



**National Report
Regulatory Office for Network Industries
Slovak Republic**

31 July 2012

1. Foreword

The Regulatory Office for Network Industries (hereinafter as „the Office“) has commemorated its 10th anniversary in 2011. Since its beginnings, the Office has gone through a number of difficult times and events which have contributed to its internal structure, they have brought rich experience for its representatives and employees being historical milestones not only within the history of the Office, but the whole Slovak energy industry.

Many things have been changed, but the mission of the Office is remaining the same, because until the network industries maintain their monopolistic character, the regulation will be still necessary. It will be necessary for a respective state authority to watch the energy transportation journey from a generation source to the plug in a consumer's household, in order to avoid the monopolistic position of a supplier or a system owner to detriment the consumers.

The Office must also watchguard the market environment that is fully open at present and is ready to accept any energy businessman interested to enter the electricity or gas markets. The Office made a big contribution to the Slovak stabile transit space for electricity and gas flows from East to West, from North to South being a vital interest of all European Community countries. Therefore, the Office insists on an observance of the basic market liberalization principle, and thus third party access to the networks and equity of the business conditions in network industries for all stakeholders.

Every entity in energy industry is provided with an objective and stable regulatory framework guaranteeing business environment, investment return and adequate profit. The market is fully liberalized and all stakeholders are ensured with equal and non-discriminatory conditions. There is an effort the Slovak electricity and gas markets would be attractive both for domestic and foreign businessmen. This statement can be supported with the facts showing a significant increase in the number of electricity and gas market players- producers and suppliers, including net traders who have set the market in motion, therefore, it is not necessary to divide the suppliers into traditional and alternative ones. There is an evidence of the gradual liberalization and electricity and gas markets development being supported by the Office via the legislative and technical viewpoint, and thus through a significant increase of the number of electricity and gas consumers who switched their suppliers even in households. In this relation, it may be stated the market operates in real and full-value mode.

The Slovak electricity and gas markets are not operating autonomously, but in the context of the regional energy markets with a lot of players and large energy volumes being traded on a daily basis. In this sense, we can watch a continuous process of the regional electricity markets interconnection. Nowadays, the energy markets are interconnected and the regional markets represent big opportunity for all countries. Slovakia is active in the sphere of their development through the association of the European regulators and network operators. All these initiatives should consequently lead to the creation of a single European market by the end of 2014. The



Office is actively participating in the activities of the Electricity Regional Initiative of the Central-East region (ERI CEE), accompanied by Austria, Czech Republic, Germany, Hungary, Poland and Slovenia, and the Gas Regional Initiative of the South-East region (GRI SSE).

There is traditionally good relationship of the Slovak and Czech Republics. Our markets interconnection is successfully in operation as of September 2009, and in August 2011 Hungary joined this commitment. There is no doubt that the interconnection of the three neighbouring countries contributes to stability and higher level of security of electricity supply.

The prices of electricity and gas have been under suppliers' big pressure since 2008. The Office resisted all the pressure, and while in the other neighbouring countries, the prices were increasing, Slovakia refrained the short-term rapid fluctuations and remained stable during the critical period from 2009 to 2011.

In the sphere of network industries, there is a high probability the suppliers would abuse their position, and thus by reducing the quality of supplied goods and services and increasing their profit. Therefore, the Office focuses on a new regulatory method through the quality standards. The Office considers quality standards to be an important regulatory tool with its meaning becoming more and more efficient. In order to upgrade the efficiency of the standards and to improve the discipline of the regulated entities, the Office performs annual surveillance and a consequent administration procedure on fining the entities who did not submit the standard assessment within the defined deadline. Through the Decrees on electricity and gas price regulation, the Office shall introduce a coefficient of the achieved quality standard observance as of 2016, being considered in price specification.

In 2011, there were no major changes in the rules for electricity and gas supply for households and small businesses. The electricity end-user prices were influenced by the VAT increase from 19 % to 20 %, and principally an introduction of the National Nuclear Fund fee for decommissioning of the nuclear facilities and for management of the burnt out nuclear fuel and radioactive waste in the amount of 3 €/MwAh. These facts, however, were not under the competencies of the Office.

The year of 2012 will be the first year of the new 5-year regulatory period. Therefore, during 2011, a new regulatory policy was developed. The Board for Regulation, as a strategic regulatory body, assessed the previous regulatory period so that the stability of the market environment would be ensured for the regulated entities while being utmost transparent.

The regulatory policy is aimed at an improvement of the market principles in network industries with the focus on consumer protection and justified interests of the regulated entities. There is a preference of the incentive regulatory methods, principally the price cap method being applied in most of the EU countries. There is also a focus on quality standards observance that will, after the termination of regulation of household energy supply, represent practically a new topic of the state regulation in network industries.

2. Main developments in the gas and electricity markets

The year of 2012 is the initial year of a new 5-year regulatory period. Therefore, the year of 2011 was characterized by the development of the new regulatory policy. During this process, The Board for Regulation followed the assessment of the previous regulatory period in order to ensure stability of the market environment for the regulated entities, with a focus to secure customers' right for fair prices, adequate quality and reliability of supply. At the same time, the Board procured utmost transparency and respecting of the market changes and needs.

The proceeding electricity and gas market liberalization and development was manifested by a significant annual increase in customers number who switched their suppliers, and thus the year of 2011 can be marked as a starting point for not being necessary to distinguish between traditional and so-called alternative suppliers, but to speak just about suppliers as such. In 2011, there were no crucial changes executed within the rules for electricity and gas supplies for households and small businesses.

Electricity

In 2011, the electricity sector in the Slovak Republic was evidently influenced by a proper regulatory policy and legislation in the field of network industries. These factors ensured significant increase in expressing the alternative suppliers' interest to enter the electricity market in all segments including households.

The Office proposals, principally in connection with the respective legislation amendments, contributed to stability and development of the market environment.

Gas

In 2011, the liberalization process in the Slovak gas market became reinforced with increased competition in gas supplies to industrial customers and increased gas supplier switching rate in all consumer groups including households. Besides the incumbent supplier company Slovenský plynárenský priemysel, a.s. the gas market covered more than 14 gas traders.

The 2011 natural gas consumption of the gas end- consumers of the Slovak Republic reached an amount of 57,9 TWh. Compared to 2010, it is an increase by 1,1 %.

The 2011 price regulation in gas sector referred to the connection to the transport and distribution networks, access to the transport network and gas transport, access to the distribution network and gas distribution, access to a storage facility and gas storage, provision of ancillary services in gas sector, gas supply for households, gas supply for heat production for households, and gas supply provided by a last resort supplier. The production and accumulation of gas are excluded from price regulation. These activities are executed through an agreed access upon the gas market rules.

3. The electricity market

3.1. Network regulation

3.1.1. Unbundling

There is only one transmission system operator (hereinafter as the „TSO“) in the SR electricity market, and thus the SEPS a.s. company (hereinafter as „SEPS“). The TSO ownership unbundling took part in 2001.

As for the three distribution system operators (hereinafter as „DSO“), namely ZSE Distribúcia, a.s. (hereinafter as „ZSE-D“), Stredoslovenská energetika – Distribúcia, a.s. (hereinafter as „SSE-D“) and Východoslovenská distribučná, a.s. (hereinafter as „VSD“), the legal unbundling was executed as of 1 July 2006 in the form of unbundling of the distribution activities from the parent companies of Západoslovenská energetika, a.s., Stredoslovenská energetika, a.s. and Východoslovenská energetika, a.s. The original companies have been maintaining the activities of electricity trades and supply. All companies performing monopolistic activities indicate the „compliance program“ observance in their Annual Reports.

An implementation of the Directive No. 72/2009 is currently under the legislation process, and the TSO certification is under development. At present, the functional effective unbundling of the TSO from other activities is ensured in the SR conditions, following the above mentioned provision.

3.1.2. Technical functioning

The 2011 RONI activities in this field were focused at network operation codes approval, approval and monitoring of the method and volume of ancillary service provision including the determination of the maximum prices, and at monitoring of the TSO and DSOs' supply quality standards fulfillment.

