

**Report on the Activities and Finances
of the Energy Regulatory Office for 2012**

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The Chairwoman's Statement

In the Energy Regulatory Office's operations, 2012 was an important year in terms of stabilising the Office, reviewing its internal processes, and rectifying certain shortcomings in the internal organisation of its work so that all of us would be ready for changes in the Office's approach to regulation. In regulation, the Office now places much heavier emphasis on protecting consumers' and customers' interests on the energy market in line with Czech legislation and the EU's strategy. At the same time, it also protects the justifiable interests of all the stakeholders and follows a completely non-discriminatory approach.

In 2012, the Office made its operations more efficient and transparent in order to accommodate its recently broadened powers of supervision over the functioning of the electricity and gas markets and in the protection of customers' rights. In addition to a new unit specialised in consumer protection, the staffing of the Legislation and Legal Department was reinforced significantly and, in particular, the Office changed its structure in the area of supported and renewable energy sources. These steps were necessitated by the results of the analyses and audits that I had commissioned upon taking over at the Office, which resulted in a number of findings.

I was also compelled to respond to a situation where the extra costs of the support for renewable energy sources were surging and the prices for energy were becoming financially untenable for Czech businesses and households. The Office's new Supported Sources Unit, which covers supported energy sources, therefore began preparing steps that would help to arrest these price hikes, thereby also mitigating the financial burden on final customers caused by energy prices.

The various projects intended to reduce energy prices concern all areas that the Office currently supervises, i.e. the electricity industry, the gas industry and the heating industry. The area of renewable energy sources was a priority only because of the highest increase in the financial burden on consumers on the Czech market. For the period from 2013 to 2015, the Office is preparing a series of changes in regulation, which will help to put in place transparent and equal conditions for regulated entities in all areas falling within our powers.

The method of ERO funding was also fundamentally changed. Beginning in 2012, the Office's budget is covered from fees for electricity and gas sales, with a direct tie to the national budget. Nevertheless, under my management the Office continues to pursue my vision of transparency and openness as regards its funding.

In respect of its international relations, the Office continued its participation in a number of international activities, in particular within the EU's institutions. The co-operation with the Council of European Energy Regulators (CEER), the Agency for the Cooperation of Energy Regulators (ACER) and other relevant bodies is important. The Office's clear-cut objective is to promote and protect our national interests in a unified Europe.

At meetings of CEER and ACER working groups, the Office continues to focus on coordinating the approaches and promoting the 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 and fourth energy packages. The Office's employees actively participated mainly in the working groups that discussed issues of Czech national interest, including, *inter alia*, the unification of the conditions for connection to networks, cross-border capacity allocation and some other topics

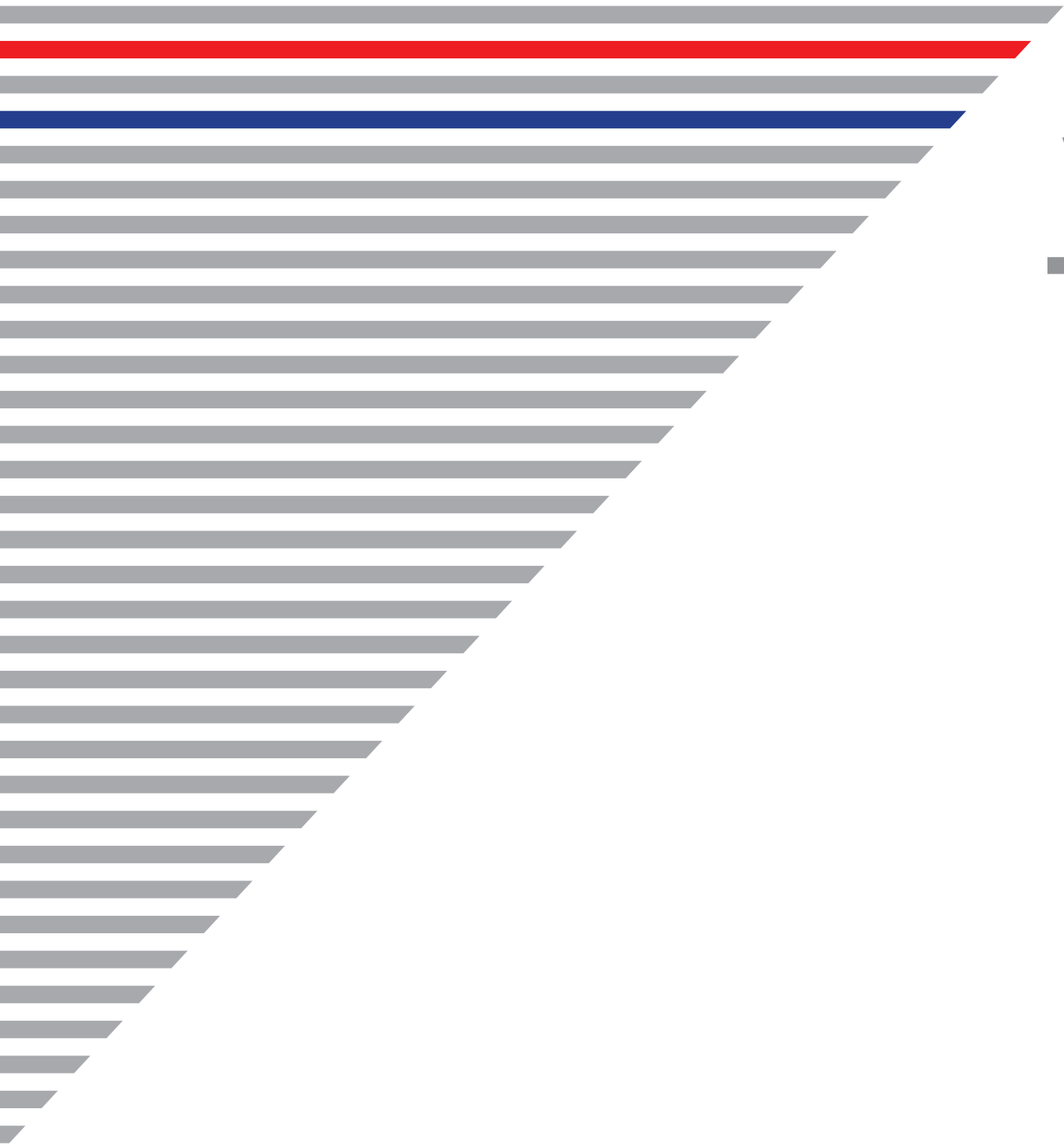
The Office also intensively addressed issues related to projects of common interest, problems of loop flows in electricity transmission networks and other problematic areas of the international electricity and gas trade.

Another major activity was co-operation with neighbouring countries, primarily the Visegrád Four countries, as part of joint projects designed to underpin their common position and enhance security of supply on the integrated market.

Under my guidance, the Office had to tackle an enormous burden of the legacy from the past, since it came to light that because of the lack of internal processes, the ERO's operations had been suffering from serious flaws in licence awarding, amending and review. Similarly, there was a need to change the Office's approach to price controls and to put in place more stringent rules for regulated entities. As part of the changes I proposed, I was compelled to exert much more pressure to ensure that the renewable energy source situation is addressed, and in this respect, a number of tasks remain for the following years.

I would like to extend thanks to my colleagues and the Office's employees for their past and current help to promote the position of our institution as a modern and efficient authority of state administration so that it is an equal, fully-fledged and respected partner for the other European regulators. That is, an authority that adequately ensures consumer and customer protection within the bounds of its competences and that addresses the conditions in the regulation of the electricity, gas and district heating markets strictly but fairly, and with a view to ensuring a constantly level playing field in and the stability of the Czech energy market, with all market participants' satisfaction as the final result of its efforts.

Alena Vitásková



1

1 Introduction

Under Act No 458/2000, on the Conditions of Business and State Administration in the Energy Industries and Amendments to Certain Laws, as amended (hereinafter also referred to as “the Energy Act”), the Energy Regulatory Office (hereinafter also referred to as “the 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 for free market mechanisms and protecting consumers’ and licence holders’ interests in the segments of energy industries in which competition is not feasible; support for competition; promotion of ‘supported energy sources’; and oversight over licence holders’ adherence to conditions of business, thereby creating the preconditions for reliable electricity, natural gas and heat supplies.

Last year, 2012, was not an easy year for the Office; in particular, it had to carry out the assignments related to its extended powers under the amendment to the Energy Act, primarily in respect of oversight. Another important area was co-operation with the Ministry of Industry and Trade in the development of Act No 165/2012 on supported energy sources, in respect of which the Office prepared the related implementing regulations. The largest part of the Office’s effort was focused on devising a system that would identify shortcomings and help find efficient approaches in the protection of customers’ and consumers’ rights.

However, in addition to the basic responsibilities stemming from the Office’s powers, the Office also had to expend considerable energy throughout the year to cope with the bevy of problems that had been left unresolved by the preceding management in respect of, *inter alia*, supported energy sources and legislation.

Nevertheless, from the beginning of last year the Office carried out a number of fundamental measures related to its organisation, staffing, and administrative facilities. Strategic changes, which were taking place throughout the year, followed up on the outcomes from process and personnel audits. The adopted measures responded to the need to improve the Office’s efficiency and flexibility and to motivate and involve its staff.

The Office’s reorganisation reflected and was related to the strategic changes. At present, the Office has four sections; they are headed by directors, most of whom also hold vice-chairmanships. They are the Regulation Section, the Legislation and Administration Section, the Operations Section and the Inspection Section, which have been organised with a view to ensuring that each of the key pillars of the Office’s activity is supported by a managed section.

The restructuring also entailed the opening of the ERO’s office in addition to its head office and Prague office, specifically that in Ostrava; the Ostrava office is mainly responsible for assignments related to the amendment to the Energy Act, i.e. primarily the transfer of SEI’s inspection powers to the ERO. The Ostrava office’s additional activities will also include, for example, the registration of market participants, the monitoring of transactions on wholesale energy markets, and licensing.

In addition to attending to the main organisational changes the Office applied, for the first time ever, a project management approach to some of its activities, and this method has proved its worth. Project teams include the Office’s employees and also external experts, and the teams’ work therefore features a high level of objectivity, expertise and professionalism. Worth mentioning is the CHP project team that addresses the issue of support for combined heat and power generation in line with Czech and European legislation and the Czech Republic’s National Energy Concept. The

first stage of the project was completed, and its outputs were incorporated into the price decision for 2013.

The Office also sought to put in place the best environment for assignments related to licensing. Its emergency personnel and organisational measures responded to the expected above-average numbers of applications that would have to be processed in the last quarter of 2012. During the course of 2012, the Office received 10,370 applications for licences; the largest number of applications arrived in September (1,030), October (2,209) and November (3,114).

Compared with the preceding periods, a fundamental change in the Office's work was the great emphasis placed on the protection of consumers' and customers' rights. The key objective of this process was to set the regulated parts of electricity and gas prices so as to minimise their impact on overall prices, while meeting the regulated entities' justifiable requirements. The Office took the same approach to heating price control. In this respect, it took a number of steps; for example, as part of the lawmaking process, it put forth arguments based on hard facts in its effort to discontinue the support for new renewable energy sources and to mitigate the impact of this support on prices for final customers; it also joined the public consultation on the law on supported energy sources, which was being drafted, and prepared a number of analyses and organised an information campaign on this issue. The ERO sought to put in place a level playing field in the energy market. The ERO also provided the Ministry of Industry and Trade, upon its request, with three alternative texts of an amendment to the law on supported energy sources; all of them contained the requirement to discontinue the support for new energy sources in 2014 and one of the variants proposed to exclude biomethane, bioliquids etc. from the provision of support.

Another step was cost analyses aimed at identifying those items of energy companies' costs, which are justifiable and can be included in regulated parts of prices. An inspection of costs was started at RWE a.s., and such inspections will also take place at other companies that supply gas and electricity.

Another systemic change sought by the Office was the introduction of the "investment debt factor" that would fairly reflect whether utilities invest amounts generated by depreciation in the upgrade and development of their installations. Otherwise, they would have to return these funds; however, this proposal has not yet been pushed through in the lawmaking process.

The Office made a major effort to have the law on public procurement amended to include a requirement for large energy companies, contracting entities (utilities), to put contracts for suppliers of work out to tender. However, the Office failed in this respect too, and companies continue to commission work from their subsidiaries without competitive bidding.

The Office also looked at consumer protection in the heating industry, where it increased the number of inspections at heat suppliers. It levied fines wherever it identified unjustifiable costs. Heat generating plants also had to refund unjustifiably charged amounts to their customers.

The Office carried out a large amount of work related to the direct protection of consumers' rights. The new Consumer Protection Unit's staff received and handled thousands of complaints in 2012. The introduction of the Code of Energy Traders' Ethics, to which more than 30 energy companies had subscribed to date, has greatly helped to foster the energy market.

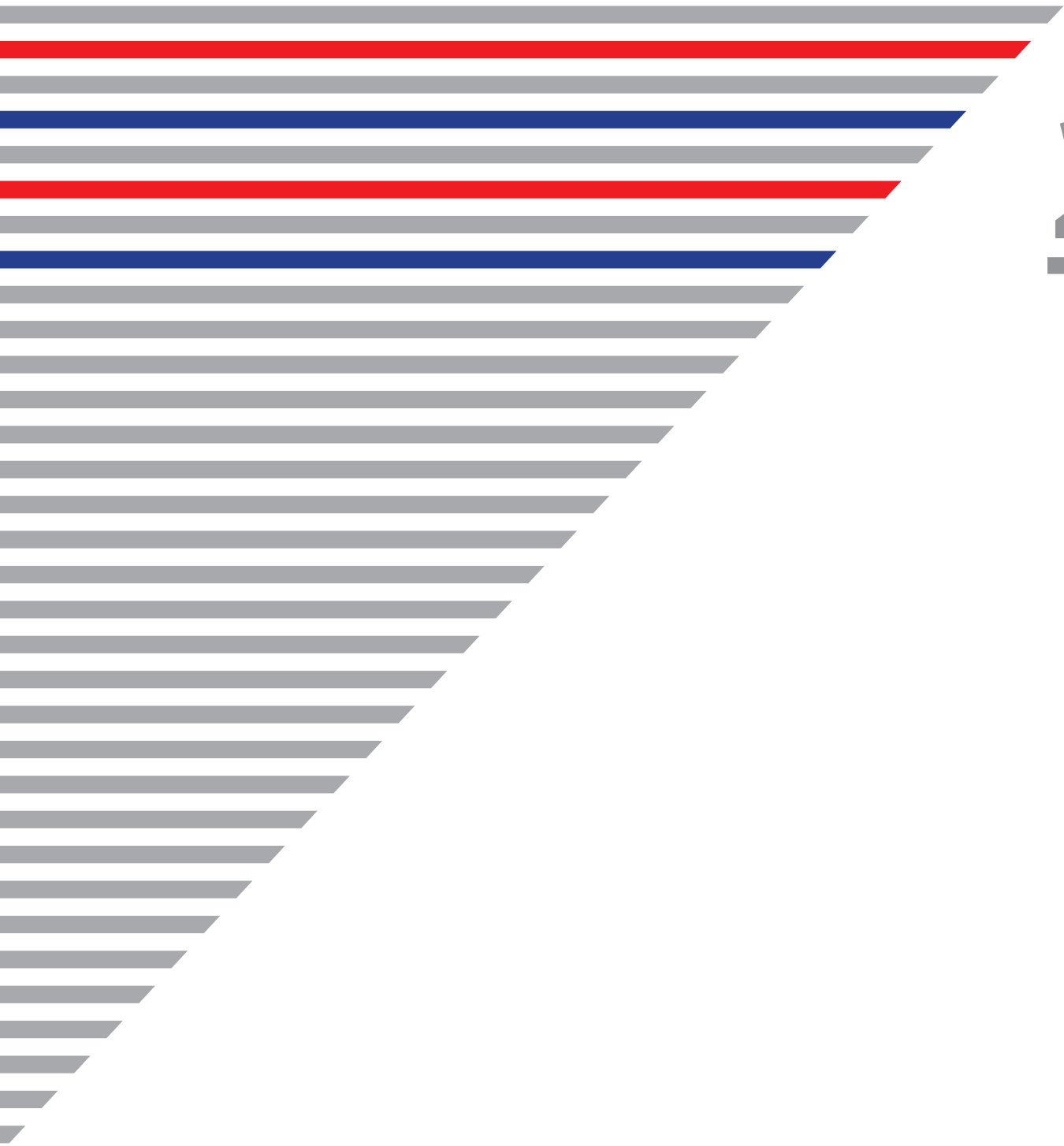
In respect of international co-operation, the objective was to rationally implement European regulations to fit the conditions on the Czech market and to match the country's interests and capabilities, and also to prevent an unnecessary administrative burden on energy companies.

In 2013, the ERO will mainly focus on the material tasks that arise from its effort to eliminate the disproportionate burden caused by prices, which produces negative impacts on public expenditure, weakens Czech companies' competitiveness and lowers Czech families' standard of living.

The primary objectives will include the following:

- Discontinue the support for new RES installations;
- Support new effective, highly efficient and environmentally friendly generating capacities such as combined heat and power generation;
- Introduce measures for reductions in electricity transmission and distribution costs;
- Systematic protection of consumers' rights, including preparations for an amendment to the Energy Act;
- Reinforce supervision over the energy market.

The preparations for the fourth regulatory period are a major challenge for the Office. In this process, it will seek to put in place a regulatory framework that will ensure the stability, predictability, transparency and security of the Czech energy market. In the development of the regulatory rules, we are ready to work with all entities that will respect the objectives outlined by the Office.



2

2 Legislation and administration

2.1 Preparing amendments to Act No 458/2000 and Act No 165/2012

In line with the plan of the Cabinet's legislative work for 2013, in the second half of 2012 the Office started to draft an amendment to the Energy Act, primarily in connection with the transposition of the investigatory and enforcement powers and penalties applicable to infringements of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT) into the national law.

On 30 May 2012, Act No 165/2012 on supported energy sources and amendments to certain laws, as amended, was promulgated in the Official Gazette with effect from 1 January 2013; in addition to transposing Directive 2009/28/EC¹ it also provides for, in particular, a more efficient system of support that will reflect the envisaged output produced by RES in the target situation in 2020, unifies the methods of support for all supported energy sources, introduces support for heat generation from RES, secondary energy sources and highly efficient CHP, specifies the parameters of support for the efficient use of these capacities in terms of energy and economy, guarantees of origin for renewable electricity and certificates of origin for electricity from CHP generation, and permits joint international projects and statistical transfers of renewable electricity related to the achievement of national targets.

In line with the plan of the Cabinet's legislative work for 2013, this new law will also be amended; the Office started to draft the amendment in the second half of 2012.

2.2 Key changes to laws and regulations within the ERO's remit

In 2012, 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 Amendments to Certain Laws (the Energy Act), as amended, and Act No 165/2012, on Supported Energy Sources and on Amendments to Certain Laws, as amended:

- **Public notice no. 59/2012 on regulatory reporting**

Under Section 98a(2)(e) of the Energy Act, in 2009 the Office promulgated public notice no. 408/2009 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports. With effect from 2 March 2012, it was superseded by no. 59/2012 on regulatory reporting; the reasons were the following.

Act No 211/2011, which amends Act No 458/2000, on the Conditions of Business and State Administration in the Energy Industries and Amendments to Certain Laws (the Energy Act), also amended the provisions of Section 20 on regulatory reports and the group of entities that are subject to the reporting obligation to the Office under the law. Under the new wording, the holder of the licence for the market operator's activities is now required by the law to prepare and submit regulatory reports.

1 January 2011 was the date of effect of public notice no. 400/2010, which amends 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, and of public notice no.

¹ 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

370/2010, which amends no. 365/2009, on Gas Market Rules. The existing market rules dovetail with the regulated entities' reporting obligation, and therefore amendments also had to be made to the public notice on regulatory reporting.

Furthermore, in the heating industry, the public notice on regulatory reporting is closely connected with the Office's price decisions on thermal energy prices. The price decision effective as of 2012 contained changes that envisaged the transfer of certain provisions from price decisions to the new public notice. This mainly concerned the imposition on the licence holder of the duty to specify, depending on the achieved efficiencies and thermal losses in thermal energy generation and distribution in the calendar year, and submit information about, the implemented and expected investments intended to optimise the operation of thermal installations.

The new public notice, no. 59/2012 on regulatory reporting, was promulgated in the Official Gazette on 2 March 2012 and came into effect on that same day.

- **Public notice no. 348/2012, amending no. 140/2009 on regulatory methods in the energy industries and procedures for price control, as amended**

The Office is authorised to issue the above public notice under Section 98a(2)(f) of the Energy Act and under Section 53(2)(l) of the law on supported energy sources.

The main reason for proposing the amendment to the public notice was the change of the methodology for setting the charges covering the costs incurred in support for supported energy sources, distributed electricity generation and biomethane in connection with the new law on supported energy sources, the cancellation of the quality parameter for electricity transmission, and the introduction of a mechanism in the electricity and gas industries that would secure the part of depreciation, which was not yet invested.

Another amendment to the above legislation was related to Act No 165/2012, which provides for a new model of support for electricity from supported sources, distributed electricity generation and biomethane and for a new method of the disbursement of the subsidies for electricity from these capacities through the market operator (OTE, a.s.). With a view to avoiding burden on small electricity generating plants, the support in the form of feed-in tariffs related to the mandatory purchase of renewable electricity will continue to be paid to electricity generators through the entity obliged to such purchases, which may also be distribution system operators or the transmission system operator. The difference between the electricity market price and the fixed feed-in tariff will, however, be paid (compensated) to the distribution system operators and the transmission system operator by the market operator. However, the support in the form of green premiums related to the purchase of this electricity on the market will no longer be paid to electricity generators through distribution system operators or the transmission system operator, but through the market operator from a separate account. The market (hourly) price of electricity will be paid to electricity generators by the buyers, i.e. electricity traders. Funds for the support of the above supported electricity sources, and distributed electricity generation and biomethane, will be obtained from the contribution to support for electricity, and decentralised electricity generation and biomethane, which is included in electricity supply prices for electricity customers, and from funds constituting the subsidy approved by the Czech Government.

The public notice no longer contains the parameters of quality ratios in the regulatory formula for calculating the price of electricity transmission; it proceeds from the difficulty of the setting of the required targets on the basis of the historical development of the indicators of electricity transmission continuity.

No. 348/2012 was promulgated in the Official Gazette on 22 October 2012 and came into effect on 5 November 2012.

- **Public notice no. 438/2012, amending no. 541/2005 on Electricity Market Rules and principles of pricing the electricity market operator's activities and on the execution of certain other provisions of the Energy Act, as amended**

The Office is authorised to issue this public notice under Section 98a(2)(h) of the Energy Act. The purpose of the proposed legislation, i.e. an amendment to the Electricity Market Rules, was to modify the rules for the working of the Czech electricity market in the wake of the Office's authorisation to issue a public notice in connection with the effect of the law on supported energy sources and on amendments to certain laws, and the evaluation of the experience with the functioning of the Electricity Market Rules in the preceding year, with a view to creating a more stable and transparent legal framework for the players in this market.

The first reason for amending the public notice was the law on supported energy sources and on amendments to certain laws. With a view to preventing burden on small electricity generating plants, the support in the form of feed-in tariffs related to the mandatory purchase of renewable electricity will continue to be paid to electricity generators through the entity obliged to such purchases, which is, under Section 10 of Act No 165/2012, the supplier of last resort pending the decision on who the mandatory purchaser will be for the respective delineated service area. The difference between the market price of electricity and the fixed feed-in tariff will, however, be paid (compensated) to the mandatory purchaser by the market operator. However, the support in the form of green premiums related to the purchase of this electricity on the market will no longer be paid to electricity generators through distribution system operators or the transmission system operator, but through the market operator from a separate account. The market (hourly) price of electricity will be paid to electricity generators by the buyers, i.e. electricity traders. Funds for the support of the above supported electricity sources, and distributed electricity generation and biomethane, will be obtained from the contribution to support for electricity, and decentralised electricity generation and biomethane, which is included in electricity supply prices for electricity customers, and from funds constituting the subsidy approved by the Czech Government. In relation to all of the above, the information flow paths between the market operator and the other electricity market participants had to be provided for in legislation.

In relation to the law on supported energy sources and on amendments to certain laws, the Office also issued a public notice amending no. 140/2009 on regulatory methods in the energy industries and procedures for price control, as amended, which sets out, *inter alia*, the parameters of the regulatory formula for prices for the market operator's activities and also parameters that reflect the market operator's costs incurred in the activities that OTE, a.s. carries out under Act No 165/2012. Had the provisions on the content of billing been retained in the Electricity Market Rules, the legal provisions on, in particular, the content of the determination of the market operator's costs with regard to the costs incurred in support for electricity and support for distributed electricity generation would have been duplicated.

In relation to the promulgation of the law on supported energy sources and on amendments to certain laws, the public notice on the methods and time limits for the billing and payment of the component of the charges for electricity and gas transmission and distribution, which serves for covering the costs incurred in support for electricity, distributed electricity generation and biomethane and on the implementation of certain other provisions of the law on supported energy sources, came into effect. The public notice on the time limits and methods for selecting the form of support, procedures for registering support with the market operator and the time limit for offering electricity to mandatory purchasers, known as the registration public notice, came into effect; it lays down the time limits and procedures for selecting the form of support and procedures for registering support for electricity, operating support for heat, support for biomethane and support for distributed generation with the market operator and the time limit for the renewable electricity producer offering electricity to the mandatory purchaser.

The Energy Act was amended by an addendum in Section 57 of Act No 165/2012, whereby the following is added at the end of subsection 2 of Section 11a of the Energy Act: "The consumer or the natural person who carries on a business to whom Section 57 of the Civil Code applies under the first sentence may withdraw in writing from a contract the subject matter of which is electricity or gas supply, which was concluded outside premises customary for the licence holder's business, without giving any reasons and without any penalty and as late as five days prior to the start of the electricity or gas supply. The time limit for exercising the right of withdrawal shall be preserved if the written withdrawal from the contract was sent before the end of the time limit." The shortening of the time limit, i.e. the extension of the time for which customers may withdraw from the contract when switching their supplier, necessitates changes to certain provisions on supplier switching. The proposed modifications are intended to define the sequence of the steps and the authorisations of the various entities involved in the supplier switching process in connection with the new wording of the Energy Act.

No. 438/2012 came into force on 1 January 2013.

- **Public notice no. 436/2012, amending no. 365/2009 on Gas Market Rules, as amended**

In 2012, the Office was deciding on whether, and to what extent, it should amend public notice no. 365/2009, on Gas Market Rules, as amended. The Office sought to only make changes that would help to improve the existing processes in cases where the actual and efficient working of the processes was not described in the public notice specifically enough. The other key area was encouragement for

a higher use of the gas system in the Czech Republic. The final decision on the amendment reflected objective facts, i.e. the law on supported energy sources that, *inter alia*, amended some provisions of the Energy Act. Amending this public notice was therefore a logical step for preventing the Gas Market Rules, which fall within the ERO's remit, from reaching a conflict with primary legislation. The Office also used the opening of the amending process for incorporating changes reflecting the outputs from the consultation process and from workshops with the regulated entities.

The main reasons for amending the Gas Market Rules included the need to provide for the rules of access to underground gas storage facilities and also the changes precipitated by Act No 165/2012 on supported energy sources and on amendments to certain laws, as well as the supplier switching process, the time limits and procedures in supplier switching, and the process of connecting gas production plants to the gas transmission/distribution systems.

Access to underground gas storage facilities for net 'transiters'

These provisions open access to underground gas storage facilities for foreign natural and juristic persons who are not cleared entities. Prior to this amendment to the public notice, such entities were only allowed to book transmission capacities with the transmission system operator between entry and exit border points. A number of these entities showed interest in using underground gas storage facilities in the Czech Republic, but that was only feasible if they registered as cleared entities with the market operator and held a gas trade licence awarded by the Energy Regulatory Office.

The amendment has also simplified access to underground gas storage facilities for entities wishing to use the gas transmission system and storage facilities in the Czech Republic, but not intending to become cleared entities; this encourages a higher use of the Czech gas system.

Impacts of Act No 165/2012

Act No 165/2012 on supported energy sources and on amendments to certain laws, lays down the right of gas production plants to be connected to the gas transmission system or a distribution system. The amendment to the public notice on Gas Market Rules reflects this and sets out the time limits and procedures for these entities' operations in the gas market.

This amendment to the Gas Market Rules also defines the transmission of preliminary and actual values of gas supply allocations by the TSO/DSO to the market operator's information system for gas production plants as well. It also lays down the rules for reducing the booked distribution capacity in the case a customer's hourly consumption decreases to a level lower than the gas production plant's hourly output.

Another amendment to public notice no. 365/2009 was also necessitated by Act No 165/2012 and its impact on the Energy Act, which also amended Section 11a of the Energy Act in addition to some other provisions. This amendment empowers consumers and natural persons carrying on a business to withdraw from a contract the subject matter of which is gas supply, which was concluded outside the premises customary for the licence holder's business, without giving any reasons and without any penalties and as late as five days prior to the start of gas supply to the supply point. The amendment to no. 365/2009 has incorporated the time limits and procedures into the supplier switching process in a way enabling all the gas market participants in question to meet the required time limit and stop the supplier switching process.

The public notice came into force on 1 January 2013.

- **Public notice no. 445/2012, amending no. 426/2005 on the details of licensing for business in energy industries, as amended**

The proposal to amend public notice no. 426/2005 was prompted by the modification to the demonstration of the technical prerequisites of energy installations already in operation using some other credible ways, the new need to set a unique identifier for electricity generating plants, and the effort to reduce the administrative burden on licence applicants and to improve personal data protection.

The experience with the application of the public notice in administrative proceedings on licensing indicated a need to change the provisions on the demonstration of the technical prerequisites for performing the licensed activity in energy installations already in operation with a view to enabling the licence applicant to also comply with the technical requirements (in certain cases) in some other conclusive way than by any of the public documents expressly enumerated until then. The demonstration of technical prerequisites is one of the essential conditions that licence applicants must meet under Section 5(3) of the Energy Act to be awarded a licence. Under Section 98a(2)(a) of

the Energy Act, an implementing regulation, specifically a public notice on licensing, shall set out the methods for demonstrating technical prerequisites for the various types of licence.

Furthermore, a need has arisen to harmonise the hitherto used terminology, specifically the terms “an operation” and “a generating plant” for the various licensed activities, because the carrying on of energy business on the basis of a licence under the Energy Act is also subject to other related laws and regulations, i.e. the carrying on of business also entails the licence holder’s rights and obligations under some other laws and regulations, for example, Act No 165/2012 on supported energy sources and on amendments to certain laws, which in many provisions uses the term “a generating plant” although in the licences awarded by the Energy Regulatory Office under the Energy Act, the term “an operation” designates the same energy installation [a generating plant].

The amendment also brings changes helping to reduce the administrative burden and improve personal data protection: for the identification of natural persons, the birth registration number will no longer be required in licence applications; in connection with Act No 111/2009 on Basic Registers, only the date of birth will have to be specified. At present, licence applicants are required, in order to prove their ownership title or usufruct right to the energy installation, to produce a copy of the entry in the land register, provided that the ownership title or usufruct right has been entered in the land register, but this is no longer necessary because the Office can obtain the copy of the entry in the land register on the basis of the number of the ‘ownership title sheet’.

The public notice came into force on 1 January 2013.

- **Public notice no. 346/2012 on time limits and procedures for selecting the form of support, procedures for registering support with the market operator, time limits and procedures for selecting and changing the regime of green premiums on electricity and time limits for offering electricity to mandatory purchasers (‘the registration public notice’)**

The Office issued public notice no. 346/2012 on the basis of its authorisation under Section 53(2) (c) to (g) and (m) of Act No 165/2012 on supported energy sources and on amendments to certain laws. The law on supported energy sources has completely changed the system of the disbursement of subsidies for electricity generation from renewable and secondary energy sources, and introduced a new subsidy for biomethane production, heat generation from renewable energy sources, and distributed electricity generation. The day of effect of the new law marked the day of repeal of the hitherto applicable legislation on support for renewable electricity under the law on support for the use of renewable energy sources and the implementing regulations related thereto. The new law on supported energy sources therefore authorises the Office, in Section 53(2), to issue new implementing regulations to ensure that the new legislation on the registration of producers, the support selected/applied by them, and the disbursement of support, is comprehensive and also to ensure the proper functioning of the new system of support registration and payment under the law on supported energy sources as from 1 January 2013.

The public notice came into force on 5 November 2012.

- **Public notice no. 347/2012 laying down the technical and economic parameters of renewable energy sources for electricity generation and the useful life of plants generating electricity from supported energy sources**

Under Section 53(2)(a) and (b) of Act No 165/2012 on supported energy sources and on amendments to certain laws, in public notice no. 347/2012 the Office laid down the specifications of the technical and economic parameters, which under the law mainly include the cost per unit of installed capacity, the efficiency of the utilisation of the primary energy in the renewable energy source, the load factor and, in the case of electricity generating plants using biomass, biogas or bioliquids, the costs of fuel procurement. These technical and economic parameters are set out in Appendix 1 to the public notice and compliance with them ensures for the electricity producers a 15-year simple payback period with the support in the form of feed-in tariffs set by the Office.

The values of the technical and economic parameters in the appendix to the draft of the new public notice are indicative values considered by the Office in determining the amount of the support for renewable electricity in the form of feed-in tariffs, and failure to achieve them by a plant does not affect the award of the operating support.

With regard to the continuous development and improvement of technologies based on renewable energy 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 draft of the new public notice

is based on the most recent applicable wording of no. 475/2005. The key area in the draft public notice being presented is the setting of the technical and economic parameters of small hydroelectric power stations, generating plants using biogas, and photovoltaic plants, the unit capital expenditure on which changes over time. The relationship of the parameters of all the other renewable energy sources (unit capital expenditure, load factor, useful life) to no. 475/2005 remains unchanged, since an analysis of the current situation did not indicate any need to change these parameters. New technical and economic parameters were set for bioliquids.

Since the new law on supported energy sources also provides for support of the other supported energy sources that had been provided for in the Energy Act before the promulgation of the new law, the draft of the new public notice also contains, as per the authorisation, the proposed useful lives of plants generating electricity from supported energy sources.

The public notice came into force on 5 November 2012.

- **Public notice no. 439/2012 on the method and time limits for the billing and payment of the component of the charge for electricity and gas transmission and distribution, which serves for covering the costs incurred in support for electricity, distributed electricity generation and biomethane and on the implementation of certain other provisions of the law on supported energy sources ('the clearing public notice')**

The Office is authorised to issue the clearing public notice under Section 53(2)(h) to (k) and (n) of Act No 165/2012 on supported energy sources and on amendments to certain laws. The law on supported energy sources has completely changed the system of the disbursement of subsidies for electricity generation from renewable and secondary energy sources, and introduces a new subsidy for biomethane production, heat generation from renewable energy sources, and distributed electricity generation. The day of effect of the new law marked the day of repeal of the hitherto applicable legislation on support for renewable electricity under the law on support for the use of renewable energy sources and the implementing regulations related thereto.

