National Report for the year 2014 submitted as of 31 July 2015

Regulatory Office for Network Industries Slovakia

1. Foreword

For the Regulatory Office for Network Industries (hereinafter as "the Office"), 2014 went down in history not as a year marked with hectic events, but on the contrary as one in which the Slovak electricity and gas markets were running smooth and without difficulties. A stable and predictable regulatory framework, expressing itself in the last 5 years in an unchanged electricity price and decreasing gas price, provided a safeguard for all electricity and gas market stakeholders that despite the grave circumstances in Ukraine, energy producers, suppliers and customers may calculate their business plans and budgets safely.

Even though there was pressure on complete elimination of regulation, the Office judged it necessary to continue its regulation of prices of electricity and gas supply for households and small businesses. Experience from the markets has not attested so far to such a degree of market participants´ maturity that would eliminate the incumbents´ temptation to misuse their position at the expense of the consumers. Besides, the Office had set maximum electricity and gas prices, thus creating appropriate conditions for the creation of prices by means of free competition for the suppliers, and it perceives this form as preferred over direct ad hoc interventions into its functioning.

A calm atmosphere in Slovakia's state regulation was stirred by the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on energy prices and costs in Europe in January 2014. This document resulted in follow-up actions and consequences, which took their full form in the assessment report of SR in electricity by the European Commission in autumn 2014. The report was brought to the attention of the media and represented the main argument of various lobbying circles for a crusade against the Office.

In the report, the energy, especially electricity market in Slovakia was said to be insufficiently transparent, with disproportionately high prices, which the state regulatory authority – the Office, is not able to justify. Electricity prices in Slovakia, according to EUROSTAT, are allegedly ruining Slovakia's industry. In vain did the Office immediately submit the arguments that the sources of the Commission and the EUROSTAT data were not correct and they did not provide an objective image of the reality. It took many activities and confrontations to refute the objections of the Commission. Ultimately, it was proved that the objections against Slovakia had no real basis and the personal meetings, consultations via video-conferencing and the submission of much data and information resulted in a new assessment of Slovakia, making no mention of any shortcomings in the energy sector or any recommendations for improvements anymore.

The national report of Slovakia is not the right place to deal with this issue. In any case, we cannot fail to mention that within the European Union there seems to be an urgent need of a consistent methodology of collection and processing of energy data and information. Otherwise, how do we explain for two respected institutions – EUROSTAT and EURELECTRIC to differ significantly in their statistics? On one hand according to EUROSTAT Slovakia is among the most expensive countries as regards the electricity prices, while on the other hand EURELECTRIC shows Slovakia slightly below the EU average. In this regard the Office appreciates the study of the European Commission "Analysis of

European Power Price Increase Drivers“of 2014 strongly emphasising the obligation to align the European statistics methodology.

On the international scene, it is worth mentioning the successful functioning of market coupling in electricity –Slovakia, Czech Republic and Hungary was joined by Romania in available cross-border capacity allocation mechanism. This regional market is becoming increasingly attractive for the countries of Central and Eastern Europe and it appears that it will be one of the pillars of the single European energy market.

Cooperation is vital also to the Energy Union project, which Slovakia supports, provided, however, that the bodies of the European Union will treat the new member states on an equal basis, considering their circumstances and possibilities, specifically the impacts on the standard of living of their citizens. In the process of taking decisions on the specific measures on the national and regional levels, as well as on the European Union level, it is necessary to apply fully the principles of subsidiarity, sovereignty in defining national energy mix and technological neutrality.

2. Main developments in the gas and electricity markets

Suitable conditions for real development of the electricity market in the Slovak Republic (hereinafter "SR") were created in 2012 by adopting new legislation pursuant to the Directive 2009/72/EC of the European Parliament and of the Council. The impact of these changes on the scope and method of price regulation became apparent in 2014. This was primarily due to the fact that the secondary legislation issued by the Office clearly laid down the rules for all stakeholders, the essential elements of contractual relations, defined model business terms and conditions and limited speculations with service level agreements (service contracts on a regulated entity that performs a regulated activity in the electricity or natural gas industry and is a part of a vertically integrated company) and created a venue for intensive development of international relations. The expansion of market coupling serves as an evidence of the positive development. All the aforementioned had a positive impact on formation of the single electricity market.

The gas market in the SR remained stable in 2014, too. The structure of the gas suppliers was not practically changed. While two companies stopped operating in the market, another one was established, although it is only active in the area of gas supply to households. With regard to the size of the local gas market in 2015 no significant increase in the number of gas customers or that of gas suppliers is expected in the SR.

The natural gas consumption by gas end-users in the SR totalled 46.2 TWh in 2014. A year-on-year decrease in the gas consumption reached 15.7 %.

Despite a slight year-on-year increase in a number of gas customers by 3,362, the decrease in natural gas consumption was caused by the gas saving schemes implemented with the gas customers (transition to alternative fuels, support of renewable energy sources – public financial support of installation of solar collectors or biomass boilers, support to decrease energy intensity of industrial production, thermal insulation, public education of gas customers on energy efficiency), but also the growing annual average air temperature in SR. In 2014, the average annual air temperature was 10 degrees Centigrade. The figure was recorded for the first time ever in the history of meteorological measurements marking the year of 2014 as an extremely warm year.

3. Electricity market

3.1. Network regulation

3.1.1. Unbundling

Unbundling of production and supply of network services (transmission and distribution) was implemented in SR in 2007. The process was completed pursuant to the Directive 2009/72/EC of the European Parliament and of the Council, certifying the transmission system operator in 2014. In the same year, supervision over the implementation of the conditions of the certification of the transmission system operator was conducted. No grave shortcomings were identified.

3.1.2. Technical functioning

The transmission system operator, reporting regularly on network development plans to the Office and the Ministry of Economy, is held responsible for technical functionality of the transmission system.

A ten-year network development plan, which the transmission system operator submits to the Office for approval, is the most significant document. This obligation was adopted in the Slovak law during alignment with the relevant legal regulations of the European Union, namely the Regulation No 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity. The transmission system operator shall annually prepare a ten-year network development plan, than consult it with stakeholders and issue a report on fulfilment of the previous ten-year network development plan and submit it to the Office. The Office shall consult the ten-year network development plan with system users and enable them to make justified comments, review its compliance with the requirements for implementation of investments in the transmission system and network development plan for the whole European Union and may request the transmission system operator to amend it.

The results of the consulting are publicly available on the official website of the Office. Information on the outcome of the consulting, including the requirements of the current and potential users of the system on delivery of investments in the transmission system within the Ten-Year Development Plan of the Transmission System for the Period 2014 - 2023 issued by Slovenská elektrizačná prenosová sústava, a.s. (hereinafter “SEPS”) - the transmission system operator, was published by the Office on 13 June 2014.

Quality standards of electricity transmission and distribution, set in the Office Decree, also ensure the technical functionality of the system. The Decree defines quality standards and their indicators, methods of assessment, publishing, archiving, and method of calculation and compensation payments for non-compliance with the quality standards. The compensation payments are paid to an electricity market stakeholder by regulated entities for failing to comply with the quality standards. The paid out compensations do not represent economically allowable costs and affect the regulated price for transmission and distribution of electricity.

Performance of quality standards, evaluated annually, encourages the regulated entity to improve the quality of the services provided.

Ancillary and system services

Auxiliary and system services are a key element ensuring security and stability of the transmission system.

Upon the request for a range of individual types of auxiliary services, the Office set total projected costs of purchasing all types of auxiliary services from certified auxiliary service providers as well as the maximum price for providing primary power control, secondary power control, tertiary power control in EUR per unit of a disposable electric capacity and the maximum annual cost of ensuring the provision of remote voltage control and reactive power and black start in EUR and the maximum price of offered positive regulatory electricity or the minimum price of offered negative regulatory electricity with activation of a particular type of auxiliary service.

The price for acquired regulatory electricity per unit of electricity in EUR was set based on bid prices of used power equipment submitted by providers of auxiliary services as follows:

a) The highest price of a source providing regulatory electricity per quarter-hour, if the regulatory electricity is positive, but not more than the maximum price set in a price decision per unit of electricity in EUR,
b) The lowest price of a source providing regulatory electricity per quarter-hour, if the regulatory electricity is negative, but not less than the minimum price set in a price decision per unit of electricity in EUR.

In Slovakia, the basic range of electricity consumption is ensured between a producer and customer or via an electricity trader. The regulatory electricity is purchased by a transmission system operator.

