NATIONAL REPORT 2007

REGULATORY OFFICE for NETWORK INDUSTRIES

SLOVAK REPUBLIC
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1. Foreword

In the year 2007 the Regulatory Office for Network Industries underwent profound changes arising out of the amendment of the Act on Regulation of Network Industries. There were two independent state administration authorities established, the Board for Regulation and the Regulatory Office for Network Industries. Through the Amendment of the Act on Regulation of Network Industries directives of the European Community were thoroughly transposed into legislative regulations of the Slovak Republic. In this regard a new regulatory policy being the strategic and program document for all network industries was outlined.

The regulatory policy and secondary legislative regulations that work out a new regulatory policy into specific measures represent the basis for the provision of non-discriminatory and transparent performance of activities in the network industries, for the application of regulatory measures aimed at the elimination of any violation of the rules of the economic competition by the abuse of the dominant position in the market with services and goods in order to protect rights and obligations of eligible consumers and households. Simultaneously, the conditions for storage and revision of information obligations are thereby created, and then there are the conditions for adoption of measures aimed at the protection of consumers and measures aimed at the protection of justified interests of the license holders and certificates in network industries including measures aimed at the achievement of adequate return on investment.

In comparison with the previous period since 1 July 2007 also households have become eligible consumers which mean that the market with electricity and gas was fully liberalised. Simultaneously, the process of unbundling in the gas and electricity sector was completed; thereby the separation of electricity and gas distribution from other activities was completed.

The significant impact on the electricity market has the situation that was caused by the shutdown of the first unit of the Nuclear power plant V1 Jaslovské Bohunice and this means that Slovakia is losing its advantageous position of being the electricity exporter and gradually is turning to the position of its importer. For this reason, the Office had to set up basic mechanisms for the stabilisation of the situation in the market with an emphasis given to security of electricity supply.

Development of the co-operation in the field of cross-border transmissions with regulatory offices of neighbouring countries, especially when introducing appropriate and mutually beneficial compensation mechanisms began to be enormously important especially due to the absence of the correct generally binding mechanism applied within the European Community. Intensification of this co-operation either in the bilateral or multilateral levels is assumed in the future period.

In accordance with the role and tasks defined by legislation and regulation of the European Community the Office activities are focused on the establishment of the competitive market environment, the provision of adequate return on investments, development of regulated activities with an emphasis given to the provision of security of energy and water supply in order to protect the most vulnerable groups of consumers.

Right the establishment of the conditions to ensure security of delivery and quality of goods and services provided represent the most vulnerable topics that need to be developed in line with other more difficult tasks, which are fulfilled by the Office in symbiosis with non-conflict, but clear and transparent decision making process of the Office with the intention to create the stability in network industries in the Slovak Republic.

Jozef Holjenčík
Chairman for regulation performing the position of the Chairman of the Office
2. Executive Summary and Development in the Last Year

The Act No. 107/2001 Coll. amending and supplementing the Act No. 276/2001 Coll. on Regulation of Network Industries (hereinafter only „the Act on Regulation“) entered into effect on 15 March 2007.

The intention of the amendment of the valid legislative framework in network industries was to provide the further system solution of the regulatory framework including the deepening of transparent, objective and fair price setting system in the area of network industries. The proposed legal modifications, which allow the Regulatory Office for Network Industries (hereinafter only „Office“) to get deeper into the cost structure imposed on price setting, are applied especially in favour of fair prices.

The amendment of the Act on Regulation follows three basic objectives – a possibility of the complex price regulation, the separation of the Regulatory Office from the Board of Regulation and a possibility of the social control over the entire process.

The date of effect of the subject amendment of the Act on Regulation meant the termination of the functional term of then members of the Board of Regulation, whereas the effects of their functional term came about at the date of the appointment of new members of the Board of Regulation („hereinafter only „Board“). President of the Slovak Republic appointed new members of the Board on 23 May 2007. Simultaneously, he appointed one member of the Board the temporary chairman of the Board until the date of appointing a new chairman of the Board of Regulation. A new chairman of the Regulatory Office has not been appointed yet.

The main goal of the amendment of legal regulations governing the energy sector is to define:

- The position of the Regulatory Office as a whole,
- The subject of technical and price regulation,
- Conditions of the membership in the Board,
- Appointment of Board members,
- Separation of the Board from the Regulatory Office,
- Position of the participants involved in the proceedings,
- A way of appointment of Board members,
- Rights and duties of the participants of the market with electricity and gas,
- Higher responsibility of suppliers and system operators for safety, stability and reliability of energy supplies,
- More thorough definition of the role of the Regulatory Office in relation to the optimum price policy,
- Strengthening of controlling and regulatory competences of the state in the field of natural monopolies,
- Regulation also imposed on such services or goods that are provided in network industries, however, which are not specified in Article 12 Para 1 (commodity), this is in the case when it is required by the situation in the market, the market is under threat due to insufficiently developed competitive environment or it is required by the public interest or the protection of consumer,
- The functional term of Board members,
• Measures aimed at the provision of equal conditions for all market participants and the protection against any abuse of the dominant position in the market, primarily in the period when the market with electricity and gas is not fully liberalised.

**Competences of the Regulatory Office**

The **Regulatory Office** is the state administration authority established by the Act on Regulation. It is the state budgetary organisation based in Bratislava.

**The Board for Regulation** as an independent collective state body in charge of strategy and control of regulation in network industries:

- develops the proposal of the regulatory policy,
- approves the scope of price policy and a way of its implementation,
- proposes the Government of the Slovak Republic the candidates for the appointment of the function of Office chairman and the Office vice-chairman and proposes their dismissal,
- approves the annual accounting closing of the Office,
- elects and removes the chairman and vice-chairman from the Board members,
- approves the negotiating order of the Board,
- approves the proposal of the Annual Report (on the activities and economic management of the Office), on the performance of regulatory policy and the results of the fulfilment of tasks of the Regulatory Office,
- makes decisions on the appeals against decisions of the Regulatory Office in the first instance price proceedings,
- fulfils different tasks associated with regulatory activities of the Office.

The Board has six members and has a quorum if at least four of its members are present, of which one is chairman or vice-chairman of the Board. The Board takes decisions with the majority of all its members. The chairman of the Board is in charge of managing and calling the sessions of the Board. The chairman together with the other member of the board also signs the resolutions and decisions made by the Board.

The Board members are appointed and withdrawn by President of the Slovak Republic. The membership in the Board is a public function. President of the Slovak Republic appoints three members of the Board based on the proposal of the National Parliament of the Slovak Republic and three members of the Boards based on the proposal of the Government of the Slovak Republic (hereinafter only "Government"). At least two candidates are proposed for each place to the Board.

The service term of the Board members lasts six years. Every two years the Board replaces one third of its members. The membership in the Board is not compatible with the function of the Office chairman and Office vice-chairman, the function of MP in the National Parliament of the Slovak Republic, a member of the Government, the function or employment in the central or local state administration body, function, membership or employment in the territory-confined municipal authorities. The membership in the Board is further incompatible with business activities and the membership in the management, supervisory and controlling bodies of business entities.

A member of the Board is not allowed to become an employer of the regulated companies, a member of management, supervisory and controlling bodies of regulated companies, he or she is not allowed to have any equity participation in business activities of regulated companies.
involved in regulated activities on their behalf or by means of the association of persons; such restriction will last one more year following the termination of the function of the Board member.

President of the Slovak Republic is allowed to withdraw Board members in case any illegal action has been proven or if the Board member acts in contradiction with regulatory policy and its withdrawal is proposed by a person who proposed his or her appointment to the Board member.

**The Office chairman is the front man of the Office:**

- controls the Office and is responsible for its activities,
- acts as a statutory body of the Regulatory Office on behalf of the Office in all matters,
- signs generally binding legal regulation issued by the Regulatory Office,
- approves the organisational order of the Regulatory Office once it is discussed in the Board,
- takes decisions on appeals against Office decisions issued in the first instance proceedings unless otherwise stated by law,
- takes decisions on any objections of prejudice of Office employees while performing Office duties,

The chairman of the Office is represented by vice-chairman of the Office

**The organisational divisions of the Regulatory Office:**

- Division of the Heat Supply Regulation
- Division of the Gas Supply Regulation
- Division of the Electricity Supply Regulation
- Division of the Water Service Regulation
- Division of International Co-operation
- Legislative and Legal Department
- Division of Surveillance and Control
- Economic and Administrative Division
- Chairman’s Department
- Personnel Office

**The objective of the regulatory policy for the upcoming regulatory period is:**

- to apply regulatory tools and regulatory methods that will further provide transparent and non-discriminatory performance of activities in network industries,
- to follow the compliance of competition, any abuse of the dominant position in the market with goods and services with an intention to protect the rights of eligible consumers and households by applying all available control mechanisms,
- to provide non-discriminatory and transparent rules for the functioning of the market with electricity and gas by adopting the accelerated amendment of the regulation of the Government of the Slovak Republic No.123/2005 Coll., laying down the rules for the functioning of the gas market (hereinafter only „the rules for the functioning of the gas market:“) and regulation of the Government of the Slovak Republic No. 124/2005 Coll., laying down the rules for the functioning of the electricity market (hereinafter only „the rules for the functioning of the electricity market“),
- to establish adequate conditions and procedure related to the connection and access to the national system or network as the fundamental condition for the increased effectiveness of competition and the market functioning,
- to establish conditions for the increased competition by gradual elimination of barriers in the markets with electricity and gas, especially in services associated with their supply,
• to ensure the support of competition in the internal electricity and gas markets by setting the fair rules for cross-border electricity exchange including the support of appropriate compensation mechanisms,

• to ensure the implementation of such procedures and regulatory tools, the result of which will be the increased safety of supply of electricity and gas, investments into infrastructure and maintenance of the optimum balance between demand and supply,

• to protect consumers against unjustified increase in regulated prices, setting the limited cost items, maximum prices and profit with an intention to achieve such prices that will be comparable with other EU countries as regards products and services in network industries,

• to ensure conditions for reliable, economical and high quality supply of products and services in regulated companies,

• to apply such methods of regulation that will lead to lower costs, while keeping the quality of supply, and thereby to the stabilisation of prices for regulated activities,

• by utilising regulatory tools along with other forms of the state support to incentive business entities to make investments into renewable energy resources and advanced energy technologies,

• to establish conditions for effective development, safe and reliable operation of energy, water and sewage systems,

• to protect justified interests of the holders of license for performance of activities in network industries by allowing them to achieve adequate return of their investments,

• to establish conditions for special forms of electricity generation, i.e. combined heat and power production, renewable energy based production and from local coal,

• to follow and evaluate the level of achieved transparency of the market and effectiveness of competition in the market in regulated industries in order to improve and promote the competitive environment,

• to ensure the protection of consumers and optimisation of costs by introducing the optimum standards of quality of supplied goods and services in network industries and by introducing compensation payments for non-compliance with the standards of quality,

• to thoroughly control investment costs, purposeful use of profit including their effective spending and utilisation for regulated activities,

• to establish clear and transparent rules for the application of renting relations related to the assets utilised in network industries and regulated activities,

• to verify by using control mechanisms whether the operational assets are utilised exclusively for the purpose of regulated activities,

• in the case of any extraordinary market situation, the threat of the market by insufficiently developed competitive environment or for the purpose of the protection of the consumer,

• to introduce regulation also on other goods or services that establishes the possibilities for the origination of such phenomenon or requires the protection of the consumer,

• to ensure effective co-operation between the Board, the Regulatory Office and other state administration bodies, while preserving the independent position of the Board of Regulation as a collective state body in charge of strategy and management of regulation in network industries,

• to thoroughly comply with and apply the principle of independence in relation to the companies performing activities in network industries,

• to develop the co-operation with regulatory offices in the EU countries based on mutual advantages with an objective to improve the quality of the activities of the Regulatory Office and the Board,

• to develop the co-operation with other state administrative bodies to ensure effective provision of transparent and non-discriminatory performance of activities in network industries with a view on the protection of the consumer.
The subject of regulation under the Act on Regulation is to determine or approve the way, procedures and conditions for the following purposes:

- A connection and access to the transmission system, the distribution system, the transportation system and the distribution system,
- Electricity transmission and distribution in the territory of the Slovak Republic,
- Gas transportation and distribution on the restricted territory,
- Provision of ancillary services in the gas sector and electricity sector,
- Provision of services of the transmission system operator and the distribution system operator, Access and connection of new electricity and gas producers within the system or the network, and heat production and distribution,
- Access into underground gas storages and gas storage,
- Operation of the system and the network,
- Gas supply and electricity supply,
- Electricity production, transmission and distribution from renewable energy sources, electricity generated in combined heat and power and from local coal.

The subject of regulation is further regulation of prices of goods and prices of services provided in network industries and determination of the conditions of their implementation (hereinafter only „price regulation”). Price regulation is applied on the following activities:

- Electricity production from renewable energy sources, in combined heat and power production technology and from local coal,
- A connection to the system and the network, in the case of storage tanks in the scope limited by the gas market rules,
- A connection of new producers of electricity and gas within the system or the network, in the case of storage tanks in the scope limited by the gas market rules,
- Access to the system and the network, in the case of storage tanks in the scope limited by the gas market rules,
- Electricity transmission and distribution,
- Electricity supply to households,
- Provision of balancing services in the electricity sector,
- Provision of ancillary services in the electricity sector and the gas sector, in the case of storage tanks in the scope limited by the gas market rules,
- Gas transportation and distribution for final gas consumers in the restricted territory,
- Gas supply to households,
- Heat production, distribution and supply,
- Potable water production, distribution and supply through public water supply system,
- Discharge and treatment of waste water through the public sewage system,
- Provision of water services related to the utilisation of hydro potential of river flows and treatment, supply and extraction of surface water and water used for energy purposes.

The method of price regulation of goods and services delivery or provision of which is a regulated activity by law, may be determined as:

- Direct determination of the maximum or fixed price, or a comparable price, or
- Determination of the calculation method for setting the maximum or fixed price, or a comparable price, whereas the calculation method has to take into account justified costs and an adequate profit, including the scope of investment, which may be included into the price; the scope of justified costs has to take into account the scope of investments required to provide long-term operability of the system, including the proportional part of mandatory levies for liquidation of nuclear installations and disposal of burn up fuel and radioactive waste, as set out by a special provision, or...
• Determination of the scope of justified costs that may be included into the price; the scope of justified costs has to take into account the scope of investments required for provision of long-term operability of the system, including a proportional part of mandatory levies for liquidation of nuclear installations and disposal of burn up nuclear fuel and radioactive waste, as set out by a special provision, or
• Determination of the amount of an adequate profit, including the scope of investments that may be included, whereas the amount of an adequate profit has to take into account the scope of investments required for provision of long-term operability of the system. The amount of an adequate profit will also take into account a proportional part of mandatory levies for liquidation of nuclear installations and disposal of burn up nuclear fuel and radioactive waste, as set out by a special provision.
• Determination of the price using market measures, such as auctions

Individual methods of price regulation can be put together or combined.

When determining the method of price regulation for provision of balancing services, the Regulatory Office can determine individual rates for individual consumers having balanced electricity demand.

The Regulatory Office is also allowed to regulate other types of goods or services, delivery or provision of which is regarded a regulated activity, provided that the extraordinary market situation evolves or if the protection of the consumer requires that and it is in line with the regulatory policy.

In order to comply with the provisions of the Act on Regulation the Regulatory Office shall:
• Perform surveillance over the compliance with the Act on Regulation, special acts and generally binding legal provisions issued for the purpose of their execution,
• Impose measures to eliminate and restore any deficiencies identified during the inspection,
• Impose penalties for violation of the obligations arising out of the Act thereof.

