



National Report 2012
submitted as of 30 June 2013

Regulatory Office for Network Industries
Slovakia

1. Foreword

The last year was the first year of the new five-year regulatory period stipulated by the strategy body of the Office- the Regulatory Board. It would be premature to assess the whole period, but the up-to-date's results have proved that the Regulatory Office for Network Industries has stepped up the right journey, in line with the requirements of the Third Energy Package of the EU transposed into new legislation, and thus the Act on regulation in network industries and Act on energy adopted in September 2012.

New acts have strengthened the independence of the Office by granting new powers. Proudly said, the principles of the Third Energy Package of the European Union, have been subjects of the basic state regulation pillar in advance- and thus the document of the Regulatory Policy elaborated by the Regulatory Board for the period 2012- 2016. After the Acts becoming effective, the Office immediately (no later than in Autumn 2012) started to apply the stipulated powers in the course of secondary legislytion drafting process. The priorities, goals, scope and methods of price regulation performance defined in the Regulatory Policy have been successfully transformed into new secondary legislation issued by the Office.

The key changes the Office has been enforcing can be divided into two spheres. These are measures contributing to development of the energy supply market competition, and the measures to upgrade consumers' protection.

Changes having been made in the legislation are not limited to the implementation of the European Acquis, but there are also provisions introduced in the legislation coming out from the specific Slovak conditions. Based on the new regulatory powers against electricity and gas stakeholders, there are tools for optimization of the costs entering network charges, so that the energy prices in Slovakia would be stimulating for the electricity and gas entrepreneurs to develop their networks and upgrade the quality of electricity nad gas supply, and, at the same time, so that the y would be socially acceptable for the citizens. Currently, the Office prefers incentive methods for the regulated entities forcing them to reduce their own losses and guaranting profit only if their business conduct is effective and if they do not compensate their shortcomings and mistakes by permanent price increase.

The Office legislation is composed and elaborated the way so that it would be flexible according to the electricity and gas markets situation that is necessary for network industries with exclusively monopoly character. The Office is just consistently following the European legislation concerning protection of the most vulnerable groups of consumers, and the provisions of the Third Package on the right for fair prices for all stakeholders. Certain measures have been adopted guaranting the consumers safe and reliable supply. Slovakia has thus managed to effectively implement the standard procedures in the field of consumer protection which are being applied in othe EU countries.

The graduating liberalization and development in electricity and gas markets supported by the Office from the legislative and technical point of view, is manifested by a significant annual increase in number of electricity nad gas consumers who switched their electricity or gas supplier.

The electricity and gas markets are open and functioning on the competition principle. This is proved also by the fact that big gas enterprises conduct their business in electricity market, and, vice versa, electricity entities offer gas for sale. Under the current market conditions, the market development has not been primarily conditioned by flexibility of the distribution networks, but by utilization of their capacities and provision of advantageous distribution conditions. However, mainly the stakeholders, their behaviour and offering of advantageous products or prices, must act as market accelerators.

Similarly to other EU countries, Slovakia has been significantly influenced by the results of the global financial and economical crisis. Its economy has been almost 100% dependent on imports of raw materials necessary for energy production for industry, services, public sector and households. Therefore, it is understandable, that the prices of electricity, gas and heat represent fatal daily issues.

The energy price sustainability was, in paradox, positively influenced by the crisis, and thus through production decay followed by a decay in electricity and gas consumption in global markets. Further on, this fact led to the reduction of prices of energy and raw materials needed for energy production in the international markets. Since the commodity prices represent approximately half of the end-user price, this was positively transferred to the electricity and gas end-user prices.

The electricity end-user prices are influenced significantly by promotion of the renewable energy sources. The costs for electricity generation from renewables through the tariff for system operation paid by all consumers without any exemptions lead to price increase, which would, in case of insufficient optimization of its generation and consumption, cause electricity price increase up to an enormous level for large number of consumers. The Office shall, through the stipulation of surcharges for „green“ energy, keep on acting so that the development of the renewable energy sources would be rationally limited, so that Slovakia would fulfill the commitment of achieving 14% out of the overall electricity consumption from these sources until 2020, and thus the way the electricity prices would not worsen the social situation of the citizens.

The Office has been carefully guarding the market environment which is ready to absorb any energy entrepreneur interested in entering the electricity or gas market. At present, Slovakia represents stable transit space for electricity and gas flows from East to west, and from North to South, which is, principally after the recent experiences, a key preference of all countries of the European Community. Therefore, the Office will not cease from consistent requirements to observe the basic principle of market liberalization, and thus free access of third parties into networks, and equity of the conditions for conducting business in network industries for all stakeholders.

2. Main developments in the gas and electricity markets

Electricity

The electricity market in the conditions of the Slovak Republic is as a matter of fact liberalised by law and has been opened since 2007. In 2012 the electricity market in the Slovak Republic continued to grow in terms of electricity supplies. More than 57,000 households took the opportunity to switch their electricity supplier. Along with traditional electricity suppliers including ZSE Energia, a.s. (Western Slovak Power Utility), Stredoslovenská energetika, a.s. (Central Slovak Power Utility) and Východoslovenská energetika a.s. (Eastern Slovak Power Utility) there were other 152 electricity suppliers in the market.

Even though electricity consumption decreased annually by 0.26% to the value of 28,786 GWh and electricity production increased by 0.92 % to the value of 28,393 GWh, such values of electricity consumption and production did not achieve the level four years before.

Natural gas

In 2012 the gas supply market in the Slovak Republic experienced a dynamic growth in competition. In the category of the household gas consumers the number of switches of gas suppliers increased six times, compared to 2011. A possibility of switching was used by more than 131,000 households, which is 9.25 % of all households. Along with the traditional company Slovenský plynárenský priemysel, a.s. (hereinafter only „SPP“), there were 22 other competitive gas traders, of which the most important position is occupied by RWE Gas Slovensko, s.r.o.

The consumption of natural gas by final gas consumers in the Slovak Republic achieved 54.2 TWh. Compared to 2011, it makes a decline by 6.4%.

3. The electricity market

3.1. Network regulation

3.1.1. Unbundling

There is only one single transmission system operator (hereinafter referred only as „TSO“) in the Slovak electricity market which is SEPS, a.s. company (hereinafter only „SEPS“). The TSO ownership unbundling was already accomplished in 2001. As a result of unbundling three vertically integrated companies were formed with the function to provide electricity distribution, electricity supply and services related to such activities. The companies are Západoslovenská energetika, a.s. (Western Slovak Power Utility), Stredoslovenská energetika, a.s. (Central Slovak Power Utility) and Východoslovenská energetika, a.s. (Eastern Slovak Power Utility). The range of their activities corresponds to the historical regional structure of the country.

Being self-critical it may be noted that their establishment is associated with political and untransparent practices, the consequences of which have had to be mended up to the present moment

and only by making enormous efforts it was made possible in the past years to ensure the compliance with EU directives in a full extent. In 2012 the Directive 72/2009/EC was successfully transposed into the Slovak legislative system by adopting the Act No. 250/2012 Coll. on Regulation of Network Industries and the Act No. 251/2012 Coll. on the Energy Industry.

With full respect and responsibility it may be stated that in the conditions of the Slovak Republic TSO's unbundling has been accomplished and it is functionally efficient, as prescribed by the above stated provision. At the same time TSO's certification is underway at the moment.

The certification procedure of the TSO will take part in 2013. Inline with §42 (7) of the Act on Energy, the TSO is obliged to submit a proposal for certification procedure initiation no later than 28 February 2013. The certification procedure is defined in the Office Decree No. 347/2012 Coll. with the effective date as of 20 November 2012 setting the details on a proposal for issuance of the certification decision, and the list of documents attached thereto.

3.1.2. Technical functioning

In 2012 the activities of the Office in this area were aimed predominantly to approve operational orders of the system, to approve and monitor the ways and volumes of ancillary services provided, including maximum price setting and monitoring the compliance with quality standards in order to ensure in a full extent reliability and security of the system and the development of the single electricity market.

