National Report 2016
submitted as of 31 July 2017

Regulatory Office for Network Industries
Slovakia
1. **Foreword**

The year 2016 was undoubtedly one of the most challenging for the Office in its 16-year history. Not only because it marked the end of the 2012-2016 regulatory period, but also in view of the three main pillars that guided the efforts of the Office past year and which RONI was in every way striving to accomplish - approval of the new regulatory policy, extensive verification of assets of distribution companies and organisation of international conferences. Simultaneously, RONI faced additional new challenges in 2016 resulting from the changing regulatory environments both in Slovakia and in the European Union. A significant and important event was the process of shaping the regulatory policy. For the sake of transparency, the largest possible number of stakeholders were addressed by the Office in the preparation process, European Commission’s opinion was solicited, and all relevant comments were incorporated into the final draft. The adoption of the new regulatory policy for years 2017-2021 was thus preceded by the broad consensus of the consumer and professional communities, the Ministry of Economy of the Slovak Republic and the Ministry of the Environment of the Slovak Republic.

The domestic scene was dominated largely by the preparation of new decrees, whether in the field of price regulation, market rules or quality standards. Also in 2016, RONI kept the promotion of liberalization of the electricity and gas markets, improvement of consumer rights and promotion of regional solidarity and regional cooperation in its focus. The Office also consistently applied its philosophy of giving priority to the protection of vulnerable consumers while applying the price cap method and thus providing an opportunity for system operators to retain reasonable profit, of course, provided they behave efficiently and optimize their costs.

An extraordinary event, which kept the Office fully occupied for several months, was the physical verification of assets of distribution companies, which in its scope was unparalleled in Slovakia’s history.

The scope of RONI activities in 2016 is indeed broad. From focusing on the use of assets for regulated activities and the meaningfulness of investments, to deepening international cooperation with our foreign partners, especially from the V4 countries and the Agency for the Cooperation of Energy Regulators (ACER). Significant was also the assistance to Ukraine, as a non-EU country, in the form of a twinning project. The good reputation of Slovakia abroad was promoted above all by the professional competence of our experts, which has been also appreciated by leading representatives of our partner authorities on multiple occasions. Overall, 2016 was successful for the Office in the international arena, with countries like Serbia, Latvia, Azerbaijan, Cuba, and Moldova showing interest in RONI’s experience to benefit
their energy reforms. This was accompanied by great responses from around the world to the breakthrough 15th annual ERRA conference hosted by RONI in Bratislava.

Also in 2016, the regulator had to put a great deal of emphasis on reviewing compliance with the statutory obligations of regulated companies towards taxpayers of this country. The Office constantly drew attention to the adverse effects of non-systemic development and promotion of so-called “green energy” on a pan-European scale. RONI still insists that each Member State of the Union must determine its energy mix by itself. There were a number of disagreements in the media again over the prices of electricity or gas in Slovakia as compared to other countries. RONI is still convinced that the current Eurostat methodology does not take into account the diversity of the price components for end consumers. For this reason, the Office welcomes the initiative which relies on the bottom-up approach and can therefore better take into account the diversity of national tariff regimes.

Like it or not, it is proven over and over again that energy regulation was, is and probably will be a necessity in Slovakia for a long time ahead. In view of that, in the past year RONI systematically applied regulation in full compliance with the applicable European Union legislation while successfully continuing to implement all the provisions of the Third Energy Package. The Office promotes mutual cooperation in the Energy Union project, however stresses the need to treat EU's member states on the basis of equality, fairness and taking into account their situation and possibilities, especially the impact on the standard of living of their population. In deciding on concrete measures to be taken at national, regional and EU-wide levels, the principles of subsidiarity, sovereignty in defining the national energy mix and technological neutrality must continue to be fully applied.
2. **Main developments in the gas and electricity markets**

The year 2016 marked the last year of the 5-year regulatory period characterized by decreasing prices on the world electricity exchanges, which had a significantly positive impact on final prices of electricity for all electricity customers. However, it should be noted that there was also a downside to this positive impact as the falling prices of electricity translated into an increase in the costs of supporting the production of electricity from renewable sources (hereinafter "RES") and high-efficiency combined production (hereinafter "HECP").

No significant changes were reported throughout 2016 in the area of gas supplies to Slovak gas customers. The structure of the gas suppliers remained intact. Given the size of the gas market in the Slovak Republic and stability of natural gas prices, the trend should continue and no major increase in the number of gas customers or suppliers is expected.

Gas consumption in the Slovak Republic in 2016 reached 51 TWh, which is app. 1% y-o-y increase compared to 2015. It should be noted that after the major decrease in 2014, the gas consumption has been partially stabilized. However, it was almost 7% down from 2013. The lower gas consumption in the recent years can be attributed, in particular, to greenhouse gas savings projects undertaken by gas consumers, such as switching to alternative fuels, building insulation, as well as growing awareness of gas consumers in the field of energy efficiency. The rising average air temperature in the Slovak Republic is an important factor, too.

3. **Electricity market**

3.1. **Network regulation**

3.1.1. **Unbundling**

Unbundling of production and supply of network services (transmission and distribution) was implemented in the Slovak Republic in 2007. This process was completed pursuant to the Directive 2009/72/EC of the European Parliament and of the Council by certifying an operator of the transmission system in 2014. In the same year, the implementation of the conditions of the certification of the transmission system operator was audited. No significant shortcomings were identified.

3.1.2. **Technical functioning**

The transmission system operator, reporting regularly on network development plans to the Regulatory Office for Network Industries (hereinafter “the Office”) and the Ministry of Economy of the Slovak Republic, is held responsible for technical functionality of the transmission system. The Ten-Year Network Development Plan, which the transmission system operator submits to the Office for approval, represents the most significant document. This obligation was implemented in the Slovak law during
approximation with the relevant legal regulations of the European Union. The plan contains evaluation of performance of the previous approved one and material planning of the network development to ensure the network stability and safety, which are the primary objectives of development of the single electricity market. The submitted plan is subject to consulting with network users, managed by the Office, and, as a part of this process, the Office may request that the transmission system operator amend it.

The results of the consulting are published on the official website of the Office. Slovenská elektrizačná prenosová sústava, a. s. (hereinafter “SEPS, a. s.”) has updated the Ten-Year Development Plan of the Transmission System for the Period 2016 - 2025. Information on the outcomes of the consulting, including the requirements of the current and potential users of the system on delivery of investments in the transmission system within the Ten-Year Development Plan of the Transmission System for the Period 2016 - 2025 was published by the Office on February 16, 2016.

**Ancillary and system services**

Auxiliary services are services purchased by the transmission system operator of the Slovak Republic on the open market. The operator provides users of the transmission system with the system services necessary to maintain the quality of the electricity supply and to ensure the operational reliability of the electricity grid in the Slovak Republic. Such services include, for example, primary regulation, voltage regulation, reactive power frequency, black-out protection, etc. The regulatory electricity is supplied after the auxiliary services are activated.

Upon the request for a range of individual types of auxiliary services, the Office set total projected costs of purchasing of all types of the auxiliary services from certified auxiliary service providers. It also set the maximum price for providing primary power control, secondary power control, tertiary power control in EUR per unit of a disposable electric capacity, the maximum annual cost of ensuring the provision of remote voltage control and reactive power and the black start in EUR, the maximum price of offered positive regulatory electricity and the minimum price of offered negative regulatory electricity with activation of a particular type of auxiliary service.