Ancillary and system services

In Slovakia, the basic electricity consumption zone is ensured between a producer and a consumer either directly or via electricity traders. The TSO is in charge of regulation energy acquisition. Based on a contract on ancillary service provision, the TSO purchases these services from certified service providers and, following the consideration of the regulation energy bidding prices according to economically efficient principle and in compliance with the technical conditions, utilizes the purchased ancillary services through the Slovak Energy Dispatching management systems. The regulation energy price is being reimbursed in case of ancillary service activation. The Slovak electricity industry has been rigorously unbundled by means of generation, transmission and distribution of electricity, therefore, the ancillary service market competition is sufficient, resulting in 2011 in enhancing the number of certified ancillary service providers, followed by the ancillary service tariff level reduction. There is an evidence for ancillary service restructuralization necessity, and thus focusing on the services with shorter activation period.

Currently, the ancillary services are provided by new smaller heat sources within the category of public heating plants, or industrial power plants, as well, resulting in enhancement of the ancillary service source disposability in the period from 2008 to 2011 (compared to the previous balance).

The number of the providers of the respective types of ancillary services is increasing every year. An entrance of the new market players to the ancillary service market is evident in the means of persisting activities in this market segment. Through an application of the valid legislation on system operation conditions, the Office reached a result in the reduction of the total costs in this sphere, and thus contributing to the reduction of the total electricity supply costs for electricity consumers.

The table below shows the development of ancillary service provision in the period from 2009 to 2011:

<i>Indicator/year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
No. of ancillary service providers	18	23	25
No. of offers provided by the ancillary service providers	3 380	113	3 408
No. of concluded contracts on ancillary service provision	22	28	82

In 2011, two new ancillary service providers entered the market. During 2011, there was no TRV120MIN type of an ancillary service (tertiary capacity regulation). There was also no necessity for the electricity system to import emergency assistance from the neighboring transmission system operators.

Comparison of the regulation energy supply in the period of 2010 and 2011 (MWh):

<i>Type of regulation energy/ year</i>	<i>2010</i>	<i>2011</i>	<i>Modification 2011/2010 (%)</i>
Primary capacity regulation +	10 597	10 034	-5,31
Primary capacity regulation -	10 300	10 210	-0,87
Secondary capacity regulation+	177 911	171 484	-3,61
Secondary capacity regulation-	208 622	258 662	23,99
Tertiary capacity regulation 3 min. +	7 200	3 991	-44,57
Tertiary capacity regulation 3 min. -	8 578	4 454	-48,08
Tertiary capacity regulation 30 min. +	47 625	23 529	-50,60

Tertiary capacity regulation 30 min. -	28 964	33 065	14,16
Tertiary capacity regulation 120 min.	0	-	-
Emergency assistance import	0	0	-
Non-guaranteed regulation energy	- 1 898	0	-
Positive regulation energy	243 333	209 038	-14,09
Negative regulation energy	258 362	306 391	18,59

Source: SEPS

Reliability of the system according to the quality standards

The assessment of the quality standards, comparison of the performance of regulated entities in the field of quality of supplied goods and services, and their publication stand for an efficient regulatory tool to incentivize the regulated entities' effectivity.

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

1. Maintain the quality of the electricity supplied complying with the technical conditions (voltage level, voltage frequency, etc.),
2. Verify an adequacy of the account rendered up to 30 days from the date of the delivery of an application to verify an adequacy of the audited payment for the delivered energy,
3. Ensure meter testing not later than 30 days after the date of delivery of an verification application,
4. Restore electricity supply in case of a breakdown up to 18 hrs from the time a distribution system operator gets an information about the failure,
5. Follow the planned time schedule of electricity supply shutdown,
6. Restore electricity supply up to 3 business days from the date of a debt payment, if the supply was interrupted due to payment delay.

An assessment of the quality standards fulfillment for the period of 2009-2011 has been processed in the reports published at the Office website.

The results of the quality standard monitoring under the title of „Restoration of electricity distribution to electricity end- consumers following distribution system breakdown“ are shown in the table below.

Results achieved in 2011				
DSO	Voltage level	No. of events	Observed term	Non- observed term
ZSE-D	HV	2 638 321	2 635 825	2 496
	LV	201 599	199 206	2 393
SSE-D	HV	884 050	883 002	1 048
	LV	131 977	131 758	219
VSD	HV	1 371 231	1 367 417	3 814
	LV	143 770	143 412	358
SEPS	VHV	8	7	1

Note:

Terms for the respective voltage levels: LV–up to 18 hours, HV–up to 12 hours, VHV–up to 12 hours

The following table shows the monitoring results of the quality standard titled „Connection to the system after fulfillment of the business- technical conditions and after the connection fee payment“.

Results achieved in 2011			
System operator	No. of events	Observed term	Non- observed term
SEPS	1	1	0
ZSE-D	1 845	1 700	145
SSE-D	7 392	7 392	0
VSD	6 295	6 244	51

Note:

TSO term: 7 business days, DSO term: 5 business days

3.1.3. Network tariffs for connection and access

As for electricity price regulation, the Office uses the regulatory policy tools in the form of generally binding legal provisions issued on the basis of authorization provisions of the Act No. 276/2001 Coll. on regulation in network industries.

The assessed year of 2011 was the last year of the 3-year regulatory period with price cap method being applied in electricity sector. The price of electricity generally consists of the regulated and non-regulated items. The regulated items cover activities related to electricity transmis-

sion from a producer via the systems to an end- consumer (i.e. transmission and distribution), and activities related to ensuring the electricity system stability }transmission and distribution services, system services and system operation services covering a fee for the promotion of electricity generation from RES, highly efficient CHP and domestic coal), the payments for deviation clearing services, and in case of electricity consumers in households and small businesses, there is a price for electricity supply.

In compliance with the decree No. 1/2010 on the scope of price regulation in network industries and on the method of its execution, the Office set out that in 2011, the price regulation in electricity was applied for generation of electricity produced from renewable energy sources, combined heat and power generation and generation from domestic coal, connection to the system, access to the transmission system and electricity transmission, access to a distribution system and electricity distribution, electricity supply to households and small businesses, and for system and ancillary services provision. In 2011, the essential executory tool for electricity price regulation was represented by the Decree of the Office No. 2/2008 in the version of latter decree, principally the Decree No. 2/2010 setting the price regulation in electricity sector. The respective decree covered the following decisive modifications:

- Made the methods for reserved capacity negotiations more precise,
- Provided the regulated entity has not been approved the price as of 1st January of the year t, the price approved by the Office for the year t-1 is being applied, as to the date of delivery of a price decision for the year t,
- Modified the categories of technologies and electricity price produced from renewable energy sources and by combined heat and power generation,
- Set out a procedure of price determination for short term electricity market organization,
- Limited the revenue share from the fees for capacity reservation, and overall revenues for an access to a distribution system and electricity distribution, excluding the revenues from electricity losses during electricity distribution up to the maximum level of 0,66 ,
- Made the method of calculation, the procedure and conditions for the system operation tariff to be applied more accurate, a number of new notions were specified in the legislation with their importance in electricity market development, principally in the field of organized short term electricity market, the details were adjusted.

In the area of price regulation of the respective activities, the Office issued for the year of 2011:

- 335 price decisions in total, and thus for access to the transmission system and electricity transmission, for access to a distribution system and electricity distribution, for connection to the system, for electricity supply to households and small businesses, and for electricity supply by a last resort supplier,
- 40 decisions on the price of electricity for setting a surcharge for electricity producers using the Technologies of the combined heat and power generation,
- 1205 decisions on the price of electricity for setting a surcharge for RES producers.

The approved or determined regulated prices are published at the Office website.

In 2011 compared to 2010, the tariff for transmitted electricity did not change, the tariff for reserved capacity increased by 6,37 %, and thus due to increased volume of transmitted electricity and reduced reserved capacity, the tariff for system services was slightly reduced from the value of 9,60 €/MWh onto the level of 8,95 €/MWh, i.e. reduction by 6,77 %, the tariff for losses during electricity transmission was reduced by 5,99 % due to commodity price reduction and due to reduced planned deviation costs.

