

# **The Czech Republic's National Report on the Electricity and Gas Industries for 2008**

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## Most frequent abbreviations

Czech	English	
ČEPS	ČEPS	Czech Energy Transmission System
ERÚ	ERO	Energy Regulatory Office
MPO	MIT	Ministry of Industry and Trade of the Czech Republic
OTE	OTE	Electricity Market Operator
PXE	PXE	Prague Energy Exchange
SEI	SEI	State Energy Inspectorate
ÚOHS	OPC	Office for the Protection of Competition
APG	APG	Austrian TSO
CEER	CEER	Council of European Energy Regulators
ENTSO	ENTSO	European Networks of TSOs
ERGEG	ERGEG	European Regulators Group for Electricity and Gas
PPS	TSO	Transmission system operator
PDS	DSO	Distribution system operator
LDS	LDS	Local distribution system
PZP	UGS	Underground gas storage facility
SAIDI	SAIDI	Average time of supply interruption in minutes per final customer per year [minutes/year/customer]
SAIFI	SAIFI	Average frequency of supply interruptions per final customer per year [interruptions/year/customer]
CAIDI	CAIDI	Average duration of an interruption in minutes per customer per year [minutes/interruptions]
VVN	EHV	Extra high voltage
VN	HV	High voltage
NN	LV	Low voltage
FAQ	FAQ	Frequently asked questions
a.s.	a.s.	joint-stock company
s.r.o.	s.r.o.	limited liability partnership
spol. s r.o.	spol. s r.o.	limited liability partnership
OSVČ	OSVČ	Self-employed person

# 1 Foreword

For the fifth time the Czech Republic is presenting a report on the implementation of the requirements of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in electricity and repealing Directive 96/92/EC (hereinafter Directive 2003/54/EC) and Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC (hereinafter Directive 2003/55/EC), and also Directive 2004/67/EC of the European Parliament and of the Council of 26 April 2003 concerning measures to safeguard security of natural gas supply (hereinafter Directive 2004/67/EC) to the European Commission, thereby meeting its reporting and notification obligation as set out in the Directives.

This National Report covers the development of Czech energy markets in 2008. The natural gas market was mainly characterised by a significant increase in competition. New traders entered the market, and a number of both large and small customers took advantage of this and switched their gas supplier. In the electricity market, continuous trading on the Prague Energy Exchange (PXE) went into full swing. In legislation, improvements of both primary and secondary legislation on energy continued. The most important step in this respect was a comprehensive amendment to the Energy Act, which Czech Parliament started to debate in the latter half of 2008.

In 2008 the Czech Republic also devoted extreme attention to the third liberalisation package, and as part of preparations for its EU presidency in the first half of 2009 set the approval of the package as one of its priorities.

## **2 Main developments in the electricity and gas markets**

### **2.1 Wholesale market**

#### **2.1.1 Electricity**

The step-by-step opening of the Czech electricity market took place from 2002. The market has been fully liberalised since 1 January 2006.

As early as 2007, the system of trading on the Czech electricity market changed completely: the principle of wholesale electricity sales, applied until then and based on auctions organised by ČEZ, a.s. every year and on bilateral contracts between electricity producers and traders, was replaced by continuous trading through the Prague Energy Exchange. Together with the high volatility of energy commodity prices throughout 2008 and the broader range of products offered by electricity suppliers to final customers, this change influenced suppliers' purchase strategies and resulted in a more competitive environment amongst traders. In particular large and medium-sized customers now have the opportunity to time their electricity purchases with regard to the current prices on the exchange.

Auction mechanisms (in particular an expansion of coordinated auctions within the region and the introduction of intra-day cross-border trading) played the greatest role in the trading in cross-border transmission capacities in the central European region as regards international trade in electricity. In 2008 a mechanism for the operation of a common day-ahead market between the Czech Republic and Slovakia was devised on the principle of implicit auctions, and the relevant legislation was modified for this purpose.

#### **2.1.2 Gas**

The year 2008 was the second year in which all customers, including households, were eligible customers. This position has provided all customers with the right to select their gas supplier by way of a free-of-charge change of supplier, and, in turn, the opportunity to influence the uncontrolled part of their overall costs of natural gas supply, i.e., the commodity itself, and the services related to gas storage.

The natural gas market in 2008 can be described as a market on which competition was gradually developing and intensifying, and extending to all final customer segments. The conditions for the working of the gas market are set out in the two most important pieces of legislation. Act No. 458/2000, the Energy Act, as amended, and ERO public notice no. 524/2006 laying down the rules for the organisation of the gas market and for the development, allocation and use of typical gas supply profiles (gas market rules), as amended, which entered into force on 1 January 2007. A number of new gas traders started to operate on the liberalised market; they discerned their opportunities to approach customers in the Czech Republic with their offering of the services and products that enabled them to compete with the incumbent gas suppliers. Thus, 2008 was a year marked by a more distinctive increase in gas supplier switching in all customer categories.

The year 2008 also saw an increase in the number of traders importing natural gas into the Czech Republic. In addition to RWE Transgas, a.s., which holds a dominant market position due to historical development and which supplies gas only to gas traders in the Czech Republic (i.e., not final customers), and further in addition to VEMEX s.r.o., a subsidiary of the Russian gas company OAO Gazprom, which supplies gas to both gas traders and final customers in the Czech Republic, the following companies started to import natural gas into the Czech Republic: Česká plynárenská, a.s., which won a gas sales agreement in Norway,

Lumius, spol. s r.o., which mainly buys natural gas in Germany, and the German company WINGAS GmbH & Co. KG.

The above developments in the wholesale gas market did not, however, have any significant influence on gas consumption in the Czech Republic in 2008. In 2008 gas consumption increased slightly in comparison with 2007, but averaged over the last decade, it was sub-average consumption again. The low consumption can be attributed to a year with above-average temperatures. Average annual temperature was 9.3 °C, i.e., 1.3 °C above the normal value.

## 2.2 Retail market

### 2.2.1 Electricity

The liberalised electricity market functioned for the third year in 2008. Although all final customers already were eligible customers with the right to select their electricity supplier, only two per cent of customers used this opportunity from the moment of electricity market opening. Specifically, the data recorded by Operátor trhu s elektřinou, a.s. (OTE, Electricity Market Operator) is shown in Table 1. Of the supplier switches that took place, for 2,898 supply points the voltage level was not recorded.

**Table 1 Final customers; electricity supplier switching**

Type of supply	2007		2008	
	Number of changed supply points	Switching [%]	Number of changed supply points	Switching [%]
High-demand customers, EHV, HV	4,353	19.0	6,549	28.6
Low-demand business customers, LV	5,733	0.7	35,351	4.3
Households	15,385	0.3	15,764	0.3

Note: Switching – the ratio between the number of electricity supplier changes per year and the total number of supply points in the same year.

Source: Operátor trhu s elektřinou, a.s.

The electricity market was mainly developing in the segments of large and medium-sized customers, where a sufficient number of traders were actively operating. However, the situation is very different in the segment of low-demand businesses and households, where less than ten traders out of the more than 300 licensed electricity traders were operating in any appreciable way on the national scale.

To help customers find their way about the liberalised market the Office has set up a Frequently Asked Questions (FAQ) section on its website, which summarises customers' frequently asked questions and answers them in a comprehensible way. The Office monitors the development of consumers' questions and updates the FAQ section on a regular basis in response to these suggestions. The Office has also placed on its website an interactive ready reckoner for electricity supply prices, with the help of which every low-demand customer connected to the low voltage level can, after keying in the input parameters (the distribution rate, the level of consumption), compare their overall cost of electricity supply from each of the suppliers and find the best supplier with regard to the nature and size of their consumption. The ready reckoner is being updated on the basis of information received from

suppliers, who have provided the Office with their price quotations for electrical energy products intended for small customers.

The prices of electricity supplies to all customer categories for 2008 were influenced by the rising wholesale price of energy. As in the last few years, this increase is not attributable only to the working of market mechanisms on the domestic market (structure of generating capacities, future demand, etc.), but also, and to a significant extent, to electricity demand and prices in neighbouring countries due to the fact that the grids are interconnected. This was also reflected in the results of trading on the Prague Energy Exchange (PXE): already in the first months of trading, electricity prices were about 17 per cent higher than the year before due to demand outstripping supply. This was then reflected in both overall prices for final customers and a part of regulated items (network use charges).

In 2008 an environmental tax on electricity was first added to the electricity supply price as an additional item. The legal provisions on electricity taxation are contained in Act No. 261/2007 on the stabilisation of public budgets, in its Part 47 Electricity Tax. The tax rate is CZK 28.30/MWh, with the exception of tax-exempt electricity produced from renewable energy sources and also electricity consumed in energy-intensive processes and public transport.

At the low voltage level, the same range of tariffs, including the conditions for awarding them, as in 2007 was maintained for small businesses (category C) and households (category D) for 2008.

Suppliers usually adjust their offering prices of energy once a year, i.e., as from 1 January of the new calendar year. Some suppliers have also started to offer a product where the offering price of energy depends on electricity prices at energy exchanges during the year to small customers.

### **2.2.2 Gas**

New gas traders started to operate on the market in 2008; in connection with the continued development of market liberalisation, many customers changed their gas supplier. In addition to gas traders of the RWE Group and of E.ON Energie, a.s., and Pražská plynárenská, a.s., VEMEX s.r.o., Moravské naftové doly, a.s., Petr Lamich - LAMA (formerly a self-employed person) (newly LAMA INVESTMENTS, a.s.), United Energy Trading, a.s., Česká energie, a.s., and VNG Energie Czech, a.s., from the beginning of the year some other new gas traders appeared on the market, for example, CONTE spol. s r.o., Pragoplyn, a.s., Lumius, spol. s r.o., Energie Bohemia, a.s., WINGAS GmbH & Co. KG, and Lumen Energy, a.s. In connection with the contemplated development of combined cycle units also ČEZ, a.s. is actively interested in business opportunities on the gas market.

Table 2 shows supplier switching by final customer category and indicates the number of final customers who changed their gas supplier in 2007 and 2008. In 2008 the large-offtake category was the most active; its switching ratio was 6.7 per cent. As regards the number of gas supplier changes in absolute terms, Table 2 shows that in 2008 gas traders' focus shifted towards winning lower offtake customers. The largest number of supply points changed their gas supplier in the small offtake category.



**Table 2 Final customers' gas supplier switching**

Demand	2007	2008	2008	2008
	Number of changed supply points	Number of changed supply points	Total number of supply points	Switching rate, in %
Large offtake	100	128	1,904	6.7
Medium offtake	2	84	6,838	1.2
Small offtake	0	315	198,771	0.2
Households	1	11	2,657,056	0.0

Note:

- 1) Switching – the ratio between the number of gas supplier switches per year and the total number of supply points in that year.
- 2) The figures in the Table do not include supplier switching for reasons caused by the suppliers themselves.

Source: Balancing Centre

New gas traders most frequently cite the limited accessibility to Czech underground gas storage facilities, which are needed for structuring supplies in the course of a year, as one of the reasons for their difficulties in penetrating the Czech market. In fact, the storage capacity has been covered for the long term by contracts owned by RWE Transgas, a.s., which is a part of a vertically integrated group that also includes the largest Czech SSO, RWE Gas Storage, s.r.o. This fact was therefore subjected to inquiry conducted by the Office for the Protection of Competition (ÚOHS) and also the ERO, which changed the procedure for storage capacity booking in the Czech Republic with effect from 1 October 2008 in its amended public notice on gas market rules. The need to address the issue of underground gas storage is also borne out by the administrative proceedings conducted by the ERO in 2007 and 2008 on access to the storage capacity owned by RWE Gas Storage, s.r.o. Prior to amendment, the public notice contained rules for storage capacity booking in cases of capacity shortages on the *pro rata* principle (storage capacity booking pro rated to the size of the individual requests), which did not completely reflect the principles of negotiated, i.e., market-driven, access to storage capacity.

When amending the public notice the Office therefore wanted to introduce such rules for storage capacity booking, which would help to create adequate requests for storage capacity and give clear pricing and investment signals, and comply with negotiated TPA. The new rules are to support the development of storage capacity through the extension of the existing and the building of new underground gas storage facilities in the Czech Republic. For storage capacity allocation, the method of multi-round online auctions has been selected. The definition of storage capacity has been broken down to “storage capacity” meaning the existing, already used capacity, and “new storage capacity” defined as storage capacity put on stream after 1 January 2010. The ways of booking these two types of storage capacity differ in terms of both the time limits within which capacity can be requested and the duration and type of the gas storage agreement. The gas market rules contain a constraint for the dominant gas traders. Gas traders who are part of the same group as the SSO and who have booked with the SSO storage capacity amounting to at least 80 per cent of the capacity of the virtual storage facility operated by the SSO, may only participate in a storage capacity auction if the price per unit of storage capacity is lower than or equal to the current market price of storage capacity. These measures are mainly intended to support the development of the Czech gas market by opening access to storage capacity for additional gas market players and also by preventing affiliated companies from speculatively increasing prices.

## **2.3 Infrastructure**

### **2.3.1 Electricity**

From the perspective of investment in electricity networks, in 2008 the most noteworthy capital investment project at the level of the transmission system was the refurbishment of a 42 km long 400 kV line from the Slavětice transformer station to the Dürnrohr transformer station in Austria. Part of the refurbishment was an upgrade of the single-circuit line to a double-circuit line and replacement of the second earth wire.

This project is part of ČEPS's long-term investment plan for the reinforcement of the transmission line from north to south, Poland – Czech Republic – Austria. This newly double-circuit line considerably helps to improve the reliability of the Czech transmission system and, naturally, to reinforce the interconnection within Europe and to improve the reliability of the electricity grid within EU countries' international interconnection.

### **2.3.2 Gas**

As regards investment in new infrastructure, there was no major capital investment project in 2008. Preparations for the construction of two planned gas pipelines in the Czech Republic continued. One of these pipelines is to be a continuation of the newly built northern route for natural gas transport from Russia to Europe through Nord Stream and the connected OPAL pipeline in Germany. In the Czech Republic, this route is to continue by the GAZELLE pipeline connecting the border points at Olbernhau and Waidhaus. The results of a survey indicate tentative demand for this route's capacity to amount to 30 to 33 bcm/year.

However, from the Czech perspective, no gas intended to meet the final customers' needs in the Czech Republic will flow through the OPAL pipeline. From the Czech Republic's point of view, the importance of this route is therefore neutral, because most of the gas to be transported in the future is intended for customers in Germany.

The other project being considered is a pipeline connecting the Czech and Polish transmission system near Český Těšín. The new pipeline is to mainly serve for supplying Polish customers. For example, Russian gas might flow through this pipeline into the Czech Republic, but solely subject to the condition that the Polish gas market is fully liberalised and provides enough gas for trading and that a part of the pipeline network on the Polish side is modified so that the system supports reverse flows of gas into the Czech Republic.