The new law on supported energy sources therefore authorises the Office, in Section 53(2), to issue new implementing regulations to ensure that the new legislation on the methods and time limits for the billing and payment of the charge supporting electricity and biomethane by final customers, the method and procedure for calculating the difference between the hourly price and the feed in tariff, and the payment of this difference between the mandatory purchaser and the market operator, and the time limits and methods for advising the generator by the mandatory purchaser or purchaser of achieving a negative price on the day-ahead electricity market and of situations of mismatches between electricity supply and demand on the day-ahead market, is comprehensive, and to ensure the proper functioning of the new system of support registration and payment under the law on supported energy sources as from 1 January 2013.

The public notice came into force on 1 January 2013.

2.3 Customers and their position on the liberalised market

Under the Energy Act, the Office shall protect customers' and consumers' justifiable interests in the energy industries.

In respect of its activities related to consumer protection the Office works with some other state administration authorities, including the Ministry of Industry and Trade and the Office for the Protection of Competition, with consumer protection associations, and with other national regulators in various sectors. The Office also oversees compliance with the law on consumer protection. This activity stems from Section 17(7)(f) and Section 18(1)(a) of the Energy Act, and from Section 23 of the law on consumer protection.

The Office, which also monitors the contract terms of electricity and gas supply from the various traders, has set up an information section on its website to help customers and consumers find their way around in the protection of their rights.

As the administrative authority for regulation in the energy sector, the Office has issued a Code of Ethics for Energy Traders ("the Code"), which has greatly helped to cultivate the retail market.

The Code is a set of the basic rules for electricity and gas traders' ethical and professional conduct in respect of their supply of these commodities and associated services. The Code helps to promote the principles of fair business, protection of good morals, and general confidence in the energy market.

Traders can subscribe to the Code, which is posted on the Office's website, and they can voluntarily accept it as an expression of their honest business morals and pledge to follow the rules set out in the Code.

The Office has published as list of electricity and gas traders who have accepted the Code and will adhere to it in their conduct; by the end of 2012, 37 traders had subscribed to the Code.

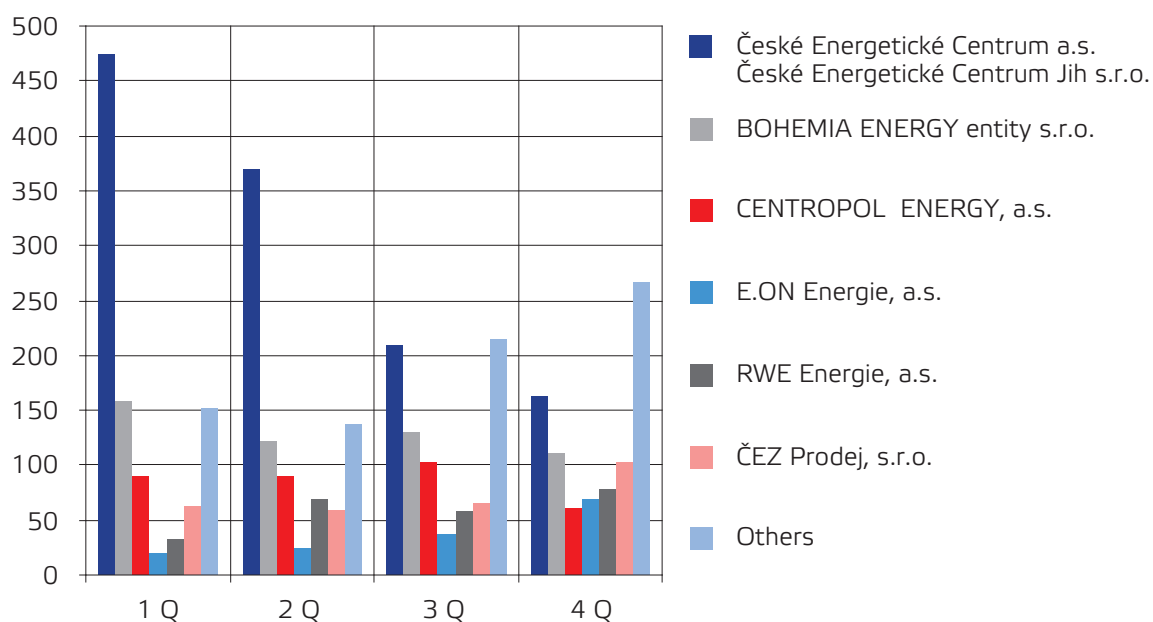
The Office also oversees compliance with the rules set out in the Code. In the case of non-compliance, the electricity/gas trader must adopt remedial measures and notify the Office thereof. Otherwise, the trader may be struck off the above list. The inclusion of the trader in the list again is only possible after it has proved to the Office that it has remedied the situation.

Protecting customers and consumers is high on the Office's agenda; the result is a new consumer protection unit that accepts and addresses suggestions, submissions, requests, complaints and notifications concerning in particular electricity and gas suppliers' activities in the liberalised market, primarily as regards energy prices, supplier switching and supply quality. The unit also works with traders, distribution system operators and the market operator.

In 2012, the submissions received mainly concerned the 'doorstep' electricity and gas sales, and also electricity and gas supplier switching from the perspective of the relations between the new supplier and/or the old supplier and the customer, contracts and commercial terms and conditions, electricity and gas supply billing, and also the application of Section 11a of the Energy Act and Section 57 of the Civil Code.

The unit's operation is illustrated by Chart 1 and the following tables.

Chart 1 Number of submissions accepted and resolved by the consumer protection unit in 2012

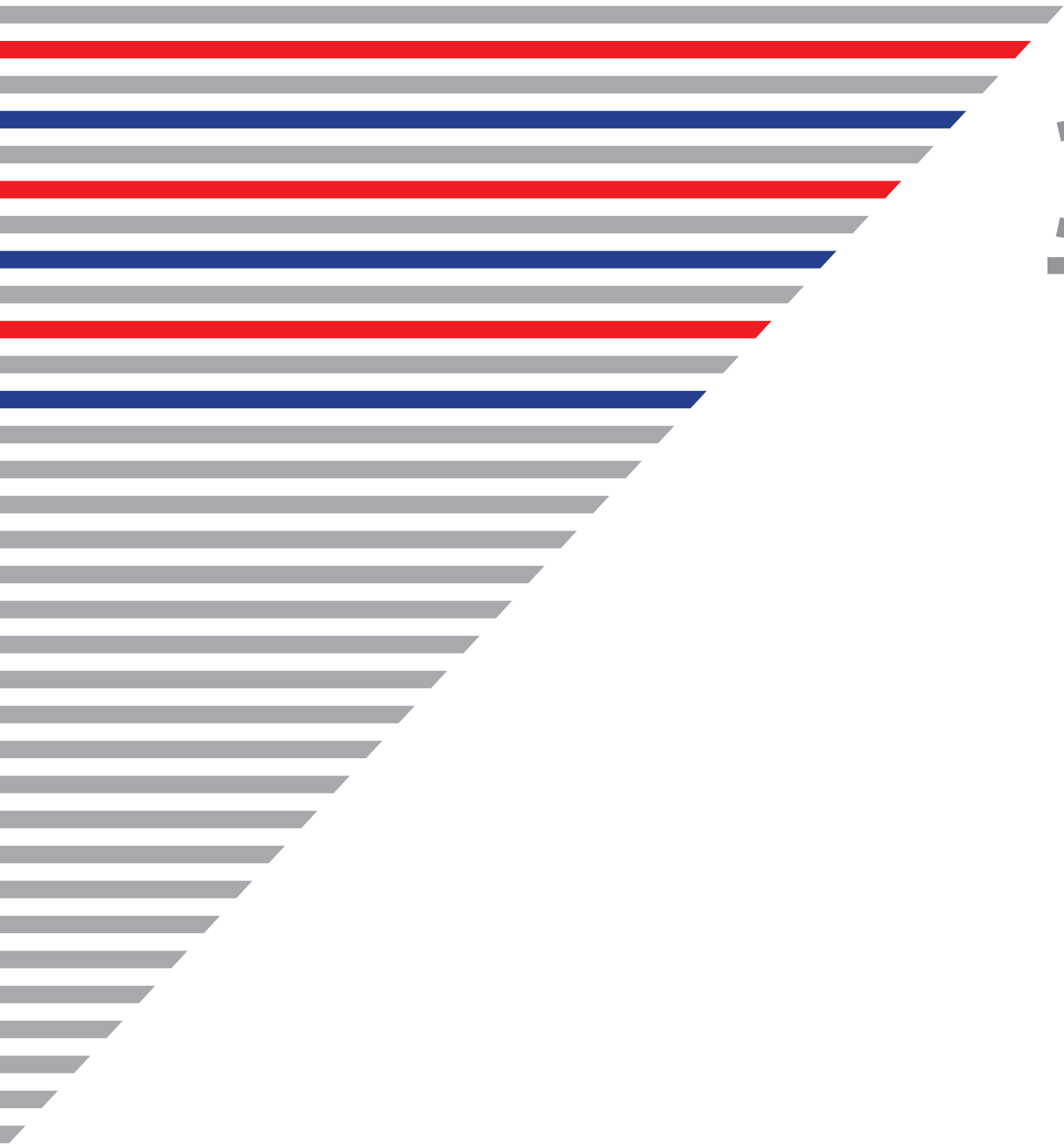


Number of submissions in 2012

Submissions in writing	3,517
Over the telephone	4,581
Visits in person	428
Total	8,526

2.4 Administrative proceedings

A list of administrative proceedings in 2012 is contained in Appendix 1.



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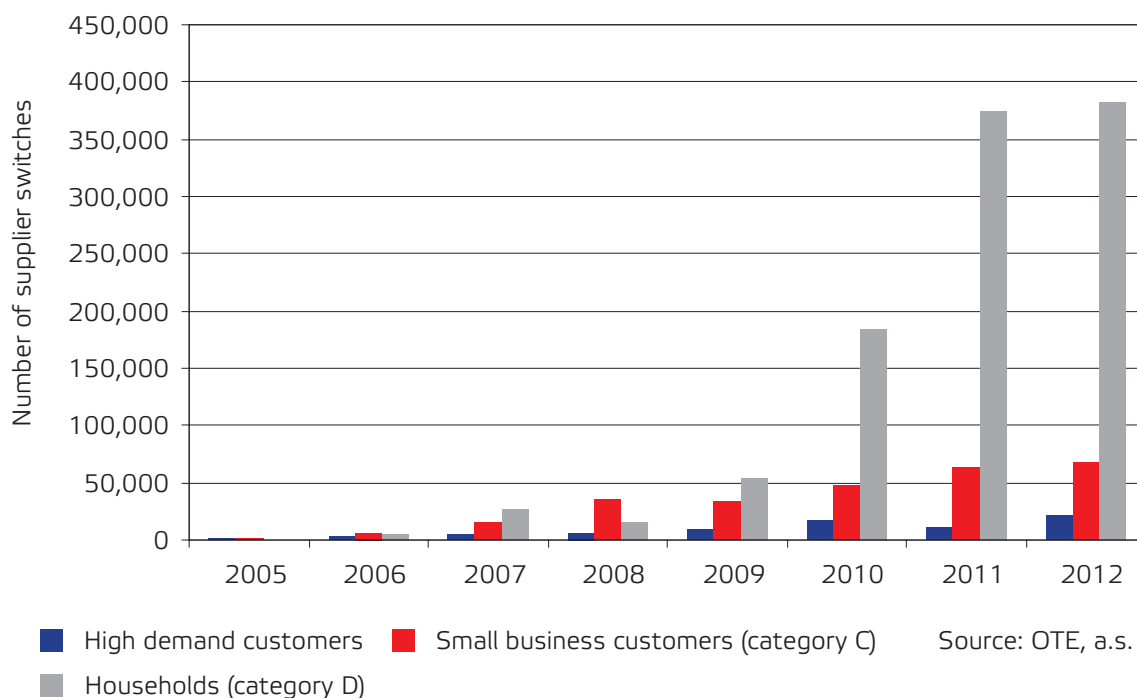
3 Regulation of network industries

3.1 The electricity industry

Pricing

In connection with competition on the market, with more and more businesses seeking to supply electricity to customers, new business strategies have emerged and the range of products on offer has significantly broadened. The trend of looking for the best conditions of electricity supply intensified, and the rise in the number of supplier switches continued, but this increase was not as steep as in 2011. In 2012, more than 470,000 customers changed their electricity supplier (the figure was approximately 450,000 in 2011). The development in the number of electricity supplier switches can be seen in Chart 2.

Chart 2 Annual electricity supplier switching in the main customer categories



The key principles of the calculation of controlled prices are the same for each of the years in the regulatory period. There was a change in the structure of the distribution tariffs for customers taking electricity from LV networks, where customer have been able to select the tariff intended for electric vehicle owners/operators as of 1 July 2013.

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 electricity transmission and distribution charges,

the charge for system services, the charge for covering the extra costs of support for electricity generation from renewable sources, highly efficient combined heat and power generation and secondary energy sources, and the charge for the market operator's services in the electricity industry), and the uncontrolled price of electrical energy offered by the various suppliers – electricity traders and producers. The price of electrical energy as such is a contract price and depends on the selected product provided by the supplier, and the Office has no means to influence its level. The price of electrical energy accounts for about 40 to 60 per cent 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.

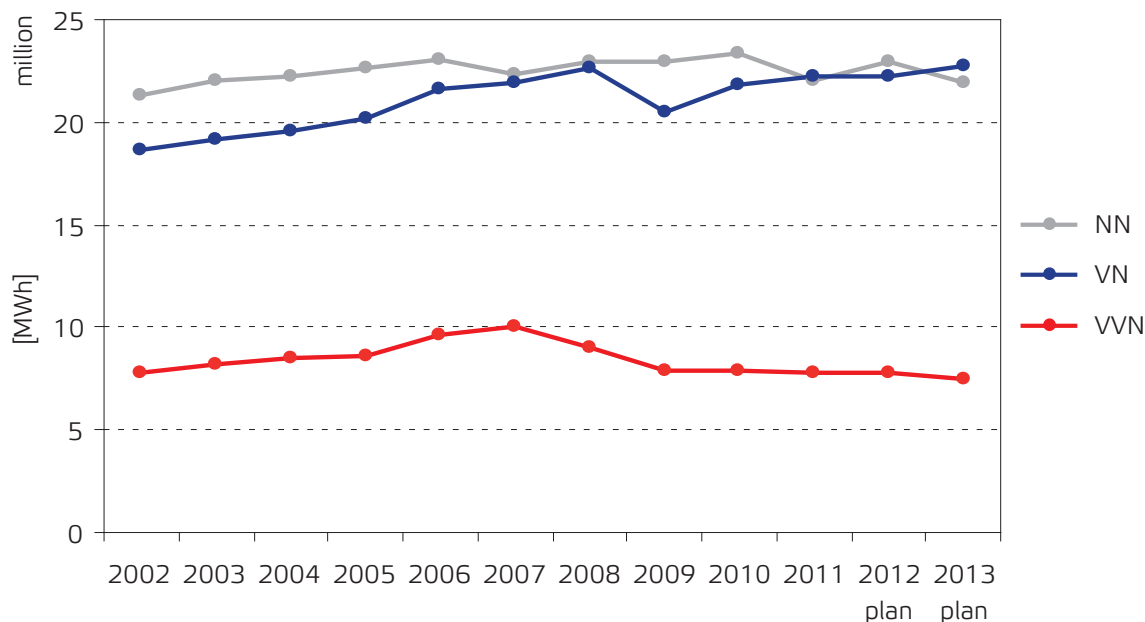
The Office sets out all regulated electricity prices every year in its price decisions by 30 November of the calendar year preceding the regulated year and with effect from 1 January of the regulated year, in accordance with public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control, as amended. In 2012, the Office issued price decision no. 5/2012, setting out the charges for regulated services related to electricity supply, and no. 6/2012 with the distribution rates for the LV level.

The price decision that sets the charges for regulated services related to electricity supply was changed compared with the preceding year; for 2012, it did not set out the price in support of distributed electricity generation.

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, as amended, the Office sets, on an annual basis, the charges for regulated services related to electricity supply. Their levels are heavily influenced mainly by inflation factors, overall consumption (Chart 3) and the price of electrical energy for covering network losses, and also the rapid increase in renewable electricity generation, largely in photovoltaic plants.

Chart 3 Consumption at the EHV, HV and LV levels



Key items of regulated prices for 2013

Charges 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.

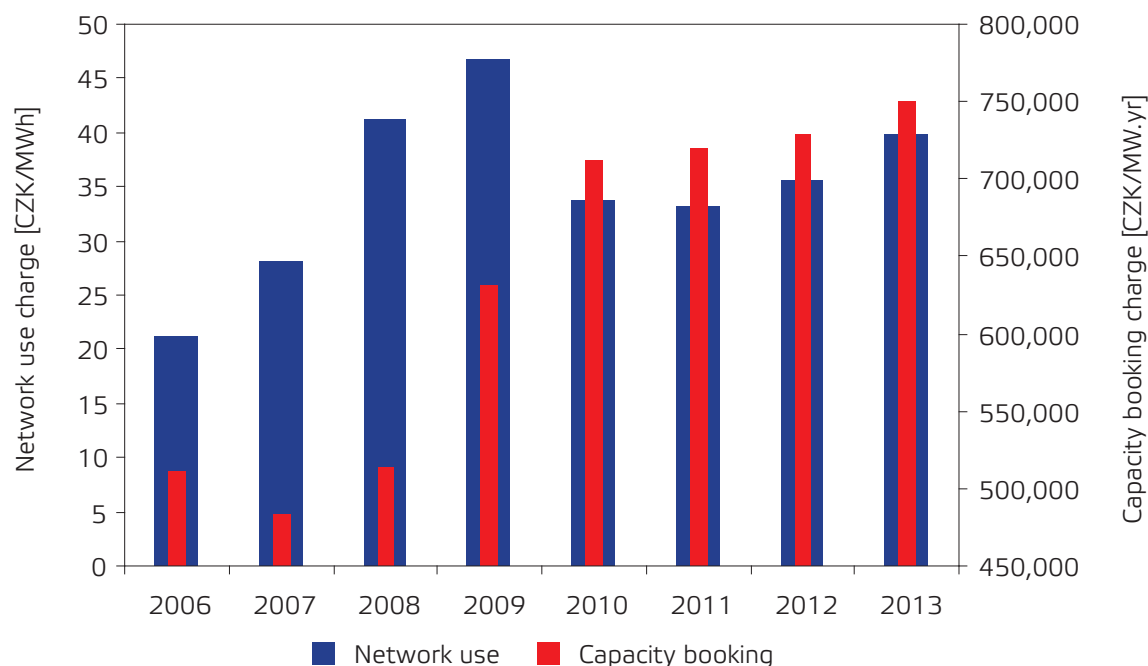
Transmission service charge

The charge for capacity booking in the transmission system has been negatively affected by the growing inflationary factors, which has also caused the charge for capacity booking in the transmission system to rise by 2.9 per cent compared with the charge in 2012.

The charge for transmission network use has been positively influenced by the y/y decrease in the price of energy for covering losses in the transmission system, but, on the other hand, an unfavourable factor is the increase in the allowed quantity of losses in the transmission system, caused by the looping of electricity flows from abroad, and this charge has therefore risen by 11.6 per cent y/y.

Chart 4 shows the electricity transmission charge between 2006 and 2013.

Chart 4 Components of the electricity transmission charge



Distribution service charge

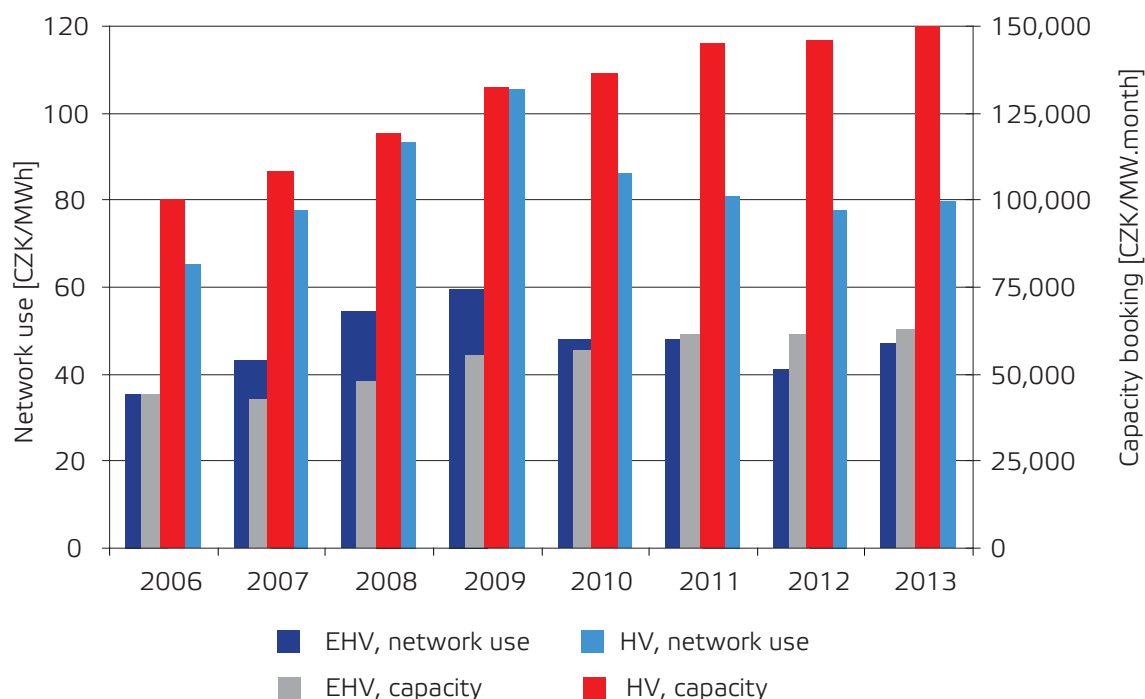
The charge for capacity booked with the various distribution companies is influenced by the basic economic parameters and also by correction factors and the size of booked capacity. These factors are reflected in different ways at each of the companies and also result in different y/y changes in this 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) has grown 2.5 per cent at the EHV (VVN) level and 2.9 per cent at the HV (VN) level year on year.

The charge for network use has been favourably influenced by the decrease in the price of electrical energy for covering losses in distribution systems; on the other hand, it has been negatively affected by the re-introduction of the support for distributed electricity generation. On the national average, the network use charge (including the component for electricity distribution related to distributed electricity generation) therefore increased by 14.6 per cent for EHV and 2.6 per cent for HV. However,

this regulated price also differs for each of the distribution companies, depending on how these factors work for the particular company.

Chart 5 shows the two components of the distribution charge from 2006 to 2013.

Chart 5 Components of the charge for electricity distribution at the EHV and HV levels

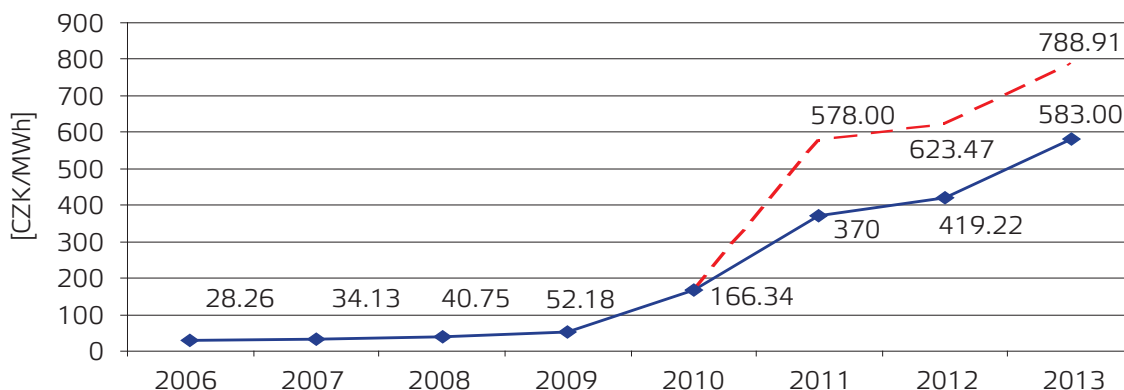


The charge to meet the extra costs incurred in support for electricity generation from renewable energy sources (RES), highly efficient combined heat and power generation (HE CHP) and secondary sources (SeS)

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. A part of the split correction factor from 2010 and the full correction factor from 2011 also influence this regulated component quite heavily. In relation to the change in the disbursement of subsidies for environmentally-friendly capacities, this component also contains the costs incurred in provisions for the operation of the new entities that will pay the support ("mandatory purchasers"). To reduce the quite unfavourable impact of electricity production in supported capacities on electricity prices, the government again allocated a subsidy of CZK 11.7 billion. This amount primarily covers the operating support for heat production, estimated at CZK 100 million for 2013, under Act No 165/2012. The charge for covering the costs incurred in support for electricity from renewable energy sources, highly efficient combined heat and power generation and secondary energy sources amounts to CZK 583/MWh for 2013, up by 39.1 per cent on 2012. This item strongly influences the overall regulated price for final customers, in particular those connected to higher voltage levels, and plays a major role in the overall rise in regulated electricity prices.

Levels of the contribution between 2006 and 2013 are shown in Chart 6, with the red line indicating the contribution without the government's subsidy; CZK 583/MWh is the final amount resulting from the above-described application of the government's subsidy.

Chart 6 Charge to meet the extra costs incurred in support for electricity generation from RES, HE CHP and SeS



Electricity supply prices for households and low-demand business customers

For 2013, the average y/y increase in the total cost of electricity supply for households, adjusted to the same basis of comparison, i.e. the same nature and amount of consumption, is 2.4 per cent (disregarding the effects of VAT and electricity tax), while the average year-on-year increase in the regulated components of the electricity supply price for households is 9.4 per cent.

The unregulated price of electrical energy, including the business margin, has dropped by 5.2 per cent on average year on year.

In the case of small business customers connected to the LV level, the average y/y increase in the overall electricity supply price is 3.1 per cent 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 system. Differences may also be caused by the selected tariff, the varying nature and size of demand and, primarily, selection of the electricity supplier.

Chart 7 shows the percentage shares (including VAT and electricity tax) of each of the components in the resulting price of electricity supply for customers for 2013.

The development of average electricity supply prices for households and each of their components since 2006 are shown in Chart 8.

Chart 7 Percentage shares taken by each of the components of the electricity supply price for households in 2012 (including tax items)

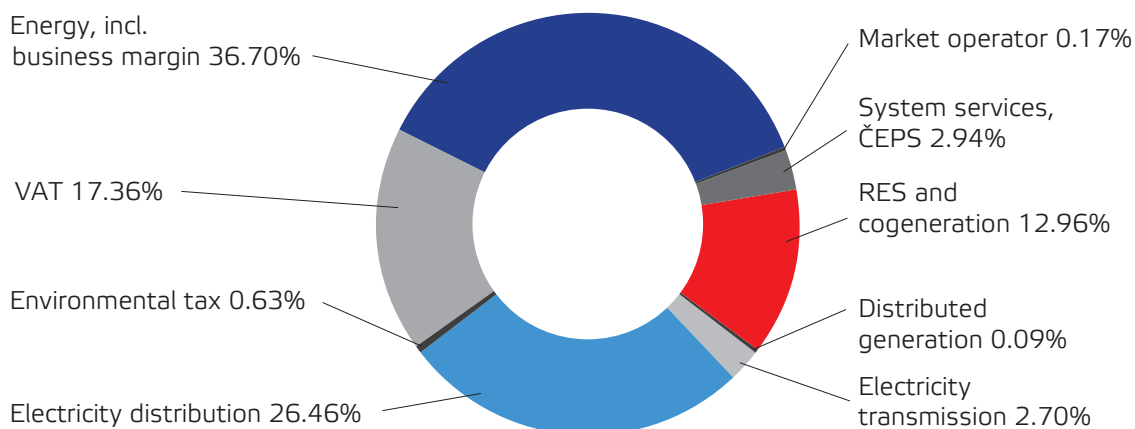
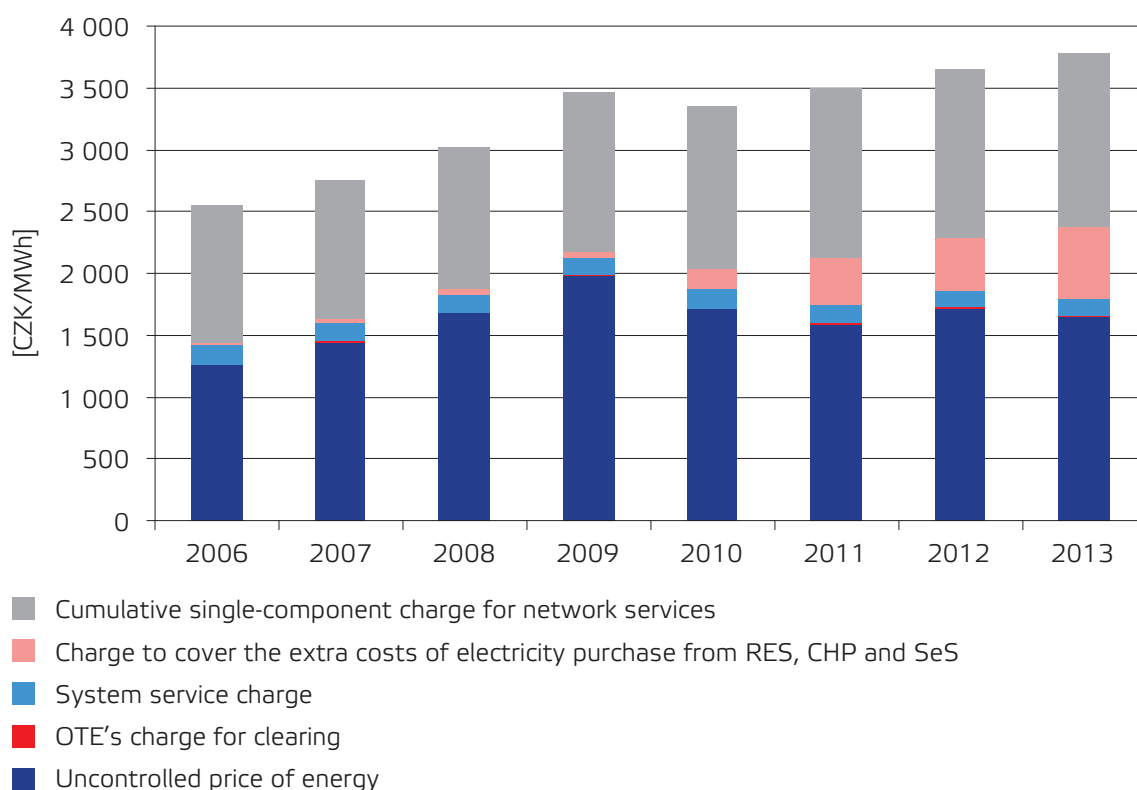


Chart 8 Average prices of electricity supply for households



Charge for the market operator's activity in the electricity industry

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 charge also contains a special fee for the activities of the Energy Regulatory Office under Section 17d of the Energy Act. The ERO set the charge for the market operator's services in the electricity industry at CZK 7.56/MWh for 2013. For the first time, in 2013 this charge also contains a fee for the market operator's services in the electricity industry in relation to support for electricity, at CZK 2.11/MWh, under Act No 165/2012 on supported energy sources and on amendments to certain laws.

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 8.2 per cent to CZK 132.19/MWh year-on-year; the bargain purchases and optimisation of the mix of the various types of ancillary services are felt positively in this respect.

The price of the supplier of last resort

The price of the supplier of last resort was not used in the period under review. The calculation of this cost-plus price is based on electricity traders' economically justifiable costs, which are shown in Appendix 2 to the respective ERO price decision.

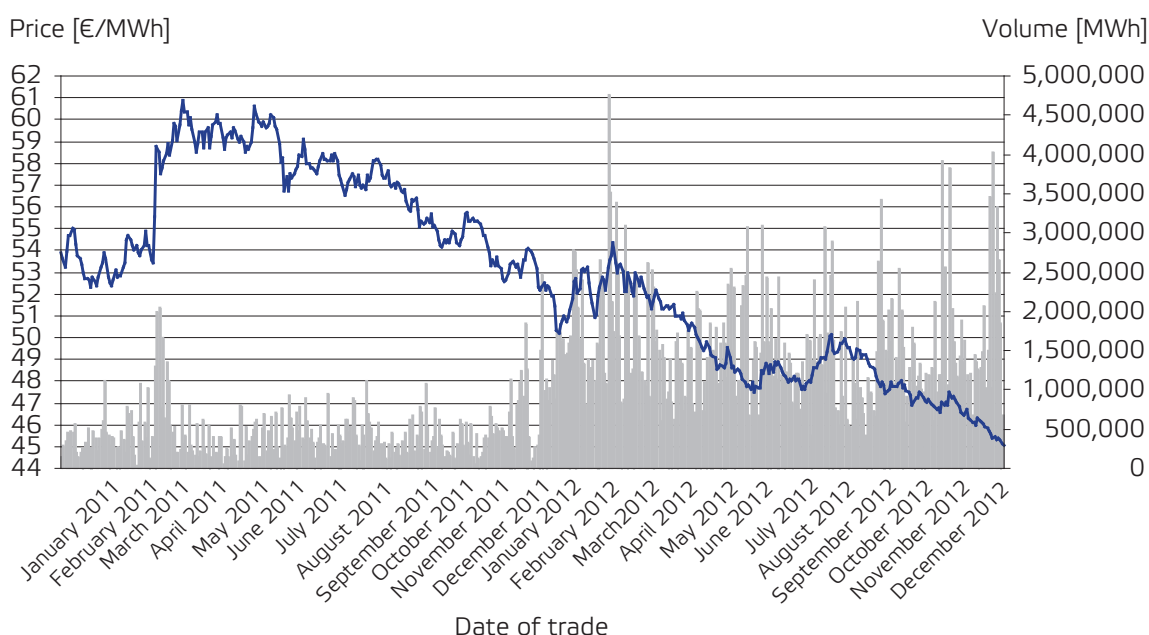
3.1.2 Unregulated energy price

Customers can, by choosing their supplier, influence the price they pay for electricity supply, because a part of the electricity supply price (the electrical energy itself) is uncontrolled. Thus, the supplier sells customers electricity for the price for which it has bought it, marked up by its business margin.

On today's liberalised market, the price of energy mainly depends on the prices of the products traded at power exchanges (spot, monthly, quarterly, yearly, peak/off-peak/base). 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 prices of electricity futures for 2013 started to decline in June 2011, from around EUR 60/MWh, and in 2012 they already ranged from EUR 54/MWh at end-February 2012 to the annual bottom at end-December 2012, when they amounted to only EUR 45/MWh. The peak prices were achieved partly due to the uncertain situation on energy markets in the first quarter of 2012, when the European Commission decided to adopt restrictive measures related to imports of oil and oil products from Iran. The general trend of electricity prices declining at energy exchanges was the result of lower demand for electrical energy, in particular in the corporate sector, which was a logical reflection of the economic development in an EU experiencing a period of stagnation to recession.

