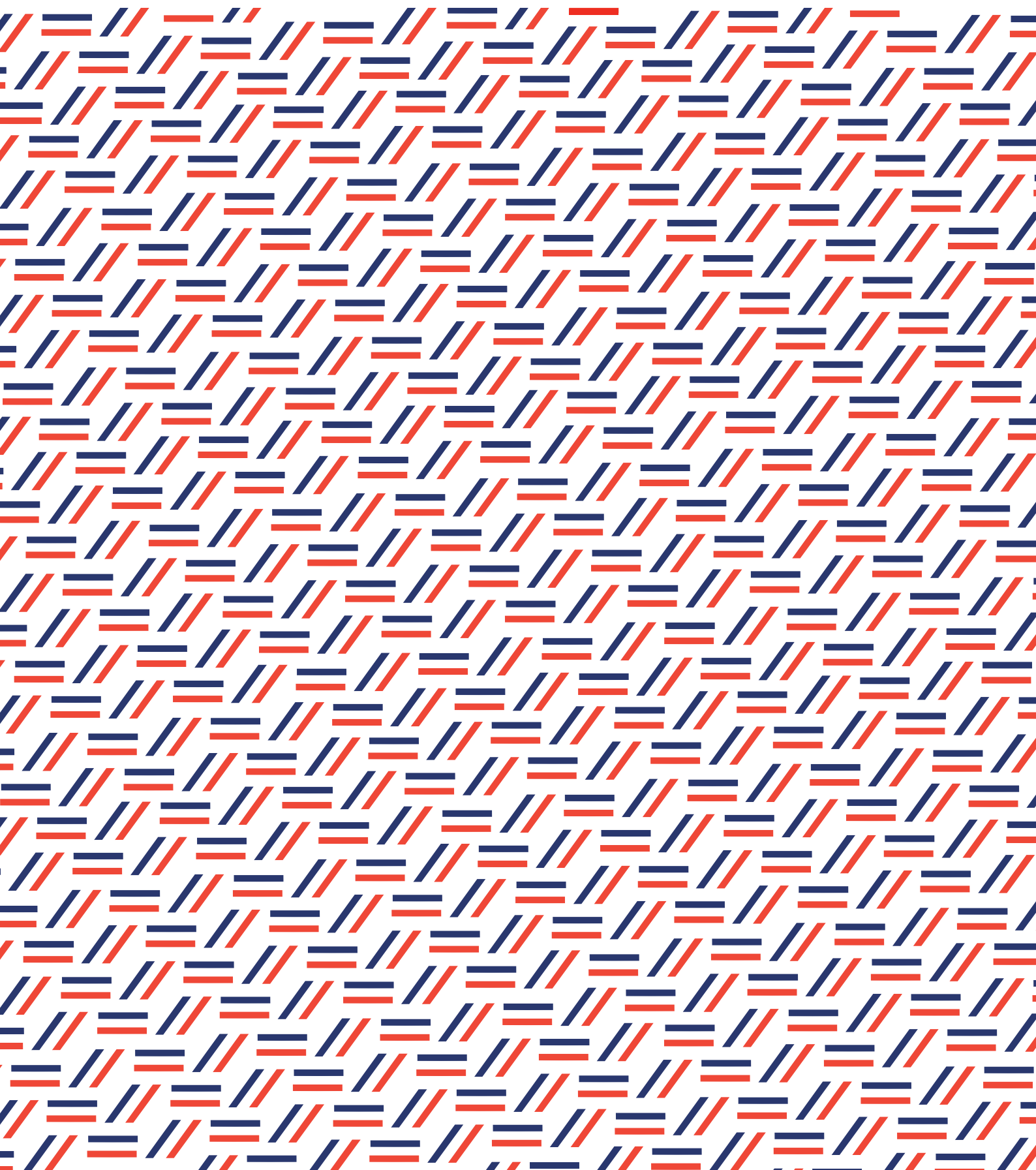




REPORT ON THE ACTIVITIES AND FINANCES  
OF THE ENERGY REGULATORY OFFICE

**FOR 2018**



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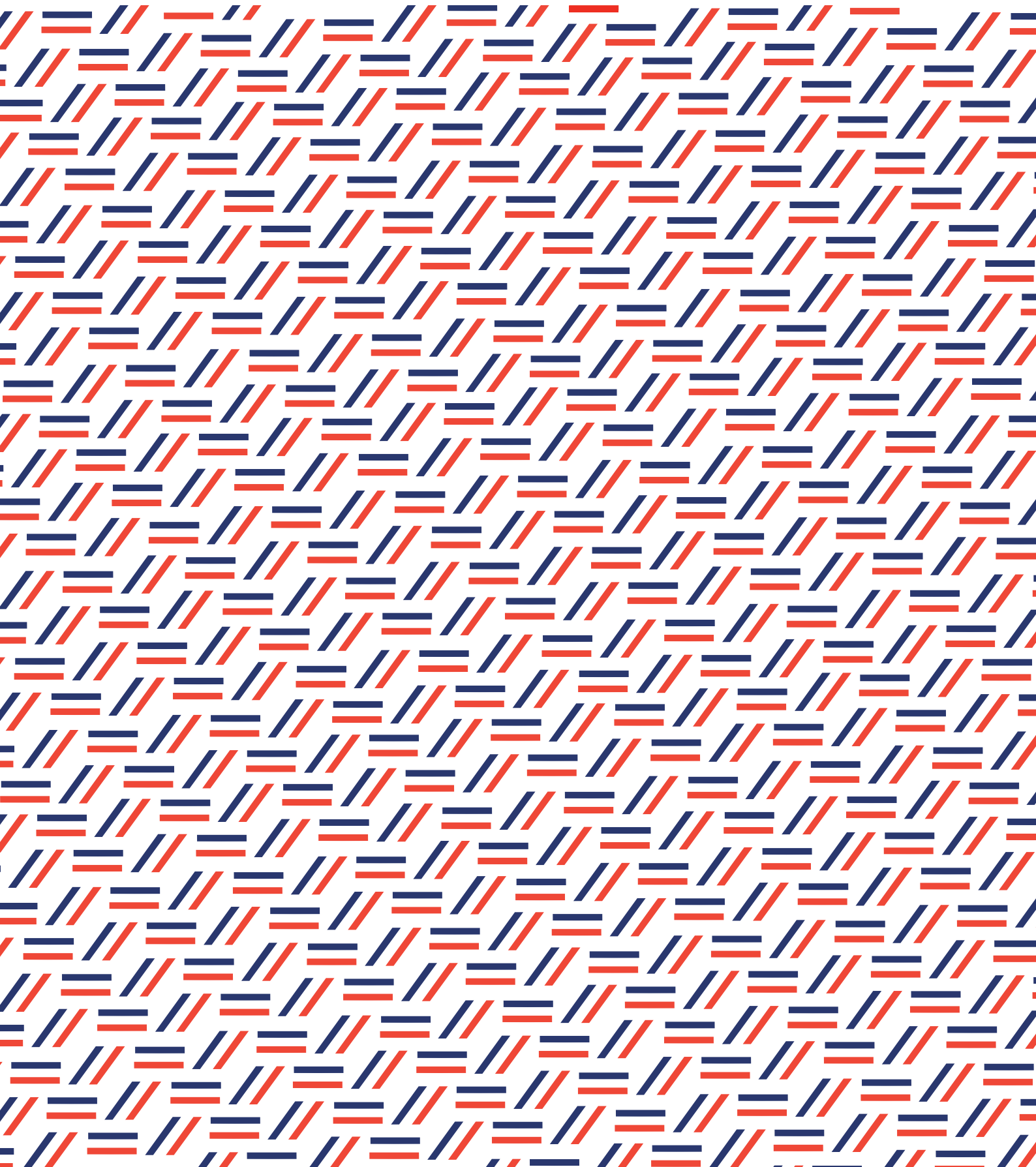
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# Abbreviations

<b>ACER</b>	Agency for the Cooperation of Energy Regulators
<b>GSSS</b>	Gas supply security standard
<b>CEER</b>	Council of European Energy Regulators
<b>CTIA</b>	The Czech Trade Inspection Authority
<b>CR</b>	The Czech Republic
<b>VAT</b>	Value-added tax
<b>SLR</b>	Supplier of last resort
<b>EC, Commission (EU)</b>	European Commission
<b>The Energy Act</b>	Act No 458/2000 on the conditions of business and state administration in energy industries and amending certain laws, as amended
<b>ERO, Office</b>	Energy Regulatory Office
<b>EC</b>	European Community
<b>EU, Union</b>	European Union
<b>PHV</b>	Photovoltaic plant
<b>ISMS</b>	Information Security Management System
<b>CHP</b>	Combined heat & power generation
<b>MF</b>	Ministry of Finance of the Czech Republic
<b>MODOM</b>	[a Czech acronym] a customer category: low-demand business and household customers
<b>MIT</b>	Ministry of Industry and Trade of the Czech Republic
<b>MFA</b>	Ministry of Foreign Affairs of the Czech Republic
<b>REMIT</b>	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency

<b>Market operator, OTE</b>	OTE, a.s. [a company]
<b>RES</b>	Renewable energy sources
<b>PCI</b>	Projects of Common Interest
<b>SES</b>	Supported energy sources
<b>NAP</b>	National Energy Policy
<b>TA ČR</b>	Technology Agency of the Czech Republic
<b>TYNDP</b>	Ten Year Network Development Plan
<b>OPC</b>	Office for the Protection of Competition
<b>V4</b>	Visegrad Four, V4
<b>Government, cabinet</b>	Government of the Czech Republic
<b>VOSO</b>	[a Czech acronym] a customer category: high-demand and medium-demand customers
<b>ERO website</b>	The ERO's website
<b>Winter package</b>	A package of the Commission's legislative acts titled <i>Clean Energy for All Europeans</i>
<b>Voltage levels:</b>	
<b>HV</b>	high voltage (earlier designated as EHV)
<b>MV</b>	medium voltage (earlier designated as HV)
<b>LV</b>	low voltage

# 1 / Introduction



# 1 / Introduction

The Energy Regulatory Office is presenting its eighteenth *Report on the Activities and Finances of the Energy Regulatory Office* for the relevant calendar year.

Under Act No 458/2000 on the conditions of business and state administration in the energy industries and amending certain laws (the Energy Act), as amended, the Energy Regulatory Office has been operating as an administrative authority for regulation in the energy industries since 1 January 2001.

The Office's mission is, in particular, consumer protection, price controls, supervision over the energy market and over compliance with the requirements for competition wherever competition is not feasible, licensing, checks of licensed entities, dispute adjudication, and promotion of the use of supported energy sources.

2018 saw some changes in ERO management. With effect from 1 August 2018, the Czech Government appointed Vratislav Košťál as the new Chairman of the ERO Board; he also retained his mandate as ERO Board member for the following five-year period. At the same time the Czech Government decided to remove Vladimír Outrata from the position as ERO Board Chairman, but he continued to be a member of the ERO Board. Vratislav Košťál resigned as the ERO Board Chairman and also stepped down from the ERO Board as of 30 November 2018. Thus, since 1 December 2018 the ERO Board worked as a four-member body. Its members were Rostislav Krejcar, Vladimír Outrata, Jan Pokorný, and Vladimír Vlk.

Throughout that time, the ERO Board was approving proposals for implementing legislative acts, proposals for the principles of price controls, and proposals for price decisions, and also the plan of the ERO's activities, the draft budget, the final accounts, and the report on the activities and finances of the Energy Regulatory Office. The ERO Board also decides on remedies lodged against the decisions issued by the ERO at the level of the first instance.

In 2018, the Office focused on implementing the measures following from the new system of ERO governance in addition to its standard activities arising from its duties and competences specified in the Energy Act and related higher-level legislation. In January 2018, the ERO Board approved an extension of the effect of the *Price Control Principles for the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries* to cover 2019 and 2020, with a view to helping to preserve a stable environment in the energy market. In late June 2018, the ERO Board approved its seminal document, *The Strategy of the Energy Regulatory Office*. The document sets out a long-term vision and strategic objectives within the competences vested in the Office. The Energy Regulatory Office intensified its cooperation with the Office for the Protection of Competition. In the interest of consumer protection, the two Offices jointly adopted measures directed



against restriction of competition in the energy market. A number of measures and actions were carried out jointly with the Ministry of Industry and Trade and the Czech Trade Inspection Authority for consumer protection and against energy traders' unfair practices.

The Energy Regulatory Office actively cooperated with state administration authorities and other specialised institutions such as the Technology Agency of the Czech Republic (TA ČR), universities, etc.

In 2018, the Office was actively involved in a number of international activities, in particular within the EU's institutions. It intensively cooperated primarily with ACER, CEER and, since October 2018, ERRA (Energy Regulators Regional Association), which brings together Central and Eastern European countries' and some other countries' regulatory authorities. An ERO representative, Martin Šik, elected by the CEER General Assembly in October 2017, continued to serve as the Vice-President of the CEER Board of Directors in 2018.

The Office also continuously consulted its positions with V4 countries' regulators. Concurrently with its international relations activities, the Office also devoted increased attention to the promotion of regional cooperation and to boosting contacts along bilateral lines.

Cooperation with ACER and CEER mainly consisted of active participation in the meetings of working groups and task forces for the electricity industry, the gas industry, consumer protection and REMIT; these platforms also prepared the underlying materials for the development and amendment of European energy legislation and its implementation at the national level. In particular in respect of network codes and the development of proposals for amendments to EU Regulations, a paper on the monitoring of the implementation of EU energy legislation and the condition of energy markets was drawn up with a view to pursuing the objective of a single energy market. Issues such as market transparency and competitiveness, cross-border interconnections, consumer protection, supply security and quality, sustainable development, and cyber security were addressed.

## **Highlights of 2018**

Further to the requirements of the European and Czech legislation, the National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic for 2017 was published in September 2018.

As part of its competences, the Office also publishes reports on the operation of the electrical grid, the gas system, and heat supply systems on a regular basis. In 2018 the Office issued, for each of the energy industries, four quarterly reports and also a yearly report on operation, which included data for 2017. The Office collected this input data from regulatory reports received from market participants. The reports on operation constituted the basic source of data for governmental and non-governmental institutions and for experts and the general public.

ERO representatives attended, as required, meetings of the committees and subcommittees of both chambers of Czech Parliament.

During the year, the annual evaluation of the ERO's *Internal Anti-corruption Programme* was carried out and an annual report was drawn up on its running and on the remedial measures adopted.

The Office prepared an *Electricity and Gas Traders' Model Code of Ethics*. The model code of ethics lays down the rules for communication between traders and consumers. The Office thereby motivates fair suppliers to prepare their own codes of ethics. For the consumers, the model code of ethics offers a list of issues on which they should focus in their dealings with suppliers.

Through the Public Administration Portal, in 2018 the Office posted 12 issues of the *Energy Regulation Gazette* with three ERO Price Decisions on prices of the related services in the electricity industry, three ERO Price Decisions on prices of the related services in the gas industry, one ERO Price Decision on thermal energy prices, and two ERO Price Decisions on support for SES. All ERO Price Decisions were also promulgated through communications in the Official Gazette. All of the *Energy Regulation Gazette* editions were also posted on the ERO website.

With a view to providing all the stakeholders with transparent and clear information, the Office consolidated its website, primarily in respect of consumer protection. In 2018, the Office posted on its website 10 explanatory statements on the provisions of the legislation relevant for its competences, which the Office takes into account in its decision-making.

The Office's priority outputs included issues such as the development of the gas system and cross-border electricity flows. Addressing the general public, the Office covered primarily consumer issues in the media. For these purposes the Office used both the media and direct contacts in person, following up on its earlier experience from educational meetings with consumers in the preceding year.

The regulated prices related to electricity supply declined year-on-year for customers connected to medium voltage and high voltage networks, and slightly increased for households and small businesses. In addition to the off-take nature, changes in regulated prices also depended on the location, or the distribution area in which the customer was situated. The year-on-year increase in regulated prices for customers connected to low voltage was 2.5% on average; net of inflation, this change was tenths of percent.

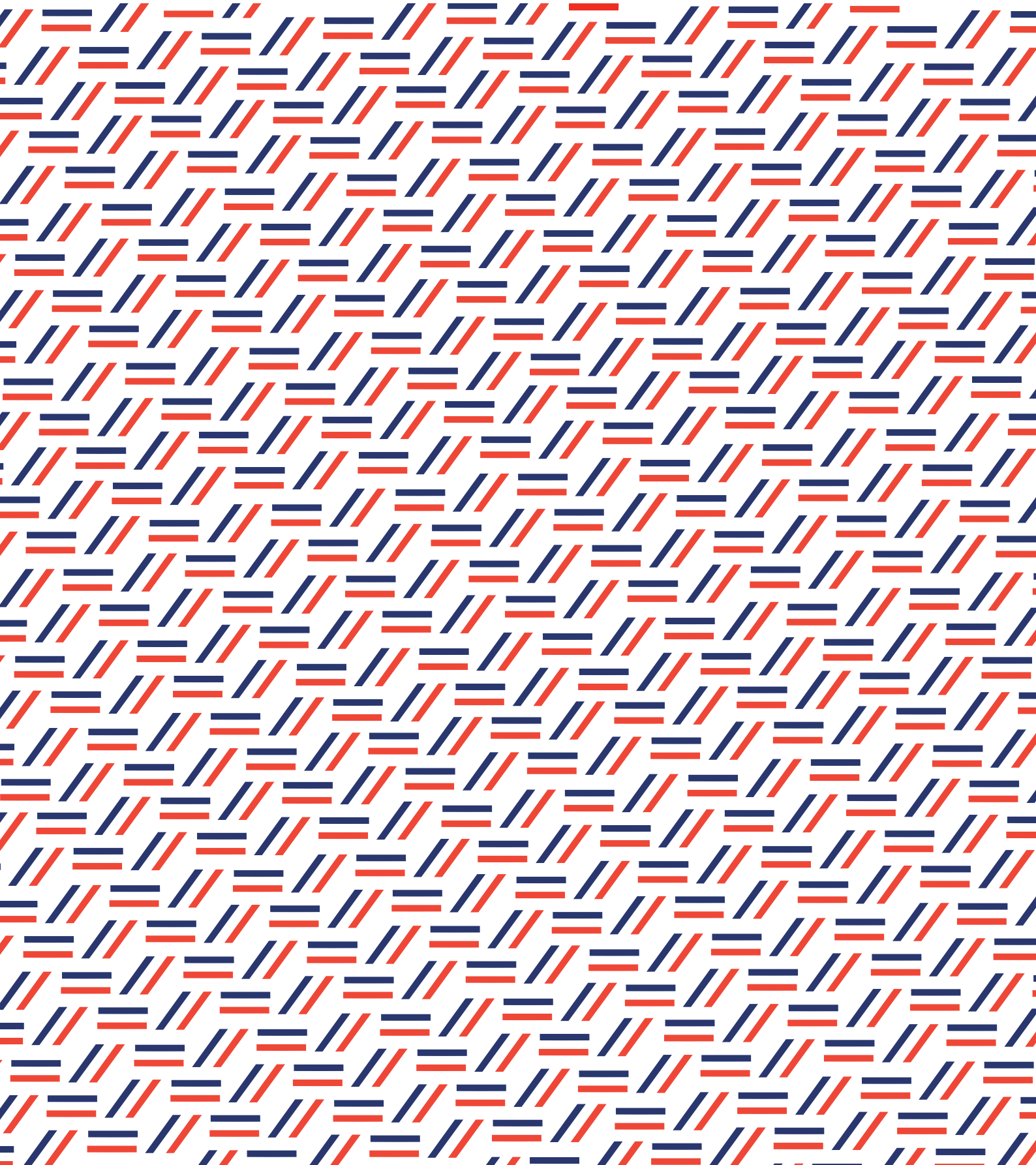
The regulated prices related to gas supply in 2018 were also comparable with those in 2017. Depending on the off-take nature and distribution area, they were either stable or increased by units of percent. The changes for low-demand customers and high-demand customers was the opposite of those concerning electricity supply, i.e., households registered a smaller increase. Regulated prices rose by 2.8% on average; nevertheless, thanks to the smaller portion of the regulated component, their impact on resulting gas prices was weaker than in the case of electricity.

With regard of its competences, the Office mainly cooperated with the Ministry of Industry and Trade, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of the Environment, the Ministry of Labour and Social Affairs, the Office for the Protection of Competition, the Czech Statistical Office, the Czech Trade Inspection Authority and the State Energy Inspectorate. The cooperation took the form of regular meetings of the respective groups that had been set up, and also as part of additional working relations.

As part of the V4 regulators' cooperation, a project was launched in the electricity industry in 2018, the objective of which is to interconnect the Czech Republic, Poland, Slovakia, Hungary and Romania in a multi-regional price-related market coupling scheme.

During the year, ERO representatives attended several conferences, the Florence, Madrid, Copenhagen, and Dublin forum meetings, and various workshops. They also participated in the meetings of regional groups responsible for listing Projects of Common Interest (PCI). Other bilateral and multilateral meetings concerned electricity market integration, gas market integration, and competitiveness.

# 2 / Regulation



## 2 / Regulation

2018 was the third year of the fourth regulatory period, which originally was to cover three years but was extended to five years by the ERO Board's decision after the ERO Board took over. The main reasons for extending the *Price Control Principles for 2016–2018* to cover the period 2016–2020 included:

- proposals for amendments to energy legislation in the winter package, since it became evident in 2017 that this proposal would have far reaching impacts on the working of the electricity market and price controls in the electricity industry; and
- major technological changes were taking place and markets were being integrated based on the requirements of EU legislation, while new technology was expected to be implemented.

The decision to extend the conditions of the fourth regulatory period by another two years was adopted at the beginning of 2018; the Principles with the extended effect were posted on the ERO's website on 11 January 2018. The purpose of extending the effect of the *Price Control Principles for 2016–2018* was to ensure sufficient funds and the motivation to upgrade and develop systems, and also to ensure that the funds recouped from customers in depreciation would be used for system upgrade and development over the long term.

In 2018, as in the preceding years, the ERO worked fully in compliance with the applicable legislation and the *Price Control Principles in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries for the Period from 2016 to 2018* with their effect extended to 31 December 2020, which set out regulatory conditions and procedures for the whole of the fourth regulatory period. In 2018, the ERO also continued to draft the Price Control Principles for the Fifth Regulatory Period, which should start in 2021. Thus, as in the preceding years, regulation was stable, transparent, predictable, and non-discriminatory.

### **Main developments in the electricity market in 2018**

The Energy Regulatory Office operates under Act No 458/2000, as amended, into which the Czech Republic has incorporated the relevant provisions of the third energy package and 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).

In 2018, some 570,000 customers switched their electricity supplier. The most important changes were caused by company mergers & acquisitions. The electricity market is fully competitive and customers are benefiting from the strong competition amongst electricity traders, for they are able to negotiate low prices. One of the results of this high level of competition is the fact that in 2018, some traders failed to manage their business risk

and discontinued their business. In all these cases the mode of the supplier of last resort worked well, and customers were not left without electricity supply. We could also see an upward trend in the country's electricity demand, which is related to its economic growth.

The price of electrical energy increased significantly in 2018. At the beginning of 2018, the price of the annual base load product for 2019 was around EUR 37/MWh, while at the end of the year the annual base load product for 2019 was traded for approximately EUR 55/MWh. The rising price of electrical energy influenced electricity traders' offers and also the regulated prices for the use of the transmission system and distribution system networks.

Regulated prices related to electricity supply decreased year-on-year for customers connected to the medium voltage and high voltage levels, while increasing somewhat for households and small businesses. In addition to the off-take type, the changes in regulated prices also depended on the locality, i.e. the distribution area within which the customer was located. The year-on-year increase in regulated prices for customers connected to low voltage was 2.1% on average for 2019. For customers connected to medium voltage, average regulated prices declined by 2.2% year-on-year and for customers connected to high voltage the regulated prices declined by 4% on average year-on-year.

In 2018, ERO representatives attended several meetings of the Florence, Madrid, Copenhagen and Dublin forums, workshops, meetings of regional groups responsible for listing Projects of Common Interest (PCI) and other ACER and CEER groups. Other bilateral and multilateral meetings concerned electricity market integration, gas market integration, consumer protection, and competitiveness.

## **Main developments in the gas market in 2018**

The first quarter of 2018 saw increased usage of the Czech gas infrastructure due to the low temperatures prevailing in a large part of Europe in that period. Gas consumption increased by up to 30% on some days compared with the normal levels. The operators of all elements of the gas system intensively coordinated with each other, and so the gas infrastructure in the Czech Republic could meet the domestic gas demand in full, and also contributed to uninterrupted gas supply to neighbouring market areas.

In the second half of 2018, gas transmission between the Czech Republic and Austria was started as part of a pilot project for mutually direct access to these gas markets. However, interest in the use of this service was only registered in the direction to Austria.

Due to the high prices of electrical energy, increased output of electrical energy was registered for combined cycle units, which were therefore used more than as normal operating backup. This production was significantly reflected in gas consumption in the Czech Republic in 2018, because it was profitable to use large gas-fired and combined cycle units given the lower production costs, primarily gas prices, and the high price of electrical energy.

The retail gas market saw a continuing upward trend in the number of gas supplier switches: more than 263,000 customers changed their gas supplier in 2018. In terms of the level and effectiveness of gas market opening and competition it can therefore be noted that the current legislative framework for supplier switching met the requirements for putting in place a competitive consumer-focused environment. Unfortunately, the large number of supplier switches was also attractive for entities that use unfair commercial

practices, thereby damaging customers. In 2018, the Office therefore prepared a number of measures intended to eliminate the negative impacts on customers, while, however, reducing the frequency of unfair practices in the ideal case.

In view of the number of gas suppliers, the gas market can be said to be saturated. Going forward, changes can be expected primarily due to changes in the ownership structure of certain suppliers and the potential termination of their business activities.

In 2018, the high level of gas market competition also caused several cases of gas traders being no longer able to supply gas to their customers. In such cases, the customers could use the accelerated supplier switching procedure or, where they met the conditions laid down in the Energy Act, their supply points were transferred to a supplier of last resort.

From the perspective of gas market liquidity, the volume of trades in the within day gas market amounted to a new annual maximum of 3,041 GWh in 2018, down by 18.8% on 2017 when market participants had executed trades totalling 3,744 GWh.

In 2019, regulated prices related to gas supply, set in 2018, will be comparable with those applicable in 2018. Depending on the off-take type and on the distribution area, they will either not change at all or slightly decline. Regulated prices will go down by approximately 0.6% on average. The regulated component of the price related to gas supply accounts for approximately one-fifth of the total price, and the effect of the reduction in this component on the total price will therefore be almost negligible.

In the context of international cooperation, the acceptance of the South South-East GRI co-chairmanship as of February 2018 was a major development.

## **2.1 The ERO's involvement in the programmes of the Technology Agency of the Czech Republic**

In 2018, the Energy Regulatory Office was directly involved in TA ČR programmes, specifically BETA 2 and THETA; ERO representatives were members of the panels of these programmes.

### **2.1.1 BETA 2**

The programme supports applied research and innovation for state administration authorities' needs with a view to increasing the efficiency and quality of public services, public administration, and public policies. Two ERO projects were being prepared in 2018:

#### **Evaluating the effectiveness of investments in the regulated energy sectors in the Czech Republic**

The main objective of the project is to develop methodologies for evaluating the effectiveness of investments in the regulated energy sectors in the Czech Republic; these specifically include a certified methodology for evaluating the effectiveness of investments in the electricity industry, a certified methodology for evaluating the effectiveness of investments in the gas industry, and a certified methodology for evaluating the effectiveness of investments in the heat supply industry. Subsequently, synthesis will have to be carried out, i.e. the above methodologies for each of the industries will have to be integrated into a single comprehensive methodology, including an analysis of the impacts on the economy and the environment.



## **Portal for statistical data collection and evaluation**

The objective of this research is to develop a comprehensive system for data collection (uploading) and processing and for storing the collected data, which will also support the effective analysis of such data (for example, statistical data evaluation) and reporting with regard to the ERO's needs under the law (for example, in the form of statistical data evaluation and the compilation of regular structured reports on the operation of systems in the energy industries). The system will also have an added value for entities having reporting obligations, such as information about successful data uploading and overviews over historical results.

### **2.1.2 THETA**

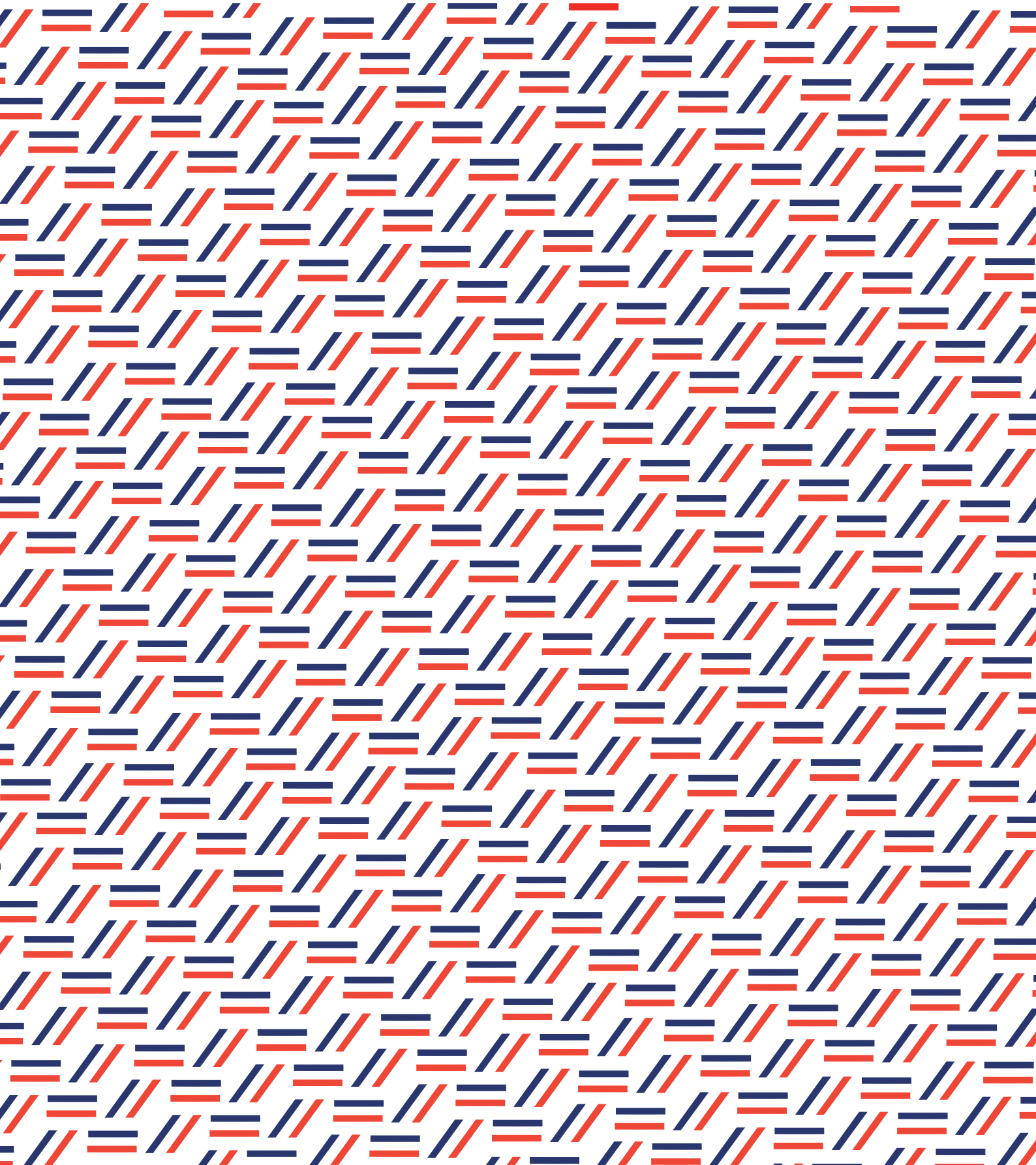
This programme is intended to pursue the vision of energy transformation and modernisation in line with the approved strategic documents (National Energy Policy) through support for R&D and innovation in energy. The ERO participates in the formulation of the programme's priority research objectives and has the position of the 'application guarantor' for the PP1 sub-programme called Research in Public Interest.

