



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

31 July 2011

1. Foreword

The activities of the Office were guided by the fundamental strategic document of the Board for Regulation „The Regulatory Policy for a Regulatory Period from 2009 to 2011“. Its aim was to maintain stability of prices, to assist in creating a competitive environment in the electricity and gas markets, to improve the quality of energy supplies and related services, and to contribute to the security of energy supply.

The price regulation is the most identifiable area of the Office's activities. The efforts of monopoly energy suppliers were concentrated right here with an intention to maximize their profits at the expense of consumers. Even though the Office was in an incomparably unfavorable situation, in the means of human resources and financial aspects, compared to global monopoly enterprises, thanks to its own analyses and procedures it was able to face the pressure imposed by lobbying business circles and disoriented media, and thus successfully defended its position of an independent and autonomous state authority.

Decisions made by the Office represent only the most visible peak of the activities carried out in the year 2010 and part of 2011, characterized by the fading worldwide financial and economic crises. At the forefront stood the task of stimulating the energy markets and last year obviously meant the breakthrough for the electricity and gas sectors. Through its secondary legislation, the Office started up the market demonstrated by the signs of a standard competitive environment, and in the close future it will be possible to think about the phasing out of regulation in the field of electricity and gas supplies to households and small businesses.

Regarding the electricity and gas markets functioning, the current period could be characterized as a combination of the both global financial and economic crisis impact and gradual liberalization.

The Slovak electricity and gas markets do not operate autonomously, but within the context of much wider regional energy market with many stakeholders, and on a daily basis, there are large volumes of electricity and gas being traded. Thus, the market situation is characterized by high dynamics and lower predictability compared to the past. Within all profiles, there is enabled the transfer of capacities gained at yearly and monthly auctions.

The auctions have not remained the only method of the transfer capacity sale. An electricity market coupling between Slovak and Czech Republics may serve as an example. On this profile, the cross-border capacities are implicitly allocated on a daily basis. Moreover, there is an intraday capacity allocation, and thus without payment, based on an adoption of defined cross-border transmission requirements, while applying the principle of „first come first served“. Through the markets interconnection, both countries have significantly strengthened their liberalization efforts and electricity market development within the whole Europe. The physical efficiency of the cross-border capacities has been improved, a possibility of their abuse through speculative capacity profile purchase in explicit auctions has been reduced, the daily market liquidity has been increased, the position of both countries in the process of gradual electricity markets integration has been reinforced. The current situation is significantly contributing to

stability and reliability of electricity supply, and is fully complying with the European commission goals aimed at single electricity market development. The Czech- Slovak daily electricity market should, in the near future, become enlarged by the Hungarian market, and later, the Central European market should become interconnected with the West European market.

The afore-mentioned development has influenced the electricity market for households and small businesses which started to perceive in greater extent the presence of market competition. The alternative suppliers, with their effort to gain new clients, have resigned to the introduction of higher trade margins, and thus the positive trends of changes in case of electricity suppliers. A large number of customers have left their big incumbent suppliers, and thus representing a certain standard on liberalized markets, it is also a clear sign of good electricity market functioning.

The Office, with its intention to revive the market, has revised its regulatory procedures. The fundamental change compared to the past was the change in method of regulation providing incentives for regulated entities. Already in 2009, the Office ceased to use the revenue cap regulation and commenced to apply the price cap regulation method.

The price cap method was the dominant method of the year 2010. Since it proved to be good, bringing positive results, it is used in the year of 2011 and will remain in the following 5- year regulatory period, as well. This method helps to stimulate regulated businesses, allowing them to generate sufficient funding, to create the space for competition and to increase the level of consumer protection. A significant factor supporting the use of this method is the stability of prices that are not influenced by short-term economic fluctuations.

Changes in the regulatory procedures have brought positive results in the field of stability of energy prices in Slovakia. In this sense, the Office played an important stabilizing role and the predictions about „blackouts“ or bankruptcy of the companies appeared to be biased and false.

In the turn of 2010 and 2011, the electricity prices were unfavorably affected by an increase of costs on electricity generated from renewable sources. There has been a boom in photovoltaic plants construction, and the primary legislation was not able to eliminate this trend. The tariff item representing the costs on renewable electricity has increased by 510%.

Throughout the year the Office indicated that the substantial increase in the number and capacity of photovoltaic generating plants would bring, by means of the tariff for system operation, the negative effect on the final electricity price. However, granting permits for the construction of power generating plants is not in the competence of the Office.

Apart from this, the Office intensified controlling of regulated entities and imposing sanctions for violation of law. It started to thoroughly apply new regulatory tools, such as quality standards. The Office is disposing with a broad basis of data that are necessary for the evaluation of impacts of regulation, profitability of business and they will become the starting point for procedures applied by the Office in the further period.

Owing to the recent experience it may be stated that prices in the electricity, gas, heat and water sectors have been stabilized, price setting has become transparent and regulated entities had and will have the return on investment, plus an adequate profit, ensured, while they are forced to perform more economically and efficiently.

When looking back at the year 2010 it is possible to say that the objectives outlined in the regulatory policy were successfully achieved. Even though the energy market already features competition, it will be necessary to maintain a certain extent of state interference in the monopoly structure of network industries in the future as well.

2. Main developments in the gas and electricity markets

Electricity

The factor, having an impact on electricity industry further on in 2010, was the global financial and economic crisis, however, the decrease in electricity consumption similar to the one in 2009 (-8.2 %) did not appear again.

i) Wholesale electricity market

The wholesale electricity market uses standard trading forms, such as bilateral contracts, auctions, stock Exchange trading, balancing market. Within the delineated territory, the most intensive electricity trading is organized by the SPX, s.r.o. company.

The year of 2010 was the first compact year of single electricity market functioning between SR and CR (so-called „market coupling”). In 2010, approximately 4 TWh of electricity was traded. An integration of electricity markets brought a number of advantages- the most significant benefits cover:

- Utilization of the transmission capacities within the maximum scope, while meeting the technical and security standards,
- Removal of uncertainty and reduction of the trading stakeholders risk in case of separate profile capacity and electricity purchase;
- Increase of spot market liquidity and transparency in electricity price setting;
- Higher reliability of the ES management (more effective bottlenecks solution between the respective countries or regions);
- Optimization of the cross-border capacities utilization (what is allocated, so is utilized);
- Price balancing in case of sufficient transmission capacity, and their optimal stabilization within the interconnected markets;
- Improvement of electricity availability in the deficit areas;
- Increase of supply reliability following better electricity availability.

ii) Retail electricity market

The year of 2010 was the third compact year with fully liberalized electricity market. In this year, there was recorded a significant increase in the number of electricity supplier switching conducts.

At the end of 2010, the overall number of the entities offering supply and having a valid license for conducting business in electricity industry in the scope of electricity supply was 366 (increase by 18 new entities in 2010), out of which 32 electricity suppliers for household electricity supply, covering 8 entities (except for ZSE Energia, SSE and VSE) with more significant electricity supply volume, the rest providing electricity supply to households located within sites, local distribution systems and industrial facilities.

iii) Public service obligations*Electricity supply for households and small businesses*

As for the year of 2010, and for the regulated entity of Slovenské elektrárne, a.s. (hereinafter as „SE“) the Office defined fixed prices for electricity supply to electricity suppliers for the purpose of electricity supply to households and small businesses.