The transmission system operator purchases various types of auxiliary services required to ensure system services to support auxiliary service providers that meet the conditions set in the technical specifications and business terms and conditions specified in the Operational Order to achieve the minimum costs of the provision of auxiliary services while under transparent and non-discriminatory contractual terms and conditions. Purchasing is conducted in an open, transparent and non-discriminatory manner to all service providers, whereas the transmission system operator preferably uses bids from installations within a defined territory.

Technical capability of auxiliary service providers is demonstrated by a certification measurement defined in the technical conditions.

The competition in the market of auxiliary services is sufficient.

3.1.3. Network tariffs for connection and access

In 2014, the Office Decree No. 221/2013 Coll. on establishing a price regulation in the electricity industry, issued pursuant to Article 40 of the Act No. 250/2012 Coll., continued to be applied.

The Office addressed the key regulated entities to solicit their ideas to help improve the market development and learn about their implementation experience during the previous period. Subsequently, a proposal for amending the Decree, which was subject to legislative proceedings where the regulated entities and obligatory subjects could have raised their comments on the draft amendment, was submitted. All comments were discussed and those contributing to development of the market were incorporated in the final draft of the amendment. The amended Decree was then discussed at a meeting of the permanent working committee of the Ministry of Finance for Financial Law. After incorporation of comments raised by the committee, the amended Decree was published in the Collection of Laws under No. 189/2014 and entered into force on July 1, 2014. The entire discussion and its outcome were publicly available on the portal of the laws of the SR. The amendment is related mainly to the adjustment of the allowable costs of performing regulated activities, purchase prices of electricity from renewable energy sources and highly efficient production of electricity and heat and adjustment of the correction factor in the transmission and distribution adjustment formula used in calculation of the maximum price for access and distribution of electricity in the local distribution network. The amended Decree was applied to the price proceedings conducted by the Office in 2014 for the year 2015.

In 2014, a so-called price cap method under the approved regulatory policy for the period of 2012–2016 was applied in the electricity market. The incentive-based price regulation method provides system operators with an opportunity to retain a higher profit provided that they act effectively and optimize their costs.

The following **network tariffs** under the price decision of the Office for the transmission system operator are applied to invoicing for the transmission of electricity to the electricity customer or producer directly connected to the transmission system:

- tariff for reserved capacity (€/MW/year),
- tariff for transmitted electricity (€/MWh),
- tariff for losses in the transmission via electricity transmission system (€/MWh),
- tariff for system services (€/MWh).

The following **network tariffs** under the price decision of the Office are applied to an electricity customer or producer directly connected to the distribution system at high and extremely high voltage level:

- tariff for electricity distribution without losses including electricity transmission – a component for reserved capacity (€/MW/month),
- tariff for electricity distribution without losses including electricity transmission – a component for transmitted electricity (€/MWh),
- tariff for losses in the transmission via electricity transmission system (€/MWh),
- tariff for system services (€/MWh).

The price regulation is imposed also on local distribution network operator and is performed by setting the way of calculating the maximum price and tariff for access to the distribution system and electricity distribution.

The following **network tariffs** under the price decision of the Office are applied to an electricity customer or producer directly connected to the distribution system at low voltage level:

- tariff for electricity distribution without losses including electricity transmission – a component for reserved capacity (€/A/month),
- tariff for electricity distribution without losses including electricity transmission – a component for transmitted electricity (€/MWh),
- tariff for losses in the transmission via electricity transmission system (€/MWh),
- tariff for system services (€/MWh).

In the area of price regulation of the respective activities, the Office issued in 2014:

- 339 price decisions on access to the transmission system and electricity transmission, access to the distribution system and electricity distribution, network connection, household electricity supply and the last resort electricity supplier,
- 101 decisions on electricity price for setting an additional fee for electricity producers using combined heat and electricity production,
- 2 458 decisions on electricity prices for setting an additional fee for electricity producers using renewable energy sources.

The final amount of the network fees is primarily affected by the regulatory asset base (a set of assets used to perform regulated activities) and the amount of allowable operating costs set in the Decree. When setting the tariffs, the Office proceeded in a correct manner. A regulated entity was requested to clarify or supplement the submitted price proposals. Prior to issuing a decision, the entity was requested in writing to study the supporting materials based on which the Office shall issue a final price decision. Each regulated entity shall be entitled to appeal the decision to the Regulatory Board in the second instance. Should the entity lose the appeal, it may appeal to the court.

A trend of declining regulated fees, which began in 2013, continued throughout 2014. The falling prices of electricity as a commodity in the electricity market and the subsequent impact on covering losses in the systems and system operators' own consumption played a significant role in reduction of the regulated fees. In addition, a method of the regulation and implemented amendments to the regulatory legislation, namely the Office Decree No. 221/2013 Coll. also affected the fee reduction.
The trend of rising energetic efficiency of the system operators followed by further lowering of the allowable costs under the relevant Decree is expected to continue.

In addition to the tariffs described above, the final invoice for network fees includes other fees not related to the system operation, but collected by a system operator in accordance with the applicable law.

Contribution to the National Nuclear Fund

A levy pursuant to Article 7 Section 1 Letter b) of the Act No. 238/2006 Coll. on the National Nuclear Fund for the Decommissioning of Nuclear Installations and the Management of Spent Fuel and Radioactive Waste ("Nuclear Fund Act") as amended represents another invoiced item within the supply and distribution of electricity. The levy is not revenue arising from the system operators' business under the Article 7 Section 6 of the Nuclear Fund Act.

Excise tax

The invoice includes a payment of excise tax that is not set by the Office. These items are not subject to regulation within the responsibility of the Office, but are paid as a final price listed in an electricity invoice.

Tariff for system operation ("TSO")

A tariff for system operation (€/MWh) is a fixed price tied to a technical unit considering a proportional part of costs of electricity produced from domestic coal, electricity produced from renewable energy sources and electricity produced from high-efficiency combined production and activities of the short-term electricity market operator; the tariff applies to the final consumption of electricity.

The Office promotes electricity produced from renewable energy sources and high-efficiency combined heat and power production by setting fixed prices for electricity produced from renewable energy sources ("RES") and high-efficiency combined production depending on the technological process of electricity production, a date of launching a facility into operation, an installed capacity and a mode of financing. The set prices of electricity produced from RES and high-efficiency combined production have a major impact on the value of the applied tariff for system operation. With connection of each new energy facility producing electricity from RES or high-efficiency combined production of electricity and heat to the system, the tariff rises, which had a significant impact on the amount of the final electricity price for all electricity customers in 2014 and beyond.

The reason for the high increase in the tariff for system operation primarily owed to intensive construction of renewable energy sources and their required support in compliance with the applicable EU directives and also high-efficiency combined heat and electricity production, promotion of electricity production from domestic coal (in compliance with the Directive No. 72/2009/EC) and the costs of the short-term electricity market operator, which significantly contributes to the liberalization of the electricity market in the defined territory.

The Office has consistently drawn attention to the adverse effects of uncontrolled development of RES support and insists that every member state of the Union has to define its own energy mix.

The rising tariff for system operation owes to stronger promotion of RES and combined high-efficiency electricity and heat production as well as an increase for electricity produced from facilities put into operation in the previous years, the operation of which has not been fully utilized yet. Another important factor affecting the increase in the tariff for system operation is a decrease in the price of active electricity on the world markets. Since all sources of RES and combined high-efficiency electricity and heat production are supported mainly by a so-called surcharge, which is a difference between the market price of electricity and the electricity price set for a particular technology, it is inevitable that with the falling world market prices, the surcharge rises, which results in a higher tariff for system operation through which the sources for the payment of the surcharge originate. This factor has an impact not only on the promotion of electricity from RES and combined high-efficiency electricity and heat production, but also on the support of electricity produced from domestic coal. The increase in costs associated with OKTE, a.s., the short-term electricity market operator, is related to new responsibilities that the operator is obliged to implement in the electricity market in SR under the applicable law (central data warehouse, imbalance settlement, etc.).

3.1.4. Cross-border issues

In 2014, the Office cooperated in the matters related to cross-border trading with respective regulators and the Agency for Co-Operation of Energy Regulators ("ACER") pursuant to the Directive No. 2009/EC/714 in the region of Central and Eastern Europe ("CEE region").

In the cross-border capacity allocation and congestion management on the cross-border profiles, the Slovak transmission system operator – SEPS complies with the rules governing the Electricity Market Rules and the Transmission System Operational Code approved by the Office. In 2014, the capacity of cross-border interconnection of transmission system ensured sufficient stability and security of the system not only in SR, but also in the European Union.

Revenues from congestion management fees collected by SEPS reached EUR 29,541,356.10 in 2014. The Office was monitoring the utilisation of the revenues pursuant to the Article 16 (6) of the Regulation No. 2009/EC/714 and concluded that all the revenues of the transmission system operator resulting from the allocation of interconnectors were used via investments to ensure the actual availability of the allocated capacity and to maintain or increase capacity of the interconnectors.

