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VÝROČNÁ SPRÁVA

2016

ANNUAL REPORT

REGULATORY OFFICE FOR NETWORK INDUSTRIES



RONI



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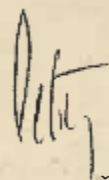
A FOREWORD BY MIROSLAV ČELINSKÝ, DEPUTY CHAIRMAN OF THE REGULATORY OFFICE FOR NETWORK INDUSTRIES

The year of 2016 definitely marked one of the most challenging times the Office faced in its 16-year history. With the 2012–2016 regulatory period ended, we thoroughly pursued three key objectives – an approval of a new regulatory policy, an extensive inspection of assets of distribution companies and organization of international conferences. I am pleased to conclude that the expertise and commitment of the Office staff helped succeed in these efforts both at home and abroad.

Let me highlight the fact that the adoption of the new regulatory policy for the years 2017–2021 was preceded by a broad consensus of all participants including consumers, professionals, the Ministry of Economy of the Slovak Republic and the Ministry of Environment of the Slovak Republic. Domestically, the Office was fully engaged with preparation of new decrees in the area of price regulation, market rules and standards of quality. In 2016, it consistently followed its strategy aimed at protecting vulnerable customers while applying the price cap methodology to allow system and network operators to retain a fair profit provided that they act efficiently and optimize their costs. In addition,

the Office promoted liberalization of the electricity and gas market, fostering of consumer rights, regional solidarity and cooperation.

The extraordinary physical inspection of the assets of the distribution companies, which had not been performed to such an extent in the Slovak Republic before, kept the Office occupied for several months. Internationally, the Office's professionals assisted with reforms undertaken in the energy industries in Serbia, Latvia, Azerbaijan, Cuba and Moldova. On top of it, we received an exceptionally positive feedback from global participants of the breakthrough 15th annual ERRA conference that the Office organized in Bratislava. Despite a number of achievements made throughout 2016, undoubtedly, some tasks were not entirely delivered. Nevertheless, I am firmly convinced that more demanding challenges lie ahead of the Office in future.



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THE ELECTRICITY INDUSTRY

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").

Ten-Year Network Development Plan

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.

Auxiliary 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 by

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.

Development of the provision of auxiliary services in 2014–2016

	2014	2015	2016
No. of auxiliary service providers	24	25	24
No. of bids submitted by AS providers	2844	3422	3635
No. of contracts concluded with AS providers	31	32	30

Comparison of regulatory electricity supplies in 2015–2016 (MWh)

Type of regulatory electricity/year	2015	2016	change (%) 2016/2015
Primary power control +	6 854	6 495	-5,24
Primary power control -	6 838	6 405	-6,33
Secondary power control +	159 585	138 914	-12,95
Secondary power control -	197 181	152 947	-22,43
Tertiary power control 3 min. +	2 515	1 388	-44,81
Tertiary power control 3 min. -	946	298	-68,50
Tertiary power control 10 min. +	2 929	508	-82,66
Tertiary power control 10 min. -	875	391	-55,31
Tertiary power control 15 min. +	1 440	531	-63,13
Tertiary power control 15 min. -	1 948	528	-72,90
Tertiary power control 30 min. +			-
Tertiary power control 30 min. -			-
Decrease in demand	2 194	689	-68,60
Increase in demand	0	0	not used
Import of emergency electricity supply	0	450	not used
Non-guaranteed regulatory power +	0	0	not used
Non-guaranteed regulatory power -	0	0	not used
Positive regulatory power	175 516	148 975	-15,12
Negative regulatory power	207 789	160 570	-22,72

Electricity transmission and distribution

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 (EUR/MW/year),
- A tariff for transmitted electricity (EUR/MWh),
- A tariff for losses in the transmission via electricity transmission system (EUR/MWh),
- A tariff for system services (EUR/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 (EUR/MW/month),
- A tariff for electricity distribution without losses including electricity transmission – a component for distributed electricity (EUR/MWh),
- A tariff for losses in distribution via electricity distribution system (EUR/MWh),
- A tariff for system services (EUR/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 (EUR/A/month),
- A tariff for electricity distribution without losses including electricity transmission – a component for distributed electricity (EUR/MWh),
- A tariff for losses in distribution via electricity distribution system (EUR/MWh),
- A tariff for system services (EUR/MWh).

In the area of price regulation of the respective activities, the Office issued in 2016:

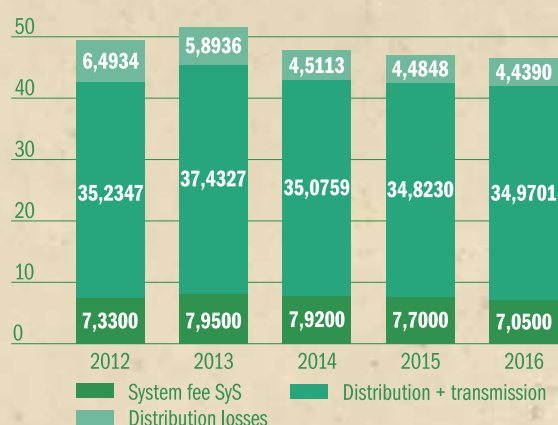
- 333 price decisions on access to the transmission system and electricity transmission, access to the distribution system and electricity distribution, network

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.

Development and structure of regulated fees in EUR/MWh



Development of regulated fees for users of distribution system (DS)

	2012	2013	2014	2015	2016	change	change	change	change
	in EUR/MWh	in EUR/MWh	in EUR/MWh	in EUR/MWh	in EUR/MWh	13/12	14/13	15/14	16/15
System fee SyS	7,330	7,950	7,920	7,700	7,050	8,46%	-0,38%	-2,78%	-8,44%
Distribution + transmission	35,234	37,432	35,079	34,823	34,970	6,24%	-6,30%	-0,72%	0,42%
Distribution losses	6,493	5,893	4,511	4,484	4,439	-9,24%	-23,45%	-0,59%	-1,02%
Regulated fees in total	49,058	51,276	47,507	47,007	46,459	4,52%	-7,35%	-1,05%	-1,17%

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 ("TSO")

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.

Development of tariffs for system operation in 2014-2016

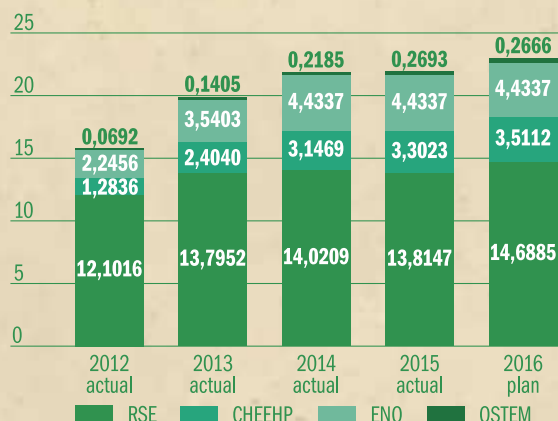
Individual components of the tariff for system operation (TSO)	2012 (actual)	2013 (actual)	2014 (actual)	2015 (actual)	2016 (plan)
	€/MWh	€/MWh	€/MWh	€/MWh	€/MWh
RES	12,1016	13,7952	14,0209	13,8147	14,6885
CHEEHP	1,2836	2,4040	3,1469	3,3023	3,5112
ENO	2,2456	3,5403	4,4337	4,4337	4,4337
OSTEM	0,0692	0,1405	0,2185	0,2693	0,2666
Total TSO	15,7000	19,8800	21,8200	21,8200	22,9000

RES - Electricity from renewable sources

CHEEHP - Combined high-efficiency electricity and heat production

ENO - electricity produced from domestic coal

Development of individual components of tariff for system operation in EUR/MWh



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 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.

Slovenská elektrizačná prenosová sústava, a. s.

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 EUR 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.

The amount of resources available and investments made by SEPS, a. s. and their percentage on available resources

	2012	2013	2014	2015	2016
■	115 251 114	105 799 797	105 026 851	110 366 176	100 669 327
■	41 598 155	90 214 968	85 116 921	97 240 958	62 133 311
■	36,09%	85,27%	81,04%	88,11%	61,72%

■ Available resources (EUR)

■ Investments (EUR)

■ Share

The available resources comprised the amount in a given year calculated pursuant to a price decree, allowed taxed profit and revenues from the congestion management fees set for investments. The investments include all resources invested in the development of the system in a given year. It is evident from

the table that while the large investments were made in the years 2013–2015, they declined in 2016. This occurred due to the large-scale investments in these years and their completion in 2015 as well as the preparation for forthcoming large investments planned beyond 2016, notably the expansion of cross-border capacity with Hungary.

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.

GCC

On October 7, 2015, OKTE, a.s. began reporting data on transactions at its cross-border organized spot electricity market via a new information system RRM. The Regulation No. 1227/2011 of the European Parliament

and of the Council of 25 October 2011 on wholesale energy market integrity and transparency, a so called “REMIT”, requires that a participant on the organized market reports data to the ACER system. 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 EUR 5,685,885.88 as the revenue of the transmission system operator.

The 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.

**Electricity price, Prague PXE,
product: F PXE SK BL CAL-t, year 2016,
average price 31,50 Eur/MWh**



In 2016, the major electricity market participants 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 4,176 MWh,
- 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.

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,
- Small businesses,
- The last resort supplier regime.

Electricity supply to 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.

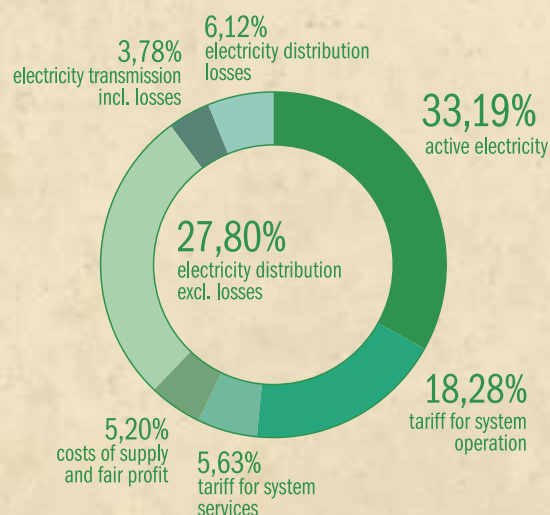
In response to a significant drop in electricity prices on the stock exchange, the Office amended the price decisions for electricity suppliers operating in the Slovak Republic. The maximum prices for electricity supplied to households consisted of two components, i.e. a monthly payment per one offtake 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.