In the last year of the current regulatory period, the price regulation of electricity supply provided by a last resort supplier has been performed as a direct determination of the maximum price for electricity supply provided by a last resort supplier. The Office issued three price decisions for three last resort suppliers within the parts of the delineated territory of the Slovak Republic setting the maximum price for electricity supply provided by a last resort supplier for electricity consumers in households within a respective part of the delineated territory, and thus for the year of 2011.

iv) Infrastructure – Transmission system

In 2010, the regulatory framework was set the way, so that it would secure the TSO with necessary financial means for investment development, and so that it would take into account the revenues related to the provision of transmission and system services, as well as the deviation clearing in order to guarantee stability and secure operation of the SR electricity system.

At present, the Slovak Electric Transmission System is putting in place 24 investment projects related to the reconstruction of electricity stations and lines, or to the implementation of the electricity station remote management. Within the middle- and long-terms, the company is planning 50 additional projects. The Slovak system operator wants to focus mainly on the alteration of the 220 kV lines to the 400 kV ones. The company has not published an amount of the investments necessary for the projects implementation within their plan. The investment program is a response to reasonably and practically presumed situations in the development of the electricity transmission system both from the view of electricity sources and of the assumed

consumption development.

v) Security of supply

In 2010, the SR ES proceeded with the parallel/ synchronous operation within the interconnected European ENTSO-E system, while there were recorded any neither significant breakdown disconnections nor cooperation interruptions.

The SR ES operation was reliable, while all crucial ENTSO-E criteria and recommendations in the both primary and secondary regulations, in voltage management and in cross-border transmission balance regulation were met.

In 2010, five new ancillary services providers entered the market. During 2010, the TRV120MIN ancillary service was not used. An import of breakdown assistance from the neighboring TSOs was not necessary for the SR ES needs as well.

As for the trading systems, mainly the investment projects for the construction of a remote reading automated system of the electricity generation facilities and the direct consumers, including an electricity quality measurement remote system within the selected transmission system measuring points were put into operation.

There was an improvement and replenishment of the existing information system put into effect, in particular within the ancillary services, electricity purchase for covering losses and own consumption.

An electricity import reached the amount of 7 334 GWh, export 6 293 GWh, balance (with import prevailing) 1041 GWh. With the third compact year, the SR electricity system was dependent on electricity import from abroad, even when this import is of a trading character, not resulting from lack of installed capacity in Slovakia. There might be presumed, that after a new electricity generation facility of PPC Malženice in 12/2010, as well as the new renewable energy sources (hereinafter as „RES“) and combined heat and power generation (hereinafter as „CHP“) facilities, in 2011, Slovakia will get a mild surplus electricity generation position.

vi) Regulation/unbundling

In 2010, the price regulation in electricity industry was related to the generation of electricity produced from renewable energy sources, combined heat and power generation, and from domestic coal, connection to the system, access to the transmission system and electricity transmission, access to a distribution system and electricity distribution, provision of electricity supply to households and small businesses, and for provision of the system and ancillary services in the electricity industry.

In 2010, within the SEPS, a.s. company, there was applied a process of unbundling of the deviation accounting activities and of the organization of short-term electricity market, and thus into the subsidiary of OKTE, a.s.

vii) Conclusion

The Office amended the Regulation of the Government on electricity market rules. The selected market rules provisions setting the rights and obligations of the electricity market participants within the conditions of the liberalized electricity market in Slovakia were specified and replenished, primarily in relation to the setting of the organized short-term electricity market, data publishing and exchange procedures, deviation clearing, an entry into the last resort supplier regime, and specifying the electricity supplier switching procedure.

The Office cooperates with the Ministry of Economy of the SR in the task of drafting the energy legislation amendments with the purpose to adopt the 3rd liberalization package within this year.

Gas sector**i) Wholesale gas market**

Compared to the last year, there are no significant changes concerning the wholesale gas market.

ii) Retail gas market

In line with the Office's regulatory policy, the price regulation in the year 2010 was performed in compliance with the „price cap“ regulatory method, stipulated for the 3rd regulatory period (2009- 2011). It might be stated that the situation in the gas prices development in the year 2010 was stable, pricing and its structure was transparent and the recovery for investments and reasonable profit for regulated entities was secured while they were forced to perform their activities effectively.

The year 2010 was the second compact year of the evaluation of quality standards in line with the Decree No. 328/2008 Coll., specifying quality standards of gas supply and services provided in the gas sector. In the meantime, the evaluated quality standards do not affect tariff setting, an implementation of the compensations is scheduled as from 2016.

iii) Public service obligations

The current Slovak energy legislation establishes transparent and non-discriminatory conditions for all gas market stakeholders in line with legal provisions of the European Community. The provisions concerning protection of the most vulnerable gas consumers and their rights for reasonable prices belong to the priorities of the Office's regulatory policy. With regard to the vulnerability of household gas consumers, these are protected by means of setting the maximum prices, whereas they have the right for reasonable prices. The maximum prices for household gas supply must be accepted by every gas supplier at the delineated territory of the Slovak Republic.

iv) Distribution system

From the total number of 2 891 municipalities in the Slovak Republic, the number of gasified municipalities have reached 2 234, thus standing for 94 % of the total population of the SR. From the total length of distribution system of 32 748 km, high pressure pipelines represent 6 302 km and middle and low pressure pipelines represent 26 446 km. (31.12. 2010). The company SPP- distribúcia a. s invested 47 mil. € into the distribution system renovation.

v) Security of supply

During observed period there were recorded no outages in the operation of transport system that might affect natural gas supply either for consumers in the Slovak Republic or for companies transporting natural gas across the territory of SR to other countries. The consumers' requirements were met in full extent and the gas consumption proceeded in compliance with the amounts stipulated in gas supply agreements. In the operation of distribution networks there were no emergency events that would influence gas supply to consumers recorded in the SR. During the mentioned period, there were recorded only few short-term and time limited local supply failures caused by the necessity to interrupt gas supply due to safety reasons.

In May and June 2010, some of the municipalities in the Eastern part of Slovakia suffered from gas supply interruptions related to extraordinary floods and subsequent damages to the distribution networks. The gas supply was gradually restored after repairs of the damaged gas pipelines.

Within the distribution system of the operator SPP – distribúcia, a.s. composed of the gas distributing facilities complex including gas pipe system and technological facilities, there were conducted inspections, preventive repairs and maintenance in line with the stipulated criteria, and thus contributing to ensuring its integrity, reliability and security

The maintenance of the distribution system of SPP – distribúcia, a.s. is ensured fully in compliance with the valid legislation, corresponding norms, internal managing acts of the company, technical gas rules as well as accompanying documentation of separate components producers.

vi) Regulation/unbundling

Since 2010, the price regulation has been extended by an access to the storage facility and gas storage by means of setting the maximum price. As for unbundling, no changes have been experienced due to the fact that 3rd liberalization package has not been transposed, yet.

vii) Conclusions

In 2010 the liberalization process at the Slovak gas market was strengthened as it experienced growth in the field of gas supply competition to industrial customers as well as a growth in the number gas supply switching within all consumer groups except for households. Apart from the traditional gas supplier of SPP, a.s., other five gas traders operated in the Slovak gas market, among them the most significant role plays the company RWE Gas Slovensko, s.r.o. In 2010, the new gas suppliers focused their offers solely towards industrial customers. Their portfolio composed particularly of the wholesale customers as well as of the medium and small consumers.

