Suninvest Bohemias.r.o. v ČEZ Distribuce, a.s., Petr Polanský v ČEZ Distribuce, a.s., KURKA-EKOZDROJE s.r.o. v ČEZ Distribuce, a.s., FVE Drnholec s.r.o. v E.ON Distribuce, a.s., ENERGEO s.r.o.**

**v E.ON Distribuce, a.s., FVE Chlum s.r.o. v E.ON Distribuce, a.s., FVE Jevišovka s.r.o. v E.ON Distribuce, a.s., FVE Kaplice s.r.o. v E.ON Distribuce, a.s., HAKEL spol. s r.o. v ČEZ Distribuce, a.s.**  
Disputes over the amount of support for renewable electricity. The petitioners sought the payment of their claims equalling the difference between the feed-in tariff for electricity from solar radiation and the price of electricity paid by the respondent (net of tax).

**Mrs Jana Mikolášová v E.ON Distribuce, a.s.**

Dispute over the amount of the green premium on renewable electricity from a 5 kW photovoltaic plant, where according to the petitioner the plant had been in operation since as early as 2009, but the starting date of the licensed activity, i.e., the day as of which the decision awarding the electricity generation licence, held by the petitioner, became final, was 8 January 2010.

**PROTECO AGRO s.r.o. v ČEZ Distribuce, a.s.**

Dispute over the execution of a connection agreement and dispute over the determination of the feed-in tariff for renewable electricity from a 200 kW photovoltaic plant.

**Mr Jaromír Kohlíček v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's 5.67 kW electricity generating plant using solar radiation to the respondent's distribution system.

**Obec Hostětín v E.ON Distribuce, a.s.**

Dispute over the payment of green premium for renewable electricity from a 52 kW photovoltaic plant.

**VENTUREAL s.r.o. v E.ON Distribuce, a.s.**

Dispute over the execution of a connection agreement on the Mackovice 35 MW wind park.

**FOTOENERGIE s.r.o. v ČEZ Distribuce, a.s. and FV Elektrárna Bražec, s.r.o. v ČEZ Distribuce, a.s.**

These submissions under Section 17(5)(b) of the Energy Act, as in force at the time of the submitted motions, related to disputes arising from a letter of intent on an agreement on the connection of an electricity generating plant to the distribution system. ČEZ Distribuce, a.s. failed to express within the statutory time limit, its consent to the ERO's competence to decide in this dispute.

**Mrs Dana Krýšová v ČEZ Distribuce, a.s.**

Dispute over the execution of a connection agreement on the petitioner's supply point. The respondent refused to enter into a connection agreement with the petitioner, citing its connection agreement with a different entity as the reason.

**IDRONESAN a.s. v ČEZ Distribuce, a.s.**

Dispute over the execution of a connection agreement on a 1.8 MW photovoltaic plant in the Dobré Pole area, Vitice cadastre.

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

Dispute over the execution of an agreement on the connection of a photovoltaic plant in Uhlířské Janovice, with a minimum capacity of 2,520 kWp, to the distribution system.

**VENTUREAL s.r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of wind power plants in Jívová, Lískovec, Bratřikovice, Moravice-Melč and Nové Lubice to the distribution system.

**MESANA REAL, s.r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of a 1,800 kW photovoltaic plant in Malá Hraštice, parcel no. 217/1, Malá Hraštice cadastre, to the distribution system. The subject matter of the dispute was a declaration on the binding nature of the respondent's opinion on the possibility of connection.

**VENTUREAL s.r.o. v ČEZ Distribuce, a.s.**

Dispute over the obligation to furnish the petitioner with a new draft letter of intent on the execution of agreements on the connection of an electricity generating plant to the distribution system at the 110 kV level.

**Mr Milan Řemínek v E.ON Energie, a.s.**

Dispute over the operation of a small hydroelectric power station at Vřesník, in particular a draft amendment to Addendum 1 to the Electricity Supply Agreement containing acceptance of the obligation to supply electricity to the grid.

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

Dispute over the date of the connection of a 400 kW photovoltaic plant in Tupadly u Klatov (amendment to the letter of intent on the execution of a connection agreement), dispute over the date of the connection of a 1,300 kW photovoltaic plant in Jírovice u Benešova u Prahy (amendment to the letter of intent on the execution of a connection agreement), and a dispute over the execution of a connection agreement.

**ČKD Kutná Hora, a.s. v ONIVON a.s.**

Dispute over electricity supply curtailment or interruption due to the argued failure to pay a payable debt for electricity distribution.

**DK-beton, s.r.o. v E.ON Distribuce, a.s.**

Dispute over the connection of the petitioner's small hydroelectric power station to the distribution system.