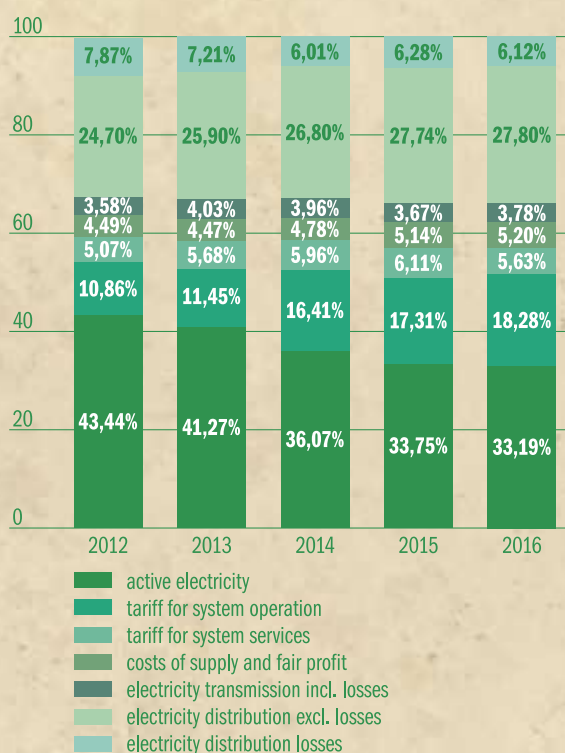
The structure of a final price of electricity supplied to households in 2016

A component of electricity price	Eur/MWh	Share in a final price
Active electricity	41,5910	33,19%
Tariff for system operation	22,9000	18,28%
Tariff for system services	7,0500	5,63%
Costs of supply and fair profit	6,5195	5,20%
Electricity transmission incl. losses	4,7353	3,78%
Electricity distribution excl. losses	34,8386	27,80%
Electricity distribution losses	7,6677	6,12%
Total	125,3022	100,00%

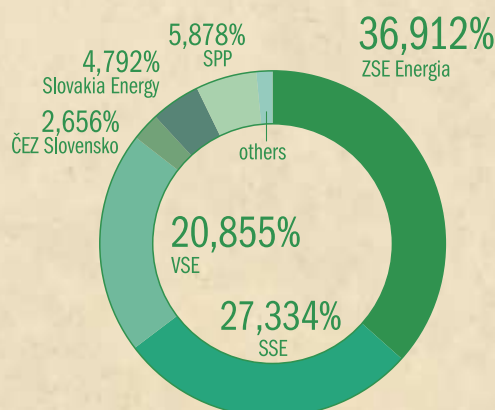
Structure of electricity prices for households in 2016



Comparison of the structure of a final electricity price for households in 2012–2016



Shares of electricity suppliers to households in 2016



others:	
SE Predaj	0,09%
Magna E.A.	0,47%
BCF	0,07%
Pow-en	0,02%
ELGAS	0,01%
Energie2	0,79%
UTYLIS	0,08%
Energy Europe, SE	0,01%
Bukóza	0,01%
V-Elektra Slovakia	0,01%
EP ENERGY TRADING	0,02%
A.En. Slovensko	0,00%

Electricity supply to small businesses

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 maxi-

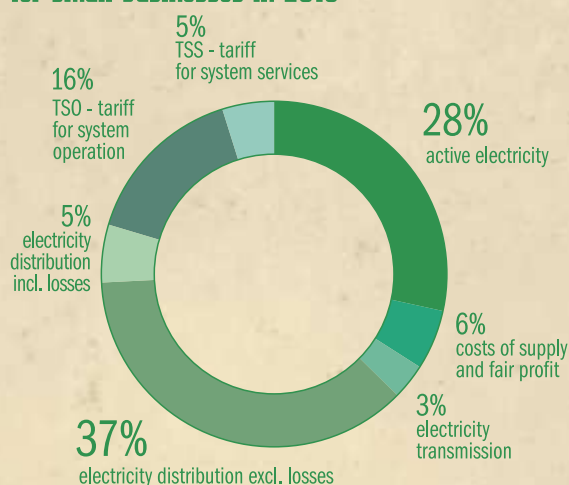
maximum price for electricity supplied to small businesses in 2016.

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.

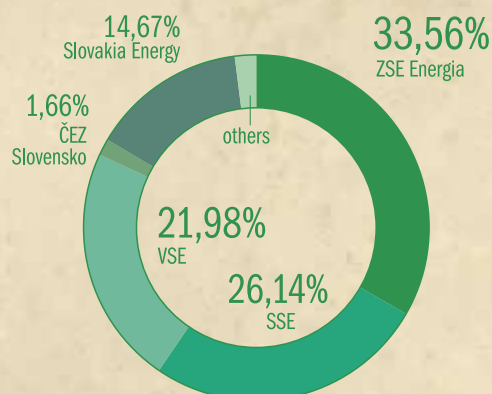
The regulation of final prices for small businesses kept the prices of energy prices on the Slovak market stable because the market liberalization in the Slovak market environment did not directly lead to lower prices in the recent years.

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.

Structure of electricity prices for small businesses in 2016



Shares of electricity suppliers to small businesses in 2016

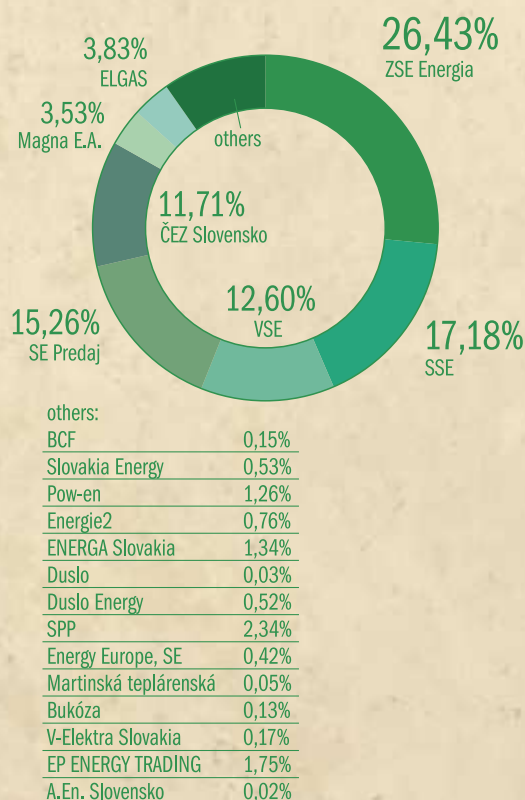


others:	
SE Predaj	0,08%
BCF	0,26%
ELGAS	0,20%
Energie2	0,18%
UTYLIS	0,00%
ENERGA Slovakia	0,02%
Duslo	0,02%
Duslo Energy	0,01%
SPP	0,58%
Martinská teplárenská	0,06%
Bukóza	0,10%
V-Elektra Slovakia	0,29%
EP ENERGY TRADING	0,19%
A.En. Slovensko	0,01%

Electricity supply to other customers

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.

Shares of electricity suppliers excl. households and small businesses in 2016



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.

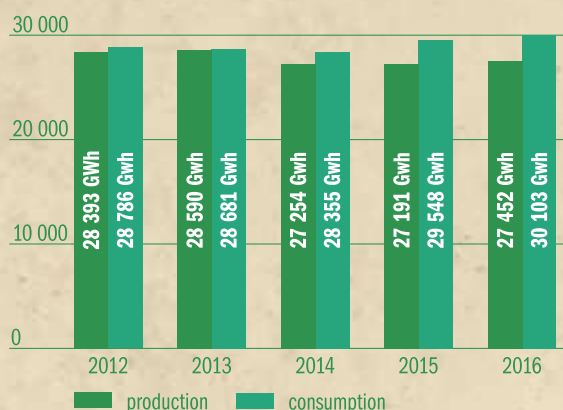
The last resort supplier

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.

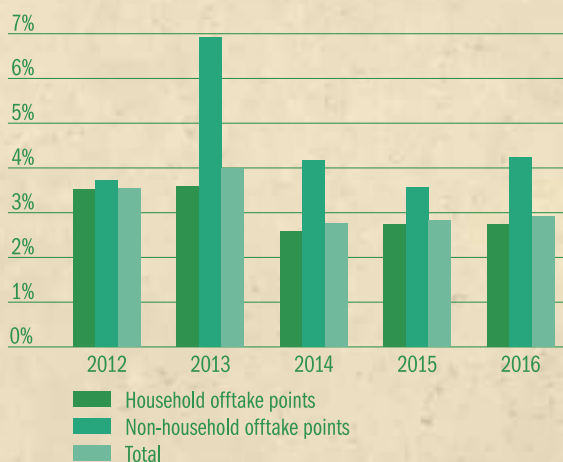
Switching

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.

Total production and consumption of electricity based on data provided by SEPS, a.s., the transmission system operator

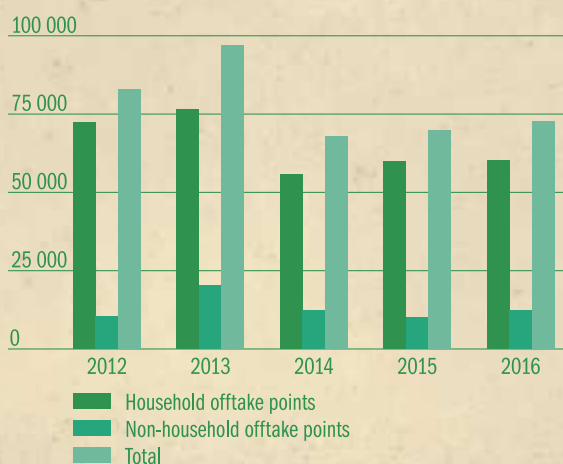


Switching in 2012–2016



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.

A number of switched offtake points

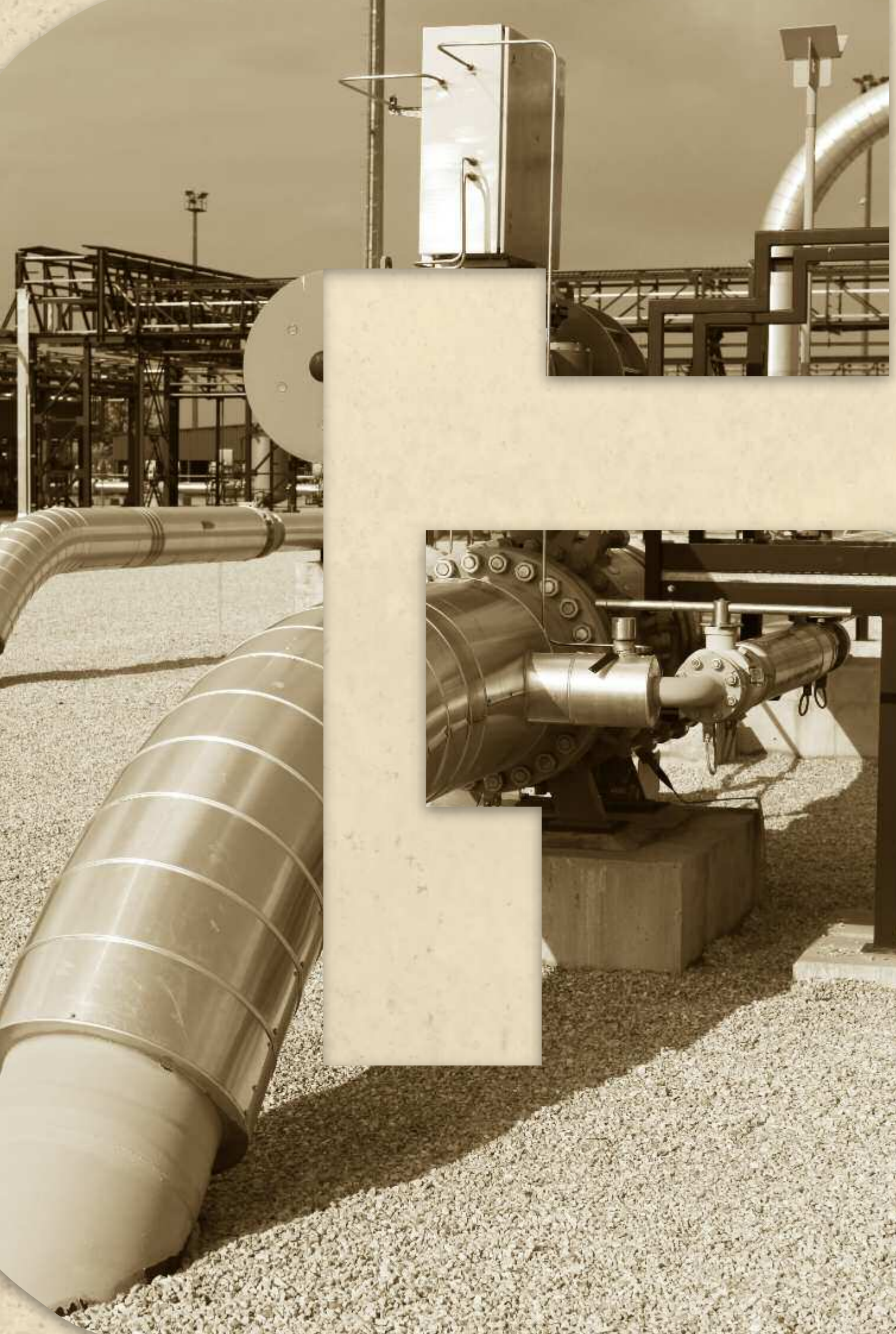


Legislative measures

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.



