



**National Report of the Energy
Regulatory Office on the Electricity and
Gas Industries in the Czech Republic**

FOR 2020

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1 Foreword

The Energy Regulatory Office (the 'ERO' or 'Office') is presenting the *National Report of the Energy Regulatory Office on Electricity and Gas Industries for 2020*. The Office has been operating under Act No 458/2000 on Conditions of Business and State Administration in Energy Industries and Amending Certain Laws ('the Energy Act'), as amended, as an administrative authority for regulation in the energy industries since 1 January 2001. The Office regulates the electricity industry, the gas industry, and the heat supply industry, and determines aid for supported energy sources.

The Office is headed by a five-member body, the Board, the members of which are appointed by the Czech Government for a predefined term in office. In 2020, Stanislav Trávníček was the ERO Board Chairman, and Rostislav Krejcar, Ladislav Havel, Martina Krčová and Petr Kusý were the other members. During the year, Markéta Zemanová became a new member of the Board for a term from 1 August 2020 to 31 July 2025, replacing Rostislav Krejcar whose term had ended on 31 July 2020.

The ERO National Report for 2020 offers a detailed view of the developments in the Czech energy sector. The Office pursued international activities mainly in the ACER and CEER working groups in the electricity and gas industries, consumer protection, and the REMIT issues. In 2020, the Office continued its cooperation within ERRA. The Office devoted increased attention to pursuing regional cooperation and promoting bilateral contacts, emphasising cooperation with the V4 countries' regulators. Other lines of cooperation had the form of bilateral and multilateral meetings concerning electricity market integration, gas market integration, and competitiveness.

2 Main developments in the gas and electricity markets

2.1 Evaluation of the market development and regulation

The electricity industry

In 2020, the activities related to the Czech electricity market development continued, *inter alia*, in the context of the development of the EU's synchronous area (for more details see points **Chyba! Nenalezen zdroj odkazů.** and **Chyba! Nenalezen zdroj odkazů.**). This effect was felt the most strongly in the intraday electricity market; thanks to the integration under the Single Intra-Day Coupling scheme, the number of executed contracts has significantly increased, the price relations of hourly contracts have changed (the spread between the minimum and maximum price of hourly contracts has shrunk), the market's speed and flexibility in response to the current conditions prevailing in it have improved, and additional commercial tools have been developed.

In the intraday electricity market organised by the market operator, 4,439 GWh of electricity was traded, i.e. up by approximately 300% on 2019. In 2020, the weighted average of the prices of electricity traded in the intra-day market declined to EUR 37.25/MWh, i.e. by 5.8% on 2019. The minimum average market price was approximately EUR 23.6/MWh, i.e. down by 24.4% on 2019. The maximum average market price was approximately EUR 44.9/MWh, down by 8.6% on 2019. In 2020, the spread between the minimum and maximum prices, the average difference being EUR 21.26/MWh, declined by approximately 19% on 2019.

At the end of 2020, 119 market participants had access to the electricity spot market.

In terms of a long-term comparison, the electricity intraday market experienced the largest ever amount traded, which can be attributed primarily to the positive effect of the integration of intraday markets in the EU.

The gas industry

The settlement of liabilities between the RWE AG and E.ON SE groups continued in 2020, and the implementation of the Capacity4Gas project also continued (more details in point 4.1).

A total of 4,311 GWh of gas was traded in the within-day gas market organised by the market operator, OTE, a.s., down by 7.7% on 2019. In 2020, the weighted average of the price of gas traded in the within-day market dropped to EUR 9.52/MWh, i.e. down by 32.6% on 2019. In mid-2020, natural gas prices in the spot market even dropped under EUR 6/MWh. Such low prices resulted from low demand caused by the mild winter and the COVID-19 pandemic, while supply was increasing due to the growing LNG imports into Europe.

At the end of 2020, 104 market participants had access to the spot gas market.

In recent years, the prices in the Czech within-day gas market have closely followed the prices of comparable products in the German bidding zone, NCG, traded at the EEX spot market (the PEGAS platform), and it was the same in 2020.