In 2008 RWE Gas Storage, s.r.o. disclosed its plan to expand the capacity of its underground gas storage facilities in the coming years, specifically by 795 mcm. The other Czech SSO, MND Gas Storage, a.s., is also planning to expand its capacity, specifically by 450 mcm.

## **2.4 Regulation and unbundling**

### **Electricity and gas**

The Office systematically inspects unbundled accounts of legally unbundled companies, from which it requires separate accounts for each of the transmission and distribution activities with a view to preventing discriminatory practices. However, the regulator does not have any competences to impose sanctions; in the Czech Republic, this is fully within the competences of another state administration authority, the State Energy Inspectorate (SEI).

The Office's competences for enforcing managerial and functional unbundling are limited by Directives 2003/54/EC and 2003/55/EC concerning common rules for the internal market in electricity and natural gas, respectively, as transposed to the Czech national legislation through the Energy Act. All of the Energy Act's requirements for regulated companies'

independence and their non-discriminatory approach to the other market players have been defined and implemented in a document called *Programme of Measures*. This treatment was the same for all distribution companies and the gas transmission company. The electricity transmission company is an exception, as it is unbundled in ownership terms.

## **2.5 Security of supply**

### **2.5.1 Electricity**

In 2008 the installed capacity of thermal power stations, including cogeneration, increased by 37 MW in comparison with 2007, and the installed capacity of gas-fired and combined cycle plants increased by 83 MW. The installed capacity of plants that use renewable and alternative resources also went up year-on-year, by 43 MW. The installed capacity of hydroelectric power stations increased by 16 MW year-on-year. Alternative power stations experienced a decrease by almost 10 MW. Most of the increase, more than 36 MW, is attributable to wind power plants.

The total annual increase in the generation capacity installed in the electricity grid amounted to 163 MW. On 31 December 2008 the total installed capacity of power stations in the Czech grid was 17,724 MW. The above increase in the overall installed capacity was mainly achieved by investment in retrofits of the existing generating plants.

The country's total electricity consumption, including network losses, was 72.0 TWh in 2008, i.e., the same as in 2007 (the drop in consumption in 4Q 2008 was set off by year-on-year increases in the preceding quarters of the year). The grid experienced the annual peak demand on 14 February 2008 at 3 p.m. when gross consumption amounted to 10,880 MW.

The achieved reliability of the Czech electricity system's total balanced output meets the requirements for rational values of reliability. It is possible to provide for the safe operation of the system (ancillary services) over the medium term, despite some increases in demand. With the exception of the potential significant swings in the output from off-shore and seaside wind power plants, no anomalies appear in the operation of the generating capacities in covering the load profiles and predicted imbalances.

### **2.5.2 Gas**

Security of supply as required by Directive 2004/67/EC has been implemented in Czech legislation through public notice no. 375/2005 on the states of emergency in the gas industry, which introduces procedures designed for preventing emergencies in the gas industry, procedures to be followed in the case of the occurrence, and elimination of the consequences of, emergencies, and the use of the gas supply security standard. Gas traders and the final customers who procure gas themselves can provide for the gas supply security standard to the extent applicable to the trader/customer through their gas supplier.

In the 2008 winter season the gas supply security standard was provided for, and totalled 65,775,000 cu m/day. Suppliers RWE Transgas, a.s., MND, a.s. and VEMEX, s.r.o. guaranteed supplies by their imports and withdrawal from underground gas storage facilities.

In 2008 a total of 8.693 bcm of natural gas was delivered to the Czech Republic, while 8.685 bcm of gas was consumed. This suggests that in the Czech Republic, supply and demand were balanced. In principle, natural gas can be imported into the Czech Republic via three border points – Lanžhot (mainly Russian gas and the gas bought at the Baumgarten hub), Hora sv. Kateřiny (Norwegian gas and, in the future, Russian gas from the Nord Stream pipeline) and Waidhaus (gas bought on spot markets).

In connection with the diversification of natural gas sources and routes, there are plans to build the Nord Stream pipeline and a pipeline to connect the Czech and Polish gas systems near Český Těšín, as mentioned above in point 2.3.2.

The Ministry of Industry and Trade of the Czech Republic has the role of the authority that oversees and permits the development of the gas system; for more detailed information please see point 5.2.4.

## **2.6 General conclusions**

In 2008 the liberalised electricity market worked for the third year. Although all final customers had become eligible customers with the right to select their electricity supplier, from the opening of the electricity market only two per cent of customers used this opportunity. The system of trading on the electricity market was changed when annual auctions organised by ČEZ, a.s. were replaced by continuous trading on the Prague Energy Exchange. Together with the high volatility of energy commodity prices throughout 2008 and a broader range of the products offered by electricity suppliers to final customers, this has helped to strengthen the competitive environment in the electricity market.

The natural gas market in 2008 can be characterised as a market in which competition gradually intensified and developed, extending to all final customer segments. In the liberalised market, a number of new gas traders started to operate. Thus, 2008 was a year marked by a more significant growth in the number of gas supplier switches in all customer categories.

Improvement of primary and secondary energy legislation continued in the Czech Republic in 2008. In this respect, the most important step was the comprehensive amendment to the Energy Act, which Czech Parliament started to debate in the latter half of 2008.

The Czech Republic devoted extreme attention to the third liberalisation package. For its EU presidency in the first half of 2009 it therefore set the endorsement of the package as one of its priorities. The country therefore made considerable efforts in respect of the amendment to the directives on common rules for the internal electricity and gas markets. The Czech Republic is a country with highly above-average volumes of electricity and gas transmission, and therefore considers the development of a high-quality legislative environment to be crucial; in conjunction with the electricity and gas TSOs' newly emerging European networks, such environment is expected to considerably contribute to the next stage of the energy market's development. The Czech Republic expects that these organisations, together with the European Commission and market players will proceed, without any delay, to the development of common grid codes and commercial codes that, together with some other documents such as ten-year investment plans, will clearly determine the character of the internal energy market for the coming years and facilitate the overcoming of regional differences to help give rise to the EU's single liquid internal market.

In the past period the Office worked with CEER and ERGEG with a view to achieving a single and competitive European energy market. The co-operation mainly consisted in its active participation in the meetings of working groups on electricity, gas, ownership unbundling, customers, and the third liberalisation package, and implementing the knowledge so gained into the Czech regulatory framework.

## **3 Regulation and structure of the electricity market**

### **3.1 Regulatory issues**

#### **3.1.1 Management and allocation of interconnection capacity and mechanisms to deal with congestion**

There are no bottlenecks in the Czech transmission grid; the grid is capable of transmitting the required volumes of electricity and there is no need to adopt any measures vis-à-vis the electricity market participants (with the exception of extraordinary situations in the grid, which are covered by the relevant legislation).

The size of the available cross-border capacities depends on the physical electricity flows themselves and also on the contracted load at the respective cross-border interconnection. The TSO offers all available cross-border line capacities using non-discriminatory market mechanisms, i.e., annual, monthly and daily explicit auctions are organised for all interconnections.

In the case of the Polish, Slovak and both German interconnections, coordinated explicit auctions are also organised in co-operation with the neighbouring TSOs.

April 2008 saw the beginning of contracting for intra-day transmission on the ČEPS, a.s., E.ON Netz GmbH and Vattenfall Europe Transmission GmbH interconnection, the latter two being TSOs in Germany. In November 2008 the opportunity for intra-day trading was expanded to include the ČEPS/APG interconnection between the Czech Republic and Austria. At the end of 2008 market players had opportunities for intra-day transmissions on the ČEPS/SEPS, ČEPS/VE-T, ČEPS/E.ON and ČEPS/APG interconnections. The general trading procedures are described in the grid code, Rules of the Transmission System Operation – TS Code Part III. Detailed conditions of transmission are set out in an agreement on accession to the commercial terms and conditions for cross-border electricity transmission.

As part of regional activities on the electricity market, since 2006 consultations on the option of launching coordinated auctions throughout the Central and Eastern Europe region have been under way, i.e., also the Austrian, Hungarian and Slovenian TSOs would join this joint project. On the basis of talks, a joint auction office has been established in Germany. The results of the search for an appropriate method of determining available tradable capacities have been ambiguous so far, and therefore the launch of regional coordinated auctions has been postponed by one year. The launch is expected in 2010.

In 2008 the principle of the working of a common day-ahead market between the Czech Republic and Slovakia on the basis of implicit auctions was developed, and the relevant legislation was amended for this purpose. Trading itself on this market is to be launched in 2009.

#### **3.1.2 The regulation of the tasks of transmission and distribution companies**

##### **Network tariffs**

To calculate average electricity transmission and distribution charges the Energy Regulatory Office uses the incentive-based revenue cap regulatory method. It is being applied throughout the second regulatory period, i.e. from 1 January 2005 to 31 December 2009. The principle of the regulation of the prices set for 2008 was preserved, i.e., the year-on-year changes in the prices for each of the regulated items basically only reflected the external macroeconomic and technical factors such as the rate of inflation, capacity demand and reservation, amount of

investment in networks, development of generation from supported sources, etc. The pricing principles and the structure of the resulting price for electricity supply to the various customer categories were described in the preceding national reports.

### Electricity supply quality

Under ERO public notice no. 540/2005 on the quality of electricity supplies and related services in the electricity industry, DSOs with more than 90,000 supply points of final customers, or, as applicable, electrical energy suppliers, are obligated to provide the Office with monthly reports on their compliance with the standards of electricity distribution, i.e., standards of supply and related services. On the basis of the licensed entities' reporting obligation the Office monitored, in accordance with the above public notice, the quality of electricity supplies achieved in the Czech Republic in 2008.

The data reported by the respective companies can be categorised into two groups. One category includes information about the continuity of electricity supplies in networks, i.e., data affected by failures and planned events in operated distribution systems. The other category includes information about the so-called commercial quality, which characterises the distributor's or supplier's ability to respond to final customers' requirements and which is not directly related to the physical operation of the systems. However, the assessment of the level of quality achieved in electricity supply is considerably influenced by the credibility and extent of the data reported. In 2008 the Office placed emphasis on obtaining required data with an adequate information value. The interval over which the level of quality of electricity supply and related services is analysed is one year. In 2008 the Office published an evaluation, Report on the Level Achieved in Observing the Standard of Continuity of Electricity Transmission and Distribution for 2007 (The Quality Report), of the level achieved in observing the standard of continuity of electricity transmission and distribution for 2007 on its website. The Quality Report describes the level of ensuring continuity in the transmission system, which in the Czech Republic is operated by ČEPS, a.s., and the level of ensuring continuity in electricity distribution in the distribution networks of the three regional DSOs in the Czech Republic.

In the event of failure to keep the quality parameters of electricity supply, as set out in public notice no. 540/2005 on the quality of electricity supplies and related services in the electricity industry, final customers may claim financial compensation for failure to observe the electricity supply quality standards. Compensations are not paid to customers automatically; affected customers must apply for them with the respective company within the required time limits. Final customers are not yet making full use of this possibility. The Office is planning to enhance consumers' awareness of the quality of the services provided in the electricity industry. In this connection, the Office has placed on its website, information for customers about the opportunity to claim compensation for failure to keep standards required by the above public notice.

The 2008 levels of quality indicators for DSOs with more than 90,000 customers are shown in the following table.

**Table 3 Distribution continuity indicators**

Indicator	ČEZ Distribuce	E.ON Distribuce	PREdistribuce
SAIFI	2.80	1.97	0.85
SAIDI	259.28	333.10	47.84
CAIDI	92.47	169.00	56.49

Source: Distribution companies

SAIFI – average frequency of supply interruptions per final customer per year [interruptions/year/customer]

SAIDI – average time of supply interruption in minutes per final customer per year [minutes/year/customer]

CAIDI - average duration of an interruption in minutes per customer per year (minutes/interruption)

## **Connection conditions**

The conditions for connecting a new electricity customer or generator to the distribution or transmission system, including the method of calculating the applicant's share of the costs incurred in the connection and in bringing the required power, are set out in ERO public notice no. 51/2006. The technical conditions for connection are stipulated in the rules of the transmission/distribution system operation (the grid code). All of these documents are available on the respective companies' websites. There was no change in this area.

## **The balancing market**

In this area, basically no changes took place in comparison with 2007. State-owned Operátor trhu s elektřinou, a.s. [*Electricity Market Operator, plc*, 'OTE'] evaluates the contracted and actual electricity supply and take, and subsequently clears the imbalances. It also organises the day-ahead, intra-day and balancing electricity markets and also the market of electricity from combined heat and power generation. The system of intra-day and balancing markets, which was described in detail in the National Report for 2004, continues to work on the principle of an offer/bid bulletin board. Unlike the day-ahead market, no marginal price is generated there; rather, each of the buying/selling bidders specifies their price. The prices at which trades take place on the balancing market serve as input to the calculation of the marginal price of the balancing energy. Both markets are operated round-the-clock yearlong.

### **3.1.3 Unbundling**

In respect of transformation, the key event of 2008 was the establishment of a new company, E.ON Distribuce, a.s., which distributes both electricity and gas. The new company came into existence on 1 June 2008 by a merger of E.ON Distribuce, a.s., a power utility, and JČP Distribuce, s.r.o., a gas utility. The emergence of a company distributing two commodities prompted changes in regulatory reporting, and the relevant requirements will therefore be formulated in 2009. They will mainly include the rules for the allocation of shared overhead costs to electricity distribution and gas distribution.

However, in respect of the requirements for effective managerial and functional unbundling of distribution companies along the lines of the above EU directives, the regulator does not have sufficient powers, such as those set out in ERGEG guidelines for good practice in functional and informational unbundling, to push them through. These are mainly powers that will make it possible to determine the sufficient amount of human, physical and financial resources for the carrying on of a network business and to formulate the rules for shared service provision. As regards distribution companies' independent presentation, the concept of using the shared brand, logo and design of companies within the respective holding structures continues to predominate.

The independence of the only Czech transmission company, ČEPS, is provided for through its ownership separation from other activities, and for this reasons no special demands of this nature are placed on the company.

## **3.2 Competition issues**

### **3.2.1 Structure of the wholesale market**

#### **The degree of integration with neighbouring Member States**

The national legislative framework for electricity export/import from/into the Czech Republic was described in detail in previous national reports. A potential electricity exporter/importer from/into the Czech Republic over the transmission system must buy the respective capacity at a cross-border interconnection in auctions organised by the TSO. In 2008, 20 TWh were

exported from the Czech Republic, while imports totalled 8.5 TWh. The available tradable capacity in cross-border lines in the direction to the Czech Republic, offered in yearly and monthly auctions by the TSO, i.e., ČEPS, a.s., made it possible in 2008 to import, in theory, at least 27 TWh as the yearly volume, which is more than 44 per cent of the Czech Republic's total net consumption in 2008.