3. Regulation and Performance of the Electricity Market

3.1. Regulatory Issues

3.1.1. Management and Allocation of interconnection capacity and mechanisms to deal with congestion

The Slovak Transmission System is disposed with quite high transmission capacity of the cross-border interconnectors. Slovakia is a part of the CEE region covering inter alia Austria, Germany, Slovenia, Hungary, Poland and the Czech Republic.

Since 2009, there has been the SEPS/ČEPS profile market coupling effective. i.e. the cross-border capacities within this profile are allocated on a daily implicit basis. Moreover, this profile also performs an intraday capacity allocation, and thus free of charge, based on an adoption of the basic cross-border transmission requirements, while applying the „first come first served“ principle. In all profiles, the capacity transfer gained in yearly and monthly auctions is enabled. SEPS, a.s. is a member of the Common Auction Office (CAO) with its seat in Freising, composed of 8 CEE region transmission system operators. The CAO was established with the view to perform common coordinated congestion management in the region, and to allocate capacities in the cross-border interconnectors. The introduction of a new common allocation method in the region, based on physical flows and preliminary planned for March 2010 was postponed due to malfunctioning of some of the system items. Therefore, in autumn 2010, there was adopted an interim solution with CAO coordinating the yearly, monthly and daily capacity allocations according to the originally used NTC method. As for integration, in CEE region, there was developed a new harmonized scheduling concept standardizing planning Exchange, as well as the formats and nomination TSO periods within the entire CEE region. This concept, launched since December 2010, means a simplification of the intraday trading procedures within the region trades for stakeholders- traders.

3.1.2. The regulation of the tasks of transmission and distribution companies

Network tariffs

The evaluated year of 2010 was the second year of the current 3-year regulatory period. In 2009, the revenue regulatory method (known as „revenue cap“) ceased to be applied, and the „price cap“ method was introduced.

In general, the price of electricity is composed of regulated and non-regulated items. The regulated items cover the activities related to electricity transmission from a producer through TS and DS (i.e. transmission and distribution) towards an end- consumer, and the activities related to ensuring stability of the electricity system (transmission and distribution services, system services and system operation services covering the allowances on the promotion of electricity generation from RES, from highly efficient CHP and domestic coal), and the prices for provision of deviation clearing services, and in case of electricity consumers in households and small businesses the price for electricity supply, as well.

Within its competences and for the year of 2010, the Office determined the method of calculation of the tariff for access to the TS and for electricity transmission, as well as the tariff for access to a DS and for electricity distribution, and thus through the Decree No. 2/2008 setting price regulation in electricity (in the wording of the Decree No. 2/2009 and Decree No. 7/2009).

The approved or determined regulated prices are published by the Office on its website.

In 2010, compared to 2009, the tariff for transmitted electricity increased by 33.82 % , in particular due to the fact, the cross-border operation revenues‘ dropout (so-called ITC mechanism and auctions on transmission capacities on the cross-border profiles) were taken into account, the tariff for reserved capacity increased by 24.66 % , with the absolute sum up calculation increase by 4354.25 €/MW. The tariff for losses during electricity transmission was reduced by 24.45 % , and thus due to commodity price reduction and reduction of the volume ratio of allowed losses during electricity transmission to the volume of planned transmitted electricity in 2010 compared to 2009.

In 2010, compared to 2009, the tariff for system operation increased by 131.5 % , due to increased promotion of electricity generation from renewable energy sources and from highly efficient combined heat and power generation, in compliance with the Act No. 309/2009 Coll., due to governmental promotion of domestic coal exploitation, and also the costs on organizing electricity short-time market being incorporated into the operation tariff for the first time.

The tariff for system services increased by 2.56 % , the tariff for access and distribution of electricity including electricity transmission recorded an increase by 7.11 % , and the tariff for losses during electricity distribution significantly decreased by 29.91% due to significant decrease of the price of active power to cover losses generated in the electricity market in the period of electricity purchase in 2009.

Quality standards

An assessment of quality standards in electricity and gas industries is performed by the Office in accordance with the Office Ordinance.

An assessment of meeting the quality standards as for the year of 2010 was only the second one in the sequence, since the first assessment (as for the year of 2009) was performed in the half of 2010.

Based on the application practice, the Office drafted new ordinances making quality standards for regulated electricity entities simpler, more transparent on one hand and stricter on the other. The objective of the amendments for regulated entities is both to implement higher demands on quality of supply and consumer services, and to lead them to system reconstruction. One of the main tasks in the upcoming period will be to upgrade quality regulation to the new regulatory method. Broadening the scope of price regulation by quality regulation will contribute to the improvement of supply of goods and provided services in the regulated activities.

The regulated electricity entities did not pay enough attention to submission of the quality standards assessment.

Out of 285 entities being active in conducting business in electricity industry in 2010, only 193 of them (57 %) submitted (within the deadline of 31 March 2011) their quality standards assessment, and thus being more by 4 % in number compared to the previous year. Within the stipulated deadline, 124 entities (43 %) did not submit their quality standards assessment according to the Ordinance No. 315/2008 Coll. The regulated entities with regulated activities not being their dominant business performance were not ready both technically and personally to record and assess the quality standards, and they paid only marginal attention to this obligation.

Out of the data submitted by the regulated entities to the Office within the quality standards assessment, the following information was gained:

- Even in the second calendar year of quality standards being assessed, the regulated entities did not pay sufficient attention to the quality standards monitoring,
- A large number of entities submitted their quality standards assessment without events being recorded,
- While filling in the records on achieved level of the quality standards, a part of the regulated entities did not follow the Office Ordinance, and the assessments were completed unduly or insufficiently.

Balancing/Ancillary services

Based on the contract on provision of ancillary services (hereinafter as „AS“), the TS operator purchases AS from certificated providers of these services and, after considering the regulatory electricity offer prices from AS providers based on an economically efficient principle and complying with the technical conditions, the purchased AS are used through the management system of the Slovak energy dispatching. The price for regulatory electricity is paid in case of AS activation.

An increased number of certified ancillary services providers resulted in higher market competition. At the same time, the Office reduced allowed costs on AS purchase, and thus was

enabled to reduce the tariff for system services provision. An experience shows the necessity of AS restructuring focusing on the services with shorter activation time.

In the last period, the AS are provided by new smaller heat sources belonging to the category of public heat plants, or industrial heat plants, and thus improving instantaneous availability of AS sources in the period from 2008 to 2010 (compared to the previous balance).

Except for large water power plants, an increase of RES during the last period requires additional and relatively very high demands on regulatory outputs. The fluctuation of generation from unpredictable sources must be regulated by the dispatching through other power plants, in case of Slovakia being the facilities using fossil sources for electricity generation.

In 2010, five new AS providers entered the market. During the year, it was not necessary for the electricity system to import any breakdown assistance from neighboring TS operators. Due to electricity redundancy in the system, in particular in January, it was necessary to justify the energy balance through the purchase of negative non-guaranteed regulatory electricity by an auction announcement. A significant annual distinction of the TS operators' offers was caused by the fact that in 2009, there were daily and monthly tender announced, while in 2010 there were not.

3.1.3. Effective unbundling

As for the transmission system operator, the ownership unbundling was implemented in 2001 within the Slovak conditions. As for the DSO, the legal unbundling was introduced on 1 June 2007. All companies performing monopoly activities indicate the „compliance program“ fulfillment within their annual reports.

