



**Report on the Activities and Finances
of the Energy Regulatory Office for
2020**

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The ERO Board Chairman's Foreword

Dear Readers,

In early 2020, the ERO completed and published the Price Control Principles for the 2021-2025 Regulatory Period. The rest of the year was marked by the global COVID-19 pandemic, which also had an impact on the energy sector.

In April 2020, the Office therefore responded to the declaration of the state of emergency by the Czech Government and issued two extraordinary price decisions for the electricity industry (namely ERO Price Decisions 2/2020 and 3/2020), thereby helping customers to flexibly change their reserved capacity and other parameters of electricity distribution. The Office also took a similar measure in the gas industry (ERO Price Decision 1/2020). Primarily the transfer of heat and cooling supply from the first lower VAT rate of 15% to the second lower rate of 10% influenced the prices in the heat supply industry. The lower VAT rate resulted in lower thermal energy prices for final consumers. Naturally, the Office also issued the routine price decisions for 2021 in addition to the extraordinary price decisions.

Besides its other legislative work, the Office drew up and issued two statutory instruments, specifically public notice 302/2020 on the electricity market rules, and 554/2020 on regulatory reporting. In licensing, 2020 was marked by a slight increase in the number of active licences. The Office received a total of 2,190 applications for licence grant/amendment/revocation.

For the EU's internal energy market, 2020 was important in that the new regulations adopted as part of the Winter Package started to apply. The implementation of the Winter Package, largely in the electricity industry, has generated new duties and tasks for the Office. The mainstay issue in the gas sector was the forthcoming revision of Regulation (EU) No 347/2013 of the European Parliament and of the Council. Due to the pandemic, from March 2020 all discussions (ACER, CEER, ERRA, etc.) took place via videoconferencing. Consumer issues continued to be discussed.

In 2020, the Office addressed more than 13,000 submissions from consumers, including 135 applications for proceedings on consumer disputes; final decisions were delivered in 110 cases.

An important event inside the Office in 2020 was the formation of a specialised department (Analysis and Data Support Department) that covers most of the activities related to energy market monitoring. You will find some of its outputs in point 1.2.

The annual report always summarises the results of the Office's budget management. The results clearly show that the Office kept the budgetary discipline and all the mandatory indicators set. Funds were spent on outlays applying the maximum economy, efficiency, and effectiveness.

Although all of us had to overcome considerable hurdles in our work in 2020, as the ERO Board Chairman I am delighted to summarise that the Office achieved all the objectives set. I also feel satisfaction over the fact that we were able to alleviate customers' difficult situation by issuing extraordinary price decisions and to help them by addressing their other problems through our consumer protection teams.

Stanislav Trávníček

ERO Board Chairman

The ERO Board

The ERO is headed by a five-member body, the Board, the members of which are appointed by the Czech Government for a predefined term in office.

In 2020, Stanislav Trávníček was the ERO Board Chairman, and Ladislav Havel, Martina Krčová and Petr Kusý were the other members. During the year, Markéta Zemanová became a new member of the Board for a term from 1 August 2020 to 31 July 2025, replacing Rostislav Krejcar whose term had ended on 31 July 2020.



Stanislav Trávníček

ERO Board Chairman

Mr Trávníček completed master's and doctoral programmes at the Faculty of Electrical Engineering of the Czech Technical University in Prague (ČVUT FEL), majoring in the economics and management of the energy sector.

His career in energy dates to 1998. Earlier, he already worked at the ERO as head of the electricity industry department. He was also a member of ACER and CEER electricity working groups in Brussels. He chaired the market participants committee attached to OTE, a.s. From 2012, as a manager at

Ernst & Young, he helped to model and design various aspects of the electricity market. Mr Trávníček also provided strategic advice to energy companies in the Czech Republic and the CEE region.



Ladislav Havel

ERO Board member

Mr Havel graduated from the Czech Technical University.

He has been active in energy for 40 years, dealing with policies for the long-term development of the energy sector, progressively focusing on all aspects (electricity generation, transmission, and distribution). He spent some time at the Ministry of Industry and Trade in various positions, e.g., as an adviser to the Deputy Minister or head of the electricity and heat supply department. In addition, between 1992 and his appointment to the ERO Board, he held

various positions in management and supervisory bodies of energy companies as the State's representative.



Martina Krčová

ERO Board member

Ms Krčová graduated from the Faculty of Economics and Management of the Czech University of Life Sciences in Prague and completed an MBA course at Brno International Business School.

In 1997, she joined the Ministry of Industry and Trade as a ministerial executive officer for energy regulation. Since 2001, she has been working at ERO, progressively holding positions as head of the analysis unit, head of the strategy department, Vice-Chairwoman for Regulation and Vice-Chairwoman

for European Affairs and Strategy. In 2019, she served at the Praha 7 Municipal District Authority as the energy manager.



Rostislav Krejcar

ERO Board member until 1 August 2020

Mr Krejcar graduated from the Faculty of Electrical Engineering of the Czech Technical University in Prague (ČVUT FEL), majoring in energy economics and management, in which he also received a scientific degree.

Between 2002 and 2012, he worked at the ERO in the electricity department. In the past, Mr Krejcar was a member of expert groups attached to CEER and ERGEG in Brussels and Vienna, focusing on renewable energy sources and on international business in electricity transmission capacity. He also teaches at ČVUT FEL.



Petr Kusý

ERO Board member

Mr Kusý graduated from the Faculty of Electrical Engineering of the Western Bohemian University in Plzeň.

He has spent 15 continuous years at the ERO, which he joined in 2006 as a regulation specialist in the electricity department's generation and network unit. His subsequent positions were largely concerned with the processing of the ERO's statistical data. He has held positions as head of the statistics unit, head of the analysis and statistics department, and head of the statistics and

supply security department.



Markéta Zemanová

ERO Board member since 1 August 2020

Ms Zemanová graduated from the Faculty of Law of the Western Bohemian University in Plzeň.

She has been with the ERO since 2013, initially as a lawyer in the legislative and legal department and then as head of a unit (2017-2020), and head of a department (2020). In 2020, she took over as head of the administrative proceedings section. At ERO, she has mainly focused on legislation and legal support for the ERO in all areas of law, including consumer protection and

issues concerning service relationships under the civil service law.

1 Consumers and retail markets

1.1 Consumer protection

In 2020, the Office received and handled more than 13,000 submissions from consumers. In terms of their content, consumers had a real issue with electricity/gas supplier switching carried out based on intermediation, primarily when they were entering into a contract represented by an intermediate. Frequent submissions also concerned supplier switching in general (termination of fixed-term contracts, contract penalties) and suppliers' failure to keep the obligation to bill the supply as due. The most frequent solutions included explanation of the problem, reference to the relevant legislation, and advice on consumer rights. In certain cases that indicated a potential breach of the Energy Act or another law under which the ERO is competent to exercise oversight, the Office initiated a check of the suppliers' obligations. In quite a few cases, the Office helped to set up communication between the supplier and consumer and they successfully resolved their problem.

Since consumers had long been complaining about unwanted supplier switching related to the existing practice of an intermediary 'finding' an energy supplier, the Office continued to promote the quick adoption of new provisions on intermediation in an amendment to the Energy Act.

In 2020, the Office received 135 applications for bringing proceedings on consumer disputes; 110 of them were decided with finality. Typical disputes involved deciding on the supplier's failure to meet its contract obligation of billing supply as due and of determining the date of establishment and/or discharge of a contractual relationship on electricity/gas supply.

The Office's exercise of its oversight competence as regards suppliers' compliance with, in particular, the Energy Act, the Consumer Protection Act and the Act on Prices, is also crucial for enhancing consumer protection in the energy sector. In this respect, the important aspect is, primarily, the preventive role of inspections, intended to clearly show the limits of the licence holder's conduct in relation to consumers. The primary object of overseeing compliance with the Consumer Protection Act was compliance with the obligations of business in the energy industries laid down in Section 4(4) of the Energy Act, and hence the aggressive commercial practices (high-pressure selling) committed by the business owner when demanding from the consumer an immediate or deferred payment for services that it supplied to the consumer although the latter had not placed an order for such services. Table 1 lists the types and number of inspections and sanction proceedings.

Table 1 Number of inspections and number of cases referred to sanction proceedings in 2020

Number of ERO inspections in 2020		
Opened inspections	363	9*
Completed inspections	436	10*
Number of cases referred to sanction proceedings in 2020		
Breaches of the Energy Act		172
Breaches of the Act on Prices		12
Breaches of the Consumer Protection Act		25
Total		209

Source: ERO

*Inspections under the Consumer Protection Act

In 2020, the Office carried on its public education drive concerning consumer rights in the energy sector, primarily through cooperating with consumer organisations, counselling services for citizens, and self-governments. In 2020, the pandemic disrupted these activities and so the Office mainly organised webinars and online conferences.

International cooperation also shifted to the online environment. In CEER's Customers and Retail Markets Working Group, nine conferences took place, which the Office attended. The topics included primarily comparison tools and energy supply billing, and outputs included several new documents and preparations for workshops that were moved to 2021 because of COVID-19. The Office attended two virtual meetings of ERRA's Customer Protection Working Group, where it presented the current consumer protection issues in the Czech Republic and informed the other participants about the consumer protection methods in the Czech Republic. The Office also attended an online conference on *CEER-BEUC Vision 2030 for Energy Consumers*. International cooperation also continued at the level of EU member states' regulators, primarily sharing experience with the COVID-19 pandemic and with consumer protection in the energy sector.

1.2 Retail markets and prices

An environment where traders offer and sell services related to gas and electricity supply to final customers is understood to be the retail market. The key indicators for evaluating the retail gas and electricity markets include the number of supply points, the number of active suppliers, the dynamics of supplier switching, the market shares held by the various supplier groups, and the structure of retail prices.

In May 2020, the Office formed a specialised unit in charge of most of the activities related with retail energy market monitoring. Further to the new monitoring concept, the Office also monitored some new indicators and innovated its approach to certain traditional indicators.

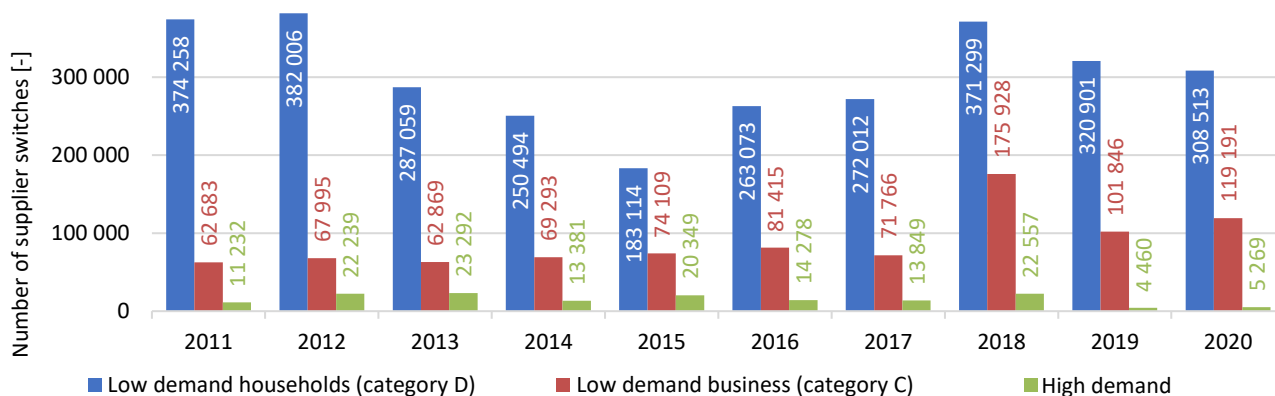
At the end of 2020, the retail electricity market had 119 suppliers each with more than 100 SDP. The 100 SDP limit is used for a simplified definition of the active supplier. However, in 2020 its use turned out to be inappropriate for the future. There are dozens of active suppliers that serve fewer than 100 SDP, and there also are entities (typically operators of local distribution systems) that do not offer electricity supply outside their service area. This also explains the considerable increase in these indicators from 2019. It is primarily a consequence of more than 100 operators of local distribution systems registering their SDP with the market operator. The Office started to prepare a revision of this indicator; the resulting number should reflect the definition of the active supplier as accurately as possible and should be comparable at the European level.

The retail gas market had a total of 133 active suppliers, which are defined, for the time being, as entities that supplied gas to final customers during the year. This definition will also be subjected to revision in the future.

Energy suppliers use many tools for approaching customers, such as door-to-door sales, participation in mass-scale e-auctions, and the acquisition of weaker competitors. The Office offers one of the tools for supporting the retail electricity market: a calculator comparing electricity suppliers, where the various electricity suppliers' current quotations can be found.

In 2020, approximately 446,000 customers changed their electricity supplier, down by 1% on 2019. In terms of the customer categories, the structure of the supplier switching varied significantly. In the high-demand segment, the number of SDP transfers to a different supplier rose by 18.1%, and in the low-demand business segment the number of electricity supplier switches increased by 17%. In the household segment, electricity supplier switching declined by 3.9%. The numbers of supplier switches over the past ten years are shown in Chart 1.

Chart 1 Yearly electricity supplier switches in the key customer categories



Source: OTE, a.s., ERO editing

Table 2 below lists the development of other indicators of the retail market in the household segment. The Office started to monitor the commonly accepted measure of market concentration, Herfindahl-Hirschman Index (HHI). Its value over 2,000 points (together with a large market share of the three largest suppliers) shows that the Czech retail electricity market is heavily concentrated.

Another result yielded by monitoring in 2020 is the market concentrations by the former monopoly areas, which correspond to the current areas of the three regional distribution systems. The former monopolies enjoy a very strong position in ‘their’ areas; they typically control almost 70% of the market in terms of SDP. This is also reflected in the very high level of HHI, considering the historical structure of the Czech market: 5,030 points (a weighted average of the values for the three regional distribution areas).

It is interesting to compare the result of the geographically more detailed view (5,030 points) with the result for the whole Czech Republic (2,440 points).

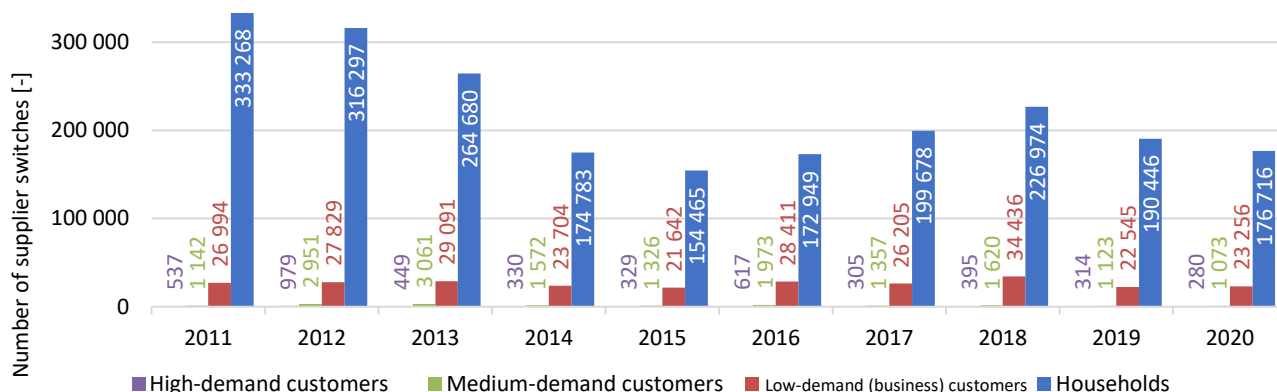
Table 2 Selected retail electricity market indicators

Retail market indicators (households)	2016	2017	2018	2019	2020
Number of active electricity suppliers [-]	61	68	79	83	119
Market share of the three largest suppliers by metering points [%]	-	-	-	72.4	71.9
Number of retailers with market shares > 5% [-]	5	5	5	5	5
Herfindahl-Hirschman Index [-]	-	-	-	2,496	2,440
Switching rate, households [%]	5.09	5.22	7.07	6.07	5.82

Source: OTE, a.s., ERO

In 2020, out of the total number of over 2.83 million SDP, more than 200,000 customers switched their gas supplier. More than 176,000 such switches took place in the most populated customer category, i.e. households. Chart 2 shows the structure of gas supplier switching in more detail. Table 3 then shows the number of supplier switches as percentage of the number of SDP.

Chart 2 Number of gas supplier switches between 2011 and 2020



Source: OTE, a.s., ERO editing

Table 3 Number of gas supplier switches in 2020

Customer category	Number of supplier switches [-]	Total number of SDP [-]	Switching [%]
High-demand customers	280	1,605	17.45
Medium-demand customers	1,073	6,748	15.90
Low-demand customers	23,256	206,659	11.25
Households	176,716	2,614,120	6.76
Total	201,325	2,829,132	7.12

Source: ERO

In 2020, the Office started to monitor some other indicators of the retail gas market as well; they are shown in Table 4.

Table 4 Certain indicators of the retail gas market

Czech market indicators	2016	2017	2018	2019	2020
Number of active gas suppliers [-]	98	110	119	125	133
Market share of the three largest suppliers by consumption [%]	57.13	52.55	53.69	52.15	52.18
Number of suppliers with market shares (in terms of customer numbers) > 5% [-]	4	4	5	4	4
Herfindahl-Hirschman Index [-]	1,601	1,341	1,377	1,259	1,297

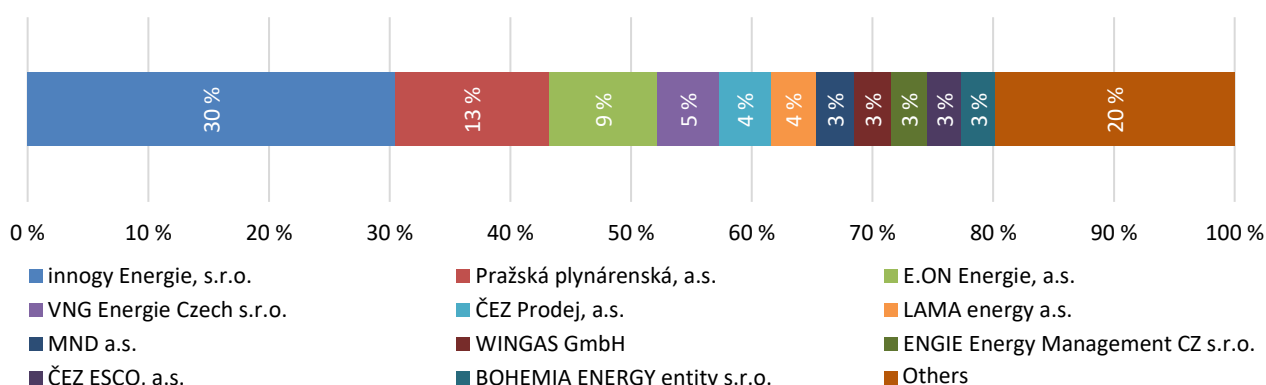
Source: ERO

As in the case of the electricity market, in the gas industry we also monitor market concentration in the former monopoly areas. Although in the regional breakdown the gas market is also more concentrated than from the nationwide perspective, the values stay deep below the threshold of

a heavy market concentration. It can therefore be noted that the retail gas market is not heavily concentrated, and its structure is significantly in favour of effective competition.

