

National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic in 2014

July 2015

List of frequent abbreviations and acronyms

ČR	CR	Czech Republic
ERÚ	ERO	Energy Regulatory Office
MPO	MIT	Ministry of Industry and Trade of the Czech Republic
ÚOHS	ÚOHS	Office for the Protection of Competition
ČEPS	ČEPS	The Czech transmission system operator (electricity)
OTE	OTE	The Czech market operator (OTE, a.s.)
APG	APG	The Austrian TSO (electricity)
SEPS	SEPS	The Slovak TSO (electricity)
PXE	PXE	Power Exchange Central Europe, a.s.
EEX	EEX	EEX Leipzig Energy Exchange
CEER	CEER	Council of European Energy Regulators
ACER	ACER	Agency for Cooperation of Energy Regulators
ÚRSO	ÚRSO	Office for the Regulation of Network Industries (Slovak regulator)
URE	URE	Urząd Regulacji Energetyki (Polish regulator)
MEKH	MEKH	Magyar Energetikai és Közmű-szabályozási Hivatal (Hungarian regulator)
ANRE	ANRE	Autoritatea Nationala de Reglementare in domeniul Energiei (Romanian regulator)
ENTSO-E	ENTSO-E	European network of electricity TSOs
CEE	CEE	The Central and Eastern Europe region
EU	EU	European Union
EK	EC	European Commission
ES	EC	European Community
3rd package		The third energy, or liberalisation, package, a set of five legislative acts adopted under the Czech EU presidency
REMIT		Regulation on wholesale energy market integrity and transparency
EZ	--	The Energy Act
OZE	RES	Renewable energy sources
MC	MC	Market coupling
PCI	PCI	Projects of common interest

Table of Contents

1.	Foreword.....	3
2.	Main developments in the electricity and gas markets.....	3
3.	The electricity market.....	5
3.1.	Network regulation.....	6
3.1.1	Unbundling.....	6
3.1.2	Technical functioning.....	6
3.1.3	Network tariffs for connection and access.....	7
3.1.4	Cross-border issues.....	8
3.1.5	Compliance.....	18
3.2.	Promoting competition.....	18
3.2.1	Wholesale markets.....	19
3.2.2	Retail market.....	21
3.2.2.2	Recommendations on supply prices, investigations and measures to promote effective competition.....	22
4.	The gas market.....	24
4.1.	Network regulation.....	24
4.1.1.	Unbundling.....	25
4.1.2	Technical functioning.....	25
4.1.3	Network and LNG tariffs for connection and access.....	27
4.1.4	Cross-border issues.....	29
4.1.5	Compliance.....	31
4.2.	Promoting competition.....	31
4.2.1	Wholesale markets.....	31
4.2.2	Retail market.....	35
4.2.2.2	Recommendations on supply prices, investigations and measures to promote effective competition.....	38
5.	Consumer protection and dispute settlement in electricity and gas.....	39
5.1	Consumer protection.....	39
5.2	Dispute settlement.....	40

1. Foreword

For the eleventh time, the Czech Republic is presenting, through the Energy Regulatory Office ('the ERO' or 'the Office'), its National Report on the Electricity and Gas Industries to the European Commission, thereby meeting its reporting and notification obligation set out in the applicable Directives and Regulations.

The Energy Regulatory Office operates under Act No 458/2000 on conditions of business and state administration in energy industries and amending certain laws, as amended ('the Energy Act'), into which the Czech Republic ('ČR' or 'the CR') has implemented the relevant provisions of the third energy package.

In 2014, the Office actively contributed to the drafting of an amendment to the Energy Act and Act No 165/2012 on supported energy sources and amending certain laws. The Office also actively protected energy customers' and consumers' interests. As part of preparations for the ADR system, the Office set up the position of the ERO Ombudsman. The Office was also actively involved in the drafting of legislation enhancing consumer protection in line with EU Directives and Regulations.

Last year also saw the successful coupling of day-ahead electricity markets in the Czech Republic, Slovakia, Hungary and Rumania on the principle of implicit allocation of cross-border capacities. The Czech Republic dedicated considerable attention to unplanned loop flows, which pose risk to the further integration of markets in the CEE region.

In respect of the wholesale gas market integration, cooperation with the Polish regulator on the project of the Stork II Polish-Czech gas pipeline was also extremely important last year again.

Upon the ERO's initiative, the permanent functional platform of the energy regulators in the Visegrád Four (V4) countries was further significantly enhanced. At a meeting of V4 regulators with ACER Director in the Czech Republic in December 2014 the delegates noted that energy market liberalisation and oversight must be beneficial primarily for the end consumers.

In the light of the geopolitical crisis that had emerged, and within the bounds of its regulatory competences in energy security, the Office also boosted its cooperation with the relevant US governmental organisations and with eastern European authorities and companies, including Ukraine and Russia.

2. Main developments in the electricity and gas markets

An amendment to the Energy Act and to Act No 165/2012 on supported energy sources and amending certain laws, the guarantor of which is the Ministry of Industry and Trade (MIT) and in the drafting of which the ERO also actively participated, was initiated and also adopted in 2014. The reason for the amendment was to clarify the procedure for the billing and payment of the charge to cover the costs incurred in support for electricity. The amendment, enacted in Act No 90/2014, came into effect on 21 May 2014.

The ERO also contributed to the drafting of the 'large amendment' to the Energy Act and the law on supported energy sources, working closely with the MIT, which is the sponsor of the bill and its guarantor. The drafting of the 'large amendment' to the Energy Act took place in particular with a view to ensuring compliance with the new Civil Code and the recently adopted rules of review and to enhancing consumer protection, and also in connection with the need to remove the discrepancies that had transpired from energy market participants'

experience so far. The amendment to the Energy Act was also necessitated in connection with the new EU legislation, which had to be implemented in domestic law, in particular Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC, and also Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT).

Together with the ‘large amendment’ to the Energy Act, an extensive amendment to Act No 165/2012 was also being drafted. The main reasons for amending the law on supported energy sources included the need to implement certain provisions of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, related to support for high-efficiency combined heat and power generation and to high-efficiency heat supply systems (some of the Directive’s provisions being implemented through the above amendment to the Energy Act), and also the requirements arising from the decision on the notification of Act No 165/2012 to the European Commission in the area of support for renewable electricity: proceedings SA.35177 (2013/N) – Promotion of electricity production from renewable energy sources and high-efficiency combined heat and power generation in respect of support under Act No 165/2012 on supported energy sources. Last but not least, amendments were also made to certain provisions in connection with the requirements arising from practical application and the requirements for improving the oversight process and to optimise the spending of funds on support.

The amendment to both laws passed through the inter-departmental commenting procedure and was subsequently laid before the Cabinet and, in late 2014, before Czech Parliament’s Chamber of Deputies for the first reading.

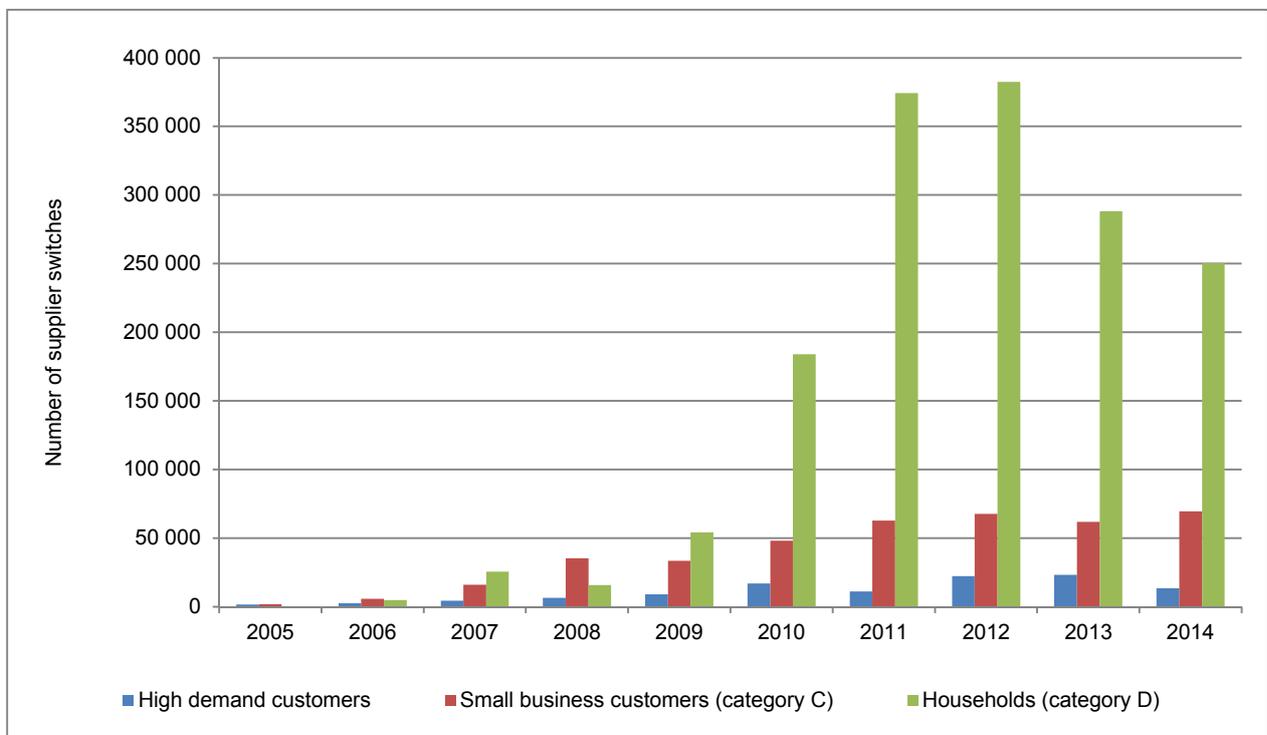
Last year also saw the successful coupling of day-ahead electricity markets in the Czech Republic, Slovakia, Hungary and Rumania on the principle of implicit allocation of cross-border capacities. The market operator, OTE, a.s., started to issue guarantees of renewable electricity origin. Another important change for customers in the electricity market in 2014 was the capping of the charge for meeting the costs incurred in support for electricity at CZK 495/MWh in Act No 165/2012 on supported energy sources and amending certain laws, as amended. Thanks to the capping of the charge for meeting the costs incurred in support for electricity, customers can be assured that they will not pay more for the operating support of supported electricity capacities. Compared with the preceding year, 10.7 per cent fewer customers switched their electricity supplier.

In the gas market, the capital structure of NET4GAS, s.r.o. was completely changed as its registered capital was significantly reduced. The Office monitored this capital decrease with a view to preventing any risk to the TSO’s financial stability. Compared with the preceding year, the number of gas traders in the retail market decreased somewhat. The number of supplier switches was also much smaller than in 2013, specifically by 33 per cent. One of the Office’s major steps taken in 2014 was the issuance of the first ever coordinated decision with the Polish regulator (Urząd regulacji energetyki, URE) approving the cross-border allocation of the costs of the investment in the STORK II Polish-Czech gas pipeline and the Moravia gas pipeline; the Office has achieved a significant reduction in the amount that will be passed through to the regulated prices for final customers in the Czech Republic compared with the applicants’ original requirements. The Office was also involved in issues concerning international projects, mainly in V4 countries and with Austria.

3. The electricity market

In 2014, the year-on-year decrease in the number of electricity supplier switches, which had begun in 2013, continued. Unlike 2011 and 2012, when electricity suppliers mainly relied on door-to-door sales, they currently vie for customers using other tools such as advertising campaigns, participation in mass-scale electronic auctions for groups of customers, and acquisition of weaker competitors. Large electricity suppliers have also learned to work with their customer portfolios, and offer alternative product ranges in addition to their main product ranges, and customers therefore do not have to change their supplier because of changing an energy product. This is borne out by Chart 1 that shows electricity supplier switches between 2005 and 2014. In 2014, approximately 333,000 customers changed their electricity supplier, down by 10.7 per cent on 2013 (for more details see point 3.2.2.1). Details indicate a decrease in electricity supplier switching mainly in the household category. A year-on-year increase in the number of supply point transfers to different suppliers was only registered in the low-demand business category.

Chart 1 Annual electricity supplier switching in the main customer categories



Source: OTE, a.s., ERO's own calculations

On its website, the Office continuously provided the information that could help to serve for a qualified selection of suppliers. It provided information concerning the customers' options and the procedure in electricity supplier switching, the structure of the offered services, and the suppliers' prices using an interactive ready reckoner for electricity prices, and also information about the feedback received by the Office from the liberalised market. During 2014, the ready reckoner was one of the most visited applications on the Office's website. While in the preceding years most of the electricity supplier switches were attributable to customers migrating from vertically integrated companies' incumbent suppliers to alternative suppliers, in recent years the market has been so liquid that it is no longer possible to identify the main direction of supplier switches. In general, customers followed the lowest price.

3.1. Network regulation

3.1.1 Unbundling

The amendment to the Energy Act, through which the Czech Republic had earlier implemented Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity, has significantly changed the legislation on unbundling, and it is very important in terms of regulating the unbundling of the electricity transmission system operator and also in terms of providing the ERO with much broader competences in oversight, inspections and penalties for breaching the unbundling rules.

In respect of the unbundling of distribution system operators, Article 26 of Directive 2009/72/EC had been implemented through an amendment to the Energy Act in the preceding period, specifically through Section 25a and Section 11(1)(m) of the Energy Act.

3.1.2 Technical functioning

The year 2014 saw the coming into effect of the amendment to Act No 165/2012 on supported energy sources and amending certain laws, enacted in Act No 90/2014 of 23 April 2014, with effect of certain provisions as of 1 July 2014. In this connection some changes in the system of support payment were implemented.

In connection with the above, and with the change in the system, a new regulatory methodology had to be prepared; it was provided in public notice no. 436/2013 on methods of price regulation and procedures for price controls in the electricity and heating industries and amending public notice no. 140/2009 on methods of price regulation in the energy sector and procedures for price controls, as amended, which superseded public notice no. 140/2009 in the electricity industry.

The rights and obligations of producers, including renewable electricity producers, are laid down in Section 23 of the Energy Act. Under Section 23(1)(a) every producer has the right to connect its installation to the electricity grid subject to the connection conditions and commercial terms and conditions. Under Section 23(1)(b) and (c) of the Energy Act producers also have the right to supply electricity to other market participants, to other countries, and for their own consumption.

The right to receive support for newly connected producers of energy from renewable energy sources is provided for in the amendment to Act No 165/2012 on supported energy sources (effective as of 23 April 2014); the amendment sets out the form of support for specific types of sources and, as applicable, for the particular size of installed capacity.

The responsibility for balancing energy rests with ČEPS, a.s., which ensures the quality and reliability of electricity supply at the level of the transmission system by means of system services. The funds to pay for these services are provided by final customers through a regulated contribution contained in the price for electricity consumed by final customers.

In respect of electricity supply quality, the Office focused on preparing the inputs to electricity quality regulation in the fourth regulatory period. At the same time, it set the quality indicators and their parameters in electricity distribution for the regulatory year 2015. The above is based on the Office's report on regulatory methodology for the third regulatory period, which introduced incentive regulation of quality, the purpose of which is to set the required level of the quality of provided services in relation to their prices. The purpose of quality regulation is to reduce the number and duration of electricity distribution interruptions.