Chart 9 Base load prices in 2012 at the energy exchange (EEX – Base Load Cal 13)



3.1.3 Assessment of the development plan for the electricity transmission system

Section 24(10)(j) of the Energy Act requires ČEPS, a.s., the electricity transmission company, to prepare a ten-year plan for the development of the electricity transmission system, including an investment programme, on an annual basis. This obligation has arisen from the implementation of the requirements of the third energy package in the Energy Act. 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.

The law also requires the Office to subject the investments envisaged in the investment programme to a detailed review every year. The review also included an analysis of the submitted substantiation for the various investment plans.

The investment programme submitted by ČEPS, a.s. in 2012 covered the period 2013-2022 and included capital expenditure of some CZK 66 billion. The programme envisages the replacement and/or refurbishment of the existing assets and also an extension of the company's transmission lines by about one quarter from the current 3,508 km. The growth in electricity demand in some regions (in particular western Bohemia, the Ostrava area and the Prague agglomeration) necessitates reinforcements of the transformation capacities in the grid, which results in the erection of another

five 400 kV substations (at Dětmárovice, Prague North, Ralsko, Vernéřov, and Vítkov) in addition to the 26 currently operated substations.

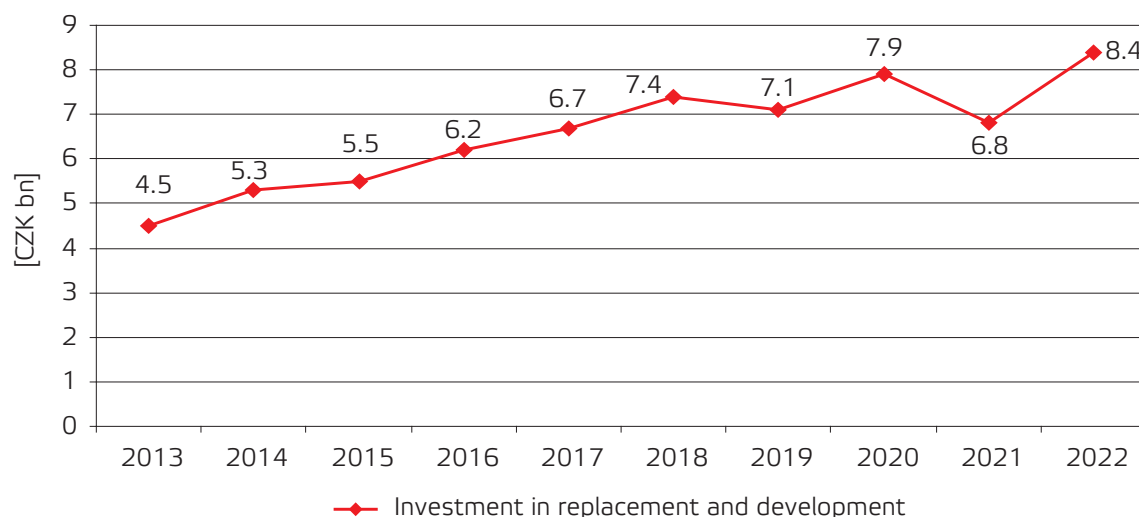
The capital expenditure on the replacement/refurbishment of the existing assets amounts to about CZK 2.5 to 3.5 billion per year. The upgrade of the 220 and 400 kV system is based on its historical development. The 220 kV lines erected in the 1970s have been replaced, while the replacement of the 400 kV system, rolled out between 1959 and 1980, is only at the beginning. The service life of the lines was originally designed for 40 years and at present, the life of some 70 per cent of 400 kV installations is ending. The completion of replacements is planned for 2030.

The development part of the investment programme entails CZK 1 to 5 billion per year, and this part is variable as it depends on customers' requirements. The requirements for connection to the network include, *inter alia*, investment in network expansion related to the completion of the Temelín NPP, investment in the transmission system in northern Bohemia where the Ledvice, Úžín, Počeradý, Mělník and Vyškov power stations are to be retrofitted and upgraded, and some other investments will be prompted by the connection of the Chomutov wind park and network development in central Bohemia. The connection of combined cycle units (e.g. Ralsko) and pumped-storage hydroelectric power stations (e.g. Šumný důl) will require additional investments in the double-circuiting of all lines.

In addition to its own assessment, the Office also commissioned an independent analysis of the capital projects planned by ČEPS, a.s. for 2013 to 2022; the analysis was prepared by Znalecký ústav Národohospodářské fakulty Vysoké školy ekonomické [Expert Institute of the Faculty of Economics of the University of Economics in Prague]. The conclusions of this expert report note that ČEPS, a.s. takes an adequate approach to investments throughout the period under review with regard to the upgrade of the existing infrastructure and also further development due to the increasing power in the unplanned flows from abroad, mainly Germany.

The Office therefore found the ten-year investment plan submitted in 2012 to be complete and free of defects, and approved the ten-year plan for the development of the transmission system.

Chart 10 Investment in the replacement and development of the transmission system



3.1.4 Supported energy sources

In the first half of 2012, the Office prepared – as part of the application of its Price Decision 7/2011 of 23 November 2011, laying out support for electricity generation from renewable energy sources, combined heat and power generation, and secondary energy sources – its explanatory position papers on the biogas plants commissioned in 2012 in connection with the utilisation of useful heat in relation to the electricity produced. In 2012, it also amended public notice no. 502/2005 on the method of reporting electricity quantity for the co-firing of biomass and a non-renewable fuel.

Since 2012 also saw increases in the installed capacity of plants using renewable energy sources, with the largest proportion of such increases taken by biogas, biomass and photovoltaic plants, the Office considered it to be necessary to warn the public that due to the financing of operating support, the regulated contribution would continue to rise; i.e. the charge for covering the costs incurred in support for electricity from renewable energy sources, highly efficient combined heat and power generation and secondary energy sources, paid by final customers, that is, consumers taking electricity. The Office therefore informed the public as early as the spring of 2012 that it would seek the discontinuation of operating support for new RES plants commissioned in 2014, noting that the solution would require an amendment to the law on supported energy sources. In this connection, the Office submitted to the Ministry of Industry and Trade, the sponsor of the new law, a draft of such amendment, in three alternative versions, thereby responding to the fact that the enacted law failed to respect the regulator's effort to protect the Czech energy market. On 30 May 2012, Act No 165/2012 on supported energy sources and on amendments to certain laws was promulgated in the Official Gazette; it did not only authorise the Office to determine support for supported energy sources for 2013 already under the new conditions, but also to prepare new implementing regulations.

Thus, the setting of the amount of support for renewable energy sources for 2013 was tied to the conditions laid down in the above law and also to the drafting of a new public notice, no. 347/2012, laying down the technical and economic parameters of renewable energy sources for electricity generation and the useful life of plants generating electricity from supported energy sources. The feed-in tariffs for renewable electricity from plants commissioned in 2013 were calculated with a view to achieving a 15-year simple payback period subject to the technical and economic parameters set out in no. 347/2012. Adhering to the above principles, feed-in tariffs for electricity from all new RES plants to be commissioned between 1 January and 31 December 2013 have been cut, with the exception of new small hydroelectric power stations. The feed-in tariffs for the existing RES plants, with the exception of those using biomass and biogas, have been increased by 2 per cent in line with the applicable legislation. Price Decision No 4/2012 of 26 November 2012, which lays down support for supported energy sources, categorises new biogas plants by installed capacity as plants up to 550 kW (inclusive) and plants over 550 kW, without differentiating the amount of subsidy for biomass category 1 or 2. Likewise, it categorises photovoltaic plants by installed capacity as plants up to 5 kW (inclusive) and from 5 kW to 30 kW (inclusive) in order to reflect their different technical and economic parameters. Thus, the feed-in tariffs for new photovoltaic plants take into account the different parameters set for each half of 2013 and for these reasons different feed-in tariffs were set out for the first and second half of 2013.

Under Act No 165/2012 on supported energy sources and on amendments to certain laws, the Office laid down the procedure for calculating the hourly green premium on electricity for 2013 for the first time.

For plants using electricity generated in the process of highly efficient combined heat and power generation (CHP), or secondary energy sources, support in the form of green premiums on electricity was introduced in accordance with the law on supported energy sources, taking into account the outputs from the Office's CHP project team. In respect of electricity generation in CHP, the Office set out the total amount of support in the form of the green premium by way of a formula in the case of plants using certain selected fuels. In this connection, it also introduced supplementary CHP rates applicable to the use of biomass, biogas and drained and mine gas with a view to enhancing the motivation for generators to use fuels more efficiently and to utilise the useful heat produced. Operating support has been changed from a daily load factor (8/12/24 hours) to an annual load factor of 3,000/4,400/8,400 hours, which motivates generators to a more efficient utilisation of resources. The support is focused on plants featuring a high efficiency and high savings of primary energies, which are therefore more environmentally friendly. Up to 1 MW plants whose primary energy savings are negative and over 1 MW plants whose primary energy savings are less than 10 per cent are not entitled to subsidies. On the other hand, over 5 MW plants whose primary energy savings are greater than 15 per cent are entitled to higher subsidies.

For 2013, the Office first set out uniform operating support for heat in the form of green premiums, subject to the conditions of Act No 165/2012. In calculating the amount of the support it also took into account the provision of non-refundable investment subsidy from the public purse by way of a reduction in operating support.

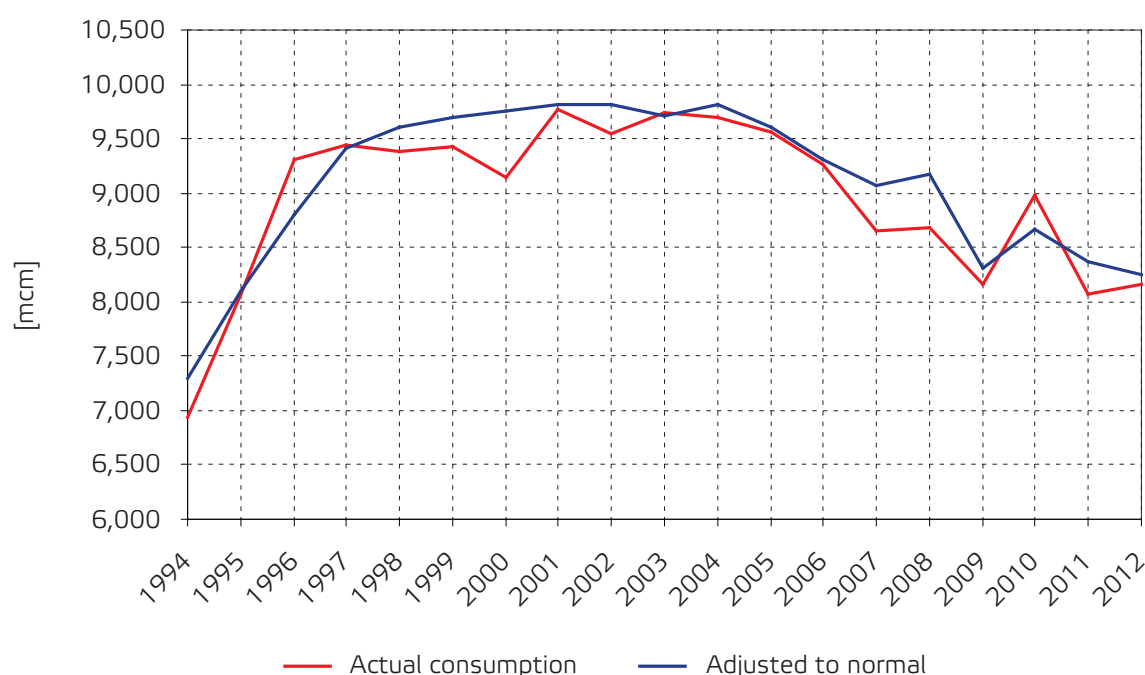
In line with the values contained in the updated National Action Plan of the Czech Republic for Energy from Renewable Sources, the Office did not set any support for biomethane and for electricity generation from bioliquids for 2013.

3.2 The gas industry

On a preliminary basis, the Czech Republic's actual gas consumption amounted to 86,324.8 GWh (8,158.1 mcm) in 2012. The highest actual monthly consumption was registered in February (14,288.9 GWh) and the maximum daily gas consumption was metered on Monday 6 February 2012: 61,645,000 cubic metres (651,511 MWh) at an average daily temperature of -14.1 °C. The significantly above-average gas demand was attributable to the long-lasting strong freeze in the first half of February. Compared with 2011, the Czech Republic's actual gas consumption increased by 0.9 per cent on a preliminary basis.

Adjusted to normal temperatures, annual gas consumption amounted to 87,322.3 GWh (8,252.3 mcm) in 2012 according to the currently available data. Comparing the adjusted gas consumption figures for 2012 and 2011, a decline in consumption by 1.6 per cent can be seen. The country's actual and adjusted gas consumption is shown in Chart 11.

Chart 11 Annual gas consumption (1994–2012)



The high-demand customer category took the largest portion (43.4%) of the country's total consumption in 2012, followed by the household category with its 30.3 per cent, small business customers with 14.7 per cent and the medium-sized demand category with 9.8 per cent. The balancing difference, i.e. losses in systems and gas consumption for system operation, amounted to 1.8 per cent.

3.2.1 The gas market

The retail market

In 2012, the Office registered 59 active suppliers in the retail gas market, who offered their services to final customers. Some entities supplied gas only in a part of the year, or only to some customer categories. Although the number of active suppliers rose compared with 2011, the market already shows the signs of saturation and the number of traders is not expected to continue to increase in any significant way. Quite the contrary, some smaller entities may fold over time, either on their own decision or compelled by circumstances. Cases have also been registered of some bigger alternative suppliers buying or planning to buy smaller companies. In 2012, one entity was compelled to fold due to loss of ability to supply gas to customers.

The largest customer category is households, of which 2,656,685 were registered in 2012, followed by the small business category with 202,807 customers, medium-sized demand category with 6,939 customers, and high-demand category with 1,652 customers. Compared with 2011, a total of 940 gas customers were lost.

The number of supplier switches on the part of final customers was slightly smaller in 2012 than in 2011, and customers' migration away from the large incumbents was not so massive. Alternative traders also started to vie for other smaller suppliers' customers. New competitors will have a much more difficult position in this highly developed market than was the case after 2007 when the process of gas market liberalisation was launched.

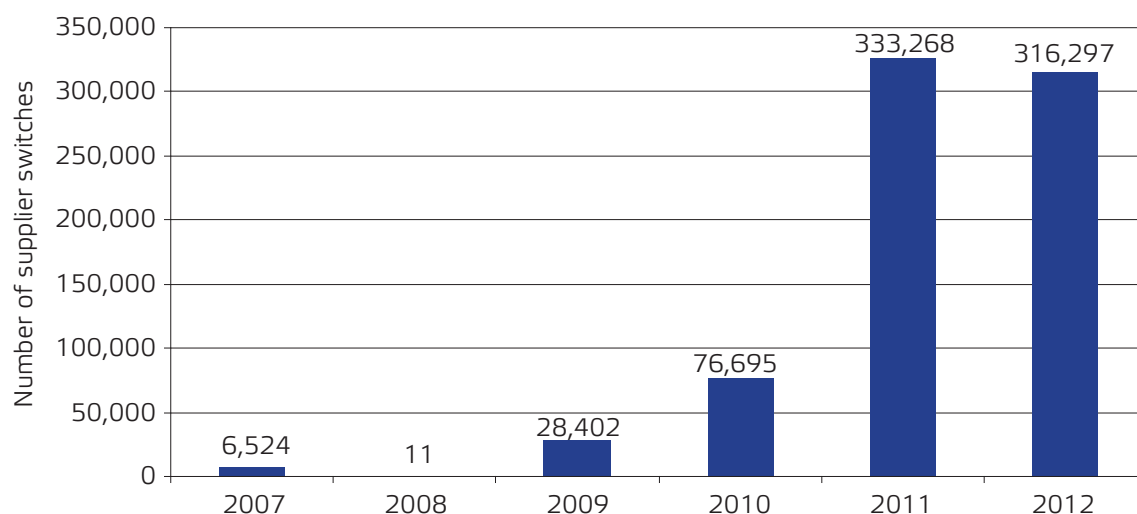
The strongest migration was registered in the segment of small businesses and households. In 2012, approximately (on a preliminary basis) 344,126 supplier switches were registered in these categories, which accounted for 99.4 per cent of the total number of supplier switches in the country.

In the medium-sized demand category, 2,951 customers selected a new gas supplier for 2012, accounting for 42.5 per cent of their total number. In the high-demand category, 979 customers changed their supplier, i.e. 59.3 per cent of these customers.

In 2012, the single largest number of supplier switches in the high and medium-sized demand and small business categories took place in January. The reason is that these customers often have gas supply agreements in place for a calendar year and in January enter into new agreements for the following year with suppliers of their choice.

The number of supplier switches since the start of the gas market liberalisation can be seen in Chart 12.

Chart 12 Annual gas supplier switches in the household category

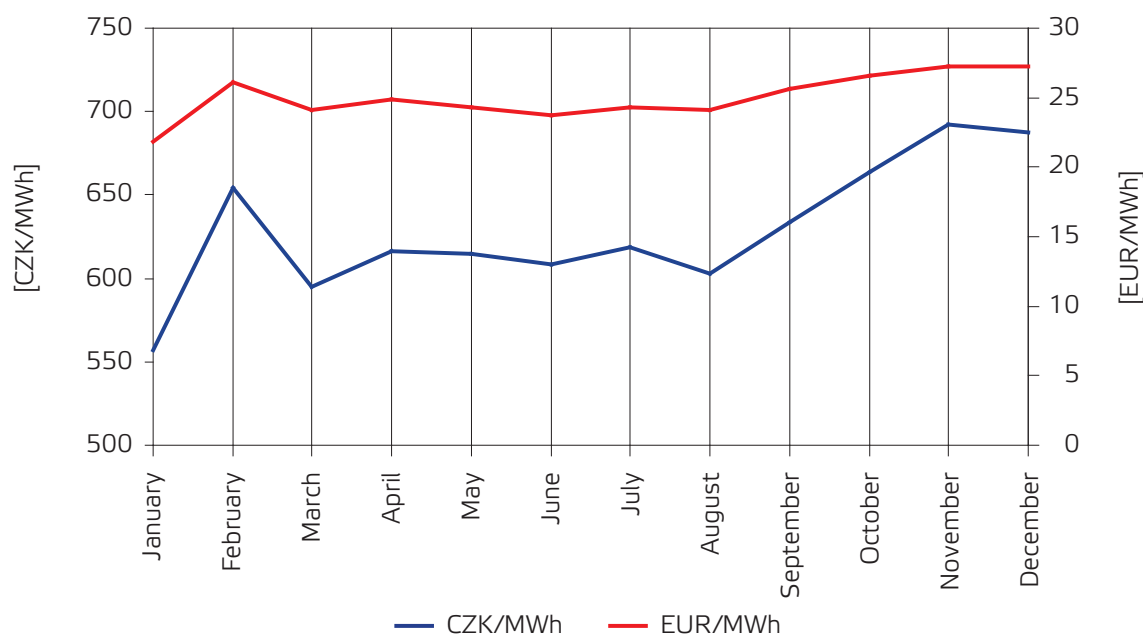


The wholesale market

In 2012, suppliers bought gas under long-term contracts with Russian and Norwegian producers, at European energy exchanges, or by reselling gas to one another on the Czech market. Under long-term contracts the gas price is derived from the prices of oil products (gas oil and heavy fuel oil) and hard coal. In 2012, the price of the gas so procured was stable and did not experience any major ups and downs. In the case of energy exchanges, where the prices mainly reflect market mechanisms, the year, especially its last quarter, saw a slight price hike caused by an increased demand for the commodity at the beginning of the heating season. A marked rise in spot prices was also visible in February 2012, when the demand was unusually keen due to the strong freeze. The CZK/EUR and CZK/USD rates also influenced the price of gas imported from abroad during 2012.

The upward trend of the spot market prices can be disrupted by the development of unconventional methods of gas production in the world and its subsequent surplus in energy markets. Greater quantities on offer may cause the commodity price to decline in a few years' time. In connection with the execution of long-term contracts, prices are expected to decline because of the potential adjustment of the formula for calculating monthly prices between Gazprom Export and the RWE Group. A potential agreement or decision on an adjustment of the price formula may result in a lower price of this imported gas in 2013. Going forward, long-term contracts can be expected to be used less frequently. Chart 13 shows the prices in the NCG spot market organised at European Energy Exchange AG in Leipzig in 2012.

Chart 13 Average gas prices at NCG in 2012



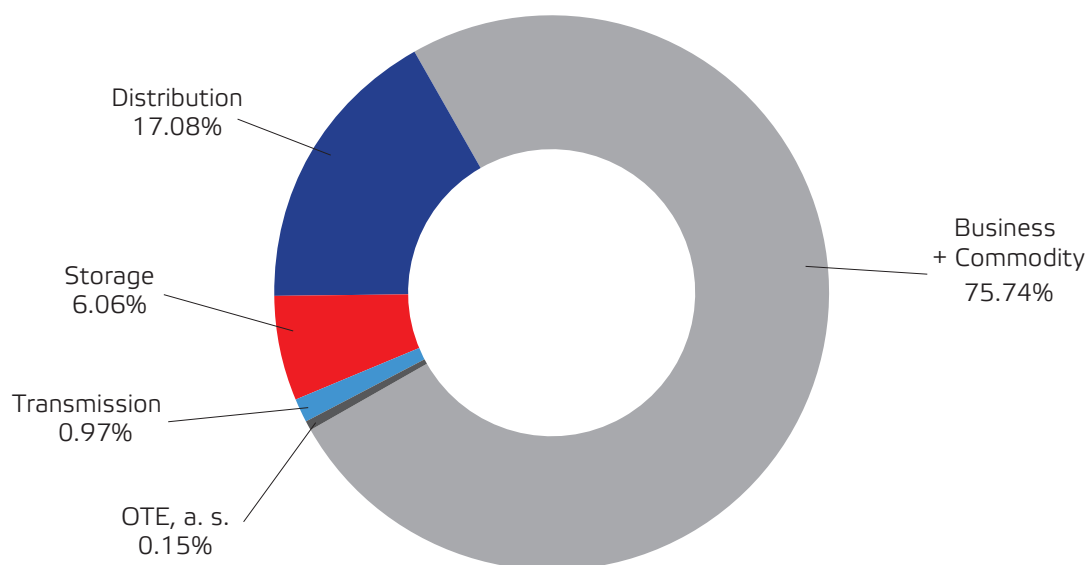
Pricing

The Office sets prices in those parts of the gas industry, in which competition is not feasible for technical reasons. Authorised by the law, the Office sets fixed prices for the network services of gas transmission and distribution and prices for the market operator's services, and for the supplier of last resort if need be. The Office is not authorised to control prices for the services of gas supply by gas traders, and prices for gas storage, or the flexibility service, are not subject to control. Although gas storage prices are not subject to control, they are optimised via offers of storage capacities in multi-round electronic auctions as described in more detail in the section on gas storage prices.

The Office sets the prices of regulated services related to gas supply every year under the Energy Act and public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price control, as amended. In 2012, the size of the regulated component of the price was heavily influenced by the drop in total gas demand and also the price of gas for covering losses and gas for in-house process consumption.

As every year, one of the Office's important activities was the drafting and issue of a price decision on prices of regulated services related to gas supply, which came into force on 1 January 2013 (no. 3/2012). Price decisions are prepared in compliance with Czech legislation. The price decision sets out the regulated prices for gas transmission and distribution and for the market operator's services for the calendar year 2013.

Chart 14 Structure of the average gas supply price for household customers in 2012, net of taxes



3.2.1.1 Controlled parts of the gas supply price

Gas transmission charges

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

The Office took steps intended for encouraging a greater use of the gas transmission system. The amendment to public notice no. 365/2009 on Gas Market Rules, which came into force on 1 January 2012, has made it possible for entities that have decided to use the gas transmission system in the Czech Republic only for the purpose of gas transit, to reduce their administrative and financial burden. The encouragement consists in the elimination of the duty to hold a gas trade licence and to register as a cleared entity with the market operator. Due to these measures, however, these entities have no access to the virtual trading point in the Czech Republic. The applicability of the amendment prepared in 2012 was extended to include the gas market participants who want to use storage capacities in the Czech Republic under the same conditions as in the case of border delivery points.

For 2013, the transmission system operator's allowed revenues have dropped by 11.4 per cent. The main 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 2011 which saw a higher use of the entry border points of the transmission system than had been planned, and the transmission system operator therefore returned the funds collected in excess of the plan to the market through the correction factor. Another major factor is the continuing year-on-year drop in the costs incurred in the procurement of the services required for ensuring the stability of the system, specifically by 45 per cent.

In setting the charges for the use of the transmission system's entry points on the national borders the Office proceeded in line with its objective, stated earlier, of encouraging 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 2012 for 2013. As in 2012, the variable parts of the charges have been set, with the help of a coefficient, with a view to covering the transmission system operator'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 borders, the fixed components of the charge were kept at the 2012 level.

Gas distribution charges

Another link in the chain of gas transport to customers' supply points is gas distribution, i.e. gas transport to the customers' supply points over the distribution system serving the respective area. As in the case of gas transmission, the gas distribution charge is a double-component charge, with a variable component and a fixed component.

The fixed component of the charge for each of the supply points of customers in the high and medium-sized demand categories is determined using a logarithmic formula depending on the daily booked distribution capacity for an unspecified period of time.

The variable component of the distribution charge depends on the gas quantity taken and is calculated using a fixed price for gas taken, in CZK/MWh.

For customers in the small business and household categories (MODOM) the fixed component of the price amounts to the standing monthly charge for capacity made available.

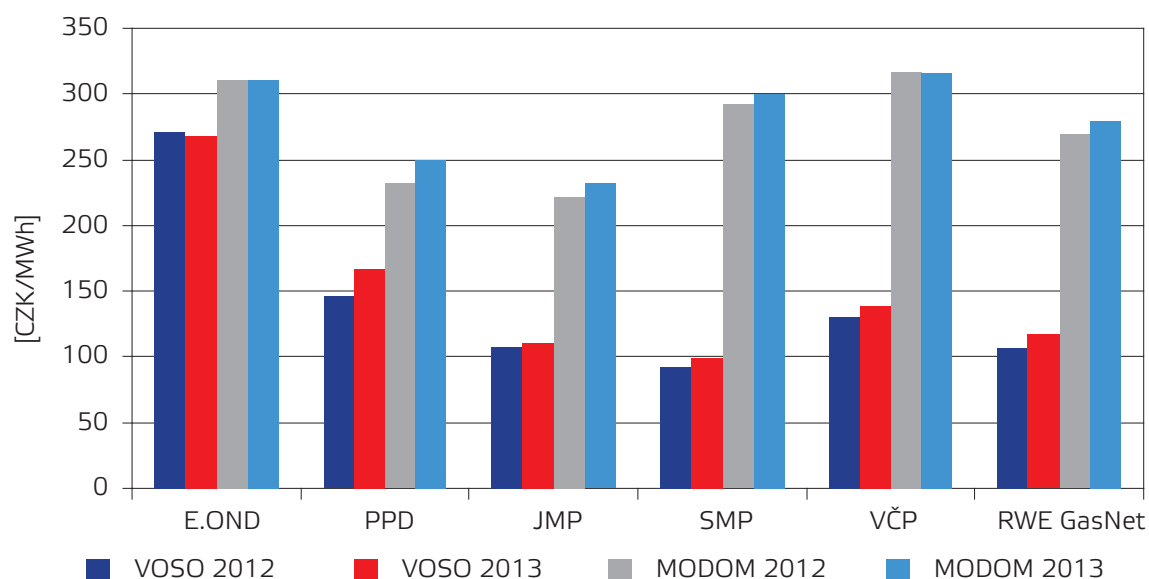
Customers with type A or B metering can also apply for a single-component distribution charge. The single-component distribution charge constitutes only the variable part of the payment for the gas quantity taken, in CZK/MWh, and it may only be requested by customers who are able to book firm distribution capacity – it is therefore intended for the customers who know very exactly the amount and variability of their demand. This single-component charge is calculated for the customer's specific supply point using the algorithm specified in the applicable price decision.

Compared with 2012, the average charge for gas distribution, including transmission, increased by 4.32 per cent for all customer categories for 2013.

Most of the distribution system operators have raised their average prices for gas distribution, which also include gas transmission. An exception is the high and medium-sized demand customers (VOSO) of E.ON Distribuce, a.s., for whom the average price has slightly decreased. Chart 15 shows a comparison of the average distribution charges. For E.ON Distribuce, a.s. the average 2013 price converted to technical units was, for the purpose of comparability, decreased compared with 2012 due to the offsetting of the negative correction factor from the preceding year. The rise in the average distribution prices of the other distribution companies has been caused by the positive correction factors and also a decrease in the gas quantity planned for distribution for the subsequent regulated year 2013.

The comparison of the year-on-year price changes is based on an assumption that the distributed quantities are the same in both years.

Chart 15 Comparison of distribution charges between 2012 and 2013 by distribution company



VOSO – high-demand and medium-sized demand category MODOM – small businesses and households

In 2012, pricing products defined in the price decision were analysed, and their use was evaluated. The analysed products included the single-component distribution charge and the booking of daily firm distribution capacity for an unspecified period of time to the extent of the historical maximum daily gas offtake achieved in the relevant period.

The single-component distribution charge is intended for customers with a markedly seasonal nature of load (for example, peak-shaving and stand-by heat generating units, grain drying plants).

The product known as 'daily firm distribution capacity booking for an unspecified time at the level of the historical maximum daily offtake in the relevant period' is intended for customers who do not or cannot work with a combination of an annual capacity and short-term capacities (monthly, sliding) and want to avoid the consequences of exceeding the agreed booked capacity.

The Office also evaluated the extent to which short-term distribution capacities were used (monthly or sliding distribution capacity).

Judging by the results, all of the above pricing products were used, and the Office therefore kept them in its price decision on the prices of regulated services related to gas supply for the subsequent regulated year 2013.

Charge for the market operator's services

A gas market operator, OTE, a.s., has been working in the gas industry since 2010. Its activities are based on an exclusive licence for the whole country, awarded by the ERO under Section 4(3)(c) of the Energy Act. The following services provided by the market operator are subject to a charge: clearing, provision of actual values to gas market participants, and organisation of the spot gas market.

The clearing activity entails a one-off fixed charge for the registration of the cleared entity, in CZK, which is paid by the entity being registered. Registered entities also pay a fixed charge for the clearing service. The last item is a fixed charge for clearing, related to the gas quantity taken. Customers, gas producers, and the gas TSO, SSOs and DSOs are the payers of the fixed clearing charge.

As of 2012, the fixed charge for clearing payable by customers includes, under Section 17d(2) of the Energy Act, a special fee for the ERO's activity, set at CZK 1/MWh of consumed gas. For 2013, the Office set the clearing charge, including the special fee, at CZK 2.16/MWh. In 2012, the charge was CZK 2.10/MWh. The reason for this y/y rise is the smaller quantity of gas planned for supply to supply points. Other charges for the market operator's services contained in the ERO's price decisions have remained at the level of 2012.

Price for the supplier of last resort

The Office sets the prices for gas supply of last resort by way of cost-plus pricing. In 2012, no case out of those laid down in the law occurred where gas had to be supplied to customers in the mode of last resort.

In response to the insolvency of one of gas suppliers, on 5 March 2012 the market operator took steps to transfer its supply points to the mode of last resort. All customers were able to carry out an accelerated supplier change within the statutory time limit of three days, and the mode of supply of last resort therefore did not have to be activated. In this connection, OTE, a.s., operators of regional distribution systems and suppliers of last resort put to test their full readiness to ensure gas supply in the event of a sudden termination of any of the traders' business.

3.2.1.2 Uncontrolled parts of the gas supply price

The uncontrolled part of the gas supply price is comprised of the commodity and business charge and the charge for supply structuring and flexibility.

Business charge

In the fully liberalised Czech market, uncontrolled prices are mainly influenced by the gas procurement costs and the competitive pressure of the other entities. In a purely market environment, each of the traders can devise its own structure and price levels of the services that it offers. Suppliers can also structure their offering into multiple product series each with its specific conditions. Thus, the unregulated retail market offers a wide range of products differentiated by the amounts of the variable and fixed parts of the price, duration of the agreement, additional service provided, and other terms and features of the supply.

In 2012, the price of gas supply for final customers was stable. The main reason was the evenly priced gas procured from abroad. Some of the traders did not change their prices for the whole year and offered their services for the same price throughout the year. Compared with 2011, the price generally settled and stabilised especially in the segment of households and small business customers.

Gas storage prices

The capacity component of the prices for the entry and exit points of the virtual gas storage facility stayed at its 2011 level in 2012. Compared with 2011, the variable component decreased by approximately four per cent.

In the Czech Republic, gas storage prices are not subject to regulation; they were formed by a market mechanism: storage capacities are offered using the method of multi-round e-auctions under terms published in advance and in compliance with the Gas Market Rules. In 2012, SSOs called three auctions to sell their storage capacity for subsequent storage years. RWE Gas Storage, s.r.o. called two auctions, one of them for storage capacity under monthly agreements and the other for annual storage capacity. MND Gas Storage a.s. called one auction in 2012, which was intended for booking storage capacity under a one-year agreement. Thanks to the influence of the low gas prices at spot markets in Germany, the opening bids were very low, which can be regarded positively by gas traders and final customers.

RWE Transgas, a.s. placed 100 mcm of physical storage capacity in the Czech Republic for sale on the secondary storage capacity market, offering it for the period from 1 April 2012 to 31 March 2013. The bundled storage capacity, divided into 5 lots, was available in the bidding process via the store-x online platform.

Forecasts of further development should take into account the development at spot markets. If the current price level continues to prevail, traders will not be compelled to cover the variations in their customers' demand using the traditional method of providing for flexibility, i.e. gas storage in underground gas storage facilities. The first factor that will affect the price per unit of storage capacity is the supply security standard, which is defined in public notice no. 344/2012 on emergencies in the gas industry and methods of providing for the security standard of gas supply, which came into force on 1 November 2012. Every trader who supplies gas to protected customers is obliged to provide for the security standard to the required extent. The above public notice lays down the method for calculating the level of the security standard. Traders are obliged to keep 20 per cent of their security standard in gas storage facilities in the EU between 30 September and 1 April. On the other hand, the 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

In 2012, gas supply prices developed very differently from 2011. Suppliers who bought gas mainly under long-term contracts benefited from the stable import price and were therefore able to maintain stable prices for the whole year. On the other hand, traders who relied on gas procurement at energy exchanges to a larger extent were compelled to reflect the higher costs of commodity procurement in their end prices, in particular in the last quarter of 2012.

According to Eurostat, the average final price of gas supply for households in the D2 band, with an annual consumption of 20 to 200 GJ (approximately 5.6 to 55.6 MWh), for the first semester of 2012 amounted to CZK 1,382.69/MWh without tax items (using a cumulated exchange rate of CZK 25.170/EUR).