Another important indicator of competition in the retail market is the various suppliers' market shares. In line with the good practice of supervision over competition, the Office started to monitor groupings of suppliers. From this perspective, equity related suppliers are regarded as a single undertaking. In terms of the quantity supplied, with its 30% innogy Energie, s.r.o. continues to be the largest gas supplier, followed by Pražská plynárenská, a.s. with 13% and E.ON Energie, a.s. with 9%. Chart 3 provides a more detailed picture of gas traders' shares of supply to customers. In the electricity market, ČEZ Group continues to be the largest supplier; it supplied electricity to 41% of SDP in the country. It is followed by E.ON Energie, a.s. with 18% and PRE, a.s.'s group with 12% (see Chart 4).

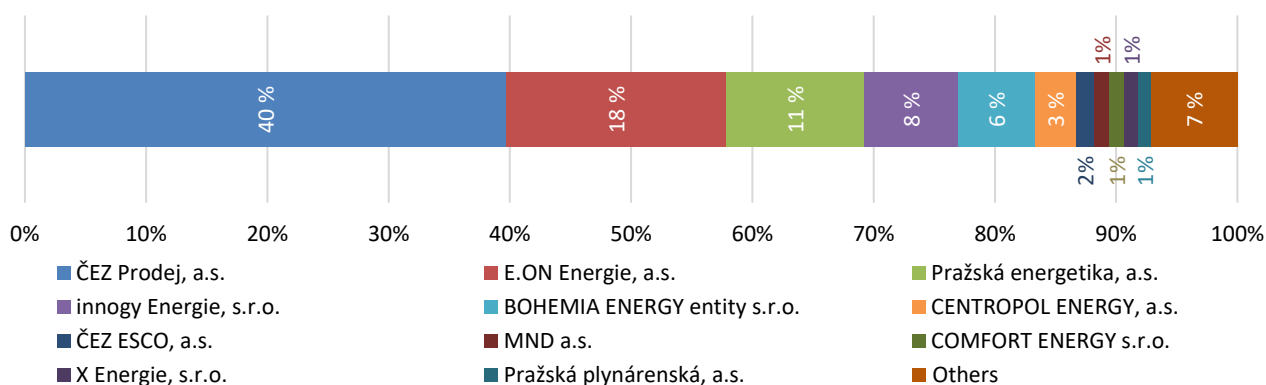
Chart 3 Gas suppliers' share of gas consumption in 2020



Source: OTE, a.s.

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

Chart 4 Electricity traders' shares of supply points at the end of 2019



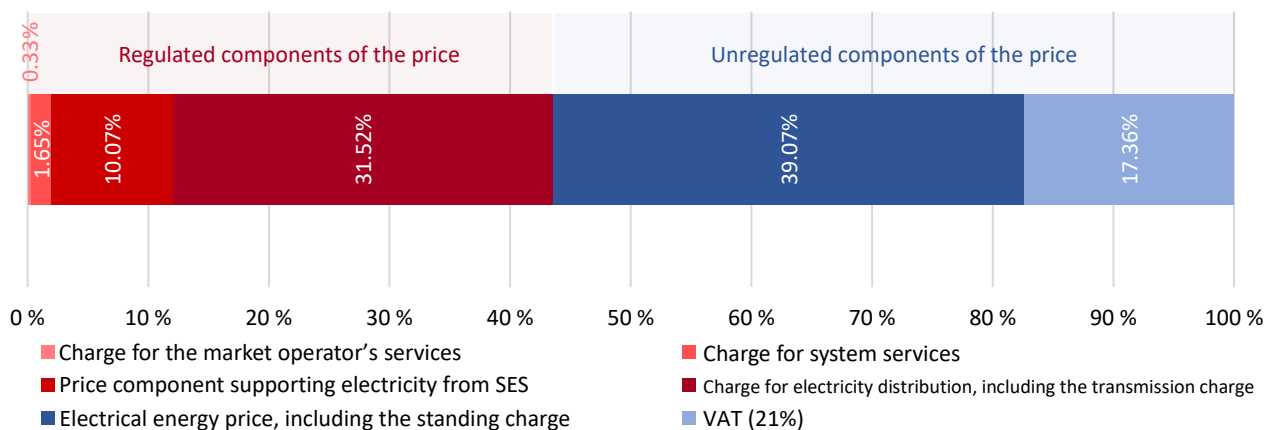
Source: ERO

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

The overall retail price of electricity/gas supply is comprised of several regulated items and the commodity price. The commodity price, which is heavily dependent on the wholesale price, is the result of competitive fight between suppliers. On the other hand, the supplier is unable to influence the price of the regulated items, which depend on the place (distribution area) and the offtake size.

Chart 5 shows the percentage shares (including the VAT and electricity tax) of the various components in the resulting price of electricity supply for average households in 2020.

Chart 5 Percentage shares taken by each of the components of electricity supply price for average households in 2020



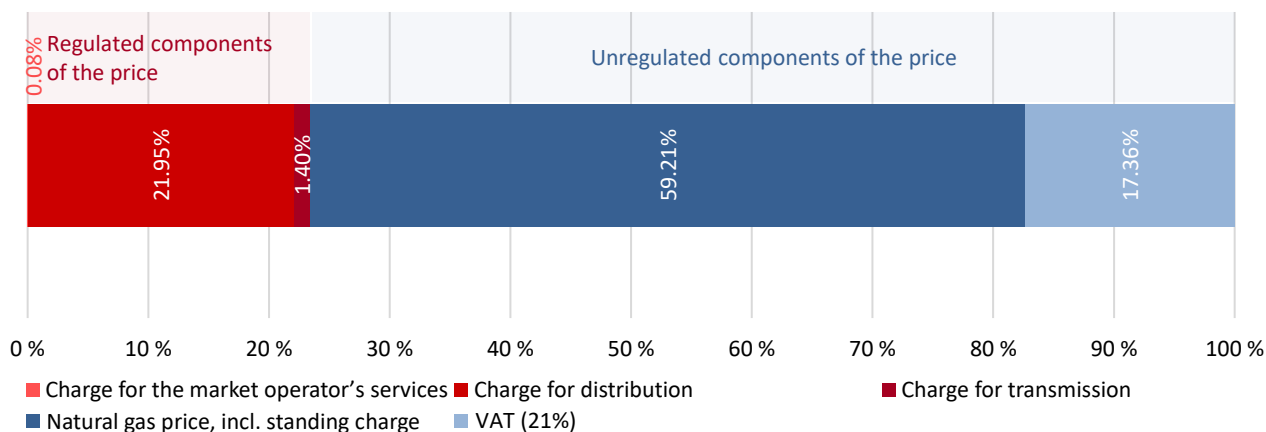
Source: ERO

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

In the low-demand business segment, the average planned regulated component of the price related to electricity supply for 2020 was approximately CZK 2,214/MWh. For households, the average planned regulated component of the price related to electricity supply for 2020 was approximately CZK 2,042/MWh.

The structure of the average price of the gas supply service for customers in the household category in 2020 is shown in Chart 6.

Chart 6 Structure of the average price of the gas supply service for customers in the household category in 2020

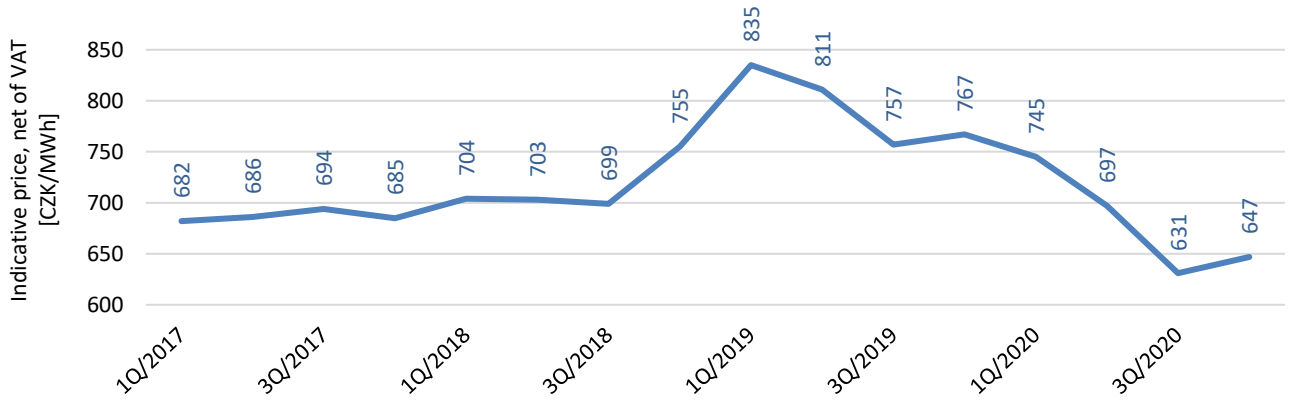


Source: ERO

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

With a view to enhancing consumers' awareness the Office publishes, on a quarterly basis, the indicative price of the unregulated component (i.e. of the commodity) of the gas supply price for low-demand business and household customers so that everybody is able to check whether their price reflects the current market situation. The indicative price includes the wholesale gas price, traders' margins, which cover their costs incurred in providing the gas supply service, and reasonable profit. Chart 7 shows the indicative prices for the last four years for low-demand business and household customers who use gas for space heating.

Chart 7 Indicative gas prices for the 'heating' offtake



Source: ERO

2 The ERO's activities in research and development

The Office contributes to the support for research, development, and innovation in areas relevant for the Office's activities, thereby helping to harmonise the scientific and research environment and to apply the outputs from R&D&I (Research and Development and Innovation) in practice in the regulation of the energy sector.

Under the TA ČR programmes, the Office is active under BETA 2 and THETA programmes. In 2020, two projects were running under BETA 2, the results of which would be applied in the Office's activities: the *Evaluating the effectiveness of investments in the regulated energy sectors in the Czech Republic* project and the *System for processing, analysing, and evaluating the ERO's statistical data* project. For the BETA 2 programme in 2020, the Office specified another two R&D requirements: *Comprehensive innovation of the tariff structure in the electricity industry* and *Development of a software tool for comparing electricity and gas suppliers' price quotations – The ERO's Price Calculator*.

Under the THETA programme, 2020 saw the launch of three projects under which the Office accepted the role of the application guarantor in the third public competition of the programme. These projects focus on the priority research objective *Analysis of the verification of the possibility to rollout smart metering technology in the Czech Republic, including impacts on customers and regulatory instruments*. The projects are:

- *Benefits of deploying smart metering for society and the regulator (SMART)*
- *Requirements for smart metering in the Czech Republic from the users' perspective*
- *Impacts of cyber security on the regulated areas of smart metering*

Under the THETA programme, for the fourth public competition the ERO specified two topics of the priority research objectives: *1.2.1 Methodological tools for the option of evaluating economically justified costs in regulation* and *1.3.1 System analysis of the development of community energy (energy communities and renewable sources communities), including the development of new rules for energy market operation*, and put them out to tender together with the MIT. The implementation of the projects investigating the above priority research objectives will help the Office to modernise and improve its price controls and technical regulation, reflecting the current and future trends in the energy sector.

The Office's R&D&I cooperation with TA ČR and MIT also resulted in arrangements for a series of workshops on interconnecting the research teams and their projects with state administration. The first workshop, called *Energy strategy in publicly funded R&D projects*, took place online in December 2020.

3 European internal energy market and international cooperation

For the EU's internal energy market, 2020 was important in that the new regulations adopted as part of the Winter Package started to apply. The implementation of the Winter Package has generated new duties and tasks for energy regulators, such as amending secondary legislation, market monitoring, risk assessment, tackling of unfair practices, fair determination of network charges, issuance of recommendations, safeguarding customers' rights, granting exceptions, organising public consultations, etc.

In the EU, the Office pursued international activities mainly within ACER and CEER. The Office is actively involved in their electricity and gas, consumer protection, and REMIT working groups. In 2020, the Office also continuously consulted its positions with the V4 countries' regulators and joined ERRA's activities. Because of the anti-COVID-19 measures, from March 2020 all deliberations took place via videoconferencing. The Office used its participation in working groups for presenting the Czech Republic's experience, monitoring the emerging trends, and acquiring international experience.

ACER's electricity working groups mainly addressed issues related to the implementation of network codes and framework guidelines and, newly, Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity and Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk-preparedness in the electricity sector and repealing Directive 2005/89/EC.

The pivotal issue in the gas sector was the forthcoming revision of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure (TEN-E) in terms of drafting a position paper. The Regulation will be revised in line with the EU's climate targets, i.e. the Green Deal for Europe. The Office supervised the outputs related to meeting the requirements of Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks.

The CEER groups *inter alia* prepared the input materials for the development and amendment of the European energy legislation and the implementation thereof at the national level. They also addressed the issues of market transparency and competitiveness, cross-border interconnections, consumer protection, supply security and quality, sustainable development, and cybersecurity.

Because of the COVID-19 pandemic, CEER set up an Ad Hoc COVID-19 Group, which the Office joined. Its tasks include looking at the regulator's role and activities in the period of the pandemic and find answers to regulatory issues and to questions of how to establish a new normal status in regulatory models and how to cope with the changing market situation.

Via videoconferencing, ERO employees also attended the Florence, Madrid, and Dublin forums, specialised workshops, and online training as part of CEER's educational activities.

Under the reporting and notification obligation arising for the Czech Republic, as an EU member state, from Directive (EU) 2019/944 and Directive 2009/73/EC in June 2020, the ERO delivered the Czech version of the *National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic for 2019* to the European Commission, ACER, and CEER. Among other things, the Report provides information about the performance of the regulator's monitoring obligations set out in the Third Energy Package and the Winter Package.

4 Price Control Principles for the fifth regulatory period

Under the Energy Act and under the SES Act, the Price Control Principles set out the procedures for regulating the prices of related services in the electricity industry and in the gas industry for the electricity transmission system operator, the gas transmission system operator, and distribution system operators. For the market operator, they set out the procedures for regulating the prices of market organisation and provision of data from records of commercial transactions, prices related to the issuance of guarantees of origin, and prices related to the mandatory buyers' operations.

The beginning of the development of the Price Control Principles for the fifth regulatory period, i.e. for 2021 to 2025, was described in the relevant chapter of the Office's annual report for 2019, including, for example, more details about the public consultation process. In 2020, all the comments were dealt with, and the document called *Price Control Principles for the 2021-2025 Regulatory Period in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries, and for Mandatory Buyers* for the fifth regulatory period was published on 9 June 2020.

For laying down the price control procedures, the Office set the following objectives and decided on the measures that would help to meet them:

- **The price that customers pay must match the quality of the services that they receive.** Regulated companies must respond to changes in customers' position and new needs. Price control procedures must incentivise to network development having regard to the future needs, predictability of the environment, and the efficiency and economy of operation. They also have to provide for a high standard of energy supply security and reliability, including cybersecurity and personal data protection.
- **Regulation will enable companies' dynamic responses to energy transition through their pro-investment approach.** Regulated entities will have funds enough for the effective investments required while the new regulatory procedures will reduce their financial risks. Thus, they will be able to respond to the development of renewable energy sources and decentralised generation, roll out smart solutions for remote metering and system control, take into account the evolution of electric mobility, and expand digitalisation. They will also be able flexibly to respond to unexpected developments.
- **The regulated entities' financial stability, the objective valuation of assets, and the fair estimate of the risk rate** will help to put in place a very investment-friendly environment in which companies will be motivated to carry out the required projects.
- **Predictability of the regulatory environment** has been enhanced by the smooth transition from the fourth to the fifth regulatory period and by preserving most of the currently applicable price control procedures.

The ERO set up four main working groups on each of the topics (costs; assets and profit; technical specificities in the electricity industry; and technical specificities in the gas industry), within which the ERO met with the authors of responses, i.e. regulated entities' representatives. Representatives of ERO management and those of the regulated entities' senior managements were nominated to the coordination committee. The steering committee included all members of the ERO Board; on this platform, the ERO Board therefore decided on the final text of the Price Control Principles and the final disposal of the various responses.

The project started in December 2019; in three months of very intensive effort, most of the major responses were dealt with and the regulatory procedures for the fifth regulatory period were finalised and rendered fully compliant with the above objectives of regulation. The fact that no differences in opinion were voiced at the public hearing organised by the Office under Section 17e(10) of the Energy Act on 30 January 2020, which all the respondents could attend, indicates that

the selected approach was correct. The Office dealt with all the responses received and it published in writing the outcome of the response process on its website on 28 February 2020.

The fundamental approach to the regulatory framework for electricity and gas transmission and distribution has been preserved. The basic equation for calculating allowed revenues continues to be the sum of the values of the licence holder's eligible costs, allowed depreciation and profit, and market factor.

The main differences between the regulatory principles for the fifth versus the fourth regulatory periods include a change in the approach to the calculation of eligible costs. Aware of the higher level of uncertainty in the coming years, the Office has reduced the overall risk in the regulatory environment by introducing a rolling average of actual costs for the last three known years using a profit/loss sharing mechanism with a symmetric coefficient of 0.5 for the regulated year.

A major benefit for customers, which will be felt in a lower profit for regulated companies and hence lower charges for electricity and gas distribution, is a lower value of WACC due to a drop in the market parameters entering the calculation of the regulated rate of return. However, thanks to its balanced setting, the set value of WACC will also provide for the further development of systems, which will offer customers new opportunities of modern energy, such as through their active involvement in the electricity market as prosumers. WACC has been set as a constant value for the whole regulatory period and the same for the TSO and DSOs in the electricity industry and the same for the TSO and DSOs in the gas industry. Thus, two separate WACC values specific for each of the industries have been set for the electricity industry and for the gas industry. The pre-tax rate of return has been set at 6.54% (the electricity industry) and 6.43% (the gas industry).

Another difference from the fourth regulatory period rules is that until 2025, the ERO will gradually equalise the value of the regulatory asset base (RAB) and the net book value of assets (NBVA); it will do so in a way preventing heavy year-on-year impacts on allowed revenues and on regulated prices for final customers. This will enhance the regulated entities' financial stability and the transparency of the regulatory framework for investors.

The fundamental principle of electricity transmission pricing is similar to that in the fourth regulatory period. The charge for capacity reserved in the transmission system now includes a new correction factor for electricity transmission, which newly includes, in adjusted allowed revenues, the TSO's actual revenues based on the prices set out in ERO price decisions. The Office has also changed the approach to the treatment of the balance of revenues and costs related to congestion so as to render it compliant with Regulation (EU) 2019/943. For calculating the charge for network use, the methodology for calculating the price of electrical energy for covering losses has been modified and the methodology has been included in Price Control Principles as of the fifth regulatory period. The methodology has emerged from the principles used for a long time in the preceding regulatory periods; for the fifth regulatory period, it was subjected to some changes that have clarified the principles used.