The system operation tariff amount for the year of 2011, compared to 2010, increased by 8,55 euro/MWh onto the value of 14,85 euro/MWh, and thus standing for an increase by 135,71 % due to enhanced RES generation and highly efficient combined heat and power generation, due to governmental promotion of the domestic coal extraction, and also due to the fact the tariff included the costs on electricity short term market organization as well.

3.1.4 Cross-border issues

In 2011, the Office cooperated in the area of cross border issues with the respective regulatory authorities and the Agency for the Cooperation of Energy Regulators (hereinafter as „ACER“) in the meaning of the relevant provisions of the Regulation No. 2009/EC/714 within the region of Central East Europe (hereinafter as „CEE region“). In this region, there is an Common Auction Office (hereinafter as „CAO“) performing its activities for CEE TSOs with its headquarter in Freising. CAO has been established in order to perform common coordinated congestion management in the region, and to allocate capacities at the cross-border interconnections. An introduction of the new common allocation method in the region on the basis of physical flows, originally planned for March 2010, was delayed due to infunctionality of some of the system items. Therefore, in autumn 2010, there was a transitional solution adopted with CAO having been coordinating yearly, monthly and daily capacity allocations based on the originally used NTC method. As for CEE region integration, there has been developed a new, harmonized scheduling concept standardizing an exchange of plans, formats and TSO nomination times within the whole CEE region. This concept, launched in December 2010, brought simplifications for the traders in the area of intraday regional trading procedures.

In 2011, a significant event took place in the course of the local electricity short term markets within the region, and thus signing the Memorandum of understanding between the respective electricity market stakeholders of the Czech Republic, Slovak Republic and Hungary, followed by drafting a project on interconnection of the intra-day electricity markets in these countries, expected to be launched in Autumn 2012.

The Slovak TSO (SEPS) follows the Electricity Market Rules and Network Code of the transmission system being approved by the Office when allocating cross-border capacities and managing congestion at the cross-border profiles. The capacity of cross-border interconnections of the SR transmission system is sufficient. All free cross-border capacities on the daily, monthly

and yearly basis are active on all profiles, except for the SEPS-ČEPS profile, offered via non-discriminatory market mechanisms, via explicit auctions calculated according to the NTC method organized by CAO. Since 2009, the SEPS-ČEPS profile has been providing daily cross-border capacity allocated on the basis of an implicit auction within the common interconnected short term market of the SR and CR. Furthermore, since 2011, an intra-day capacity allocation has been active with no charge on this profile, based on an acceptance of the defined requirements on cross-border transmission, while applying the „first come first served“ principle.

The SEPS revenues from the congestion fees in 2011 represented an amount of 8 364 402 EUR. The Office was monitoring the utilization of the revenues in compliance with Article 16 (6) of the Regulation No. 2009/EC/714 and is stating out that all revenues of the national TSO coming out from the interconnection lines allocation, have been used for the purposes to guarantee the real availability of the allocated capacity and to maintain or enhance the interconnection line capacities through system investments.

As for the monitoring of the TSO investment plans compliance with the 10-year system development plans upon the respective provisions of the Directive No. 2009/EC/72, these obligations do not fall under the Office legal competencies at present, due to the above mentioned delay of the 3rd energy package transposition into the SR national legislation.

3.1.5 Compliance

3rd Package transposition

The process of the 3rd Energy Package transposition into the SR national legislation was launched by the Ministry of Economy of the SR on 16 August 2011 by submitting the drafts of new acts on energy and regulation in network industries to the inter-sectorial commentary procedure. The drafts were subsequently negotiated and approved by the Government of the SR at the session held on 9th November 2011. Upon the follow-up procedures of the approval process, on 11th November 2011 were both drafts forwarded to the National Council of the Slovak Republic (hereinafter as the „NR SR“) to be discussed. On 2nd February 2011, the drafts of the acts on energy and on regulation in network industries were approved by the within the first lection in the NR SR. However, the drafts were not approved in the final phase (2nd lection on 2nd February 2012) in the NR SR, and therefore the then-acting Minister of Economy withdrew them from the legislation process. The premature parliamentary elections and the creation of the new SR Government resulted in significant time delay of the originally scheduled legislative procedure of the respective transposition, however, this transposition stands for utter priorities of the current SR Government, therefore, both drafts of the transposition acts are in the final phase of the NR SR approval process at present with an expected date of effectivity as of 1 September 2012. After efficiency date of the respective drafts of the acts, this fact will be submitted to the European Commission without delay. Consequently, as of 1 January 2013, the TSO certification process will be initiated.

3.1.6 Dispute settlement

As for the implementation of the respective provisions of the 3rd Energy Package of the European Community, related to the new competencies of the regulatory authority in the field of dispute settlement, it is necessary to point out that these have not been fully implemented due to 3rd Package transposition delay. Despite of this fact, the Office, upon the up-to-date primary valid legislation, performs supervisory activities over the markets through the Department of Control and Surveillance.

In 2011, the Department of Control and Surveillance, was delivered 60 complaints on prices, contractual conditions, invoicing, supplier switching difficulties, problems on payment deliveries etc., referred to as follows:

- 11 prices,
- 13 contractual conditions,
- 2 metering,
- 13 misleading trading and information practices in the process of a supplier switching
- 12 invoicing,
- 2 supplier switching difficulties,
- Technical difficulties,
- others.

All the delivered complaints or applications were settled by an Office statement, while in 17 cases, there was a control procedure initiated.

3.2. Promoting competition

3.2.1. Wholesale market

The most important electricity stakeholders in the SR in 2011 were as follows:

- Slovenské elektrárne, a. s. (hereinafter as „SE, a. s.“) –the most significant (dominant) electricity producer ensuring 71,16 % of the overall SR electricity generation from its own resources. The electricity generation with the volume of 20 022 GWh provides 69,37 % of the overall SR electricity consumption. The installed capacity of the SE, a.s, as an owner amounts to 4 992,9 MW . The company supplied its 44 non-household consumers within a delineated territory electricity in the volume of 18 085 GWh, with the proportion of 2 359 GWh for end- consumers. It had significant contribution both to the provision of ancillary services for SEPS, a.s., and by taking over the commitments of the other ancillary service

providers. The subsidiary company SE Predaj, a.s. established in 2009 ensures sale of electricity to end-consumers as well. The company has established active trading branches in the Czech Republic and in Poland. The company is active in the Hungarian electricity market through the cooperation with Enel Trade Hungary.

- Slovenská elektrizačná a prenosová sústava, a. s. (hereinafter as „SEPS“) as an exclusive license holder for the performance of electricity transmission, the national transmission system operator (hereinafter as „TSO“) being in charge of energy dispatching (ensuring balance in the delineated territory of the SR) and as a deviation clearing company. In October 2010, SEPS established a subsidiary company OKTE, a.s. with its role to assess and organize short-term electricity market and to ensure deviation clearing in the territory of the SR.
- OKTE a.s., a short-term electricity market administrator as an institution providing assessment and organization of the short-term electricity market and ensuring assessment and clearing of the deviations in the territory of the SR.
- ZSE Distribúcia, a. s., Stredoslovenská energetika - Distribúcia, a. s., a Východoslovenská distribučná, a. s. – exclusive regional distribution system operators (hereinafter as „DSO“) in the respective parts of the delineated territory with more than 100 000 connected delivery points. Except for the three companies mentioned above, there are 154 license holders performing their activities in the field of electricity distribution. These cover local distribution system operators within the areas of production and non-production companies with less than 100 000 connected delivery points.
- ZSE Energia, a. s., Stredoslovenská energetika a. s. (ďalej len „SSE“) a Východoslovenská energetika, a. s. (ďalej len „VSE“) – the dominant electricity suppliers (hereinafter as „electricity end-suppliers“) being part of a vertically integrated company performing both electricity distribution and supply activities. The share of electricity supply of these three companies on the overall SR electricity consumption in 2011 represented 50,64 %, with a reduction by 1,46 % compared to 2010. In case of need, the electricity end-suppliers act as the last resort suppliers within the respective part of the delineated territory.
- Out of the total number of 385 entities with the valid electricity supply licenses, by the end of 2011, there were 41 electricity suppliers in total providing electricity supply to household consumers.