### Electricity trading: long-term bilateral contracts, spot market

In the Czech Republic, electricity is traded through PXE, bilateral contracts, and spot markets organised by OTE. While the products traded on PXE (annual, quarterly and monthly futures) have fixed expiry dates, these rules do not apply to bilateral contracts. In general, the term of bilateral contracts varies; the electricity producer and electricity trader usually enter into one-year agreements.

Due to the co-existence of PXE, OTC bilateral contracts, and short-term markets organised by OTE, it is not feasible to clearly determine the percentage of consumption "originating" from each of these markets. A physical supply of 1 MWh of electricity taken by a final customer may originate from several earlier transactions between the market players. This principle is also apparent from the products on the energy exchange, where an annual product automatically falls apart into shorter products (a quarter, a month). Market participants can therefore use shorter products for continuously levelling their trading positions prior to the physical supply/take.

For the above reasons, the PXE data shown below has been left without further comments.

**Table 4 Trading on the PXE in 2008**

Number of trading sessions			252
<b>The futures market</b>			
<b>Volume traded / Volume</b>		<b>[MWh]</b>	<b>32,727,366</b>
of which	BASE LOAD	[MWh]	30,417,966
	PEAK LOAD	[MWh]	2,309,400
<b>Volume traded / Value</b>		<b>[EURm]</b>	<b>2,440.96</b>
of which	BASE LOAD	[EURm]	2,202.63
	PEAK LOAD	[EURm]	238.33
<b>Traded contracts</b>		<b>[MW]</b>	<b>14,042</b>
of which	BASE LOAD	[MW]	11,217
	PEAK LOAD	[MW]	2,825
<b>Number of trades</b>			<b>4,242</b>
of which	BASE LOAD		3,396
	PEAK LOAD		846
<b>Average daily volume</b>		<b>[MWh]</b>	<b>129,870.50</b>
of which	BASE LOAD	[MWh]	120,706.21
	PEAK LOAD	[MWh]	9,164.29
<b>Spot market</b>			
Volume traded / Volume		[MWh]	93,130
Volume traded / Value		[EURm]	7.073
Traded contracts		[MW]	9,130
Number of trades			1,700

Source: PXE

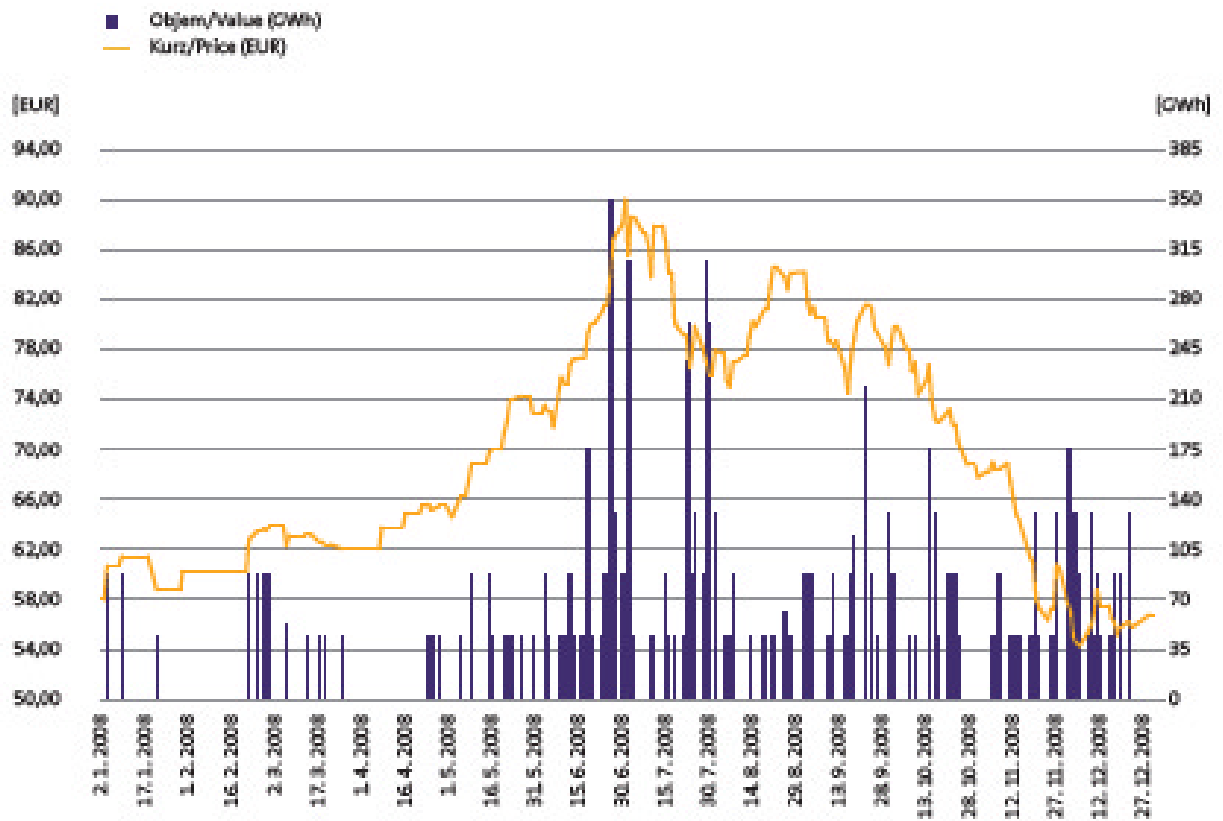


**Chart 1 Month-ahead PX prices in 2008**



Source: PXE

**Chart 2 BL CAL-09: Czech base load year futures (for 2009) in 2008**



Source: PXE

The remaining volume of electricity is traded through OTC bilateral contracts and also on the spot markets (day-ahead and intra-day markets) organised by OTE. In 2008, 1,361 GWh and 106 GWh of electricity were traded on the day-ahead and intra-day markets, respectively; the share of these spot markets is approximately one per cent of the total electricity traded in the Czech Republic in 2008. All cleared entities, i.e., not only traders and generators but also the customers who are responsible for imbalances (the so-called entities subject to clearing), can go to the spot markets to procure electricity.

### **Mergers and acquisitions in the electricity industry in 2008**

In 2008 the Office for the Protection of Competition (ÚOHS) assessed one merger of undertakings in the electricity industry, namely J&T Private Equity B.V. and Czech Energy Holding, a.s.

#### **J&T Private Equity B.V. and Czech Energy Holding, a.s.**

On 25 March 2008, the ÚOHS permitted, without any limitations, a merger of undertakings J&T Private Equity B.V., having its registered office in the Netherlands, Amsterdam, Weteringschans 26 (“JTPE”), and Czech Energy Holding, a.s., having its registered office at Praha 8, Pobřežní 297/14, Company No. 27166511 (“CEH”). The merger took place by way of JTPE assuming control over CEH.

The merger concerned the areas of thermal energy generation, distribution and supply and electrical energy generation, distribution and trading. In the heat supply industry, only CEH operates, specifically in the towns of Most and Litvínov, using its district heating systems. In the electricity industry, CEH mainly operates as an electrical energy producer (with a share of less than one per cent of the total quantity of electrical energy produced in the Czech Republic), and also as an electricity supplier; JTPE operates, through its minority equity interests in Pražská energetika, a.s. and První energetická, a.s., in electrical energy purchase, distribution and sale to final customers and the provision of related services.

The ÚOHS noted in its decision that the merger of these undertakings would not result in any deterioration in the competitive environment in the above areas, in particular because of the small share that would be held by the merged entity in overall electrical energy production in the Czech Republic and its share in electrical energy supply, and also because of the already existing relationship of a customer and supplier between the merging undertakings.

### **3.2.2 Structure of the retail market**

Only three vertically integrated companies whose subsidiaries hold a licence both for electricity distribution (DSOs with more than 90,000 customers) and for electricity trading are currently operating on the Czech electricity market. They are the ČEZ Group, the E.ON Group, and the PRE Group. In 2008 too most customers selected the supplier companies belonging to the above Groups as their electricity suppliers; the reasons are the relatively small number of active independent traders on the Czech market and the negligible differences in the supply prices offered. These three suppliers' electricity market share accounts for more than 95 per cent of final customers' total consumption in the Czech Republic; in the case of customers connected to the low voltage level their share is more than 99 per cent.

Several (about 20) more important independent traders also operate on the electricity market; their total market share is currently up to a few per cent of customers' total consumption. So far, these suppliers have been offering electricity bought from smaller generators or imported from other countries mainly to large industrial customers; the reason has been the gradual opening of the Czech electricity market. In 2008 several independent traders also started to

operate at the national level, focusing on the small business and household categories. In most cases new electricity supply agreements are executed in perpetuity, with a three months' period of notice; in some cases they are fixed-term agreements, usually for a term of 12 or 24 months.

In 2008 customers did not make any major changes of their electricity suppliers. Most of the suppliers had agreed on the prices for 2008 in the past, i.e., the differences between their offering prices were only minimum. In connection with the high volatility of electricity prices on the exchange in 2008, which primarily influenced electricity prices for 2009 and the following years, and the various suppliers' different business strategy, significant changes in offering prices already can be seen for 2009. This situation has made a relatively large number of even small customers switch their supplier. This development is best seen at the end of 2008 and the beginning of 2009, when customers started to actively look for the most suitable electricity supplier, to whom they subsequently switched.

For the above reasons, it is not feasible to clearly cite the electricity offering prices for the various customer categories. Simplifying somewhat, suppliers' offering price is based on the current situation on electricity markets, i.e., the resulting price of energy is influenced more by the moment when the transaction is executed than the customer category itself. The foregoing applies primarily to large and medium-sized customers; but also in the small customer category some suppliers have started to offer some products, the energy offering price of which derives from the current price on energy exchanges.

### **Support for the market and information for customers**

To provide the electricity market participants with more information about not only electricity supply on the liberalised market, state administration authorities (Ministry of Industry and Trade, Energy Regulatory Office, etc.) have set up Frequently Asked Questions (FAQ) sections on their websites, which summarise customers' typical questions and answer them in a comprehensible way. They monitor the development of market participants' questions and update the FAQ section on a regular basis in response to these suggestions.

On their websites, state administration authorities inform about the options and procedures for electricity supplier switching and, above all, about the structure of the services offered and the suppliers' prices and consumers' rights. The websites are interconnected via links. For example, the Office's fundamental tool is an interactive ready reckoner for electricity prices, with the help of which every customer connected to the low voltage level can, after keying in the input parameters (the region, the distribution rate, the level of consumption) compare their overall cost of electricity supply from each of the suppliers and find the best supplier, if they wish. The ready reckoner is being updated on a regular basis and gradually extended to include additional useful functionalities and information.

### **Number of customers who have switched suppliers**

According to information available from OTE, in 2008 a total of 57,689 customers switched their supplier. Since the beginning of the liberalisation of the Czech electricity market, i.e., 2002, more than 120,000 entities have changed their supplier, which is more than two per cent of all supply points on a cumulative basis (Table 1).

### **Supplier switching procedure**

The supplier switching process itself, the procedure for which is set out in ERO public notice no. 541/2005 on the electricity market rules, principles of pricing the electricity market operator's activities and the implementation of certain other provisions of the Energy Act, was not marked by any major changes in comparison with the preceding period, i.e., the

overall electricity supplier switching process may not be longer than 17 business days (i.e., 23 calendar days) from the moment the customer files an application for supplier change. No fees are charged to the customer for such supplier switching.

### **Inquiries and complaints addressed to the Energy Regulatory Office**

Table 5 shows, by category, the number of inquiries and complaints received from electricity market participants (usually customers), which were addressed to the Office in 2008. The Office has no data on market participants' questions and complaints addressed to electricity suppliers.

**Table 5 Number of questions and complaints addressed to the Energy Regulatory Office**

<b>2008</b>	<b>Inquiries</b>	<b>Complaints</b>	<b>Total</b>	<b>Share %</b>
Prices	91	8	99	23
Metering	27	3	30	7
Customer services	7	1	8	2
Business practices	5	6	11	3
Misleading business practices	3	1	4	1
Contract terms and conditions	53	7	60	14
Billing	35	4	39	9
Obstacles to supplier switching	19	6	25	6
Problems with supply, related to payments (disconnection)	26	6	32	7
Problems with supply, technical matters	83	2	85	20
Refusal to provide supply	5	0	5	1
Other	33	1	34	8
<b>Total</b>	<b>387</b>	<b>45</b>	<b>432</b>	<b>100</b>

Source: Energy Regulatory Office

### **Consumers' complaints addressed by the State Energy Inspectorate (SEI)**

In 2008 the SEI dealt with 205 complaints in the electricity industry. They concerned billing and invoicing, metering, sub-standard supplies, unauthorised consumption, connection of supply points, moving of installations, etc.

### **Consumers' complaints, and investigation conducted by the Office for the Protection of Competition (ÚOHS)**

In 2008 the ÚOHS received a large number of complaints from final customers. They mainly concerned the high electrical energy prices for 2008. A number of them also concerned the transparency and objectivity of the price created on the PXE. In response to these complaints, the ÚOHS is holding an inquiry into trading on the PXE; however, the inquiry has not been completed, i.e., no breach, if any, of Act No. 143/2001 on the protection of competition and changes to certain laws (the Competition Act), as amended (Act No. 143/2001), has been found to date.

The overall amount paid by final customers for electricity supplies is composed of two basic parts. One part contains controlled prices for electricity transport, set by the Energy Regulatory Office for every calendar year. The other part contains charges for electrical energy as such, i.e., the commodity, and the related services, and it is not subject to regulation and depends on the market environment. These inquiries have concluded that changes in electrical energy prices for final customers are primarily due to the growth of the wholesale electricity price, which results from a transparent match between supply and demand on the market. For particular customers, price changes may also be due to a number of other factors

such as year-on-year changes of the load profile and the nature of consumption, selection of a different electrical energy product, change in controlled prices, etc.

As part of its inquiries the ÚOHS concluded that prices for households and small customers – judging by the presented price lists of the ČEZ Group, E.ON Group and PRE Group companies for 2008 – copied the prices of the supplier of last resort under Section 12a of the Energy Act, which the ERO had set in its relevant price decisions; the prices set by the above groups therefore did not exceed the prices controlled by the State.

The ÚOHS referred complaints that were addressed to it but concerned in fact the issues that fell within the ERO's exclusive competencies, to the ERO on the grounds of the ÚOHS's lack of jurisdiction. In the electricity industry, these were most frequently citizens' complaints about high prices in the controlled part of electricity supply prices and issues such as electricity service lines, service billing, unauthorised consumption, etc.