In this connection, the ERO has become the application guarantor for *The Development of New Methodologies for Regulation under the Conditions of the Decentralisation of the Electricity and Gas Industries*, a project of the University of Economics in Prague. The purpose of the project is to develop regulatory methodologies for the electricity and gas industries, which will ensure a fair allocation of system costs to system users and a reasonable effectiveness of the regulated entities in a decentralised environment, and a proposal for the related adjustments to the tariff systems, which will ensure consumers' effective behaviour and result in efficient energy use, plus a proposal for related legislative measures.

In addition to its activities under the above project, for which the ERO is the application guarantor, the ERO also wants to obtain information from other projects implemented under the THETA programme. On the basis of this objective, the other projects are being monitored with a view to obtaining the maximum possible information that may then be used in the activities of the ERO's various specialised units.



# 3 / The electricity industry



# 3 / The electricity industry

## 3.1 Network regulation

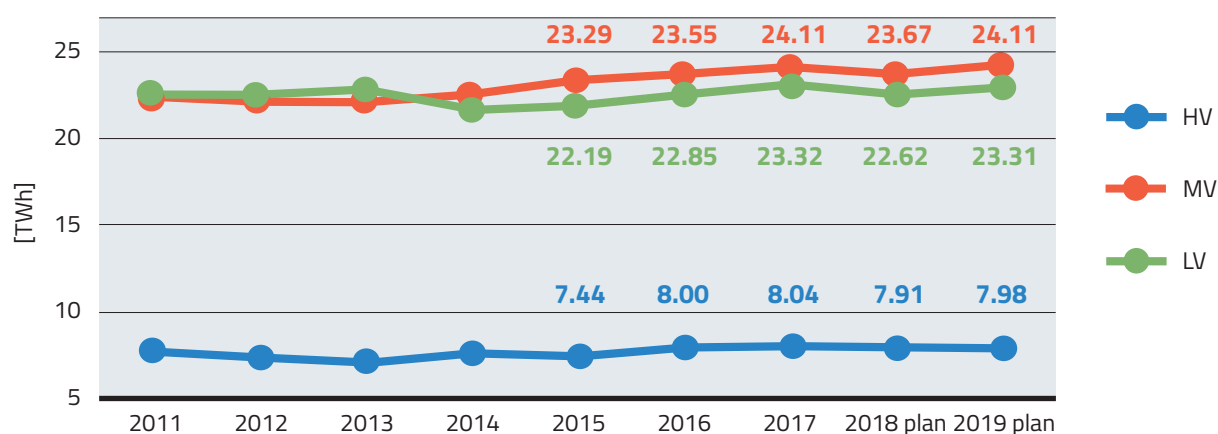
The Czech electricity market is experiencing a number of changes that are reshaping it. These changes have been precipitated mainly by the EU policy visions for environmental and climate protection. Some of these changes are quite minor ones, but some are transforming the market participants' hitherto deep-rooted behavioural patterns in electricity generation, transmission, distribution, trading, and consumption.

The dynamics of these changes is also visible in respect of network regulation. The Czech electricity market is currently in a condition that can be described as a free electricity market. Customers can find their way around it and fully use all the benefits offered by the liberalised market.

## 3.2 Network tariffs for connection and access

Under the Energy Act, public notice no. 194/2015 on methods of price regulation and procedures for price controls in the electricity and heat supply industries, and public notice no. 196/2015 on methods of price regulation and procedures for regulating the prices for the market operator's activities in the electricity and gas industries, the Energy Regulatory Office determines, every year, the charge for 'the related service' in the electricity industry, which is composed of the charge for electricity transmission/distribution, the charge for system services, the component of the price covering support for electricity from supported energy sources (SES) and the charge for the market operator's services. This charge is heavily influenced primarily by system operators' investment activity, the price of electrical energy for covering losses in networks, and the size of overall electricity consumption.

**Chart 1** Electricity off-take at the high, medium and low voltage levels



### 3.2.1 Pricing for 2019

In line with the applicable document, *Price Control Principles in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries for the Period from 2016 to 2018*, with its effect extended to 31 December 2020, the Office issued three price decisions concerning the electricity industry in 2018. The first of them, ERO Price Decision 2/2018 laying down the prices for the activities of the mandatory buyers and the prices related to electricity origin guarantees, was issued on 25 September 2018. The Office then issued ERO Price Decision 7/2018 of 20 November 2018 laying down prices for related services in the electricity industry and some other regulated prices, and ERO Price Decision 8/2018 of 20 November 2018 laying down prices for related services in the electricity industry for low voltage customers.

The year-on-year change in the rules for the billing of regulated prices, contained in ERO Price Decision 7/2018, mainly concerns the evaluation of booked capacity for backup lines at the HV and MV levels in case the use of the backup line is caused by events or interventions on the distribution system operator's installations. ERO Price Decision 8/2018 for the low voltage level does not contain any major changes in the rules for the billing of regulated prices compared with the 2017 price decision.

### 3.2.2 Regulated components of the price

#### 3.2.2.1 The electricity transmission charge

The electricity transmission charge is composed of the charge for booked transmission capacity and the charge for network use in the transmission system.

*The charge for booked transmission capacity* is the result of dividing adjusted allowed revenues from electricity transmission by the value of the capacity booked in the transmission system.

*The charge for network use in the transmission system* is determined by the cost of electrical energy for covering losses in the transmission system adjusted by the correction factor and subsequently divided by the electricity quantity planned to be transmitted.

### **Charge for electricity transmission for 2018**

The charge for booked transmission capacity increased by 4% year-on-year, mainly due to the different amount resulting from accounting for the advanced funds for investments than in 2017.

The charge for network use in the transmission system was influenced by the losses in the transmission system and the price of electrical energy for covering these losses. The expected losses increased by 23% year-on-year, mainly due to increasing electricity transit. The charge for network use in the transmission system was also influenced by the growth of the price of electrical energy for covering losses by 19.5%, which was, in turn, due to electrical energy prices rising at exchanges. All of these factors resulted in the charge for network use in the transmission system rising by 29.7% on 2017.

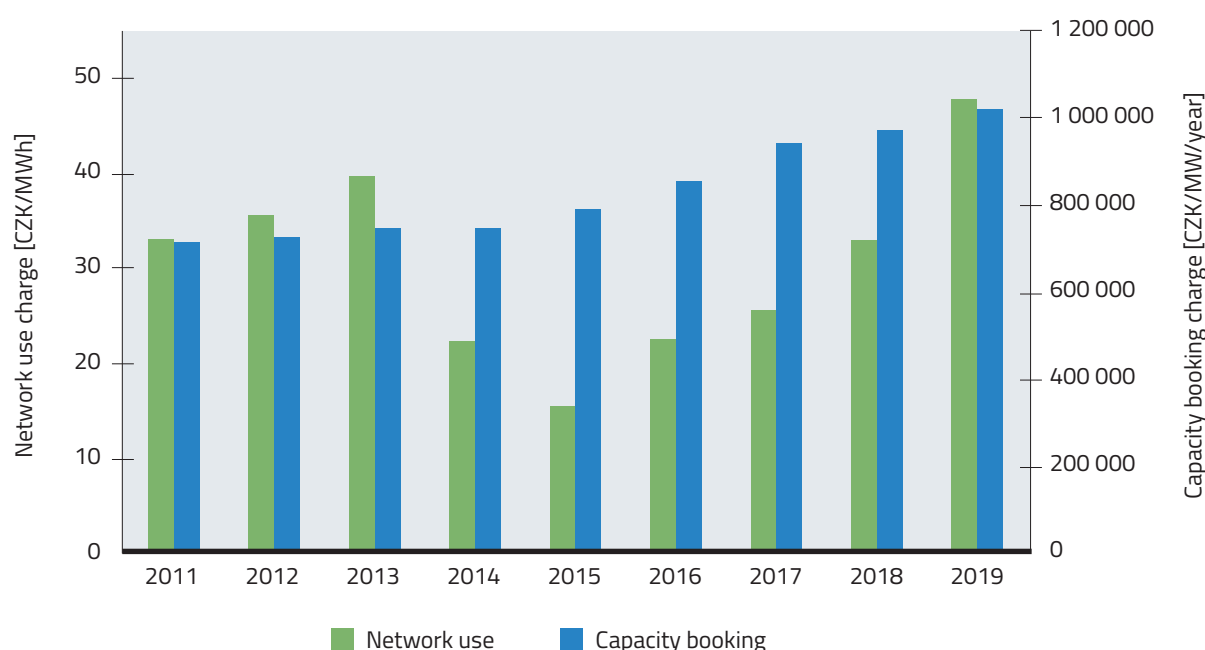
### **Charge for electricity transmission for 2019**

The charge for booked transmission capacity increased by 4.8% year-on-year, one of the key factors being the inclusion of major capital projects in progress and with completion planned in a long time in the calculation of allowed revenues. This approach, which is a standard procedure in the price control principles, has been applied for the first time in the case of 2019 prices.

The charge for network use in the transmission system increased by 44.7% year-on-year, which was due to the continuing rise of electrical energy prices at exchanges and also the large positive correction factor for network use in the transmission system for 2017.

The following chart shows the charges for electricity transmission between 2011 and 2019.

**Chart 2** Components of the electricity transmission charge



Source: ERO

### **3.2.2.2 Charge for system services**

The charge for system services is the result of dividing the TSO's adjusted allowed revenues from system service provision by the electricity quantity expected to be taken by customers connected to the electrical grid.

#### **Charge for system services for 2018**

The charge for system services changed only slightly, as it declined by 0.3% year-on-year.

#### **Charge for system services for 2019**

The charge for system services for 2019 dropped by 18.6% year-on-year, primarily due to the lower cost of ancillary services and also thanks to the significant negative correction factor.

### **3.2.2.3 Electricity distribution charge**

The charge for electricity distribution at HV and MV levels is composed of a charge for capacity booked in the distribution system and a charge for network use in the distribution system. The charge for electricity distribution at the LV level is composed of a charge for power input determined by the rated current of the main circuit breaker upstream of the electricity meter and the charge for the electricity quantity distributed.

The charges for booked capacity at the various voltage levels are mainly influenced by the agreed technical parameters of booked capacity, the amount of investment at the respective voltage level, and the charge for capacity booking in the higher-level transmission system.

#### **Electricity distribution charge for 2018**

The charge for capacity booked at the HV level rose by 5.4% year-on-year, and at the MV level it rose by 5.7% year-on-year. The reasons included investments in distribution systems and higher charges for electricity transmission, which are one of the inputs into the calculation of the electricity distribution charges.

The charge for distribution system network use increased by 27.7% year-on-year at the HV level and by 23.4% at the MV level; again, an important factor was the rising price of electrical energy at power exchanges, similarly as in the case of the charge for network use in the transmission system.

The year-on-year changes in the charges for electricity distribution at the LV level differ depending on the distribution system operator and the agreed distribution tariff. The charge for electricity distribution at the LV level increased by 4% on average year-on-year.

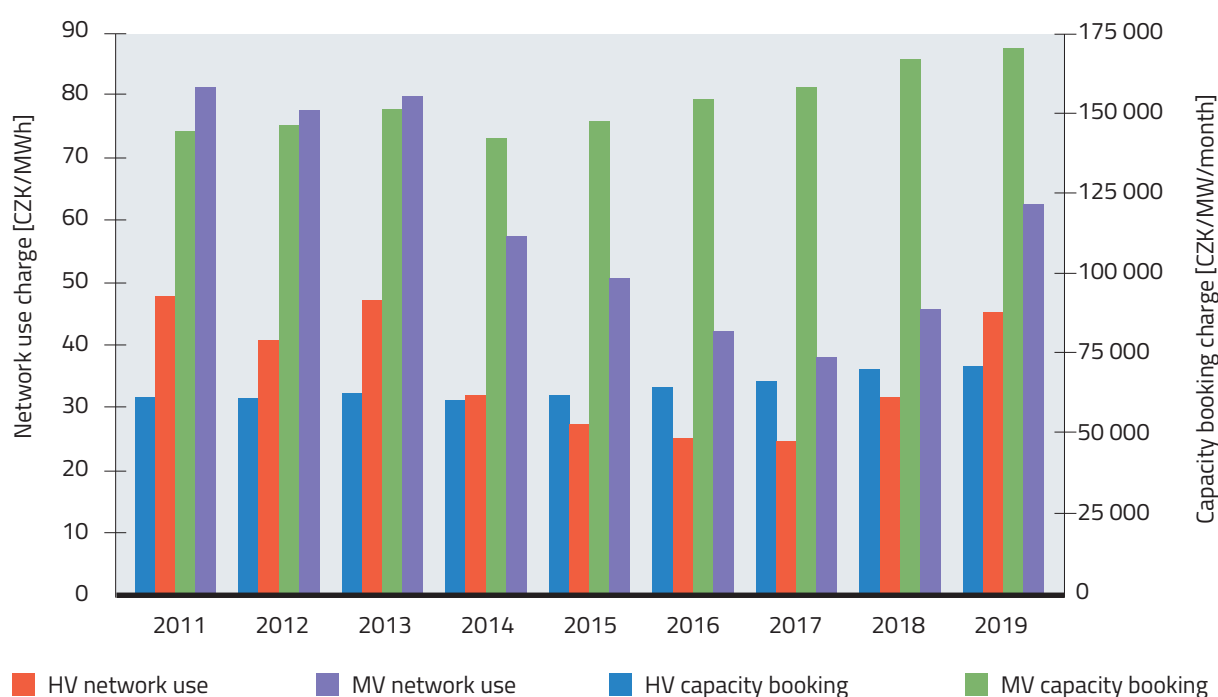
#### **Electricity distribution charge for 2019**

*The charge for capacity booked in the distribution system at the HV level rose by 2.4% year-on-year, and at the MV level by 1.8% year-on-year. The reasons included investments in distribution systems and higher charges for electricity transmission, which are one of the inputs into the calculation of the electricity distribution charges.*

The charge for distribution system network use increased by 42.5% year-on-year at the HV level and by 37% at the MV level; again, an important factor was the rising price of electrical energy at power exchanges, similarly as in the case of the charge for network use in the transmission system. Chart 3 shows the two components of the distribution charge from 2011 to 2019.

The year-on-year changes in the charges for electricity distribution at the LV level differ depending on the distribution system operator and the agreed distribution tariff. The charge for electricity distribution at the LV level increased by 4.2% on average year-on-year; including the other regulated prices, this increase caused the average regulated component of the charge related to electricity supply at the LV level to rise by 2.07% year-on-year.

**Chart 3** Components of the charge for electricity distribution at the HV and MV levels



Source: ERO

### 3.2.2.4 The price component for support of electricity from supported energy sources (SES)

#### The price component for support of electricity from supported energy sources for 2018

The price component for support of electricity from supported energy sources for 2018, determined based on booked input power, declined by 16.4% compared with the preceding year 2017. The main reasons for this price component to decline included the higher electricity prices at power exchanges. The maximum payable amount of the price component for support of electricity from supported energy sources was preserved at the same level and continued to be determined as the product of the total electricity quantity taken and CZK 495/MWh. The costs in excess of income from the payments of the price component for support of electricity from supported energy sources are met from the national budget under Act No 165/2012 on supported energy sources and amending certain laws, as amended.

### **The price component for support of electricity from supported energy sources for 2019**

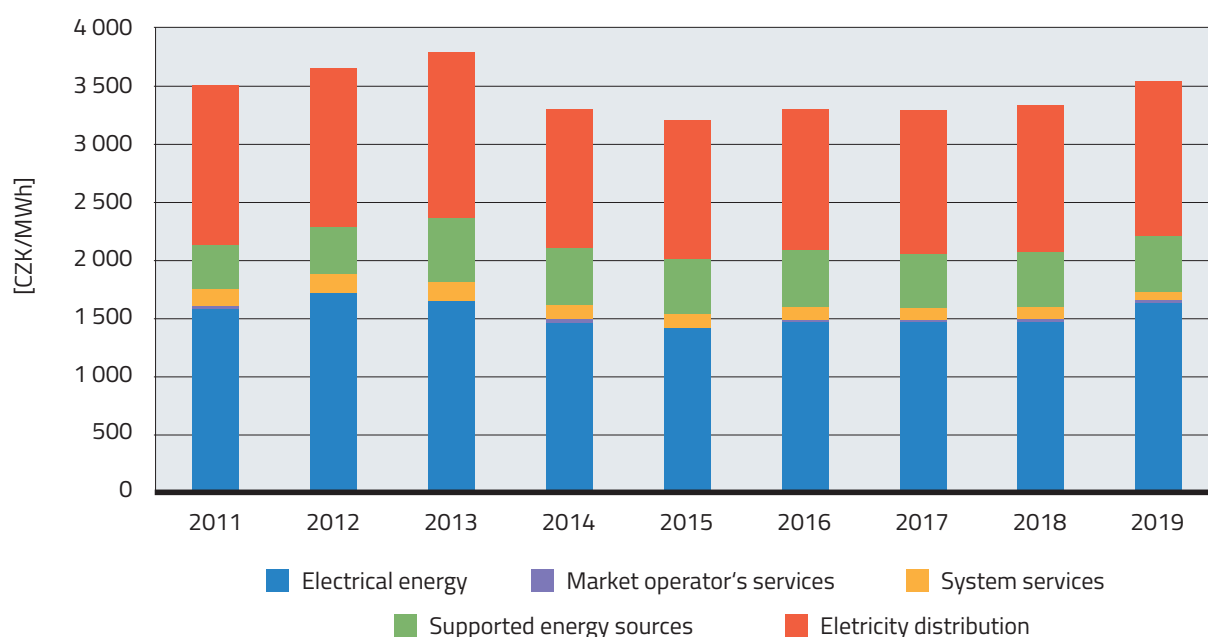
The price component for support of electricity from supported energy sources for 2019, determined based on booked input power, declined by 9.9% compared with the preceding year 2018. The main reasons for this price component to decline again included the higher electricity prices at power exchanges; their growth pushed down the cost of support for electricity from supported energy sources. The increase in the planned supported quantity of electricity for 2019 had the opposite influence on the price component for electricity support. The maximum payable amount of the price component for support of electricity from supported energy sources was preserved at the same level and continued to be determined as the product of the total electricity quantity taken and CZK 495/MWh. The costs in excess of income from the payments of the price component for support of electricity from supported energy sources are met from the national budget under Act No 165/2012, as amended.

### **3.2.2.5 Charge for the market operator’s activity in the electricity industry for 2019**

The charge for the market operator’s services in the electricity industry increased by 25% year-on-year and was set at CZK 6.93/supply point/month for 2019. The main reason was the higher costs of the administration and payment of aid to supported energy sources, which are, together with the operations related to the clearing of imbalances, included in the charge for the market operator’s services in the electricity industry.

In 2019, the average planned regulated price component related to electricity supply is CZK 2,159.43/MWh for low-demand business customers while for low-demand household customers it is CZK 1,932.07/MWh. The average prices of electricity supply for households and their components since 2011 are shown in Chart 4.

**Chart 4** Average planned prices of electricity supply for households



Source: ERO

In 2018, there was no change in the method of calculating the applicant's share of the costs incurred in the connection and in supplying the required power, as the method is set out in public notice no. 16/2016 on the conditions of connection to the electrical grid. The technical conditions for connection are stipulated in the transmission/distribution system operating rules.

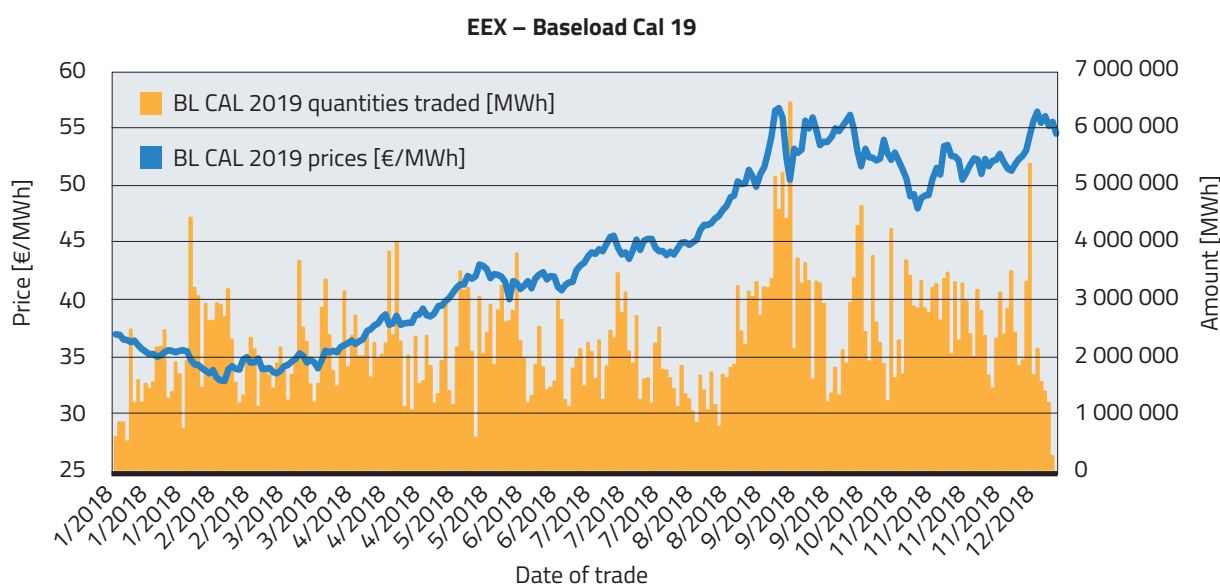
Cross-subsidies between regulated entities or between regulated and unregulated entities are prevented by the suitable design of regulatory reporting that, following the accounting and legal unbundling, strictly requires that costs directly allocable to each of the regulated activities be reported. As part of secondary legislation, the Office also promulgates the rules for overhead cost allocation, which are applicable to companies operating more than one regulated activity.

### 3.2.3 Unregulated components of the price

The unregulated component of the price is one part of the total price for electricity supply and related services in the electricity industry. The percentage of the unregulated component of the total price depends on the nature of the customer's off-take and, to a certain extent, the parameters of the billing of the regulated component of the price. The unregulated component of the price mainly comprises electrical energy, i.e. the commodity, and possibly a standing charge payable to the electricity supplier. As the designation of the categorisation of this price suggests, the level of the electrical energy price derives from the market principles in the liberalised market and mainly depends on the prices of the products traded at wholesale electricity markets.

For the Czech market, trading at EEX (European Energy Exchange AG), a wholesale market in Germany is relevant. Chart 5 shows prices of electricity in the annual BL products at the Leipzig EEX, in €/MWh, and also the volume of trades over the period under review, i.e. 2018, with the prices of the annual BL product gradually rising to over €50/MWh, around which they slightly oscillated over the last quarter of the calendar year. The rising price of electrical energy was also reflected in the level of regulated prices, specifically a higher price for network use in the transmission system and distribution systems.

**Chart 5** Electricity prices at the EEX in €/MWh



Source: EEX, edited by ERO



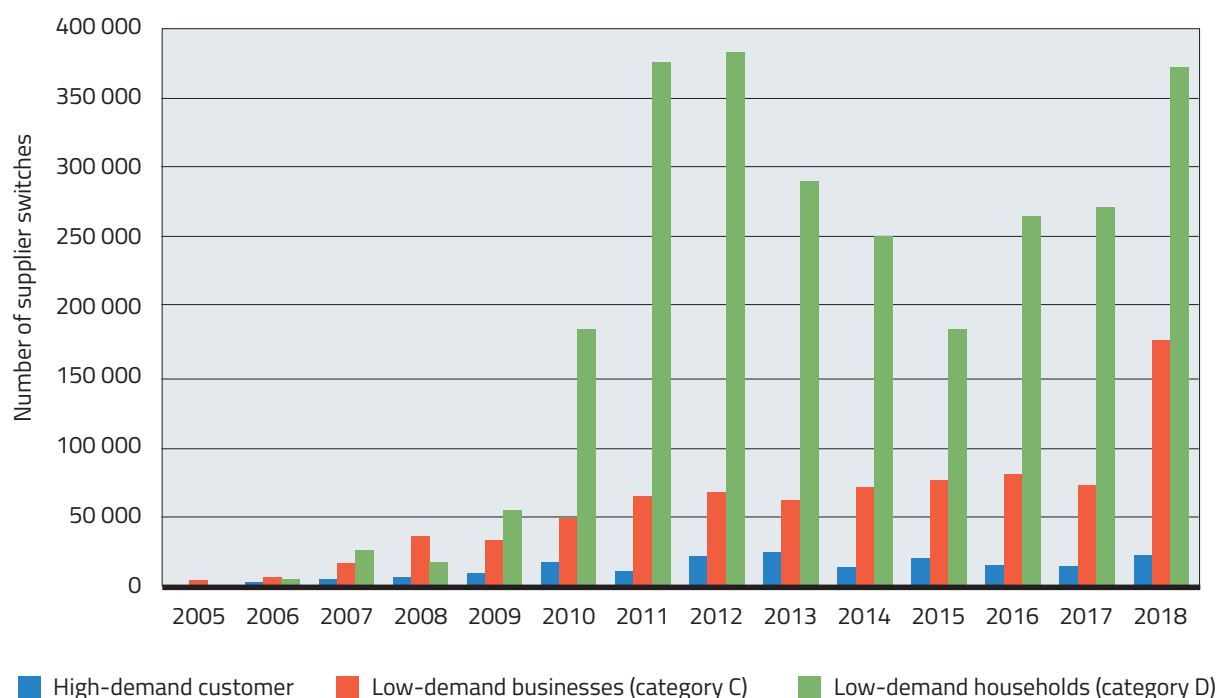
In 2018, the Office continued to develop and operate a tool helping to compare electricity suppliers' public quotations for customers connected to low voltage. The calculator for comparing electricity suppliers' quotations, available at <http://kalkulator.eru.cz/>, is a tool that helps customers to compare electricity suppliers' quotations in terms of prices. The calculator contains only the public quotations from the electricity suppliers who have provided the Office with their quotations. In 2018, the calculator contained quotations from 30 electricity suppliers.

### 3.3 Retail markets

The ERO website offers customers information about the energy market's functioning and information related to consumer protection. On the website, the Office advises citizens of the opportunities and procedures for electricity supplier switching.

Since 2006, all customers have been able to change their electricity supplier. In 2018, the number of electricity trade licensees amounted to 400 licences awarded. Electricity suppliers use a number of tools for approaching customers, such as door-to-door sales, participation in mass-scale e-auctions, and the acquisition of weaker competitors. In 2018, almost 570,000 customers changed their electricity supplier in the Czech Republic, up by 60% year-on-year. However, in terms of the customer categories, the structure of the supplier switching varied. In the high-demand segment, the number of supply point transfers to a different supplier increased by 62.9% year-on-year, and in the low-demand business segment the figure was as high as 145.1%. In the household segment, supplier switching rose by 36.5% year-on-year.

**Chart 6** Annual electricity supplier switching in the main customer categories

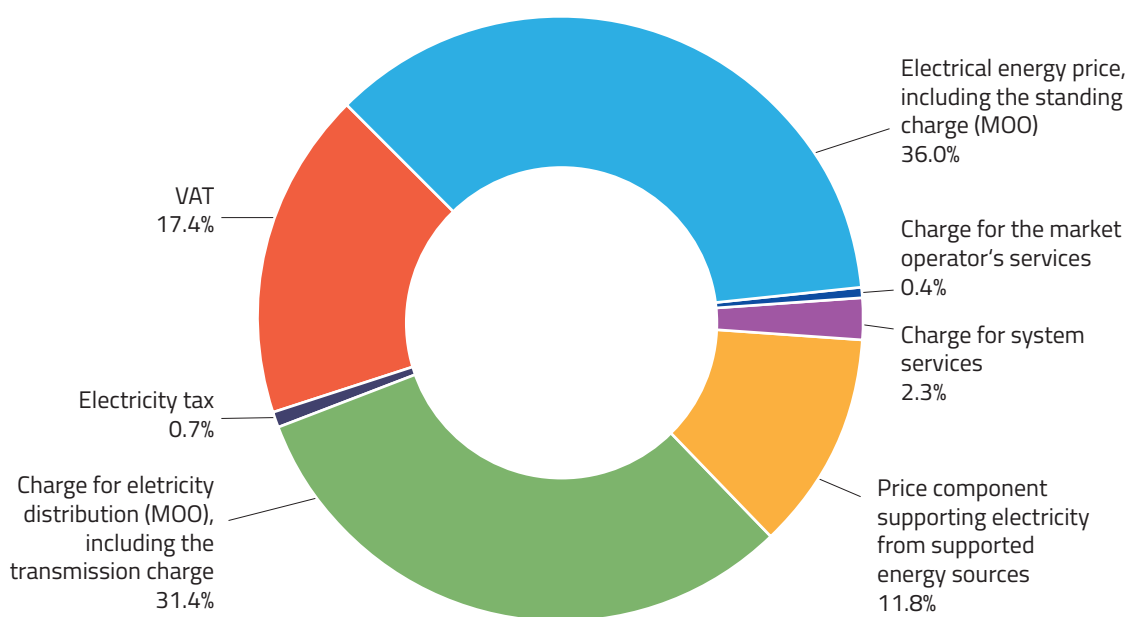


Source: Market operator, OTE, a.s., edited by ERO

The overall price of electricity supply for customers at the LV level is made up of the charge for the distribution system service and the unregulated price of electrical energy, which is determined by the supplier selected by the customer. The Office sets out the charge for the distribution system service in its binding price decisions. The charge for system services, the component of the price for support of electricity from supported energy sources, and the charge for the market operator’s services are the same for all final customers in the Czech Republic regardless of the connection point or selected supplier. The charge for electricity distribution depends on the place of connection, i.e. on the distribution system to which the supply point is connected. However, customers at the LV level can change their distribution tariff subject to meeting the conditions for obtaining the tariff; or they can influence the fixed component of the regulated charge for electricity distribution by changing the main switch upstream of their electricity meter.

Chart 7 shows the percentage shares (including the VAT and electricity tax) of the various components in the resulting price of electricity supply for households in 2018.

**Chart 7** Percentage shares taken by each of the components of electricity supply price for households in 2018



Note: The charge for OTE’s services includes a special fee for the ERO’s activities under Section 17d of the Energy Act.

Source: ERO

MOO: Low demand customers – households

Traders must provide distribution system operators with identification details of the customers whom they supply under agreements on bundled electricity supply services. Electricity traders’ obligation is to promote energy services and offers thereof. Electricity traders have the right to receive, from the market operator, the information that they need for billing electricity supply to customers whose supply point is registered with the market operator.

Under Section 17(7)(l) of the Energy Act and in accordance with Article 37(1)(o) of Directive 2009/72/EC, the Office publishes recommendations in relation to electricity supply prices for households. Section 17c of the Energy Act provides for the Energy Regulatory Office's cooperation with the Office for the Protection of Competition (OPC). Under this Section the Office is required to advise OPC of market participants' practices where good reasons exist to believe that they distort or restrict or result in the distortion or restriction of competition, of the use of restricting or unfair terms and conditions in contracts in the electricity market, and of the methods of electricity pricing for households.

In 2018, the Office continuously monitored, within its remit and in line with Section 17 of the Energy Act, the use of restricting or unfair conditions in contracts on the electricity market, restricting or excluding customers' rights, and also monitored competition in the wholesale and retail electricity markets. In 2018, the Office did not find any barriers in the functioning of effective competition in the electricity market, and it therefore did not have to impose any measures.

### **3.4 Cross-border issues and international relations**

At the European level, the ERO's activities in the regulation of the electricity industry involved ongoing work in ACER and CEER working groups on the relevant issues. In the calendar year 2018, these groups focused on the implementation of already applicable network codes and guidelines in the EU's third energy package, with the actual implementation consisting in transposing this package of legislation into the environment of the Czech electricity market. In the ACER and CEER working groups the Office helped to draw up position papers on the methodologies, i.e. those that arise from the network codes and guidelines, that were being prepared and submitted to the Office by market participants, specifically transmission system operators and nominated electricity market operators ('NEMO'). In late 2018, cross-border cooperation was also started with Germany, Austria, Poland, and the 4M MC countries (the Czech Republic, Hungary, Slovakia, and Romania), launching a project for integrating these markets into a joint market coupling scheme of the Multi-regional Coupling (MRC) project.