Ancillary and system services

The base load is provided between the producer and the consumer either directly or by means of electricity traders. TSO is responsible for providing regulatory power. The company, based on the respective contract, purchases all ancillary services from certified service providers in the free market. The free competition principle based on the economically effective principle is thoroughly applied. System dispatch is performed by means of control systems operated by the Slovak Energy Dispatch Centre. The price for regulatory power is paid if ancillary service is activated. Bearing in mind the fact that the electricity industry in Slovakia is characterised by full unbundling of production, transmission and distribution of electricity, competition in the market with ancillary services being adequate, which led to the higher number of certified providers of ancillary services in the year 2012 having the effect of a lower tariff for providing such services. Ancillary services were provided with a larger focus given on services with a shorter time of activation.

Ancillary services have been lately provided by smaller heat producers, belonging to the category of public heat and power combustion plants, or captive power plants which improved the avai-

liability of generation plants providing ancillary services in the course of years of 2008 to 2012 (compared to the previous balance). The number of providers of individual types of ancillary services is growing on an annual basis. New entrants in the market with such services guaranteed the ongoing activities in this segment of the market. Through the enforcement of valid legislation governing the operation of the system the Office managed to cut down the total cost in this field, which contributed to the reduction of total costs for electricity consumers. In 2012 a new provider of ancillary services emerged in the market.

In 2012 regulation of the system was extended with ancillary service of TRV10MIN+ a TRV10MIN- type (tertiary power control), decrease in demand and increase in demand. In 2012 emergency supply from neighbouring power system operators was required to satisfy the needs of the power system.

Quality standards

Making a comparison of the performance of regulated companies with regard to the quality of goods and services delivered, and its publishing represent an effective regulatory tool for stimulating effectiveness of regulated companies.

Through the Decree No. 315/2008 in the version of the Decree No. 96/2011 Coll., the Office defined quality standards in the form of a set of parameters determining quality of electricity supplied and the services related to electricity supply. An electricity supplier and a distribution system operator are obliged to:

1. Observe the quality of electricity supplied, in line with the technical conditions (voltage level, voltage frequency, etc.),
2. Verify the invoicing correctness up to 30 days from the date of delivery of the application for correctness verification of the invoiced payment for electricity supply,
3. Ensure metering device testing up to 30 days from the date of delivery of the application for its verification,
4. Restore electricity supply in case of an outage up to 18 hours from the moment the distribution system operator was informed about it,
5. Observe the planned period of electricity supply shut-down,
6. Restore electricity supply up to 3 working days from the date of a debt reimbursement, if the supply was interrupted due to due payment.

The assessments of quality standards observance for the years of 2009 – 2011 have been elaborated in the reports published on the Office website.

Monitoring safeguard measures

Monitoring safeguard measures, in line with the Art. 37(1) t) in connection to the Art. 42 of the Directive 2009/72/EC, is performed by the Ministry of Economy of the SR (hereinafter as „Ministry“).

RES regulatory framework

The conditions for connection of electricity producers are defined in the Office Decree No. 225/2011 Coll. setting price regulation in electricity industry in the version of latter provisions, in § 3 (1a) preferential 1. connection of an electricity production facility to the regional distribution system, 2. access to the system, 3. electricity transmission, electricity distribution and electricity supply in line with the Act No. 309/2009 Coll. on promotion of renewable energy sources and high efficiency combined production and on amendments to certain acts in the version of latter provisions (hereinafter as „Act No. 309/2009 Coll.“) and Operational Orders of the respective distribution system operators approved by the Office. In line with § 3 (5) of the Act No. 309/2009 Coll., the promotion of electricity production from RES and CHP, as for taking over the responsibility for deviations by a regional distribution system operator, is related to the facilities of an electricity producer with the overall installed capacity of less than 1 MW.

3.1.3. Network tariffs for connection and access

Regarding price regulation in the electricity industry the regulatory tools used by the Office for the purpose of implementation of the regulatory policy are generally binding legal provisions, issued based on the authorisation provisions of the Act No. 276/2001 Coll. on Regulation of Network Industries.

The year 2012 was the first year of a 5-year regulatory period in the electricity industry starting to apply the price cap method. The positive results from the previous regulatory period proved the price cap method to remain the dominant method also in the regulatory period of 2012–2016. Such incentivisation method of price regulation allows the system operators to retain the achieved higher profit provided that they behave effectively and are able to optimise their costs.

The price of electricity for final consumers is generally made up of the price for regulated and non-regulated components. Regulated components include the activities that are associated with transportation of electricity from the producer via the system leading to the final consumer (i.e. transmission and distribution) and the activities aimed at maintaining the stability of the power system (transmission and distribution services, balancing services and services for system operation including the contributions to support the electricity generation from renewable energy sources, highly efficient CHP and domestic coal) and the price for services provided by the deviation settler and for household electricity consumers it is also the price of electricity supply that is based on the electricity price in the free market (according to the EEX exchange).

A tool implementing price regulation in the electricity industry in 2012 was the Decree of the Office No. 225/2011 Coll. enforcing price regulation in the electricity industry as amended by later regulations. Apart from clear and transparent rules and patterns determined on the principle

of the settlement of all eligible as well as adequate costs for performance of the activities in the network i.e. regulated activities ensuring the adequate profit comparable with other EU member states, the Decree has also introduced the following changes:

- The range of 8 rates for electricity supply and 8 rates for access to the electricity distribution system and electricity distribution for household electricity consumers and the range of maximum 11 rates for users of the distribution system with the exception of household electricity consumers,
- The highest rate of an adequate profit earned from household electricity supply,
- A more detailed specification concerning the negotiations on reserve capacity,
- Unless the regulated company has the price approved for the year „t“ as of January 1 the price approved for year t-1 is applied until the date of delivery of price decision for the year „t“,
- A more detailed specification of the categories of Technologies and prices of electricity produced from renewable energy sources and combined heat and power production,
- The procedure for determination of prices for organisation of the short-term day ahead electricity market,
- A more detailed specification of a share of revenues earned from charges for capacity reservation and total revenues for access to the distribution system and electricity distribution apart from revenues from electricity distribution losses up to the maximum level of 0.65,
- A more detailed specification on the method of calculation, procedure and conditions for application of the tariff for system operation, legislation included Acts No. 142/2010 Coll. and 558/2010 Coll. defining several new concepts, important for the development of the electricity market, especially in the area of shortterm day ahead electricity market.

Regarding price regulation of the activities concerned in 2012 the Office issued the following:

- 133 price decisions for access to the transmission system and electricity transmission, for access to the distribution system and electricity distribution, connection to the system, household electricity supply and supply by the last resort electricity supplier,
- 14 price decisions on setting a charge for the electricity producer using CHP-based technologies,
- 1,176 price decisions for setting the additional charge for producers of electricity from renewable energy sources.

The Office publishes the approved or regulated prices on its official website.

In 2012 a tariff for electricity transmission increased annually by 40.31 %, a tariff for reserve capacity increased annually by 32.57 % due to the intention to make the value of the property of the transmission system operator more realistic based on the market principle, a tariff for balancing services decreased from 8.95 €/MWh down to the level of 7.33 €/MWh, which represents a decrease by 18.10 %, a tariff for transmission losses increased by 35.25 % due to the decline in the volume of electricity transmission, mainly due to loop electricity flows from neighbouring transmission systems.

Compared to 2011, a tariff for system operation in 2012 increased by 0.85 €/MWh to the value of 15.70 €/MWh, which makes an increase by 5.72 % because of a more intensive support given to electricity generated from renewable energy sources and in highly efficient combined heat and

power production, support of production of electricity from domestic coal (in accordance with the Directive 72/2009/EC) and given to the fact that a tariff for operation also included the costs for short-term day ahead market organiser who makes a significant contribution to the liberalisation of the market in the restricted territory.