**ELINENERGO s.r.o. v ČEZ Distribuce, a.s.**

The petitioner sought commencement of administrative proceedings under Section 17(5)(c) and (e) of the Energy Act. The ERO discontinued the proceedings because the petitioner withdrew its motion for commencement of proceedings.

**Flenexa plus s.r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's cogeneration unit to the distribution system.

**FVE Boletice spol. s r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation, to the distribution system.

**Mr Drahoslav Hejtmánek v E.ON Distribuce, a.s., Mr František Doubek v ČEZ Distribuce, a.s., Mr Josef Ošmera v ČEZ Distribuce, a.s., Mr Petr Vals v E.ON Distribuce, a.s.**

Disputes over the connection of the petitioner's electricity generating plant using solar radiation to the distribution system.

**Mr Ladislav Kovařík and Mrs Alena Kovaříková v ČEZ Distribuce, a.s.**

Dispute over the connection to the distribution system of a supply point that had earlier been disconnected on the grounds of illegal consumption. Petitioners sought a decision of the ERO that would require the execution of a connection agreement.

**Mr Michal Švub v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation, for which he had obtained an opinion endorsing the connection to the distribution system. The ERO rejected the motion on the grounds of the petitioner's failure to request the execution of a connection agreement during the effective period of the opinion, which had been issued by the respondent upon the petitioner's application for connection.

**Mr Ivan Kvis v ČEZ Distribuce, a.s.**

Dispute over buyout of renewable electricity. In his motion the petitioner sought the award of support for electricity generation from solar radiation in the form of feed-in tariffs at the level stipulated for up to 30 kW plants, inclusive, commissioned between 1 January 2010 and 31 December 2010.

**Mr Karel Horký v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation to the distribution system.

**Lias Vintířov, lehký stavební materiál k.s. v ČEZ Prodej, s.r.o.**

Under Section 17(5)(b) of the Energy Act (a dispute arising from contractual relationships), the petitioner sought a decision whereby the ERO would declare that an agreement on bundled services of electricity supply from EHV and HV networks had been terminated, validly and effectively, as of 31 December 2010.

**Mrs Miroslava Valášková v E.ON Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation to the distribution system operated by E.ON Distribuce, a.s. The ERO rejected the motion on the grounds of proof of the existence of risk to the reliable operation of the distribution system.

**Olymp, export-import, spol. s r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation to the distribution system. The ERO rejected the motion because the petitioner and respondent had in place a letter of intent on an agreement on the connection of the electricity generating plant to the distribution system, containing the contracting parties' commitment to enter into a connection agreement by a specified time.

**ORLICKO a.s. v ČEZ Distribuce, a.s., Mr Martin Dufek v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation to the distribution system. The ERO rejected the motion on the grounds of the petitioner's failure to request the execution of a letter of intent on a connection agreement, or the execution of the connection agreement, during the effective period of the opinion, which had been issued by the respondent upon the petitioner's application for connection, which resulted in the termination of capacity booking, a precondition for connection to the distribution system.

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

Dispute over the connection of the petitioner's cogeneration unit to the distribution system.

**RWM Energo s.r.o. v E.ON Distribuce, a.s.**

Dispute over renewable electricity buyout. The petitioner sought the award of feed-in tariffs applicable to electricity generation using solar radiation for a plant with an installed capacity of over 30 kW and commissioned between 1 January 2010 and 31 December 2010, or the execution of an agreement to this effect.

**Solar Prestitz GmbH & Co, KG, organizační složka v ČEZ Distribuce, a.s., Solar Přeštice s.r.o. v ČEZ Distribuce, a.s., Solar Mrákov s.r.o. v ČEZ Distribuce, a.s., Solar Kout s.r.o. v ČEZ Distribuce, a.s., Solar Staňkov s.r.o. v ČEZ Distribuce, a.s., Solar Systems Projekt s.r.o. v ČEZ Distribuce, a.s., OK Solar-H, s.r.o. v ČEZ Distribuce, a.s., Stauner Verwaltungs s.r.o. v ČEZ Distribuce, a.s., SOLAR 6 s.r.o. v ČEZ Distribuce, a.s.**

Motion for a decision in a dispute under Section 17(5)(b) of the Energy Act, in respect of the execution of an addendum to a letter of intent on a connection agreement.

**SUN FLOWER MORAVIA a.s. v E.ON Distribuce, a.s.**

Dispute over the connection of the petitioner's electricity generating plant using solar radiation to the distribution system.

**Mr Václav Smetana v ČEZ Distribuce, a.s.**

Dispute under Section 17(5)(b) of the Energy Act (a dispute arising from a contractual relationship).

