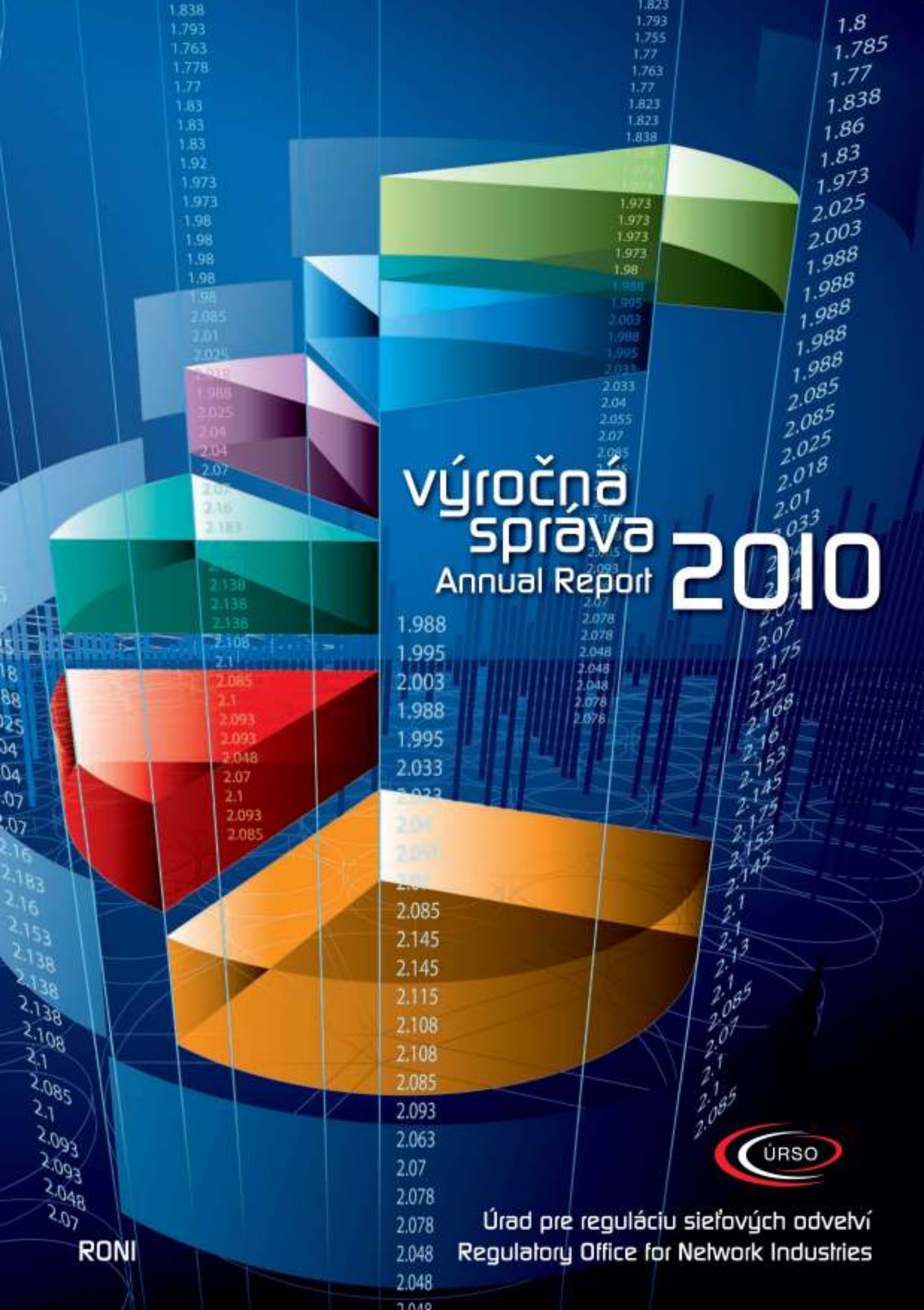

výročná správa
Annual Report 2010

ÚRSO

Úrad pre reguláciu sieťových odvetví
Regulatory Office for Network Industries

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Chairman's Foreword

Within a short period of time of the Regulatory Office for Network Industries existence, Slovakia and its energy sector have experienced significant changes. While the energy markets in traditional countries have been developing for decades, Slovakia has succeeded to enter the European Union and its energy legislation within six years. The transition from state monopoly of the network industries towards fully liberalized market was accompanied by enormous turbulences in all areas under the Office's competences. The transformation process evoked continuously changing situation on the battlefield, and I am glad to state that the Office has played crucial role in the battle for the current design of the market environment, and the energy sector has been imprinted by the Office's impacts and influence.

However, it is not important to work hard but to work efficiently. As from this view, the Office has been disposed by a good methodology implied in the Regulatory Policy for the period of 2009–2011, elaborated by the Board for Regulation.

In 2010, the objective of the Regulatory Office for Network Industries was to maintain the prices stable, to provide assistance in establishing a competitive environment in the electricity and gas markets, to improve quality of energy and related services supply, and to contribute to security of energy supply.

The Slovak electricity and gas markets do not function autonomously, but within the context of much wider regional energy market with a lot of stakeholders trading big volumes of electricity and gas. The market situation is thus characterized by high dynamics, lower predictability compared to the previous periods, and more intensive effort in the field of more consistent liberalization. One of the results is represented by a mutual interconnection of the Slovak and Czech Republics markets.

Via the markets interconnection, both countries have significantly strengthened the liberalization efforts and electricity market development within the whole Europe. The physical efficiency of cross-border capacities has been improved, the possibility of their abuse by speculative purchase of the profile capacities in case of explicit auctions has been reduced, the liquidity of daily markets has increased, the position of the both countries in the process of the gradual electricity market integration has been enhanced. The daily Czech-Slovak electricity market is planned to be extended by the Hungarian market, later it is assumed to interconnect the Central European market with the West European market, being in line with the European Commission goals to develop single European electricity market.

The aforementioned development has been reflected in the area of electricity market for households and small businesses, with their more intensive awareness of market competition existence. The alternative suppliers, in their efforts to attract new clients, refrained from higher trade margins, and thus accelerated positive electricity supplier switching tendency. In 2009, 9 000 customers switched their suppliers, in 2010 the number of customers reached 17.000, and the trend of growing number of the

customers switching their suppliers shall continue further on. Even the incumbent suppliers have experienced a decline of a significant number of customers, showing certain standard on liberalized markets. This also clearly reflects the electricity market well-functioning.

The Office, in its endeavor to revive the market, revised its regulatory procedures. Compared to the previous periods, there was accomplished a crucial substitution of the regulatory methodology with the aim to stimulate the regulated entities. In 2009, the revenue cap method ceased to be applied, and the price cap method has been implemented.

To sum up, the year of 2010, as the second year of the regulatory period, introduced:

- consolidation of the prices for end-users based on cost objectification and determination of reasonable profit,
- real market opening,
- improvement of the regulated entities' discipline due to thorough surveillance,
- disclosure of cost rentability reserves and utilization of reducible sources within the regulated entities.

As from the view of energy market functioning, the current period could be described as a combination of the global financial and economic crisis impacts and a gradual liberalization. In this challenging phase, the Office has stood proof. It managed to face various objective and subjective influences and to justify its methods. Therefore, the regulatory results in 2010 can be assessed as a manifestation of the regulatory framework stability in the real open market.

Ing. Jozef Holjenčík
Chairman of the Regulatory Board
Acting as Chairman of the Regulatory Office
for Network Industries

Introduction

According to Article 10 of the Act No. 276/2001 Coll. on Regulation in Network Industries and amendment and supplement of some acts the Regulatory Office for Network Industries (hereinafter only "the Office") is obliged to submit the Annual Report to the National Council of the Slovak Republic on an annual basis. This report, approved by the Board for Regulation, reflects the activities performed by the Office during 2010. It also presents the data and information relating to the year 2011 because they stem from the activities of the Office performed in the previous period.

The activities of the Office were guided by the fundamental strategic document of the Board for Regulation "The Regulatory Policy for a Regulatory Period from 2009 to 2011". Its aim was to maintain stability of prices, to assist in creating a competitive environment in the electricity and gas markets, to improve the quality of energy supplies and related services, bearing in mind the permanent protection of consumers.

The activities undertaken by the Office are fairly extensive, however, the public identifies them primarily with price regulation. The efforts of monopoly energy suppliers were concentrated right here with an intention to maximize their profits at the expense of consumers. Even though the Office was in an incomparably unfavourable situation, compared to global monopoly enterprises, thanks to its own analyses and procedures it was able to face the pressure imposed by lobbying business circles and disoriented media. The Office thus successfully defended its position of an independent and autonomous state authority.