02

THE GAS INDUSTRY

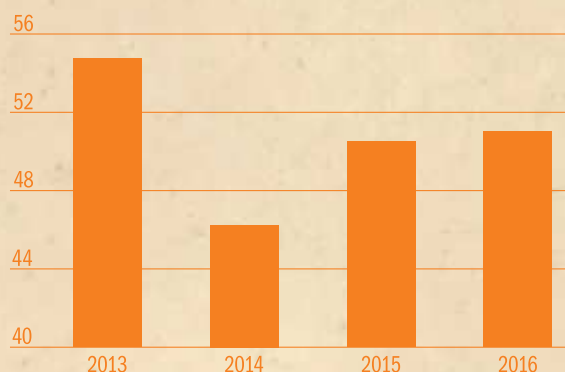
Gas market

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.

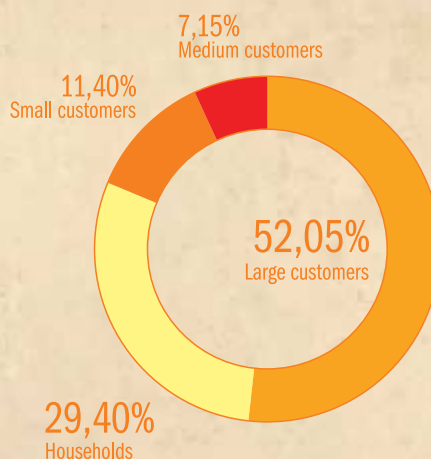
Gas consumption in the Slovak Republic in 2016 reached 51 TWh, which is app. 1% y-o-y increase compared to 2015. It should be noted that after the major decrease in 2014, the gas consumption has been partially stabilized. However, it was almost 7 % down from 2013.

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.

Development of gas consumption in TWh



Gas consumption by customer category in 2016



Gas market participants are

- 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,
- 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.

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.

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.

Technical functionality of the 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.

The overview of technical, contractual, but also available capacities at all entry and exit border points of the transmission network

Border point	Capacity [GWh/d]		
	Technical	Contracted	Available
ENTRY Veľké Kapušany	2 288	2 104	184
EXIT Budince	416	416	0
ENTRY Baumgarten	248	67	181
EXIT Baumgarten	1 539	1 466	73
ENTRY Lanžhot	696	629	67
EXIT Lanžhot	520	511	9
ENTRY Veľké Zlievce	51	0	51
EXIT Veľké Zlievce	127	0	127
Domestic point			
ENTRY domestic point	169	2	167
EXIT domestic point	460	219	241

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.

The measures aimed at avoiding occurrence of transmission network congestion were, in particular, implemented by the following procedures defined in the Commission Decision of August 24, 2012 on amending Annex I to Regulation (EC) No. 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing the Regulation EC) No. 1775/2003.

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.

Development of a number of offtake points and volume of gas distributed via distribution network of SPP-distribúcia, a.s., in 2014-2016

	2014	2015	2016
No. of offtake points	1 506 260	1 514 646	1 518 131
Volume of distrib. gas in m ³	4 240 396 669	4 585 031 787	4 715 242 762

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 mil. m³ y-o-y.

Development of investments in renewal and reconstruction of distribution network of SPP-distribúcia in 2014–2016

	2014	2015	2016
Investments (in € mil.)	17	40	35,4

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.

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/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.

Gas containers

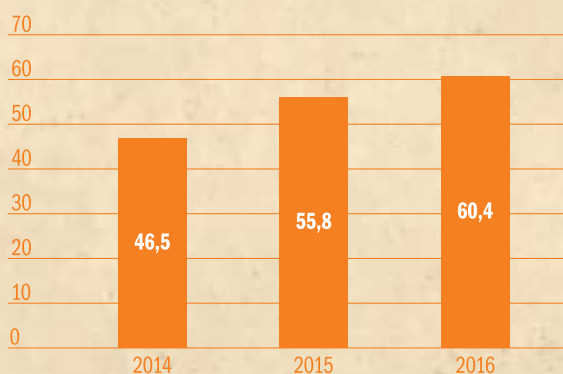
Underground gas containers represent one of tools how to increase energetic safety of the Slovak Republic.

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.

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 separated.

Volume of gas transmitted in bil. m³

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

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.

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.

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

Underground gas container operators

Access to a gas container and gas storage is not subject to any price regulation in the current regulatory period.

Storage capacities of underground gas operators in 2014–2016

Underground gas container operator	Technical working volume (in mil. m ³ /year)			Technical injected capacity (in mil. m ³ /day)			Technical extracting capacity (in mil. m ³ /day)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
NAFTA a.s.	2 501	2 545	2 734	31,92	31,92	31,92	38,26	38,26	38,26
POZAGAS a.s.	655	655	655	6,85	6,85	6,85	6,85	6,85	6,85
Total	3 156	3 200	3 389	38,77	38,77	38,77	45,11	45,11	45,11

Utilization of gas container capacity of NAFTA a.s. in 2014–2016

Gas container users (country of origin)	in %		
	2014	2015	2016
Slovak Republic	61,52	58,81	50,22
Czech Republic	20,35	22,30	19,60
United Kingdom	1,25	7,50	21,86
Germany	6,30	4,84	6,16
France	2,08	2,42	0,75
Netherlands	0,70	1,18	0,36
Norway	2,22	1,81	0,00
Switzerland	5,49	1,07	0,95
Denmark	0,09	0,07	0,10
Total	100,00	100,00	100,00

Utilization of gas container capacity of POZAGAS a.s. in 2014–2016

Gas container users (country of origin)	in %		
	2014	2015	2016
France	49,26	51,43	49,33
Germany	12,07	11,91	12,44
Switzerland	19,32	11,58	7,69
United Kingdom	0,00	10,04	15,74
Slovak Republic	9,58	8,46	5,13
Czech Republic	3,51	4,43	9,31
Netherlands	6,18	2,15	0,00
Denmark	0,08	0,00	0,36
Total	100,00	100,00	100,00

Natural gas extraction

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.

Cross-border cooperation

“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 bil. m³ of natural gas, of which the gas transmission for the Slovak market represents 2.8 bil. 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 bil. m³, while gas transmission at all exit points from the transmission network stood at 60.6 bil. m³ in 2016.

In 2016, no request for access to the transmission network was declined.

A share of trans. network users from individual European countries in volume of transmitted gas

Users of transmission network on the domestic market (trans. to a domestic point of the network)	2014	in % 2015	2016
Slovakia	9,10	6,52	4,6

Transit users of the network	2014	in % 2015	2016
Russia	69,78	66,03	68,10
Germany	10,60	9,10	11,00
Czech Republic	3,63	2,00	1,40
Italy	0,00	0,00	0,30
Switzerland	0,12	0,36	0,30
United Kingdom	0,33	0,00	0,00
Austria	0,10	0,00	0,00
Denmark	0,00	0,01	0,00
France	0,59	1,46	0,00
Luxembourg	0,01	0,30	0,30
Ukraine	5,74	14,22	14,00
Total	100,00	100,00	100,00

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.

Transmission network – development of a number of requests and contracts in 2014–2016

	2014	2015	2016
No. of requests for access to transmission network	552	596	2289
No. of requests for connection to transmission network	1	0	0
No. of signed contracts on connection to transmission network	0	0	0
No. of signed contracts on natural gas transmission with fixed transmission capacity	486	561	2042
Of which: long-term	2	8	4
annual	42	23	27
short-term	442	530	2011
No. of signed contracts on natural gas transmission with interruptible transmission capacity	101	24	233
Of which: long-term	2	2	0
annual	5	0	4
short-term	94	22	229
No. of signed contracts on natural gas transmission with combined transmission capacity	0	10	14
Of which: long-term	0	0	0
annual	0	3	1
short-term	0	7	13
No. of users of transmission network	28	31	33

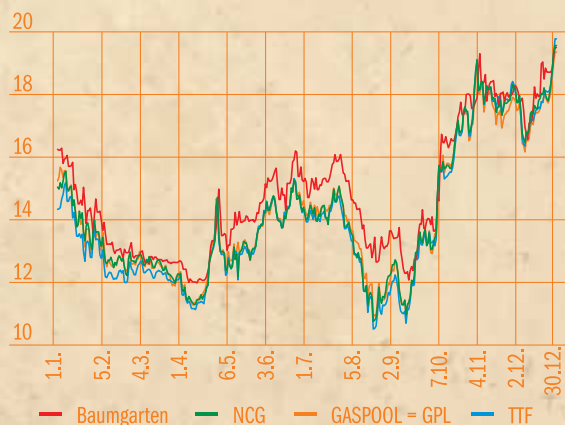
Competition promotion

Wholesale market

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).