3.2. Competition issues

3.2.1. Description of the wholesale market

After the significant reduction in 2009, the year of 2010 was characterized by an increase of electricity generation and consumption in Slovakia. Compared to 2009, the generation increased by 6.31 %, and the consumption by 5.02%. The electricity consumption thus reached the 2005 level. Since the Slovak transmission system disposes of relatively high transmission capacity of the inter-state interconnectors, the electricity system partly uses import from abroad in order to cope with generation deficit and to ensure electricity supply. An import from abroad ensured 3.62 % of the Slovakian consumption.

Compared to the previous period, the only significant modification within the area of electricity generation took place at the end of 2010- another significant electricity producer- PPC Malženice- entered the market with an installed capacity of 436 MW, performing only testing operation in the meantime, assuming full generation launch in 2011.

Generation

In 2010, the most significant position among the electricity producers was performed by the SE, a.s. company ensuring electricity generation from its own sources in the amount of 72.5 % out of the overall amount of electricity generation in the SR. The electricity generation with the volume of 20 089 GWh ensures 69.8 % of the SR electricity consumption. An installed capacity of the SE, a.s. electricity generation facilities amounts to 4 812.7 MW. This company provided electricity supply to its 67 industrial consumers within the delineated territory in the amount of 17 963 GWh, out of which 2 359 GWh for final consumers. There is a real assumption that the SE, a.s. position within the Slovak electricity market will be even wider after the third and fourth units of the Mochovce nuclear power plant (hereinafter as „NPP“) are accomplished. The company significantly contributed to the provision of ancillary services for SEPS, a.s. having taken the commitments for other ancillary services providers. Via its subsidiary company SE Predaj, a.s., established in 2009, it also ensures electricity sale to the final consumers. The company consists of active organizational units for electricity trading in the Czech Republic and Poland. Through the cooperation with Enel Trade Hungary, it is performing its activities in the Hungarian electricity market as well. In practice, other electricity producers are disposing of one type of a power plant and each of them holds market share of less than 5 % (e.g. PPC Power, U. S. Steel Košice, Tepláreň Košice, Slovnaft, Mondi SCP, Slovintegra, Vodohospodárska výstavba). Electricity generation in the industrial power plants is ensured mainly for their own consumption. The large CHP plants provide electricity supply particularly to the electricity final suppliers for households and small businesses, and thus to ZSE-Energia, a.s., SSE, a. s. a VSE, a. s. Thanks to new sources launch in 2011, Slovakia is assumed to be slightly redundant in the field of electricity generation, and should become self-reliant in this sense.

Transmission

Slovenská električká a prenosová sústava, a. s. (hereinafter as „SEPS“) acts as a sole holder of the electricity transmission license, national transmission system (hereinafter as „TS“) operator, having the competencies of an energy dispatching center (ensuring adjusted balance within the delineated territory of the SR), and a deviation clearing office. In October 2010, SEPS established its subsidiary OKTE, a.s. with a duty to assess and organize short-term electricity market and to ensure deviation clearing in the territory of the SR.

Distribution

ZSE Distribúcia, a. s., Stredoslovenská energetika - Distribúcia, a. s., and Východoslovenská distribučná, a. s. belong to the sole operators of the regional distribution systems (hereinafter as „RDS“) within the respective parts of the delineated territory, with more than 100 000 delivery points being connected to them. Except for the above mentioned three companies, there are 162 holders of electricity distribution licenses performing their activities in the market. These are operators of the local distribution systems (hereinafter as „LDS“) within the premises of both

industrial and non-industrial companies with less than 100 000 delivery points being connected to them.

Supply

ZSE Energia, a. s., Stredoslovenská energetika a. s. (hereinafter as „SSE“) and Východoslovenská energetika, a. s. (hereinafter as „VSE“) perform their activities as the final electricity suppliers for households and small businesses (hereinafter as „final electricity suppliers“), being a part of vertically integrated facilities performing electricity distribution as well. The volume of electricity supply of these three most significant electricity suppliers in 2010 amounted to 14 984 GWh (15 447 GWh the year before), with the ratio of 52.1 % out of the overall SR consumption (56.4 % the year before), with 2 349 767 supplied delivery points, out of which 2 071 233 in households and 278 534 industrial. The volume of electricity supplied to household electricity consumers amounted to 4 920 GWh (4 966 GWh the year before), and 10 064 GWh to industrial electricity consumers (10 481 GWh the year before). If necessary, the final electricity suppliers act as last resort suppliers within the respective part of the delineated territory.

As for electricity transmission, distribution and supply, there were neither any significant changes recorded, when compared to the previous period, and thus in the sense of entry or termination of activities of the important electricity facilities. It might be stated that out of the overall number of 366 entities with the valid license for electricity supply, 32 electricity suppliers were offering household electricity supply by the end of 2010.

In 2010, the Antimonopoly Office of the SR (hereinafter as „AMO“) reviewed a number of concentrations related to electricity industry:

- 1) 2010/FK/3/1/065 PPF Group N.V., Amsterdam (The Kingdom of Netherlands) _Energetický a průmyslový holding, a.s., Brno (Czech Republic).
- 2) 2010/FK/3/1/072 PPF Group N.V., Amsterdam (The Kingdom of Netherlands)_ Elektrizace železnic Praha, a. s., Praha (Czech Republic).
- 3) 2010/FK/3/1/073 PPF Group N.V., Amsterdam (The Kingdom of Netherlands)_ EAST BOHEMIA ENERGY HOLDING LIMITED, Nikózia (Cyprus).

Regarding the fact that the concentration participants within all mentioned cases perform their activities in different area of interest in the territory of the Slovak Republic, the realization of the respective concentrations did not have any impact on any relevant market in the territory of the Slovak Republic.

Considering the above mentioned facts, the realization of the reviewed concentrations did not result in any changes within the positions of the concentration participants, nor the structure of the competition environment in the territory of the Slovak Republic, hence the competition conditions in the territory of the Slovak Republic did not experience any changes in the respective areas that might have resulted from the concentrations in the particular year.

3.2.2. Description of the retail market

The crucial Slovak electricity suppliers namely ZSE Energia, a. s., SSE, a. s. a VSE, a. s., act as parts of vertically integrated companies performing electricity distribution as well. In 2010, the volume of electricity supply provided by these three electricity suppliers amounted to 52.1 % out of the total SR consumption (56.4 % the year before), with 2 349 767 supplied delivery points, out of which 2 071 233 in households and 278 534 industrial. The volume of household electricity supply amounted to 4920 GWh (4966 GWh the year before).

Electricity supplier switching

By the end of 2010, 366 entities in total holding a valid license for conducting business in electricity industry were offering their electricity supply, within the scope of electricity supply provision (increase by 18 new entities in number in 2010), out of which 32 electricity suppliers in total provided electricity supply for household consumers including eight of them (except for ZSE Energia, SSE a VSE) providing more significant volume of electricity supply, the rest of them providing household electricity supply located within the premises, local distribution facilities and factories. A gradual increase in electricity supply by new electricity suppliers reached a significant level, and the suppliers are currently not divided into traditional and alternative, but to new and old, or big and small.

The proceeding liberalization and market development is expressed by an annually increased number of electricity consumers having switched their electricity supplier, while in case of household consumers, the indicator of the supplier switching ratio amounted to 0.82%, and in case of industrial consumers it was 1.57 %, compared to the previous period.

Despite the fact that all electricity consumers are eligible to choose the most convenient supplier, this right has been used by a small percentage out of the total number of consumers up till now.