Decisions made by the Office represent only the most visible peak of the activities carried out in the year 2010, characterised by the fading worldwide financial and economic crises. At the forefront stood the task of stimulating the energy markets and last year obviously meant the breakthrough for the electricity and gas sectors. Through its secondary legislation the Office started up the market that in 2010 demonstrated the signs of a standard competitive environment. In the close future it will be possible to think about the phasing out of regulation in the field of electricity and gas supplies to households and small businesses.

The market has also been revived thanks to regulatory procedures. An emphasis was given to incentive methods that have been used in most EU member states. The fundamental change compared to the past was the change in method of regulation. Already in 2009 the Office ceased to use the revenue cap regulation and commenced to apply the price cap regulation method.

The price cap method was the dominant method of the year 2010. Since it proved to be good, bringing positive results, it will remain to be used in the following regulatory period, as well. This method helps to stimulate regulated businesses, allowing them to generate sufficient funding, to create the space for competition and to increase the level of consumer protection. A significant factor supporting the use of this method is the stability of prices that are not influenced by short-term economic fluctuations. Although the prices in neighbouring countries had increased, Slovakia managed to avoid any short-term sharp fluctutations and prices remained stable even during the critical years 2009 as well as 2010. Moreover, regulated charges that are directly influenced by the Office, went even down.

The Office played a crucial role in this situation and despite the catastrophic scenarios on blackouts or bancrupcies, nothing like that has ever happened, what proves that regulated companies have sufficient financial sources for their performance, including their further development.

Owing to the recent experience it may be stated that prices in the electricity, gas, heat and water sectors have been stabilized, price setting has become transparent and regulated entities had and will have the return on investment, plus an adequate profit, ensured, while they are forced to perform more economically and efficienctly.

The 2010 events nevertheless brought the rise of household electricity prices which was caused by the increase in costs falling to the tariff for system operation, also including the costs for electricity generated from renewable sources. This tariff is included into the price for transmission and distribution of electricity and is paid by every final electricity consumer.

Throughout the year the Office indicated that the substantial increase in the number and capacity of photovotaic generating plants would bring, by means of the tariff for system operation, the negative effect on the final electricity price. However, granting permits for the construction of power generating plants is not in the competence of the Office, therefore the Office played merely the role of an enforcer of legal regulations.

Regulatory Board (from the left above):
Ing. Milan Krajčovič (member), Ing. Vladimír Čopko (member), JUDr. Ing. Ján Hijj, PhD. (member), Ing. Ivan Chaban (member), Ing. Jozef Holjenčík (Chairman), Ing. Radoslav Naništa (Vice-chairman)

In 2010 the Office intensified controlling of regulated entities and imposing sanctions for violation of law. It started to thoroughly apply new regulatory tools, such as quality standards, separated records and the rules for allocation of assets and liabilities, costs and revenues and the rules for depreciation. The results of the year 2010 represent a broad basis of data that are necessary for the evaluation of impacts of regulation, profitability of business and they will become the starting point for procedures applied by the Office in the further period.

Activities and results of the Office were also reflected internationally in the form of better reputation. The Office is an active member of several international organisations within the EU and its chairman is the vicepresident of ERRA – the Energy Regional Regulators Association that unifies European and Euro-Asian countries.

When looking back at the year 2010 it is possible to say that the objectives outlined in the regulatory policy were successfully achieved. Even though the energy market already features competition, it will be necessary to maintain a certain extent of state interference in the monopoly structure of network industries in the future as well. There is a high assumption that if the independence of the Office and integrity of its bodies are maintained, regulation in network industries will successfully proceed further in favour of Slovak citizens.

I. Slovak Legislation Governing Regulation in Network Industries in 2010

Act No. 276/2001 Coll. on Regulation in Network Industries and on amendment and supplement of some acts in wording of the Act No. 397/2002 Coll., Act No. 442/2002 Coll., Act No. 658/2004 Coll., Act No. 107/2007 Coll., Act No. 112/2008 Coll., Act No. 283/2008 Coll., Act No. 73/2009 Coll. and Act No. 309/2009 Coll., Act No. 142/2010 Coll. and Act No. 558/2010 Coll. (hereinafter only "Act No. 276/2011 Coll.").

Act No. 656/2004 Coll. on the Energy Industry and on amendments of some acts in wording of the Act No. 555/2005 Coll., Act No. 238/2006 Coll., Act No. 107/2007 Coll., Act No. 68/2008 Coll., Act No. 112/2008 Coll., Act No. 283/2008 Coll., Act No. 476/2008 Coll., Act No. 73/2009 Coll., Act No. 309/2009 Coll., Act No. 293/2009, Act No. 142/2010 Coll. and Act No. 136/2010 Coll. (hereinafter only "Act No. 656/2004 Coll.").

Act No. 657/2004 Coll. on the Thermal Energy Sector in wording of the Act No. 99/2007 Coll., the Act No.309/2009 Coll. and Act No. 136/2010 Coll. (hereinafter only "Act No. 657/2004").

Act No. 442/2002 Coll. on Public Water Supply Systems and Public Sewage Systems and on amendment and supplement of the Act No. 276/2001 Coll. on Regulation in Network Industries in wording of Act No. 525/2003 Coll., Act No. 364/2004 Coll., Act No. 587/2004 Coll., Act No. 230/2005 Coll., Act No. 515/2008 Coll. and Act No. 394/2009 Coll. (hereinafter only "Act No. 442/2002").

Act No. 364/2004 Coll. on Water Sources and on amendment of the Act of the National Council of the Slovak Republic No. 372/ 1990 Coll. on Offences in wording of latter provisions (the Water Act) (hereinafter only "Act No. 364/2010 Coll.").

Act No. 309/2009 Coll. on Promotion of Renewable Energy Sources and Highly Efficient Combined Heat and Power Production and on amendment and supplement of Act No. 492/2010 Coll. and in wording of Act No. 558/2010 Coll. (hereinafter only "Act No. 309/2009 Coll.").

Ordinance of the Government of the Slovak Republic No. 755/2004 Coll. setting out the amount of non-regulated payments, the amount of fees and details concerning the charging of water sources (hereinafter only "Ordinance No. 755/2004").

Ordinance of the Government of the Slovak Republic No. 409/2007 Coll. laying down the rules for the functioning of the gas market in wording of Ordinance of the Government No. 212/2010 Coll. (hereinafter only "Governance of the Government No. 409/2007 Coll.").

Ordinance of the Government of the Slovak Republic No. 317/2007 Coll. laying down the rules for the functioning of the electricity market in wording of Ordinance of the Government No. 211/2010 Coll. (hereinafter only "Governance of the Government No. 317/2007 Coll.").

Decree of the Regulatory Office for Network Industries No. 212/2005 Coll., introducing the sample application for issuance of the license (hereinafter only "Decree No. 212/2005 Coll.").

Decree of the Regulatory Office for Network Industries No. 328/2005 Coll., setting out the method of verification of efficiency of thermal equipment operation, energy efficiency indicators related to the facilities used for production and distribution of heat, normative indicators of heat consumption, the scope of economically justified costs for verification of efficiency of thermal equipment operation and the method of covering the related costs in wording of the Decree of the Regulatory Office of Network Industries No. 59/2008 Coll. (hereinafter only "Decree No. 328/2005 Coll.").

Decree of the Regulatory Office for Network Industries No. 630/2005 Coll., setting temperature of hot domestic water at the point of supply, the rules of calculating the amount of heat supplied for preparation of hot domestic water and calculating the amount of supplied heat in wording of the Decree of the Regulatory Office for Network Industries No. 358/2009 Coll. (hereinafter only "Decree No. 630/2005 Coll.").

Decree of the Regulatory Office for Network Industries No. 208/2008 Coll., specifying the details of the application form and the list of documents for granting the exemption from an obligation to provide the third party access to the network and a storage tank for a new significant gas installation or reconstructed gas installation (hereinafter only "Decree No. 208/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 315/2008 Coll., specifying the quality standards of electricity supply and services provided (hereinafter only "Decree No. 315/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 316/2008 Coll., specifying the quality standards of heat supply and provision of services related to heat supply (hereinafter only "Decree No. 316/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 317/2008 Coll., specifying the quality standards of potable water supply through the public water supply system and discharge and treatment of waste water through the public sewage system and related services (hereinafter only "Decree No. 317/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 328/2008 Coll., specifying quality standards of gas supply and services provided in the gas industry (hereinafter only "Decree No. 328/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 349/2008 Coll., on rules governing the sales of electricity by means of the auction (hereinafter only "Decree No. 349/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 415/2008 Coll., on the method of keeping the separate records of the facts subject to accounting, on the method of keeping the separate records of costs, revenues, assets and liabilities and submitting the outputs from such separate record keeping (hereinafter only "Decree No. 415/2008 Coll.").