The price for acquired regulatory electricity per unit of electricity in EUR was determined transparently on the basis of bid prices of used electricity installations submitted of providers of auxiliary services as follows:

- the highest price of a source providing regulatory electricity per quarter-hour, if the regulatory electricity is positive, but not more than the maximum price set in a price decision per unit of electricity in EUR,
- the lowest price of a source providing regulatory electricity per quarter-hour, if the regulatory electricity is negative, but not less than the minimum price set in a price decision per unit of electricity in EUR.

The transmission system operator purchases various types of auxiliary services required to deliver system services from auxiliary services providers by choosing from their bids pursuant to the Operational Order. The providers must meet the conditions set in the technical specifications and business terms and conditions defined therein. The objective is to achieve the minimum costs of the provision of auxiliary
services, whereas the purchase is made in an open, transparent and non-discriminatory manner to all providers. The transmission system operator shall preferably use bids from installations within a defined territory while observing the principle of minimizing costs of their purchase.

Technical eligibility of auxiliary service providers is demonstrated by a certified measurement defined in the technical conditions.

### 3.1.3. Network tariffs for connection and access

In line with the approved regulatory policy for the period of 2012 – 2016, a so-called price cap method was applied to the electricity market in 2016. This incentive-based price regulation method provides system operators with an opportunity to retain a fair profit should they act effectively and optimize their costs.

The Office set network tariffs for transmission system operators for the year 2016 that a transmission system operator could apply to a customer directly connected to the transmission system in the range of:

- a tariff for reserved capacity (€/MW/year),
- a tariff for transmitted electricity (€/MWh),
- a tariff for losses in the transmission via electricity transmission system (€/MWh),
- a tariff for system services (€/MWh).

The following network tariffs set by the Office are applied to invoicing for the distribution of electricity to an electricity customer directly connected to the distribution system at high and extremely high voltage level:

- a tariff for electricity distribution without losses including electricity transmission – a component for reserved capacity (€/MW/month),
- a tariff for electricity distribution without losses including electricity transmission – a component for distributed electricity (€/MWh),
- a tariff for losses in distribution via electricity distribution system (€/MWh),
- a tariff for system services (€/MWh).

The price regulation is also applied to an operator of a local distribution system and is performed by setting a method of calculation of the maximum price for electricity supply and a fixed tariff for access to the distribution system and electricity distribution.

The following network tariffs set by the Office are applied to an electricity customer or producer directly connected to the distribution system at low voltage level:

- a tariff for electricity distribution without losses including electricity transmission – a component for reserved capacity (€/A/month),
- a tariff for electricity distribution without losses including electricity transmission – a component for distributed electricity (€/MWh),
- a tariff for losses in distribution via electricity distribution system (€/MWh),
- a tariff for system services (€/MWh).
In the area of price regulation of the respective activities, the Office issued in 2016:

- 333 price decisions on access to the transmission system and electricity transmission, access to the distribution system and electricity distribution, network connection, household electricity supply and the last resort electricity supply,
- 89 decisions on electricity price allowing to set an extra fee for electricity producers using combined heat and electricity production,
- 88 decisions on electricity prices allowing to set an extra fee for electricity producers using renewable energy sources.

When setting these tariffs, the Office proceeded in a transparent and non-discriminatory manner, whilst actively communicating with a regulated entity. In compliance with the principles of cooperation, the entity was requested in writing to comment on the supporting materials and a method of their identification or propose an amendment to them prior to issuing a decision. All decisions were published without any delay, including justification and the entire decision-making process, and are available on the official website of the Office. Following the issuance of the decision, each regulated entity is entitled to appeal the decision to the Regulatory Board in the second instance.

In 2013, regulated fees began to decline and this trend continued throughout 2014 and 2016. The falling prices of electricity as a commodity on the electricity market and the subsequent impact on covering losses in the systems and system operators’ own consumption played a significant role in reduction of the regulated fees. It is expected that the rising energetic efficiency of the system operators followed by further cutting of the eligible costs pursuant to the price decree will continue.

In addition to the tariffs listed above, a final price also includes other fees unrelated to the system operation that are charged to a customer, but collected by a system operator pursuant to the applicable law.

**Tariff for system operation**

A tariff for system operation is a fixed price related to a technical unit considering a proportional part of costs of electricity produced from domestic coal, electricity produced from renewable energy sources, electricity produced from high-efficiency combined production and activities of an organizer of the spot electricity market. The tariff applies to the final consumption of electricity. The Office set fixed prices of the electricity produced from renewable energy sources and high-efficiency combined production depending on the technological process of electricity production, a date of launch of a facility into operation, an installed capacity and a method of financing. All costs with an emphasis on their adequacy and a fair profit for the producer have been included in the set prices.

The permanent increase in TSO is not only caused by the increase in production from the existing RES and combined high-efficiency electricity and heat production sources, climatic factors (changing average temperature, precipitation volume, etc.), but mainly a decrease in the price of electricity on the world markets. This factor has an impact not only on the promotion of electricity from RES and combined high-efficiency electricity and heat production, but also on the support of electricity produced from domestic...
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coal. The lower the price of electricity on the market, the higher the tariff for operating the system, and vice versa. Costs associated with the organizer of the spot electricity market OKTE, a.s. did not grow because they were not dependent on the price of electricity on the markets.

3.1.4. Cross-border issues

**Cross-border cooperation**

In 2016, the Office continued the international cooperation with respective regulators and the Agency for Cooperation of Energy Regulators (“ACER”) pursuant to the Directive No. 2009/EC/714 in the region of Central and Eastern Europe (“CEE region”).

The Office is in charge of approval of the Electricity Market Rules and the Transmission System Operational Code of SEPS, a.s., transmission system operator that govern procedures for allocation of cross-border capacities and management of congestion on cross-border profiles. The capacity of cross-border transmission system interties ensured sufficient stability and security of the system not only in the Slovak Republic, but also in the European Union throughout 2016. Revenues from congestion management fees collected by SEPS, a.s. totalled €27,027,292.83 in 2016. The Office monitored the use of the revenues pursuant to the Article 16 (6) of the Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 and concluded that all the revenues of the transmission system operator resulting from the allocation of interties were used to guarantee the actual availability of the allocated capacity and maintenance or increase of the capacity of interties via investments in line with the ten-year network development plan, which is further internally subdivided into annual plans.

**Market coupling**

A market coupling project will lead to forming a pan-European electricity market. In the 4M market coupling project, systems developed for the target European model of daily electricity market have already been implemented. The European model of price coupling simultaneously sets the volumes and prices in all price bands based on the principle of a marginal pricing pursuant to the Agency for the Cooperation of Energy Regulators (hereinafter “ACER”) framework guidelines on capacity allocation and congestion management in the CEE region.

In 2016, the method enabled simultaneous trading on power exchanges in the participating countries up to the available transmission capacity. The key benefit of the market coupling represented a more efficient allocation of available cross-border capacities. The volume of electricity traded on interconnected markets contributed to higher reliability of electricity supplies, higher market liquidity and optimal price volatility. In 2016, organization, evaluation, clearing and settlement of spot market on a daily basis with the final monthly settlement was performed. The volume of electricity traded on the spot market within 4MMC OKTE, a. s. marked a slight y-o-y decrease in 2016. The total annual volume of electricity traded on the spot market within 4MMC amounted to 9,128 TWh in 2016, which is 1,119 TWh less than in 2015.
The transmission system operator ensured purchasing of regulatory electricity pursuant to a contract concluded with a provider of auxiliary services or a supplier of regulatory electricity. The transmission system operator could only supply regulatory electricity by automated activation of regulatory electricity with the parameters of the secondary output control via management information system of the transmission system operator’s dispatching in cooperation with neighbouring transmission system operators within the GCC system and at a price set in a price decision of the Office or via emergency assistance from neighbouring transmission system operators. The regulatory electricity purchased by the transmission system operator in the GCC system was booked as secondary regulatory electricity at a special price set by the Office during evaluation, clearing and settlement of the deviation. The Office defined a division of revenues from the introduction of GCC in price proceedings. A part of the revenues was kept with Slovenská elektrizačná prenosová sústava, a.s. and another part was used to decrease the tariff for system services. The actual impact of the regulatory electricity purchased in the GCC system in 2016 reached €5,685,885.88 as the revenue of the transmission system operator.