The Regulatory Office also performs the obligation in the field of regulation of access to the transmission system with regard to cross-border electricity trading and decision-making process related to disputes on access to the transmission system for cross-border trading under the EC Regulation No. 1228/2003 (hereinafter only „Regulation 1228/2003“).

Competences of the Ministry of Economy of the Slovak Republic governing the energy sector

Under the Act No. 656/2004 Coll. on the Energy Sector and on Amendment of Some Acts (hereinafter only „The Energy Act“) the Ministry of Economy of the Slovak Republic is in charge of the following:
• Development of the energy policy for a period of at least 20 years, the update of the energy policy at least in a five year cycle with a view of the optimum utilisation of indigenous natural resources and technical and human potential,
• Approves the draft regulatory policy submitted by the Board,
• Gives opinions on price proposals submitted to the Regulatory Office,
• Ensures the fulfilment of adopted commitments in the energy sector resulting from the treaties signed by the Slovak Republic and from the membership in international organisations,
• Ensures the adherence of safety with regard to electricity and gas supplies,
• Develops the draft measures aimed at the provision of safe supply of electricity and gas,
• Determines the scope of criteria of technical safety of the system and network,
• Determines the obligations in the state of emergency or with an intention to prevent any
  emergency situation and in general economic interest,
• Allocates responsibility for settlement of any deviations in the system in the restricted territory,
• Takes decisions on the application of obligations in general economic interest,
• Takes decisions on the implementation of measures, in the case of:
  1. Prevention from the emergency state or the emergency state itself,
  2. Threatening of the compactness and integrity of the system and the network,
  3. Threatening of safety and reliability of the operation of the system and the network, or
  4. Threatening of the life and health of human beings or the property of natural and legal
     persons,
  5. Violation of regulations on the environmental protection,
• Takes decisions on the issuance of certificate for the construction of an energy installation,
• Adopts measures for provision of plans for the promotion of electricity generation from
  renewable energy sources,
• Makes analyses of adopted measures for implementation of plans for electricity generation
  from renewable energy sources,
• Publishes annually until 31 July the Report on the results of the monitoring process of safety
  of gas and electricity supplies and all adopted and anticipated measures dealing with safety
  of electricity and gas supply; the report is published in the Official Journal of the Ministry of
  Economy and on the web page of the Ministry,
• Every five years publishes the report on the plans in electricity generation from renewable
  energy sources; the report is published in the Official Journal of the Ministry of Economy and
  on the web page of the Ministry,
• Every two years publishes the Report on the fulfilment of plans in the field of electricity
  generation from renewable energy sources and measures adopted to ensure reliability of the
  certificate on the origin of generated electricity;
• Submits the European Commission (hereinafter only „Commission“) the application on
  granting the exception from common rules for the internal market with electricity and gas,
• Implements the measures imposed by the Commission.

In addition, the Ministry provides the Commission with the information on the following:
• Adopted measures for the fulfilment of obligations associated with the provision of
  universal service,
• Measures for the fulfilment of obligations in general economic interest, on changes in
  adopted measures informs every two years,
• Reasons of rejection of the issuance of the certificate for the construction of an energy
  installation,
• On results of the monitoring of safe supply of electricity and gas and on adopted and
  anticipated measures dealing with safety of electricity and gas supplies,
• Technical rules that determine technical and structural requirements for the connection to
  the system and the network,
Main developments in electricity sector

On 23 May 2007 the Government of the Slovak Republic approved „The Proposal of Principles of Legal Unbundling of the Activities associated with the Operation of the Distribution System in the joint stock companies the Central Slovak Energy Utility, the Western Slovak Distribution Utility and the Eastern Slovak Distribution Utility. Subsequently, the government decision of the Slovak Republic was followed by the completion of the process of unbundling of the above-mentioned joint stock companies so that on 1 July 2007:

- Two new daughter companies ZSE Distribution and ZSE Energy were established. Such new company will be responsible for electricity purchase, electricity trading and sales/supply of electricity. Also, it will be dealing with electricity generation by a generating station having the total installed capacity up to 5 MW (including electricity generation from renewable energy sources).
- Within the company Stredoslovenská energetika there has been established the distribution company Stredoslovenská energetika - Distribúcia, a.s.,
- Within the company Východoslovenská energetika, a.s. there has been established the distribution company Východoslovenská distribučná, a.s.

The Market integration of wholesale markets

At the time of the implementation of the project of regional initiatives in the electricity sector (the so-called „ERGEG Electricity Regional Initiatives”), that was initiated on 27 February 2006 the effort of the parties concerned has been declared with an intention to solve the administrative and structural barriers imposed on the integration of national electricity markets. These are some conditions related to the performance of business activities in individual member countries, of which some require a regional approach or a solution in the national electricity market.

At a regional level the project of co-ordinated joint capacity allocations of tie-ins based on the physical electricity flows that has to improve the existing system of co-ordinated explicit auctions, is based on net transmission capacities. The support program and an IT-environment will be provided by the project “ETSO Vista platform” (i.e. web page launched in November 2006), allowing in a large extent to meet the requirements arising of the Article 5 Congestion Management Guidelines that specifies the information obligations of the TSOs.

As far as the level of liquidity of the electricity whole trade in Slovakia is concerned, national legislation does not impose an obligation on any company to set up such a company that would arrange the short-term electricity trading. Based on the information on the assumed deviations electricity purchase or sales are made among distribution companies, based on the bilateral contracts of the market participants. For the above reason the market is not sufficiently transparent and liquid. In order to solve this issue and enable the calculations and forecasts of deviations the SPX company has been established, being the joint venture of three regional companies ZSE, SSE and VSE. The information exchange in the field of deviation evaluation has to function in such a way that the SPX will offer for charging the internet information portal to individual market participants in Slovakia, by means of which these market participants will inform on the opportunities for electricity sales or purchase. Once such information is published on the internet portal SPX the further procedure related to making business deals among market participants is implemented outside the internet portal SPX and SPX is by no means involved into this procedure. The SPX company will offer for charging also an information tool to individual market participants (all with their own responsibility for any deviations), by means of which it is possible to identify the assumed deviations in the electricity system of the Slovak Republic. The SPX company is not a participant of the electricity market.
As far as the balancing market of the Slovak Republic is concerned, the Regulatory Office, in accordance with the Act on Regulation, determines or approves the following:

- In the case of electricity generators:
  - Tariffs for provision of ancillary services in the electricity market
  - Maximum prices for supply of regulatory electricity

- In the case of TSO:
  - Tariff for settlement of deviations for the market participant that opted for the regime of internal deviation responsibility,
  - Maximum prices for purchase of individual types of ancillary services
  - Maximum permitted costs for purchase of all ancillary services
  - Maximum prices of the offered positive regulatory electricity
  - Maximum prices of the offered negative regulatory electricity.

**Main developments in natural gas sector**

The past few years in the Slovak gas sector are characterized with profound changes. Following the first regulatory period, which was aimed at phasing out the distortions persisting from the past period, Slovakia entered the second regulatory period in the field of the energy sector. Its main goal in the gas industry was to harmonise the conditions of the Slovak gas market with the EU legislation and to create the appropriate space for transparent and non-discriminatory performance of the activities and the competition in the liberalised gas market. At the same time, it is necessary to establish the environment for vulnerable consumers and to provide for the quality, effectiveness and reliability of delivery of goods and services.

The year 2006 was the introductory year and at the same time the first complete season when new secondary legislation came into effect. The legislative actions in the year 2005 were taken to ensure that the gas market already bound to valid primary and secondary energy legislation became functioning since 1 January 2006 under the business conditions defined by the Operational Orders approved for the operators in the gas market at the end of the year 2005. This was the process following up the Government Regulation No. 123 that laid down the gas market rules and entered into effect on 30 March 2005. The process of preparation of a legally binding regulation referring to the quality of delivery of goods and services provided was proceeding, thus laying down the fundamental legislative pillar for the liberalised gas market in Slovakia.

The scope of price regulation in the gas industry and the method of its performance, scope and a structure of eligible costs and the method of setting the size of adequate profit on the gas industry and the background documents for price proposals were determined by the Office Decree No. 2006. There have been a number of changes in comparison with the Decree approved for the previous period. The foundation for the price determination was defined in a more detail by modifying the parts of calculations and more detailed specification of some price items.

Price decisions issued by the Office related to the access to the transportation system and gas transport are applicable both for international transportation as well as the Slovak users of the transportation system and for that reason they demonstrate a high level of transparency.

The year 2007 has become a significant milestone from the point of view of making the amendment of primary and secondary energy legislation and entering into effect the amendment of the Act on Regulation and the Energy Act. The amendment of the Act on the Energy Sector has introduced the evaluation of the supplied and taken amount of gas in energy units. At present the updated version of the Government Regulation No. 123/2005 is in the approval process. Also, the Energy Act is subject to the process of amendment that should define the legislative conditions
referring to security of gas supplies, a selection of a new gas supplier, a last resort supplier as well as further changes resulting from modified conditions in the Slovak gas market.

On 1 July 2007 households became eligible consumers and the Slovak market has become fully open. With regard to the vulnerability of this group of consumers it will be the purpose of the price policy of the Regulatory Office in the nearest period to protect households by means of setting up the maximum prices. Maximum residential gas supply prices determined for the dominant gas supplier have to be accepted by every gas supplier for households in the restricted territory of the Slovak Republic.

It is the permanent intention of the Slovak energy policy to apply the requirement for the extension of international co-operation in the field of gas transportation, construction of long-term coherent and non-discriminatory relations based on co-operation with other interconnected networks and the users of the transportation system as well as harmonisation of national interest and legislative recommendations and EU rules in establishing pan-European functional liberalised gas market. These are the plans for the second regulatory period of the Slovak gas industry.

Slovakia has a long-standing tradition in the field of the gas industry. Its beginnings date back to the 19th century. Effectiveness of the gas industry in the Slovak Republic is ensured through the construction of the transit gas pipeline system in 1971 along with natural gas storage tanks ensuring self-sufficiency of the country in terms of the capacity and the transportation system in the Slovak Republic. There is almost 100% dependence of the country on the import of the Russian natural gas. In this regard a partial change is assumed to be made by implementing new gas supply projects being under preparation. An increase in diversification in the structure of the Slovak gas market will also affect the implementation of LNG projects that are part of the pan-European development. The market liberalisation will demonstrate the possibilities of cross-border flows from other sources. It is necessary to come up from whole-European trends and projects that will substantially affect through its implementation the structure of the European gas market existing so far.

Within the initiative of ERGEG Slovakia is involved in the Regional Gas Initiative in the area of South-East, in which national priorities have been defined for the purpose of the implementation of the single European gas market and achievement of the benefit of the Slovak Republic to the safety of gas supply in Europe.
3. Regulation and performance in the electricity market

3.1. Regulatory issues [Article 23(1) except for “h”]

3.1.1. Background information

The process of the market opening is laid down by the Energy Act, under which all consumers except for households have become eligible consumers since 1 January 2005. In the year 2005 eligible consumers covered a 10% share in the number of consumers and a 75% share in total consumption. Taking into account this fact the Regulatory Office ceased to regulate the purchase price of active power for those consumers. However, the Office continues to further regulate the electricity price for captive consumers – households, the price of regulated energy for ancillary services and the price of electricity generated from domestic coal, renewable energy sources and combined heat and power production (CHP).

The 100% market opening, as required by Directive 2003/54/EC on the common rules for the internal electricity market (hereinafter only „Directive 2003/54/EC“) is assumed from 1 July 2007. In this regard there has been a twinning project implemented since 1 June 2006 aimed at the preparation of the opening of the market with electricity and gas supplied to Slovak households. The counterpart of this project is the Ministry of Economy of the Federal Republic of Germany. The overall project objective is to prepare the conditions for the development of gas and electricity markets in line with Directives 2003/54/EC and 2003/55/EC. The purpose of the project is the following:

- the preparation of the opening of the market with gas and electricity for households as of 1 July 2007,
- the amendment of decisions on regulation of distribution and supply of electricity and gas to final consumers,
- The adjustment of methods of regulation applied with regard to electricity and gas supplies to households with focus given on the consumer protection, in parallel with ensured security, quality and reliability of energy supplies.

3.1.2. Management and allocation of interconnection capacity and load management mechanism

The bottlenecks on cross-border transmission profiles occur as a result of demand overbalanced to actual transmission possibilities.

The process of allocation of free transmission capacities on such bottlenecks is carried out for a calendar month or a year by means of explicit auctions that through objective, non-discriminatory and market-based mechanism of allocation of cross-border transmission capacities eliminate speculative behaviour and comply with the requirements arising out of Regulation 2003/1228/EC. The outcome is reservation of transmission capacity on specific cross-border profiles in a given direction. If the sum of required capacities in valid application/bids exceeds an offered free tradable transmission capacity, the financial settlement for the process of bottleneck management for each 1 MW of allocated capacity is determined according to the lowest price of the accepted bids.

As of 11 January 2006 Slovenská elektrizačná prenosová sústava, a. s. – the Slovak Transmission System Operator (hereinafter only „SEPS, a. s.“) joined the system of co-ordinated explicit auctions on cross-border profiles with the Czech Republic and Poland. The system applies the method of co-ordinated explicit auctions based on NTC or ATC methodology. Such auctions are organised by the joint Auction Office working for the Czech Transmission Operator ČEPS, a.s.

The values of free tradable transmission capacities are available on www.e-trade.biz.
A profile with the Polish Transmission Operator PSE-O is specific due to its technical characteristics.

In bilateral auctions of transmission capacities on a profile with Hungary the values of free tradable capacity are co-ordinated and agreed with MAVIR ZRt on condition that each of parties concerned allocates the half of a published capacity. In the case of some specific regime conditions (especially when switching off the lines between ČEPS and APG) a bottleneck occurs on a profile SEPS – MAVIR (the highest degree of overloading is right on this profile). Any relevant data on bilateral auctions on the profile with Hungary is published by the Auction Office of SEPS, a.s.

The profile SEPS - WPS with the Ukraine does not meet the criterion N-1. Free capacities on this profile are allocated by means of one-sided auctions organised by SEPS, a.s.

As transmission on cross-border profiles is strictly subject to the rules of operation of international interconnections and co-ordination with a neighbouring operator, the rules of capacity allocation also respect agreements concluded with neighbouring TSO referring to the co-ordination of provision of transmissions on a joint profile. Since the rules and condition of co-operation with individual neighbouring TSOs vary, the allocation rules are determined separately for each profile. The purpose of such procedure is to ensure maximum co-ordination of procedures applied by neighbouring TSOs and to simplify the process of negotiation and implementation of cross-border profiles for market participants.

The relevant documents laying down the conditions of cross-border exchanges, such as the Operational Order of SEPS, a.s., Technical Conditions, the Rules for Functioning of the Electricity Market, The Rules for Monthly and Yearly Auctions, etc. are published by SEPS, a.s. on the internet page [www.seps.sk](http://www.seps.sk).

The Regulatory Office makes continuous monitoring of the measures taken by the TSO aimed at the provision of sufficient transmission capacities and approves the TSO’s Operational Order.

Slovakia has no organised spot market at the moment. For this reason an indicator of the integration of the method of bottleneck management with the functioning of the spot market is not applied.

### 3.1.3. Regulation of obligations of TSO and DSOs

In the area of electricity transmission at the level of very high voltage (400 kV, 220 kV) there is one transmission system operator SEPS, a. s. – the company with a 100% share by the state, which simultaneously plays the role of a system operator. With regard to the character of services provided and the fact that these services are provided in the restricted territory, being identical with the territory of the Slovak Republic, SEPS, a. s. has the monopoly in the market and for this reason it is subject to the process of regulation.