The Office also focused on monitoring compliance with the standards for electricity supply quality required by public notice no. 540/2005 on the quality of electricity supply and related services in the electricity industry. The level of quality in distribution systems is determined by indicators of electricity supply continuity under Section 21 of public notice no. 540/2005, supply quality. The basic continuity indicators are defined in the public notice as follows: System Average Interruption Frequency Index in the period under review (SAIFI), System Average Interruption Duration Index in the period under review (SAIDI), and Customer Average Interruption Duration Index in the period under review (CAIDI). The monitoring results for 2014 are shown in Table 1. The results will be used for the future amendment of the public notice in terms of tightening the prescribed limits and introducing more targeted standards and, mainly, for setting the parameters of incentive quality regulation.

Table 1: Distribution continuity indicators in 2014

Indicator *	ČEZ Distribuce	E.ON Distribuce	PREdistribuce	Czech Republic
SAIFI [interruptions/year]	2.77	2.27	0.74	2.38
SAIDI [minutes/year]	281.42	409.3	43.37	283.22
CAIDI [minutes]	101.55	180.3	58.73	119.21

*System indicators covering all categories of interruption under Appendix 4 to public notice no. 540/2005, supply quality

Source: ERO

3.1.3 Network tariffs for connection and access

Under the Energy Act and public notice no. 436/2013 on methods of price regulation and procedures for price controls in the electricity and heating industries and amending public notice no. 140/2009, the Office sets the regulated prices related to electricity supply every year. The prices are heavily influenced mainly by the size of overall consumption, the price of electrical energy for covering losses in networks, the agreed value of booked capacity, and inflationary factors.

Charges for network services are composed of charges for transmission and distribution services, which are further broken down to the charge for network use per unit of electricity taken and the charge for booked network capacity, which is set as a fixed monthly charge.

The charge for using transmission system networks is influenced by losses in the transmission system and the price of energy for covering these losses. Expected losses dropped by more than 11 per cent year-on-year, mainly thanks to the much more precise prediction of the impacts of unplanned cross-border energy flows, while the charge for network use was also favourably influenced by the price for energy for covering losses, which dropped by 20.5 per cent. The result of these two factors was a drop in the charge for using transmission system networks by 43.9 per cent. The charge for capacity booking in the transmission system, remained approximately the same year-on-year (up by 0.01 per cent).

As in transmission, the charge for network use in distribution serves for covering network losses. For 2014, this charge was also favourably influenced by the drop in the price of electrical energy, while the demand planned for customers remained at approximately the same level year-on-year, the same as the contribution to distributed generation. This favourable development of the parameters caused a year-on-year drop in the charge for network use at the extra high voltage level ('EHV') by 32.1 per cent, and at the high voltage level ('HV') this charge dropped by almost 27.6 per cent compared with 2013. The charges for booked capacity at the various voltage levels are mainly influenced by the agreed technical parameters of booked capacity, the volume of investment at the respective voltage

level, and the charge for capacity booking in the higher-level transmission system. The unit price for booked capacity at the EHV level declined by 3.7 per cent, and at the HV level it declined by 4.6 per cent in the year under review.

The charges related to electricity distribution also include the regulated charge for covering the costs incurred in support for electricity ('charge for supported capacities'). In 2014, the principle of paying operating support for electricity to the operators of supported electricity capacities was preserved. Support for distributed electricity generation under the conditions set out in Act No 165/2012 on supported energy sources and amending certain laws, as amended, was also preserved on the same principles as in 2013.

The amendment to Act No 165/2012 on supported energy sources laid down the maximum charge for covering the costs incurred in support for electricity at CZK 495/MWh. The costs of operating support for electricity and heat that are not covered by the above charge are paid from government subsidies, which amounted to CZK 15.7 billion in the year under review. This measure, provided for in the law, resulted in the charge for supported capacities dropping by 15.1 per cent on 2013. However, this item continued to take a considerable part of the total amount of regulated prices.

The charge for the provision of system services is billed by the electricity transmission system operator. System services help to secure the Czech electricity grid and to balance electricity generation and demand. The transmission system operator arranges for system services primarily by purchasing ancillary services. The charge for system services dropped by 9.8 per cent year-on-year thanks to bargain purchases of ancillary services.

No changes occurred in connection conditions in 2014. 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 supplying the required power, are set out in ERO public notice no. 51/2006 on the conditions of connection to the electricity grid, as amended. The technical conditions for connection are stipulated in the rules of transmission/distribution system operation.

With a view to preventing cross-subsidies, regulatory reporting has been put in place, which, following the accounting and legal unbundling, strictly requires that the costs directly allocable to each of the regulated activities be reported. As part of secondary legislation, the ERO also sets the rules for overhead cost allocation, applicable to companies operating more than one regulated activity.

3.1.4 Cross-border issues

Access to cross-border infrastructure

The Czech electricity grid is synchronised with the rest of continental Europe (formerly the UCTE system). Cross-border interconnections exist with all neighbouring countries, i.e. Germany, Poland, Slovakia and Austria, and with five transmission systems: 50Hertz and TenneT (Germany), PSE (Poland), SEPS (Slovakia), and APG (Austria). At the respective cross-border point transmission capacities are allocated on the basis of coordinated calculation within the Central and Eastern European region (known as Central Eastern Europe, CEE),¹ which also includes Slovenia and Hungary in addition to the neighbouring countries.

¹ Regions for coordinated congestion management are defined in point 3.2 of Annex I to Regulation (EC) No 714/2009

Coordinated capacity allocation for the whole of the subsequent year and month (annual and monthly capacities) and for the individual trading hours on the subsequent day (day-ahead capacities) is organised by Central Allocation Office (CAO), a subsidiary of the eight regional transmission system operators. In mid-2014, the Croatian TSO became a new shareholder. Furthermore, in 2014, CAO and the Austrian TSO, APG, and the Swiss TSO, Swissgrid, entered into an agreement helping to calculate cross-border transmission capacities on the interconnector with Italy, thereby expanding its operations in the region.

Capacity allocation takes place under the Rules for Coordinated Auction of Transmission Capacity in the CEE Region (auction rules²), which set out the conditions for access to cross-border infrastructure within the meaning of Article 37(6)(c) of Directive 2009/72/EC. The transmission system operation rules, which are subject to approval by the ERO under Section 17(7)(g) of the Energy Act, refer to these auction rules. Informal coordinated assessments of the auction rules take place through the CEE regional coordination committee. The above-described capacity allocation method is used for cross-border interconnections with the 50Hertz, TenneT, PSE and APG transmission systems. For interconnection with Slovakia, a different cross-border capacity allocation method is used, see below.

The auction rules fully comply with Article 16 of Regulation No 714/2009 (EC) on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003, and, in particular, allow netting, i.e. the full satisfaction of requirements for transmission in opposite direction. In line with the trend of using long-term transmission capacity rights mainly as protection against ups and down in prices (hedging), long-term transmission rights are allocated with the option of no-use and subsequent resale in a daily auction. This approach is in line with the target model for the electricity industry.

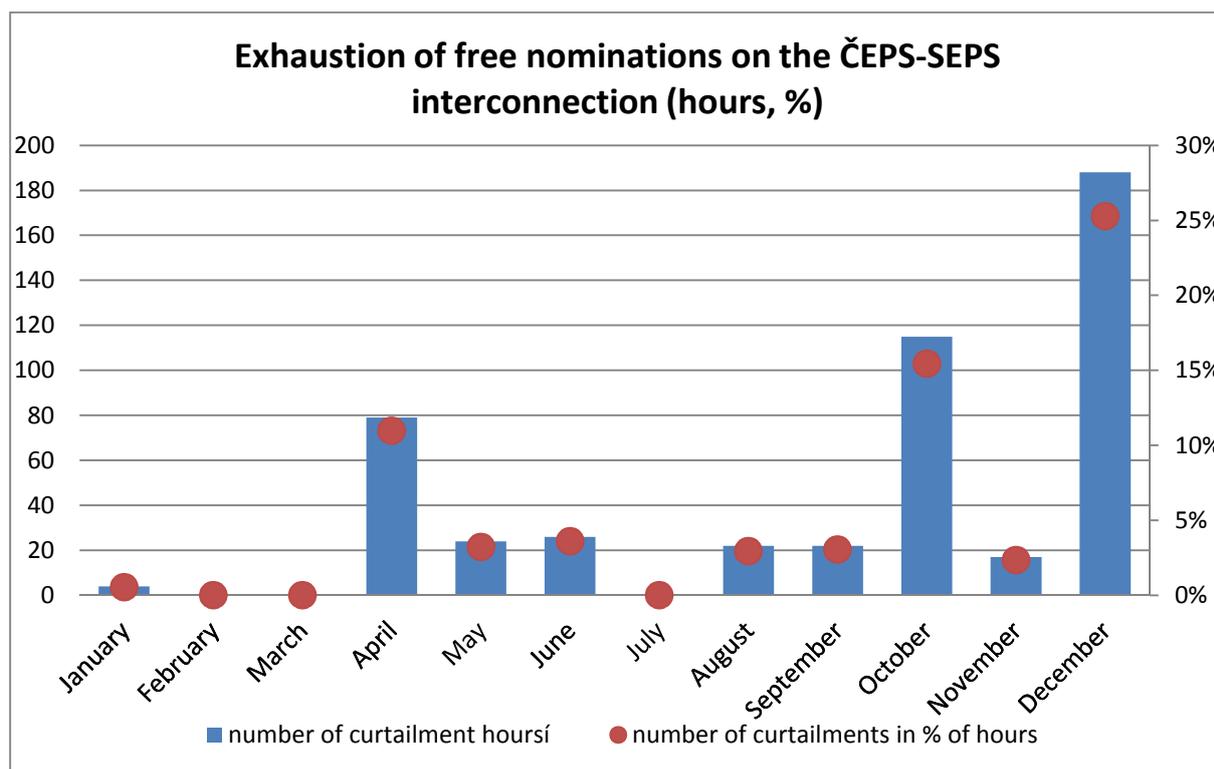
Capacities on the national border with Slovakia (the interconnector with the Slovak transmission system operator, SEPS) are allocated differently. Long-term nominations take place there without the need to book separately cross-border transmission capacity, for which market participants can apply until two days before the cross-border transmission is to take place. The transmission capacity so used is free of charge. Should the aggregate volume of nominations exceed the capacity earmarked for the long-term timeframe, all nominations are cancelled and the entire available cross-border capacity is released for day-ahead implicit allocation through market coupling with Slovakia and Hungary.

Thanks to the historical interconnection between the Czech and Slovak transmission systems, high transmission capacity is available in the cross-border interconnector with SEPS, and contractual congestions therefore occur only infrequently. The ČEPS-SEPS interconnection therefore cannot be described as structurally congested within the meaning of point 1.4 of Annex I to Regulation (EC) No 714/2009. This is confirmed by the low occurrence of curtailments of long-term nominations and also by the strong price convergence between the Czech and Slovak spot markets (see below). In the case of congestions, capacities are allocated in a non-discriminatory manner – implicit auctions for each of the trading hours on the following day. The ERO therefore regards the congestion management method employed on the national border with Slovakia as fully consistent with Article 16 of, and Annex I to, Regulation (EC) No 714/2009.

² Rules for Coordinated Auction of Transmission Capacity in the CEE-Region, available on CAO's website at http://www.central-ao.com/images/uploads/Auctions2014/20141029_Auction_Rules_CEE.pdf

In 2014, long-term nominations were curtailed in 5.67 per cent of cases³. The most critical situation occurred in December when every fourth nomination (25.3 per cent) was curtailed due to massive output from wind parks in northern Germany⁴. The occurrence of such curtailments in 2014 was also related to the planned outages of lines, which caused reductions in available transmission capacity. The distribution of cases of curtailments in each month of 2014 is shown in Chart 2. The Office continuously monitors the situation and should a structural congestion occur on the Czech-Slovak interconnector, it is ready to initiate the implementation of an adequate congestion management method.

Chart 1: Exhaustion of free nominations on the ČEPS-SEPS interconnection



Source: ČEPS, a.s.

On all cross-border interconnectors, intra-day transmission capacities are allocated on the First Come First Served basis until the available capacity is exhausted. Coordinated capacity allocation for all cross-border interconnectors is organised by ČEPS, a.s. The current system does not make charges possible, and therefore does not make the efficient pricing of the limited transmission capacities possible. Since 2012, intra-day transmission capacity has been allocated for individual trading hours on the interconnector with SEPS. On other interconnectors, transmission capacity is allocated for six four-hour intervals (“sessions”).

Since 2010, transmission capacities on the national border with Slovakia have been allocated by means of implicit auctions through market coupling. Market coupling is a method for integrating spot electricity markets where cross-border capacities are allocated together with energy bought on the spot market.

³ In 2012, 7.44% of nominations were curtailed and in 2013 the figure was 1.56%

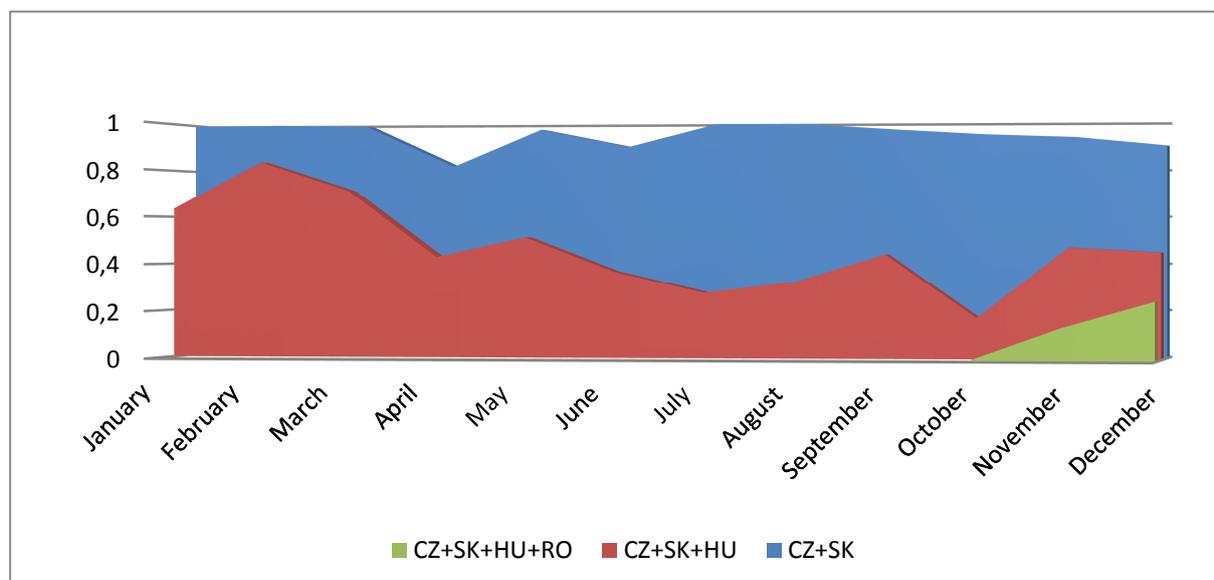
⁴ Source: OTE, a.s. website

The year 2014 saw continued work on expanding the already coupled day-ahead electricity market in the Czech Republic, Slovakia and Hungary to include the day-ahead electricity market in Rumania (hereinafter referred to as the 4M Market Coupling or the CZ-SK-HU-RO MC project). The project was launched in August 2013 with a view to expanding the integrated day-ahead electricity market in the Czech Republic, Slovakia and Hungary to include the day-ahead electricity market in Rumania and, originally, also in Poland. The above countries' TSOs (ČEPS, SEPS, MAVIR and Transelectrica) together with the respective energy exchanges (OTE, OKTE, HUPX and OPCOM), enjoying support by energy regulators (ERO, ÚRSO, MEKH and ANRE), cooperate on this joint project to develop and implement all the required solutions that will ensure technical and process compatibility between 4M Market Coupling and the target European solution that has been implemented in other integrated European regions. Due to incompatibility between the commercial solution applied in Poland and the existing integration of day-ahead markets in the Czech Republic, Slovakia and Hungary, the decision was made that the implementation of the implicit allocation of day-ahead capacities in Polish interconnections would be associated with the integration of day-ahead markets in the whole CEE region. Nevertheless, the Polish side has remained a project member with an observer status. On the other hand, the steps taken in 2014 to expand the day-ahead market in the Czech Republic, Slovakia and Hungary to include Rumania can be viewed as successful. On 19 November 2014, 4M Market Coupling was launched, integrating day-ahead electricity markets in the Czech Republic, Slovakia, Hungary and Rumania, and thus replacing the Czech, Slovak and Hungarian day-ahead market coupling. According to information from all of the project stakeholders, the integration of the day-ahead electricity markets on the principle of implicit allocation of cross-border capacities is working, including all the processes and functions as planned.