**WARMNIS spol. s r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of the petitioner's cogeneration unit to the distribution system.

**PLEHASO, komanditní společnost v ČEZ Distribuce, a.s., DELIMAX, a.s. v E.ON Distribuce, a.s.**

The subject matter of these administrative proceedings, similar as to the facts, was a dispute over the connection of a photovoltaic plant to the respondents' distribution system. The ERO rejected the motions because the respondents proved the existence of risk to the reliable operation of the distribution system.

**Mr Miloslav Kofroň v ČEZ Distribuce, a.s., Mr Jaroslav Biolek v ČEZ Distribuce, a.s.**

Dispute over the connection of a photovoltaic plant to the distribution system. The ERO rejected the motions because the petitioners, as applicants for connection, failed to file an application, under the transitory provisions of public notice no. 81/2010, for the execution of a letter of intent on a connection agreement or for a draft connection agreement, whereby the booking of capacity to their plants, a precondition for connection to the distribution system, was terminated.

**KX POWER, a.s. v ČEZ Distribuce, a.s.**

Dispute over the execution of an addendum to an agreement on the connection of an electricity generating plant, executed between KX POWER, a.s. and ČEZ Distribuce, a.s., concerning an increase in the installed capacity of the photovoltaic plant.

**KB - BLOK systém, s.r.o. v ČEZ Distribuce, a.s.**

Dispute over the connection of a photovoltaic plant to the distribution system.

**BRATTAINING TRADE SPV, a.s. v ČEZ Distribuce, a.s.**

Administrative proceedings the subject matter of which was the connection of a photovoltaic plant to the distribution system, where the petitioner claimed that the start of proceedings on an amendment to the regional development plan had caused an extension of the period of effect of the favourable opinion on the application for connection.

**SPR a.s. v ČEZ Distribuce, a.s., MC SOLAR s.r.o. v ČEZ Distribuce, a.s., PROFIT ENERGY RALSKO I, s.r.o. v ČEZ Distribuce, a.s.**

Disputes over the connection of photovoltaic plants to the distribution system.

**KONT Energy a.s. v ČEZ Distribuce, a.s.**

Administrative proceedings on electricity buyout from renewable sources.

**SPR a.s. v ČEZ Distribuce, a.s., MC SOLAR s.r.o. v ČEZ Distribuce, a.s., PROFIT ENERGY RALSKO I, s.r.o. v ČEZ Distribuce, a.s., EXENERGY s.r.o. v ČEZ Distribuce, a.s., COFELY REN s.r.o. v ČEZ Distribuce, a.s.**

Disputes over electricity buyout from renewable energy sources, where the petitioners sought subsidies for electricity generation in the form of feed-in tariffs and in an amount applicable to plants commissioned in 2010.

**FOX SOLAR s.r.o. v ČEZ Distribuce, a.s.**

Dispute over electricity buyout from renewable energy sources, where the petitioner sought support for electricity production. It was established in the administrative proceedings that the local distribution system was not connected to the grid in 2010, and therefore the petitioner's generating plant also could not be regarded as connected to the grid in 2010.

### **Vodovody a kanalizace Havlíčkův Brod, a.s. v ČEZ Distribuce a.s.**

Dispute over the payment of green premiums for electricity generation in a photovoltaic plant operated as an island system. The ERO rejected the motion on the grounds that as of 1 January 2011, producers were not entitled to subsidies for electricity generation in plants unconnected to the grid.

### **The gas industry**

In the **gas industry**, in which the smallest number of disputes had been tackled for a long time, only one administrative proceeding was concluded in 2011.

#### **ESTCOM CZ - oxidová keramika a.s. and Elektroporcelán Louny a.s.**

Submission concerning the interruption of natural gas supply from Elektroporcelán Louny a.s., which, however, was not a gas distribution licence holder.

### **The heat supply industry**

In the **heat supply industry**, 7 administrative proceedings were concluded in 2011. This means a reduction in the adjudication agenda, for 11 administrative proceedings were concluded in 2010 and 18 were concluded in 2009 (as to their type, six of them were conducted with a number of customers submitting similar claims). Most cases concerned disputes over the execution of an agreement on thermal energy supply, primarily a price addendum thereto for the respective year. The thermal energy price was therefore the main reason for failure to execute the agreement in most cases.

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

Motion for a decision on the obligation of Teplo Přerov a.s. to change the thermal energy supply agreement with the petitioner.

#### **Teplárna Liberec, a.s. v Customers**

Motion for the determination of a preliminary price of thermal energy between the petitioner and the entities specified in the motion.