When conducting electricity supplier switching, the crucial factors are mainly price of electricity and quality of services (advisor services, personal approach and individual offer, contractual conditions, comprehensive services related to electricity supply etc.). It is obvious that almost half of the companies offer tariffs and charges not being set out advantageously, and they could save a notable part of the costs for electricity supply.

Through the market rules amendments, the process of supplier switching is easier, and thus more attractive, resulting currently in supplier switching increase in number, and this will surely bring contributions to market development. However, there are still contracts for an indefinite period persisting from the past.

The dominant, but also the most significant alternative electricity suppliers have published a calculator on their websites, enabling to compare offers of the products of the individual electricity suppliers. The Office calculator is currently under construction.

Complaint handling, information inquiries

In 2010, 83 inquiries related to electricity regulation were delivered to the Department of Surveillance and Control, and thus regarding the issues on prices, contractual conditions, invoicing, problems during supplier switching process, problems with payment deliveries and others.

All inquiries were handled via Office statements, while in 12 cases it was necessary to conduct control in the regulated entities.

3.2.3 Measured to avoid abuses of dominance

During 2010, AMO SR conducted several investigations in the electricity market, and finalized them either without an administrative proceeding initiation or some of them have not been terminated, yet.

4. Regulation and Performance of the Natural Gas market

4.1. Regulatory Issues

4.1.1. Management and allocation of interconnection capacity and mechanisms to deal with congestion

The gas transport for Slovak transport network users, and the international transit is conducted by a sole transport network operator- eustream, a.s. company (hereinafter as „Eustream“), and thus on the basis of an entry-exit tariff system. The overall volume of natural gas transport for both Slovak and foreign consumers in 2010, reached the amount of 71.4 bn. m³. The capacity possibilities of the transport network with more than 90 bn. m³ are sufficient and enabling to cover consumers' demands.

In 2010, the concluded contracts on natural gas transport with fixed transport capacity reached 72 in number, out of which 2 long-term, 42 annual and 28 short-term contracts. In 2010, there was no contract on natural gas transport with interruptible capacity concluded.

Regarding the concluded long-term contracts, there is no physical or contractual congestion of the transport network taking place in the territory of the SR, and a smooth gas flow is ensured sufficiently.

On its website, Eustream publishes regular information on transport capacity availability at the particular transport network entry-exit points Veľké Kapušany, Lanžhot, Baumgarten and the Domestic point. The procedure on capacity allocation, on contractual congestion and capacity excess in the transport network are covered in the provisions of the natural gas market rules.

Trading activities with transport capacity in the secondary market were conducted through a bulletin board on the Eustream website, with the transport network users publishing their capacity requirements.

The cross- border natural gas trading activities were conducted according to the GRI SSE agreement between the respective TSOs, and thus on the trading hub (CEHG) in Baumgarten, Austria. In December 2010, a spot market trading was initiated in this place.

Within the preparatory works of the SK-HU Gas Interconnector of the transport networks of Eustream and FGSZ, the second phase of the Open Season registration process was finished, with applicants submitting their binding offers complying with the binding business conditions published by both investing TSOs. Despite the fact, that market interests still remain focused on the transport direction from Slovakia to Hungary, the gas pipelines are being designed as bidirectional.

In 2010, management and allocation of transport capacities within the cross- border gas Exchange, and the congestion management mechanism on the profiles of Slovakia and the neighboring EU member states was closely linked with the development within the Regional Initiative for South and East Europe (GRI SSE), with the membership countries of Slovakia and other 9 countries.

4.1.2. The regulation of the tasks of transport and distribution companies

Network tariffs

According to the Decree No. 1/2008 setting the scope of price regulation and the methodology of its performance in gas industry, the 2010 price regulation in gas sector covered:

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

In 2010, the price regulation was performed in compliance with the Decree No. 4/2008 setting the scope and structure of justified costs, the method of setting the amount of reasonable profit, and the background documents to set the price in gas industry, in the wording valid for 2010. The procedures of determination of the regulated prices for gas transport, gas distribution and gas storage for final gas consumers as for 2010 followed the provisions of this Decree.

The regulated prices for gas transport and distribution determined by the Office within the price decisions are published both on the Office website and on the websites of the respective network operators.

Transport network operator

The prices for Access to the transport network and for gas transport are regulated. The methodology of gas transport price regulation is set as a direct determination of a comparable price for access to the transport network and for gas transport, and thus in compliance with the Act on Regulation taking as background information a benchmarking analysis of the prices for gas transport in other EU member states.

The tariff system for access to the transport network and for gas transport consists of individual tariffs for entry points to the transport network and individual tariffs for exit points from the

transport tariff. The tariffs are two- item: they are divided into the tariffs related to daily transport capacity for entry and exit point of the transport network, and the fees related to the amount of truly transported gas for entry and exit points of the transport network covering the costs on transport network operation. The tariffs are valid equally for Slovak and foreign users of the transport network.

The background tariffs within all tariff groups and the network users having been divided into according to contractually agreed daily maximum capacity of gas transport, were in 2010, compared to 2009, increased by 1.85 % on average, with an impact of inflation ratio n the EU countries as for the year of 2008, while only 50 % of the value enters the escalation factor. During 2010, the Office in its decision amended the respective tariffs by pricing a new entry-exit point Veľké Zlievce, and thus within the planned project of the Slovak- Hungarian interconnection of the transport networks.

Except for the long-term contracts and the standard annual contract on gas transport, and according to the gas market rules, it is possible to conclude a short-term contract for the period from 1 day in case of daily contracts, or for the period from 1 to 11 months in case of monthly contracts. The payment for gas transport in case of short-term contracts depends on the calculation value of a duration factor in case of monthly or daily contracts, depending on the duration of a short-term contract.

The regulated price for connection to the transport network stems from justified costs needed for documentation, technical and implementation connection phase, being a subject of Office approval based on a submitted price proposal. In 2010, the Office published one price decision approving the price for connection to the transport network, and thus for a gas facility of the new intrastate scavenging station of Špačince.

Distribution network operator

In 2010, the price regulation in gas distribution was performed:

- a) for one distribution network operator SPP – distribúcia, a. s., with the number of delivery points from the distribution network amounting to more than 100 000, fulfilling also the competencies of a gas dispatching centre in the delineated territory,
- b) for area distribution network operators in the delineated territory, the so-called local distribution networks, with the number of delivery points from the distribution network amounting to less than 100 000.

In 2010, 48 independent local distribution companies were conducting their business in the regions of Slovakia.

The regulated prices are stipulated for a calendar year with their validity as of 1 January of the respective year. When setting the prices for Access to a distribution network and for gas distribution for the dominant distribution network operator as for the year of 2010, the procedure followed the approved methodology of price regulation performance, and thus according to the price cap method setting the price level for the whole 3-year regulatory period (2009-2011). An

average price for access to a distribution network and for gas distribution as for the year of 2010 stemmed from the 2008 average price, being adjusted by the core inflation value, efficiency factor and an annual difference of gas price for covering losses and gas self-consumption in the distribution network. As for the new investments, an average price calculation considers also the value of an annual depreciation of the incorporated new long-term tangible property that was necessary to ensure network operability in the previous year, however, with no higher ratio than 2.5 % of its acquisition value.

The tariffs for access to a distribution network and for gas distribution are set on a stamp principle, i.e. according to total annual volume of the distributed gas regardless the distance of a delivery point, and proposed the way, so that they would not include cross-subsidies between individual groups of gas consumers. The annual charge for maximum daily gas volume is being applied in case of gas consumers with an annual distributed gas volume of more than 60 thousand m³. The tariffs cover also the fees for exceeding the contractually agreed daily distribution capacity.