3.2.1.1 Price monitoring

The monitoring of the wholesale electricity market is performed by the Office department for analysis.

Principally, the electricity trading is performed through bilateral trades concluded under market conditions via various broker platforms, Prague Energy Exchange PXE, and the most liquid European Energy Exchange EEX. These are considered to be the most transparent ways to conduct electricity trading on the long-term basis within this region. The residual electricity not sold on the annual basis, is traded on a short-term basis, in the Slovak spot market and the sur-

rounding markets bilaterally, primarily again through the broker platforms. This volume represents approximately 10% out of the total annual production, and respects the unpredictability of the Slovak water sources and the possibility of other source outages within the regional production portfolio. Due to the amount and liquidity of the Slovak energy market, an import or export is necessary to perform on a daily basis.

The parallel development of the four neighbouring liberalized markets is being kept on, with the mutual transmission interconnections having been sufficiently constructed. The Slovak market is advantageous due to an efficient interconnection of the electricity system to the neighbouring markets. As soon as the nuclear power plant in Mochovce with its 3rd and 4th blocks is finished, the security of electricity supply in Slovakia shall significantly increase, and the electricity export potential of the country shall be partly restored.

At the moment, the market is solving the issues of the renewables expansion in Europe having an impact on both the electricity system functionality and the end-user prices. An increasing electricity consumption indicates the economics revival.

The electricity trading experiences broadening competition. The households are gradually performing their active approach. This has been caused mainly by the electricity price decrease on the spot market during the global crisis.

3.2.2. Retail market

3.2.2.1 Price monitoring

By the end of 2011, 385 licensed entities were offering electricity supply (increase by 16 new entities compared to 2010), with household supply provided by 41 suppliers, out of which 8 entities having significant supply volume (besides ZSE Energia, SSE and VSE), the other entities provide electricity supply to the households located within the local distribution system areas and plants. Since the number of electricity suppliers has increased significantly, there is no need to distinguish between traditional and alternative suppliers, but between new and old ones, or large and small ones.

The selected indicators characterizing the share of the three crucial electricity suppliers are shown in the table below:

<i>Indicator/year</i>	<i>unit</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Volume of electricity supplied by ZSE Energia	GWh	7 142	6 782	6 540
Volume of electricity supplied by SSE	GWh	4 919	5 001	4 887
Volume of electricity supplied by VSE	GWh	3 386	3 201	3 188
Volume of electricity supplied by ZSE Energia +	GWh	15 447	14 984	14 616

SSE + VSE in total				
Share of electricity supplied by ZSE Energia + SSE + VSE in total in the overall electricity consumption in Slovakia	%	56,4	52,1	50,64
Volume of electricity supplied by ZSE Energia for non-household electricity consumers	GWh	5 029	4 685	4 433
Volume of electricity supplied by SSE for non-household electricity consumers	GWh	3 251	3 372	3 295
Volume of electricity supplied by VSE for non-household electricity consumers	GWh	2 201	2 007	2 004
Volume of electricity supplied by ZSE Energia + SSE + VSE for non-household electricity consumers	GWh	10 481	10 064	9 732
Volume of electricity supplied by ZSE Energia for household electricity consumers	GWh	2 114	2 098	2 108
Volume of electricity supplied by SSE for household electricity consumers	GWh	1 668	1 629	1 592
Volume of electricity supplied by VSE for household electricity consumers	GWh	1 184	1 193	1 184
Volume of electricity supplied by ZSE Energia + SSE + VSE for household electricity consumers	GWh	4 966	4 920	4 884

<i>Indicator/year</i>	<i>unit</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Volume of electricity supplied by SE Predaj for non-household electricity consumers	GWh	0	1 125	1 423
Volume of electricity supplied by ČEZ for non-household electricity consumers	GWh	750	961	1 036
Volume of electricity supplied by Magna E.A. for non-household electricity consumers	GWh	73	239	280
Volume of electricity supplied by Korlea for non-household electricity consumers	GWh	0,862	0,044	20
Volume of electricity supplied by PB Power Trade for non-household electricity consumers	GWh	0,658	29,9	44,9

Volume of electricity supplied by Slovakia Energy for non-household electricity consumers	GWh	40	24	19
Volume of electricity supplied by Pow-en for non-household electricity consumers	GWh	0,809	2,7	12
Volume of electricity supplied by Energetické Centrum for non-household electricity consumers	GWh	0	0,057	2,3
Volume of electricity supplied by SE Predaj for household electricity consumers	GWh	0	0	0,071
Volume of electricity supplied by ČEZ for household electricity consumers	GWh	0	0	14
Volume of electricity supplied by Magna E.A. for household electricity consumers	GWh	6,7	21	24,6
Volume of electricity supplied by Korlea for household electricity consumers	GWh	0	0	0
Volume of electricity supplied by PB Power Trade for household electricity consumers	GWh	0,05	0,148	2,1
Volume of electricity supplied by Slovakia Energy for household electricity consumers	GWh	40	91	99
Volume of electricity supplied by Pow-en for household electricity consumers	GWh	0	8,6	0,421
Volume of electricity supplied by Energetické Centrum for household electricity consumers	GWh	0	1,087	45

In the years from 2009 to 2011, the electricity end-suppliers, or the alternative suppliers provided electricity supply to households as follows:

<i>Indicator/year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Number of household delivery points in the three regional DS in total	2 080 377	2 096 684	2 112 856
Number of household delivery points in case of electricity end suppliers	2 071 143	2 071 233	2 036 394
Number of household electricity consumers in case of alternative electricity suppliers	9 234	25 451	58 227

An indicator showing the gradual market liberalization and development is an annually increased number of supplier switchings, as shown in the table below:

<i>Indicator/year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Number of household consumers who switched their suppliers	7 697	17 171	40 574
Number of non-household consumers who switched their suppliers	2 999	4 644	2 210

The decisive moment in case of a supplier switching is the price of electricity and the quality of services provided (consultancy, personal approach and individual offers, contractual conditions, complex services related to electricity supply etc.). It is obvious that almost half of the number of companies provide tariffs which are set up in an inadventegous manner, and there is still space for them to save a significant part of the costs for electricity supply.

3.2.1.2 Monitoring the level of transparency, including compliance with transparency obligations, and the level and effectiveness of market opening and competition

Besides the price regulation, the Office develops the rules for electricity market functioning adjusting the rights and obligations of electricity market players, and setting up the conditions for the liberalized electricity market functioning in Slovakia. Further on, there is another document binding for electricity market players and approved by the Office promoting transparency and efficiency of the market, and thus the network codes covering the operational conditions of the companies developed upon the electricity market rules. Based on the applications of the system operators, in 2011, the Office assessed and approved 30 network codes.

3.2.3 Recommendations on supply prices

The Office directly applies the performance of electricity supply price regulation for households and small businesses.

In 2011, the basic executive tool for price regulation was represented by the Decree No. 2/2008 in the version of latter provisions, principally the Decree No. 2/2010, setting up the price regulation in electricity. This Decree brought crucial adjustments as follows:

- Set up the scope of maximum 8 tariffs for electricity supply and 8 tariffs for an access to a distribution system, and the scope of maximum 11 tariffs for distribution system users, excluding the households,
- Introduced the highest rate of an adequate profit for electricity supply for households and small businesses,
- Specified the method for maximum price calculation for electricity supply for small businesses, the procedure and conditions for the price application, the details on price proposals and the method of price proposal submission,
- Set up the scope of maximum 11 tariffs for electricity supply for small businesses.

In order to improve electricity market functioning, it is necessary to:

- Continue in the process of supplier switching improvements, since there are still shortcomings in the field of insufficient technical and professional execution, as well as the electronic data Exchange between the supplies,
- Hinder the dominant position in the market, or the misleading promotion and unfair practices, especially in case of the door-to-door sellers often providing untrue information to the customers,
- Develop an effective communication channel for electricity companies to actively solve the problems occurred with a possibility to implement the proposed solutions into the legislation process.