In the household category, the largest part of the gas supply price is the uncontrolled business and commodity item, which rose by 4.3 per cent on 2011. The controlled parts of the gas supply price make up less than one fifth of the overall price.

3.2.2 Assessment of the development plan for the gas transmission system

In connection with the implementation of 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, 'the third energy package', into the Energy Act the transmission system operator, NET4GAS, s.r.o., prepared a ten-year plan for the development of the gas transmission system in the Czech Republic 2013 to 2022 ("the Development Plan") in accordance with Section 58k(1) of the Energy Act.

The purpose of this plan is to put in place the prerequisites for potential investments intended to reinforce the capacities in the Czech gas transmission system and to assess the ability of this system to meet the gas market's requirements. The plan sets out three types of projects:

- Projects completed in 2012 under the preceding plan for the gas transmission system;
- Projects with an investment decision adopted by 31 July 2012;
- Planned projects, i.e. those for which an investment decision is expected.

The transmission system operator is obliged to prepare this document and submit it for approval every year. The endorsement of the proposed Development Plan falls within the competences of the Office, which relies in its decision on an evaluation of the compatibility of the national Development Plan with the Community-wide network development plan, taking into account the comments received from the consultation process, with a view to identifying and then implementing all the projects that are required for the development and safe operation of the gas transmission system.

The company submitted its Development Plan to the Office by the required date. The Office posted the plan on its website and invited market participants to provide comments.

The transmission system operator prepared the Development Plan submitted in 2012 on the basis of inputs from natural gas producers, operators of gas storage facilities, the market operator, distribution system operators, and its own inputs. This ten-year Development Plan analyses the development of gas demand and the adequacy of the entry/exit capacity of the domestic zone in the Czech Republic for 2013-2022; on the basis of the results of analyses, the transmission system operator proposed modifications to the ten-year development plan from the preceding year. In preparing the Development Plan in 2012, the transmission system operator proceeded from the historical and foreseeable gas supply and demand in the future. To obtain the relevant data, the transmission system operator analysed the evolution of gas consumption in the Czech Republic, and 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 those of SSOs, investors' plans for the connection of new combined cycle units, and the Community-wide network development plan. Each of the investment plans was examined from the perspective of ensuring the safe operation of the gas system and gas supply reliability, and also from the perspective of environmental impacts, technologies, and economic effectiveness.

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, the connection of a new part of RWE GasNet, s.r.o.'s distribution system). Additional investments have been prompted by applications for the connection of the Tvrdonice storage facility, operated by RWE Gas Storage, s.r.o., to the transmission system via a new gas pipeline ending at the Břeclav compressor station. As regards the connection of storage capacities to the transmission system, another project envisages export from the expanded storage capacities in the Uhřetice underground gas storage facility operated by MND Gas Storage a.s. In terms of projects for reinforcing cross-border capacities, the key project is the connection of the Gazelle high-pressure gas pipeline to the transmission system. Together with Nord Stream and OPAL, Gazelle forms the so-called North Route for Russian natural gas flowing to Europe and is very important for diversifying sources and boosting the security of gas supply in central Europe.

Additional projects conducive to reinforcements in cross-border capacities are at the stage of expected investment decisions. They include those for expanding the interconnection between the Czech Republic and Poland, known as STORK II; for building an interconnection between the Czech transmission system and the border transfer point at Oberkappel on the German-Austrian national border; and for building an interconnection between the Czech and Austrian transmission systems via the BACI ('Bidirectional Austria Czech Interconnection') gas pipeline running to Lanžhot and Baumgarten. NET4GAS, s.r.o. submitted all of these projects as projects of common interest (PCI)

and they are being assessed at the European level, taking into account their impacts on and benefits for the CEE region.

On the basis of the data and contexts contained in the document, 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 demand in the Czech Republic for the ten-year period covered by the plan. The transmission system's exit capacity sufficiently covers the maximum development of demand in all Czech regions and in southern Moravia. Sensitivity to growth in the maximum daily demand was identified only in northern Moravia.

The Office found the ten-year development plan submitted in 2012 to be complete and free of defects and in compliance with the Community-wide network development plan, and approved the ten-year Development Plan with the exception of Point 14 Disclaimer, which is incongruent with a ten-year plan for the development of the gas transmission system under Section 58k of the Energy Act in terms of both substance and content.

3.2.3 Administrative proceedings on the grant of an independence certificate to the gas transmission system operator

Under Section 10a(1) of the Energy Act, the gas transmission system operator may only operate the system if it holds an independence certificate granted by the Energy Regulatory Office. Under Section 10b(1) of the Energy Act, certification is initiated upon an application filed by the gas/electricity transmission system operator, or the person that intends to operate the gas/electricity transmission system. Upon receipt of the application for the grant of a certificate of independence of the gas transmission system operator from NET4GAS, s.r.o., having its registered office at Na Hřebenech II 1718/8, 140 21 Praha 4, Nusle, Company No. 27260364 (hereinafter also referred to as "NET4GAS, s.r.o."), administrative proceedings were initiated at the ERO on the grant of an independence certificate to the gas transmission system operator.

Under Section 10b(6) of the Energy Act, the Energy Regulatory Office shall grant an independence certificate to the gas transmission system operator if in the certification procedure, initiated upon an application, the applicant proves that it satisfies the conditions of independence under Sections 58a to 58n of the Energy Act. Within the meaning of the above provisions of the Energy Act, the Office examined whether or not NET4GAS, s.r.o. satisfied the requirements for the legal form of the company, the requirements for the independence of the gas transmission system operator, for the resources of the independent gas transmission operator and for its independence (specifically in this respect, the Office examined the question of the ownership of the gas transmission system, sufficiency of human resources and financial resources and access to financial resources of persons that are part of the same vertically integrated undertaking, the question of the provision of services, separation of identity and premises, information unbundling and IT separation, and separate audit of the accounts of the transmission system operator). The Office also evaluated the satisfaction of the statutory requirements for the independence of the members of the governing body and the supervisory board, and the satisfaction of the requirements for the articles of association of NET4GAS, s.r.o. and for the ITO's compliance programme and compliance officer. The Office also examined the satisfaction of the requirements for the transmission system operator's business relations with persons that are part of the same group under Section 58g(6) of the Energy Act.

In accordance with Section 10b(4) of the Energy Act, the Office prepared a draft of the Ruling of its Decision and communicated it to the European Commission and the party to the proceedings. On the basis of this, the Office received the European Commission's opinion, and subsequently took into account the European Commission's comments as much as possible when it adopted the final decision in these administrative proceedings, thereby complying with Article 3 of Regulation (EC) No 715/2009 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.

In the administrative proceedings, the Office assessed the application of NET4GAS, s.r.o. as follows: in the case of the grant of an independence certificate to the gas transmission system operator under Section 10b of the Energy Act, the requirements specified in Sections 58a to 58n of the Energy Act were satisfied, and the Office therefore granted a certificate of independence of the gas transmission system operator to NET4GAS, s.r.o. The decision on the grant of the independence certificate to the gas transmission system operator became final on 29 January 2013 and was posted on the Office's website.

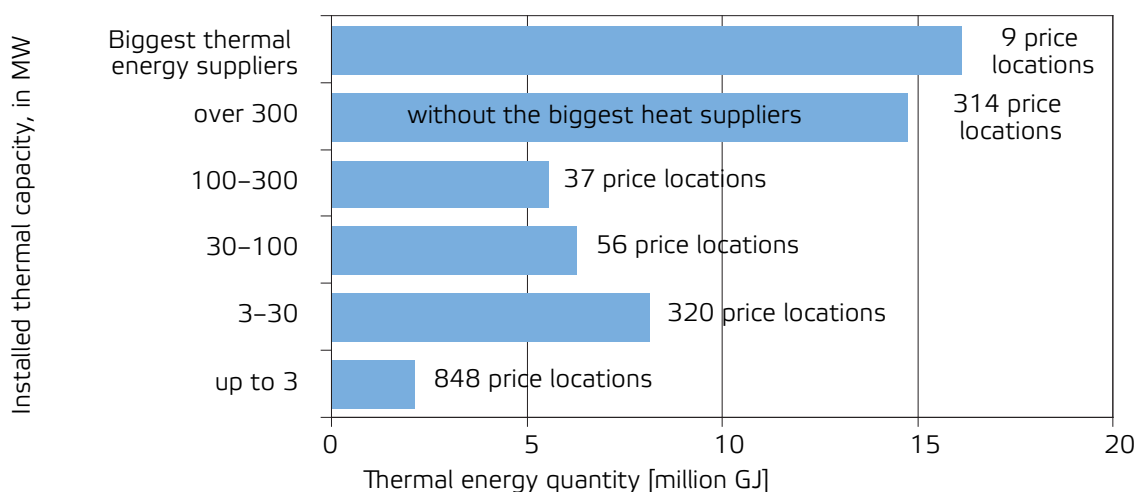
3.3 The heating industry

3.3.1 Market description

The heating industry is a major energy industry in the Czech Republic, with a long tradition of supplying heat to households and various business and non-business entities; it also plays an important role in electricity production. District heating systems are used in almost all bigger towns and cities. The heating industry is characterised by a large number of small, medium-sized and large systems owned by municipalities and Czech and foreign owners. Parts of more extensive district heating systems are often held by different business entities. They can be systems based on a historical design and also on new highly efficient installations. The quantity of thermal energy supplied to final customers, broken down by installed thermal capacity in each of the price locations, and the number of the price locations are shown in Chart 16.

In view of their nature and extent, heat supply systems in many localities can be regarded as natural local monopolies, where no other supplier of thermal energy can be found and where it is difficult to provide a different way of heating. Thermal energy prices are mainly influenced by the cost of the fuel for heat generation, and also the efficiency and economy of thermal energy generation and distribution. For maintaining the competitiveness and affordable prices of thermal energy, the operation of these systems should be optimised, the appropriate fuel mix should be used, and highly efficient technologies should be supported.

Chart 16 Thermal energy quantity supplied to final customers by installed capacity of plants supplying heat, and the number of price locations



3.3.2 Thermal energy price control

Thermal energy prices are subject to cost-plus control under Section 6 of Act No 526/1990, on Prices, as amended. Specific conditions for pricing arrangements and calculations are laid down by the Office in its price decisions on thermal energy prices. Price Decision 2/2011 of 26 September 2011 applied to thermal energy prices in 2012.

The thermal energy price may only reflect the economically justifiable costs necessarily incurred in thermal energy production and distribution, reasonable profit, and VAT. For 2012, only some provisions on the costs that could be used, and to what extent, in calculations of thermal energy prices were specified more accurately. In cases of growth in higher prices of thermal energy in 2012, the thermal energy suppliers sent their calculations and other information to the Office for its review of these prices.

The conditions for cost-plus pricing allow thermal energy suppliers to take into account their specific differences in thermal energy production and distribution when calculating prices. They can also adjust the level of their thermal energy price to competitors, if any, in the respective price location.

The purpose of regulation is to mitigate the impacts of market imperfections and protect customers against potential abuses of thermal energy suppliers' dominant position.

3.3.3 Examination and evaluation of thermal energy prices

Every year, the Office examines a large number of thermal energy prices on its own motion and also upon receipt of customers' complaints and notifications of their disputes over price levels arising on the occasion of the execution of their agreements on thermal energy supply, and also when it prepares overviews of thermal energy prices. In 2012, the Office chiefly focused on compliance with the conditions related to higher thermal energy prices and the growth thereof. Where shortcomings are identified in the examination of a thermal energy price, the supplier is immediately requested to remedy the situation, or a price inspection is initiated.

The Office compares thermal energy prices and identifies the long-term customary levels of each of the economically justifiable costs and of profit on the basis of the data in the regulatory reports that thermal energy generation and distribution licence holders prepare under public notice no. 59/2012 on regulatory reporting, and return to the Office every year. The regulatory reports contain technical, economic and other information on the basis of which the Office prepares overviews of thermal energy prices, monitors the development of prices, and evaluates the impacts of regulation and thermal energy generation and distribution licence holders' financial stability.

3.3.4 Development of thermal energy prices

The Office has been processing and evaluating the development of thermal energy prices since 2001. Chart 17 shows the development of average resulting thermal energy prices, with VAT, for final customers between 2001 and 2011 and the preliminary thermal energy price on 1 January 2012. In the period under review, thermal energy produced from coal shows a gradual and more even growth in the average price. Thermal energy from other fuels (predominantly gas and fuel oil) displays a higher y/y growth in prices in 2005, 2006, 2008 and 2012. The development of thermal energy prices is primarily influenced by fuel price hikes, shrinking heat supply, and also the gradual increases in the lower VAT rate and the imposition of the environmental tax. In 2012, the average price of thermal energy produced from coal for final customers increased by CZK 207.69/GJ, i.e. approximately by 70 per cent, on 2011 and the price of thermal energy produced from other fuels increased by CZK 256.27/GJ, i.e. some 75 per cent.

Chart 17 Average thermal energy prices for final customers (including VAT)

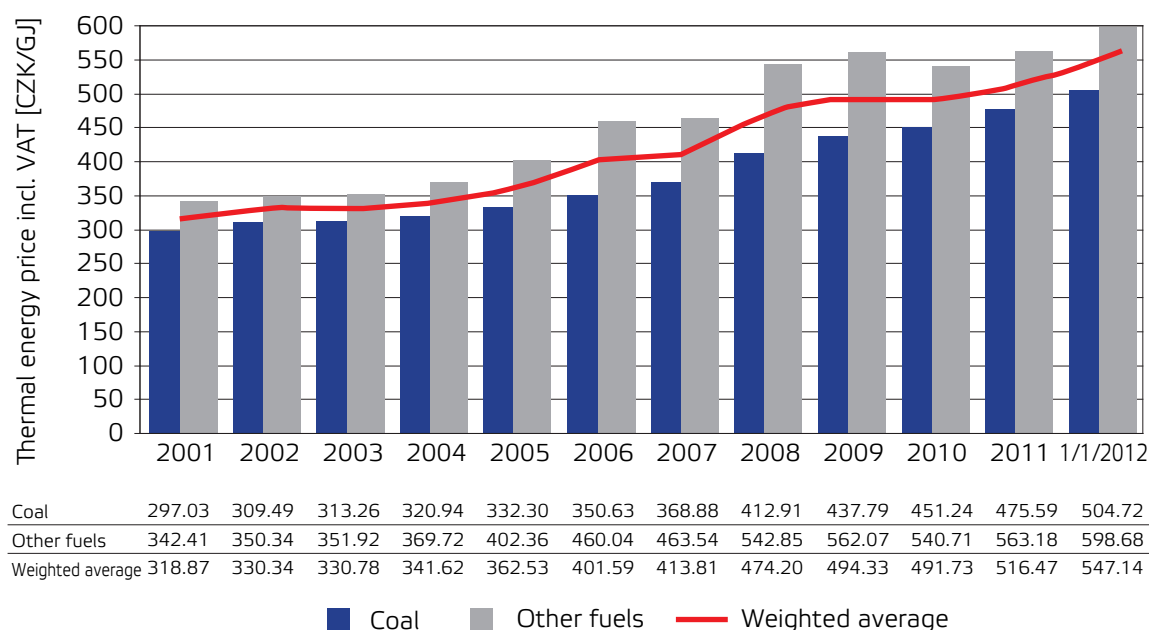


Table 1 shows average thermal energy prices for final customers for each of the regions as at 1 January 2012, together with the percentages of the fuels used in thermal energy generation. The lowest prices are in regions with large coal-fired combined heat and power generation capacities and with extensive district heating systems. On the other hand, the highest average prices of thermal energy for final customers are charged by smaller heating systems that use the other fuels to a larger extent.

Table 1 Average prices of thermal energy for final customers as at 1 January 2012 and percentages of fuels for its generation, by regions

Region	As at 1 January 2012		
	Average preliminary price of thermal energy	Coal percentage	Percentage of other fuels
	[CZK/GJ]	[%]	[%]
Pardubický	412.00	73.05	26.95
Královehradecký	465.39	74.74	25.26
Plzeňský	482.90	46.20	53.80
Moravian-Silesian	516.46	67.85	32.15
Vysočina	524.38	7.01	92.99
Ústecký	532.29	78.38	21.62
Central Bohemian	545.12	57.75	42.25
Karlovarský	573.43	61.23	38.77
Prague	573.52	48.85	51.15
Olomoucký	578.15	53.11	46.89
Zlínský	579.76	46.56	53.44
South Bohemian	582.64	67.06	32.94
South Moravian	631.07	6.77	93.23
Liberecký	683.46	3.98	96.02
National average	547.14	54.85	45.15

It is apparent from Chart 18 that in the regions where the largest proportion of coal is used for heat production (the Pardubický and Královehradecký Regions) the thermal energy price is the lowest, while in regions with a significant predominance of other fuels, in this case natural gas and fuel oils (the South Moravian and Liberecký Regions), the thermal energy price is the highest. In the Vysočina Region, biomass is increasingly becoming one of the major fuels used for producing thermal energy.

Chart 18 Average prices of thermal energy for final customers as at 1 January 2012 and percentages of fuels for its generation, by regions

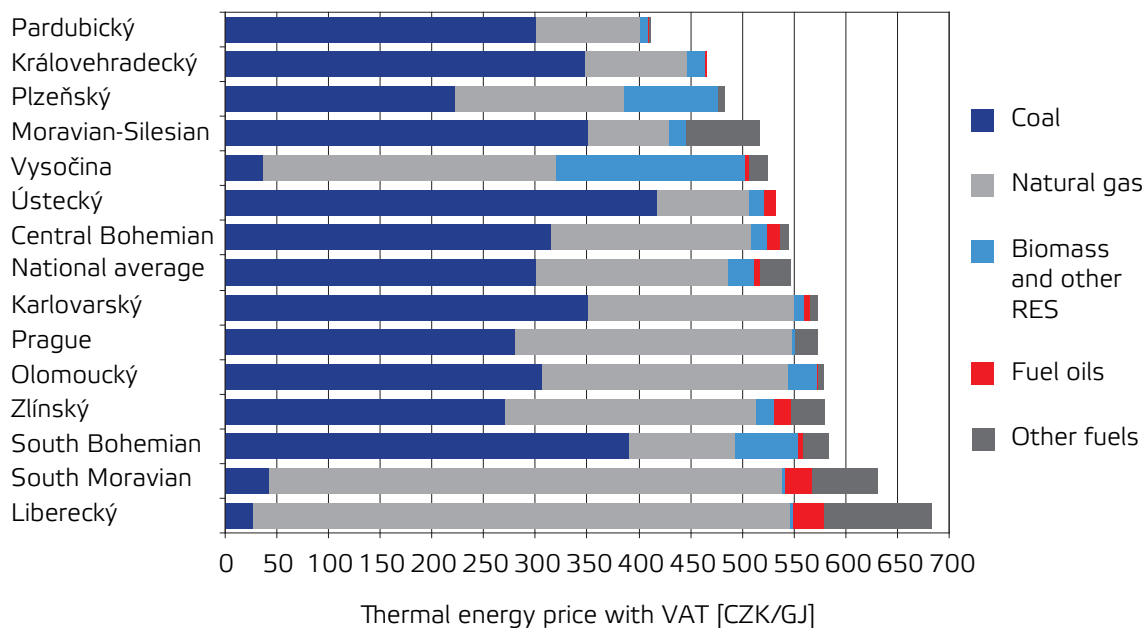
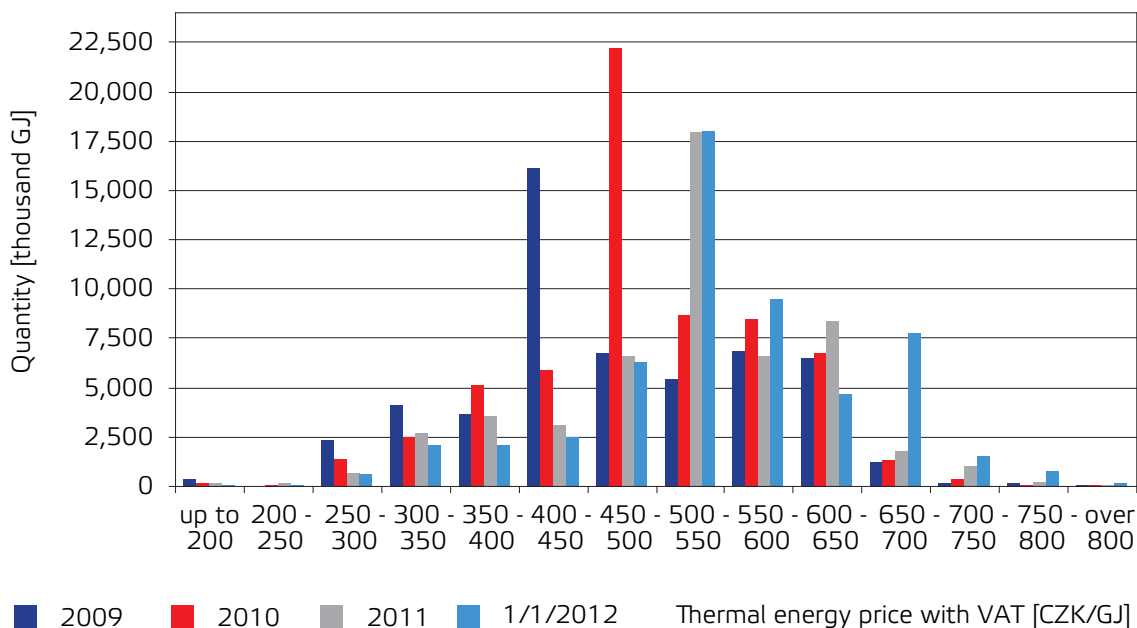


Chart 19 shows the price ranges within which the largest thermal energy quantities were supplied to final customers from 2009 to 2011 and as at 1 January 2012, without differentiating by fuel for their production. The shifting of the largest thermal energy quantity to higher price ranges is apparent from year to year. The largest thermal energy quantity is priced in the range from CZK 500 to 550 per GJ, including VAT, because cheaper heat from coal constitutes the largest proportion. In 2012, the thermal energy quantity in a higher price range, from CZK 650 to 700, including VAT, increased quite appreciably.

Chart 19 Price ranges with the respective thermal energy quantity supplied to final customers from 2009 to 2011 and as at 1 January 2012



3.4 Licensing policy and its development

A surge in applications for the award or change of licences for renewable electricity generation, in particular up to 30 kW photovoltaic plants installed on roofs of building, was registered in 2012. The total number of RES operations is 9,112, and photovoltaic plants constitute the largest portion of the increase by 8,906 new operations. A total of 10,347 applications were received in 2012, which is several times more than in 2011 when the number of applications was no more than 1,853. At the end of 2012, the installed capacity of RES operations totalled 4,628.477 MW. Of this, photovoltaic had 2,072.07 MW.

The number of applications for the recognition of business authorisations for trade in electricity and gas granted by the competent authority of another EU member state slightly increased last year. In the heating industry the number of applications, mainly occasioned by technology changes, asset transfer or decentralisation of capacities, was approximately the same as in 2011 or showed a slightly downward tendency.

Table 2 Numbers of valid licences between 2004 and 2012 by object of business

Licences	2004	2005	2006	2007	2008	2009	2010	2011	2012
Electricity generation	1,353	1,407	1,467	1,702	2,989	7,223	13,301	13,530	20,843
Electricity distribution	348	321	282	281	281	281	300	307	315
Electricity trade	146	274	285	293	310	312	321	353	360
Foreign authorisations for electricity trade	-	-	-	-	-	-	-	1	4
Gas production	12	14	13	13	14	15	15	15	15
Gas distribution	135	124	103	99	92	87	87	86	83
Gas trade	31	69	83	85	103	105	122	143	172
Foreign authorisations for gas trade	-	-	-	-	-	-	-	1	2
Gas storage	4	4	4	4	4	4	4	4	4
Thermal energy generation	693	689	674	672	655	641	627	619	627
Thermal energy distribution	747	737	721	719	699	689	675	663	653
Total	3,469	3,639	3,632	3,868	5,147	9,357	15,452	15,720	23,075

In 2012, the Office issued 8,051 new decisions awarding licences for all energy industries. In addition, 2,032 administrative proceedings were conducted on licence amendments in relation to changes of responsible representatives, changes in installed capacity and changed numbers of operations. The number of applications related to mergers or divisions of enterprises and transfer of installations to new entities also increased very much. Installations were also frequently transferred to a different licence holder (in particular photovoltaic plants), mainly between family members and natural and juristic persons. In respect of licences for electricity and thermal energy distribution the changes mainly related to a reduction or expansion 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 3 lists the number of administrative proceedings on licence award, change and revocation.

Table 3 Number of licensing proceedings between 2004 and 2012 (by purpose)

Licence proceedings	2004	2005	2006	2007	2008	2009	2010	2011	2012
New licences	312	372	413	540	1,420	5,159	6,997	560	8,051
Licence changes	793	495	542	504	598	1,154	1,708	1,029	2,032
Revoked licences	194	228	229	174	163	204	264	264	264

As regards renewables, last year saw a slight increase in the number of applications for licences for electricity production at small hydroelectric power stations and plants with a share of biogas; see Table 4.

Table 4 Number of electricity generating operations and installed capacities, between 2006 and 2012, by type of renewable energy used

Operations		2006	2007	2008	2009	2010	2011	2012
Hydro	Wind	1,320	1,351	1,354	1,369	1,397	1,420	1,451
	Capacity [up to 1 MW]	122.44	128.18	131.56	135.39	140.25	141.77	148.075
Wind	Number	57	69	77	85	93	95	105
	Capacity [MW]	44.5	117.52	149.71	192.86	214.78	217.92	261.98
Solar	Number	28	249	1,475	6,032	12,861	13,019	21,925
	Capacity [MW]	0.35	3.4	65.74	462.92	1,952.70	1,961.75	2,072.07
With a biogas share	Number	56	83	115	157	180	264	415
	Capacity [MW]	17.33	31.68	51.24	80.1	103.02	167.97	306.042
Landfill gas	Number	33	53	58	62	61	63	66
	Capacity [MW]	8.43	20.76	21.94	23.18	22.63	56.5	57.195
With a biogas share	Number	36	39	38	48	56	63	74
	Capacity [MW]	1,994.01	1,995.11	1,947.40	2,041.00	1,676.37	1,617.64	1,783.11

The list of licence holders is updated on a quarterly basis on the Office's website by licence group. On the 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 2012, the Office decided on the recognition of professional qualifications in three 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 (IMI) 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(10) of the Energy Act, the Office is required to submit an audit of the fund for the respective calendar year. Complying, the Office had the fund audited under the audit guidelines issued by the Chamber of Auditors of the Czech Republic. According to the auditor's report the books of the fund were maintained in accordance with the applicable legislation and truly and fairly reflected its situation for the accounting period of 2012, see Appendix 2.

Since 2010, the Office has carried in its records CZK 2,783 in outstanding contributions to the fund in respect of two companies. It was not feasible to collect these amounts in execution proceedings because realisable assets could not be found or because of insolvency proceedings.

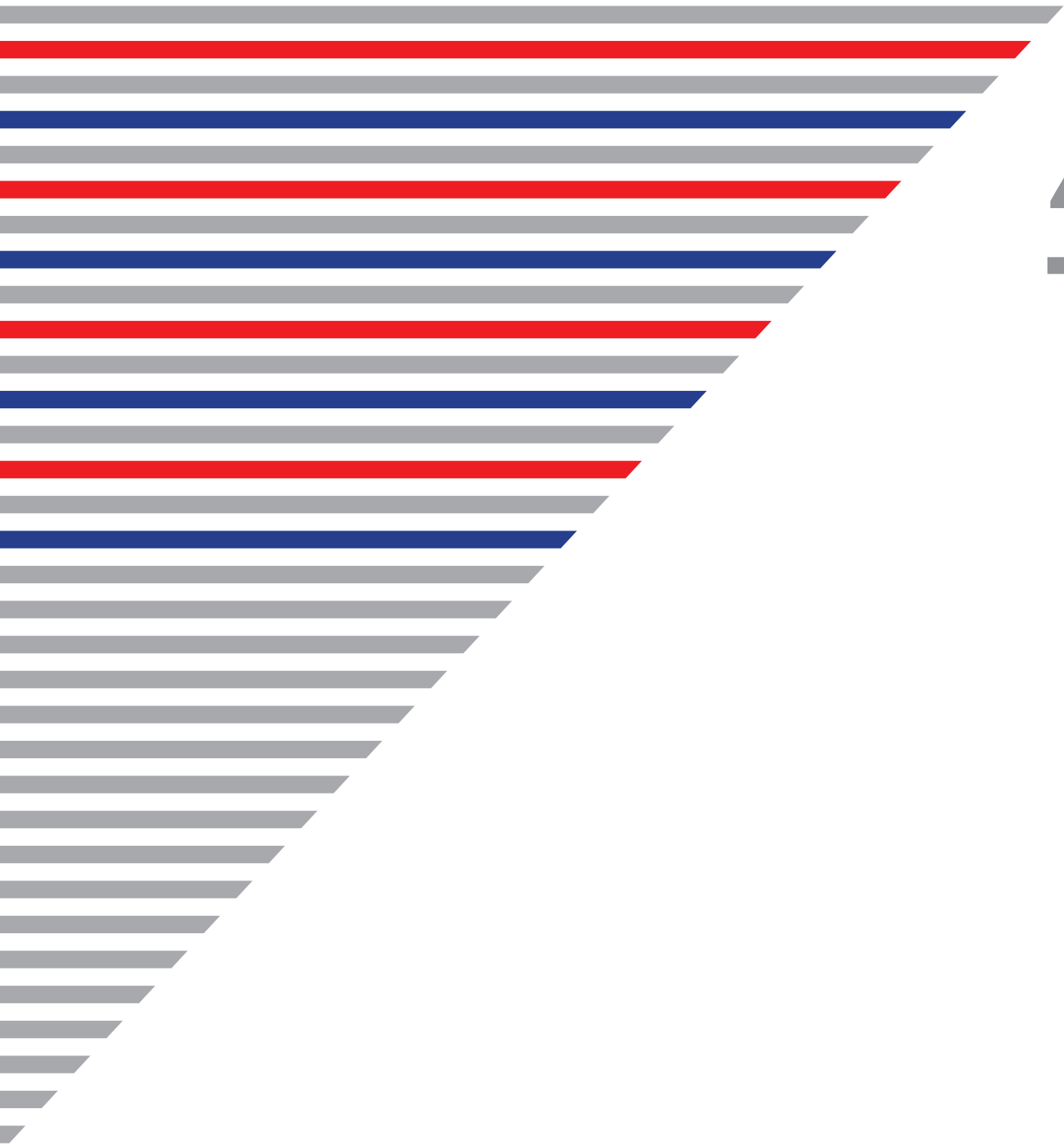
As at 1 January 2012, the opening balance in the Energy Regulatory Fund stood at **CZK 45,849,353.58**. In 2012, a total of **CZK 456,416** was paid from the fund's account in compensation for a conclusive loss from activity over and above a licence.

Adding the interest accrued (under the amendment to the Energy Act), the closing balance in the Energy Regulatory Fund current account stood at **CZK 45,443,007.97** as at 31 December 2012.

3.4.3 Proceedings on administrative fees

In proceedings on licence award, change or revocation, the Office collected fees amounting to CZK 7,841,850 (in duty stamps) and to CZK 9,600,450 (transfers to the Office's bank account and payments in cash at the Office); administrative fees totalled CZK 17,442,300.

Refund of administrative fees was requested by 103 entities; 100 requests were granted, and CZK 217,000 was refunded.



4

4 Oversight

The Office'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 ERO price decisions effective in the year under review, and supervision over the performance of the duties laid down in Act No 634/1992 on Consumer Protection, as amended, in the gas and electricity industries. The Office 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.

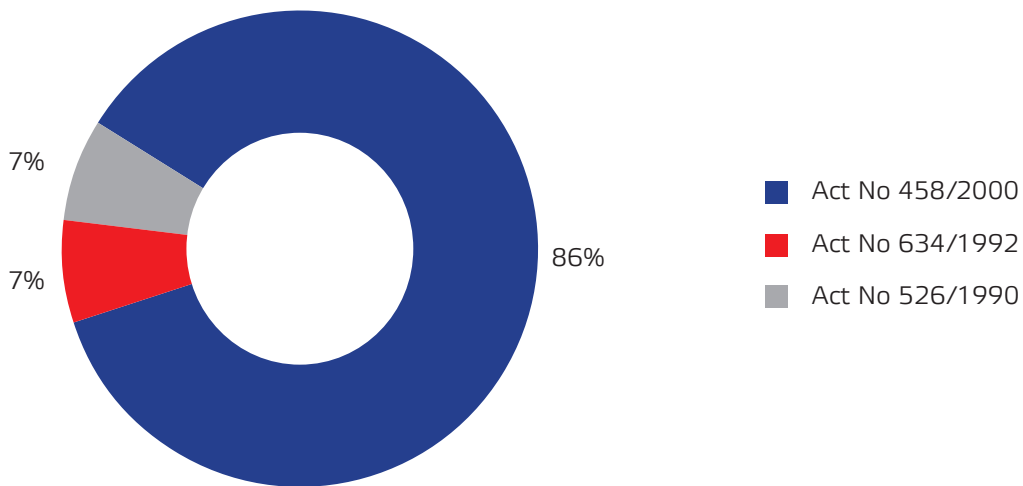
4.1 Electricity and gas industries

In the electricity and gas industries the Office initiated, under the Energy Act, a total of 268 of its own oversight actions and *ad hoc* checks (where it used its findings from market monitoring and suggestions received from final customers and other electricity and gas market participants), specifically focused in particular on renewable electricity producers in the photovoltaic category, and also checks preferentially focused on electricity and gas traders' practices in the energy supplier switching process and in their performance 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.

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 and gas system installations, compliance with the rules for the allocation of electricity and gas procurement costs (when these commodities were provided to a third party without a licence), evaluation and billing of electricity and gas taken, and failures to keep the standards of supply and service quality in the electricity and gas industries together with checking the technical condition of equipment through which electricity and gas is supplied to final customers, and adherence to the principles set for the electricity and gas markets, including the required details of agreements on the supply and distribution of these commodities. A special area of oversight in the gas industry included checks of the responsibilities of owners of properties into which gas is supplied for customers in the properties, which 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 facilitating safe and reliable gas supply, to prevent such equipment from causing a risk to life, health or property.

The Office also initiated (on the basis of suggestions from the outside, contained in consumers' submissions) inspections for suspicion of violations of consumer protection legislation (in particular prohibition of unfair business practices) in respect of the rights attached to contract rescission, including checks specifically focused on licence holders' obligation to provide, when offering and selling electricity and natural gas to consumers, complete information enabling consumers to know the final offering price (covering all taxes, custom duties and charges) prior to executing an agreement on bundled services of electricity or natural gas supply, and on the obligations related to the publication of changes in electricity and gas supply prices.