Electricity distribution at the voltage level of 110 kV, 22 kV and 0, 4 kV is provided by the following three distribution companies: ZSE, a. s., SSE, a.s. and VSE, a.s. with the amount of distributed electricity exceeding 1 500 GWh a year. Individual supply areas do not overlap and represent regional monopolies.

Due to the non-existence of a competitive environment in the given supply area the activity of electricity distribution is also subject to the process of regulation. In 2007 these companies undergo the process of legal unbundling.

Apart from the so-called regional distributors these are also local (area) distributors in the market whose volumes of distributed electricity are below 1500 GWh a year.
Network tariffs

Based on the provisions of the Office Decree No. 2/2006 through its decisions the Regulatory Office determined and approved the following:

- For the transmission system operator:
  - Tariffs for a connection and access to the transmission system, plus management of the power system (tariff for electricity transmission),
  - Tariff for electricity losses during electricity transmission,
  - Tariff for provision of balancing services for the users of the transmission system,
  - Tariff for system operation,
  - Tariff for deviation settlement for the market participants that opted for the regime of mutual responsibility for deviation.

  Furthermore, the following are determined for the transmission system operator:
  - Maximum prices for purchase of individual types of ancillary services,
  - Maximum permitted costs for purchase of all ancillary services,
  - Maximum prices of offered positive regulatory electricity,
  - Maximum prices of offered negative regulatory electricity.

- For the distribution system operator, whose electricity distribution in the previous year exceeded 1 500 GWh, the Regulatory Office determines and approves the following:
  - Tariffs and maximum prices for access to the distribution system and for electricity distribution,
  - Tariffs for electricity losses resulting from electricity distribution,
  - Tariffs and maximum prices for electricity supply to households,
  - Tariffs for a connection of the producer and the final consumer.

- For the distribution system operator, whose electricity distribution and supply to consumers in the previous year was below 1500 GWh, the Regulatory Office determines and approves the following:
  - Maximum price for electricity distribution,
  - Maximum size of adequate profit earned from electricity distribution.

Tariffs and prices for electricity distribution are determined similarly to electricity transmission as a two-component price composed of the payment for reserved capacity and the distributed amount of electricity. Tariffs for transmission and distribution losses are determined as a single component tariff based on electricity flows at voltage levels.

Electricity generation is not a regulated activity, except for the values of economic indicators related to the planned costs incurred from the system operation and prices for supply of electricity generated from renewable energy sources, combined heat and power technology and local coal.

The Regulatory Office determines as the method of compensation of increased costs for provision of operation stability of the system and for the generation of electricity from domestic coal and a respective part of obligatory levies to the State Fund for Liquidation of Nuclear Installations.

The price for electricity supply is determined only for the category of households.

Method of price regulation

In accordance with valid legislation and principles specified in the regulatory policy the Regulatory Office determined for a regulatory period of 2003 – 2006 the method of regulation of the prices for purchase of electricity generated from renewable energy sources, combined heat and power technologies and from domestic coal (for general economic interest in the energy industry). Such electricity is purchased by the operators of regional distribution companies. Prices of generated
electricity are determined as fixed prices. A difference between the fixed price and the price determined by the Regulatory Office that is charged for electricity purchase is covered by all consumers in the form of tariff for the system operation.

In accordance with the decision of the Ministry of Economy of the Slovak Republic, the objective of which is to provide for the stability of the power system, there is the fixed price determined for electricity generated in the Vojany power plant, being part of the Slovak Electric Company (hereinafter only „SE, a.s.“) and supplied to the system. A difference between the prices determined by the Office and the average price of electricity generated by SE, a. s. is settled by all consumers in the tariff for system operation. In this tariff the Regulatory Office also determines the method for compensation of increased costs for provision of a respective part of obligatory levies to the State Fund for Disposal of Nuclear Installations for the purpose of the debt settlement in the case of generation of financial means used for decommissioning and disposal of nuclear installations.

In the course of the first regulatory period the Regulatory Office ceased to regulate the price of active power generated by SE, a.s. Only the so-called „service activities“ delivered by electricity generators remained regulated, including the provision of ancillary services and supply of regulatory electricity.

In the area of transmission a regulatory framework was established, similarly to distribution, with the application of the permitted revenues method and by setting a two component fixed price. A set investment factor provided TSO the funds required for investment development. The existing regulatory framework takes into account all revenues associated with the provision of transmission and balancing services as well as with settlement of deviations. Permitted revenues of the TSO also include revenues earned from cross-border electricity exchanges. Those revenues, according to the present way of payments for cross-border electricity exchange, have a favourable impact on the price for electricity transmission to all entities that extract electricity from the transmission system.

The prices for access to the transmission system are determined by the cap price method of a regulated company, taking into account eligible costs and adequate profit earned from a regulated activity, derived from the value of assets used for the purpose of electricity transmission as determined by the Regulatory Office. The Regulatory Office motivates TSO towards investment activities that will raise reliability of the transmission system and reduces the costs for transmission services.

Electricity distribution, as part of the electricity sector, is the highly demanding area in terms of investments, with the economic payback period in long-term horizon. With regard to the previous administrative determination of prices and state intervention distribution companies were in the situation when the generating stock in a period before the introduction of regulation, i.e. until the year 2003, achieved a high level of both physical and moral wear and tear. This fact, along with the situation that this sector is demanding from an investment point of view and distribution companies suffered from the lack of capital, was taken into account when setting a regulatory framework in the first regulatory period.

The price for access into the distribution system and for electricity distribution is determined by means of the cap revenues method, applied to a regulated company, taking into account eligible costs and adequate profit earned from a regulated activity, derived from the value of assets used for the electricity distribution as determined by the Regulatory Office. The price does not include the costs for electricity supply. The Office incentives regulated companies to investment activities that will improve reliability of distribution systems and reduces the costs for ancillary services.
The Regulatory Office determines the method of regulation of electricity distribution prices by the operators of local distribution systems applying the same principle as in the case of the distribution system whose distribution system the local operator is connected to.

The price for electricity supply is determined only for the residential consumers. Tariffs for individual groups of consumers are determined so that the revenue earned from electricity supply per unit of electricity did not exceed the maximum price determined by the Office and at the same time one group of consumers did not subsidize another one.

The regulatory policy of the Regulatory Office implemented in the second regulatory period of 2007 – 2009 also implies from the national energy policy.

In the area of electricity production and supply the Office will further develop current support activities by setting the prices of electricity generated from renewable and cogeneration plants and by establishing more favourable economic conditions for electricity supply from local sources into the distribution system.

Regulation of transmission services will be linked with the existing method of regulation, the objective of which is to improve stability of the system operation and to ensure the development of investment activities and projects that allow for the increase in effectiveness of the operation and the strengthening of bottlenecks of cross-border profiles. One of the main tasks of the Office will be the monitoring of transparency of the activities of the transmission system and establishment of the conditions for high-quality performance of the market operator.

The regulatory policy governing the area of distribution plays a decisive role with regard to the preparation of a new regulatory framework. Based on the changes in a business environment (reduction of the income tax, introduction of the flat tax, easier access to credit sources compared to the assumptions, development of interest rates, the inflation forecast) the Regulatory Office approached to the re-evaluation of parameters being loaded into the regulatory model which was made also due to the fact that the distribution sector may be regarded as stabilised. The results of the revision of the first regulatory period will be taken into account when setting input parameters. The cap price method, i.e. determination of the maximum price for electricity distribution, has been used as the method of regulation. The result will be a single-component price for distribution and a separate fee for electricity losses from distribution. The regulator will determine those prices at individual voltage levels. The cost incurred by legal unbundling will be taken into account by the Regulatory Office in economically justified costs „ex ante“and „ex post“. The process of unbundling of distribution being the main activity, thus establishing a separate distribution company, will be proceeded with the re-appraisal of regulatory assets based on reproduction or time prices of the assets used for the purpose of regulatory activities, whereas depreciation of regulatory asset base for the needs of regulation will be made on the basis of technical life of energy installations. This will include not only the assets of the companies being essential for a regulated activity that are directly associated with distribution itself. As part of the parameters applicable for the second regulatory period the Regulatory Office intends to introduce an investment factor that should become an incentive element of an investment activity. The Regulatory Office will also conduct the revision of invested financial means of actual electricity flows in the distribution system and also other input data that are decisive for determination of prices in the first year of the second regulatory period. By setting the parameters of regulation for the second regulatory period there is the decrease in the average price for electricity transmission compared to the first regulatory period.

In 2006 price regulation is solely a responsibility of the Office, as there is no other state administration authority involved in the process of tariff setting. The size of VAT that is part of the resulting price for households is proposed in a legal form submitted by the Ministry of Finance. A price list of products and services or operational orders of individual network operators are
available internet pages of relevant companies. The following prices, for selected categories of consumers, excluding the tax, were charged to the network users in the Slovak Republic as of 1 January 2007:

- Dc 0,1292 €/kWh
- Ib 0,1240 €/kWh
- Ig 0,0852 €/kWh

The Regulatory Office commenced the work on a Decree defining the quality of electricity transmission and distribution and of services provided in the electricity industry. The methodology was developed for standard indicators SAIDI and SAIFI that quantify the fulfilment of this task. After having consultations with experts the analyses of shares of SAIDI and SAIFI were made according to voltage levels. A rate of success of the measures adopted by relevant distribution companies is proven by means of the evaluation of SAIDI and SAIFI indicators. The Regulatory Office has at its disposal the data for the Central Slovak Regional Distribution Company SSE, as., in which in the year 2006 SAIDI (the unscheduled supply interruption) achieved a value of 239 min per consumer and SAIFIU (the unscheduled number of supply interruptions) achieved a value of 3,59 of long break-downs per consumer, the so-called break-down lasting over 3 minutes. The given indicators are the average per consumer and for all voltage levels.

**Balancing of the system**

The Rules for the Functioning of the Electricity Market and the Operational Order of the SEPS, a.s. company which is approved by the Regulatory Office, defines in more detail rights and obligations of the parties involved in the system balancing. The territory of Slovakia represents one integrated area for balancing any deviations. Delivery of regulatory electricity is provided by the transmission system operator on the basis of the agreement on supply of regulatory electricity concluded with the supplier of regulatory electricity. On a daily basis until 11.00 a.m. TSO finds the overall amount of supplied regulatory electricity and the costs for provided regulatory electricity delivered by individual suppliers of regulatory electricity and that is for each trading hour of a previous day. The amount of supplied regulatory electricity is determined as the difference between electricity supplies from the registered daily diagram of the supplier of regulatory electricity, based on the requirement of the TSO Energy Dispatch Centre. The shares in costs for procurement of regulatory electricity are not regulated by the Regulatory Office. A payment for assessment and settlement is a regulated fee. The data on prices is available for the entities of the clearing and settlement of deviations on the internet page www.damas.sepsas.sk.

**3.1.4. Effective unbundling**

On the territory of the Slovak Republic there is one TSO – SEPS, a.s. and three distribution operators.

The transmission system operator – the SEPS, a.s. company employees 579 people, and is in the 100% ownership of the National Property Fund of the Slovak Republic (hereinafter only „NPF“).

The ZSE, a.s. company employs about 1 431 people, with the annual volume of distributed electricity of 7,8 TWh. The ownership structure: 51 % NPF SR, 40 % E.ON and 9 % EBRD.

The SSE, a.s. company employs 1 592 people, with the annual volume of distributed electricity accounting for 6,3 TWh. The ownership structure: 51 % NPF SR and 49 % EdF International.

The VSE, a.s. company employs 1 604 people, with the annual volume of distributed electricity accounting for 5,2 TWh. The ownership structure: 51 % NPF SR and 49 % RWE Energy.
Apart from three licenses for distribution issued for regional distribution companies the Regulatory Office issued 129 licenses for local companies having fewer than 100,000 consumers. With regard to the gradual opening of the electricity market regional distribution companies undergo the process of unbundling in two key areas: electricity distribution and sales.

Distribution will be further provided by individual regional distribution companies, on the other hand, electricity trading may be provided by the companies that comply with the conditions set in legal regulations. Distribution network operators (hereinafter only „DSO”) are unbundled from the assets point of view from generating units, except for small hydro power plants.

According to the Energy Act the DSO that is part of vertically integrated company has to be independent, from the point of view of legal relation, the form, the organisation and the decision making from the activities that are not related to electricity distribution. In this regard the act in question determines the obligation of the DSO to develop „The Compliance Programme“, in which measures are determined to ensure non-discriminatory behaviour of integrated companies. This program will determine specific duties of employees, aimed at the elimination of a possible discriminatory behaviour of integrated companies. The act determines the date of ensuring such obligation, however, not later than until 1 July 2007. This date corresponds with the date of the 100 % opening of the electricity market.

The Office made re-appraisal of regulated assets of the companies, with an intention to achieve a smooth completion of legal unbundling of regulated activities from non-regulated activities. In June 2006 government of the Slovak Republic approved „The Proposal of Principles of Legal Unbundling of the Activities associated with the Operation of the Distribution System of the SSE, a.s. company“. The Regulatory Office made re-appraisal of regulated assets of the companies, with an intention to achieve a smooth completion of legal unbundling of regulated activities from the non-regulated activities. In June 2006 the government of the Slovak Republic approved „The Proposal of Principles of Legal Unbundling of the Activities associated with the Operation of the Distribution System in the SSE, a.s. company“. Distribution companies ZSE, a. s. and VSE, a.s. were equally preparing for the realisation of legal unbundling of the activities associated with the operation of the distribution system. In the course of the 1 half of 2007 the process of legal unbundling was completed in regional distribution companies. Since 1 July 2007 those companies act as legally separate distribution companies with their own assets.

TSO does not represent an integrated company. Under the valid Energy Act TSO also performs deviation settlement, however, such activity is separated from the main activity of TSO in terms of accounting. Separate accounts of TSOs are subject to publishing.

Under national legislation separate accounts are subject to auditing by the certified auditor. The rules for auditing separate accounts do not take into account special needs of the regulator.

Under the Energy Act the inspection will impose the penalty on the license holder, or other natural or legal person at the amount ranging from 5 mil up to 50 mil SKK for the violation of duties related to the keeping separate records for the purpose of accounting, unbundling of the operation of the transmission system and unbundling of the operation of the distribution system.
3.2. Competition issues [Article 23(8) and 23(1) (h)]

3.2.1. Description of wholesale market

Total electricity consumption in the Slovak Republic is stabilised with an increment being 3, 7 % compared to the year 2005. The coverage of consumption was made by activating the generation in available domestic generating stations and partly by electricity import, in order to ensure a stabilised balance of the power system. Availability of the generating stock enables to place electricity in the foreign market, keeping the active balance of export and import of the Slovak Republic since the year 1998.

Privatisation of a 66% package of the SE, a. s. shares by the Italian energy company ENEL was completed in April 2006. Part of the privatisation contract is also the fulfilment of storage conditions. Of them, the most important issue is the separation of damaged A1 nuclear power unit and V1 nuclear power unit in Jadovce Bounce and its inclusion into the decommissioning plant JAVYS, as., the separation of the hydro power plant EGA and its inclusion in the state water company Vodohospodárska výstavba, a.s. and an agreement with ENEL regarding the strategic investment development plant of SE, a.s. in the upcoming years. The separation of two units of the NPP V1 Jaslovské Bohunice with total installed capacity 880 MW relates with the commitment of the Slovak Republic arising from the EU Accession Treaty to shut down those reactors in 2006 and 2008. All those storage conditions were met as of 1 April 2006. SE, a. s. also further remains the most significant electricity producer on the restricted territory of the Slovak Republic, with a share of 64 % in the total installed capacity and a share in generation being almost 65%. Following the separation of EGA and EBO V1 the installed capacity of SE, a. s. accounts for 5 251 MW.