3.2.4 Carry out investigations and imposing measures to promote effective competition

In 2011, the Department for dominant position abuse of the Antimonopoly Office of the SR (hereinafter as „AMO“) experienced one intervention in the electricity market, and thus the decision to apply inadequately high fee for an over-standard meter reading, as described below.

AMO focused on an assessment of the DSO performance in the Western Slovakia region. In the procedure of a supplier switching, it is necessary to determine electricity consumption of a respective consumer as of the switching date with the responsibility of DSO. This is related to the determination of a fee which became the subject of the administration procedure and was invoiced for the period from 1 April 2008 to 31 March 2010. This fee was not covered by the electricity end- consumers, but the new electricity suppliers. The respective DSO started to invoice this fee in the period of an entrance of new electricity suppliers into the market within the region of the Western Slovakia. AMO assessed this fee, since it seemed to be inadequate, and it was informed from the new electricity suppliers that his fee was causing certain problems in the household electricity supply market.

AMO proved the assessed fee to be inadequate high, while using a benchmarking method- the assessed fee proved to be by 100% higher than the same services provided by other DSOs in the two remaining Slovakian regions.

Due to inadequate high fee, the new electricity suppliers paid for the provided service in the Western Slovakia region inadequately more than they would pay if the anti-competition practice would not have been used. There was also another consequence of this practice, and thus the inadequate fee represented a barrier for the new household electricity supply market players. The amount of the fee the new suppliers were forced to reimburse for each and every acquired household amounted to a several years' profit margin which could have been potentially reached if they had provided electricity supply to the household.

Due to competition rules breaching, AMO fined the company with 150 000 EUR. The decision has not become valid, the respective company has taken an appeal against it.

Except for the case mentioned above, the Department for dominant position abuse of AMO, received in the course of 2011 a couple of smaller initiatives to assess the behavior of the entities conducting their business in the electricity market. All these initiatives were concluded without an administration procedure initiation.

3.3. Consumer protection

In relation to the provisions of the 3rd Energy Package on the new competencies of a regulatory authority, it is necessary to note that these have not been implemented, yet in their full scope. Despite this fact, a number of them have already been performed by the Office, and thus in the meaning of the currently valid legislation, and have been annually assessed within the Report on Electricity and Gas Markets Functioning.

Short-term measures

The gradual electricity market opening has provided the Office with a lot of knowledge on what is needed to be preferentially improved in the area of an end- consumer protection. In order to speed up the processes and to reduce administration burdens, and thus to bring quality to the whole supplier switching process, it will be necessary primarily to:

- Introduce a data exchange format from the DSOs,
- Introduce a so-called exception in case of a supplier switching procedure from the side of the original electricity supplier if the contract on electricity supply has not been denounced by an electricity consumer. After the exception is received, the respective DSO would automatically stop the switching supplier procedure, and the original electricity supplier would bear responsibility for this step,
- Set up a precise list of information a DSO may require within the supplier switching procedure,
- Solve the issues of the local DSOs (supplier switching, balancing, last resort supply),
- Bind the reconnection of a consumer not only onto debt reimbursement, but also onto the control of all commitments against a supplier in case of reconnection,
- Improve the supplier switching procedure, since there are still shortcomings caused by insufficient technical and professional equipment, and the experience of the electricity suppliers in the area of electronic data exchange.

In order to improve quality standards, it is necessary to:

- Perform surveillance of the regulated entities who did not submit the quality standard assessment,
- Verify the submitted announcements on the monitoring and registration of the quality standards observance,
- Improve the methodical guidance of the regulated entities who failed in the process of filling in the records on the achieved quality standard level,
- Cooperate in the process of the development of the project on an electronic data collection to assess the quality standards submitted by the regulated entities.

Long-term measures

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

- Monitoring of the quality standard of electricity supplied and services provided observance, in order to ensure the protection of rights and obligations of electricity consumers and to guide the system operators and electricity suppliers to behave efficiently and to perform the regulated activities in a secure and reliable manner,
- Collection of the topics, information and initiatives of the electricity stakeholders on non-/observance of the rules for electricity market functioning, or on the electricity market barrier with the aim to analyze them, or to amend the rules,
- Unification and simplification of the procedures and content of the contractual relationships between the respective market players in order to hinder speculative and discriminatory practice,
- Setting up the content and scope of the DSO network codes with the aim to ensure security and reliability of electricity supply.

One of the main roles in the upcoming period will be to upgrade the quality regulation onto a new regulatory method.

4. Gas market

4.1 Network regulation

4.1.1. Unbundling

The natural gas market in the SR experiences one and only transport network operator eustream, a.s (hereinafter as „Eustream“) and a monopolistic distribution network operator SPP-distribúcia, a.s., (hereinafter as „SPP-distribúcia“) conducting their business in the whole territory of the SR. As of effectivity date of 1 July 2006, the transport and distribution activities of the originally monopolistic vertically integrated company of Slovenský plynárenský priemysel, a.s. (hereinafter as „SPP“) conducting their business in gas trade and supply became legally unbundled resulting in establishing 100% subsidiaries.

The legal unbundling of SPP was executed upon the Act on Energy, and in compliance with the 2nd European Energy Package. The gas market tis fully liberalized as of 1 July 2007 providing free choice of a gas supplier for all gas consumers.

Eustream company, as the only transport network operator, ensures gas transport for the Slovak transport network users, and for the international gas transport on the basis of entry- exit tariff system. The overall volume of gas transport for the Slovak and foreign consumers amounted to 74,0 bil. m³ in 2011. The transport network capacity of more than 90 bil. m³ is sufficient for the consumers' demands.

Gas distribution is performed by the dominant and largest distribution network operator SPP - distribúcia, with its networks covering entire territory of the SR and providing distribution of almost 98% out of the total volume of the distributed gas in the SR. In 2011, out of the total number of 2928 municipalities, 2234 of them with 94% of all Slovakian citizens were gasified. It means, Slovakia is the second most gasified EU countries, following the Netherlands. As of 31 December 2011, out of the total length of the distribution network of 32 960 km, the high- pressure gas pipelines cover 6 307 km, and the medium- and low- pressure pipelines cover 26 653 km. In 2011, SPP- distribúcia invested 42 mil. € to the distribution system reconstructions.

An implementation of the Directive No. 73/2009 is under the legislation procedure, and the TSO certification is currently under development.

4.1.2 Technical functioning

The gas storages principally ensure balancing of the deviations between gas supply volumes and its consumption. They serve primarily for gas storage in summer seasons and for gas extraction in winter season when gas consumption is higher than contractually agreed amount of the gas supplied into the territory of the SR. The gas storage facilities are also an effective tool for ensuring security of gas supply. The gas storage operators store gas not only for gas stakeholders conducting their activities in the SR gas market, but for foreign gas companies as well. In 2011, the Office issued two decisions for gas storage operators approving the prices for gas storage facility access and for gas storage in the territory of the SR, for the period from 1 May 2012 until 30 April 2013, i.e. for the period identical with the gas year of the gas storage facility operators. Both gas storage facility operators offer free storage capacity in a transparent and non-discriminatory manner via public tenders.

One of the criteria for storage capacity allocation is the amount of the price offered by the storage capacity applicants, while respecting the cap of the maximum regulated price. The Regulatory Office for Network Industries, through the Decree No. 328/2008 Coll. in the wording of the Decree No. 94/2011 Coll. supervises the monitoring activities related to respective gas quality standards, and the services provided in the gas sector. The Decree sets 10 quality standards for gas storage and storage services, 11 quality standards for gas transport and the transport services, 12 quality standards for gas distribution and distribution services, and 7 quality standards for gas supply and supply services. These quality standards are assessed by the entities conducting their respective business in the gas sector and posted to the Regulatory Office for Network Industries.

As for gas transport, the quality standard specifies connection of a gas facility to the transport network within 30 days from the date of delivery of an application for the connection to

the transport network. Consequently, it allows gas transport after a gas facility being connected to the transport network upon the date of transport initiation agreed in a gas transport contract.

The gas transport restoration happens 24 hours from the moment the TSO got information on a failure, or within 2 working days from the date of the delivery of a TS user's application for the restoration of gas transport after its interruption or limitation.