In the case of the charge for system services the fundamental principle used in the fourth regulatory period has also been preserved. However, the procedure for calculating the planned costs of buying the balancing services, which constitute the main component of adjusted allowed revenues, has been updated and is now based on the planned price for buying ancillary services, calculated from the average of the actual prices over the last three years.

In the case of distribution pricing, the fundamental principles are also similar to those in the fourth regulatory period. For pricing the capacity reserved in the distribution system, the Office has changed the approach to the correction factors that are used to correct to the actual values all planned values entering adjusted allowed revenues. From now on, the correction factor for electricity distribution will be evaluated in two consecutive years, resulting in more accurate values

of the electricity amount taken at the LV level and hence in more accurate values of losses in distribution systems and costs of covering losses in distribution systems.

For calculating the charge for network use, the methodology for pricing electrical energy for covering losses has been modified and included in the Price Control Principles as of the fifth regulatory period. Because of the DSOs' and the TSO's different procedures for buying electricity for covering losses, separate methods for electricity distribution and for electricity transmission were adopted. The Office has also modified the parameters of incentive-based quality control and drew up in detail Q Management shared by the TSO and the DSOs.

Price regulation for local distribution system operators has remained unchanged.

A special chapter on gas distribution also connects to regulation in the fourth regulatory period. In the case of the costs of buying gas for covering the allowed quantity of losses and own use (process), the Office updated the algorithm based on the arithmetic average of the actual values of losses for 2014 to 2018, which may not exceed 2% of the average gas quantity that had entered the distribution system. As regards the planned value of the regulated cost item of rent paid for the use of gas installations, the parameters entering the calculation of this value were updated.

On the contrary, gas transmission has been subjected to major changes. One of the most important of them is putting in place an allocation mechanism that determines the size of the part of the transit system that serves for national purposes. In the fourth regulatory period, a single allocation ratio of 19.2% was set for the entire period. For the fifth regulatory period, this principle has turned out to be unsatisfactory, primarily due to the major capital projects being planned for the fifth regulatory period. The Office has therefore decided that certain individual infrastructure components will have their own individual allocation ratio, and the resulting allocation will be calculated every year as the planned value and, subsequently, as the actual value. Another relatively important change concerns the variable component of the charge for gas transmission. The basic principles for calculating the variable component of the price include the principle of the TSO's cost neutrality for its national and transit gas transmission services and the introduction of a mechanism of annual corrections applied to all exit points of the system, and extraordinary corrections applied to exit cross-border points.

As in the preceding regulatory period, the market operator's activities are regulated separately in the electricity industry and in the gas industry. In the electricity industry, separate controls apply to activities entailed in the clearing of imbalances, market organisation, the payment and administration of aid to renewable electricity sources, and the administration of the guarantees of origin. In the gas industry, regulation related to the clearing of imbalances is not separated from the regulation of market organisation in the fifth regulatory period; the main reason is the small gas quantities traded. The market operator also provides data from the records of transactions in electricity and gas.

The eligible costs are calculated for every regulated year for the electricity industry and the gas industry based on the same principles as those used for the electricity and gas system operators. Allowed depreciation and amortisation is calculated as in the fourth regulatory period. For the entire fourth regulatory period, the market operator's allowed profit was fixed. For the fifth regulatory period, the allowed profit for the electricity/gas industry is calculated as the product of the company's share capital, WACC, and the coefficient for the electricity/gas industry. If the holder of the licence for the market operator's activities pays out dividends exceeding 10% of its profit after tax, the risk-free rate of return, marked up by income tax, will be used for profit calculation rather than WACC.

Pricing the mandatory buyer's activities is very similar to the methodology for the fourth regulatory period. However, the Office has modified the part concerning the charge for imbalance on the part

of the mandatory buyer: for mandatory buyers-traders, it has put in place incentives to continue reducing the average charge for imbalance, for example, by way of a better prediction of electricity generation. In the fifth regulatory period, the price for the mandatory buyer's activities also includes a market factor item due to the potential emergence of unexpected costs on the part of the mandatory buyer. The market factor is subject to approval by the Office and there is no legal entitlement to it.

5 The electricity industry

In April 2020, the Office responded to the declaration of the state of emergency by the Czech Government in connection with the COVID-19 pandemic; it issued two price decisions for the electricity industry, namely ERO Price Decisions 2/2020 and 3/2020 of 23 April 2020, amending the Price Decisions applicable in 2020 for the period from April to June 2020, when the country's economy suffered the most. The amended price decisions helped customers to respond to the situation more flexibly, and, for example, to reduce the contract values of yearly reserved capacity at the HV and MV levels or to change the distribution rate at the LV level on a monthly basis, i.e. execute operations that under normal circumstances can usually be only executed in 12 months from the last change thereof. The amendments to the price decisions also made it possible to forgo agreeing on the monthly reserved capacity and billing the monthly price for the monthly reserved capacity in respect of a positive value of the difference between the maximum metered 15-minute electric power taken in the given month and the contract value of yearly reserved capacity.

On 9 June 2020, the Office published, in compliance with Section 19a(9) of the Energy Act, Price Control Principles, which are described in more detail in Chapter 3. Further to that, in the second half of the year the Office issued three price decisions for 2021, setting out prices determined already in line with the updated Price Control Principles for the new fifth regulatory period. They were specifically the following: ERO Price Decision 5/2020 of 29 September 2020 laying down the price for mandatory buyers' activities and prices related to guarantees of origin; ERO Price Decision 9/2020 of 27 November 2020 laying down prices for related services in the electricity industry and other regulated prices; and ERO Price Decision 10/2020 of 27 November 2020 laying down prices for related services in the electricity industry for customers connected to LV networks.

On 23 June 2020, the Office issued an amendment to the Electricity Market Rules Public Notice 302/2020 and simultaneously started to draft a new amendment thereto. Many of the changes were related to complying with the obligations under national and international legislation, due to which the procedures set out in the Electricity Market Rules had to be changed.

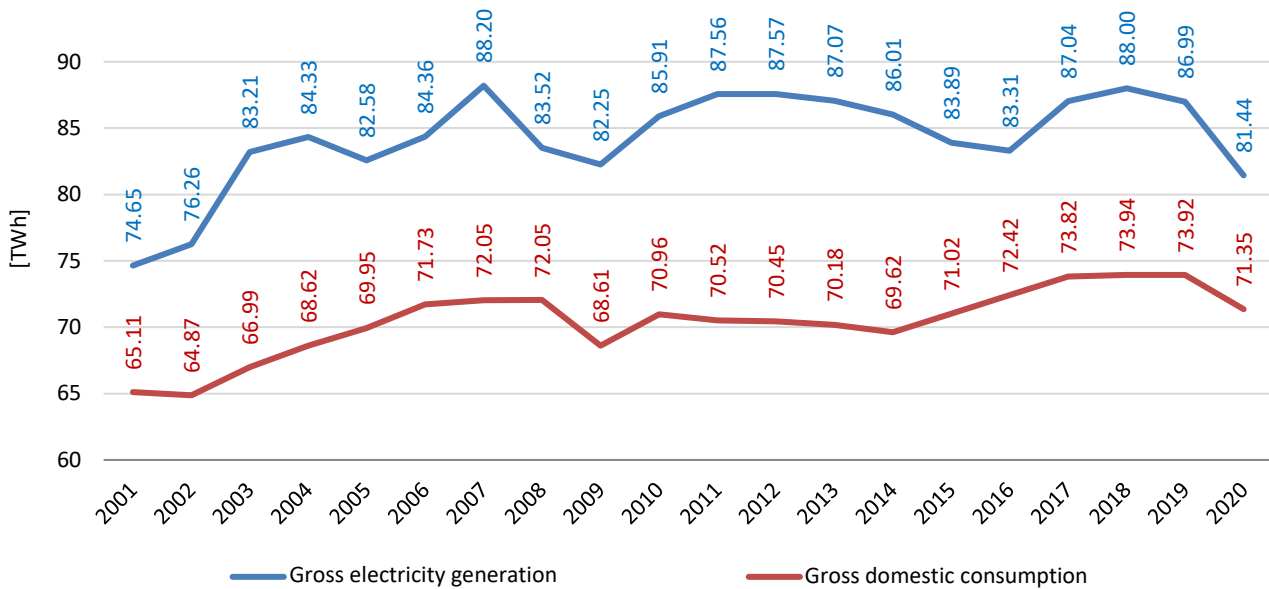
In respect of the international electricity market integration, the COVID-19 pandemic also had an impact on the general progress in the ongoing projects. National regulators smoothly continued the ongoing activities and a few methodologies with a significant impact on the Czech market were adopted: a methodology changing the conditions for imbalance costing, a methodology for coordinated redispatching and countertrading (with cross-border relevance) and the related methodology of cost sharing for coordinated redispatching and countertrading. In 2020, the MRC and 4M MC projects for intra-day electricity market coupling continued to be prepared. The COVID-19 pandemic caused the official launch to be moved to the first half of 2021.

In 2020, amendments to the transmission system operating rules and the distribution system operating rules were approved. The amendments to the two documents were associated with the implementation of network codes and framework guidelines in EU legislation (the third energy package and the Winter Package) while responding to the development in the electricity market (such as changed conditions for the provision of ancillary services). When approving the operating rules, the Office's key objective was to ensure that the rules form the basis for the transparent and predictable operation of the licensed activity and do not cause disequilibrium between electricity market participants. Another requirement was for the operating rules to reflect the new findings gathered in the TSO's and DSOs' operation.

The Office drew up quarterly reports and a yearly report on the operation of the electrical grid for 2019. The COVID-19 pandemic was also reflected in statistical data. In 2020, gross electricity generation totalled 81.4 TWh, down by 5.5 TWh (-6.4%) from 2019. Lower electricity generation was last registered in 2002. The country's gross electricity consumption also declined, to 71.4 TWh

(-3.5%), the lowest value over the last five years. Electricity consumption declined in almost all demand categories, except households where, on the contrary, it increased by 716 GWh (+4.7%). Chart 8 shows electricity generation and consumption.

Chart 8 Electricity generation and consumption between 2001 and 2020



Source: ERO

5.1 Infrastructure and price controls

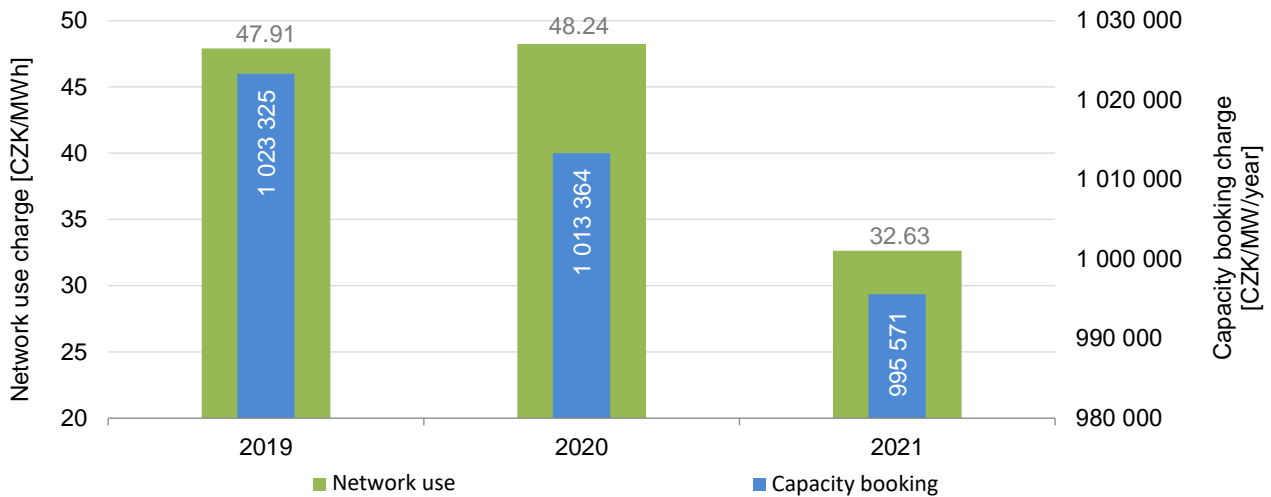
5.1.1 Price controls

The funds to defray the costs incurred in operating the electrical grid at all levels are raised through regulated prices billed to customers. In 2020, the Office set prices for the related services in the electricity industry for 2021. The various regulated prices are intended to defray various types of costs; fully in compliance with the applicable methodology and the best regulatory practice, the Office seeks the best possible cost-causative linkage between the cost driver and the price paid by customers.

The electricity transmission charge is composed of the charge for reserved transmission capacity and the charge for using transmission system networks. The charge for reserved transmission capacity is the result of dividing adjusted allowed revenues from electricity transmission by the value of the capacity reserved in the transmission system. The charge for using transmission system networks is determined by the cost of electrical energy for covering losses in the transmission system divided by the total electricity amount planned to be transmitted. The two items are adjusted by the correction factor, which reflects the surplus/deficit in revenue in previous years.

The charge for reserved transmission capacity for 2020 decreased by 0.97% year-on-year; the impact of the TSO's capital expenditure, which caused an increase in adjusted allowed revenues from electricity transmission, was offset by an increase in reserved capacity. The charge for using networks in the transmission system increased by 0.69% in 2020 year-on-year. In 2021, the first year for which prices were calculated under the new Price Control Principles, the charge for capacity reserved in the transmission system for 2021 declined by 1.8% and the charge for network use in the transmission system for 2021 dropped by 32.4%. The electricity transmission charges between 2019 and 2021 are shown in Chart 9.

Chart 9 Charges for reserved capacity and network use in the transmission system



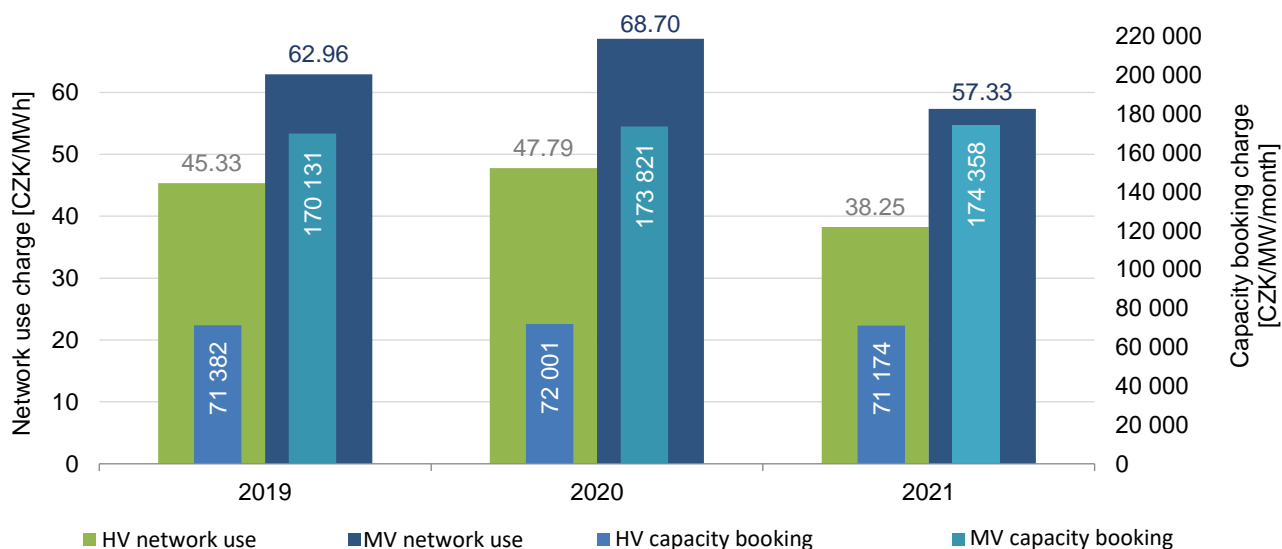
Source: ERO

The charge for system services is the result of dividing the TSO’s adjusted allowed revenues from system service provision by the electricity amount expected to be taken by customers connected to the electrical grid. The charge for system services for 2020 rose by 1.22% year-on-year. For 2021, the charge for system services increased by almost 21%. This increase is due to higher payments to ancillary service providers, which will be reflected in the amount of adjusted allowed revenues.

The charge for electricity distribution at high voltage (HV) and medium voltage (MV) levels is composed of a charge for capacity reserved in the distribution system and a charge for network use in the distribution system. The charges for reserved capacity at the various voltage levels are mainly influenced by the agreed technical parameters of reserved capacity, the amount of capital expenditure at the respective voltage level, and the charge for capacity booking in the higher-level transmission system. The charge for capacity reserved in the distribution system at the HV level rose by 0.9% year-on-year and at the MV level by 2.2% year-on-year for 2020. The reasons included investments in distribution systems. For 2021, the charge for reserved capacity at the HV level declined by 1.1% and at the MV level increased by 0.3%.

The charge for distribution system network use increased by 5.4% year-on-year at the HV level and by 9.1% at the MV level for 2020; 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. In 2021, the charge for distribution system network use dropped by 20% at the HV level and by 16.6% at the MV level. As in the case of the transmission system, the decreases resulted from the declining prices of electrical energy for covering losses and the lower charge for using the transmission system networks. The drop in the 2021 charge for network use was also supported by the significant reduction in the allowed losses in distribution systems. Chart 10 shows the development of the two components of the electricity distribution charge between 2019 and 2021.

Chart 10 Charges for booked capacity and network use in MV and HV distribution systems



Source: ERO

At the low voltage (LV) level (the household and low-demand business customer categories), the regulated prices are calculated in a more complicated way for a larger number of distribution tariffs. 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 amount distributed. The year-on-year changes in the various electricity distribution charges at the LV level for 2020 differ depending on the agreed distribution tariff, and therefore average values must be used for the purpose of year-on-year comparisons. The charge for electricity distribution at the LV level rose by 2.6% year-on-year on average; combined with the other regulated prices, this caused an increase in the average regulated component of the price for electricity supply at the LV level by 1.5% year-on-year. For 2021, the distribution charge declined by 3.6%, regulated prices declining by 1.7% year-on-year as a result. The updated of the Price Control Principles was one of the causes of the price reductions.

The charge for the market operator's services in the electricity industry decreased by 26.7% year-on-year and was set at CZK 5.08/SDP/month for 2020. For 2021, this price has dropped by another 23.1% to CZK 3.91/SDP/month.

The price component for support of electricity from SES for 2020, determined from the contract input power reserved, declined by 2.2% year-on-year; however, for 2021 it increased by 13.6% year-on-year. The main reasons for this price component declining for 2020 included the growth of electricity prices at exchanges and the subsidy from the national budget increased to CZK 27 billion. The growth of this price component for 2021 has been caused by a decline in the electricity price at exchanges and the subsidy from the national budget for 2021, which stayed at CZK 27 billion although indexation of feed-in tariffs is provided in the legislation for some types of non-fuel electricity generating plants. The maximum payable amount of the price component for support of electricity has been preserved at the same level and is determined as the product of the total electricity amount taken and CZK 495/MWh.