In terms of ensuring stability and security of the transmission system, an issue of unplanned flows, so-called loop electricity flows, arising from the physical nature of the interconnected power systems, has become more challenging. The phenomenon is caused by differences between the physical and trade flows on cross-border interconnections. The physical output flows are determined by a location of production capacity and a place of electricity consumption. Electricity produced from RES in the Northwest Europe and especially in Germany also flows through the transmission systems of neighbouring countries, consequently, through the transmission system in Slovakia to the Southern Europe with higher deficiency creating thus bottlenecks within the electricity infrastructure. Due to unpredictability of the loop and parallel electricity flows, safety of the transmission system operation with impending shortfalls is at risk as well as potential restriction of cross-border business opportunities, an increase in the internal load of transmission system and increasing losses in the transmission system.

Since 2014, optimal solutions to resolve the issue have been sought. The issue has also been brought to the attention of the European Commission. With regard to the fact that wind energy will continue to play an important role in meeting the objectives of the new energy policy of the European Union, it is believed that effective international measures and solutions to reduce the issue will soon be identified and implemented.

A market-coupling project shall lead to the formation of a pan-European day-ahead electricity market. In the CEE region, the project began with linking markets of the Czech and SR in 2009. The cross-border profiles between the Czech and SR on one hand, and the SR and Hungary on the other, a daily capacity was allocated via implicit auctioning as a part of the common interconnected short-term market of these countries, a so-called trilateral market coupling, using the method of calculation of available capacity since September 11, 2012. 4M market coupling that integrates Czech, Slovak, Hungarian and Romanian daily electricity market was successfully launched in November 2014.

In the 4M market-coupling project, systems developed for the target European model of daily electricity market ("target model") have been implemented. The European model of price coupling simultaneously sets the quantities and prices in all price bands based on the principle of a marginal pricing under the ACER framework guidelines on capacity allocation and congestion management in the CEE region.

The method allows for simultaneous trading on power exchanges in participating countries up to the available transmission capacity. The main benefit of the market coupling represents more efficient allocation of available cross-border capacities. The amount of electricity traded on interconnected markets contributes to higher reliability of electricity supplies, higher market liquidity and optimal price volatility.

On January 1, 2012, the Government Directive No. 440/2011 Coll. amending the Government Directive 317/2007 Coll. laying down the rules for the electricity market ("Government Directive") came into force. The Directive was supplemented by a system of GCC, i.e. a system of cooperation of synchronously interconnected transmission system operators in order to eliminate mutual secondary regulation in opposite directions and a related impact on the provision of auxiliary services and regulatory electricity.

Purchasing of regulatory electricity is performed by the transmission system operator under a contract made with a provider of auxiliary services, or a supplier of regulatory electricity. The transmission system operator may only supply regulatory electricity by automated activation of regulatory electricity with the parameters of the secondary output control via management information system of the transmission system operator's dispatching in cooperation with neighbouring transmission system operators within the GCC system and at a price set in a price decision of the Office or via emergency assistance from neighbouring transmission system operators.

The regulatory electricity purchased by the transmission system operator is booked as secondary regulatory electricity at a special price set by the Office during evaluation, clearing and settlement of the deviation.

Revenue from the introduction of GCC is divided in a ratio specified by the Office in price proceedings; a part of the revenue is retained by SEPS while the remaining part is used to reduce tariffs for system services.

The actual impact of the regulatory electricity purchased under the GCC system in 2014 resulted in the revenue of EUR 7,696,766 earned by the transmission system operator.

3.1.5. Compliance

Transposition of the 3rd Package provisions was applied through adoption of the Act No. 250/2012 Coll. as of 31 July 2012 on regulation in network industries, with the effect as of 1 September 2012, and the Act No. 251/2012 Coll. as of 31 July 2012 on energy with the effect as of 1 September 2012.

3.2. Promoting Competition

3.2.1. Wholesale market

The Office may only create the legislative conditions and monitor their compliance in the wholesale electricity market. Pursuant to the enabling provisions of the Act on the Regulation, the Office continued to apply related generally binding regulations of the Decree No. 221/2013 Coll., establishing price regulation in the electricity sector as amended by the Decree No. 189/2014 Coll. and the Decree No. 24/2013 Coll. laying down the rules for the functioning of the internal electricity market and rules for the functioning of the internal gas market as amended by the Decree No. 423/2013 Coll.

Electricity supply is not regulated. A final price is solely shaped by the market.

Despite the wholesale market not being regulated, a market stakeholder with sufficient financial power might be able to manipulate it. For this reason, REMIT was issued to control or rather monitor to help detect and prevent such efforts. REMIT is the regulation No. 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency that came into force on 28 December 2011. The related implementing regulation entered into force on 7 January 2015. REMIT establishes a framework for monitoring wholesale energy markets and defines market abuse in the form of market manipulation or attempted market manipulation and insider trading. Effective from 1 September 2012, the Act on Regulation implemented REMIT and authorized the Office to keep the register of stakeholders in the electricity and natural gas market for the purpose of monitoring the wholesale electricity and natural gas market and also to examine suspected cases of market abuse and impose sanctions in case of a breach.

In accordance with the implementing regulation, stakeholders in the wholesale energy market are obliged to register with the National Register administered by the Office and report transaction data within the set deadlines. In 2014, the Office launched preparations for maintaining the register of the stakeholders in the electricity and natural gas market.

In 2014, the major electricity market stakeholders in SR were the following entities:

- Slovenské elektrárne, a.s. (“SE, a.s. “) – a dominant electricity producer that generated 73.28 % of electricity from its own sources in SR in 2014. Electricity production in the volume of 19,972 GWh covered 70.43 % of electricity demand in the territory of SR. An installed capacity of its own facilities amounts to 4,520 GWh.
- Supported producers of electricity from renewable energy sources and high-efficiency combined heat and electricity production. It is estimated that the amount of electricity produced from RES incl. the surcharge and high-efficiency combined heat and electricity production reached 2,780 GWh and 1,794 GWh in 2014, respectively.
- SEPS – a sole holder of national power transmission permit and operator of the national transmission network. The company also performs the tasks of energy dispatch centre (ensuring full balance in the territory of the SR).

- OKTE, a. s. – an organizer and evaluator of the short-term electricity market, ensures the clearing, assessment and settlement of imbalances in the territory of the SR.
- Západoslovenská distribučná, a.s., Stredoslovenská energetika - Distribúcia, a.s., a Východoslovenská distribučná, a.s. - sole operators of the regional distribution systems (“RDS“) in the respective defined territories with more than 100,000 off-take points connected. In addition, there are other 160 active license holders of electricity distribution that run local distribution systems (“LDS“) in manufacturing and non-manufacturing companies with fewer than 100,000 off-take points.
- Other 458 entities licensed to conduct business in the electricity market in 2014.

3.2.1.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Monitoring the wholesale market with electricity is in the competence of the Quality and Analysis Department established by the Office especially for this purpose.

The electricity has been traded predominantly based on bilateral trades concluded under the market conditions, usually via various broker platforms, Prague Power Exchange and European Energy Exchange EEX that are regarded as the most transparent and fair way of trading electricity in the long-term basis in this region. Residual electricity sold annually is traded on the short-term basis in the Slovak short-term day ahead market and neighbouring markets on bilateral basis, again mainly via broker platforms. This volume represents approximately 10 % of total annual production.

Considering the size and liquidity of the Slovak energy market, it is important to export or import it on a daily basis. The advantage of the Slovak electricity market is a good connection of the power system with the neighbouring markets. Following the completion of the construction of units 3 and 4 of the nuclear power plant Mochovce to the system, security of electricity supplies in Slovakia as well as within the common EU market will be partly restored and export potential of the country in the electricity market will be partly revived as well.

Now the market is dealing with the issue of expansion of renewable energy sources in Europe with the impact on the functionality of the power system, as well as the final electricity prices. The growing electricity demand points to a revival of the economy.

3.2.2. Retail market

The Act on Regulation introduced price regulation of electricity supply to vulnerable customers such as households and small businesses. Price regulation of electricity supply to vulnerable customers is governed by the Office Decree No. 221/2013 Coll. establishing price regulation in the electricity sector.

In 2014, price regulation of the electricity supply was applied to electricity supply to:

- households,
- small businesses,
- the last resort supplier regime.

Electricity supply for households

Price regulation of electricity supply to households is governed by the Office Decree No. 221/2013 Coll. establishing requisites of a price proposal by the regulated entity and a method for calculating the maximum price for electricity supply to households. The Office shall review the price proposal and issue a decision on the prices for electricity supply to household customers in individual components of the proposed rates.