Decree of the Regulatory Office for Network Industries No. 366/2009 Coll., specifying the details on proving technical assumptions for doing business in the energy industry (hereinafter only "Decree No. 366/2009 Coll.").

Decree of the Regulatory Office for Network Industries No. 490/2009 Coll., specifying the details on promotion of renewable energy resources, highly efficient combined heat and power production and biomethane (hereinafter only "Decree No. 490/2009 Coll.").

Decree of the Regulatory Office for Network Industries No. 283/2010 Coll., setting out the scope of economically justified costs incurred by the a disconnection of the consumer from the heat supply system operated by the supplier and the method of their calculation (hereinafter only "Decree No. 283/2010 Coll.").

Decree of the Regulatory Office for Network Industries dated July 28, 2008 **No. 2/2008,** establishing price regulation in the electricity sector (Notification No. 311/2008 Coll.) in wording of Decree dated October 1, 2008 No. 7/2008 (Notification No. 377/2008 Coll.), Decree dated June 10, 2009 No. 2/2009 (Notification No. 239/2009 Coll.), Decree dated September 9, 2009 No. 7/2009 (Notification No. 362/2009 Coll.) and Decree dated June 23, 2010 No. 2/2010 (Notification No. 302/2010 Coll.) (hereinafter only "Decree No. 2/2008").

Decree of the Regulatory Office for Network Industries dated July 23, 2008 **No. 3/2008,** establishing regulation of prices for production, distribution and supply of potable water through the public water supply system and for discharge and treatment of waste water through the public sewage system (Notification No. 295/2008 Coll.) in wording of Decree dated June 10, 2009 No. 3/2009 (Notification No. 240/2009 Coll.) (hereinafter only "Decree No. 3/2008").

Decree of the Regulatory Office for Network Industries dated July 23, 2008 **No. 4/2008,** establishing regulation of prices in the gas industry and supplementing the Decree of the Regulatory Office for Network Industries dated July 31, 2007 No. 4/2007 specifying the scope and structure of eligible costs, the method of setting the amount of adequate profit and

background documents for the price proposal in the gas industry (Notification No. 291/2008 Coll.) in wording of Decree dated October 1, 2008 No. 7/2008 (Notification No. 377/2008 Coll.), Decree dated June 10, 2009 No. 4/2009 (Notification No. 241/2009 Coll.) and Decree dated June 23, 2010 No. 4/2010 (Notification No. 303/2010 Coll.) (hereinafter only "Decree No. 4/2008").

Decree of the Regulatory Office for Network Industries dated July 23, 2008 **No. 5/2008,** establishing regulation of prices for provision of water services related to utilisation of a river flow (Notification No. 294/2008 Coll.) in wording of Decree dated June 10, 2009 No. 5/2009 (Notification No. 242/2009 Coll.) (hereinafter only "Decree No. 5/2008").

Decree of the Regulatory Office for Network Industries dated July 23, 2008 **No. 6/2008,** establishing regulation of heat prices (Notification No. 296/2008 Coll.) in wording of Decree dated October 1, 2008 No. 7/2008 (Notification No. 377/2008 Coll.), Decree dated June 10, 2009 No. 6/2009 (Notification No. 243/2009 Coll.) and Decree dated June 23, 2010 No. 6/2010 (Notification No. 304/2010 Coll.) (hereinafter only "Decree No. 6/2008").

Decree of the Regulatory Office for Network Industries dated June 10, 2009 **No. 1/2009** on the scope of price regulation in network industries and the method of its implementation (Notification No. 238/2009 Coll.) in wording of Decree dated May 20, 2010 No. 1/2010 (Notification No. 242/2010 Coll.) (hereinafter only "Decree No. 1/2009").

Regulation of the European Parliament and Council (EC) No. 1228/2003 dated June 26, 2003 concerning the conditions on the access to the network for cross-border electricity exchange (extraordinary issue of EU Official Journal, chapter 12/volume 2) on valid wording (hereinafter only "European regulation No. 1228/2003").

Regulation of the European Parliament and Council (EC) No. 1775/2005 dated September 28, 2005 concerning the conditions on the access to natural gas transmission system (EU Official Journal 289, November 3, 2005) (hereinafter only "European Regulation No. 1775/2005").

Directive of the European Parliament and Council No. 2003/54/EC dated June 26, 2003 concerning the common rules for the internal electricity market and repealing Directive 96/92/EC dated June 26, 2003 (EU Official Journal 176, June 15, 2003) (hereinafter only "Directive No. 2003/54/EC), Directive of the European Parliament and Council 2003/55/EC on the common rules for the internal market in natural gas (EU Official Journal 176, June 15, 2003) repealing Directive No. 98/30/EC dated June 26, 2003 (hereinafter only "Directive No. 2003/55/EC").

Directive of the European Parliament and Council 2005/89/EC dated January 18, 2006 on measures for safeguard of security of electricity supply and investments into infrastructure (EU Official Journal 33 February 4, 2006) (hereinafter only "Directive No. 2005/89/EC").


500M
400M
300M
200M
100M
1.754
1.734
1.745
1.654
1.643
1.456
1.344

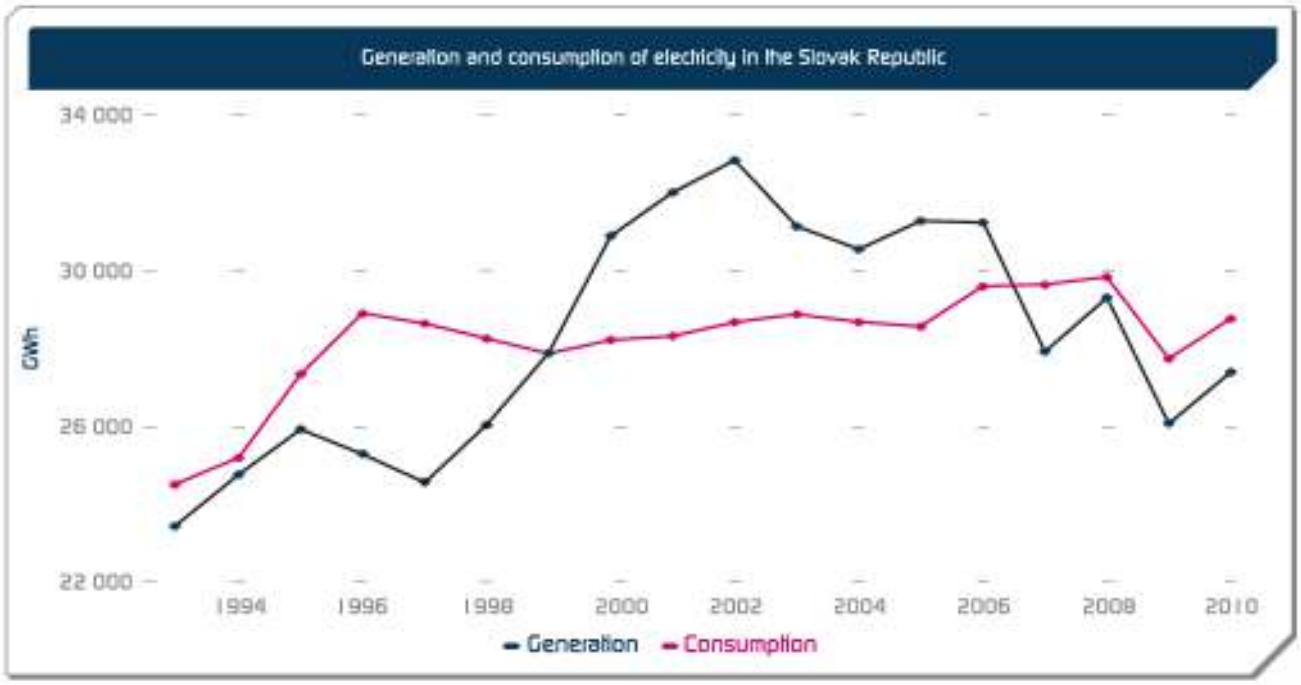
II. Implementation of the Regulatory Policy

II.I. The Electricity Sector

The factor which significantly influenced the electricity sector in the year 2010 was the world financial and economic crises. Although electricity consumption went up annually by 5.2% to 28 761 GWh and electricity generation by 6.32% to 27 720 GWh, these values of consumption and generation of electricity did not achieve the level two years before.

The basic principle of price regulation, either approved or determined by the Office in 2010, remained unchanged. The evaluated year 2010 was the second year of the present 3-year regulatory period applying the price cap method.

The existence of an adequate extent of regulation still proved to be inevitable. The structure and scope of tariff rates for access to the distribution system and electricity distribution at a low



The positive side of the crises are the effects that from the point of view of the situation in Slovakia include mainly the following:

- the ongoing decline in the overestimated energy prices at the commodity power exchanges and electricity auctions,
- the more significant development of the electricity market, especially the intensive entry of alternative electricity suppliers offering attractive prices for electricity supply, not burdened by operating costs of the company, not only to large and medium-scale consumers, but also to small businesses and household electricity consumers.

voltage level underwent changes that allow electricity consumers to optimize the costs for services related to electricity supply depending on the character and electricity demand.