In 2008 the ÚOHS did not conduct any administrative proceedings on a potential breach of Section 3 or Section 11 of Act No. 143/2001 or breach of Article 81 or Article 82 of the EC Treaty in the electricity industry.

### **3.2.3 Measures to avoid abuses of dominance**

#### **Market surveillance**

In the protection of competition, the ÚOHS operates within a legislative framework defined by Act No. 143/2001, which specifies the group of entities whose competition practices the law covers. Act No. 143/2001 applies to all entities that can be subsumed under the concise legislative term “undertaking” within the meaning of Section 2 of Act No. 143/2001, and to all sectors of the economy without any exceptions, including the energy sector, and to all public and private enterprises. The ÚOHS is the only administrative authority that has the remit to assess whether undertakings' practices cause a breach of the Competition Act. The ÚOHS can *ex post* punish, through specific interventions in administrative proceedings, an undertaking's practices that transgress a regulatory law.

Because of the financial and practical challenges inherent in the development of alternative installations and networks, the undertakings that own the existing energy installations and networks are, and will continue to be, monopoly undertakings (network monopolies); Surveillance by the ÚOHS is therefore necessary.

The ÚOHS welcomes the fact that economic operators have an opportunity to receive pricing signals on the electricity market as a result of free market forces, in the past thanks to the working of the so-called virtual power station through trading via OTE and, since 2007, through trading on the PXE. While until the end of July 2008 the prices of electrical energy traded on the PXE continuously grew because of the gradual convergence of the prices in the Czech Republic and surrounding countries, in mid-2008 this increasing trend turned around. As a result of a plunge in demand for electrical energy, caused by the onset of the global economic crisis, electrical energy prices continuously decreased to one half of the July 2008 level. Going forward, it is realistic to expect a close correlation between the development of prices in the Czech Republic and, primarily, neighbouring Germany, and a gradual equalisation of the prices in the two countries. The most important volumes of electrical energy exports from the Czech Republic have gradually shifted towards Slovakia and further eastwards; as a result, the influence of the bottlenecking Czech/German cross-border interconnection has disappeared. This is why a gradual elimination of the current differences between the prices in these two countries can also be expected.

## 4 Regulation and structure of the natural gas market

### 4.1 Regulatory issues

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

In 2008 RWE Transgas Net, s.r.o., which holds the exclusive gas transmission licence in the Czech Republic, provided natural gas transmission across the Czech Republic for the purpose of supplying final customers and for natural gas transmission across the Czech Republic, primarily under a long-term agreement with RWE Transgas, a.s., which provides gas transmission under agreements in place for Gazprom export Ltd., Ontrans VNG Gastransport GmbH and Kassel-based Wintershall AG.

Public notice no. 524/2006, on the gas market rules, requires the TSO to publish information to an extent that will meet the requirements of point 3.3 of Annex A to Regulation 1775/2005/EC. The TSO publishes the following on its website at [www.rwe-transgasnet.cz](http://www.rwe-transgasnet.cz) once a month:

- the annual plan of the shutdowns of the various parts of the transmission system and the maintenance plan,
- a long-term plan for the reinforcement of the transmission system,
- forecasts of free transmission capacity for the following ten-year period for each of the transmission system's entry and exit points,
- historical minimums and maximums of the monthly transmission capacity utilisation and annual average flows,
- actual values of gas supplies into the gas system, gas takes from the gas system, and the size and direction of the system imbalance by gas days,
- income from imbalances over the allowed tolerance, income from missing balancing gas, and outlays on excess balancing gas.

The TSO also publishes the following information on a daily basis:

- the size of the technical capacity, the total committed firm capacity, the total committed interruptible capacity, and free transmission capacities for each of the transmission system's entry and exit points for the following 18 months,
- the indicative availability of daily transmission capacities for each of the transmission system's entry and exit points one day and one week in advance,
- preliminary values of gas supplies into the gas system, gas takes from the gas system, and the size and direction of the system imbalance for the previous gas day.

RWE Transgas Net, s.r.o. provided information about the technical capacity available at all of its border transfer stations in Lanžhot, Hora sv. Kateřiny and Waidhaus on its website in the structure required by regulation 1775/2005/EC. In line with these requirements, the transmission capacity was offered on both the firm and interruptible basis for the term of daily, monthly, annual and multi-annual agreements.

There are no bottlenecks in the Czech transmission system; the system is capable of transporting the required gas volumes and there is no need to adopt any measures vis-à-vis gas market participants to deal with congestion in the gas system. In the event of capacity shortfalls, the capacity would be allocated on a *pro rata* basis.

In 2008, secondary trading in capacity, commodity and unused tolerances took place via a bulletin board under the conditions set out in the gas market rules and the Grid Code. As in 2007, in 2008 the secondary market was not liquid due to the abundance of primary capacity.

There were higher rates of capacity utilisation only at the national level in distribution systems; nevertheless, this did not precipitate any need for limiting customers' capacity requirements or for pipeline capacity reinforcement.

As regards the priorities in capacity allocation (national or cross-border) in the event of a commercial congestion, and the issue of gas transit, the same rules as in 2007 stayed in place in 2008. Since there was sufficient primary capacity in the transmission system in 2008 these rules were not applied in practice.

#### **4.1.2 The regulation of the tasks of transmission and distribution companies**

##### **The Czech gas system**

The inland transmission system is comprised of gas pipelines having a total length of 1,183 km. The transmission system is operated by RWE Transgas Net, s.r.o., which operates inland gas transmission as well as gas transit across the Czech Republic. The TSO transports gas to eight regional gas distribution systems (DSO), of which each serves more than 90,000 final customers. Further, as at 31 December 2008 a total of 84 smaller holders of licences for natural gas distribution in local distribution systems, via which natural gas reaches final customers under conditions laid down in the legislative framework, operated on the Czech market.

##### **The Balancing Centre**

The Balancing Centre is responsible for obtaining information from the TSO, operators of the distribution systems which have, each of them, more than 90,000 customers, and SSOs. For these entities to provide co-operation, the Balancing Centre is vested with rights specified in the Energy Act; at the same time, it has the statutory duty to supply, upon request, the Ministry of Industry and Trade and/or the Energy Regulatory Office with information required for the exercise of their rights and performance of their obligations. The Balancing Centre processes and publishes the information that it obtains (the development of gas production, supplies and consumption, the capacities and performance of the transmission system, distribution systems and underground gas storage facilities, and the line pack).

Final customers have the duty to provide the Balancing Centre with monthly data on gas supplies in cases where the final customers arrange for such supplies on their own, including imports. Further, final customers must notify the Balancing Centre of any change of their supplier.

##### **Network tariffs**

ERO public notice no. 150/2007 on regulatory methods in the energy industries and price control procedures sets out the key principles of gas transmission and distribution pricing for final customers in the Czech Republic

##### **Transmission**

Final customers who use the transmission system through natural gas traders pay the cost of transporting natural gas through the Czech transmission system, the cost of identifying and keeping the required natural gas quality standards (metering of GCV, pressures, etc.), and the costs incurred in the balancing of the Czech gas system to the TSO.

For the level of transmission charges calculated on the entry/exit principle, the level of allowed revenues from gas transmission is important; it is determined annually by the Office. Allowed revenues cover allowed costs, depreciation and amortisation, profit, the correction factor and, possibly, certain other eligible variables. During the second regulatory period the value of the regulatory asset base, from which profit is derived, is being adjusted by changes in residual operating assets, which helps to motivate companies to make investments.

The parameters for calculating the allowed revenues for 2008 had been set on the basis of the data furnished by the gas transmission licence holder in its regulatory reports for 2006 and in official letters; this data mainly includes the amount of actual revenues from gas transmission, actual amounts of losses and fuel gas, the costs spent on the market operator, actual costs of transmission system balancing, etc. This data was also used as the basis for calculating the correction factor for gas transmission in 2006, which was applied in gas transmission charges for 2008. It is positive, because in 2006 the licence holder eventually did not earn as much money as it had been allowed.

Allowed revenues also include the costs of transmission system balancing using a sufficient amount of capacity booked in underground gas storage facilities. Eligible costs related to the withdrawal capacity reserved for transmission system balancing for 2008 increased against 2007 due to the higher gas storage charge.

The TSO's total allowed revenues increased 5.23 per cent in 2008. This increase is attributable to higher costs incurred in the functioning as the market operator, which role the TSO plays, and also higher costs of transmission system balancing, inclusion of the escalation indexes reflecting inflation, and addition of the positive correction factor.

In comparison with 2007, due to a change in the booked capacity planned for 2008 in the transmission system the increases in the resulting transmission charges differed from the increase in allowed revenues; the increase was 6.01 per cent. The charge for daily booked capacity at an exit border point increased 9.06 per cent due to higher transit fees, from which this charge is derived.

The final transmission charges reflect the type of the gas transmission agreement. Gas transmission agreements that can be entered into are annual agreements, daily agreements, or agreements for a term from one to eleven months, provided that the price under agreements shorter than one year takes into account the fact that the use of the transmission system varies in different months of the year, and therefore the amount of the effort to provide transmission capacity for a shorter period depends on the specific calendar month and the term of the gas transmission agreement. This is done by means of coefficients, which differ for each month and which put at a disadvantage gas consumption in winter when the demand for this service is generally stronger. Daily contracts are also priced on the basis of these coefficients.

Throughout the second regulatory period (from 2005 to 2009, inclusive) the revenue cap method is being used for gas transmission pricing. Inland transmission capacity is booked on the entry/exit principle.

In 2008 the charge for transit across the Czech Republic was calculated on the basis of benchmarking routes competing for natural gas transmission. Under the approved methodology, the TSO set a double-component rate for transit for 2008. One component related to the contracted transmission capacity for a pair of an entry and exit point in international transmission, and the other component covered fuel gas and accounted for 0.77 per cent of the actually transported gas volume. It was also permitted to enter into agreements on transmission over the transit system for shorter terms, i.e., for a term of one or more days.



## **Distribution**

In 2008 eight regional companies carried on the licensed business of gas distribution in the Czech Republic. More than 90,000 supply points of final customers taking natural gas are connected to the distribution system of each of these companies. The length of the gas pipelines in all of these distribution systems totalled 65,661 km as at 31 December 2008. RWE Gas International B.V. acquired 100% equity interests in SČP Net, s.r.o., STP Net, s.r.o. and ZČP Net, s.r.o., and in this connection it advised of a merger of these companies in 2009.

The distribution systems to which less than 90,000 supply points of final customers are connected are called local distribution systems. Local distribution system's entry delivery points are connected to regional distribution systems. Local distribution system operators provide distribution services in a limited area, thereby supplementing natural gas distribution provided by regional distribution systems. In 2008 the number of gas distribution licence holders who operated local distribution systems decreased from the original 91 to 83.

The revenue cap method has been continuously employed for controlling the prices of licensed activities in the gas industry. For the whole regulatory period, an efficiency factor whereby companies are motivated to reduce their operating expenditure has been set in respect of the value of the allowed costs of distribution. Prices are set for a calendar year with effect from 1 January of the respective year. They are set using the same methodology separately for the operator of each regional distribution system. Depending on the use of the distribution system, final customers' supply points are included in offtake bands by the overall annually quantity distributed, provided that the dividing lines between offtake bands are identical for all DSOs.

The year 2008 was the last but one year of the five-year second regulatory period. The baseline parameters set for the whole regulatory period and also the data provided by regional distribution system operators in their regulatory reports, the furnishing of which is provided for in delegated legislation on energy, are used for pricing gas distribution. In their regulatory reports, DSOs furnish financial and technical data for the preceding calendar year, distributed quantities, booked capacities and revenues for the preceding calendar year broken down by offtake bands and pressure levels. They also report the values planned for the following year.

In 2008 the distribution charges were set as double-component charges for all offtake bands in all customer categories. One component was the price for the allocated distribution capacity; for a particular supply point, this price determines the standing charge depending on the distribution capacity agreed for supply points with an annual gas take higher than 63 MWh. For supply points taking up to 63 MWh/year, the fixed component has the form of a standing monthly charge. The other component was the price for the quantity distributed to the particular supply point, which served as the basis for calculating the variable payment that depends on distributed gas quantities.

The calculation of gas distribution charges is based on the annual gas quantity planned to be distributed by the particular distribution system and the maximum amount of the gas transported through the system over one day. In some cases, in 2008 customers complemented their annual gas distribution agreements with agreements for a term shorter than 12 months. The gas market rules also define short-term, monthly, agreements, where the prices are derived from the yearly price similarly as the monthly price for transmission.

To make sure that the respective TSO or DSOs do not take a discriminatory approach, gas distribution and transmission charges are set as fixed prices, i.e., no discounts can be granted, and the prices cannot be increased.

In 2008 no DSO had to interrupt supplies due to a distribution capacity shortage, and therefore no discounts for interruption were granted.

Table 6 shows the gas distribution charges for 2008 for the various categories of final customers by Eurostat categorisation, ranging from the least to the most expensive distribution system with more than 90,000 supply points. The charges are in CZK/MWh and without VAT.

**Table 6 Average distribution charges in 2008**

Eurostat category	Distribution charge	
	min CZK	max CZK
I4-1	45.69	92.93
I1	144.27	248.74
D3	158.68	286.88

Source: Czech Statistical Office

### Service quality

Public notice no. 545/2006 on the quality of gas supplies and related services in the gas industry sets out the key rules in respect of final customers, which have to be observed by both gas traders as well as DSOs, the TSO and SSOs.

This instrument sets out the required quality of natural gas supplies and the services related to regulated activities in the gas industry, compensations for failure to keep the quality, and also the time limits for claiming such compensation. In this connection, in 2008 the Office posted on its website information for customers about the opportunity to claim and obtain compensation for failure to keep the standards required by the above public notice. This information helped to enhance final customers' awareness of the existence of the instrument and the entitlements stemming from it.

Holders of the relevant licence are obliged to keep the parameters set out in the public notice and also to publish quality parameters. The instrument requires all licence holders responsible for keeping the standards to publish, in a manner permitting remote access and by 31 March of the calendar year, a summary report on their keeping of all the standards for the preceding calendar year. The reports were first published on 31 March 2008 for 2007. For the purpose of reviewing the performance of this duty, the Office initiated inspection by SEI. The inspection indicated that a total of 162 licensed entities had been examined. In 61 cases the summary report on standard keeping in 2007 was published by the date required. The other entities that were subjected to the inspection published their reports prior to or during the review.

On 22 December 2008, Pražská plynárenská, a.s. applied to the Office for an exemption for about six months, concerning the meeting of the required time limits for complaint handling. The company cited migration to a different information system as the reason for its request. The Office did not grant the request.