3.1.4 Cross-border issues

In 2012 the Office co-operated in the cross-border matters with regulatory authorities and the Agency for Co-operation of Energy Regulators (hereinafter only "ACER") under the provision of the Ordinance No. 2009/EC/714 in the region of Central and Eastern Europe (hereinafter „CEE region“). This region operates the Common Auction Office of Transmission System Operators of the CEE region with the headquarters in Freising that ensures a joint co-ordination of congestion management in the CEE region based on the non-discriminatory market mechanisms by means of explicit auctions for annual, monthly and daily capacities.

The Slovak Transmission System Operator – SEPS, a.s company is governed by the Electricity Market Rules and the Operational Order of the Transmission System approved by the Office when applying the procedures of the allocation of cross-border capacities and congestion management on cross-border profiles. The capacity on cross-border interconnections of the transmission system of the Slovak Republic in 2012 sufficiently guaranteed the stability and safety of the system not only in the Slovak Republic, but also in the EU conditions.

Since 2009 daily cross-border capacity on the crossborder profile between Slovakia and the Czech Republic has been allocated by means of the implicit auction as a result of the coupling of spot markets in the Slovak Republic and the Czech Republic. Moreover, since 2011 there has been an intraday capacity allocation functioning on this profile, which is free of charge, provided the given requirements related to cross-border transmission were accepted, applying the „first comes first served“ principle.

The significant event of the year 2012 resulting from the interconnection of short-term day ahead markets with electricity in the CEE region was the launching of the coupling project (hereinafter only „coupling“) of the day ahead markets with electricity in the Czech Republic, Slovakia and Hungary that happened on September 11, 2012. As part of the project there are the systems in use already developed for the EU Target Model of Electricity Markets (hereinafter only „the Target Model“).

It may be pointed out that Slovakia is actively involved in the process of establishing a single trading zone in the CEE region and thus enforcing the model of general mutual benefit for all members of this region. The target model of the interregional plan and the capacity allocation calculation method defined in the framework guidelines on the capacity allocation and congestion management in ACER claims that it is necessary to apply the method of available transmission capacity or the method based on physical flows. At present the countries in the CEE region use the method of available transmission capacity whereas the method based on physical flows is recommended arising out of the above mentioned regulations concerning the calculation of short-term capacities for highly interconnected and mutually dependant networks. The earnings recei-

ved from charges for congestion management for SEPS company accounted for 32, 421 604.03 EUR in 2012. That year the Office was monitoring the way of spending the earnings under Article 16 (6) of the Regulation No. 2009/EC/714 stating that all earnings of the national TSO resulting from the allocation of interconnectors were used to guarantee the actual availability of allocated capacity and maintenance or increase in capacities of interconnectors through investments to the systems.

Since the date of effect of new national legislation in the Slovak Republic including respective transposed provisions of the 3rd Energy Package the Office was granted with the responsibility to monitor the compliance with TSO's investment plans including a 10 year development plan under the relevant provisions of the Directive No. 2009/EC/72.

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 effectivity date as of 1 September 2012, and the Act No. 251/2012 Coll. as of 31 July 2012 on energy with the effectivity date as of 1 September 2012.

3.2. Promoting Competition

3.2.1. Wholesale market

The key players in the electricity market in the Slovak Republic in 2012 were the following enterprises:

- Slovenské elektrárne, a. s. (hereinafter only „SE, a. s.“) – the most significant (dominant) electricity generator that in 2012 provided 69.68 % of electricity generation in Slovakia from internal generation plants. Electricity production amounting to 19,785 GWh covers 68.73 % of electricity generation in the Slovak Republic. An installed capacity in internal generation plants owned by SE, a.s. is 4,992.9 MW. Apart from household consumers the company provided its 37 consumers on the restricted territory with total supply being 17,945, of which 2,360 GWh was for final consumers.
- SEPS as a sole holder of electricity transmission licence, the national TSO acting as the energy dispatcher (providing the balance on the restricted territory of the Slovak Republic). In October 2010 SEPS founded a daughter company OKTE, a.s., whose role is to evaluate and organise the short-term day ahead electricity market and to ensure the settlement of deviations on the territory of the Slovak Republic.
- OKTE a.s., an organiser of the short-term day ahead market with electricity as an institution for assessment and organisation of the short-term day ahead market and ensuring the financial settlement, assessment and deviation settlement on the territory of the Slovak Republic.
- ZSE Distribúcia, a. s. (Western Slovak Power Utility), Stredoslovenská energetika - Distribúcia, a. s. (Central Slovak Power Utility – Distribution) and Východoslovenská distribučná, a. s. (Eastern Slovak Power Utility) – exclusive operators of regional distribution systems (hereinafter only „RDS“) on the respective parts of the restricted territory where more than 100,000 points of supplies are connected.

Apart from the above-mentioned three companies in the electricity market there are also 159 holders of electricity distribution license. These are the operators of local distribution systems within the premises of both manufacturing and non-manufacturing companies where fewer than 100,000 points of supplies are connected.

- ZSE Energia, a. s., Stredoslovenská energetika a. s. (hereinafter only „SSE“) and Východoslovenská energetika, a. s. (hereinafter only „VSE“) – dominant electricity suppliers (hereinafter only „retail suppliers“), being part of the vertically integrated company that at the same time provides electricity distribution. A proportion of electricity supply of these three companies on the electricity consumption of the Slovak Republic in 2012 accounted for 47.18 %, which represents a 6.83 decline, compared to 2011. If needed, final electricity consumers also act as the last resort supplier on a respective part of the restricted territory.
- The overall number of entities that possess valid license for electricity supply is 407, of which 41 electricity suppliers provided electricity supply to household consumers.

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 Division established by the Office especially for this purpose. Trading with electricity is made especially 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 on a daily basis. The advantage of the Slovak market with electricity 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.

At the moment 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 indicates the revival of economy.

3.2.2. Retail market

Towards the end of 2012 407 licensed entities allowed to do business in the electricity industry were offering electricity supply (an increase by 15 new entities in 2012). A gradual growth of electricity supplies provided by new entrants reached a significant level and today we do not

distinguish suppliers in terms of traditional and alternative, but in terms of new and old or large and small.

The progress in liberalisation and the development of the electricity market are manifested by the annual increase in the number of electricity consumers that switched their electricity suppliers. When switching the electricity supplier the decisive criterion is mainly the electricity price and quality of services (advisory services, personal attitude and individual offer, contractual terms and conditions, comprehensive services related to electricity supply and so on). It is well known that almost half of the businesses have tariffs and rates determined unfavourably and they could save a significant part of costs for electricity supply.

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

Apart from price regulation, in compliance with the Act No. 250/2012 Coll. on Regulation in Network Industries, the Office develops the rules for the functioning of the electricity market that lay down rights and obligations of the market participants and the conditions for the functioning of the liberalised market with electricity in Slovakia. Another binding document being relevant for electricity market participants, promoting transparency and efficiency of the electricity market, are the operational orders approved by the Office in which the system operators incorporated the electricity market rules, considering operational conditions. As required by the system operators in 2012 the Office made evaluation and gave approval to 19 operational orders.

If some of the electricity suppliers are unable to provide electricity supply for their electricity consumers, according to the Energy Act, such electricity consumers will be served by the last resort supplier. At the moment the following companies act as last resort suppliers: Západoslovenská energetika, a.s., Stredoslovenská energetika, a.s. and Východoslovenská energetika a.s. on the territories restricted by respective regional distribution system. In 2012 the concept of last resort supplier was used by two alternative electricity suppliers. In both cases framework distribution agreements were determined due to the failure to comply with the obligations arising out of the agreements in question by alternative electricity suppliers.