5.1.2 Networks and codes

The development of decentralised electricity generation precipitates new demands on, in particular, distribution networks, and the Office therefore devotes increased attention to preparations for the changes expected in the energy sector. Electricity self-generation in small plants producing a few kW, the evolving use of power storage (accumulators) in households, prosumers'

activities in the market (supply of self-generated electricity to the grid and offer of ancillary services) and other expected changes require that networks have the right size and sufficient capacity and are optimally controlled. The rollout of digital technology for network control and remote-controlled electronic devices to meter electricity consumption at customers connected to the lowest voltage levels, and the formulation of new requirements for the format and structure of the data exchanged between market participants and new requirements for the connection and control of generating plants, etc. should contribute to this.

At the national level, the Office held discussions with system operators during the process of the development and approval of amendments to the Electricity Transmission System Operating Rules and the Distribution System Operating Rules. A number of these amendments responded to the new trends in the electricity market. The Office also held talks with market participants in relation to amendments to public notice 540/2005 on the quality of electricity supply and related services in the electricity industry and 408/2015 on Electricity Market Rules.

The network codes and framework guidelines adopted at the EU level as Commission Regulations (EU) and the methodologies for the implementation thereof, and the regulations and directives adopted in the Winter Package are crucial for the electricity market. The implementation thereof is under way concurrently at several levels: the Union level, the regional level, and the national level. There are three groups of network codes and framework guidelines:

- Connection: Commission Regulation (EU) 2016/631, Commission Regulation (EU) 2016/1388, and Commission Regulation (EU) 2016/1447,
- Operation: Commission Regulation (EU) 2017/1485 and Commission Regulation (EU) 2017/2196,
- Market: Commission Regulation (EU) 2015/1222, Commission Regulation (EU) 2016/1719, and Commission Regulation (EU) 2017/2195.

The implementation of the connection network codes was almost completed in 2019. In 2020, only questionnaire polls were organised and evaluated for ACER to find information about the manner of the implementation. A smaller part of the activities concerning network codes and framework guidelines focused on operation and trade. In respect of trade, the conditions for transit shipping, which had been agreed with the regulatory authorities, were approved at the national level. This is a fundamental methodology that influences and will inform cross-border electricity trading.

National implementation of the operation regulations did not take place in 2020. The only development was the modification of the already approved methodologies in line with the practical application. Implementation of network codes and guidelines at the regional and EU levels is described in more detail in Chapter 3.

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 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 2020 are shown in Table 5.

Table 5 Electricity distribution continuity indicators in 2020

Indicator*	ČEZ Distribuce, a.s.	E.ON Distribuce, a.s.	PREdistribuce, a.s.	CR
SAIFI [interruptions/year]	2.87	1.92	0.39	2.30
SAIDI [minutes/year]	311.60	272.42	32.92	264.30
CAIDI [minutes]	108.47	142.22	85.27	115.15

Source: ERO

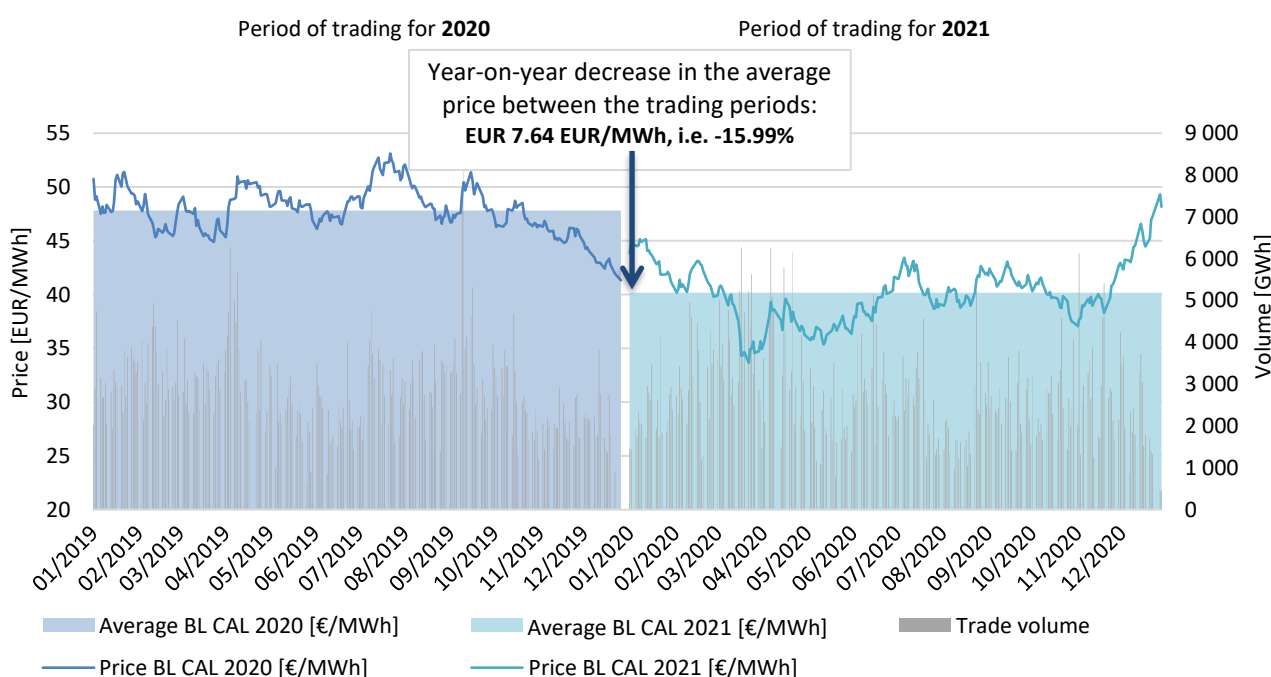
* System indicators covering all categories of interruption under Appendix 4 to public notice 540/2005

5.2 Wholesale market

At the wholesale level in the Czech Republic, electricity is traded on the EEX (European Energy Exchange) platform (formerly the PXE energy exchange), through bilateral [OTC] contracts, and in spot markets organised by the market operator. In 2020, a total of 27 TWh of electricity (15% less than in 2019) was traded via EEX (both directly on the trading platform as well as only cleared OTC transactions) for the Czech market for the long term. Of this amount, 16.4 TWh was with settlement in 2021.

Germany is the decisive wholesale market for the Czech market due to the several times higher liquidity in the German forward market. Because of the interconnection of electrical grids, the development of the wholesale price in the Czech and the German-Luxembourgian bidding zones is also correlated. Chart 11 shows prices of electricity in year-ahead products in EUR/MWh at EEX, with delivery in the German-Luxembourgian bidding zone, including the volume of transactions in 2019 and 2020 to buy electricity for 2020 and 2021. The price of the year-ahead base load product in 2020 was heavily affected by the global COVID-19 pandemic, with the price responding to the market uncertainties. Nevertheless, as 2020 progressed the price gradually returned to the pre-pandemic level. As explained in point 5.1, the declining price of electrical energy was also reflected in lower regulated prices for using transmission and distribution system networks.

Chart 11 Electricity prices in EUR/MWh at EEX in 2019 and 2020



Source: EEX

Spot trading takes place via the market operator's organised markets (day-ahead, intraday, and block markets) or under OTC (bilateral) contracts (not registered at the energy exchange). In 2020, 22,409 GWh was traded in the day-ahead market; under bilateral contracts registered in the market operator's system between market participants, a total of 76,334 GWh was traded. In the block market 5 GWh was traded and in the intraday market 4,439 GWh was traded. Here, the trend continued of a significant increase in that market due to the coupling of the Czech organised intraday market with other EU countries (SIDC, earlier also known as XBID) in 2019. Other indicators are summarised in Table 6.

Table 6 Electricity wholesale market indicators

Indicators	2016	2017	2018	2019	2020
Electricity production [GWh]	83,305	87,041	88,002	86,991	81,443
Participants in spot electricity markets [-]	105	106	113	121	120
Total electricity demand [GWh]	72,420	73,819	73,942	73,932	71,354
Imports volume [GWh]	8,608	10,388	10,431	10,955	13,126
Exports volume [GWh]	19,447	23,576	24,310	23,622	22,856
Number of traders active in the wholesale market [-]	328	357	378	397	418
Volume traded at spot electricity markets [GWh]	20,377	22,329	23,459	24,909	26,853
Volume traded at PXE futures [GWh]	19,856	17,358	26,410	31,511	27,063
Total traded volume [GWh]	40,233	39,687	49,869	56,420	53,916
Average incremental price in the day ahead market [EUR/MWh]	31.15	36.46	46.02	40.21	33.62

Source: OTE, a.s., PXE, a.s., ERO

6 The gas industry

In April 2020, the Office responded to the COVID-19 pandemic and issued an extraordinary price decision, ERO Price Decision 1/2020 of 23 April 2020 amending ERO Price Decision 4/2019 of 26 November 2019 on regulated prices related to gas supply. This price decision set out the conditions for calculating certain prices and payments concerning fixed costs in the period from April to June 2020. The measures were targeted at customers in the high-demand, medium-demand, and business low-demand categories. If the entity's consumption in the period from April to June 2020 dropped by 40% or more versus the same month of 2019, for determining the booked capacity charge the entity could use its value for an indefinite time for the given gas month, minus 20%.

Under Section 19a(9) of the Energy Act, on 9 June 2020 the Office published the Price Control Principles (for more information please see Chapter 3).

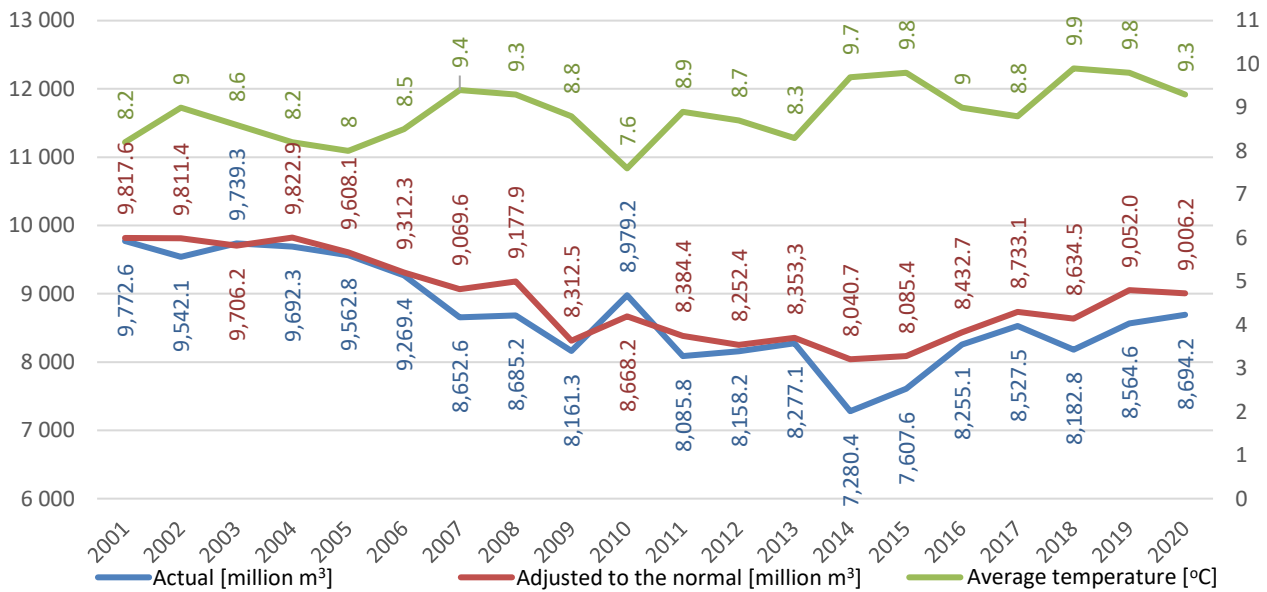
In 2020, the Office issued two price decisions for 2021, setting out regulated prices determined under the new conditions and procedures in the Price Control Principles. In June, it issued ERO Price Decision 4/2020 of 4 June 2020 on regulated prices related to gas supply, setting out the gas transmission service charges for cross-border points of the gas transmission system and the conditions for their application, and in the autumn, it issued ERO Price Decision 8/2020 of 27 November 2020 on regulated prices related to gas supply, setting out other regulated prices.

In 2020, the Groups continued to perform their obligations arising from the European Commission's conditions related to the 2019 agreement on RES asset swap between RWE AG Group and E.ON SE Group, such as in the form of the sale of a part of retail operations of E.ON SE held in the innogy energy group. In mid-2020, it was announced that Hungary-based MVM Group had become the new owner of the innogy group in the Czech Republic. Further to the above agreement, innogy Gas Storage was included in RWE AG Group as of 1 July 2020 and renamed RWE Gas Storage CZ, s.r.o. at the same time.

GasNet, s.r.o., a DSO in the Czech Republic, presented the new visual appearance of its brand on 12 October 2020. GridServices, s.r.o., a servicing company, also started to operate under the GasNet, s.r.o. brand and, accordingly, was renamed GasNet Služby, s.r.o. All these steps are related to the change in the ownership structure and the building of a separate distribution group of GasNet, s.r.o. Since October 2019, it has been wholly owned by a consortium of investors led by Macquarie Infrastructure and Real Assets and it is no longer part of the innogy group in the Czech Republic.

The Office drew up quarterly reports on the operation of the gas system and a summary yearly report for 2019. An evaluation of gas consumption in the Czech Republic is shown in Chart 12. In 2020, gas consumption in the Czech Republic totalled 8,694.2 mcm, i.e. 92,894.4 GWh (in the Czech Republic, the average gross calorific value was 10.68 kWh/m³). Compared with 2019, actual consumption increased by 1.5%. The average annual temperature was 9.3 °C and the difference from long-term normal temperature was +0.8 °C and from average temperature in 2019 it differed by -0.5 °C. Gas consumption in the heating season accounted for about 69% of total annual consumption. The lowest monthly consumption was measured in August (401.2 mcm, i.e. 4,302.3 GWh) while the peak consumption was registered in January (1,216.7 mcm, i.e. 12,975.9 GWh). Adjusted to long-term normal temperature using temperature gradients, in 2020 gas consumption amounted to 9,006.2 mcm, i.e. 96,225.4 GWh, down by 0.5% year-on-year.

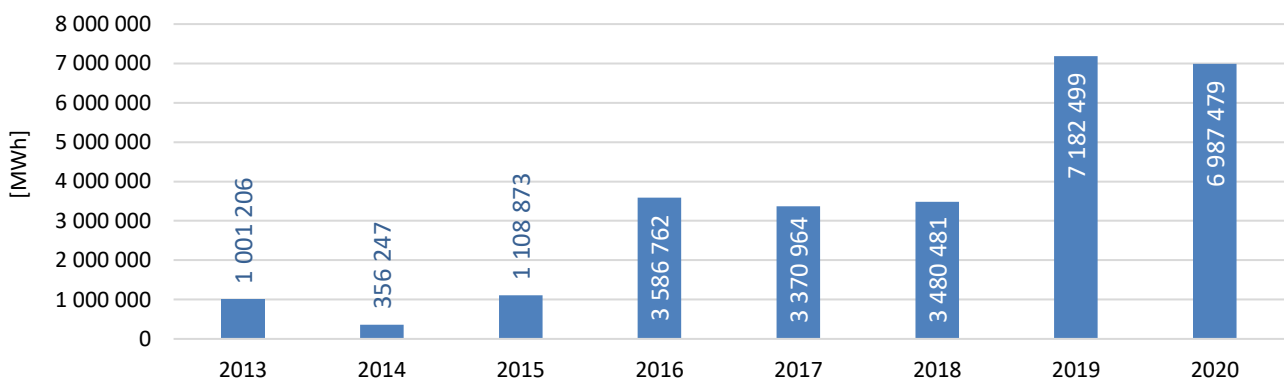
Chart 12 Overall evaluation of gas consumption in the Czech Republic between 2001 and 2020 (also showing adjustment to long-term normal temperature)



Source: ERO

From the perspective of a long-term comparison, 2020 saw the highest actual consumption in the last ten years. Such consumption was also reached due to the rising demand for electricity generation in power stations. The Počerady combined cycle unit, which is an important element in the gas system, was operated almost continuously in 2020 and took a total of 6,987 GWh. In July 2020, the Vřesová power station was put into full operation, and its consumption for that half year alone amounted to 2,356 GWh.

Chart 13 The Počerady combined cycle unit – natural gas supply via the Bečov delivery and metering point between 2013 and 2020



Source: ERO

6.1 Infrastructure and price control

6.1.1 Price control

Under the Price Control Principles, the Office determines the adjusted allowed revenues applicable to the transmission system operator, the distribution system operators, and the market operator, from which the regulated prices are calculated for the year. In the case of the transmission system operator’s revenues, a combination of the revenue cap and price cap principles is used. The revenue

cap regulatory method is used for calculating the allowed revenues for distribution system operators and the market operator.

The TSO's adjusted allowed revenues for 2020 rose by 10.63% year-on-year. The main reason is the positive correction factor, which reflects the difference between the planned allowed revenues and actual revenues for 2018. Because of the planned development of consumption and transmission capacity bookings in 2020, the average charge for the service of gas transmission to the domestic point rose by 4.73% on 2019 to CZK 18.08/MWh. For 2021, i.e. the first year for which the prices were calculated under the new Price Control Principles, the annually adjusted allowed revenues dropped by 15.32%; the average charge for the service of gas transmission to the domestic point for 2021 dropped by 19.41% on 2020 to CZK 14.57/MWh. This charge is integrated in the regulated prices of the distribution system service and, depending on the customer category (households, and low-demand business, medium-demand, and high-demand customers), accounts for around 1-2% of the total price for the gas supply service.

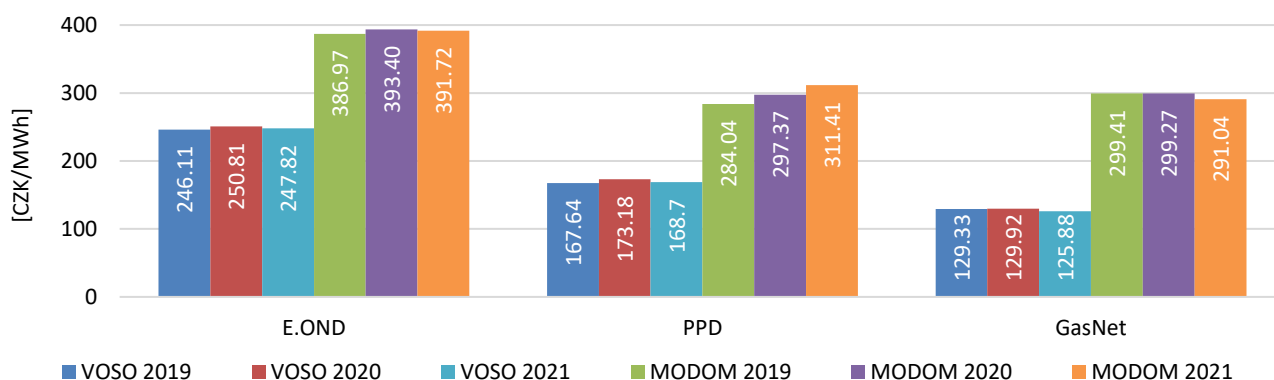
The distribution system service charge is calculated in two forms. One of the forms is the single-component price, which is intended for customers having a certain specific nature of their supply point usage. At such supply points, the largest part of the yearly offtake is consumed over a few days only during the year.