The summary reports on standard keeping for 2008 indicate that standards were broken in four cases. Specifically, compensations were paid for failure to keep the standard of time limits for handling complaints about gas supply metering, the standard of time limits for handling complaints about gas transmission, distribution or storage billing, and the standard of time limits for handling complaints about gas supply billing.

### Information about gas transmission and distribution conditions

The TSO's and DSOs' grid codes set out the terms and conditions of gas transmission and distribution in the Czech Republic; they are posted on the respective websites.

The prices for gas transmission and distribution set by the Office can be found in ERO price decisions, which are available on the ERO's official website, and also on the respective distribution system operator's website.

### **Balancing**

The character of the gas market model's functioning did not change in any material balancing parameters in the period under review. The balancing process continued to be based on the daily interval of imbalance evaluation.

In addition to the line pack, withdrawal/injection capacities of underground gas storage facilities and a limited quantity of gas in these facilities were available to the TSO for physical system balancing.

As regards commercial balancing, the principle of calculating the balancing tolerance using a formula identical for all entities subject to balancing was preserved. The Office set the coefficients for calculating balancing tolerances in relation to the use of the transmission system and the line pack.

For the evaluation of the 'balancing imbalance' and the opportunity to use the balancing tolerances, the whole of the Czech Republic was a single balancing zone. When the balancing tolerance was exceeded, the so-called off-tolerance balancing imbalance arose, which was subject to a charge set by the Office in its price decision.

Entities subject to clearing had an opportunity to transfer their responsibility for imbalance by supply points, and also to transfer overall responsibility for imbalance; together with such transfer, also the transferring cleared entity's overall tolerance was transferred.

Because of the non-existence of a sufficiently liquid market with a daily reference price resulting from an effective match between supply and demand (perfect competition) the balancing imbalances were balanced by means of payments in kind. On the basis of preliminary results of metering, the individual entities balanced the imbalances for day D on day D+2. The TSO then evaluated a whole calendar month, on the basis of which these cleared entities balanced the sum of the actual 'balancing imbalances' for that calendar month on the 15th to the 24th day of the following month.

If a cleared entity did not opt for payment in kind, it paid for the missing balancing gas at a price that the Office had, because of the non-existence of a daily market price of natural gas, set at 1.6 times the maximum price of the gas from RWE Transgas, a.s., while the price for excess balancing gas was set as 0.4 times the above price. The TSO paid for the excess balancing gas. In 2008 the maximum natural gas price for calculating the prices for missing/excess balancing gas ranged from CZK 546.40 to CZK 802.92 per MWh, including both of these limit values.

#### **4.1.3 Unbundling**

In respect of transformation, the key event of 2008 was the establishment of a new company, E.ON Distribuce, a.s., which distributes both electricity and gas. The new company came into existence on 1 June 2008 by a merger of E.ON Distribuce, a.s., a power utility, and JČP Distribuce, s.r.o., a gas utility. The emergence of a company that distributes two commodities prompted requirements for changes in regulatory reporting, which will therefore be formulated in 2009. They will mainly include the rules for the allocation of shared overhead costs to electricity distribution and gas distribution.

Further, in 2008 MND Gas Storage, a.s., specialising in underground gas storage, was split off Moravské naftové doly, a.s.

However, in respect of the requirements for effective managerial and functional unbundling of regulated companies along the lines of the EU directives, the regulator does not have sufficient powers to push them through, such as those set out in ERGEG guidelines for good practice in functional and informational unbundling. These are mainly powers that make it possible to determine the sufficient amount of human, physical and financial resources for performing network business and to formulate the rules for shared service provision. As regards regulated companies' independent presentation, the concept of using the shared brand, logo and design of companies within the respective holding structure continues to predominate.

From the perspective of the regulator's requirements for independence, no special requirements are placed on the TSO, which is subject to the same treatment as DSOs.

## **4.2 Competition issues**

### **4.2.1 Structure of the wholesale market**

#### **Gas consumption**

In the Czech Republic, gas consumption has displayed a slightly declining trend for some years. In 2008, actual natural gas consumption amounted to 8,685 bcm. Consumption adjusted to normal monthly temperatures and temperature gradients of consumption amounted to 9.78 bcm. Over the past few years, the net calorific value of natural gas supplied to final customers has been increasing slightly. It is now approximately 9.52 kWh/cu m (34.27 MJ/cu m). The gross calorific value is approximately 10.56 kWh/cu m (38.02 MJ/cu m).

#### **Indigenous resources and imports**

In the Czech Republic, total gas demand is met from indigenous and foreign sources. Since indigenous gas production is negligible the Czech Republic has to import almost all of the natural gas it needs. Natural gas was imported from Russia, Norway and Germany. From Russia, 6,401 mcm of gas was imported, from Norway 2,073 mcm, and from Germany 218 mcm. Natural gas imports were secured primarily by long-term take-or-pay natural gas supply agreements. These agreements are owned in the Czech Republic by RWE Transgas, a.s. in almost all cases. Three-quarters of the country's annual demand are covered by gas supplied by the Russian producer OAO Gazprom Export (73.6 per cent), Norwegian producers supply another part of gas (23.9 per cent), and a small share is taken by natural gas supplied by German companies (2.5 per cent). In addition to the well-established companies, RWE Transgas, a.s., and also VEMEX, s.r.o. whose share of imports was 7.9 per cent, in 2008 new natural gas importers began to operate on the Czech market: Wingas GmbH & Co. KG, Lumius, spol. s r.o. and Česká plynárenská, a.s., which accounted for 2.3 per cent of gas imports (contracts for imports from Germany and Norway). Indigenous production helps to meet 1.3 per cent of the Czech Republic's demand. In 2008 supplies of indigenous gas amounted to 116.6 mcm. These resources mainly include natural gas produced in southern Moravia by Moravské naftové doly, a.s., with the gas supplied largely to Jihomoravská plynárenská, a.s. (JMP, a.s.) and companies affiliated with Moravské naftové doly, a.s., and, to a lesser extent, the so-called surface drained gas, i.e., gas drained from hard coal mines in Northern Moravia by UNIGEO, UNIMASTER and OKD for local needs in the region served by the distribution company SMP Net, s.r.o.

## **Natural gas storage prices**

In addition to RWE Gas Storage, s.r.o., which owns six of the eight underground gas storage facilities located in the Czech Republic, also MND Gas Storage, a.s. and SPP Bohemia, a.s., related through equity, were active on the Czech natural gas storage market in 2008.

MND Gas Storage, a.s. operates the Uhřice UGS facility; the owner and operator of the Dolní Bojanovice facility is SPP Bohemia, a.s. The latter facility is only used for the Slovak Republic's needs, under contracts and for technical reasons of connection to the transmission system.

More than 90 per cent of the gas stored in UGS facilities for supply to the Czech market in 2008 was owned by RWE Transgas, a.s., and the balance was owned by Pražská plynárenská, a.s., the Italian company ENOI S.p.A., Pragoplyn, a.s., and United Energy Trading, a.s.

Storage capacity availability, including some other information, is posted on the operators' websites, from which also model capacity booking request forms can be obtained. When new storage capacity is put on stream (for example, a gas storage facility is reinforced or a contract with a storage customer is terminated), it is offered to bidders in public auctions under terms and conditions published in advance.

Gas storage in underground gas storage facilities is not subject to price control; each of the SSOs determines its price for natural gas storage on its own. The average price for gas storage in the Czech Republic was CZK 1.39/cu m of the working volume in the 2008/2009 storage year (from 1 April 2008 to 31 March 2009), for the calendar year 2008 it was CZK 1.32/cu m of the working volume.

Gas suppliers include the gas storage service in their prices of gas supply in the form of the cost of procuring this service and in line with their own business strategy. Thus, every trader himself decides about the way in which these costs will be reflected in the variable and fixed components of the gas supply price.

## **New gas market players**

New trading entrants have become fully involved in the competitive fight for gas customers, mainly in the large offtake category. Entities that were active in 2007 continued to supply gas in 2008. These entities included Moravské naftové doly, a.s., whose market share was rather small because of supplies to four final customers (affiliated with Moravské naftové doly, a.s.): it supplied the gas that it produced mainly to Jihomoravská plynárenská, a.s. VEMEX, s.r.o., which is indirectly controlled by the Russian company OAO Gazprom and which imported gas under a contract with this company, was a trader that expanded significantly and operated successfully on the Czech market. VEMEX, s.r.o. registered its success primarily in the category of large offtake customers with even load profiles. Another quickly expanding company was Lumius, spol. s r.o., which focused on customers on the border between large and medium-sized offtake. Another major trader was Petr Lamich – LAMA INVESTMENTS, a.s.: benefiting mainly from production from its own sources, the company could also focus on seasonal customers in the heat supply sector.

Increased interest in the medium-sized and low offtake categories was registered in the Czech Republic in 2008. Mainly Lumius, spol. s r.o., Pragoplyn, a.s. and Česká Energie, a.s. competed for these customers. The other new gas traders' share was negligible. Overall, 18 gas traders actively vied for final customers on the Czech gas market in 2008.

## **Contractual relationships**

The gas purchase agreements of gas traders who were part of the same enterprise as a DSO with more than 90,000 customers, intended for gas supplies to final customers in 2008, were long-term take-or-pay agreements. Almost 100 per cent of the volume of purchased gas was provided by RWE Transgas, a.s. The other gas traders usually entered into gas purchase agreements containing the take-or-pay clause too.

Unlike 2007, there already were no limitations on wholesale prices, and natural gas prices therefore did not derive from ERO price decisions any longer.

## **Companies with a market share of above five per cent**

RWE Transgas, a.s. continues to be the most important company on the Czech market; on the wholesale market it is the only player having a market share of more than five per cent. Its core business includes natural gas trading under the Energy Act. RWE Transgas a.s. holds exclusive control over its subsidiary RWE Transgas Net, s.r.o., which has been operating as the TSO since 1 January 2006, and over RWE Gas Storage, s.r.o., which operates 75 per cent of the storage capacity located in the Czech Republic. The overall storage capacity also includes the Dolní Bojanovice storage capacity, which is, however, used for Slovakia's needs.

In 2008, another major gas trader was Pražská plynárenská, a.s. (PP, a.s.), in which a cumulated majority stake (about 74 per cent) is held by the German energy group E.ON. Nevertheless, the latter does not control PP, a.s.

The last gas trader that exceeded a market share of five per cent in 2008 was VEMEX, s.r.o.

## **Mergers and acquisitions in the gas industry in 2008**

In 2008 the ÚOHS did not assess any merger of undertakings in the gas industry.

### **4.2.2 Structure of the retail market**

There are altogether 102 gas trading licence holders in the Czech Republic, i.e., 14 licences more than the year before. However, one decisive wholesale gas supplier operates on the market, RWE Transgas, a.s. In 2008, the other wholesale suppliers did not exceed ten per cent of the total gas marketed in the Czech Republic.

Following the unbundling of regional gas companies, the decisive suppliers who have been left on the retail market are eight gas trading licence holders, each of them supplying natural gas to more than 90,000 customers, and, newly, VEMEX, s.r.o., which provides natural gas to large customers. Legally unbundled regional traders are responsible for supplies of last resort in the domestic zones defined by the distributor's distribution system. The share held by gas traders in total natural gas consumption in the Czech Republic can be seen in Table 7. Six of the nine major suppliers are controlled by the RWE Group and the gas supplied by these suppliers accounts for 72.23 per cent of total natural gas consumption in the Czech Republic. Another two are part of the E.ON group and their market share was 16.66 per cent.

The other gas trading licence holders either also hold a gas distribution licence - they are local distribution system operators that operate within their respective local distribution system, or entities focused solely on natural gas trading, the market share of which is continuously growing. The aggregate supplies by all the other traders supplying gas to final customers, which are not listed in the preceding paragraph, did not exceed 2.61 per cent of the total quantity of gas supplied to all final customers in the Czech Republic. Then there are traders who have not yet launched their licensed business.

**Table 7 Shares of traders supplying natural gas to final customers in the Czech Republic**

	2007 [%]	2008 [%]	Difference [%]
E.ON	4.27	4.09	-0.18
JMP	22.61	20.97	-1.64
PP	11.66	11.78	+0.12
SČP	12.89	9.27	-3.62
SMP	16.95	14.60	-2.35
STP	10.57	10.56	-0.01
VČP	10.50	9.76	-0.74
ZČP	7.66	7.07	-0.59
VEMEX	2.59	5.86	+3.27
Others	0.33	6.04	+3.76

Source: Balancing Centre, Energy Regulatory Office

### Structure of final customers in the Czech Republic

In accordance with the Czech Republic's energy legislation, customers are categorised by their annual natural gas consumption into the following segments:

- Households and low-offtake customers (annual consumption up to 630 MWh/year);
- Medium-sized customers (annual consumption from 630 to 4,200 MWh/year); and
- Large-offtake customers (annual consumption over 4,200 MWh/year).

Table 8 shows prices of supplies broken down by Eurostat's consumer categories, provided by the Czech Statistical Office for the purpose of this National Report. The prices are in CZK/MWh and include all services, i.e. distribution, transmission, storage, commodity and other commercial services. Column A shows prices without VAT while column B shows the same prices inclusive of all taxes. In addition to the 19% VAT and environmental tax, CZK 30.60/MWh, on natural gas used for heat generation regardless of its use, in 2008 the price of natural gas supply to final customers did not include any other tax or levy.

**Table 8 Prices of natural gas supply to final customers by Eurostat categories as at the first day of a quarter in the Czech Republic in 2008 in CZK/MWh**

Period	Standard consumer, Eurostat					
	D3		I1		I4-1	
	A	B	A	B	A	B
1 January 2008	915.60	1,089.56	880.21	1,078.05	697.37	860.47
1 April 2008	946.23	1,126.01	909.80	1,113.26	734.39	904.52
1 July 2008	1,038.75	1,236.11	1,011.38	1,234.14	804.06	987.43
1 October 2008	1,166.15	1,387.72	1,119.08	1,362.31	954.41	1,166.35

Source: Czech Statistical Office

The prices for low offtake, household, and, partly, medium-sized offtake customers are usually set for a quarter. In the large offtake category the price is in place for one month. However, the periodicity of the changes in natural gas supply prices over a calendar year differs for different traders and depends on their business policy. The changes are usually made on the basis of changes in the gas purchase prices and each particular trader's customer portfolio.

For some large customers, traders have put in place a price formula and the price for these customers changes on a monthly basis. Another option for large customers is to fix the price for a period until the end of the respective year, i.e. fixed price for up to 12 months.