3.1.5. Compliance

Transposition of the 3rd Package provisions was applied through adoption of the Act No. 250/2012 Coll. as of 31 July 2012 on regulation in network industries, with the effect as of 1 September 2012, and the Act No. 251/2012 Coll. as of 31 July 2012 on energy with the effect as of 1 September 2012. The Office shall exercise supervision over the implementation of the provisions of the Act on regulation. In 2016, there were not observed any violations of the Act on regulation.

3.2. Promoting Competition

3.2.1. Wholesale market

The Office may only create the legislative conditions and monitor their compliance on the wholesale electricity market.

As electricity supply was not regulated on the wholesale market in 2016, a final price was solely shaped by the market forces.

In the first half of 2016, electricity prices remained particularly low. However, the prices of electricity on the market began to rise later on. These developments will be reflected in regulated electricity prices in the future, but, on the wholesale market, it was mainly felt by customers who were not sufficiently protected from such price developments and were buying the electricity at current prices.

In 2016, the major electricity market stakeholders in the Slovak Republic were:

- Slovenské elektrárne, a.s. – the most significant (dominant) electricity producer that generated 69.23% of electricity from its own sources in the Slovak Republic in 2016. Electricity production in the volume of 18,981 GWh covered 63.05% of electricity demand in the territory of the Slovak
Republic. An installed capacity of facilities owned by Slovenské elektrárne, a. s. totalled 4,176MWh,

- supported producers of electricity from renewable energy sources and high-efficiency combined heat and electricity production. It is estimated that the amount of electricity produced from the renewable energy sources incl. the surcharge and high-efficiency combined heat and electricity production reached 2,835 GWh and 2,182 GWh in 2016, respectively,
- SEPS, a. s. – a sole holder of the national electricity transmission permit and operator of the national transmission system. The company also performs the tasks of energy dispatch centre (ensured the levelled balance within the defined territory of the Slovak Republic),
- OKTE, a. s. – an organizer and evaluator of the spot electricity market, ensures the clearing, assessment and settlement of deviations in the territory of the Slovak Republic,
- Západoslovenská distribučná, a. s., Stredoslovenská energetika - Distribúcia, a. s., and Východoslovenská distribučná, a. s. - sole operators of the regional distribution systems in the respective defined territories with more than 100,000 offtake points connected. In addition, there were other 157 active licenced holders of electricity distribution that run local distribution systems in manufacturing and non-manufacturing companies with fewer than 100,000 offtake points,
- Other 455 entities licenced to conduct business on the electricity market.

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

Monitoring the wholesale market with electricity is in the competence of the Office especially for this purpose.

The electricity has been traded predominantly based on bilateral trades concluded under the market conditions, usually via various broker platforms, Prague Power Exchange and European Energy Exchange EEX that are regarded as the most transparent and fair way of trading electricity in the long-term basis in this region. Residual electricity sold annually is traded on the short-term basis in the Slovak short-term day ahead market and neighbouring markets on bilateral basis, again mainly via broker platforms. This volume represents approximately 8 % of total annual production.

Now the market is dealing with the issue of expansion of renewable energy sources in Europe with the impact on the functionality of the power system, as well as the final electricity prices. The growing electricity demand points to a revival of the economy.

3.2.2. Retail market

The Act No. 250/2012 Coll. on regulation in network industries introduced the price regulation of electricity supply to vulnerable customers such as households and small businesses.

In 2016, the price regulation of the electricity supply was applied to:

- households,
Electricity supply for households

The arithmetic average of daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE) on its website, the product of F PXE SK BL Cal-t for the period between January 1 and June 30, 2015, the coefficient up to 12 % of planned electricity load curve diagram for households and the costs of the deviation related to the household electricity supply constituted reference parameters for setting the maximum price for electricity supplied to households in 2016.

In addition to the tariff for electricity supply, an electricity supplier charged a price for electricity distribution including the transmission of electricity and losses incurred in the transmission and a price for electricity losses in the distribution of electricity, the tariff for auxiliary services and the tariff for system operation pursuant to the price decision in which a price for access to the distribution system and electricity distribution for an operator of a distribution system, which a household electricity customer was connected to, were approved or set.

In response to a significant drop in electricity prices on the stock exchange, the Office amended the price decisions for electricity suppliers operating in the Slovak Republic. The maximum prices for electricity supplied to households consisted of two components, i.e. a monthly payment per one offtake point and a price for electricity consumed in low or high price band. The electricity supplied to households was divided into eight rates.

The Office featured a price calculator on its official website to help each consumer, based on estimated consumption and prices approved by the Office for a particular supplier, in order to compare bids from individual electricity suppliers and choose the most advantageous one.

Electricity supply for small enterprises (hereinafter “SMEs”)

A small business is an end customer with total annual electricity consumption in all of its offtake points up to 30,000 kWh for the year preceding the year which a respective price proposal is submitted for. Electricity supply to small businesses is divided into eleven price rates. The Office issued 103 price decisions on electricity supply to small businesses in 2016.

The arithmetic average of daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE) on its website, the product of F PXE SK BL Cal-t for the period between January 1 and June 30, 2015, the coefficient up to 12 % of planned electricity load curve diagram for small business and the costs of the deviation related to the small business electricity supply constituted reference parameters for setting the maximum price for electricity supplied to small businesses in 2016.
The Decree of the Office determined the requirements included in a price proposal of a regulated entity and also the method of calculating the maximum price for the supply of electricity to a small business. The Office reviewed the price proposal and set prices for electricity supply to a small business in the individual components of the proposed tariffs in its price decision.

The regulation of final prices for small businesses kept the prices of energy prices on the Slovak market stable because the market liberalization in the Slovak market environment did not directly lead to lower prices in the recent years.

With the Office setting the maximum prices, the price regulation for small businesses had no impact on the energy market nor did it harm the competition on the energy supply market for small businesses. The regulation guaranteed the competition more than free market pricing, and, in addition in the environment where customers were not able to make a fully informed decision at all times.

**Electricity supply for other end users**

Pursuant to the Act No. 250/Coll., the Office is not authorized to regulate a final price for the electricity supplied to other end users. Such customers were not regulated and their final electricity price was solely derived from the market price of electricity and their choice of a supplier in 2016. They were fully responsible for their final price of electricity. In this segment, the Office only created the conditions and the legislative environment to avoid any disruption to the market equilibrium and ensured that no entity abused its position on the open electricity market.

Electricity consumption within the defined territory is the amount of electricity determined as a sum of the total electricity produced within the defined territory and electricity imported, which exported electricity is deducted from. In 2016, an increase in electricity production and consumption within the defined territory was reported.

**Electricity supply performed by the Last resort supplier**

The Office also sets criteria and applies them to the selection of the last resort supplier. The last resort supplier regime was not employed throughout 2016, which means that the electricity suppliers within the defined territory of the distribution system operators Západoslovenská distribučná, a. s., Stredoslovenská energetika - Distribúcia, a. s., and Východoslovenská distribučná, a. s. complied with the applicable legal obligations.