Figure 3.2.1. Installed Capacity Market Share

<table>
<thead>
<tr>
<th>Installed capacity 2006 (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nuclear; 2 640; 31,52%</td>
</tr>
<tr>
<td>Steam; 2 362; 28,20%</td>
</tr>
<tr>
<td>Hydro; 2 478; 29,59%</td>
</tr>
<tr>
<td>PPC (Comb.cycle); 218; 2,60%</td>
</tr>
<tr>
<td>Industrial; 677; 8,08%</td>
</tr>
</tbody>
</table>

Source: The Ministry of Economy of the Slovak Republic
The organisational structure of the wholesale electricity sector has basically remained unchanged over the past three years.

**Ancillary services**

The main problem in the market with ancillary services in Slovakia is the shortage of independent producers that are able to provide such ancillary services. Such services are procured by means of public procurement method, through the bidding procedure. The SEPS, a. s. company is able to procure balancing and ancillary services in the national market, however, this is partly characterised by the dominant position of the SE, a.s. Alternatively, it is considered to sign contracts for delivery of ancillary services with suppliers from abroad.

The volume of ancillary services in primary and partly in secondary regulation is determined by the UCTE regulations and requirements.

Providers of ancillary services take part in the bidding procedure and sign contracts for a period of one year. The system operator has a yearly plan of loading generating stations used for the purpose of ancillary services that is developed based on the bids submitted by the providers of ancillary services.

A decisive criterion of the selection process is the price. A price of services, in which the competition is restricted, is limited by the maximum price determined by the Regulatory Office. Maximum prices of primary regulation of output, secondary regulation of output and tertiary regulation of output is determined by the Office. Prices of other services are determined as bidding prices of winning participants involved in the bidding process.
A selected model of the market with ancillary services supports the establishment of new providers of such services and regulatory electricity, thus improving operational capability of the Slovak power system as well as the minimisation of costs as a result of the competition. The provider may become any entity whose electricity installation owns the required abilities of regulation that are proved by certification. Prices of ancillary services are sufficiently motivating for the establishment of new providers. Regulatory abilities may be also provided by consumers. The market with regulatory electricity is also interesting from the point of view of prices. In time horizon of several years we are expecting the increase in the number of providers of ancillary services and increased available capacities of such services. At the same time a stronger emphasis is given on procurement of ancillary services in short time horizon.

Presently there is no organised daily spot trading with electricity and for this reason Slovak producers and TSO participate in trades in power exchanges in Central and Eastern Europe, mainly in the Czech Republic, Austria and Germany. Organisation of short-term electricity trading and trading with ancillary services for TSO as well as the provision of supplementary services (tools of financial risk management) are in the stage of development.

**Ancillary services in 2006**

Ancillary services provided in the year 2006 were purchase by means of bidding process. Part of ancillary services was purchased in the annual bidding procedure that was organised towards the end of 2005. The other part of ancillary services was ensured in monthly bidding procedures; in the case of a need it was possible to purchase additional ancillary services. The rules of the bidding procedure were published on the internet page of the SEPS, a.s.

A list of providers of ancillary services and the services that individual providers of ancillary services provide:

- **Slovenské elektrárne, a. s.**
  - Primary regulation of output and frequency,
  - Secondary regulation of output and frequency,
  - 30 minute positive tertiary regulation of output and frequency (TRV30min+),
  - 30 minute negative tertiary regulation of output and frequency (TRV30min-),
  - 10 minute positive regulation of output and frequency (TRV10min+),
  - 10 minute negative tertiary regulation of output and frequency (TRV10min-),
  - Hourly tertiary regulation of output and frequency (TRVHOD),
  - Regulation of voltage and reactive power,
  - Black start.

- **Paroplynový cyklus, a. s. Bratislava – Combined cycle plant Bratislava**
  - 30 minute positive tertiary regulation of output and frequency,
  - 30 minute negative tertiary regulation of output and frequency,
  - 10 minute positive regulation of output and frequency.

- **Tepláreň Košice, a. s. – CHP plant Košice**
  - Primary regulation of output and frequency,
  - Secondary regulation of output and frequency,
  - 30 minute positive tertiary regulation of output and frequency,
  - 30 minute negative tertiary regulation of output and frequency.
Mondi Business Paper SCP, a. s. Ružomberok
- Secondary regulation of output and frequency,
- 30 minute positive tertiary regulation of output and frequency.

Novácke chemické závody, a. s.
- 30 minute positive tertiary regulation of output and frequency.

Zvolenská teplárenská, a. s.- CHP plant Zvolen
- Secondary regulation of output and frequency,
- 30 minute positive tertiary regulation of output and frequency,
- 30 minute negative tertiary regulation of output and frequency.

Vodohospodárska výstavba, š. p.
- Secondary regulation of output and frequency,
- 30 minute positive tertiary output and frequency,
- 30 minute negative tertiary output and frequency.

Martínská teplárenská, a. s. – Martin CHP plant
- 30 minute negative tertiary regulation of output and frequency.

OFZ, a. s. Orava Ferro-Alloy Works
- 30 minute positive tertiary regulation of output and frequency.

ČEZ, a. s. – Czech Energy Company
- 30 minute positive tertiary regulation of output and frequency,
- Hourly tertiary regulation of output and frequency.

The table below shows the shares of individual types of auxiliary services from the total financial volume amounting to 7 193, 17 mil. SKK that was in 2006 spent for the purchase of ancillary services and the share of average availability of individual types of ancillary services. Overall was withdrawn to purchase ancillary services from the holders of license for electricity generation 95, 38 % of total financial volume amounting to 7 541, 52 mil. SKK, in accordance with the Office Decision No. 0008/2006/E dated 20 October 2005.

**Tab. 3.2.1.3 Share of Individual Types of Ancillary Services in Overall Services**

<table>
<thead>
<tr>
<th>Total ancillary services</th>
<th>A share in service according to Withdrawal of finance [ % ]</th>
<th>Provided industrial availability [ % ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary regulation</td>
<td>4,65</td>
<td>2,62</td>
</tr>
<tr>
<td>Secondary regulation</td>
<td>30,77</td>
<td>18,78</td>
</tr>
<tr>
<td>Tertiary reg. 30MIN+</td>
<td>15,19</td>
<td>13,00</td>
</tr>
<tr>
<td>Tertiary reg. 30MIN-</td>
<td>10,28</td>
<td>11,19</td>
</tr>
<tr>
<td>Tertiary reg. 10MIN+</td>
<td>20,78</td>
<td>27,50</td>
</tr>
<tr>
<td>Tertiary reg. 10MIN-</td>
<td>4,88</td>
<td>12,73</td>
</tr>
<tr>
<td>Tertiary reg. RVHOD</td>
<td>12,21</td>
<td>14,18</td>
</tr>
<tr>
<td>Regulation U/Q</td>
<td>0,97</td>
<td></td>
</tr>
<tr>
<td>Black start</td>
<td>0,27</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100,00</strong></td>
<td><strong>100,00</strong></td>
</tr>
</tbody>
</table>
The following tables present the share of individual providers under the financial withdrawal for the provision of ancillary services and under the average provided availability of individual providers of ancillary services for selected services.

**Tab. 3.2.1.4 Share of Providers of Ancillary Services Used for Primary Regulation**

<table>
<thead>
<tr>
<th>Ancillary services/Primary voltage regulation</th>
<th>Share in service under</th>
<th>Provided industrial availability [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenské elektrárne, a. s.</td>
<td>89,99</td>
<td>89,68</td>
</tr>
<tr>
<td>CHP plant Košice, a. s.</td>
<td>10,01</td>
<td>10,02</td>
</tr>
<tr>
<td>Total</td>
<td>100,00</td>
<td>100,00</td>
</tr>
</tbody>
</table>

**Tab. 3.2.1.5 Share of Providers of Ancillary Services in Secondary Regulation**

<table>
<thead>
<tr>
<th>Ancillary services/Secondary output regulation</th>
<th>The share in service under</th>
<th>Provided industrial availability [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenské elektrárne, a. s.</td>
<td>89,40</td>
<td>89,30</td>
</tr>
<tr>
<td>CHP plant Košice, a. s.</td>
<td>2,87</td>
<td>2,87</td>
</tr>
<tr>
<td>Mondi Business Paper SCP, a. s.</td>
<td>6,39</td>
<td>6,46</td>
</tr>
<tr>
<td>Vodohospodárska výstavba, š. p. – water supply company</td>
<td>1,04</td>
<td>1,07</td>
</tr>
<tr>
<td>Zvolenská teplárenská, a. s. CHP plant Zvolen</td>
<td>0,30</td>
<td>0,30</td>
</tr>
<tr>
<td>Total</td>
<td>100,00</td>
<td>100,00</td>
</tr>
</tbody>
</table>

**3.2.2 Description of retail market**

Retail supply to final consumers is presently provided especially by 3 largest distribution companies and licensed traders – 13 national and 5 foreign companies. The share of three largest companies in the market is described by the following table. Those companies are not legally interconnected with the companies providing production or transmission of electricity.

The breakdown of the market with final supply under the number of extraction points among three decisive regional distributors is as follows:
Tab. 3.2.2.1 *Market with Retail Supplies*

<table>
<thead>
<tr>
<th></th>
<th>ZSE</th>
<th>SSE</th>
<th>VSE</th>
<th>SR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers of EHV grid</td>
<td>26</td>
<td>19</td>
<td>20</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>40.00 %</td>
<td>29.23 %</td>
<td>30.77 %</td>
<td>100.00 %</td>
</tr>
<tr>
<td>Consumers of HV grid</td>
<td>4 191</td>
<td>5 367</td>
<td>2 921</td>
<td>12 479</td>
</tr>
<tr>
<td></td>
<td>33.58 %</td>
<td>43.01 %</td>
<td>23.41 %</td>
<td>100.00 %</td>
</tr>
<tr>
<td>Consumers of LV grid incl. households</td>
<td>1 010 453</td>
<td>690 588</td>
<td>595 130</td>
<td>2 296 171</td>
</tr>
<tr>
<td></td>
<td>44.01 %</td>
<td>30.07 %</td>
<td>25.92 %</td>
<td>100.00 %</td>
</tr>
<tr>
<td>All consumers</td>
<td>1 014 670</td>
<td>695 974</td>
<td>598 071</td>
<td>2 308 715</td>
</tr>
<tr>
<td></td>
<td>43.95 %</td>
<td>30.15 %</td>
<td>25.90 %</td>
<td>100.00 %</td>
</tr>
</tbody>
</table>

At present there is no data available on the realised change of the supplier. In practise it is issued just in a slight extent, as stated by unofficial information sources.

### 3.2.3 Measures to avoid abuses of dominant position

Under the Energy Act electricity generation is not regulated, except for generation from renewable energy sources and from combined heat and power production.

Under the above-mentioned act the Ministry of Economy of the Slovak Republic may impose on the generator running a facility with an installed capacity over 75 MW the obligation to provide ancillary services for TSO.

The Act on Regulation and legislation under preparation, which governs the quality standards, also define the conditions of the participation of producers in the market with wholesale products.

In this area important secondary legislative regulations entered into effect, of which it is important to state mainly the Rules for the Functioning of the Electricity Market.

Those rules define rights and obligations of market participants and conditions required for non-discriminatory and transparent organisation of the market. The rules lay down especially the conditions of access into the power system and network, cross-border electricity exchange, connections to the system, transmission, distribution and supply, provision of ancillary services, supply of regulatory electricity, provision of balancing services in the electricity sector, generation, transmission, distribution and supply of electricity generated from renewable energy sources, in CHP and electricity generated from domestic coal, the takeover of the responsibility for deviations of individual market participants and for system deviation, a method of assessment, clearing and settlement of deviations of individual market participants and system deviations.

The Rules for the Functioning of the Electricity Market are worked out in detail by DSO and TSO in their operational orders that are submitted to the Regulatory Office for approval. At present the operational order of TSO is approved and operational orders of DSO are in the final stage of the approval process.

Protection of the economic competition in the market with products, performances, works and services before its restriction, the establishment of the conditions for its further development with the intention to promote the economic development in favour of consumers as well as the form of powers and competencies of the Antimonopoly Office of the Slovak Republic are defined in the
Act No. 136/2001 Coll. on the protection of the economic competition in wording of latter provisions (hereinafter only „the Competition Act”).

In the study period the Antimonopoly Office performed the following investigations with regard to the abuse of the dominant position in the electricity market.

On 13 October 2006 the Antimonopoly Office received a complaint from an entrepreneur Mr. Miroslav Jakuba – ORMIA from Vranov nad Topľou in the matter of a possible violation of the Act by the VSE, a.s. company. This submission related to the way of how the person concerned had to order the amount of electricity and reserved capacity (the required input) from VSE, a.s. The Antimonopoly Office in this matter conducts general investigation under Article 22 Section 1 Letter a) of the Competition Act.

On 6 November 2006 an entrepreneur JOZEF MURGAŠ ELEKTRONICS, a.s., Banská Bystrica sent a complaint in the matter of a possible abuse of the dominant position in the market by the SSE, a.s. company under Article 8 of the Competition Act. The submission referred to the price quotation for electricity supply for the year 2007 in the year 2007 that was about 30 % higher compared to the year 2006. The submission also related to the inadequate short period, during which the person concerned had to make a decision on the acceptance or non-acceptance of a given price offer from SSE, a.s. In this matter the Anti-monopoly Office conducts general investigation under Article 22 Section 1 letter a) of the Competition Act.

On 1 February 2007 the Antimonopoly Office received a complaint from Klub 500, Bratislava, which is a non-profit civil organisation of Slovak owners and co-owners of the companies employing more that 500 people (hereinafter only “Klub 500”) in the matter of a possible abuse of the dominant position by the SE, a.s. in the market under Article 8 of the Competition Act. Klub 500 raised objections that SE, a.s. offers the prices of active power to industrial consumers in the Slovak Republic for the year 2007 that were increased compared to the year 2006 by 20 – 50%. Klub 500 also raised objections that it was not allowed by SE, a.s. to one company to take part in the bidding process (electricity sales in the form of public bidding). Within general investigation that is still underway the Antimonopoly Office under Article 22 Section 1 Letter a) of the act in question contacted several businessmen with the objective to obtain the information on the functioning of the electricity market in the Slovak Republic (price setting, competition in the market, the scope of provided services, types of performed business activities, performance of individual businessmen from the point of view of space, problematic areas in the electricity market, etc.).
4. Regulation and Performance of the Natural Gas market

4.1 Regulatory Issues [Article 25(1)]

4.1.1 General

In accordance with the provisions of the Act on Energy households, since July 1st 2007 have become eligible customers with a possibility to choose their gas supplier. Since the above-mentioned date, a full 100 % market opening is expected. The share of eligible customers represents level of market opening from the total number of customers, which reached in 2006 4, 8 % and 73, 0 % in overall gas consumption. Process of market liberalization continues, closely related to competition possibilities and contractual conditions for the new players, flexibility of networks and its operators and adequate diversification in the structure of gas pipeline networks. These factors are part of the gas market liberalization and opening process in Slovakia.

4.1.2 Management and allocation of interconnection capacity and mechanisms to deal with congestion

As of January 1st 2007 the transmission network, including four compressor stations, had 2 270 km of gas pipelines. In 2006 the total imports capacity for Slovak market and foreign customers reached the volume of 73, 7 bill. m³. The capacity of the transmission network is sufficient and allows covering the needs of customers. The Slovak market in natural gas due to its historical development has a high degree of dependency on a single source of supply, which represents 99 %. Transmission is on the basis of „entry – exit” tariff system. With regard to the concluded long-term contracts and sufficient technical capacity there has been no physical or contractual congestion of the network taking place and is not expected in the upcoming years. Securing smooth flows is facilitating by provision of regular information by the operator to the users about the availability of transmission capacity. All planned maintenance works on the network are consulted in advance, yearly or quarterly, and are coordinated with all involved parties.