In terms of a long-term comparison, 2020 saw the highest actual gas consumption over the last ten years. This consumption is also attributable to the growing gas demand for electricity generation at the Počerady and Vřesová power stations (more details in chapter 4, including Chart 9).

Extraordinary Price Decisions

In April 2020, the Office responded to the declaration of the state of emergency by the Czech Government in connection with the COVID-19 pandemic by issuing extraordinary price decisions – two for the electricity industry (more details in chapter 3.1) and one for the gas industry (more in chapter 4.1).

Despite the continuing COVID-19 pandemic, in the autumn of 2020 the Office did not issue any additional extraordinary price decisions. The customers were prepared for the second wave of the pandemic and were able to continue benefitting from the terms and conditions that they had arranged in the spring.

The fifth regulatory period

Under Section 19a(9) of the Energy Act, on 9 June 2020 the Office published the *Price Control Principles for the 2021-2025 Regulatory Period in the Electricity and Gas Industries and for the Market Operator's Activities in the Electricity and Gas Industries, and for Mandatory Buyers* in the interest of secure, reliable and transparent regulation. In preparing the Price Control Principles, the Office focused on developing a functional and systemic methodology without any personalised modifications, intending to keep the rules for the fifth regulatory period simple while preserving fairness and stability. The core principle is that customers should pay reasonable, value-for-money prices for services, with the system operators recovering revenues allowing them to maintain and reasonably develop the quality of their services. The Price Control Principles also take into account the dynamic nature of the environment and make possible flexible responses to any changes during the regulatory period.

2.2 Report on the implementation of the Winter Package

At the end of November 2016, the EC presented a package of legislative proposals with broad-ranging impacts on the working of the European electricity market, i.e. *Clean Energy for All Europeans*, the Winter Package, comprising eight legislative acts:

- (Recast) Regulation (EU) 2019/943 in force since 1 January 2020 (certain provisions since 4 July 2019);
- (Recast) Regulation (EU) 2019/942 in force since 4 July 2019;
- Directive (EU) 2019/944 with transposition by 31 December 2020 [Article 70 (5) (a) by 31 December 2019; Article 70 (4) by 25 October 2020];
- Regulation (EU) 2018/1999 in force since 24 December 2018 (certain provisions from 1 January 2021);

- Directive (EU) 2018/844 with transposition by 10 March 2020;
- (Recast) Directive (EU) 2018/2001 with transposition by 30 June 2021;
- Regulation (EU) 2019/941 in force since 4 July 2020.

The Winter Package legislation will be implemented primarily through a new Energy Act and an amendment to the law on supported energy sources. Work on the two laws started in 2019.

The implementation of the Winter Package generates new duties and tasks for the Office, such as market monitoring, risk assessment, tackling unfair practices, fair determination of network charges, resolution of disputes between aggregators, publications, safeguarding customers' rights, grant of exceptions, public consultations, etc.

The Office also has to amend the following statutory instruments (public notices) for which it is responsible in order to follow the rules of the Winter Package and the future 'decarbonisation package' for the European Green Deal:

- No 408/2015 on the Electricity Market Rules;
- No 16/2016 on the conditions for connection to the electricity grid;
- No 70/2016 on the billing of supply and related services in energy industries;
- No 401/2010 on the required content of the Electricity Transmission System Operating Rules, Distribution System Operating Rules, the Gas TSO Code, DSO Codes, the SSO Code, and the market operator's commercial terms and conditions;
- No 8/2016 on the details of licensing for business in energy industries;
- No 540/2005 on the quality of electricity supply and related services in the electricity industry.

During the course of the drafting and finalising of the above texts the Office closely cooperates with the Ministry of Industry and Trade, the Ministry of Foreign Affairs, and the Office of the Government at the national level, and with other European regulators within ACER and CEER, where the working groups' attention has focused on the implementation of the approved new legislation, including the drafting of position papers and methodologies.