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

When switching an electricity supplier, a price and quality of services (consulting, personal attitude, individual offer, contractual terms, comprehensive services related to electricity supply, etc.) continued to play the most important role in 2016. The current practice and experience prove that tariffs of a large number of the customers are unfavourably set and that they could achieve significant savings on electricity supply after switching. To review the level of liberalization of the electricity and gas market, a
coefficient set in % called switching, which is a ratio between a number of offtake points that changed a supplier of electricity or gas and a total number of offtake points in a given year, is used. As a part of monitoring of openness of the energy market, the European Union collects the switching data from the member states and publishes them in ACER reports.

Open electricity market saw only a slight increase of supplier switching in 2016, total switching rate reaching 2.92 %. Compared to 2015, it is an increase by 0.08 %. The low percentage of switching can largely be attributed to saturated retail electricity market, minimum differences in price offers of electricity suppliers, as well as to the fact that most electricity supply contracts are concluded for a fixed term with longer time commitments, thus putting a constraint on customers in their consideration of changing their electricity supplier.

The switching rate reached almost the same level in electricity household customers as compared to last year, when the switching indicator was 2.74 % in 2016. In non-household consumers, the switching rate reached 4.24 % in 2016, an 0.68 % year-on-year increase.

The overall decrease in switching owes to the fact that customers interested in changing a supplier already did so in the previous years as well as the fact that in many cases a new supplier was contracted for several years, which resulted in keeping the same supplier for the contracted period of time. To promote switching among customers, higher awareness would need to be raised. This was strongly supported by the Office that published a lot of useful information for customers as well as the electricity price calculator on its official website to help to guide customers in their decision-making process in 2016.

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

In addition to the price regulation, the Office issued the Decree No. 24/2013 Coll. laying down the rules for operation of the internal electricity and natural gas market pursuant to the Act No. 250/2012 Coll. The Decree defined the rights and obligations of electricity market participants and the conditions for operation of the liberalized electricity market in the Slovak Republic. It also introduced measures aimed at fostering transparency of the electricity market and defined conditions for the creation of central data warehouse and central invoicing.

The Office proceeded in compliance with the applicable law when analysing all planned and executed decisions and reviewing them for their impact on the electricity market. Studies and analyses were produced on the basis of data provided by regulated entities and mutual communication. The Office set tariffs in compliance with the applicable European law.

Creation of a new price decree and adoption of a regulatory policy represented significant milestones on the agenda of the Office in 2016. The Office worked in a transparent manner and approached the maximum number of market participants in the preparation phase. Based on ideas and proposals collected, it drafted the price decree that corresponded to the newly adopted regulatory policy for the years 2017 - 2021. The proposal was submitted for interdepartmental commenting procedure. The
comments were discussed with the commenting participants and the relevant ones were incorporated into the final draft.

4. Gas market

Gas stakeholders

In 2016, the gas market stakeholders were:

- Transmission network operator (eustream, a. s.),
- Distribution network operator within the defined territory of the Slovak Republic (SPP - distribúcia, a. s.),
- 41 local distribution network operators,
- two gas container operators (POZAGAS a. s., NAFTA a. s.),
- 25 gas suppliers,
- Gas customers.

In 2016, four gas suppliers, holding a marginal market share of gas deliveries (less than 1%), were unable to compete with established gas suppliers and were forced out of business. The Office reported several suppliers who specialized only in the supply of gas to customers who are not subject to price regulation.

In the past years, more suppliers performed an integrated energy supply, i.e. they supplied both gas and electricity. 15 out of 25 registered gas suppliers also delivered electricity. These regulated entities are holders of both the gas and electricity supply permit.

4.1. Network regulation

In 2016, the Office performed the price regulation governing:

- access to the transmission network and gas transmission,
- access to the distribution network and gas distribution,
- connection to transmission and distribution network,
- provision of auxiliary services in gas industry,
- re-purchasing of gas industry equipment.

In 2016, the Office reviewed the property of SPP - distribúcia, a. s., the distribution network operator. The aim was to objectively determine the scope and value of assets used exclusively for the exercise of the regulated activity as of December 31, 2015 that will serve to determine the initial value of the regulated asset base for the distribution network operator for the forthcoming regulatory period 2017 - 2021. The focus of this audit consisted mainly in updating the technical condition of the assets, the extent of their use for the regulated activity, their actual use, as well as their very existence. The data is important for the Office to set up the formula parameters for calculating the maximum average price for access to the distribution network and gas distribution for SPP - distribúcia, a. s., the distribution network operator for the regulatory period 2017 - 2021.
4.1.1. Unbundling

The Office is obliged to conduct regular supervision of the transmission system operator. In 2016, it was performed in form of a remote monitoring and on-site inspection of eustream, a. s. acting as an independent transmission system operator in accordance with the European Parliament and Council Directive 2009/73/EC. The Office carries out the remote supervision mainly via regular communication with a person obliged to ensure compliance of the transmission system operator and analysis of quarterly reports on implementation of compliance. The Office identified no shortcomings by the transmission system operator that would have threatened its independence.

Within its competencies, the Office also decided on service level agreements or their amendments entered into by regulated entities that perform a regulated activity in the gas industry. When reviewing the contracts, the Office examined whether they correspond to regular business conditions and whether there is a rigorous control and overall limitation of possibilities that would allow speculative practices in conclusion of a so-called "SLA" contract, i.e. a service level agreement with a regulated entity that performs a regulated activity in the gas industry and is part of a vertically integrated gas entity.

Pursuant to the obligations defined in the Act No. 251/2012 Coll. on energy as amended, eustream, a. s., the transmission system operator, submits business and financing agreements entered into with other entity that is a part of a vertically integrated entity to the Office for approval. Throughout 2016, the Office also approved decisions on a prior consent to the terms and conditions of provision of services of the transmission network operator to other person that is a part of the same vertically integrated entity as the operator of the transmission network or which directly or indirectly controls the entity that is a part of the same vertically integrated gas entity as an operator of transmission network.

In 2016, the Office issued 19 decisions on a prior consent to the terms and conditions of provision of services to eustream, a. s. acting as an independent transmission system operator.

When reviewing the provision of services, the Office examined the performance of eustream, a. s. and, in particular, the fact whether its behaviour did not discriminate other users of the transmission network, whether the services were available to all network users under the identical conditions, or whether or not the provision of services did not distort or restrict or prevent competition on the gas market. While performing the substantive regulation, the Office also examined compliance with development of the internal gas market and the fact whether any entities, which are a part of a vertically integrated entity, gained an advantage.

In 2016, the Office also closely monitored the obligations of SPP - distribúcia, a. s., the distribution network operator, with respect to separation of the activities of the distribution network operator forming a part of a vertically integrated entity and also an obligation arising out of the contractual obligations of such regulated entity consisting in the obligation to submit any contract between itself and another person, which is part of the same vertically integrated entity, to the Office within 30 days of signing.
4.1.2. **Technical functioning**

**Transmission network**

The transmission network of eustream, a. s. plays a significant role in gas transmission in the territory of the European Union and also from its territory and represents an important energetic link between the Commonwealth of Independent States and the European Union. It is connected to the main transmission routes in the Czech Republic, Ukraine, Austria, Hungary and two connection points with Ukraine.

**Transmission network congestion**

The Office monitored the implementation of measures aimed at avoiding occurrence of the network congestion and addressing it, reviewed them and imposed the new ones to resolve such events.


All requests for access to the transmission network were attended without any restriction and no physical transmission network congestion was reported.