The other, and most frequently used, form of the distribution system service charge 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. 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 distribution area and on the customer's inclusion in an offtake band, which is determined by the adjusted annual consumption at the SDP. 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-demand customer categories (VOSO), this component of the price is based on the calculation of a logarithmic formula depending on the daily booked distribution capacity for an indefinite period. Customers most often pay it monthly as a fixed price for daily booked distribution capacity.

The average charge for the distribution system service, which also includes the service of gas transmission to the domestic point, increased by 0.4% for 2020 from 2019. The main reasons for this increase include a higher gas transmission charge, which is integrated into the charge for the distribution system service. The average charge for the distribution system service, which also includes the service of gas transmission to the domestic point related to gas distribution, declined by 2.09% for 2021 from 2020. Chart 14 shows year-on-year comparisons of the changes in the average charge for the distribution system service, including the service of gas transmission to the domestic point, for the various customer categories by DSO.

Another regulated component of the price is the charge for clearing paid to the market operator; for 2020 it was set at CZK 1.07/MWh and for 2021 at CZK 1.10/MWh.

Chart 14 Comparison of average regulated charges for gas distribution (distribution, transmission, market operator*) between 2019 and 2021, by distribution system operator



Source: ERO

*The charge for the market operator's clearing includes a fee under Section 17d of the Energy Act.

6.1.2 Networks and infrastructure

In 2020, the Office was deciding on the Ten-Year Czech Transmission System Development Plan for 2021-2030 (TYNDP). The plan contained several changes compared with the plan for the preceding period 2020-2029, both in the technical and financial parameters of the various projects and in the list of projects. They were specifically the following changes:

- The interrelated DZ-3-002, TRA-N-136, and TRA-N-133 (Moravia, CPI, and BACI) projects were suspended.
- The commissioning dates for the DZ-3-003 and DZ-3-004 projects were moved to 2021 and 2025, respectively.
- FID was granted to the DZ-3-005 (Moravia Capacity Extension, MCE) project.
- The TRA-N-134 and TRA-N-137 (Czech-Austrian Interconnection and Polish-Czech Interconnection) projects were included and slated for commissioning in 2026 and 2027/2028, respectively.

The plan submitted to the Office for assessment had already taken into account the responses provided during the public consultation organised by the TSO. The Office examined its content from the perspective of the requirements of the Czech and EU legislation and of its benefits for the continuous development of the Czech gas market and for meeting the needs of consumers in the Czech Republic, and from the perspective of overall impacts on final consumers. The plan was then approved on 14 December 2020.

Under Article 26 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 (NC CAM), NET4GAS, s.r.o., together with the adjacent TSOs, provided network users with the opportunity to submit non-binding demand indications with a view to quantifying potential demand for incremental capacity. From the resulting value of the network users' demand, the TSOs prepared a joint market demand assessment report (MDAR) on the potential need of incremental capacity. Based on this report, the decision was taken to start the design phase of the projects for incremental capacity under Article 27 NC CAM.

In accordance with Article 27 NC CAM, from 14 January 2020 to 14 February 2020 NET4GAS, s.r.o., together with the relevant adjacent TSOs, held a public consultation on incremental capacity projects on the Austrian and Polish borders. NET4GAS, s.r.o. received one response to the incremental capacity project on the border between the Czech Republic and Austria. OMV Refining & Marketing GmbH sent the response, together with its opinion expressing support for starting the incremental process with technical solutions at the level of 750,000 and 210,000 Nm³/h

(0 °C) per year and its opinion noting that the gas pipeline project was to have a commercial nature and be financed solely from the allocated capacity and the relevant tariffs. The incremental capacity auction was planned for July 2021 as part of the yearly capacity auction.

As part of its competences, the Office monitors and evaluates adherence to the gas supply security standard (GSSS) in the Czech Republic. In its monthly reports, the Office also pursues 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 the applicable legislation, all gas traders send information concerning the obligation to provide for GSSS to the Office before every winter season. The Office found that as at 31 December 2020, of all the licensed entities a total of 157 gas traders provided for GSSS for their own operation or for some other gas traders.

In 2020, GSSS was provided for January to March and October to December. Judging by the reports received, GSSS was ensured for the whole heating season, including at least 30% of stored gas located in gas storage facilities in the EU. Most gas traders supplied a confirmation that they had another gas market participant providing for their GSSS. In practice this means that one trader provides GSSS for several other traders, including through gas storage for 30% of GSSS. A detailed analysis of each of the gas storage facilities shows that despite various indications to the contrary, the use of storage facilities for gas storage has not changed and the facilities are being used in the traditional manner (injection in summer and withdrawal in winter). However, injection in summer is less even than in the past and depends on gas prices at exchanges. Before the winter season, storage facilities in the Czech Republic contained approximately 3.3 bcm of gas, which currently accounts for 39% of yearly consumption and for 58% of gas consumption in the heating season in the Czech Republic. The gas covered by GSSS is sufficient for gas supply to customers in the event of emergencies.

According to data from gas traders and gas producers, as at 1 December 2020 GSSS was agreed for the following cases in the following quantities:

- in the event of extreme temperatures during a 7-day peak period: 400,637 MWh;
- in the event of at least 30 days of exceptionally high gas demand: 9,367,807 MWh; and
- in the event of an at least 30-day period in the case of disruption of the single largest gas infrastructure: 7,088,378 MWh.

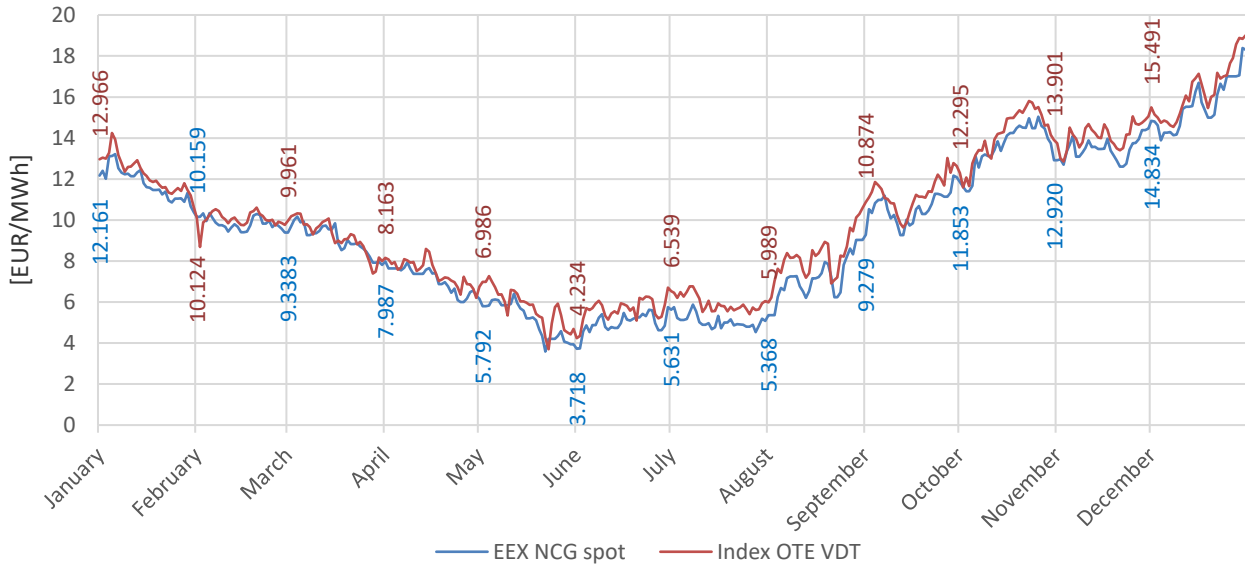
The Office asked SSOs to provide it with data on the daily quantities of stored gas in the given period, broken down by gas trader. On the basis of this data the Office carried out, in respect of all companies, a review of the GSSS reports received, with a view to checking the actual situation with GSSS on the part of each of the traders.

6.2 Wholesale market

In the within day market organised by the market operator, 4,311 GWh of gas was traded, down by 7.7% on 2019. The weighted average of the prices of the gas traded in the within day market declined by 32.6% to EUR 9.52/MWh in 2020 from 2019. In the spot market, natural gas prices even dropped under EUR 6/MWh in mid-2020. The main reason for such low prices was weaker demand caused by the mild winter and the COVID-19 pandemic and growing quantities on the supply side, also due to the increased imports of LNG being shipped to Europe. At the end of 2020, 104 market participants had access to the spot gas market.

In 2020 again, the prices in the Czech within day gas market closely copied the profile of the prices of the comparable products (in the German bidding zone) on the NCG platform, traded in the spot market of European Energy Exchange AG (EEX, the PEGAS platform), as shown in Chart 15.

Chart 15 Comparison of the OTE Index and EEX NCG spot prices in 2020



Source: OTE, a. s., Powernext SAS

Development like the above could also be seen in the prices in adjacent countries' markets (TTF, Gaspool, and CEGH). The within day gas market organised by the market operator in the Czech Republic can therefore be described as a fully functional wholesale venue. An important aspect for gas market participants is that the within day gas market has the capacity to satisfy occasional bids for large daily gas volumes for prices comparable with other key trading platforms relevant for the Czech Republic.

In terms of the forward market, through PXE in the Czech Gas Futures market 1,901 contracts totalling 3,901 GWh were traded for a total of EUR 53.3 million. In the PXE spot market (Czech Gas Spot), 304,420 contracts totalling 8,968 GWh and EUR 98.5 million were traded in 2020. Compared with 2019, when 7,012 GWh of gas was traded, PXE registered an over 27% increase in the gas quantity traded and the number of executed contracts.

6.2.1 Gas storage facilities

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

In 2020, the storage system operators, RWE Gas Storage CZ, s.r.o., MND Gas Storage a.s., and Moravia Gas Storage a.s., called a total of 28 auctions to sell storage capacities. Seasonal price differentials (spreads) continue to be the main instrument for storage capacity valuation.

Another important criterion for gas storage facilities is the level to which they are filled before the beginning of the heating season and at the end of the storage year. When gas stores in them are too low (which mainly happens at the end of the storage year), for technological reasons storage facilities are unable to offer the full withdrawal capacity and fully respond to temperature changes and so supply sufficient gas quantities to the market. On 1 October 2020, the day that is regarded as the beginning of the heating season and when conventional customs dictate the start of gas withdrawal from facilities, all storage facilities were filled to almost 100% of their capacities. The main reason was the favourable gas price and moderate autumn and winter 2019/2020, when storage facilities were filled to 35-76% after the season. Table 7 compares gas quantities in storage facilities after the 2019/2020 withdrawal season and before the 2020/2021 withdrawal season.

Table 7 Comparison of gas volumes in storage facilities after and before the withdrawal season

Company	Level in the facility (in %) on 31 March 2020*	Level in the facility (in %) on 30 September 2020*
RWE Gas Storage CZ, s.r.o.	35.14	99.25
Moravia Gas Storage a.s.	75.13	97.11
MND Gas Storage a.s.	75.77	98.22

Source: www.rwe-gasstorage.cz, www.moravia-gs.cz, www.gasstorage.cz

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

7 The heat supply industry

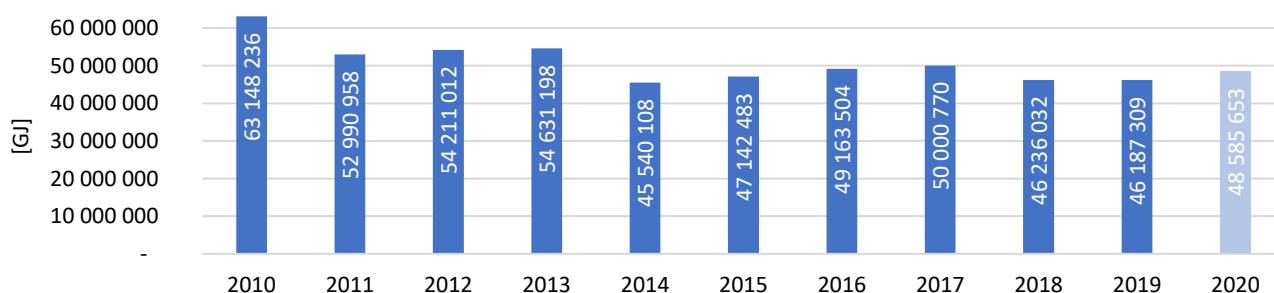
Historically, the heat supply industry is an important part of the Czech energy sector. It still relies mainly on coal burning. Its transformation has been started because of the new trends and of the effort to achieve clean energy. Customers can opt for a different source of thermal energy (heat), and suppliers must respond to the market's new, changing requirements. Competition can already be seen in the heat supply industry, albeit at the local level only.

In the heat supply industry, price control has the form of cost-plus pricing of thermal energy. The Office does not determine heat prices as such but lays down the conditions for calculating and agreeing on thermal energy prices. The cost-plus rules reflect the diversity of the heat supply industry, including the large number of the regulated entities, of which there are more than 700. They allow the thermal energy supplier to reflect the '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. Prices lower than the 'limit price' of CZK 152.86/GJ, to which the rules do not apply, are exempted from cost-plus pricing. For 2020, the regulatory rules remained unchanged.

A necessary response to the changing thermal energy market is the new heat supply regulation policy, the objective of which is putting in place clear-cut rules for heat pricing, including a reasonable profit as an issue that has been discussed for a long time, also reflecting the new conditions in heat supply, in particular the requirement for its flexibility. The Office started to develop the new regulatory policy in the first half of 2020 and used some of its aspects already in the price decision for 2021. They mainly included a modification of some items of eligible costs and the principle of the allocation of fixed and variable costs; the Office also completely overhauled the procedure for allocating shared costs in combined heat and power generation. The Office expects the full application of the new regulatory policy in heat supply from 2022.

More than other sectors, heat supply depends on the weather conditions, with heat consumption responding to warmer and colder years. Despite that, a slightly downward trend in consumption can be discerned in the industry as shown in Chart 16. The decline is caused by energy savings on the part of customers and the evolution of the heat supply industry itself, most notably related to onboarding new customers for thermal energy.

Chart 16 Supply to end consumers



Source: ERO

Note: The expected value is shown for 2020

In terms of thermal energy prices, 2020 was marked by the transfer of heat and cooling from the first lower VAT rate of 15% to the second lower VAT rate of 10% as of 1 January 2020; the same took place for hot water supply as of 1 May 2020. The decreased VAT rate caused a slight decline in the preliminary prices of thermal energy for final customers by around 2.9% year-on-year. However, net of VAT, the preliminary price of thermal energy slightly increased for all fuels, except the price of heat from biomass and other RES; overall, by 1.51% on average.

The preliminary price of thermal energy from biomass and other RES dropped significantly by 8.96% net of VAT, see Table 8.

Table 8 Average preliminary thermal energy prices for end consumers for 2020, including the 2020/2019 percentage change

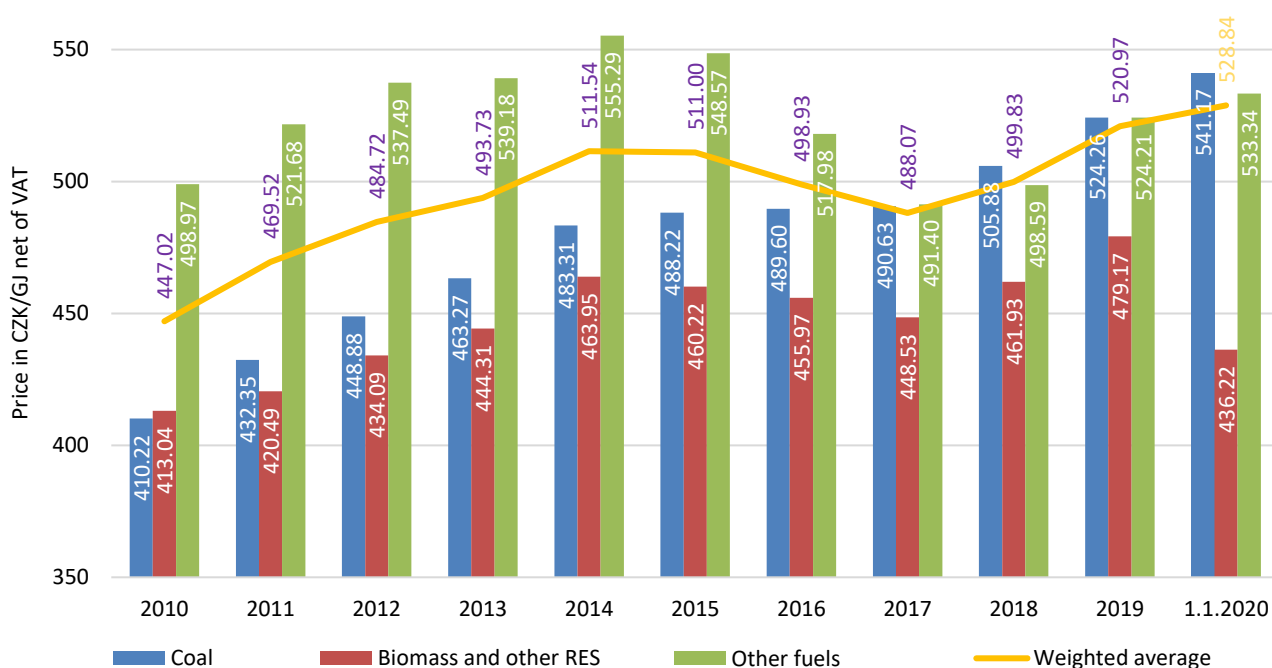
	Preliminary price for 2020 [CZK/GJ]		Percentage change 2020/2019 [%]	
	without VAT	with VAT	without VAT	with VAT
Coal	541.17	595.29	3.23	-1.26
Biomass and other RES	436.26	479.89	-8.96	-12.91
Natural gas and other	533.34	586.67	1.74	-2.68
Weighted average	528.84	581.73	1.51	-2.90

Source: ERO

The gradual change of the fuel mix in heat production, with coal’s share shrinking and the share of biomass and other RES and waste expanding, influences the development of the average prices of thermal energy. Recent years have also seen apparent changes in the prices of the fuels that account for 20-50% of the price, depending on the fuel used. In the case of the coal cost, there is an increase since in heat production from coal an important role is also played by the cost of emission allowances, the price of which had increased 4.5 times over the last three years to an average price of CZK 654.12/tCO₂ in 2020. On the other hand, 2020 saw a decline in the cost of biomass and other RES, caused by a lower price of this fuel combined with the effect of aid. In the case of other fuels, predominantly represented by natural gas, the response of thermal energy prices to natural gas prices is obvious. Precise data is plotted in Charts 17 and 18.