The price decisions approved by the Office meant for household electricity consumers that average prices for combined electricity supply in 2010, compared to 2009, were lower by 2.68%. From individual components of the price only the tariff for system operation increased by 131.5%, thus achieving 6.3 €/MWh (resulting from legislative support of electricity generated from renewable energy sources and highly efficient combined heat and power production and from governmental support of domes-

tic coal production for the purpose of electricity generation) and the tariff for balancing services by 2.56 %. For the first time the tariff for system operation also covered the costs for organisation of a short-term electricity market. On the other hand, grid charges declined by 0.43% and the price of active power declined by 10.7 %.

The prospects for the year 2011 aree favourable enough not to significantly increase the electricity price. An increase in electricity prices, regulated by the Office, by 5.7% on average was caused by a significant support of electricity generated from renewable energy sources in accordance with the Act No. 309/2009 Coll. The development of final electricity prices in 2011 was affected by the circumstances beyond the scope of regulation, including a VAT rise from 19 to 20% and mainly the introduction of a charge for the levies into the National Nuclear Fund for Decommissioning and Disposal of Burnt up Nuclear Fuel and Radioactive Waste at the amount of 3 €/MWh according to the Ordinance of the Slovak Government No. 426/2010 Coll., laying down the details on the amount of levies from electricity supplied to end users and the way of its collection for the National Nuclear Fund for Decommissioning and Disposal with Burnt up Nuclear Fuel and Radioactive Waste.

The efforts for establishing a real competitive environment in the area of electricity trading got "green" after allowing the entry of the other so called alternative electricity suppliers into the Slovak market which became competitors for traditional dominant electricity suppliers in the local market, supplying electricity to not only off-household electricity consumers, but also to household consumers. In 2010 there were altogether 366 electricity suppliers (an increase by 18 new entities in 2010), of which 32 entities supplied electricity also to household electricity consumers.

The liberalisation is proceeding and the electricity market is under development what is manifested by the annual increase in the number of electricity consumers that have changed their electricity supplier. The development is presented by the following data:

Indicator/year	2007	2008	2009	2010
Number of household consumers that switched their supplier	1	29	7697	17171
Number of off-household consumers that switched their supplier	524	1462	2999	4644

The daily electricity markets in the Czech Republic and the Slovak Republic have been interconnected since 2009, trading on an implicit auction basis. Through the interconnection the both countries have significantly strengthened their liberalisation efforts and the development of the electricity market within the entire Europe. This fact has significantly contributed to the stability and reliability of electricity supplies and is fully in line with the objectives of the European Commission aimed at developing the single electricity market.

The development in the short-term electricity market is presented by the following data:

Indictor/year	9.–12. 2009	2010
Number of participants on the daily electricity market	22	33

The year 2010 was the first year in which electricity generated from renewable energy sources (RES) and combined heat and power (CHP) began to be fully promoted under the Act No. 309/2009 Coll. This fundamental legislative tool dealing with RES and CHP ensures the support for the generation of "green electricity", especially by:

- the preferential connection of the facility to the distribution system and electricity transportation,
- the right for electricity offtake,
- supplementary charge,
- taking over the responsibility for deviation,
- providing guarantee for new electricity generators that the electricity price will not be lower than 90 % of the price determined by the Office in the previous period not exceeding 3 years (it does not relate to electricity generated from solar power and wind power)

The Office, mainly with respect to the amendments in relevant legislation, contributed through its proposals to stability and development of the market environment. As regards primary legislation Acts No. 142/2010 Coll. and 558/2010 Coll.

introduced several new concepts that are essential for the development of the electricity market, especially in the area of an organised short-term electricity market. In addition, details were adjusted concerning the rights and obligations of market players as well as the categorisation and the method of support of renewable energy sources (mainly photovoltaic power as an unpredictable source of power). Modifications were also made to the obligations of system operators, generators and suppliers of electricity, but also to the appointment of the operator of the short-term electricity market, its rights and obligations.

As regards price regulation in the electricity market, the applicable tools of the Office implementing the regulatory policy are generally binding regulations, issued based on the empowering provisions of the Act No. 276/2001 Coll.

Through the Decree No. 1/2009 the Office imposed for the year 2010 price regulation in the area of electricity generated from renewable energy sources, electricity generated in combined heat and power production and from local coal, on connection to the grid, access to the transmission system and electricity transmission, assess to the distribution system and electricity distribution, electricity supply to households and small businesses and provision of balancing and anciliary services in the electricity sector.

The fundamental implementation tool of price regulation in the electricity sector in 2010 was the Decree No. 2/2008 establishing price regulation in the electricity sector that was amended by the Decree No. 2/2009 and No. 7/2009. The decree introduced the following amendments:

- determined as a maximum the scope of 8 rates for electricity supply and 8 rates for access to the distribution system and electricity distribution for household electricity consumers and as a maximum the range of 11 rates for users of the distribution system with the exception of household electricity consumers,
- introduced the highest level of adequate profit earned from electricity supply to households and small businesses,
- defined the method of calculation of maximum price for electricity supply to small businesses, the procedure and conditions of the price setting,
- defined as a maximum the range of 11 rates for electricity supply to small businesses,
- specified the components of price proposal (document proving the approval of a proposal by the General Assembly, a method of measuring electricity generated, etc.)
- specified the procedures applied when negotiating reserve capacity,
- if a regulated company does not have the price approved as of January 1, year "t", the price approved for the year "t- 1 "by the Office is used until the date of receipt of the price proposal,
- adjusted the categories of technologies and price of electricity generated from renewable energy source and in combined heat and power production,
- determined the procedure of the price setting for organising the short-term electricity market,
- limited the share of revenues earned from charges for reserve capacity and total revenues for access to the distribution system and electricity distribution, apart from revenues from electricity distribution losses up to 0.66 as maximum,
- specified in more detail the method of calculation, procedure and conditions of applying the tariff for system operation.

As regards price regulation for the year 2010 the Office issued:

- 328 price decisions for Slovenská elektrizačná prenosová sústava a.s. (the Slovak Power Transmission Company), Slovenské elektrárne, a.s. (Slovak Electric), Západoslovenská energetika, a.s. (Western Slovak Distribution Utility), ZSE-Distribúcia, a.s. (ZSE Distribution), Stredoslovenská energetika, a.s. (Central Slovakian Distribution Utility), SSE Distribúcia, a.s. (SSE Distribution), Východoslovenská energetika, a.s. (Eastern Slovak Distribution Utility), Východoslovenská distribučná, a.s. (Eastern Slovak Distribution) and other regulated companies in the electricity sector for access to the transmission system and electricity transmission, access to the distribution system and electricity distribution, grid connection, electricity supply to households and small businesses and electricity supply by the last resort supplier,
- 51 decisions on electricity price setting for supplementary charge for the generator of electricity using heat and power production technologies,
- 608 decisions on price setting the supplementary charge for the generator of electricity using renewable energy sources.

An important role of the Office is to monitor the behaviour of individual players in the electricity market and to create the conditions

for the development of a competitive environment. The Office takes reasonable approach to this task and the outcome of its analyses and practical experience formed the amendment of the other generally binding legal regulation – the Ordinance of the Government No. 317/2007 Coll. resulting in the Ordinance No. 211/2010 Coll. This paper specified and supplemented the selected provisions of the market rules that define rights and obligations of the electricity market players in the conditions of a liberalized electricity market in Slovakia, especially in relation to the establishment of an organised short term market with electricity, the procedures for publishing and exchange of data, settlement of deviation and entry to the regime of the last resort supplier. In addition this ordinance specified the procedure dealing with the switching of the electricity supplier.

The other tools of technical regulation that support transparent and non-discriminatory procedures and conditions in the electricity market are Operating Orders issued by the Office for the Tranmission System Operator and operators of regional and local distribution systems. The Act No. 276/2001 Coll. requires from Operational Orders to include the Ordinance of the Government No. 317/2007 Coll., therefore the Office issued 26 decisions on the approval of Operational Orders following the amendment of the Ordinance of the Government No. 317/2007 Coll. The approved Operational Order is a binding document for the participants in the electricity market.

The Office also issued the decision for Slovenské elektrárne, a.s. on the approval of rules for electicity sales by means of the auction. By publishing the rules the transparent procedure governing electricity sales was introduced in the form of auctions.