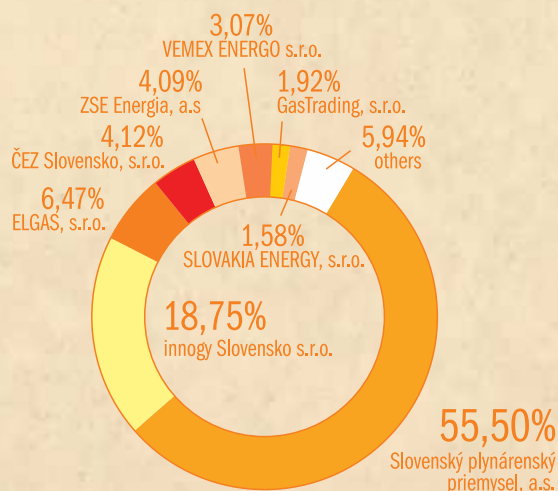
Spot price of gas in 2016 Eur/MWh



Retail market

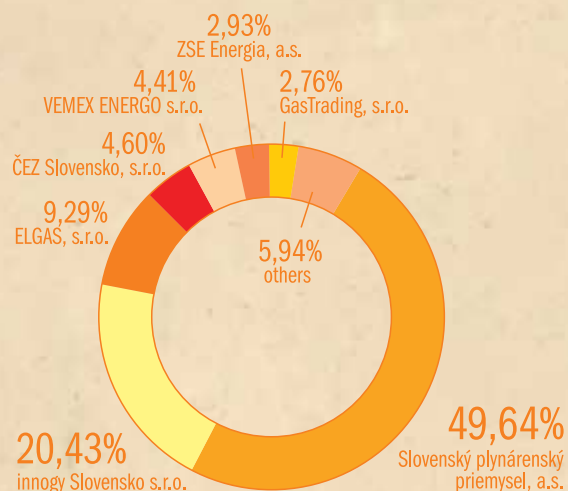
In 2016, 25 active gas suppliers were conducting business on the Slovak market.

Suppliers of gas to end customers in 2016



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.

Suppliers of gas to industrial customers excl. small businesses 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 to 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.

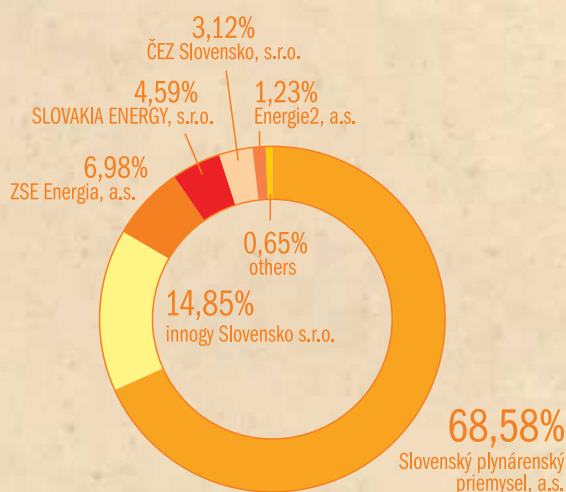
Gas supply to households

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.

Suppliers of gas to households in 2016

Suppliers	share
Slovenský plynárenský priemysel, a.s.	68,58%
innogy Slovensko s. r. o.	14,85%
ZSE Energia, a.s.	6,98%
SLOVAKIA ENERGY, s.r.o.	4,59%
ČEZ Slovensko, s.r.o.	3,12%
Energie 2, a.s.	1,23%
Stredoslovenská energetika a.s.	0,38%
MAGNA ENERGIA, a.s.	0,13%
UTYLIS s. r. o.	0,12%
ELGAS, s.r.o.	0,01%
VEMEX ENERGO s.r.o.	0,0027%
LAMA energy a. s. - organizačná zložka	0,0015%
A.En. Gas a.s.	0,0007%

Suppliers of gas to households in 2016



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 effec-

Maximum prices for gas supply to households in 2014–2016 (excl. VAT)

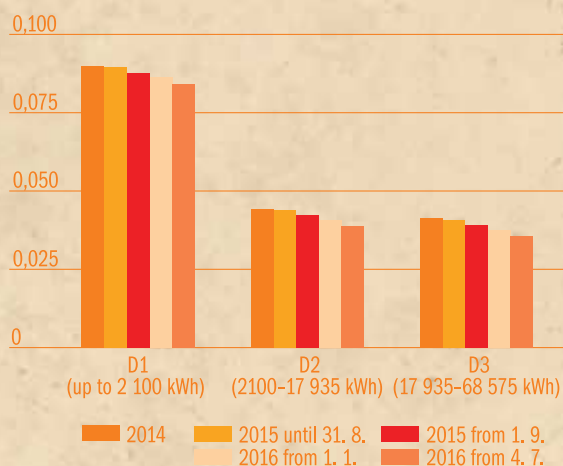
Tariff	Fixed monthly rate (€/month)					Rate for consumed gas (€/kWh)				
	2014	2015	2015	2016	2016	2014	2015	2015	2016	2016
		until 31.8.	from 1.9.	from 1.1.	from 4.7.		until 31.8.	from 1.9.	from 1.1.	from 4.7.
D1	1,76	1,76	1,76	1,76	1,76	0,0538	0,0533	0,0516	0,0501	0,0481
D2	4,15	4,15	4,15	4,15	4,15	0,0401	0,0396	0,0379	0,0364	0,0344
D3	6,46	6,46	6,46	6,46	6,46	0,0385	0,0380	0,0363	0,0348	0,0328

tive 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.

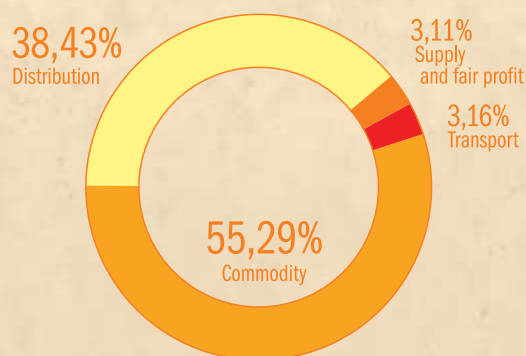
Development of the average final prices of gas supply to households in 2014–2016 (excl. VAT)

Tariff	2014	2015	2015	2016	2016
(based on annual volume		until 31.8.	from 1.9.	from 1.1.	from 4.7.
of supplied gas in kWh)	(€/kWh)	(€/kWh)	(€/kWh)	(€/kWh)	(€/kWh)
D1 (up to 2 100 kWh)	0,0900	0,0895	0,0878	0,0863	0,0843
D2 (2100–17 935 kWh)	0,0442	0,0437	0,0420	0,0405	0,0385
D3 (17 935–68 575 kWh)	0,0413	0,0408	0,0391	0,0376	0,0356

Development of the average final prices of gas supply to households in 2014–2016 (excl. VAT)



Structure of average prices of gas supplied to households in 2016 excl. VAT



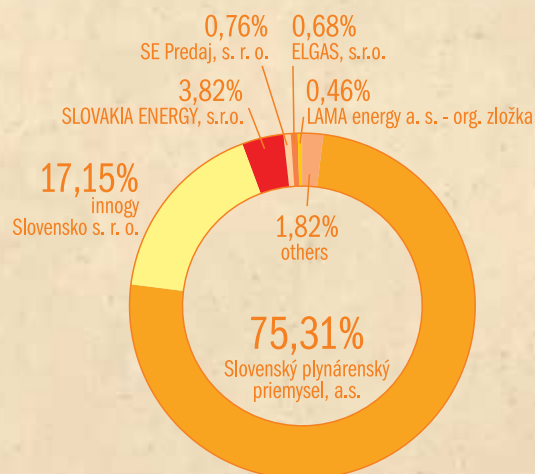
Gas supply to small businesses

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 thou. kWh in all its off-take 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.

Suppliers of gas to small businesses in 2016



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 the 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 in the last resort supplier regime

	2013	2014	2015	2016
No. of offtake points	410	40	40	10

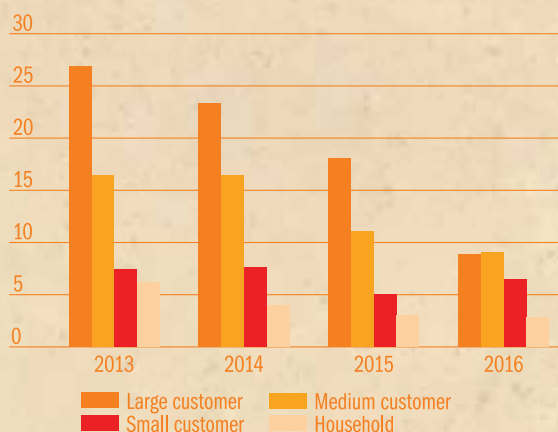
Gas supply to other gas customers

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.

Market monitoring

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.

Switching in 2013–2016



There were several reasons for stagnation of switching in 2016. Households were less 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

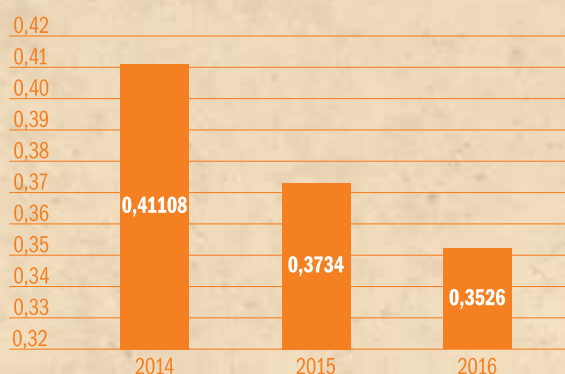
Development of switching in 2013–2016

Customer category	No. of switched offtake points				switching (%)			
	2013	2014	2015	2016	2013	2014	2015	2016
Large customer	204	174	130	99	26,91	23,39	18,06	8,89
Medium customer	480	480	318	318	16,61	16,44	11,14	9,10
Small customer	5 676	5 877	3 967	5 037	7,48	7,72	5,08	6,55
Household	88 028	58 081	45 827	41 577	6,21	4,07	3,21	2,89
Total	94 388	64 612	50 242	47 031	6,31	4,29	3,33	3,09

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%.

HHI development in 2014–2016



Decisions issued by the Department of Gas Industry Regulation in 2016

I. Decisions on price regulation issued in 2016 for the remainder of the regulatory period

Gas supply to households	2
Gas supply to households (amended decision)	2
Gas supply to small businesses	3
Gas supply to small businesses (amended decision)	2
Access to the distribution network and gas distribution	2
of which (amended decision on LDN)	
Access to the distrib. network and gas distribution (LDN)	2
Access to the distribution network and gas distribution (amended decision on SPP-D)	1
Connection to the distribution network (LDN)	1
Access to the transmission network	1

IV. Terminated price proceedings 1

VII. Suspended price proceedings 1

VIII. Letters, e-mails, opinions 30





03

THERMAL ENERGY INDUSTRY

Thermal energy market

In 2016, no major legislative changes in thermal energy were adopted that would have impacted the conditions for doing business in this industry. Thermal energy is an industry that is quite different from other network industries because it is more difficult to apply the general conditions of the liberalized market to individual participants. This is caused by the construction of systems of thermal facilities that are not interconnected

and, as a result, heat can only be delivered to specific customers in specific offtake points. Hence, heat producers also become heat suppliers. Given this, it is not possible to consider the heat market to be a true market and the monopoly position of heat suppliers is undeniable in the current model. There is no regular competition on the thermal energy market, but rather a competition for the market. This means that suppliers, in an attempt to maintain their position, compete for individual central heat supply systems (hereinafter "CHSS").

In 2016, 338 heat suppliers were licenced to produce, produce and distribute or distribute heat.

Heat suppliers in the Slovak Republic

	2014	2015	2016
No. of heat suppliers	332	352	338

87% of suppliers both produce and distribute heat, 13% of suppliers only buy and distribute heat. In 2016, 17 suppliers ceased to operate due to the termination of the heat supply or due to the sale or rental of thermal facilities to other entrepreneurs in the thermal energy industry.