The average prices in Chart 17 are shown without VAT. The reason is the above lowering of the VAT rate in 2020 and, in the opposite direction, the gradual increase of the VAT rate in 2010-2013 from 9% to 15%.

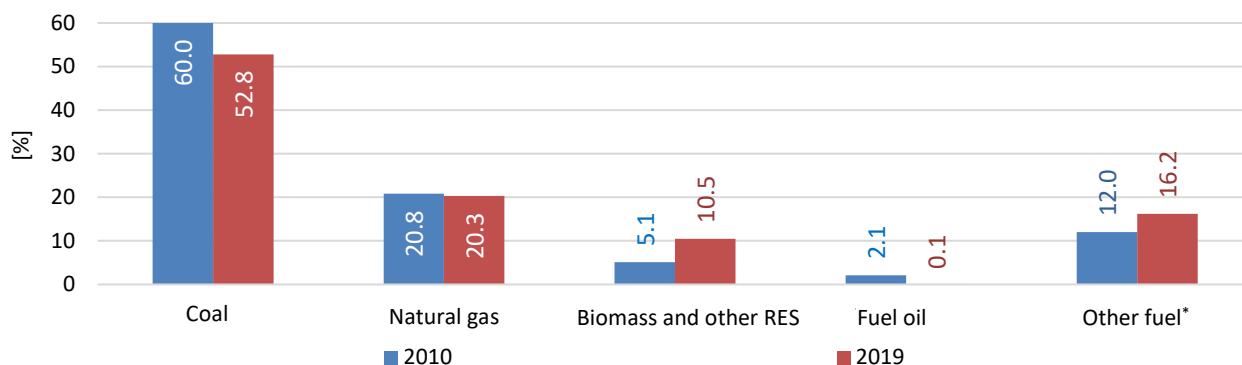
Chart 17 Average thermal energy prices for end consumers between 2010 and 1 January 2020



Source: ERO

Note: The expected value is shown for 2020

Chart 18 Share of fuels in thermal energy production – comparison of 2010 and 2019

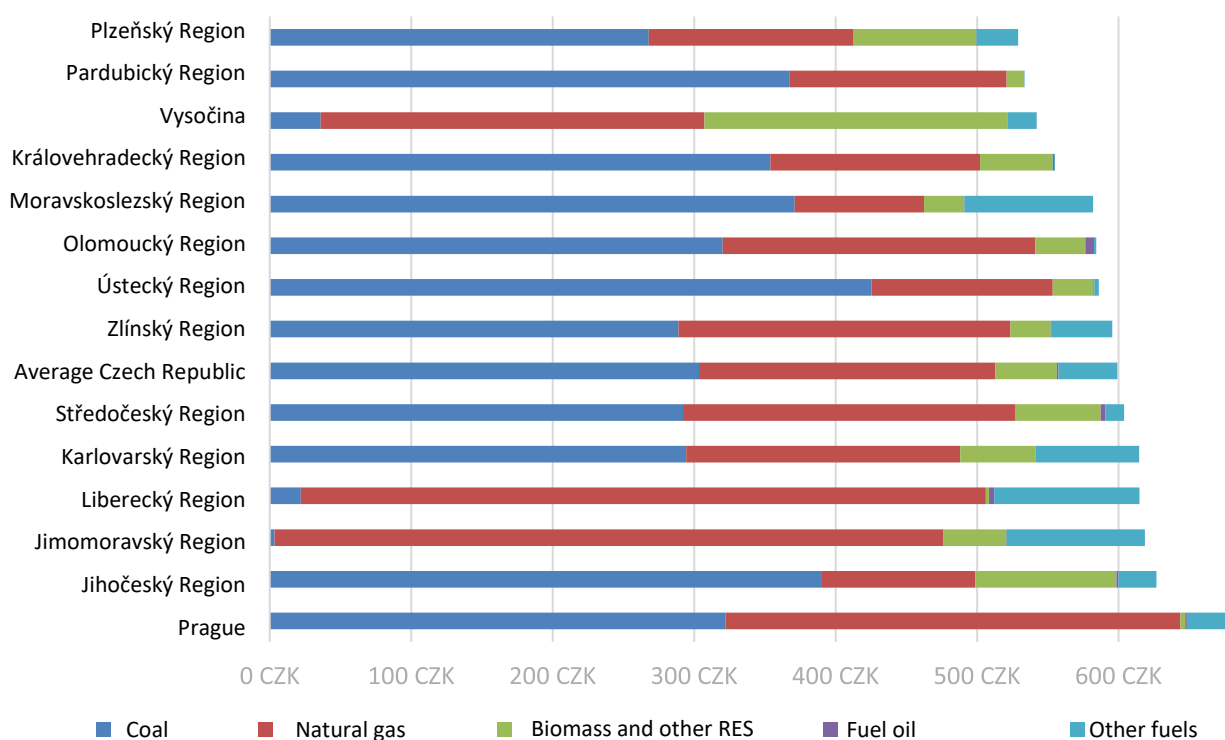


Source: ERO

*Such as waste

The thermal energy price differs in the various Regions, ranging from almost CZK 630/GJ to almost CZK 780/GJ. The lowest prices have long been in the Plzeňský, Pardubický, Královéhradecký, and Vysočina Regions, Prague being the most expensive city. The main reasons in Prague include the high complexity and large extent of distribution installations depending on the area development pattern, and lower offtake for such an extent of installations than in other Regions. The use of fuels in thermal energy production also differs. In the Jihomoravský, Liberecký, and Vysočina Regions, natural gas predominates, with biomass also significantly represented in energy generation in the Vysočina Region. On the other hand, in the Regions where heavy industry historically exists, coal continues to predominate in thermal energy production. As apparent in the case of, e.g., the Vysočina and Ústecký Regions, the assumption that the lowest thermal energy prices are in production from coal no longer applies. Chart 19 shows the Czech Regions and the contributions of fuels to their thermal energy production, and the price for end consumers.

Chart 19 Average preliminary thermal energy prices (including VAT) for end consumers, showing the percentages of fuels, in 2020



Source: ERO

8 Supported energy sources

For 2021, the Office published, in its Price Decision 7/2020, operating aid for new electricity generating plants (small hydroelectric power stations, high efficiency combined heat and power generation plants, secondary sources) and new renewable heat producing plants. The price decision also publicised aid for new electricity generating plants using wind energy, biomass, and geothermal energy meeting the statutory conditions laid down in the transitory provisions of the SES Act. The key input values for determining the amount of aid to electricity for new electricity generating or heat producing plants using RES were preserved, and therefore the level of aid for new production plants commissioned in 2021 was determined in an amount similar to that for 2020. The amount of aid was determined under the SES Act as in force at that time and in compliance with the Commission's notification SA.58041 (2020/N).

In the case of existing production plants and the already declared aid categories, the Office modified the aid under the SES Act and the available methodology for modifying green premiums for electricity on a year-on-year basis. In the case of feed-in tariffs and green premiums for heat from biomass, the Office applied the regular annual increase of 2% to them under Section 12(1)(b) and Section 26(4) of the SES Act.

The Office changed the amount of the annual green premium for electricity on a year-on-year basis mainly due to the change in the wholesale electricity price, and in the case of the annual green premium for electricity from high efficiency combined heat and power generation (in up to 5MW plants) also having regard to the wholesale prices of natural gas. The turnaround in the trend in the wholesale electricity market when electricity prices dropped, unlike the preceding years, was reflected in the year-on-year increase in green premiums across the SES range.

The year-on-year changes in the amount of aid are likely to cause an increase of more than CZK 2 billion in costs compared with the preceding year. The Czech Government's relevant edict laid down a governmental subsidy for 2021, to meet the costs incurred in aid to SES, in the same amount of CZK 27 billion as for 2020, and this increase had therefore to be passed through to the price component for SES costs, which is paid by customers connected to each of the voltage levels. Because of the statutory cap on that price component, the existence of which the ERO had pushed through on the occasion of an amendment to the SES Act in 2013, the increase in this regulated component of the price has not been reflected in prices for customers connected to the LV level (households), but in prices for customers connected to the HV and MV levels, the average hike being 11.5% and 6.5% respectively.

During the year, the Office continued to update the methodology for year-on-year changes in the amount of the green premium for electricity, focusing primarily on adjusting the coefficients for electrical energy pricing. At the same time, the Office declared its intention to proceed in line with the approved methodology without any changes for at least three years and to gradually add new categories thereto in relation to the amendment to the SES Act. The updated methodology was used in the drafting of the price decision for 2021.

Despite the initial concerns, based on the Commission's notification SA.58041 (2020/N) of 25 August 2020, the relevant operating aid schemes were prolonged by one year to 31 December 2021, and so the Office was able to set out operating aid for new production plants commissioned in 2021 in its Price Decision 7/2020.

In 2020, the Office continued to closely cooperate with the MIT in the ongoing notification procedure related to the amendment to the SES Act.

Because of the still pending legislative process for the amendment to the SES Act, the Office was unable to carry out the planned changes (through the implementing acts) arising from the new conditions laid down in the amendment to the SES Act, but as a member of the working groups

focused on the transposition of Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources, it cooperated on other forthcoming changes to the amendment to the SES Act precipitated by the Directive transposition.

9 Legislative and administrative activities

9.1 Legislative activities

9.1.1 Changes to laws and regulations within the ERO's competences

In 2020, the Office issued two public notices [statutory instruments]:

- **Public notice 302/2020, amending no. 408/2015 on Electricity Market Rules, as amended in no. 127/2017**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(h) of the Energy Act, under which the ERO shall issue a public notice laying down the Electricity Market Rules. This public notice mainly changes the procedures primarily related to the provision of balancing energy when tackling states of imbalance and redispatching, modifies the electricity spot market, and introduces some changes to SDP registration. The latter changes arose from the requirements of the Energy Act which came into effect on 1 January 2020 [Section 24(10)(y) and Section 25(11)(l) of the Energy Act]. The changes to the rules for balancing energy provision respond to the newly implemented rules in Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing. The changes to the electricity spot market respond to Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management. Thus, the public notice harmonises Czech law with the above two Commission Regulations. Other legislative changes contained in the amending public notice stemmed from the assessment of the application practice and electricity market developments, and their purpose is to prevent any interpretation ambiguities and to harmonise and clarify the procedures laid down for electricity market participants.

The public notice came into effect on 1 July 2020.

- **Public notice 554/2020, amending no. 262/2015 on regulatory reporting, as amended in no. 50/2017**

This statutory instrument was issued under the Office's authorisation in Section 98a(2)(e) of the Energy Act to implement Sections 20 and 9(1) of the Energy Act. The amended regulatory reporting public notice reflects energy market developments, changes in the EU legislation, and the approved Price Control Principles, and the related changes in what the Office needs as regards reporting for regulatory purposes. Since the latest amendment to the regulatory reporting public notice, effective from 1 March 2017, several Commission regulations had entered into force, which precipitated changes in the operation of the electricity and gas markets. These include Commission Regulation (EU) 2017/1986 of 31 October 2017 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16 (including leases, *inter alia*). In electricity, it is Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation, which provides, *inter alia*, for ancillary services. In gas, it is Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, and Commission Regulation 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. Furthermore, market changes following from Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission

Networks were taken into account. These Regulations resulted in the fact that the structure of the existing regulatory reports no longer met the Office's needs and contained outdated concepts and terminology. In addition, the approved Price Control Principles had caused some changes in certain areas of price control compared with the period 2016-2020, which was also a reason for changing the regulatory reports. The amendment also removed the requirement for reporting data no longer used by the Office and duplicities in data reported, enhanced the clarity of the reports, and simplified reporting. This legislative change also remedied some shortcomings in regulatory reports, updated their contents, and laid down requirements for reporting the data that licence holders had largely been providing to the Office for the purpose of the proper exercise of price controls on a regular basis, but only under Section 15a of the Energy Act.

The public notice came into effect on 1 January 2021.

In 2020, the Office was also drafting two new public notices (bills) and one amendment:

- A bill to replace the current public notice 540/2005 on the quality of electricity supply and related services in the electricity industry, as amended in no. 41/2010.
- A bill to replace the current public notice 70/2016 on the billing of supply and related services in the energy industries.
- Amendment to public notice 408/2015 on Electricity Market Rules, as amended, the content of which largely follows up on changes made in the above no. 302/2020.

These regulations are expected to be promulgated in 2021.

9.1.2 Information on amendments to laws

In 2020, the Office continued its close cooperation with the MIT on the formulation of the substantive objective of a new Energy Act through its active participation in the drafting working groups and through its contribution to the final wording of the objective before the inter-departmental commenting procedure and then before it was laid before the Czech Government for approval.

In 2020, following approval by the Czech Government, the bills amending two laws that are fundamental for the Office's activities, i.e. the Energy Act and the SES Act, were laid before the Chamber of Deputies of Czech Parliament for debate and are designated as parliament papers 799 and 870. The Office systematically monitors the legislative process and provided its opinions on MPs' amending proposals for the amendment to the Energy Act, which were voiced in the second half of 2020.

The first reading of the two amending bills did not take place in the Chamber of Deputies before the end of 2020.

9.2 Administrative activities

9.2.1 Remonstrance proceedings in 2020

The authority to decide on remonstrance [administrative appeal] as a remedy against decisions delivered by the Office in the 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 based on 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. Table 9 lists the appeals decided in 2020, by agenda.

The ERO Board’s remonstrance commissions examined 140 appeals and suggestions for review in 2020. Based on these considerations, decisions on 60 of them were delivered. Decisions on 80 appeals that the remonstrance commissions examined in 2020 had not been made by the end of 2020. In 2020, the ERO Board also decided on 64 appeals that the remonstrance commission had examined in 2019. The ERO Board decided on 124 appeals or suggestions for review of decisions in 2020.

In terms of the agenda, the decision-making clearly shows an increase in cases concerning licences and a slight increase in adversarial proceedings on SES and consumer disputes in the gas industry. A slight decline was registered in administrative offences.

Table 9 Overview of appeals decided in 2020, by agenda

Appeals decided in 2020	
Appeals against decisions in adversarial proceedings, of which:	55
▪ Electricity industry (or electricity plus gas industries together)	21
▪ Gas industry	11
▪ Heat supply industry	4
▪ Supported energy sources	19
Appeals against decisions in approval proceedings	1
Appeals against decisions on administrative offences, of which:	42
▪ Under the Energy Act	25
▪ Under the Act on Prices	9
▪ Under the Act on Supported Energy Sources	2
▪ Under the Consumer Protection Act	6
Appeals in cases of requests for information	4
Appeals against licensing decisions	20
REMIT	2
Total	124

Source: ERO

9.2.2 Adversarial proceedings

In 2020, the Office adjudicated on disputes in the electricity, gas, and heat supply industries under Section 17(7)(a) to (e) of the Energy Act, proceeding under Section 141 of the Rules of Administrative Procedure. (Table 10 lists a summary.)

Upon applications of customers in the position as consumers taking electricity, gas or thermal energy for household consumption or customers in a self-employed position, the Office decided under Section 17(7)(e)(1) and (2) of the Energy Act, i.e. consumer disputes.

Consumer disputes concerned the performance of obligations under agreements on electricity/gas supply/distribution and the determination of whether the legal relationship between the customer and licence holder, the business of which is electricity, gas, or heat supply/distribution, had come into existence, continued to exist, or had ceased to exist, and when this happened. Typical cases included the supplier’s failure to perform the obligation to bill electricity/gas properly and disputes over the establishment and discharge of a legal relationship between the customer and supplier. Consumer disputes negatively mirror the effect of intermediation and representation, which consumers accept without evaluating the benefits thereof.

In 2020, the Office conducted 135 sets of proceedings on consumer disputes under Section 17(7)(e)(1) and (2) of the Energy Act; 110 of them were concluded with finality in 2020.

In the electricity, gas, and heat supply industries the Office was conducting 109 sets of proceedings under Section 17(7)(a) to (d) in 2020; it concluded 34 of them with finality.

Under Section 17(7)(a) to (c) of the Energy Act, the subject matter of those proceedings included disputes over the conclusion of a contract under the Energy Act, disputes over the curtailment, interruption, or restoration of electricity/gas supply/distribution on account of illegal offtake or illegal distribution, and disputes over connection or access to installations in the electrical grid or the gas system.

A special type of disputes in the electricity industry was those under Section 17(7)(d) of the Energy Act taken together with Section 52 of the SES Act. In 2020, the ERO registered, in consequence of a judicial interpretation of Section 52(2) of the SES Act, an increased number of disputes over the surrender of unjustified enrichment and over damages due to unauthorised receipt of aid for electricity produced. These cases are complex as to the facts and as to the law and require an individual assessment of the electricity market participant's rights and obligations related to the entitlement to support for electricity or heat.

For a long time, the smallest number of disputes has been occurring in the gas and heat supply industries. In many cases disputes between gas market participants and between licence holders and customers in the heat supply industry are resolved by the parties' agreement without a need for the ERO's decision.

9.2.3 Approval proceedings

In 2020, the Office decided under Section 17(7)(g) and (i) of the Energy Act on the approval of the Electricity Transmission System Operating Rules and Electricity Distribution System Operating Rules, the market operator's commercial terms and conditions, the Gas TSO Code, the SSO Codes and Gas DSO Codes, and the ten-year gas and electricity transmission system development plans. The Office conducted 61 sets of approval proceedings and concluded 50 of them with finality. (Table 10 shows the summary.)

9.2.4 Administrative proceedings under EU Regulations

Under Section 17(4) of the Energy Act, in 2020 the Office also exercised the competences of the regulatory authority, the concerned authority, and the competent authority under the relevant Regulations of the European Parliament and of the Council. Under its approval powers, it conducted 21 sets of approval proceedings, and concluded seven of them with finality. (Table 10 shows the summary.)

Table 10 Adversarial and approval proceedings conducted and concluded with finality, by ERO competence

Type of proceedings	Conducted sets of proceedings	Concluded sets of proceedings
Adversarial proceedings, of which	109	34
▪ Electricity industry	100	31
▪ Gas industry	1	0
▪ Heat supply industry	8	3
Consumer disputes	135	110
Approval proceedings	61	50
Approval proceedings under EU Regulations	21	7

Source: ERO

9.2.5 Proceedings under the law on free access to information

Under Act No 106/1999 on Free Access to Information, as amended, in 2020 the Office issued seven dismissals of requests. The Office refused to provide information when it did not possess the requested information, or the requested information could not be provided to the applicants under this law.

Under the law on free access to information, the Office posted *The ERO Annual Report on Activities in Information Provision* on its website, see Annex 2.

9.2.6 Sanction proceedings

The ERO is responsible for supervision under Section 18(3) of the Energy Act; this mainly involves conducting administrative proceedings and deciding 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. Table 11 lists the concluded proceedings by agenda.