The price for electricity distribution, including electricity transmission and electricity losses in transmission and the price of electricity losses in the distribution of electricity, the tariff for system services and the system operation according to the price decision, by which rates for access to the distribution system and electricity distribution for the operator of the distribution system to which the household customer is connected, have been approved or determined, are added to the rate for electricity supply charged by the electricity supplier.

For 2014, the Office set the maximum prices for household electricity suppliers actively doing business in SR and set the conditions for their application. The maximum prices for household electricity supplies are made of two components - a monthly payment per an off take point and the electricity consumed in the low band or the high band. Household electricity supply is divided into eight rates.

The Office always sets the maximum prices in its decisions. As a part of their business activities, suppliers offer various discounts and benefits to their customers. On its website, the Office provides a so-called price calculator to assist any customer in selecting the most suitable electricity supplier depending on the customer‘s estimated demand and the price approved for such customer.

The reference parameters for setting the maximum price for household electricity supplied for 2014 were the arithmetic average of the daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE) on its website, the product of F PXE SK BL Cal-t for the period between January 1 and June 30 2013, the coefficient up to 12 % of planned electricity load curve diagram for households and the costs of imbalances related to the household electricity supply.

Electricity supply for small enterprises (hereinafter “SMEs”)

Price regulation is applicable to a regulated entity that supplies electricity to SMEs. The Office Decree specifies requisites of a price proposal submitted by a regulated entity and a method of calculating the maximum price for electricity supply to a small business. The Office shall review the price proposal and issue a price decision on electricity supply to SMEs specifying individual components of the proposed rates.

The need to regulate the supply of electricity to SMEs stemmed from the recent opening of the electricity market. The price deregulation did not lower the prices and costs of electricity to customers, but the opposite. Regulation of final prices to SMEs customers has stabilized the energy prices since the recent liberalization of the market in Slovakia has not directly translated into lower prices. As a part of consistent application of the EU law by the Office, it is authorized to price regulation of SMEs in compliance with the rights defined in the Third Energy Package to the EU member states, namely the right to a fair price for all participants in the electricity market. Protection of both SMEs customers and households in Slovakia does not contravene the European law.

As the Office sets maximum prices, price regulation of SMEs has no impact on the energy market; neither does it harm competition in the market for energy supply to SMEs. Price regulation of SMEs guarantees competition more than prices originated in the free market environment where customers are still not able to make informed choices.

The choice of a supplier by a customer is not limited at all since each electricity supplier in SR operates in the whole territory of the country providing thus the customer with the same right to choose any supplier. Price regulation guarantees allowable costs and fair profit to the suppliers to SMEs.

A SME is defined as an end customer with total annual electricity consumption in its entire off take points up to 30,000 kWh for the year foregoing the year, in which the respective price proposal is submitted.

Electricity supply to SMEs is divided into eleven price rates. The Office issued 108 price decisions related to electricity supply to small businesses in 2014.

The reference parameters for setting the maximum price for electricity supplied to small business for 2014 were the arithmetic average of the daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE) on its website, the product of F PXE SK BL Cal-t for the period between 1 January and 30 June 2013, the coefficient up to 12 % of planned electricity load curve diagram for SMEs and the costs of imbalances related to electricity supply to SMEs.

Electricity supply for other end users

Under the Act on Regulation, the Office is not authorized to regulate final price for the electricity supplied to other end users. Such customers are not regulated and their final electricity price electricity is mainly derived from the market price of electricity and their choice of a supplier. They are fully responsible for their final price of electricity. In this segment, the Office only creates the conditions and the regulatory environment to avoid any disruption to the market equilibrium and to ensure that no entity abuses its position on the open electricity market.

Consumption in the defined territory means the amount of electricity determined as a sum of the total electricity produced within the defined territory and imported electricity from which exported electricity is deducted. The data chart shows a decrease in electricity production and consumption within the defined territory in 2014. This was caused by a lower demand owing to higher energy efficiency and orientation of customers to foreign producers of electricity in case production declines. These trends are expected to continue in future.

Electricity supply performed by the Last resort supplier

The Office defines the criteria for selection of the last resort supplier and selects the last resort supplier.

Price regulation applies to the supply of electricity by the last resort supplier to off take points located in households and outside of them.

The electricity price regulation is performed by determining the method of calculating the maximum price for the last resort electricity supplier.

If electricity supplied by the last resort supplier is associated with electricity supply and included in the rate for electricity supplied as the last resort, the electricity supplier of the last resort will add the price for electricity distribution and transmission including losses in transmission and distribution of electricity, the tariff for system services and the tariff for system operation in line with the price decision in which prices for network access and distribution of electricity by an operator of the distribution system, which the relevant off take point is connected to, were approved or set.

The last resort supplier is obliged to deliver electricity to customers connected to the distribution system and whose supplier is no longer able to supply electricity or the process of electricity supplier switching has been suspended and, at the same time, electricity supply has not been ensured in any other way.

Throughout 2014, the last resort supplier regime was employed only in two cases where two small alternative suppliers (PB Power Trade, a.s. a PBPT Holding, a.s.) ceased to perform their obligations in the defined territory of Západoslovenská distribučná, a.s., Stredoslovenská energetika - Distribúcia, a.s., a Východoslovenská distribučná, a.s., the operators of distribution systems, under the applicable law and their commitments related to electricity supplies to end customers were assumed by the last resort suppliers.

3.2.2.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

In addition to the price regulation, the Office issued the Decree No. 24/2013 Coll. laying down the rules for operation of the internal electricity and natural gas market pursuant to the Act on Regulation No. 250/2012 Coll. The decree defines the rights and obligations of the electricity market stakeholders and the conditions for operation of the liberalized electricity market in Slovakia. The decree has introduced measures aimed at fostering transparency of the electricity market and defined the conditions for the creation of data storage warehouse and the central invoicing system.

Throughout 2014, the Office continued to approve operational codes issued based on model operational codes of distribution system. The Office reviewed and approved 62 requests for operational codes submitted by the system operators. All approved operational codes have been posted on the official website of the Office and are now available to the general public and namely the users of particular systems governed by the approved operational codes.

Pursuant to the Act 250/2012 Coll., the Office is authorized to approve business terms and conditions for an electricity supplier providing a universal service. Throughout 2014, the Office continued to approve business terms and conditions issued based on model business terms and conditions of electricity supply. The Office issued 105 approved decisions on the business terms and conditions of electricity supply in 2014. All approved business terms and conditions are posted on the official website of the Office and are now available not only to the particular providers of the universal service systems (electricity suppliers), but also to the general public.

On its official website, the Office published all relevant data concerning the electricity market, and in many cases beyond its obligations in order to help stakeholders in the electricity market. In addition, the Office drew attention to many obligations of the market stakeholders on its website or via direct electronic communication. These activities helped meet the needs of market participants in a non-discriminatory and open manner.

To review the level of liberalization of the electricity market, a coefficient in % called switching, which is a ratio between a number of off-take points that changed a supplier of electricity and a total number of off-take points in a given year, is used. In 2014 there was a total decrease in both household and off-household customers. In the category of household customers the switching rate reached in 2014 the value 2.58 % and in comparison with the year 2013, it is a decrease of 1.00 %. In the category of off-household customers the switching rate reached in 2014 the value 4.18 % and in comparison with the year 2013, it is a decrease of 2.80 %.

The overall decrease in a whole retail market from 3.98 % in the year 2013 to 2.77 % in the year 2014 can be attributed to the fact that customers interested in changing a supplier have already done so in the previous years as well as the fact that in many cases a new supplier was contracted for several years, which resulted in staying with the same supplier for the contracted period of time. In addition, a bankruptcy of several alternative suppliers contributed to fewer changes of a supplier (the last resort supplier regime applied). Confidence in alternative suppliers has been reduced as a result. To promote switching among customers, higher awareness needs to be raised. This has been significantly supported by the Office publishing the electricity price calculator on its official website to help guide customers in their decision-making process.

In the framework of companies' concentration inspection, the Antimonopoly Office of SR issued the following decision related to the power sector in 2014: decision No. 2014/FV/3/1/018 on acquiring of sole control by enterprises from one economic group, thus by ISTROENERGO INTERNATIONAL, a. s., Slovak Republic and ISTROENERGO GROUP, a.s., Slovak Republic over PPC Investments, a.s., Slovak Republic.

4. Gas market

Gas stakeholders

In 2014, the gas market stakeholders were:

a) transport network operator - eustream, a.s.,
b) distribution network operator in the particular part of the territory of the SR - SPP-distribúcia, a.s.,
c) local distribution network operators,
d) gas underground storage operators (POZAGAS a.s. , NAFTA a.s./),
e) 25 gas suppliers, and
f) gas customers.