**Distribution network**

SPP distribúcia, a. s. acts as both the owner and operator of the distribution network in the defined territory of the Slovak Republic. The company provided for connection to the distribution network, measurement of the quality and quantity of the natural gas and the actual distribution of gas to end customers via a network of high pressure, medium pressure and low-pressure gas mains.

The structure of the distribution network of SPP – distribúcia, a. s.:

- A total length of the distribution network was 33,270 km as of December 31, 2016, of which:
- The length of the high-pressure gas mains was 6,274 km, and
- The length of the medium-pressure and low-pressure gas mains was 26,996 km.

In 2016, a number of gas customers connected to the distribution network of SPP - distribúcia, a. s. increased by more than 3,000 and the volume of distributed gas grew by more than 130 million m³ y-o-y.

The volume of investments decreased in 2016. The investments were primarily made to increase the safety and renewal of the distribution network, especially in the modernization of technologies and to operate and maintain the reconstruction of gas facilities, regulatory stations and commercial measurement innovations.

Local distribution networks (hereinafter "LDN") are connected to the distribution network of SPP - distribúcia, a. s. Their operators distribute gas to customers in large corporate premises, industrial parks, shopping centres or residential premises.
Regulatory Office for Network Industries

In 2016, the Office reported 41 LDN operators that distributed gas via 44 LDNs.

**Network balancing**

A shortage or surplus of gas in the distribution network of SPP - distribúcia, a. s. was resolved by balancing of the distribution network to ensure safe and continuous gas distribution in the distribution network.

In 2016, the largest daily distribution balancing related to a gas shortage and surplus of 1.6 million m³/a day and 1.5 mil. m³/day, respectively.

Trade balancing was performed on a daily basis for users of the distribution network, which the gas suppliers are, by calculating the daily and cumulative deviations generated between the volumes of gas nominated at entry points to the distribution network and the actual volumes of gas at the exit points from the distribution network.

**Distribution network congestion**

SPP - distribúcia, a. s., a distribution network operator, avoided occurrence of congestion in the distribution network by reviewing requests for access to it. Given that the sum of all daily distribution capacities to the aggregate distribution network entry point requested from users of the distribution network was lower than the technical capacity of the distribution network at all times, no anti-congestion measures were implemented throughout 2016.

**Underground gas storage facilities**

Underground gas containers represent one of tools how to increase energetic safety of the Slovak Republic.

In 2016, the underground gas containers were operated by NAFTA, a. s. and POZAGAS a.s. in the territory of the Slovak Republic.

The Office is obliged to monitor the status and changes in stock of gas stored in the gas containers run by the two operators. Information on the status, volume of injected and extracted gas, utilization of injection and extraction capacity were continuously published on the operators ‘official websites in form of detailed aggregate data processed on a daily basis. The links to this data were also available on the Office’s website.

**4.1.3. Network and LNG, tariffs for connection and Access**

*eustream, a. s., transmission network operator*

The price regulation of access to the distribution network and gas transmission was performed by direct determination of a comparable price by benchmarking prices of gas transmission in the Slovak Republic with those in other member states of the European Union. The comparable prices of access to the
transmission network and gas transmission were set in form of tariffs that were proposed as entry-exit tariff system. The tariffs were set for individual entry and exit points to the transmission network and were valid for both domestic and foreign users of the transmission network as opposed to some other EU countries where the domestic and transit transport of gas are distinguished.

In 2016, the Office did not issue any price decision on connection to the transmission network and gas transmission to eustream, a. s. in 2016.

The price for connection to the transmission network was set as the maximum price and based on actually exerted economically eligible costs required for documenting, technical and execution phase of the connection.

In 2016, the Office issued a price decision on connecting to the transmission network at Ardovo's connection point, which is a national interchange station between the transmission network and distribution network of SPP - distribúcia, a. s.

**Distribution network operator**

A so-called price cap method is applied to price regulation for access to the distribution network and gas distribution for a regulated entity SPP - distribúcia, a. s. with more than 100,000 offtake points connected to its distribution network. Pursuant to the Act No. 250/2012 Coll. the price regulation is performed by determining the method of calculating the maximum price for access to the distribution network and the distribution of gas, and subsequently by determining multi-component tariffs.

The tariffs for gas distribution were established on a so-called principle of “postal stamp”, i.e. based on an annual amount of gas distributed regardless of the distance of an offtake point from the gas source. They were designed to avoid cross-subsidies between individual groups of gas customers. Fees for exceeding the contracted daily distribution capacity set separately for the months of January, February, March, October, November, December and, separately for April, May, June, July, August and September, form a part of the tariffs for access to the distribution network and gas distribution.

In 2016, the Office issued a price decision to SPP - distribúcia, a. s. in which it set tariffs for access to the distribution network and gas distribution while expanding the number of tariff groups for gas distribution to 14.

The price regulation governs connection to the distribution network by determining the method of calculating the maximum price based on estimated economically eligible costs associated with the definition of conditions of connection, review of a request for connection to the distribution network and installation of a measuring device, including the review of a report on professional inspection and test of an offtake gas facility.

In 2016, the Office did not issue any new price decision on connection to the distribution network to SPP – distribúcia, a. s. The decision of the Office issued for the year 2014 remained valid.
Local distribution network operators

A cost-based method of price regulation where a final maximum price reflects eligible costs required for network operation per a unit of gas, fair profit set by the Office and a correction factor taking actual volume of gas distributed as well as economically eligible costs actually exerted for the defined previous regulatory year into consideration were applied to the price regulation governing access to the distribution network and gas distribution for a LDN operator with fewer than 100,000 offtake points connected.

In 2016, the Office issued four price decisions for access to the distribution network and gas distribution to LDS, of which two amendments to the decision to the current LDS operators due to changes in assets used for gas distribution, two decisions due to a change of the LDS owner. In 2016, the Office issued one price decision for connection to the LDS.

LNG

No LNG facility was operated in the territory of the Slovak Republic in 2016.

Underground gas storage operators

Access to a gas container and gas storage is not subject to any price regulation in the current regulatory period. The capacity of underground gas storage operators reached a total of 3 389 mil. m³ as of 31 December 2016, up by 189 mil. m³ from the same time of the previous year.

Natural gas production

In addition to its core activity, operation of the gas reservoir, NAFTA, a. s also extracts natural gas in the territory of the Slovak Republic. 88.69 mil. m³ (954,053 MWh) of gas was extracted in 2016.

4.1.4. Cross-border issues

“Polish-Slovak Gas Interconnection“ Project

Forming a part of the North-South gas corridor with a total length of almost 170 km, Polish-Slovak gas interconnection is a significant link in a transmission gas pipeline chain that will connect Eastern Europe from the Polish LNG terminal in Świnoujście to the planned Croatian LNG terminal on the island of Krk. Environmental Impact Assessment, a part of which was public consulting, was carried out. The pipeline is expected to be launched into commercial operation in the years 2019 and 2020.

“Eastring“ planned project

The goal of a planned Eastring project is to build a two-way gas pipeline that would connect the existing infrastructure in the territory of the Slovak Republic with a so-called Trans-Balkan pipeline that connects Ukraine, Romania, Bulgaria and Turkey.

Transmission capacity

The annual capacity of the transmission network reaches up to 90 bill. m³ of natural gas, of which the gas transmission for the Slovak market represents 2.8 bill. m³. The international transmission of natural gas
exceeded 95% of the total natural gas transmission. The total gas transmission at all entry points to the transmission network amounted to 61.5 bill. m³, while gas transmission at all exit points from the transmission network stood at 60.6 bill. m³ in 2016.