Agreements with customers in the household segment are typically executed in perpetuity and as agreements on bundled natural gas supply. This means that the trader takes care of all the services related to gas supply for the consumer (transmission, storage, distribution, and the commodity itself).

### **The gas supplier switching procedure**

The natural gas supplier switching process is provided for in Sections 36 to 38 of ERO public notice no. 524/2006 on the gas market rules, as amended in no. 321/2007. For final customers, supplier switching is possible as from the first day of a month and is subject to registration with the administrator of the respective balancing zone. Customers with type C metering (typically households and low-offtake customers) can change their supplier once in a half year, with the exception of switching their supplier for a supplier of last resort. In respect of other types of metering, change is permitted once a month.

In 2008, the gas supplier switching process was not changed; the principle described in the previous national report continued to apply.

In 2008, more final customers used the option of gas supplier switching than in 2007. On the basis of the data shown in Table 2 in point 2.1.2 above, it is evident that traders' interest is expanding to include additional market segments.

### **Complaints and inquiries addressed to the Energy Regulatory Office**

Table 9 lists, by category, the number of questions and complaints sent by gas market participants (usually customers) to the Office in 2008. The Office does not have information about market participants' questions and complaints addressed to gas suppliers.

**Table 9 Number of complaints and inquiries addressed to the Energy Regulatory Office**

<b>2008</b>	<b>Questions</b>	<b>Complaints</b>	<b>Total</b>	<b>Share in %</b>
Prices	35	6	41	45
Metering, gas quantity	0	4	4	4
Setting of advance payments	6	8	14	16
Review of billing	7	0	7	8
Inclusion in an offtake band	3	1	4	4
Billing or clearing period	2	1	3	3
Ready reckoner	3	0	3	3
Information about traders	8	0	8	9
Quality	3	0	3	3
Technical matters	4	0	4	4
Other – breaches of the Energy Act	0	1	1	1
<b>Total</b>	<b>71</b>	<b>21</b>	<b>92</b>	<b>100</b>

Source: Energy Regulatory Office

### **Consumers' complaints addressed by the State Energy Inspectorate**

In the gas industry, 62 complaints were handled in 2008. Complaints mainly concerned payments for gas supplies, incorrect procedure in gas supply billing, incorrect billing upon a gas price change, failure to reflect all advance payments in the final invoice, and failure to return overpayments.

### **Consumers' complaints, and investigation conducted by the Office for the Protection of Competition**

In 2008, the ÚOHS received a number of complaints from consumers; they usually concerned high prices of natural gas billed to the consumers throughout the year. Typical of the whole



year was a continuous rise of natural gas prices, which, naturally, the public did not accept favourably. In connection with natural gas price hikes a number of complaints also concerned the amount of advance payments for natural gas consumption, which are intended to cover the customer's consumption over the whole year and spread the payments for natural gas over the year at pre-agreed intervals. In response to these complaints, in the relevant cases the ÚOHS conducted an inquiry, which indicated a possible breach of Section 11 of Act No. 143/2001 in a case of advance payments in September 2008. The ÚOHS therefore commenced administrative proceedings with RWE Transgas, a.s. in early 2009.

In co-operation with the Energy Regulatory Office, the ÚOHS also continued its inquiry into a complaint about a potential breach of Section 11 of Act No. 143/2001 by RWE Transgas, a.s. and RWE Gas Storage, s.r.o. on the market of natural gas storage in underground gas storage facilities. This inquiry is still pending.

The ÚOHS referred complaints that were addressed to it but concerned in fact the issues that fell within the ERO's exclusive competencies to the ERO on the grounds of ÚOHS's lack of jurisdiction. In the gas industry, these were most frequently citizens' complaints about high prices of natural gas supply billed to them until 31 March 2007 by gas companies and issues such as gas service lines, service billing, unauthorised consumption, etc.

In 2008 the ÚOHS did not conduct any administrative proceedings on a potential breach of Section 3 or Section 11 of Act No. 143/2001 or breach of Article 81 or Article 82 of the EC Treaty in the gas industry.

### **4.2.3 Measures to avoid abuses of dominance**

#### **Market surveillance**

As in the electricity industry, gas installations and networks are, and will continue to be, a monopoly (they are network monopolies), and surveillance by the ÚOHS is therefore also necessary when a market player's practices result in prohibited limitation of competition under the law on the protection of competition. SEI is competent to supervise adherence to the rules that have been put in place for the functioning of the gas market. Increased attention has been devoted to the gas industry since 1 January 2007 when the natural gas market was fully liberalised.

Following consultations with the ÚOHS and ERO, 2008 saw the sale of natural gas for 2009 and 2010 by the dominant market player, RWE Transgas, a.s., in a public and non-discriminatory way geared towards preventing any potential distortion of competition. There was an opportunity to buy gas not only for 2009 and 2010, but also for the following three years. However, nobody made use of this opportunity, because for those years the gas sale price had not been set.

The dominant player made available the terms and conditions of the sale to all potential customers via an electronic interface in May 2008. The sale process itself took place between June and September 2008. In this way, all of the dominant player's natural gas deals were struck on the Czech market, outside the already executed contracts running from earlier periods of time. Altogether 20 entities took part in the sale conducted by the dominant player, and 12 of them then entered into an agreement on natural gas purchase and sale.

## 5 Security of supply

### 5.1 The electricity market in 2008

#### 5.1.1 Electricity consumption and levels of peak annual demand

The country's total electricity consumption, including network losses, was 72 TWh in 2008, which implies an increase of virtually zero in comparison with 2007. The grid experienced the annual peak demand on 14 February 2008 at 3 p.m. when gross consumption amounted to 10,880 MW. In comparison with 2007, when the peak annual demand was 11,059 MW on 29 November 2007 at 5 p.m., it was 179 MW (1.6 per cent) less. In 2008 the trend of a slight growth in the country's electricity consumption from the preceding years almost stopped. Electricity imports contributed to the meeting of domestic demand less than in the previous year (on the whole, 1.68 TWh less was imported). On the generation side, the influence of the preference for renewable resources in electricity generation under the respective EU Directive and Czech legislation could be felt throughout the year.

No marked increase in consumption or peak demand can be expected in the next few years. On the contrary, because of the current economic situation in the world and in the Czech Republic stagnation can be felt, and even a drop may come, with subsequent moderate increases in electricity demand. Savings and energy intensity reductions in industry help to offset low-demand customers' rising electricity consumption.

The achieved reliability of the balance of supply and demand in the Czech electricity system meets the requirements for rational values of reliability. It is possible to provide for the safe operation of the system (ancillary services) over the medium term, despite some increases in demand. With the exception of the potential significant swings in the output from off-shore and seaside wind power plants, no anomalies appear in the operation of the generating capacities in covering the load profiles and predicted differences.

#### 5.1.2 Installed capacity

On 31 December 2008 the total installed capacity of power stations in the Czech Republic was 17,724 MW, with approximately 58 per cent of the power stations' output connected directly to the transmission system and 42 per cent to the distribution systems.

Table 10 indicates the structure of generation capacity, by the size of installed capacities, in 2008.

**Table 10 Structure of generation by installed capacity in 2008**

<b>10,685 MW</b>	Thermal power stations ( <b>60.3%</b> )
<b>3,760 MW</b>	Nuclear power plants ( <b>21.2%</b> )
<b>2,192 MW</b>	Hydroelectric power stations, including pumped storage ( <b>12.4%</b> )
<b>898 MW</b>	Gas-fired and combined cycle power plants ( <b>5.1%</b> )
<b>190 MW</b>	Alternative sources ( <b>1.1%</b> ) – of which wind 150 MW.

Source: Energy Regulatory Office

In comparison with 2007, total installed capacity of power stations increased by 163 MW in 2008. Of this, installed capacity of thermal power stations, including cogeneration, increased by 37 MW and installed capacity of gas-fired and combined cycle power plants increased by 83 MW, both year-on-year. In renewable and alternative capacities, output rose by 43 MW overall year-on-year. The installed capacity of hydroelectric power stations rose by 16 MW year-on-year. In alternative plants, there was a drop of almost 10 MW. The predominant part of this increase, i.e. more than 36 MW, is attributable to increased output from wind power plants.

This increase in total installed capacity (163 MW) was mainly achieved thanks to investment in the retrofit of existing plants.

There are no expectations of the commissioning of a new large plant having an installed capacity of over 50 MW and firing fossil fuels or using nuclear energy in the next three years. Due to the continued support for renewable sources, the development of a larger number of plants using renewable sources and having smaller unit capacities can be expected. Under the conditions prevailing in the Czech Republic, the development of biomass firing in local heat & power plants has the most promising prospects; to a limited extent, new small hydroelectric power stations and wind power plants can also be expected. The Czech Republic does not have suitable/optimum conditions for the other renewable sources. The construction of up to several hundreds MW of capacity to generate electricity from renewable sources can be expected in the next few years.

### **5.1.3 Authorisation criteria for new generation capacities**

The building of a new electricity generating plant may be started upon obtaining a building permit issued by the planning office having the relevant local jurisdiction. One of the main preconditions for issuing a building permit is the submittal of an expert study proving that the new plant will not have negative environmental impacts. In the case of electricity generating plants having a total installed capacity of 30 MW and more, there is also the need to obtain an authorisation for the construction, which is issued by the Ministry of Industry and Trade in line with the National Energy Concept. An electrical energy generator has the right to connect its plant to the electricity grid and operate it subject to the connection conditions set out in the relevant energy legislation and upon obtaining an electricity generation licence from the Energy Regulatory Office. It also has the right to supply electricity in line with the rules for the operation of distribution systems or, as applicable, the transmission system (the Grid Code). A precondition for obtaining an electricity generation licence is, in particular, obtaining the permit to commission the plant and proving the professional competence and financial standing to operate the energy generating plant.

In general, the national budget does not have the obligation to provide support for investment in new generating capacity; nevertheless, certain subsidies can be obtained from the State and certain funds subject to the required conditions. For plants having a total installed capacity of up to 1 MW the generator may benefit from tax holidays for the first five years of operation.

### **5.1.4 Incentives for new capacity development**

The law on support of renewable electricity is a major breakthrough in the development of electricity production from renewable sources. For investors in renewable sources, the law guarantees an up to 15-year payback period for their investment in the various categories of renewable sources. Since 2006, renewable electricity producers have had the opportunity under the law to choose between buyout by regional DSOs or the TSO in the system of guaranteed feed-in tariffs, and a premium on the market price of electricity (the system of green premiums, the level of which is controlled by the government). The support in the form of feed-in tariffs cannot be applied in the case of biomass and fossil fuel co-firing or parallel firing. Regional DSOs and the TSO are obliged to give priority to the connection of renewable electricity producers.

Effective from 2006, an amendment to the Energy Act also provides for support for electricity generation in CHP, which is granted only through market price premiums for all categories of generating plant. Since 2006 there has also been new support for electricity production from secondary resources, which is also provided through premiums on the market prices of electricity.

### 5.1.5 Investment in transmission

The TSO is reinforcing the existing lines primarily as a precaution; for example, by replacing single-circuit lines with double-circuit lines or by modifying the existing lines to increase their transmission capability (for example, erecting taller pylons because of permissible conductor sagging). The upgrade of the Slavětice – Dürnrohr 400 kV single-circuit line to a double-circuit line, which was commissioned in November 2008, has helped to double the nominal cross-border transmission capacity of this line. By 2012, the construction of a new 400 kV line will be completed between Horní Životice and Krasíkov; it will provide for standard reliability of supply for the Ostrava area and will further increase the capacity for flows through the lines from north to south.

There are also plans to erect or refurbish several 400 kV lines (Krasíkov – Horní Životice, Výškov – Chotějovice, Hradec – Verněřov, Výškov – Čechy Střed and Výškov – Babylon).

The building of lines for connecting new generating capacities, mainly at the distribution system level, can be expected in the future. An illustrative example is renewable sources, for example wind farms, the development of which is planned for areas currently having a relatively low density of networks. The Czech TSO is not planning to build any new cross-border lines in the next few years; the reason is the neighbouring TSOs' insufficient domestic transmission capacities.

## 5.2 The gas market in 2008

### 5.2.1 Natural gas supply and consumption in 2008

Natural gas supplies for the Czech Republic were smooth throughout 2008, in line with the first degree of load; 73.6 per cent came from Russia, 23.9 per cent from Norway, and 2.5 per cent from Germany.

In 2008, actual natural gas consumption amounted to 8.685 bcm (i.e., 7,034.6 Mtoe), which is 0.4 per cent (32 mcm) more than in 2007. Consumption adjusted to normal monthly temperatures and temperature gradients of consumption amounted to 9.178 bcm (i.e., 7,433.9 Mtoe), which implies an increase of 1.2 per cent year-on-year.

**Table 11 Natural gas sources and consumption in the Czech Republic**

Figures in mcm at 15 °C	2008	2007	2006	2005	2004	2003
Total purchase	8,692.5	8,378.8	9,794.0	9,358.6	8,860.5	9,522.8
Withdrawal from foreign UGS	454.7	482.8	461.5	808.4	1,063.3	988.8
Injection into foreign UGS	-443.7	-549.4	-499.6	-499.1	-968.7	-950.4
Withdrawal from Czech UGS	1,374.8	1,652.7	1,806.1	1,640.7	1,873.5	1,498.4
Injection into Czech UGS	-1,509.2	-1,362.0	-2,353.5	-1,942.4	-1,322.5	-1,541.4
Supplies from MND Hodonín	102.8	77.6	57.5	49.2	40.5	33.3
Drained gas from mines						
OKD Paskov	13.8	18.8	19.5	11.6	5.3	7.9
Total supplies	8,685.8	8,699.3	9,285.5	9,427.0	9,551.9	9,559.4
Difference on balancing (change in the line pack, in-house consumption)	-0.6	-46.7	-16.1	135.0	139.2	179.9
Total consumption	8,685.2	8,652.6	9,269.4	9,562.0	9,691.1	9,739.3

Source: Balancing Centre

Primarily ambient temperatures influenced overall natural gas consumption during the heating season.

Natural gas was imported into the Czech Republic from Russia (6.401 bcm), Norway (2.073 bcm), and Germany (218 mcm), with the total purchase (imports) of natural gas for the country's needs amounting to 8.693 bcm at 15 °C. In comparison with 2007, imports were higher by 314 mcm.

Only a low volume of supplies from indigenous resources, which include surface drained gas, which is of local importance for the north Moravian region, and the gas lifted by Moravské naftové doly, a.s. Hodonín from fields located in south Moravia, supplemented the imports. MND's and OKD's domestic supplies amounted to 116.6 mcm/year, i.e., 1.3 per cent of total supplies.