Conditions for gas market are governed by the Rules for gas market operation. Provisions of these rules contain procedures for allocation, accumulation and exceeding the capacity of the transmission and the distribution networks.

Cross-border trading in natural gas is an issue for longer development. Its quicker development is also related to the North-South network diversification of the network. Trading with transmission capacity on the secondary market is not limited in Slovak Republic. Seller has only obligation to submit report about such trade to SPP – preprava, a. s., a transmission network operator in Slovakia, which vested on its internet web site so-called „bulletin board system“ for the possibility to advertise demand and offer of transmission capacity in connection with trading on the secondary market.

Realisation of the contracts concluded pursuant to Article 3 (1) and in accordance with conditions of EEC Directive No. 296/1991 on transmission of natural gas by gas pipeline networks, which are still in effect, and which are valid according to the valid EC Directive No. 55/2003 continues to be carrying out. End of contracts validity is expected in 2008.
4.1.3 The regulation of the tasks of transmission and distribution companies

On the territory of the Slovak Republic there is the single transmission system operator and the single dominant distribution system operator.

**Network Tariffs**

On the basis of the Office Decree No. 4/2006, the Office determined and approved:
- for the transmission system operator:
  - Tariffs and tariff conditions for access to the distribution network and distribution of natural gas for users of the distribution network;
- for the distribution system operator:
  - Tariffs and tariff conditions for access to the distribution network and distribution of natural gas for users of the distribution network;
  - Tariffs for connection to the distribution network for the operator of the distribution network on the delimitated area;
  - Tariffs a tariff conditions for supply of natural gas to the category of Household customers

Price regulation in the gas sector applies to:
- connection to the network
- access to the network
- transport of gas to end users on the delimitated area
- distribution of gas to end users on the delimitated area
- supply of gas to households.

When determining prices, justified costs and reasonable profit are taken into consideration. Reasonable profit must reflect the scope of necessary investments for securing long-term operability, safety and reliability of the network, security and reliability in gas supplies and reasonable return on operating assets.

**Transmission System Operator**

Prices are regulated for access to the transmission network and for gas transmission. The method of price regulation in gas transmission is determined as direct determination of comparable price in compliance with the Act on regulation, which is based on the cost analysis for transmission in other EU member states in the previous year on the basis of the “entry-exit” tariff system.

The tariff system consists of special tariffs for entry points into the transmission network and special tariffs for the exit points from the transmission network. It is broken down to tariffs relating to the daily transmission capacity and tariffs relating to the actual volume of transported gas.

In accordance with the Act No. 107/2007 Office determines price, based on the submitted price proposal for connection to transmission network, which consists from justified costs related to realisation of connection.

Proposal of the Office Decree for 2008 defines price for interruptible capacity, which is established depending on probability of gas transport disruption.

**Distribution System Operator**

Regulation of prices for access to the distribution network and gas distribution applies to regulated entity, whose number of delivery points from the distribution network in the previous year was higher than 100,000, and to regulated entity, whose number of delivery points from the distribution network in the previous year did not exceed 100,000. In case of regulated entity having higher number of delivery points than 100,000 the prices for access to the distribution network and for
gas distribution are determined using the method of price cap, while the regulatory period is set for a period of four years. The regulatory period started on 1 January 2006. For regulated entity with a number of delivery points lower than 100,000 the prices are determined in a way that the price or tariffs for access to the distribution network or for gas distribution cover the justified costs and reasonable profit, while this price is determined each year.

The price for connection to the distribution network is determined in a way that the price or the tariff for connection does not exceed the average costs of the regulated entity for connection to the distribution network. Tariffs for connection to distribution network are proposed separately for household customers and non-households customers.

Decree draft for 2008 determines for gas market participants, whose place of off-take is equipped with gas meter able to record in automatic manner daily off-take of gas, who use supplied gas for double purpose and at the same time provide services for the purposes of distribution network balancing, establishing different tariff for the access to distribution network and for the gas distribution, that is submitted by distribution network operator.

Regulatory period according to the mentioned Decree draft is limited to the period of one year.

Prices for supply to gas household customers are determined in a form of tariffs. These are set in a way that the weighted average of tariffs for gas supply does not exceed the share of total permitted revenues for gas supply to households and the planned volume of supplied gas, with the adjustment through the correction factor taking in regard expected and actual costs of the regulated entity. Regulatory period for gas supplies to households is set for a period of two years. Regulatory period commenced on 1 January 2006.

On 1 July 2007 households became eligible customers. Gas supply to eligible customers, from 1 January 2005, is not subject of price regulation. After full gas market liberalisation (1 July 2007) Office secures protection for households customers by determining maximum price for gas supply for households, which consist mainly from costs necessary for gas procurement, costs related to transport of gas and costs related to gas storage.

Decree draft for 2008 determines prices for the period of one year.

Production, storage and linepack of gas, as well as access to gas storage are not a subject to price regulation by the Office. Based on the Energy Act negotiated access is used for these activities.

The scope of price regulation in the gas sector and the method of this price regulation and the structure of justified costs, the method of determining the level of reasonable profit and background document for price proposal are set in Office Decree No. 4/2006 from June 21 2006. Changes when compared to the Office Decree No. 4/2005 relate primarily to modification of part of price calculations for regulated activities, precision of definitions of individual terms used and simplification of the mechanism for submitting price proposals.

In the field of gas transmission, the criteria for comparison in the benchmarking study submitted by the operator of the transmission network for price proposal have expanded, in the interest of converging to the future expected real situation on the gas market.

In the field of gas distribution on the delineated area the corrective item has been précised in calculating the total permitted revenues relating to balancing of the distribution network and in the field of determination of prices for connection to the distribution network there precision of the definition of average planned costs of connection to the distribution network was made, from which the price for connection to the distribution network is derived from.

In the field of price regulation in supply of gas to households a more detailed specification of cost of storage as part of security and reliability of gas supplies was developed and the correction factor was reworked, which corrects planned and expected cost of gas purchase, or part of costs for purchases of gas relating to households according to the allocation key for purchase of gas
entering the formula for calculating total permitted revenues for supply of gas to households. This formula includes also part of costs of the gas supplier for the gas customers – households, for payments of excise tax on natural gas pursuant to Act No. 98/2004 Coll. on excise tax on mineral oil.

Decree proposal for 2008 is gas correction part arising from the difference between expected and planned costs for commodity purchase, its transport, storage and gas distribution, while primary and secondary correction is used. Secondary correction is defined as difference between actual costs and expected costs of gas supplier for transport of gas to households, and is based on 2006.

In connection with securing quality of performance of the network operators, the Office in accordance with amended primary legislation finalizes Regulation to be submitted for approval on the quality standards of supplied goods and provision of services in gas sector. This regulation deals also with the issue of quality indicators.

For the use of transmission, as well as the distribution network on the delineated area, with selected parameters and with annual contract the average national network charge is estimated and the users of these networks according to individual categories in the Slovak Republic will pay the following prices:

<table>
<thead>
<tr>
<th>Category</th>
<th>Price (€/m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I4-1</td>
<td>0,050</td>
</tr>
<tr>
<td>I1</td>
<td>0,072</td>
</tr>
<tr>
<td>D3</td>
<td>0,093</td>
</tr>
</tbody>
</table>

Gas customer in the Slovak Republic in the category of households with average consumption pays an average price for gas supply for 0,354 €/m³.

**Balancing**

Network balancing is performed in compliance with the Rules for gas market operation. The Slovak Republic is a balancing zone for the transmission network and balancing zone for the distribution network with regard to physical balancing. With respect to distribution network users the Slovak Republic is a single balancing zone.

The system operator is responsible for the physical balancing. Commercial balancing of network and settlement of deviations is evaluated by the system operator. Non-compliance with the balance and the deviation, i.e. the difference between the volume of gas allocated to the gas market participant at the entry point to the network and the volume of gas taken by the gas market participant at the exist point from the network, is charged. The gas market participant (hereinafter only as the “user”) is responsible for the deviation and has a contract with the system operator. The transmission system user must agree the conditions for balancing of the transmission network with the transmission system operator.

The transmission system user, who is not the distribution system user or whose exit point in the gas transmission is different from the domestic exit point, is obliged to agree the conditions for commercial balancing and the method of settlement of deviation with the transmission system operator.

For the distribution system user the commercial balancing and settlement of deviations is done only by the distribution system operator, even when he has a contract for gas transmission concluded with the transmission system operator, where the only exit point from the transmission network is the domestic virtual point; in this case the distribution system user pays only the charge related to deviation in the distribution network.
Gas market participant who operates distribution network and is connected to transmission network agrees on the conditions of commercial balancing with distribution network operator, who is obliged to fulfil tasks of gas dispatch on delimited area.

The distribution system operator is responsible for the physical balancing of the network and for settlement of deviations on the delineated area. If there are several distribution system operators on the delineated area, the distribution system operator, who is obliged to fulfil the tasks of the gas dispatching centre on the delineated area is responsible for the balancing of the network.

The distribution system operator has a certain part of the storage capacity allocated for covering daily deviations of gas market participants, while the cost of this capacity is included in the cost of gas distribution. Balancing regime is a daily regime. Balancing and evaluation is done per gas-day.

For each distribution system user a single daily deviation is calculated for all exit points. The daily deviation can be positive or negative. The amount of daily deviation is recorded on the balancing account of the distribution system user. Permitted deviation for the distribution system user is set on the level of 5% from the contracted agreed daily distribution capacity of the distribution system user. Permitted daily deviation for the distribution system user may be on the basis of agreement between the distribution system operator and the distribution system user set for the particular day to the amount exceeding the amount of permitted daily deviation of 5%, if the distribution system user reduces this way the absolute value of its accumulated deviation. If the absolute value of the daily deviation of the distribution system user exceeds the amount of permitted daily deviation, the distribution system user is obliged to pay a fee for exceeding the permitted daily deviation in the amount of SKK 1.80 per each 1 m\(^3\) of gas, by which the permitted daily deviation was exceeded.

If the absolute value of accumulated deviation on the balancing account exceeds the value of the maximal accumulated deviation, the volume of gas in the amount of the difference of the maximal accumulated deviation of the distribution system user and an absolute value of the topical accumulated deviation of the distribution system user will be accounted for and purchased:

- By the distribution system operator from the distribution system user for the price in the amount of 50% of the reference gas price, i.e. the gas price for the purposes of commercial balancing, when purchasing gas by the distribution system operator in case of positive value of topical accumulated deviation; this fact is recorded on the balancing account of the distribution system user so that the actual accumulated deviation equals to the maximal positive accumulated deviation,
- By the distribution system user from the distribution system operator for the price which is 200% of the reference gas price when selling gas by the distribution system operator in case of negative value of the topical accumulated deviation; this fact is recorded on the balancing account of the distribution system user so that the actual accumulated deviation equals to the maximal negative accumulated deviation.

Based on the Decree proposal for 2008 the price for purchase of gas by the distribution network operator from the network user for the purposes of commercial balancing will be 75 % of the reference price of gas.

The maximal accumulated deviation of the distribution system user is defined as five times the permitted daily deviation of the distribution system user.

At the end of the contract period, the balancing account is closed and the volume of gas in the amount of absolute value of the accumulated deviation on the balancing account of the distribution system user is accounted for and purchased by:

- The distribution system operator from the system user for the price in the amount of 50% of the reference gas price when purchasing gas by the distribution system operator in case of positive value of accumulated deviation,
- The system user from the distribution system operator for the price in the amount of 200% of the reference gas price when selling the gas by the distribution system operator in case of negative value of accumulated deviation.

The distribution system operator maintains separate records on fees for balancing of the distribution network. If the distribution system operator enters into a contract on gas distribution, which is directly linked to their previous contract on gas distribution, they can agree on transfer of the balance on the balancing account to the following contract period and the balancing account is not closed.

Balancing account is maintained for each distribution system user by the distribution system operator who is responsible for the deviation. The balancing account of the distribution system user records the amount of daily deviation of the user of the distribution network and the accumulate deviation of the distribution system user.

Accumulated deviation of the distribution system user represents the sum of all daily deviations of the distribution system user and modifications according to the previous paragraph on absolute value of accumulated deviation, for the time period from the start of the contract on gas distribution until the date, which precedes the date, when the accumulated deviation of the user of the distribution network is determined.

The distribution system operator has allocated a portion of storage capacity, in particular for covering the daily deviations of gas market participants; the cost of this capacity is included in the cost of gas distribution. If the allocated storage capacity is not sufficient for physical balancing of the distribution network, the distribution system operator requests the gas market participants for the volume of injected or produced gas from the storage up to the amount of their agreed storage capacity. If this measure is not sufficient, the distribution system operator requests the storage system operator to provide free capacity of storage necessary for distribution network balancing. If the technical conditions allow it, the storage system operator satisfies the request.

Detailed information of the system operator to market participants relating to balancing are stated in the operating rules of the relevant system operators, which are available at the websites of individual system operators and form the basis for conditions set in the business contracts between the operator and the market participant.

4.1.4 Effective Unbundling

With respect to historical development, until 30 June 2006 there was one vertically integrated monopoly company, SPP, a. s., operating on the Slovak natural gas market. With the effect from 1 July 2006 SPP, a. s. the legal unbundling of transmission and distribution activities took place. Besides the parent company SPP, a. s. also it is fully owned subsidiaries: SPP - preprava, a. s. and SPP - distribúcia, a. s. started to operate on the market. Legal unbundling of SPP, a. s. is performed pursuant to the Act on Energy. The main goal of the legal requirement of unbundling of SPP is to create independent system operators for transmission and distribution, who would reinforce the transparent and non-discriminatory access to the gas system to third parties, i.e. to other traders in natural gas. This obligation must be complied with by all energy utilities in the European Union within the process of energy market liberalization.

SPP – preprava, a. s. is the operator of the transmission network for natural gas in the length of 2,270 km. It secures transmission of the natural gas from the Ukraine border through the territory of Slovakia on the European market. The company secures operation and maintenance of compressor stations and line parts of transmission gas pipelines through four areas (Veľké
Kapušany, Jablonov nad Turňou, Veľké Zlievce and Ivánka pri Nitre). The transmission system is managed by the gas dispatching centre.

**SPP – distribúcia, a. s.** is the operator and owner of the distribution system – gas pipelines in the SR including technology structures – control stations for natural gas and central gas dispatching centre. Its competency includes also sale of the distribution capacity, development, operation and maintenance of gas system. SPP - distribúcia, a. s. secures distribution of natural gas from the transmission networks through the distribution gas facilities on the territory of the Slovak Republic to its customers, it secures also connection to the distribution system and meter readings for natural gas consumption. Number of customers of SPP – distribúcia, a. s. is higher than 100,000.

Pursuant to the Slovak legislation, both subsidiaries are subject to separate audit of accounts. The organization structure of SPP, a. s. still includes the division that deals with trading in gas and gas supply.

There are around 40 separate local distribution companies operating in the regions of Slovakia. The number of customers of individual local distribution companies does not exceed 100,000.

### 4.2 Competition Issues [Article 25(1) (h)]

#### 4.2.1 Description of wholesale market

The sale of natural gas in the Slovak Republic in 2006 represented 5.9 billion m$^3$. In the wholesale segment there was a slight increase in consumption, while in households and small customers segment a drop down in consumption was recorded compared to 2005. In the wholesale segment saving measures and rationalization continued to be implemented in the households segment, besides the already mentioned measures, there have been changes in the fuel type used. This was related to the price of natural gas, which was increased due to the influence of the growing crude oil prices on the world markets. Higher cost of gas makes other fuels more attractive – coal and wood. Saving measures are directly related to the increase of natural gas price, as well as with increasing energy efficiency on the side of gas customers. Sale of natural gas on the delineated area of the Slovak Republic in 2006 compared to 2005 dropped by approx. 10.60%.