As for gas distribution, the quality standard stands for a written specification of the technical and business conditions for a gas facility connection to the distribution network within 30 days from the date of delivery of an application for a gas facility connection to the distribution network. Consequently, it allows gas facility connection to the distribution network within 5 working days as for a household gas consumer and within 30 days for a non-household gas consumer. (if the determined technical and business conditions for gas facility connection to the distribution network are observed).

The gas distribution restoration happens within 24 hours from the moment the DSO got information on the failure, or within 2 days from the delivery of an application of a DS user for gas distribution restoration after its interruption or limitation, and thus in case these were caused by physical disconnection of a consumer's gas facility from the distribution network within 5 working days.

The gas storage facility operator publishes the information on the release of free storage capacity, or free interruptible storage capacity within 7 days on his website.

4.1.3 Network and LNG tariffs for connection and access

Network tariffs

The regulated activities in gas sector are defined in the Section 12 of the Act on regulation, and consequently in the Decree of the Office No. 1/2009 in the wording of the Decree No. 1/2010 setting up the scope of price regulation and the method of its performance in gas sector for the year of 2011. The gas price regulation covers:

- Connection to the transport and distribution networks,
- Access to the transport network and gas transport,
- Access to the distribution network and gas distribution,
- Access to a storage facility and gas storage,
- Provision of ancillary services in the gas sector.

At present, no LNG is operated in the territory of the SR.

The 2011 price regulation was performed upon the Decree of the Office No. 4/2008 in the wording valid for the year of 2011 that set up the scope and structure of justified costs, the method of determination of an adequate profit and the background documents for gas price proposal. Based on this Decree, the regulated prices for gas transport, gas distribution and gas storage for the gas end- consumers were specified for the year of 2011.

The principal method used for network tariff determination was the benchmarking method. The prices for access to the transport network and gas transport, as well as the prices for access to the storage facility and gas storage, were set up according to the benchmarking analysis of the SR prices and the prices in the other EU countries. As for an access to the distribution network and gas distribution, there was a price cap method used. Upon the positive results from the previous regulatory period, these methods have remained even in the upcoming regulatory period 2012 - 2016.

The regulated prices specified by the Office within the price decisions are publicly available at the Office website, and at the websites of the respective network operators. The prices are proposed the way, so that they would not contain cross subsidies between relevant groups of gas consumers.

Based on the up-to-date experience, the situation in the sphere of gas price development was stable, the price setting-up transparent, and the regulated entities were and will be secured with investment returns and an adequate profit, while being forced to perform their business activities more efficiently.

Transport network operator

The method of price regulation in the area of gas transport is anchored in the Act on regulation, and is defined by a direct determination of a comparable price stemming from the benchmarking analysis of the prices for gas transport in other EU countries using the entry-exit tariff system. The comparable prices for gas transport are set up in the form of the tariffs.

The tariff system for an access to the transport network and gas transport consists of special tariffs for entry points and exit points. The tariffs cover two items: the tariffs related to the daily transport capacity for entry and exit points, and the tariffs related to the amount of truly transported gas for entry and exit points, which cover the costs on transport network operation gas. The tariffs are valid both for Slovak and foreign transport network users.

The structure of the tariff groups as for 5 entry-exit points of the transport network (Veľké Kapušany, Lanžhot, Baumgarten, Veľké Zlievce, Domestic point) is divided upon the contractually agreed daily maximum capacity of gas transport into 4 categories:

T1 (entry/exit)–up to 1,75 mil. m³

T2 (entry/exit)- from 1,75 mil. m³ up to 40 mil. m³

T3 (entry/exit)- from 40 mil. m³ up to 132 mil. m³

T4 (entry/exit)- from 132 mil. m³

The background tariffs within all tariff groups increased in average by 0,5% in 2011 compared to 2010, influenced by the inflation ration in the EU countries in 2009 of 1,0%, while the escalation factor covers only the value of 50%.

Besides the long-term contracts and the standard annual contract on gas transport, the gas market rules allow to conclude a short-term contract for the period from one day in case of the daily contracts, or for the period of 1-11 months in case of the monthly contracts. The payment

for gas transport in case of the short-term contracts depends on the value of the factor of the monthly or daily contractual period depending on the length of the short-term contract.

The regulated price for connection into the transport network is based on the justified costs necessary for documentary, technical and realization phase of the connection approved by the Office upon the submitted price proposal.

Distribution network operator

The price determination for the year of 2011 for the dominant DSO with the number of the delivery points of more than 100 000 was based on the price cap method. This method specified the price level for the entire three-year- regulatory period (2009-2011). It is an incentive method for the regulated entity, since it enables to create sufficient disposable financial resources, creates a space for competition, and increases consumer protection level. It is preferred due to price stability not being influenced by short-term conjectural deviations. Since the price cap method brought positive results, it remains to be applied even in the new regulatory period of 2012 - 2016.

The DSO plays also the role of a national gas dispatching center, while physically balancing the entire SR gas network which is considered to be the only balancing zone.

An average price for access to the distribution network and gas distribution for the year of 2011 was based on the 2010 average price, modified by the value of core inflation, efficiency factor and an annual difference of the price of gas used to cover the losses and the own consumption of gas in the distribution network. As for the new investments, the average price calculation considers also the value of an annual depreciation of a registered new long-term tangible property in the previous year, necessary to ensure network operation, however, to the ratio of 2,5 % of its acquisition value.

The tariffs for access to the distribution network and gas distribution are determined upon the post-stamp principle, i.e. according to the total annual volume of the distributed gas without taking account of the delivery point distance. The annual tariff for the maximum daily gas volume is applied for the gas consumers with the annual distributed gas volume of more than 60 thousand m³. The tariffs include also the fees for exceeding the contractually agreed daily distribution capacity. The regulated prices are determined for the period of one year with their validity as of 1 January of the respective year.

The Office performs price regulation also for the area DSOs in the delineated territory, so- called local distribution networks with the number of the delivery points of less than 100 000. In 2011, the Slovak regions covered 48 independent local distribution companies.

The prices for an access to the distribution network and gas distribution for the local distribution networks are specified upon the cost regulatory method, and the final price reflects the justified costs on the distribution system operation together with the correction factor for the previous period, and an adequate profit stipulated by the Office.

The price for connection to the distribution network and to the local distribution networks is specified the way, so that the price or the tariff for the connection would not exceed the

planned average connection costs of the regulated entity. The tariffs for the connection to the distribution network are proposed separately for household gas consumers and for non-household gas consumers.

Underground storage facility operators

In 2011, the storage capacity was offered by two storage facility operators, the companies of NAFTA a.s. (hereinafter as „NAFTA“) and POZAGAS a.s. (hereinafter as „POZAGAS“). The storage facility operators' services were used by a number of Slovak companies conducting their activities in the area of gas supply provided to the consumers in the SR market, and the foreign companies mainly from Austria, Germany, Czech Republic, The Netherlands, France and Hungary.

An access to a storage facility and gas storage were subject to price regulation in 2011, and thus to the method of the maximum price determination. The basis for the proposal of prices for an access to a storage facility and gas storage is represented by a benchmarking analysis of the prices for an access to a storage facility and for gas storage applied by storage facility operators in other EU countries operating the storage facilities with similar parameters to the Slovak ones.

Both storage facility operators offer free storage capacity in a transparent and non-discriminatory manner by the form of public tenders. One of the criteria for allocation of a storage capacity is the amount of the price offered by the interested parties, while respecting the cap of the regulated price.

Gas production and accumulation

The activities of gas production and accumulation were not subject to the Office price regulation in 2011. Based on the Act on energy, they were subject to an agreed approach upon the gas market rules.

Network balancing

The DSO ensured business balancing on a daily basis for the distribution network users by the method of calculation of the daily and cumulated deviations emerging among the volumes of gas nominated at the entries to the distribution network, and the volumes of truly exiting from the distribution network. At the same time, the DSO was administrating a balancing account for the users and performing deviation clearing.

The physical distribution network balancing was ensured by the DSO through gas extraction from a storage facility in case of gas shortage balancing, or through gas pressing into a storage facility in case of gas redundancy in the distribution network. In 2011, no problems stemming from an imbalance appeared in the distribution network. There were 15 gas traders actively performing their business activities in the distribution network in 2011.