In 2020, the Office received 783 applications 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 primarily results of investigations conducted by the Czech Police.

In 2020, the Office brought 464 sets of administrative proceedings for suspicion of administrative offences and decided not to proceed in 296 cases. These mostly included those received from the Czech Police, where the offender was unknown.

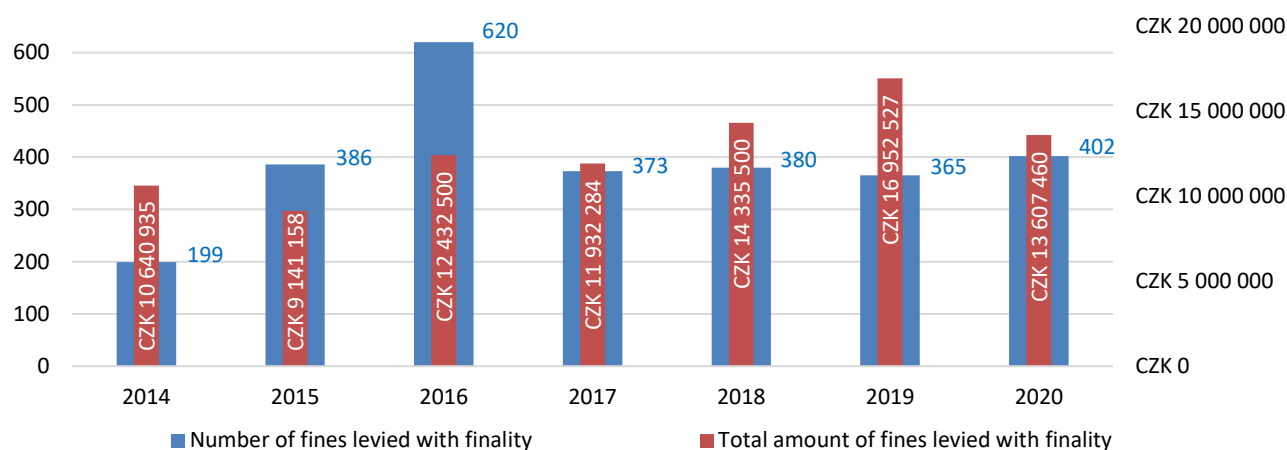
In 2020, the Office decided in 455 sets of administrative proceedings with finality, levying fines totalling CZK 13,607,460 on parties to the proceedings in 402 cases with finality.

Table 11 Overview of sanction proceedings concluded with finality, by agenda

Sanction proceedings concluded with finality, by agenda	
Under the Energy Act	423
Under the Price Act	8
Under the SES Act	8
Under the Consumer Protection Act	2
Decisions on administrative and minor offences in 2020	441

Source: ERO

Chart 20 Overview of fines levied with finality between 2014 and 2020



Source: ERO

9.3 REMIT

The purpose of REMIT is to prevent energy market abuse (in particular, prohibition of insider trading and of market manipulation) and to foster open and fair competition in this market. REMIT also lays down 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, to report transactions, including orders to trade, and fundamental data to ACER, and to publicly disclose inside information.

As part of its supervisory activities the Office identified additional cases of a possible breach of Articles 3, 4, 5 and, primarily, 8 REMIT. These suspicions are now at the stage of investigation and if a breach of REMIT is proved, administrative proceedings with the concerned participants will be brought. In 2020, the Office issued four administrative decisions on a breach of Article 8 REMIT concerning non-compliance with the obligation to provide complete records of transactions, including orders to trade, and one administrative decision on a breach of Articles 3 and 4 concerning non-compliance with the obligation to publish inside information about a production plant and a breach of the prohibition of insider trading.

At the end of 2020, the Office participated in the Peer Review organised by ACER for checking the meeting of the requirements for the security of the information required for access to the ARIS (Agency's REMIT Information System) database. ARIS contains detailed information about transactions (complete records of transactions, including orders to trade) and access to structural data on the capacity and usage of installations for electricity and natural gas production, storage, consumption, or transmission of all participants in the wholesale energy markets in the EU.

As part of the deliberations of international working groups and task forces organised by ACER and CEER, the Office contributed to the development of documents on REMIT application. These included, in particular, an update of *Guidance on the application of REMIT*, 5th Edition; at such conferences, regulators also addressed the issue of introducing fees for ACER under Article 32 of Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.

10 Licences

10.1 Development

As regards licensing, 2020 was marked by a slight increase in the number of active licences. The Office received a total of 2,190 applications for licence grant/amendment/revocation. Table 12 lists the number of active licences in 2012-2020.

Table 12 Numbers of valid licences between 2012 and 2020 by object of business

Licence	2012	2013	2014	2015	2016	2017	2018	2019	2020
Electricity									
Generation	20,843	26,021	26,158	26,314	26,357	26,282	26,321	26,405	26,604
Distribution	315	319	299	294	254	254	254	254	257
Transmission	1	1	1	1	1	1	1	1	1
Trade	360	389	392	381	380	388	403	411	409
Cross-border trade	4	12	17	26	27	29	33	34	39
Gas									
Production	15	15	14	13	14	13	12	12	12
Distribution	83	78	77	72	67	68	69	67	69
Transmission	1	1	1	1	1	1	1	1	1
Trade	172	196	201	213	213	227	236	243	240
Cross-border trade	2	9	13	24	29	27	27	29	37
Storage	4	4	4	4	5	4	4	4	4
Thermal energy									
Production	627	656	672	669	673	663	663	658	655
Distribution	653	653	663	654	658	652	650	649	645
Market operator									
Market operator's activities	1	1	1	1	1	1	1	1	1
Total licences	23,075	28,367	28,513	28,664	28,677	28,610	28,675	28,769	28,974

Source: ERO

In 2020, the Office issued 669 new decisions to grant licences. In addition, 1,120 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. Installations were again frequently transferred to a different licence holder (primarily small photovoltaic plants (PHV)), mainly between family members or between natural and juristic persons in connection with the sale of real estate. There were 401 sets of administrative proceedings on licence revocation. 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 13 lists the numbers of sets of administrative proceedings overall and by type between 2012 and 2020.

Table 13 Numbers of licence proceedings between 2012 and 2020 (by purpose of application)

Licensing	2012	2013	2014	2015	2016	2017	2018	2019	2020
New licences	8,051	5,698	625	615	513	519	512	569	669
Licence changes	2,032	1,809	1,192	1,032	1,122	1,167	1,004	1,099	1,120
Revoked licences	264	354	450	376	487	501	383	416	401
Total	10,347	7,861	2,267	2,023	2,122	2,187	1,899	2,084	2,190

Source: ERO

A general view of the electricity generating installations by SES type clearly shows an almost stable number of energy installations in 2020 compared with 2019. The number of newly installed PHV plants slightly increased compared with the preceding two years, which was a result of the MIT's investment subsidy scheme for energy savings. Table 14 shows the number of operations and installed capacities.

Table 14 Number of electricity generating installations and installed capacities between 2014 and 2020 by type of RES used

Operations		2014	2015	2016	2017	2018	2019	2020
Up to 10 MW hydro	Number [-]	1,589	1,615	1,625	1,603	1,596	1,604	1,608
	Capacity [MW]	342.67	348.18	349.23	351.11	350.66	352.51	352.62
Wind	Number [-]	124	128	125	119	122	123	121
	Capacity [MW]	283.47	284.98	284.91	310.95	319.75	342.29	342.23
Solar	Number [-]	28,127	28,276	28,351	28,348	28,412	28,554	28,880
	Capacity [MW]	2,126.06	2,122.90	2,127.16	2,130.39	2,119.47	2,127.54	2,148.1
With a biogas share	Number [-]	431	428	423	420	420	419	419
	Capacity [MW]	335.51	334.79	333.52	332.20	332.95	332.09	333.64
Landfill gas	Number [-]	70	69	68	69	69	69	70
	Capacity [MW]	58.67	58.65	58.46	58.65	58.65	58.65	58.94
With a biomass share	Number [-]	93	93	92	91	89	89	85
	Capacity [MW]	2,990.42	2,988.01	2,987.62	2,988.13	2,972.99	2,889.03	2,820.31

Source: ERO

More detailed information about licence holders and the various operations can be found on the Office's website.

10.2 Recognition of professional qualifications

In 2020, the Office received 14 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 11 cases. In other cases, it decided to discontinue the proceedings.

10.3 The Energy Regulatory Fund

Under Section 14(10) of the Energy Act, the Office is required to submit an audit of the Fund for the respective calendar year. Complying, the Office had the Fund audited under the audit guidelines issued by the Chamber of Auditors of the Czech Republic. According to the auditor's report of 4 March 2021, delivered by A-CONT, spol. s r.o., Jihlava, and represented by Mr Jiří Makaj, company director, the accumulation and utilisation of the Fund complied with the applicable legislation and the Fund was truly and fairly reflected in the ERO's financial statements for the accounting period 2020.

As at 1 January 2020, the opening balance in the Fund stood at CZK 45,444,392. In 2020, 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 2020 and the balance in the Fund's special current account as at 31 December 2020 stood at CZK 45,444,392.

10.4 Proceedings on administrative fees

In proceedings on licence grant, amendment or revocation, the Office collected fees amounting to CZK 5,704,840.12. Some entities applied for the refund of administrative fees and CZK 42,500 was refunded from the ERO's account. The net amount collected is CZK 5,662,340.12.

11 ERO budget management

The budget for Chapter 349 Energy Regulatory Office was approved as part of Act No 355/2019 on the National Budget of the Czech Republic for 2020 of 4 December 2019. The ERO budget was approved with a total income of CZK 322,726,000 and total expenditure of CZK 302,164,730.

11.1 Revenues to the Chapter

For 2020, total income was budgeted at CZK 322,726,000; this amount included tax revenues of CZK 292,726,000 and non-tax revenues of CZK 30,000,000. 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 2020 in terms of total income was CZK 311,074,320, i.e. at 96.39% of the approved budget for total income, and 99.41% compared with 2019 (in absolute terms down by CZK 1,846,670).

In respect of tax revenues, as at 31 December 2020 actual performance was CZK 295,279,750, i.e. at 100.87% of the approved budget. These tax revenues were received from collecting administrative fees for licence grant, amendment and renewal for entities carrying on business in the energy sector, CZK 5,665,540, and, primarily, from the fees paid for the ERO's activities, CZK 289,614,210.

In respect of non-tax revenues, as at 31 December 2020 actual performance was CZK 15,794,570, i.e. at 52.65% of the approved budget. These non-tax revenues were mainly received from fines. In 2020, 407 fines levied in administrative proceedings were paid, totalling CZK 15,408,310 (without the costs of proceedings), i.e. up by 17.01% on 2019 (in absolute terms CZK 2,239,510). The number of fines paid increased by 17.29% (in absolute terms 60 fines) compared with 2019. In respect of fines levied with finality, there were 324 outstanding receivables totalling CZK 8,230,110 (without costs of proceedings), i.e. down by 29.84% on 2019 (in absolute terms CZK 3,500,130). Other *ad hoc* income amounted to CZK 386,260.

11.2 Expenditure

For 2020, total expenditure was budgeted at CZK 302,164,730 (approved budget), and during 2020 it was adjusted to CZK 302,941,550 (budget after changes). Due to the use of the NNV claims (Section 47 of the law on budgetary rules) totalling CZK 47,263,640, the final budget for the Chapter's total expenditure stood at CZK 350,205,190. The total amounts actually drawn on the budget and a comparison with the final budget of expenses for 2020 can be seen in Table 15.

Table 15 Total amounts actually drawn – total expenditure for 2020

Amounts drawn on the budget	Final budget of expenditure [CZK]	Actual [CZK]	Performance v final budget [%]	Performance v actual in 2017 [%]
Total expenditure, of which:	350,205,190	292,261,690	83.45	93.53
▪ capital expenditure drawn	20,935,000	5,902,940	28.20	23.71
▪ current expenditure drawn	329,270,190	286,358,750	86.97	99.58

Source: ERO

In each case of expenditure, the funds were spent as effectively, economically, and efficiently as possible, with a view to always 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 57,943,500, mainly in the following respects:

- salaries and other personnel expenses, incl. insurance premiums and FKSP CZK 21,079,150
- programme financing EDS/SMVS (ISPROFIN) CZK 15,032,060
- 'other current expenditure' (w/o EDS/SMVS, salaries) CZK 21,832,290

Total claims on unused expenses (NNV) as at 1 January 2021, amounting to CZK 98,715,050, are reported for Chapter 349, of which 'major expenses' (programme financing EDS/SMVS, funds for salaries) amounted to CZK 45,873,830 and 'minor expenses' amounted to CZK 52,841,220.

11.2.1 Programme financing

In the system for financing the programmes of assets, one programme was included for 2020: programme 149 020 *Development and Replacement of the Technical Facilities of the ERO for 2016-2020*. The programme consists of two sub-programmes.

- sub-programme 149 021 – *Procurement and replacement of the ERO's information and communication technology (ICT)*
- sub-programme 149 022 – *Procurement and replacement of the ERO's other assets*

The fundamental objective of the programmes is to ensure the development of adequate facilities for the Office, with the heaviest emphasis on ICT.

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

- The ERO's Integrated Information System
- Procurement and replacement of hardware and software
- Cyber and information security

Table 16 shows the results of programme financing management in 2020 by sub-programme. In line with the Office's priorities, the largest amount of funds was allocated to IT (sub-programme 149 021) for 2020.

Table 16 Results by sub-programme for 2020

Programme management results	Final budget of expenditure [CZK]	Actual [CZK]	Percentage [%]
Programme 149 020 (total), of which:	20,935,000	5,902,940	28.20
▪ sub-programme 149 021	19,435,000	5,791,860	29.80
▪ sub-programme 149 022	1,500,000	111,080	7.41

Source: ERO

11.2.2 Expenses on business trips abroad

Due to the COVID-19 pandemic, 2020 saw only 11 business trips abroad taken by ERO employees. From 30 March 2020, ERO employees were taking part in the CEER, ACER, and ERRA working groups' and task forces' deliberations only via videoconferences. Via videoconferencing, they also attended workshops of the Commission's working groups, and conferences. In 2020, our employees attended two online training courses as part of CEER's educational activities.

Expenses on business trips abroad totalled CZK 139,610 in 2020 (CZK 2,712,970 in 2019). Compared with 2019, the number of foreign business trips dropped by 91.97% and total expenses dropped by 94.85%; expenses per business trip declined by 35.91%.

For the payment of the membership dues (budget item 5532 other non-investment transfers abroad) in CEER (CZK 862,520) and in ERRA (CZK 87,590), CZK 950,110 was spent as at 31 December 2020.

11.2.3 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 evaluated the spending of the funds in its chapter using regular quarterly reports on financial management and a summary annual evaluation.

Under the relevant legislation, the Office evaluated 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 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. In public procurement, the Office, being a contracting authority, 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.

11.2.4 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 2020, including the spreadsheets.

11.3 Cash funds, assets, receivables, and liabilities

There were no transfers from cash (own) funds to revenues of Chapter 349 in 2020. The Fund of Cultural and Social Needs (FKSP) was continuously accumulated and used in line with the relevant regulations. As at 31 December 2020, the FKSP account held CZK 1,206,190. The Reserve Fund posted zero as at 31 December 2020.

As at 31 December 2020, the Office held assets valued CZK 245,912,050 at acquisition cost and carried at a book value of CZK 84,398,820 following accumulated depreciation as at 31 December 2020. In 2020, the total value of assets at acquisition cost increased by CZK 7,240,510 on 2019.

As at 31 December 2020, receivables totalled CZK 12,215,590. Of this amount, the largest part is CZK 8,412,610 (including costs of proceedings) in fines levied in administrative proceedings. As at 31 December 2020, liabilities totalled CZK 63,983,400. The Office had no liabilities to suppliers; suppliers' invoices received by the Office before the end of 2020 were paid. The Office had no overdue liabilities as at 31 December 2020. More detailed results of Chapter 349 ERO in respect of income and expenditure, including commentaries, are shown in the Closing Account for 2020.

12 Human resources

12.1 Personnel management agenda

In the budget and in the schedule of positions approved for 2020, the ERO's headcount was set at 296. Compared with 2019, there was a reduction by 25 positions, including the prescribed budgetary cuts in salaries.

Of the overall actual number of 246 employees, 98 worked in Jihlava, 68 in Ostrava, and 80 in Prague as at 31 December 2020.

In 2020, the Office organised 101 recruitment procedures for civil service positions, eight procedures for service positions governed by the Labour Code, and three for employment under the Labour Code. Despite the completed recruitment procedures, the planned number of scheduled positions was not filled in 2020. One reason is the heavy qualification demands placed on candidates for vacant employment and service positions, which stem from the ERO's highly specialised activities in the context of a high social and financial responsibility of a central body of state administration. Another reason is that the salaries offered in the public sector can hardly compete with wages offered in the private sector. Moreover, many candidates are not comfortable with the specificities and conditions of public service as such.

The Office organises civil service examinations in the '29 – Energy' field not only for the Office but for state administration as a whole. In 2020, civil service examinations could be taken on six dates, on which eight ERO civil servants and six civil servants of other institutions successfully passed the civil service examination.

12.2 Education and training

The Office had enough budgeted funds for education and was therefore able to provide for the required education and training in full. CZK 1,406,750 was spent on staff education and training. Compared with 2019, this was a drop of 51.35%, i.e. by CZK 1,333,040. Total expenses on education in 2020 therefore accounted for 0.84% of the actual cost of salaries for employees under employment contracts and under civil service agreements (including ERO Board members' salaries), i.e. a decline compared with 2019 (1.60%, CZK 2,739,790).

39 employees went through introductory initial training. Continued initial training was organised in cooperation with the Institute for Public Administration. Its purpose was to teach the participants the basics of the legal system, explain the working of public administration and issues of public finances, etc. Two employees went through continued initial training.

The Office sees to the continuing education of managerial personnel and superiors. In 2020, a training course on *Managerial Skills for Officials in State Administration* took place and one ERO superior attended it.

Language training was more extensive in 2020. Some of the new employees were included in it. A total of 77 scheduled positions for which command of one of the world languages was a qualification requirement were determined for 2020. As at 31 December 2020, 100% of employees in the filled scheduled positions fully met the language requirements.

A total of 56 training events were held on topics such as state administration, cyber security, ethics and anti-corruption measures, public contracts, training in professional competence, and other technical and ongoing training courses arising from legislative changes. The equivalent of 271 employees were trained (in 2019, the figure was 1,450 employees and 188 training events).

CZK 1,044,180 was spent on language training, which was more than in 2019 (CZK 863,440). Spending on other education was significantly lower than in 2019 (CZK 1,876,350).

The year-on-year drop in the utilisation of funds for education is attributable to the COVID-19 pandemic and the declaration of the state of emergency, which resulted in fewer training courses held and fewer employees attending them.