Domestic production of natural gas in 2005 was on the level of 135 million m$^3$. In domestic production of natural gas in the long term, it is expected to continue in production from the current sources, with a declining trend. Potential changes may only be brought by newly discovered deposits – production would depend on the scope, nature and location of potential new deposits.

Roughly, 99% of domestic gas consumption is imported from the Russian Federation. Supply of natural gas for the needs of the Slovak Republic is secured based on the contract between SPP, a. s. and the Russian Gazexport.

There is one company operating on the market of the Slovak Republic having a market share higher than 5% - SPP, a. s. Companies owning share on the available gas capacity are SPP, a. s. and NAFTA, a. s.
Tab. 4.2.1.1  Development on Wholesale Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Production [bill. m³]</th>
<th>Demand [bill. m³]</th>
<th>Import capacity [bill. m³/year]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Transit In total</td>
<td>Reserved for transit</td>
<td>Long-term contracts</td>
</tr>
<tr>
<td>2001</td>
<td>0,165</td>
<td>7,5</td>
<td>94</td>
</tr>
<tr>
<td>2002</td>
<td>0,156</td>
<td>7,1</td>
<td>94</td>
</tr>
<tr>
<td>2003</td>
<td>0,150</td>
<td>6,8</td>
<td>94</td>
</tr>
<tr>
<td>2004</td>
<td>0,143</td>
<td>6,5</td>
<td>94</td>
</tr>
<tr>
<td>2005</td>
<td>0,135</td>
<td>6,3</td>
<td>94</td>
</tr>
<tr>
<td>2006</td>
<td>0,135</td>
<td>6,2</td>
<td>94</td>
</tr>
</tbody>
</table>

Foreign companies on the Slovak market are active through their property participation in SPP, a. s., where the Slovak Gas Holding, B.V. (made of Ruhrgas and Gaz de France) owns 49% of shares.

NAFTA, a. s., owns and operates underground gas storage facilities and performs gas production, the shareholder structure is the following – SPP, a. s. 55%, Ruhrgas 40%, other shareholders 5%.

Shareholder structure of POZAGAS, a. s., which owns underground gas storage facilities, is: SPP, a. s. 35%, NAFTA, a. s. 35% and Gaz de France 30%.

The Slovak Republic represents the national gas market. Mutual connections exist with Ukraine, the Czech Republic and Austria. The Slovak transmission network is a significant part of the European gas network and represents an important, reliable and secure transport route used for transporting natural gas to the countries of Central and Western Europe. Another area of cooperation is natural gas storage facilities – the Slovak Republic uses the storage facility (Dolní Bojanovice) situated on the territory of the Czech Republic and is directly connected to the gas system of the Slovak Republic. Companies operating storage facilities store natural gas also for several companies from abroad.

Activities of gas market participants in Slovakia are subject to primary legislation which are mainly Act on Regulation and Act on Energy. Primary legislation is supplemented by regulation of the Government of the Slovak Republic No. 123/2005, which sets the rules for gas market operation. Wording of the Regulation was amended this year and regulation draft is currently in the process of approval. Changes and amendments are related mainly to:

- specifying conditions for connection to transmission network and information on transport capacities and related services connected to gas transmission,
- switching of gas supplier and processes and conditions for such switch and also supplies of gas from more than one supplier to one off take point.

Detailed technical and business conditions are specified in operation orders of individual gas market operators. With an aim to adjust existing primary legislation to changing conditions of the liberalised market and in order to provide harmonisation with development of EU legislation an amendment to the Act on Energy is being prepared in 2007. Decree proposal is currently in the
process of approval. Proposal defines extend and structure of illegible costs and determining of reasonable profit in gas sector as well as background documents for price proposal for 2008.

4.2.2 Description of retail market

SPP, a. s. remains dominant supplier of natural gas on the territory of the Slovak Republic and covers all segments of the market whether households customers, small and medium companies or large industrial enterprises. This remains the fact despite the possibilities created by the legislation.

4.2.3 Measures to avoid abuses of dominant position

Protection of economic competition on the market of goods, performances, works and services against its limitation, creation of conditions for further development with the aim to support economic development to the benefit of consumers, as well as changes to the powers of Anti-monopoly Office of the Slovak Republic are defined in the Competition Act.

In the monitored period Department for misuse of dominant position at Antimonopoly Office executed the following inquires on the gas market:

Based on the initiative of SLOVINTEGRA, a.s company with official seat at Jašíkova 2, 821 03 Bratislava Antimonopoly Office executes general inquiry on the market in accordance with Article 22 par. 1 a) of the Competition Act examining whether dominant position of SPP, a. s. Bratislava entity occurred. Entrepreneur SLOVINTEGRA, a. s. object possible abuse of dominant position saying that entrepreneur SPP, a. s. refused to supply gas via different distribution network than SPP – distribúcia, a. s. exacted such contractual conditions in the contract on gas delivery that were unacceptable for SLOVINTEGRA, a. s. company and which SLOVINTEGRA considered to be unreasonable and proposed price proposals for gas supply which were non-transparent and asked to commence an inquiry because of possible discrimination against other customers.

Based on the initiative of GasTrading, s. r. o. company, seated at Šafárikova 1, Levice, which is distribution network operator and a supplier of natural gas to Levice Industrial Park, Antimonopoly Office executed a general inquiry on the market in accordance with article 22 par. 1 a) of the Competition Act against SPP - preprava, a. s. company and based on the results of the inquiry commenced on April 3rd 2007 administrative proceeding in the subject mater. Subject of the proceeding in this administrative proceeding is possible breach of provisions of article 8 par. 2 a) of the Competition Act, in particular process of SPP-P, a. s. in relation to connection of GasTrading, s.r.o. distribution network to the natural gas transmission network and conclusion of Contract on Connection and Agreement on Interconnection with GasTrading, s.r.o. company. During negotiations on conclusion of contract SPP - preprava, a. s. insisted on purchase of connection facilities located on the premises of inter-state transfer station in Starý Hrádok station, which the company built and is in the ownership of GasTrading, s.r.o., while it did not show any relevant reasons to insist on such condition.

Antimonopoly Office further received a initiative from SPP, a.s. Bratislava, based on which Department of misuse of dominant position execute general inquiry on the market in accordance with article 22 par. 1 a) of the Competition Act against GasTrading, s.r.o. company. Entrepreneur SPP, a.s. in this matter objected possible abuse of dominant position by GasTrading, s.r.o. in accordance with article 8 par. 2 b) of the Competition Act, which should have happened by limiting SPP, a.s. to submit relevant competitive offers for natural gas to customers in Levice industrial park as a distribution network operator in the area of Levice industrial park by late request of the Regulatory Office to determine distribution fee and approval of operation order and in this way natural gas off take was limited to be delivered.
5. Security of Supply Issues

5.1 Electricity [Article 4]

*Development in supply and demand of electricity, including projection for 2007*

The total power consumption in Slovakia is stabilized with slight increase experienced during last years. See data for „Production, consumption and loading of the electrification system (ES) SR in 2002 to 2006 and prognosis for 2007“ in the following table.

Table 5.1.1  Generation, Demand and Electricity System Load

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>32 830</td>
<td>28 674</td>
<td>3 273</td>
<td>4 421</td>
</tr>
<tr>
<td>2003</td>
<td>31 147</td>
<td>28 892</td>
<td>3 298</td>
<td>4 338</td>
</tr>
<tr>
<td>2004</td>
<td>30 543</td>
<td>28 682</td>
<td>3 274</td>
<td>4 349</td>
</tr>
<tr>
<td>2005</td>
<td>31 294</td>
<td>28 572</td>
<td>3 262</td>
<td>4 346</td>
</tr>
<tr>
<td>2006</td>
<td>30 941</td>
<td>29 189</td>
<td>3 332</td>
<td>4 423</td>
</tr>
<tr>
<td>2007*</td>
<td>26 126</td>
<td>29 790</td>
<td>3 401</td>
<td>4 450</td>
</tr>
</tbody>
</table>

Source: SEPS, a. s.

*Demand prognosis for 2008 – 2017*

Based on data presented by tables 5.1.1 and 5.1.4 was prepared the scenario for consumption and loading (demand) of the electrification system SR (hereinafter as „ES SR“) for the years 2008, 2012 and 2017, where is considered the reference scenario for loading increase in consideration of regional max. loadings during the year (coincidence factor).

Table 5.1.2  Load and Demand Projections of the Electricity System

<table>
<thead>
<tr>
<th>Timing</th>
<th>Load [MW]</th>
<th>Demand [TWh]</th>
<th>Use of max. load in year [hours]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summer 2008</td>
<td>2 729</td>
<td>30.1</td>
<td>6 589</td>
</tr>
<tr>
<td>Winter 2008/2009</td>
<td>4 568.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summer 2012</td>
<td>3 002.4</td>
<td>31.7</td>
<td>6 146</td>
</tr>
<tr>
<td>Winter 2012/2013</td>
<td>5 165</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summer 2017</td>
<td>3 129.5</td>
<td>33.6</td>
<td>5 953</td>
</tr>
<tr>
<td>Winter 2017/2018</td>
<td>5 652.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SEPS, a. s.
Covering the ES SR loading for 2007-2010, prognosis for 2020

The period 2006 - 2010 will bring several modifications in the SR power industry structure. Due to SR obligations resulting from the access negotiations with EU as well as due to obsolescence and non-fulfillment of ecological requirements will occur during this time in Slovakia an accumulation of large power-plant capacities that will be shut down.

Until 2010 has to be shut down approximately 1370 MW of electrical output producing ca. 6,6 TWh power. This drop will mean for Slovakia compared with the actual situation the fall-out up to 16,8 % output and 21,1 % production.

Tab. 5.1.3 Assumed Decommissioning of Electricity Generation Capacities to 2010

<table>
<thead>
<tr>
<th>Power plant</th>
<th>Units/type</th>
<th>Capacity [MW]</th>
<th>Generation [GWh]</th>
<th>Year of Decommissioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nováky A</td>
<td>TG3/thermal</td>
<td>50</td>
<td>190</td>
<td>2008-2010</td>
</tr>
<tr>
<td>Vojany 1</td>
<td>Units 3 and 4 /thermal</td>
<td>220</td>
<td>700</td>
<td>2006</td>
</tr>
<tr>
<td>Vojany 2</td>
<td>Units 25, 26/thermal</td>
<td>220</td>
<td>100</td>
<td>2006</td>
</tr>
<tr>
<td>Jasl. Bohunice V1</td>
<td>V1 – Unit 1*/nuclear</td>
<td>440</td>
<td>2 800</td>
<td>2006</td>
</tr>
<tr>
<td>Jasl. Bohunice V1</td>
<td>V1 – Unit 2 /nuclear*</td>
<td>440</td>
<td>2 800</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1 370</strong></td>
<td><strong>6 590</strong></td>
<td><strong>2006-2010</strong></td>
</tr>
</tbody>
</table>

* Decommissioning JE V1 z SE, a.s. – March 2006
TG - turbogenerátor

Source: SE, a. s.

In the document „Program of development for principal technology equipments of SEPS, a. s. during the period 2008-2017“ are mentioned following sources having to cover the anticipated loading.

Tab. 5.1.4 Sources to Covering of Assumed Load

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jasl. Bohunice V1</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Jasl. Bohunice V2</td>
<td>942</td>
<td>942</td>
<td>942</td>
<td>400</td>
</tr>
<tr>
<td>Mochovce 1,2</td>
<td>880</td>
<td>942</td>
<td>942</td>
<td>400</td>
</tr>
<tr>
<td>Mochovce 3,4</td>
<td>---</td>
<td>942</td>
<td>942</td>
<td>400</td>
</tr>
<tr>
<td>Gabčíkovo</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>110/400</td>
</tr>
<tr>
<td>Nováky A</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>110</td>
</tr>
<tr>
<td>Nováky B</td>
<td>330</td>
<td>330</td>
<td>330</td>
<td>110</td>
</tr>
<tr>
<td>Nováky – fluid</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>110</td>
</tr>
<tr>
<td>Čierny Váh</td>
<td>730</td>
<td>730</td>
<td>730</td>
<td>400</td>
</tr>
<tr>
<td>Vojany 1</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>110/220</td>
</tr>
<tr>
<td></td>
<td>Vojany 1 - fluid 2x125 MW</td>
<td>Vojany 2</td>
<td>Vojany 2 – PPC</td>
<td>TE Košice</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------------</td>
<td>----------</td>
<td>----------------</td>
<td>-----------</td>
</tr>
<tr>
<td></td>
<td>250</td>
<td>250</td>
<td>400</td>
<td>440</td>
</tr>
<tr>
<td></td>
<td>250</td>
<td>440</td>
<td>400</td>
<td>155</td>
</tr>
<tr>
<td></td>
<td>250</td>
<td>250</td>
<td>400</td>
<td>155</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source: SEPS, a. s.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The real implementation of sources in the production will depend on offers presented by owners of these production sources and on the decision made by the control center of the system owner. The real terms for the operation live as well as for actual production facilities will depend on owner's decision.

Basic verification of the sources sufficiency covering the basic consumption zone and regulation was done by calculations based on mathematic modules ES SR along with the preparation of the „Program of development for principal technology equipments of SEPS, a. s. during period 2008-2017“.

Examined were three typical time intervals - winter 2008/2009 with anticipated importation of 1 712 MW to ES SR, winter 2012/2013 with anticipated importation of 2 200 MW to ES SR and winter 2017/2018 with anticipated importation of 2 900 MW to ES SR. The implemented calculations have evidenced that the sufficient power volume in the basic zone consumption/production can be physically imported to the Slovak Republic. Accordingly can be secured by internal SR sources during the aforementioned years the primary regulation of performance/frequency in the scope required by UCTE operating rules. The calculations have also verified that PpS volumes resulting from the essential needs of ES SR for safe and reliable operation in the future can be strictly speaking physically secured. Based on simulations made by mathematical models it has to be nevertheless declared that the physical sufficiency in the secondary output and voltage regulations inside of ES SR can be implicated even by high-risk situations.

**Planned and developed sources, international cooperation in the field of power supplies**

See the chart 5.1.5 for data concerning anticipated construction of new sources in the SR territory. The data were submitted by potential investors as well as based on former approvals for building power facilities and certificates of compliance for investment projects with long-term energy policy conception (authorization) issued in terms of the energy legislation.
###Tab. 5.1.5 Assumed Development of New Sources

<table>
<thead>
<tr>
<th>Project</th>
<th>Increase in output [MW]</th>
<th>Generation [GWh]</th>
<th>Commissioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing of nuclear safety - Bohunice V2</td>
<td>92</td>
<td>unspecified</td>
<td>2010</td>
</tr>
<tr>
<td>Completion - Mochovce Units 3, 4</td>
<td>880</td>
<td>unspecified</td>
<td>2012, 2013</td>
</tr>
<tr>
<td>Power up rate EMO 1,2</td>
<td>62</td>
<td>unspecified</td>
<td>2008</td>
</tr>
<tr>
<td>New nuclear plant</td>
<td>1 000 – 1 200</td>
<td>unspecified</td>
<td>until 2015</td>
</tr>
<tr>
<td>Reconstruction - Nováky fluid</td>
<td>125</td>
<td>630</td>
<td>2011</td>
</tr>
<tr>
<td>Vojany - fluid</td>
<td>440</td>
<td>unspecified</td>
<td>2010</td>
</tr>
<tr>
<td>PPC Vojany</td>
<td>390</td>
<td>1900</td>
<td>2013</td>
</tr>
<tr>
<td>Renewable sources</td>
<td>700</td>
<td>2100</td>
<td>gradually until 2015</td>
</tr>
<tr>
<td>PPC Malženice</td>
<td>385</td>
<td>unspecified</td>
<td>2010</td>
</tr>
<tr>
<td>PPC Žilina</td>
<td>495</td>
<td>2590</td>
<td>2010</td>
</tr>
<tr>
<td>PPC Poprad</td>
<td>36</td>
<td>300</td>
<td>unspecified</td>
</tr>
<tr>
<td>Trebišov - PT, PPC</td>
<td>885 (165+3x240)</td>
<td>unspecified</td>
<td>2011, 2012</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5 672</strong></td>
<td><strong>-</strong></td>
<td><strong>2008-2015</strong></td>
</tr>
</tbody>
</table>

Source: SE, a. s. and Ministry of Economy

The real dates for commissioning new capacities in the SR territory will depend on investor’s decisions. The operator of the transmission system believes that the general covering principle for ES SR loading should be in first place the system based on domestic sources and covering deficiencies by power importations from abroad. Such access can be affected by price relationship valid in particular countries and by the commercial impact in the liberalized EU power energy market. Importation volumes will also depend on adequacy of power energy sources in EU, on eventual interconnection of UCTE IPS/UPS countries (countries of the former Soviet Union) as well as on accessibility of foreign transmission capacities.