Development of a number of heat suppliers

	2014	2015	2016
Heat suppliers that terminated the regulated activity	22	14	17
Heat suppliers that began to perform the regulated activity	28	34	4

Development of thermal energy supplies

The CHSS in the Slovak Republic are built in 335 municipalities. Heat is supplied to 12,664 customers in 24,996 offtake points. It is delivered under a contract on heat supply entered into between a supplier and buyer, the requisites of which are governed by the Act. No. 657/2004 Coll. on thermal energy industry as amended (hereinafter "Act No. 657/2004 Coll.").

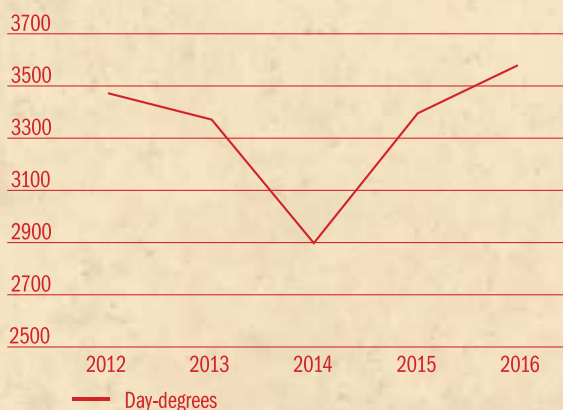
The ordered amount of heat is a contractually agreed volume of heat for the regulatory year *t* based on the actual heat supply in year *t-2*, unless the parties agree otherwise. The development of the ordered amount of heat in the reference period shown in the table indicates a decrease of 15%. This decline primarily owed to climatic conditions in the previous years, building insulation and other austerity measures. The actual heat supply was based on the actually measured values at offtake points, i.e. it depended on the current market situation and the specific climatic conditions of a relevant year. Data on the actual heat supply in 2016, which will become available to the Office in May 2017, will reflect the colder year of 2016 compared to 2015, which is also evidenced in day-degrees in the graph below.

Development of heat supply in 2014-2016

	Ordered volume of heat [Gwh]	Ordered volume of heat [Gwh]		Act. supply [Gwh]
		apartments	others	
2014	14 534	5 684	8 850	13 140
2015	13 984	5 515	8 508	14 023
2016	12 337	5 777	8 923	14 600*

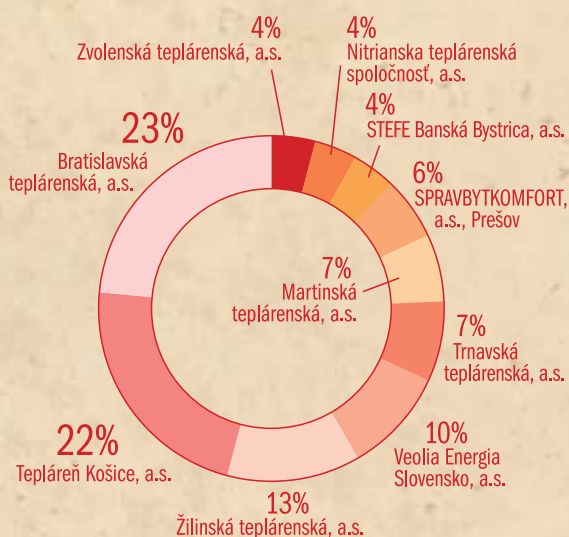
* estimate

Development of climatic conditions



The heat supply, which is expected to reach 14,600 GWh in 2016, included the heat supplied to apartments, non-residential premises and technological processes including own consumption. The share of heat supplied for heating and domestic hot water production stood at 41% in 2016.

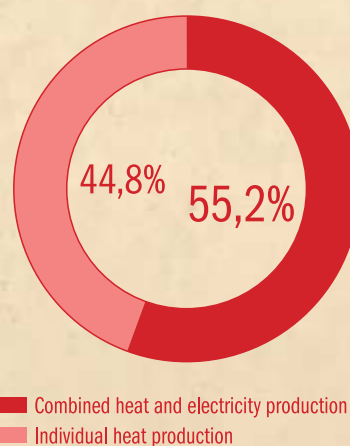
Shares of key heat suppliers



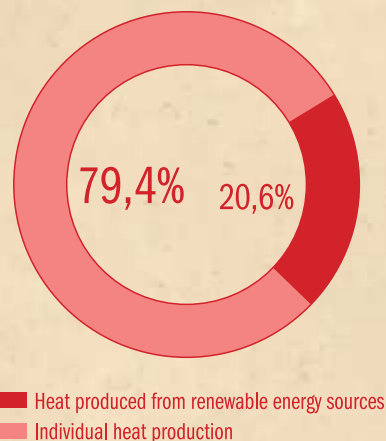
The thermal energy industry is a structurally very diverse network industry. Systems of thermal facilities differ in the range, technology and also fuel used. In 2016, 55% of heat was produced in thermal systems with combined electricity and heat production. The re-

mainder of the regulated heat is produced separately in block and home boilers. Renewable energy sources account for 20% of heat supply.

Production of heat via combined heat and electricity production in 2016



Production of heat from renewable energy sources in 2016



Fuel consumption in heat production

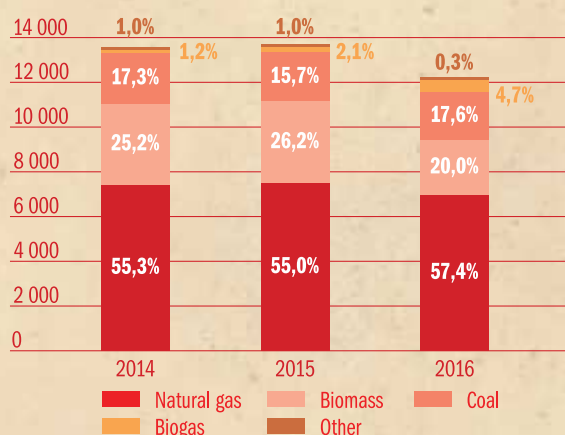
With a share ranging from 55% to 57.4%, natural gas was most widely used fuel used in heat production in 2014–2016, followed by biomass with a share between 20% and 26.2%. In 2016, there was a decline in biomass use due to a change in the structure of

the heat cost calculation for some industrial plants that separated the costs of producing heat for their own consumption from the price regulation.

Shares of individual types of fuel in heat production

	Natural gas [Gwh]	Biomass [thous. t]	Coal [thous. t]	Biogas [Gwh]
2014	9 146	1 699	608	177
2015	9 053	1 729	578	323
2016	8 658	1 121	571	564

Shares of individual types of fuel



An overview of a number of suppliers by fuel used in heat production

Fuel used	No. of suppliers		
	2014	2015	2016
Natural gas	264	270	257
Biomass	74	75	68
Coal	15	15	17
Biogas	14	37	40
Geothermal energy	4	4	5
Heat pump	3	3	5
Solar energy	2	2	3

Scope and method of price regulation

The scope and method of price regulation did not change fundamentally in 2016 compared to the previous year. Prices were regulated for all activities, i.e. production, distribution and heat supply by determining the method of calculating the maximum heat price. Only

economically eligible costs and fair profit were applied to heat pricing.

Price monitoring

Price decisions issued for 2014 remained valid for the years 2015 and 2016, unless amended by the Office. Throughout 2016, the Office approved 90 price decisions with 105 prices, out of which heat prices were updated in 74 decisions. The Office issued 16 new price decisions to newly established heat suppliers or suppliers who began to operate in new locations.

Development of price decisions

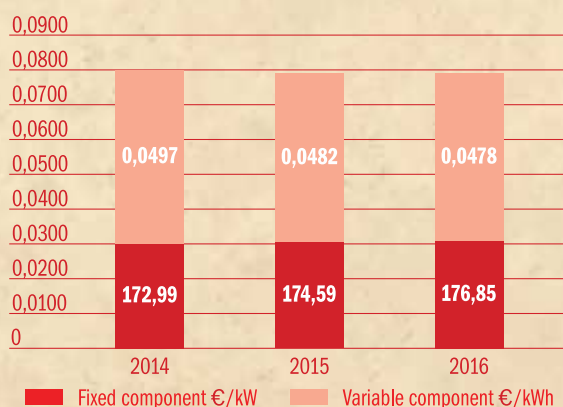
	Price decisions in total	Amended decisions	Approved prices
2014	345	23	799
2015	238	197	542
2016	90	74	105

The variable component of the maximum heat price averaged EUR 0.0478 kWh in 2016. The y-o-y decrease of 0.8% in this component of the heat price owed to the favourable price of natural gas. A greater decrease in the variable component of the price of heat produced from natural gas will be reflected only in the heat prices determined for the year 2017, the first year of the regulatory period 2017–2021. All regulated entities were obliged to submit price proposals to the Office for approval. The principle of annual settlement of costs at the end of the year is applied to actual costs in thermal energy industry. As a result, the significant decrease in the price of natural gas in the previous years can be seen in the actual variable component of the heat price for 2016.

Average price of heat in 2014–2016

	2014	2015	2016
Variable component €/kWh	0,0497	0,0482	0,0478
Fixed component €/kW	172,99	174,59	176,85
Final price €/kWh	0,0823	0,0811	0,0812

Average price of heat



The reason for submitting proposals to modify the fixed component of the heat price in 2016 related to changes in factual data used for approval of the price in the previous years. The average fixed component of the heat price in 2016 amounted to EUR 176,85 kW, which is 1.3% more than in 2015. The method of regulation specified in this regulatory period allowed a y-o-y increase in fixed costs only as a result of new investments in making production more efficient and heat distribution, i.e. construction of thermal facilities using renewable energy sources. 25 suppliers who were planning new investments in thermal facilities in the total amount of EUR 93.7 mil. applied for this option in 2016. Economically eligible depreciation costs of new investments that affected the average heat price were translated to heat prices from these suppliers.

Investments in thermal industry in 2014–2016

Purpose of investments	Planned investments in €		
	2014	2015	2016
Heat production facilities	23 362 918	28 644 798	1 635 780
Heat distribution facilities	27 004 892	10 343 794	75 425 247
Environmentalization	2 864 660	49 186 298	5 254 674
Planned general repairs	6 863 050	150 000	4 727 068
Construction of RSE	1 276 152	498 889	6 681 836
Total	61 371 672	88 823 779	93 724 606

The amount of fixed costs of other suppliers did not exceed the level of 2014 and 2015 depending on the year in which their heat price was approved. Similarly, low heat supply in 2014, which was 15% warmer than a regular year, did not influence the fixed component of the heat price. The fixed component of the heat price is determined for the regulatory input, which is calculated from the actual heat supply in year t-2, i.e. the 2014 heat price for 2016. The legislative adjustment of the calculation of the regulatory input for 2016 to regular climate conditions avoided a virtual increase of the fixed component. Minimal changes in the individual heat price components (-0.8% in the variable component, 1.3% in the fixed component) had only a marginal impact on the final heat price in 2016.

All regulatory measures adopted in the previous years were aimed at stabilizing the heat price for an end customer. However, individual prices for individual suppliers may have differed from average heat prices in some cases. This was caused by a different size of CHSS, a different production technology, fuel used, the amount of investment in thermal facilities, etc. A negative impact on the price of heat may have also owed to the fact that heat was supplied to the end customer by several suppliers via a single CHSS, thus increasing the price of heat accordingly.