12.3 Employees

The budgeted average salary for 2020 (without ERO Board members) was planned at CZK 48,391 (approved budget). The actually achieved average salary was CZK 51,857, index 107.16%. The lower planned salary was also due to including claims on unused expenses, amounting to CZK 9,000,000, in the final ERO budget. A year-on-year comparison of the actually achieved average salary indicates the 2020/2019 index at 105.17%, with annual inflation at 3.2%. A slight year-on-year increase in the total average salary was due to pay raises and the payment for unused holiday leaves and overtime hours to the employees whose scheduled position was cancelled as at 31 December 2019 as part of ERO restructuring as of 1 January 2020. The targets for 2020 are summarised in Table 17.

Table 17 Budget targets – salaries

Standard targets	Approved budget 2020 [CZK]	Final budget 2020 [CZK]	Actual 2020 [CZK]	Index [%]
Salaries for employees and other payments for work	179,955,360	192,094,960	176,572,760	91.92
Salaries for employees under employment contract, except for employees in civil service positions	18,232,740	27,232,740	26,491,280	97.28
Salaries for civil servants under the Civil Service Act	150,750,290	146,041,890	132,172,490	90.50
Salaries for employees under employment contract, derived from salaries of constitutional officials	8,656,800	8,810,800	8,810,160	99.99

Source: ERO

In respect of expenditure item *Salaries for employees under employment contract, except for employees in civil service positions*, claims on unused expenses were used at the beginning of the year in relation to 15 scheduled positions that were not covered by the approved budget for salaries. Furthermore, the claims on unused expenses under the mandatory standard target *Salaries for employees and other payments for work* were used for financing *Salaries for employees under employment contract, derived from salaries of constitutional officials*, CZK 154,000, for termination settlement (*odbytné*), CZK 1,140,000, for severance pay (*odstupné*), CZK 870,000, and for severance grant [for civil servants] (*odchodné*), CZK 384,000. The funds for salaries were consumed proportionally to the share of the scheduled positions filled.

Table 18 The average FTE staffing level and the actual headcount

Indicator	Plan 2020 [-]	Actual 2020 [-]	Index [%]
Average FTE staffing level, of whom:	296	259.97	87.83
▪ civil servants	243	205.04	84.38
▪ employees under the Labour Code	48	49.93	104.02
▪ ERO Board members	5	5	100.00
Actual headcount, of whom:	296	246	83.11
▪ civil servants	243	194	79.84
▪ employees under the Labour Code	48	47	97.92
▪ ERO Board members	5	5	100.00

Source: ERO

CZK 1,520,660 was drawn for other personnel costs, by way of ‘agreements to complete a job’ or ‘agreements to perform work’ for the delivery of work.

In 2020, the proportion of university educated employees was 82.93%. The structure of education corresponds with the very high demands placed on the employees.

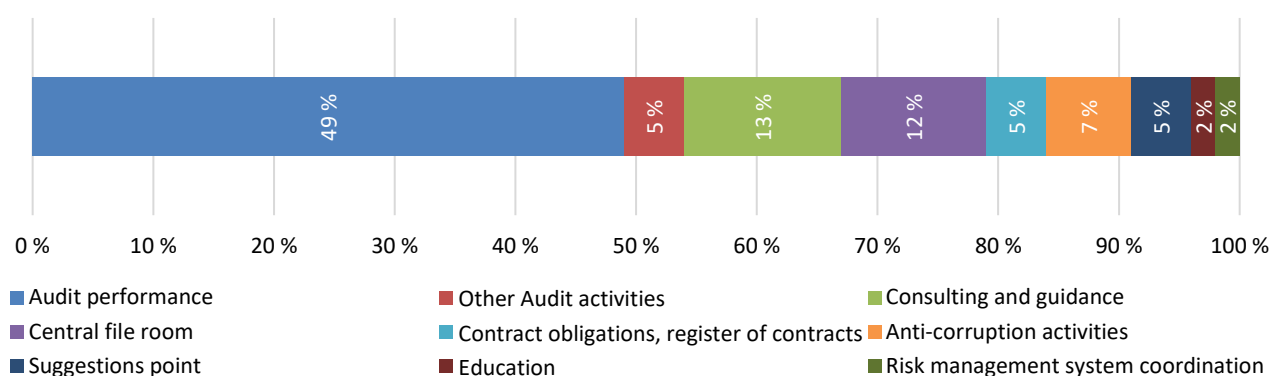
13 Internal control system

The Office is putting in place the conditions for an oversight environment favourable for public funds management. In line with the Financial Control Act, and its own policy, plans, and objectives, the Office has put in place an adequate internal control system that makes it possible to meet its objectives and tasks in accordance with the principles of effectiveness, economy, and efficiency. The Office's operation is governed by a system of legal, internal, and service regulations which set out the processes of control and review mechanisms. In its internal and service regulations, the Office defines its organisational parts, and specifies the extent of the corresponding powers and responsibilities of superiors and managerial and other personnel. The Office carries out risk analyses, has in place three tiers of management inspection, and allocates responsibilities using a multi-tier approval process and collective decision-making. It publishes the outcomes of its decision-making and has in place a system for corruption prevention and detection. In 2020, the Office took also other steps required for maintaining and reviewing the efficiency of its internal control system and for ensuring the working of management inspection and internal audit.

Management inspection is carried out by managers and superiors, within their powers and responsibilities, at all levels of management for the purpose of achieving the set objectives and minimising risks in the process of preparing financial operations before they are approved, and during the ongoing monitoring of executed operations until the final settlement and accounting thereof. The continuous monitoring and evaluation of the financial control system is part of managers' and superiors' routine employment and service tasks.

Under the Financial Control Act, the Office has in place an internal audit function in the form of an independent, functionally independent unit that is organisationally separate from the managerial and executive structures. Internal audit plays an important role in the working and improving of the internal control system. It carried out its activities in accordance with an Internal Audit Plan for 2020 approved by the ERO Board. The yearly plan specified the extent, content and objectives of the various audits and included additional tasks arising from the internal audit function, primarily those related to guidance and advice, and the relevant agendas.

Chart 21 Internal audit activities in 2020



Source: ERO

The internal audit plan is based on risk analyses and assessments, considering the ERO's objective needs, and is directed at the key processes.

In 2020, audit actions focused on the following:

- compliance with legal, service, and internal regulations,
- the design of control and review mechanisms,
- reliability of financial and operating information,

- checking that public funds are used effectively, economically, and efficiently,
- checking that accounting is accurate, complete, and based on evidence,
- checking that the operations and processes running in fine recording and debt recovery are correct,
- compliance in public procurement concerning low-value contracts,
- keeping of time limits under the Rules of Administrative Procedure and procedures in the conduct of administrative proceedings,
- the scope of the employees' competences and responsibilities in the system of working hours records,
- execution of anti-corruption measures.

Consulting and guidance focused on evaluating and improving the processes in place, primarily in risk management, contract conclusion, financial management, public contracts, and the filing and archiving service.

In 2020, the Internal Audit Unit carried out six audit actions and one *ex-post* audit, which evaluated the progress in executing the measures adopted to remedy the shortcomings found in earlier audits. The audits and checks in 2020 resulted in eight recommendations for remedying the shortcomings found. The recommendations were discussed with the audited parties and accepted by consensus, and they were also approved by the ERO Board and transformed into specific and targeted measures, including the deadlines.

Internal audits carried out in 2020 did not identify any shortcomings materially impeding or preventing the performance of the ERO's key tasks and objectives or significantly impacting proper governance over the management of public funds and assets. Based on the results of internal audits and checks in 2020, reasonable assurance can be provided that the internal control system in place is sufficiently effective, and responds on time to changes in economic, legal, operating, and other circumstances. The various elements of which the internal control system is composed provide reasonable assurance that the ERO has in place a well-working internal control system that provides reasonable assurance that public expenditure reported under Chapter 349 of the national budget is being utilised in compliance with the legislative framework.

13.1 External inspection

In the second half of 2020, the Ministry of Finance carried out an administrative inspection geared towards checking that public funds were being treated effectively, economically, and efficiently and checking the accuracy of the related financial and asset operations in line with the principles of reliable management under Section 25(1) of the Financial Control Act. The ERO's internal control system was reviewed considering management inspections, approval processes, and document administration, internal audit, internal management acts, and accounting and asset operations carried out by the accounting entity.

The Finance Ministry's inspection team identified one individual insufficient feature of the internal control system, concerning the use of subjective evaluating criteria in public procurement; this was an inspection finding and the ERO adopted measures to remove the shortcoming by way of modifying the procedures in the public procurement process.

Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
GSSS	Gas supply security standard
CEER	Council of European Energy Regulators
CR	The Czech Republic
VAT	Value-added tax
EC, Commission	European Commission
The Energy Act	Act No 458/2000 on the conditions of business and state administration in energy industries and amending certain laws (the Energy Act) as amended, especially in Act No 131/2015
ERRA	Energy Regulators Regional Association
ERO, Office	Energy Regulatory Office
FKSP	Fund of Cultural and Social Needs
LV	low voltage level
MV	medium voltage level (earlier designated as HV)
HV	high voltage level (earlier designated as EHV)
MODOM	[a Czech acronym] a customer category: low-demand business and household customers
MIT	Ministry of Industry and Trade
company names	company names are written in the form in which they are registered in the Companies Register, even if containing mistakes
Market operator, OTE	OTE, a.s. [a company]
SDP	Supply and delivery point
RES	Renewable energy sources
SES	Supported energy sources
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
TA ČR	Technology Agency of the Czech Republic
VOSO	[a Czech acronym] a customer category: high-demand and medium-demand customers
ERO website	The ERO's website
SES Act	Act No 165/2012 on supported energy sources and amending certain laws, as amended
Price Control Principles	Price Control Principles for the 2021-2025 Regulatory Period in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries, and for Mandatory Buyers

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Annex 1 Auditor's Report

Auditor's Report

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

Recipient of the Report: Statutory body of the Energy Regulatory Office

Name of the Accounting Unit: Energy Regulatory Office

Registered Office: Masarykovo náměstí 5, 586 01 Jihlava

Reg. No.: 70894451

Period under review: year 2020

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

I have examined the fund established pursuant to the Section 14 of the Act No. 458/2000 Coll, on the Conditions for Business and State Administration in the Energy Industries and on Amendments to Certain Laws (hereinafter, the "Energy Act") as amended, and its alignment in relation to the financial statements. The examination has been performed in compliance with the International Accounting Standards and it has covered the period of the year of 2020.

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 2020.

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 March 4, 2021

Annex 2 Provision of information under Act No 106/1999 Free Access to Information for 2020

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 2020, the Office handled 83 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: 83

Number of decisions dismissing the request, including those dismissing the request in part: 7

II

Number of 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 three complaints about the manner of request handling.

IV

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

Under Section 14(5)(b) of the Act the ERO did not dismiss any request 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 did not put aside any request 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 2020, broken down by the ERO’s areas of competence:

Oversight issues:	8
Licensing:	24
Legal issues:	23
Regulatory issues:	7
Other:	21

The above breakdown shows that requests for information received from applicants concerned various areas of the ERO’s competences; and persisting interest in licensing, the legal outputs from the ERO’s activities, and oversight and regulation has been evident for a long time.

The number of requests for information is comparable with that in 2019 when the ERO handled 80 requests for information. It can be noted that requests for information confirm the public’s continuing interest in the ERO’s activities and the developments in the energy sector.

Annex 3 Performance v Budget

Table 19 Meeting of mandatory targets for 2020

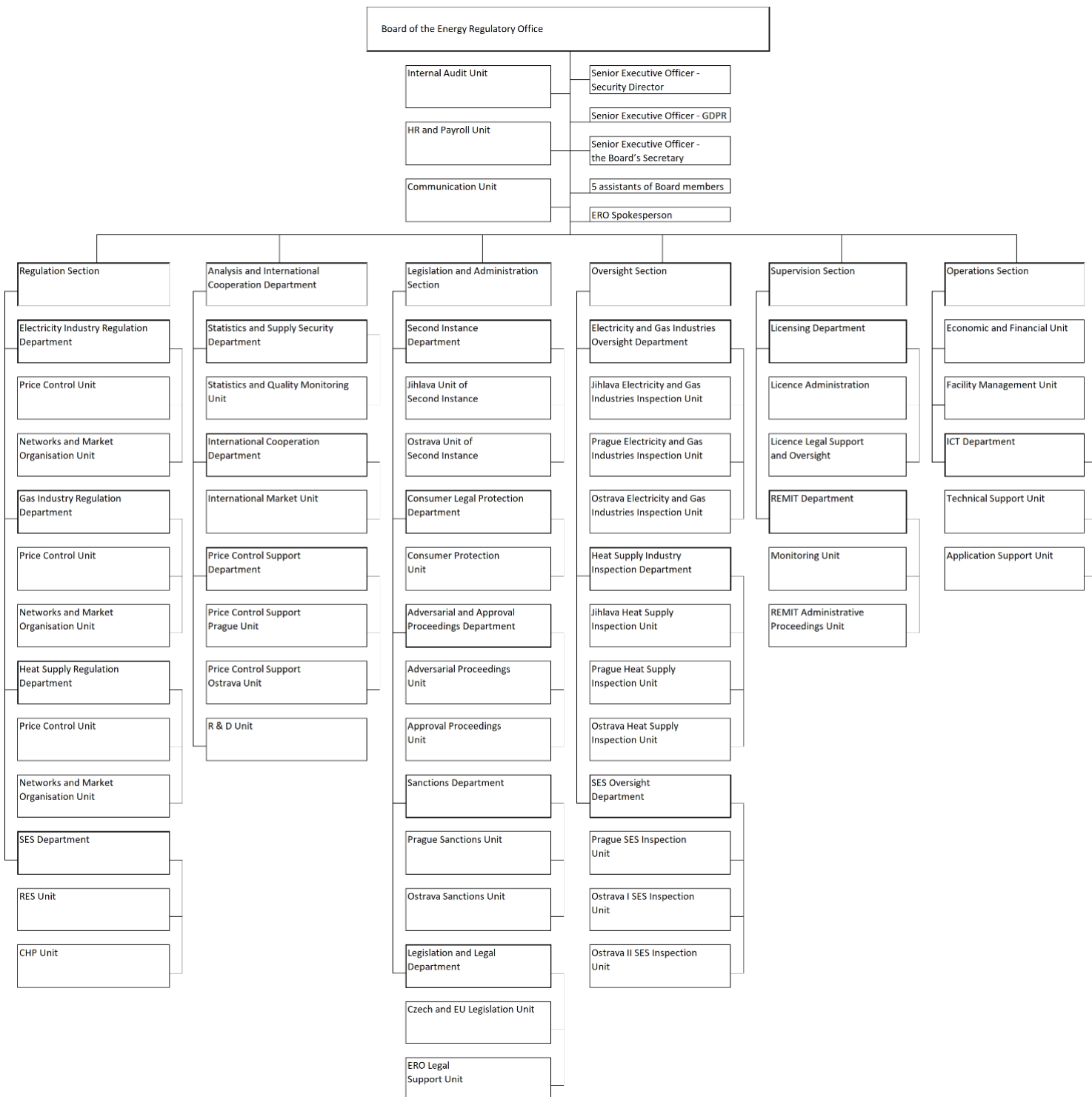
Target	Approved budget [CZK]	Budget after changes [CZK]	Final budget of income and expenses [CZK]	Actual [CZK]	Percentage 4/3 [%]
	1	2	3	4	5
Aggregate targets					
Total income	322,726,000	322,726,000	322,726,000	311,074,320	96.39
Total expenditure	302,164,730	302,941,550	350,205,190	292,261,690	83.45
Specific targets – income					
Tax revenues	292,726,000	292,726,000	292,726,000	295,279,750	100.87
Total non-tax revenues, capital revenues and accepted transfers, of which:	30,000,000	30,000,000	30,000,000	15,794,570	52.65
▪ total income from EU budget w/o CAP	0.00	0.00	0.00	0.00	0.00
▪ other non-tax income, capital revenues and accepted transfers	30,000,000	30,000,000	30,000,000	15,794,570	52.65
Specific targets – expenditure					
Outlays to support the ERO's tasks, of which:	302,164,730	302,941,550	350,205,190	292,261,690	83.45
▪ expenses on the performance of European Council presidency	0.00	0.00	0.00	0.00	0.00
▪ other expenses to support the ERO's tasks	302,164,730	302,941,550	350,205,190	292,261,690	83.45
Standard targets					
Salaries for employees and other payments for work	179,955,360	180,546,960	192,094,960	176,572,730	91.92
Salaries for employees under employment contract, except for civil servants	18,232,740	18,232,740	27,232,740	26,491,280	97.28
Salaries for civil servants under the Civil Service Act	150,750,290	146,041,890	146,041,890	132,172,490	90.50
Salaries for employees under employment contract derived from salaries of constitutional officials	8,656,800	8,656,800	8,810,800	8,810,160	99.99
Statutory insurance premiums paid by the employer	60,824,910	61,024,870	64,066,870	56,967,240	88.92
Allocation to the Fund of Cultural and Social Needs (FKSP)	3,552,800	3,564,630	3,744,630	3,351,960	89.51
Arrangements for crisis situations under Act No 240/2000	0.00	0.00	0.00	0.00	0.00
Total outlays co-financed completely or partly from the EU budget w/o CAP, of which	0.00	0.00	0.00	0.00	0.00
▪ from the national budget	0.00	0.00	0.00	0.00	0.00
▪ share from the EU budget	0.00	0.00	0.00	0.00	0.00
Total expenses recorded in the EDS/SMVS programme financing information system	12,935,000	12,935,000	20,935,000	5,902,940	28.20

Table 20 Comparison of actual expenses under Chapter 349 Energy Regulatory Office, for the period 2016-2020 (Expenses and other cost items are in CZK thousands)

Item	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Index 20/19 [%]
Total expenses, of which:	226,433	286,379	294,477	312,466	292,262	93.53
▪ Salaries, other payments, insurance premiums and FKSP	172,573	223,145	233,412	236,146	236,892	100.32
▪ Expenses on the asset replacement financing programmes	9,284	19,700	10,128	24,893	5,903	23.71
▪ Total other expenses	44,576	43,534	50,937	51,427	49,467	96.19
▪ Use of claims on unused expenses (NNV)	11,394	39,069	44,978	46,017	33,673	73.18
Expenses on salaries and other payments for work	127,094	164,889	172,208	174,050	176,573	101.45
Salaries for employees under employment contracts, except those 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)	125,189	161,221	168,688	171,698	167,474	97.54
Staffing levels (average FTE)	247	262	276	282	260	92.20
Salaries, other payments, insurance premiums and FKSP per employee	699	852	846	837	911	108.84
Programme financing costs per employee	38	75	37	88	23	22.71
Other expenses per employee	180	166	185	182	190	104.40
Total expenses per employee	917	1,093	1,067	1,108	1,124	101.44

Annex 4 Organisational structure

Organisational structure of the Energy Regulatory Office as at 31 December 2019



Organisational structure of the Energy Regulatory Office as of 1 January 2020