#### **Pražská teplárenská a.s. v Společenství pro dům Habrová 2655, Praha 3**

Motion in the case of the execution of an agreement on thermal energy supply between the petitioner and respondent.

#### **„Stavební bytové družstvo občanů Průkopník“ v TEPLO Rumburk, s.r.o.**

Motion for adjudicating a dispute arising from an executed agreement on thermal energy supply with TEPLO Rumburk, s.r.o. (respondent), where the petitioner challenged the payments demanded by the respondent for thermal energy supply in 2008 and 2009.

#### **Šluknov Appartements s.r.o. v SoLo sport and TUV, spol. s r.o.**

Dispute over the execution of an agreement on thermal energy supply, mainly because of disagreement with the thermal energy price.

#### **„Společenství vlastníků jednotek pro dům Praha 8 - Libeň, č.p. 2407“ v České teplo s.r.o.**

Dispute over the conclusion of a price arrangement for 2011 in the agreement on thermal energy supply. The petitioner challenged the amount of the preliminary thermal energy price demanded by the supplier.

#### **Společenství pro dům č.p. 722, Praha 9 - Hostavice and Společenství pro dům č.p. 726, Praha 9 - Hostavice v Dalkia Česká republika, a.s.**

A motion in the case of a dispute over the execution of agreements on thermal energy supply with the thermal energy supplier.

### **Proceedings on fines for violations of price regulations**

Inspections of the performance 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 also on the basis of the Office's own findings. In 2011, fines were levied on the following entities with finality.

#### **PPT POTRUBNÍ TECHNIKA s.r.o.**

A fine of CZK 250,000 for demanding such a preliminary price of thermal energy for 2011, the amount or calculation of which failed to satisfy the conditions of cost-plus pricing under Section 6(1) of the law on prices.

#### **Dalkia Česká republika, a.s.**

A fine of CZK 100,000 for violating price regulations under Section 16(1)(d) of the law on prices, by demanding a preliminary price of thermal energy for 2010, the amount or calculation of which failed to satisfy the conditions of cost-plus pricing under Section 6(1) of the law on prices.

#### **CARTHAMUS a.s.**

A fine of CZK 50,000 for violating price regulations under Section 16(1)(d) of the law on prices by demanding a preliminary price of thermal energy for 2010, the amount or calculation of which failed to satisfy the conditions of cost-plus pricing under Section 6(1) of the law on prices.

#### **ENERGIE Holding a.s.**

A fine of CZK 500,000 for negotiating a preliminary price of thermal energy, the amount or calculation of which failed to satisfy the conditions of cost-plus pricing under Section 6(1) of the law on prices, in the Mimoň price location for 2010.

#### **České teplo s.r.o.**

A fine of CZK 150,000 for demanding a preliminary price of thermal energy, the amount or calculation of which failed to satisfy the conditions of cost-plus pricing under Section 6(1) of the law on prices, in the Šafránka price location in Prague for 2010.

## **2) Remonstrance proceedings in 2011**

Under Act No 500/2004, Rules of Administrative Procedure, as amended, decisions on remonstrance, as a remedy against the Office's decision in the first instance, fall within the remit of the ERO Chairwoman, who decides on these appeals on the basis of the remonstrance commission's proposals.

In 2011, the ERO decided, at the level of the second instance, upon the remonstrance commission's proposals concerning the remonstrances filed by parties to the proceedings, in 79 remonstrance proceedings in which a decision on the merits had been delivered. Further, decisions were delivered on 13 remonstrances filed by parties to the proceedings against other decisions delivered at the level of the first instance.