The prices for access to a distribution network and for gas distribution for local distribution networks are set according to the cost method of regulation, and the final price reflects the justified costs of a regulated entity invested to network operation together with a correction factor for the previous period, and the reasonable profit stipulated by the Office.

The price for connection to both SPP - distribúcia distribution network, and to the local distribution networks is set the way, so that the price or tariff for connection would not exceed the planned average costs of a regulated entity on connection to a distribution network. The tariffs for connection to a distribution network are being proposed separately for household gas consumers and for industrial gas consumers.

Network balancing

SPP - distribúcia guaranteed trade balancing on a daily basis, and thus for the companies of SPP, SHELL Slovakia, s.r.o., VNG Slovakia, s.r.o., Lumius Slovakia, s.r.o. and RWE Gas Slovensko, s.r.o. by calculating the daily and cumulated deviations arising among the gas volumes nominated at entries to the distribution network, and the gas volumes of truly exiting the distribution network. As for the companies above mentioned, the distribution network operator was keeping a balancing account and was conducting settlement of deviations.

The physical balancing of the distribution system was ensured by the distribution network operator through gas exploitation from a storage facility when balancing gas insufficiency, or through gas injection into a storage facility when balancing gas redundancy in a distribution network. In 2010, no problems related to distribution network imbalance arose in the distribution network.

Storage facility operators

In 2010, two storage facility operators offered their storage capacity, and thus NAFTA a.s. and POZAGAS a.s. The storage facility operators' services were used by a number of Slovak companies dealing with gas supply for SR market consumers, and some foreign companies, in particular Austrian, German, Czech, Dutch and French.

Since 2010, access to a storage facility and gas storage has been subject to price regulation through maximum price determination. According to the Decree No. 4/2008, the background documentation to price proposal for access to a storage facility and for gas storage includes analysis of price for access to a storage facility and for gas storage of storage facility operators in other EU member states that are operating their storage facilities with the parameters similar to the storage facility operators in the Slovak Republic.

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

4.1.3 Effective unbundling

In relation to ownership relationships, neither transport network operator nor distribution network operator are unbundled in the SR. With the date of effectivity as of 1 July 2006, one vertically integrated monopolistic company of SPP legally unbundled the transport and distribution activities. Except for the mother company of SPP, a.s. dealing with gas trading and gas supply, its 100% subsidiaries perform their activities in the market: Eustream acting as a transport network operator and SPP-distribúcia a. s. acting as a distribution network operator. The SPP legal unbundling was performed in compliance with the Act on Energy. Both SPP, a.s. subsidiaries are subjects to an independent accounting audit.

4.2. Competition Issues

4.2.1. Description of the wholesale market

Gas market stakeholders

In 2010, the crucial gas market stakeholders in the SR were represented by:

- a) Transport network operator : Eustream -,
- b) Distribution network operator in the delineated territory of the SR: SPP-distribúcia, a. s. -,
- c) Storage facility operators : POZAGAS, a.s., NAFTA, a.s. -,
- d) Incumbent gas supplier: SPP, a. s. -,
- e) New gas suppliers RWE Gas Slovensko, s.r.o., SHELL Slovakia, s.r.o., VNG Slovakia, spol. r.o., Lumius Slovakia, s.r.o., ELGAS, s.r.o. -,
- f) Gas consumers.

In 2010, two gas traders were performing their activities in the SR with their market share of more than 5%. As for gas supply to gas end- consumers, the most significant position was held by the traditional gas supplier of SPP, a.s. with the market share of 84.9 %, and the RWE Gas Slovensko, s.r.o. with the market share of 13.1 %. Within the mentioned gas consumption, other four gas traders reached the market share of 2% altogether.

At present, there is no LNG facility operating in the territory of the SR.

SR is acting as a national gas market. There are transport network interconnections with Ukraine, Czech Republic and Austria.

In 2010, the Slovak transport network transported 71.4 billion m³ of gas in total. Even in 2010, there was a continual extension of the transport network operator's contractual portfolio- both network users and concluded contracts increased in number. In 2010, Eustream gained a couple of new clients focusing on flexible short-term transport contracts.

In 2010, the volume of natural gas consumption in the SR reached 57.3 TWh that is approx. 5.4 billion m³ in conversion. About 98 % of the domestic gas consumption is imported. The natural gas supply for the Slovak Republic needs is being secured via a long-term contract between the SPP, a.s. company and the Russian Gazprom Export company as the crucial natural gas supplier for the Slovak market needs.

Production, storage and accumulation of gas, as well as an access to gas storage facilities

In 2010, the activities of production and accumulation were not subjects of price regulation of the Office. According to the Act on Energy, there was an agreed procedure applied, and thus in compliance with the gas market rules.

The domestic natural gas production reached the level of 103 billion m³ in 2010. As for natural gas production from the existing domestic sources, there is an assumption of persisting slight decrease that will be partly eliminated by connecting the newly discovered little sources.

In the field of natural gas storage in the territory of the Slovak Republic, the storage capacity is being offered by two natural gas storage operators- NAFTA and POZAGAS. The services of the storage facilities are used by both SPP and a number of foreign companies. The SR uses also a storage in the territory of the Czech Republic (Dolní Bojanovice) being directly connected to the SR gas network.

As for the storage year of 2010/2011, the company of NAFTA received 14 applications on access to the storage facility. 8 applications were refused due to not meeting the conditions set out in the Network Code of the company. As for the contractual storage period from May 2009 to April 2010, there was secondary storage capacity trading recorded as well. The capacity of the NAFTA storage facility was used in 100 %.

In 2010, the POZAGAS company did not receive any applications on access to its storage facility, the secondary market trading was not conducted.

An availability of storage capacity in the underground gas storage facilities and examples of an application on capacity are published on operators' websites.

The price for access to a storage facility and for gas storage was subject to price regulation of the Office in 2010. The amended Act on energy has introduced storage facility regulation with the effectivity date as of 2010.

In 2010, the AMO SR assessed one concentration (No. 2010/FV/3/1/019) related to gas industry- the case of Slovenský plynárenský priemysel, a.s., Bratislava - SPP Bohemia, Praha (Czech Republic).

Since the implementation of the respective concentration did not result in any significant modifications in the competition environment within the delineated markets, and the market conditions of the SR were not affected, it was not necessary for the respective commodity and spatial relevant markets to be defined precisely.

In this case, the AMO specified 3 markets, and thus gas storage market, gas distribution market, and the market of production and gas facility services.

4.2.2. Structure of the retail market

In 2010, the Slovak gas market consisted of the traditional supplier of SPP, a.s., five other gas traders ensuring gas purchase from various foreign gas suppliers. The domestic SPP, a.s. supplier with the majority share in the gas market held competition in providing gas supply to industrial end- consumers with the companies of RWE Gas Slovensko, s.r.o., VNG Slovakia, spol. s r.o., SHELL Slovakia, s.r.o., ELGAS, s.r.o., and Lumius Slovakia, s.r.o.

Except for the six principal gas traders, the Office registered more than 100 holders of the license on gas supply provision in 2010 in the SR. Most of these companies did not conduct gas trading activities despite the fact they were license holders. Other companies were represented by local gas suppliers providing gas supply to the companies within their operation areas. As for the source of their supply and as for the fact that their main field does not include business conduct in gas industry, they cannot be considered as gas market competitors. These local gas companies perform their supply and distribution activities within their areas.