According to the Act on Regulation an important new competence of the Office is approval of trading conditions applicable for the electricity supplier that provide universal service (hereinafter only „Trading Conditions“). In a period starting from September 1, 2012 to the end of 2012 the Office approved 5 price decisions related to trading conditions. Trading conditions make an inseparable part of agreements on electricity supply and specify in detail rights and obligations for both the electricity consumer and the electricity supplier.

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

The Office directly performs price regulation of household electricity supplies. Practical experience of the electricity market participants that required legislative amendments were taken into

consideration by the Office in the Decree laying down the rules for the functioning of the market with electricity and natural gas.

New primary energy legislation implementing the 3rd Energy Package included many new measures for the improvement of the position of electricity consumers either by eliminating the administrative burden for the electricity market participants, thus ensuring a higher flexibility of the market environment as well as extending the range of obligations applicable for regulated companies. The details related to such measures were incorporated into the Office Decree, laying down the rules for the functioning of the market with electricity and natural gas. New primary legislation enabled the Office to approve generally binding trading conditions applicable for electricity suppliers, which also contributed to the protection of the electricity consumer.

The measures to ensure the compliance with the market rules include the following:

- Monitoring the compliance with the approved operational orders of distribution companies, their harmonisation with valid primary and secondary legislation and its practical implementation,
- Monitoring the compliance with quality standards related to electricity transmission, electricity distribution and electricity supply laid down by the Decree, thus ensuring the protection of the rights of electricity consumers with the intention to guarantee high quality and failure-free services and provide guidance to system operators and electricity suppliers to make them behave more effectively and to ensure safe and reliable performance of regulated activities,
- Monitoring the compliance with the Office Decree specifying the details on the method of unbundled record keeping with regard to the matters subject to accounting and on the method of keeping the assets and liabilities records in order to hinder any discrimination and cross subsidies among individual activities provided by the system operators that in addition to regulated activities perform other activities.

In 2012, the Antimonopoly Office of the SR (hereinafter as „AMO SR“) did not perform any investigations in the field of breaching the Law on competition protection in the relevant electricity market in the territory of the SR. As for concentrations, the Section for Concentrations of the AMO SR issued decisions related to energy industry as follows:

Decision No. 2012/FK/3/1/037 approving an acquisition of indirect exclusive control of an entrepreneur's personal entity.

The AMO came to the conclusion that in this case, no market would be impacted. The respective concentration resulted only in modifications in control quality of the EPI entrepreneur- from the indirect common control performed by the entrepreneur together with other entities to indirect exclusive control performed by the entrepreneur.

Decision No. 2012/FV/3/1/049 approving the concentration based on the acquisition of a direct exclusive control of an entrepreneur as a purchaser, over a business of six entrepreneurs.

The concentration, in relation to the field of performance of the respective parties, was related mainly the sector of production and sale of certain chemical products.

The AMO, within its assessments, was focused i.a. on the fact that some concentration parties perform their businesses in the field of production, distribution and supply of electricity, or in the field of purchase and distribution of natural gas. A concentration notifier provided an information that there was horizontal activities coverage in case of two concentration parties in the field of electricity supply and natural gas distribution. The AMO came to the conclusion that, in regard to common shares of the concentration parties in the field of electricity supply and natural gas distribution, in this case, the markets were not impacted.

All valid decisions of the AMO are available at the AMO website: www.antimon.gov.sk.

4. The gas market

Gas stakeholders

The major gas market participants in the Slovak Republic in 2012:

- a) The transmission system operator (eustream, a.s.),
- b) The operator of the distribution system on the restricted territory of the Slovak Republic (SPP-distribúcia, a.s.),
- c) Gas storage operators (POZAGAS a.s., NAFTA a.s.),
- d) Dominant gas supplier (SPP),
- e) 22 gas traders in the gas supply market,
- f) Gas consumers.

In 2012 the most significant player in the market with gas supplies to final gas consumers was the traditional gas supplier SPP having a 70 % share, then RWE Gas Slovensko, s.r.o. that achieved a 18.7 % market share, ELGAS, s.r.o. company achieved 2.7 % market share. Other gas traders achieved a 8.6 % share in total gas consumption.

Roughly 98 % of domestic gas consumption is covered by gas import. Natural gas supply for the needs of the Slovak market is provided by SPP based on the long-term agreement with the Russian company Gazprom Export being the main natural gas supplier. Other gas traders purchased gas from various mostly foreign gas suppliers.

The competitors of SPP company in the area of gas supplies to final gas consumers were mainly RWE Gas Slovensko, s.r.o., ELGAS, s.r.o., SHELL Slovakia, s.r.o. and ČEZ Slovensko, s.r.o.

In 2012 the Office recorded more than 100 gas supply licensees of which 23 licensees supply gas to final gas consumers. The second group of gas suppliers is made by so-called local gas suppliers that own or have rented a local distribution system or supply gas to consumers that have their extraction points placed within their premises. There are 35 such suppliers as recorded by the Office. Other companies, despite the fact that they are licensees, do not perform a regulatory activity – gas supply.

Regarding gas supplies for household gas suppliers, apart from the dominant gas supplier i.e. the SPP company, the following companies supplied gas to households: RWE Gas Slovensko, s.r.o.,

ČEZ Slovensko, s.r.o., Energetické centrum, a.s., Vaša energia s.r.o., Slovakia Energy, s.r.o., Energie2, a.s. a MAGNA E.A. s. r.o. These companies used maximum prices for household gas supplies set by the Office being lower than SPP. In 2012 some companies that received from the Office price decisions for gas supply to households did not obtain any household gas consumers.

4.1 Network regulation

4.1.1. Unbundling

The Slovak gas market has only one single operator of the transmission system which is eustream, a.s. (hereinafter only „eustream“) and the monopoly operator of the distribution system SPP-distribúcia, a.s. (hereinafter only „SPP-distribúcia“), covering the whole territory of the country. Those companies were established as 100 % daughter companies by legal unbundling of transmission and distribution activities from the originally monopoly vertically integrated company SPP. The parent company SPP performs the activities in the field of gas trading and gas supply.

Legal unbundling of SPP was completed in line with the so-called 2. Energy Package of European Legislation in effect since July 1, 2006 that was transposed into national legislation in 2005. A new Act on Energy effective since September 1, 2012 that transposed the Directive of the European Parliament and Council No. 2009/73/EC, specified the possibilities related to the method of unbundling of the transmission system operator, the process of certification and thereby granting new powers to the Office. The certification process is given by the Office Decree No. 347/2012 Coll. with the date of effect on November 20, 2012, laying down the details regarding the issuance of a decision on certification of papers and a list of documents attached to the proposal.

In compliance with Article 9 Section 8 of the Directive of the European Parliament and Council No. 2009/73/EC Slovakia opted for the model of an independent transmission system operator, the so-called ITO model. By using the ITO model the eustream company remains part of the vertically integrated company, whereas such model imposed an obligation for eustream company to prove the Office its independence inter alia by the ownership of the assets required for gas transmission including the transmission system. Eustream company submitted the proposal to initiate the certification process in accordance with the Energy Act.

The Directive of the European Parliament and Council No. 2009/73/EC in Article 26 Section 2 Letter c) determines the behaviour of the distribution system operator. The distribution system operator SPP – distribúcia must possess effective decision making rights independent from the integrated gas company and in order to accomplish its tasks it needs to have resources available, including human, technical, financial and material ones. The provisions of a new Energy Act related to the distribution system operator specify in detail the obligations regarding drafting and publishing the annual report including the information on measures adopted in the framework of the compliance programme and the Energy Act set the responsibility of the distribution system operator concerning the completion of tasks of the person responsible for the compliance.

4.1.2 Technical functioning

Transmission network

Gas transmission for the needs of the Slovak and foreign markets is provided via the high pressure transmission system operated based on the entry-exit tariff system by the single operator of the transmission system, the eustream company.