### **Remonstrances filed against decisions issued in adversarial proceedings**

#### **The electricity industry**

MESANA Real s.r.o. v ČEZ Distribuce, a.s., Mr Jaroslav Biolek v ČEZ Distribuce, a.s., PLEHASO, komanditní společnost v ČEZ Distribuce, a.s., Mrs Jana Mikolášová v E.ON Distribuce, a.s., DELIMAX, a.s. v E.ON Distribuce, a.s., Obec Hostětín v E.ON Distribuce, a.s., Mr Drahoslav Hejtmánek v E.ON Distribuce, a.s., RWM Energo s.r.o. v E.ON Distribuce, a.s., Olymp, export-import, spol. s r.o. v ČEZ Distribuce, a.s., SPR a.s. v ČEZ Distribuce, a.s., Kovaříkovi v ČEZ Distribuce, a.s., EXENERGY s.r.o. v ČEZ Distribuce, a.s., COFELY REN s.r.o. v ČEZ Distribuce, a.s., Mr Michal Švub v ČEZ Distribuce, a.s., Martin Dufek v ČEZ Distribuce, a.s., MC SOLAR s.r.o. v ČEZ Distribuce, a.s., GPS ENERGY, s.r.o. v ČEZ Distribuce, a.s., Suninvest Bohemia s.r.o. v ČEZ Distribuce, a.s., SUNINVEST MORAVIA sis s.r.o. v ČEZ Distribuce, a.s., SUNINVEST SLOVÁCKO s.r.o. v ČEZ Distribuce, a.s., Erinome a.s. v ČEZ Distribuce, a.s., Mr Petr Polanský v ČEZ Distribuce, a.s., KURKA-EKOZDROJE s.r.o. v ČEZ Distribuce, a.s., FVE Chlum s.r.o. v E.ON Distribuce, a.s., FVE Drnholec s.r.o. v E.ON Distribuce, a.s., FVE Kaplice s.r.o. v E.ON Distribuce, a.s., ENERGEIO s.r.o. v E.ON Distribuce, a.s., FVE Jevišovka s.r.o. v E.ON Distribuce, a.s., SPR a.s. v ČEZ Distribuce, a.s., FOX SOLAR s.r.o. v ČEZ Distribuce, a.s., Mrs Dana Krýšová v ČEZ Distribuce, a.s., Mr Ivan Kvis v ČEZ Distribuce, a.s., Vodovody a kanalizace Havlíčkův Brod, a.s. v ČEZ Distribuce, a.s., Mr Karel Horký v ČEZ Distribuce, a.s., ACT FAST s.r.o. v ČEZ Distribuce, a.s., Solar CELI s.r.o. v ČEZ Distribuce, a.s., FVE CHOTIKOV s.r.o. v ČEZ Distribuce, a.s., SP Helios s.r.o. v ČEZ Distribuce, a.s., EVE Rohenice s.r.o. v ČEZ Distribuce, a.s., Mr Jiří Trojan v ČEZ Distribuce, a.s., Správa nemovitostí města Jičína, a.s. v ČEZ Distribuce, a.s.

Upon the remonstrance commission's proposal, the ERO Chairwoman rejected the remonstrances filed in these disputes as unfounded and upheld the challenged decisions.

**KX POWER, a.s. v ČEZ Distribuce, a.s., MEDSKA, s.r.o. a Lesy JEZEŘÍ, k.s. v ČEZ Distribuce, a.s., Cukrovar Vrbátky a.s. v E.ON Distribuce, a.s.**

On the basis of the remonstrance filed in these disputes, the ERO Chairwoman quashed the issued decisions upon the remonstrance commission's proposal, and remanded the cases for new consideration.

#### **The heat supply industry**

**„Stavební bytové družstvo občanů Průkopník“ v TEPLLO Rumburk, s.r.o., Společenství vlastníků jednotek pro dům Praha-Libeň, č.p. 2407 v České teplo s.r.o., Coal Services a.s. v PRVNÍ MOSTECKÁ a.s.**

Upon the remonstrance commission's proposal, the ERO Chairwoman rejected the remonstrance filed in these disputes as unfounded, and upheld the challenged decisions.

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

#### **MARCO CASTINARO, a.s., K.O.N. Management, s.r.o.**

Upon the remonstrance commission's proposal, the ERO Chairwoman rejected the remonstrance filed by the parties, MARCO CASTINARO, a.s. a K.O.N. Management, s.r.o., as unfounded and upheld the challenged decision, because a review of the challenged decision helped to establish that the Office had commenced administrative proceedings and decided on the merits in accordance with Section 10(7) and (8) and Section 12(3) of the Energy Act.

### **Proceedings on fines for violations of price regulations**

#### **CARTHAMUS a.s.**

Under Section 16(4)(c) of the law on prices, the ERO levied a fine of CZK 50,000 on the company for an administrative offence under Section 16(1)(d) of the law on prices. Upon the remonstrance commission's proposal the ERO Chairwoman rejected the remonstrance and upheld the challenged decision on the fine.

#### **TERMIZO a.s.**

Since the Brno Regional Court reversed the ERO Chairman's decision of 9 November 2009, the ERO Chairwoman had to decide again, upon the remonstrance commission's proposal, on the remonstrance filed against the ERO's decision of 21 July 2009, which had levied on this company, in proceedings under Section 16 of the law on prices, a fine of CZK 500,000 under Section 17(1)(b) of the law on prices for a violation of price regulations under Section 15(1)(c) of the law on prices.

Since the defects found by the court in the trial [first instance] could not be remedied in the remonstrance proceedings, the ERO Chairwoman decided, upon the remonstrance commission's proposal, to quash the decision on the fine and remand the case for new consideration.