In 2016, none request for access to the transmission network was declined.

It is evident that Ukraine has become the second largest foreign user of the transmission network after Russia. Ukraine is also the most important gas supply target from Western and Central Europe.

4.1.5. **Compliance**

Transposition of the 3rd Package provisions was applied through adoption of the Act No. 250/2012 Coll. as of 31 July 2012 on regulation in network industries, with the effect as of 1 September 2012, and the Act No. 251/2012 Coll. as of 31 July 2012 on energy with the effect as of 1 September 2012.

4.2. **Promoting competition**

4.2.1. **Wholesale market**

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

Wholesale gas market is characterized by:
- purchase of gas under long-term contracts,
- purchase of gas on commodity exchanges,
- purchase of gas from another trader – a gas supplier of natural gas (7,533 GWh in 2016),
- trading at a virtual business point of the transmission network of eustream, a.s. in the total amount of 168 642 GWh,
- trading or a change in ownership of gas stored in underground containers (16,104 GWh of gas traded in 2016).

4.2.2. **Retail market**

In 2016, 25 active gas suppliers were conducting business on the Slovak market.

The share of the largest gas supplier dropped by nearly 2% in 2016. The position of other gas suppliers to end customers did not change significantly in 2016.

When supplying gas to industrial customers, the share of SPP, a.s. fell below 50% for the first time, whereas shares of companies focusing on the supply of gas that is not subject to price regulation such as Elgas, s.r.o. or Vemex Energo s.r.o. were rising.
In 2016, the Office performed the price regulation of gas supplies to vulnerable customers, i.e. households, small businesses and gas supply to the suppliers of the last resort in the regulated gas supply area.

Gas suppliers who provided universal service were obliged to publish the price list of gas supplied within this service on their website and, at the same time, deliver it to the Office. The universal service means a service for household gas customers or small businesses provided by a gas supplier under a combined gas supply contract, which includes both gas distribution and gas supply and assumption of liability for deviation. On its website, the Office published a list of gas suppliers providing the universal service to help navigate household gas customers when choosing their gas supplier. The submitted price lists formed the basis for filling data into a price calculator that allowed household gas customers to compare prices for gas supplies from individual suppliers.

Since the beginning of 2016, the Office has been publishing development of a gas price on the EEX ("European Energy Exchange") on its website, providing consumers with a better orientation in commodity market prices at monthly intervals.

**Gas supply to households**

The price cap method is applied to determine the method of calculating the maximum price for gas supply to households. The maximum price of gas supplied to households consisted of a maximum fixed monthly rate and a maximum amount of a rate for the gas consumed. The structure of tariffs was divided into three tariff groups D1 - D3 based on the volume of annual gas consumption.

In 2016, 13 suppliers delivered gas to household customers.

The market share of the largest supplier of gas to households was decreasing for three consecutive years. However, its position remained dominant as shares of other key gas suppliers did not change significantly y-o-y.

The maximum price for gas supplies to vulnerable customers, which the Office determined for gas suppliers in form of price decisions for the year 2014, remained valid for the years 2015 and 2016.

Throughout 2016, the Office initiated an amendment to its price decision on gas supplies to households for SPP, a. s. twice effective from January 1, 2016 and July 4, 2016. The amendments related to a change in purchase price of gas for SPP, a. s. to reflect development of gas prices on commodity exchanges. In its updated decisions, the Office determined the maximum prices for gas supplies to households and the conditions of their application for SPP, a. s.

**Gas supply to small businesses**

Pursuant to the Act No. 250/2012 Coll., a small business, which is also considered a vulnerable customer, is defined as an end customer with annual natural gas consumption up to 100,000 kWh in all its offtake points for the previous year.
The cost method is applied to calculation of the maximum prices for gas supply to a small business. The price includes all eligible costs and a fair profit set by the Office. The price is composed of the maximum amount of the fixed monthly rate and the maximum amount of a rate for the gas consumed. The tariffs are divided into four tariff groups M1-M4 based on the annual volume of the natural gas consumption in an offtake point.

In 2016, the Office issued five price decisions on the gas supply to small business customers, of which two amendments to the decision for the gas supplier SPP, a. s. due to a change in the purchase price of gas, similar to the amendments to the price decisions for the supply of gas to households.

In 2016, the market share of SPP, a. s., the largest gas supplier to this segment, increased to 75.31%. The market share of ČEZ Slovensko, s. r. o. dropped below 1%, while the shares of other suppliers did not change significantly y-o-y.

**Gas supply by Last Resort Supplier**

Development of a competitive environment on the gas market also involves a risk that some gas suppliers may lose the ability to supply gas to their customers. In order to protect a customer, the Office performs the price regulation of gas supply to the suppliers of the last resort pursuant to the Act No. 250/2012 Coll. and the Act No. 251/2012 Coll.

SPP, a. s. acts as the last resort supplier pursuant to the decision of the Office. In 2014, the Office issued a price decision on the maximum prices for the last resort gas supplier valid for the years 2014 - 2016, in which it set the maximum prices of gas supplies in the last resort supplier regime.

The last resort supplier notified the Office of 10 cases of last resort supplies in 2016.

**Gas supply to other gas customers**

With the exception of the vulnerable customers defined in the Act No. 250/2012 Coll., gas supplies to other customers are not subject to the price regulation. Such supplies were performed by all 25 gas suppliers in 2016.

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

The level of liberalization of the gas market in the European Union is usually measured by a switching coefficient in per cent. It is the ratio of a number of offtake points that changed a gas supplier in a given year to a total number of all offtake points in the relevant year.

Open gas market continued to decrease in the number of change gas supplier, and the total switching reached 3.09 % in the year 2016. In comparison with the year 2015, it is a decrease in the total switching of 0.24 %. The total decrease may be attributed to significantly saturated retail gas market, minimum
price differences offered by gas suppliers as well as the fact that most contracts for gas supply are concluded for a definite period of time including longer time commitment with the gas customers being thus limited by the contractual terms and conditions in making decisions on their gas supplier switching.

The switching rate recorded the decrease in the category of large off-take customers, where the switching rate reached in 2016 the value 8.89 % and in comparison, with the year 2015, it is a decrease of 9.17 %. The switching dropped of 2.04 % in the year 2016 also in the category of medium off-take customers and reached a value of 9.10 %. In the category of SMEs, the switching rate reached in the year 2016 the increase in comparison with the year 2015, it is an increase of 1.47 % and reached the value of 6.55 %. A slight decrease of 0.32 % in comparison with the year 2015 was recorded also in the category of household customers, and reached the value of 2.89 %.

There were several reasons for stagnation of switching in 2016. Households were least interested in switching that could be attributed to a small amount of switching-related cash savings as the gas market counts app. 700,000 customers with annual gas consumption up to 200 m³ (app. 2,100 kWh). The customers with minimal gas consumption would not save much by changing their gas supplier and would not be attractive from the supplier’s perspective either. The declining switching primarily owes to largely saturated gas market. Another reason relates to long-term contracts fixed for a minimum period of two years that prevail on the market.

The state of the gas market concentration can be illustrated on the Herfindahl-Hirschman Index (hereinafter “HHI”) as well. It is a sum of squared market shares of individual gas suppliers operating on the gas market when delivered to end customers. The HHI values range from 0 to 1. The maximum value of 1 denotes the monopoly and values approaching zero the perfect competition. The market is concentrated if the HHI is more than 0.1 and highly concentrated at a value exceeding 0.2. Although the HHI value of the Slovak gas market has been decreasing since 2014, it still remains above the high concentration limit. Provided that the Slovak Republic is the second most-gasified country in the European Union, the HHI has a different meaning in this context compared to countries with the level of gasification below 50%.