Publishing and permanent updating of the information on the web site of the Office make the orientation of consumers as well as regulated companies in the liberalised electricity market much easier. For example, this enables to see how to proceed when switching the electricity supplier, the information on the approved maximum prices of suppliers for household electricity consumers, as well as the used prints of various application forms, tables and charts that regulated companies are obliged to fill in and send to the Office, as stipulated by legal regulations.

II.2 The Gas Sector

Price regulation in the gas industry in 2010 governed a connection to the transmission and distribution systems, access to the transmission system and gas transmission, access to the distribution system and gas distribution, access to a storage tank and gas storage, provision of ancillary services in the gas sector, household gas supply and gas supply for the purpose of heat production for households. An amendment of the Act on Regulation No. 142/2010 Coll. dated March 3. 2010, extended the scope of price regulation in the gas sector including the setting of price for gas supply by the last resort supplier, coming into force in 2011. Production and accumulation of gas are not subject to price regulation. These activities apply the negotiated access method specified under the gas market rules.

The Decree No. 1/2009 was used for setting the prices in 2010. An implementation tool for price regulation in 2010 was the Decree No. 4/2008 in the wording valid for the year 2010. Price regulation in 2010 was undertaken by means of:

a) defining the method of calculation of the fixed price for a connection to the transmission system and a connection of new gas producers to the transmission system,
b) defining the method of calculation of the maximum price and the fixed price for the connection to the distribution system and connection of new gas producers to the distribution system,
c) direct setting of a comparable price for access to the transmission system and gas transmission,
d) direct setting of a comparable price for access to a gas storage tank and gas storage,
e) defining the method of calculation of the maximum price and tariff for access to the distribution system and gas distribution,
f) defining the method of calculation of the maximum price for gas supply to households,
g) defining the method of calculation of the maximum price for supply of gas for the purpose of heat production for households,
h) direct setting of the fixed price for provision of ancillary services.

Prices for the third year of the regulatory period were determined under the Decree No. 1/2009 and the Decree No. 4/2008 in accordance with the approved method of price regulation, i.e. price cap method determined according to the conditions and situation of a regulatory environment. This method was used to determine the price level for the entire regulatory period, to approve or set the prices for access to the distribution system and gas distribution, gas supply to households and gas supply for the purpose of heat production for households.

The prices for access to a storage tank and gas storage in 2011, similarly to the price for access to the transmission system and gas transmission, were based on the benchmarking method, i.e. a comparison of prices for gas storage in the Slovak Republic with prices for gas storage in other EU member states. Price regulation governing access to the distribution system and gas distribution for the operators of local distribution systems, whose number of points of supply does not exceed 100 000, was conducted according to the cost regulation method. The final price therefore reflects eligible costs of a regulated entity spent for the operation of the system, an adequate profit approved by the Office and correction of revenues depending on the development of eligible costs of a regulated entity in the previous period.

Apart from price regulation the Office, in accordance with the Act No. 276/2001 Coll., develops the rules for the functioning of the gas market, governing the rights and obligations of participants in the gas market and setting out the conditions for the functioning of a liberalised gas market in Slovakia. In the first half of the year 2010 the Office drafted and submitted a draft amendment of the Ordinance of the Government No. 409/2007 Coll., which was approved by the government through the Ordinance No. 212/2010 Coll. with the date of effect on June 1, 2010. The amendment brought some modifications relating to the scope of business conditions on access, connection and operation of the network. The other binding documents for participants in the gas market promoting transparency and effectiveness of the gas market are Operational Orders into which the system operators incorporated the rules for the gas market adapted to their internal operational conditions. In 2010 the Office, based on the applications of the operators of systems and a storage tank, reviewed and approved 30 Operational Orders.

In 2010 a liberalisation process was strengthened in the Slovak gas market, which brought a more intensive competition in the area of gas supplies to industrial consumers and resulted in the increased number of switching of the gas supplier in all groups of gas consumers, except for households. Along with the traditional supplier Slovenský plynárenský priemysel, a.s., (Slovak Gas Company – SPP, a.s.), there were five other gas traders in the Slovak gas market, of which the most significant role is played by the company RWE Gas Slovensko, s.r.o.

II.3 The Thermal Energy Sector

The year 2010 was the second year of the regulatory period and heat regulation was carried out in the scope and method outlined in the regulatory policy for a period from 2009 to 2011. The efforts to stabilise a regulatory framework in the thermal energy sector reflected in relevant legislative regulations. The Decree No. 1/2009 determined from January 1, 2010 heat price regulation in the scope of production, distribution and supply of heat and the method of performance of price regulation in the form of setting the calculation of the maximum heat price. The Decree dated June 10, 2009 No. 6/2009 and June 23, 2010 that amended Decree dated July 23, 2008 No. 6/2008 in wording of Decree dated October 1, 2008 No. 7/2008 did not bring substantial changes in the method of heat price regulation. The limited scope and structure of eligible costs and adequate profit, as well as an incentive factor for making investments into highly efficient technologies for production of heat and electricity and into more extensive utilisation of renewable energy sources were maintained. Furthermore, it was possible to make investments to improve energy efficiency of thermal facilities and to reduce losses in production and distribution of heat, thereby establishing the conditions for ensuring reliable, economically effective and high quality supply.

II.4 The Water Service Sector

a) Production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system

In accordance with the regulatory policy approved for the years 2009–2011 the main priority of the year 2010 in the area of price regulation of production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system was the application of procedures and methods aimed at the price stabilisation.

The intention of the regulatory policy in this area was mainly to prevent from any unjustified annual increase in eligible costs by setting the limits on their size, but also to thoroughly assess the justification of such costs with regard to security of uninterrupted and high quality supply of potable water and discharge and treatment of waste water.

For this reason the Office continued to apply the procedures, methods and conditions of the price seeting as determined by the Decree No. 3/2008, in the scope of production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system in line with the Decree No. 1/2009 in relation to Article 12 (1) (n) and (o) of Act No. 276/2001 Coll.

Price regulation was performed by direct setting of the maximum price and defining the method of calculation of the maximum price based on the price cap method. The purpose of this method is mainly to ensure the objective setting of prices that solely cover eligible costs essential for operability of the equipment and public water supply systems and public sewage systems.

b) Provision of Water Services

The regulatory policy governing the provision of water services lays an emphasis on the stabilisation of prices, the restriction of annual inadequate increase in eligible costs and determination of an adequate profit for generation of financial sources to be used for the reconstruction of the existing water facilities used for performance of regulated activities.

Price regulation governs the provision of services related to the utilisation of hydro power potential of a river flow, the extraction of surface water from a river flow and the extraction of water from a river flow used for energy purposes.

In compliance with the regulatory policy approved for the period from 2009 to 2011 the Office applied the same method of regulation in 2010, which meant defining of the method of calculation of the fixed price for extraction of surface water from a river flow (by means of tariffs) and the fixed price for extraction of water from a river flow for the energy purpose using the cost regulation method. The method, procedure and conditions of setting prices, including the scope, the structure of eligible costs and the size of the maximum allowable profit earned from individual regulated activities remained unchanged also in 2010 – as determined by the Decree No. 5/2008.

III. Performance of Tasks under Article 5 of Act No. 276/2001 Coll.

III.1 The Electricity Sector

Through its activities undertaken under the Act No. 276/2001 Coll. the Office creates the environment being close to a competitive environment in the area without natural competition. At the same time it ensures the protection of consumers' interests as well as the investors' justified interests. It is an obligation of the Office to establish such environment in which it would be worth for a businessman making investments, however, not at the expense of consumers.

In the electricity sector price regulation was undertaken by:

a) Direct setting of a fixed price of electricity
- generated from renewable energy sources,
- generated in combined heat and power production,
- generated from domestic coal.

b) Defining the method for calculation of the maximum price
- for a connection to the system,
- for a connection of new electricity generators to the system,
- for electricity supply to households and small businesses (with annual electricity consumption up to 30 000 kWh),
- for electricity supply by the last resort supplier.

c) Defining the method for calculation of a tariff for
- access to the transmission system and electricity transmission,
- electricity transmission and distribution losses,
- access to the distribution system and electricity distribution,

d) Direct setting of the max. price for provision of ancillary services.

e) Direct setting of a tariff for provision of balancing services in the electricity sector.

f) Defining the method of calculation, procedure and conditions of applying the tariff for system operation (while taking into consideration a respective part of costs for performance of the activities carried out by the operator of the short-term market with electricity).