The Office closely cooperated with market participants in the preparation and implementation of network codes, and in respect of state administration it closely coordinated with the Ministry of Industry and Trade.

#### **3.4.1 The European Commission's winter package**

At the end of November 2016, the European Commission presented a package of legislative proposals with broad-ranging impacts on the working of the European electricity market, i.e. the winter package; 2018 was marked by preparations for trilogues on all eight legislative proposals in the winter package. The Office closely cooperated with MIT, MFA and the Office of the Government and also with other European regulators in CEER.

By the end of 2018, four out of the eight legislative acts in the winter package had been adopted: Directive (EU) 2018/844 on the energy performance of buildings, Directive (EU) 2018/2002 on energy efficiency, Regulation (EU) 2018/1999 on the Governance of the Energy Union, and Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources.

Political compromise was also reached on the remaining four legislative acts in the winter package: the regulation on the Agency for the Cooperation of Energy Regulators, the regulation on risk preparedness, the directive on the internal electricity market, and the regulation on the internal electricity market. The above can be expected to be adopted in March 2019.

The Energy Regulatory Office was preparing position papers on and amending proposals for the legislative proposals in the winter package, which constitutes a set of amendments to the key legislation in the electricity industry for the upcoming period.

### **3.4.2 Cooperation with other regulatory authorities and ACER**

In 2018, the Office's involvement in ACER and CEER working groups focused on continuing the work on the relevant electricity issues related to the development and amendment of European energy legislation and its implementation at the national level, and also on preparing the future implementation of the Commission's legislative proposals discussed as part of *Clean Energy for All Europeans*, i.e. the winter package.

For the Office's staff members involved in the activities of the ACER and CEER electricity working groups, 2018 was primarily marked by intensive work on the implementation of network codes and guidelines.

Through its involvement in the working groups, the Office's specialist unit (Networks and Market Organisation Unit of the Electricity Industry Regulation Department) actively participated in meetings on the implementation of the network codes and guidelines covering trade (the guideline on capacity allocation and congestion management, the guideline on forward capacity allocation, and the guideline on electricity balancing), grid connection (the network code for grid connection of generators, the network code for demand connection, and the network code on high voltage direct current connections and DC connected power park modules), and system operation (the guideline on electricity transmission system operation and the network code on electricity emergency and restoration).

The Energy Regulatory Office is represented in the working group for the XBID (Cross-border Intraday Market) Project, where its representative serves as the delegated representative of national regulatory authorities in relation to the EU. The activities of the Office's staff members in international working groups are coordinated, on a long-term basis, with other entities (market participants) in the Czech Republic with a view to achieving the maximum possible in promoting Czech interests and minimising the potential negative impacts. The Office's staff members actively participated in and contributed to these groups through continuously providing the relevant information, the requested documents, and their own feedback.

Equally importantly, the Office's staff members actively participated in and contributed to these groups through continuously providing the relevant information, raising comments and national positions, or heading individual projects, specifically in the working group on the implementation of the guideline on forward capacity allocation.

The Energy Regulatory Office promotes relationships with the regulatory authorities of the V4 countries on a long-term basis. In respect of electricity, for 2018 some specific examples include the launch of a project for interconnecting the Czech Republic, Poland, Slovakia, Hungary, and Romania into a multi-regional price coupling scheme intended to simplify cross-border electricity trade.

### **3.4.3 Assessment of the plan for the development of the transmission system, and its compliance with the Community-wide ten-year network development plan**

Under Section 24(10)(j) of the Energy Act, ČEPS, a.s., i.e. the transmission system operator, is obliged to prepare a ten-year plan for the development of the Czech electricity transmission system (TYNDP; Ten Year Network Development Plan) every other year; the TYNDP should specify the needs for investments in the transmission system, including the milestones for the completion thereof.

The Energy Regulatory Office approves the TYNDP under Section 17(7)(i) of the Energy Act subject to the prior opinion of the Ministry of Industry and Trade. From the perspective of transmission system development planning, 2018 fell within the period of the validity of the Plan for the Development of the Transmission System of the Czech Republic for the period 2017–2026, which had been approved by the Office on 27 February 2017. The Czech Republic's TYNDP 2017–2026 is described in the *Report on the Activities and Finances of the Energy Regulatory Office for 2017* and is available on the website of ČEPS, a.s.

In view of the cross-border nature of electricity trading the content of national plans is closely associated with the non-binding Community-wide ten-year network development plan (TYNDP); it is proposed by ENTSO-E, which brings together 43 European TSOs from 36 European countries, both EU members and non-members. In late 2018, ENTSO-E presented a draft TYNDP 2018 that identified projects across the Community with cross-border impacts. The TYNDP was prepared in 2017 and 2018, when the individual stages were subjected to consultation processes and the involvement of a broad range of stakeholder groups in the process of TYNDP building, including national regulatory authorities. This TYNDP contained 15 power storage projects and 166 transmission projects for which a cross-border benefit was identified in terms of meeting the predicted demands on the electrical grid by 2030, brought about by energy transition towards renewables. Of the projects contained in TYNDP 2018, three were those of ČEPS, a.s., the Czech TSO, and concerned transmission, specifically projects numbered 35, 200 and 330, for which a cross-border impact and positive influence on the specified needs of the electrical grid were identified. They are two domestic projects having the nature of clusters of investments and one cross-border project to increase the transmission capacity on the Czech-Slovak border. These projects were intended for the building of new and modernising existing substations, the building of 400 kV lines, and the modernisation and doubling of existing lines.

The process of selecting projects of common interest (PCI) under Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 is directly associated with the development of TYNDP 2018. In 2017, the European Commission adopted the third list of PCI, which seamlessly followed up on the preceding two lists from 2013 and 2015. ČEPS's projects were recorded under number 3.11 in the third PCI list. The PCI list also contains a Czechoslovak smart grid project, ACON, under number 10.4, for the interconnection of the distribution systems of E.ON Distribuce, a.s., and Západoslovenská distribučná, a.s.

Since the PCI list is adopted every other year, 2018 saw the launch of the preparations for adopting the fourth PCI list. PCIs help to meet the European targets in the development of the European transmission system with regard to ensuring the operational safety of the entire integrated

system. In 2018, ČEPS, a.s. submitted three projects seeking the PCI status. Two projects, numbered 35 and 200, are included in the draft TYNDP 2018 and in the Plan of the Development of the Transmission System of the Czech Republic for 2017–2026. The third project, a cross-border line between the Otrokovice and Ladce substations, included in the draft TYNDP under number 330, is not included in the forthcoming Plan of the Development of the Transmission System of the Czech Republic for 2019–2028, because its implementation (in 2034) exceeds the planning horizon of the national ten-year plan.

In 2018, ČEPS, a.s. was preparing a draft Plan of the Development of the Transmission System of the Czech Republic for 2019–2028, and sent this document to the Ministry of Industry and Trade as a basis for issuing its binding opinion.

### 3.5 Statistics and quality monitoring

In 2018, the Office issued five reports on the operation of the electrical grid. They include quarterly reports for 4Q 2017 and for 1Q, 2Q and 3Q 2018, and also the yearly report for 2017. These reports contain purely technical information such as electricity generation broken down by technology and by fuel, electricity consumption broken down by customer category and by sector, cross-border flows, installed capacities, and other statistical data. The yearly report also includes a chapter on electricity supply quality, evaluating the continuity of supply; its data constitutes inputs into the regulatory mechanism.

In respect of electricity supply quality, incentive-based electricity quality control is in place in the fourth regulatory period (2016–2020). In this context the Office has determined the required values of the continuity indicators and related parameters for each of the regional distribution companies. The purpose of incentive-based quality control is to reduce the number and duration of both planned and unplanned electricity distribution interruptions.

In respect of electricity supply quality, the Office primarily monitored the level of electricity supply quality achieved and compliance with the quality standards required by public notice no. 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended. The level of supply quality in distribution systems is measured by electricity supply continuity indicators under Section 21 of the above public notice. The basic continuity indicators are defined in the public notice as follows: System Average Interruption Frequency Index in the period under review (SAIFI), System Average Interruption Duration Index in the period under review (SAIDI), and Customer Average Interruption Duration Index in the period under review (CAIDI). The results of the monitoring of continuity indicators for 2018 are shown in Table 1.

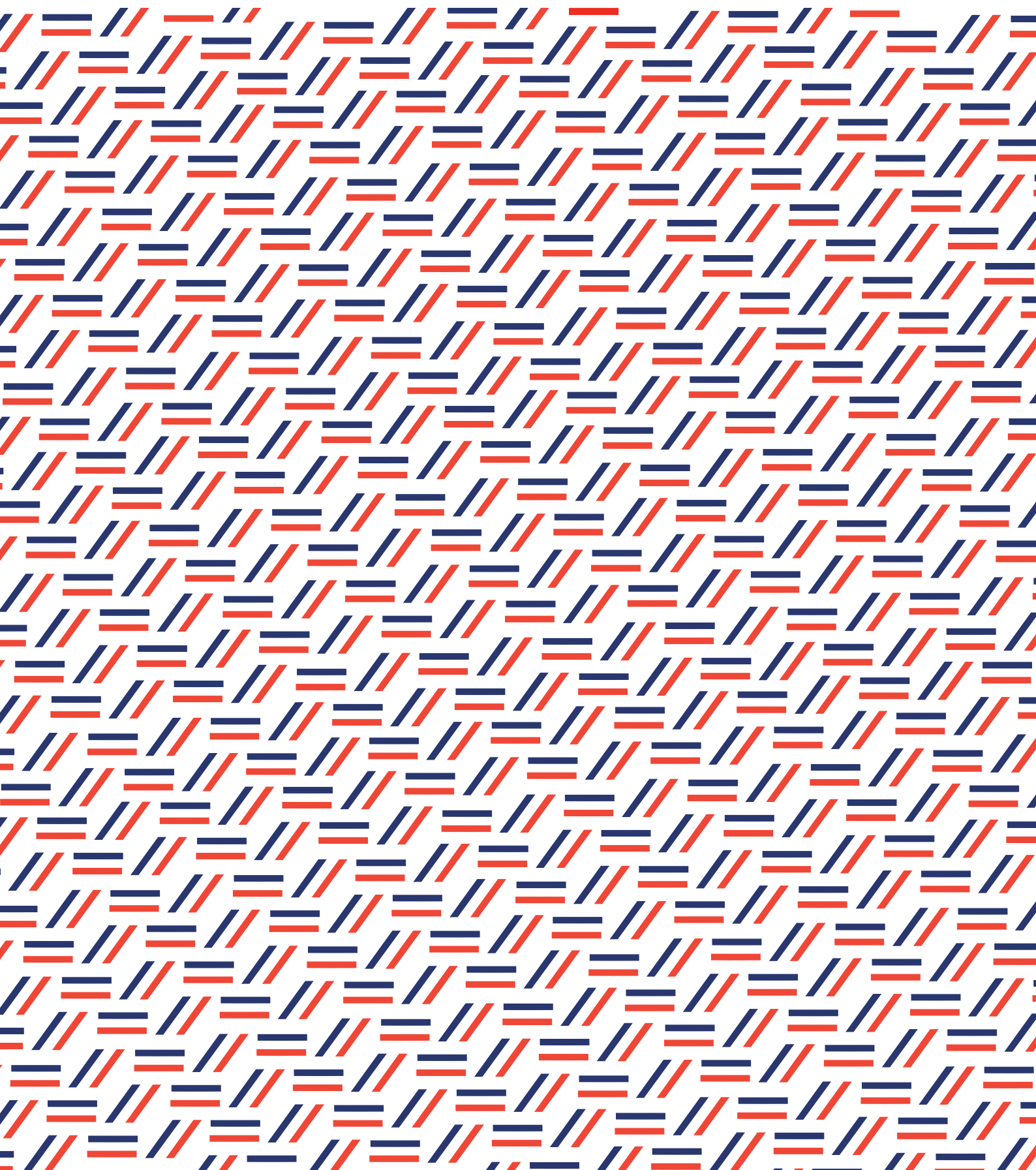
**Table 1 Electricity distribution continuity indicators in 2018**

Indicator*	ČEZ Distribuce	E.ON Distribuce	PREdistribuce	Czech Republic
SAIFI [interruptions/year]	2.74	2.01	0.40	<b>2.24</b>
SAIDI [minutes/year]	307.09	249.79	34.06	<b>256.05</b>
CAIDI [minutes]	112.26	123.98	85.40	<b>114.33</b>

\* System indicators covering all categories of interruption under Appendix 4 to public notice no. 540/2005



## 4 / The gas industry



# 4 / The gas industry

## 4.1 Network regulation

### 4.1.1 Technical functioning

The Czech gas system comprises gas pipelines in the transmission system, regional distribution systems, and local distribution systems. The gas transmission system comprises 3,822 km of high-pressure gas pipelines serving for both international transit and national gas transport. The branches of the system are interconnected at the key distribution junctions in Malešovice, Hospozín, Přimda, and Rozvadov. The required pressure is provided by compressor stations at Kralice nad Oslavou, Kouřim, Břeclav, and Veselí nad Lužnicí. In 2018, the installed capacity of compressor stations totalled 243 MW.

From the transmission system, gas is further delivered via delivery stations into distribution systems, to supply points of customers directly connected to the transmission system, or to gas storage facilities. Table 2 lists the lengths of the gas pipelines and service pipes of regional distribution companies.

**Table 2** Lengths of gas pipelines and service pipes on 31 December 2018 by pressure level

	<b>HP</b> [km]	<b>IP</b> [km]	<b>LP</b> [km]
Pražská plynárenská Distribuce, a.s.	372	2,870	1,207
GasNet, s.r.o.	11,277	41,076	12,606
E.ON Distribuce, a.s.	1,221	2,979	394

HP – high pressure, IP – intermediate pressure, LP – low pressure

Source: ERO

Gas storage facilities located in the Czech Republic feature a good standard in terms of both capacity and technical parameters. In 2018, three storage system operators operated eight storage facilities in the Czech Republic with an aggregate storage capacity of 3.257 bcm. Table 3 in point 4.1.2.2 lists the highest levels of operating stores in the storage facilities of the various SSOs.



#### **4.1.2 Network tariffs for connection and access**

Under Section 17(11) of the Energy Act, the Energy Regulatory Office is authorised to regulate, in the gas industry, the charges for related services in the gas industry and the gas prices of the supplier of last resort. The charge for the related service in the gas industry is understood to be the charge for the gas transmission service or the charge for the distribution system service, which also include the charge for the market operator's activities. The gas prices of the supplier of last resort are controlled on the cost-plus basis.

The regulated prices for each of the years in the fourth regulatory period are fixed in accordance with the Energy Act, public notices no. 195/2015 on methods of price regulation and procedures for price controls in the gas industry and no. 196/2015 on methods of price regulation and procedures for regulating the prices for the market operator's activities in the electricity and gas industries, and the published *Price Control Principles for 2016-2018 in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries*, the effect of which has been extended to 31 December 2020.

Under the above legislation and the price control principles, the Office fixed adjusted allowed revenues for the year, applicable to the distribution system operators, the transmission system operator and the market operator, from which the relevant regulated prices were calculated. The revenue cap regulatory method is used for calculating the allowed revenues for distribution system operators and the market operator. In the case of the transmission system operator's revenues, a combination of the revenue cap and price cap principles is used.

The TSO's adjusted allowed revenues are one of the inputs to the calculation of the regulated prices of gas transmission; the revenues are allocated to the entry and exit points in the transmission system based on the expected use of these points. The charge for the gas transmission service determined for customers in the Czech Republic (to the 'domestic point') is integrated within gas distribution charges, and is therefore billed to customers as part of the charge for the distribution system service.

The prices for the gas transmission service are set as double-component prices and have a fixed and a variable component. The fixed component is the payment for the booked firm transmission capacity at the respective entry/exit point in the transmission system. The variable component of the charge is determined so as to cover the TSO's costs related to the gas quantity actually transported via the exit points of the transmission system. For operators of distribution systems that are directly connected to the transmission system, the same pricing method is applied, and their adjusted allowed revenues are determined on the basis of the data reported by the respective operator. Depending on booked distribution capacity and the gas quantity planned to be distributed, the adjusted allowed revenues are then allocated to the prices for each customer category, which are as follows: categories of high-demand customers, medium-sized demand customers, low-demand customers, and households.

Operators of distribution systems connected to other distribution systems can use regulated prices up to the level of the prices set for the higher-level distribution system, or request the Office to determine individual prices for them.

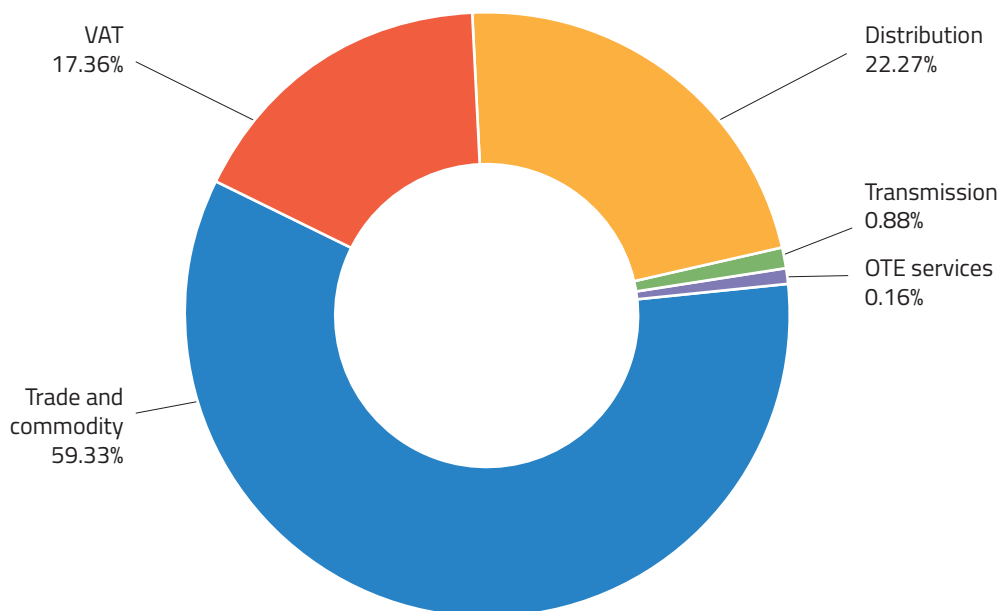
Regulated prices for the distribution system services are also usually double-component prices with a fixed and a variable component, similarly as the price for the gas transmission service. The fixed component of the prices for high-demand and medium-sized demand customer categories depends on the total daily booked capacity and is calculated using a formula set out in the applicable price decision. For the low-demand and household category customers, the fixed component of the price is determined by the amount of the standing monthly charge in the relevant off-take band. For all customer categories, the variable component of this price is the fixed price for gas taken, which is related to the quantity of gas consumed.

Every year, the Office also sets adjusted allowed revenues for the market operator’s services, on the basis of which the fixed charge for clearing, related to the gas quantity taken, is then calculated.

Due to the fact that the Czech gas market has been liberalised the Office only sets the prices for the above activities, which are necessary for ensuring gas supply to customers’ supply points. Uncontrolled prices include the charge for commercial services and the charge for gas supply structuring and flexibility, and are fully within the respective gas trader’s competence, depend on the trader’s business strategy, and are subject to its contractual relationships with customers.

The Office did not apply any special tariffs for LNG in the Czech Republic in 2018.

**Chart 8** Structure of the average price for the gas supply service for household customers in 2018



Note: The charge for OTE’s services includes a special fee for the ERO’s activities under Section 17d of the Energy Act.  
Source: ERO

#### **4.1.2.1 Preventing cross-subsidies**

Cross-subsidies are prevented by the suitable design of regulatory reporting that, following the accounting and legal unbundling, strictly requires that costs directly allocable to each of the regulated activities be reported.

#### **4.1.2.2 Unregulated access to gas storage**

As other liberalised markets in Europe, the Czech Republic has also experienced an expansion of the traditional role of gas storage. Storage capacity helps to cover seasonal and short-term changes in demand for gas, provide for supply security, and optimise the whole gas chain; in addition, the results of the storage capacity market are reflected in the financial sector where gas storage is used for generating seasonal and spot arbitrage pricing. The seasonal differences in gas prices therefore continue to be the principal tool for storage capacity valuation. Thus, the effects of increasing competition in the European flexibility market, which in turn increases the pressure for maintaining the profitability of gas storage, is being reflected in the Czech national environment to the full extent.

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

The Office does not regulate the price for gas storing in storage facilities; this price is made by the market based on the results of auctions in which available storage capacity is offered.

In 2018, storage system operators, innogy Gas Storage, s.r.o., MND Gas Storage a.s., and Moravia Gas Storage a.s., called a total of 25 auctions to sell storage capacities for subsequent storage years.

The reserve prices in storage capacity auctions were lower than in 2017, which can be attributed to the influence of declining gas prices on spot markets and the minimum difference between the summer and winter prices. This trend, in principle negative for SSOs, directly helps to improve the operating efficiency of gas storage facilities in a fully market environment. On the other hand, there is a positive effect of lower extra costs for gas traders, which are also passed through to the final prices for customers through business models.

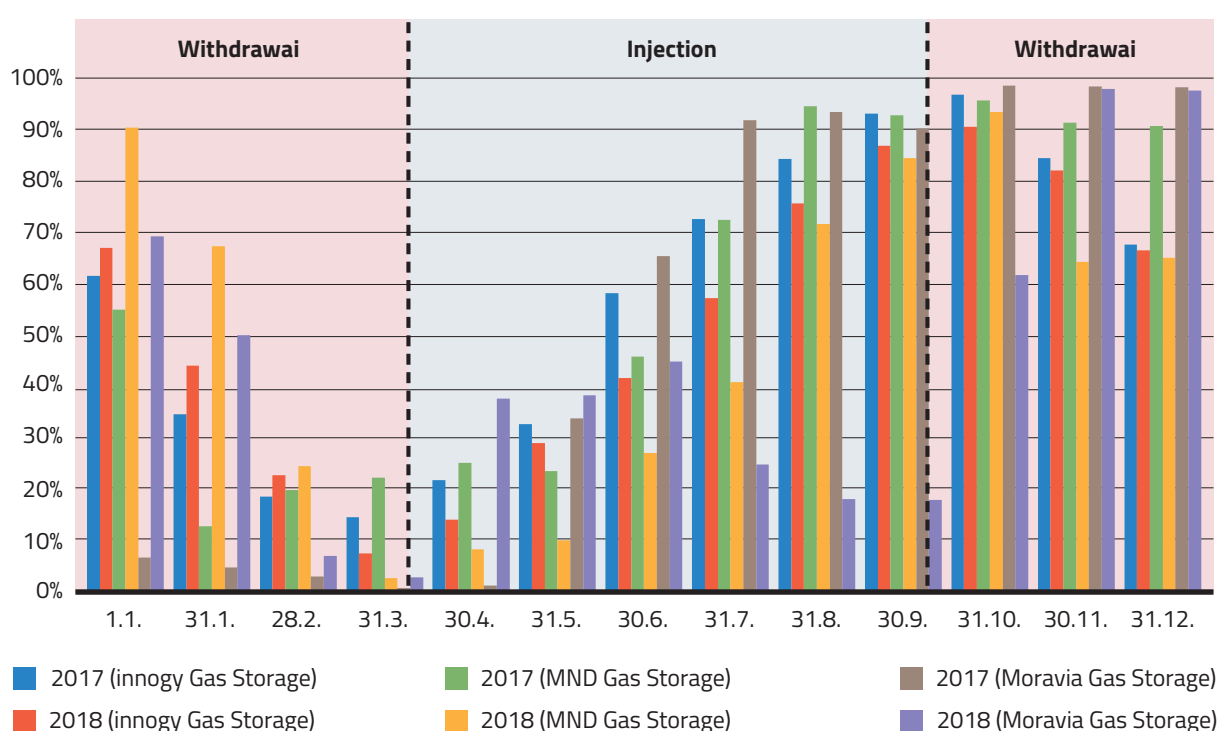
Another criterion for assessing the rules applicable to access to storage facilities is the level to which they are filled. This figure is important before the beginning of the heating season and at the end of the storage year when, in case of temperature changes, for technological reasons storage facilities are unable to offer the full withdrawal capacity when gas stores in them are too low. On 1 October, the day that is regarded as the beginning of the heating season and when conventional customs dictate the start of gas withdrawal from facilities, none of the storage facilities was 100% filled. Nevertheless, the temperature profile in 2018 allowed gas injection into storage facilities after 1 October; Table 3 shows the maximum levels of gas stored in storage facilities.

**Table 3** Dates on which gas stores reached the maximum percentage of capacity in 2018

Company	Date of the maximum	Maximum achieved percentage of filling the facility
innogy Gas Storage, s.r.o.	27 October 2018	91.15
MND Gas Storage a.s.	19 October 2018	96.81
Moravia Gas Storage a.s.	9 December 2018	98.59

Source: <https://agsi.gie.eu>; [www.gasstorage.cz](http://www.gasstorage.cz); [www.moravia-gs.cz](http://www.moravia-gs.cz)

**Chart 9** Comparison of the levels of gas stores in storage facilities in the Czech Republic for 1/2017 to 12/2018



Source: [www.innogy-gasstorage.cz](http://www.innogy-gasstorage.cz); [www.gasstorage.cz](http://www.gasstorage.cz); [www.moravia-gs.cz](http://www.moravia-gs.cz)

**Table 4** Comparison of gas volumes in facilities before and after the heating season

Company	Level in the facility (in %) on 30 September 2017**	Level in the facility (in %) on 31 March 2018**
innogy Gas Storage, s.r.o.	93.75	7.42
Moravia Gas Storage a.s.	90.87	2.69
MND Gas Storage a.s.	93.69	2.66

\*\* The percentage expresses the ratio of the gas quantity in the facility and its technical capacity

Source: [www.innogy-gasstorage.cz](http://www.innogy-gasstorage.cz); [www.gasstorage.cz](http://www.gasstorage.cz); [www.moravia-gs.cz](http://www.moravia-gs.cz)

## 4.2 The gas market, supplier switching

An environment where gas traders offer and sell services related to gas supply to customers is understood to be the retail market. As at 31 December 2018, the Office held records of a total of 2,840,619 supply points connected to regional distribution systems in the Czech Republic. Compared with 2017, the number of registered supply points therefore slightly declined (by 3,644 supply points). A more detailed overview of the structure of customers taking gas in the Czech Republic is contained in Table 5.

**Table 5** Number of gas supply points in 2018

Customer category	Number of supply points	Share [%]
High-demand customers	1,692	0.06
Medium-demand customers	6,817	0.24
Low-demand customers	205,693	7.24
Households	2,626,417	92.46
<b>Total</b>	<b>2,840,619</b>	<b>100.00</b>

Source: ERO

A total of 263,425 gas supplier switches were registered in 2018; of those, 226,974 took place in the most populated customer category, i.e. households. Table 6 shows the structure of gas supplier switching in more detail. The increase in the number of supplier switches was caused by the significant changes in prices in wholesale prices in the second half of 2018, which gas suppliers did not cover from their margins but passed them through into their gas supply prices. When gas traders increased their prices of gas supply services customers had, under Section 11a of the Energy Act, the option to terminate their contract free of charge under the contract terms and conditions and arrange for gas supply through a supplier that better satisfied the customers' requirements for the price of the gas supply services.

In terms of the level and effectiveness of gas market opening and competition it can therefore be noted that the current legislative framework for supplier switching meets the requirements for putting in place a competitive and safe consumer-focused environment.

**Table 6** Number of gas supplier switches 2011 and 2018

	2011	2012	2013	2014	2015	2016	2017	2018
High-demand customers	537	979	449	330	329	617	305	395
Medium-demand customers	1,142	2,951	3,061	1,572	1,326	1,973	1,357	1,620
Low-demand customers	26,994	27,829	29,091	23,704	21,642	28,411	26,205	34,436
Households	333,268	316,297	264,680	174,783	154,465	172,949	199,678	226,974
<b>Total</b>	<b>361,941</b>	<b>348,056</b>	<b>297,281</b>	<b>200,389</b>	<b>177,762</b>	<b>203,950</b>	<b>227,545</b>	<b>263,425</b>

Source: OTE, a.s.

Table 7 shows the number of supplier switches to the number of supply points (the switching rate) broken down by customer category in 2018.

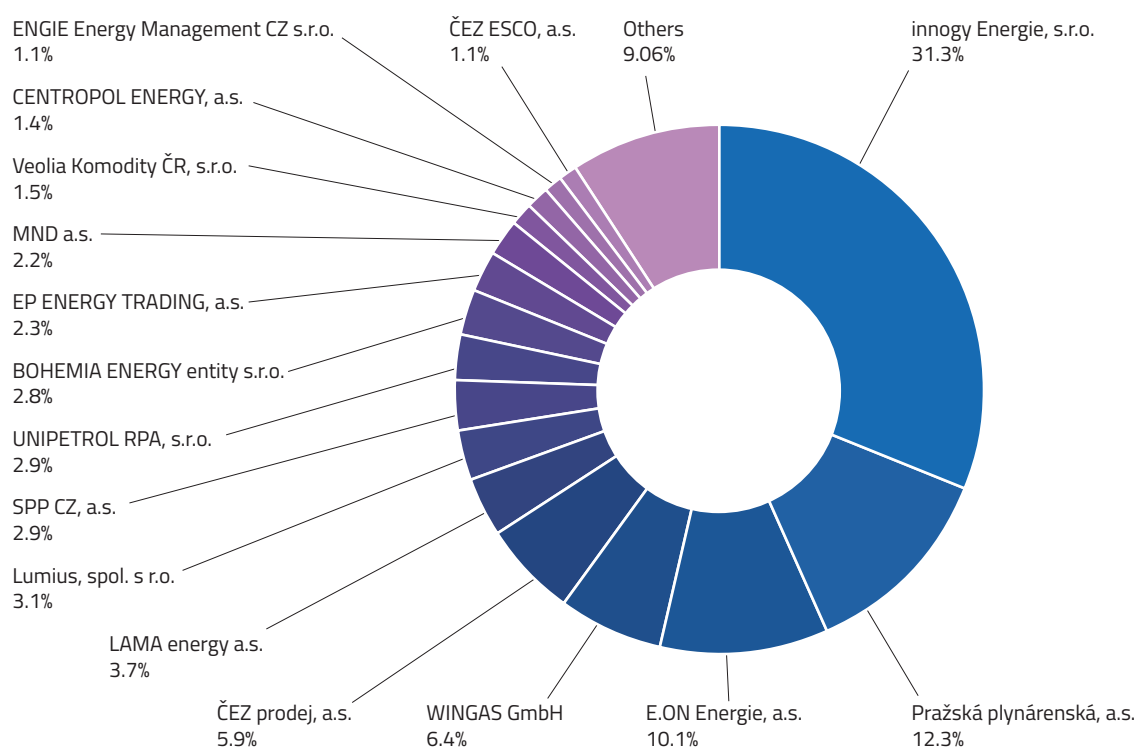
**Table 7** Number of gas supplier switches in 2018

Customer category	Number of supplier switches	Total number of supplier switches	Switching
			[%]
High-demand customers	395	1,692	23.3
Medium-demand customers	1,620	6,817	23.8
Low-demand customers	34,436	205,693	16.7
Households	226,974	2,626,417	8.6
<b>Total</b>	<b>263,425</b>	<b>2,840,619</b>	<b>9.3</b>

Source: ERO, OTE, a.s.

In 2018, the Office registered 119 active traders that supplied gas to customers during the year. In terms of the gas quantity supplied, in 2018 the largest market share was held by innogy Energie, s.r.o. with 31.3%, followed by Pražská plynárenská, a.s. with 12.3% and E.ON Energie, a.s. with 10.1%. Chart 10 depicts a more detailed breakdown of gas traders' shares in gas supply to customers.