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

The rights and obligations of gas market stakeholders and the conditions for the functioning of the liberalized gas market in Slovakia are defined in the Decree No. 24/2013 Coll. laying down the rules for the functioning of the internal electricity and natural gas markets.
5. Consumer protection and dispute settlement in electricity and gas

5.1. Consumer protection

The Office conducts on-site inspections in regulated entities pursuant to the Act No. 250/2012 Coll. and also in its premises by reviewing performance of administrative obligations by regulated entities.

In 2016, the Office performed inspections in 74 regulated entities, of which in 12 entities based on delivered motions and in 62 entities based on the inspection plan. The Office closed 48 inspections by producing a protocol on inspection, which means that it identified a violation of the legal obligations while a record of a performed inspection was prepared for 26 inspections in which no breach of legal obligation was identified.

In the evaluated year, the inspections were aimed at compliance with the legal obligations related to network industries when performing a regulated activity in 2013, 2014, 2015 and 2016. In this respect, the inspections focused on compliance with the scope of the price regulation, factual regulation and regulation of quality as approved by the Office.

In the price regulation, the Office reviewed invoicing of approved/set maximum prices of electricity, gas, heat, water supply and waste water collection as well as invoicing of approved/set tariffs by the Office. In the thermal energy industry, inspection activities also focused on settlement of ineligible costs included in the set variable and fixed component of the maximum price of heat pursuant to the effective price decree.

In the factual regulation, the Office reviewed whether regulated entities performed individual regulated activities on the basis of and in compliance with licences issued by the Office as well as compliance with the obligations defined in the valid decisions of the Office such as business terms and conditions of electricity and gas supplier and operational codes of distribution system and network operators, which represent a significant measure aimed at promotion of transparent and non-discriminatory conduct of regulated entities on the electricity and gas market. The Office reviewed compliance with deadlines for sending letters of acceptance or justification of non-accepting a notice or a withdrawal from an agreement in case of contract termination, due dates on settlement invoices including pay out of refunds arising out of such invoices to customers.

In the regulation of quality, the Office verified individual events in regulated entities such as non-compliance or compliance with the set standards of quality, pay out of compensation payments to customers in case of a breach of the standards of quality as well as veracity of data provided in assessment of the standards of quality submitted to the Office.

In order to properly meet the purpose of the regulation and to ensure the exercise of the Office's competencies, it is essential that the regulated entities cooperate with the Office and provide only correct and true data and information. For this reason, the Office also checked the veracity of the individual data submitted to the Office.
In 2016, the Office inspected 39 entities in the electricity industry and identified 129 violations of the Act No. 250/2012 Coll. and the Act No. 251/2012 Coll. in 23 of them. In the gas industry, it controlled 16 entities and found 99 violations of the Act No. 250/2012 Coll. and the Act No. 251/2012 Coll. in 10 of them. The majority of the controlled entities were mainly electricity and gas suppliers. A failure to perform a regulated activity pursuant to a valid decision of the Office and non-observance of the price regulation under a generally binding legal regulation issued by the Office, and thus non-compliance with the price decision or business terms and conditions approved by the Office, ranked among the most frequent violations of the Act No. 250/2012 Coll. by the electricity and gas entities.

The Office carried out an inspection in 45 entities in thermal energy industry and detected 55 violations of the Act No. 250/2012 Coll. and the Act No. 657/2004 Coll. in 23 of them. In water management industry, it reviewed the compliance with the regulations in eight entities and identified 19 violations of the Act No. 250/2012 Coll. in seven of them. The most frequent violation of the Act No. 250/2012 Coll. in thermal energy entities related to the obligation to settle unjustified costs included in the variable or fixed component of the maximum price of heat in accordance with the applicable price decree of the Office. Water management companies breached the obligation to submit true and complete information to the Office in most cases.

Apart from the inspections performed in the regulated entities, the Office also reviewed the compliance with the defined obligations remotely from its premises. In this respect, fulfilment of a number of administrative obligations was reviewed in 2016. As a result, 35 entities were imposed penalties of EUR 21,800 in total. The relevant entities were exercising a regulated activity without a business license, without an approved price by the Office or without fulfilment of the notification duty on re-invoicing of expenses to the Office. Similarly, it was detected that 16 entities failed to meet their obligation to inform the Office of not carrying out a regulated activity in accordance with an authorization or confirmation of fulfilment of the notification duty and 11 entities submitted required documents or information after the deadline set by the Office or failed to do so at all.

The Office also checked compliance with the conditions for transmission of electricity by distribution system operators as approved by the Office. The obligation was not fulfilled by two entities that were imposed penalties in the total amount of EUR 3,300.

In relation to the forthcoming new regulatory period and setting of network fees for services provided by distribution companies for the year 2017, the Office reviewed the general value of assets used for performance of a regulated activity in network industries by distribution companies from February to August 2016.

**Overview of the surveillance findings focused on the consumer protection in electricity and natural gas areas**

1. **Violation of the Article 29 Section 1 Letter b) of the Act No. 250/2012 Coll.** – non-performance of the regulated activity in compliance with the valid decision of the Office or confirmation of the Office and non-compliance with the price regulation pursuant to the generally binding legal regulation issued by the Office. **102 findings** were identified in:
Regulatory Office for Network Industries

- electricity industry 50
- gas industry 39

2. *Violation of the Article 29 Section 1 Letter o) of the Act No. 250/2012 Coll.* – non-compliance with the market rules. **60 findings** were identified in:
  - electricity industry 34
  - gas industry 26

3. *Violation of the Article 29 Section 1 Letter k) of the Act No. 250/2012 Coll.* – non-provision of complete and true data, supporting documents, documents and any information required for purposes of this Act and performance of the Office within the scope, in a manner and deadlines set by the Office. **25 findings** were identified in:
  - electricity industry 9
  - gas industry 7

4. *Violation of the Article 22 Section 4 Letter h) of the Act No. 250/2012 Coll.* – a failure to send to the Office assessment of the standards of quality for the previous year by the end of February of the calendar year and non-publishing of the assessment on its website or in any other usual manner, should a regulate entity not have a website established. **17 findings** were identified in:
  - electricity industry 5
  - gas industry 3

5. *Violation of the Article 22 Section 5 of the Act No. 250/2012 Coll.* – non-payment of the compensation payment to the customer in the set amount and defined manner in case of a proven breach of the standard of quality. **11 findings** were identified in:
  - electricity industry 1
  - gas industry 9

6. *Violation of the Article 22 Section 4 Letter e) of the Act No. 250/2012 Coll.* – non-archiving of data on the standards of quality for the period of 5 years. **7 findings** were identified in:
  - electricity industry 2
  - gas industry 2

7. *Violation of the Article 29 Section 1 Letter j) of the Act No. 250/2012 Coll.* – a failure to inform the Office of non-performance of the regulated activity on the basis of an issued licence or confirmation of fulfilment of notification duty by the end of February of the calendar year. **6 findings** were identified in:
  - electricity industry 4

8. *Violation of the Article 22 Section 4 Letter f) of the Act No. 250/2012 Coll.* – a failure to send an overview of paid out compensation payments for the previous calendar year to the Office by the end of February of the calendar year. **4 findings** were identified in:
  - electricity industry 1
9. **Violation of the Article 45 Section 5 of the Act No. 250/2012 Coll.** – a failure to incorporate special conditions of operation of the distribution system or network in a model operational order and to submit it to the Office for approval until May 31, 2013. **3 findings** were identified in:
   - electricity industry  2
   - gas industry        1