**Table 12 Actual consumption of natural gas between 1995 and 2008**

Year	Average temperature in the heating season	Average annual temperature [°C]	Annual consumption [mcm]	Annual change	
				[mcm]	[%]
1995	3.1	8.3	8,075	+1,141	+16.4
1996	1.0	6.6	9,306	+1,231	+15.2
1997	2.3	7.9	9,441	+135	+1.5
1998	3.3	8.5	9,390	-51	-0.5
1999	3.2	8.7	9,427	+37	+0.4
2000	4.8	9.5	9,148	-279	-2.9
2001	2.9	8.2	9,773	+625	+6.8
2002	3.6	9.0	9,542	-231	-2.4
2003	3.6	8.6	9,739	+197	+2.1
2004	3.1	8.2	9,691	-48	-0.5
2005	2.5	8.0	9,562	-129	-1.3
2006	3.3	8.5	9,269	-294	-3.1
2007	4.2	9.4	8,653	-616	-6.7
2008	2.4	9.3	8,685	+32	+0.4

Source: Balancing Centre

Natural gas consumption in the Czech Republic was stagnant from as early as 1997 and since 2004 it has been slightly declining. In 2009 the current trend of stagnant natural gas consumption and a return to values over 9,000 mcm can be expected.

The main reason for the currently decreasing consumption is oil prices, which are rising and also causing natural gas price hikes.

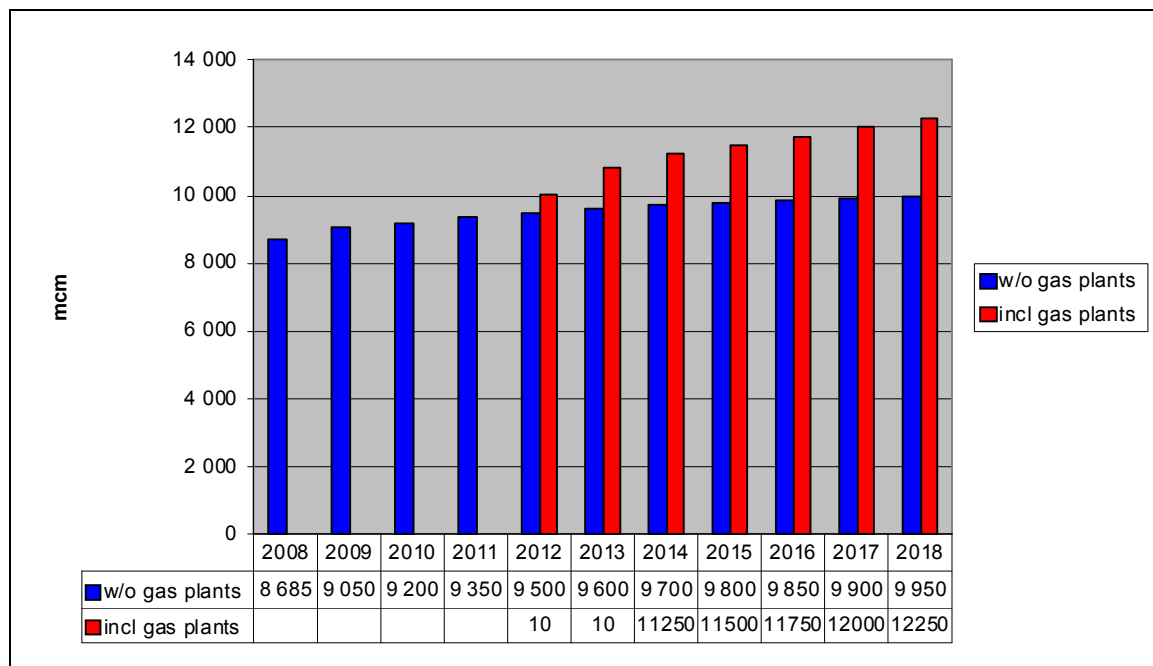
Another cause of declining consumption is final customers' efforts to save energy, focusing mainly on better and more modern boiler installations, thermal insulation of buildings, and energy savings achieved with the help of energy audits; further, the connection of municipalities to gas supplies has almost been completed.

Projections for 2008 to 2018 expect slight annual increases of about 0.5 to 1.2 per cent (see Chart 3), particularly if this period sees a certain stabilisation of prices and the highlighting of the benefits of natural gas as an environmentally friendly fuel. If the gas-fired power stations currently being considered are actually built, from 2012 natural gas consumption will increase at a higher rate; however, it has not yet been decided whether such gas-fired power stations would fully replace coal-fired power stations, and be continuously operated, or whether they would serve as peak-shaving capacities; this will have a material impact on gas demand.

One of the objectives of the National Energy Concept is to prevent the Czech Republic's dependence on imports of energy resources from increasing. However, the market decides about the actual consumption; on the basis of rising prices, energy savings and the other factors mentioned above, the market vindicates the forecast of the National Energy Concept,

which does not expect any significant increase in natural gas demand in the years to come, with the exception of the use of natural gas in gas-fired power stations as described below.

**Chart 3 Natural gas demand expected in the Czech Republic between 2008 and 2018**



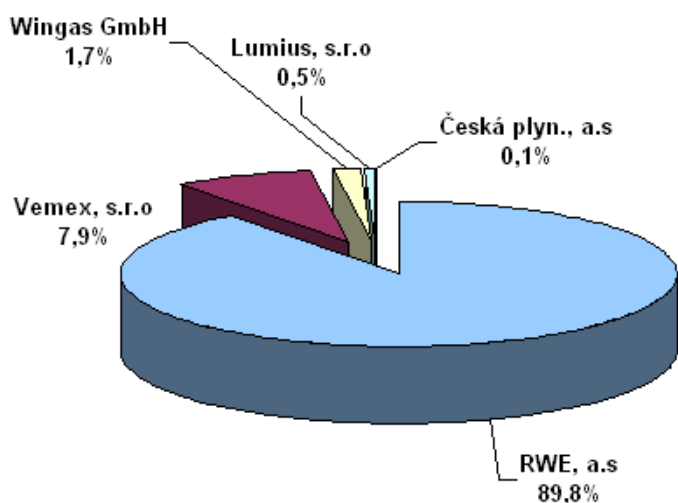
Source: Ministry of Industry and Trade

### 5.2.2 Import contracts

RWE Transgas, a.s, VEMEX, s.r.o., Wingas GmbH, Lumius, spol.s r.o., and Česká plynárenská, a.s. were responsible for imports, which are crucial for the Czech Republic as regards natural gas sources, under long-term agreements with Norwegian and Russian producers.

**Chart 4 Share of natural gas imports in 2008**

#### Companies' share of natural gas imports in 2008



Source: Balancing Centre

In 2008, natural gas importer RWE Transgas, a.s. continued to be the dominant importer, however, its market share has dropped to under 90 per cent.

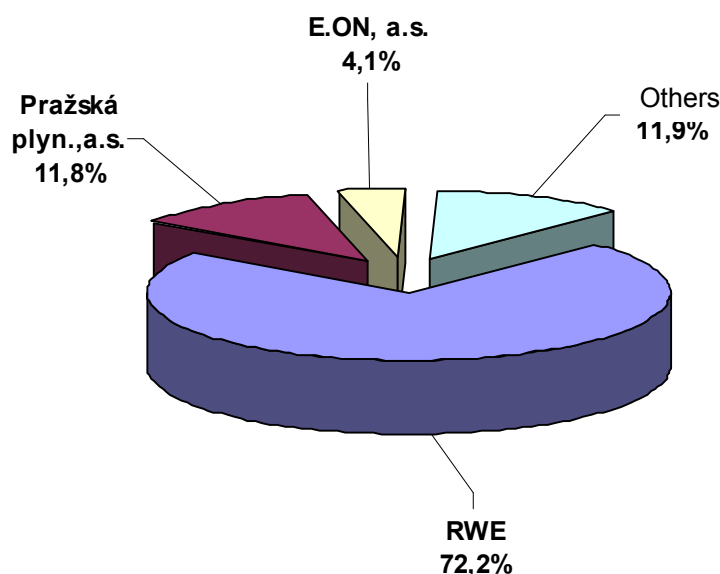
The long-term agreement between RWE Transgas a.s. and Gazprom export Ltd. (formerly Gazexport) on natural gas supplies, which originally was to terminate at the end of 2013, has been extended to remain in effect until 2035; the gas sales agreement with Norwegian producers will remain in effect until 2017.

In 2007, VEMEX, s.r.o. and Gazprom export signed a five-year agreement on natural gas supplies to the Czech Republic, 0.5 bcm annually, with the option of doubling both the term of the contract and the annual volume.

### 5.2.3 The gas market

The gas market has been rapidly developing since its full opening in 2007. New suppliers have appeared in addition to the incumbent suppliers, i.e., regional gas traders from the RWE and E.ON groups and Pražská plynárenská, a.s., and the RWE Group's share of gas sales to final customers has dropped to 72.23 per cent. The new suppliers include companies maintaining direct business relationships with gas producers, domestic gas producers, and also electricity suppliers who also supply natural gas to their final customers. VEMEX, s.r.o. had the largest share among new suppliers in 2008.

**Chart 5 Share of natural gas trade in 2008**



Source: Balancing Centre, Energy Regulatory Office

The full liberalisation of the gas market has also given final customers an opportunity to change their gas supplier. Since the beginning of gas market opening on 1 January 2005, customers of all categories have used this opportunity for 7,751 supply points, and in 2008 the figure was 596 supply points. Detailed information can be seen in Table 13.

**Table 13 Number of switched supply points**

Customers who have switched their gas supplier – number of supply points		
	Since 1 January 2005	In 2008
Large offtake	237	129
Medium-sized offtake	123	90
Low offtake	856	366
Households	6,535	11

Note: The figures shown in the table also include supplier switches due to reasons on the part of suppliers.

Source: Balancing Centre

### 5.2.4 Investment in system development

Investment in the development of the gas system should be prompted by the market's needs first of all. The role of the regulatory authority for the development of the gas system is played by the Ministry of Industry and Trade, which awards authorisations for construction in the form of the State's consent under the Energy Act. In 2006, the Ministry awarded to RWE Transgas Net, s.r.o. an authorisation to build the Czech part of the gas pipeline connecting the Czech gas system with Poland (Třanovice – Skoczów gas pipeline). The construction of this interconnecting pipeline was to start in 2008, but due to certain problems it will be started in the latter half of 2009. It is planned to go on stream by the end of 2010.

Another important project, which will connect to Nord Stream, will be the Gazelle transit gas pipeline interconnecting border transfer stations at Hora Sv. Kateřiny and Waidhaus across the Czech Republic, with an annual capacity planned at 30 to 33 bcm in 2011.

Certain gas companies are considering additional investment in their capital expenditure plans for the next three years, specifically the Záhoří – Spáleniště (Austria) and Břeclav – Reintal (Austria) cross-border gas pipelines.

The largest Czech SSO, RWE Gas Storage, s.r.o., is making preparations for investment in an increase in the storage capacity of the Tvrdonice and Třanovice UGS facilities by 545 mcm in the next three years. The storage system operator MND Gas Storage, a.s. is also preparing investment in the expansion of the storage capacity in the Uhřice – Jih UGS facility, and another investor from the MND group is preparing the development of a new UGS facility at Dambořice with a total capacity of 660 mcm. Once completed, these capital investment projects will help to increase the storage capacity in the Czech Republic by 1.2 bcm, which will bring it close to 50 per cent of the country's total annual gas consumption.

The Ministry of Industry and Trade has informed the European Commission about these forthcoming capital investment projects through the 'report to the Commission of the European Union on investment projects in the Community's interest in the oil, natural gas and electricity sectors'.

### 5.2.5 Underground gas storage facilities

Because of the summer/winter swings in gas consumption, underground gas storage facilities (UGS), which serve for gas storage in summer and gas production in winter when daily demand exceeds the daily contract quantities imported from abroad, helped to provide for a balance between supply and demand.



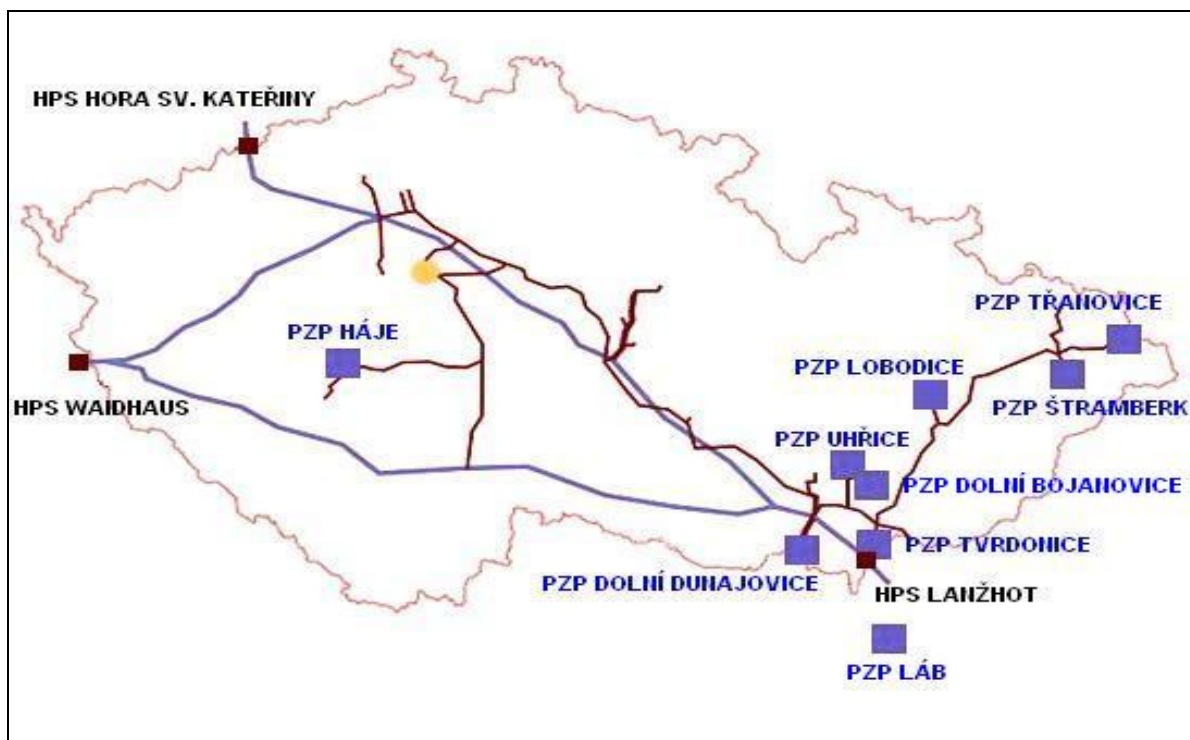
In 2008, 1,509 mcm of gas was injected into Czech UGS facilities, while 1,375 mcm was withdrawn from them; injection into UGS facilities therefore outweighed withdrawal by 124 mcm. In 2008, 444 mcm and 455 mcm was injected into and withdrawn from, respectively, the Láb UGS facility in Slovakia.