Transmission capacity allocation through energy exchanges (implicit allocation) has considerable advantages over explicit allocation, which takes place on other cross-border interconnection sites. First of all, market participants are not exposed to the risk stemming from procuring the commodity separately from the capacity for its transmission. What cannot happen is that a trader procures electrical energy but has no transmission capacity for exporting it, and vice versa. When using implicit allocation, cross-border exchanges are also carried out in the direction of the price differential at all times, which supports the most economical dispatch and maximises social welfare. An important indicator of the success of implicit allocation is the occurrence of identical prices at the participating spot markets, i.e. price convergence. In 2014, price convergence on the CZ-SK interconnection was 95.5 per cent, on the CZ-SK-HU interconnection 46.6 per cent and on the CZ-SK-HU-RO interconnection 28.1 per cent⁵.

⁵ For the CZ-SK-HU-RO interconnector, data only exists since 20 November 2014 when Romania was connected

Chart 3: Convergence in 4M MC



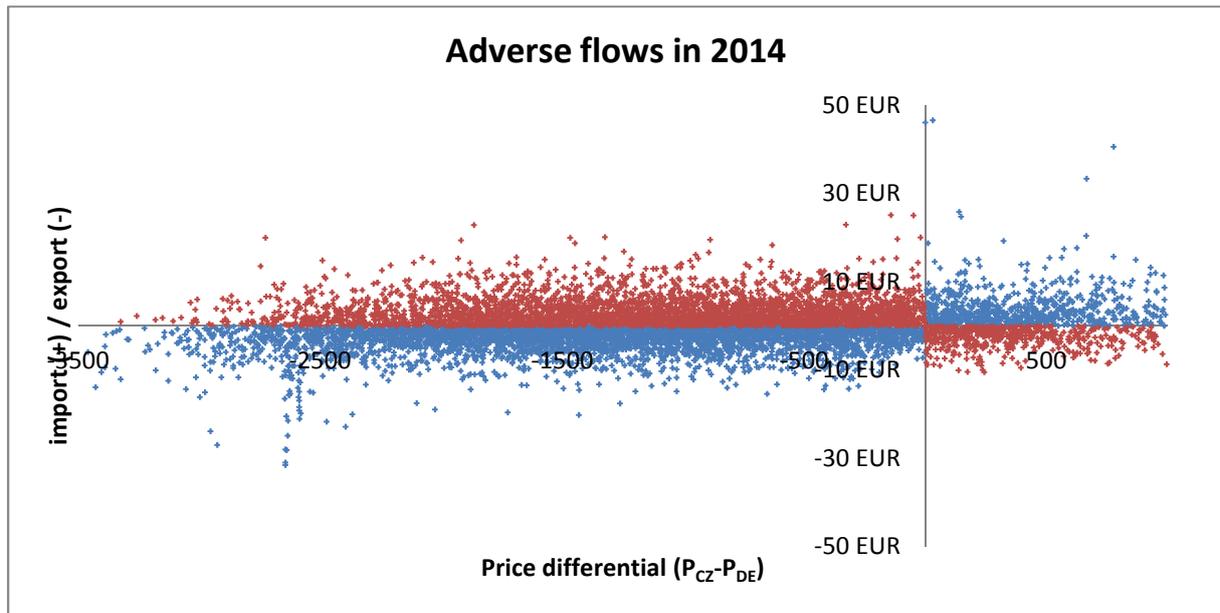
Source: OTE, a.s., ERO's own calculations

As mentioned above, capacity in other cross-border interconnectors is allocated in explicit auctions. Since capacity is allocated separately from energy trading, situations may occur when electricity is exported from a higher price market to a lower price market, i.e. it flows against the price differential (which is also known as adverse flows). This situation is undesirable from the economic perspective as it reduces social welfare and the potential for using cross-border interconnections. Chart 4 shows the size of this phenomenon on the Czech interface with the German-Austrian trading zone (i.e. all interconnectors with the TSOs 50Hertz, TenneT and APG)⁶. Quadrants 1 and 3 (red points) represent the situation where commercial exchanges flow against the price differential; this situation occurred in 43 per cent of hours in 2014. The average size of these adverse flows amounted to 1,158 MW from the Czech Republic into the German-Austrian commercial zone and to 424 MW in the opposite direction.⁷

⁶ Commercial exchanges at each of the interconnectors equal the balance of total nominations in both directions and the price differential is determined as the difference between the hourly price at OTE's intra-day market and the Epexspot intraday market for the German-Austrian trading zone.

⁷ A more detailed analysis would also reveal the specificities of the particular interconnectors depending on the general nature of electricity flows from the north (Germany and Denmark) to the south (Austria, Hungary, Italy etc.). This causes situations where at one and the same moment the CR imports on the 50Hertz interconnector while exporting on the TenneT and EPG interconnectors even though the price is the same throughout the German-Austrian bidding zone.

Chart 1 Adverse flows in 2014



Source: OTE, a.s., Epexspot, ČEPS, a.s., and the ERO's own calculation

Since ČEPS, a.s. is a TSO that is fully unbundled in terms of ownership within the meaning of Article 9 of Directive 2009/72/EC, the ERO does not conduct any systematic monitoring of the use of congestion charges (i.e. proceeds from cross-border capacity auctions). On the other hand, the ERO approved the use of a part of the revenues from auctions for reducing the allowed revenues from electricity transmission under the second point of Article 16(6) of Regulation (EC) 714/2009.

Cooperation with other regulatory authorities and ACER

In the period under review, the Office continued in its active participation in the drafting of the codes within ACER and CEER, specifically in all areas in which the preparatory process made this possible. The Office was actively involved in the ACER Board of Regulators' and the CEER General Assembly's activities, as well as in working groups and task forces.

The Office's employees who are responsible for the electricity industry attend the meetings of ACER and CEER working groups and sub-groups on a regular basis. Because of the important powers vested in ACER, especially in relation to the preparation of network codes and newly also in the context of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure, the Electricity Industry Department mainly focuses on activities within ACER. The Office also systematically takes part in the cooperation related to the collection and evaluation of data on and analysis of the conditions in the internal energy market and in the preparation of ACER's and CEER's reports and studies.

In the period under review, the European Commission mainly focused on finalising the Commission regulation establishing a guideline on capacity allocation and congestion management ('CACM'). In December 2014, the regulation was approved in the relevant comitology committee. In the end, 25 member states were in favour and three against the CACM; Slovakia and Bulgaria were against together with the Czech Republic. The Czech Republic reproved the code the most for the explicit duty to introduce of a common methodology for cross-border capacity calculation using the flow-based approach without first proving its efficacy, the unclear definition of the regions for capacity calculation, the

review of bidding zone configurations, and voting by qualified majority. In the period under review, only the discussion of CACM was completed, and its entry into force is expected in summer 2015. As regards the other codes, the European Commission has incurred considerable slippages against the original plans and so no formal deliberations of the committee took place on any other codes apart from CACM in the period under review.

Regional cooperation primarily takes place within the CEE Region and focuses on coordinated congestion management and capacity calculation and is formalised through the Electricity Regional Initiative and the regional coordination committee. The regional implementation group serves for consultations with regional TSOs, energy exchanges and market operators. In 2014, work continued on the implementation of the target model in the CEE Region, which consists of the joint implementation of market coupling using the flow-based method of capacity calculation and allocation.

Simultaneously with the effort to create region-wide flow-based market coupling, intensive preparations for and the implementation of the CZ-SK-HU MC expansion to include Romania (the 4M MC project, see above) were running. In addition to clarifying a number of technical and legal issues related to the new project the main task was to select the platform for matching trading transactions. The selected variant is fully compatible with the system that is used for MC in North West Europe (NWE) and that is the basis for the pan-European model. It was therefore ensured that the selected solution would be fully compatible with the target model for the entire EU and that any obstacles and costs associated with the integration of 4M MC into the regional flow-based MC and subsequently the EU-wide MC would be minimised.

Unfortunately, continued integration of markets in the CEE Region, and therefore the implementation of the target model, is being impeded by the heavy occurrence of loop flows, which mainly affect the Czech and Polish transmission systems. Unplanned flows are inevitable in densely interconnected electricity grids if a zone-based approach to congestion management is employed. Loop flows exceeding a tenable threshold pose a considerable risk for the safe operation of transmission systems. Unplanned flows also impair the reliability of transmission capacity calculations and can ultimately result in deteriorated conditions for cross-border trading. In 2014, the Office participated, at the bilateral and European levels, in activities geared towards mitigating this problem.

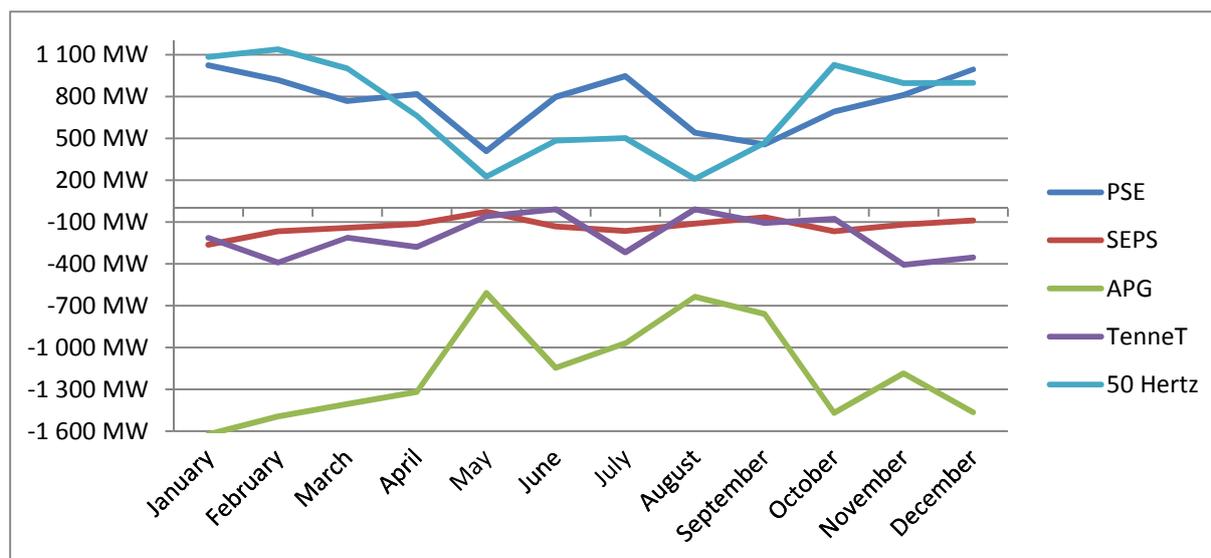
Chart 5 indicates that unplanned electricity flows (the difference between nominations and physical flows) enter the Czech electricity grid from the north via the interconnections with 50Hertz and PSE and exit the Czech Republic in the south to Austria (the interconnection with APG). In 2014, unplanned flows totalled approximately 1,500 MW on average. On the basis of analyses carried out by the stakeholder TSOs⁸, independent consultants⁹ and ACER¹⁰ the Office believes that the increased occurrence of loop flows in the CEE Region is related to the size and topology of the German-Austrian trading zone and also to wind power development in northern Germany.

⁸ See, e.g., *Joint study by ČEPS, MAVIR, PSE and SEPS regarding the issue of unplanned flows in the CEE region*. Available from PSE website at http://www.pse.pl/uploads/pliki/Unplanned_flows_in_the_CEE_region.pdf

⁹ A study prepared for the European Commission by Thema Consulting Group, *Loop flows – Final advice*. Available at http://ec.europa.eu/energy/gas_electricity/studies/doc/electricity/201310_loop-flows_study.pdf

¹⁰ *ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2013* http://www.europarl.europa.eu/meetdocs/2014_2019/documents/itre/dv/acer_market_monitoring_report_2014/acer_market_monitoring_report_2014_en.pdf

Chart 2 Unplanned flows in 2014



Source: ČEPS, a.s., and the ERO's own calculations

Another international issue on which the Office focused in 2014 was the development of the trans-European infrastructure in line with Regulation (EU) 347/2013. The first half of the year saw the finalisation of the selection of projects of common interest (PCI), which was completed on 14 October 2014 by the adoption of the EU's list of projects of common interest.¹¹ In the electricity sector the PCI status was granted to seven projects submitted by ČEPS, a.s. On 31 October 2013, the Office received a request for cross-border cost allocation under Article 12 of Regulation (EU) No 347/2013 from the promoter of project 3.11.4. In compliance with the Regulation, the request was transmitted to ACER for information and the Office started to take steps conducive to the issuance of a coordinated decision by all of the regulatory authorities concerned. However, the applicant withdrew the request in March 2014 and the proceedings were then discontinued in accordance with the Rules of Administrative Procedure.

Monitoring of the investment plan and assessment of its compliance with the Community-wide network development plan

Section 24(10)(j) of the Energy Act requires ČEPS, a.s. to prepare a ten-year plan for the development of the electricity transmission system, including an investment plan. Under Section 16(n) and Section 17(7)(i) of the Energy Act, ČEPS, a.s. is also obliged to request the Ministry of Industry and Trade [MIT] to issue an affirmative opinion, and then to submit the development plan to the Energy Regulatory Office for approval.

Although the development plan was submitted to the Office in the autumn of 2014, it was not approved due to the MIT's negative opinion and the approval process therefore rolled over to 2015. The Office assessed the draft plan for transmission system development for 2015 to 2024, prepared as the third in a row and following up on the development plan prepared in 2013 for the period 2014-2023. The plan for the development of the Czech electricity transmission system contains capital expenditure amounting to CZK 44.9 billion spread over ten years, with the capital expenditure allocated more or less evenly to each of the years.