**Chart 10** Traders' shares of gas supply in 2018



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

Source: ERO

### 4.2.1 Indicative prices

The Office continuously monitors the condition and development of the gas market in compliance with the objectives and requirements of the directive on common rules for the natural gas market and the Energy Act. The purpose of this monitoring is to see whether or not effective competition exists or the efficiency of market openness is weakening.

Although it was not found in 2018 that effective competition did not exist in the gas market, and therefore there was no need to adopt measures to eliminate the causes of such a situation, the Office continued to post indicative prices of gas supply services on its website. The indicative prices of gas supply services reflect the development of the wholesale prices for which gas traders are able to buy gas (as the commodity) for their customers at energy markets. They also contain traders' reasonable margin, which covers traders' costs necessarily incurred in their business activity and a customary level of profit. The indicative prices therefore constitute non-binding and indicative information for consumers on whether the prices for which they are buying gas reflect the actual situation in the retail gas market.

Indicative prices are published only for customers in the household and low-demand categories and are structured into three groups based on the indicative use of gas and the size of its annual consumption (cooking, water heating, and space heating).

## 4.3 Pricing

Under Section 17(11) of the Energy Act the Energy Regulatory Office is authorised to control, in the gas industry, the charges for the related services in the gas industry, which include the charge for the gas transmission service, the charge for the distribution system service, and the charge for the market operator's services, and also the gas price of the supplier of last resort, which is controlled on a cost-plus basis.

The Office issued two price decisions in 2018 under the Energy Act, under public notices nos. 195/2015 on methods of price regulation and procedures for price controls in the gas industry and 196/2015 on methods of price regulation and procedures for regulating the prices for the market operator's activities in the electricity and gas industries, and under the published *Price Control Principles in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries for the Period from 2016 to 2018*.

The first of them was ERO Price Decision 1/2018 of 22 May 2018 on regulated prices related to gas supply, effective from 1 January 2019. The issue of this price decision was based on Article 32 of Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas, under which the Office is obliged to set and publish transmission tariffs not later than 30 days before the annual auction for yearly transmission capacity.

Regulated prices and conditions for national gas transmission, gas distribution, the market operator's services in the gas industry, and the supplier of last resort appeared in ERO Price Decision 6/2018 of 20 November 2018 on regulated prices related to gas supply, with effect from 1 January 2019.

In 2018, the Office analysed some products the use of which has certain special features, which are defined in the price decision for customers using distribution system services. Based on the evaluated data the Office found that all products were actually used by market



participants and therefore created the conditions for the efficient and reliable consumer-focused operation of distribution systems.

On 1 October 2018 the Office launched, under Commission Regulation (EU) 2017/460, a public consultation on the applied methodology (the capacity weighted distance reference price methodology) for calculating reference prices and on the prices set. The Office also posted an English version of the consultation documents on its website. The gas market participants were given three months (unlike the two months required by the Regulation), i.e. until 31 December 2018, to send their suggestions and comments on the consultation document.

### **4.3.1 Regulated parts of the price**

Under Section 17(11) of the Energy Act, the Energy Regulatory Office is authorised to control, in the gas industry, the charges for related services in the gas industry and the gas prices of the supplier of last resort. The charge for the related service in the gas industry is understood to be the charge for the gas transmission service or the charge for the distribution system service, which also include the charge for the market operator's services. The gas prices of the supplier of last resort are controlled on a cost-plus basis.

#### **4.3.1.1 Regulated parts of the price related to gas supply**

Under Section 17(6)(d) of the Energy Act, for 2019 the Office set the charge for the related services in the gas industry. It consists of the charge for the gas transmission service, the charge for the distribution system service, and the charge for the market operator's services, including the charge for the Office's activities under Section 17d(3) of the Energy Act.

#### **4.3.1.2 Charge for the gas transmission service**

For 2019, the TSO's adjusted allowed revenues increased by 17.52% on 2018. This increase was due to the level of the correction factor for the gas transmission service, which had significantly changed compared with 2018.

Because of the increase in adjusted allowed revenues, the average price of the service of gas transmission to the domestic point rose by 47.23% on 2018 to CZK 17.26/MWh. This price is integrated into the controlled prices of the distribution system services; depending on the customers' categorisation as household, low-demand customer, medium-demand customer or high-demand customer, it accounts for approximately 1 to 2 per cent of the total price of the gas supply service.

#### **4.3.1.3 Charge for the distribution system service**

One of the forms of the regulated price of the distribution system service is the single-component price, which is intended for customers having a certain specific nature of their supply point usage. At such supply points the largest part of their annual off-take is consumed in a few days in a year. The other form is a double-component price, which is composed of a variable and a fixed component.

In the double-component price, the variable component of the price for the distribution system service is determined by a fixed price for gas taken, in CZK/MWh. Its level therefore

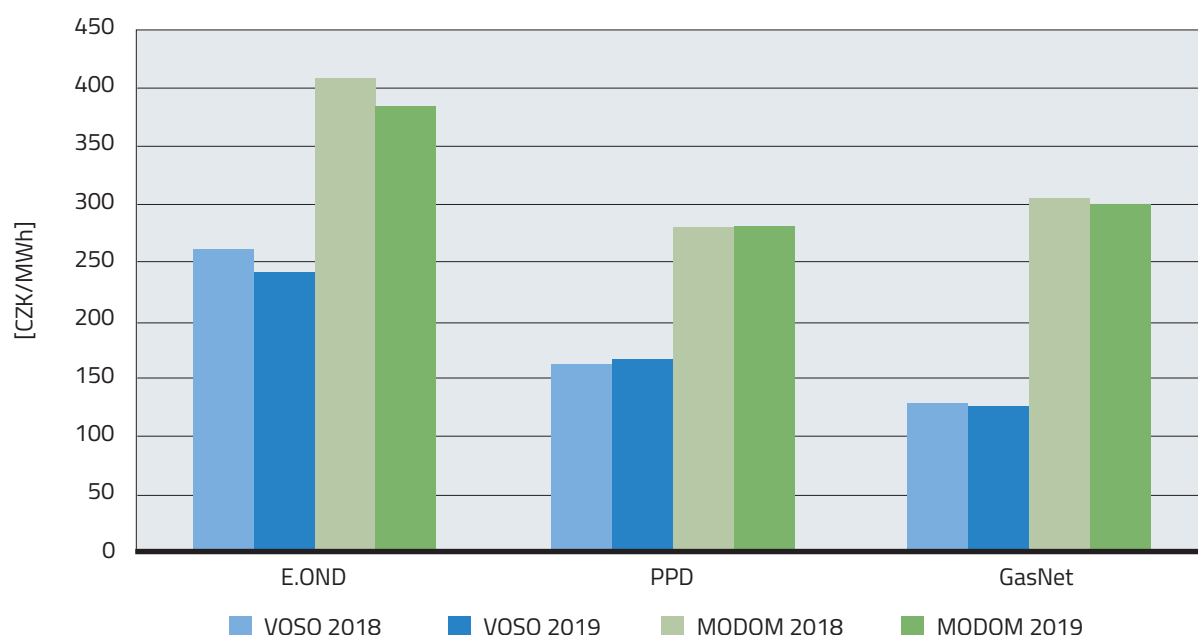


depends on the gas quantity consumed. The standing monthly charge for available capacity constitutes the fixed component of the prices for customers in the household and low-demand [business] categories, who take up to 63 MWh of gas per year. Its level depends on the particular distribution area and on the customer's inclusion in an off-take band, which is determined by the adjusted annual consumption at the supply point. Low-demand [business] customer and household customer categories (MODOM) taking over 63 MWh of gas per year pay the fixed component of the price through the fixed price for daily booked distribution capacity. For the high-demand and medium-sized demand customer categories (VOSO) this component of the price is set on the basis of the calculation of a logarithmic formula depending on the daily booked distribution capacity for an indefinite period of time. Customers most often pay it on a monthly basis as a fixed price for daily booked distribution capacity.

The average price for the distribution system service, including the service of gas transmission to the domestic point, for 2019 decreased by 0.60% on 2018. The main reasons for this decrease include, in particular, the negative values of the correction factors for DSOs.

Chart 11 depicts a year-on-year comparison of the change in the average distribution system service price, including the service of transmission to the domestic point, for each of the customer categories by distribution system operator.

**Chart 11** Comparison of average regulated charges for gas distribution (distribution, transmission, OTE) in 2018 and 2019, by distribution system operator



Source: ERO

#### **4.3.1.4 Charge for the market operator's services in the gas industry**

For 2019, the fixed price for clearing was set at CZK 0.71/MWh. The year-on-year decline of 1.99% in this price is due to the negative value of the correction factor for the market operator's services.

The above price is marked up by the fee for the Office's activities, which is set by a Government Order under Section 17d(3) of the Energy Act. For 2019 the rate of this fee was set under Government Order 392/2015 on the rate of the fee for the activities of the Energy Regulatory Office for 2019. The fee for the ERO's activities remained at the same level as in 2016, 2017 and 2018, i.e. CZK 1.34/MWh of consumed gas quantity. The overall price for the market operator's clearing service was set at CZK 2.05/MWh for 2019.

The charge for the provision of data from records of commercial transactions on the gas market organised by the market operator, which is paid by market participants under 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), decreased compared with 2018, from CZK 2,800/month to CZK 2,704/month. The other regulated charges for the market operator's services, which are listed in the price decision, remained at their 2018 level.

#### **4.3.1.5 Price for the supplier of last resort**

The Office is authorised to regulate the prices of the supplier of last resort; in the form of cost-plus prices, the Office sets the maximum level of the price of the supplier of last resort if the supplier requests so.

In 2018, two gas traders became unable to honour their obligations and supply gas to their customers. These traders' customers were allowed to make a fast change of their supplier. In cases of customers who did not use the option of a fast supplier switch, gas supply of last resort to their supply points was started. Nevertheless, the supplier of last resort did not ask the Office to set the price of the supply of last resort for it in any of the cases, and the price of the gas supply service under the applicable commercial terms of the relevant supplier of last resort was used.

### **4.3.2 Unregulated components of the price**

#### **4.3.2.1 The price of the supply services**

The powers laid down in the Energy Act do not allow the Office to regulate or otherwise influence the level and structure of the prices of services related to gas supply, which are quoted by the various gas traders, i.e. the prices of gas as a commodity and of the trader's related services. The Office's role primarily rests in providing for a balanced environment and for the protection of the non-discriminatory functioning of the market for all its participants.

#### **4.3.2.2 Gas storage charge**

The Office does not regulate the charge for gas storage in storage facilities; the storage price is formed in the market itself on the basis of the results of available storage capacity auctions.

#### **4.4 Statistics and supply security**

As part of its competences, the Energy Regulatory Office monitors and evaluates adherence to the security standard for gas supply (BSD) in the Czech Republic. In response to the expert circles' interest, the Office has created a Monthly Report on the Evaluation of the Gas Supply Security Standard in the Czech Republic; it is based on data received from gas traders and subjected to periodic evaluation, and posted on the Office's website since the 2015/2016 winter season. In these reports the Office also pursues, among other things, one of its key priorities: identify all factors that might stand in the way of ensuring secure and reliable gas supply to final customers in the Czech Republic.

Under applicable legislation, before every winter season all gas traders send the Office information concerning the obligation to provide for BSD. The Office found that as at 31 December 2018, of all the licensed entities a total of 140 gas traders provided for BSD for their own operation or for some other gas traders.

In 2018, BSD was provided for January to March and October to December. Most gas traders supplied a confirmation that they had another gas market participant providing for their BSD, i.e. one trader provides BSD for several other traders, including through gas storage for 30% of BSD.

In the light of suspicion that certain companies failed to ensure the required 30% in a storage facility at the end of the 2017/2018 winter season, the Office requested storage system operators to provide data on the daily quantities of gas stored in the relevant period, broken down by gas trader. Based on this poll, the Office conducted inspections at some of the companies with a view to checking each of the traders' actual provisions for BSD, since customer protection in the Czech Republic is one of the Office's key missions.

#### **4.5 Assessment of the gas transmission system development plan**

Based on the implementation of Directive 2009/73/EC in the Czech national legislation, in the form of Section 58k of the Energy Act, the transmission system operator, NET4GAS, s.r.o., draws up ten year network development plans (TYNDP) containing an overview of the measures adopted with a view to maintaining an adequate capacity in the gas transmission system so that it meets the conditions necessary for ensuring gas supply security while guaranteeing the adequacy of the system; the TSO then submits the TYNDP to the Office for an assessment. The Office assesses the TYNDP under Section 58k(8) of the Energy Act.

The requirements of Section 58k of the Energy Act emphasise transparency in the decision-making on the submitted TYNDP, and the public consultation process is therefore conducted by the TSO as well as the ERO.

Due to the administrative time limits related to the pending administrative proceedings, the Office decided on TYNDP versions for three periods in 2018.

In the context of Section 17(7)(i) of the Energy Act, in 2018 the Office primarily decided on NET4GAS's TYNDP 2017–2026. Bound by the decision of the second instance authority, i.e. the ERO Board, the TSO honoured its obligation and on 22 January 2018 submitted a recast version of TYNDP 2017–2026 to the Office for approval. Under Section 58k(6) of the Energy Act, the Office subjected the recast version of TYNDP 2017–2026 to a public consultation

and subsequently, following the settlement of the comments received, it approved the plan in its decision of 22 March 2018.

In the context of the decision whereby in 2017 the Office had ordered an amendment to TYNDP 2017–2026, the TSO exercised its statutory right and brought an administrative action against the administrative authority's [the ERO's] decision before the Brno Regional Court under Section 65 *et seq.* of the Rules of Administrative Procedure. The court had not decided on the action by the end of 2018.

In 2018, the Office was also deciding on the Ten Year Plan for the Development of the Transmission System in the Czech Republic for 2018–2027, because on 5 January 2018 the TSO filed a remonstrance (appeal) against the decision whereby the Office had ordered the TSO, under Section 58(9) of the Energy Act, to amend the submitted TYNDP 2018–2027 or to remove its defects, granting a reasonable time for this to the TSO. In its decision the Office required the following:

- a) That a certain project be omitted from TYNDP 2018–2027, emphasising the immaturity of the project and lack of traders' interest in the new transmission capacity proposed; equally importantly, it opposed the TSO's effort to transfer the costs incurred in the implementation of what from the Office's perspective were purely commercial investments onto the shoulders of the gas system users in the Czech Republic, in particular end consumers of gas;
- b) That the extent of the planned projects and investments set out in the document be harmonised with the extent of the planned investments in the development, refurbishment and modernisation of the transmission system within the meaning of effective measures for ensuring the adequacy of the system and security of supply.

In its capacity as the authority of the second instance, the ERO Board quashed *point i.* of the original decision in its decision of 21 August 2018 and remanded the case, to the above extent, to the Office for reconsideration; it upheld *point b)* of the original decision.

Accordingly, on 20 September 2018 the TSO provided the Office with a recast version of TYNDP 2018–2027 for approval. Under Section 58(9) of the Energy Act the Office again ordered the TSO to amend the submitted TYNDP 2018–2027, namely by harmonising it with the factual situation current as at the day of the submission of TYNDP 2018–2027.

The TSO complied in full and on 19 November 2018 delivered to the Office an updated version of TYNDP 2018–2027, which already was in agreement with the then current situation as at the day of submission. Under Section 58k(6) of the Energy Act the Office subjected the plan to a public consultation, but due to the administrative time limits the administrative proceedings were not concluded in 2018.

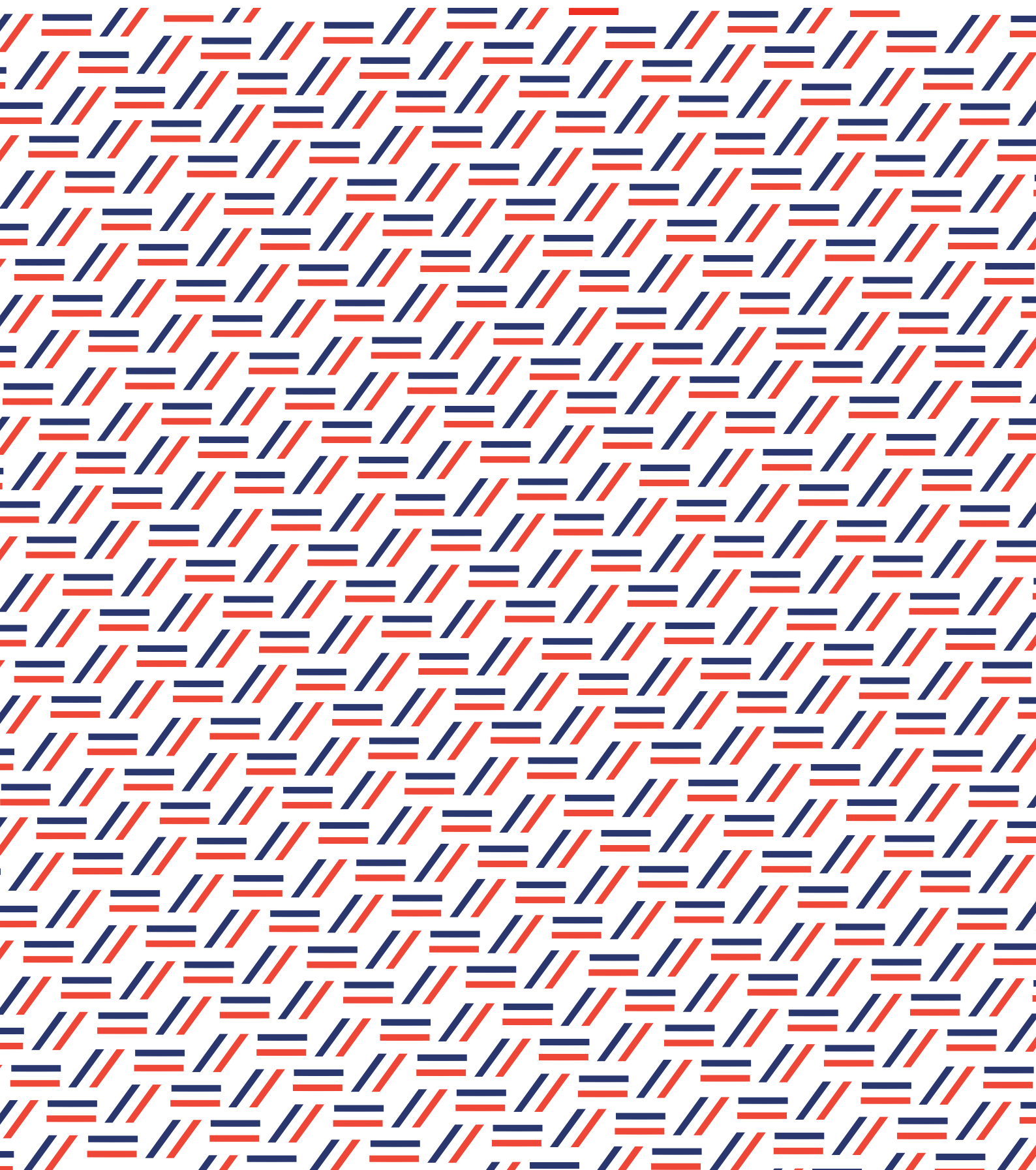
In 2018, the Office was also deciding on the submitted Ten Year Plan for the Development of the Transmission System in the Czech Republic for 2019–2028. The published plan, in the version intended for the TSO's public consultation, contained several major changes compared with TYNDP 2018–2027, which were related to the technical and economic parameters of the various projects and to the list of the projects as such:

- For project E–2-001, the application for the planned connection of a power station to the gas transmission system had been revised;
- The application for a planned connection of a power station, project E–2-002, had been withdrawn;
- A new project, DZ-3-004, had been included in the plan: an application for the connection of a gas liquefaction installation to the gas transmission system;
- With a view to addressing the requirements for a reinforcement of the exit capacity to the Northern Moravia region and enhancing the security of supply for this region, a new project had been included in the plan, Moravia Capacity Extension DZ-3-005, with commissioning planned for 2022;
- For projects UGS-4-003 and TRA-N-133, the planned commissioning was moved to 2021 and 2024.

The TSO submitted this plan, together with the record of the consultation, to the Office for assessment both in terms of the particulars and requirements of the national legislation and the higher-level EU legislation represented by Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, and Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, as well as in the context of benefits for the continuous development of the Czech gas market, the needs of gas consumers in the Czech Republic, and overall impacts on end consumers.

Under Section 58k(6) of the Energy Act the Office subjected TYNDP 2019–2028 to public consultation, and thereafter approved the plan on 19 December 2018. However, due to the administrative time limits, TYNDP 2017–2026 was the applicable development plan until the end of 2018.

## 5 / The heat supply industry



# 5 / The heat supply industry

## 5.1 Thermal energy supply

The heat supply industry is an important part of the Czech energy sector; it shares in heat and cooling supply and also provides a significant share of electricity generation. District heating has a long tradition in the Czech Republic and provides heat to a considerable percentage of households, and also to businesses and non-business entities. Thermal energy supply is usually intended for the relevant locality, which usually has its own specific conditions. The heat supply industry is a highly variegated industry in terms of the technologies used, methods of thermal energy production, and the size of the various heat supply systems.

Table 4 shows the current average prices in the Czech heat supply industry, with the weighted average of thermal energy prices, regardless of the fuel used for producing thermal energy, amounting to CZK 568.63/GJ, including VAT, as at 1 January 2018. The average preliminary price of coal-produced thermal energy as at 1 January 2018 increased by CZK 7.64/GJ compared with the resulting average price in 2017; in the case of thermal energy from other fuels the average price decreased by CZK 7.00/GJ.

**Table 8** Average thermal energy prices for final consumers for 2017 and on 1 January 2018, including VAT

Year	From coal [CZK/GJ]	From other fuels [CZK/GJ]	Weighted average [CZK/GJ]
<b>Resulting price 2017</b>	564.23	558.09	561.28
<b>Preliminary price on 1 January 2018</b>	571.87	565.09	568.63

Source: ERO

## 5.2 Pricing

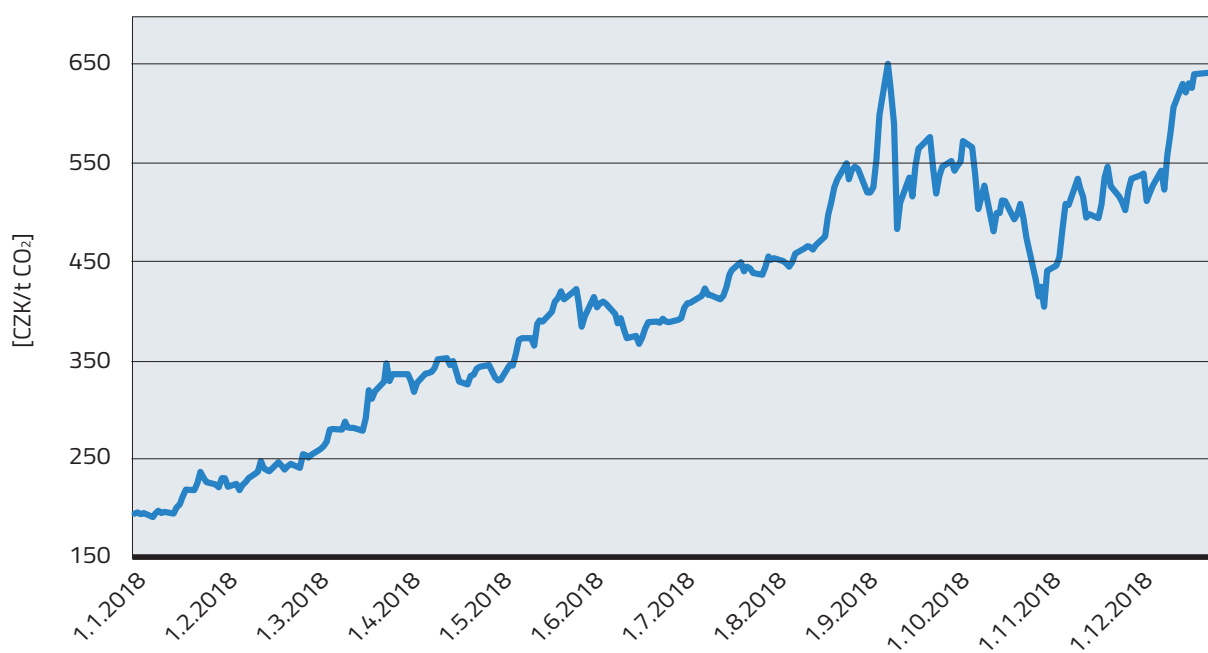
Under its authorisation, the Energy Regulatory Office exercises its price control competence in the energy industries; in exercising its competence it is responsible for, in particular, the protection of customers' and consumers' justified interests in the energy industries. In the heat supply industry, price control has the form of cost-plus pricing of thermal energy, whereby the thermal energy supplier may only reflect 'economically justified' [eligible] costs that it necessarily incurs in thermal energy production or distribution, a reasonable profit, and the value-added tax in its thermal energy price. The Office lays down the conditions for agreeing on thermal energy prices in its price decisions on thermal energy prices. For the calendar year 2018, no amendments to the old or the issue of new price decisions



took place and so ERO Price Decision 2/2013 of 1 November 2013 on thermal energy prices, as amended in ERO Price Decision 4/2015 of 6 November 2015, continued to be effective.

One of the cost items entering the calculation of thermal energy prices is the cost of emission allowances. The Office has been monitoring the development of the price of emission allowances on a long-term basis and in 2018 it registered its significant growth compared with the preceding years, as evident from Chart 12. In 2018, the price ranged from approximately CZK 195/t CO<sub>2</sub> to CZK 646/t CO<sub>2</sub>.

**Chart 12** The price of emission allowances in 2018

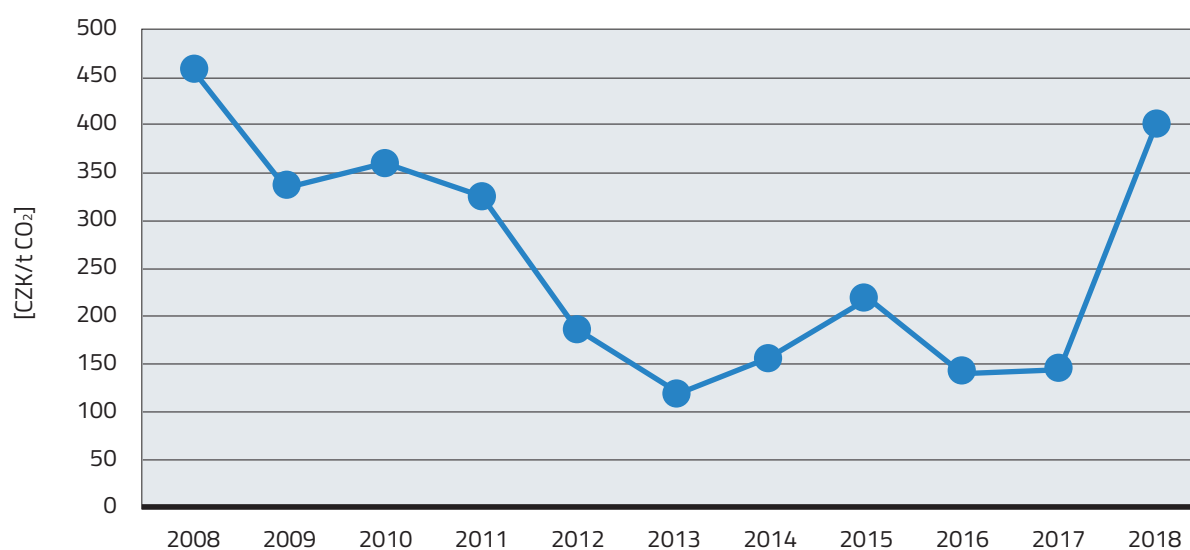


Source: ERO

Chart 13 indicates the movements of the average price of emission allowances in the second trading period (2008–2012) and in a part of the third trading period (2013–2020), which the Office monitors for the needs of effective, fair, transparent, and non-discriminatory regulation of thermal energy prices. In the second trading period (2008–2012) the predominantly downward tendency of the average price of emission allowances is apparent: in 2008 the price was CZK 459.71/t CO<sub>2</sub> and in 2012 it dropped to CZK 186.46/t CO<sub>2</sub>. In the third trading period (2013–2020) the trend is rather the opposite, as in 2013 the average price of emission allowances was CZK 118.64/t CO<sub>2</sub> while in 2018 it surged to CZK 399.08/t CO<sub>2</sub>.



**Chart 13** Development of the average emission allowance price between 2008 and 2018



Source: ERO

In view of the shrinking allocation of free emission allowances for operators of installations producing thermal energy and the situation on the market of emission allowances, the Office issued ERO Price Decision 5/2018 of 6 November 2018 to amend ERO Price Decision 2/2013 on thermal energy prices, as amended in ERO Price Decision 4/2015, in 2018. As of 2019, the amending price decision, no. 5/2018, lays down the conditions for reflecting 'economically justified' [eligible] costs of emission allowances in the thermal energy price, increasing the values on the basis of which the amount of the eligible costs incurred in the purchase of the necessary emission allowances that can be passed through to the thermal energy price is calculated.

### 5.3 Evaluation of thermal energy prices

Holders of licences for thermal energy production and holders of licences for thermal energy distribution whose total annual income from all thermal energy supplies exceeds CZK 2,500,000 w/o VAT shall file regulatory reports with the Energy Regulatory Office under Section 20(6) of the Energy Act. The required details and structure of the regulatory reports, including the model forms thereof and rules for completing them, are set out in ERO public notice no. 262/2015 on regulatory reporting, as amended.

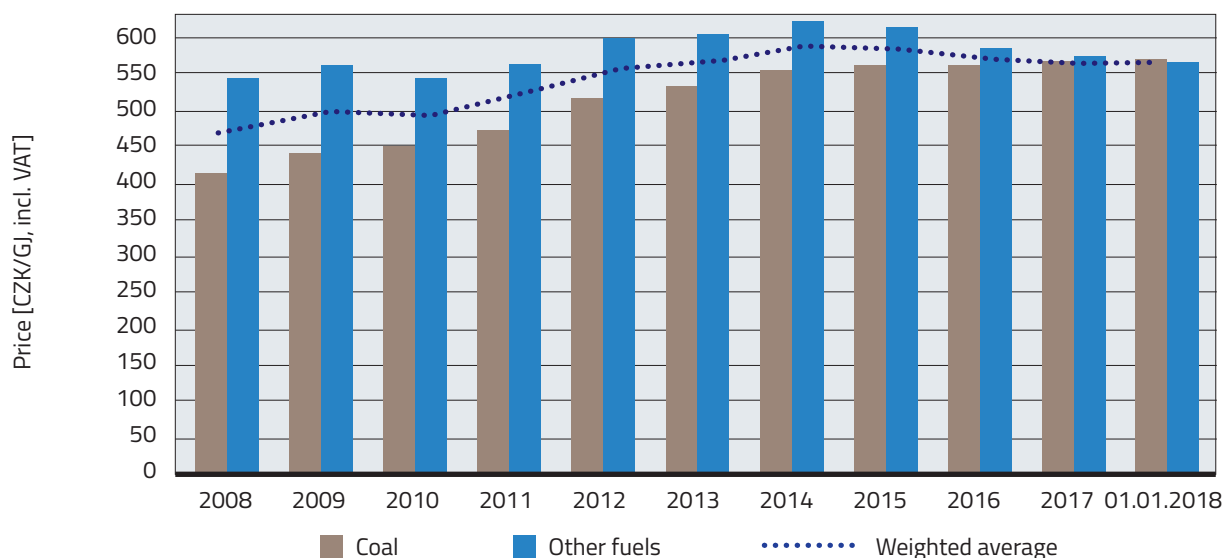
Based on the reported technical and economic information the Office evaluates the development of thermal energy prices and prepares overviews thereof. The Office posts these evaluations on its website to make them available to both experts and the public. The Office also uses the information obtained from regulatory returns for exercising its competences, since it does not serve only as feedback on the regulatory conditions in place but also for adjusting and setting regulatory conditions and as input information for inspection activities.