The year of 2010 was significant from the view of the number of gas supplier switching. A rapid increase in gas supplier switching in number was recorded in the category of retail consumers. While in 2009 (the first year with new traders entering the Slovak gas market), the gas supplier switching took place mainly in the category of wholesale consumers, in 2010 the group of retail consumers was the most active with the indicator of supplier switching ratio reaching 4.1 %. This increase may have been caused by an active policy of the RWE Gas Slovensko, s.r.o. In 2010, the Office recorded also the cases of return to the traditional gas supplier.

The largest gas supplier in the SR gas market remains SPP, a.s. further on with its share of 84.9 % in the market of gas supply to end- consumers. The company of RWE Gas Slovensko, s.r.o.

reached the share of 13.1 % in the market of gas supply to end- consumers, and other four gas traders reached the share of 2% altogether within the mentioned consumption.

In 2010, the Department of Surveillance and Control received 10 gas regulation applications related to prices, problems with payment deliveries, etc.

All applications were settled by Office statements, while in 2 cases, it was necessary to conduct control in regulated entities to settle them.

4.2.3. Measures to avoid abuses of dominance

During 2010, the AMO SR performed a couple of investigations in the gas market, terminating them either without an administration procedure initiation, or not terminating them up to now. In 2010, there was no intervention made into the gas market.

5. Security of Supply

5.1 Electricity

The prospects for security of electricity supply for the period between five and 15 years

The strategic objective of the Slovak Republic is to lay the foundations to reach comparable life standards of the citizens with the European developed countries. The achievement of this goal is conditioned by securing sufficient electricity volume to cover all needs related to the growth of life standards. The SR electricity consumption prospects stem from real GDP growth prognosis and from the energy demands development.

The construction of large water power plants is not currently materialized, and thus due to high economic demands and certain regional limitations.

The crucial capacity increase in nuclear power plants up to 2015 is currently under construction. At present, the investors are interested in the construction of further fossil sources within the period of up to 2020. The priority objective of the realization of electricity sources construction is to ensure adjusted balance between generation and consumption, with minimum environmental impact, including the construction of low-carbon technologies.

The development intentions of the transmission system operator

The operational security and reliability of the transmission system of the Slovak Republic (TS SR) is first of all ensured by performing necessary maintenance and reconstruction Works on the existing facilities within the TS SR. As for the future, the maintenance and improvement of the operational security is ensured i.e. via planning, gradual preparatory Works and realization of individual investment actions, while taking into account the necessary development of the TS SR from the view of physical and moral shabbiness of the SEPS, a.s. facilities, and of the future development intentions related to the development of consumption and prepared construction of new electricity generation sources. The strategic tendency of the TS SR development was significantly influenced by decommissioning of both the NPP V1 Jaslovské Bohunice from its

operation in the years of 2006 and 2008, and other generation units with their outputs lead out to the 220 kV system. In the future, only the 400 kV system development is a subject of consideration.

The projects to foster the profiles of SR - HU, SR - UA are still parts of the TEN-E (Trans European Energy Network - Energy) program projections. The projects comply with the „Decision of the European Parliament and Council No. 1364/2006/EC“. As for the future fostering of cross-border interconnectors between the electricity systems mentioned above, this is still under discussions with the respective foreign transmission system operators.

The Decision No. 364/2006/ES include, except for the mentioned projects on fostering the cross-border interconnectors, the projects focused on fostering the internal part of the TS SR, as well. These investments are aimed to foster TS SR on the 400 kV level, to reliably lead out the outputs from new electricity sources and to create conditions for connecting new industrial consumers into the TS SR and the distribution systems.

Measures to cover the peak demand and the solutions in case of ES SR outages and the transmission system units' congestion

The development of electricity sources and a sufficiency of ancillary services and regulation energy are managed by market principles. The basic electricity consumption zone between a producer and a consumer is ensured both directly or through electricity traders. The ancillary services and regulation electricity are purchased by the transmission system operator.

In case of emergency situations or in order to avoid the emergency situations, the transmission system operator has elaborated a defense plan to avoid the formation of serious breakdowns, measures for breakdown frequency and voltage modifications, as well as defense plans against the formation of system breakdowns, e.g. „black-outs“, or the plans on system reconstruction after a „black-out“ type breakdown. The operational security meets the requirements on electricity transmission, and is monitored at every stage of the operation preparatory works, and thus on yearly, monthly, weekly and daily basis. An outage of each transmission unit within the whole system, the n-1 criterion is monitored. A transmission system facility releasing from its operation is coordinated with the neighboring transmission system operators at every stage of the operation preparatory works. It is verified through system performance calculation.

In case of system modifications causing sudden congestion during the operation, in order to eliminate the congestion, the system operator:

- a) Activates the purchased ancillary services,
- b) Uses the contractually agreed breakdown reserves,
- c) Changes the connection of transmission system and distribution systems electricity facilities.

In order to avoid transmission system facilities congestion, a calculation of the stable system performance is being conducted, and thus with both own electricity system data, and the data of other systems within RG CE ENTSO-E.

The transmission system operator ensures system services, in order to keep operability of the electricity system, quality and reliability of electricity supply from the transmission system, to keep an adjusted capacity balance and reconstruction of the synchronous operation in case of ES SR decomposition. The ancillary services necessary for ensuring the system services are secured by the transmission system operator's ancillary services purchase from certified providers.

When setting particular volumes of the ancillary services, the following background data are used:

- Binding standards of the RG-CE ENTSO-E Operation Guide,
- Assumed maximum load for a particular time period,
- Dynamic load modifications in the regulation area (ES SR).

The volume of ancillary services necessary in the respective regulation area is influenced by a fee for system services. Since the system services fee is one of the items creating electricity price for an end-consumer, the costs for ancillary services acquisition have an impact on the amount of the final price for electricity.

The cross-border transmission for the purposes of electricity import and export on the transmission system level within the international energy cooperation, are managed via bi- and multilateral contracts between individual transmission system operators and their authorized entities. In case of the operational security of the system is violated, the dispatching centre may use a purchase of the breakdown non-guaranteed regulation electricity from abroad. In case of breakdown assistance from the neighboring regulation area, the regulation electricity purchase is performed according to the principles stated in the contract on provision of breakdown assistance with the respective TSO.

The conditions of electricity import or export on lower voltage levels are being set by the contractual parties of the distribution system operators. All cross-border transmission management procedures, coordination of disconnection plans of the interconnection lines, determination of the interconnection lines capacities, control and congestion management comply with the RG CE ENTSO-E Operation Guide, Technical Conditions and the TSO Network Code.

System quality and the level of its maintenance

In the previous year, the maintenance of the TS facilities was secured on a continuous basis. A factor of permanently increasing average age of the main TS SR technology facilities is pointing at a number of risks. As for the future, an increase of maintenance and reconstruction demands and higher operation costs for this area is obvious. Regarding the permanently increasing average physical age of the main technology facilities of the transmission system, it will be also necessary to consider the investments to renew the facilities and to keep their operability in the future.

5.2. Gas

Measures to cover peak demand, the solutions in case of supply interruption

The gas network management conditions are set out by the Act on Energy.

The distribution network in the delineated territory of the SR is managed by the „gas dispatching centre“ being in charge of operative management of the distribution network. According to the decision of the Ministry of Economy of the SR, the gas dispatching centre competencies in the delineated territory of the SR are fulfilled by the dispatching centre of the distribution network operator- SPP – distribúcia, a.s.