¹¹ Commission Delegated Regulation (EU) No 1391/2013 of 14 October 2013 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure as regards the Union list of projects of common interest

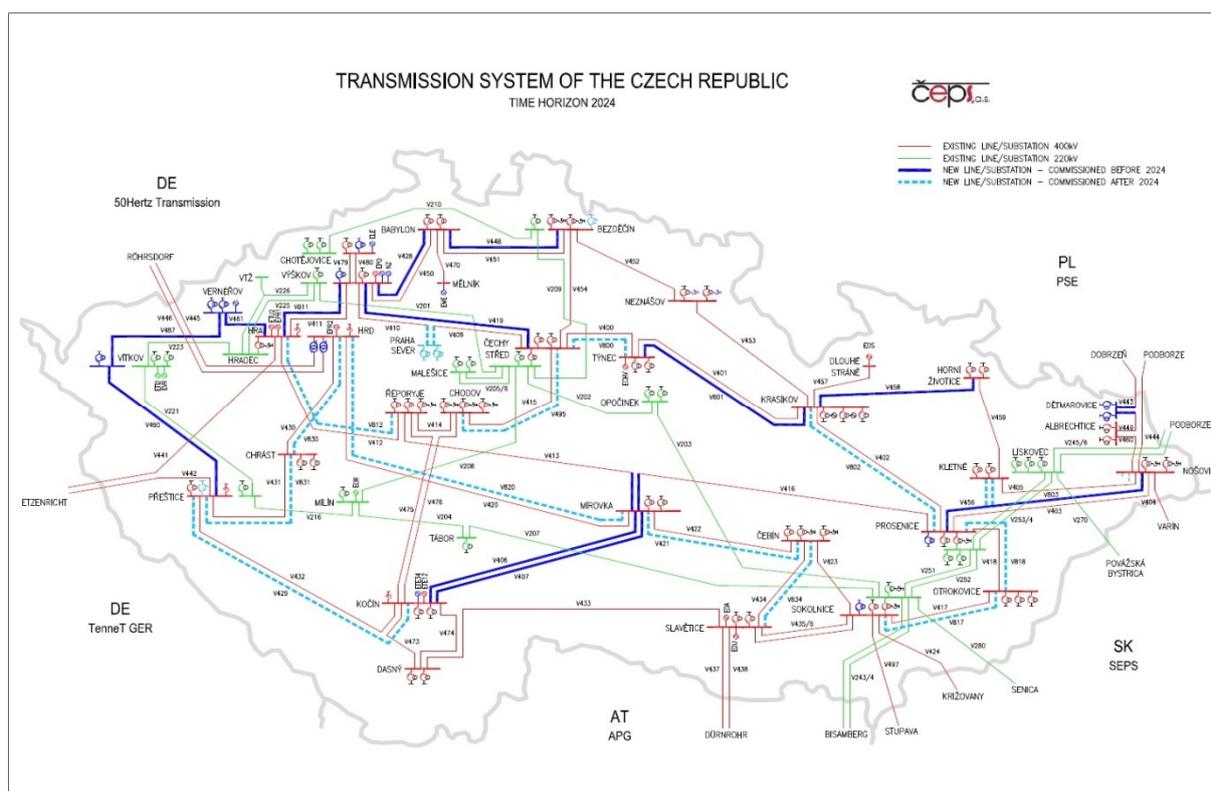
These investments are intended for the renovation of lines and erection of new lines or double-circuiting old lines, which reflect the modernisation of capacities in north-western Bohemia (Ledvice, Počeradý and Mělník) and the export of the relevant output into the grid, for expanding the network in connection with the completion of the Temelín NPP, and for exporting the output from the Chomutov wind park and from other 100 MW renewable capacities in the Karlovy Vary area into the grid. The growth in electricity demand in some regions (in particular western Bohemia, the Ostrava area and the Prague agglomeration) necessitates reinforcements of the transformation capacities in the grid, which results in the erection or expansion of 400kV/110kV substations and transformer stations (Dětmarovice, Prosenice, Lískovec, Verněřov, Vítkov, Chodov and the new Praha-Sever supply station).

The rising power of unplanned flows from other countries, mainly Germany, is posing a risk to the safety of the Czech electricity grid. Over the short term, the safety and reliability of the operation of the transmission system is being ensured by modernising crossings and reinforcing the loadability of the phase conductors in selected sections of the most heavily loaded lines. With a view to preserving safe operation and meeting the N-1 safety criterion in the transmission system, ČEPS, a.s. started, following agreement with the German side, preparations for the erection of phase shifting transformers (PST) on the Czech-German interconnection sites (four machines with an installed transmission flow capacity of 850 MVA). They can control the flow of active power in the branch in which the transformer is included.

Under Regulation (EU) No 714/2009, the development plan is also reflected in the content of the Community-wide ten-year network development plan, TYNDP. An analysis carried out in connection with the TYNDP 2014 update has revealed that the Czech electricity transmission system fails to meet the security criteria for reliable transmission system operation in terms of both internal lines and cross-border lines. This analysis worked with the assumption that the scenario in ENTSO-E Vision 4, Green Revolution, materialises.

In view of this fact, ČEPS, a.s. consistently and continuously monitors the trends in the development of power generating capacities in Europe and pays attention to the cross-border lines shared with all neighbouring TSOs so that it can suggest adequate measures on time in the case of indications that assumed scenarios such as ENTSO-E Vision 4, Green Revolution, actually materialise. At this point it should be noted that investment activities enhancing security in the internal network and on cross-border lines, which ČEPS, a.s. has specified for the Community-wide ten-year network development plan, are also part of the Czech Republic's national development plan.

Figure 1: Development of the Czech electricity transmission system until 2024



Source: ČEPS, a.s.

In connection with Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure, it is also to be assessed whether the PCIs in the Czech Republic are also part of the national ten-year development plan¹² (Article 3(6)). In the first PCI list, i.e. in 2013, ČEPS, a.s. was granted the PCI status for seven investment projects (see Table 2 List of PCIs – PCI 3.11). For the second list, i.e. in 2014, ČEPS signed up another seven investment projects. All the projects are also part of the Czech Republic’s national ten-year development plan. However, cross-border importance envisaged by Regulation No 347/2013 has not been demonstrated for all of the projects, and therefore the European Commission has not granted the PCI status to some of the projects. In spite of that, ČEPS, a.s. has nevertheless included these projects in the Czech Republic’s national ten-year development plan.

Table 2: List of PCIs – PCI 3.11¹³

Cluster	Investment index	Project name	Date of commissioning	Promoter
200	306	New 400/110kV substation at Vítkov	2020	ČEPS
200	308	New 400kV double circuit OHL Verněřov – Vítkov	2019	ČEPS
200	309	New 400kV double circuit OHL Vítkov – Přeštice	2021	ČEPS

¹² PCI, Projects of Common Interest

¹³ PCI project numbering matches that in TYNDP 2014

35	307	New 400kV substation at Vernéřov	2017	ČEPS
35	311	Upgrade of the existing Kočín substation (400/110kV)	2024	ČEPS
35	313	New 400kV double circuit OHL Kočín – Mírovka	2024	ČEPS
35	315	Double-circuiting the 400 kV single-circuit Kočín – Přeštice line	2028	ČEPS

Source: ENTSO-E, ČEPS, a.s., ERO's editing

3.1.5 Compliance

The Energy Regulatory Office exercises its powers on the basis of the relevant provisions of the Energy Act, which lay down the rights and obligations arising from the relevant provisions of the EU legislation, i.e., in particular, Directive 2009/72/EC, Regulation No 714/2009/EC, and Directive 2006/32/EC. The Czech legislation is fully harmonised with this EU legislation thanks to amendments to the Energy Act and implementing acts.

The Office ensures that the TSO and DSOs and, if applicable, the relevant owners of the systems, and also all electricity utilities perform their obligations under the relevant legislation at the European and national levels.

The Office also exercises its supervisory powers under the relevant provisions of the Energy Act so as to ensure the efficient monitoring of all electricity market participants' compliance with EU and Czech law and with the ERO's and ACER's relevant legally binding decisions, and imposes effective, proportionate and dissuasive penalties on the electricity utilities that breach their obligations. The Office oversees compliance of the electricity transmission company's and distribution companies', system owners' and electricity undertakings' activities with the relevant EU legislation, including the cross-border issues. To this end, the Office primarily monitors and oversees compliance with the relevant provisions of the Energy Act on independence of the electricity transmission system operator and with the certification decision. Should it find a breach of the relevant provisions of the Energy Act in this respect, the Office has the power to impose the respective penalties laid down in the legal system under Article 37(4)(d) of Directive 2009/72/EC, and also the power to revoke the independence certificate under statutory conditions.

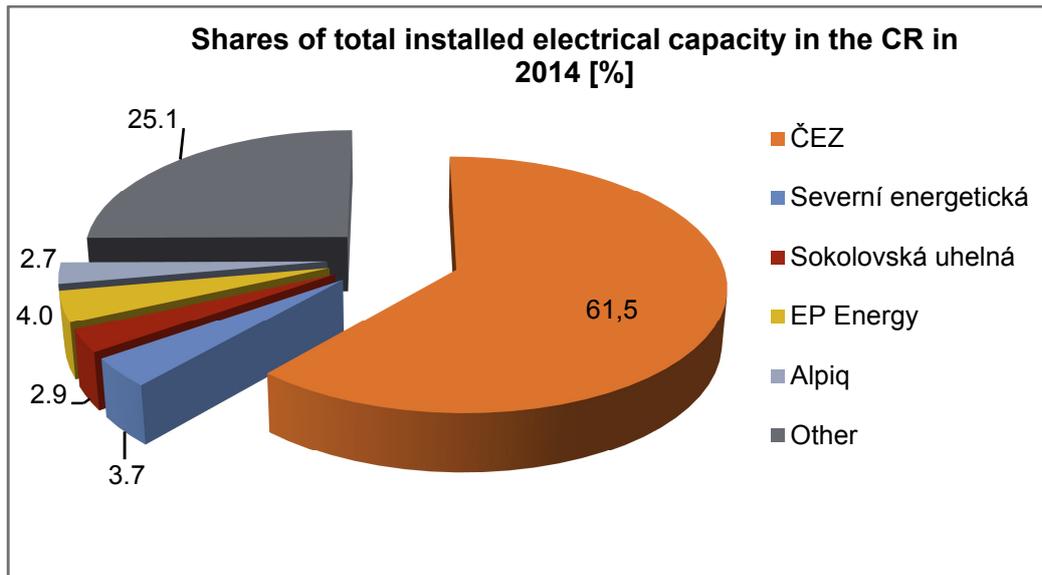
As regards meeting the Agency's and the Commission's binding decisions by the Office, no such decisions were made in respect of the Office in 2014.

3.2. Promoting competition

The retail and wholesale markets have been fully liberalised. Electricity traders are therefore not legally constrained at all in buying electricity directly from producers (generators) or at exchanges or spot markets in the Czech Republic and in other countries. They also have the right to sell electricity to market participants to other countries.

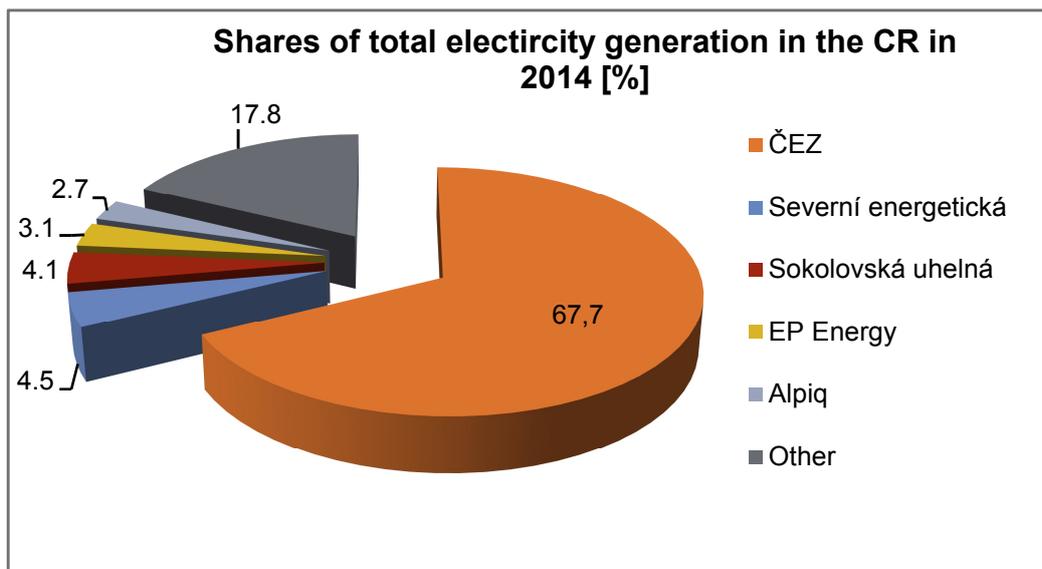
Of electricity generated in the Czech Republic in 2014 (86,003.4 GWh), ČEZ, a.s. generated 67.7 per cent. Other generators have less than 5 per cent (Severní energetická a.s., Sokolovská uhelná, právní nástupce, a.s., EP Energy, a.s. and others).

Chart 6: Shares of total installed electrical capacity in the CR in 2014



Source: ERO

Chart 7: Shares of total electricity generation in the CR in 2014



Source: ERO

3.2.1 Wholesale markets

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

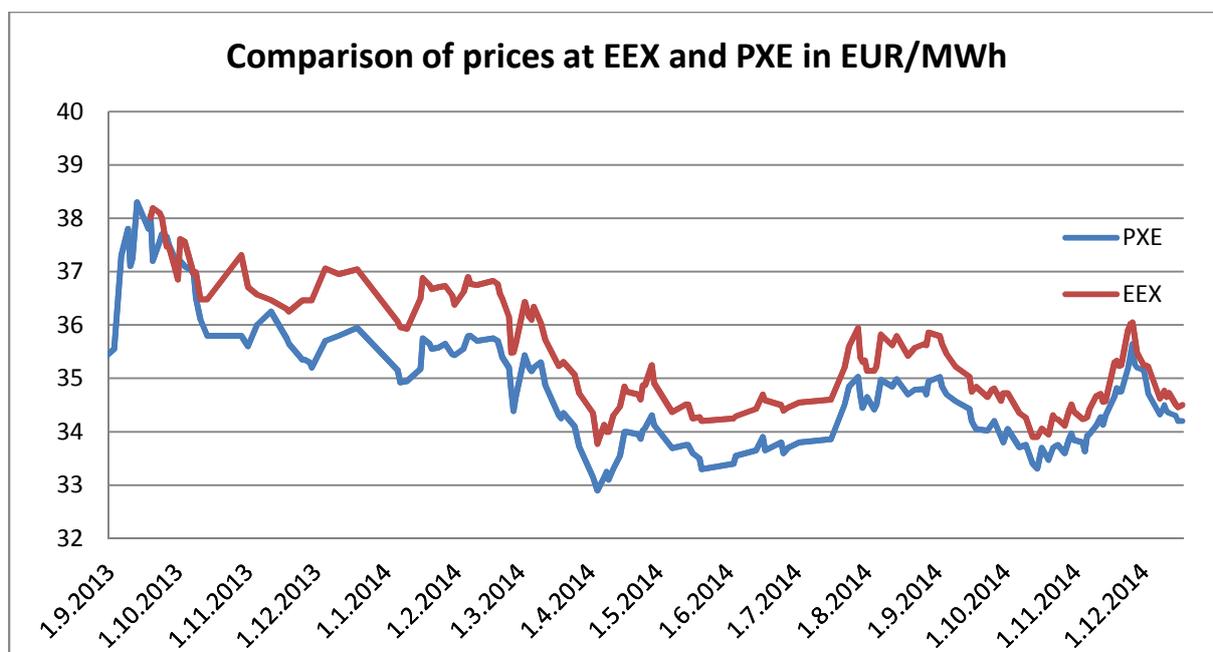
In the Czech Republic, electricity is traded at Power Exchange Central Europe, a.s. (“PXE”), under bilateral [OTC] contracts, and at spot markets organised by OTE, a.s. While the standard products traded at PXE and the products at the spot market of OTE, a.s. have fixed expiry dates, these rules do not apply to bilateral contracts. The terms of bilateral contracts vary; an electricity producer and an electricity trader, or a trader and a customer, usually enter into one-year agreements. Products with delivery in the Slovak grid, and products with delivery in the Hungarian grid, are also traded at PXE. In addition to physical products PXE has also introduced financial products without an obligation of physical supply, which had

fully replaced physical products by now. In 2013, 2,177 futures with settlement in 2014 and a volume of 13.5 TWh (1,383 contracts with a volume of 12.1 TWh were for the annual products) were traded, and in 2014 (for 2015) it was 2,102 contracts with a volume of 10.7 TWh (1,051 contracts with a volume of 9.2 TWh were for the annual products). In November 2014, the integrated day-ahead market in the Czech Republic, Slovakia, Hungary and Rumania (the 4M MC project) started to work.