The gas supply system is made of four to five parallel pipelines with the diameter of 1200/1400 mm with the operational pressure being 73 bars. Pressure differential required for the uninterrupted gas supply is ensured by four compressor stations with the capacity of more than 1000 MW. The most significant compressor station is situated in Veľké Kapušany on the Slovak-Ukrainian borders. Having the overall capacity of more than 300 MW it is the largest compressor station in the EU. Technical capacity at the entry point Veľké Kapušany is almost 300 mil m³ per day.

Eustream company published the following information on its official website:

- Information on transmission capacities and related services provided in the gas market,
- Scheduled investments into the transmission system,
- Maintenance schedule of the transmission system,
- Free transmission capacities at all entry and exit points of the transmission system,
- Application form for the transmission system.

Distribution network

In 2012 gas was distributed mainly by the largest operator of the distribution system SPP – distribúcia whose networks cover the whole territory of the Slovak Republic and provide the distribution of almost 98% of total volume of gas distributed in the Slovak Republic. Out of the total number of 2,928 towns and villages in Slovakia in 2012 2,234 of them, 94 % of all inhabitants in Slovakia, were gasified. For this reason Slovakia, after the Netherlands, is the second most gasified country in the European Union. Out of the total length of the distribution system 33,079 km as of December 31, 2012 the high-pressure gas pipelines are 6,294 km long and medium-pressure and low-pressure gas pipelines are 26,785 km long. Services by SPP-distribúcia in 2012 are provided by means of the signed contract on access to the distribution system and gas distribution for its consumers were used by 23 gas traders.

The renovation and upgrading of the distribution network reached the investments of SPP-distribúcia in the amount of 45 mil. €. The SPP-distribúcia network covered 23 active gas traders in 2012.

Network balancing

SPP-distribúcia also functions as the National Gas Dispatch Centre, which physically balances the gas network of the Slovak Republic that is treated as one balancing zone. SPP-distribúcia company provided the daily trading balancing for the users of the distribution system by making calculations of daily and cumulated deviations between the quantities of gas at the entry points into the distribution system and the quantities of actually outgoing from the distribution system. At the same time, SPP-distribúcia keeps for the users of the distribution system the balancing account and conducted the deviation settlement.

Physical balancing of the distribution system of SPPdistribúcia is provided by means of the gas extraction from the gas storage tank when balancing the shortage of gas or making injection of gas into the gas storage when balancing excess gas in the distribution system.

In 2012 no problems occurred in the distribution system caused by the unbalance in the distribution system.

Underground gas storage facilities

On the territory of the Slovak Republic the underground gas storages are operated by two companies: NAFTA a.s. (hereinafter only „NAFTA“), operating the train of underground storage tanks Láb 1.-3. and Gajary-Báden and POZAGAS a.s. (hereinafter only „POZAGAS“), that operates an underground gas storage tank Láb 4. near Malacky. A gas storage tank Dolní Bojanovice, situated on the territory of the Czech Republic connected to the Slovak gas system and is used for the needs of physical balancing of the distribution system in Slovak Republic and technical needs of the distribution system operator.

Gas storage tanks first of all ensure the balancing of differences between the quantities of gas demand and gas supply. They serve predominantly for storing natural gas in the summer season and for gas production in the winter season when gas demand is higher than contractually agreed gas supply in Slovakia. Gas storage tanks are also an effective tool to ensure the security of gas supplies. The operators of gas storage tanks store natural gas not only for the participants of the gas market in the Slovak Republic but also for foreign gas companies. Both operators of gas storage tanks on the territory of the Slovak Republic offer free capacities through public bidding. One of the main criteria for the storage capacity allocation is the level of the price offered by those interested in using storage capacity while respecting the regulated cap price.

Quality standards

The Office has been monitoring and assessing the observance of quality standards, based on the data on quality standards evaluation provided by the regulated entities. It may be stated that the regulated entities have been gradually paying more attention to the quality standards observance. Every year, the Office performs controlling activity, and based on this, applies the administration proceedings on fining for not providing standards evaluation within the defined deadline. As from 2016, the Office will introduce a coefficient of achieved quality standards fulfillment, and

thus within the Decree on electricity price regulation. Via this coefficient, the quality standards observance will be taken into account in the course of price creation.

Since 1 January 2013, the compensation payments have been introduced, which, in case of quality standards non-observance, will be reimbursed to the respective user by the regulated entity.

4.1.3 Network and LNG tariffs for connection and access

At present there is no LNG facility operated on the territory of Slovakia.

2012 price regulation was carried out under the Decree of the Office No. 216/2011 Coll. which determines price regulation in the gas industry (hereinafter only „the Decree No. 216/2011 Coll.“). The Office followed this decree when setting or approving the prices for access to the transmission system and for gas transmission, access to the distribution system and gas distribution and gas storage and provision of ancillary services in 2012.

Prices determined by the Office through price decisions are published on the official web site and also on web sites of respective regulated companies. Prices are proposed to eliminate any cross-subsidies between individual gas consumers.

Considering the recent experience it may be stated that the situation with „network tariffs“ in the gas industry was stable, price setting was transparent and regulated companies have had and also will have ensured the coverage of all eligible costs based on the principle of their adequacy, return on investment and an adequate profit comparable with other EU member states, while they are constantly required to perform more effectively. Price regulation of access to the transmission system and of gas transmission is made through direct determination of the comparable price by making a comparison of price for natural gas transmission in the Slovak Republic with the prices in other member states. Comparable prices for access to the transmission system and gas transmission are determined in the form of tariff. The entry-exit tariff system is in use.

Price regulation of access to the distribution system and gas distribution is made through the price cap method. It is incentivisation method used in other EU member states which provides the distribution system operator with an opportunity to retain the higher profit earned on condition they behave effectively and optimise their costs. The price cap method helps to achieve the stable price in the course of the entire regulatory period, taking into account new investments.

The basic parameters of the regulatory pattern for the price cap, such as the value of regulatory asset base, operating costs, depreciations, an adequate profit based on the outputs of the evaluation of the previous regulatory periods were determined for the base year of the regulatory period, i.e. for the year 2012. For other years the 2012 price determined this way will be optimized by using the factor (JPI-X) and other factors. The maximum price for access to the distribution system and gas distribution is determined in the form of tariffs using the so-called postage stamp method.

Price regulation of the access to the distribution system and gas distribution for the operators of local distribution systems (the systems having fewer than 100,000 offtake points are connected) is based on the cost-based regulation method.

Transmission network operator

In terms of the quantities of gas transmission for Slovak and foreign consumers Slovakia is the largest transporter of Russian natural gas to the EU, with the amount being 56.5 bil. m³ per year 2012 with the annual capacity of the transmission system more than 90 bil. m³.

The method of price regulation of access to the transmission system and gas transmission is based on the Act on Regulation and is given by direct setting of the comparable price based on the analysis of prices for gas transmission to other EU member states and prices for gas transmission in the Slovak Republic. The analysis makes a comparison of the total average price for gas transmission including the conversion to unit of length measurement, while taking into account a respective distance of exit and entry points of the transmission system.

In 2012 the Office approved for eustream the comparable prices for access to the transmission system and gas transmission in the form of tariffs. Tariffs are determined for individual entry and exit points of the transmission system (the entry-exit system) and are applicable for both Slovak and foreign users of the transmission system. In compliance with the applicable Market Rules respective tariffs also include the appraisal of new entry-exit point Veľké Zlievce as part of the planned project of the Slovak-Hungarian inter-connection of the transmission networks.

The initial tariff rates in all tariff groups where the users were divided depending on the contractually agreed daily capacity of gas transmission were increased by 0.5 % on average in 2012, compared to 2011, which was influenced by the inflation rate in EU countries for 2010 at the level of 1.0 %, while only its 50% value is included into the escalation factor.

Regulated price for connection to the transmission network is calculated based on eligible costs required for documentation, technical and implementation phases of the connection approved by the Office based on the submitted price proposal. In 2012 the Office released two price decisions regarding the connection to the transmission network.