10. **Violation of the Article 45 Section 6 of the Act No. 250/2012 Coll.** – a failure to incorporate special conditions of electricity or gas supply in model business terms and conditions and to submit them to the Office for approval until August 31, 2013. **3 findings** were identified in:
    - electricity industry  2
    - gas industry         1

11. **Violation of the Article 22 Section 4 Letter b) of the Act No. 250/2012 Coll.** – a failure to record, publish and review data on the standards of quality and to present them to the Office upon request. **1 finding** was identified in:
    - gas industry         1

12. **Violation of the Article 17 Section 12 of the Act No. 251/2012 Coll.** – a failure to deliver a final settlement of payments for electricity or gas supply to the household customer no later than 4 weeks after they were updated. **6 findings** were identified in:
    - electricity industry  3
    - gas industry         3

13. **Violation of the Article 34 Section 2 Letter p) of the Act No. 251/2012 Coll.** – a failure to submit data on recorded complaints on electricity supply from household customers until February 28 of the following year. **6 findings** were identified in:
    - electricity industry  6

14. **Violation of the Article 6 Section 1 of the Act No. 251/2012 Coll.** – conducting business in an energy industry without a business licence or in non-compliance with the licence or confirmation of fulfilment of notification duty. **4 findings** were identified in:
    - electricity industry  2
    - gas industry         2

15. **Violation of the Article 31 Section 2 Letter ab) of the Act No. 251/2012 Coll.** – a failure to submit data on recorded complaints on electricity supply from household customers until February 28 of the following year by the distribution system operator. **3 findings** were identified in:
    - electricity industry  3
16. Violation of the Article 69 Section 2 Letter a) bod 4 of the Act No. 251/2012 Coll. – a failure to publish business terms and conditions on provision of the universal service by a gas supplier and each amendment made to them on the website of a gas supplier no later than 30 days prior to effect of such amendment. 2 findings were identified in:
   - gas industry 2

17. Violation of the Article 69 Section 2 Letter q) of the Act No. 251/2012 Coll. – a failure to submit data on recorded complaints on gas supply from household customers until February 28 of the following year by a gas supplier. 2 findings were identified in:
   - gas industry 2

18. Violation of the Article 19 Section 6 of the Act No. 251/2012 Coll. – a failure to comply with the process of a change in a technical condition by a system operator. 2 findings were identified in:
   - electricity industry 2

19. Violation of the Article 27 Section 2 Letter b) of the Act No. 251/2012 Coll. – a failure to enter into an agreement on settlement of a deviation. 1 finding was identified in:
   - electricity industry 1

20. Violation of the Article 8 Section 5 of the Act No. 251/2012 Coll. – a failure to submit a proposal for registration of a licenced activity in the Commercial Register within 30 days after the decision became effective. 1 finding was identified in:
   - electricity industry 1

21. Violation of the Article 4 Section 5 of the Act No. 251/2012 Coll. – non-performance of the notification duty. 1 finding was identified in:
   - electricity industry 1

Remedial measures
To eliminate and remedy all shortcomings identified in the inspections, the Office imposed 68 measures, of which in:
   - Electricity industry 24 measures,
   - Gas industry 8 measures,

The Office requested that the regulated entities refund electricity and heat customers with a difference between the applied price and the price that should have been applied pursuant to the applicable law:
   - electricity customers € 57,355.98

Penalties for violation of the law imposed in the first instance of the administrative proceedings
The Office acting as the designated competent administrative authority shall impose a sanction in form of a penalty should administrative torts be committed by violation of the legal obligation by a regulated entity.
In 2016, the Office issued 172 decisions on imposing a penalty for breaching the obligations detected by an on-site inspection performed in a regulated entity or remotely.

5.2. Dispute settlement

The Office attended a total of 902 motions and complaints raised by customers in 2016. The major part of them related to contracting and switching.

Similarly, to the previous years, customers pointed to the measurement of electricity and gas consumption, connection to the distribution network/system and the quality of supplies. The Office also handled several motions concerning disconnection due to non-payment of receivables as well as individual supplier's customer service. The Office also received several motions that did not fall within its competence. These were assigned to a relevant authority in charge.

The most frequent reasons included prices of electricity, gas, heat and water or switching. In electricity industry, 76 motions related mainly to prices, tariffs and price components. The Office attended a total of 30 motions in gas industry. The motions related primarily to settlement and the structure of a price for gas distribution. 232 motions raised in the thermal energy industry related mainly to a method of settlement of costs of heat supply. 22 motions submitted in water management related mainly to pricing. The Department of Inspection handled seven motions on a loss of the right to support, operating codes and technical conditions.

Settlement Pursuant to the Article 38 of the Act on Regulation

On February 1, 2016, the Office became the authority for alternative dispute resolution of consumer disputes under the special regulation of consumer disputes pursuant to the Act No. 391/2015 Coll. on alternative resolution of consumer disputes and amending and supplementing certain acts. Adoption of the law was accompanied by a nationwide information campaign, which was also reflected in a number of proposals for alternative dispute resolution submitted in 2016. After the new law became effective, the Office received 32 proposals for alternative dispute resolution in total, out of which 24 ones related to consumer disputes, six ones for alternative dispute resolution by a non-household consumer and two ones, which were not disputes and were resolved alternatively, were addressed as a motion.

The Office did not receive any proposal for a dispute settlement pursuant to the Article 38 of the Act No. 250/2012 Coll.

5.3. REMIT and International Activities of the Office

The Office also performed application of the Regulation No. 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency dated October 25, 2011 (hereinafter “REMIT”). REMIT, apart from establishing a framework for market participants active on wholesale energy markets (“WEM”), forbids misuse of confidential information in business conduct and market
manipulation. In order to monitor WEM, ACER established a European registration and monitoring system, Centralised European Register of Energy Market Participants (hereinafter “CEREMP”).

The process of reviewing and approving requests for registration submitted by the WEM participants to the Slovak CEREMP in 2016 was performed by the Department of International Relations of the Office. 33 registrations of market participants were approved and 145 updates were made in 2016. The Office staff communicated with the WEM participants via telephone or a special electronic mail set up for REMIT purposes. The Office also provided the WEM participants with information via the REMIT section on its official website. 93 user accounts and 91 market participants in total were registered in CEREMP at the end of 2016. Two participants registered in the Slovak WEM system are foreign companies from Ukraine and Switzerland.

5.4. International Cooperation

In 2016, the Office made a total of 24 foreign business trips related mainly to cooperation with the Energy Regulators Association (hereinafter “ERRA”) and ACER. The primary focus of cooperation with ERRA was on sharing experience in the regulatory practices of its members and preparation of the 15th International Conference on Investments and Regulation in Energetics in Bratislava. In addition to participating in various expert energy forums and conferences, the Office's representatives also cooperated with individual regulators, e.g. they worked as a part of the framework of the V4 regulators' initiative aimed at analysis of energy prices, meetings of the parties involved in preparation of the gas interconnection project between the Slovak Republic and Poland and bilateral meetings aimed at strengthening cooperation in the area of energy regulation.

In 2016, the Office also hosted foreign delegations. It organized a meeting of the leading representatives of the V4 regulatory authorities in May and September 2016. The Office hosted and co-organized the international ERRA conference on investments and energy regulation held in October 2016 in Bratislava, which was one of the top events in the global energy sector. The conference met with a particularly positive response from the foreign participants. The Office presented itself in a very positive light and significantly thus contributed to raising awareness of the Slovak Republic and the Slovak energy sector in the world.