As the building of new lines concerns, so is considered for the period 2007-2011 as part of the transmission system the building of a 2x400 kV line for 400/110 kV transformer in Medzibrod, 2x400 kV line Lemešany – Moldava and 2x400 kV line Gabčíkovo – V. Ďur. Moreover will be considered the strengthening of the 400 kV cross-border connection in the profile SR – Hungary, SR – Czech Republic, SR – Austria, SR – Poland and SR – Ukraine.

Development of principal technology facilities in the transmission system concerns also strengthening for 400 kV substations (construction systems and electric instrumentation, transformers, compensation devices, power protection).

**Mission of the state administrative bodies in the field of supply security**

The Ministry of Economy SR is responsible of state management in the energy sector in scope defined by the Energy Economy Law. The Ministry provides the following to ensure the safe power supply:

- secures the compliance of safe power supply,
- prepares measures for safe power supply,
- defines scope of criteria for system’s technology safety,
• defines obligations for state of emergency or prevention of emergency state and for
  general economic interest,
• decides on enforcing measures in general economic interest,
• decides on enforcing measures in connection with prevention of emergency or emergency
  itself; in connection with nuisance to system and network integrity; safety and reliability of
  system and network; nuisance to human lives or property of physical and legal persons,
• approves regulation policy proposals submitted by the Regulation Authority

The Ministry of Economy SR rendered on 30. 11. 2006 the decision by which was the power
producer SE a.s. enforced to take measures as from January 1st, 2007 until December 31, 2007
consisting in operation of 2 and/or 3 power units in the power plant Vojany 1, due to nuisance to
safety and reliability of the power system in the region of Eastern Slovakia as well as in the
interest of maintaining safety and reliability of the system operation.

The decision was rendered as based on initiation of the transmission system operator – the
company SEPS, a.s. – dealing with safe and reliable power supply in the Eastern
Slovakia keeping with the criterion (n-1).

The Ministry of Economy SR rendered on 21. 11. 2005 a similar decision concerning measures to
be applied for SE, a. s. in 2006 relating to operation of 3 or 4 power units in the power Plant 1 and
imposed as follows:
  - to the transmission system operator - company SEPS, a.s.:
    o implement transformer installation in order to transform directly
      400/110 kV Lemešany,
  - and the transmission system operator in the region of Eastern Slovakia - company VSE, a.
    s.:
    o in order to prepare for direct transformation 400/110 kV Lemešany reconstruction
      110 kV section in the power station.

Prior to the commissioning of the second new transformer in Lemešany as from 7.12.2007 will be
not accepted requirements of SEPS, a. s. for operated power units in the power plant Vojany 1, as
criterion (n-1).

Measures to cover peak demands, outages of one or several sources

The restructuring of the energy power sector in SR is typical by strict separation of the production
from power transmission and distribution. This process was yet completed and legally concluded,

it has brought new competencies and requires new methodology for planning, development and
ES SR operation. Real is that development of sources and sufficiency in regulation power was
transferred to internal capacities and market mechanisms. The basic power consumption zone is
provided by cooperation between the producer and the consumer directly or indirectly through
power dealers. Regulation power is supplied by the transmission system operator.

The company SEPS, a. s. provides activities of the transmission system operator and undertakes
the power transmission through its 400 kV and 220 kV lines in the territory of the Slovak Republic
incl. connecting lines. The transmission system operator is primarily responsible for compensated
balance of the consumption/production in real time. The transmission system operator manages
operatively ES SR through its control center as the compensated balance of
consumption/production concerns. Internal documentation of the transmission system operator
includes proceedings and information necessary for covering the system loading and solution of
emergency situations, critical conditions and outages of one or several sources. For so-called
„black-outs“ prepares the transmission system operator instructions and proceedings as “Defense plans against spreading of big failures” in terms of UCTE methodology, frequency unloading etc. Will occur during the operation in the system such changes responsible for sudden overloading so will the transmission system operator perform the following with the aim to cancel such overloading:

a) modifies connection of its power energy facilities,
b) modifies participation of its power production facilities,
c) exports or imports regulation power from/into the transmission system.

The transmission system operator secures to maintain the serviceability of the transmission system, quality and reliability of power supplies from the transmission system and restoration of the synchronous operation in case of ES system service disintegration the system services (in first place the regulation and reserve output for securing elimination of deviations in relation to planned diagram consumption/production caused by various subjects in the power market).

The subsidiary services for system service are provided by the transmission system operator as purchased from subsidiary service providers (whose facilities are able to provide several or all types of subsidiary services). The control center of the transmission system operator ensures reliable and safe operation for ES SR in compliance with the loading diagram for peak periods or during source outages in covering deviations by activation of the subsidiary service.

The criterion of reliability and economic efficiency is determining for definition of optimal volume for various subsidiary services. For definition of the optimal volume of subsidiary services is used the principle of time breakdown and seasonality where the input data equal at the first the expected max. loading of regulation zone for defined intervals in compliance with the time breakdown and statistical data depending on seasonality covered by the interval.

Further are applied for definition of particular subsidiary service volume the following sources:

- UCTE recommendation,
- Expected max. loading during specific period,
- Dynamic changes in regulation zone (ES SR).

Measures taken for supply outages that are caused by one or various power suppliers or power dealers for the period of 2005-2006, are as follows:

- Contract for emergency purchase of the regulation power with two providers,
- TRVHOD purchasing divided between two suppliers.

Definition problems with volume of subsidiary services providing reliable ES SR operation concern naturally the power pricing too. The fee for such services will be derived from the volume of subsidiary services required by the concerned regulation zone. Since this fee represents one of several items of the power price for the final user, so determine the purchasing costs for regulation energy the level of the final price. The pricing is officially controlled.

**Reliability of electric system**

As reliability can be formulated the capacity of the system to withstand atmospheric conditions during the defined period and scope. Will be the changes in system point parameters negligible and not substantial failure occurs, so is the system considered as sufficiently reliable. ES reliability degree is given by importance, size and/or scope of the accident after which follows the stabilized after-accident situation still acceptable in terms of parameters. We can differentiate between the
system reliability in connection with slow changes which is considered as static stability and system reliability during quick changes that is be considered as dynamic stability.

ES SR takes measures to keep with the operating reliability. The measures can be divided into three groups - preventive measures, dispatcher and technical measures - taken in case of outage:

- As preventive measures are considered e.g. calculations for network running, adjustment of protections, short-circuit calculations, optimizing of uncoupling pla, regular maintenance and measures to be taken in emergency situations,
- As dispatcher measures are considered e.g. emergency assistance, interruption of work on transmission system facilities, coordination with distribution system operators, use of subsidiary and system services, measures for solution of emergency situations etc.,
- As technical measures are considered mainly protection adjustments, use of subsidiary services, actions with frequency characteristics, automatic voltage regulation etc.

Preventive measures for reliability of ES SR are performed as follows:

- measures for protections and automatics,
- measures for preparation of the operation,
- measures for optimizing maintenance and development of transmission system.

Within the preparation of the operation the measures are as follows:

- measures for optimizing the breaking plan PS, network operation calculation, provision of system and subsidiary services,
- measures for emergency situations

Restrictive measures in the power industry:

- plan for consumption restriction,
- emergency breaking plan,
- frequency plan

The control center of the transmission system operator updates yearly its plan for frequency unloading. Within the UCTE recommendations are defined certain frequency thresholds and corresponding loading volume (in %) that have to be disconnected in fixed degrees. Following to UCTE recommendations may not be the first-degree start for automatic unloading lower than 49 Hz. When the frequency drops below the limit of 49 Hz begins the unloading to at least 10 - 20 % loading. The next unloading may start with 48,7 Hz frequency - 10 - 15 % loading and 48,4 Hz 10 - 15 % loading.

The transmission system of SR has adjusted the frequency unloading in following degrees:

<table>
<thead>
<tr>
<th>Degrees of disconnections</th>
<th>Frequency threshold</th>
<th>Disconnected part of load in PS SR</th>
<th>Recommendation of UCTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>49,0 Hz</td>
<td>13.5 %</td>
<td>10 – 20 %</td>
</tr>
<tr>
<td>2.</td>
<td>48,7 Hz</td>
<td>12.5 %</td>
<td>10 – 15 %</td>
</tr>
<tr>
<td>3.</td>
<td>48,4 Hz</td>
<td>12.5 %</td>
<td>10 – 15 %</td>
</tr>
<tr>
<td>4.</td>
<td>48,1 Hz</td>
<td>14.8 %</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: UCTE
See the monitoring of one of the factors having impact on the technical reliability of the electric system and the development of the failure rate for principal technology facilities of the SR transmission system for 2001-2007 in the graphic and the chart 5.1.7 below. It follows from the data the failure rate seems to be stabilized. The total failure number changes minimally. Nevertheless, due to constantly increasing physical age of the principal technology facilities inside of the transmission system must be for the next years considered financial investments required for simple reproduction/renewal of the concerned facilities and maintenance of their serviceability.

Figure. 5. 1

<table>
<thead>
<tr>
<th>Year</th>
<th>E</th>
<th>E1</th>
<th>E2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>18</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>2002</td>
<td>19</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>2003</td>
<td>18</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>2004</td>
<td>18</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>2005</td>
<td>14</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>2006</td>
<td>21</td>
<td>15</td>
<td>6</td>
</tr>
</tbody>
</table>

E – Total Failures, E1 – Failures without damage of device, E2 – with damage of device

Source: SEPS, a. s.

Quality and maintenance level of the transmission system (hereinafter as „PS“)

The maintenance of PS facilities during the last year was performed continually and based on defined requirements. The investment activities fail in decreasing the average age of principal technology facilities in PS SR. The factor of constantly increasing average age of PS SR technology facilities reminds of several risks. In the future will increase the intensity of maintenance and repairs as well as concerned operating costs.

Within the preparation of the operating conditions are maximally coordinated breaking plans with outages of production facilities. Primordial are efforts to prevent decrease of reliability for output of respective production plants. This is very important for output delivered by nuclear power stations.
Another important factor is the own supply of electric plant during the outage on transformer branch of the power station. Due to definite shut-down of the JE Jaslovské Bohunice V1 will be in cooperation with JE defined the basic scheme for the substation (Rz) 220 kV Krížovany and subsequently for all maintenance schemes with the purpose to prevent after shut-down the reliability decrease of output delivered by JE V1, to secure own consumption for JE and reliability decrease in the transmission system. The goes for coordination of breaking plans with distribution system operators.

In the Eastern Slovakia persists the problem with supply dependency on the power units in the power plant Vojany 1 (EVO1). The problem is based on supply for several nodal points in 400/220 kV transformer and 220 kV line. The basic connection requires the operation of at least 2 power units EVO1 – forced production in the thermal power station. During the transformer outage may happen, in case of lower unit quantity, an overloading on 220 kV line. This dependency of several nodal pints in the transmission system of one 400/220 kV transformer and 220 kV line will be disappear after installation of 400/110 kV transformers in the substation Lemešany, Krížovany and Sučany. In December 2006 was in the substation Lemešany commissioned the first new transformer. Towards the end of 2007 shall be commissioned in Lemešany another 400/110 kV transformer.

The situation in question lies in the historic consequence of transmission system in Eastern Slovakia where the operation of EVO 1 power units was logically considered as integral part of a reliable configuration for system operation in the Eastern Slovakia.

Problems with maintenance activities inside of the transmission system continue even for 400 kV and 220 kV substations supplied in basic connection only by two lines. During the planned outage of one substation due to maintenance works will be the other substations supplied only by one line. For this reason is necessary to apply better coordination with the distribution system operators.

**Conclusion**

In the future must ES SR cope with some new factors, especially with following:
- consumption increase in all economy and population sectors,
- shut-down of several sources,
- obsolescence (moral and physical) of several power facilities inside of transmission and distribution systems with resulting needs for renewal,
- increase of safe and quality supplies for all consumer categories,
- increasing importance of the transmission system within the cooperation of EU member and adjoining countries and the complementary use and construction of actual connecting and following-up internal lines.
5.2 Natural Gas [Article 5]

Trends for demand and consumption of the natural gas

The consumption of the natural gas in the Slovak Republic in 2006 represented 6.6 billion m$^3$. In the segment of wholesale customers and retails customers was registered slight consumption increase at the level of 2.8% (and/or 2.4%). Concerning the households was registered a ca. 9.4% drop compared with 2005. The application of austerity measures, rationalization and modernization of technology facilities continued and for the once used fuel was changed. The principal reason was the high price of the natural gas for household consumers. Due to higher gas price continue to be preferred other fuels – in particular coal and wood. About 98% of the domestic consumption of gas is imported from the Russian Federation. The natural gas supply to the Slovak Republic is provided based on the long-term contract between the company Slovenský plynárenský priemysel, a.s. (Slovak Gas Industry) and the Russian company Gazexport valid until 2008. This supply fully covers actually the domestic demand of the natural gas.

The domestic natural gas extraction will continue based on domestic sources for a long time with sinking trends. Changes can occur with newly discovered deposits of natural gas – the real extraction will depend on the extent, character and localization of new deposits.

During the next 3 to 5 years approximately may occur a slight consumption increase in connection with new power and gas sources due to authorizations in terms of energy legislation and certificates for construction of facilities producing power and heat based on gas. As other factors having impact on the consumption can be enumerated the yearly temperature average and continuation of cost saving measures.

See the expected forecast for natural gas consumption in SR for next 3 years the table No. 5.2.1.

Table 5.2.1 Expected Consumption of Natural Gas for the period of the following 3 years

<table>
<thead>
<tr>
<th>Consumption [bill. m$^3$]</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households and Retail</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Industry</td>
<td>2.6</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Electricity and Heat production</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>6.1</td>
<td>6.3</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy

The SR gas system is composed of the transmission network, distribution networks and the subterranean gas bunkers. They are playing important role for the safe gas supply. The SR gas system is interconnected with similar systems of the neighbouring countries, namely with Ukraine, Czech Republic and Austria. In the proximity of the Slovak-Austrian border is situated the important gas industrial center Baumgarten serving as intersection of several transmission networks (Austria, Germany, Italy, Slovenia and Hungary) with the expected terminal of the programmed gas pipeline Nabucco (on the construction will participate Austria, Hungary, Romania and Turkey).
The natural gas supply was during the monitored period free of serious problems and failures. The consumers were supplied in full extent and in compliance with volumes defined by Gas delivery contracts.