Chart 20 Checks and inspections commenced in 2012

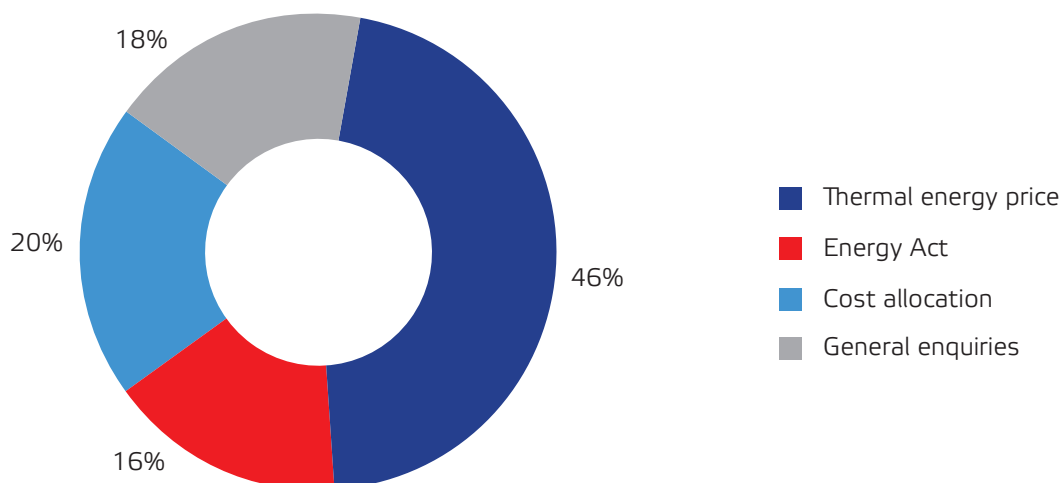


The Office placed a special emphasis on handling the submissions and suggestions received from juristic and natural persons (customers and consumers). The Office received 249 submissions by post and via its electronic mail room. Citizens' suggestions and enquiries can be categorised into two areas. One 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.

4.2 The heat supply industry

In 2012, the Office received altogether 156 submissions requesting checks in the heating industry, 46 per cent of which concerning thermal energy prices and only 16 per cent concerning performance of duties under the Energy Act. The Office conducts investigation at first, and on the basis of the facts found it ascertains whether or not grounds exist for initiating checks under Act No 552/1991 on State Control, as amended.

Chart 21 Classification of complaints received by the Heating Industry Inspections Department in 2012



An important part of the complaints received by the Office concerns the allocation of the costs of heat production for space heating and hot water preparation to users of flats and non-residential areas, which is calculated by the property owners or managers designated by property owners. The Office examines whether the thermal energy price charged by the thermal energy supplier complies with pricing regulations and whether the costs of thermal energy billed by the supplier are allocated evenly by the property owner or manager to the users of flats and non-residential areas. The allocation of the services and costs of thermal energy to each of the final consumers in a property is a civil relationship and disagreements can therefore only be resolved in litigation, disputes under civil law, between the property owner and the final consumer.

4.2.1 Oversight in the heating industry

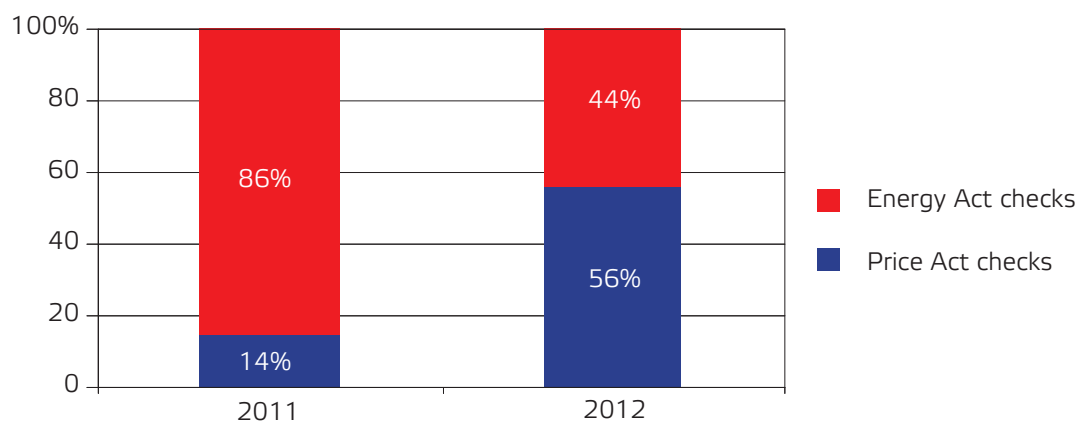
The Office is, under Section 18 of the Energy Act, authorised to supervise compliance with the duties and responsibilities under the Energy Act and pricing regulations in the heating industry.

Supervision over compliance with the Energy Act is geared towards overseeing the performance of the duties arising from the Energy Act and also from the implementing regulations related to the Energy Act. Inspections mainly focused on checking whether thermal energy was supplied with the State's consent (under the respective licence), or whether the thermal energy supplier interrupted or curtailed thermal energy supply justifiably and in accordance with the Energy Act. Inspections were also conducted for the purpose of checking the disclosures in regulatory reports in 2010 under public notice no. 408/2009 on the essentials and structure of regulatory reports, including model forms, and the rules for compiling regulatory reports, which were suspected to report incomplete or incorrect technical and economic information. Compared with the electricity and gas industries, in the heating industry the Office registers only a very small number of cases of trespassing on the protection zones along heat distribution installations.

Customers taking thermal energy resort to the Office with requests for checks of compliance with implementing regulations under the Energy Act, most frequently in respect of checks of thermal energy supply billing and 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. In 2012, inspection under the Act on State Control was not needed in these cases.

Supervision over compliance with pricing regulations consists in checking compliance with Act No 526/1990 on Prices, as amended, and ERO price decisions effective in the respective year under review. Mainly customers taking thermal energy send their suggestions for price-related checks because of the heat price hikes. The Office always opens an investigation in such cases, which then indicates the existence or otherwise of grounds for opening price-related checks. The Office always initiates checks on its own motion, on the basis of its own findings, or upon proposal from the Ministry of Industry and Trade.

Chart 22 Oversight in 2012 compared with 2011

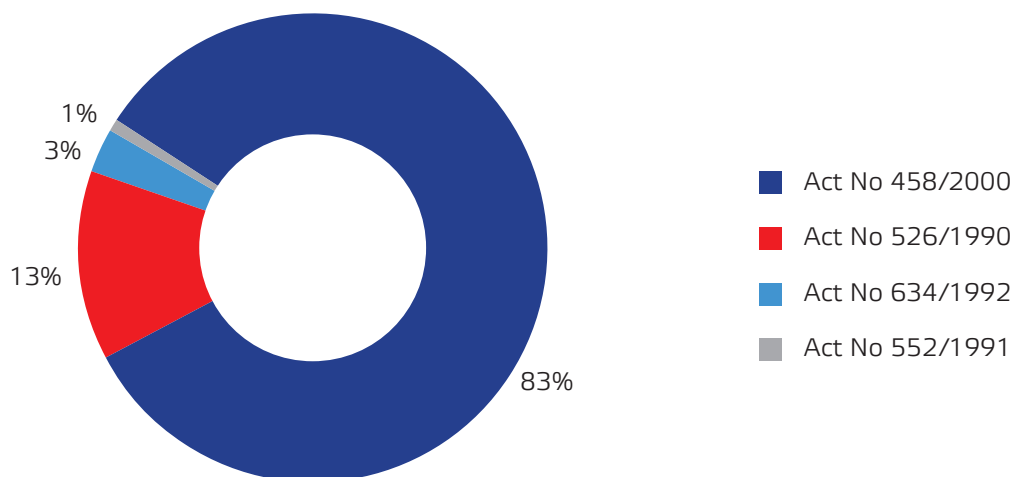


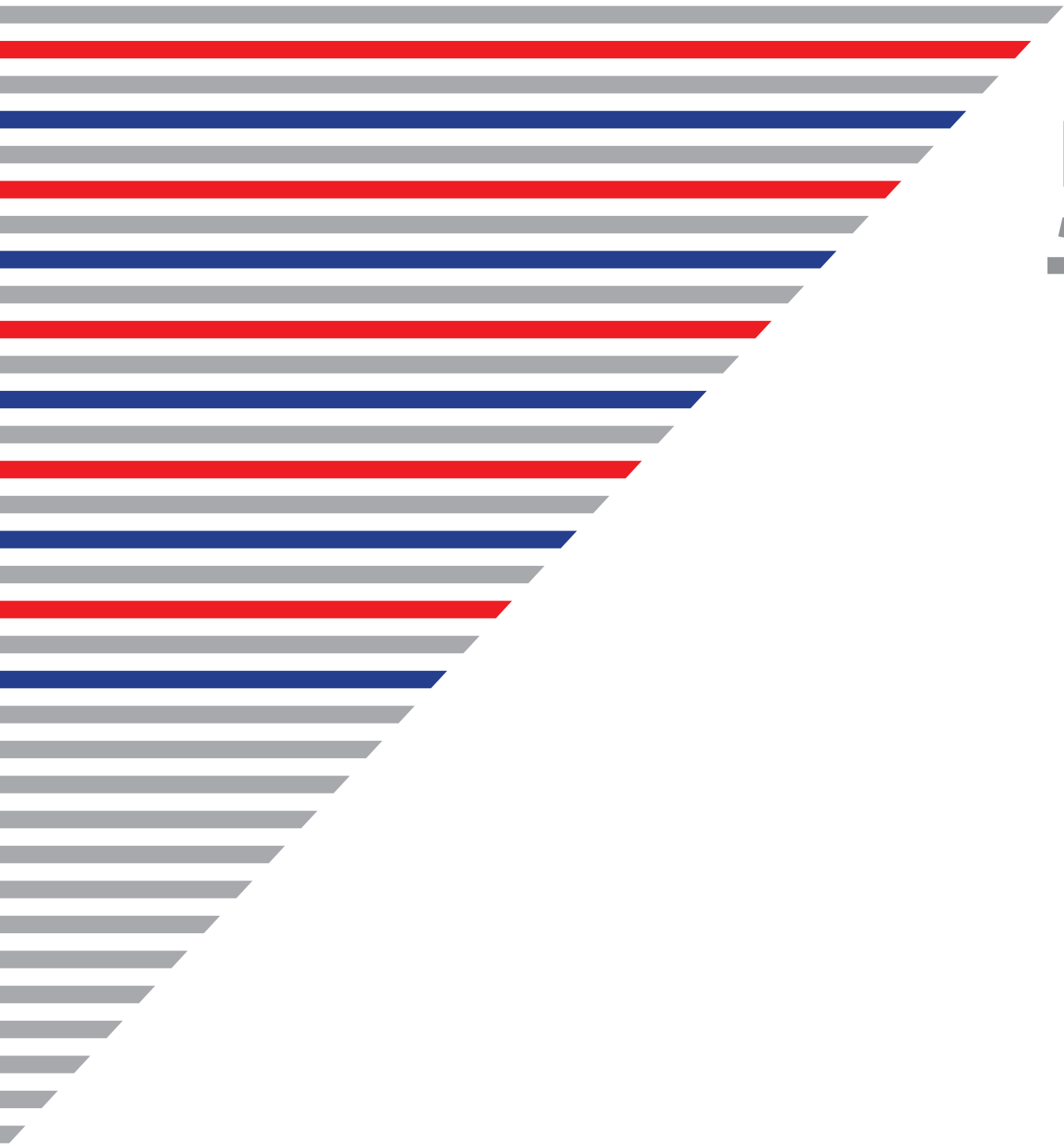
4.3 Administrative proceedings

In 2012, the Administrative Proceedings Unit conducted 153 administrative proceedings on penalties and proceedings on administrative offences related to violations of the Energy Act, and also 26 administrative proceedings on violations of Act No 526/1990 on Prices, as amended, six administrative proceedings under Act No 634/1992 on Consumer Protection, as amended, and two administrative proceedings on violations of Act No 552/1991 on State Control, as amended (procedural fines for failure to cooperate during inspections). Fines totalling CZK 8,778,103 were levied with finality for administrative offices. A total of 46 remonstrances were filed against decisions taken at the level of the first instance. In 2012, the highest fine was levied on České Energetické Centrum Jih s.r.o., CZK 1,400,000. The Office levied some other high fines with finality on SoLo Sport a TUV, spol. s r.o., České Energetické Centrum a.s., Central Energy, s.r.o. and ALESTA, a.s. The heaviest fines were levied for violations of consumers' rights.

The largest number of cases addressed by the Office concern trespassing on the protection zones of energy installations, with gas installations predominating – trespassing on the protection zones of gas installations and damage to gas installations. In 2012, the Office tackled 60 such cases. In cases of these administrative offences, fines ranged from CZK 5,000 to CZK 125,000. In addition, in 2012 the Office set aside, in terms of procedure, 160 infractions due to the extinction of their culpability. The staffing of the Administrative Proceedings Unit was reinforced in 2012; optimum processes were put in place, and new methodologies for administrative proceedings were implemented.

Chart 23 Cases addressed in 2012





15

5 International and internal relations

5.1 International activities

In 2012, the Office was involved in a number of international activities, primarily in the EU institutions. It maintained intensive co-operation with the Council of European Energy Regulators (CEER) and the Agency for the Cooperation of Energy Regulators (ACER).

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/EC² and 2003/55/EC³ the Office prepared *The Czech Republic's National Report on the Electricity and Gas Industries for 2011*, which was delivered to CEER and the European Commission on 26 July 2012 (Czech version) and 28 August 2012 (English version).

CEER and ACER

As part of the long-term co-operation between CEER and ACER, the Office's employees took an active part in projects for 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.

At meetings of CEER and ACER working groups, the Office's representatives focused on coordinating approaches and promoting the Czech Republic's positions in respect of electricity and gas markets, issues related to customers, and the national 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, market coupling, customer protection and REMIT implementation. Another subject of discussions was the issue of smart networks. Progress in this respect depends on the results of pilot projects in each of the countries and the availability of technologies, in both financial and technical terms. In the Czech Republic, the ripple control system, which has a number of smart network features, is already extensively used. Continued discussions will have to consider the benefits for end customers, primarily in relation to the costs.

The deliberations of the two organisations also focused on renewable energy sources, support for these sources and systems developing their use, energy efficiency and trading in emission allowances.

The first half of 2012 followed up on the result of 2011, which had been dedicated to public consultations on the consequences of non-harmonised policies of support for renewable energy sources in terms of their effects on investment decisions and the functioning of the various national markets and the pan-European market.

The public consultation was preceded by a report summarising the main arguments put forth by the European Commission and academics. The issue of the general harmonisation of support has been open almost since the very beginning of the introduction of support tools; the reason is that

2 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

3 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

economic theory claims that in such a case, the optimum allocation of resources will be achieved, for example, the ideal siting of power stations and, above all, a reduction in the overall volume of subsidies. The Czech side's task during the public consultation was to find out whether in other countries the cumulating of subsidies for renewables is possible (for example, investment subsidies and also support in the form of electricity feed-in tariffs). It also turned out that in countries such as Germany and the UK, such accumulation is not allowed, but in the Czech Republic it was normal practice even in 2012.

Work was started on additional general instructions for ENTSO-E and ENTSOG, which are preparing the respective network codes on their basis; these codes will influence the functioning of energy markets in the EU, and therefore also in the Czech Republic, in the coming years.

REMIT implementation

In 2012, ACER's and CEER's working groups focused on addressing issues in the area of information technology, and systems for registering market participants, for collecting records on transactions in the wholesale energy market, including instructions for trading and fundamental data, and for monitoring the trading in wholesale energy products, and on the mechanism of efficient data sharing between ACER, national regulators, ESMA and other institutions. Discussions also centred on centralised systems for the publication of confidential information about the electricity and gas markets.

New legislative proposals – a regulation on energy infrastructure

The proposed regulation will replace the still applicable regulation on guidelines for trans-European energy infrastructure. The proposal for a new regulation on the same subject was presented by the Commission on 19 October 2011 on the basis of a request from the European Council of February 2011, and subsequently discussed in the TTE Council and the energy working group.

The regulation lays down the procedures for identifying projects of common interest (PCI), i.e. projects important from the pan-European point of view, and also a set of measures that will facilitate and accelerate the implementation of such projects. A "pre-selection" of the PCIs for 12 strategic trans-European corridors and areas to which the regulation gives priority took place in regional groups, i.e. in parallel with debating the regulation in the Council and the European Parliament. The regulation lays down a set of general and specific criteria for PCI eligibility, for example, the condition of inclusion of at least two member states, whether physically or with an "impact" on the other member state. In addition to these criteria, the regional group will help to check and select high-quality projects and rank them by project importance and urgency for the EU's objectives. The final Union-wide PCI list is expected to be adopted through a delegated act by mid-2013, and is to be reviewed every two years. Where a project is identified as a PCI, the project promoter will prepare an implementation plan to be monitored by ACER and the regional group, to which the project promoter will also submit annual reports on the progress achieved for the project.

Regional initiatives

Electricity, Central and Eastern Europe

Under the electricity regional initiatives, 2012 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 are carefully monitored by the European Commission and took place at several levels. The Implementation Group on Congestion Management, 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 long-term testing, transmission system operators have presented several alternative variants of the flow-based method, which could be implemented in this region in 2012. 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 Europe⁴, 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.

4 The Czech Republic's market coupled with Hungary and Slovakia was launched in September 2012.

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.

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 regional initiative mainly focused 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 2012, the Office's employees took 130 business trips to other countries; they attended meetings of the working groups, task forces etc. of the Council of the EU, CEER and ACER, meetings with representatives of counterpart regulators, and conferences, workshops, technical seminars and study visits in line with the Office's objectives in respect of international co-operation and involvement in the activities pursued by international organisations. Upon request from the European Commission, the Office's senior officers also attended several meetings with the senior officials of Directorate-General for Energy in relation to the certification of the operator of the gas transmission system, the granting of exemptions, the addressing of unplanned electricity flows and other issues.

5.2 Internal relations

Co-operation with central state administration authorities and Czech Parliament

Under the Energy Act and other general and special laws and regulations, the Office mainly cooperates with the Ministry of Industry and Trade (MIT), Ministry of Finance, Ministry of Foreign Affairs, the Office for the Protection of Competition, Ministry of the Environment, Ministry of Labour and Social Affairs, the Czech Statistical Office, the State Energy Inspectorate (SEI) and other administrative authorities in energy.

In 2012, the co-operation with MIT's energy and legal experts continued, with a focus on evaluating the experience with the application of the Energy Act and other regulations applicable in energy as the fundamental legal framework defining the environment for energy market players' operation. The application of the law and the related implementing regulations in practice was the basis for drafting amendments to the respective regulations sponsored by both the ERO and MIT. In particular the development in renewable energy sources in the Czech Republic and the whole EU resulted in the drafting of a comprehensive amendment to the law on supported energy sources, which Czech Parliament started to debate in the second half of 2012.

The Office's representatives attended all debates on the amendment to the law on supported energy sources in the committees of both houses of Czech Parliament. In connection with the drafting of and debates on this law, the Office 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 Office's representatives were not always identical with the views and approaches of the two houses of Czech Parliament.

One of the underlying frameworks of the Office's activity is its co-operation with the MIT and the 'Governmental Council for the Energy and Raw Materials Strategy of the Czech Republic', primarily in relation to the relevant documents, including the National Action Plan of the Czech Republic for Renewable Energy, the National Energy Concept, the National Raw Materials Policy and the Action Plan for Biomass in the Czech Republic for 2012 to 2020. ERO Chairwoman also provided Minister of Industry and Trade with information about the Office's key plans, and the drafting of price and other decisions that might have significant social and/or macroeconomic impacts, on a regular basis. ERO Chairwoman also consulted certain problems of the inflationary impacts of energy prices and of macroeconomic stability with the Czech National Bank and the Ministry of Finance.

In co-operation with the Czech Statistical Office, the ERO continues to offer, and to provide 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.

The Office also works with the Ministry of Labour and Social Affairs and, for the purpose of the application of the law on assistance in poverty, prepares and provides in the agreed formats overviews of prices in the electricity, gas and heating industries.

The Energy Act requires the Office to inform Czech Parliament about its activity every year, in the form of a report on activities and finances. The Office continuously keeps in touch with the various committees of the Chamber of Deputies, especially the Economic Committee and its Energy Subcommittee, the Committee for Public Administration and Regional Development, the Environment Committee, the European Affairs Committee, and also the Audit Committee. The Office also pursues continuous co-operation with the Senate's committees, in particular the Committee for Economy, Agriculture and Transport and its Subcommittee for Energy, the Committee for Regional Development, Public Administration and the Environment, and the Committee for EU Affairs, in respect of energy legislation.

The Office's representatives attended the meetings of both houses' committees on a regular basis to discuss primarily the forthcoming amendment to the law on supported energy sources and EU papers. During the drafting of and debates on the law on supported energy sources, the Office prepared several analyses, which – responding to the evolution of the content of the amendment to the law and the progressively presented amending proposals – addressed the practical impacts of the proposed changes and adjustments and offered a realistic view of the issues in question. Responding to requests from members of the various committees and sub-committees, most notably in connection with points on photovoltaic plants and feed-in tariffs for renewable electricity, the Office drew up several explanatory papers and studies.

In 2012, ERO Chairwoman provided periodical information to the chairmen of the Economic Committee and the Energy Subcommittee of the Chamber of Deputies about the Office's crucial decisions on prices and about the progress in the drafting of the amendments to energy legislation in relation to regulatory issues.

Public and media relations

Information provision under Act No 106/1999 on free access to information

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 2012, the Office was approached by 94 applicants for information.

Under Section 18 of the above law, on 1 March 2013 the Office published a report for the preceding calendar year, containing the following:

Section 18(1)(a)

Number of requests for information: 94

Number of decisions to dismiss the request: 15

(For details please see Appendix 1)

Section 18(1)(b)

Number of appeals filed against decisions: 5

Numbers of accepted and handled requests for information:

	Total received	Handled directly	Referred for handling
Requests (Section 18(1)(a))	94	94	0
Appeals (Section 18(1)(b))	0	0	0

All requests for information received by the communication unit were handled directly by the Office's relevant technical departments.

Section 18(1)(c)

Copies of material parts of every judgment of a court: 0

Section 18(1)(f)

Other information relevant to the application of this law:

Numbers of requests for information received and handled in 2012 from the perspective of the Office's activities

Licences	21
Regulation	52
Oversight	1
Other	20
Total:	94

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

The public's interest in the energy sector caused 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. A major part of the questions that were addressed to the new consumer protection unit concerned energy supplier switching on the liberalised market, particularly in relation to the activities of doorstep vendors. Questions also concerned prices, and issues of the development of electricity production from supported sources. 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.

Media

Due to the shift in regulation in response to the respective legislative changes, primarily those concerning supported energy sources, the presentation of the Office's position and activity 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 Office's forthcoming steps on time. The development of the communication strategy included periodical press releases on the Office's key activities and positions, and press conferences and briefings on the current issues arising from the Office's activities, appearances of the Office's personnel at conferences and seminars and the publication of articles in the trade press, in particular the titles focused on energy. The Office's policy is to be open and responsive, flexible in the provision of information, and consistent and reliable in relation to the media, and also to listen to them and use the feedback.

In 2012, the Office also participated in the organisation of a technical conference on *Energy Market Regulation 2013 – ERO's Activities in 2012 and New Priorities*, which was attended by prominent personalities of Czech energy.

In order to strengthen internal communication, in 2012 the Office started to issue an internal e-quarterly, *Our Office*, which carries information about the activities of the various parts of the Office, personnel information, and also, for example, information from Cabinet and Parliament meetings and sittings.

Publications

In 2012, the *Energy Regulation Gazette*, issued by the Office under the Energy Act and published via the public administration portal, appeared only in electronic form and was subsequently posted on the Office's website.

Ten issues of the *Energy Regulation Gazette* appeared in 2012. Six of them carried price decisions: three on electricity prices, two on gas prices and one on thermal energy prices. The Office also published a document on the assessment of the share of renewable electricity in gross electricity consumption and the expected impact of support for renewable electricity generation on the total

price of electricity supply for final customers, a report on the management of the Energy Regulation Fund for 2011 and the budget proposed for the fund for 2012, and a report on the level achieved in maintaining electricity transmission and distribution continuity for 2011 (*The Quality Report*).

Under Section 10(2) of Act No 526/1990 on Prices, as amended, the Office 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 again performed its duties in 2012.

Under Section 17(7)(m) of the Energy Act, the Office publishes annual and monthly reports on the operation of the Czech electricity grid and annual and monthly reports on natural gas supply and consumption. Licensed entities operating in the electricity and gas industries furnish the Office with the information, in the form of operating and technical data, for the preparation of the above reports.

The monthly reports are prepared by the end of the month following the end of the period under review and are published on the Office's website. The *Annual Report on the Operation of the Czech National Electricity Grid* and the *Annual Report on Natural Gas Supply and Consumption in the Gas System* are prepared once a year. Since 2011, both of these reports have been appearing in English in the unabridged version.

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

Both as hard copy and in electronic form, both in Czech and English, the Office produced its *Report on the Activities and Finances of the Energy Regulatory Office for 2011*, which it submitted to the Czech Government, the Chamber of Deputies of Czech Parliament, the European Commission and ACER in compliance with the Energy Act.

Internet

In The Energy Regulatory Office menu, the Office's website was extended to include a section on The ERO's Final Decisions under Section 17e(1)(b) of the Energy Act, broken down to minor offences and administrative offences.

The spring of 2012 saw the formation of a project team for the development of the Office's new website, the main purpose of which is to create a new, dynamic and open web interface working as a high-quality and secure information channel between experts, the public, the regulated entities and the Energy Regulatory Office.

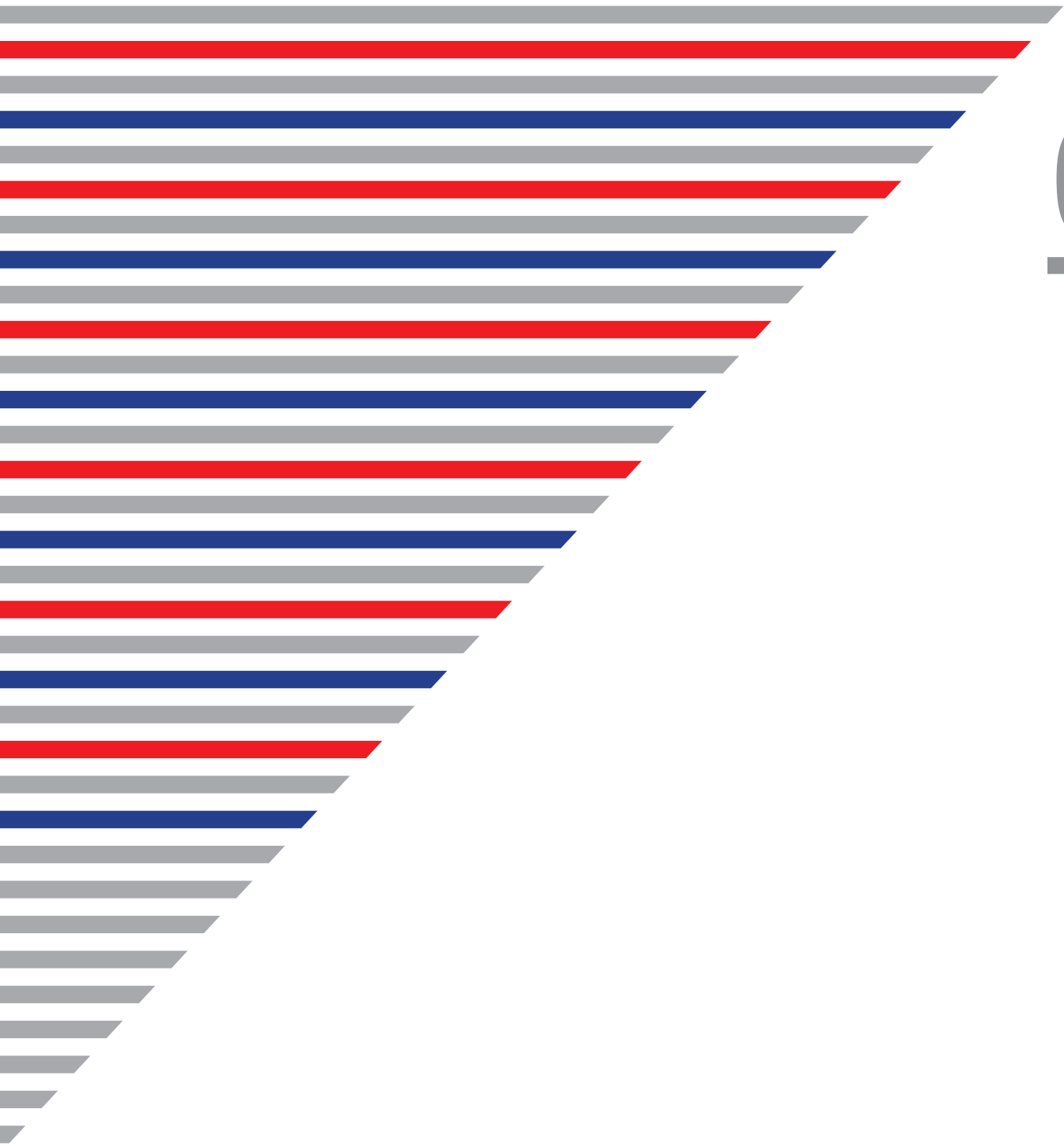
Subsequently, an analysis of the Office's current website was drawn up; it became the basis for awarding a public contract for the supplier of the new website, including the editing system for its easy management.

In late 2012, the Office was ready to call for tenders already under the amended wording of the law on public procurement as in force since 1 April 2012.

5.3 The Chairwoman's Advisory Corps

The advisory corps works for ERO Chairwoman in an advisory capacity at the independent Energy Regulatory Office. Its composition of experts matches the Office's orientation; the experts contribute their experience to ERO Chairwoman's objective and comprehensive information mix.

Members of the advisory corps provide their expert opinions and submit their proposals to 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 455/2011 on the National Budget for 2012 of 14 December 2011, with income totalling CZK 217,623,000 and expenditure totalling CZK 191,905,000.

The originally approved ERO budget (the budget after changes) was adjusted to CZK 191,055,000 in respect of total expenditure and the final budget was adjusted to CZK 194,514,000. Budget adjustments were made in compliance with Act No 218/2000 on Budgetary Rules, as amended. In 2012, the Office made 10 adjustments to budgeted expenditure. The scope and detailed structure of the budgetary measures are described in detail in the proposed 2012 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 217,623,000** for 2012; of this amount, tax revenues of CZK 213,123,000 and non-tax revenues of CZK 4,500,000.

Actual performance versus the budget as at 31 December 2012 in terms of *total income* was **CZK 228,280,680**, i.e. at 104.9 per cent of the approved plan.

In respect of *tax revenues*, as at 31 December 2012 actual performance was **CZK 220,427,840**, i.e. at 103.43 per cent of the approved plan. This tax revenue consisted of the fee for the Office's activities under Section 17d of the amendment to the Energy Act (actual amount CZK 210,827,390) and the administrative fees charged for licence award to entities operating in energy (actual amount CZK 9,600,450). The fee for the Office's activities was collected in line with the applicable legislation and has to be primarily used for the financing of the Office and its activities.

In respect of *total non-tax revenue, capital income and accepted transfers*, as at 31 December 2012 actual performance was **CZK 7,852,840**, i.e. at 174.51 per cent of the approved plan. This non-tax revenue consisted largely of income from fines levied by the Office in the energy sector under Act No 458/2000 and Act No 526/1990 (actual amount CZK 7,528,260) in connection with the transfer of powers from SEI to ERO, and also certain random income (actual amount CZK 324,580). For 2012, income from the EU budget without social security and health insurance was not included, and the actual amount reported at 31 December 2012 was nil.

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 5.

Table 5 Meeting of mandatory targets

Mandatory targets	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/3 [%]
	1	2	3	4	5
Aggregate targets					
Total income	217,623,000	217,623,000	217,623,000	228,280,680	104.90
Total expenditure	191,905,000	191,055,000	194,514,000	168,384,420	86.57
Specific targets – income					
Tax revenues	213,123,000	213,123,000	213,123,000	220,427,840	103.43
Non-tax revenues, capital revenues and accepted transfers	4,500,000	4,500,000	4,500,000	7,852,840	174.51
Specific targets – expenditure					
Outlays to support the ERO's tasks	191,905,000	191,055,000	194,514,000	168,384,420	86.57
Standard targets					
Salaries for employees and other payments for work	79,468,000	79,468,000	79,468,000	76,360,020	96.09
Salaries for employees under employment contract	75,801,000	75,801,000	75,801,000	73,801,000	97.36
Salaries for employees under employment contract derived from salaries of constitutional officials	1,569,000	1,569,000	1,569,000	1,555,440	99.14
Statutory insurance premiums paid by the employer	27,019,000	27,019,000	27,019,000	25,741,030	95.27
Allocation to the Fund of Cultural and Social Needs (FKSP)	774,000	774,000	774,000	754,000	97.42
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	37,516,000	37,666,000	36,956,000	30,052,270	81.32

In 2012, claims on unused expenses (NNV) from previous years, CZK 6,306,000, were applied.

6.4 Analysis of employment and payroll funds

The Office's personnel and organisational activities were mainly geared towards the following tasks in 2012:

Personnel management agenda

The budget approved for 2012 set out the number of the Office's employees at 178. Because of the impacts of the amendment to the Energy Act, which has significantly broadened the range of the Office's competences, the number of positions required by the respective legislation rose by 76 year-on-year (44 of these positions had been included in the budget for 2011). The main task for 2012 was therefore to ensure that the new lines of activity are properly staffed and also to tackle the higher turnover of employees. Another important task was the staffing of the licensing department, which had to cope with the largest ever number of licence applications filed at the very end of the year, mainly for photovoltaic installations.

Education and training

Because of the growing extent of each line of activity and the lower than required staffing levels, it was not easy to carry out all the educational activities that had been set for 2012 in an internal regulation. The greatest problem was the employees' time capacities. In spite of that, CZK 1,552,690 was spent on education (expenditure item 5167 – training and education services). Total expenses on education therefore account for 2.06 per cent of the actual cost of salaries for employees under employment contracts (including ERO Chairperson's salary), which was much more than the year before (0.85%, CZK 401,690).

As in previous years, the Office planned educational activities in accordance with Government Resolution No 1542/2005 of 30 November 2005 on the rules of administrative authority staff training. The issue of education had previously been implemented in the Office's internal standard, which was updated and adjusted to the Office's current needs in 2012. After a few years, language education was resumed to a greater extent.

Initial training

a) Introductory initial training

All employees took this course once their employment contracts came into effect; it also includes training in OHS and fire protection. 83 employees took this course;

b) Continued initial training

This is organised in co-operation with the Institute of State Administration. The purpose is to acquaint the employees with the basics of law, the operation of public administration, the issues of public finance and similar themes. 56 employees took this course.