Electricity traders can use any combination of bilateral contracts and energy exchange products, including OTE, a.s. platforms and foreign exchanges, including the Leipzig energy exchange, EEX, for buying and selling. It is therefore not feasible to clearly determine the structure of electricity procurement for final customers after the supplier has bought or resold electricity in various market places in Europe.

Chart 8 indicates that the prices of the products traded at PXE (i.e. the spot market organised by OTE, a.s.) are closely correlated with those at the Leipzig energy exchange, EEX, for products to be delivered to the German and Austrian electricity grids, and have been lower for a long time; in 2014, by EUR 0.71/MWh on average¹⁴.

Chart 8: Differences between prices of BL CAL 2015 futures (annual base load) at PXE and EEX



Source: PXE and EEX

A part of the volume of electricity is traded under OTC (bilateral) contracts and also at the spot market (day-ahead and intra-day markets) organised exclusively by OTE, a.s. since February 2009. In 2014, 15,109 GWh of electricity was traded at the day-ahead market; under bilateral contracts registered in the OTE system, 88,021 GWh was traded, and 9 GWh was traded in the block market; and 391 GWh of electricity was traded on the intra-day market. All cleared entities, i.e. not only traders and producers but also the customers who are responsible for imbalances [\approx balance responsible parties], can go to the spot market to procure electricity.

¹⁴ The average difference has been calculated only for days of non-zero volumes of sales at PXE

3.2.2 Retail market

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

Under Section 11a of the Energy Act, holders of electricity trading licences shall publish, in a manner allowing remote access, their terms and conditions of electricity supply and electricity supply prices for households and for sole proprietorships taking electricity at the LV level. Changes in electricity supply prices or changes to other electricity supply conditions shall be published by licence holders no later than 30 days before their effective date. This ensures price transparency and customer protection. Fines have already been levied on electricity traders for breaching this obligation.

The overall price of electricity supply for customers at the LV level is made up of the regulated items of charges for distribution and related services and the unregulated prices of electrical energy products, which are determined by the supplier selected by the customers. The Office sets the regulated components of the price in its binding price decisions, where the charge for system services, the charge to cover the costs incurred in support for electricity and the charge for the market operator's services are the same for all final customers in the Czech Republic regardless of the connection point, voltage level, or selected supplier.

Customers have the right to select, at their own discretion, any supplier of electrical energy and the most suitable product on offer with regard to the nature and size of their demand. The number of cases of supplier switching is published, on a monthly basis, in the statistics section on the website of the electricity and gas market operator, OTE, a.s., broken down by voltage level and customer category. Table 3 shows electricity supplier switching in 2014. Distribution charges depend on the place of connection, i.e. on the distribution company to whose network the supply point is connected. Thus, customers cannot select their distribution system operator. However, customers at the LV level can change their distribution tariff subject to meeting the conditions for obtaining the tariff; or by changing the main switch upstream of the electricity meter they can influence the fixed components of the regulated charges for transmission and distribution.

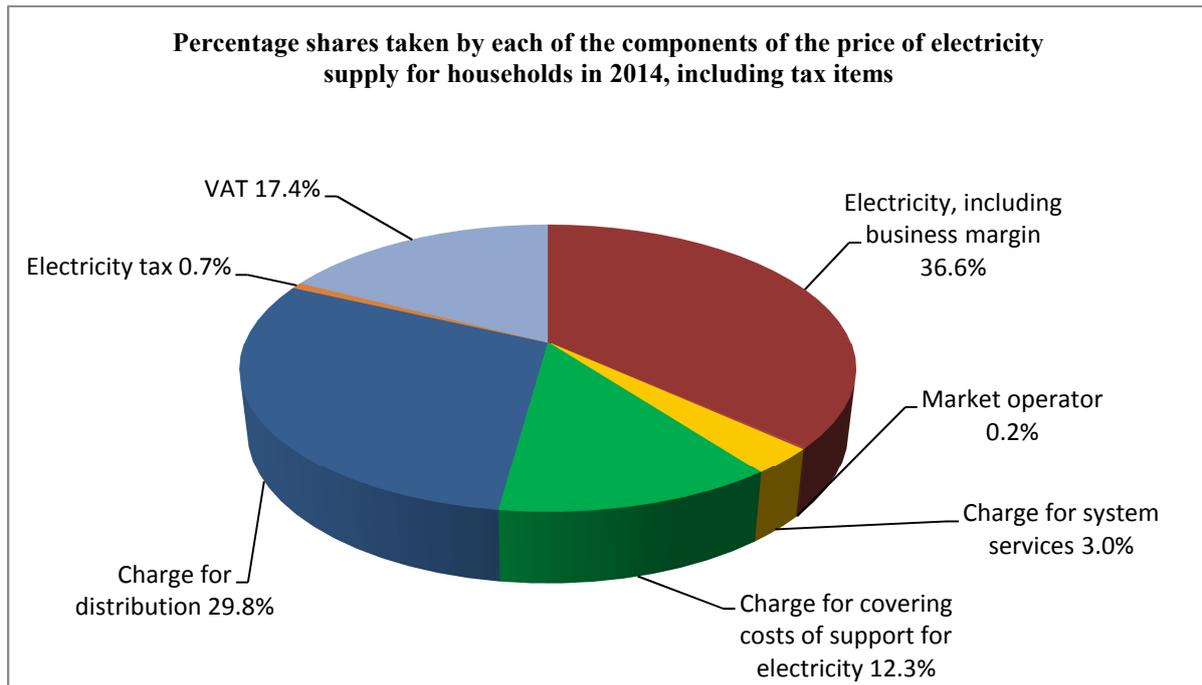
Chart 9 shows the percentage shares (including VAT and electricity tax) of the various components in the resulting price of electricity supply for households in 2014.

Table 3: Electricity supplier switching

Type of demand	2013	2014		2014	2014
	Number of supplier switches	Number of supplier switches	Year-on-year change [%]	Total number of supply points	Switching [%]
High demand customers	23,193	13,373	42.3	25,060	53.4
Low demand customers – businesses	61,874	69,539	11.0	764,597	9.1
Low demand customers – households	288,129	250,247	13.1	5,109,441	4.9
Total	373,196	333,159	10.7	5,899,098	5.6

Source: OTE, a.s., and the ERO's own calculations

Chart 9: Percentage shares taken by each of the components of electricity supply price for households in 2014



Source: ERO

Traders must provide distribution system operators with identification details of the customers whom they supply under agreements on bundled supply services. Traders must also provide electricity transmission and distribution system operators with information required for the safe and reliable operation and development of these systems. Electricity traders' obligation is to promote energy services and offers thereof. Electricity traders have the right to receive, from the market operator, the information that they need for billing electricity supply to customers whose supply point is registered with the market operator.

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

Under Article 37(1)(o) of Directive 2009/73/EC, the Office publishes, in accordance with Section 17(7)(l) of the Energy Act, recommendations in relation to electricity supply prices for households. Section 17c of the Energy Act provides for the Office's cooperation with the Office for the Protection of Competition (ÚOHS). The Office is also required to advise ÚOHS of market participants' practices that there exist good reasons to believe that they distort or restrict, or result in the distortion or restriction of, competition, of the use of constraining or unfair terms and conditions in contracts in the electricity market, and of the methods of electricity pricing for households.

The Office also carried out periodical investigations, using its findings from market monitoring and suggestions received from consumers and final customers, preferentially focused on electricity traders' practices, mainly in the electricity supplier switching process. Investigations also focused on electricity traders' adherence to their rights and obligations, including compliance with the standards of supply and service quality in the electricity industry.

The Office also carries out (on the basis of suggestions from the outside) checks for suspicion of violations of consumer protection legislation, in particular, the prohibition of unfair business practices, in respect of the rights attached to contract rescission, including checks

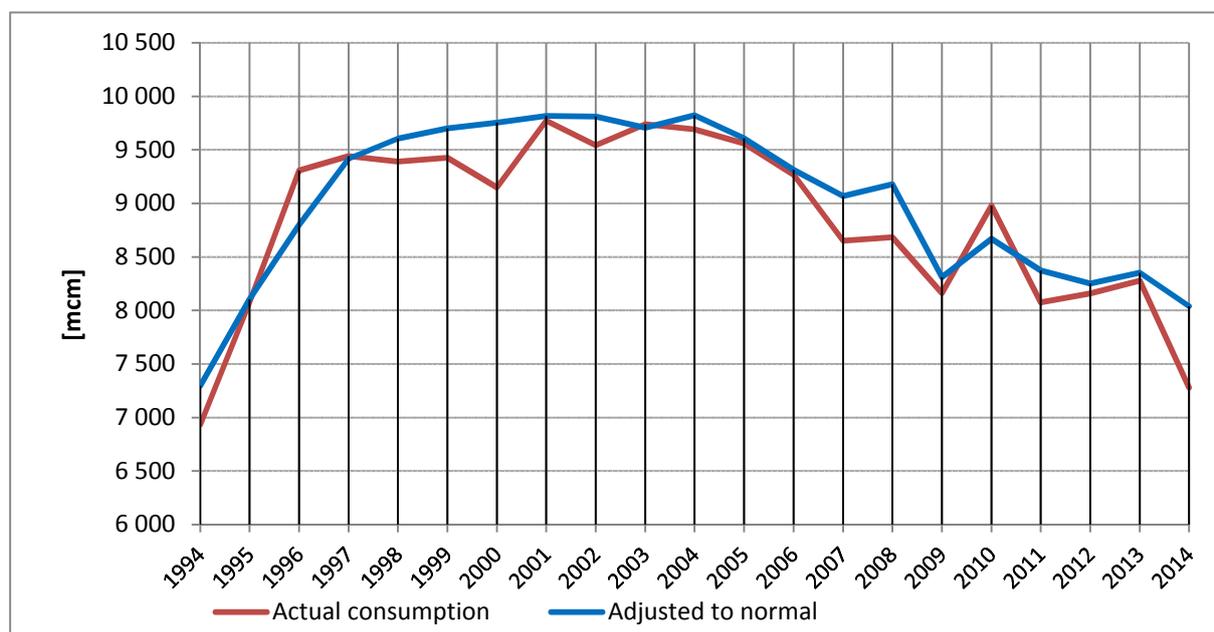
specifically focused on licence holders' obligation to provide, when offering and selling electricity to consumers, complete information enabling consumers to know the final offering price (covering all taxes, customs duties and charges) prior to executing agreements on bundled services of electricity supply, and on the obligations related to the publication of changes in electricity supply prices.

4. The gas market

In 2014, gas consumption in the Czech Republic amounted to 77,409.1 GWh (7,280.3 mcm) on a tentative basis. Actual consumption dropped by 12 per cent on 2013, mainly due to the extremely warm weather in the winter months of 2014. In January 2014, the highest monthly consumption was registered at 11,367.9 GWh (1,067.2 mcm). Daily gas consumption peaked on 27 January 2014 at 478.873 GWh (44.959 mcm), when the average daily temperature was minus 4.1 °C. The reference hourly reading was prepared for this day.

Adjusted to long-term normal temperatures, annual gas consumption amounted to 85,490.5 GWh (8,040.6 mcm) in 2014. Adjusted actual annual consumption decreased by 3.7 per cent on 2013. The country's actual and adjusted gas consumption between 1994 and 2014 is shown in Chart 10.

Chart 10: Annual gas consumption (1994-2014)



Source: ERO

4.1. Network regulation

Owners of NET4GAS, s.r.o. profoundly restructured the company's capital in 2014; the company's registered capital was reduced by 92 per cent. At the same time the company issued, in three tranches, bonds denominated in the euro and the Czech crown, totalling EUR 710 million. NET4GAS, s.r.o. regards this step as a part of a process of optimising its long-term capital structure that includes equity financing as well as debt financing by bonds and bank loans.

In connection with the above change of the company's capital structure the Office continuously monitors whether or not the TSO's financial stability is jeopardised; such development would have a negative impact both on gas supply to customers in the Czech Republic and on gas supply to neighbouring countries.

4.1.1. Unbundling

In 2014, the ownership structure of NET4GAS, s.r.o. did not change, and therefore there were no circumstances inconsistent with the European Commission's opinion of 2013, according to which no reasons had been found for re-certification.

Unbundling has necessitated provisions for meeting the obligation of non-discriminatory access to gas systems; for oversight in this respect, a compliance programme has been established. The gas infrastructure operators concerned must adopt this programme in their internal regulations. A compliance officer, appointed or otherwise installed by the system operator, oversees the implementation of the programme. Compliance officers prepare and submit to the ERO, annual reports on measures adopted for compliance programme implementation for the past year.

4.1.2 Technical functioning

Security and reliability standards

Because of the summer/winter swings in gas consumption, UGS facilities that serve for gas storage in summer and gas production in winter when daily demand exceeds the daily contract quantities imported from abroad, help to provide for balanced supply and demand. The technical storage capacity of UGS facilities for the Czech Republic's needs totals 2.931 bcm, which in 2014 accounted for about 40 per cent of the country's annual gas demand. A UGS facility connected to the Slovak gas network and owned by SPP Storage, s.r.o., with a capacity of 576 mcm, is also located in southern Moravia.

The technical parameters of UGS facilities in the Czech Republic (storage capacity, maximum daily withdrawal capacity and maximum daily injection capacity) are shown in Table 4.

Table 4: Gas storage facilities in the CR and their technical parameters

SSO	UGS facility	Storage capacity [million m ³]	Maximum daily withdrawal capacity [million m ³ /d]	Maximum daily injection capacity [million m ³ /d]
RWE Gas Storage, s.r.o.	Háje	64	6.0	6.0
	Dolní Dunajovice	900	17.0	12.0
	Tvrdonice	535	8.0	8.0
	Lobodice	177	5.0	2.5
	Štramberk	500	7.0	7.0
	Třanovice	530	8.0	6.0
	Total		2,696	51.0
MND Gas Storage a.s.	Uhřice	235	6.0	2.6
Total Czech Republic		2,931	57.0	37.6

Source: ERO

Moravia Gas Storage a.s. is currently building a new UGS facility in Dambořice, with a total capacity of 580 mcm and a withdrawal capacity of 17 mcm/day. The reinforcement of the Uhřice UGS facility, owned by MND Gas Storage a.s., to the final capacity of 280 million cubic metres and with a withdrawal capacity of 7 mcm/day is to be completed in 2016.