Development of costs of heat

For statistical evaluation of costs of heat development, a monitored sample of selected 900 residential buildings with 40,000 apartments in the Slovak Republic in 2012–2015 was used. Stable prices of heat in the reporting period and falling heat supplies low-

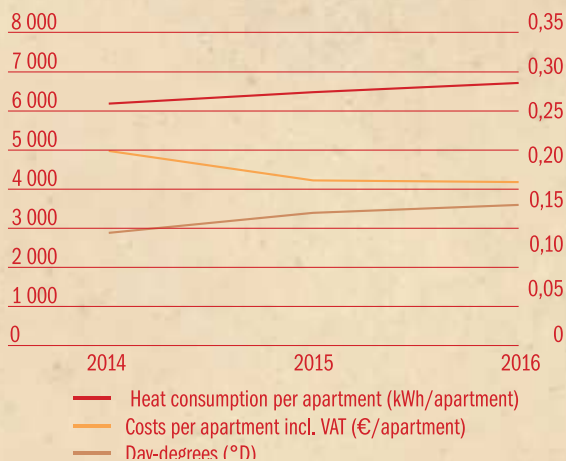
red the costs of heat per apartment from EUR 716 in 2012 to EUR 626 in 2015 incl. VAT. Resulting from the colder 2016 compared to 2015, a moderate increase in the heat cost per household is expected in 2016. Given that heat prices in 2015 and 2016 remained on approximately the same level, the potential increase in heat costs in 2016 will only be caused by climatic conditions and hence higher heat consumption for heating.

Development of costs of heat per apartment

	2014	2015	2016
Heat consumption per apartment (kWh/apartment)	6 152	6 468	6 695
Costs per apartment incl. VAT (€/apart.)	629	626	652
Day-degrees (°D)	2 888	3 388	3 570
Costs per apartment incl. VAT (€/apartment, °D)	0,22	0,18	0,18

* Estimate

Development of heat consumption and costs per apartment





04

WATER MANAGEMENT

Potable and waste water

In compliance with the applicable price regulation, a regulated entity was only allowed to request an amendment to a price decision or, in case of an issued price confirmation, notify of an amendment to a price valid until the end of the regulatory period of 2012–2016. For this reason, no significant changes in the price regulation were reported in 2016.

17 new regulated entities including small municipalities and small businesses were registered as a result of new public water systems and public sewage systems that were completed and launched into operation in small municipalities and suburbs connected to the already existing public water system or public sewage system operated by a water company in 2016. 650 regulated entities, of which 14 water companies, 105 small operating companies and 531 municipalities were registered as owners of public water mains or public sewage system as of December 31, 2016.

Overview of price decisions issued for 2014–2016

	2014	2015	2016
Price decisions	140	10	7
Amended price decisions	8	5	3
Confirmed price decisions	479	28	10
Decisions on terminated price proceedings	12	14	3
Decisions on suspended price proceedings	12	3	5
Decisions on cancelled price proceedings	0	2	2
Total	651	62	30

Price monitoring

The prices of water approved for a three-year period of 2014–2016 contributed to price stabilization and completion of one of the objectives of the regulation policy. The water companies supply potable water to as many as 95% of all supplied residents. Pursuant to the applicable law, price decisions and confirmations issued for the year 2014 remained valid until the end of the regulatory period, i.e. years 2015 and 2016, unless amended by the Office.

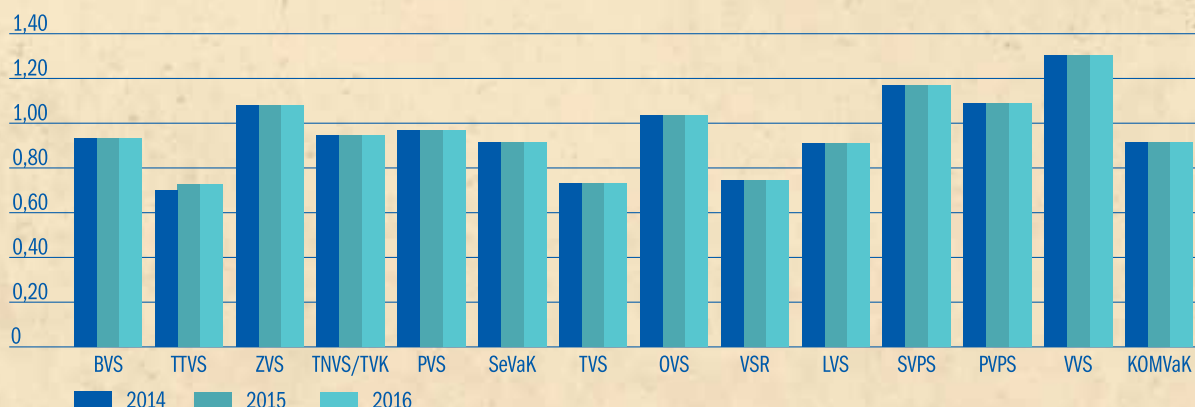
In 2016, three proposals for amendment to a price decision were submitted, of which one was submitted by a water company. After reviewing the supporting documents and a demonstrated need and justification of higher eligible costs, the Office amended a price for waste water collection and treatment by public sewage system effective from July 1, 2016. In relation to this, the Office also amended other two price decisions.

In addition to the amendments to the price decisions, the Office issued seven price decisions and 10 price confirmations, in which it set 23 maximum prices of water to the new regulated entities throughout 2016.

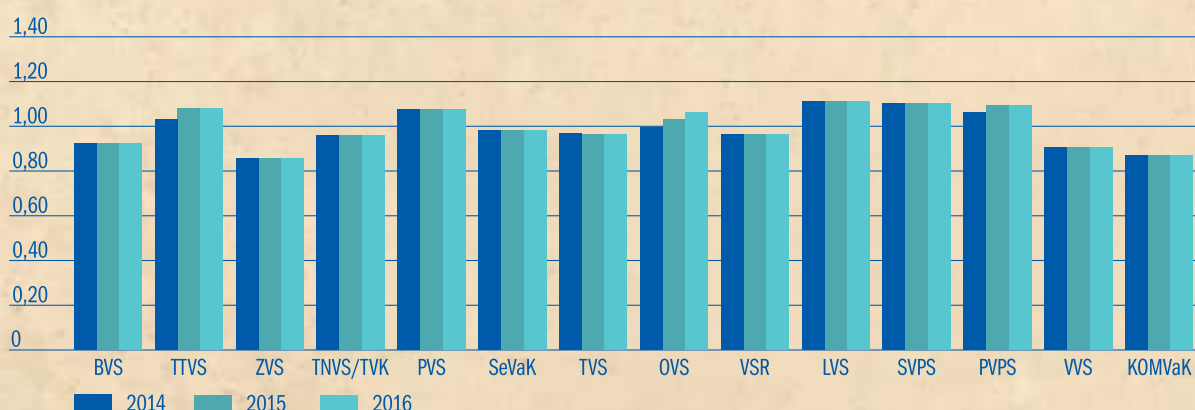
Prices for production, distribution and supply of potable water via the public water supply system in 2014–2016

	2014 €/m ³	2015 €/m ³	2016 €/m ³
Bratislavská vodárenská spoločnosť	0,9359	0,9359	0,9359
Trnavská vodárenská spoločnosť	0,7012	0,7286	0,7286
Západoslovenská vodárenská spoločnosť	1,0802	1,0802	1,0802
Trenčianska VS/Trenčianske VaK (od 2015)	0,9495	0,9494	0,9494
Považská vodárenská spoločnosť	0,9741	0,9741	0,9741
Severoslovenské vodárne a kanalizácie	0,9126	0,9126	0,9126
Turčianska vodárenská spoločnosť	0,7302	0,7302	0,7302
Oravská vodárenská spoločnosť	1,0353	1,0353	1,0353
Vodárenská spoločnosť Ružomberok	0,7460	0,7460	0,7460
Liptovská vodárenská spoločnosť	0,9102	0,9102	0,9102
Stredoslovenská vodárenská prevádzková spoločnosť	1,1700	1,1700	1,1700
Podtatranská vodárenská prevádzková spoločnosť	1,0884	1,0884	1,0884
Východoslovenská vodárenská spoločnosť	1,3100	1,3100	1,3100
Vodárne a kanalizácie mesta Komárna	0,9162	0,9162	0,9162

Development of prices for potable water production and supply in Eur/m³ (excl. VAT)



Development of waste water collection and treatment in Eur/m³ (excl. VAT)

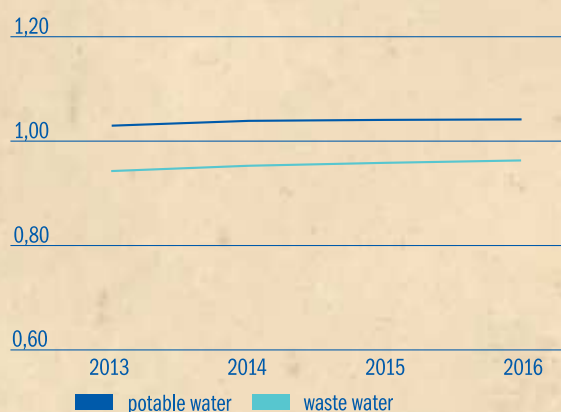


Prices for collection and treatment of waste water by the public sewage system 2014–2016

	2014 €/m ³	2015 €/m ³	2016 €/m ³
Bratislavská vodárenská spoločnosť	0,9216	0,9216	0,9216
Trnavská vodárenská spoločnosť	1,0292	1,0758	1,0758
Západoslovenská vodárenská spoločnosť	0,8538	0,8538	0,8538
Trenčianska VS/Trenčianske VaK (od 2015)	0,9555	0,9554	0,9554
Považská vodárenská spoločnosť	1,0700	1,0700	1,0700
Severoslovenské vodárne a kanalizácie	0,9797	0,9797	0,9797
Turčianska vodárenská spoločnosť	0,9639	0,9591	0,9591
Oravská vodárenská spoločnosť	0,9916	1,0263	1,0570
Vodárenská spoločnosť Ružomberok	0,9603	0,9603	0,9603
Liptovská vodárenská spoločnosť	1,1068	1,1068	1,1068
Stredoslovenská vodárenská prevádzková spoločnosť	1,0983	1,0983	1,0983
Podtatranská vodárenská prevádzková spoločnosť	1,0585	1,0904	1,0904
Východoslovenská vodárenská spoločnosť	0,9000	0,9000	0,9000
Vodárne a kanalizácie mesta Komárna	0,8643	0,8643	0,8643

In 2016, the average price of waste water collection and treatment rose only by 0.3% to EUR 2.043/m³ excl. VAT in the Slovak Republic.

Development of the average price for potable water production and supply and waste water treatment and collection in Eur/m³ (excl. VAT)

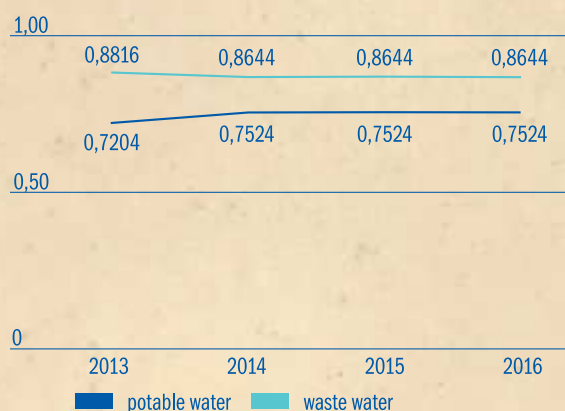


The Office issued seven new price decisions on 12 prices of water, of which only two were amended to smaller water companies that supply potable water or collect and treat waste water mainly in small municipalities and smaller suburban areas in 2016.