During the concerned period were registered no outages having impact on the natural gas supply for the consumers in SR or for companies transferring the natural gas across the SR territory to another countries. Inspections, preventive repairs and maintenance of gas facilities in compliance with defined criteria were performed with the aim to provide integrity, reliability and safety of the transmission network in the Slovak Republic. The maintenance was performed as based on diagnostic studies for compressor stations and line sections of network whose quality was corresponding with European standards. The same goes for troubleshooting checked by internal and external inspection of pipelines as repairs or reconstruction of gas facilities.

At the date of 1.1.2007 includes the transmission network almost 2 270 km gas pipelines and 4 compressor stations. The transmission capacity exceeds 90 billion m\(^3\) in year. The Slovak transmission network is an important part of the European gas network and represents a reliable and safe transmission route for natural gas transportation to the Central and Western Europe. In case of higher interests for transport can be with relatively lower costs compared with new projects increased the actual capacity of the transmission network. No important extension of the transmission network capacity is expected during the next 3 years.

No outages were registered in the operation of distribution networks having impact on natural gas supplies for SR consumers.

During the concerned period have occurred some short and temporary restricted (several hours) strict local outages in gas supply caused by safety reasons.

Within the distribution network composed of gas distribution facility complex including gas piping system and technology facilities were performed inspections, preventive repairs and maintenance of gas facilities in compliance of defined criteria that have contributed to network's integrity, reliability and safety.

At the date of 1.1.2007 was registered the following state of the distribution network: high-pressure (VTL) gas lines represented 6 323 km, medium-pressure (STL) and low-pressure (NTL) gas lines represented 24 456 km and 1 847 regulation stations were operated.

In order to achieve safe and effective operation of regulation stations are these equipped with monitoring systems for data transmission to the gas control center. The monitoring system allows in case of failure or emergency an immediate intervention with optimized network management until the fault clearing.

The gas was supplied for 2219 communities from the 2 891 communities of the Slovak Republic.

The distribution network will be during the next 3 years minimally extended. Expected is an extension by ca. 75 km where the planned capacity extension inside of the distribution network equals 100 mil. m\(^3\)/year.

SR disposes of underground gas storages located in the south-western region of the country and take an important part in compensation of unequal gas supply and consumption as well as in case of peak consumptions. The operators of subterranean gas bunkers provide services in storing the natural gas even for foreign gas companies.
The total storage capacity in the territory of the Slovak Republic equals ca. 2.5 billion m$^3$, where the max. daily production capacity equals ca. 32 mil. m$^3$, max. daily injection capacity equals ca. 27 mil. m$^3$. For the Slovak Republic are used 1.5 billion m$^3$.

Son application finds also the underground storage located in the territory of the Czech Republic (Dolní Bojanovice – used capacity 0.5 billion m$^3$) connected directly with the gas system of the Slovak Republic.

During 2006 were registered no substantial failures having impact on the operation of the underground storages.

The company POZAGAS, a. s. expects for the next 3 years no extension of the gas storage, the company NAFTA a.s. expects for the next 3 years to extend the storage capacity by ca. 0.25 billion m$^3$.

**Measures for covering peaks, outages of one or several sources**

The distribution network in the delimited territory of the Slovak Republic is controlled by the gas control center responsible for the operative management of the distribution network. The responsibilities of the gas control center in the delimited territory of the Slovak Republic are managed based of decision of the Ministry of Economy SR by the control center of the distribution network operator – SPP distribúcia, a.s.

The gas control center in the delimited territory of the Slovak Republic fulfills the following responsibilities:

- Manages operatively the interconnected distribution networks in the delimited territory,
- Manages interconnected transfer and distribution networks in the delimited territory during emergency state and during activities preventing immediate its generation,
- Manages technically the use of gas sources and gas facilities inside of the network in the delimited territory,
- Prepares balances of gas consumption/gas supply of interconnected distribution systems in the delimited territory,
- Submits quarterly to the Ministry of Economy and to the Authority for regulation of network sectors reports on network state, efficiency of network capacities and assessment of the distribution network,
- Declares restriction measures for the state of emergency,
- Proposes to the Ministry of Economy the declaration of the state of emergency,
- Defines measures necessary for the elimination of the state of emergency.

The operator of the distribution network not fulfilling the responsibilities of the gas control center is obliged to establish its own control center charged with responsibilities of the dispatching management. Such dispatching center fulfills in the delimited territory of the distribution network operator similar responsibilities as the gas dispatching in the delimited territory of the Slovak Republic. The distribution network operator who has not established its own control center has to ensure the same responsibilities by way of the gas industry distribution center.

Important role in the peak consumption play the underground gas storages located in Western Slovakia and used for continuous supply of the consumers during the whole year.

The total storage capacity equals ca. 2.5 billion m$^3$, where the maximum daily production capacity equals ca. 32 mil. m$^3$, maximum daily injection capacity equals ca. 27 mil. m$^3$. Such application finds also the underground storage located in the territory of the Czech Republic (Dolní Bojanovice) connected directly with the gas system of the Slovak Republic.
**Prevention and solution of overloading in transfer network**

Will be the sum of required transfer capacities higher than the technical capacity of the concerned input/output point of the transfer network occurs the overloading in the transfer network. The operator of the transfer network prevents the overloading by following means:

- Assessment of applications for access to the transfer network and subsequent restrictions in the provision of the transfer capacity in compliance with conditions of the transfer network operator,
- Coordination during preparation of repair and maintenance plans taking account of network user requirements concerning terms, duration and extent of works,
- Nomination for gas transfer within the agreed and accessible transfer capacities,
- Opportunity of each gas market participant to offer his own free transfer capacity to another gas market participant.

The shortage in free transfer capacity handles the transfer network operator by gas transfer contracts with breakable transfer capacity with another gas market participant.

**Prevention and solution of overloading in distribution network**

Will be the sum of required distribution capacities higher than the technical capacity of the concerned input/output point of the distribution network occurs the overloading in the network. The distribution network operator prevents the overloading by assessment of applications for access to the distribution network and subsequent restriction in the provision of the distribution capacity in compliance with conditions of the distribution network operator. Will be the sum of required distribution capacities higher than the technical capacity of the distribution network, so calls the distribution network operator the gas market participants for correction of the required capacity in their application for access to the distribution network.

Will be the sum of required distribution capacities in applications for access to the distribution network still higher than the technical capacity of the distribution network, assigns the distribution network operator the distribution capacity in descending order depending on priorities:

- in extending the existing gas distribution contract without increase of the agreed distribution capacity,
- in long-term gas contract or in gas distribution contract for period exceeding three years,
- in annual gas distribution contract,
- in short-term gas distribution contract

Will be the sum of required distribution capacities in applications for access to the distribution network with equal priority higher than the technical capacity of the distribution network, gives the distribution network operator priority to application for access to the distribution network to household gas consumers.

**Network compensation**

The physical network compensation includes a set of activities by which the network operator manages the network operation in delimited territory in real time and with provision of gas supply in any moment from input network points in the delimited territory to output network points in order to operate the network correctly, safely and non-discriminatory for all gas market participants and assign fairly the operating costs to individual gas market participants. The commercial compensation represents the observance of balance between the gas volume entering the network for the gas market participant and the gas volume consumed from the network by the gas market participant where the commercial compensation provides supply for the network operator during physical network compensation.
The gas market participant will be responsible for the deviation and he can this deviation responsibility incl. all financial obligations transfer contractually to his supplier in compliance with conditions of the network operator. The gas producer can his deviation responsibility incl. all financial obligations transfer contractually to his consumer in compliance with conditions of the network operator.

**State of emergency – solutions**

The Energy Law defines the state of emergency in the energy as sudden or threatening deficiency in supply of respective energies failure that can induce reduction or interruption of energy supplies or disable energy facilities in the delimited territory of the Slovak Republic or in the part of this delimited territory for the duration exceeding 24 hours as consequence of states defined by the law.

State of emergency in the delimited territory of the Slovak Republic or in the part of this delimited territory declares and cancels the Ministry of Economy by its decisions.

When the state of emergency is declared must the authorized license holders (energy sector) participate on remedial works and consequences of the state of emergency incl. renewing supplies for gas and power.

During the state of emergency must all market participants comply with restriction measures, measures for state of emergency prevention and measures provided for canceling the state of emergency. The restricting measures are applied in the following order:

- restriction of supply for consumers operating the production or providing energy-intensive services,
- restriction of energy supplies for consumers as per a),
- restriction and interruption of energy supplies for other consumer except for households,
- restriction and interruption of energy supplies for public service facilities,
- restriction and interruption of energy supplies for power household an gas household consumers.

See the details in the ordinance of the Ministry of Economy No. 206/2005 Coll. for details in the procedure of the emergency state declaration, declarations on restricting measures for state of emergency and measures for cancellation of the state of emergency. This ordinance was replaced by the ordinance No. 465/2006 Coll. of the Ministry of Economy.
6. Public service issues [Article 3(9) electricity and 3(6) gas]

General economic interests in terms of valid legislation

The general economic interest in the power industry in terms of the Slovak legislation (Energy Law) is deemed to be the following:

- System or network safety including provision of regularity, quality and price for power and gas supplies, environmental protection and energetic effectiveness,
- Preferential access to the system for power supply from renewable resources of energy and power produced based on domestic coal,
- Use of renewable resources of energy, combined production and domestic coal during the power production,
- Fulfillment of obligations resulting from contracts by which is the Slovak Republic bound,
- Use of renewable resources of energy, combined production and domestic coal during the power production,
- Environmental protection

The general economic interest in the power industry is approved by the Government of the Slovak Republic based on proposal submitted by the Ministry of Economy SR.

The Ministry can in the general economic interest impose the duty to the power producer, the system and network operator, power and gas supplier and gas storage operator to support the following:

- Safety, regularity, quality and gas/power quality as well as energetic effectiveness of power supplies,
- Environmental protection,
- Use of renewable resources of energy, combined production and domestic coal during the power production,
- Preferential access to the system for power supply from renewable resources of energy and power produced based on domestic coal,
- Protection of household power/gas consumers,
- Provision of supporting services necessary for operating reliability of the system and provision of system services in power production facilities with total installed power input exceeding 50 MW.

Obligations imposed in the general economic interest must be clear, enforceable, controllable, transparent, non-discriminatory and must provide equality in access for power and gas companies in the EU member countries to the final consumers in the delimited territory.

General economic interest – duties imposed by the Ministry of Economy

In order to provide safety and reliability of the power system operation of the Slovak Republic approved the Government of the Slovak Republic on Mai 4th, 2005 the General Economic Interest in use of the domestic coal for the power production. The general economic interest can be exercised as keeping with the share of power produced on the basis of domestic coal in amount of max. 15% total domestic power production. This share can be max. 8% as true relation with domestic power consumption. The Government of the Slovak Republic obliged the Minister of Economy to impose in the general economic interest to power market participants duties concerning the provision of power based on domestic coal.
On July 19, 2006 discussed the Government of the Slovak Republic the document „Proposal for updating the use of domestic coal in the power production in general economic interest for 2007“ and approved the modification of the general economic interest on the use of domestic coal from the power production at the level of the year 2006.

Actually is by this energetic source bound the power producer which provides along with the use of thermal power stations the provision of subsidiary services, production of the regulation power as well as the heat supply for central thermal stations. The management analysis of the electric system SR for the 1st trimester 2005 proved that as part of subsidiary services have to be used within the regulation measures also the power units of the thermal power station Nováky. After the shut-down of the nuclear power plant V 1 Jaslovské Bohunice may be the operated thermal power station Nováky more important for provision of the safety and reliability of the electric system.

The lignit deposits are the single important and prospective fuel source in Slovakia. The domestic brown energetic coal is burnt mostly by the thermal power station operated by the company SE, a. s. built in connection with the local fuel basis. The brown coal consumption by the power plant Nováky moved during the last years at the level of 2400 kt coal. The share of the power produced on the brown coal basis on the total production in the company Slovenské elektrárne, a. s. (SE) for 2004 was 7 %.

The Ministry of Economy SR decided on September 28, 2005 as general economic interest for 2006:

- concerning SE, a.s. – produce power on domestic coal basis in the volume of 1 603 GWh and supply the power produced on domestic coal basis in the volume of 1 375 GWh; keep at the same time with the share of power produced on domestic coal basis in amount 15% at most on the total domestic power consumption and keep with the price of power produced on domestic coal basis defined by the Authority for regulation of network sectors,
- concerning the transmission operator – company SEPS, a. s. – provide preferential connection of facilities producing power based on domestic coal and provide preferential access and transmission of the power produced on domestic coal basis,
- concerning distribution operators – companies ZSE, a. s., SSE, a. s., and VSE, a. s. - provide preferential connection of facilities producing power based on domestic coal, provide preferential access and transmission of the power produced on domestic coal basis and supply preferentially the power produced on domestic coal basis in defined volume.

The Ministry of Economy SR decided on October 10, 2006 as general economic interest for 2007:

- concerning SE, a.s. – produce power on domestic coal basis in 2007 in the volume of 1 603 GWh and supply the power produced on domestic coal basis in 2007 in the volume of 1 375 GWh; keep at the same time with the share of power produced on domestic coal basis in amount 15% at most on the total domestic power consumption and keep with the price of power produced on domestic coal basis defined by the Authority for regulation of network sectors,
- concerning SEPS, a. s. – provide preferential access and preferential transmission of the power produced on the domestic coal basis and monitor the share of the power produced on the domestic coal basis on the total domestic power consumption,
concerning ZSE, a.s., SSE, a.s., and VSE, a.s. - provide preferential access and preferential transmission of the power produced on the domestic coal basis and preferentially supply power produced on the domestic coal basis in defined volume.

**Universal service**

The Energy Law defines the universal service as service provided by the final power provider to the household consumer including both - power distribution and power supply. The power price for household consumers is regulated by the Authority for regulation of network sectors. This regulation does not affect national or international economic competition. The household consumer is entitled to conclude the power supply contract with the final power supplier for households as provider of universal service under conditions defined by the law that comply with conditions defined in the annex to the EU guideline No. 2003/54/ES. The final power supplier for households as provider of universal service for the household consumer has to provide the connection of the household consumer under conditions defined by the Authority and with respect to the price or the pricing methodology defined by the Authority.

The Authority disposes actually of following data concerning the number of disconnected bad payers for 3 regional distribution companies:

- **ZSE, a. s.:**
  - in 2006 were disconnected summarily 28 528 consumers, from it in retail business 3 193 contractors and 25 335 household consumers,
- **SSE, a. s.:**
  - in 2006 were disconnected summarily 4 984 consumers, from it in retail business 1 768 contractors, in wholesale 160 contractors and 3 056 household consumers,
- **VSE, a. s.:**
  - in 2006 were disconnected summarily 7 173 consumers, from it in retail business 515 contractors, in wholesale 43 contractors and 6 615 household consumers.

**Combined heating power production**

Power producer operating facilities for combined production with total installed power output up to 5 MW has preferential right for power transmission or distribution depending on technical situation in the system; goes not for connecting line.

The preferential right for power transmission or distribution in combined production with total power output over 5 MW concerns exclusively the production of power generated at the same time as the heat generation produced for heat supply to natural or legal persons and the supply for technology purposes.

**Power production based on renewable energy sources**

Power producer producing the power based on renewable sources has preferential right to power transmission and distribution as well as to supply when the power producing facilities based on renewable sources comply with technical and commercial requirement. The preferential right for power transmission does not cover the power transmission through connecting lines.

**Gas industry**

As the gas industry concerns: if in the delimited territory are performing several license holders with right for gas supply for final gas consumers, shall the Ministry define by its decision the supply license holder that will supply gas for consumers not being eligible gas consumers.