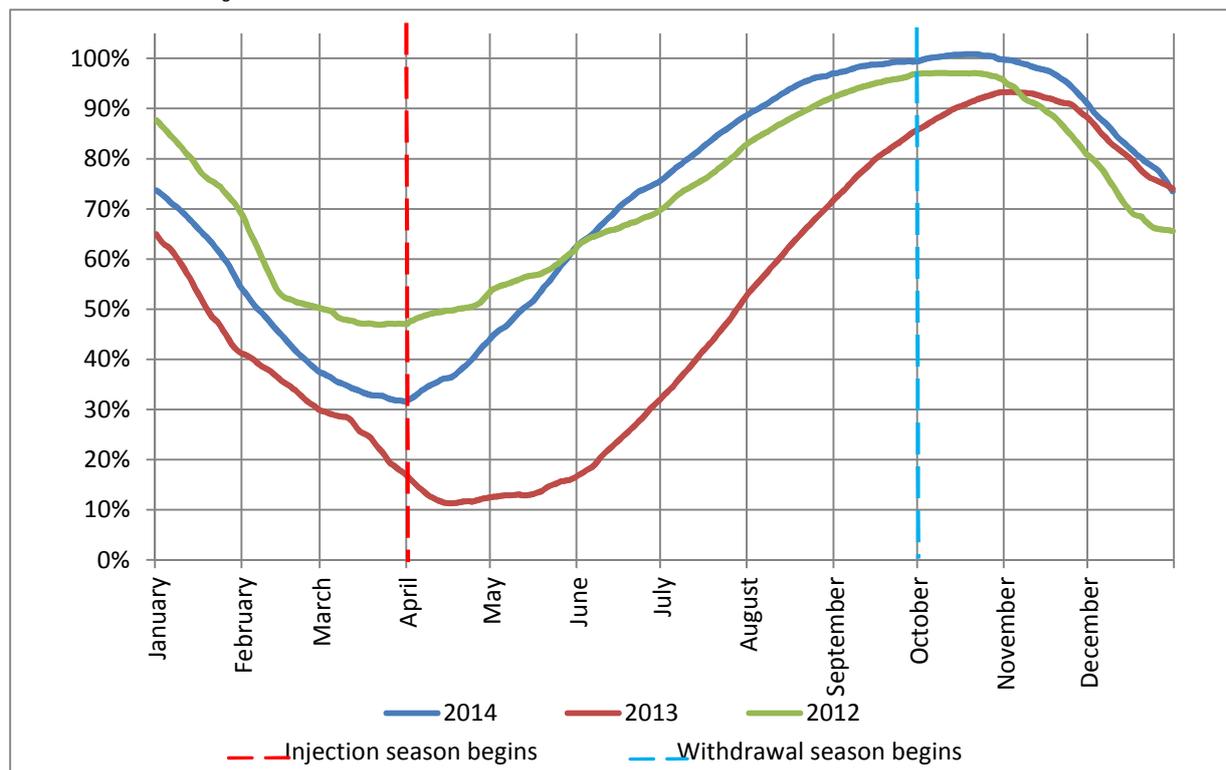
Monitoring time taken to connect and repair

The SSO declares a plan of shut-downs of its virtual UGS facility under the applicable legislation and posts it on its website. Shut-downs must be posted at least one month before the starting date. Shut-downs are posted primarily for operating reasons and to stabilise reservoir pressures in each plant. Shut-downs of the virtual UGS facility are also declared for reasons attributable to the transmission system operator.

Monitoring access to storage, line pack and other ancillary services

In 2014, at the end of the injection period, the maximum UGS storage capacity in the Czech Republic was filled before the beginning of the production season. This situation was just the opposite of the situation in the preceding two years. Chart 11 shows gas injection and withdrawal between 2012 and 2014. The unstable geopolitical situation in Ukraine can be described as the main factor for the renewed demand for storage capacity use; for EU countries, and primarily gas traders, this situation has again increased the risk of another disruption in gas supply for the European market similar to the circumstances in 2009. Unlike the preceding season, traders therefore used the entire storage capacity on offer. This situation was achieved despite the persistently contracting spread between spot market gas prices in summer versus winter.

Graf 11: Gas injection and withdrawal between 2012 and 2014



Source: ERO

Monitoring the correct application of criteria that determine the model of access to storage

SSOs have adopted a compliance programme the purpose of which is to ensure a non-discriminatory position for all gas market players who use or want to use storage services.

Access to gas storage facilities is based on the principle of negotiated third-party access. In the relevant regulations, the Office sets out the particulars of which applicants for storage capacity must be aware before storage capacity is sold using an auction mechanism. The terms and conditions of every auction are posted on the SSO's website. The Office

continuously monitors and evaluates these conditions. In 2014, no discriminatory practices towards gas market participants occurred.

Monitoring safeguard measures

In 2014, the European Commission requested all EU member states to carry out stress tests of the readiness of gas systems (including storage facilities) for the forthcoming winter. Four scenarios that could materialise in the case of a disruption in gas supply from Russia across Ukraine for a certain period of time were defined for this simulation of a potential gas supply disruption. They also took into account information such as the technical data of the gas system, capacities in the gas system, reverse flow, number of customers, method of gas consumption control in emergency, etc. The resulting data proved that gas supply for the Czech Republic was ensured for the forthcoming winter. Only in the case of one of the tested scenarios (disruption in gas supply from Russia to EU countries for six months) a relatively low probability existed for a situation where gas customers in the Czech Republic would have to be constrained more significantly. Timely decisions on efficient supply controls also require current and clear information from the European Commission; such information will make it possible to estimate the scope and impact of the problem correctly, including its potential duration. These requirements are met by the earlier agreed early warning mechanism, a tool for transmitting timely and clear information.

4.1.3 Network and LNG tariffs for connection and access

Regulated and negotiated access to storage

In respect of access to storage capacities, national legislation imposes a duty on storage system operators to sell released or new storage capacity in online auctions.

In 2014, SSOs organised 16 auctions to sell their storage capacity. In the auctions they offered various combinations of the operating volume, withdrawal and injection capacity, and separate storage capacity and operations, both on a firm and interruptible basis. In 2014, SSOs called 11 auctions to sell annual storage capacity; the other auctions offered storage capacity for shorter terms. Successful auctions, including the final price and the storage volume offered, are listed in Table 5.

Table 5: Successful auctions of annual storage capacity in 2014

Auction date	Company	Final price	Volume offered
14 Jan 2014	RWE Gas Storage, s.r.o.	CZK 0.59/m ³	1.1 mcm
16 Jan 2014	RWE Gas Storage, s.r.o.	CZK 0.78/m ³	3 mcm
17 Feb 2014	RWE Gas Storage, s.r.o.	CZK 0.69/m ³	21 mcm
3 Mar 2014	RWE Gas Storage, s.r.o.	CZK 0.69/m ³	60 mcm
11 Mar 2014	MND Gas Storage a.s.	CZK 0.88/m ³	1 mcm
2 Jun 2014	RWE Gas Storage, s.r.o.	CZK 0.73/m ³	100 mcm
27 Jun 2014	RWE Gas Storage, s.r.o.	CZK 0.79/m ³	91 mcm
25 Jul 2014	RWE Gas Storage, s.r.o.	CZK 0.87/m ³	25 mcm
19 Sept 2014	RWE Gas Storage, s.r.o.	CZK 1.09/m ³	25 mcm
26 Sept 2014	RWE Gas Storage, s.r.o.	CZK 0.88/m ³	15 mcm

Source: RWE Gas Storage, s.r.o., and MND Gas Storage a.s.

LNG is not relevant for the Czech Republic at present.

Tariffs

The Office regulates charges for gas transmission and distribution and charges for the market operator's services under Section 17(11) of the Energy Act. Under Section (11) of the Energy Act, the Office also has the power to control the prices of the supplier of last resort in the form of cost-plus prices.

The Office based its calculation of regulated charges for gas transmission and distribution and charges for the market operator's services in the gas industry, applicable in 2014, on public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price controls, as amended.

For the third regulatory period, the revenue cap principle was used; this principle consists in setting each of the parameters at the beginning of the regulatory period and modifying them every year. The regulatory method remains unchanged for a regulatory period to ensure a stable environment for all gas market participants.

The relevant regulated charges for gas transmission are calculated from the adjusted allowed revenues for the TSO, and are allocated to the entry and exit points in the transmission system based on their expected use. The charge for gas transmission to the 'domestic point' is integrated within gas distribution charges, and is therefore billed to customers as part of the distribution charge.

Gas transmission charges have a fixed and a variable component. The fixed component is the payment for the booked firm transmission capacity. The variable component of the charge is determined so as to cover the TSO's costs related to the actually transported gas quantity.

For each of the distribution system operators, adjusted allowed revenues are set under public notice no. 140/2009 on regulatory methods in the energy industries and procedures for price controls, as amended. These adjusted allowed revenues are then allocated to the customer categories depending to the booked distribution capacity and the planned quantity of the gas to be distributed.

For each regional distribution system operator, adjusted allowed revenues are set separately on the basis of the data reported by the operator. The resulting charges for gas distribution are therefore determined individually for each of the distribution areas served by the respective distribution system operator.

Gas distribution charges are set for four customer categories: high-demand customers, medium-sized demand customers, low-demand customers, and households. These are usually double-component charges and have a fixed component and a variable component. For customers in the high-demand and medium-sized demand categories, the fixed component of the charge is calculated using a formula that is described in the applicable ERO price decision and that depends on the daily booked capacity. For customers in the low-demand and household categories, the fixed component of the charge is the standing monthly charge. Variable components of the charges for all customer categories depend on the gas quantity consumed and are set as fixed CZK/MWh rates for gas taken.

Finally, the Office also regulates the charges for the market operator's services in the gas industry. Every year, the Office sets adjusted allowed revenues for the market operator's services in the gas industry, on the basis of which the charge for clearing carried out by the market operator is calculated. This charge is billed for consumed gas quantity.

Due to the fact that the Czech gas market was liberalised in 2007, the Office only sets the prices for the above activities, which are necessary for ensuring gas supply to customers' supply points. Uncontrolled prices, which include the commodity and trade charge and the

charge for supply structuring and flexibility, are fully within the respective gas trader's competence and strategy.

Prevention of cross-subsidies

Under Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, an environment preventing cross-subsidies between transmission, distribution, storage, LNG and supply activities is working in the Czech Republic. For this reason, holders of licences for gas transmission, distribution and storage have been legally unbundled.

On the basis of the duties under the above Directive, the Office monitors compliance with rules ensuring separate performance of the various licensed activities. In 2014, the Office did not find any cases of violations of the rules for the separate performance of the various licensed activities.

4.1.4 Cross-border issues

The TSO's obligation to prepare, on an annual basis, a ten-year plan for the development of the gas transmission system in the Czech Republic (the development plan) is based on the implementation of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009. In compliance with applicable legislation, in 2014 the transmission system operator therefore submitted for approval its Ten-year Plan for the Development of the Gas Transmission System in the Czech Republic for 2015 to 2024. The Office placed this document in a public consultation process, within which it did not receive any comments from the stakeholders.

The ten-year plan for the development of the gas transmission system analyses the development of demand and the adequacy of the entry/exit transmission capacity of the domestic zone in the Czech Republic for 2015 to 2024. In preparing the plan, the TSO proceeded from the current and foreseeable future gas supply and demand. The TSO evaluated every investment plan in the development plan in terms of the security of the operation of the gas system, gas supply reliability, environmental impacts, available technologies and economic effectiveness. The Office assessed compliance of the submitted plan with the EU's Ten-year Network Development Plan, TYNDP. The Office did not find any inconsistency between the two ten-year development plans or any conflict with the Energy Act, and it therefore approved the plan.

The capital projects for connecting the Planá nad Lužnicí CHP plant to the gas transmission system was completed in 2014. Major completed capital projects also include the technical capacity at the Lanžhot border transfer station reinforced to 780 GWh/d. This new exit capacity has been accepted as entry capacity by eustream, a.s., the Slovak gas transmission system operator.

The planned investment decisions include the project for the STORK II Polish-Czech Bi-directional Interconnector and the connected Moravia gas pipeline project, the commissioning of which is expected in 2019 under TYNDP. In 2014, work on the surveys and documents required for the zoning decision was carried out. In 2014, the project received a grant under the CEF (Connecting Europe Facility) programme for the further stages of preparatory work. NET4GAS, s.r.o. is expected to make definitive investment decisions on the projects in 2015. The objective of the project is to contribute to

- the provision of exit capacity for northern Moravia,

- the boosting of the reliability of gas transmission and security of gas supply in the Czech Republic, primarily in northern and central Moravia,
- the reinforcement of the capacities for gas injection into and withdrawal from the transmission system,
- the covering and connecting of new gas-fired power stations and CHP plants and large industrial companies.

Procedures for capacity allocation and congestion management

In compliance with Regulation (EU) No 715/2009, the gas transmission system operator has implemented, at border transfer stations, measures for capacity allocation in the case of congestion. The report submitted in compliance with the Congestion Management Procedures (CMP) suggests that no situation requiring the application of any of the procedures set out in CMP occurred at the border transfer stations between the Czech gas transmission system and the transmission systems in adjacent countries.

On 1 October 2014, the transmission system operator started to apply, at the Hora Svaté Kateřiny border transfer station, the dynamic capacity re-calculation mechanism. Thanks to this measure, the TSO is able, upon request of the shippers who use the transmission system, to increase unilaterally the size of the technical capacity at the relevant entry point on the national border.

Cooperation with other regulatory authorities and ACER

On 31 October 2013, the Office received a joint investment request submitted under Article 12 of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, by the Czech transmission system operator, NET4GAS, s.r.o., and the Polish transmission system operator, GAZ-SYSTEM S.A., in which the two TSOs requested that *the Energy Regulatory Office adopt a coordinated decision on the cross-border allocation of the investment costs of the project for the Polish-Czech Stork II Bi-directional Interconnector as per the proposal submitted, and the inclusion thereof in gas transmission charges.*

This request had a cross-border importance and therefore under Section 17(7)(o) of the Energy Act (and therefore Article 41(1)(c) of Directive 2009/73/EC), the decision was consulted in advance with the regulatory authorities of other member states. Based on the results of the consultations between the ERO, the Polish regulator (URE), the promoters of this project, and ACER, the Office issued an administrative decision on this request, dated 17 October 2014, which became final on 10 December 2014 upon ERO Chairwoman's decision.

Further to the initiative of the Visegrád Four's [V4's] relevant ministries, the V4 Gas Forum and the Hungarian V4 presidency, the ERO's officers participated in meetings on and tackling of the individual tasks focused on issues concerning regional projects pursuing the objective of creating a trading region covering several countries. In this connection, the project for integration on the V4 basis remains relevant for the Czech Republic. The Slovak presidency followed up on the Hungarian presidency of this initiative in the latter half of 2014. The ERO's officers participated in meetings on and tackling of the individual tasks focused on issues concerning the development of a joint plan of preventive measures and a plan for emergencies, and cooperation in the implementation of network codes, which are the Slovak presidency's priority.

The Office was also invited to the working group on gas market integration between the Czech Republic and Austria. This working group is a response to a political initiative at the ministerial level and is based on the CEETR project, which was, however, interrupted. The objective of the group, composed of representatives of the two regulators and those of TSOs, is to discuss the viable schemes of gas market integration between these countries.

Cooperation within the various working groups and task forces of CEER and ACER and working groups under the European Commission took place as part of everyday agenda. The ERO's employees also attended the meetings of these working groups in person. Key topics included the assessment of projects of common interest, primarily participation in meetings focused on preparing the methodology for assessing the projects nominated for the second Union list of projects of common interest, and cooperation in the preparation of the updated target gas market model. Other lines of cooperation included data collection and evaluation, analysis of the status of the internal gas market, preparation of framework guidelines and network codes, and tackling both formal and informal issues.

4.1.5 Compliance

The Office exercises its powers on the basis of the relevant provisions of the Energy Act, which lay down the rights and obligations arising from the relevant provisions of the EU legislation, i.e. Directive 2009/73/EC, Regulation No 715/2009/EC, Regulation No 713/2009/EC and Regulation No 994/2010. Czech legislation is fully harmonised with this EU legislation thanks to amendments to the Energy Act and implementing acts.

The Office ensures that the TSO and DSOs, and, if applicable, the relevant owners of the systems, and also all gas utilities perform their obligations under the relevant legislation at the European and national levels.