As at 1 January 2008, gas stores in the Czech Republic amounted to 1,758 mcm, while the stores in the Láb UGS facility amounted to 375 mcm. The total volume available in UGS facilities amounted to 2,133 mcm.

Because of the extremely warm winter, after the completion of withdrawal on 30 March 2008, gas stored in all UGS facilities amounted to 1,122 mcm.

Working gas stores before the 2008/2009 heating season amounted to 2,398 mcm in Czech UGS facilities and 550 mcm in foreign UGS facilities, i.e. 2,948 mcm on the whole, which accounted for 30 per cent of total annual gas consumption in the Czech Republic. At the beginning of a winter season the maximum daily withdrawal capacity in all UGS facilities amounts to 55.7 mcm, in those in the Czech Republic it amounts to 49.7 mcm.

On 31 December 2008, the closing amount of gas stores in UGS facilities for the Czech Republic's needs was 2,209 mcm, of which the closing amount in Czech facilities was 1,884 mcm and 325 mcm was available from the Láb UGS facility.



**Figure 1 Location of UGS serving the Czech Republic's needs**

### **5.2.6 Measures for states of emergency**

In accordance with Directive 2004/67/EC concerning measures to safeguard security of natural gas supply, the Czech Republic has put in place a security of gas supply standard, which all gas traders must observe. This measure has been implemented in Czech legislation.

In addition, some other measures have been adopted for all gas market participants to safeguard security of supply, such as long-term gas supply agreements until 2035, diversification of natural gas sources from Russia and Norway, gas dispatch control coordinated between the TSO, DSOs and operators of gas storage in UGS facilities with

a capacity of 30 per cent of annual consumption, and others. Measures for emergencies are provided for in Ministry of Industry and Trade implementing regulation no. 375/2005, which is binding on all gas businesses.

Under the Energy Act all gas businesses, with the exception of gas traders, are also obliged to put in place emergency plans for the facilities and installations operated by them, follow these plans, and furnish them to the Ministry of Industry and Trade for review every year.

Gas businesses' standard emergency plans contain a classification of failures and accidents, a definition of the state of emergency and prevention thereof, declaration of states of emergency, general duties and responsibilities in coping with states of emergency, the composition of the Emergency Commission, and the preparation of emergency reports. The operating part of the plans sets out the principles for eliminating failure situations on gas installations, the related documentation on gas distributions and equipment, and a plan of communication with and availability of the Emergency Commission.

### **5.2.7 Security of supply standards**

The security standard of the required gas supply is understood to consist in ensuring safe and reliable gas supply when preventing a state of emergency, and during states of emergency, to households and those of final customers who are not able to switch to other sources of energy, in particular for the following situations:

- a) A partial interruption in gas supply for eight weeks and to the extent of 20 per cent of the total daily volume under all import contracts intended for supplying the final customers of the respective trader in the Czech Republic or for securing the consumption of the respective customer who procures gas on his own, in the winter season;
- b) Gas consumption on five consecutive extremely cold calendar days, provided that an extremely cold calendar day is understood to be a day on which the average daily temperature does not rise over  $-14^{\circ}\text{C}$ ;
- c) To meet the demand for gas for all possibilities of the range of demand caused by the development of ambient temperatures during the coldest period from 1 October to 31 March, which occurred in the last 20 years preceding the respective year.

In the Czech Republic the security of supply standard for the peak daily demand at an average daily temperature of  $-14^{\circ}\text{C}$  is, under the above criteria, 65,775,000 cubic metres; it is being provided for by each of the gas traders, taking into account the number and size of connected customers. Table 14 shows it for the most important traders.

**Table 14 Security of supply standard for the key gas traders supplying final customers**

Gas trader	Supplier	SSS for maximum daily offtake in the year	
		[-14 °C]	
		[thousand m <sup>3</sup> ]	[Mtoe]
Pražská plynárenská, a.s.	RWE Transgas, a.s.	8,770	7.103
Středočeská plynárenská, a.s.		6,850	5.548
E.ON Energie, a.s.		2,600	2.105
Západočeská plynárenská, a.s.		4,300	3.482
Severočeská plynárenská, a.s.		6,300	5.102
Východočeská plynárenská, a.s.		6,330	5.127
Jihomoravská plynárenská, a.s.		17,224	13.951
Severomoravská plynárenská, a.s.		9,978	8.082
MND Hodonín, a.s.	MND Hodonín, a.s.	173	0.140
Wingas GmbH	Wingas GmbH	500	0.405
VEMEX, s.r.o.	Gazexport Ltd.	2,500	2.025
Lumius, spol. s r.o.	E.ON Gastransport	250	0.202
<b>Total for CR</b>		<b>65,775</b>	<b>53.276</b>

Source: Balancing Centre

### 5.2.8 Quality and level of system maintenance

Under the Energy Act all operators of the gas transmission system, gas distribution systems and UGS facilities have the obligation to prepare, on an annual basis, a report on the quality and level of maintenance of the gas installations and facilities operated by them and furnish the report to the Ministry of Industry and Trade.

The basic part of a report on the quality and level of maintenance contains a list of internal regulations on the organisation and method of maintenance, and technical data on the operated gas facilities and installations on which maintenance is carried out. The operating part of a report on the quality and level of maintenance describes the way of providing for maintenance, methods employed for inspecting the condition of facilities and installations, and the equipment and technologies used for maintenance. Reports also describe the situation in gas pipeline corrosion control and checks of natural gas odorising at all odorising stations. In the event of a failure or accident on a gas facility or installation, the report must contain its description, way of repair, and the measures adopted.

The Ministry continuously monitors and evaluates reports on the quality and level of maintenance, which are furnished by all operators of gas facilities and installations, and is able to note that this activity is carried out at a very high level. This is borne out by the fact that throughout the time of the operation of the transit gas pipeline since 1972 (or on the Brotherhood pipeline since 1967) no interruption in natural gas supply has occurred due to neglected maintenance.

### 5.2.9 Investment incentives

In line with Directive 2003/55/EC and the Energy Act, the so-called authorisation principle has been put in place for permitting new gas facilities and installations. In 2008, the Ministry of Industry and Trade awarded 31 authorisations in this respect, 30 of them for high-pressure gas pipelines and one for an expansion of the Tránovice underground gas storage facility.

As a direct investment incentive, the national legislation allows exemptions from third-party access to new infrastructure under Article 22 of Directive 2003/55/EC. No investor used this exemption in the Czech Republic in 2008.

## **6 Public service issues**

### **6.1 Key information**

The Czech Republic has implemented the public service obligation and consumer protection in the energy sector, which the EU member states are to introduce under, in particular, Directives 2003/54/EC and 2003/55/EC, primarily in Act No. 670/2004, which amended the then existing Energy Act, and also partly in Act No. 180/2005 on support for the use of renewable sources.

### **6.2 Obligations over and beyond the licence**

In cases of urgent need and in general interest, the Office has the right to decide to impose, under Section 12 of the Energy Act, an obligation over and beyond a licence. The entity that is subject to such decision is obliged to carry out the activity of electricity/gas distribution also outside its own delineated area, and the owners of the required distribution facilities and installations are obliged to provide them, for compensation, for the performance of the obligation over and beyond the licence. The Office can impose this obligation for 12 months at most.

In 2008, the Office did not issue any decision imposing an obligation over and beyond a licence.

### **6.3 Supplier of last resort**

Under Section 12a of the Energy Act the supplier of last resort is obliged to supply electricity/gas for prices set by the Office to households and small customers who request so. The time for which the specified groups of customers are entitled to use this service is not limited. The supplier of last resort is a holder of an electricity/gas trading licence, and is selected by the Office for a defined area. Before the Office issues such decision, this obligation is performed by the electricity/gas trading licence holder who is, or was, a part of the same vertically integrated undertaking where the affected final customer's supply point is located.

The process of requesting electricity supplies from a supplier of last resort is provided for in Section 1 of public notice no. 541/2005 on the electricity market rules, principles of pricing the electricity market operator's activities and the implementation of certain other provisions of the Energy Act, as amended in nos. 552/2006, 365/2007 and 454/2008. Similar provisions on the use of gas supplies from a supplier of last resort are contained in Sections 36 to 38 of public notice no. 524/2006 that lays down the rules for the organisation of the gas market and for the development, allocation and use of typical gas supply profiles, as amended in nos. 184/2007, 321/2007 and 354/2008.

To date, the Office has not issued any decision on the selection of a supplier of last resort. For this reason, the traders specified by the Energy Act are such suppliers.

### **6.4 Labelling of primary energy sources / guarantees of origin**

Under Section 23(2)(k) of the Energy Act electricity generators are obliged to inform the market participants about the shares of the resources used for electricity generation, and the share of CO<sub>2</sub> emissions and the amount of radioactive waste produced in electricity generation in the preceding year. Under Section 30(2)(e) of the Energy Act, in billing electricity supply to final customers electricity traders are also obliged to include data indicating the share of each electricity source in the supplier's overall mix of fuels in the preceding year in the data

shown in the billing documents, and a reference to a public source of information on the impact of electricity generation on the environment.

## **6.5 Disconnection of final customers**

From the perspective of supply interruption or disconnection, the Energy Act does not differentiate customer groups. Under the Energy Act, final customers can be disconnected, or their energy supply interrupted, only for reasons that are exhaustively listed in the law, for example, due to unauthorised take of energy; in the event of imminent danger to life, health or property and in dealing with such situations; in states of emergency and in preventing such states; in the event of planned work on the installations in the system; in the event of failures on installations and repair of such failures; and in the event of taking electricity through equipment that poses danger to life, health or property or influences the quality of electricity with adverse impacts on other customers.

The Energy Act provides for DSOs' authorisation to reduce or interrupt energy supply to customers upon unauthorised take of electricity/gas in the same way for the whole calendar year. The Energy Act therefore does not contain any limitations on the application of this authorisation by DSOs in, for example, winter months.

DSOs keep statistics on the number of disconnected customers for whom a DSO reduced or interrupted energy supply on the grounds of failure to meet their payment obligations stemming from the final billing of actual consumption. This data is not available to the Office.

## **6.6 Protection of final customers under contract**

The Energy Act defines the 'essential provisions' of electricity/gas supply agreements. Thus, every final customer has the right to enter into a supply agreement that will contain all the particulars envisaged in Annex A to Directives 2003/54/EC and 2003/55/EC.

## **6.7 Pricing for final customers on the electricity market**

In setting prices for final customers, the Energy Regulatory Office followed up on 2007 and preserved the differentiation of charges for distribution services at the low voltage level in relation to the nature of the demand. At the low voltage level approximately the original range of tariffs was therefore maintained, which makes it possible for the customers to optimise their costs of the services related to electricity supply.

In 2008, electricity supplies were not subject to price control for any final customer category in the Czech Republic, with the exception of price controls on electricity supplies to the customers in the household and small customer categories who used the services of a supplier of last resort. The Office regulates the price of electricity supply from a supplier of last resort as the maximum permissible price in compliance with Article 3(3) of Directive 2003/54/EC.

ERO price decision no. 9/2007 of 26 November 2007, which lays down the prices of electricity and related services, set the price levels of electricity of last resort for 2008. The Office regulated the price of electricity from suppliers of last resort as the maximum permissible price for all customer categories entitled to use such electricity supplies; the price was composed of a standing charge, a charge for electricity supply at the high rate and a charge for electricity supply at the low rate. Individual prices vary in relation to the nature of the load and the way of using the electricity taken.

However, according to the information available to the Office the option of the supplier of last resort is rather a matter of theory, and it is not possible to provide any information about the

distribution/pattern of customers using the right to supplies of last resort, because in 2008 no customer used this right.

## **6.8 Pricing for final customers on the gas market**

ERO price decision no. 11/2007 of 26 November 2007 set the prices for the licensed activities of gas transmission and distribution (where competition is not feasible) for 2008. The monopoly position of the operators of these activities stems from their ownership of the transmission system and the distribution systems in delineated areas.

Gas traders active in the Czech Republic determine their commodity charge, including trade and charges for other services related to gas supply for final customers.

All final customers can influence the uncontrolled part of their overall cost of gas supply, i.e., natural gas as the commodity and the gas storage service, by changing their gas supplier. Point 2.2.2 above indicates the number of customers in each category who used the opportunity of a free change of gas supplier in 2008.

In the above price decision, the Office also set out the pricing rules for final customers in the regime of supply of last resort. No final customers received supplies of last resort in 2008.

## **6.9 Public administration and terms of supply contracts**

The Energy Act provides that the terms and conditions of supply agreements are ‘essential provisions’ of agreements, i.e., any such agreement executed under the Energy Act must contain all the particulars so required. The Energy Regulatory Office has no competencies in this respect, that is, in respect of ensuring the transparency of the terms and conditions of supplier agreements, but for two exceptions:

- a) It is competent to adjudicate certain disputes between licence holders or between licence holders and their customers over the execution of agreements the subject matter of which is a regulated activity, i.e., disputes where no agreement is reached on the execution of a contract or no agreement is reached on the essential provisions of the contract in cases of changes to contracts. This means, in particular, electricity/gas connection, transmission and distribution, and also agreements on thermal energy supply and certain other types of agreement; and
- b) It is competent to approve the rules for the operation of the electricity transmission and distribution systems and the gas transmission and distribution system operators’ codes. The Energy Act envisages (and this element is provided for explicitly in the part on the electricity industry) that the commercial terms and conditions of the provision of these regulated services shall be included in the above documents, which are subject to approval.

The State Energy Inspectorate (SEI) is the administrative authority responsible for inspection in the energy industries. The SEI’s remit includes overseeing compliance with the Energy Act, including the execution of agreements containing the particulars required by the Energy Act for supply agreements and the particulars of agreements on consumer protection within the meaning of Annex A to Directives 2003/54/EC and 2003/55/EC.

The Office for the Protection of Competition (ÚOHS), which regulates on an *ex post* basis, i.e., it intervenes against practices that are specified as prohibited in the relevant law, because they are capable of limiting or distorting competition, is another authority of oversight on the energy market, mainly in its liberalised part. The ÚOHS’s competencies include, for example, checks of discriminatory practices applied by energy suppliers having a dominant market

position (coercion to unreasonable contract terms and conditions, applying different conditions for identical or comparable supplies to different market participants, etc.). These cases very often involve traders of vertically integrated undertakings in the electricity and gas industries. The ÚOHS assesses the compliance of their practices with Act No. 143/2001 on the protection of competition, as amended.