## 5.4 Development of thermal energy prices

Chart 14 shows average resulting prices of thermal energy supplied to end consumers (to their equipment that receives thermal energy) between 2008 and 2017 and preliminary thermal energy prices as at 1 January 2018. The overview of thermal energy prices for end consumers includes prices of thermal energy supplied from distributions from block boiler houses, external secondary distributions, house delivery substations, centralised hot water preparation, and from house boilers. Average prices for each of the years are calculated as a weighted average where the quantity of thermal energy generated from coal or other fuels is the weight.

In the period under review, a gradual and steadier growth of the price of thermal energy produced from coal is apparent. The year-on-year changes in the average prices of thermal energy produced from other fuels are not even: we can see year-on-year increases but also decreases in the period under review. The development of thermal energy prices is mainly influenced by fuel price changes, rising fixed costs, and also shrinking thermal energy supply due to disconnections from district heating systems. For the period from 2008 to 1 January 2018 the average price of thermal energy produced from coal for end consumers increased by CZK 158.96/GJ, i.e. approximately by 38.5%. Over the same period the price of thermal energy produced from other fuels increased by CZK 22.24/GJ, i.e. approximately by 4.1%. As regards fuels other than coal, since 2015 average thermal energy prices have been declining, resulting in the prices of thermal energy from other fuels dropping under the average prices of thermal energy from coal in 2017.

**Chart 14** Average thermal energy prices for end consumers (including VAT) between 2008 and 1 January 2018

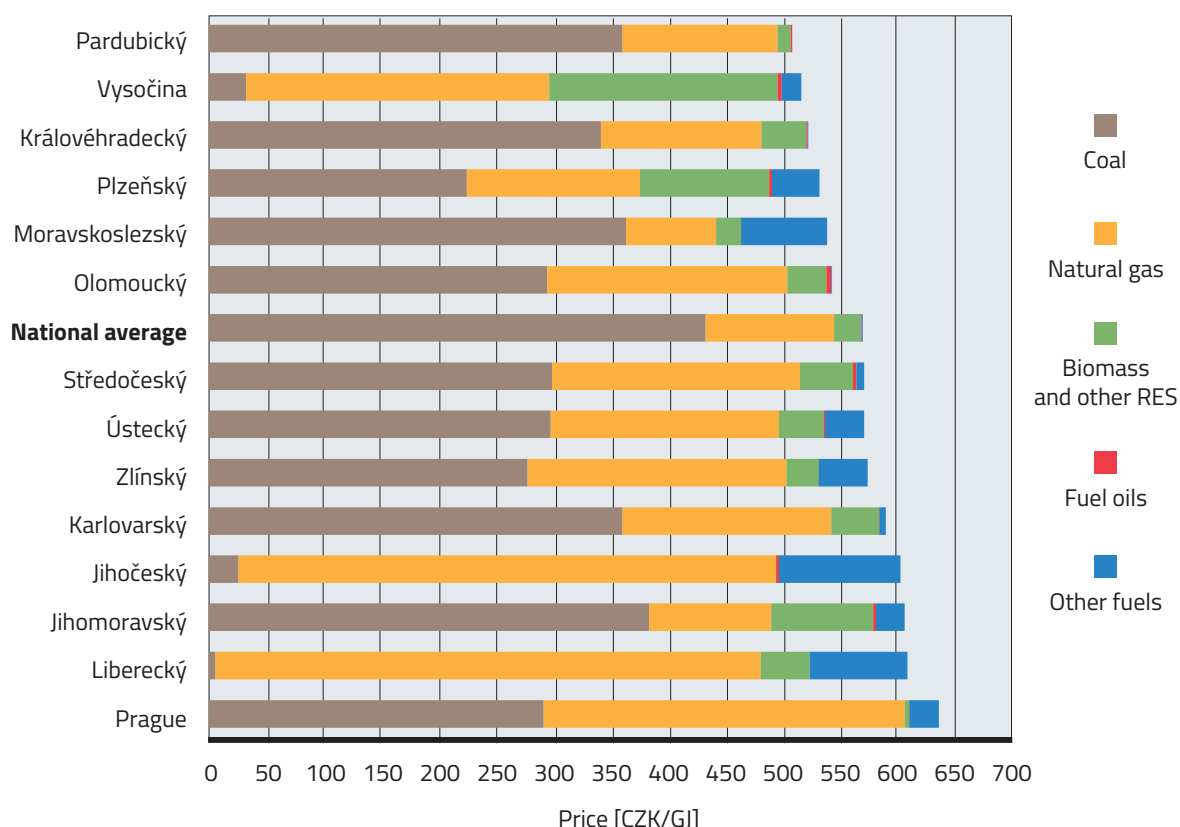


Coal	412.91	437.79	451.24	475.59	511.72	532.76	555.81	561.45	563.04	564.23	571.87
Other fuels	542.85	562.07	540.71	563.18	600.54	607.75	624.75	616.86	585.64	558.09	565.09
Weighted average	474.20	494.33	491.73	516.47	552.58	567.79	588.27	587.65	573.77	561.28	568.63

Source: ERO

Chart 15 and Table 9 show average preliminary thermal energy prices for end consumers as at 1 January 2018, broken down by Region, together with the percentages of the fuels used in thermal energy generation. The lowest prices are in Regions with large, most often coal-fired heat-producing plants that use combined heat and power generation (CHP) quite significantly, and with extensive district heating systems. On the other hand, the highest average prices of thermal energy for end consumers are in the heat supply systems that use other fuels to a large extent for heat production, combined with primary distribution systems based on steam. As at 1 January 2018, the difference between the Region with the lowest average price (the Pardubický Region, CZK 506.30/GJ, incl. VAT) and the Region with the highest average price (Prague, CZK 633.46/GJ, incl. VAT) for end consumers amounted to CZK 127.16/GJ. In the Vysočina Region, the favourable price of thermal energy is attributable to the large share of biomass for generating thermal energy.

**Chart 15** Average preliminary prices of thermal energy (including VAT) for end consumers as at 1 January 2018 and percentages of fuels by Regions



Source: ERO

**Table 9** Average preliminary prices of thermal energy (including VAT) for end consumers as at 1 January 2018 by Region

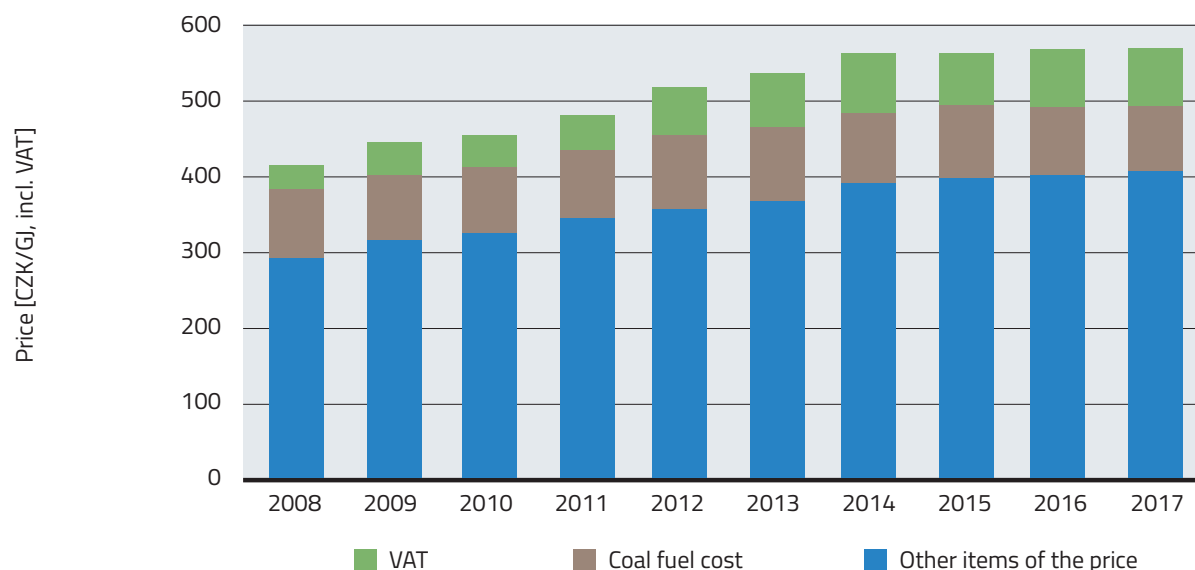
Region	1 January 2018		
	Average preliminary price of thermal energy	Coal percentage	Percentage of other fuels
	[CZK/GJ]	[%]	[%]
Pardubický	506.30	70.86	29.14
Vysočina	513.70	6.33	93.67
Královéhradecký	519.65	65.39	34.61
Plzeňský	529.58	42.20	57.80
Moravskoslezský	536.18	67.50	32.50
Olomoucký	540.49	54.31	45.69
Ústecký	567.32	75.99	24.01
Středočeský	568.47	52.38	47.62
Zlínský	571.22	48.44	51.56
Karlovarský	587.09	61.15	38.85
Liberecký	599.84	4.28	95.72
Jihočeský	603.86	63.24	36.76
Jihomoravský	605.86	0.96	99.04
Prague	633.46	45.82	54.18
<b>National average</b>	<b>568.63</b>	<b>52.19</b>	<b>47.81</b>

Source: ERO

The following Charts 16 and 17 show the structure of the average resulting price of thermal energy for end consumers for the period 2008–2017, clearly indicating the impact of the VAT, fuel costs (they are based on adjusting the fuel costs at the generating plant by thermal losses in the heat distribution installations), and other items on thermal energy prices. The unit fixed costs in thermal energy prices are also influenced by the gradual decline in heat supply, which was approximately 7.3% for the period 2008–2017. Inflation also influences thermal energy prices.

The depicted structure of thermal energy prices also indicates considerable differences between heat produced from coal and heat produced from other fuels: in 2017 fuel costs accounted for only 16% and other items for approximately 71% of the total price of thermal energy produced from coal, while fuel costs accounted for up to 45.5% and other items for approximately 41.5% of the price of thermal energy produced from other fuels; the balance of 13% of the price is VAT for all types of fuel.

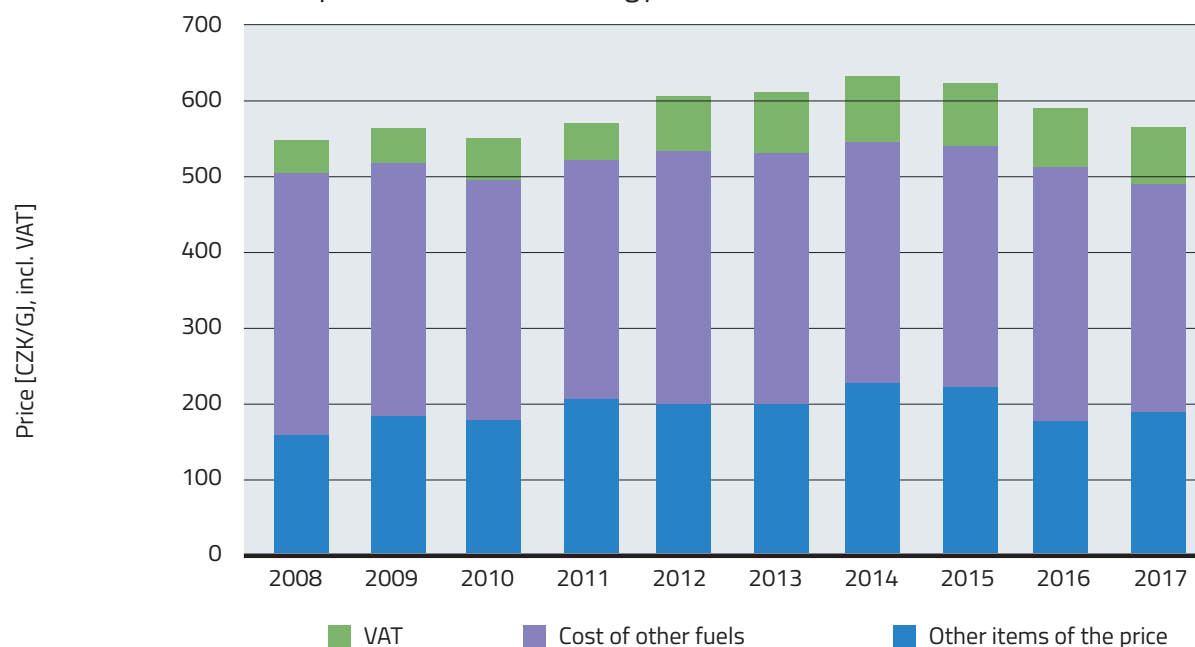
**Chart 16** Average resulting thermal energy prices for end consumers showing the basic breakdown of prices for coal-produced thermal energy between 2008 and 2017



VAT	34.09	36.15	41.02	43.24	62.84	69.49	75.20	75.23	73.44	73.60
Coal fuel cost	88.82	87.35	90.11	90.07	96.13	100.10	96.50	95.70	92.73	88.78
Other items of the price	289.99	314.29	320.11	342.28	352.75	363.17	386.81	392.52	396.87	401.85

Source: ERO

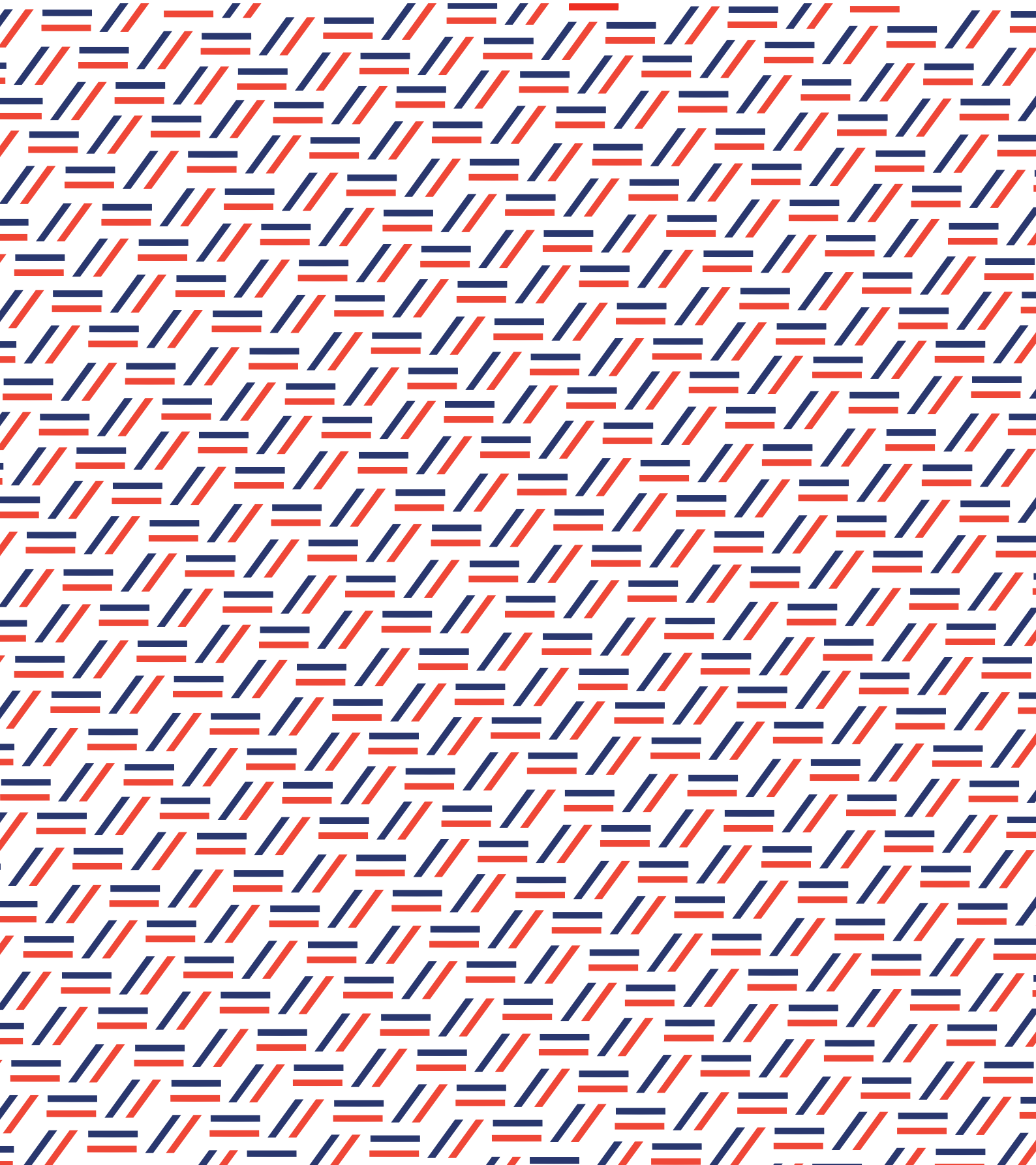
**Chart 17** Average resulting thermal energy prices for end consumers showing the basic breakdown of prices for thermal energy from other fuels between 2008 and 2017



VAT	44.82	46.41	49.16	51.20	73.75	79.27	81.49	80.46	76.39	72.79
Cost of other fuels	305.26	291.27	276.45	260.52	281.10	286.59	261.64	263.15	292.88	253.72
Other items of the price	192.77	224.39	215.11	251.46	245.69	241.89	281.62	273.25	216.37	231.57

Source: ERO

# 6 / Supported energy sources



## 6 / Supported energy sources

Under the Energy Act, in 2018 the Office issued ERO Price Decision 3/2018 of 25 September 2018 laying down aid for supported energy sources for 2019. Effective from 1 January 2019, this price decision laid down the amount of aid for newly commissioned generating plants for which the law had not stopped aid, and adjusted the amount of aid for the existing supported electricity and heat generating plants. With regard to the still pending notification process, the price decision did not lay down the amount of aid for secondary energy sources in generating plants commissioned after 1 January 2013. Because of the rising market prices of electricity, green premiums could be reduced year-on-year for almost all supported energy sources, which resulted in a positive impact on the costs incurred in aid for them.

Subsequently on 18 December 2018 the Office issued a second price decision, no. 9/2018, which amended ERO Price Decision 3/2018 and with effect from 1 January 2019 increased aid for combined heat and power generation. ERO Price Decision 3/2018 did not fully reflect the dynamic developments on energy markets, which were experiencing a significant increase in uncontrollable costs of combined heat and power generation due to the rising prices of fuels and greenhouse gas emission allowances while this increase was not fully offset by the development of revenues derived from electricity prices on wholesale markets. Since producers of electricity and heat from installations included in the ETS are obliged to buy emission allowances under the law and conclusively bear such costs, these had to be taken into account when determining the amount of aid, similarly as, for example, the market price of electricity. The increased aid also helped to maintain high-efficiency combined heat and power generation competitive, and ultimately to arrest the growth in heat prices for end consumers.

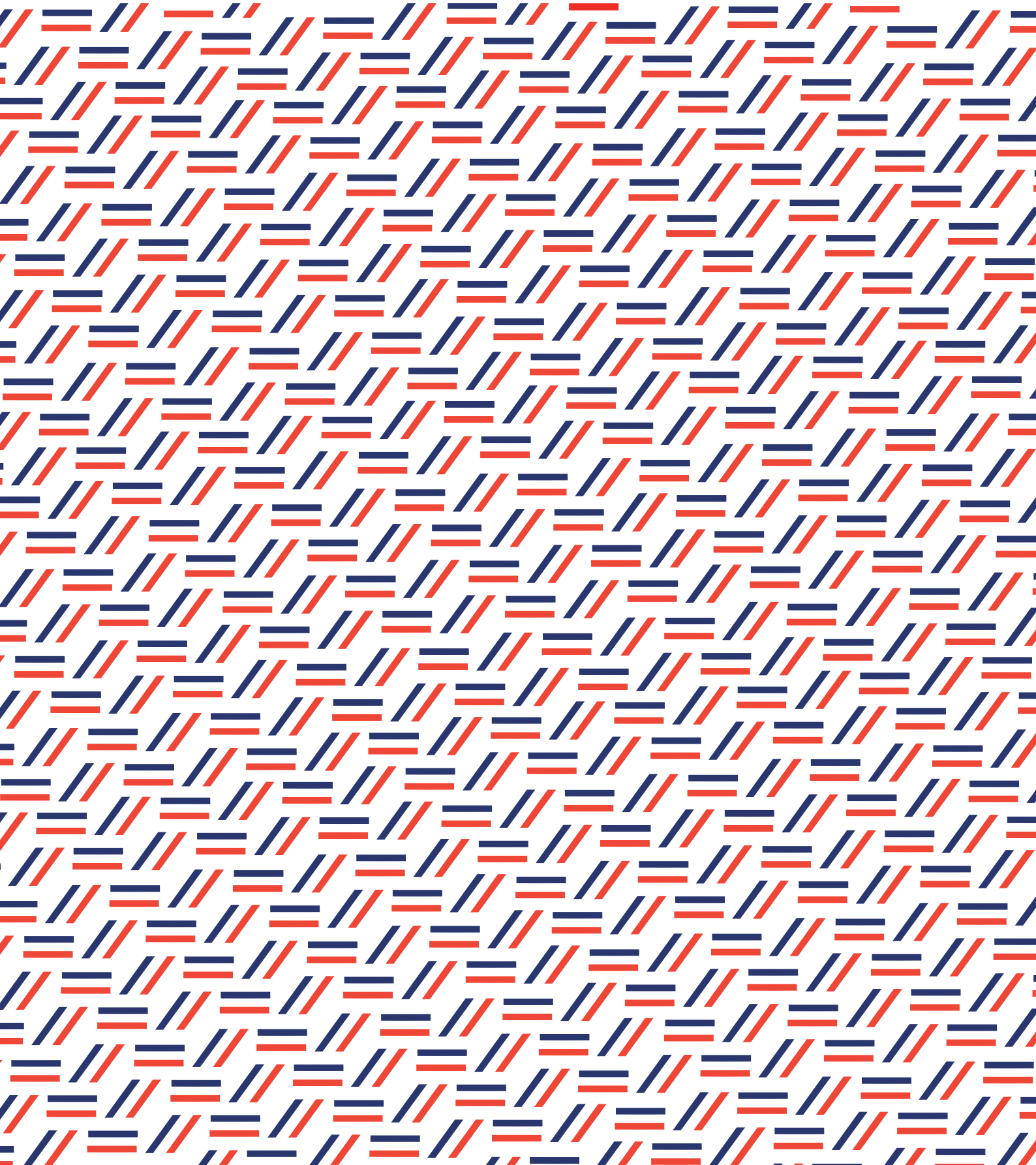
In 2018, the Office participated in the inter-departmental working group for the forthcoming amendment to the law on supported energy sources, which had been set up by the Ministry of Industry and Trade in 2017. During the inter-departmental commenting procedure on the bill to amend the law the Office raised 61 material comments on the bill. In the inter-departmental working group the Office also contributed to the drafting of the National Energy and Climate Plan of the Czech Republic.

As regards Commission notification processes, in 2018 the Office participated in the notification and pre-notification procedures on the last missing scheme of operating aid for secondary energy sources in plants commissioned since 2013.

In 2018, the Office issued and posted on its website four explanatory statements under Section 17e(1)(d) of the Energy Act: ERO Explanatory Statement 1/2018 on the commissioning of renewable electricity generating installations in 2010, ERO Explanatory Statement 4/2018 on reporting electricity from renewable sources, ERO Explanatory Statement 5/2018 on the procedure to apply point 3.7 of ERO Price Decision 2/2017 of 29 March 2017 amending ERO Price Decision 5/2016 laying down aid for supported energy sources, as amended in ERO Price Decisions 9/2016 and 11/2016, and ERO Explanatory Statement 10/2015 on maintaining the entitlement to aid in cases of repair or maintenance of electricity generating installations under Section 12(1)(b) of Act No 165/2012.



# 7 / Consumer protection



# 7 / Consumer protection

## 7.1 Legal protection of consumers and international activities

In the first half of 2018 the Energy Regulatory Office, MIT and CTIA publicly stated that they would intensify their activities in and follow a joint approach to consumer protection. In cooperation with CTIA, the issue of disputes over the sale of LED bulbs in connection with energy supplier switching arranged outside premises customary for business was resolved. Based on coordinated procedure a situation has been achieved in the electricity and gas markets where suppliers are no longer offering a contract for the purchase of LED bulbs in connection with the conclusion of agreements on bundled electricity/gas supply services. In 2018, the ERO and CTIA also cooperated in addressing consumers' complaints about the activities of entities carrying on business outside the scope of the Energy Act; they offer consumers that they will intermediate electricity or gas supply contracts for them in tendering procedures or auctions. Further to the Office's suggestions, CTIA conducted a review action focused on such entities' practices and found many of them infringing the law on consumer protection. The outcome of the ERO's and CTIA's coordinated procedure is a situation where many suppliers are refraining from using this method of customer acquisition or at least do not insist on consumers' strict performance of the obligations arising from contracts so concluded, rather seeking to settle them amicably. As part of prevention, the Office also organised a number of lectures on consumer protection and consumers' defence against unfair practices, directing its educational activities at primarily elderly citizens as a major group of particularly vulnerable consumers.

### 7.1.1 Ten Commandments of Defence against Energy 'Scumbags'

With a view to improving information for consumers, giving them an opportunity to find their way around the energy market more easily and reducing the risks that consumers, being the weaker party in contractual relationships entered into with suppliers, are facing precisely due to the information deficit, the Office posted on its website and subsequently ensured broad-ranging media coverage for its *Ten Commandments of Defence against Energy 'Scumbags'*.

### 7.1.2 Addressing submissions

In 2018, the Office received a total of 13,489 submissions from consumers, of which 9,448 over the telephone, 3,837 in writing, and 204 in person. Consumers resorted to the Office mainly with questions and requests for help, which concerned the justifiability of suppliers' claims for contract penalties, the conditions for terminating or withdrawing from electricity/gas supply agreements, and the identification of particular traders and supply history at supply points. Submissions also concerned the accuracy and timeliness

of consumption billing and other conditions of electricity/gas supply, including the pricing conditions, peddling, the facilitation of supplier switching by intermediary and auction companies, the supplier switching procedure, and the circumstances of the emergence and implications of illegal off-take.

### **7.1.3 Consumer protection – international relations**

In respect of consumer protection and the retail market, in 2018 the Office was intensively involved in the activities of CEER, which pursues the objective of helping the most populated consumer segment to find their way around as they may need in the liberalised market, primarily as regards energy prices and the commodity supply quality.

On 30 November 2016, the European Commission presented a package of legislative proposals with broad-ranging impacts on the working of the European electricity market, as part of the winter package that addresses consumer issues and retail markets primarily through a recast of Directive 2009/72/EC concerning common rules for the internal market in electricity; thereupon, 2018 was marked by preparations for trilogues and finalising the relevant articles of the directive. The Office also closely cooperated with MIT, MFA and the Office of the Government, and also with other European regulators, on issues concerning consumer protection.

The initiative focused on consumers and retail, the PEER (Partnership for the Enforcement of Energy Rights) initiative, continued under CEER's auspices. The idea was to boost communication, to exchange information and to reinforce collaboration between the various parties in order to identify and address critical issues related to the rights of energy consumers and their protection, in particular as regards 'bundled products'.

Cooperation with ACER, namely in the preparation of the Market Monitoring Report, is another systematic activity.

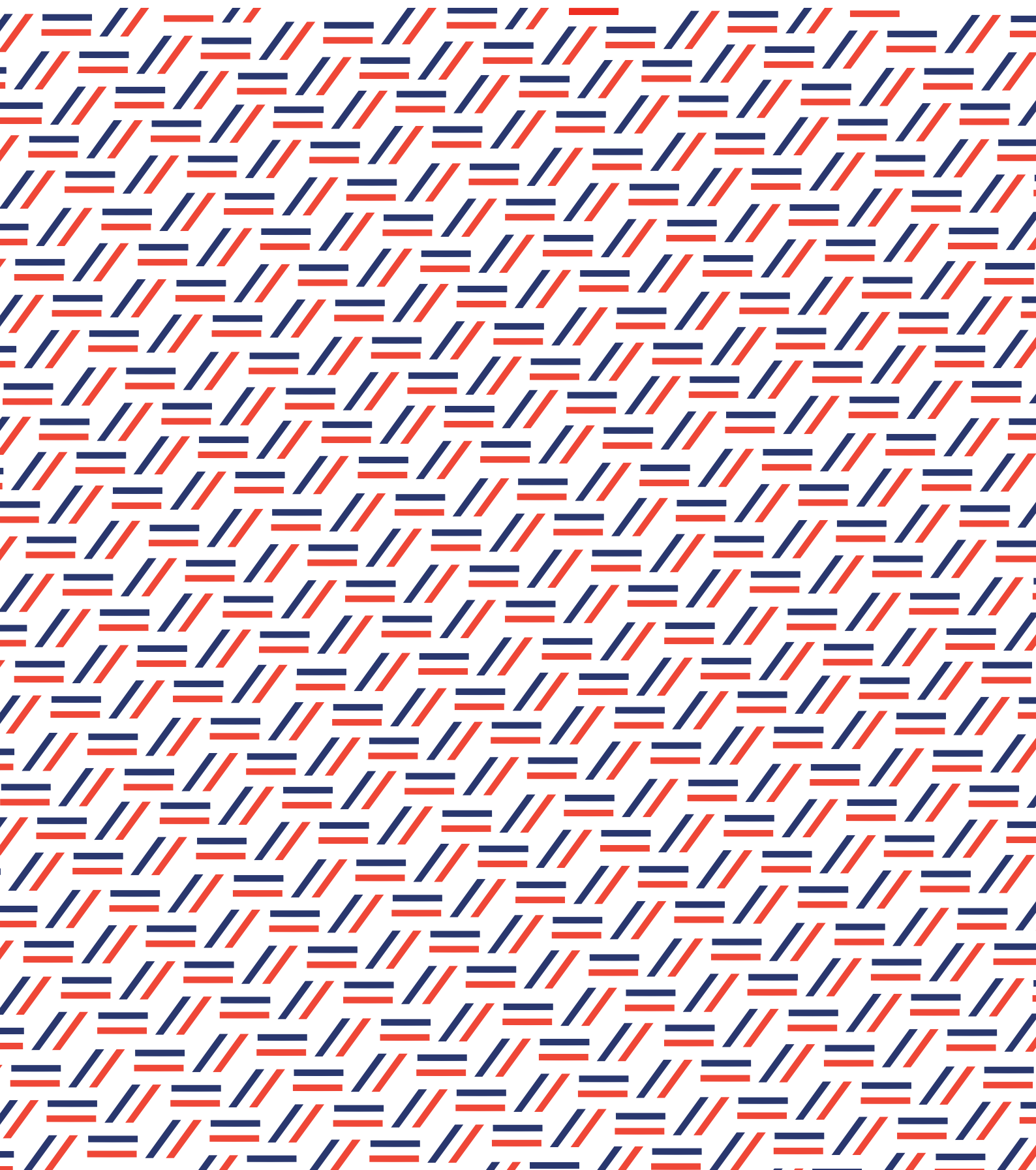
## **7.2 Dispute resolution**

Under Section 20e(c) of Act No 634/1992 on consumer protection, as amended, the Energy Regulatory Office is one of ADR (Alternative Dispute Resolution) bodies. Its Adversarial and Approval Proceedings Department decided on motions filed by customers in the position as consumers under Section 17(7)(e) of the Energy Act:

- Under Section 17(7)(e)(1), the Office decides in disputes between customers and licence holders over the performance of obligations under agreements on electricity, gas or heat supply or distribution;
- Under Section 17(7)(e)(2), the Office declares whether the legal relationship between the customer and licence holder, the business of which is electricity, gas or heat supply or distribution, has come into existence, continues to exist, or has ceased to exist, and when this happened.

In 2018, proceedings were conducted on 140 motions, of which 94 were concluded with finality in 2018.

## 8 / Licences



## 8 / Licences

### 8.1 Development

As regards licensing, 2018 was marked by a stable situation in the development of the number of active licences compared with 2016 and 2017. The Office received a total of 1,899 applications for licence grant/amendment/revocation. Table 10 lists the number of active licences in 2010–2018.