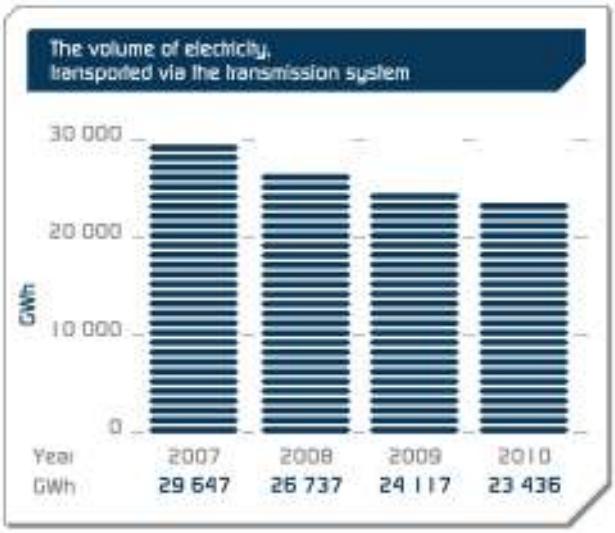
III.1.1. Development of Regulated Components of the Final Electricity Price

a) Electricity transmission

A regulatory framework was established to provide the transmission system operator with funding required for the investment development, taking into account all revenues earned from the provision of transmission and balancing services as well as the settlement of deviations ensuring the stability and safe operation of the power system of the Slovak Republic.

For the year 2010 the Office, exercising its competences, determined or approved for the transmission system operator – Slovenská elektrizačná prenosová sústava, a.s. (hereinafter only SEPS, a.s.) the following:
- Tariffs for access to the transmission system and its management for final electricity consumers directly connected to the transmission system,
- Tariffs for losses during transmission of electricity through the transmission system,
- Prices and tariffs for provision of ancillary services and regulatory power,
- Prices for provision of balancing services in the electricity sector and for operation of the system,
- Tariff for operation of the system for the operator of a local distribution system directly connected to the transmission system and for the electricity generator directly connected to the transmission system,
- Tariff for settlement, evaluation and clearing of deviations on a 15 minute basis intended for the electricity trader with its own responsibility for deviation, whose final consumption in the points of supply belonging to his balance group in 2010 exceeds 1 500 000 MWh and for the electricity consumer with the point of supply in 2010 on the restricted territory,
- Annual fixed charge for settlement, evaluation and clearing of deviations in 2010 intended for the electricity trader with its own responsibility for deviation, whose final consumption of points of supplies belonging to his balance group in 2010 is lower than 1.500.000 MWh and the electricity generator with its own responsibility for deviation and the electricity trader with its own responsibility for deviation which does not supply electricity to the point of supply,
- Annual fixed charge for organising the short-term market with electricity for the clearing entity that is a participant of the organised short-term market with electricity,
- Tariff for operating the short-term market with electricity and for electricity purchased in the short-term market with electricity.

The following graph shows the volumes of electricity transported by the transmission system within the restricted territory of the Slovak Republic:



The following charts and graphs show that in the year 2010, compared to the year 2009:

- Tariff for transmitted electricity went annually up by 33.82 %, mainly due to the loss of revenues from the cross-border operation (the so-called ITC mechanism and auctions for transmission capacities on the border profiles),
- Tariff for reserve capacity increased annually by 24.66 % due to the decline in the amounts of electricity transported by the transmission system and subsequent increase in tariff for access to the transmission system and electricity transmission,
- Tariff for balancing service went slightly up, from 9.3607 €/MWh to 9.6 €/MWh, which accounts for a 2.6% rise,
- Tariff for transmission losses decreased by 24.45 % due to the decline of the commodity price and to the lower share of permitted transmission losses to the amount of planned transmitted electricity in 2010, compared to 2009.

Development of regulated charges for SEPS, a.s.

	2008 €/MWh	2009 €/MWh	2010 €/MWh	2011 €/MWh	change 09/08	change 10/09	change 11/10
System charge	9.7258	9.3607	9.6000	8.9500	-3.75%	2.56%	-6.77%
Transmission charge	4.7637	4.7637	6.3745	6.3745	0.00%	33.82%	0.00%
Transmission losses	1.1658	1.0888	0.8226	0.7733	-6.61%	-24.45%	-5.99%
Total regulated charges	**15.6553**	**15.2131**	**16.7971**	**16.0978**	**-2.82%**	**10.41%**	**-4.16%**

b) Electricity distribution

For the year 2010 the Office through its decisions determined or approved for the operators of regional distribution systems, to which more than 100 000 points of supplies are connected, the following:

- Maximum prices for connection to the distribution system up to 1 kV,
- Tariffs for access to the distribution system and electricity distribution for users of the distribution system, except for household electricity consumers,
- Tariffs for access to the distribution system and electricity distribution for household electricity consumers,
- Tariff for provision of balancing services to the operators of local distribution systems, electricity generators and final electricity consumers connected to a regional distribution system.

Apart from the operators of regional distribution systems, which are ZSE Distribúcia, a.s., SSE - Distribúcia a.s. and Východoslovenská distribučná, a.s., there are also the operators of local distribution systems, to which fewer than 100 000 points of supply are connected. These include the premises of both manufacturing and non-manufacturing companies, in which a company acts as an operator of the distribution system and in many cases as an electricity supplier, based on the business license valid for the electricity sector. For these regulated entities the Office determined/approved:

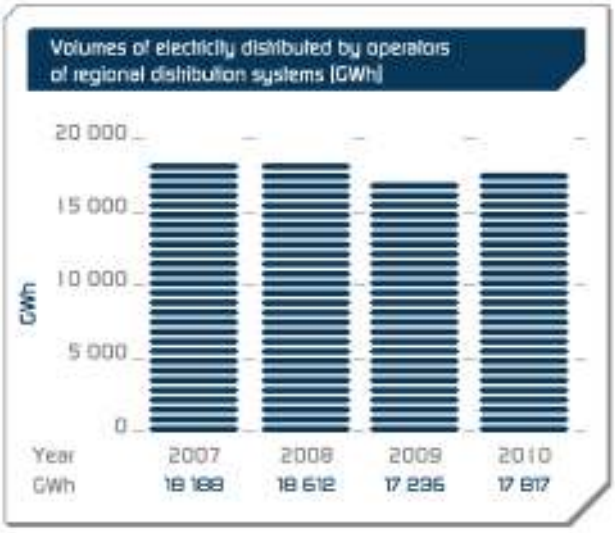
- Maximum prices for connection to the distribution system up to 1 kV,
- Tariff for access to the local distribution system and electricity distribution,
- Tariff for balancing services for final electricity consumers,
- Tariff for operation of the system for final consumers,
- Maximum prices for electricity supply to small businesses (if they submitted price proposal),
- Maximum prices for household electricity supply (if they submitted price proposal).

For the purpose of price regulation in the area of electricity distribution the Decree No. 2/2008 determined the values of initial percentage of total distribution losses at a respective voltage level and the value of loss effectivity.

In the area of electricity distribution the factor of eligible cost effectiveness was also applied in 2010. Applied was also the annual reduction of percentage of permissible distribution losses at a respective voltage level and the introduction of the effectivity factor to motivate distribution utilities to optimization of all the costs.

At the low voltage level the Office introduced the categories of distribution rates. Tariff for access to the distribution system and electricity distribution is divided maximally into eleven rates C1 to C11 for the users of the distribution system, except for household electricity consumers. Tariff for access to the distribution system and electricity distribution is divided maximally into eight rates D1 to D8 for household electricity consumers.

The volumes of electricity distributed by the operators of regional distribution systems within the restricted territory of the Slovak Republic are presented in the following data and graph:



The following charts and graphs show that in 2010, compared to 2009:

- Tariff for access and electricity distribution, including electricity transmission, increased by 7.11%, which was caused by an increase in costs for electricity transmission and decrease in the amount of distributed electricity,
- Tariff for distribution losses decline by almost 30%, mainly

due to the decrease in the price for active power which was generated in the electricity market in 2009,
- Tariff for balancing services increased annually by 2.56%.

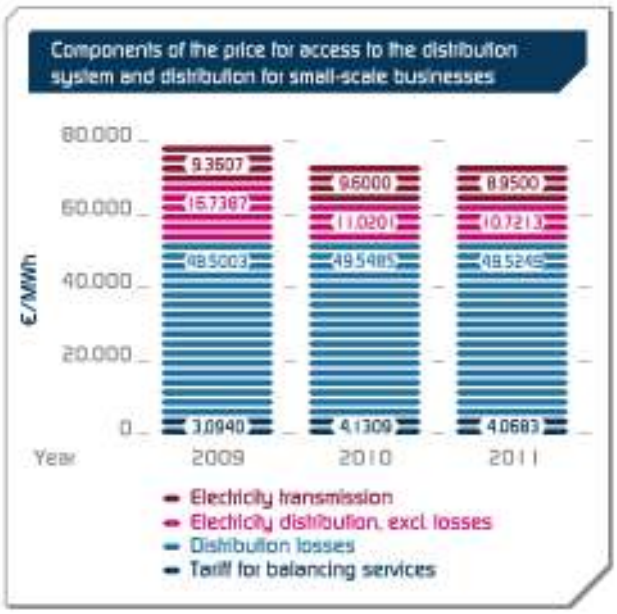
Despite the fact that over the past years the Office achieved the decrease in a share of grid charges in the final electricity price, it will continue to pay a higher attention to this issue.