Distribution network operator

Price regulation of gas distribution in 2012 was carried out for regulated companies whose:

- a) number of off-take points from the distribution system is higher than 100,000, i.e. for the operator of the distribution system SPP – distribúcia that at the same time fulfils the task of the Gas Dispatch Centre on the restricted territory,
- b) number of off-take points from the distribution network does not exceed 100,000, including mostly the distribution system operators on the restricted territories, the so-called local distribution networks.

Regarding access to the distribution system and gas distribution for SPP – distribúcia the price cap method was applied. The method intends to put incentives for a regulated company, thus

allowing an entity to generate the sufficient amount of available financial resources with the effective behaviour of the operator focused on cost optimisation. Considering the positive results from the previous regulatory period such method was also maintained in 2012–2016.

In 2011 the Office issued a price decision for SPP – distribúcia, approving the 2012 tariffs for access to the high pressure distribution system and gas distribution and tariff for provision of ancillary services that are not provided in the framework of tariffs for access to the distribution system and gas distribution. Tariffs for gas distribution are determined on the postage stamp principle, i.e. according to the annual quantity of distributed gas regardless of the distance of an off-take point and were proposed to eliminate any cross-subsidies between individual gas consumer groups. Tariffs also include charges for exceeding the contractually agreed distribution capacity. The annual rate for maximum amount of daily gas is used for gas consumers with annual distributed amount of natural gas exceeding 60 thous. m³.

For SPP – distribúcia company the Office through its decision in 2012 also approved the prices for connection to the distribution network and this is made for the category of household gas consumers and for off-household gas consumers, not exceeding the scheduled average costs for connection to the distribution network.

Price regulation of access to the distribution network and gas distribution for the operators of local distribution networks, i.e. networks where the number of off-take points does not exceed 100,000, was performed according to the cost-based regulatory method and therefore the final price reflects eligible costs of a regulated company incurred by the network operation, an adequate profit determined by the Office and correction of revenues depending on the development of eligible costs of a regulated company from the previous period. In 2012 there were 47 local distribution companies performing regulated activities in the regions of Slovakia.

A price for connection to the distribution system operated by company's distribution system as well as local distribution systems is determined for the price or tariff not to exceed the scheduled average costs of a regulated company incurred by the connection to the distribution network. Tariffs for connection to the distribution system are proposed for household gas consumers and for off-household gas consumers, respectively.

Operators of the underground gas storage facilities

In 2012 the access to storage tanks and gas storage were subject to price regulation by setting the maximum price. The background document to price proposal for access to gas storage operators is a comparable analysis of prices for access to a storage tank and gas storage provided by the operators of gas storage tanks in other EU member states that operate storage tanks with similar parameters as the operators of gas storage tanks in the Slovak Republic.

In the course of 2012 two operators of storage tanks offered their storage capacity - NAFTA and POZAGAS. The services of the operators were used by several Slovak companies providing gas supply services to consumers in the market of the Slovak Republic and foreign companies, main-

ly from Austria, Germany, the Czech Republic, the Netherlands, France and Hungary. During the storage year of 2012/2013 NAFTA company adopted 48 application forms for access to a storage tank. 37 applications were declined due to the allocation of free storage capacity to winners of the tender. In 2012 there was no secondary trading with storage capacity. The capacity of storage tanks operated by NAFTA Company was used for 100 %.

In 2012 POZAGAS received 60 application forms for access to storage tanks as a result of the bidding for storage capacity through tenders. 49 of them were turned down as the free storage capacity had already been allocated to the winners of tenders. In 2012 the company made no records on trading on the secondary market. The availability of storage capacity in underground storage tanks is published on the official web site of the operators of underground gas storage tanks along with the sample of application form for capacity reservation.

NAFTA and POZAGAS published their scheduled investments into storage capacity, utilisation of storage capacity of gas storage tanks, data on extraction and injection of natural gas on a daily basis, plus the forms of all documents related to natural gas storage in gas storage tanks.

In order to ensure the safety gas supply standards and balancing of the distribution system operated by SPP – distribúcia utilised the storage tank on the territory of the Czech Republic, in Dolné Bojanovice. Technology of underground storage tanks enables to operate the storage tanks in the regime of parallel injection and production of natural gas. Injection and production of natural gas is made from and to the gas supply pipeline by which the underground storage tank Dolné Bojanovice is connected to the international measuring station Brodské. At the measuring station Brodské the gas supply pipeline is connected to the Slovak gas supply pipeline.

Natural gas production

Domestic production of natural gas in 2012 reached the level of 98 mil m³. As regards the production of natural gas from the existing domestic internal sources a slight decrease in gas production is further expected and this will be partly eliminated by a connection to newly explored sources of a smaller scale.

4.1.4 Cross-border issues

In 2012 the Office worked on the cross-border matters with relevant regulatory authorities and the Agency for Co-operation of Energy Regulators (hereinafter only „ACER“) in line with the relevant provisions of the Ordinance No. 2009/EC/715 in the region of Central and Eastern Europe (hereinafter only „the SSE region“).

When applying the procedures concerning the crossborder capacity allocation and congestion management on cross-border profiles the Slovak operator of the transmission system (Eustream) observes the Gas Market Rules and the Operational Order of the Transmission System approved by the Office. The interconnection of transmission systems has already been established with the Ukraine, the Czech Republic and Austria. The capacity of cross-border connectors of the gas transmission system of the Slovak Republic is sufficient. On its official website Eustream publishes the regular information on availability of transmission capacity of individual entry-exit

points of the transmission system, the information on planned investments to be made into the transmission system, utilisation of the network, a plan of the transmission network maintenance, free transportation capacities at all entry and exit points of the transmission system.

The procedures concerning the capacity allocation, contractual congestion and exceeding the capacity in the transmission system are included into the provisions of the gas market rules. A significant proportion of the contractual portfolio is made through the short-term cross-border transactions among the points of trading in Central Europe. Trading with transmission capacity in the secondary market was made via the bulletin board on the official website of Eustream where users of the transmission network publish their requirements concerning capacities.

The project at the interconnection point of Arnoldstein/ Tarvisio between Austria and Italy was chosen to become the pilot project dealing with the allocation of capacities co-ordinated within the SSE region. National regulatory authorities of the SSE region drafted the common regulations on the mechanism of the daily allocation of capacity for gas transmission from Baumgarten to Arnoldstein/Tarvisio system, with the planned startup of utilisation of daily auctions of bound products on the basis of specification of European Operational Order on the Capacity Allocation Mechanism („CAM NC“) starting from April 1, 2013 that were commented during the public consultations.

Another pilot project of the region dealing with the capacity allocation is the GATRAC platform to which Eustream was connected in September 2012. Eustream and the Czech gas transmission system NET4GAS work together on the implementation of daily products that were analogical with interruptible products already offered by Italian, German and Austrian gas transmission systems.

Based on the Memorandum of Understanding signed on October 31, 2012 by energy ministers of Visegrad Group countries those countries committed themselves to a more intensive co-operation in meeting the objectives concerning the completion of the single market with natural gas until the year 2014. The main common target was to outline the vision for the target gas model of the Visegrad Group region, defining key elements of the long-term strategy and institutional organisation of the whole process, based on the analysis of the current state of liquidity of the gas market in the Visegrad Group region and its further monitoring and subsequent project implementation.

In the EU gas regional investment projects (GRIP) the SSE projects are part of the North South and South Corridor. The preparation of scheduled Slovak-Hungarian connection of the gas supply transmission networks is underway. The planned two-way gas supply line with the annual capacity of 5 bil. m³ and with the length of approximately 115 km (of which almost 20 km in the Slovak market) will link the Slovak high-pressure gas supply pipeline near the village of Veľké Zlievce with the Hungarian transmission network in the village of Vecsés at the outskirts of Budapest. The project should make contribution to the European energy security and diversification of transmission routes. A sufficient cross-border capacity will improve the liquidity of the market with natural gas and will increase the security of natural gas supplies to the Central European Region.