Advanced training

a) Advanced managerial training

It had the nature of a team training course attended by 21 managers. Training courses were also organised on the subject of preventive measures and procedures in the prevention of corrupt behaviour in state administration, which were attended by 19 managers and 72 other employees, especially those working in the technical units that are exposed to this issue to the largest extent.

b) Language training

In 2012, this training was resumed to a larger extent. Some of the new employees were also included in language courses.

ERO Chairwoman specified 115 official positions for which knowledge of a world language is prerequisite qualification. As at 31 December 2012, eleven of these official positions were vacant. In the 104 official positions that were filled, 80 employees fully meet the language qualification requirement. In respect of 24 new employees, the language requirement will be met in 2013 and 2014 when they pass the respective examinations. As at 31 December 2012, the language qualification requirements were therefore met by 76.92 per cent of the set and filled number of official positions.

Table 6 Employees' command of languages as at 31 December 2012

	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	73	30			103
German	11				11
French		1			1
Total	84	31			115

- c) Other advanced training covered the following:
- Training in occupational health and safety and fire protection,
 - public notice no. 50/1978 on professional competence in electrical engineering,
 - drivers' professional competence,
 - repeated training in Act No 500/2004, Rules of Administrative Procedure,
 - training in Act No 634/1992 on consumer protection, as amended,
 - refresher training courses in fight against corruption and in anti-corruption conduct, and
 - additional ongoing training in amendments to legislation.

Altogether 71 training events were held, which was much more than the 53 events organised in 2011.

The structure of education, training and professional development expenses is shown in Table 7.

Table 7 Structure of education and training expenses

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
Amount	762,920	789,770	1,552,690

The year saw a major change in language education as CZK 762,920 was spent on it, much more than in 2011 (CZK 77,480). Spending on other education was also greater than the CZK 324,210 in 2011.

In addition, 36 employees were delegated to various conferences and seminars on regulatory issues.

Employees

The approved budget for 2012, in respect of the 'mandatory standard target' of 'salaries for employees and other payments for work', was at a level of CZK 79,468,000. The final budget was the same and was met at a level of 96.09 per cent, CZK 76,360,010; of this, the mandatory standard target of salaries for employees, CZK 75,801,000, was met at a level of 97.36 per cent, CZK 73,801,000, and the mandatory standard target of salaries for employees derived from those of constitutional officials was met at a level of 99.14 per cent, CZK 1,555,440. The savings of funds earmarked for employees' salaries, amounting to CZK 2,000,000, will be used through NNV claims in 2013 for temporary employees in the licensing department when all the required work, which cumulated in late 2012, will be completed.

An average salary of CZK 36,222 was planned for 2012. The actually achieved average salary was CZK 38,764, index 107.02 per cent. The 2012/2011 index of the actually achieved average salary was 103.04 per cent, with an annual inflation of 103.30 per cent.

As regards expenses on other payments for work (subgroup of items 502), the following amounts were paid:

– Item 5021- other personnel expenses	CZK 913,570
Of which,	
– work in the preparation of expert calculations and opinions, and consultations	CZK 328,220
– work related to the remonstrance commission	CZK 133,760
– work in the licensing department	CZK 215,960
– on the Office’s other operating needs	CZK 235,630
– Item 5024 – severance pay (related to organisational changes):	CZK 90,000

In 2012, the average number of FTE employees was 162, and the planned number was 178, i.e. the plan was met at 91.01 per cent. This was 57 employees more than in 2011.

The actual number of employees registered as at 31 December 2012 was 186, while the plan was 178. This was 55 more employees than the staffing level as at 31 December 2011.

The changes in the staffing level are mainly attributable to the situation in the first half of 2012 when several repeated rounds of recruitment procedures took place. Once again, the Office encountered problems related to salary levels and the policy of remuneration in the governmental sector in respect of good candidates.

Another negative factor was the higher employee turnover. The situation only stabilised in the latter half of 2012. At the same time, the licensing department was significantly reinforced by temporary employees (to ensure the award of licences at the time of the solar boom).

The following can illustrate the situation:

– Staffing level as at 30 June 2012: actual number 162 employees, average FTE 146.

It is not easy at all to recruit new suitable employees, primarily because of the strong competition in the energy sector in respect of wages and the general shortage of university graduates skilled in technical and engineering fields. Language requirements also play a role. In spite of that, the Office’s fundamental needs were met in terms of both the number and qualifications of the employees in the various parts of the organisation.

The numbers of employees, and their breakdown by age, gender and education, including the length of their employment, are shown in Tables 8, 9, 10 and 11.

Table 8 Incoming and outgoing employees in 2012

	New staff	Leaving staff
Number	83	30

Of the overall number of 186 employees as at 31 December 2012, 105 worked in Jihlava, 58 in Prague and 23 in Ostrava [worked within the meaning of the place of performance of work / agreement on regular workplace].

Table 9 Employee structure by age and gender as at 31 December 2012

Age category	Men	Women	Total	Share of total staff [%]
Up to 20 years	0	0	0	0
21–30	31	36	67	36.0
31–40	21	23	44	23.7
41–50	12	18	30	16.1
51–60	22	15	37	19.9
61 years and older	5	3	8	4.3
Total	91	95	186	100.0
Percentage	48.9	51.1	100.0	-

Compared with the preceding periods, the percentage of women was much higher, by 5.3 per cent on 2011 alone. 2012 was therefore the first year in which a threshold of 50 per cent was exceeded. The staffing levels in the critical age categories between 21 and 60 years are relatively balanced; the category of employees between 21 and 30 was significantly increased but the figures are somewhat distorted by the impact of the licensing temps.

In the group of managerial personnel, of the total of 37 planned positions, 32 were filled, of which 14 by women, i.e. 43.75 per cent, as at 31 December 2012.

Table 10 Employee structure by education and gender as at 31 December 2012

Education	Men	Women	Total	Share of total staff [%]
Primary	0	0	0	0
Vocational	1	1	2	1.1
Vocational secondary	0	0	0	0
Complete secondary	0	0	0	0
Complete vocational secondary	12	26	38	20.4
Higher education college	1	0	1	0.5
University	77	68	145	78.0
Total	91	95	186	100.0

In absolute terms, the number of employees with university education increased by 44 in 2012, and the Office therefore continues to be successful in steadily raising this ratio. The situation reflects the heavy requirements placed on employees and the growing difficulty of the existing and new lines of activity.

Table 11 Duration of employment as at 31 December 2012

Employment	Number	Share of total staff [%]
Up to 5 years	130	69.9
Up to 10 years	24	12.9
Over 10 years	32	17.2
Total	186	100.0

Organisational activities

The highly challenging year 2012 was also reflected in organisational matters. During 2012, 55 internal regulations were issued, of which 46 were ERO Chairwoman's Measures required for supporting the Office's own functioning and also 7 ERO Chairwoman's Decisions relating to the Office's organisational structure and 2 guidelines specifying instructions for the licensing department's work. The year also saw a relatively extensive external process and personnel audit, the outputs from which were continuously implemented in the Office's organisational structure.

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 2012. As at 31 December 2012, the funds in the Office's bank account amounted to CZK 111,960.

Reserve Fund

The balance in the Reserve Fund as at 31 December 2012 was nil.

6.6 Administrative fees and fines

As part of the income mentioned in the foregoing, the Office collected CZK 9,600,450 through its administrative fee account no. 3711-2421001/0710 between January and December 2012 (administrative fees for licensing).

In 2012, fines were paid to a separate bank account, number 3754-2421001/0710. As at 31 December 2012, the closing balance in the account amounted to CZK 7,528,260; of this, the highest fines were paid by České Energetické Centrum Jih s.r.o., ENERGIE Holding a.s., České Energetické Centrum a.s., Termizo, a.s., Central Energy, s.r.o., STRABAG a.s., Tepelné hospodářství města Ústí nad Labem, CENTROPOL ENERGY, a.s., etc.

In respect of fines imposed with finality, as at 31 December 2012 there were 44 outstanding receivables (account 315 Other receivables from main activity) totalling CZK 9,192,560; of this, CZK 6,768,670 is attributable to 12 fines transferred to the ERO from the SEI in connection with the amendment to the Energy Act effective since 18 August 2011. These are fines in the administrative proceedings and the collection concerning compliance with Act No 458/2000 and Act No 526/1990 proceedings arising from SEI's inspections (until 18 August 2011).

The largest receivables, which the Office is recovering in court, are those due from LENOXA a.s., which is in receivership proceedings; it owes seven fines totalling CZK 4,119,270; TEPLŮ NOVÝ BOR spol. s r.o., two fines totalling CZK 1,459,640; Zásobování teplem s.r.o., Blansko, one fine of CZK 1,008,730; Mr Václav Votava, one fine of CZK 519,040; and TERMO Děčín a.s., one fine of CZK 501,000.

6.7 Expenditure – budget management results

The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2012 can be seen in Table 12.

Table 12 Total amounts actually drawn – total expenditure for 2012

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total expenditure	194,514,000	168,384,420	86.57
of which:			
capital expenditure drawn	19,190,000	16,367,360	85.29
current expenditure drawn	175,324,000	152,017,060	86.71

6.7.1 Current and capital expenditure savings

As at 1 January 2012, the ERO chapter reported, under Section 47 of Act No 218/2000 on Budgetary Rules, as amended, claims for unused expenses (NNV claims) (following a CZK 56,410 cut in the funds caused by the finding that they would not be used, see Section 47(6)(d) of the above law) totalled CZK 6,306,000. These funds were used for meeting increased costs related to the entry into force of the amendment to the Energy Act, Act No 211/2011, and to cover projects that had originally been planned for 2011. The closing balance of NNV claims for use was nil as at 31 December 2012.

In each case of expenditure, the funds were spent as effectively, economically and efficaciously as possible, and always with a view to achieving the maximum benefit for the Office and its activities. Thanks to the above, savings were achieved v the changed budget of expenditure, amounting to CZK 26,129,580 (NNV claims for the fiscal year 2013), in particular in the following areas:

- 'other personnel expenses, incl. premiums and FKSP' CZK 4,405,960
- programme financing EDS/SMVS-ISPROFIN CZK 6,903,730
- 'other current expenditure' (w/o EDS/SMVS-ISPROFIN) CZK 14,819,890

These funds can therefore be used for financing the Office in 2013.

6.7.2 Programme financing

In the system for financing the programmes of asset replacement, for 2012 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 the ERO chapter, mandatory target Total Expenses Kept in ISPROFIN was approved at CZK 37,516,000. The fundamental objective of this programme is to ensure the development of adequate facilities for the Office, with the heaviest emphasis on ICT.

In 2012, budgetary measures were executed to change this approved mandatory target. In order to finance the unplanned expenses related to obtaining new office space for the ERO in Ostrava-Třebovice, in 2012 NNV claims of CZK 1,090,000 were used in the area of programme financing. Under Government Resolution No 178/2012, expenses of CZK 1,800,000 were "tied up" and under Government Resolution No 159/2012 an increase of CZK 150,000 was granted due to the partial coverage of the costs incurred in the transmission of information for the monitoring and control of public finance (PAP). Following the execution of the budgetary measures, mandatory target Total Expenses Kept in ISPROFIN for 2012 amounted, after changes, to CZK 37,666,000 and the final budget of expenditure amounted to CZK 36,956,000. The final budget was met at a level of 81.32 per cent and the budget of expenditure, following the change of this mandatory target, was met at a level of 79.79 per cent, CZK 30,052,270.

Table 13 shows results for 2012 by sub-programmes and Table 14 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 2012.

Table 13 Results by sub-programme for 2012

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total, Programme No. 149 010	36,956,000	30,052,270	81.32
of which:			
Sub-programme 149 011 – ICT	31,166,000	24,450,860	78.45
Sub-programme 149 012	5,790,000	5,601,410	96.74

Table 14 Results by current and capital expenditure for 2012

	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Total programme financing	36,956,000	30,052,270	81.32
of which:			
Current expenditure	17,766,000	13,684,910	77.03
Capital expenditure	19,190,000	16,367,360	85.29

Information and telecommunications technology at the Office

The first half of 2012 saw the completion of a new module (inspections) of the Office's integrated information system and additional investments were channelled into expanding users' licences for MS Dynamics and other necessary applications due to the increase in the staffing level.

In 2012, the new offices in Ostrava were refurbished, including the building of a server room, installation of cabling, and integration within the Office's infrastructure.

October 2012 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 2012, the Office **held assets valued CZK 164,899,900** at acquisition cost, and carried at a book value of **CZK 82 539,460** following accumulated depreciation. The assets that the Office is authorised to manage are listed in detail in Appendix 3. In 2012, the total value of assets, at acquisition cost, increased by CZK 22,141,060 over 2011, which is mainly attributable to the development and replacement of the Office's technical facilities.

As at 31 December 2012, receivables totalled **CZK 10,097,070**. In this amount, the largest part is CZK 9,192,560 in fines levied in administrative proceedings following checks of energy entities as to their compliance with Act No 458/2000 and Act No 526/1990; the other part contains operating advance payments to suppliers amounting to CZK 904,510.

As at 31 December 2012, liabilities totalled **CZK 57,202,150**. They included liabilities to employees, liabilities under social security and health insurance and income tax liabilities related to employees totalling CZK 11,486,050, resulting from wage accounting for December 2012, which were paid on the payday on 10 January 2013. Liabilities also included the Energy Regulation Fund, CZK 45,443,010, the balance in the payment card account at ČSOB, a.s., CZK 590, and the balance of the allocation to FKSP for 2012, CZK 44,500, and the deposit of bid bonds related to ongoing public contracts, CZK 228,000, both of them in the deposit account. The Office had no payables to suppliers; suppliers' invoices received by the Office before the end of 2012 were paid. The Office had no overdue liabilities as at 31 December 2012.

6.7.4 Expenses on business trips abroad

Expenses on business trips abroad totalled **CZK 2,588,970**, of which CZK 2,356,710 incurred in travel expenses. Compared with 2011, expenses on business trips abroad increased by CZK 715,490. Altogether 130 business trips abroad took place in 2012.

Costs of the trips related to CEER/ACER and of the trips organised by the EU totalled CZK 1,778,020. Expenses on business trips to other meetings abroad, for example, bilateral meetings, workshops, study visits and forums held by other organisers, amounted to CZK 810,950.

In the area of 'non-investment transfers to international organisations', item 5511, the actual expenditure reported as at 31 December 2012, **CZK 765,850** (EUR 30,144), relates to the annual membership dues to CEER for 2012.

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

The 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, the relevant implementing regulation, no. 416/2004, as amended, and under Act No 137/2006 on public procurement.

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.

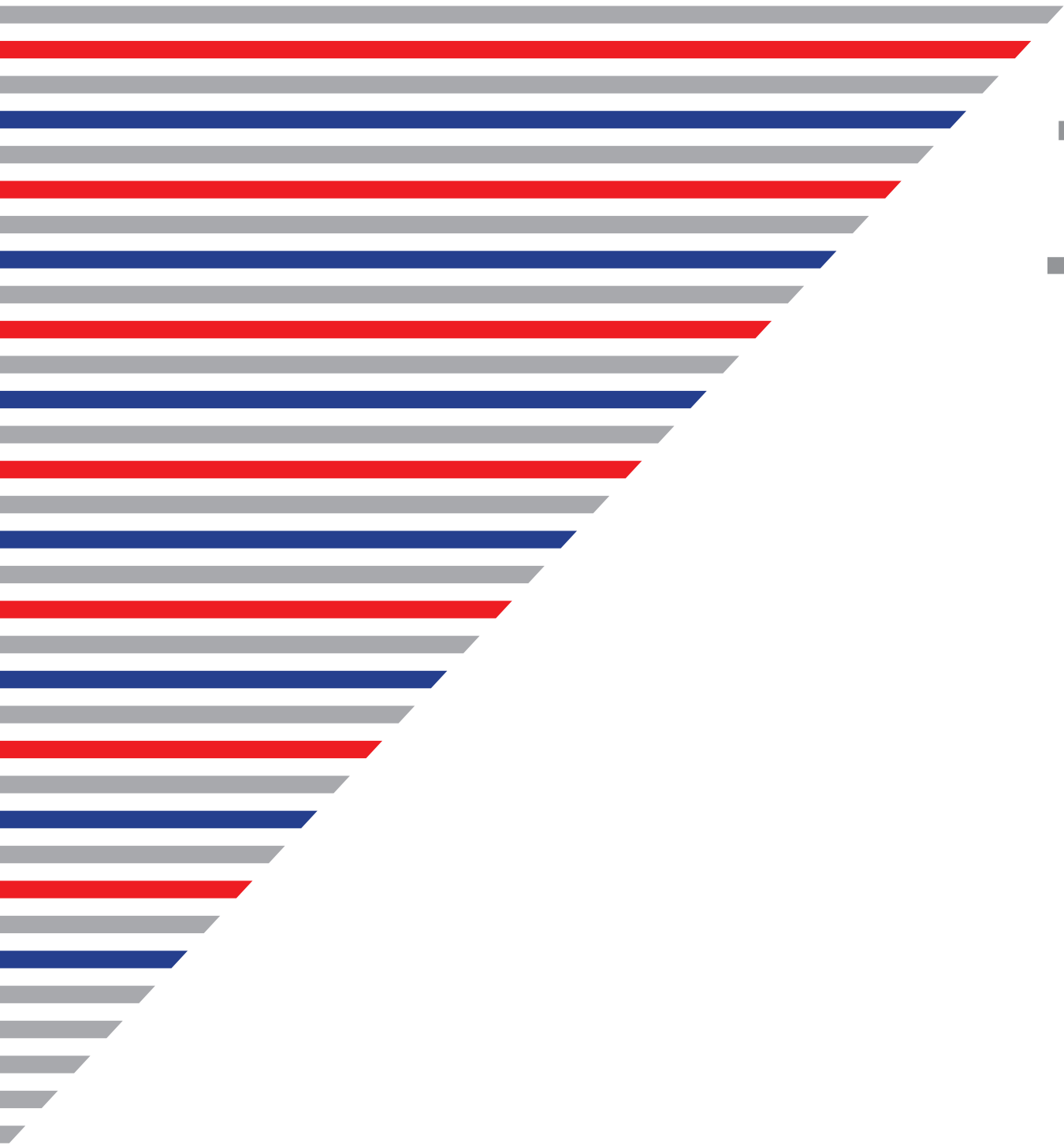
Expenses in absolute terms, and expenses in relative terms per employee, are listed in Table 15 and broken down by cost category.

Table 15 Comparison of actual expenses under Chapter 349 – Energy Regulatory Office, for the period 2001-2012

Item	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007
Total expenses	97 487	77 637	93 978	116 770	105 018	98 556	101 130
of which:							
– Salaries, other payments, insurance premiums and FKSP	19 955	36 081	41 772	46 967	48 532	52 524	56 986
– Expenses on asset replacement financing programme	54 201	11 976	15 741	15 561	19 526	16 006	15 938
– Total other expenses	23 331	29 580	36 465	54 242	36 960	30 026	28 206
of which:							
– Allocations to the Reserve Fund (RF)	2 142	2 299	2 351	27 200	2 602	0	0
– Other expenses w/o RF	21 189	27 281	34 114	27 042	34 358	30 026	28 206
Expenses on salaries and other payments for work	14 741	26 470	30 656	34 397	35 493	38 466	41 619
Salaries to employees	14 158	26 001	30 197	34 122	35 225	37 953	41 347
Staffing levels (FTE)	40	73	82	89	90	93	95
Average monthly salary	29 496	29 682	30 688	31 949	32 616	34 008	36 269
Payroll and social costs per employee	499	494	509	528	539	565	600
Programme financing costs per employee	1 355	164	192	175	217	172	168
Other expenses per employee	583	406	445	609	411	323	297
Total expenses per employee	2 437	1 064	1 146	1 312	1 167	1 060	1 065

Item	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Index 12/11
Total expenses (incl. use of NNV claims)	107 906	115 377	110 916	111 291	168 384	151.30
of which:						
– Salaries, other payments, insurance premiums and FKSP	60 774	63 937	67 274	66 334	102 855	155.06
– Expenses on asset replacement financing programme	18 437	21 232	18 145	20 811	30 052	144.40
– Total other expenses	28 695	30 208	25 497	24 146	35 477	146.93
of which:						
– Allocations to the Reserve Fund (RF)	0	0	0	0	0	0
– Other expenses w/o RF	28 695	30 208	25 497	24 146	35 477	146.93
– Use of NNV claims			5 975	7 395	6 306	85.27
Expenses on salaries and other payments for work	44 431	47 186	49 625	49 449	76 360	154.42
Salaries to employees incl. Chairman	44 115	46 590	48 658	47 401	75 356	158.98
Staffing levels (FTE)	95	98	105	105	162	154.29
Average monthly salary	38 698	39 617	38 617	37 620	38 764	103.04
Payroll and social costs per employee	640	652	641	632	635	100.47
Programme financing costs per employee	194	217	173	198	186	93.94
Other expenses per employee	302	308	242	230	219	95.22
Total expenses per employee	1 136	1 177	1 056	1 060	1 039	98.02

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



7

7 Internal oversight system

7.1 External inspections

In 2012 no public administration or other authority conducted inspections at the Energy Regulatory Office.

7.2 Internal inspections and internal audit

In 2012, the Internal Audit Unit worked in compliance with the requirements of Act No 320/2001 on financial control, as amended, and those of public notice no. 416/2004 implementing Act No 320/2001 as amended by Act No 309/2002, Act No 320/2002 and Act No 123/2003 as amended, in 2012.

The Internal Audit Unit's internal audit followed the annual Internal Audit Plan, which was based on the medium-term plan approved in 2011 and assignments given *ad hoc* at the level of extraordinary audit actions. The basis for this activity was the risk maps compiled by the Office's technical units, and the results of audits from previous years and the monitoring of measures from previous years.

The Internal Audit Unit independently and objectively reviewed certain of the Office's activities, work processes and control and oversight systems to the extent of the internal audit plan and assignments at the level of extraordinary audits. It in particular assessed whether the internal inspection system in place was efficient and flexible enough to respond to changes in legal, economic, and operating conditions. It assessed whether the internal inspection system had the capability of providing the ERO management with reliable and timely information about the disposal of public funds, the quality of the information system, the quality of communication and the accuracy of the operations and processes running at the Office in line with external and internal regulations.

The functional independence of the Internal Audit Unit is fully and permanently provided for in the Internal Audit Statute and the Code of Ethics for Internal Auditors, which is a part of the Office's Rules of Organisation. In its work, the Internal Audit Unit follows the rules of the International Standards for the Professional Practice of Internal Auditing and the methodology of the Ministry of Finance for internal audit performance.

In accordance with the annual Internal Audit Plan, the Internal Audit Unit carried out ten planned audit actions and six extraordinary audit actions in 2012.

The audit actions were focused on the performance of the Office's assignments and mission arising from the Energy Act.

- Audit 01/2012 Audit of adherence to the conditions of administrative proceedings on applications for biogas licences;
- Audit 02/2012 Audit of compliance with Section 303 and Section 304 of Act No 262/2006, Labour Code;
- Audit 03/2012 Audit of documents on business trips abroad and their accounting in the Regulation Section;
- Audit 04/2012 Audit of the performance of the measures and preparations for transition to the electronic filing service and the new conditions laid down in the law;
- Audit 05/2012 Audit of the economy of contracts for repair and supply of goods;

- Audit 06/2012 Audit of the compliance of records of documents on the operation of the vehicle fleet and their relation to the records of employees' business trips;
- Audit 07/2012 Audit of the application of employees' liability (agreements, confirmation of acceptance);
- Audit 08/2012 Audit of the ISMS (Information Security Management System) under ČSN ISO/IEC 27001;
- Audit 09/2012 Audit of the application of the anti-corruption policy and strategy at the ERO, and anti-corruption measures in line with the Government's strategy and ERO Chairperson's measures;
- Audit 11/2012 Audit of adherence to the rules of signature mandates for documents "Tentative Approval of a Proposed Operation" (PON);
- Extraordinary audit 01/2012/MA Audit of the efficiency of the performance of work when conducting checks of the price lists for electricity and gas supply at energy companies;
- Extraordinary audit 02/2012/MA Audit of the allocation of complaints and suggestions at ERO, delays in the referral of complaints and suggestions in the various parts of ERO (from the moment of their delivery to the Office to the moment of their handling by the competent part of the ERO);
- Extraordinary audit 03/2012/MA Audit of compliance with Act No 137/2006 on Public Procurement, as amended, at the ERO;
- Check 01/2012 Check of the efficient use of the ERO's vehicle fleet;
- Check 02/2012 Check of compliance with ERO Chairwoman's instruction for all inbound documents having the nature of a complaint to be delivered to her, and, in turn, in line with the filing rules (Article 7(3)). All suggestions and complaints are delivered to ERO Chairperson's cabinet, even if they are addressed to a particular ERO employee), i.e. their recording, allocation and handling;
- Check 2012/01/KO Check of adherence to the timetable in the process of inspections conducted by the ERO at regulated entities and the Inspection Section's observance of the statutory time limits in administrative proceedings.

Chart 24 Number of audit actions in Sections

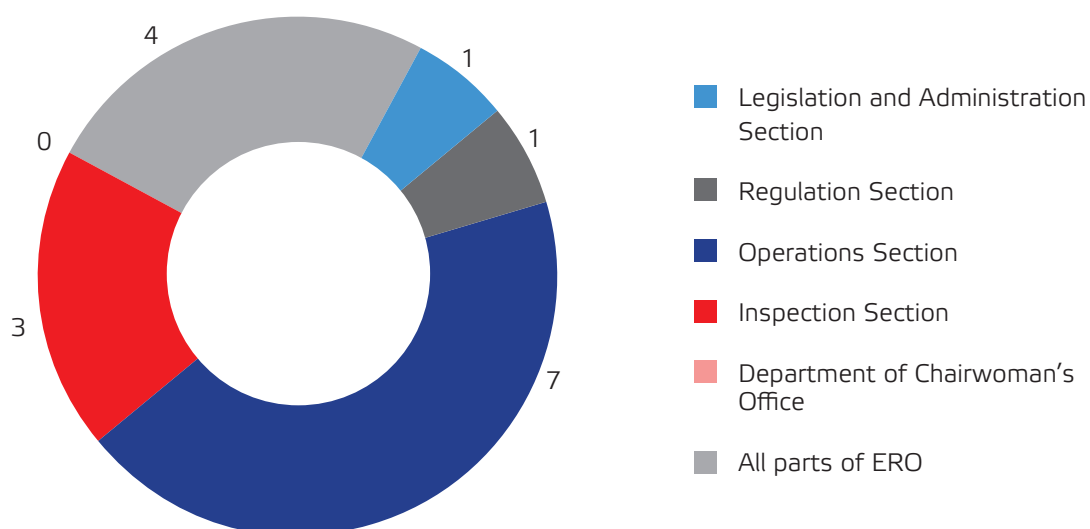
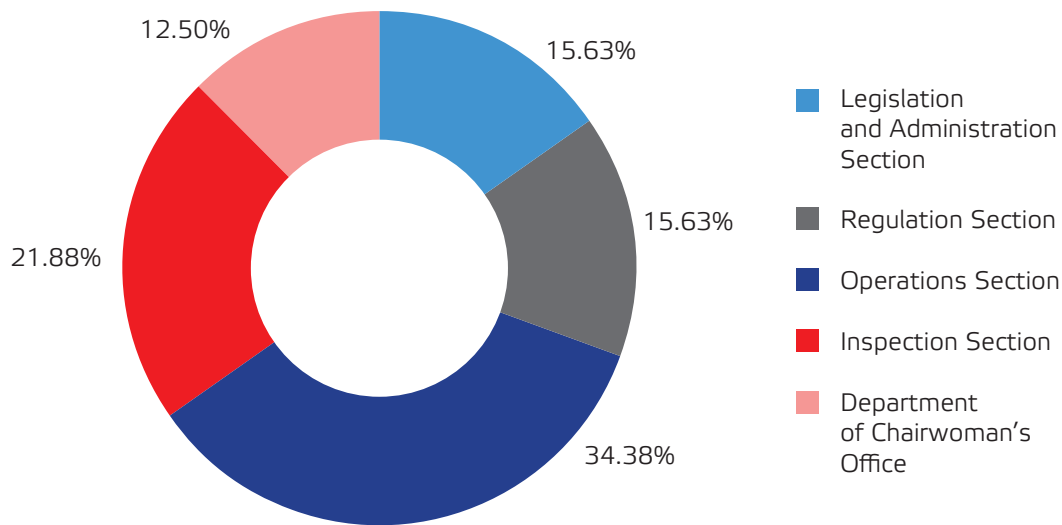


Chart 25 Percentage of audit actions in Sections



The findings of the various audit actions were discussed with the responsible managers of the audited departments. In 2012, 34 recommendations from planned audit actions and 16 recommendations from extraordinary audit actions were adopted and transformed into measures. Most of the proposed recommendations were geared towards risk prevention, improvements in the management of the Office's operations and finances, and boosting the efficiency of steering and review mechanisms.

The internal audit actions did not identify any shortcomings materially jeopardising or preventing the meeting of the Office's main tasks and objectives or constituting reasons for deterioration in the Office's financial performance.

In addition to audit, the Internal Audit Unit carried out consulting and advisory activities in the area of management inspection, and participated in the commenting procedure related to the development and update of internal regulations, in risk management, in exchanges of experience, and in the implementation of good practice at the Office. It prepared the Report on the Results of Financial Controls for the Ministry of Finance and the Summary Report on the Results of Internal Audit in 2012 for the Office's management.

The efficacy of the adopted recommendations is verified as part of monitoring in the performance of new planned audit actions. The monitoring and the comprehensive evaluation of the implementation of the adopted recommendations in the summary report on the results of internal audit for every calendar year help to create feedback indicating audit efficiency.

The other component of the internal oversight system is management inspections carried out by managerial personnel under their powers and competences.

In connection with working duties, compliance with the law on financial control is continuously being ensured, i.e. *ex ante*, ongoing, and *ex post* inspections are carried out. The principle of *ex ante*, ongoing, and *ex post* management inspections are incorporated in internal organisational and management regulations (Rules of Organisation, Signature Rules, Guideline on the Circulation of Accounting Documents).

No serious shortcomings such as suspicion of minor offences or criminal offences were identified by the audits. In information, interpersonal and managerial relationships, the rules of employees' conduct under the Code of Ethics of ERO Employees and the rules of the strategy in combating corruption, provided in the Office's Internal Anti-corruption Programme, are followed.

The main purpose of both components of the internal inspection system (internal audit and management inspections) is to prevent risks and mitigate threats. With a view to facilitating risk recognition, the Office continuously works on standardising all the work procedures set out in internal regulations.

The report on the results of financial audits and reviews in 2012 was prepared and sent to the Ministry of Finance in electronic form in keeping with the relevant provisions of the law on financial control and the respective implementing regulation. The report on the results of financial audits and reviews in 2012 notes that the system meets all the needs and requirements.

There was no serious finding within the meaning of Section 22(6) of the law on financial control in 2012.

On the basis of the findings and recapitulation of the results of the Internal Audit Unit's work in 2012 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 2012

Adversarial proceedings in 2012

THE ELECTRICITY INDUSTRY

In 2012, 179 administrative proceedings were concluded in the **electricity industry**, which implies a major increase compared with 2011 when 80 administrative proceedings were concluded. It is to be noted at this point that 112 adversarial administrative proceedings were very similar and concerned taxes on electricity from solar radiation under Section 7a *et seq.* of Act No 180/2005 on support for the use of renewable energy sources. However, this indicates, in general, a continued growth in the number of adjudicated disputes compared with preceding years, which always depends on the legislation and technical measures adopted in the electricity industry.

The motions for the Energy Regulatory Office to decide in disputes mainly related to

- a) disputes over the execution of one of the agreements under the Energy Act, mainly agreements on the connection of new renewable electricity generating plants to the distribution system (Section 50(3) of the Energy Act) and agreements on electricity supply executed for the purpose of renewable electricity buyout (Section 50(1) of the Energy Act);
- b) disputes over support for electricity generation from renewable energy sources, in particular 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 related amount of the support, 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 energy sources; and
- c) disputes over interruptions in electricity supply/distribution due to unauthorised consumption/distribution.

The tendency that emerged in the preceding period continued in 2012: the Office's workload caused by disputes in the electricity industry, which have become the most prominent part of the Office's adjudicating agenda. The number of disputes over photovoltaic plants, i.e. their connection to distribution systems, was rather stable and there are good reasons to expect that it will decline, also in view of the limited connection capacity. On the other hand, an increase can be expected in disputes over support for electricity generation from renewable sources, secondary sources and highly efficient combined heat and power generation, support for distributed electricity generation, support for heat and support for biomethane, the adjudication of which by the ERO is envisaged in Act No 165/2012 on supported energy sources and on amendments to certain laws, effective since 1 January 2013.

'Consumer disputes' within the meaning of Section 17(7)(e) of the Energy Act constitute an important adjudicating activity; their number slightly increased in 2012 to a total of 19 adversarial administrative proceedings. However, there are good reasons to expect the number of these disputes to continue rising as the Office's consumer protection unit registers more and more complaints from customers against electricity and gas traders.

Overview of adjudicated disputes:

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

The subject matter of the administrative proceedings was a dispute over the amount of the green premium payable for electricity generated from a renewable source, a 153 kW photovoltaic plant; the petitioner sought a green premium in the amount applicable to photovoltaic plants over 30 kW commissioned between 1 January 2009 and 31 December 2009. The Office granted the motion and imposed on E.ON Distribuce, a.s. to pay the petitioner an amount equalling the difference between the green premium applicable to electricity from plants commissioned between 1 January 2009 and 31 December 2009, which was sought by the petitioner, and the green premium already paid by E.ON Distribuce, a.s. for generated electricity, the amount of which was applicable to plants commissioned between 1 January 2010 and 31 December 2010.

Solar CELI s.r.o. v ČEZ Distribuce, a.s.

Dispute over the feed-in tariff for electricity generated from a 1,034 kW renewable source. The petitioner sought the imposition on ČEZ Distribuce, a.s. of an obligation to buy from the petitioner all electricity from the renewable source, generating electricity from solar radiation, and to execute with the petitioner an agreement on electricity supply for prices set out in the ERO's price decision for the respective calendar year for over 30 kW plants commissioned between 1 January 2010 and 31 December 2010. The motion was rejected mainly because it was clearly demonstrated in the proceedings that the petitioner's plant had been commissioned in 2011 rather than 2010 as claimed by the petitioner.

Mr Jiří Trojan v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of an 800 kW wind power plant to a distribution system operated by ČEZ Distribuce, a.s. In the administrative proceedings the petitioner applied to the Office to deliver a decision establishing a connection agreement between him as the connection applicant and ČEZ Distribuce, a.s. as the distribution system operator. The Office rejected the motion because it was proved that the capacity booking for the petitioner's wind power plant was discharged due to failure to meet the conditions laid down in the transitory provisions of public notice no. 81/2010, i.e. public notice no. 51/2006 on the conditions of connection to the electricity grid, as amended by public notice no. 81/2010 with effect from 1 April 2010.