The Office exercises its supervisory powers under the relevant provisions of the Energy Act so as to ensure the efficient monitoring of all gas market participants' compliance with EU and Czech law, and the ERO's and ACER's relevant legally binding decisions, and imposes effective, proportionate and dissuasive penalties on the gas utilities and other market participants that breach their obligations. The Office oversees compliance of the gas transmission company's, distribution companies', system owners' and gas undertakings' activities with the relevant EU legislation, including the cross-border issues. To this end, the Office primarily monitors and oversees compliance with the relevant provisions of the Energy Act on independence of the gas transmission system operator and with the certification decision. Should it find a breach of the relevant provisions of the Energy Act in this respect, the Office has the power to impose the respective penalties laid down in the legal system under Article 41(4)(d) of Directive 2009/73/EC, and also the power to revoke the independence certificate under statutory conditions.

As regards meeting the Agency's and the European Commission's binding decisions by the Office, no such decisions were made in respect of the Office in 2014.

4.2. Promoting competition

4.2.1 Wholesale markets

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

The Energy Regulatory Office or any other Czech institution do not set or influence the wholesale prices for gas supply services. The gas market has been fully liberalised and

therefore a well-developed competitive environment works in it. The prices of gas supply services depend only on the agreement between the counterparties and the current situation on the market. The prices quoted by gas suppliers mainly depend on their business policy and on the prices for which they are able to procure gas and related services.

In practical terms, traders can procure gas on the wholesale market in three ways: under long-term contracts, on commodity exchanges or from another trader.

Long-term contracts originated in the 1970s; the motivation was to ensure financing for the gas pipelines being developed. Under long-term contracts the gas price was derived from the prices of competing fuels, at that time fuel oils and coal. These price formulae usually work with commodity prices averaged over a longer reference period (six to nine months) to provide for a stronger stability of the resulting prices when the prices of competing fuels rise or fall. Thus, the current oil product prices are reflected in the formula-based prices after this lag.

However, the trend today is that gas traders abandon price formulae completely or change their structure to match the actual situation on the gas market. Oil prices therefore currently have a much weaker impact on gas prices than a year or two ago. The larger part of gas is bought and sold at commodity exchanges or in the OTC market, where prices are mainly influenced by supply and demand rather than oil prices.

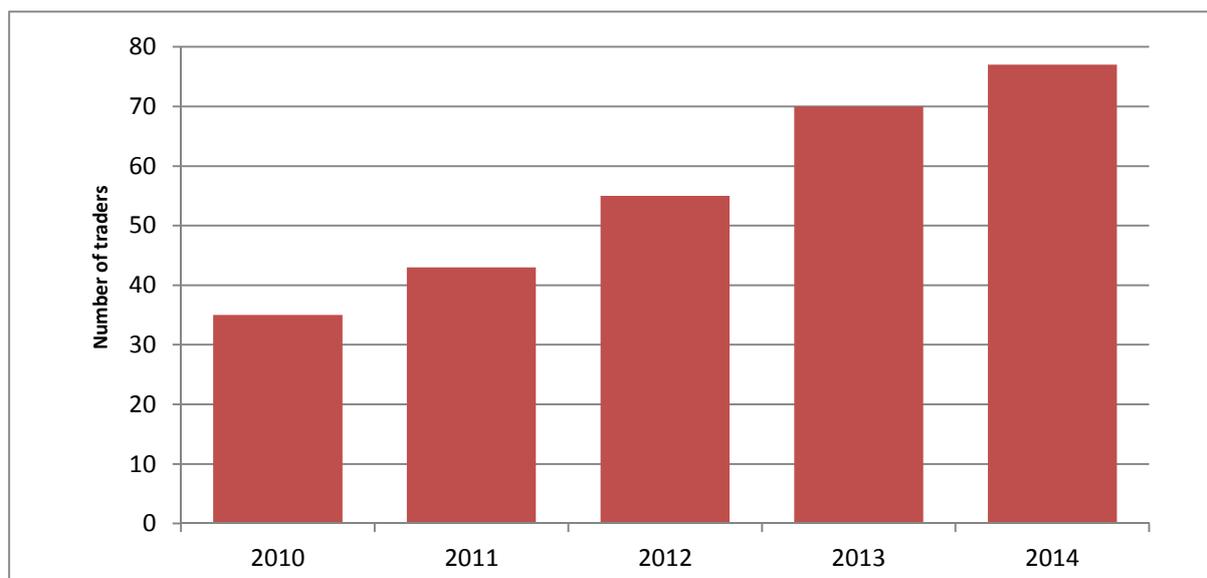
Day-ahead and intra-day gas market

Under Section 20a of the Energy Act, OTE, a.s., operating in the Czech electricity market since 2001 and in the Czech gas market since 2010, holds the licence for market operation services, which also include the obligation to organise electricity and gas spot markets in the Czech Republic.

Thanks to the significant increase in liquidity, the organised gas spot market launched in 2010 as a day-ahead and intra-day market constitutes a reliable guarantee for market participants that they can very flexibly respond to the current situation in the market or in the system. The intra-day gas market also works as a price-setting element, because the price achieved in transactions on this market is being increasingly used as a basis for settling financial instruments at commodity exchanges, or serves as guidance for pricing other contracts. The execution of trades at the intra-day gas market, which runs for seven days a week, i.e. also on non-business days, is based on the principle of automatic bid and offer matching. Trading takes place in the euro and one gas day is the trading period. Clearing of executed trades is allowed in the euro or Czech crowns. The delivery point for the gas under executed trades is the Czech virtual trading point (VTP) organised by the market operator.

In 2014, the earlier trend of rising numbers of counterparties at the intra-day gas market continued. Chart 12 shows the number of counterparties at the spot gas market between 2010 and 2014.

Chart 12: Number of counterparties at the spot gas market between 2010 and 2014

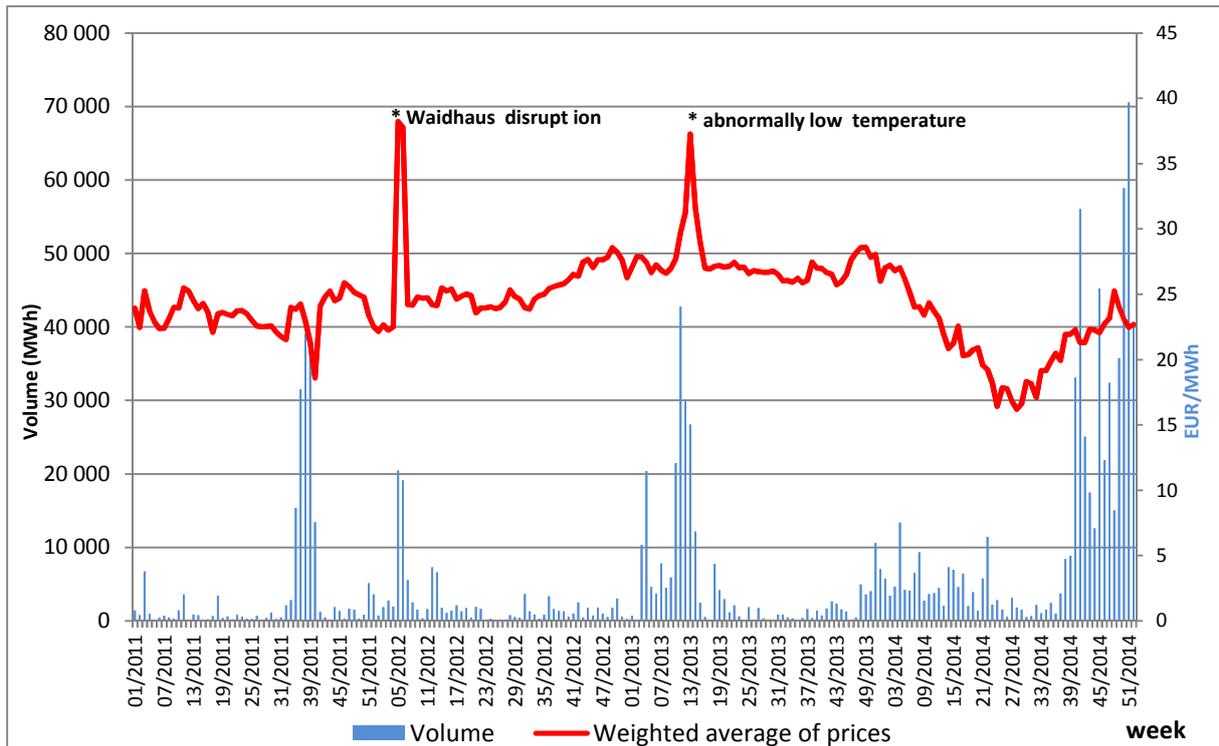


Source: OTE, a.s.

In 2014, fifteen new players entered the market, while eight players exited the market or ceased to exist due to a merger with another company. As at 31 December 2014, a total of 77 counterparties were active at the intra-day gas market. Their number is gradually converging to the number of those at the electricity market. Thus, the organised gas spot market has evolved into a platform on which business plans can be carried out.

In connection with the continuous growth in the number of parties at the intra-day gas market, the traded gas volumes have also risen significantly. On 2014, a total of 662 GWh of gas was traded on this platform for EUR 14.8 million. This implies a year-on-year growth of 146 per cent on 2013. The average price of the gas traded at the intra-day market in 2014 was EUR 22.46/MWh. The volume of executed transactions and the weighted average of the prices at the intra-day gas market between 2010 and 2014 are shown in Chart 13.

Chart 13: Volume of executed transactions and weighted average of prices, in EUR/MWh, at the intra-day gas market between 2010 and 2014

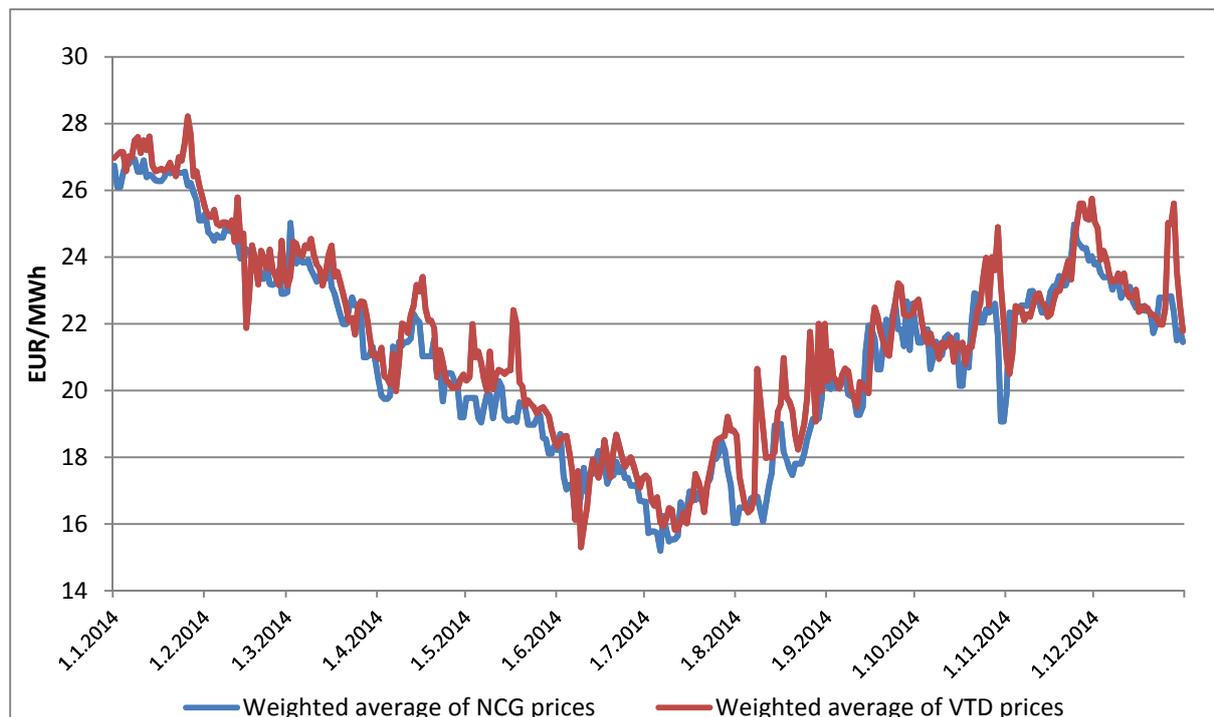


Source: OTE, a.s.

Two distinctive peaks can be identified in the volume of trades over time. One of them occurred in 2012 when gas supply via the Waidhaus entry border point was disrupted. The other peak marks the situation in the first half of 2013 when due to low temperatures in the period of the injection season traders were compelled to go to spot markets for gas to cover their supply commitments. In both of these cases, the market mechanisms worked well and supply and demand were matched thanks to the intra-day gas market's liquidity.

The weighted average of the prices at the intra-day gas market organised by OTE, a.s. in 2014 copied the profile of the weighted average of the prices of the comparable product on the NCG platform, traded at the spot market of European Energy Exchange AG (EEX). A comparison of the weighted average of the prices in transactions executed in 2014 at the intra-day market and at NCG, shown in Chart 12, indicates that the prices of the gas traded at the intra-day gas market correspond to the prices on the NCG platform, which is generally regarded as more liquid. From the perspective of 2014 the organised intra-day gas market can be described as a viable trading platform featuring a potential for a further significant growth in the context of the continued development of the Czech gas market.

Chart 14: Comparison of weighted averages of prices at the intra-day market (VDT) and NCG in EUR/MWh



Source: OTE, a.s.

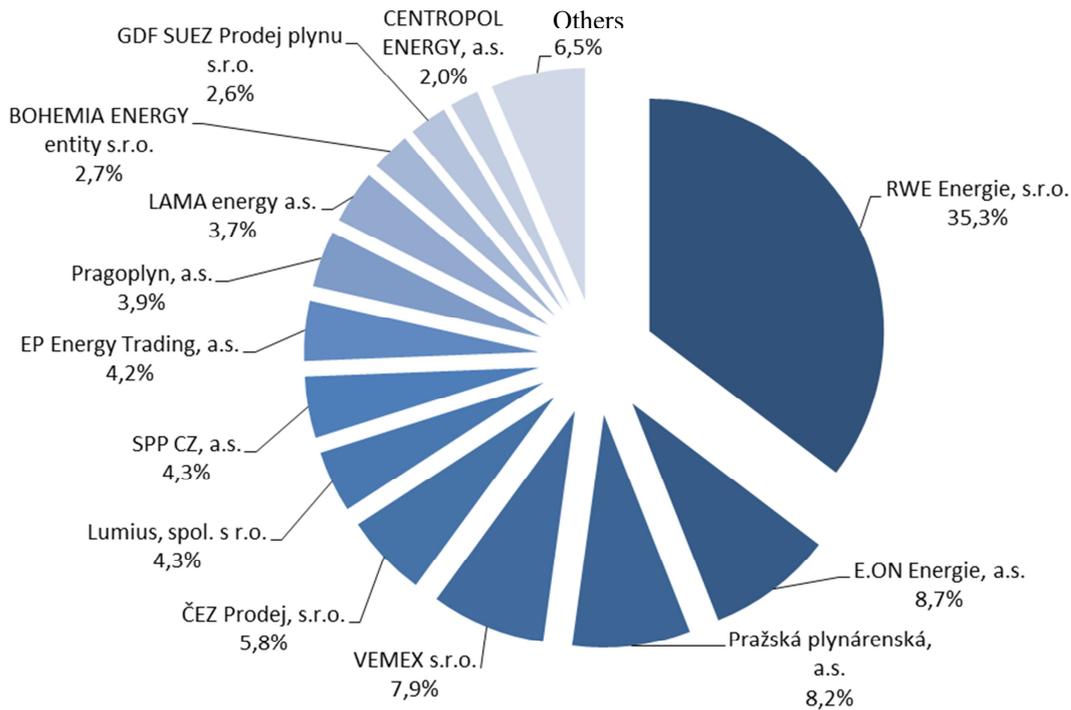
4.2.2 Retail market

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

In 2014, the Office registered 59 active gas traders who reported gas supply to customers. Compared with 2013, their number declined slightly, by three. This confirms the trend already visible in preceding years. Following the liberalisation started in the period from 2005 to 2007 the gas market has reached a situation where the competitive environment is fully developed and it will be very complicated for new players to find room for their business in such a market. Earlier, alternative suppliers benefited mainly from the outflow of customers from incumbent traders. In recent years, the dominant suppliers have been successful in fending off this outflow through their more proactive approach to customers and offers of more comprehensive customer services. Dissatisfied with alternative suppliers, some customers are even returning to the incumbent gas traders. This vindicates the gas market settings and its focus on free market mechanisms that themselves clean up the market and allow pressures on prices.