**Table 10** Numbers of valid licences between 2010 and 2018 by object of business

Licence	2010	2011	2012	2013	2014	2015	2016	2017	2018
Electricity generation	13,301	13,530	20,843	26,021	26,158	26,314	26,357	26,282	26,321
Electricity distribution	300	307	315	319	299	294	254	254	254
Electricity transmission	1	1	1	1	1	1	1	1	1
Electricity trade	321	353	360	389	392	381	380	388	403
Foreign authorisations for electricity trade	-	1	4	12	17	26	27	29	33
Market operator's services	1	1	1	1	1	1	1	1	1
Gas production	15	15	15	15	14	13	14	13	12
Gas distribution	87	86	83	78	77	72	67	68	69
Gas transmission	1	1	1	1	1	1	1	1	1
Gas trade	122	143	172	196	201	213	213	227	236
Foreign authorisations for gas trade	-	1	2	9	13	24	29	27	27
Gas storage	4	4	4	4	4	4	5	4	4
Thermal energy generation	627	619	627	656	672	669	673	663	663
Thermal energy distribution	675	663	653	653	663	654	658	652	650
<b>Total</b>	<b>15,452</b>	<b>15,720</b>	<b>23,075</b>	<b>28,367</b>	<b>28,513</b>	<b>28,664</b>	<b>28,677</b>	<b>28,610</b>	<b>28,675</b>

In 2018, the Office issued 512 new decisions to grant licences in all energy industries. In addition, 1,004 sets of administrative proceedings on licence amendments were conducted in relation to changes of responsible representatives, changes in installed capacity, and changed numbers of operations.

The number of applications related to mergers or division of enterprises and transfer of installations to new entities was stable in 2018. Installations were also frequently transferred to a different licence holder (in particular photovoltaic plants (PHV)), mainly between family members and natural and juristic persons.

There were 383 sets of administrative proceedings on licence revocation, i.e. fewer than in 2017. Licences were most often revoked at the licence holder's request, mainly in connection with the above transfers of energy installations from one licence to another. Table 11 lists the numbers of administrative proceedings.

**Table 11** Numbers of licence proceedings between 2010 and 2018 (by purpose)

Licensing	2010	2011	2012	2013	2014	2015	2016	2017	2018
New licences	6,997	560	8,051	5,698	625	615	513	519	512
Licence changes	1,708	1,029	2,032	1,809	1,192	1,032	1,122	1,167	1,004
Revoked licences	264	264	264	354	450	376	487	501	383
<b>Total</b>	8,969	1,853	10,347	7,861	2,267	2,023	2,122	2,187	1,899

A general view of the electricity generating installations by SES type clearly shows an almost stable number of energy installations in 2018 compared with 2017. In terms of installed capacity, it declined, despite the increase in the total number of PHV plants. The reason is the revocation of licences for powerful PHV plants by courts. Table 12 shows the number of operations and installed capacity.

**Table 12** Number of electricity generating installations and installed capacities between 2011 and 2018 by type of renewable energy used

Operations		2012	2013	2014	2015	2016	2017	2018
Up to 10 MW hydro	Number	1,451	1,500	1,589	1,615	1,625	1,603	1,596
	Capacity [MW]	148.08	154.23	342.67	348.18	349.23	351.11	350.66
Wind	Number	105	112	124	128	125	119	122
	Capacity [MW]	261.98	269.36	283.47	284.98	284.91	310.95	319.75
Solar	Number	21,925	27,956	28,127	28,276	28,351	28,348	28,412
	Capacity [MW]	2,072.07	2,125.91	2,126.06	2,122.90	2,127.16	2,130.39	2,119.47
With a biogas share	Number	415	430	431	428	423	420	420
	Capacity [MW]	306.04	333.68	335.51	334.79	333.52	332.20	332.95
Landfill gas	Number	66	70	70	69	68	69	69
	Capacity [MW]	57.20	58.67	58.67	58.65	58.46	58.65	58.65
With a biomass share	Number	74	94	93	93	92	91	89
	Capacity [MW]	1,783.11	2,939.33	2,990.42	2,988.01	2,987.62	2,988.13	2,972.99

The ERO website offers a Licence Search function, which is updated on a regular basis. It contains data on holders of licences for business in energy industries awarded by the Energy Regulatory Office and on the various operations.

## 8.2 Recognition of professional qualifications

In 2018, the Office received 29 applications for the recognition of professional qualifications within the meaning of Act No 18/2004 on the recognition of professional qualifications, as amended. It decided to recognise professional qualifications in 25 cases. In other cases, it decided to discontinue the administrative proceedings.

## 8.3 The Energy Regulatory Fund

As at 1 January 2018, the opening balance in the Fund stood at CZK 45,444,392. In 2018, no compensation was paid from the Fund's account for a conclusive loss from activity over and above a licence. No income or expenditure was recorded in this account of the Fund in 2018.

The balance in the Fund's separate current account stood at CZK 45,444,392 as at 31 December 2018.

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.

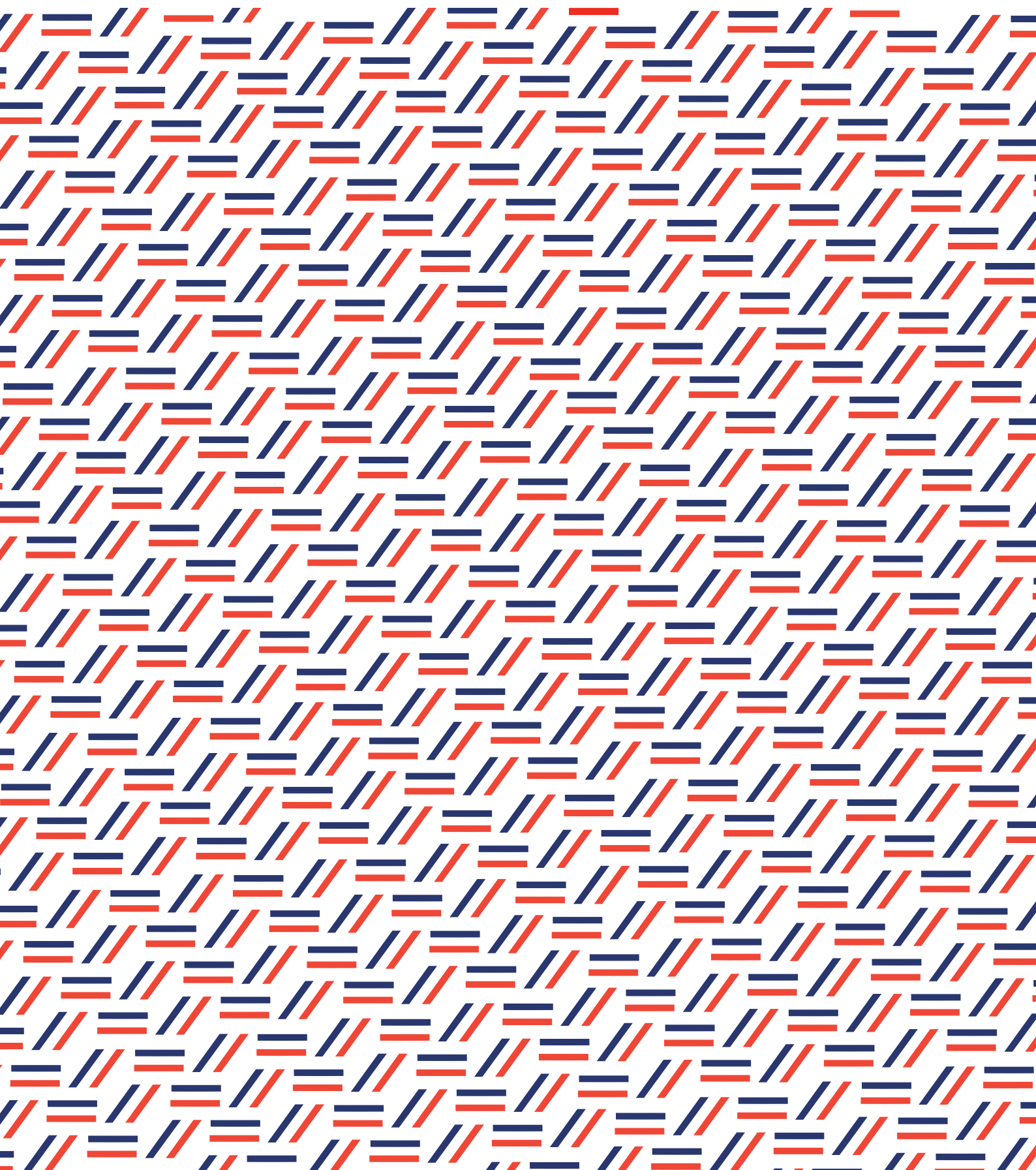
According to the auditor's report of 27 February 2019, delivered by A-CONT, spol. s r.o., Jihlava, and represented by Mr Jiří Makaj, company director, the books of the Fund were kept in accordance with the applicable legislation and the Fund was truly and fairly reflected in the ERO's financial statements for the accounting period 2018. A copy of the auditor's report of 27 February 2019 forms Annex 1 hereto.

#### **8.4 Proceedings on administrative fees**

In proceedings on licence grant, amendment or revocation, the Office collected fees amounting to CZK 8,288,625. Some entities applied for the refund of administrative fees and CZK 123,000 was refunded from the ERO's account. The net amount collected is CZK 8,165,625.



## 9 / Legislative and administrative activities



# 9 / Legislative and administrative activities

## 9.1 Changes to laws and regulations within the ERO's competences

In 2018, the Office issued the following implementing regulations [statutory instruments] in relation to the Energy Act:

**Public notice no. 154/2018 amending no. 404/2016 on the particulars and structure of the returns required for preparing reports on the operation of systems in energy industries, including the dates, scope, and rules for preparing the returns (the 'statistics public notice')**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(m) of the Energy Act, as amended by Act No 131/2015, under which the ERO shall issue a public notice laying down the required particulars and structure of the returns required for preparing reports on the operation of systems in energy industries, including the dates, scope, and rules for preparing the returns. This authorisation is enacted by Section 11(1)(n) of the Energy Act, which requires holders of licences for business in energy industries to provide the ERO with information and documents necessary for preparing the quarterly and yearly reports on the operation of systems in energy industries. The ERO's obligation to publish yearly and quarterly reports on the operation of systems in energy industries is laid down in Section 17(7)(m) of the Energy Act.

The amendment to this legislation consists of including the data on thermal energy distribution, as received from holders of licences for thermal energy distribution, in the scope of the data reported for the purposes of issuing reports on heat supply systems in the Czech Republic. Before the amendment, producers of thermal energy only and producers who also operated the distribution installations were required to fill in the statistical reports in the heat supply industry. Thus, the amendment has rendered the statistical data in the heat supply industry more accurate. The yearly and quarterly reports on the operation of heat supply systems will contain complete information on heat supply systems in the Czech Republic, ranging from thermal energy production to the supply thereof to final customers. The Ministry of Industry and Trade will then accept the information on heat supply systems from the ERO and will not require it from thermal energy producers and distributors, which will also help to alleviate the administrative burden on both licence holders and state administration. For reporting data on thermal energy distribution, the entities will use the existing report form for holders of licences for thermal energy production, which will, following the implemented amendment, be used by holders of licences for thermal energy production and/or distribution.

The public notice came into effect on 1 January 2019.

## **Public notice no. 326/2018 amending no. 349/2015 on Gas Market Rules, as amended in no. 416/2016**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(i) of the Energy Act, under which the ERO shall issue public notices on the Gas Market Rules.

Based on the continuous evaluation of the application of the Gas Market Rules in practice and on the development of the gas market the ERO identified the need for modifying the procedures and time limits for access to the transmission system further to the obligation to set up virtual interconnection points, update the transmission system balancing procedures, and modify the rules of access to storage facilities.

This statutory instrument adjusts the legal system to Article 19 point 9 of Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 (Section 2(2)(w) and Section 8a(1)). It also modifies the provisions that implement the obligations arising from Commission Regulation (EU) 2017/459 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013, and from Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks.

The instrument lays down the basic procedures and time limits for concluding contracts for the provision of the gas transmission service, under which the existing contracts will be migrated to virtual interconnection points. It is based on the 'dual model' that allows for the concurrent existence of cross-border points and virtual cross-border points, including the preservation of the existing contracts, which, however, can be migrated from cross-border points to virtual interconnection points under predefined conditions. It also lays down the procedures for congestion management in cases of contractual congestion where cross-border points coexist with virtual cross-border points. The procedures for gas transmission system balancing have been clarified and updated with a view to the rules for the TSO's balancing actions reflecting the TSO's needs related to system control and operation. The amendment also extends the opportunities for accessing storage facilities, eliminates some of the limits restricting storage capacity booking, and defines firm storage capacity and interruptible storage capacity in order to broaden the options for offering storage capacity products.

The public notice came into effect on 1 January 2019, except for certain provisions that came into effect on 1 February 2019 or 1 July 2019.

## **9.2 Amendments to laws, information**

### **Forthcoming amendment to the Energy Act and the law on supported energy sources**

In connection with Government Resolution 851 of 20 October 2014, instructing the Minister of Industry and Trade to propose an amendment to the Energy Act laying down the basic rules for regulation in the energy industries and for administrative penalties in cases of breaches of obligations arising from the Energy Act, work on the drafting of this amendment continued in 2018. The Ministry of Industry and Trade set up a working group and its meetings were attended by representatives of the ERO and professional associations of the businesses operating in the electricity, gas and heat supply industries. The scope of the amendment was extended to include issues related to the European Commission's reservations raised

under the EU Pilot scheme under no. 7809/15/ENER regarding the implementation of the third energy package. It is also being proposed to enhance consumer protection, thereby countering certain electricity and gas traders' unfair practices and incorrect procedures that had begun appearing in practice.

The purpose of the amendment to Act No 165/2012 on supported energy sources and amending certain laws, as amended, which the Ministry of Industry and Trade is drafting, is, in particular, to ensure the implementation of the obligations arising from notified decisions, i.e. the European Commission's decisions whereby it declares certain schemes of aid for energy generated using renewable energy sources and combined heat and power generation to be compatible with the EU internal market. One of the key commitments of the Czech authorities is the introduction of a monitoring mechanism, with a review carried out after ten years since the start of the operation of the plants, in order to verify that no overcompensation has taken place under the aid schemes that started before the relevant Commission decision authorising the aid was notified. These reviews of the proportionality of aid should take place via sector inquiries and via individual control of overcompensation related to producers. For cases where such inquiry and controls result in a conclusion that aid has exceeded or that there is a risk of overcompensation for the remaining duration of the payments (i.e. exceed the amount of aid authorised by the European Commission as proportionate), the bill lays down the methods for ensuring that aid is proportionate, either by the voluntary adoption by the producer of a measure envisaged in the law, or by an administrative decision. The other extensive modification is related to the Czech Republic's obligation for the use of renewable energy sources under the winter energy package, *Clean Energy for All Europeans*. In this respect the amendment lays down a new method for granting aid in the form of auctions, and introduces measures for maintaining the existing plants in operation and other measures to provide for the new targets in renewable energy sources.

The bill that amends the law on supported energy sources, the Energy Act, and Act No 131/2015 as amended by Act No 222/2016, was sent to the inter-departmental commenting procedure; it took place from 9 November 2018 to 7 December 2018. During the inter-departmental commenting procedure the Office raised a number of both material and recommending comments on the bill. The comments had not been settled by the end of 2018. The legislative development of the bill is therefore likely to continue and be finalised in 2019.

## **9.3 Administrative proceedings**

### **9.3.1 Administrative proceedings conducted and completed in 2018**

#### **9.3.1.1 Adversarial proceedings**

The Office conducted adversarial proceedings within the meaning of Section 141 of Act No 500/2004, Rules of Administrative Procedure, as amended, within its competences in the electricity, gas and heat supply industries.

In the electricity industry, in 2018 the Office conducted 73 sets of adversarial proceedings, out of which it concluded 29 sets with finality. As in the preceding years the Office was approached by a number of licence holders and customers with motions to bring adversarial

administrative proceedings in this energy industry. In this respect, conducting adversarial proceedings in the electricity industry continues to be the largest decision-making domain. These disputes are becoming increasingly complex, since cases that are similar in terms of typology are fewer while the number of cases complicated as to the facts and as to the law is rising. The motions for the Office to adjudicate disputes concerned those under Section 52 of Act No 165/2012, as amended, related to aid to renewable electricity generation (primarily from photovoltaic plants) and electricity from high-efficiency CHP.

In the gas industry, in 2018 the Office conducted six sets of administrative proceedings, of which it concluded four with finality. In this energy industry the smallest number of disputes has been addressed for a long time.

In the heat supply industry, in 2018 the Office conducted eight sets of administrative proceedings, of which it concluded six with finality. Typical of the heat supply industry are disputes over the conclusion of contracts for thermal energy supply or the essentials of such contracts, such as the thermal energy price under Section 17(7)(a) of the Energy Act.

### **9.3.1.2 Approval proceedings**

Within its statutory competence under Section 17(7)(g) and (i) 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 transmission system, storage system and distribution system operators in the gas industry, and ten-year plans for the development of the electricity and gas transmission systems) the Office conducted 58 sets of administrative proceedings, out of which it concluded 43 sets with finality in 2018.

### **9.3.1.3 Administrative proceedings under Commission Regulations (EU)**

In 2018 the Office conducted, within its statutory competences under Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation, Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration, Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing, Commission Regulation (EU) 2016/631 of 14 April 2016 establishing a network code on requirements for grid connection of generators, Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation, Commission Regulation (EU) 2016/1388 of 17 August 2016 establishing a network code on demand connection, and Commission Regulation (EU) 2016/1447 of 26 August 2016 establishing a network code on requirements for grid connection of high voltage direct current systems and direct current-connected power park modules, 152 sets of administrative proceedings, concluding 49 of them with finality.

**Table 13** Administrative proceedings conducted and concluded with finality, by agenda

Type of proceedings	Conducted proceedings	Concluded proceedings
<b>Adversarial proceedings</b>	<b>87</b>	<b>39</b>
- Electricity industry	73	29
- Gas industry	6	4
- Heat supply industry	8	6
<b>Approval proceedings</b>	<b>58</b>	<b>43</b>
<b>Administrative proceedings under Commission (EU) Regulation</b>	<b>152</b>	<b>49</b>
<b>Administrative proceedings conducted in 2018</b>	<b>297</b>	<b>131</b>

Under its statutory competence under Article 62(2)(d) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing, in 2018 the Office conducted one *ex officio* set of proceedings, which became final in 2018.

Under its statutory competence under Section 17(6) to (9) of Act No 194/2017 on measures to reduce the costs of rolling out high-speed electronic communications networks and amending certain laws, in 2018 the Office dealt with one request for its binding opinion.

### 9.3.2 Sanction proceedings conducted and concluded in 2018

The Sanctions Department is responsible for the ERO's activities in matters of supervision under Section 18(3) of the Energy Act. The Sanction Department's key task is to conduct administrative proceedings and decide on administrative offences under the Energy Act, the Act on Prices, the Consumer Protection Act, and the SES Act at the level of first instance.

In 2018, the Sanctions Department received 630 motions for bringing administrative proceedings. They included those based on the Office's own findings from inspections carried out under the Oversight Rules and those received from outside sources, including, in particular, results of investigations conducted by the Czech Police.

In 2018, the Sanctions Department brought 424 administrative proceedings for suspicion of minor offences and decided not to proceed in 212 cases. These mostly included those received from the Czech Police, where the offender was unknown.

In 2018, the most frequently breached obligations under the Energy Act included, in the electricity industry, those under Section 46(8) and (12), in the gas industry those under Section 68(3), and in the heat supply industry those under Section 11(1)(f). As regards obligations under the Consumer Protection Act, most frequent breaches concerned Section 4, under the Price Act it was Section 6(1)(c), and under the SES Act it was Section 7(5).

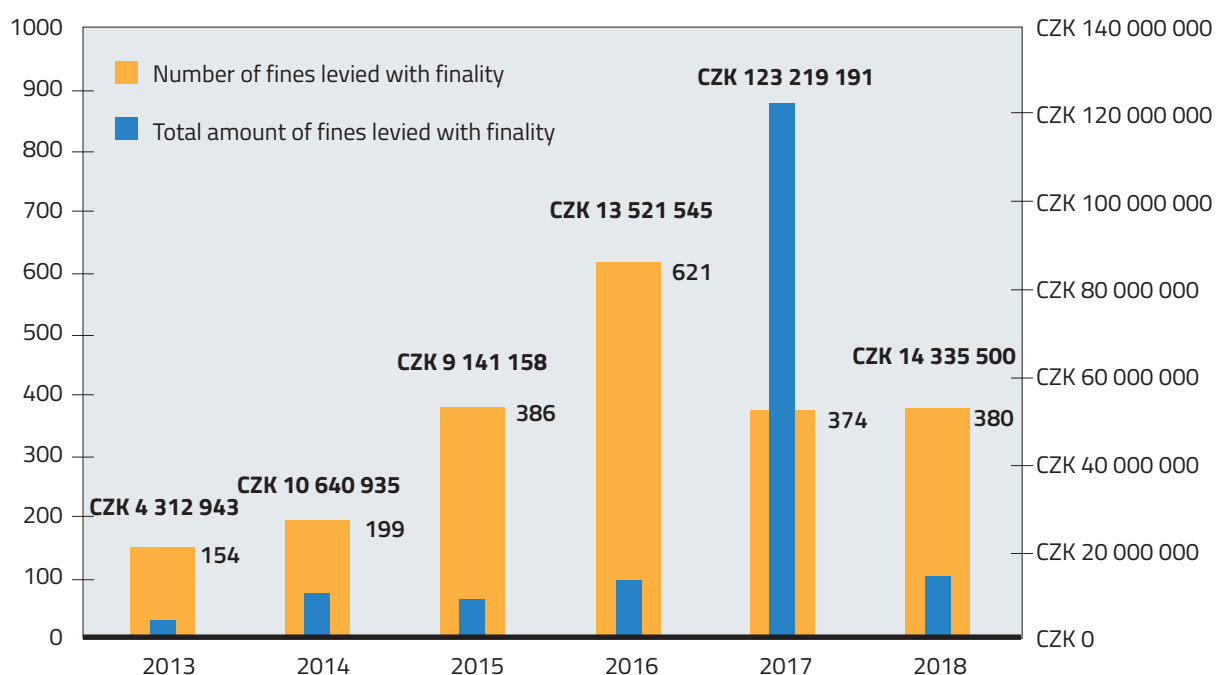
In 2018, the Sanctions Department decided in 455 sets of administrative proceedings with finality, levying fines totalling CZK 14,335,500 on parties to the proceedings in 380 cases with finality.

**Table 14** Overview of sanction proceedings concluded with finality, by agenda

– Under the Energy Act	440
– Under the Price Act	4
– Under the SES Act	5
– Under the Consumer Protection Act	6
<b>Decisions on administrative offences and minor offences in 2018</b>	<b>455</b>

In cases of persisting illegal situations caused by illegal practices of parties to the proceedings the Office also imposes, besides fines in administrative proceedings, remedial measures under Section 18(3)(b) of the Energy Act, consisting in remedying the illegal situation, i.e. penalties of a non-criminal nature aimed at rectification.

**Chart 18** Overview of fines levied with finality between 2013 and 2018



The Sanctions Department is also responsible for compliance with Section 17e(1)(b) of the Energy Act, under which the Office is obliged to publish its final decisions delivered in its supervision in energy industries and supervision in consumer protection in relation to business in the electricity and gas industries.



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

Under Act No 106/1999 on free access to information, as amended, in 2018 the Office issued 23 dismissals of requests, or dismissals of parts thereof, under the procedural provisions of Section 15 of this law, taken together with a particular provision of substantive law, in cases where the Office, as the obliged party, did not grant the request even in part, and therefore was required to deliver a decision on dismissing the request or a part thereof. The Office did as above in the following areas of requests lodged by the applicants for information:

Oversight: 3

Licensing: 1

Legislative and administrative area: 5

Supported energy sources: 4

Regulation: 5

Other: 5

Under Act No 106/1999, as amended, the Office issued its *Annual Report on Information Provision Activities*, see Appendix 2.

### **9.3.4 Remonstrance proceedings in 2018**

The authority to decide on remonstrance [administrative appeal] as a remedy against decisions delivered by the Office in first instance under Section 152 of Act No 500/2004, Rules of Administrative Procedure, as amended, is vested in the ERO Board, which decides on administrative appeals on the basis of recommendations provided by the remonstrance commissions set up under Section 152(3) of the Rules of Administrative Procedure. The Office has currently three remonstrance commissions: one for SES, one for energy infrastructure and trade, and one for consumer protection.

The ERO Board's remonstrance commissions examined 141 appeals in 2018. On the basis of these considerations decisions on 90 of them were delivered. Decisions on 51 appeals that the remonstrance commissions examined in 2018 had not been made by the end of 2018. In 2018, the ERO Board also decided on 35 appeals that the remonstrance commission had examined in 2017; no decision will be made on one appeal considered in 2017, since an administrative court has decided. The ERO Board issued 125 decisions on appeals in 2018.

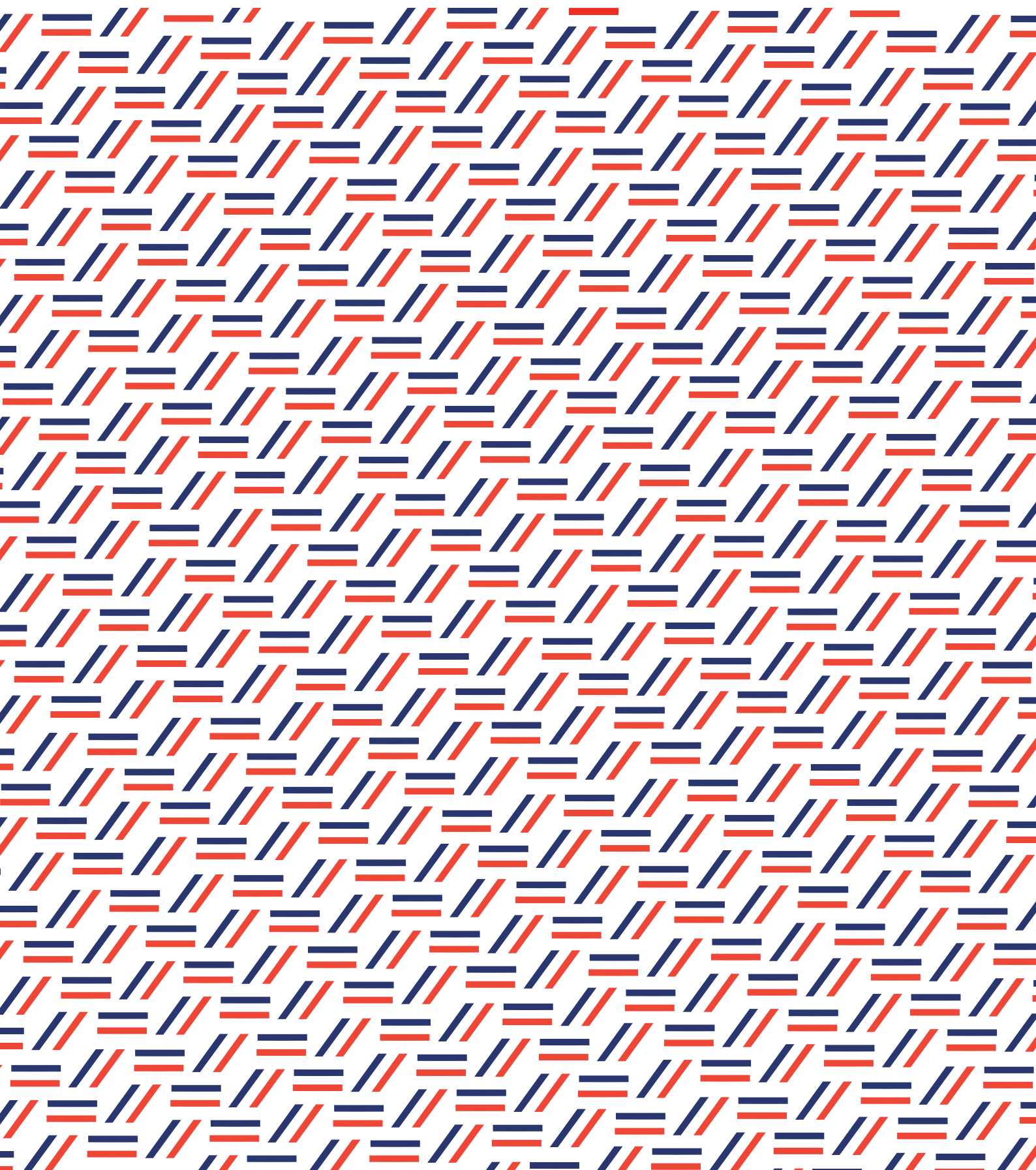
The remonstrance commissions also examined five motions for review proceedings.



**Table 15** Overview of appeals decided in 2018, by agenda

<b>Appeals against decisions in adversarial proceedings</b>	<b>61</b>
– Electricity industry	28
– Gas industry	5
– Heat supply industry	6
– Supported energy sources	22
<b>Appeals against decisions in approval proceedings</b>	<b>1</b>
<b>Appeals against decisions on administrative offences</b>	<b>49</b>
– Under the Energy Act	28
– Under the Act on Prices	13
– Under the Act on Supported Energy Sources	0
– Under the Consumer Protection Act	8
<b>Appeals in cases of requests for information</b>	<b>6</b>
<b>Appeals against licensing decisions</b>	<b>8</b>
<b>Decisions on appeals in 2018</b>	<b>125</b>

# 10 / Oversight and supervisory activities



# 10 / Oversight and supervisory activities

## 10.1 Checks and inspections under the Oversight Rules

The ERO carries out supervision in the energy industries within the bounds of its authority under Section 18(1) of the Energy Act, i.e. it checks compliance with the rights and obligations under the Energy Act in the electricity, gas and heat supply industries, with the obligations laid down in the consumer protection law only in the electricity and gas industries, and compliance with pricing regulations in all energy industries, and with obligations under the law on supported energy sources, which use renewable or secondary energy sources for energy generation.

The ERO's oversight activities also include checks of compliance with the conditions set out in Regulations, in particular REMIT, and with the obligations under the Commission's, the Agency's, and the ERO's decisions.

**Table 16** List of identified breaches of obligations supervised in 2018

Completed checks	Energy Act	Consumer protection*	Price checks	SES checks	Total
No breach of the checked provision was found	85	0	0	56	141
A breach of the checked provision was found	298	2	11	6	317
<b>Total</b>	<b>383</b>	<b>2</b>	<b>11</b>	<b>62</b>	<b>458</b>

\*/ Some 18,000 cases were referred directly to administrative proceedings

In 2018, the ERO received 1,212 motions for investigating the conduct of energy suppliers or of persons breaching obligations in the energy sector. Of those, 518 motions concerned potential infringement of the law on consumer protection, where the Office investigated some 20,000 cases and referred almost 18,000 of them directly to administrative proceedings, i.e. proceedings on minor offences.

Under Act No 255/2012 on oversight (Oversight Rules), as amended, in 2018 the ERO completed 458 checks in the electricity, gas and heat supply industries, finding breaches in 69% of the cases.

### **10.1.1 Checks in the electricity and gas industries**

In 2018, the complaints in the electricity and gas industries mainly concerned unfair practices of holders of electricity/gas trade licences, the provision of false information in the process of taking the steps necessary in electricity/gas supplier switching, the traders' failure to bill electricity/gas supply, business carried on without a licence, failure by holders of electricity/gas trade licences to handle complaints about consumption billing or metering, interruption of electricity/gas supply to the supply point, providing for the gas supply security standard, the setting of unreasonable amounts of advance payments, and the allocation of costs of electricity provided by the customer at the supply point. Some of the complaints concerned damage to energy installations and interference with the protective zones of such installations.

In 2018, the Office initiated 264 checks in the electricity and gas industries based on its own findings from market monitoring and also following its evaluation of the suggestions that it received from market participants or from other entities.

In 2018, the Office completed one check of eligible costs at a licensed entity subject to price controls.