Slovakia covers 98 % of its gas consumption by imports of the commodity, namely:

- from Gazprom Export under the long-term contract,
- by natural gas purchased at a power exchange, and
- by natural gas purchased from foreign gas suppliers (from parent companies of the gas suppliers active in Slovakia).

The Office issued gas supply licenses to 166 holders for 2014, which is 19 more than for 2013. Twenty-five license holders supplied gas to end customers and operated throughout the whole Slovakia. In addition, 38 operators of local distribution networks either operate in their own or rented local distribution network. Out of this number, thirty-six of them supply gas to off take points connected to their local distribution network. Two entities authorized to distribute gas did not supply any gas.

4.1. Network regulation

In 2014, pursuant to the Decree No. 193/2013 Coll. laying down price regulation in gas industry as amended by the Decree No. 187/2014 Coll. ("Decree No. 193/2013 Coll.“), the Office performed price regulation governing:

- access to the transport network and gas transport,
- access to the distribution network and gas distribution,
- connection to transport and distribution networks,
- provision of auxiliary services in gas industry, and
- re-purchasing of gas industry equipment.

4.1.1. Unbundling

2014 was the first year in which, following the decision of the Ministry of Economy of Slovak Republic dated 22 November 2013 on fulfilment of the terms and conditions required for unbundling of eustream, a.s., the operator of transport network, the Office issued decisions pursuant to the Act on Regulation on approving business and financial contracts of eustream, a.s., an independent operator of transport network, concluded with other business entity that is a part of a vertically integrated business, and also issued prior consents to the terms and conditions of provision of services of the transport network operator to another person that is a part of the same vertically integrated business as the transport network operator or which directly or indirectly controls the entity that is a part of the same vertically integrated gas industry entity as the transport network operator.

In 2014, the Office issued 8 decisions on approval of business and financial contracts and 4 decisions on prior consent to the terms and conditions of provision of services by eustream, a.s. as an independent transport network operator. When reviewing the provision of the services, the Office examined the operation of eustream, a.s. pursuant to the Article 55, Section 5 of the Act on Power Industry, namely whether the company's operation does not lead to discrimination of other users of transport network, whether the services are available to all network users under the same terms and conditions, whether the provision of services does not disrupt or restrict the economic competition in the gas market or whether such provision of services does not prevent such competition.

The Office also reviewed compliance of the rules of the internal gas market and whether the entities forming a part of the vertically integrated business were given preferential treatment.

Pursuant to the Act on Regulation, the Office issued decisions on service level agreements or their amendments concluded by the regulated entities performing regulated activities in gas industry in 2014. The Office issued 6 decisions on approval of the service level agreements. When reviewing the agreements, the Office examined whether they met the terms and conditions regularly applied in standard business conduct.

Distribution network operator that is a part of a vertically integrated business must, in terms of legal subjectivity, organization and decision-making, be independent from other activities unrelated to gas distribution. The Office was thoroughly monitoring performance of the obligations of SPP-distribúcia, a.s., the distribution network operator, with respect to unbundling of the activities of the distribution network operator active within a vertically integrated business and also the obligation related to the contractual obligations of such regulated entity, namely the obligation to submit to the Office each contract concluded between the operator and other party that forms a part of the same vertically integrated business within 30 days after the conclusion of such contract.

4.1.2. Technical functioning

Transmission network

Both the domestic and international gas transport is performed by high-pressure transport network operated by eustream, a. s. as the sole transmission system operator. The transmission network and connected domestic networks and gas underground storages are interconnected via a system of domestic delivery stations that serve as a physical entry and exit point to/from the transmission network.

The total length of the transport network is 2,332 km. The network consists of a system of four to five parallel tubes with a calibre of 1,200/1,400 mm and maximum operating pressure of 7.35 MPa. Uninterrupted and reliable gas flow in the transport network is ensured by four compressor stations with the aggregated power of nearly 600 MW. The most important compressor station is the one situated on the Slovak-Ukrainian border in Veľké Kapušany. The technical capacity at the entry point to the transport network in the particular part of the Slovak Republic's territory in Veľké Kapušany is 2,288 mil. MWh a day.

The Office is responsible for monitoring and reviewing the performance of the ten-year network development plan. Pursuant to the Act on Power Industry, eustream, a. s. produced and submitted to the Office a ten-year plan of development of the transport network including the development of interconnections meeting the needs of the national and the European gas market. The objective of the plan is to introduce the planned investments to enable the increase of the transport network capacities to the gas market stakeholders and to review the ability to align the transport network with the requirements of the gas market. Apart from the assessment of development of the transport network in 2013 and other technical data, the plan also contains description of the projects aimed at increasing the capacity of the border points, namely:

- the Polish-Slovak interconnection that is an important part of the North-South gas industry corridor, this is a connection of two neighbouring countries which one of the largest gas mains passes through,
- the project aimed at increasing fixed transport capacity at the entry point of Lanžhot in the direction towards the exit points of Baumgarten, Budince and Veľké Zlievce by installing a new technology,
- the project aimed at increasing the capacity of the domestic point and into the gas containers of SPP-distribúcia, a.s. and increasing the capacity at the Ardovo physical point of connection.

The ten-year plan of eustream, a. s. was published at the official website of the company. After published, eustream, a. s. did not receive any comments either from the transport network users or from other stakeholders active in the gas market. Pursuant to the Act on Power Industry, the Office addressed a letter of invitation to the current and potential users of the transport network and requested them to raise their comments on the ten-year plan of development of the transport network. The results of the consultations as well as the Report on Performance of the Ten-year Plan of Development of the Transport Network in the Period 2014-2023 were published at the website of the company.

Distribution network

SPP-distribúcia, a. s. is the most important player in the gas distribution market and the largest operator of distribution network of high-pressure, medium-pressure and low-pressure gas mains covering the whole territory of the SR.

SPP-distribúcia, a. s. ensures distribution of 98 % of all gas in Slovakia. Gas pipes were installed in 2,234 municipalities in Slovakia at the end of 2014.

The structure of the distribution network of SPP-distribúcia, a. s. as of 31 December 2014:

- total length of the distribution network was 3,257 km,
- length of the high-pressure gas mains was 6,291 km,
- length of the medium-pressure and low-pressure gas mains was 26,966 km,

which is a year-on-year increase of 65 km.

Some parts of the territory of SR are covered by operators of local distribution networks interconnected with the distribution network of SPP-distribúcia, a.s. The local operators distribute gas to customers located in large corporate premises and industrial parks.

In 2014, gas totalling 800 mcm was distributed by 38 local distribution network operators. Compared to 2013, the number of the local distribution network operators decreased by one and the volume of the gas distributed dropped by 151 mcm.

Network balancing

SPP-distribúcia served also the role of the National Gas Dispatch Centre. As for physical balancing of the distribution system, SPP-distribúcia uses gas storage facility in Dolné Bojanovce, located on the territory of the Czech Republic that is connected to the Slovak Gas Network. In 2014, no problems occurred in the distribution system caused by imbalance in the distribution system.

SPP-distribúcia company also ensured commercial balancing on a daily basis for the distribution network users by means of the calculation of daily and cumulative imbalances originating from the volumes of gas nominated at the entries into the distribution system and quantities actually flowing out of the distribution system and keeping the balancing account and imbalance settlement.

Underground gas storage facilities

Underground gas storage facilities in the territory of the SR are operated by two companies, namely NAFTA a. s. ("NAFTA"), which runs a set of underground gas storages Láb 1.-3., and Gajary-Baden, and POZAGAS a. s. ("POZAGAS"), which runs an underground natural gas storage Láb 4. – a facility located near Malacky.

4.1.3. Network and LNG, tariffs for connection and Access

Methods of the gas network price regulation are as follows:

- access to the transport network and gas transport - direct determination of a comparable price by comparing prices for gas transport in SR with those for gas transport in other member countries of the European Union bordering the Slovak Republic. Comparable prices for the access to the transport network and gas transport are set in the form of tariffs that are proposed in a entry-exit tariff system manner,
- access to the distribution network and gas distribution for a regulated entity with the distribution network of more than 100,000 off-take points connected to it, i.e. SPP – distribúcia, a.s., by determination of the calculation method of the maximum price for the access to the distribution network and gas distribution with the price cap method applied,
- access to the distribution network and gas distribution for regulated entities– operators of the local distribution networks, i.e. the networks with not more than 100,000 off-take points connected. Cost regulation method is applied with the resulting maximum price including the allowable costs as necessary to operate the network per unit of volume of gas in year t, fair profit as limited by the Office and a corrective factor reflecting the actual volume of the gas distributed and actual economically allowable costs in year t-2,
- maximum price for connection to the transport network is based on the actually incurred economically allowable costs required for documentation, technical and implementation stage of connection,

- maximum price for connection to the distribution network is set on the basis of the estimated economically allowable costs related to determination of the terms and conditions of connection, review of an application for implementation of connection to the distribution network and installation of a metering device including the review of a report on expert inspection and on the test of the gas off-take equipment. The prices are set separately for household gas customers and non-household gas customers.