Measures to avoid and resolve transport network congestion

The operator avoids transport network congestion by

- assessing the applications on access to the transport network, followed by imposing access limitations for provision of transport capacity within the transport network, and thus in compliance with the transport network operator‘ s conditions,
- coordinating the elaboration of the maintenance and servicing work plan, while considering demands of the network users as for the term, duration and scope of the works,
- nominating gas transport within the agreed and available transport capacity,
- offering an opportunity to a gas stakeholder to provide his unused free transport capacity to another gas stakeholder.

Lack of free transport capacity in the transport network is solved by the transport network operator, and thus through a contract on transport of gas with interruptible transport capacity concluded with a gas stakeholder.

Measures to avoid and resolve distribution network congestion

A distribution network operator avoids a distribution network congestion by assessing the application on Access to the distribution network, followed by imposing access limitations for provision of transport capacity within the transport network, and thus in compliance with the distribution network operator‘ s conditions, by requirements for prolonging the existing gas distribution contracts without any other increase of the agreed distribution capacity, and by the requirements of the household gas consumers.

In case the sum of the required distribution capacities is higher than the technical capacity of the distribution network, the respective distribution network operator calls upon the gas stakeholders to adjust the volume of the required capacity, and thus within their application on access to the distribution network.

If the sum of the provided distribution capacities within the applications on access to the distribution network is still higher than the technical capacity of the distribution network, the distribution network operator will divide the remaining free distribution capacity according to the ration of the amounts of individual requirements in a non-discriminatory way, and thus if an

applicant's request overlaps the amount of the remaining free capacity, this request is reduced to the amount of the remaining free capacity prior to their decomposition.

Emergency measures

In case of emergency, every stakeholder is obliged to take limitation measures, measure to avoid emergency situation, and the measures to remove emergency situation. The limitation measures application comply with the Act on energy.

The limitation measures in gas industry in the delineated territory or in a part of the delineated territory are announced and recalled by a distribution network operator, and thus based on the decision of the Ministry fulfilling the tasks of the gas dispatching centre in the delineated territory, through the statutory mass information means and the dispatching management means.

The respective gas stakeholders secure the stated standard of security of gas supply by means of gas reserves in storage facilities with instantaneous availability of gas supply from storage facilities to the network in case of emergency in the delineated territory. They can ensure no more than 50 % of gas volume necessary to guarantee the security of supply standard through utilization of the cross-border capacities of the networks contractually ensured by assistance gas supply that are available during emergency situations in the delineated territory.

A distribution network operator, a gas supplier and a gas consumer securing gas supply from the territory of the European Union, or from the territories of the third countries, submit to the Ministry a proposal of how to ensure the standard of security of gas supply for the upcoming period from 1 November to 31 March, and thus on an annual basis by 28 February.

After negotiating the submitted proposals with the Regulatory Office for Network Industries and a distribution network operator fulfilling the tasks of the gas dispatching centre in the delineated territory under the ministry decision, the Ministry makes decision on the methodology to guarantee the standard of security of gas supply.

According to the contract, a gas supplier and a gas consumer may pass the responsibility for guaranty of the standard security of gas supply to another gas stakeholder.

The measures to remove emergency in gas industry are being conducted as special procedures to restore the proper operation of the transport and distribution networks, and thus as soon as possible. During emergency removal, the gas facilities follow the approved breakdown plans, the instructions of a superior gas dispatching centre, and the instructions of their own dispatching centre.

Other possibilities to bring contribution to security of supply stem in LNG utilization, or gas supply diversification (diversification of both routes and sources). The planned North-South interconnection noted in the V4+ Declaration dated 24 February 2010 at the summit of the V4 countries and the Central and South-East European countries in Budapest shows a possibility to make the planned LNG terminals in Croatia and Poland available.

Network development investments

Following an analysis of the status during the gas crisis, the Slovak transport network operator Eustream and the Hungarian FGSZ Zrt. made an agreement on the interconnection construction. The interconnection project (Veľký Krtíš – Vecsés) is also included in the Regulation of the European Parliament and Council setting the program for promotion of economy vitalization by providing a financial grant of the Community for energy projects. The termination of the binding phase of the Open Season procedure was planned for end of June 2010. Based on the results, there will be a decision on the project implementation adopted. The gas pipeline is planned to be put into operation at the beginning of 2014.

Under the cooperation with public experts and with the energy companies, the Ministry elaborated a document of the Strategy of energy security. In the natural gas part, there are options for potential diversification mentioned. Within the SR conditions, the diversification of sources is limited by the existing infrastructure. Certain limited possibilities are offered by the Austrian gas hub Baumgarten. Another regional option cover 2 planned gas pipeline projects- Nabucco and South Stream. Nabucco gas pipeline should reach Baumgarten with the existing interconnection, and after the realization of some technical adjustments at the transport network operators' facilities in Austria, it will be possible to use a reverse flow. The promotion of Nabucco has been expressed within the SR energy policy as well, while being considered as one of the significant options for diversification of supply. According to currently available information, and assuming all necessary construction activities are successful, we can expect the gas pipeline being put into operation in 2015.

Quality and level of network maintenance

Within the distribution network of the SPP-distribúcia a. s. operator, consisting of a complex of gas distribution facilities covering pipeline gas system and technology facilities, there has been conducted inspections, preventive maintenance works and reparatory works in the gas facilities, and thus according to the determined criteria contributing to ensure its integrity, reliability and security. There was a removal of the deficiencies discovered during an external an internal gas pipeline inspections performed, and thus by repair works or reconstructions of the gas facilities. The maintenance of the distribution network of SPP-distribúcia a. s. is guaranteed in compliance with the valid legislative measures, respective standards, internal management acts of the company, technical gas rules, and the related documentation of the producers of particular components.

As for the distribution system innovation in 2010, the SPP-distribúcia a. s. invested an amount of 47 mil. €.

In the upcoming period, SPP-distribúcia is planning to extend their distribution only to a minimum extent. During the next four years, there is an assumption to extend the length by approximately 2 000 km, while the planned distribution network capacity extension reaches the level of approx. 1000 mil. m³ per year.

With the aim to enforce the priorities of the Budapest Summit conclusions with clearly defined the promotion of the North-South gas interconnection project, the V4 countries representatives agreed on the necessity to send a common letter to Energy Commissioner to univocally present the V4 region priorities in gas industry, oil and electricity industry. The final version of the letter was sent to Energy Commissioner on 15 September 2010. Based on the mentioned facts, the V4 countries managed to enforce the infrastructure regional projects as EU priorities. Following an appeal, the European Commission established a High-level Working Group for North-South Interconnections.

The political energy promotion was highlighted within the Bratislava Declaration adopted by the V4 ministers in January 2011. The Declaration appeals to the V4 countries to promote higher dynamics in the course of project implementation in gas, oil and electricity industries, and to stipulate a preliminary technical design of the North-South gas interconnection.

6. Public Service Issues

The Act on Energy defines universal service as the service for households and small businesses provided by an electricity or gas supplier, based on a contract on electricity or gas supply, and covering at the same time electricity distribution and supply, or gas distribution and supply, and taking responsibility for deviations. In the delineated territory, and under the conditions defined by the Office and following the price or the methodology of its calculation defined by the Office, a distribution system operator is obliged to ensure connection of the electricity or gas consumers in households to the system, provided the technical and business conditions are met. A contract on connection must also include a term for a distribution system/ network operator imposing a duty to ensure a consumer's electricity or gas facility is connected.