Of the 259 checks completed in 2018, a breach of the checked obligation was found in 92% of the cases. In another 47 cases the facts established were referred directly to administrative proceedings without any check; of those, 39 cases involved infringements of the Energy Act and eight cases infringements of the law on consumer protection (concerning some 18,000 consumers overall).

In the electricity and gas industries the Office carried out five analyses of eligible costs at certain licensed entities subject to price controls. The analyses identified cost items that were not justified in terms of their amount, customary nature, or purpose.

### **10.1.2 Checks in the heat supply industry**

In 2018 customers (such as housing cooperatives and 'condominiums') and also end consumers of thermal energy sent the largest number of motions in the heat supply industry. Of the total number of submissions (motions) received, almost 49% concerned thermal energy prices. However, the Office only starts to check compliance with the conditions of business in the heat supply industry and thermal energy prices on the basis of first examining such submissions, when it analyses whether the submissions are realistic and justified.

The Office initiated 95 checks in the heat supply industry in 2018; they focused on compliance with the obligations under the Energy Act and pricing regulations. The checks concerned thermal energy suppliers' compliance with their obligations in supplying customers, metering methods, evaluation and billing of supplied thermal energy, amounts of the advance payments provided, and thermal energy prices and pricing conditions at supply points.

The Office completed 87 checks in the heat supply industry and breaches of pricing regulations were found in all cases of completed price checks. Other findings of regulatory breaches concerned the thermal energy suppliers who did not meter thermal energy supply or metered it but did not bill based on the metered values or failed to provide all information required by an implementing act to the customers in the billing documents.

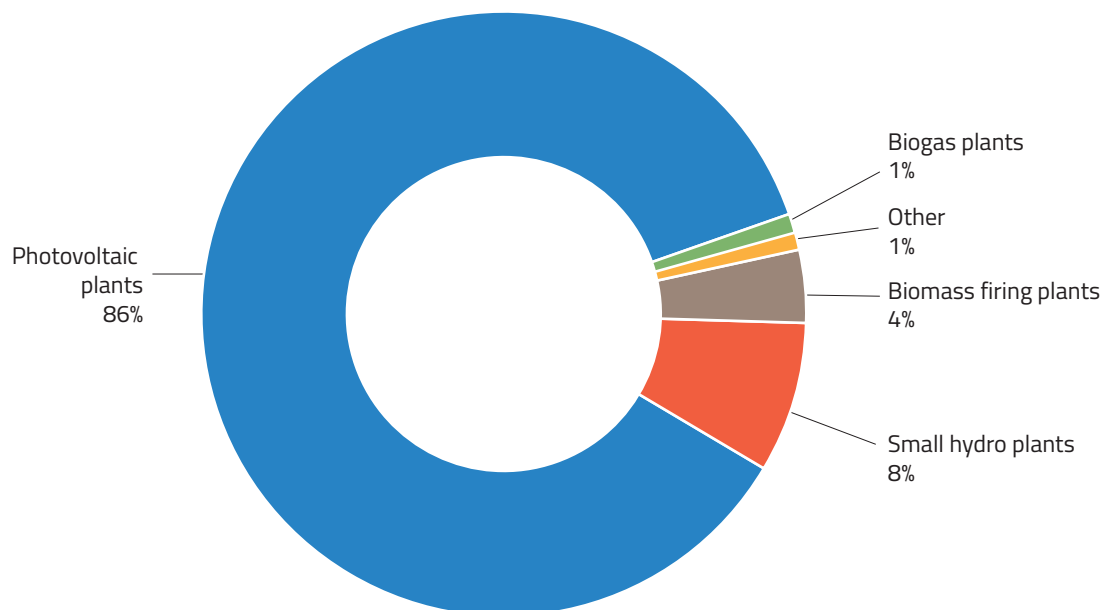
### 10.1.3 Checks in respect of supported energy sources

Oversight related to supported energy sources concerned the holders of licences for business in energy industries who usually received aid for their electrical energy in the form of feed-in tariffs or green premiums. The Office inspected operations such as PHV, small hydroelectric power stations, and cogenerating units in 2018. Some of the checks concerned biomass electricity producers and biomass fuel suppliers.

In 2018, the Office started 116 checks in supported energy sources; they were geared towards compliance with the obligations under the Energy Act and the law on supported energy sources. The Office initiated the checks on its own motion based on its findings from statistical activities, and on motions received from the public or the market operator.

A total of 112 checks were completed in 2018. They usually focused on compliance with the licence holders' obligations associated with operating supported energy sources, the method of energy metering, and the satisfaction of the technical conditions for receiving aid. In 2018 the Office also carried out checks to see whether electricity and fuel producers properly kept and stored documents on the biomass fuel types used.

**Chart 19** Percentages of checks by operation type



## 10.2 REMIT

Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT), as a regulation the purpose of which is to prevent market abuse (prohibition of insider trading and of market manipulation) and also to foster open and fair competition in this market, lays down a number of obligations for market participants. They include market participants' obligation to register with their relevant national regulatory authority for inclusion in the National Register of Market Participants and to keep this information up to date, report transactions, including orders to trade, and fundamental data to ACER, and publicly disclose inside information.

As at 31 December 2018, the National Register of Market Participants held 465 user accounts and 378 market participants.

In connection with reinforced cooperation in the protection and promotion of competition, in 2018 the REMIT Department attended meetings of the Office for the Protection of Competition (OPC) and the ERO. The talks between OPC and the REMIT Department also resulted in a method for communicating information and documents to each other, ranging from the initial indications to sharing documents on particular cases, and without undue delay. Information exchange and use between REMIT and OPC is one of the initiatives through which the ERO and OPC are promoting their cooperation in supervision over wholesale energy markets. The purpose of cooperation related to REMIT breaches is to identify the various types of wholesale energy market participants' conduct, which indicate features of potential market abuse defined in REMIT and which can simultaneously suggest a breach of the law on the protection of competition.

### **10.2.1 Supervision**

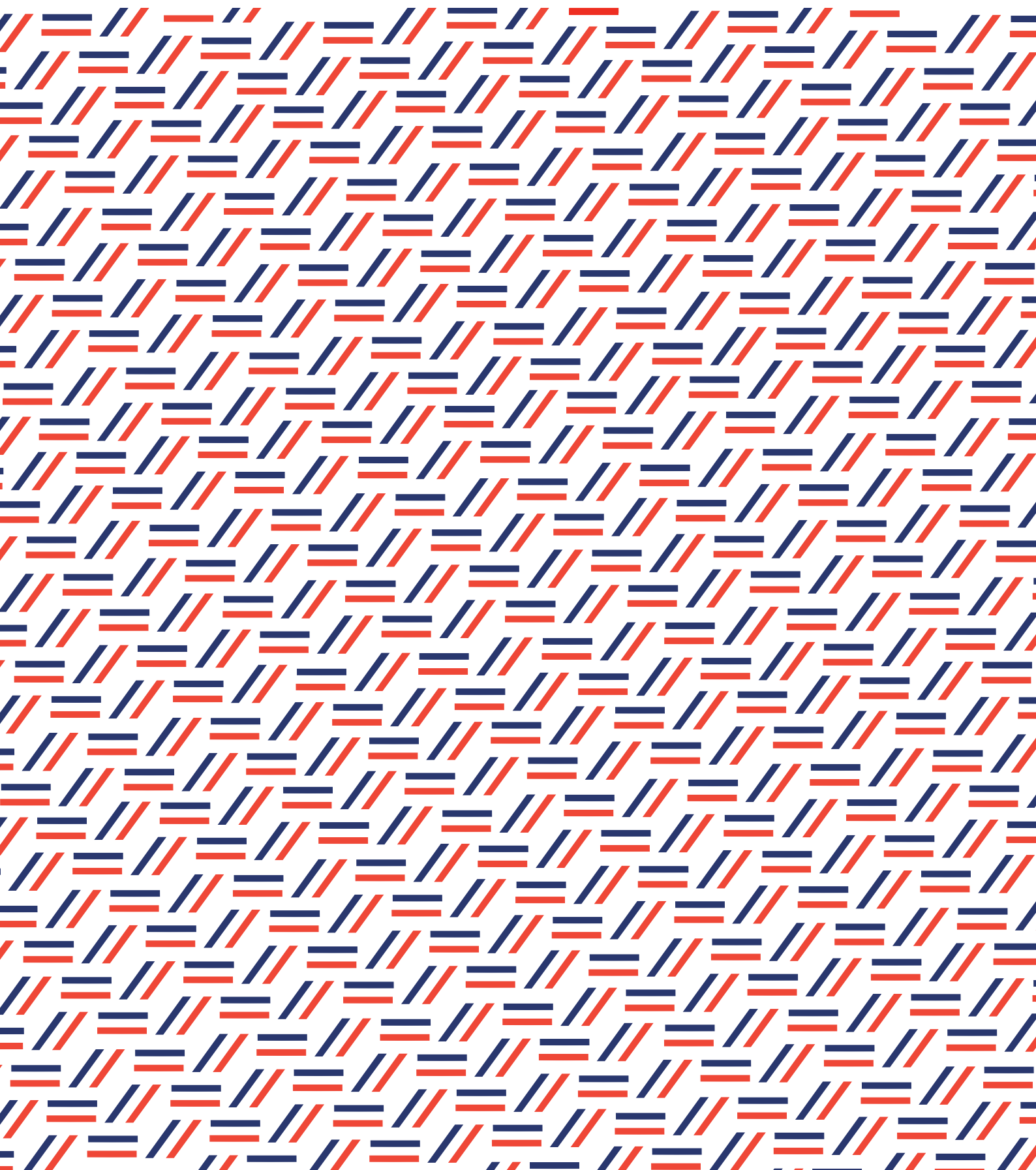
With a view to ensuring compliance with Article 8 REMIT, the Office carried out an investigation of a suspicion of failure to provide records of transactions on wholesale energy markets to ACER.

In some cases the Office found a suspicion of a breach of the reporting obligation. The Office's further supervisory activities in cooperation with ACER helped to identify a suspicion of possible market manipulation under Article 5 REMIT.

### **10.2.2 International cooperation**

As part of the meetings of the international working groups and task forces organised by ACER and CEER, the ERO's representatives contributed to the development of documents supplementing REMIT implementation. With a view to ensuring continuous cooperation in investigating suspicions of REMIT breaches a multilateral Memorandum of Understanding between Austria, Hungary, Croatia, Slovenia, Poland and the Czech Republic was signed. As part of regional cooperation, 2018 saw a meeting in Slovenia, at which representatives of national regulators presented statistics of currently addressed cases and the methodological procedures of such investigations.

# 11 / ERO budget management



# 11 / ERO budget management

## 11.1 The Chapter's budget

The budget for Chapter 349 Energy Regulatory Office was approved as part of Act No 474/2017 on the National Budget of the Czech Republic for 2018 of 19 December 2017.

The originally approved ERO budget of total income of CZK 426,797,000 and total expenditure of CZK 288,190,080 was reduced for 2018, in the area of expenditure, by one budgetary measure within the Finance Ministry's competence, by CZK 10,000,000 (the budget after changes). The final budget was adjusted by six budgetary measures, which constituted an allowed overstepping of the Chapter's expenditure (by including the claims on unused expenses [NNV]) to CZK 344,275,600, and six budgetary measures within the Office's own competence (transfers between budgetary items). Budgeted expenditure was adjusted 13 times.

## 11.2 Revenues to the Chapter

For 2018, *total income* was budgeted at CZK 426,797,000; this amount included *tax revenues* of CZK 292,297,000 and *non-tax revenues* of CZK 134,500,000. Funds under the mandatory target 'total income from the EU budget without the common agricultural policy' were not budgeted.

Actual performance as at 31 December 2018 in terms of total income was CZK 311,324,130, i.e. at 72.94% of the approved budget for total income, and 104.59% compared with 2017 (in absolute terms up by CZK 13,651,550).

In respect of *tax revenues*, as at 31 December 2018 actual performance was CZK 297,124,930, i.e. at 101.65% of the approved budget. These tax revenues were received on the basis of collecting administrative fees for licence grant, amendment and renewal for entities carrying on business in the energy sector and also from the fees paid for the Office's activities.

In respect of *non-tax revenues*, as at 31 December 2018 actual performance was CZK 14,199,210, i.e. at 10.56% of the approved budget. These non-tax revenues were mainly received on the basis of income from levying fines in the energy sector by the Office and other *ad hoc* income. Failure to collect non-tax revenues was primarily due to failure to pay the levied fines upon their finality or the lodging of remedies against levied fines.

### **Administrative fines**

In 2018, 368 fines levied in administrative proceedings were paid, totalling CZK 13,544,490 (w/o the costs of proceedings), i.e. up by 26.02% on 2017 (in absolute terms CZK 2,796,810). The number of fines paid decreased by 3.41% (13 fines) compared with 2017.



In respect of fines levied with finality, as at 31 December 2018 there were 318 outstanding receivables totalling CZK 120,253,360 (w/o costs of proceedings), i.e. up by 0.48% on 2017 (in absolute terms CZK 573,030). The number of unpaid fines increased by 9.28% compared with 2017 (i.e. 27 fines). The total amount of unpaid fines is mainly attributable to the fine levied on Pražská teplárenská a.s. and amounting to CZK 111,287,900. Litigation is pending in this respect. Other unpaid fines total CZK 8,965,460.

### 11.3 Expenditure

For 2018, *total expenditure* was budgeted at CZK 288,190,080 (approved budget), and during 2018 it was adjusted to CZK 278,190,080 (budget after changes). Due to the use of the NNV claims (Section 47 of the law on budgetary rules), totalling CZK 66,085,520, the final budget for the Chapter's *total expenditure* stood at CZK 344,275,600.

The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2018 can be seen in Table 17.

**Table 17** Total amounts actually drawn – total expenditure for 2018

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Performance v final budget [%]	Performance v actual in 2017 [%]
<b>Total expenditure</b>	<b>344,275,600</b>	<b>294,476,530</b>	<b>85.54</b>	<b>102.83</b>
of which:				
capital expenditure drawn	20,845,000	8,171,240	39.20	75.25
current expenditure drawn	323,430,600	286,305,290	88.52	103.91

#### Current and capital expenditure savings

In each case of expenditure, the funds were spent as effectively, economically, and efficiently as possible, at all times with a view to achieving the maximum benefit for the Office and its activities. Thanks to the above, savings were achieved versus the budget of expenditure, amounting to CZK 49,799,070, in particular in the following respects:

- salaries and other personnel expenses,  
incl. insurance premiums and FKSP CZK 14,833,920
- programme financing EDS/SMVS (ISPROFIN) CZK 12,708,140
- 'other current expenditure' (w/o EDS/SMVS, salaries) CZK 22,257,010

Total claims on unused expenses as at 1 January 2019, amounting to CZK 104,749,810, are reported for Chapter 349, of which 'major expenses' (programme financing EDS/SMVS, funds for salaries) amounted to CZK 57,268,660 and 'minor expenses' amounted to CZK 47,481,150.

These financial savings, related to the 2018 fiscal year, mainly included savings of salaries for vacant scheduled positions and other payments for work, including incidentals and FKSP, savings due to expert opinions for the valuation of investments and assets of large energy companies and other expert opinions not being commissioned, and due to the non-exhaustion of funds under contracts for advisory services (legal advice for specialist units and in REMIT), and savings related to energy consumption, education, asset procurement (acquisition of PCs and office furniture) and travel costs.

### **11.3.1 Programme financing**

In the system for financing the programmes of assets, two programmes were included for 2018: programme 149 010 *Development and Replacement of the Technical Facilities of the ERO for 2008–2018* and programme 149 020 *Development and Replacement of the Technical Facilities of the ERO for 2016–2020*. Each programme consists of two sub-programmes. The fundamental objective of the programmes is to ensure the development of adequate facilities for the Office, with the heaviest emphasis on ICT.

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

Since most of the agendas that the Office runs are concentrated in the ERO's Integrated Information System (IIS), most of the funds under the ICT sub-programme were drawn for its development.

The following ICT activities were mainly carried out in 2018:

- Within IIS: modifications were made to the filing service and the electronic mail room and inspections module, the personnel module was implemented, and also electronic document signing by qualified employee certificates.
- A recertification audit under ČSN ISI/IEC 2007:2013 was successfully completed at the Office; the Office continues to be entitled to use the certification logos CQS and IQNet for its information security management system (ISMS).
- Replacements of obsolete ICT hardware/software and upgrades of operating and system programs took place on an ongoing basis, and a solution for network management and security was implemented.

Table 18 shows the results of programme financing management in 2018 by sub-programme. In line with the Office's priorities, the largest amount of funds was allocated to IT (sub-programmes 149 011 and 149 021 – ICT) for 2018.

**Table 18** Results by sub-programme for 2018

	<b>Final budget of expenditure [CZK]</b>	<b>Actual [CZK]</b>	<b>Percentage [%]</b>
<b>Total, programmes 149 010 and 149 020</b>	<b>22,835,520</b>	<b>10,127,390</b>	<b>44.35</b>
of which:			
<b>Sub-programmes 149 011 and 149 021 – ICT</b>	15,755,520	5,834,760	37.03
<b>Sub-programmes 149 012 and 149 022</b>	7,080,000	4,292,630	60.63

### 11.3.2 Expenses on business trips abroad

In 2018, ERO staff members went on 152 business trips abroad, which included participation in the meetings of the ACER and CEER working groups and task forces and of regional initiatives, international meetings, and meetings with representatives of partner regulatory authorities, and in conferences in line with pursuing the ERO’s mission as regards international cooperation and its involvement in the activities of international bodies.

Expenses on business trips abroad totalled CZK 3,773,750 for 2018. In the case of several business trips abroad, savings were achieved in the Chapter’s budgeted expenditure due to refunds of the ERO delegates’ travel costs, primarily those incurred in relation to the meetings of the ACER Board of Regulators, totalling CZK 78,580.

For the payment of the 2018 membership dues (budget item 5532 other non-investment transfers abroad) in CEER, CZK 846,120 (EUR 32,939) was spent.

### 11.3.3 Evaluation of the economy, efficiency, and effectiveness of the Office’s financial management

Section 39(3) of Act No 218/2000 on budgetary rules and amending certain related laws, as amended, requires the chapter administrator continuously to monitor and evaluate the economy, efficiency, and effectiveness of spending under the chapter that it administers. Having the above obligation, the Office therefore regularly evaluates the spending of the funds in its chapter on the basis of regular quarterly reports on financial management and summary annual evaluations.

Under the relevant legislation the Office evaluates the criteria of the economy, efficiency, and effectiveness both as part of *ex ante* management inspections before and after the emergence of the liability, and as part of ongoing and *ex post* management inspections. These are reviews carried out under Act No 320/2001 on financial control in public administration and amending certain laws and the relevant implementing regulation 416/2004 of the Ministry of Finance, which implements Act No 320/2001, as amended.

In public procurement, the Office proceeded under Act No 134/2016 on public procurement, as amended, and in line with its internal directive on the procedure for awarding low-value public contracts and other regulations concerning public procurement. In the regime of the above Act (in below-threshold procedures) one public contract was concluded for language classes for the ERO’s staff members in 2019 and 2020. As regards public contracts of a small extent, with the expected value above CZK 100,000 w/o VAT, 35 public

contracts were concluded, mainly via open calls for proposals (80% of the public contracts) that allowed access to the contract for all suppliers without limitation.

Suppliers responded by approximately two bids per public contract on average as regards the above public contracts for goods or services. The financial savings in the case of these public contracts have been quantified, in relation to the set expected value, at CZK 500,000 w/o VAT. For public procurement, the Office consistently used electronic facilities, namely the National Electronic Tool (NEN) and E-ZAK. In compliance with Act No 340/2015 on the Register of Contracts, contract documents resulting from the public contract award procedures were posted in the Register of Contracts.

#### **11.3.4 Meeting of mandatory targets**

The Office complied with all the mandatory targets. The planned amount of funds was not exceeded under any of the mandatory targets without approval, see Annex 3.

A detailed analysis of performance versus budget is contained in the relevant parts of the draft of the closing account of Chapter 349 ERO for 2018, including the spreadsheets.

### **11.4 Cash funds, assets, receivables, and liabilities**

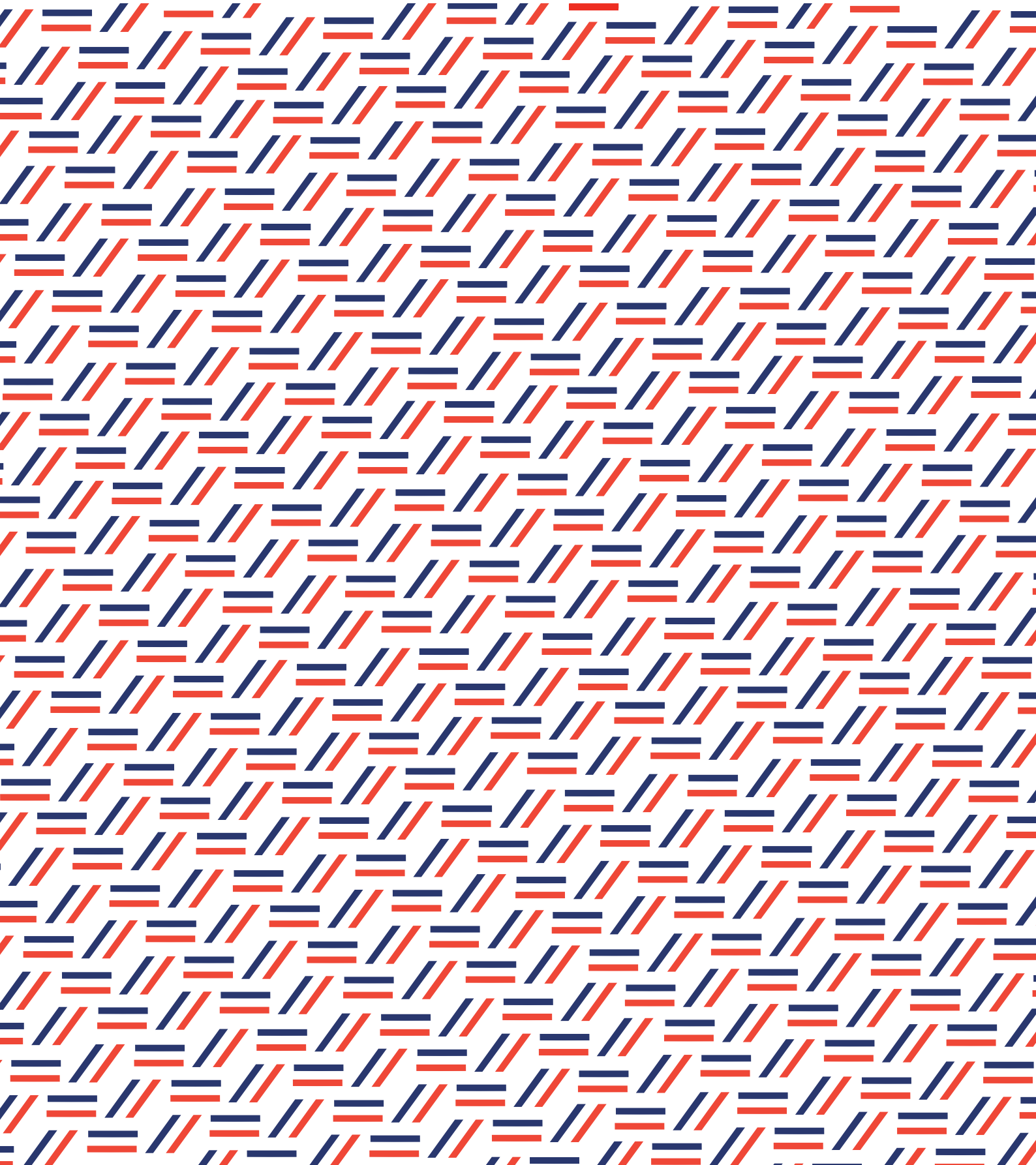
There were no transfers from cash (own) funds to revenues of Chapter 349 in 2018. The Fund of Cultural and Social Needs (FKSP) was continuously accumulated and used in line with the relevant regulations. As at 31 December 2018 the FKSP account held CZK 850,910. The Reserve Fund posted zero as at 31 December 2018.

As at 31 December 2018, the Office held assets valued CZK 215,655,660 at acquisition cost and carried at a book value of CZK 71,399,090 following accumulated depreciation as at 31 December 2018. In 2018, the total value of assets at acquisition cost increased by CZK 7,695,380 on 2017.

As at 31 December 2018, receivables totalled CZK 124,945,320. Of this amount, the largest part is CZK 120,442,790 (including costs of proceedings) in fines levied in administrative proceedings arising from checks of energy business entities as to their compliance with the applicable laws and the ERO's price decisions effective in the year subjected to review. This amount also includes prepaid expenses of CZK 3,677,040, receivables from natural and juristic persons amounting to CZK 493,090, operating advance payments to suppliers amounting to CZK 303,950 (for more details see Part XV), receivables from employees of CZK 20,650, and a deposit for provided services of CZK 7,800. As at 31 December 2018, the Office did not record any trade receivables.

As at 31 December 2018, liabilities totalled CZK 63,378,590. They mainly included liabilities to employees, liabilities under social security and health insurance, and income tax liabilities related to employees, totalling CZK 16,941,350 and arising from wage accounting for December 2018; the wages were paid on the payday 10 January 2019. Liabilities also included the Energy Regulation Fund, CZK 45,444,390, accrued expenses of CZK 717,290, a balance of CZK 560 in the payment card account with ČSOB, a.s., and recognition of the allocation to the FKSP Fund for 2018, amounting to CZK 275,000. The Office had no liabilities to suppliers; suppliers' invoices received by the Office before the end of 2018 were paid. The Office had no overdue liabilities as at 31 December 2018.

# 12 / Human resources



## 12 / Human resources

The Office's personnel management and organisational activities were geared primarily towards the following tasks in 2018:

### 12.1 Personnel management agenda

In the budget and in the schedule of positions approved for 2018 the ERO's headcount was set at 333. Following complicated and repeated talks with the Ministry of Finance on the required increase in the planned number of scheduled positions it was increased, in terms of average FTE, from 311 positions in 2017 to 333 positions for 2018. In terms of the actual headcount the number of scheduled positions rose by 20 from 313 for 2017 to 333 for 2018. Since claims on unused expenses [NNV] were tapped for financing these 20 new positions, these impacts were not reflected in any budget adjustment. Together with the preceding budget, the budget for 2018 therefore did not cover a total of 30 scheduled positions. NNVs from the preceding years were therefore gradually consumed based on a budgetary measure.

The Office's main task in 2018 was to fill vacant scheduled positions and so build its required administrative capacity. The Office also organised civil service examinations in the 'Services 37 – Energy' field not only for the Office but for the whole state administration. In 2018 civil service examinations could be taken on 12 dates.

The Office experienced considerable difficulties filling the public service positions under the Public Service Act. Although positive impacts were expected in the wake of the amendment to the legislation in 2017, practical experience in 2018 did not vindicate the expectations. The persisting unsatisfactory situation is borne out by the fact that another major amendment to the Public Service Act and the relevant implementing regulations is currently being drafted. Besides the financial aspect, the challenging civil service examinations were also a problem. Due to the economic situation and high demand for skilled workforce across the country's economy, the situation is deteriorating.

### 12.2 Education and training

The Office had a sufficient amount of budgeted funds for education and was therefore able to provide for the required education and training in full. Considerable amounts were again spent on staff education and training, specifically CZK 2,217,120 (of which: expense item 5167 – training and education services, CZK 2,038,300, item 5169 – other services, CZK 45,140, item 5176 – conference fees, CZK 133,680). Total expenses on education in 2018 therefore accounted for 1.31% of the actual cost of salaries for employees under employment contracts and under civil service agreements (including ERO Board Chairperson's and ERO Board members' salaries). There was no longer a need for organising so many rather extensive educational events as in the preceding year.

Education and training can be categorised as follows:

### 12.2.1 Initial training

#### a) Introductory initial training

42 staff members went through introductory initial training.

#### b) Continued initial training

Continued initial training is organised in cooperation with the Institute for Public Administration. Its purpose is to teach the participants the basics of the legal system, explain the working of public administration and issues of public finances, etc. Thirteen staff members went through continued initial training. It was a form of training for civil servants to pass the general and specific parts of the civil service examination. Based on this training, 34 civil servants passed the examination in 'Services 37 – Energy', 13 in 'Services 29 – Legislation and Legal Services', 2 in 'Services 78 – Organisational Matters of Civil Service and Management of Civil Service Relationships of Civil Servants, Members of Security Forces and Professional Soldiers', 2 in 'Services 36 – Information and Communication Technology', 1 in 'Services 44 – Trade and International Economic Relations' and 1 in 'Services 76 – Personal Data Protection'.

### 12.2.2 Advanced training

#### a) Advanced managerial training, education for superiors (senior civil servants)

A four-day management training course called The Management Academy was organised, and attended by one superior of the Office. A training course called The Manager on the Starting Line was organised and attended by one superior of the Office.

#### b) Language training for staff members

Language training was more extensive in 2018. Some of the new staff members were included in the programme.

A total of 75 scheduled positions for which command of one of the world languages is a qualification requirement were determined with finality for 2018. As at 31 December 2018, 11 positions were vacant out of the set 75 scheduled positions. All 64 staff members in 64 filled scheduled positions fully met the language requirements.

**Table 19** Staff members' command of languages as at 31 December 2018

	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	
<b>English</b>	70	5			75
<b>Total</b>	70	5			75



c) Other advanced training covered the following:

- Training in GDPR;
- Training in internal audit;
- Certain accounting issues and the tax and accounting issues current in 2018;
- Training in Act No 134/2016 on public procurement;
- Training in Ethics and Anti-corruption Measures;
- Training in MS Office;
- Public notice 50/1978 on professional competence in electrical engineering;
- Training in drivers' professional competence;
- Other ongoing training courses structured by issues and arising from legislative changes.

A total of 162 training events were held, the same as in 2017; the equivalent of 798 persons were trained (in 2017 the figure was 921).

**Table 20** Structure of education and training expenses

Training	Language training [CZK]	Other training [CZK]	Total [CZK]
<b>Amount</b>	970,510	1,246,610	<b>2,217,120</b>

CZK 970,510 was spent on language training, which was slightly more than in 2017 (CZK 905,240). Spending on other education was lower than in 2017 (CZK 2,752,920).

### 12.3 Staff

The approved budget for 2018 in respect of the 'mandatory standard target' of 'salaries for staff and other payments for work' was at a level of CZK 170,354,710. The final budget was CZK 183,271,710 (it was met at 93.96%), and the actual amount was CZK 172,207,650; of this, the 'mandatory standard target of salaries for employees under employment contracts except staff members in civil service positions', with an approved budget of CZK 26,585,120 and a final budget of CZK 28,585,120, was met at 92.5%, i.e. CZK 26,440,470, and the 'mandatory standard target of salaries for staff members in civil service positions under the Civil Service Act', with an approved budget of CZK 134,226,470 and a final budget of CZK 142,480,470, was met at 94.83%, i.e. CZK 135,113,140, and the 'mandatory standard target of salaries for employees under employment contracts derived from those of constitutional officials', with an approved budget of CZK 7,227,600 and a final budget of CZK 7,227,600, was met at 98.71%, i.e. CZK 7,134,440. In respect of the expense items 'salaries for employees under employment contracts except staff members in civil service positions' and 'salaries for staff members in civil service positions under the Civil Service Act', claims on unused expenses (NNV) were tapped into at the beginning of the year in order to ensure financing for all scheduled positions. However, it was not feasible to fill all the vacancies, and no significant amount of NNV funds was therefore consumed and they will help to finance the positions not covered by the budget in 2019.



An average salary of CZK 42,052 was planned for 2018 (on the basis of the approved budget). The actually achieved average salary was CZK 50,962, index 121.19%. It is to be noted at this point that the approved budget did not plan for funds for 30 scheduled positions; following agreement with the Ministry of Finance, the expectation was that these positions would be financed from NNV from preceding years. The planned salary was therefore lower. A year-on-year comparison of the actually achieved average salary indicates the 2018/2017 index at 99.38%, with annual inflation at 2.1%. The increase in the average salary is primarily attributable to the increase in the base-pay components of the salary by 10% as of 1 November 2017. The overall average salary declined slightly year-on-year due to the lower payment of the incentive items compared with 2017 when larger amounts were paid. The funds for salaries were consumed proportionally to the share of the vacant scheduled positions filled.