The development of regulated charges for users of the distribution system in €/MWh

	2008 €/MWh	2009 €/MWh	2010 €/MWh	2011 €/MWh	change 09/08	change 10/09	change 11/10
Distribution + transmission	31.6123	31.7693	34.027	33.854	0.50%	7.11%	-0.51%
Transmission losses	7.6515	9.2020	6.4476	6.2161	20.26%	-29.93%	-3.59%
System charge	9.7258	9.3607	9.6000	8.9500	-3.75%	2.56%	-6.77%
Total regulated charges	**48.9896**	**50.3320**	**50.0746**	**49.0201**	**2.74%**	**-0.51%**	**-2.11%**

Components of the price for access to the distribution system and distribution for small-scale businesses

Components of the price for access to the DS and distribution for small-scale businesses			2009 €/MWh	2010 €/MWh	2011 €/MWh	change 10/09	change 11/10
Grid charges	Electricity distribution, including transmission and distribution losses	Electricity transmission	3.094	4.1309	4.0683	30.28%	-1.51%
		Electricity distribution, excl. losses	48.5003	49,5485	49.5249	2.16%	-0.05%
		Distribution losses	16.7387	11.0201	10.7213	-34.2%	-2.71%
	Tariff for balancing services		9.3607	9.6000	8.9500	2.56%	-6.77%
	Total		**77.6937**	**74.2995**	**73.2645**	**-4.37%**	**-1.39%**



c) Price of active power (commodity)

The activities that are subject to price regulation are defined by the Act No. 276/2001 Coll. On the liberalised market electricity consumers may opt for their electricity supplier, thus influence non-regulated part of the final price for electricity supply. The size of the price for active power in the wholesale market depends mainly on a price level of products traded in power exchanges, especially in the liquidity European Energy Exchange AG (EEX). At the turn of 2008 and 2009 the economic and financial crisis caused a sharp decline in electricity consumption and subsequently a decline in the price of electricity in power exchanges. The situation in power exchanges made impact on the decrease in bidding prices for active power from electricity suppliers that reflect their business and marketing strategies. A positive trend in development of active power price in the market was also reflected in a regulated component of prices – in the price of electricity used for covering distribution losses.

d) Electricity supply for households and small businesses

For the year 2010 the Office, through its decision, determined for a regulated entity Slovenské elektrárne, a.s. (based on the general economic interest – the Ordinance of the Government of the Slovak Republic No. 457/2008) fixed prices of electricity supply to electricity suppliers for the purpose of electricity supply to households and small businesses.

Alternative electricity suppliers took advantage of a decrease in prices in the market with electricity in 2009 and partially during 2010 and offered lower prices of active power which is the result of their higher flexibility, when purchasing active power, and lower administrative costs. A structure of rates and tariffs for households is changed annually on the basis of the trading and marketing policies of electricity suppliers, with a special emphasis given to the optimisation of costs for electricity purchase and at the same time effective utilisation of the assets.

At the end of 2010 there were totally 32 electricity suppliers offering electricity supply to household electricity consumers, of which 8 (apart from ZSE Energia, a.s., SSE, a.s. a VSE, a.s.) with the substantial electricity supplies, the remaining amounts of electricity are supplied to households located within the areas of local distribution systems and manufacturing plants.

In the course of 2010 there were totally 17 171 household electricity consumers that changed their electricity suppliers. The other 4 644 off-household electricity consumers also switched their suppliers.

For the purpose of better orientation of consumers the information on a structure of electricity prices is not provided in the form of so-called integrated price, but there are the separate prices for distribution and the separate prices for supply. The purpose of such measure was to improve the orientation of consumers in competitive price bids of various suppliers, thus assisting the process of switching a supplier and the opening of the market with electricity.

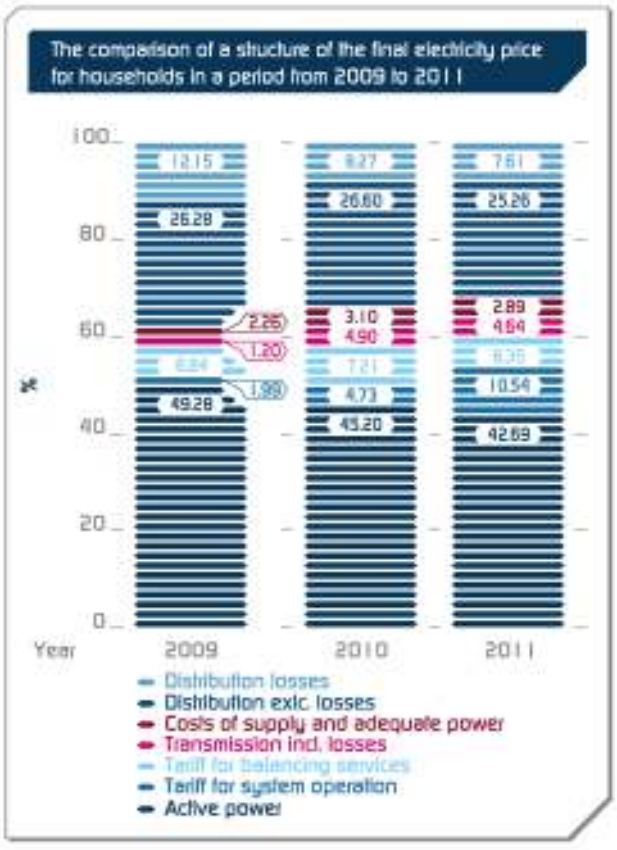
In the last year of the regulatory period price regulation imposed on electricity supply by the last resort supplier is undertaken in the form of direct setting of the maximum price for electricity

supply by the last resort supplier. The Office issued for three last resort suppliers operating in areas of the restricted territory of the Slovak Republic, i.e. ZSE Energia, a.s., SSE, a.s. and VSE, a.s. three price decisions by which it set the maximum price in 2011 for electricity supplies by last resort suppliers to households electricity consumers in a respective area of the restricted territory.

The comparison of a structure of the final electricity price for households in a period from 2009 to 2011

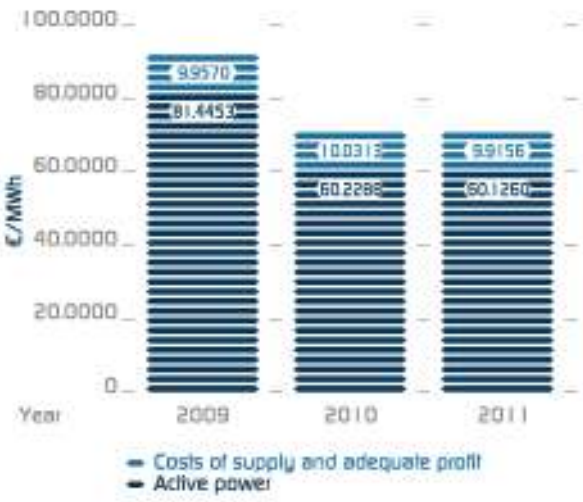
In 2011 there has been no substantial changes in the rules for electricity supplies to households and small businesses. The Office continued to approve maximum prices for every electricity supplier. Final electricity prices will be significantly affected by an increased VAT from 19 to 20% and especially by the introduction of a fee for levy into the National Nuclear Decommissioning Fund and Disposal of Burnup Nuclear Fuel and Radioactive Waste at the amount of 3 €/MWh as defined in the Ordinance of the Government of the Slovak Republic No. 426/2010 Coll. However, the Office has no impact on these circumstances.

The comparison of a structure of the final electricity price for households in a period from 2009 to 2011



Components of the price of electricity supply to small businesses

	2009 €/MWh	2010 €/MWh	2011 €/MWh	change 10/09	change 11/10
Active power	81.4453	60.2288	60.1260	-26.05%	-0.17%
Costs of supply and adequate profit	9.9570	10.0313	9.9156	0.75%	-1.15%
Total	91.4023	70.2601	70.0416	-23.10%	-0.31%



e) Grid connection

A price of grid connection is in the form of single charge. The Office, through its decree, determined the conditions of a connection of:

- An operator of the distribution system to the transmission system,
- A final electricity consumer or an electricity producer to the transmission system,
- An electricity consumer or an electricity producer to the distribution system.

f) Tariff for system operation

Tariff for system operation includes support of electricity generated from renewable energy sources and in highly efficient heat and power production, support of production of local coal used for the purpose of electricity production and costs of a new market player – the operator of the short-term market with electricity.

A tariff for system operation is included into the price for transmission and distribution of electric power and is paid by every electricity consumer in accordance with EU directives.