4.1.4 Cross-border issues

SR represents a national gas market. The mutual interconnection of the transport networks is active at the borders with Ukraine, Czech Republic and Austria.

Transport capacity and congestion management of the network

The transport network operator prevents the congestion of the transport network by means of

- Assessment of the applications on an access to the transport network, and a consequent limitation of the transport capacity provision within the transport network, complying with the transport network operator's conditions,
- Coordination in the course of planning the repairs and maintenance works considering the network users' requirements, as for the deadline, duration and scope of the works to be done,
- Nomination of gas transport within an agreed and available transport capacity,
- Opportunity for a gas market player to provide his free transport capacity to another player.

A shortage of free transport capacity in the transport network is solved by the transport network operator by concluding a contract on gas transport with an interruptible transport capacity with a gas market player. The number of the concluded contracts on gas transport with the fixed transport capacity in 2011 was 52, out of which 1 was long-term, 35 annual and 16 short-term contracts. In 2011, there was no contract on the transport of gas with interruptible capacity concluded. In relation to the long-term contracts, neither there is nor physical neither contractual congestion of the transport network recorded in the Slovak Territory, nor the fluency of gas flows is sufficiently secured. Eustream, compared to the other European transport networks that are mostly loaded to the maximum, and thanks to its free transport capacity, can provide additional transport volumes within the existing network, and thus being an advantage for the possible interested parties and a potential for competition development in the Slovak gas market.

Eustream publishes regular information on the transport capacity availability at the respective entry-exit points, the information on planned investments into the transport network, network usage, maintenance plans, and free capacities at all entry and exit points on its website. The methods of capacity allocation, contractual congestion and capacity exceeding in the transport network are parts of gas market rules provisions.

A significant share of the contractual portfolio is composed of short-term cross-border transaction between the trading spots in Central Europe. Trading with the transport capacity at the secondary market was performed through a bulletin board at the Eustream website with the network users publishing their capacity requirements.

Access to the cross-border infrastructure

The cross-border trading with natural gas was conducted upon the GRI SSE TSO agreement at the trade hub CEHG in Baumgarten (Austria), with spot market trading being realized.

The management and allocation of the transport capacity in case of the cross-border gas Exchange, and the congestion management mechanism on the profiles of the SR with the neighboring EU countries closely related to the development of the Regional Initiatives for South and Eastern Europe (GRI SSE) with Slovakia being its member together with 9 other countries.

As of 1 January 2011, the OBA (Operational Balancing Agreement) system was officially introduced into operation at the interconnection point of Lanžhot. This system will significantly support the cross-border gas trading, as well as deeper integration of the gas market in the EU. OBA agreements represent benefits for the cooperation of the gas transport networks, and the network users are provided with high level comfort and certainty when crossing the interconnection point of Lanžhot.

Slovak- Hungarian gasline interconnection

As for the drafting of the Slovak- Hungarian interconnection of the gas transport networks, the Eustream company announced, based on an Agreement signed by the SR and Hungarian governments and on the Memorandum of Understanding, a public tender on the pipeline material, and on the Works for the planned interconnection in November 2011. The planned bidirectional gas line with an annual capacity of 5 bil. m³ and the length of 115 km (with almost 20 km in the Slovak territory) will be connecting the Slovak high-pressure gas line near Veľké Zlievce with the Hungarian transport network Vecsés at the Budapest suburb.

The project would contribute to the European energy security and the transport network diversification. An additional cross-border capacity will help to improve gas market liquidity and to increase security of gas supply into the Central European region. The project is co-financed from the EEPF.

The strategic significance of the Slovak- Hungarian interconnection lies also in securing an access of the SR to the LNG terminal in Croatia, or to the planned South stream and Nabucco lines, which are meant to be constructed the way so that they would be connected to the Hungarian gas line. An introduction of a new gas line into operation is planned as for 1 January 2015.

Slovak- Polish gasline interconnection

The interconnection of the Polish and Slovak transport networks would become a part of the North-South corridor targeting at an interconnection of the transport network of the Central and South- Eastern European countries in the process of the single gas market development in the region of Central Europe, and in ensuring security of gas supply. In the future, the project may offer the Slovak market a possibility to acquire gas supply from non-conventional layers in Poland (extraction of the so-called schistose gas). Based on a feasibility study which should be

completed in May 2013, the Eustream company and the Polish TSO GAZ-SYSTEM shall decide on further steps to be taken.

Network development investments

The Ministry, in cooperation with the experts and the companies conducting their business in energy sector, has developed a document titled Energy Security Strategy. In the natural gas section, there are introduced some potential possibilities of diversification. The resource diversification is limited by the existing infrastructure in the SR conditions. Certain possibilities have been offered by the Austrian gas hub Baumgarten. There is also another alternative for the region, and thus the two planned gasline projects – Nabucco and South Stream. The Nabucco gasline should end up in Baumgarten, and since there is already an existing mutual interconnection, after the implementation of technical adjustments in the Austrian TSOs' facilities, it will be possible to use the reverse flow. The Nabucco project support has been expressed in the SR Energy Policy and is considered as one of the significant way to diversify the gas supply. According to the presently available information, and in case all necessary activities related to the construction are successful, the gasline could be put into operation in 2015.

4.1.5 Compliance

3rd Package transposition

The information on the process of the 3rd Package transposition is mentioned in the Section 3.1.5.

4.1.6 Dispute settlement

As for the implementation of the respective provisions of the 3rd Energy Package of the European Community, related to the new competencies of the regulatory authority in the field of dispute settlement, it is necessary to point out that these have not been fully implemented due to 3rd Package transposition delay. Despite of this fact, the Office, upon the up-to-date primary valid legislation, performs supervisory activities over the gas market through the Department of Control and Surveillance.

In 2011, the Department of Control and Surveillance, was delivered 22 complaints/ applications on:

- prices (2),
- consumption metering (3) ,
- sales practices (2),
- misleading information (1),
- contractual conditions (5),
- invoicing (6),
- supplier switching barriers (1),
- technical difficulties (2).

All the delivered complaints or applications were settled by an Office statement, while in 3 cases, there was a control procedure initiated.

4.2. Promoting competition

4.2.1. Wholesale market

4.2.1.1 Price monitoring

The year of 2011 was a significant period as for gas market liberalization in Slovakia, and thus for the number of competing gas traders and suppliers being tripled compared to the previous year, and for the real opportunity for household gas consumers to switch their gas supplier. This result stemmed from a redundancy of gas offer over demand, thus its price availability for gas traders selling gas purchased not only through long-term contracts, but at the exchange as well. The gas trade at the gas hub Baumgarten which is the nearest trading point beyond the SR borders, has been increasing dynamically.

Gas market players

The crucial gas market players in the SR in 2011 were represented by:

- a) The TSO (Eustream),
- b) The DSO in the delineated territory of the SR (SPP-distribúcia),
- c) Storage facility operators (POZAGAS, NAFTA),
- d) The dominant gas supplier (SPP),
- e) 14 competing gas traders at the gas supply market (with the most significant market share of RWE Gas Slovensko, s.r.o.)
- f) Gas consumers.

In 2011, there were two gas traders active in the SR with the market share of more than 5%. The end-consumer gas supply was covered mainly by the traditional gas supplier SPP with the share of 77,1 %, and RWE Gas Slovensko, s.r.o. having achieved the market share of 15,6 %. The other 13 gas traders experienced the share of 7,3 % out of the total gas consumption.

The gas consumption of the end-consumers reached 57,9 TWh, that is approximately 5,5 bil. m³. About 98 % of the domestic gas consumption is imported. The gas supply for the SR needs is being ensured by the SPP upon the long-term contract with the Russian company of Gazprom Export. Other gas traders purchased gas from various, mostly foreign gas suppliers.

Gas extraction and storage

In 2011, the domestic gas extraction reached the level of 98 bil. m³, while assuming a slight reduction in gas production that will be partly eliminated by connecting the newly discovered resources of minor scope.