In 2014, trader RWE Energie, s.r.o. held the largest market share in terms of the gas quantity supplied to customers; it supplied customers with 35.3 per cent of the gas consumed in the Czech Republic. The second largest supplier in terms of gas quantity was E.ON Energie, a.s. with a market share of 8.7 per cent, followed by trader Pražská plynárenská, a.s. with a market share of 8.2 per cent. Chart 15 shows a more detailed overview of traders and their respective shares of gas supply.

Chart 15: Traders' shares of gas supply in 2014



Source: ERO

As in preceding years, in 2014 some of the customers again remained tied by fixed-term contracts. An early termination of a fixed-term contract can attract a financial penalty for customers, and in such cases supplier switching often becomes disadvantageous. The number of customers who had an opportunity and were willing to change their supplier was therefore smaller compared with the years before.

The Office registered a total of 2,849,162¹⁵ customers taking gas at the end of 2014. Compared with 2013, there were 11,183 fewer customers, i.e. a loss of 0.4 per cent.

The household category has the largest number of customers. In 2014, there were 2,642,898 customers in this category. It was followed by the low-demand category (i.e. natural and juristic persons carrying on a business and taking up to 630 MWh per year) with 197,824 customers. The medium-sized demand category (i.e. natural and juristic persons carrying on a business and taking between 630 and 4,200 MWh per year) had 6,841 customers and the-high demand category (i.e. customers taking more than 4,200 MWh per year) had 1,599 customers.

In 2014, 200,389 customers switched their gas supplier, i.e. approximately 97,000 fewer than in 2013. The largest number of supplier switches, 174,783, took place in the household category, accounting for 87.2 per cent of all changes.

¹⁵ The numbers shown in the National Report are based on the data contained in the Yearly Report on Operation for 2014.

Please note in this connection that in the Report on the Activities and Finances of the Energy Regulatory Office for 2014 [Annual Report] the numbers are based on the data contained in the Monthly Report for December 2014.

In the low-demand category, 23,704 gas supplier switches were made, i.e. 12 per cent of the total number of changes; the medium-sized demand customer category saw 1,572 gas supplier switches; and 330 high-demand customers switched their supplier.

In all customer categories, the largest number of supplier switches took place in January. The reason is that customers often have gas supply agreements in place for a calendar year or respond to changes in price lists and switch their supplier as of 1 January for the following period.

The number of gas supplier switches since the beginning of the Czech gas market liberalisation in the household category is shown in Table 6 and Chart 16.

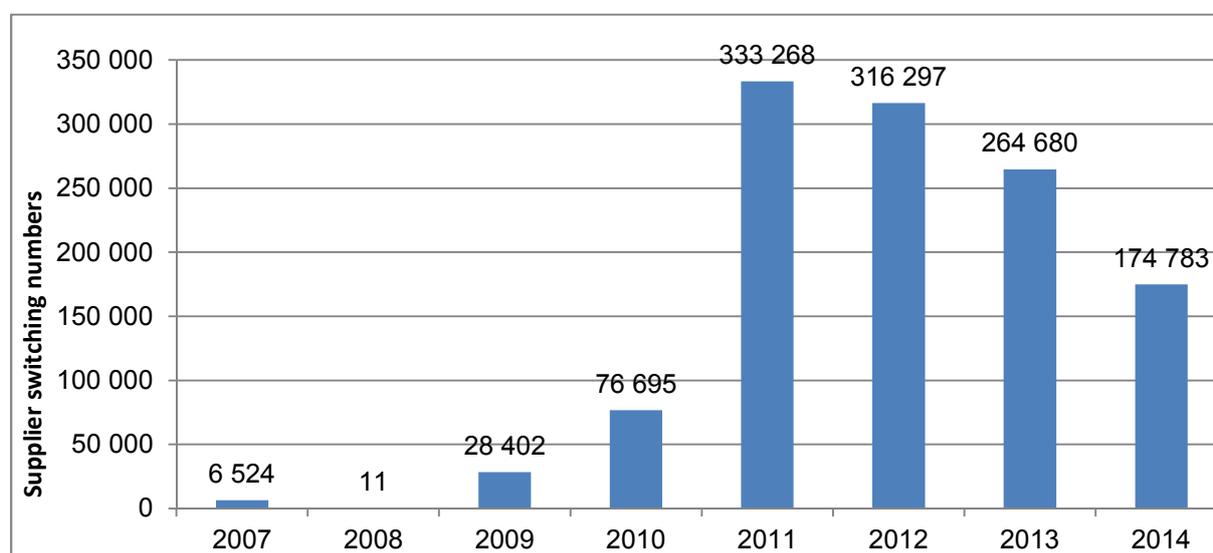
Table 6 Gas supplier switches

Type of demand	2013	2014	2014	2014
	Number of supplier switches	Number of supplier switches	Total number of supply points	Switching* [%]
High demand	449	330	1,599	20.7
Medium-sized demand	3,061	1,572	6,841	23.0
Low demand	29,091	23,704	197,824	12.0
Households	264,680	174,783	2,642,898	6.6
Total	297,281	200,389	2,849,159	7.0

Source: ERO

Note: * Switching – ratio of the number of gas supplier switches per year and the total number of supply points in that year

Chart 16 Annual gas supplier switches in the household category



Source: ERO

Charges for gas distribution, which include gas transmission for customers in the Czech Republic, decreased by 5.75 per cent on average compared with 2013. Among the regulated components of this charge, the charge for distribution makes up the largest share in the gas supply price, and in 2014 its decrease was due to the following factors:

- Lower costs incurred in gas procurement and in-house process consumption;
- A drop in the rate of return on assets;

- A drop in the charge for gas transmission to the domestic point (caused by a drop in the costs of the flexibility service for 2014).

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

Under Directive 2009/73/EC the Office puts in place rules conducive to a competitive and secure gas market. Since 2007, this market has been completely liberalised and the Office only regulates its segments in which competition is not feasible for technical or organisational reasons (gas transmission and distribution and the market operator's services). More than 50 gas traders have been operating in the Czech gas market for a long time; energy legislation guarantees them a non-discriminatory access to customers and their business strategies vary considerably. The well-developed competitive environment in the gas market makes it possible for customers to pick an offer that is the most convenient for them from the broad enough range of offers.

The Energy Act and the implementing acts based thereon guarantee the right to switch their gas supplier to all customers. This change is free of charge. Subject to the existing commercial terms and conditions, every customer therefore has the right to select their gas supplier.

Gas supply security and the quality of services related to gas supply are laid down in implementing regulations.

Should any of traders be declared insolvent, suppliers of last resort are appointed to ensure the continuity of gas supply in cases where the original trader has lost the ability to procure and supply the relevant gas quantity and related services for its customers. Suppliers of last resort supply gas for up to six months to customers who took up to 60,000 cu m for the last 12 months. In 2014, the option of supplier of last resort was not used.

In the gas industry, the Office's investigations primarily focused on gas traders' practices in arrangements for gas supplier switching. The Office also monitored adherence to gas traders' rights and obligations and the conditions of adherence to the quality standards for supply and services in the gas industry, together with checking the technical condition of equipment through which gas is supplied to final customers.

A special area of oversight in the gas industry included checks of the responsibilities of owners of properties into which gas is supplied for customers in the properties, which were made to see whether shared consuming equipment serving for gas supply was maintained in a condition consistent with legislation, technical standards and technical rules facilitating safe and reliable gas supply, to prevent such equipment from causing a risk to life, health or property.

The Office also carried out (on the basis of suggestions from the outside, contained in consumers' submissions) investigations specifically focused on licence holders' obligation to provide, when offering and selling gas to consumers, complete information enabling consumers to know the final offering price (covering all taxes, customs duties and charges) prior to executing an agreement on bundled services of gas supply, and on the obligations related to the timely publication of changes in gas supply prices.

5. Consumer protection and dispute settlement in electricity and gas

5.1 Consumer protection

The Czech Republic empowered consumers to a greater extent some time ago, broadening their rights with a view to ensuring a high level of consumer protection, in particular as regards the transparency of contractual terms and conditions, general information and easier process of supplier switching, primarily through the provisions contained in Section 11a of the Energy Act, which transposes Article 3(7) of Directive 2009/72/EC and Article 3(3) of Directive 2009/73/EC, taken together with Annex I, into Czech law.

In view of the above, and in respect of consumer protection, Section 11a of the Energy Act establishes certain rights for consumers and imposes matching obligations on traders. Under this Section, traders shall publish, in a manner allowing remote access, their terms and conditions of electricity and gas supply and electricity and gas supply prices no later than 30 days before the effective day of changes. Section 11a of the Energy Act also requires traders to offer consumers a choice of non-discriminatory systems of payment for gas or electricity supplied. As regards the billing of advance payments for gas or electricity supply, traders are required to set advance payments reflecting consumption in the preceding comparable billing period, however, no more than gas or electricity consumption reasonably expected in the following billing period.

As regards consumers' rights, this Section also establishes consumers' right to withdraw from the contract without any contractual penalty in the case of their disagreement with a change to the contract terms and conditions, or an increase in the unregulated part of the price for gas or electricity supply, and sets out the time limits for exercising the right to withdraw from the contract and the effect of such withdrawal. It also lays down the time limits for exercising the right to withdraw from the contract and for the effect of withdrawal in writing, where the consumer also has the right to determine the effective date of withdrawal.

The Energy Act does not define 'vulnerable customer'; for consumers who can be regarded as 'socially disadvantaged', certain measures for their protection and support for their rights are provided for at the level of generally applicable legislation in the domain of social security law.

Another aspect conducive to improved protection is consumers' ability to access objective and transparent information about their consumption of energy, the related prices, and the costs of services.

Under Section 98a(2)(j) of the Energy Act the Office is authorised to lay down in implementing regulations, for the purpose of securing consumers' justifiable interests in connection with their right to be properly informed about their energy consumption, the particulars of the billing of electricity, gas and thermal energy supply and related services. On the basis of this authorisation the Office had earlier promulgated public notice no. 210/2011 on the scope, essentials and dates of the billing of energy supply and related services. Billing can be expected to be more transparent and brief in order to be clear and understandable for consumers.

In connection with the broadening of legislation on consumer protection the Office had earlier set up a Consumer Protection Unit tasked with receiving and addressing submissions, questions, suggestions and complaints from consumers. The ERO Ombudsman department was also set up; for more details see point 5.2.

Furthermore, under Section 17(7)(l) and (q) of the Energy Act the Office publishes recommendations in relation to gas supply prices for households and cooperates with civic associations and other juristic persons established for the purpose of protecting consumer rights in the energy sector.

In 2014, the Office received 4,638 complaints, of which 2,645 related to electricity and 1,993 related to gas. In both electricity and gas, the largest number of complaints concerned contracts and sales (746 and 541 respectively), invoicing, billing and debt collection (538 and 385 respectively) and supplier switching (508 and 392 respectively). More detailed figures are in Table 7.

Table 7: Consumer complaints in 2014

Complaint category *	Electricity		Gas	
	Number	Share [%]	Number	Share [%]
Connection to the grid	17	0.64	13	0.65
Metering	54	2.04	22	1.10
Quality of supply	43	1.63	22	1.10
Unfair commercial practices	345	13.04	310	15.55
Contracts and sales	746	28.20	541	27.15
Activation	0	0	0	0
Disconnection due to no or late payment	110	4.16	83	4.16
Invoicing/billing and debt collection	538	20.35	385	19.33
Price/tariff	267	10.09	209	10.49
Redress	4	0.15	6	0.30
Provider change / switching	508	19.21	392	19.67
Customer service	13	0.49	10	0.50
Total	2,645	100.00	1,993	100.00

* It is not always possible to determine the complaint category exactly, and the above numbers are therefore not completely accurate; rather, they represent a qualified estimate. The numbers do not include all submissions but only those that were classified as a complaint.

5.2 Dispute settlement

As part of its competences, the Office primarily protects customers' and consumers' justifiable interests in the energy industries.

The Office's competence to decide disputes is established by Article 3(7) of Directive 2009/72/EC (similarly Article 3(3) of Directive 2009/73/EC), under which the Member States shall ensure high levels of consumer protection also with respect to dispute settlement mechanisms.

In this connection, the amendment to the Energy Act enacted in Act No 211/2011 had transposed the relevant provisions of Directive 2009/72/EC and Directive 2009/73/EC, taken together with Annex I, into the Energy Act earlier, with effect as of 18 August 2011.

Under Section 17(7)(e) of the Energy Act the Office decides disputes between customers taking electricity or gas for their households or customers as natural persons not running a business and licence holders over the performance of obligations under agreements on gas or

electricity supply or distribution; between the same parties the Office also decides to declare whether the legal relationship between the customer and licence holder, the subject matter of which is electricity or gas supply or distribution, has come into existence, continues to exist, or has ceased to exist, and on the award of compensation for failure to keep the set standards of supply and service quality in the electricity and gas industries.

Under these provisions, the necessary precondition for instituting proceedings before the Office (within the limits of its jurisdiction *in rem*) on consumer disputes is the customer's motion, and such motion is also the only possible means of instituting proceedings (the procedural principle of a final disposal of the matter [as the parties may wish to settle it]).

The Office is being increasingly approached by customers with typical questions on electricity and gas supplier switching, problems related thereto, and, most recently, motions for instituting adversarial administrative proceedings; going forward, we expect an upward trend in this respect (emphasis is placed on consumer protection at both the national and European levels).

For household customers taking electricity and gas, this competence of the ERO constitutes efficient and effective protection for their rights and obligations under agreements on bundled services of electricity and/or gas supply. In practice, they approach the administrative authority to seek declarations of the emergence, existence or discharge of a legal relationship established by agreements on bundled electricity and/or gas supply services; less frequently, they seek the adjudication of disputes over the meeting of the obligations under such agreements; in isolated cases, they seek a decision on compensation for failure to keep the set standards of supply and service quality in the electricity and gas industries.

Under this competence, in 2014 the Office concluded 26 administrative proceedings with finality, of which 16 in the electricity industry and ten in the gas industry. In most cases the decisions declared whether the legal relationship established by an agreement on bundled services of electricity/gas supply had emerged, existed, or had been discharged.

Furthermore, in 2014 the Office set up the position of ERO Ombudsman with regard to the need to boost consumer protection in energy industries, thereby providing for the future out-of-court/alternative dispute resolution (ADR), as part of preparations for satisfying Directive 2013/11/EU of 21 May 2013 on alternative dispute resolution for consumer disputes. The ERO Ombudsman does not have decision-making powers; he addresses complaints via conciliation. Where settlement is not achieved consumers can go to court to seek their rights, but licence holders have, so far, accommodated the ERO Ombudsman whenever possible at all, and therefore also accommodated the consumers.