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

The subject matter these administrative proceedings was a dispute over electricity purchase from RES, where the petitioner demanded from the respondent to pay support for electricity in the form of feed-in tariffs in the amount applicable to plants commissioned in 2010. The Office rejected the motion because it was proved in the proceedings that the petitioner's plant was not commissioned in 2010 in compliance with the legislation, and the petitioner therefore did not have the right to support in the amount set for plants commissioned in 2010.

AKAM – Bosko a.s. v E.ON Distribuce, a.s.

Dispute over the purchase of renewable electricity (from a 1,581 kW photovoltaic plant) and over the execution of an agreement on electricity supply between the petitioner as an electricity producer and E.ON Distribuce, a.s. as the distribution system operator, where the petitioner sought relief in several prayers, i.e. the payment of support for renewable electricity generation in the form of feed-in tariffs in the amount applicable to plants commissioned in 2010, or in the amount applicable to plants commissioned in 2011. To the extent of the petitioner's claims for support in the amount applicable to plants commissioned in 2010, and the matching electricity supply agreement, the motion was rejected because it was proved in the proceedings that the petitioner was not entitled to such an amount of support under the law, but the petitioner's claims related to the payment of support in the amount applicable to plants commissioned in 2011 were granted.

K.O.N. Management, s.r.o. v ČEZ Distribuce, a.s.

The subject matter of these administrative proceedings was a dispute over an interruption in electricity distribution to the petitioner's supply point, where the petitioner sought a ban on ČEZ Distribuce, a.s. to disconnect K.O.N. Management, s.r.o. from the distribution system at the company's supply point without a substitute connection. The motion filed by K.O.N. Management, s.r.o. was rejected because none of the types of illegal consumption or distribution was associated with the ongoing administrative proceedings such as would have enabled the Office to examine the justifiability of the

interruption in electricity distribution, for the ownership titles to the properties housing the electricity distribution equipment were not the subject matter of the proceedings.

FVE Petrovice a.s. v E.ON Distribuce, a.s.

Administrative proceedings on a dispute over support for renewable electricity generation and the execution of an agreement on electricity supply, whereby the petitioner sought support for electricity from a 3.311 MW photovoltaic plant in the amount applicable to plants commissioned in 2010 and the execution of a matching agreement on electricity supply, were discontinued because the application was manifestly inadmissible.

LASTA, a.s. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the execution of an agreement on the connection of wind power plants with a total installed capacity of 4,000 kW. The motion was rejected because it was clearly proved in the proceedings that the capacity booking for the petitioner's wind power plants was discharged due to failure to meet the conditions laid down in the transitory provisions of public notice no. 81/2010, i.e. public notice no. 51/2006 on the conditions of connection to the electricity grid, as amended by public notice no. 81/2010 with effect from 1 April 2010, and the subsequent new application for connection failed to meet the formal requirements placed on such applications by this public notice.

Černošická obchodní a realitní s.r.o. v ČEZ Distribuce, a.s.

Administrative proceedings on a dispute over the execution of an agreement on the connection of the supply point to the distribution system operated by ČEZ Distribuce, a.s. were discontinued because the parties resolved their dispute over the agreement by conciliation and the petitioner's motion became obviously irrelevant.

Mrs Hana Vrbová v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over support for renewable electricity generation, i.e. from an 18.4 kW biomass firing plant; the petitioner sought the payment of the support in the form of green premiums for electricity generated in a plant firing category O1 biomass. The motion was rejected because it was proved in the proceedings that the petitioner's plant did not fall within category O1, and the petitioner therefore was not entitled to support in the form of green premiums for electricity generation by burning category O1 biomass, but for electricity generation by burning category O2 biomass.

Mr Petr Špička v BICORN s.r.o.

Administrative proceedings on a dispute over compensation for failure to keep the set standard of electricity supply quality, specifically failure to keep the standard of the time for handling a complaint against electricity supply billing under Section 20(1)(a) of public notice no. 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended, were discontinued because the parties resolved their dispute by conciliation and the petitioner's motion became obviously irrelevant.

KORUND BENÁTKY, s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(5)(a) of the Energy Act was a dispute over the execution of an agreement on the connection of a 120 kW photovoltaic plant to the distribution system. The Office granted the motion, i.e. in its decision it established the connection agreement on the grounds of a major change of the circumstances decisive for the assessment of the matter occurring during the proceedings (non-existence of a risk for the reliable operation of the distribution system).

Mr Stanislav Tauchman v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of a 4.6 kW photovoltaic plant to the distribution system. Administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure because the petitioner withdrew his motion for the commencement of the proceedings.

Mr Josef Jehlička v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(5)(a) of the Energy Act was a dispute over the execution of an agreement on the connection of a photovoltaic plant to the

distribution system. The Office granted the motion, i.e. in its decision it established the connection agreement on the grounds of a major change of the circumstances decisive for the assessment of the matter occurring during the proceedings (non-existence of a risk for the reliable operation of the distribution system).

Step TRUTNOV a.s. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(5)(a) of the Energy Act was a dispute over the execution of an agreement on the connection of a 100 kW photovoltaic plant to the distribution system. Administrative proceedings were discontinued under Section 66(1)(g) of the Rules of Administrative Procedure because the motion became obviously irrelevant.

SP Helios s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(5)(a) and (d) of the Energy Act was a dispute over the execution of a connection agreement and a dispute over the imposition of an obligation to pay feed-in tariffs for renewable electricity. The motion was rejected.

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

The subject matter of the administrative proceedings was a dispute over the connection of a 29.9 kW photovoltaic plant to the distribution system. The administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure, because the petitioner withdrew his motion for the commencement of the proceedings.

Mr Jiří Hynek v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. The motion was rejected on the grounds of failure to meet the conditions for the award of the support under the law on support for the use of renewable energy sources.

Mr Zdeněk Mlčoušek v České Energetické Centrum a.s.

Dispute under Section 17(7)(e) of the Energy Act. Administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure because the petitioner withdrew his motion for the commencement of the proceedings.

Stavební bytové družstvo "Mír" Teplice v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. The motion was rejected on the grounds of failure to meet the conditions for the award of the support under the law on support for the use of renewable energy sources.

Mr Jaroslav Mareš v České Energetické Centrum a.s.

The subject matter of the administrative proceedings was a dispute under Section 17(7)(e), point 2, of the Energy Act. The Office granted the motion and decided that the legal relationships in question were discharged due to the rescission of the agreement.

GS55 Sazovice s.r.o. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. The motion was rejected due to the existence of tax on electricity from solar radiation, specifically its application by the distribution system operator.

GS55 Sazovice s.r.o. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. Administrative proceedings were discontinued under Section 66(1)(e) of the Rules of Administrative Procedure due to an estoppel under Section 48(1) of the same law.

C.S. energizer s.r.o. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. The motion was rejected due to the existence of tax on electricity from solar radiation, specifically its application by the distribution system operator.

Mr Jan Daněk v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(a) of the Energy Act was a dispute over the execution of an agreement on the connection of a 1.8 kW photovoltaic plant to the distribution system. The Office granted the motion, i.e. by its decision it imposed the obligation to execute a connection agreement with the required content, on the grounds of a major change of the circumstances decisive for the assessment of the matter occurring during the proceedings (non-existence of a risk for the reliable and safe operation of the distribution system).

Mrs Jitka Kubínová v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(a) of the Energy Act was a dispute over the connection of a 5 kW photovoltaic plant to the distribution system. The administrative proceedings were discontinued under Section 66(1)(g) of the Rules of Administrative Procedure, because the motion became obviously irrelevant.

Vysoká škola báňská – Technická univerzita Ostrava v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. The motion was rejected on the grounds of failure to meet the conditions for the award of support under the law on support for the use of renewable energy sources, specifically for a plant commissioned in 2010.

Mr Drahošlav Hejtmánek v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(a) of the Energy Act was a dispute over the execution of an agreement on the connection of a 3.22 kW photovoltaic plant to the distribution system. The Office granted the motion, i.e. by its decision it imposed the obligation to execute a connection agreement with the required content, on the grounds of a major change of the circumstances decisive for the assessment of the matter occurring during the proceedings (non-existence of a risk for the reliable and safe operation of the distribution system).

CZECH SOLAR ENERGY PROJECT a.s. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(d) of the Energy Act was a dispute over support for renewable electricity generation. The motion was rejected on the grounds of failure to meet the conditions for the award of support under the law on support for the use of renewable energy sources, specifically for a plant commissioned in 2010.

Mr Otakar Wittner v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of an installation to the distribution system. The administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure, because the petitioner failed to remedy in the required time, the material defects in his application, which prevented the proceedings from being continued.

Společenství pro dům č.p. 107 Hruškové Dvory Jihlava v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(a) of the Energy Act was a dispute over the execution of a connection agreement on the connection of a photovoltaic plant to the distribution system. The administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure because the petitioner failed to remedy in the required time, the material defects in its application, which prevented the proceedings from being continued.

IMERA s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(c) of the Energy Act was a dispute over the connection of a 200 kW photovoltaic plant to the distribution system. The administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure because the petitioner failed to remedy in the required time, the material defects in its application, which prevented the proceedings from being continued.

Stora Enso Wood Products Ždírec s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(a) of the Energy Act was a dispute over the execution of a connection agreement, which concerned its provisions on the share of the costs incurred in the connection and in providing the required capacity. The Office granted the motion, i.e. in its decision it obliged the distribution system operator to execute a connection

agreement with the required content, noting that there was no obligation to pay a share of the costs incurred in the connection and in the provision of the required capacity.

RWE Plynoprojekt s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings under Section 17(7)(a) of the Energy Act was a dispute over the execution of an agreement on the connection of a 231 kW cogeneration plant to the distribution system, specifically a change of the existing connection to the HV level without, however, the simultaneous erection of the company's own installation. The motion was rejected on the grounds that the electricity generating plant was connected at the LV level, and therefore the requirement that the generator build its own installation was legitimate.

oaza-energo, a.s. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the connection of a photovoltaic plant to the distribution system. The administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative Procedure because the petitioner failed to remedy in the required time, the material defects in its application, which prevented the proceedings from being continued.

EVE Rohenice s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the payment of support for renewable electricity generation in the form of green premiums in relation to a 1.498 MW plant, in the amount applicable to plants commissioned in 2010. The Office rejected the motion on the grounds that the petitioner met the statutory conditions for entitlement to green premiums under the law on support for the use of renewable energy sources as late as 2011.

Správa nemovitostí města Jičína, a.s. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the payment of the premium on the price of electricity from cogeneration for the period from 1 May 2010 to 20 June 2010, and the related examination of the question of whether or not it is possible for a licence, as a public authorisation, to pass from the original licence holder, the semi-autonomous organisation Městský bytový podnik Jičín, to Správa nemovitostí města Jičína, a.s. The Office rejected the motion mainly on the grounds that the electricity generation licence was attached only to Městský bytový podnik Jičín and not to Správa nemovitostí města Jičína, a.s.

DEVELOPMENT – Pardubice s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the payment of support for renewable electricity generation in the form of feed-in tariffs, in relation to a 2.9 MW plant, in the amount applicable to plants commissioned in 2010. The Office rejected the motion on the grounds that the petitioner met the statutory conditions for entitlement to feed-in tariffs under the law on support for the use of renewable energy sources as late as 2011.

VSZ Nýrsko, spol. s r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the payment of support for renewable electricity generation in the form of green premiums, in relation to a 10 kW plant, in the amount applicable to plants commissioned in 2010. The Office rejected the petition on the grounds of the petitioner's failure to meet the statutory conditions for entitlement to green premiums in the period from January to June 2011, for which it demanded the payment of support in the form of green premiums.

Solar Systems Projekt s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the payment of support for renewable electricity generation, in relation to a 99.94 kW plant, in the amount applicable to plants commissioned in 2010. The Office rejected a part of the motion because the plant, operated in island operation, was connected to the respondent's distribution system as late as 2011, and the petitioner was therefore entitled to support for renewable electricity generation in 2011 in the amount applicable to plants commissioned in 2011. To the extent of the remaining part, the Office discontinued the proceedings noting that it did not have the competence to decide, or determine in a binding manner, whether or not any particular provisions of an agreement between electricity market participants are valid.

EKO – VUK, spol. s r.o. v CROCHAREN s.r.o.

The subject matter of the administrative proceedings was a dispute over the execution of an agreement on the petitioner's supply point to the respondent's distribution system. The Office delivered a decision imposing on the respondent the obligation to execute an agreement on the connection of the petitioner's supply point to the respondent's distribution system, using the wording set out in the operative part of the decision, and rejected the motion to the extent of the remaining part where the petitioner mentioned immaterial details of connection agreements.

EKOpaliva s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over support for renewable electricity generation in the form of green premiums, in relation to a 198 kW plant, in the amount applicable to plants commissioned in 2010. The Office rejected the motion on the grounds that the petitioner met the statutory conditions for entitlement to support under the law on support for the use of renewable energy sources as late as 2011.

EKO – VUK, spol. s r.o. v CROCHAREN s.r.o.

The subject matter of the administrative proceedings was a dispute over the execution of an agreement on electricity distribution to the petitioner's supply point. The Office delivered a decision imposing on the respondent the obligation to execute an agreement on electricity distribution, using the wording set out in the operative part of the decision, and rejected the motion to the extent of the remaining part where the petitioner mentioned immaterial details of agreements.

Mrs Jaroslava Vondráková v České Energetické Centrum a.s.

The subject matter of the administrative proceedings was a dispute over the declaration of the discharge of the legal relationship established by an agreement on bundled services of electricity and gas supply between the petitioner as the customer and the respondent as the holder of a licence for electricity and gas trade. The Office granted the motion on the grounds of the petitioner duly rescinding the above agreement, whereby the legal relationship was discharged.

SUNDECK s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over support for renewable electricity generation in a 96 kW plant. The Office discontinued the proceedings because the petitioner withdrew its motion during the proceedings.

Mr Václav Horčík v České Energetické Centrum a.s.

The subject matter of the administrative proceedings was a dispute over the discharge of the legal relationship established by an agreement on bundled services of electricity and gas supply. The Office discontinued the proceedings because the petitioner withdrew his motion during the proceedings.

Fotovoltaická elektrárna Eliška – Čáslav s.r.o. v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the tax on electricity from solar radiation generated in a 0.311 MW plant. The Office rejected the motion because in view of the Constitutional Court's judgment under File Ref. Pl. ÚS 17/11 of 15 May 2012, the respondent's procedure related to the tax on electricity from solar radiation complied with the law.

Mr Jaroslav Pažout v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute arising from a contractual relationship between the petitioner and ČEZ Distribuce, a.s., with the petitioner seeking the Office's decision on the respondent's obligation to perform its obligations arising from the executed agreement in respect of support for renewable electricity generation. The Office rejected the motion because the petitioner was not entitled to support for electricity generation under the effective law on support for the use of renewable energy sources.

Mr Zdeněk Chroust v CENTROPOL ENERGY, a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of a legal relationship the subject matter of which was electricity supply, between Mr Chroust and CENTROPOL ENERGY, a.s. The administrative proceedings were discontinued under Section 66(1)(g) of the Rules of Administrative Procedure because the parties terminated, during the administrative proceedings, their contractual relationship by their agreement and the petitioner's motion therefore became irrelevant.

Mrs Božena Šafránková v VEMEX Energie a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the establishment of a legal relationship the subject matter of which was electricity supply, between Mrs Šafránková and VEMEX Energie a.s. The administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure because the petitioner withdrew her motion.

Mr Tomáš Roth v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the interruption and resumption of electricity supply due to the distribution system operator's claim of illegal consumption at the petitioner's supply point. The petitioner sought resumption of electricity supply to the supply point. Mr Roth's motion was rejected because it was proved in the administrative proceedings that the petitioner committed illegal consumption under Section 51(1)(b) of the Energy Act, and the respondent therefore had, under Section 25(3)(c), point 4, of the Energy Act, the right to interrupt electricity supply to the supply point for illegal consumption.

Mr Petr Kramář v BOHEMIA ENERGY entity s.r.o.

The subject matter of the administrative proceedings was a dispute over the discharge of a contractual relationship on electricity supply. In his motion, the petitioner sought a declaration that the contractual relationship, specified by him, on electricity supply was discharged on the basis of a duly submitted notice of termination, and also a declaration that he was not obliged to pay the respondent the deactivation fee and charges for reminders as payments arising from the contract. To the extent of the first part, the petitioner's motion was rejected because he had not terminated the contractual relationship in accordance with the conditions in the agreement. To the extent of the second part the proceedings were discontinued under Section 66(1)(b) of the Rules of Administrative Procedure because the motion so formulated was manifestly inadmissible.

Mr Josef Janko v CENTROPOL ENERGY, a.s. and ČEZ Prodej, s.r.o.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of a legal relationship the subject matter of which was electricity supply and distribution to the petitioner's supply point, between the petitioner and ČEZ Prodej, s.r.o., and also the determination of the emergence and existence of a legal relationship the subject matter of which was electricity supply and distribution to the petitioner's supply point, between the petitioner and CENTROPOL ENERGY, a.s. The Office decided on the merits of this case, noting that the legal relationship with ČEZ Prodej, s.r.o. was discharged because the petitioner duly submitted a notice of termination, and the legal relationship with CENTROPOL ENERGY, a.s. did emerge and existed because it was proved that the petitioner executed with CENTROPOL ENERGY, a.s. a valid agreement on bundled electricity supply services.

Mrs Monika Riedlová v ČEZ Prodej, s.r.o.

The subject matter of the administrative proceedings was a dispute over the performance of the obligation arising from an agreement the subject matter of which was electricity supply, with the petitioner seeking the Office's decision on the obligation of ČEZ Prodej, s.r.o. to bill the petitioner for advances for electricity demand once a year under the agreement on bundled electricity supply services. The Office granted the motion because the respondent changed the frequency of advance payments on the basis of the general commercial terms and conditions, in conflict with the frequency of payments set out in the agreement itself, which provided that provisions of contract took precedence over provisions of general commercial terms and conditions in the case of inconsistencies between the two.

Mr Oldřich Nápravník v České Energetické Centrum a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of legal relationships the subject matter of which was electricity and gas supply and that had been established by agreements on bundled services of electricity and gas supply between the petitioner and České Energetické Centrum a.s. The Office decided that both of these legal relationships were discharged because it was proved that the petitioner rescinded both agreements in a due and proper manner and in compliance with the law.

Mr Petr Vals

In his motion, the petitioner sought the connection of a 4.8 kW plant to the distribution system. The administrative proceedings were discontinued under Section 66(1)(c) of the Rules of Administrative

Procedure because the petitioner failed to remedy in the required time, the material defects in his application, which prevented the proceedings from being continued. Specifically, the petitioner did not designate, within the time limit, the entity against which his motion was directed and did not remedy the defects in the proposal for the connection agreement.

Mrs Veronika Solařová v ČEZ Prodej, s.r.o.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of a legal relationship the subject matter of which was electricity supply, between the petitioner and ČEZ Prodej, s.r.o. The Office decided that the legal relationship was discharged because ČEZ Prodej, s.r.o. failed to duly notify an increase in the price in compliance with the law, no later than 30 days prior to the price hike becoming effective, and the petitioner duly rescinded the agreement in place with the respondent, within the statutory time limit under Section 11a of the Energy Act.

Mr David Vykydal v ČEZ Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the execution of a connection agreement, where the petitioner sought the connection of a 5 kWp photovoltaic plant to the distribution system operated by ČEZ Distribuce, a.s. The motion was rejected because it was proved that the short-circuit strength of the Prosenice substation, within the service area of which the point of the demanded connection of the petitioner's plant was located, was exceeded and that this connection would cause the situation to deteriorate even more. In this case, the above service area was proved to have a shortage of capacity for the connection of the petitioner's plant, i.e. such connection would have caused a risk to the reliability of the distribution system in the whole service area of the Prosenice substation, and the respondent therefore was not obliged to enter into a connection agreement with the petitioner.

Mr Daniel Kula v ČEZ Prodej, s.r.o.

The subject matter of the administrative proceedings was a dispute over the performance of an obligation arising from an agreement the subject matter of which was electricity supply. The petitioner sought the Office's decision that ČEZ Prodej, s.r.o. was obligated to return the number of advance payments to two (for six months) per billing period in accordance with the electricity supply agreement. The Office granted the motion because the respondent changed the frequency of advance payments, which was in conflict with the exactly specified terms of the contract.

Mr Lubomír Ceniga v České Energetické Centrum a.s. a E.ON Energie, a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of a legal relationship the subject matter of which was electricity supply and distribution to the petitioner's supply point, between the petitioner and České Energetické Centrum a.s., and also a dispute over the determination of whether or not another contractual relationship was established between the petitioner and České Energetické Centrum a.s., and also a dispute over the determination of the continued existence of a legal relationship the subject matter of which was electricity supply and distribution to the petitioner's supply point, between the petitioner and E.ON Energie, a.s. The Office granted the motion because the petitioner duly rescinded the agreement executed with České Energetické Centrum a.s.; in the case of the other agreement, the legal act was null and void as the petitioner had never signed that agreement; it was also proved that the legal act of termination, made by České Energetické Centrum a.s., as a proxy for the petitioner, in relation to E.ON Energie, a.s. was also null and void, because the petitioner never granted a power of attorney to České Energetické Centrum a.s. to make such termination.

Mrs Olga Kafoňková v České Energetické Centrum a.s. a E.ON Energie, a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of a legal relationship the subject matter of which was electricity supply and distribution to the petitioner's supply point, between the petitioner and České Energetické Centrum a.s., and also a dispute over the determination of whether or not another contractual relationship was established between the petitioner and České Energetické Centrum a.s., and also a dispute over the determination of the continued existence of a legal relationship the subject matter of which was electricity supply and distribution to the petitioner's supply point, between the petitioner and E.ON Energie, a.s. The administrative proceedings were discontinued under Section 66(1)(g) of the Rules of Administrative Procedure because the parties reached conciliation.

ENVIROPOL s.r.o. v E.ON Distribuce, a.s.

The subject matter of the administrative proceedings was a dispute over the execution of an agreement on the connection of an electricity generating plant to the distribution system. The petitioner sought connection of a 336 kW plant to the distribution system operated by E.ON Distribuce, a.s. The administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure because the petitioner withdrew its motion for the commencement of the administrative proceedings.

Mrs Lucie Hečková v BOHEMIA ENERGY entity s.r.o.

The subject matter of the administrative proceedings was a dispute over electricity supply interruption and resumption due to allegations of illegal consumption at the petitioner's supply point. The petitioner sought the Office's decision on the obligation of BOHEMIA ENERGY entity s.r.o. to resume electricity supply to the specified supply point. The Office granted the motion as it found, based on evidence, that the petitioner had not committed illegal consumption under Section 51(1)(b) of the Energy Act, and the respondent therefore had no right to interrupt electricity supply.

Mr Jiří Foltýn v CENTROPOL ENERGY, a.s.

The subject matter of the administrative proceedings was a dispute over the existence of a contractual relationship regarding bundled electricity supply services between the parties. The administrative proceedings were discontinued under Section 66(1)(b) of the Rules of Administrative Procedure because the petitioner formulated his motion in a way making his claim manifestly inadmissible.

Mr Michal Hertl v ČEZ Prodej, s.r.o.

Mr Hertl filed a motion for administrative proceedings to seek a decision whereby the Office would decide that the termination of the agreement on electricity supply was valid. The Office discontinued the administrative proceedings under Section 66(1)(g) of the Rules of Administrative Procedure because since the very beginning, there had been no dispute over the discharge of this contractual relationship, because both parties had completely identical views in respect of the discharge of this relationship since the beginning of the proceedings.

Mr Pavel Kocich v ČEZ Prodej, s.r.o.

The subject matter of the administrative proceedings was a dispute over electricity supply interruption and resumption due to an alleged illegal consumption at the petitioner's supply point. The petitioner sought the Office's decision on the obligation of ČEZ Prodej s.r.o. to resume electricity supply to the specified supply point. The administrative proceedings were discontinued under Section 66(1)(g) of the Rules of Administrative Procedure because at the time the administrative proceedings were commenced, no legal relationship was in place between the petitioner and the respondent on the subject matter of electricity supply to the petitioner's supply point, and the petitioner's claim was obviously irrelevant already at the time of its filing.

Mr Alexander Kult v ČEZ Prodej, s.r.o.

The petitioner moved for the Office to declare whether a legal relationship on electricity supply had come into existence and persisted. He also sought an authoritative decision on the obligation of ČEZ Prodej, s.r.o. to pay the petitioner an amount equalling the fee that the petitioner had to pay the respondent for the recovery of electricity supply to the supply point, while the interruption of electricity supply by ČEZ Prodej, s.r.o. was unlawful. The administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure to the extent of the point of the motion concerning the declaration of the emergence and existence of the legal relationship, because the petitioner withdrew his motion on this point. On the remaining points, the petitioner's motion was rejected because the petitioner failed to bear the burden of proof and did not prove the basis from which he inferred his claim in the motion initiating the administrative proceedings.

FVE 1 s.r.o. v E.ON Distribuce, a.s.; FVE 5 s.r.o. v E.ON Distribuce, a.s.; FVE 6 s.r.o. v E.ON Distribuce, a.s.; FVE 8 s.r.o. v E.ON Distribuce, a.s.; FVE 9 s.r.o. v E.ON Distribuce, a.s.; FVE 13 s.r.o. v E.ON Distribuce, a.s.; FVE 16 s.r.o. v E.ON Distribuce, a.s.; FVE 17 s.r.o. v E.ON Distribuce, a.s.; FVE 20 s.r.o. v E.ON Distribuce, a.s.; FVE 21 s.r.o. v E.ON Distribuce, a.s.; FVE 27 s.r.o. v E.ON Distribuce, a.s.; FVE 29 s.r.o. v E.ON Distribuce, a.s.; FVE 30 s.r.o. v E.ON Distribuce, a.s.; FVE 34 s.r.o. v E.ON Distribuce, a.s.; FVE Hrabětice s.r.o. v E.ON Distribuce, a.s.; FVE Petrovice a.s. v E.ON Distribuce, a.s.; GAVES SUN, s.r.o. v E.ON Distribuce, a.s.; Gilose s.r.o. v E.ON Distribuce, a.s.; HODEK spol. s r.o. v E.ON Distribuce, a.s.; HUTIRA FVE – OMICE, a.s. v E.ON Distribuce, a.s.;

IBOLIDEN, a.s. v E.ON Distribuce, a.s.; MORAVIA – SUN s.r.o. v E.ON Distribuce, a.s.; RAY GLOBAL, SE v E.ON Distribuce, a.s.; ROSTEN s.r.o. v E.ON Distribuce, a.s.; Sluneční elektrárna Čičenice s.r.o. v E.ON Distribuce, a.s.; ErgoHelisa a.s. v E.ON Distribuce, a.s.; Erisipela, a.s. v E.ON Distribuce, a.s.; SUNWATT a.s. v ČEZ Distribuce, a.s.; AGROSOLAR s.r.o. v E.ON Distribuce, a.s.; Budská solární, s.r.o. v E.ON Distribuce, a.s.; EL-INSTA SOLAR s.r.o. v E.ON Distribuce, a.s.; EL-INSTA SUN s.r.o. v E.ON Distribuce, a.s.; ENVA, s.r.o. v E.ON Distribuce, a.s.; FVE VESELKA s.r.o. v E.ON Distribuce, a.s.; Hradčanská solární, s.r.o. v E.ON Distribuce, a.s.; Chvalkovická sluneční, s.r.o. v E.ON Distribuce, a.s.; LIVELA POWER s.r.o. v E.ON Distribuce, a.s.; REN Power CZ Solar II. s.r.o. v E.ON Distribuce, a.s.; REN Power CZ Solar IV s.r.o. v E.ON Distribuce, a.s.; REN Power CZ Solar VI. s.r.o. v E.ON Distribuce, a.s.; SEVATOM s.r.o. v E.ON Distribuce, a.s.; SOLAR INVEST a.s. v E.ON Distribuce, a.s.; TESSERA a.s. v E.ON Distribuce, a.s.; WIS Ergo Hradčany a.s. v E.ON Distribuce, a.s.; WIS Ergo Ledce Sever s.r.o. v E.ON Distribuce, a.s.; WIS Ergo Moravský Žižkov s.r.o. v E.ON Distribuce, a.s.; FVE Polom s.r.o. v ČEZ Distribuce, a.s.; neoEnergy s.r.o. v ČEZ Distribuce, a.s.; REN Power CZ Solar IX. s.r.o. v ČEZ Distribuce, a.s.; REN Power CZ Solar VII. s.r.o. v ČEZ Distribuce, a.s.; SOLEKV s.r.o. v ČEZ Distribuce, a.s.; Vavřinec Energy a.s. v ČEZ Distribuce, a.s.; Vavřinec UJ a.s. v ČEZ Distribuce, a.s.; WIS Ergo Kerhartice s.r.o. v ČEZ Distribuce, a.s.; WIS Ergo Kladno a.s. v ČEZ Distribuce, a.s.; Bydžov s.r.o. v ČEZ Distribuce, a.s.; AMOS ergo, a.s. v ČEZ Distribuce, a.s.; Mr Richard Síla v ČEZ Distribuce, a.s.; TWIN SOLAR s.r.o. v ČEZ Distribuce, a.s.; JS solar – technik s.r.o. v ČEZ Distribuce, a.s.; YELLOW ENERGY s.r.o. v ČEZ Distribuce, a.s.; FVE Horní Libchava 1, s.r.o. v ČEZ Distribuce, a.s.; FVE Lhotka s.r.o. v ČEZ Distribuce, a.s.; SOLARPARK HŘIBINY s.r.o. v ČEZ Distribuce, a.s.; YCCU s.r.o. v ČEZ Distribuce, a.s.; B:POWER ONE, s.r.o. v ČEZ Distribuce, a.s.; LASTA SUN, s.r.o. v ČEZ Distribuce, a.s.; BM Consulting a.s. v ČEZ Distribuce, a.s.; FVE Kněžmost s.r.o. v ČEZ Distribuce, a.s.; FINE DECORATING a.s. v ČEZ Distribuce, a.s.; Solar Horušany s.r.o. v ČEZ Distribuce, a.s.; NC Services, a.s. v ČEZ Distribuce, a.s.; Mrs Jana Krausová v ČEZ Distribuce, a.s.; HaR FVE s.r.o. v ČEZ Distribuce, a.s.; STACHEMA KOLÍN, spol. s r.o. v ČEZ Distribuce, a.s.; Photon SPV 7 s.r.o. v ČEZ Distribuce, a.s.; LUCIS PB, a.s. v ČEZ Distribuce, a.s.; CERNY GROUP, spol. s r.o. v ČEZ Distribuce, a.s.; KOMPEK s.r.o. v ČEZ Distribuce, a.s.; OMGD, s.r.o. v ČEZ Distribuce, a.s.; ELEKTROCITY s.r.o. v ČEZ Distribuce, a.s.; FREEHOLD CENTRAL s.r.o. v E.ON Distribuce, a.s.; Arazona plus s.r.o. v E.ON Distribuce, a.s.; AMMASSO STELLARE, SE v ČEZ Distribuce, a.s.; Annuity Czech s.r.o. v ČEZ Distribuce, a.s.; Annuity s.r.o. v ČEZ Distribuce, a.s.; BELLO spol. s r.o. v ČEZ Distribuce, a.s.; CNE Projekt FVE beta s.r.o. v ČEZ Distribuce, a.s.; ENERGY ONE, s.r.o. v ČEZ Distribuce, a.s.; ETALON POWER, SE v ČEZ Distribuce, a.s.; FVE Mozolov s.r.o. v ČEZ Distribuce, a.s.; FVE Osečná s.r.o. v ČEZ Distribuce, a.s.; FVE Stříbro s.r.o. v ČEZ Distribuce, a.s.; CHS Solar Source a.s. v ČEZ Distribuce, a.s.; K-M SOLAR s.r.o. v ČEZ Distribuce, a.s.; LMP-SOLAR s.r.o. v ČEZ Distribuce, a.s.; PARYBA s.r.o. v ČEZ Distribuce, a.s.; Sluneční park Dubí s.r.o. v ČEZ Distribuce, a.s.; SOLAR ČERNILOV s.r.o. v ČEZ Distribuce, a.s.; SOLAZO s.r.o. v ČEZ Distribuce, a.s.; TM-SOLAR s.r.o. v ČEZ Distribuce, a.s.; TOMSAN s.r.o. v ČEZ Distribuce, a.s.; CZ Power, s.r.o. v E.ON Distribuce, a.s.; EMEL energy a.s. v E.ON Distribuce, a.s.; ERD, a.s. v E.ON Distribuce, a.s.; FLD Hi-System s.r.o. v E.ON Distribuce, a.s.; FVE Úsilné s.r.o. v E.ON Distribuce, a.s.; CHS Solar Source a.s. v E.ON Distribuce, a.s.; INTEC Green Energy s.r.o. v E.ON Distribuce, a.s.; Kertak Energy s.r.o. v E.ON Distribuce, a.s.; Solarpark Rybníček s.r.o. v E.ON Distribuce, a.s.

The subject matter of these administrative proceedings, very similar in terms of the facts of the case, under Section 17(7)(d) of the Energy Act, was disputes over support for renewable electricity (the application of tax on electricity from solar radiation). Administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure because the petitioners withdrew their motions through their counsel.

THE GAS INDUSTRY

In the gas industry, where the smallest number of disputes has been tackled for many years, four administrative proceedings were concluded in 2012; one of the cases concerned gas supply interruption/curtailment due to illegal gas consumption and three consumers' disputes concerned gas supply to households.

Mr Tomáš Kozelský v BOHEMIA ENERGY entity, s.r.o.

The subject matter of the administrative proceedings under Section 17(5)(a) of the Energy Act was a dispute over the interruption or curtailment of gas supply to the supply point. The Office granted the motion and imposed the obligation to refrain from gas supply interruption due to the alleged failure to pay.

Mr Ladislav Klíma v RWE Energie, a.s.

Dispute under Section 17(7)(e), point 1, of the Energy Act, over the payment of CZK 700 plus late charges for gas supply to the petitioner. Administrative proceedings were discontinued under Section 66(1)(a) of the Rules of Administrative Procedure because the petitioner withdrew his motion.

Mrs Jaroslava Vondráková v České Energetické Centrum a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of a legal relationship established by an agreement on bundled services of electricity and gas supply between the petitioner as the customer and the respondent as a holder of a licence for electricity and gas trade. The Office granted the motion because the petitioner duly rescinded the above agreement, and the legal relationship was therefore discharged.

Mr Oldřich Nápravník v České Energetické Centrum a.s.

The subject matter of the administrative proceedings was a dispute over the determination of the discharge of legal relationships the subject matter of which was electricity and gas supply and that had been established by agreements on bundled services of electricity and gas supply between the petitioner and České Energetické Centrum a.s. The Office decided that both of these relationships were discharged as it was proved that the petitioner rescinded both of these agreement in a due and proper manner and in compliance with the law.