The project is co-financed through the European Energy Programme for Recovery (EPR). The Slovak-Hungarian interconnection is strategically important for Slovakia as it enables the access of the country to LNG terminal in Croatia or to the Southern gas supply pipelines Nabucco and South Stream that plan to be constructed and connected to the gas supply pipeline in Hungary. Launching the operation of a new gas supply pipeline is scheduled for January 1, 2015.

The project of Polish–Slovak interconnection of the gas supply pipeline that connects transit systems in Poland and Slovakia is also of high importance for the country. The purpose of such interconnection is to diversify the routes of gas supply pipelines, running across Visegrad group countries plus Croatia, and connect two LNG terminals in Poland and Croatia. For the purpose of this project a working group including Visegrad group countries and Croatia was also established. The Slovak–Polish gas supply connection is presently in the phase of development of the feasibility study.

Transmission capacity

Eustream company, in comparison with other European transmission networks that are largely in use, may provide thanks to its free transportation capacity sufficient transportation capacities in the existing network, which gives an advantage for potential entities interested in gas trading and potential for the development of competition in the Slovak gas market.

In 2012 the users of the transmission system were both Slovak and foreign companies, for instance from Russia, the Czech Republic, Germany, Italy, Slovenia, the Netherlands, Switzerland, Great Britain, Denmark, Austria and France.

Cross-border infrastructure access

Cross-border trading with natural gas was undertaken in accordance with the TSO agreement of CCE region within GRI on the trading node CEHG in Baumgarten (Austria) where trading activities on the short-term day ahead market take place. Connection capacity allocation and management as part of cross-border gas exchanges and congestion management mechanism on the profiles of Slovakia with other neighbouring EU member states was in 2012 tightly connected with the development of Regional Initiative for Southern and Eastern Europe (GRI CCE) of which Slovakia is a member, together with other 9 states.

4.1.5 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 effectivity date as of 1 September 2012, and the Act No. 251/2012 Coll. as of 31 July 2012 on energy with the effectivity date as of 1 September 2012.

Monitoring the compliance of eustream a SPP – distribúcia activities the way it is defined in the Act on energy is performed by the Office , and thus in line with the Act on regulation. In 2012, the Office did not approve a DSO compliance officer according to the law, since the proposed person did not fulfill the conditions set by the Act on energy.

The Office has been given a competence to monitor the compliance of the TSO's investment plans with the 10—years network development plan, in line with the respective provisions of the Directive 2009/ES/73, and thus through effectivity of the new SR national legislation with the transposed respective provisions of the 3rd Package, i.e. since 1 September 2012. The 10-years network development plyn willbe submitted by the TSO to the Ministry and the Office no later than on 30 November 2013 for the first time.

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

Compared to 2011, the number of gas suppliers trippled. Such result may be attributed to excess gas supply over demand which means that in terms of prices gas is available for gas traders selling gas purchased only based on the long-term contracts, but also in some of the power exchanges in Europe. Gas trading in the gas node at Baumgartene in Austria that is the nearest trading point behind the borders of the Slovak Republic, is growing dynamically. Another source of gas supplies is the purchase of natural gas of „ a smaller supplier from a larger supplier“ which is the way how a larger supplier sorts out excess gas, for example when the number of consumers is decreasing due to the gas supplier switching. Also, trading with storage capacity is performed in the secondary market.

4.2.2. Retail market

The Decree No. 216/2011 Coll. determined for regulated activity of gas supply in a new regulatory period the procedure concerning the calculation of maximum prices based on the price cap method. This method determined a price level for the regulatory period, based on the first year of the regulatory period, for which maximum initial price for household gas supply is determined. Price regulation imposed on gas supplies by the last resort supplier is performed by setting the maximum price of gas supply provided by the last resort supplier.

Provision of gas supply for households

For SPP company and other gas suppliers actively functioning in the Slovak Republic the Office determined maximum prices for gas supplies to households in 2013 along with the conditions of their enforcement. Maximum prices for gas supplies to households are two-component prices composed of the maximum size of the fixed monthly rate and maximum size of the rate for extracted gas.

A tariff structure is divided into three groups D1 to D3 according to the amount of gas demand. Following the assumptions on the development of prices of crude oil and oil products in 2013 and the anticipated development of the exchange rate of EURO against US Dollar the average price of gas supply to households in 2012 increased by 0.46% on average, in comparison with the previous year.

For the so-called “other gas suppliers” the Office approved the same maximum prices for household gas supply as for SPP company in accordance with existing legislation. Following the business policy such suppliers offer their consumers lower prices for gas supply than those approved by the Office as maximum prices. These prices are published on their official web sites and by means of price calculator household gas consumers may compare their prices for gas supply to individual gas suppliers on the official web site, as well.

The starting point for approval or determination of the price for gas supply to households in 2012 was the use of adjusted price cap method, when the regulation of prices for household gas supply in the regulatory period 2012–2016 was based on the so-called “initial costs” method determined for the year 2012. The price setting for the year 2012 will be optimised by factor (JPI-X) for further years.

Gas suppliers that supply gas to fewer than 500,000 households may use maximum prices including the conditions of their application under the price decision for the year 2013 issued for SPP, a.s.

Provision of gas supply determined for household heat production

In order to protect the most vulnerable group of consumers of thermal energy in households in 2012 the Office also enforced price regulation on gas suppliers delivering gas for the purpose of heat production for household. The Office determined for all regulated heat producers supplying heat to households the scope of eligible costs through 19 price decisions for 2012 that may be included into the prices including the determination of the size of adequate profit earned from gas supply. On the basis of provisions of a new Act on Regulation coming into effect on September 1, 2012 starting from 2013 the Office will no longer perform price regulation for gas suppliers delivering gas for the purpose of heat production for households.

The last resort supplier is obliged to supply natural gas to gas consumers that are connected to the network and whose supplier lost the competence to supply natural gas or the process of switching the gas supplier is ceased for some reason which means gas supplies are interrupted for some reason and there is no other alternative way of supplying gas. The last resort supplier is obliged to supply gas to gas consumers no longer than for a period of three months. The last resort supplier shall notify the Office on this matter. Last resort supply may be terminated earlier provided that the gas consumer concludes the gas supply contract or the contract on combined gas supply with a new gas supplier that may also be the last resort supplier. With an intention to protect the gas consumers that did not lose their gas supplier due to their own fault the Office carries out price regulation of gas supply by the last resort supplier. Price regulation of gas sup-

ply by last resort supplier is made by setting the maximum price for gas supply by the last resort supplier. The Office issued for the last resort supplier on the restricted territory of the Slovak Republic, i.e. for the SPP company, price decision for 2012 by means of which it determined maximum prices for gas supply by the last resort supplier, in the scope of eligible cost that may be covered by the prices including the size of an adequate profit, for both household gas consumers and off-household gas consumers.

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

For the purpose of evaluating the status of market liberalisation there is the switching coefficient used to express the number of off-take points with switched their gas suppliers to the overall number of off-take point in a given year. A substantial increase in the number of switching points was also in the category of household gas consumers where this indicator achieved the record-breaking growth up to 9.25 %. In 2012 household gas consumers switched mainly from traditional supplier to competitive gas supplier.

In accordance with the Act on Regulation the Office makes the Rules for the Functioning of the Internal Electricity Market and the Rules for the Functioning of the Internal Gas Market laying down the conditions for the functioning of the liberalised gas market in the Slovak Republic in accordance with the 3rd Energy Package. An important paper for the participants of the gas market, promoting transparency and efficiency of the gas market are the Operational Orders of the network operators, including storage tanks, as approved by the Office. Based on the applications for the operators of networks and storage tanks in 2012 the Office made evaluations and granted approvals to six operational orders.

Based on the new competences arising out of the Act on Regulation in 2012 the Office also approved the business conditions governing gas suppliers providing universal service. The business conditions form an inseparable part of the electricity supply agreements and define rights and obligations of the gas supplier and the gas consumer, accordingly. In the period from September 1, 2012 until the end of 2012 the Office approved 14 decisions related to business conditions governing the gas industry.