#### **Teplné hospodářství Města Trhové Sviny spol. s r.o.**

Under Section 16(4)(c) of the law on prices, the ERO levied a fine of CZK 70,000 for a violation of Section 16(1)(d) of the law on prices. On the basis of remonstrance filed by the party to the proceedings, the ERO Chairwoman quashed the challenged decision on the fine and remanded the case for new consideration.

#### **České teplo s.r.o.**

Under Section 16(4)(c) of the law on prices, the ERO levied a fine of CZK 6,000,000 on the company for a violation of Section 16(1)(d) of the law on prices. On the basis of remonstrance filed by the party to the proceedings, the ERO Chairwoman quashed the challenged decision on the fine and remanded the case for new consideration.

### **Proceedings on fines for violations of the Energy Act**

#### **CENTROPOL ENERGY, a.s.**

Under Section 91(13) of the Energy Act, the SEI levied a fine of CZK 20,000 on the company for a violation of Section 91(1), taken together with Section 11(1)(j) of the Energy Act. Under Act No 211/2011, the ERO Chairwoman decides on remedies filed against decisions delivered by the SEI. On the basis of the remedy filed, the ERO Chairwoman quashed the challenged decision on the fine, and discontinued the proceedings.

#### **Dalkia Česká republika, a.s.**

Under Section 91(13) of the Energy Act, the SEI levied a fine of CZK 7,500 on the company for a violation of the obligation under Section 76(3)(a) and (b), Section 76(7) and Section 78(1) of the Energy Act. Under Act No 211/2011, the ERO Chairwoman decides on remedies filed against decisions delivered by the SEI. On the basis of the remedy filed, the ERO Chairwoman quashed the challenged decision on the fine, and remanded the case for new consideration.

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

#### **Mr Jaroslav Lekeš**

Under Section 15 of the law on free access to information, the ERO issued a decision whereby it dismissed a request for information. On the basis of the applicant's remonstrance and upon the remonstrance commission's proposal the ERO Chairwoman rejected a part of the remonstrance and upheld a part of the challenged decision, and granted a part of the remonstrance and quashed a part of the challenged decision, and remanded the case for new consideration.

## **3) Licensing policy - administrative proceedings in 2011**

In 2011, four administrative proceedings were conducted on whether or not proceedings on applications for electricity generation licences should be reopened:

**FVE 28 s.r.o.**

No final decision has yet been made on the reopening of the proceedings.

**Olymp, export-import, spol. s r.o.**

In April 2011 a decision was made to reopen the proceedings and no new decision has yet been made in the reopened proceedings.

**Saša - Sun s.r.o.**

No decision in 2011.

**Zdeněk - Sun s.r.o.**

No decision in 2011.

Further, two administrative proceedings were conducted on amendments to electricity distribution licences; the subject matter was reduction of the delineated area for electricity distribution:

**ČEZ Distribuce, a.s.**

No final decision in 2011.

**Mr Milouš Pour**

Proceeding on a change to the decision awarding the licence - reduction of the delineated area; the matter was not decided in 2011.

**MARSERVIS, s.r.o.**

Dispute over declaration of title to real estate, a distribution facility, conducted between Město Chodov and Marservis, s.r.o.; the matter had not been decided by the end of 2011.



## **Appendix 2**



Auditor's opinion intended for the institutor of the Energy Regulatory Office

I have examined the fund established pursuant to the Section 14 of the Act No. 458/2000 Coll., on the Conditions for Business and State Administration in the Energy Industries and on Amendments to Certain Laws (hereinafter, the "Energy Act") as amended, and its alignment in relation to the financial statements. The examination has been performed in compliance with the International Accounting Standards and it has covered the period of the year of 2011.

The statutory body of the accounting unit is responsible for bookkeeping, and for complete, true and correct accounting. The auditor's responsibility is to obtain all the information required for examining the way the fund is maintained and its alignment in relation to the financial statements. The audit has been carried out with respect to the extent of the accounting, and through the examination of documents while respecting the significance of the disclosures.

In my opinion, the allocations to the fund and the retirements of the fund were carried out in compliance with the legal regulations in force, and the fund is truly and fairly reflected in the financial statements of the Energy Regulatory Office for the period of 2010.



A-CONT, s. r. o., represented by  
Ing. Jiří Makaj  
Company Executive  
Auditor, Certificate No. 1529

Appendices: Schedules of the balances of the fund

In the town of Jihlava, on January 27, 2011

**Auditor's Report**

on the examination of the fund established under Section 14 of the Act No. 458/2000 Coll., on the Conditions for Business and State Administration in the Energy Industries and on Amendments to Certain Laws (hereinafter, the "Energy Act"), as amended.