In 2018, the average number of FTE staff was 276 while the planned number was 333, i.e. the plan was met at 82.88%. Compared with 2017, this was 14 persons more. The average planned number of FTE civil servants (calculated on the basis of the approved budget), 272, was met at 79.41%, i.e. the actual number was 216, and the average planned number of FTE employees under the Labour Code (on the basis of the approved budget), 56, was met at 98.21%, i.e. 55 persons.

The actual number of staff members registered as at 31 December 2018 was 282 while the plan had been 333 (budget and position scheduling approved as at 31 December 2018). This is 14 more than the number on 31 December 2017. The planned actual number of civil servants under the Civil Service Act, 272 as at 31 December 2018, was met at 81.99%, i.e. 223 civil servants; the planned actual number of employees under the Labour Code, 56 as at 31 December 2018, was met at 98.21%, i.e. 55 employees.

The whole of 2018 saw repeated recruitment procedures with a view to filling vacant scheduled positions. However, the Office repeatedly came across certain problems arising from the applicable provisions of the Civil Service Act. The full impacts of the application of the Civil Service Act added to the already well-known problem, i.e. the factor of the differences in remuneration (and possibly employee benefits) between the public and private spheres, which had only been aggravated by the growing economy and the private sphere's demand for highly skilled workforce.

As in preceding years, the system of formally joining the Office and fixed-term contracts with the Office and the obligation to pass examinations in various lines of service is not acceptable for new candidates in many cases. The amendment to the Civil Service Act, adopted with effect from 1 June 2017, did not help to improve the situation in any appreciable manner. Ultimately, when compared with the private sphere conditions, the Office is not able to meet new employees' requirements and expectations. The negative impacts of the application of the Civil Service Act thus continued to be felt in practice in 2018, both in the burdensome administrative and procedural aspects of personnel management and the payroll agenda and in relation to the potential candidates for state administration positions.

Despite the large number of repeated recruitment procedures in 2018 a number of vacancies were not filled by suitable candidates; in practice, this situation is causing serious operating problems in some specialised units. In 2018, 146 recruitment procedures for civil service

positions, 30 Labour Code recruitment procedures for civil service positions, and one Labour Code recruitment procedure for an employee were called and carried out. These procedures resulted in an increase in the number of staff members by 14 to 282 actual staff members as at 31 December 2018 compared with 31 December 2017. In 2018, five employees left for maternity leave and it is not easy to fill these positions because of the limited period of employment (fixed-term contracts); this also has an impact on the headcount. The other principal reasons for staff leaving the Office include the onerous administrative burden felt in civil service performance in state administration.

In 2018, the Office had to continue using 'agreements to complete a job' and 'agreements to perform work' for the performance of work where allowed by legislation (mainly in relation to the Civil Service Act) and had to employ another 21 persons using 'agreements to complete a job' and 'agreements to perform work' (as at 31 December 2018). The number of remonstrance commissions was increased in 2017 and a major portion of the above arrangements included those with their members in 2018 again.

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

Item 5021, other personnel expenses: CZK 1,859,260

Despite its best effort, the Office is satisfying its most urgent needs in terms of both the number and qualifications of staff in its various organisational parts with great difficulties and gradually only. However, for the above reasons, the Office has to repeat a number of recruitment procedures, and it therefore often takes quite a long time before eligible candidates for vacancies are found. As already noted last year, a shift into the population of young graduates (primarily women) without adequate practical experience was clearly evident among the candidates for jobs at the Office. In view of the above facts, when the Office is filling vacant scheduled positions only very slowly and with difficulties, the number of service lines was reduced for some positions or language qualification requirements were lowered. The Office has been experiencing long-term problems with shortages of eligible candidates in all cities where it has its workplaces.

During the year, 45 new staff members joined but 31 staff members left the Office. Of the overall number of 282 staff members, 100 worked in Jihlava, 84 worked in Prague and 98 in Ostrava (worked within the meaning of the place of performance of work / place of service / agreement on regular workplace) as at 31 December 2018.

The percentages of men and women are quite balanced, but the trend of increasing numbers of women is gaining strength, among other things because of salaries. This trend is mainly visible in the group of candidates in the recruitment for vacant scheduled positions. At the level of superiors and managerial personnel, of a total of 71 planned positions 60 were filled, 15 of them by women, i.e. 21.13%, as at 31 December 2018.

Despite a decline of approximately 8% compared with 2017, the very large proportion of staff members whose employment was five years or shorter (63.8%) is visible. In addition to the number of new staff to cover the Office's extended range of activities, the increased churn rate, mainly due to some impacts of the Civil Service Act, also plays an important role in this respect. The other reasons apparently include issues of salary and the strong demand for university graduates in engineering and legal fields, because a number of businesses

offer completely incomparable conditions primarily to young candidates. The challenging and complicated nature of the Office's activities also plays a role.

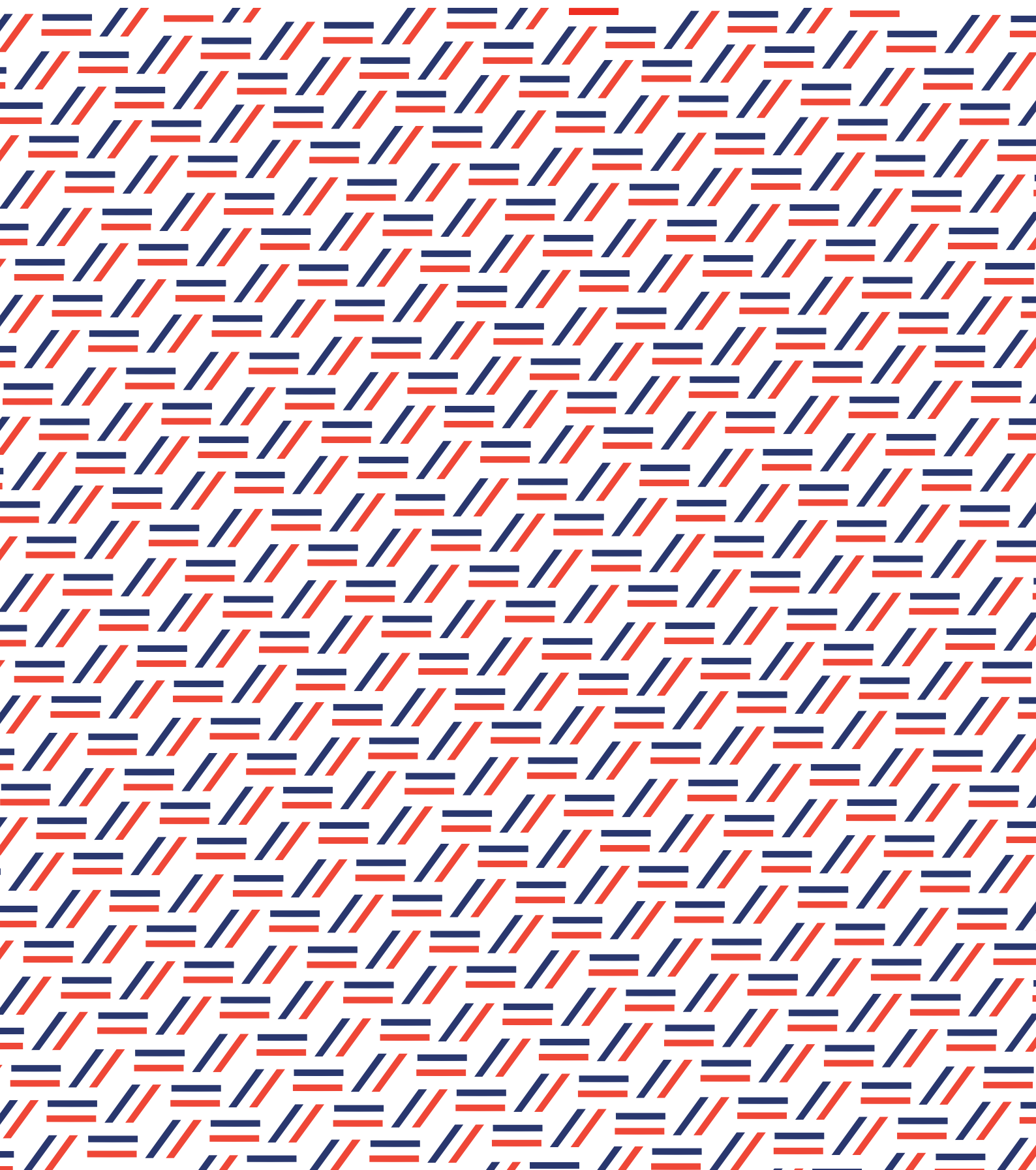
In 2018, the number of staff members with university education rose by 15 in absolute terms compared with 2017. The Office is therefore successful in continuously increasing this ratio: 83.3%. The structure of education matches the very heavy demands placed on the staff and the continuously rising difficulty of the areas for which the Office is responsible, including the most recently included ones.

## **12.4 Organisational activities**

As the preceding year, 2018 was also very extreme in terms of organisation. In connection with the application of the impacts of the Energy Act and the amendments to the Public Service Act and other legislation, some internal policies had to be gradually recast. Thus, in 2018 a total of 54 internal regulations were issued; 44 of them were ERO Board resolutions and 10 were clarifying guidelines to improve and standardise the activities and procedures followed by the Office's specialised units.

In 2018, the ERO Board decided on three organisational changes concerning 2018, without any adverse effects for the staff. The changes concerned the structure of competences within the Office, when the areas of responsibility were removed from subordination to the various members of the ERO Board and placed directly under the ERO Board as a body. The other changes included internal relocations of various organisational parts of the Office or individual scheduled positions, changes of names of organisational parts, changes of places for service performance in relation to certain service positions, and modifications of the qualification requirements for language proficiency. In late 2018, the ERO Board also decided to change the organisational structure as of 1 January 2019; this move involved the materialisation of the approved parameters of the budget for 2019.

## 13 / Internal control system



# 13 / Internal control system

## 13.1 External inspections

In 2018, the Office was subjected to one external inspection concerning personnel. On 10 December 2018, Všeobecná zdravotní pojišťovna (General Health Insurance Company) checked the payments of public health insurance premiums and compliance with the payer's other obligations for the period between 1 May 2016 and 31 October 2018. The inspection revealed no shortcomings.

In 2018, the Office for Personal Data Protection (OPDP) also carried out an inspection. It concerned compliance with the personal data controller's obligations under Act No 101/2000 on personal data protection and amending certain laws, as amended, in connection with the processing of ERO staff members' personal data, focusing on the adoption and implementation of measures to ensure the security of the personal data being processed, within the meaning of Section 13 of the cited law.

The inspection revealed the ERO's breach of its obligations related to personal data security under Section 13(1) of Act No 101/2000, since in connection with internal reviews of the personal files of its staff members the ERO had failed to formulate sufficiently specific conditions under which such reviews should take place (the place of the review, the group of the authorised persons, and conditions for access to the personal files). The ERO immediately remedied the deficiencies and therefore OPDP did not impose any remedial measure on the ERO.

The inspection also revealed that an ERO Board member breached his obligation under Section 14 of Act No 101/2000. The consideration of the mistake in this area fell within the ERO's competences and the matter will be finalised in 2019.

## 13.2 Internal oversight and internal audit

Complying with Act No 320/2001, as amended, the Office has an independent internal audit unit (IAU) that is organisationally separate from the managerial and executive structures and functionally independent and that directly reports to the ERO Board. It carries out the specific function of support for the Office's designated managerial tiers as an independent verification, assessment, and advisory unit providing objective information for the efficient management of processes and operations inside the Office and technical consultations mainly on financial controls and public procurement, and on the assessment of the internal control system, the risk management system, and the filing and archiving service.

## **Internal Audit Unit (IAU)**

In 2018, IAU was not given any assignments conflicting with the independent pursuance of the tasks set for it or impairing its independence. IAU operated on the basis of the annual internal audit plan approved by the ERO Board. Besides the approved annual plan, the ERO Board also requested *ad hoc* extraordinary audit actions stemming from the current need to analyse the then current situation and to identify risks in the Office's activities.

The audit actions mainly emphasised compliance with the legislation and with service and internal regulations and the reflection of legislation in the Office's internal regulations, and protection of public funds against risks and irregularities and other shortcomings, and reviewed the economy, efficiency, and effectiveness of public spending on the Office's operations and performance. The audit actions also focused on assessing the timely and reliable nature of information about the treatment of public funds and on validating the operations and processes carried out across the Office, on bookkeeping as to its accuracy, conclusiveness, and completeness, on adherence to the procedures for public contract awarding and the performance thereof, on information security (ISMS), compliance with the requirements in Act No 101/2000 on personal data protection, and the process of the management of the filing and archiving service. Some of the internal audits were *ex post* audits checking the performance of and compliance with the measures adopted on the basis of recommendations from earlier audits.

In 2018, IAU carried out six planned audits, one planned review, and two audit actions at the level of extraordinary audit actions.

The recommendations most often resulting from the audits and reviews concerned the following:

- the settings of or modifications to set procedures,
- improving the management of the Office's operating and organisational activities and its internal control system,
- improving the efficiency of control and oversight mechanisms,
- risk prevention,
- updates of internal and service regulations,
- administrative mistakes caused by failure to follow internal and service regulations.

The recommendations and remedial measures related to findings of internal audits and external inspection authorities were scrutinised in *ex post* audits.

Internal audits did not reveal any shortcomings serious enough to have a major impact on the internal control system. Most of the identified shortcomings were addressed in 2018 and were not serious, and therefore had no significant influence on financial management or the serviceability of the internal control system in place. No shortcomings with a significant adverse impact on the Office's operation were identified.

No serious deficiencies such as suspicion of minor or criminal offences were identified (within the meaning of Section 22(6) of Act No 320/2001, as amended). No circumstances allowing the incidence of corruption or fraud were registered. The risks entailed in the oversight mechanisms put in place to counter corruption are verified and evaluated on a regular basis.

Off audit, the annual evaluation of the ERO Internal Anti-corruption Programme was carried out and an annual report was drawn up on its running and on the remedial measures adopted.

### **IAU's other activities**

IAU also provided consulting and advisory services and contributed to the development of internal regulations, primarily those on issues of internal oversight and the filing and archiving service. Its consulting and advisory service focused on issues related to assets, financial management, disposal of public funds, bookkeeping, and public procurement.

### **Internal control**

The Office has in place an internal control system under Act No 320/2001, as amended.

The process of control and review mechanisms is set out in the Office's internal and service regulations. These constitute a set of organised, formalised and permanent tools and measures that have been put in place at the Office to achieve the set objectives while following the 3E principles (economy, efficiency, and effectiveness).

In the resolutions adopted by the ERO Board, the Office defined its organisational parts, specified the extent of the corresponding powers and responsibilities of managerial and other personnel, and specified the obligations, and took other steps required for implementing, maintaining, and reviewing the efficiency of the internal control system and for ensuring the working of management inspection and internal audit. Managers and superiors monitor and evaluate the financial control system on an ongoing basis as part of their everyday work and service activities.

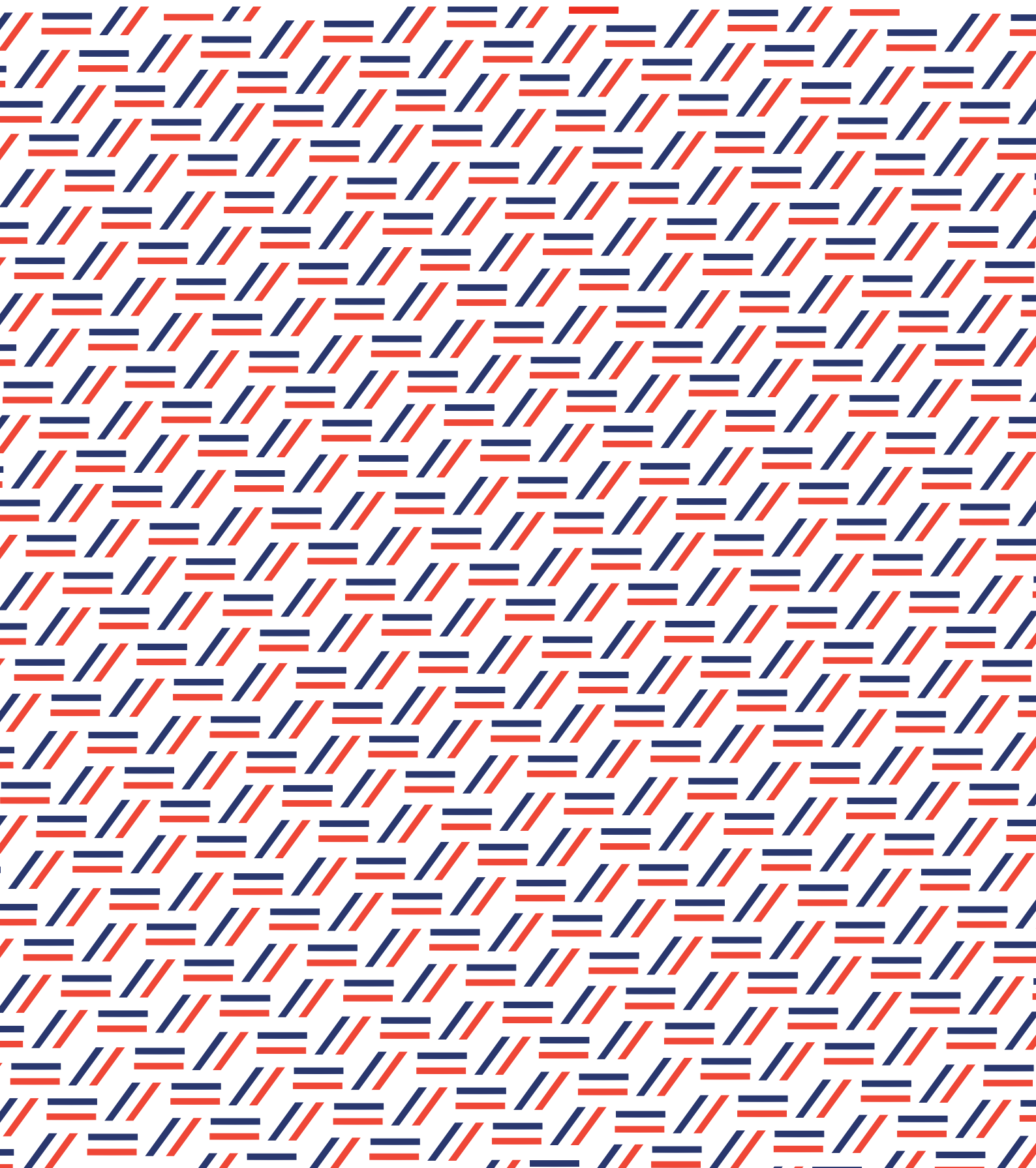
In its activities, the Office also observes and follows other provisions of Act No 320/2001, as amended. The Office carries out risk analyses, plans and carries out internal audits and reviews, uses three tiers of management inspection, and allocates responsibilities of managers and superiors as part of each of the operations through a multi-tier approval process and collective decision-making. It publishes the outcomes of its decision-making and over CZK 50,000 contracts in the Contract Register under Act No 340/2015, as amended, considers recommendations from IAU, adopts measures to remedy the shortcomings identified, has in place a system for corruption prevention and detection, and continuously reviews and updates its internal control documents. Further to external and internal findings the Office improves its oversight and control mechanisms and implements qualitative changes to its organisational structure with a view to optimising it and its internal control system.

### **Conclusions**

Based on the outcomes of the audits and reviews carried out in 2018, the internal control system in place can be described as sufficiently efficient and well-working in practice, and responsive to changes in economic, legal, operating and other circumstances. To conclude, a reasonable assurance can be provided that the funds for public spending reported in Chapter 349 of the national budget were drawn in accordance with legislation and internal regulations.



# Annexes





# Annex 1

## Auditor's Report

Auditor's opinion intended for the instiutor 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 2018.

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 2017.

A-CONT, s. r. o., represented by

Ing. Jiří Makaj  
Company Executive  
Auditor, Certificate No. 1529

Appendices: Balance sheet account

In the town of Jihlava, on February 27, 2019

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 2018

A-CONT, s. r. o., with a registered office at Point 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

# Annex 2

## **Provision of information under Act No 106/1999 on free access to information for 2018**

Under Act No 106/1999 on free access to information, as amended ("the Act"), the Office provides information about its work within its competences. In 2018, the Office handled 103 requests for information provision under the Act.

### I

#### **Number of requests for information and number of decisions to dismiss the request:**

Requests (Section 18(1)(a) of the Act)

Number of requests for information: 103

Number of decisions dismissing the request,  
including those dismissing the request in part: 23

### II

#### **Number of administrative appeals filed against decisions:**

Four appeals against dismissing/partly dismissing decisions were lodged.

### III

#### **Number of complaints under Section 16a of the Act:**

Applicants for information lodged four complaints about the way their requests were handled. In general, the reasons for lodging complaints included disagreement with the way, time and outcome of request handling and the financial requirements related to request handling, specifically as follows:

1. In the first case, the complainant claimed incomplete treatment of the request, meaning incomplete provision of the requested documents; the higher authority granted the complaint and instructed the ERO to handle the request within 15 days.
2. In the second case the complainant claimed that the ERO was not active, although the applicant had been provided with information electronically and the applicant had acknowledged receipt of the electronic message; however, the higher authority concluded that the complaint was not to be understood to be a complaint about the ERO's inactivity but as a complaint under Section 16a(1)(b) of the Act to the effect that upon his request, the applicant had not been provided with the requested information while no decision dismissing the request had been issued. The ERO therefore subsequently issued a decision dismissing the request to cure the criticised shortcoming.

3. The third case concerned the calculation of the costs the payment of which the ERO required for handling the request; the higher authority decided that the original amount of the costs was to be reduced.
4. In the fourth case, the complainant also claimed incomplete treatment of the request. Further to his complaint, the ERO sent him the additional requested documents, and the higher authority did not have to decide on the complaint.

#### **IV**

##### **Number of dismissed requests under Section 14(5)(b) of the Act**

Under Section 14(5)(b) of the Act the ERO dismissed two requests on the grounds of the applicants' failure to clarify their requests.

#### **V**

##### **Number of requests put aside under Section 14(5)(c) of the Act**

Under Section 14(5)(c) of the Act the ERO put aside 12 requests for information on the grounds of its lack of competence to handle those requests.

#### **VI**

##### **Additional information concerning the application of the Act**

Numbers of requests for information handled in 2018, broken down by the ERO's areas of competence

Oversight issues: 6

Licensing: 24

Legislative and administrative area: 18

Supported energy sources: 16

Regulatory issues: 12

Other: 27

The above breakdown shows that requests received from applicants for information concerned various areas of the ERO's competences; persisting interest in licensing, the legislative and administrative area, and support for renewable energy sources has been evident for a long time.

The number of requests for information is comparable with that in 2017 when the ERO handled 115 requests for information; however, it should be noted that the requests for information delivered to the ERO in 2018 were more challenging for handling and confirmed the public's long-term interest in the developments in the energy sector.

# Annex 3

## Performance v Budget Meeting of mandatory targets for 2018

Target	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/3 (2) [%]
	1	2	3	4	5
<b>Aggregate targets</b>					
Total income	426,797,000	426,797,000	x	311,324,130	72.94
Total expenditure	288,190,080	278,190,080	344,275,600	294,476,530	85.54
<b>Specific targets – income</b>					
Tax revenues	292,297,000	292,297,000	x	297,124,930	101.65
Non-tax revenues, capital revenues and accepted transfers	134,500,000	134,500,000	x	14,199,210	10.56
of which: income from EU budget w/o CAP, total	0.00	0.00	x	0.00	0.00
other non-tax income, capital revenues and accepted transfers	134,500,000	134,500,000	x	14,199,210	10.56
<b>Specific targets – expenditure</b>					
Outlays to support the ERO's tasks	288,190,080	278,190,080	344,275,600	294,476,530	85.54
<b>Standard targets</b>					
Salaries for employees and other payments for work	170,354,710	170,354,710	183,271,710	172,207,650	93.96
Salaries for employees under employment contract, except for civil servants	26,585,120	26,585,120	28,585,120	26,440,470	92.50
Salaries for civil servants under the Civil Service Act	134,226,470	134,226,470	142,480,470	135,113,140	94.83
Salaries for employees under employment contract derived from salaries of constitutional officials	7,227,600	7,227,600	7,227,600	7,134,440	98.71
Statutory insurance premiums paid by the employer	57,920,600	52,220,600	61,407,600	57,915,720	94.31
Allocation to the Fund of Cultural and Social Needs (FKSP)	3,360,780	3,360,780	3,566,780	3,381,800	94.81
Arrangements for crisis situations under Act No 240/2000	0.00	0.00	0.00	0.00	0
Total outlays co-financed completely or partly from the EU budget w/o CAP	0.00	0.00	0.00	0.00	0
of which: from the national budget	0.00	0.00	0.00	0.00	0
share from the EU budget	0.00	0.00	0.00	0.00	0
Total expenses recorded in the EDS/SMVS programme financing information system	18,565,000	16,765,000	22,835,520	10,127,390	44.35

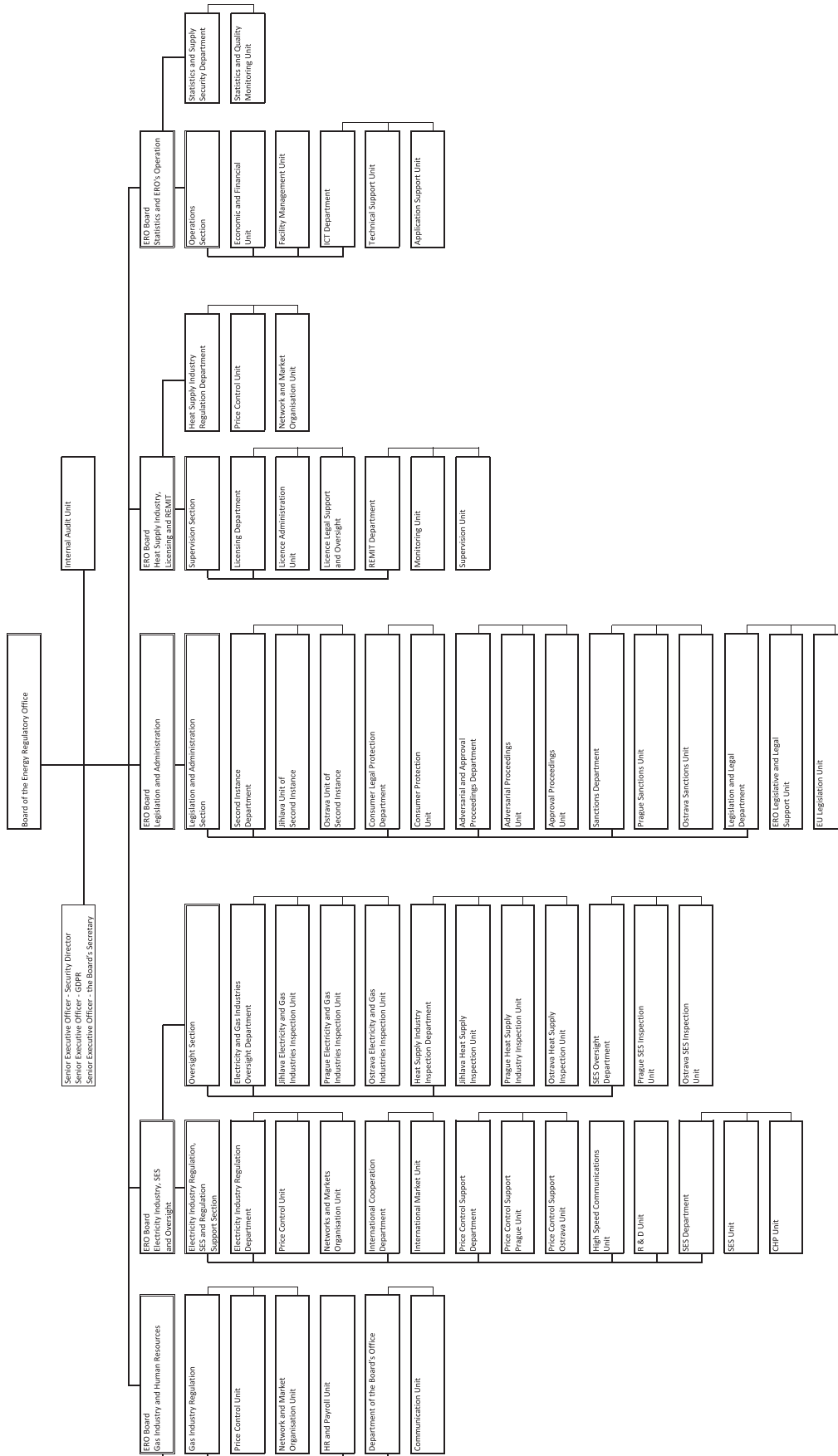
**Comparison of actual expenses under Chapter 349 Energy Regulatory Office,  
for the period 2013–2018**

(Expenses and other cost items are in CZK thousands)

<b>Item</b>	<b>Actual 2013</b>	<b>Actual 2014</b>	<b>Actual 2015</b>	<b>Actual 2016</b>	<b>Actual 2017</b>	<b>Actual 2018</b>	<b>Index 18/17</b>
<b>Total expenses</b>	<b>177,125</b>	<b>194,074</b>	<b>217,982</b>	<b>226,433</b>	<b>286,379</b>	<b>294,477</b>	<b>102.83</b>
of which:							
<b>– Salaries, other payments, insurance premiums and FKSP</b>	<b>118,584</b>	<b>137,273</b>	<b>157,284</b>	<b>172,573</b>	<b>223,145</b>	<b>233,412</b>	<b>104.60</b>
<b>– Expenses on the asset replacement financing programmes</b>	<b>25,919</b>	<b>21,425</b>	<b>21,483</b>	<b>9,284</b>	<b>19,700</b>	<b>10,128</b>	<b>51.41</b>
<b>– Total other expenses</b>	<b>32,622</b>	<b>35,376</b>	<b>39,215</b>	<b>44,576</b>	<b>43,534</b>	<b>50,937</b>	<b>117.01</b>
of which:							
– Allocations to the Reserve Fund (RF)	0	0	0	0	0	0	x
– Other expenses w/o Reserve Fund	32,622	35,376	39,215	44,576	43,534	50,937	117.01
<b>– Use of claims on unused expenses</b>	<b>7,496</b>	<b>5,117</b>	<b>5,349</b>	<b>11,394</b>	<b>39,069</b>	<b>44,978</b>	<b>115.12</b>
Expenses on salaries and other payments for work	88,067	101,854	116,700	127,094	164,889	172,208	104.44
Salaries for employees under employment contracts, except staff members in public service positions, salaries for employees under employment contracts in public service positions under the Public Service Act, salaries for employees under employment contracts derived from salaries of constitutional officials (Chairman, ERO Board)	85,881	99,175	114,701	125,189	161,221	168,688	104.63
Staffing levels (average FTE)	190	217	239	247	262	276	105.34
Salaries, other payments, insurance premiums and FKSP per employee	624	633	658	699	852	846	99.30
<b>Programme financing costs per employee</b>	<b>136</b>	<b>99</b>	<b>90</b>	<b>38</b>	<b>75</b>	<b>37</b>	<b>49.33</b>
<b>Other expenses per employee</b>	<b>172</b>	<b>163</b>	<b>164</b>	<b>180</b>	<b>166</b>	<b>185</b>	<b>111.45</b>
<b>Total expenses per employee</b>	<b>932</b>	<b>895</b>	<b>912</b>	<b>917</b>	<b>1,093</b>	<b>1,067</b>	<b>97.62</b>

# Annex 4

## Organisational structure of the Energy Regulatory Office as at 31 December 2018



**Report on the Activities and Finances  
of the Energy Regulatory Office  
for 2018**

Design: Metoda, spol. s r.o., Brno, 2019

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