In the territory of the Slovak Republic, there are two storage facility operators offering storage capacity, and thus the companies of NAFTA and POZAGAS. The services of the storage facilities are used by SPP and a number of foreign companies mainly from Austria, Germany, Czech Republic, France, The Netherlands and Hungary. SR utilizes also a storage facility located in the Czech Republic territory (Dolní Bojanovice) and is directly connected to the SR gas network.

As for the storage year of 2010/2011, the NAFTA company accepted 15 applications for an access to the storage facility. 8 applications were rejected due to allocating the free storage capacity to tender winners. In 2011, there was not recorded any secondary trading with the storage capacity. The NAFTA storage facilities were used at 100 %.

The POZAGAS company received 24 applications for an access to the storage facility in 2011. 17 of them were rejected due to allocating the free storage capacity to tender winners. In 2011, there was not recorded any secondary trading with the storage capacity. The availability of the storage capacity in the underground gas storage facilities is published on the operators' websites accompanied by the form of capacity reservation application.

The companies of NAFTA and POZAGAS published their planned investments into storage capacities, utilization of the storage capacities, data on extraction and pressing-in of the gas into the storage facilities on a daily basis, as well as the forms of all documents related to gas storage in the storage facilities, and thus in compliance with the gas market rules.

4.2.1.2 Monitoring the level of transparency, including compliance with transparency obligations, and the level and effectiveness of market opening and competition

Besides the price regulation, the Office develops the rules for gas market functioning adjusting the rights and obligations of electricity market players, and setting up the conditions for the liberalized gas market functioning in Slovakia. Further on, there is another document binding for electricity market players and approved by the Office promoting transparency and efficiency of the market, and thus the network codes covering the operational conditions of the companies developed upon the gas market rules. Based on the applications of the network and storage facility operators, in 2011, the Office assessed and approved 12 network codes.

4.2.2. Retail market

4.2.2.1 Price monitoring

In 2011 and besides the traditional supplier of SPP, the Slovak gas market experienced 14 more gas traders ensuring gas acquisition from various foreign gas suppliers. The domestic supplier SPP with the majority of market share was exposed to the competition in the area of gas supply to the gas end-consumers as from the companies of RWE Gas Slovensko, s.r.o., ELGAS, s.r.o., SHELL Slovakia, s.r.o., ČEZ Slovensko, s.r.o. a VNG Slovakia, spol. s r.o.

Except for the 15 principal gas traders, in 2011, the Office recorded more than 100 gas supply licensees. Most of these companies did not perform gas trading activities, despite the fact they had been licensed. The other companies were represented by local gas suppliers providing gas supply to the companies within their operation premises. In relation to the resource of their supplies and to the fact their main business subject is not conducting activities in gas sector, we cannot consider them as gas market competitors. These local gas suppliers conduct their activities within their areas as the DSOs.

The year of 2011 was also significant for an increased number of supplier switchings mainly in case of household consumers. Besides the dominant gas supplier of SPP, a.s., in 2011, the gas supply for households were initiated by these companies: 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. All these companies provided gas supply to households under lower prices compared to SPP. Despite the fact some of the companies were issued a price decision for gas supply to households, they did not acquire any gas consumers and thus did not provide gas supply to households at all.

4.2.2.2 Monitoring the level of transparency, including compliance with transparency obligations, and the level and effectiveness of market opening and competition

For the purposes of market liberalization assessment, a percentage coefficient, the so-called switching is used expressing the ratio of the number of deliver points having switched their suppliers to the total number of delivery points in the respective year. There was recorded a significant increase in the category of medium businesses with the switching ratio of 9,04 %. The first household supplier switchings in 2011 were characterized by a switch-over from the traditional supplier to the gas supply competitors. In this period, the Office recorded even a switch-back to the traditional gas supplier

The table below considers gas supplier switches within the individual delivery points during the years of 2010 and 2011.

Type of a delivery point	2010	2011	2010	2011
	No. of switched delivery points	No. of switched delivery points	Switching (%)	Switching (%)
Large businesses	84	99	10,1	12,42
Medium businesses	84	267	2,7	9,04
Small businesses	2 950	5 270	4,1	6,44
Households	0	21 376	0,0	1,51

Due to insufficiently developed competition environment in the gas supply market, and in order to ensure the protection of the most vulnerable group of household consumers of heat

energy, the Office kept on performing price regulation for gas suppliers providing gas supply with the aim to produce heat for households.

4.2.3 Carry out investigations and imposing measures to promote effective competition

In 2011, the AMO assessed one concentration related partly to gas sector, and thus the proceeding on the concentration of GDF Suez SA and on a procurement of indirect control over the company of COMERON SPS, Bratislava.

AMO found out that the respective concentration did not lead to the development or strengthening of the GDF Suez dominant position on the market through the SPP company in the area of gas supply/ sale, which would cause significant barriers of the efficient competition in the relevant market, nor to the creation or strengthening of the GDF Suez dominant position in the area of production and distribution of the heat for central heat supply. This case had already been decided by the AMO earlier, but the Supreme Court of the SR repealed this decision and recommitted back to the AMO for further proceedings.

Thus, in 2011, AMO did not issue any formal decision related to gas market dominant position abuse.

As for the more crucial gas market assessments, there was a case of the process of the connection of the local newly constructed gas facilities to the distribution company of SPP - distribúcia, a. s. AMO received a number of initiatives on this case.

The problem stemmed from the procedure of SPP - distribúcia, a. s. towards the gas facility owners and the form of rental contract conclusion. The owners complained about some of the provisions of the contract.

The AMO assessed all the objections and stated out that the company of SPP - distribúcia, a. s. proceeded in a unified and objective way, while considering the valid rules of the energy legislation. Therefore, the AMO ceased the proceedings in this case. Despite this fact and in relation to the continuing initiatives, the AMO used consultancy this issue with the representatives of the RONI with the aim to adjust the existing rules to the benefit of all interested parties. The AMO conclusions were sent to the Ministry of Economy of the SR for information, as well.

4.3 Consumer protection

In relation to the provisions of the 3rd Energy Package on the new competencies of a regulatory authority, it is necessary to note that these have not been implemented, yet in their full scope. Despite this fact, a number of them have already been performed by the Office, and thus in the meaning of the currently valid legislation, and have been annually assessed within the Report on Electricity and Gas Markets Functioning.

Short-term measures

The gradual gas market opening has provided the Office with a lot of knowledge on what is needed to be preferentially improved in the area of an end- consumer protection. In order to speed up the processes and to reduce administration burdens, and thus to bring quality to the whole supplier switching process, it will be necessary primarily to:

- Solve the issues of the local DSOs (supplier switching, balancing, last resort supply),
- Bind the reconnection of a consumer not only onto debt reimbursement, but also onto the control of all commitments against a supplier in case of reconnection,
- Improve the supplier switching procedure, since there are still shortcomings caused by insufficient technical and professional equipment, and the experience of the electricity suppliers in the area of electronic data exchange.

In order to improve quality standards, it is necessary to:

- Perform surveillance of the regulated entities who did not submit the quality standard assessment,
- Verify the submitted announcements on the monitoring and registration of the quality standards observance,
- Improve the methodical guidance of the regulated entities who failed in the process of filling in the records on the achieved quality standard level,
- Cooperate in the process of the development of the project on an electronic data collection to assess the quality standards submitted by the regulated entities.

Long-term measures

The long-term measures the Office shall ensure with the aim to an utmost observance of the natural gas market functioning rules cover:

- monitoring of the observance of the quality standards of gas supplied and services provided, in order to ensure the protection of the rights and duties of gas consumers, and to guide the network operators and natural gas suppliers to behave efficiently and perform the regulated activity in a secure and reliable manner,
- collection of the topics, information and initiatives from the gas market players on no/ observance of the gas market functioning rules, or on the market barriers in order to analyze them or to amend the rules,
- to ensure a unification and simplification of the procedures and content of the contractual relationships among the relevant market players in order to hinder speculative and discriminatory practices,
- to set up the content and scope of the DSOs' network codes with the aim to ensure security and reliability of gas supply.

One of the main roles in the upcoming period will be to upgrade the quality regulation onto a new regulatory method.