The Office issued 10 new confirmations on 10 prices of water to small municipalities that own and operate public water supply or sewage systems of category III (for app. 2,000 residents) in 2016. The municipalities did not request any amendment to prices valid in 2016.

Neither the average price for production and supply of potable water nor the average price for waste water collection excl. VAT changed for these small regulated entities in 2016 y-o-y. Unlike the prices of water companies that charge more for waste water collection than potable water distribution, which is a result of construction of new public sewage systems and mainly waste water treatment plants for small municipalities up to 2,000 equivalent residents by 2015 in compliance with the commitment of the Slovak Republic made to the European Union.

Development of prices of small regulated entities - small municipalities in Eur/m³

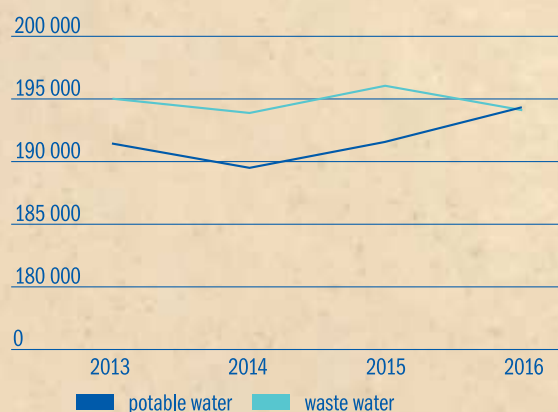


Supply and collection

In 2016, the total volume of potable water supplied by public water mains increased by 2,719,315 m³ (+ 1% y-o-y).

Similarly, the volume of waste water collected by public sewage system was reduced, but to a lesser extent, as the new ones were built in small municipalities and new waste water producers were connected, as a result. Despite the increase in the volume of collected waste water in 2015, it decreased 1,910,921 m³ (-1% y-o-y) in 2016.

Development of potable water supply and waste water collection in thous. m³



Investments

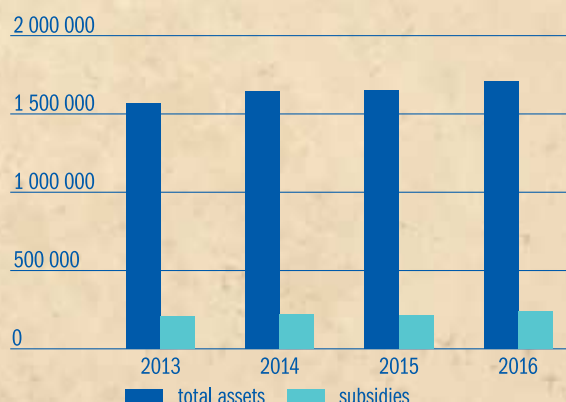
The investments made in the water management in the recent years primarily related to fulfilment of the obligations in the area of waste water treatment. All municipalities with more than 2,000 equivalent residents had to have the sewage system built and waste water treated by the end of 2015, which was significantly subsidized from the European Union funds. For this reason, an increase in asset value of waste water collection and treatment (+18 %) was considerably higher than the value of assets used for potable water supply (+3 %), where construction of missing public water mains was usually funded by water companies and small municipalities.

Based on the data from water companies for the year 2016, the subsidies from the European Union and the state budget covering capital

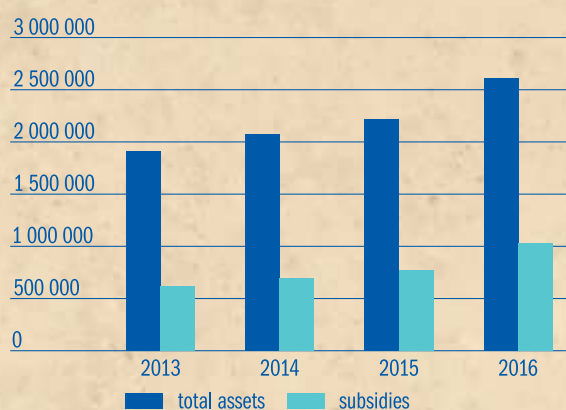
investments to potable water supply increased by 12 % y-o-y, while the share of the investments on total assets reached 14%.

In the area of waste water collection and treatment, the share of assets built and covered by the subsidies in 2016 increased significantly by 35% y-o-y. The share of the subsidized assets on the total value of assets represents 39%, which is considerably higher than the one for potable water. The significant increase is related to the completion of a large number of investment projects for the above mentioned reason and the launch of new assets into operation.

Development of total assets and subsidies - public water systems (in thous. Eur)



Development of total assets and subsidies - public sewage systems and waste water treatment plants (in thous. Eur)



Utilization of water assets capacity

Based on the data on total projected capacity and actual use of the capacity of water assets operated by water companies, the average utilization of public water supply mains increased by 2% up to the level of 94% in 2016. The below average capacity utilization was reported by three water companies.

Similarly, utilization of waste water treatment plants has risen by 4% on the average to the current level of 78% since 2015, while the majority of water companies reported the below average capacity utilization. The overall lower capacity utilization is related to the projected waste water treatment capacities that must have a certain reserve for the treatment of sewage collected via newly-built public sewage systems. The higher utilization points to a trend when new producers began to connect to new public sewage systems in 2016.

Surface water utilization

In compliance with the applicable law, the price regulation is applied to collection of surface water and energy water from watercourse and utilization of hydropower potential of watercourse.

Slovenský vodohospodársky podnik, š.p., Banská Štiavnica, a management company of watercourses appointed by the government, is a regulated entity acting as a monopoly that performs the regulated activities in this area in the Slovak Republic.

Until 2016, the method of price regulation was defined as calculation of a fixed price for regulated activities with fixed prices remaining valid until the end of the regulatory period, unless amended by a relevant price decision issued by the Office. A regulated entity may only request a price amendment due to a significant change in economic parameters affecting economically eligible costs that served as the basis for the original price determination and justify such request with due analysis.

Development of indicators for regulated activities in water companies

Potable water	2013	2014	2015	2016	change 2016/2015	%
Revenues from regulated activities in thous. Eur	196 407	195 625	197 948	201 937	3 989	2
Eligible costs in thous. Eur	194 340	194 187	190 602	197 415	6 813	4
of which costs of WMA repair in thous. Eur	28 368	29 771	30 062	35 063	5 001	17
Water management assets in thous. Eur	1 558 373	1 637 567	1 648 672	1 702 435	53 762	3
from subsidies in thous. Eur	198 880	214 611	208 749	233 100	24 351	12
Volume of water in thous. m ³	191 439	189 514	191 519	194 238	2 719	1
Water management assets capacity utilization	92%	92%	92%	94%	2%	2

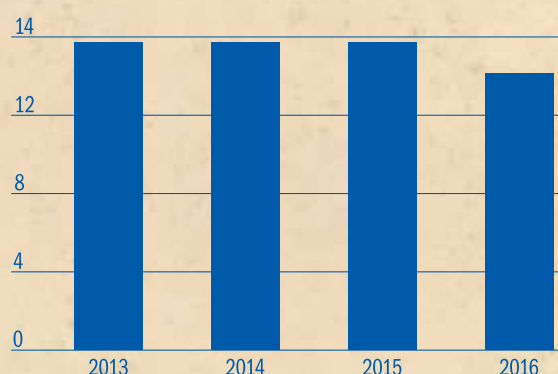
Waste water	2013	2014	2015	2016	change 2016/2015	%
Revenues from regulated activities in thous. Eur	182 104	182 522	186 167	184 412	-1 755	-1
Eligible costs in thous. Eur	178 354	182 691	182 986	196 959	13 973	8
of which costs of WMA repair in thous. Eur	17 395	17 117	18 302	20 145	1 842	10
Water management assets in thous. Eur	1 898 987	2 052 742	2 209 504	2 601 960	392 456	18
from subsidies in thous. Eur	605 217	688 282	754 090	1 014 979	260 889	35
Volume of water in thous. m ³	195 022	193 790	195 984	194 073	-1 911	-1
Water management assets capacity utilization	78%	74%	74%	78%	4%	5

In 2016, the Office initiated an amendment to the price decision in which it reduced tariffs for the use of the hydropower potential of water-courses as of May 1, 2016.

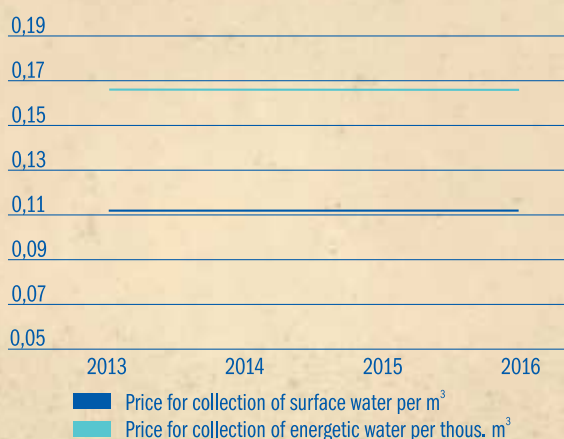
Prices for use of surface water in Eur (excl. VAT)

	2013	2014	2015	2016
Price for coll. of surface water per m ³	0,1122	0,1122	0,1122	0,1122
Average price for hydropower potential utilization per 1 Mwh	15,7552	15,7552	15,7552	14,1681
Price for energetic water collection in thous. m ³	0,1659	0,1659	0,1659	0,1659

Average price of hydropower potential utilization in Eur/MWh (excl. VAT)



Development of water collection prices in Eur (excl. VAT)







5. LEGISLATURE

Pursuant to the Act No. 250/2012 Coll., the Office shall also issue generally binding legal regulations – decrees. In compliance with the empowering provisions, the Office drafted, submitted to legal proceedings and issued the following decrees in the monitored period:

- Decree of the Regulatory Office for Network Industries No. 371/2016 Coll. amending the Decree of the Regulatory Office for Network Industries No. 24/2013 Coll. laying down the rules for operation of the internal electricity and natural gas market,
- Decree of the Regulatory Office for Network Industries No. 260/2016 Coll. laying down the price regulation in electricity industry and certain conditions of performance of regulated activities in electricity industry,
- Decree of the Regulatory Office for Network Industries No. 248/2016 Coll. laying down the price regulation in thermal energy industry,
- Decree of the Regulatory Office for Network Industries No. 236/2016 Coll., laying down the standards of quality in transmission, distribution and supply of electricity,
- Decree of the Regulatory Office for Network Industries No. 235/2016 Coll. amending the Decree of the Regulatory Office for Network Industries No. 276/2012 Coll. laying down the standards of quality in supply of potable water via public water supply system and collection of waste water via public water sewage system,
- Decree of the Regulatory Office for Network Industries No. 234/2016 Coll. amending the Decree of the Regulatory Office for Network Industries No. 277/2012 Coll. laying down the standards of quality in heat supply,
- Decree of the Regulatory Office for Network Industries No. 233/2016 Coll. amending the Decree of the Regulatory Office for Network Industries No. 278/2012 Coll. laying down the standards of quality in storage, transport, distribution and supply of gas,
- Decree of the Regulatory Office for Network Industries No. 225/2016 Coll. laying down the price regulation in production, distribution and supply of potable water via public water system and collection and

treatment of waste water via public sewage system,

- Decree of the Regulatory Office for Network Industries No. 224/2016 Coll. laying down the price regulation in collection of surface water and power water from watercourses and utilization of hydropower potential of watercourses,
- Decree of the Regulatory Office for Network Industries No. 223/2016 Coll. laying down the price regulation in gas industry.