THE HEATING INDUSTRY

In **the heating industry**, 2012 saw the conclusion of 7 administrative proceedings, the same number as in 2011. Compared with the preceding years this means that the workload is decreasing: 2010 saw the completion of 11 administrative proceedings and the figure was 18 in 2009. Most of the disputes concerned the execution of agreements on thermal energy supply, primarily a pricing addendum to the agreement for the relevant year. Thus, the thermal energy price was the main reason for failure to enter into an agreement in most of the cases.

Společenství pro dům čp. 125 v Březnici v PPT POTRUBNÍ TECHNIKA s.r.o.

The motion for the administrative proceedings was filed in a dispute over the execution of an agreement on thermal energy supply between the petitioner as the thermal energy customer and PPT POTRUBNÍ TECHNIKA s.r.o. as the holder of a licence for thermal energy generation and distribution. The Office discontinued the administrative proceedings under Section 66(1)(a) of the Rules of Administrative Procedure on the grounds of the withdrawal of the motion for the adversarial administrative proceedings, i.e. the withdrawal of the request for the determination of an agreement on thermal energy supply between the parties, and the respondent's failure to prove valid reasons for disagreeing with the withdrawal of the motion.

Coal Services a.s. v PRVNÍ MOSTECKÁ a.s.

The subject matter of the administrative proceedings was a dispute over the execution of Addendum 1 on pricing to the agreement on thermal energy supply in place between the petitioner as the thermal energy customer and PRVNÍ MOSTECKÁ a.s. as the supplier and the holder of a licence for thermal energy distribution. Following an examination of the preliminary thermal energy price for 2011 it was found in the administrative proceedings that PRVNÍ MOSTECKÁ a.s. had the right to demand from the petitioner, for the Větev ČSA supply point, a preliminary thermal energy price for 2011 of CZK 324.55/GJ w/o VAT, and the Office therefore rejected the motion for the substitution of the expression of will of the parties to the proceedings, which would have been contained in the missing part of the agreement on thermal energy supply, i.e. the missing Addendum 1, with the wording set out in the motion for the commencement of the administrative proceedings and containing a preliminary thermal energy price of CZK 226.50/GJ w/o VAT and the advance payments related to this price.

Společenství vlastníků jednotek pro dům Nepelova 947; Společenství vlastníků jednotek pro dům Nepelova 948; Společenství vlastníků jednotek pro dům Nepelova 949; Společenství vlastníků jednotek pro dům Nepelova 950; Společenství vlastníků jednotek pro dům Nepelova 951; Společenství vlastníků jednotek pro dům Nepelova 952; and Společenství vlastníků jednotek pro dům Nepelova 953 v Pražská teplotárenská a.s.

The subject matter of the administrative proceedings was a dispute over the execution of agreements on thermal energy supply between each of the condominiums in the Nepelova Street, as thermal

energy customers, and Pražská teplotárenská a.s. as the thermal energy supplier. The merit of the dispute was an examination of the thermal energy price charged by Pražská teplotárenská a.s., or, in fact, the examination of the method used for calculating the fixed component of the price related to the 15-minute maximum power. Pražská teplotárenská a.s. charges double-component thermal energy prices, and calculates the fixed component on the basis of the maximum 15-minute power adjusted to the design temperature of -12 °C applicable in the area. Petitioners challenge this calculation of the fixed component of the thermal energy price and regard it as discriminatory compared with customers who have agreed on the fixed component of the price based on the quantity of thermal energy. In this connection, the petitioners sought through the administrative proceedings, the determination of the fixed component of the price on the basis of the expected annual consumption of thermal energy, calculated on the basis of their actual consumption, or the reworking of the power-based methodology of Pražská teplotárenská a.s. so that it would reflect the condominiums' long-term demand for thermal energy and eliminate random phenomena that are beyond consumers' control. Since the fixed component of the prices should have been – as the ERO found – related to the agreed thermal energy quantity, as predominantly done in this price locality, i.e. Prague – the Prague Heating System, and with a view to the principle that an administrative authority is bound by the motion, the motion had to be rejected.

Teplárna Liberec, a.s. v customers

Administrative proceedings on a declaration that between the petitioner as a thermal energy supplier and the holder of a licence for thermal energy distribution, and the entities specified in the motion as thermal energy customers, no agreements on thermal energy supply were in place, and also on a declaration that the petitioner met its contracting obligation under Section 76(1) of the Energy Act in relation to each of the entities specified in the motion, namely by way of presenting drafts of new agreements on thermal energy supply. The administrative proceedings were discontinued under Section 66(1)(b) of the Rules of Administrative Procedure because the motion was manifestly inadmissible.

Šluknov Appartements s.r.o. v SoLo sport a TUV, spol. s r.o.

Dispute over the execution of a pricing covenant for 2012 as Appendix 2 to the thermal energy supply agreement established through the ERO's decision of 19 April 2011 under Ref. No. 13614-38/2010-ERU, between Šluknov Appartements s.r.o. as the thermal energy customer and SoLo sport a TUV, spol. s r.o. as the thermal energy supplier. The Office delivered a decision laying down the respondent's obligation to execute a pricing covenant with the petitioner in a certain specific wording, thereby granting the motion to the extent of the part concerning the size of the expected consumption in GJ; following a review, it upheld the price charged by the respondent at CZK 675.40/GJ w/o VAT, i.e. CZK 769.96/GJ with VAT; constant advance payments for each month of 2012 were laid down accordingly.

LA LINEA s.r.o. and MILETA a.s. v ČEZ, a.s.

The subject matter the proceedings, very similar as to the facts, on the motions filed by LA LINEA s.r.o. and MILETA a.s., was disputes over the execution of a pricing covenant for 2012 as an essential provision of an agreement on thermal energy supply. The Office delivered a decision imposing on the respondent the obligation to execute a pricing covenant for 2012 in the wording set out in the operative part of the decision; in respect of the other part, in which the petitioners mentioned immaterial details of an agreement on thermal energy supply, the motion was rejected.

PRVNÍ MOSTECKÁ a.s. v Coal Services a.s.

PRVNÍ MOSTECKÁ a.s. filed a motion with the ERO for the determining of the final price of thermal energy for 2010 and 2011 between the petitioner and the thermal energy supplier and Coal Services a.s. as the thermal energy customer. The petitioner moved for the final price of thermal energy for 2010 and 2011 to be determined in a specific amount and for the Office to decide that an agreement on thermal energy supply containing this price be executed. Under Section 66(1)(b) of the Rules of Administrative Procedure, the proceedings on the motion were discontinued as in this case, the motion was manifestly inadmissible. The Office is not competent to decide on the accuracy of the resulting price of thermal energy for an already closed calendar year in adversarial proceedings. In addition, the petitioner formulated its motion under Section 17(7)(a) of the Energy Act as a dispute over the execution of an agreement on thermal energy supply, but it is only thermal energy customers who have the right to file such a motion with reference to Section 76(1) of the Energy Act.

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 2012 fines were levied on the following entities with finality.

ENERGIE Holding a.s.

The Office decided to levy a fine of CZK 500,000 on ENERGIE Holding a.s. for negotiating a preliminary thermal energy price the amount and calculation of which had not complied with cost-plus pricing under Section 6(1) of the law on prices, in the Mimoň price location for 2010.

TERMIZO a.s.

The Office decided to levy a fine of CZK 400,000 on TERMIZO a.s. for failing to respect the mandatory procedure, laid down by price control authorities, in pricing and calculating thermal energy prices under Section 6 of the law on prices, as effective until 17 November 2009, in applying the preliminary thermal energy price for 2009 in the Liberec price location.

Tepelné hospodářství Města Trhové Sviny spol. s r.o.

The Office decided to levy a fine of CZK 100,000 on Tepelné hospodářství města Trhové Sviny spol. s r.o. for negotiating a preliminary thermal energy price the amount and calculation of which had not complied with cost-plus pricing under Section 6(1) of the law on prices, in the Trhové Sviny price location for 2010.

TEPLO Rumburk, s.r.o.

The Office decided to levy a fine of CZK 700,000 on TEPLO Rumburk, s.r.o. for negotiating a preliminary thermal energy price the amount and calculation of which had not complied with cost-plus pricing under Section 6(1) of the law on prices, on the Rumburk – CZT Podhájí price location for 2011.

Proceedings under Act No 106/1999 on free access to information, as amended

The Office provides the applicants with the required information under Act No 106/1999 on free access to information, as amended. In cases where the Office as the liable entity does not grant the request, even if only a part thereof, it shall deliver, under Section 15 of this law, a decision on the dismissal of the request or a part thereof.

The request/part thereof, for information provision was dismissed in the case of the following applicants requesting information:

Mr Jaroslav Lekeš

The Office delivered, under Section 15 of the law on free access to information, a decision dismissing Mr Lekeš's request for information.

On the basis of the applicant's remonstrance, and upon the remonstrance commission's proposal, ERO Chairwoman rejected a part of the remonstrance and upheld a part of the challenged decision, and granted a part of the remonstrance and reversed a part of the challenged decision and remanded the case for reconsideration. The reason for reversing a part of the decision rejecting the request was the non-existence of grounds for such procedure.

On the basis of the decision on the remonstrance, the Office delivered a decision on withholding a part of the information, noting that the information had been provided except for the paragraph containing a business secret.

Mr Jaroslav Kocourek

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information, noting that the information had come into existence without the use of public domain and had been furnished by a person on whom the law does not impose this obligation unless the person had notified their consent to the provision of information.

Mr Petr Orct

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information, noting that the information had come into existence without

the use of public domain and had been furnished by a person on whom the law does not impose this obligation unless the person had notified their consent to the provision of information.

CALLA – Sdružení pro záchranu prostředí

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information, noting that such provision would violate the protection of third parties' rights to the subject matter of the copyright.

Mr Filip Hron

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information to the extent of the paragraphs containing business secret.

Mr David Bareš

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information to the extent of the paragraphs containing business secret.

Mr Martin Bernát

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information noting that the information had been received from a third party during the exercise of oversight powers under the Energy Act, in respect of which ERO employees are subject to the confidentiality obligation.

MARSERVIS, s.r.o.

The Office delivered, under Section 15 of the law on free access to information, a decision rejecting a part of the request of MARSERVIS, s.r.o. for the provision of information. The grounds for dismissing the request was the fact that the information had come into existence without the use of public domain and had been furnished by a person on whom the law does not impose this obligation and the person had not notified their consent to the provision of this information.

Mr Rostislav Němec

The Office delivered, under Section 15 of the law on free access to information, a decision to partly dismiss the request on the grounds of the protection of classified information.

On the basis of the applicant's remonstrance and because the grounds for dismissing the request ceased to exist in the meantime, the Office delivered a decision on the basis of which the requested information was provided.

Mr Stanislav Šmejkal

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information as the information had been received from a third party during the performance of regulatory activities under the Energy Act, in respect of which ERO employees are subject to the confidentiality obligation.

On the basis of the applicant's remonstrance, ERO Chairwoman granted the remonstrance upon the remonstrance commission's proposal, reversed the challenged decision, and remanded the case for reconsideration.

Mr Hrbek

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information as the information had been received from a third party during the performance of regulatory activities under the Energy Act, in respect of which ERO employees are subject to the confidentiality obligation.

Česká společnost pro větrnou energii

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information, noting that such provision would violate the protection of third parties' rights to the subject matter of the copyright.

ALOFY s.r.o.

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information noting that the information had been received from a third party

during the exercise of oversight powers under the Energy Act, in respect of which ERO employees are subject to the confidentiality obligation.

On the basis of the applicant's remonstrance, and upon the remonstrance commission's proposal, ERO Chairwoman rejected the remonstrance and upheld the challenged decision. The applicant has brought an action against this decision; the action is still pending.

MC elektro, s.r.o.

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information, noting that the information had come into existence without the use of public domain, and had been furnished by a person on whom the law does not impose this obligation unless the person had notified their consent to the provision of this information.

Dance macabre

The Office delivered, under Section 15 of the law on free access to information, a decision refusing to provide the requested information on the grounds of the protection of personal rights and privacy of a natural person.

On the basis of the applicant's remonstrance, and upon the remonstrance commission's proposal, ERO Chairwoman granted the remonstrance, reversed the challenged decision, and remanded the case for reconsideration.

Approval proceedings

In 2012, the Office concluded 33 administrative proceedings, of which 13 in electricity and 20 in the gas industry, under Section 17(7)(g) of the Energy Act (rules for the operation of the transmission system and distribution systems in the electricity industry, the market operator's commercial terms and conditions, codes of the gas transmission system, storage system and distribution system operators in the gas industry) with finality.

Under Section 17(8)(e) to (j) of the Energy Act, it also delivered 66 decisions approving the activities of the gas transmission system operator which is part of a vertically integrated gas undertaking, in 2012.

Certification

Under Section 10b the Energy Act, certification is initiated upon an application filed by the gas/electricity transmission system operator, or the person intending to operate the gas/electricity transmission system, and the Office shall grant the independence certificate if the applicant proves in the certification process initiated upon the applicant's application that it meets the conditions of independence under Section 24a(2) or Sections 58a to 58n.

On the basis of the application filed by ČEPS, a.s., in 2012 the Office decided under Section 10b(6) of the Energy Act to grant the independence certificate to ČEPS, a.s. as the operator of the electricity transmission system. In 2012, administrative proceedings were also conducted on the grant of an independence certificate to NET4GAS, s.r.o. as the operator of the gas transmission system, but the proceedings were not concluded in 2012.

2) Remonstrance proceedings in 2012

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 ERO Chairwoman, who decides on these appeals on the basis of the remonstrance commission's proposals.

In 2012, the ERO decided, at the level of the second instance, upon the remonstrance commission's proposals concerning the remonstrance filed by parties to the proceedings, in 72 proceedings in which a decision on the merits was delivered. Further, decisions were delivered on 20 remonstrances filed by parties to the proceedings against other decisions delivered by the Office at the level of the first instance.

Remonstrances filed against decisions issued in adversarial proceedings

THE ELECTRICITY INDUSTRY

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., Jiří Trojan v ČEZ Distribuce, a.s., Správa nemovitosti města Jičína, a.s. v ČEZ Distribuce, a.s., CZECH SOLAR ENERGY PROJECT a.s. v E.ON Distribuce, a.s., KORUND BENÁTKY, s.r.o. v ČEZ Distribuce, a.s., DEVELOPMENT – Pardubice s.r.o. v ČEZ Distribuce, a.s., Cukrovar Vrbátky a.s. v E.ON Distribuce, a.s., Stavební bytové družstvo „Mír“ Teplice v ČEZ Distribuce, a.s., Solar Systems Projekt s.r.o. v ČEZ Distribuce, a.s., Vysoká škola báňská – Technická univerzita Ostrava v ČEZ Distribuce, a.s., Jiří Hynek v E.ON Distribuce, a.s., EKopaliva s.r.o. v ČEZ Distribuce, a.s., LASTA, a.s. v ČEZ Distribuce, a.s., Jiří Daněk v E.ON Distribuce, a.s., Hana Vrbová v ČEZ Distribuce, a.s., Soňa Pulcová v ČEZ Distribuce, a.s., Stora Enso Wood Products Ždírec s.r.o. v ČEZ Distribuce, a.s., Fotovoltaická elektrárna Eliška – Čáslav s.r.o. v ČEZ Distribuce, a.s.

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

Mrs Soňa Pulcová v ČEZ Distribuce, a.s.

On the basis of the remonstrance filed in this dispute, ERO Chairwoman reversed the delivered decision upon the remonstrance commission's proposal, and remanded the case for reconsideration.

THE GAS INDUSTRY

Mr Tomáš Kozelský v BOHEMIA ENERGY entity s.r.o.

In a dispute concerning the gas industry, the Office rejected Mr Kozelský's motion in respect of a gas supply interruption. On the basis of the remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

THE HEAT SUPPLY INDUSTRY

Coal Services a.s. v PRVNÍ MOSTECKÁ, Společenství pro dům čp. 125 v Březnici v PPT POTRUBNÍ TECHNIKA s.r.o., Šluknov Apartments s.r.o. v SoLo sport a TUV, spol. s r.o.

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

Proceedings on fines for violations of price regulations

TEPLO Rumburk, s.r.o.

The Office levied a fine of CZK 700,000 on TEPLO Rumburk, s.r.o. under Section 16(4)(c) of the law on prices for an administrative offence under Section 16(1)(d) of the law on prices. On the basis of remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

Novosedelská bytová s.r.o.

The Office levied a fine of CZK 100,000 on Novosedelská bytová s.r.o. under Section 16(4)(a) of the law on prices for an administrative offence under Section 16(3)(c) of the law on prices. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

ENERGIE Holding a.s.

The Office levied a fine of CZK 500,000 on ENERGIE Holding a.s. under Section 16(4)(c) of the law on prices for an administrative offence under Section 16(1)(d) of the law on prices. ERO Chairwoman rejected the remonstrance as filed too late.

KA Contracting ČR s.r.o.

The Office levied a fine of CZK 80,000 on KA Contracting ČR s.r.o. under Section 17(1)(b) of the law on prices for breaching pricing regulations under Section 15(1)(c) of the law on prices. On the basis of remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

Tepelné hospodářství Města Trhové Sviny spol. s r.o.

The Office levied a fine of CZK 100,000 on Tepelné hospodářství Města Trhové Sviny spol. s r.o. under Section 16(4)(c) of the law on prices for a breach of Section 16(1)(d) of the law on prices. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

SoLo Sport a TUV, spol. s r.o.

The Office levied a fine of CZK 467,384 on SoLo Sport a TUV, spol. s r.o. under Section 16(4)(b) of the law on prices for an administrative offence under Section 16(1)(d) of the law on prices. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

LENOXA a.s.

The SEI levied a fine of CZK 931,460 on LENOX A a.s. under Section 17(1)(b) of the law on prices for a breach of pricing regulations under Section 15(1)(c) and (f) of the law on prices. Under Act No 211/2011, ERO Chairwoman decided on the remonstrance by way of reversing the challenged decision and remanding the case to the ERO for reconsideration.

KOHLGAS, spol. s r.o.

The Office levied a fine of CZK 50,000 on KOHLGAS, spol. s r.o. under Section 16(4)(c) of the law on prices for an administrative offence under Section 16(1)(d) of the law on prices. ERO Chairwoman rejected the remonstrance as filed too late. Subsequently, in review proceedings, ERO Chairwoman reversed the final decision on the basis of the remonstrance that had been filed too late, and remanded the case for reconsideration.

NOVATHERM, společnost s ručením omezeným

The Office levied a fine of CZK 40,000 on NOVATHERM, společnost s ručením omezeným under Section 16(4)(a) of the law on prices for an administrative offence under Section 16(3)(c) of the law on prices. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

KOHLGAS, spol. s r.o.

The Office levied a fine of CZK 80,000 on KOHLGAS, spol. s r.o. under Section 16(4)(c) of the law on prices for an administrative offence under Section 16(1)(d) of the law on prices. On the basis of the remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

Proceedings on fines for violations of the Energy Act**Tepelné hospodářství města Ústí nad Labem s.r.o.**

The Office levied a fine of CZK 200,000 on Tepelné hospodářství města Ústí nad Labem s.r.o. under Section 91(13)(c) of the Energy Act for an administrative offence under Section 91(12)(b) of the Energy Act. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

RWE Energie, a.s., Východočeská plynárenská, a.s., Jihomoravská plynárenská, a.s., Severomoravská plynárenská, a.s., ČEZ Prodej, s.r.o., BOHEMIA ENERGY entity s.r.o., České Energetické Centrum Jih s.r.o.

The Office levied fines of CZK 300,000 on the parties to the proceedings under Section 91(13) of the Energy Act, for an administrative offence under Section 91(1)(d) of the Energy Act. On the basis of the remonstrance, ERO Chairwoman reversed the challenged decisions and remanded the case for reconsideration.

Dalkia Česká republika, a.s.

The Office levied a fine of CZK 100,000 on Dalkia Česká republika, a.s. under Section 91(13) of the Energy Act for an administrative offence under Section 91(12)(d) of the Energy Act. ERO Chairwoman rejected the remonstrance as filed too late.

Central Energy, s.r.o.

The Office levied a fine of CZK 300,000 on Central Energy, s.r.o. under Section 91(13) of the Energy Act for an administrative offence under Section 91(1)(d) of the Energy Act. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

CENTROPOL ENERGY, a.s.

The Office levied a fine of CZK 100,000 on CENTROPOL ENERGY, a.s. under Section 91(13) of the Energy Act for an administrative offence under Section 91(1)(e) of the Energy Act. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

Stavební a pece, spol. s r.o., P.S.P. Praha s.r.o., Milan Tichý – Inženýrské stavby, GRIFMONT CZ s.r.o.

The Office levied fines on the parties to the proceedings under Section 91a(4) of the Energy Act for an administrative offence under Section 91a(1)(m) of the Energy Act. On the basis of remonstrance, ERO Chairwoman reversed the challenged decisions and remanded the case for reconsideration.

Šluknov Appartements s.r.o.

The Office levied a fine of CZK 100,000 on Šluknov Appartements s.r.o. under Section 91a(4) of the Energy Act for an administrative offence under Section 91a(1)(l) of the Energy Act. On the basis of the remonstrance, ERO Chairwoman reversed the challenged decision and discontinued the proceedings.

Mr Alexandr Kendik

The SEI levied a fine of CZK 85,000 on Mr Alexandr Kendik under Section 91(4) of the Energy Act for a violation of Section 98(1)(b) of the Energy Act, in respect of illegal offtake of heat under Section 89(1)(b) of the Energy Act. Under Act No 211/2011, ERO Chairwoman decided on the remonstrance by way of reversing the challenged decision and discontinuing the proceedings.

TERMIL s.r.o.

The Office levied a fine of CZK 40,000 on TERMIL s.r.o. under Section 91a(4) of the Energy Act for an administrative offence under Section 91a(1)(m) of the Energy Act. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

TTS energo s.r.o.

The Office levied a fine of CZK 100,000 on TTS energo s.r.o. under Section 91a(4) of the Energy Act for an administrative offence under Section 91a(1)(m) of the Energy Act. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

ELSPOL spol. s r.o.

The Office levied a fine of CZK 70,000 on ELSPOL spol. s r.o. under Section 91a(4) of the Energy Act for an administrative offence under Section 91a(1)(m) of the Energy Act. ERO Chairwoman rejected the remonstrance as filed too late.

KOHLGAS, spol. s r.o.

The Office levied a fine of CZK 65,000 on KOHLGAS, spol. s r.o. under Section 91a(1)(a) of the Energy Act for an administrative offence under Section 91a(1)(a) the Energy Act. On the basis of remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

Proceedings on fines for violations of the law on consumer protection**České Energetické Centrum Jih s.r.o.**

The Office levied a fine of CZK 1,400,000 on České Energetické Centrum Jih s.r.o. under Section 24(10)(d) of the law on consumer protection for an administrative offence under Section 24(1)(a) of the law on consumer protection. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

České Energetické Centrum Jih s.r.o.

The Office levied a fine of CZK 80,000 on České Energetické Centrum Jih s.r.o. under Section 24(10)(d) of the law on consumer protection for an administrative offence under Section 24(1)(a) of the law on consumer protection. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

České Energetické Centrum a.s.

The Office levied a CZK 80,000 fine on České Energetické Centrum a.s. under Section 24(10)(d) of the law on consumer protection for an administrative office under Section 24(1)(a) of the law on consumer protection. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

Proceedings under the law on free access to information

Mr Jaroslav Lekeš

The Office delivered a decision under Section 15 of the law on free access to information, dismissing Mr Lekeš's request for the provision of information. ERO Chairwoman rejected a part of the remonstrance, and upheld a part of the challenged decision, and granted a part of the remonstrance and reversed a part of the decision, and remanded the case for reconsideration.

Mr Petr Orct

The Office delivered a decision under Section 15 of the law on free access to information, dismissing Mr Orct's request for the provision of information. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

ALOFY s.r.o.

The Office delivered a decision under Section 15 of the law on free access to information, dismissing the request of ALOFY s.r.o. for the provision of information. ERO Chairwoman rejected the remonstrance and upheld the challenged decision.

Mr Stanislav Šmejkal

The Office delivered a decision under Section 15 of the law on free access to information, dismissing Mr Šmejkal's request for the provision of information. On the basis of the remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

Dance macabre

The Office delivered a decision under Section 15 of the law on free access to information, dismissing the Dance macabre civil association's request for the provision of information. On the basis of remonstrance, ERO Chairwoman reversed the challenged decision and remanded the case for reconsideration.

Licensing proceedings

Sokolovská uhelná, právní nástupce, a.s.

ERO Chairwoman rejected the remonstrance filed by Sokolovská uhelná, právní nástupce, a.s. against the decision rejecting the licence holder's application for an amendment of the licence for thermal energy distribution.

oaza – energo, a.s.

ERO Chairwoman reversed, on the basis of the remonstrance, the decision rejecting the application filed by oaza – energo, a.s. for an amendment of the licence for electricity distribution and remanded the case for reconsideration.

Milouš Pour

ERO Chairwoman rejected the remonstrance filed by Mr Milouš Pour against the decision whereby in proceedings initiated *ex officio* a decision was delivered on an amendment of the licence for electricity distribution no. 120100243, and upheld the challenged decision.

AG – SUN s.r.o.

ERO Chairwoman rejected the remonstrance filed by AG – SUN s.r.o. against the decision rejecting the licence holder's application for an amendment of the licence for electricity generation, and upheld the challenged decision.

In 2012, ERO Chairwoman also delivered decisions in proceedings on remonstrances concerning licensing proceedings, whereby she rejected:

- remonstrance filed by FVE Dědová s.r.o. against the decision rejecting, in a reopened proceeding, the application filed by FVE Dědová s.r.o. for a licence for electricity generation,
- remonstrance filed by Olymp, export-import, spol. s r.o. against the decision delivered in a reopened proceeding for an amendment of the decision on the award of a licence for electricity generation,
- remonstrance filed by Zdeněk – Sun s.r.o. against ERO Chairwoman’s decision reversing, in summary review proceedings, the ERO’s decision on the discontinuation of the proceedings on permitting the reopening of proceedings on the application filed by Zdeněk – Sun s.r.o. for a licence for electricity generation,
- remonstrance filed by Saša – Sun s.r.o. against ERO Chairwoman’s decision reversing, in summary review proceedings, the ERO’s decision on the discontinuation of the proceedings on permitting the reopening of proceedings on the application filed by Saša – Sun s.r.o. for a licence for electricity generation.

Appendix 2



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 2012

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 2012.

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 2012.

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 February 22, 2013

A-CONT, s. r. o., with a registered office at Dobří 4, 586 01 Jihlava, Reg. No. 49448889, registered in the Companies Registry administered by the Regional Court in Brno, section C, enclosure No. 12563 and also entered in the list of auditing companies of the Czech Republic's Chamber of Auditors with the certificate No. 372.

Appendix 3

Balance Sheet as at 31 December 2012
of the State's instrumentalities, self-governing administrative units,
semi-autonomous organisations and Regional Councils
(adjusted form)

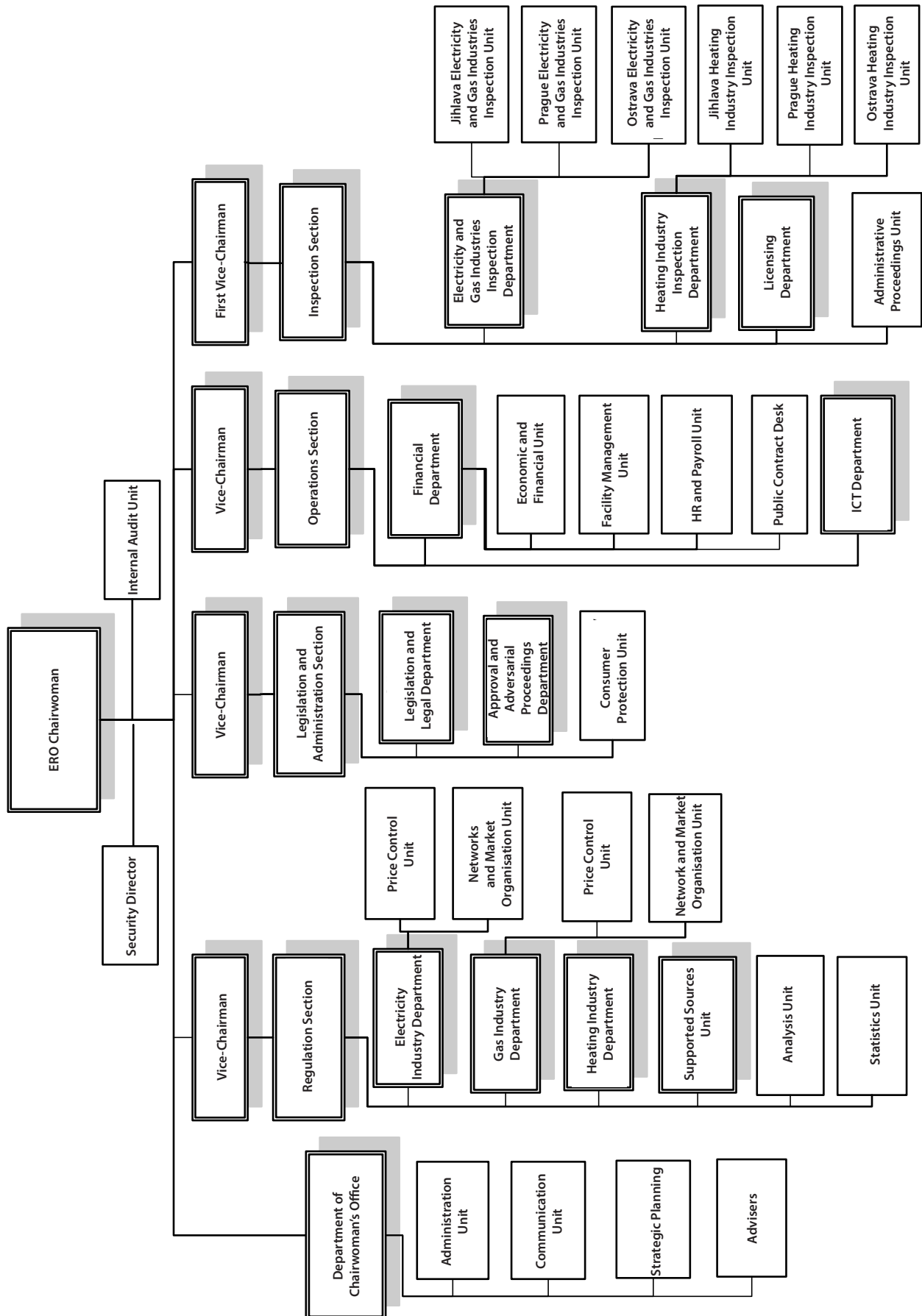
Name of the accounting unit:
Energy Regulatory Office
Masarykovo náměstí 5
586 01 JIHLAVA
Reg. No.: 70894451

Item	Name	Synthetic account	Current p. gross 1	Current period Adjustment 2	Current period net 3	Previous period 4
TOTAL ASSETS			235,260,401.70	82,360,434.16	152,899,967.54	153,331,477.10
A. Fixed assets			164,899,897.53	82,360,434.16	82,539,463.37	87,601,874.19
I. Intangible fixed assets			48,536,608.06	32,368,966.42	16,167,641.64	25,752,280.04
	2. Software	013	41,701,690.64	25,534,049.00	16,167,641.64	25,752,280.04
	5. Low-value intangible fixed assets	018	6,834,917.42	6,834,917.42	0.00	0.00
II. Tangible fixed assets			116,363,289.47	49,991,467.74	66,371,821.73	61,849,594.15
	1. Land	031	3,412,147.00	0.00	3,412,147.00	3,412,147.00
	2. Objects of art	032	291,241.00	0.00	291,241.00	291,241.00
	3. Buildings	021	42,116,597.30	5,186,188.00	36,930,409.30	35,570,307.30
	4. Plant and equipment	022	47,321,533.43	21,583,509.00	25,738,024.43	22,575,898.85
	6. Low-value tangible fixed assets	028	23,221,770.74	23,221,770.74	0.00	0.00
III. Long-term investments			0.00	0.00	0.00	0.00
IV. Long-term receivables			0.00	0.00	0.00	0.00
B. Current assets			70,360,504.17	0.00	70,360,504.17	65,729,602.91
I. Inventories			230,287.05	0.00	230,287.05	163,956.11
	2. Material in stock	112	230,287.05	0.00	230,287.05	163,956.11
II. Short-term receivables			12,632,155.16	0.00	12,632,155.16	11,664,682.40
	4. Short-term advances paid	314	904,508.00	0.00	904,508.00	635,618.00
	5. Other receivables, main activity	315	9,192,558.00	0.00	9,192,558.00	9,146,134.00
	10. Receivables from employees	335	0.00	0.00	0.00	5,000.00
	25. Prepaid expenses	381	2,535,089.16	0.00	2,535,089.16	1,877,930.40
III. Short-term financial assets			57,498,061.96	0.00	57,498,061.96	53,900,964.40
	5. Other current accounts	245	57,386,102.02	0.00	57,386,102.02	53,714,915.21
	10. FKSP current account	243	111,959.94	0.00	111,959.94	186,049.19

Item	Name	Synthetic account	Current period 1	Previous period 2
EQUITY AND LIABILITIES			152,899,967.54	153,331,477.10
C. Equity			94,867,716.55	98,983,841.26
I. Accounting unit's capital and adjustment items			68,816,402.94	79,124,221.94
	1. Accounting unit's capital	401	128,311,123.17	128,311,123.17
	5. Valuation differences upon first use of method	406	-59,494,720.23	-49,186,901.23
II. Accounting unit's funds			111,959.94	186,049.19
	2. FKSP	412	111,959.94	186,049.19
III. Result			-103,849,997.56	-170,012,045.52
	1. Result of current period	493	66,162,047.96	-87,810,558.71
	2. Result in the approval procedure	431	-87,810,558.71	0.00
	3. Retained profit, outstanding loss from previous years	432	-82,201,486.81	-82,201,486.81
IV. Income and expense account of budget management			129,789,351.23	189,685,615.65
	1. Income account of the State's instrumentalities	222	-228,280,680.28	-11,762,725.21
	2. Special expense account	223	168,384,415.86	111,290,593.45
	4. Aggregated income and expense of past periods	404	189,685,615.65	90,157,747.41
D. Liabilities			58,032,250.99	54,347,635.84
I. Provisions			0.00	0.00
	223		0.00	0.00
II. Long-term liabilities			45,443,007.97	45,849,353.58
	8. Other long-term liabilities	459	45,443,007.97	45,849,353.58
III. Short-term liabilities			12,589,243.02	8,498,282.26
	14. Other liabilities to employees	333	6,531,229.00	4,454,733.00
	15. Net liabilities to social security and health insurance	336	3,679,862.00	2,441,700.00
	17. Other direct taxes	342	1,274,956.00	847,949.00
	31. Accrued expenses	383	830,101.97	666,346.63
	34. Other short-term liabilities	378	273,094.05	87,553.63

Appendix 4

Organisational structure of the Energy Regulatory Office as at 31 December 2012



**Report on the Activities and Finances
of the Energy Regulatory Office
for 2012**

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