No LNG facility was operated in the territory of SR in 2014.

In relation to the established term “network fees“ applied in the European Union, it is necessary to distinguish the fees that are directly connected to the exploitation of the network for gas transport to an off-take point of the gas customer in the Slovak market. The network fees include the tariffs for access to the transport network and gas transport and the tariffs for access to the distribution network and gas distribution. The other items that form the final price for gas supply such as costs of gas storage, costs of the gas supplier, fair profit and costs of gas (price of the commodity) are not included in the network fees and are not subject to any price regulation except for gas supplies for vulnerable customers.

Transmission network operator

The transport network of the Slovak TSO - eustream, a. s. forms a reliable part of an international transport network transporting natural gas to the European gas market.

In 2014, the transport network transported 46.5 bil.m^3 of natural gas. The largest user of the transport network in terms of the volume of the gas transported is Gazprom Export.

The Office approved tariffs for the access to the transport network and gas transport for eustream, a. s. for 2014 by its decision dated 2 September 2013. The tariffs are set for individual entry and exit points of the transport network (the entry-exit system) and are valid for both Slovak and foreign users of the transport network. They are proposed depending on the contractually agreed daily maximum capacity of gas transport. Starting rates of the tariffs were raised by 1,30 % on the average for 2014 to match the inflation rate in the countries of the European Union in 2013 as published by Eurostat with only 50 % of the amount being included in the escalation factor. The tariffs were set in energy units to enable comparison thereof to the tariffs of the other operators of transport networks in the neighbouring countries.

In the geopolitical situation in 2014, tense relations between Ukraine and the Russian Federation directly affected the development in the gas transport in SR.

The Slovak–Ukrainian gas interconnection project enabling gas supplies to Ukraine from the Western route was implemented in relation to the crisis. A new entry-exit point of the transport network was built in Budince and launched into commercial operation on 2 September 2014.

With regard to launching the new entry-exit point in Budince, which ensured physical reverse flow of natural gas in the direction towards Ukraine, into operation as early as 23 June 2014, the Office issued a decision on approval of starting rates of the tariffs for this entry-exit point.

The development of the gas flow at the entry points to the transport network in 2011-2014 is documented by a decrease in gas volume from the entry point to the transport network (Veľké Kapušany). The diagram also shows an increase in the volume of gas transported from the West to the East reflecting the change on the map of the European gas industry due to the supplies of Russian gas to the member states of the European Union via the Nord Stream gas mains.

In 2014, the Office did not issue any price decision on the transport network connection

Distribution network operator

Price regulation of the access to the distribution network and gas distribution for 2014 was performed separately for:

a) SPP - distribúcia, a.s. acting as an operator of the distribution network with more than 100,000 off take points connected and the gas industry central controller in the defined part of SR,
b) operators of the so-called local distribution networks that perform gas distribution in a defined part of SR to customers located in large corporate premises and industrial parks with the distribution network of not more than 100,000 off take points.

In its price decisions, the Office set tariffs for SPP-distribúcia, a. s. for access to the distribution network, gas distribution and provision of auxiliary services in the gas industry not provided within the framework of the tariffs for access to the distribution network and gas distribution for 2014 and valid for 2015 - 2016. The tariffs also cover payments for exceeding the contractually agreed daily distribution capacity set separately for October, November, December, January, February and March and separately for April, May, June, July, August and September. The tariffs for the gas distribution are made up of several components and do not contain any cross subsidies between the individual groups of gas customers. They cover all costs and fair profit. Tariffs for gas distribution are set on the principle of a so-called post stamp, i.e. based on annual volume of gas distributed regardless of the distance of an off take point from a gas source.

The Office issued 45 price decisions for gas distribution within the local distribution networks for 2014 and one price decision on connecting to the local distribution network. The Office also approved prices for connection to the main distribution network for SPP-distribúcia, a.s. The prices were approved separately for household gas customers and non-household gas ones.

Underground gas storage operators

The price for access to a storage facility and gas storage is not subject to price regulation.

Total yearly storage capacity of both underground gas storages as of 31 December 2014 amounted to more than 3.1 billion m^3 per year.

Natural gas production

Domestic production of natural gas in 2014 reached the level of 91 million m^3, what represents a decrease of 9 million m^3 compared to 2013.

4.1.4. Cross-border issues

Changes that occurred in the Russian-Ukrainian relations in 2014 resulted in eustream, a. s. signing a Joint Memorandum with the Ukrainian operator of gas mains network Ukrtransgaz and launching a project of gas reverse flow supplies to Ukraine. The project included construction of a tube interconnection and a gas measurement station within the building of compressor station in Veľké Kapušany to the existing gas mains DN 700 Vojany (entry-exit point of transport network of Budince) placed nearby the compressor station and continuing to the territory of Ukraine. It ensures physical reverse flow of natural gas in the direction towards Ukraine of up to 10 bil.m^3 a year. At the same time, it contributes to strengthening energy security of Ukraine as well as to diversification of the nation's natural gas sources. From the point of view of Ukraine's total consumption, the project significantly increased its reverse capacity as only reverse flows from Hungary and Poland had been possible before it. It opens new possibilities in the natural gas and storage capacity trading for Ukraine.

Implementation of the Slovak-Hungarian interconnection project resulted in the construction of interconnecting gas mains as a new interconnection between the Slovak and Hungarian transit networks. The interconnections will, as a part of the North-South corridor, connect the gas industry networks across Central and Eastern Europe and contribute to considerable diversification of sources and transport routes of natural gas. The gas mains pipeline is 111 km long and connects the Slovak compressor station of Veľké Zlievce with the Hungarian transport network near Vecsés municipality. The gas mains, which are to be launched into commercial operation in February 2015, are 92 km long in Hungary.

A planned Polish-Slovak interconnection is yet another part of the North-South corridor in the gas industry. If gas supplies are interrupted, the interconnection may significantly eliminate the negative impact of a possible crisis and offer interconnection and access to other nations. Poland will also be able to export gas imported to Europe via the Świnoujście LNG terminal. The planned gas mains interconnection will considerably contribute to the diversification and stability of gas supplies throughout the region. The project was included in the list of the PCI projects pursuant to the Regulation No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure ("Regulation No. 347/2013").

The length of the planned gas mains is approximately 164 km. The interconnection will be located near the gas industry node of Strachocina situated close to the Polish underground gas storage and the compressor station of Veľké Kapušany. The Slovak part will be 106 km long, while the Polish one will cover 58 km.

The Office and the Polish Office for Regulation agreed upon cross-border allocation of the project costs. The commercial operation will be launched in 2019-2020. Memorandum of Understanding on division of the project investment costs was signed between the Office and the Polish Office for Regulation pursuant to the Regulation No.347/2013. In November 2014, the national regulation authorities confirmed their intention to issue coordinated decisions on the project. On 28 November 2014, they issued decisions on division of the cross-border costs for implementation of the gas interconnection incurred by the Polish operator of transport network GAZ-SYSTEM S.A. and the Slovak operator of transport network eustream, a. s. between the Republic of Poland and SR. The decisions were subsequently sent to the Agency for the Cooperation of Energy Regulators (ACER).

Transmission capacity

Annual capacity of the transport network is as much as 90 bil.m^3 of natural gas, which exceeds the domestic gas consumption of SR 15 times. The international transport of natural gas represents more than 71 % of the total transport of natural gas. The current aggregate daily entry capacity of all entry-exit points of the transport network is 327 mil.m^3 of natural gas. Access to capacities of the transport system of eustream, a.s. is based on the “Entry-Exit“ tariff system.

In 2014, 6 of all applications for access to the transport network were dismissed due to the zero free transport capacity at the Budince exit point from the transport network.

In 2014, the transport network was utilized by Slovak and foreign companies namely from Russia, Ukraine, the Czech Republic, Germany, Switzerland, Great Britain, Denmark and Austria.

The following table shows shares of the domestic and foreign users of the transport network in the total volume of the gas transported. The total volume of the gas transported in 2014 reached 46.5 bil.m^3.