Recipient of the Report: Statutory body 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: year 2011

## Appendix 3

**Balance Sheet as at 31 December 2011**  
of the State's instrumentalities, self-governing administrative units,  
semi-autonomous organisations and Regional Councils  
(adjusted form)

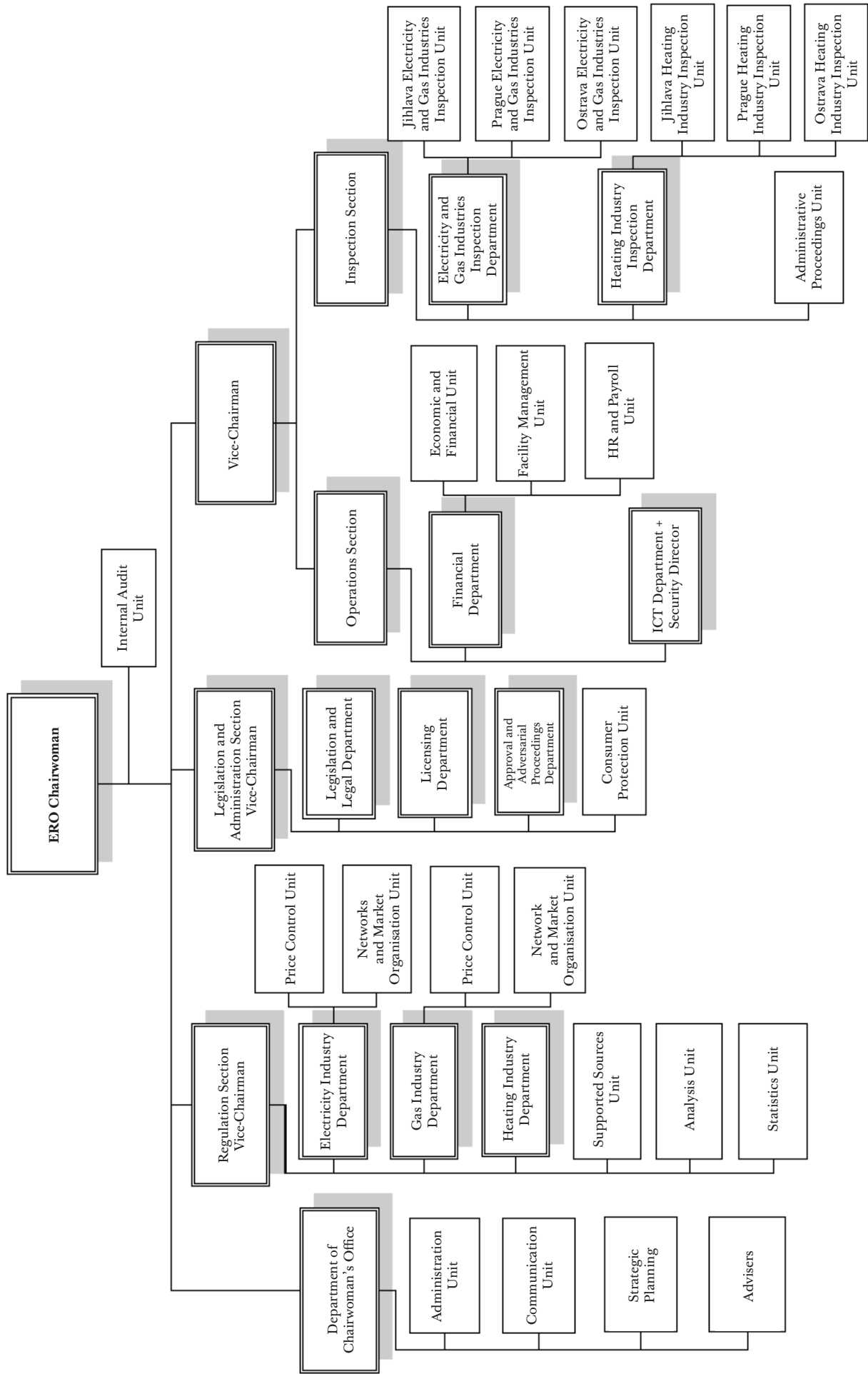
Name of the accounting unit:  
Energy Regulatory Office  
Masarykovo náměstí 5  
586 01 JIHLAVA  
Reg. No.: 70894451