In 2012, the AMO did not perform any investigations on breaching the Act on competition protection on the relevant gas market within the territory of the Slovak Republic. As for concentrations, the Concentration Section of the AMO SR issued the Decision No. 2012/FV/3/1/049 related to electricity and gas industries mentioned in the Chapter 3.2.2.2.

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

It may be stated that the gas consumers have identified themselves with the gas market competition, and are able to make profits at this stage. They are able to solve their problems with their gas supplier within the contractual terms and conditions. The real gas market in the sector of households revealed unfair practices characterised mainly by door-to-door selling. The Office

responds to such practices immediately the relevant information from gas suppliers is delivered represented by door-to-door sellers, and requires restoration of such status. As for the practical experience of gas stakeholders requiring modifications in the legislation, the Office solved this through the development of a Decree setting the rules for electricity market functioning and the rules for gas market functioning.

New primary energy legislation implementing the 3rd Energy Package included many new measures for the improvement of the position of gas consumers either by eliminating the administrative burden for the electricity market participants, thus ensuring a higher flexibility of the market environment as well as extending the range of obligations applicable for regulated companies. The details related to such measures were incorporated into the Office Decree, laying down the rules for the functioning of the market with electricity and natural gas.

The measures to ensure the compliance with the market rules include the following:

- Monitoring the compliance with the approved operational orders of the transmission network operator, distribution companies, and storage facilities, their harmonisation with valid primary and secondary legislation and its practical implementation,
- Monitoring the compliance with quality standards related to gas supply and services provided laid down by the Decree, thus ensuring the protection of the rights of gas consumers with the intention to guarantee high quality and failure-free services and provide guidance to system operators and electricity suppliers to make them behave more effectively and to ensure safe and reliable performance of regulated activities,
- Monitoring the compliance with the Office Decree specifying the details on the method of unbundled record keeping with regard to the matters subject to accounting and on the method of keeping the assets and liabilities records in order to hinder any discrimination and cross subsidies among individual activities provided by the system operators that in addition to regulated activities perform other activities.

5. Consumer protection and dispute settlement in electricity and gas

5.1. Consumer protection

As for implementation of the respective provisions of the 3rd Energy Package related to new competencies of a regulatory body in the field of consumer protection, it is necessary to stress out that these have been implemented in full extent only after the transposition of the 3rd Package into the SR national legislation- Act No. 250/2012 Coll. on regulation in network industries and Act No. 250/2012 Coll. on energy and on amendments to certain acts.

Via its controlling activities, the Office verified compliance of performance of regulated activities with the business licence, as well as 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.

In 2012, the Office paid an extra attention to the initiatives and complaints of the personal and legal entities (hereinafter as „an initiative“) delivered to the Office in an enormous number. Their number was multiplied more than four times in comparison with the previous years. This increase was caused by the electricity and gas markets liberalization extension. The traditional electricity and gas suppliers started to offer and provide supply the opposite commodity and alternative suppliers started to conduct their business in electricity and gas markets. In some cases, the electricity and gas supply were provided by the entities with insufficient knowledge of the respective legislation in network industries, resulting in breaching of the provisions in case of supplier switching procedures. Some of them attracted their consumers by aggressive enrolment forms without correct communication with them, without sufficient number of contact points for consumers, without sufficient number of qualified staff. There was even a case when an electricity and gas supplier proved insufficient operational capital, and deforced financial means of the consumers emanating from the overpayments, and thus for a long time during the year. Based on these facts, there were also initiatives from the consumers, primarily from the segment of households, addressed to the Office whose supplier did not make any mistake, they just want to make themselves sure about it.

The Office processed the delivered initiatives by expertise statements and controlling activities with consequent legal effects against the entities breaching the law. Further on, the Office processed the initiatives on electricity gas invoicing, and thus the doubts about correctness of the individual price items, the problems related to supplier switching issue, switching of a consumer at the existing delivery point, but also problems with electricity or gas calculation in case of the metering device failure, with a supplier invoicing calculated consumption according to a type diagram for the period from the last physical meter reading, sometimes even for the period of three years, that was disadvantageous for him since the consumer behaved himself economically.

In the name of consumer protection, the Office performed primarily its controlling activities based on the initiatives, elaborated expertise statements and communicated personally and via telephone with the personal and legal entities. The consumers have become aware of the Office Decrees on quality standards of the provided products and services. The consumers addressed the Office requiring primarily to verify observance of the deadlines for verification of electricity and gas supply payments. In relation to the initiative proceedings, 1202 expertise statements were sent to personal and legal entities.

In 2012, the Office focused its controlling activities on renewable energy sources, which significantly influence the end-user electricity price through the system operation tariff. During three months lasting controlling performance, and through the cooperation with court experts, the Office made 1217 controls of renewable energy sources, and detected 200 law breaches. These were of both administrative and serious character.

Short-term measures

The gradual electricity market opening have provided the Office with a lot of knowledge about what should be a priority to be upgraded, even on the field of end-user protection. For the purposes of an acceleration of the processes and reduction of administration burdens, and thus upgrading the quality of the whole electricity supplier switching process, it will be necessary mainly to:

- Introduce a single data exchange form for the DSOs,
- Introduce a so-called electricity supplier switching procedural plea from the side of the previous electricity supplier in case of non-termination of the contract on electricity supply from the side of an electricity consumer with this previous supplier. After its delivery, a DSO would automatically cease the electricity supplier switching process, and the full responsibility for this step would be born by the previous electricity supplier,
- Define a precise list of information a DSO may require within the electricity supplier switching process,
- Solve the issue of the local DSOs (electricity supplier switching, balancing, last resort supply),
- Re-connection of a consumer to be bound not only to debt reimbursement being the reason for his disconnection, but also to control the payments of all commitments against a supplier in case of re-connection,
- Improve the quality of electricity supplier switching process, since there are constant problems caused by insufficient technical and expertise level, and the ability of electricity suppliers in the field of electronic data exchange.

From the view of achieving further improvements in the field of quality standards, it is necessary to:

- Perform control in regulated entities who did not submit their quality standards assessment,
- Verify the submitted notifications on monitoring and registry of quality standards observance,
- Improve methodology guidance of the regulated entities who made mistakes during filling in the records on the achieved quality standards level,
- Cooperate in the development of a project on electronic collection of the quality standards assessment data submitted by the regulated entities.

Long-term measures

The long-term measures the Office shall ensure with the aim to the utmost observance of the electricity market functioning rules in the next period, cover:

- Monitoring the observance of quality standards of electricity supplied and services provided, with the aim to ensure protection of the rights and duties of electricity consumers, and to

provide guidance to system operators and electricity suppliers, so that they would behave effectively and would perform secure and reliable regulated activities,

- Collection of the topics, information and initiatives from electricity stakeholders about non/observance of the electricity market functioning rules, or about electricity market barriers, in order to analyse them or to amend the rules,
- Securing unification and simplification of the procedures and content of the contractual relationships among the respective stakeholders in order to hinder speculative and discriminatory practices,
- Stipulation of the content and scope of the DSOs' operational orders (Operational Order Form) with the aim to ensure security and reliability of electricity supply.

One of the key roles for the next period will be to upgrade quality regulation to the new regulatory method.

5.2. Dispute settlement

In 2012 the Office took decision on one dispute which arose out of Article 37 (11) of the Directive 2009/72/EC between the submitter being ZSE Distribúcia, a.s. that is the distribution system operator and the defendant being SLOVNAFT, a.s. concerning the obligation to pay the price for connection to the distribution system in order to increase the maximum distribution capacity of equipment for electricity generation. Dispute settlement was suspended by the Office with the Decision No. 0016/2012/E-ZK dated December 12, 2012. At the moment there is the appealing proceeding at court.