4.2. Promoting competition

4.2.1. Wholesale market

4.2.1.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

The Office was monitoring the developments in the wholesale gas market with more emphasis put on gas wholesale prices due to their relative fluctuation in 2014. In the first half of 2014, a significant decrease in prices in the energy exchanges occurred, namely due to the warm winter and a gas market surplus. A tension between Russia and Ukraine stopped the decline, as Ukraine was not able to pay for the gas supplied. At the end of 2014, yet another drop in the wholesale prices of natural gas reoccurred. In addition, a substantial decrease in a price of crude oil affected the falling prices. The price of crude oil dropped due to large reserves of gas and also growing gas and crude oil extraction from shelves in the USA up to 30 %. The gas wholesale prices are also derived from the long-term gas purchase contracts. The gas prices under those contracts were especially derived from the development of competitive fuels, mainly the crude oil and heating oil’s. Currently, when a major part of gas required to cover gas supplies is purchased at energy exchanges, the price of gas is not contractually indexed at the long-term development averages of crude oil and petroleum derivates, but responds to the situation in the gas market and allows for price fluctuation of gas at energy exchanges. Natural gas is also purchased at so-called spot energy markets of energy exchanges for the current or the following day. Gas purchase via so-called futures is also performed - gas supply is offered as agreed volume for a period agreed in advance. Apart from monitoring prices in the gas wholesale market, the Office also carefully observed the development in diversification of gas routes to identify new potential gas sources in Europe and in the world.

In 2014, the Office prepared for practical application of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT). The regulation sets rules for stakeholders active in the wholesale markets.

The wholesale energy markets include commodity markets and derivate markets. The wholesale energy markets *inter alia* include regulated markets, multilateral trading systems, extra-exchange (over-the-counter) transactions and bilateral contracts, either direct or brokered.

The Office published all relevant requirements on its official website.

4.2.2. Retail market

Pursuant to the Act on Regulation and the Regulation Policy for Regulation Period 2012-2016, the Office performed price regulation of gas supplies to vulnerable gas customers – household gas customers and small businesses.

In addition, it carried out the price regulation for gas supplied within the last resort supplier regime in 2014.

The maximum prices for gas supplied to vulnerable gas customers were set by the Office's price decision for 2014. The prices set are also valid for 2015 and 2016, i.e. until the end of the current regulation period. The maximum prices enable gas suppliers to compete in the liberalized gas market while protecting the vulnerable customers by establishing the price ceiling for customers who, with respect to the character of the gas consumption and volume of gas consumed, do not enjoy a strong position in the gas market.

In 2014, the Office approved business terms and conditions of gas suppliers that provide universal service prepared by the gas suppliers on the basis of model business terms and conditions produced and published by the Office on its official website in 2013. The business terms and conditions form a regular part of a contract on gas supply and govern the rights and obligations of a gas supplier in detail.

The Office also publishes a list of gas suppliers providing universal service on its official website serving to assist a household gas customer in selecting a gas supplier. A useful tool for the gas customers considering switching of their gas supplier is also a price calculator to compare prices of gas supply charged by individual gas suppliers.

Provision of gas supply for households

A method of calculation of the maximum prices for gas supplies to households for the 2012-2016 regulation period is set by "the price cap", i.e. by determination of the price ceiling. The maximum price for gas supply to households in 2014 was based on the maximum starting price for gas supply to households from the first year of the regulation period, i.e. 2012.

The maximum prices for gas supply to households that the Office set for SPP, a. s. for 2014, which will remain valid also for 2015 and 2016, were also applicable to all other gas suppliers active in the gas market in SR that chose this option. The process complies with the Decree of the Office No. 193/2013 Coll. The maximum prices for gas supply to household consist of the maximum amount of a fixed monthly rate and the maximum amount of a rate for the gas consumed. The structure of the tariffs is based on 3 tariff groups D1 to D3 on the basis of the volume of the annual gas consumption. In October 2014, the Office initiated modification to its decision on setting the maximum prices for gas supply to vulnerable customers that consume gas in households. The terms and conditions of the application of the prices valid for 2014, 2015 and 2016 for SPP, a. s. were set. The reason for the update was a change in the purchase price for SPP, a. s. following from the conclusion of an amendment to the contract on gas supply with Gazprom export LLC as well as changes of the average amount of daily prices published by the EEX (European Energy Exchange) of the product NCG Natural Gas Year Futures that impact the purchase price of gas for SPP, a.s. by 30 %.The average maximum price for gas supply set for SPP, a. s. will decrease by 1.14 % for 2015 and 2016 from 2014.

In 2014, the gas suppliers were expected to offer prices for gas supply to new customers that are lower than the maximum ones approved by the Office.

15 suppliers were supplying gas to household customers in 2014.

Provision of gas supply determined for SMEs

For the purpose of the price regulation, a small business is defined as an end customer of natural gas who consumes up to 100,000 kWh of natural gas in its entire off take points in the year preceding submission of the proposed price.

The cost method was applied to calculation of the maximum prices for gas supply to a small business. The price also includes all allowable costs as well a fair profit as set by the Office. The price is composed of the maximum amount of the fixed monthly rate and the maximum amount of the rate for the gas consumed. The tariffs are divided into four tariff groups M1-M4 based on the annual volume of the natural gas consumption.

Provision of gas supply by Last Resort Supplier

The price regulation of gas supply under the last resort supplier regime is performed by determination of the method of calculation of the maximum price for gas supply by a respective last resort supplier.

SPP, a. s. acts as the last resort supplier under the decision of the Office. The Office issued a price decision on the maximum prices for the last resort gas supplier for 2014. The decision is also applicable to all gas suppliers in general.

The last resort supplier notified the Office of 40 cases of last resort supplies in 2014. The last resort supply occurred in cases of elapsed time for submission of an application for gas supplier switching, whereas no alternative gas supplier was available to a gas customer.

Provision of gas supply to other gas customers

Apart from the last resort gas supplies, the Office also cooperates with the Ministry of Economy of SR in making decisions on the method of providing standard security of gas supplies pursuant to the Act on Power Industry. The standard security of gas supplies means the provision of gas supplies to protected gas customers from 1 November to 31 March within the scope defined in the Regulation of the European Parliament and the Council No.994/2010.

End gas customers are categorized in customer groups depending on the use of natural gas and their annual consumption. The groups are as follows:

- households,
- small customers,
- medium customers,
- large customers.

4.2.2.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

The level of liberalization of the gas market in the European Union is measured by a switching coefficient that is the ratio off take points that changed a gas supplier in a given year and a total number of all off-take points.

Open gas market continued to decrease in the number of change gas supplier, and the total switching reached 4.29 % in the year 2014. In comparison with the year 2013, it is a decrease in the total switching of 2.02 %. The total decrease may be attributed to significantly saturated retail gas market, minimum price differences offered by gas suppliers as well as the fact that most contracts for gas supply are concluded for a definite period of time including longer time commitment with the gas customers being thus limited by the contractual terms and conditions in making decisions on their gas supplier switching.

The switching rate recorded the decrease in the category of large off-take customers, where the switching rate reached in 2014 the value 23.39 % and in comparison with the year 2013, it is an decrease of 3.52 %. The switching dropped of 2.14 % in the year 2014 also in the category of household gas customers and reached a value of 4.07 %. Also in the category of medium off-take customers, the switching rate reached in the year 2014 a slight decrease in comparison with the year 2013, it is a decrease of 0.17 % and reached the value of 16.44 %. A slight increase of 0.24 % in comparison with the year 2014 was recorded only in the category of SMEs, and reached the value of 7.72 %.

The Department of Regulation of the Gas Industry in 2014 prepared opinions within the framework of handling motions submitted by gas market stakeholders. The motions can be divided as follows:

- explanation of gas invoicing,
- selection of a new gas supplier,
- explanation of the reasons for transition to energy units,
- explanation of gas measurement,
- explanation of the fees for building gas industry equipment and off take gas equipment,

- payment of fee for replacement of a gas pressure regulator,
- procedure in amending decisions as issued for 2014-2016,
- explanation of time periods for filing amendments to decisions,
- explanation of the issues of connection to the distribution network,
- explanation of composition of the price for gas supply,
- explanation of validity of price decisions during the regulation period.

4.2.2.2. Recommendations on supply prices, investigations and measures to promote effective competition

In the framework of companies' concentration Inspection, the Antimonopoly Office of the Slovak Republic issued the following decisions related to the natural gas sector in 2014:

- Decision No. 2014/FH/3/1/003 on acquiring of sole control by Ministry of Economy of the SR over the company Slovenský plynárenský priemysel, a. s., (SPP, a.s.),
- Decision No. 2014/FK/3/1/020 on acquiring of sole control by enterprise EWE Aktiengesellschaft, Germany over the enterprise VNG Verbundnetz Gas AG, Germany.