Item	Name	Synthetic account	Current p. gross 1	Current period Adjustment 2	Current period net 3	Previous period 4
<b>TOTAL ASSETS</b>			<b>220,251,166.83</b>	<b>55,156,964.52</b>	<b>165,094,202.31</b>	<b>212,879,710.00</b>
A.	Fixed assets		142,758,838.71	55,156,964.52	87,601,874.19	134,279,650.00
I.	Intangible fixed assets		41,982,204.84	16,229,924.80	25,752,280.04	38,220,310.00
	2. Software	013	36,572,327.04	10,820,047.00	25,752,280.04	34,864,710.00
	5. Low-value intangible fixed assets	018	5,409,877.80	5,409,877.80	0.00	3,355,600.00
II.	Tangible fixed assets		100,776,633.87	38,927,039.72	61,849,594.15	96,059,340.00
	1. Land	031	3,412,147.00	0.00	3,412,147.00	3,412,150.00
	2. Objects of art	032	291,241.00	0.00	291,241.00	291,240.00
	3. Buildings	021	40,269,568.30	4,699,261.00	35,570,307.30	40,269,570.00
	4. Plant and equipment	022	39,561,416.85	16,985,518.00	22,575,898.85	38,727,060.00
	6. Low-value tangible fixed assets	028	17,242,260.72	17,242,260.72	0.00	13,359,320.00
III.	Long-term investments			0.00	0.00	0.00
IV.	Long-term receivables			0.00	0.00	0.00
B.	Current assets		77,492,328.12	0.00	77,492,328.12	78,600,060.00
I.	Inventories		163,956.11	0.00	163,956.11	238,650.00
	2. Material in stock	112	163,956.11	0.00	163,956.11	238,650.00
II.	Short-term receivables		11,664,682.40	0.00	11,664,682.40	2,779,040.00
	4. Short-term advances paid	314	635,618.00	0.00	635,618.00	537,530.00
	5. Other receivables, main activity	315	9,146,134.00	0.00	9,146,134.00	850,000.00
	10. Receivables from employees	335	5,000.00	0.00	5,000.00	5,000.00
	25. Prepaid expenses	381	1,877,930.40	0.00	1,877,930.40	1,386,510.00
III.	Income accounts of budget management		11,762,725.21	0.00	11,762,725.21	20,758,320.00
	1. Income account of State's instrumentalities	222	11,762,725.21	0.00	11,762,725.21	20,758,320.00
IV.	Short-term financial assets		53,900,964.40	0.00	53,900,964.40	54,824,050.00
	1. Participating securities for trading	251	0.00	0.00	0.00	0.00
	5. Other current accounts	245	53,714,915.21	0.00	53,714,915.21	54,392,710.00
	10. FKSP current account	243	186,049.19	0.00	186,049.19	431,340.00

Item	Name	Synthetic account	Current period 1	Previous period 2
<b>EQUITY AND LIABILITIES</b>			<b>165,094,202.31</b>	<b>212,879,710.00</b>
C.	Equity		-544,026.98	46,927,940.00
I.	Accounting unit's capital and adjustment items		169,281,969.35	128,693,110.00
	1. Accounting unit's capital	401	128,311,123.17	2,496,970.00
	3. Transfers for fixed asset acquisition	403	0.00	126,196,140.00
	4. Aggregated income and expenses of previous years	404	90,157,747.41	0.00
	6. Valuation differences upon change of method	406	-49,186,901.23	0.00
II.	Accounting unit's funds		186,049.19	436,340.00
	2. FKSP	412	186,049.19	436,340.00
III.	Result		170,012,045.52	-82,201,510.00
	1. Result of current period	493	-87,810,558.71	-82,201,510.00
	3. Retained profit, outstanding loss from previous years	432	-82,201,486.81	0.00
D.	Liabilities		165,638,229.29	165,951,770.00
I.	Expense accounts of budget management		111,290,593.45	110,916,070.00
	1. Separate expense account	223	111,290,593.45	110,916,070.00
II.	Provisions		0.00	0.00
	1. Provisions	441	0.00	0.00
III.	Long-term liabilities		45,849,353.58	46,891,470.00
	9. Other long-term liabilities	459	45,849,353.58	46,891,470.00
IV.	Short-term liabilities		8,498,282.26	8,144,230.00
	15. Other liabilities to employees	333	4,454,733.00	4,119,880.00
	16. Net liabilities to social security and health insurance	336	2,441,700.00	2,419,030.00
	18. Other direct taxes	342	847,949.00	814,810.00
	31. Accrued expenses	383	666,346.63	684,250.00
	34. Other short-term liabilities	378	87,553.63	106,260.00

# Appendix 4

Organisational structure of the Energy Regulatory Office as at 31 December 2011





**The 2011 Report on the Activities and Finances**  
of the Energy Regulatory Office

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[www.ero.cz](http://www.ero.cz)





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