6. REGULATION OF THE STANDARDS OF QUALITY AND ANALYTICAL ACTIVITIES

Standards of quality

The primary objective of the decrees, which set the standards of quality, is to protect a consumer from the dominant position of a regulated entity doing business in one of the network industries. In 2016, the compensation payments continued to play a supportive role in the regulation of quality in order to motivate regulated entities to increase the level of compliance with the standards of quality and to promote investments that would enhance higher security, stability and development of infrastructure of regulated entities.

A number of delivered reviews and recorded events in the electricity industry

Electricity industry	Electricity transmission	Electricity distribution	Electricity supply
No. of reviews delivered	1	132	163
No. of events recorded	16	7,971,633	232,685
No. of events recorded with a violation of the standards of quality	0	15,072	971
A share of events with a violation of the standards of quality on events recorded in total	0.00%	0.19%	0.42%

Gas industry	Gas storage	Gas transmission	Gas distribution	Gas supply
No. of reviews delivered	2	1	43	66
No. of events recorded	869	229	44,163	158,307
No. of events recorded with a violation of the standards of quality	0	14	4	586
A share of events with a violation of the standards of quality on events recorded in total	0%	6.11%	0.009%	0.004%

Thermal energy industry	Heat supply
No. of reviews delivered	310
No. of events recorded	78,345
No. of events recorded with a violation of the standards of quality	203
A share of events with a violation of the standards of quality on events recorded in total	0.26%

VWater management industry	Potable water supply	Waste water collection
No. of reviews delivered	275	287
No. of events recorded	65,096	56,978
No. of events recorded with a violation of the standards of quality	507	7
A share of events with a violation of the standards of quality on events recorded in total	0.78%	0.0001%

An overview of compensations paid out in 2016

	Regulated activity	EUR
Electricity	Transmission	0
	Distribution	196,699.34
	Supply	170,572.00
	Total	214,271.34
Gas	Storage	0
	Transmission	0
	Distribution	720
	Supply	14,581.00
	Total	15,301.00
Heat	Supply	23,961.35
Water	Potable water supply	643.11
	Waste water collection	6.77
	Total	649.88

Compliance with the Article 29 Sections 2-5 of the Act No. 250/2012 Coll.

In 2016, the Office approved 12 service level agreements to optimize adequacy of costs of regulated activities and unify the content of contractual relations.

The Office recorded 487 public tenders announced by 17 regulated entities throughout 2016. 429 public tenders out of tenders announced in 2016 and in the previous period were completed and 58 cancelled in the monitored period. One public tender was closed without a winner announced. 126 public tenders were in progress as of December 31, 2016. 116 regulated entities reported 675 completed projects with a value exceeding EUR 300,000.



7. PERFORMANCE OF INSPECTION

Focus

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 sen-

ding 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.

An overview of findings

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:

- electricity industry	50
- gas industry	39
- thermal energy industry	10
- water management	3
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 c) of the Act No. 250/2012 Coll. – non-settlement of costs of heat production, distribution and supply that are not considered economically illegible costs in a manner and within the deadline defined by the Office. 24 findings were identified in:

- thermal energy industry	24
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4. 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
- thermal energy industry	1
- water management	8
5. 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
 - thermal energy industry 2
 - water management 7
6. 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
 - water management 1
7. 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
 - thermal energy industry 3
8. 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
 - thermal energy industry 2
9. 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
 - gas industry 1
 - thermal energy industry 2
10. 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
11. 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
12. Violation of the Article 29 Section 1 Letter a) of the Act No. 250/2012 Coll. – non-performance of the regulated activity on the basis and within the scope of the licence issued, the confirmation of fulfilment of notification duty or the confirmation of registration. 1 finding was identified in:
- thermal energy industry 1
13. Violation of the Article 29 Section 1 Letter l) of the Act No. 250/2012 Coll. – non-performance of the remedial measure within the set deadline. 1 finding was identified in:
- thermal energy industry 1
14. Violation of the Article 14 Section 7 of the Act No. 250/2012 Coll. – a failure to submit a price proposal to the Office for approval within 15 days after delivery of the licence, the confirmation of fulfilment of notification duty or the confirmation of registration. 1 finding was identified in:
- thermal energy industry 1
15. 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
16. 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

17. 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

18. 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

19. 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

20. Violation of the Article 69 Section 2 Letter a) Item 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

21. 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

22. 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

23. 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

24. 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

25. 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

26. Violation of the Article 5 Section 1 of the Act No. 657/2004 Coll. – conducting business in thermal energy industry without a business licence or in non-compliance with the licence. 6 findings were identified in:

- thermal energy industry 6

27. Violation of the Article 11 Section 1 of the Act No. 657/2004 Coll. – non-compliance with the notification duty to the Office. 2 findings were identified in:

- thermal energy industry 2

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,
 - thermal energy industry 30 measures,
 - water management 6 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 in the total amount of EUR 171,622.64 of which to:

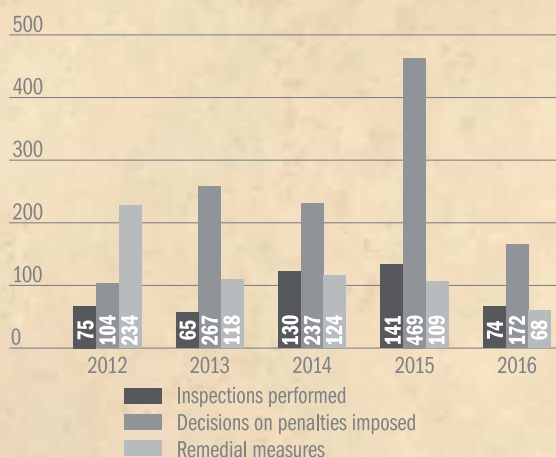
- electricity customers EUR 57,355.98
 - heat customers EUR 114,266.66
- of which in:
- a variable component of the maximum price EUR 97,753.23
 - a fixed component of the maximum price EUR 16,513.43

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.

An overview of performed inspections in regulated entities, imposed penalties and remedial measures in 2012-2016



Penalties for the violation of the legal obligations in 2016

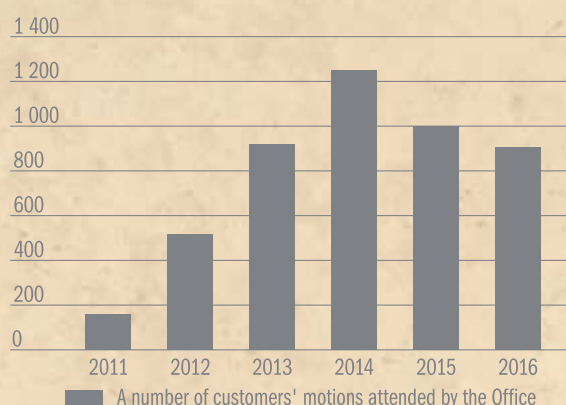
Proceedings		Decisions			
		Issued		Effective	
		No.	Penalty (Eur)	No.	Penalty (Eur)
I. On-site inspections		42	269 850,00	31	222 150,00
II. Remote	- provision of false information	5	6,000.00	14	19,700.00
	- non-performance of information duty to the Office	35	20,500.00	32	19,900.00
	- non-submission of actual costs (heat), data (water)	44	28,200.00	75	43,900.00
	- non-performance of a regulated activity in compliance with an effective decision or confirmation	3	3,300.00	2	2,500.00
	- non-compliance with price regulation pursuant to the generally binding regulation issued by the Office	2	1,000.00	5	2,500.00
	- non-submission of the standards of quality	29	14,500.00	29	14,500.00
	- non-submission of data from the registry	12	6,000.00	13	6,500.00
Total		172	349,350.00	201	331,650.00

8. MOTIONS AND COMPLAINTS

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.

A number of customers' motions attended by the Office in 2011-2016



9. ALTERNATIVE DISPUTE SETTLEMENT

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.

A number of out-of-court disputes resolved in 2016

No. of delivered proposals for alternative consumer dispute settlement	24
No. of proposals for alternative dispute settlement pursuant to the Article 37	6
No. of proposals attended as a motion	2

10. BUSINESS LICENCES IN THE NETWORK INDUSTRIES

Upon the request of the system operators, the Office reviewed and approved a total of 21 operational orders in 2016, of which 18 for local distribution systems and three for SEPS, a.s. and OKTE, a.s., regional distribution systems. In 2016, the Office issued three decisions on approval of commercial and financial contracts in the gas industry and 20 decisions on a prior consent to eustream, a.s. as an independent transmission network operator.

Confirmation of notification duty fulfilment

In 2016, the Office issued 252 confirmations on fulfilling of the notification duty in total, of which 152 confirmations related to electricity production and supply in photovoltaic facilities (of which 67 for new facilities and 85 for amendments to a confirmation), 17 confirmations on electricity production and supply in small water power plants (of which five for new facilities and 12 for amendments to a confirmation), 15 confirmations on electricity production and supply in biogas power stations (of which one for the new facility and 14 for amendments to a confirmation).

Business licences in thermal energy industry

In 2016, the Office issued 11 new licences for thermal industry, which represents almost a 50% decrease compared to 2015. Throughout 2016, 131 amendments to the already issued licences were made. The majority of them emerged from a change in the scope of a technical facility or identification data of a licence holder.

Confirmation of registration in water management industry

In 2016, the Office issued 49 confirmations of registration in total based on requests submitted by regulated entities.

Confirmation of registration in 2013–2016

	2013	2014	2015	2016
A total number of issued confirmations of registration	586	616	636	650

11. REMIT AND INTERNATIONAL ACTIVITIES

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 (“VOTE”), forbids misuse of confidential information in business conduct and market manipulation. In order to monitor VOTE, 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 VOTE 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 VOTE participants via telephone or a special electronic mail set up for REMIT purposes. The Office also provided the VOTE participants with information via the REMIT section on its official website. 93 user accounts and 91 market participants in total were registered in CEREMP

12. HUMAN RESOURCES AND ORGANIZATIONAL STRUCTURE

at the end of 2016. Two participants registered in the Slovak VOTE system are foreign companies from Ukraine and Switzerland.

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.

As of 31 December 2016, the Office employed a total of 114 employees (out of a planned number of 124 employees), of which 97 were government employees and 17 were employed to deliver works in the public interest. 26 employees were located in local offices outside of the headquarters of the Office in Bratislava, i.e. at the Departments of Inspection seated in Trenčín, Košice, Martin and the Department of Monitoring and Analysis in Martin.





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