5. Consumer protection and dispute settlement in electricity and gas

5.1. Consumer protection

The Office verified compliance of performance of regulated activities with the business licence; observance of the price regulation; the electricity and gas market rules and operational order of distribution system and network operators, while being focused on observance of the supplier switching process; quality standards; registration of separate register of the matters being subject to accountancy; verity of the background documents and information submitted to the Office, and also observance of the measures to remove and redress of the shortcomings found if these are subject to the precious control results.

Overview of the surveillance findings focused on the consumer protection in electricity and natural gas areas

1. *Violation of the Article 11 Section 1 of the Act No. 276/2001 Coll., Section 1 of the Act No. 657/2004 Coll., Article 29 Section 1 Letter a) of the Act No. 250/2012 Coll., Article 4 Section 5 and Article 6 Section 1 of the Act No. 251/2012 Coll.*– non-performance of the regulated activity on the basis and within the scope of a license issued by the Office or the confirmation of fulfilment of notification duty.**70 findings** were identified in:

   - electricity industry 16
   - gas industry 10

2. *Violation of the Article 12a Section 6 of the Act No. 276/2001 Coll.* – non-compliance with the operation rules by the market participants.**1 finding** was identified in:

   - electricity industry 1

3. *Violation of the Article 13 Section 2 Letter a) of the Act No. 276/2001 Coll.*– non-performance of the regulated activity under the law and special regulations.**11 findings** were identified in:

   - electricity industry 7
   - gas industry 2

4. *Violation of the Article 13 Section 2 Letter b) of the Act No. 276/2001 Coll. or the Article 29 Section 1 Letter b) of the Act No. 250/2012 Coll.* – non-compliance with the defined method of price regulation and non-performance of delivery of goods and services in line with the approved or set prices. **44 findings** were identified in:

   - electricity industry 12
   - gas industry 10

5. *Violation of the Article 13 Section 2 Letter d) of the Act No. 276/2001 Coll.* – a failure to keep records of facts that are subject to accounting under the special regulation issued by the Office separated.**1 finding** was identified in:

   - electricity industry 1

6. *Violation of the Article 13 Section 2 Letter g) of the Act No. 276/2001 Coll., the Article 22 Section 4 Letter h) and Article 22 Section 5 of the Act No. 250/2012 Coll.* – non-compliance with the standard of quality of delivered goods and services defined by the Office and non-submission of reviewed standards of quality of delivered goods and services to the Office under the generally binding legal regulation issued by the Office or non-performance of a compensation payment to a customer.**12 findings** were identified in:

- electricity industry 6
- gas industry 3

7. *Violation of the Article 13 Section 2 Letter i) of the Act No. 276/2001 Coll., Article 13 Section 4 and Article 29 Section 1 Letter o) of the Act No. 250/2012 Coll.*–non-compliance with the rules of electricity and gas market operation.**19 findings** were identified in:

- electricity industry 14
- gas industry 5

8. *Violation of the Article 29 Section 1 Letter k) of the Act No. 250/2012 Coll.* – non-provision of complete and true data, supporting documents, documents for performance of the Office within the scope, in a manner and deadlines defined by the Office.**27 findings** were identified in:

- electricity industry 21
- gas industry 1

9. *Violation of the Article 29 Section 1 Letter l) of the Act No. 250/2012 Coll.* – non-performance of measures aimed to eliminate and rectify the shortcomings identified during the inspection .**3 findings** were identified in:

- electricity industry 2
- gas industry 1

10. *Violation of the Article 45 Section 5 of the Act No. 250/2012 Coll.* – non-submission of incorporated specific conditions of distribution system/network operation in the model rules of operation to the Office for approval within the defined deadline.**1 finding** was identified in:

- electricity industry 1

11. *Violation of the Article 45 Section 6 of the Act No. 250/2012 Coll.* – non-submission of incorporated specific conditions of electricity and gas supply in the model rules of operation to the Office for approval within the defined deadline. **1 finding** was identified in:

- electricity industry 1

12. *Violation of the Article 17 Sections 9 to 13 and Section 15 of the Act No. 251/2012 Coll.* –non-compliance with the legal regulation of electricity or gas customer protection related mainly to switching.**23 findings** were identified in:

- electricity industry 13
- gas industry 10

13. *Violation of the Article 27 Section 2 Letter q) of the Act No. 251/2012 Coll.* –non-compliance with the obligation of an electricity producer to annually submit data on produced electricity to the Office within the defined deadline. **12 findings** in the following area:

- electricity industry 12

14. *Violation of the Article 34 Section 2 Letter f) of the Act No. 251/2012 Coll.* – non-submission of business terms and conditions to the Office for approval 30 days prior to their date of effect.**1 finding** was identified in:

- electricity industry 1

15. *Violation of the Article 41 Section 7 of the Act No. 251/2012 Coll.* – non-informing the Office of an exception from measuring electricity at the terminals.**1 finding** was identified in:

- electricity industry 1

Measures taken to rectify the identified shortcomings

To eliminate and rectify all shortcomings identified in the inspections, the Office imposed **124** measures in total, of which in:

- Electricity industry 47 measures,
- Gas industry 17 measures,
- Thermal energy 58 measures,
- Water management 2 measures.

In the measures aimed at eliminating and rectifying the identified shortcomings, the Office requested that the regulated entities refund electricity and heat customers with a difference between the applied price and the price that should have been applied under the applicable law

in the total amount of **€ 92,450.07**

of which to:

- electricity customers € 788.69

Penalties for violation of the law imposed in the first instance of the legal proceedings

The Office as the designated competent administrative authority according to the Act on Administrative Procedures shall decide violations of the obligations arising out of the Act on Regulation and special regulations in the first instance administrative proceedings. Pursuant to the Article 9 Section 1 Letter c) of the Act No. 250/2014 Coll., the Office decided to impose a penalty for administrative torts committed by violation of the obligations laid down in the Act on Regulation and the Act on Energy. The penalties imposed resulted from

- inspections performed directly in the regulated entities, The Office detected in the course of its regular administrative activities also violation of the obligations as follows:

- Failure to submit price proposals for the year 2013 in the thermal energy and water management,
- Failure to inform of a price for water,
- Failure to inform of changes in data in the confirmation of registration,
- Failure to provide supporting materials and data from the registry,
- Failure to submit actual costs in the thermal energy within the set deadline,
- Failure to submit the quality standards,
- Failure to submit data from the registry.

Out of 237 decisions on imposing a penalty issued in the first instance administrative proceedings, 36 were appealed to the second instance administrative proceedings.

In 2014, the Surveillance Department received 185 complaints from customers. The complaints related to problems of customers that the Office is competent to resolve, in particular requests for control of electricity, gas, heat and water prices. Other requests related to the process of switching an electricity and gas supplier, compliance with the quality standards specified in the regulated goods and services and the operating rules of distribution system and distribution network operators. The Office was authorized to deal with 46 % of all requests submitted for review.

The Office was not entitled to review more than a half of all requests for inspection. The Office either assigned these requests to the competent control authority or provided an explanatory opinion.

5.2. Dispute settlement

If the final electricity or gas customer is not satisfied with both the outcome of the complaint or the manner of its solving, he or she may request for an out of court settlement of the dispute with the regulated entity.

The Legal Department is the Office's dispute settlement body. The conclusion of a written agreement between the dispute parties, which is binding on both parties, is the result of a successful resolution of the related dispute.

A number of submissions followed the trend begun in 2013. The Office received more than 518 submissions from customers in 2014. The submissions related mainly to settlement invoices issued for electricity or gas supply in which customers complained about incorrectly measured or invoiced consumption of electricity or gas, problems with non-compliance with due dates for payment of an overcharge, a failure to issue a settlement invoice within the legally set deadline and dissatisfaction with complaint resolution.

Other reasons included a failure to comply with the legal provisions related to switching of suppliers, invoicing of deactivation fees charged for a lack of cooperation on behalf of customers when switching suppliers, the circumstances of entering into a contract on combined commodity supplies and conduct of sales representatives when concluding contracts with customers (malpractice). Customers also frequently faced issues related to termination of a contractual relationship such as fixed term contracts, a notice period, issuing of a final settlement invoice, advance payments or a disruption to commodity supply to off take points.

In several cases, the Office reviewed compliance with business terms and conditions by suppliers related to definition of the operating rules by particular distributors based on complaints raised by customers or from its own activities.

In the second half of 2014, several complaints related to the last resort supplies or amendments to assistance services and their potential termination, in which customers did not agree with linking the assistance services with a contract on combined supplies of electricity and gas.