Under the Act No. 309/2009 Coll. the support of electricity generated from renewable energy sources and electricity generated in CHP technologies is intended for the electricity supplied to cover losses in regional distribution systems and the support is in the form of fixed prices determined by the Office Decree. A price of electricity from renewable energy sources and CHP was applied on the basis of certificate on origin of supply and a price decision issued by the Office. Higher costs, related with purchase of electricity used to cover losses, are settled by operators of regional distribution systems by means of tariff for system operation.

A developing market competition in the segment of electricity sales for households and businesses partly reduces the final price, however, its size is significantly affected by the tariff for system operation, which includes support of electricity generated from renewable energy sources and CHP and from 2010 also a respective part of the costs related with the operation of the short-term market with electricity. According to price proposals for 2011, submitted by regulated entities during 2010, it may be expected that influence of this tariff on the final price will be more substantial this year.

The largest part of annual increase in the size of this tariff falls on photovoltaic power plants that have the highest feed-in tariffs of all renewable energy sources. Following the approval of the amendment of the Act No. 309/2009 Coll., which modified the conditions concerning the support of electricity generated from renewable energy sources, the Office is obliged to comply with the requirements arising out of the law and accordingly include in the calculation of the electricity price for 2011 all factors having influence on tariffs for system operation. Compared to 2010, the size of tariff for system operation in 2011 is higher by 8.55 €/MWh thus achieving the value of 14.85 €/MWh, which brings an increase by 135.71 %.

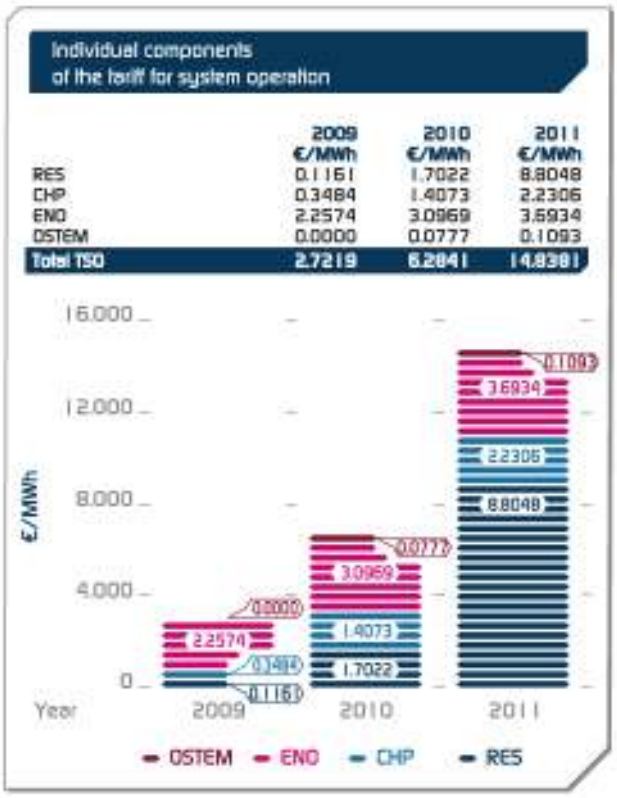
Price regulation is also imposed on electricity generated from coal which is produced in Slovakia. For the year 2010 the Office through its decision determined for a regulated company Slovenské elektrárne, a.s. tariff for each MWh of electricity supplied to the system that proved to be produced from domestic coal in a thermal power plant of a holder of the license for electricity generation, whose generation on the territory of the Slovak Republic was higher than 10 TWh in 2008. Based on a decision of the Ministry of Economy of the Slovak Republic imposing an obligation in general economic interest (pursuant to Article 3 (2) (f) and (h) of Act No. 656/2004 Coll.) electricity generated from domestic coal must be purchased from the electricity producer by the electtricity supplier, whose electricity supply to the final electricity consumer was higher than 1 500 GWh in 2009 at the price directly determined by the Office through the tariff for system operation. It takes into account a respective part of costs for production of electricity from local coal. Such costs are then shared between SE, a.s. and the companies that produce and supply brown coal.

Starting from the year 2010 the tariff for system operation takes into consideration a respective proportion of costs for generation of electricity from local coal, renewable energy sources and CHP, but also a respective proportion of costs for the activities of the operator of the short-term market with electricity between the Czech Republic and Slovakia, which started its operation on September 1, 2010.

A share of individual components of tariff for system operation in the years 2009, 2010 and 2011 is shown in the following data:

Individual components of the tariff for system operation

	2009 €/MWh	2010 €/MWh	2011 €/MWh
RES	0.1161	1.7022	8.8048
CHP	0.3484	1.4073	2.2306
END	2.2574	3.0969	3.6934
OSTEM	0.0000	0.0777	0.1093
Total TSO	**2.7219**	**6.2841**	**14.8381**



The largest share in the price of electricity from renewable energy sources has photovoltaics. During the year the Office indicated that a chaotic increase in the number and capacity of photovoltaic generating plants has a negative impact on the final electricity price, however, it is not in the competence of the Office to grant permits for the construction of power plants. The Office also proposed other measures which were not adopted in the further legislative process, on the contrary, the final wording of the Act No. 309/2009 Coll. brought a number of changes due to unco-ordinated amended wordings with an impact on the increased support of RES and CHP based technologies, with a higher impact on the final electricity price for all end users, including households.

III.2 The Gas Sector

III.2.1 Gas Transmission

Gas transmission for the needs of the Slovak market as well as the international gas transmission are undertaken by the high pressure transmission system that is operated based on a license held by the single operator of the transmission system eustream, a.s. Taking into account the transmitted gas at the amount of 71.4 mld. m^3 in 2010 and the annual capacity of the transmission system being more than 90 mld. m^3 Slovakia is the largest transporter of Russian natural gas in the EU.

of total average prices for transportation of gas including the calculation of length units, taking into account a respective distance of entry and exit points of the transmission system. Through its Decision dated October 8, 2009 the Office approved for eustream, a.s. in 2010 the comparable prices for access to the, transmission system and gas transmission. The second Decision dated June 22, 2010 in line with the Ordinance of the Government No. 409/2007 Coll. supplemented relevant tariffs with the appraisal of a new entry-exit point Veľké Zlievce within the framework of the planned project of a Slovak-Hungarian interconnection of the transmission systems.

A connection and access to the transmission system, plus gas transmission are all subject to price regulation. The method of price regulation governing access to the transmission system and gas transmission is defined by the Act No. 276/2001 Coll. and is given by direct determination of a comparable price based on the analysis of prices for gas transmission in other EU member states using the entry-exit tariff system. The analysis makes a comparison

Price regulation of a connection to the transmission system is carried out by defining the method of calculation of the fixed price for connection and under the Decree No. 4/2008 the price is determined based on the actually incurred and proved costs of the transmission system operator. In 2010 the Office issued one price decision approving connection to the transmission system for a gas installation of a new intra-state transmission station Špačince.

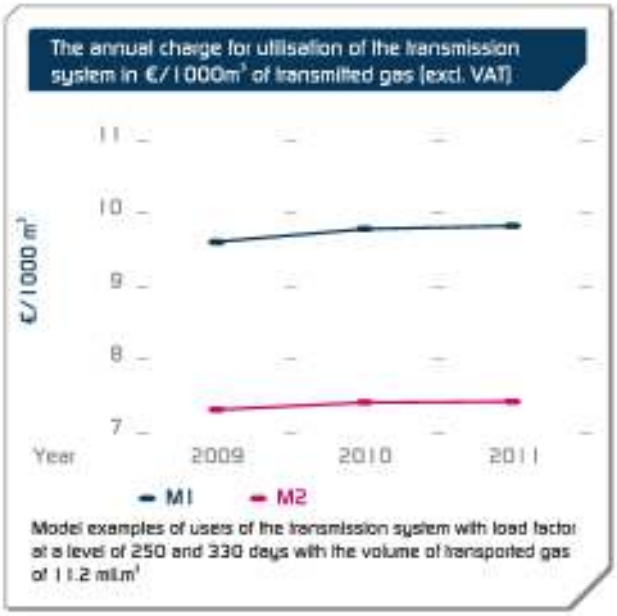
The comparable prices for access to the transmission system and gas transmission is determined under Decree No. 4/2008 in the form of tariffs for access to the transmission system and gas transmission. Tariffs are determined for individual entry and exit points of the transmission system (the entry-exit system) and are applicable for both Slovak and foreign users of the transmission system. Payment for gas transmission is the total of payments for the contractually agreed entry and exit points of the transmission system depending on the contractually agreed daily maximum capacity of a user of the transmission system and the validity of the agreement on access to the transmission system and gas transmission. Apart from the payment for gas transmission a user of the transmission system provides the operator of the transmission system with gas for operational purpose, the amount of which depends on the amount of transmitted gas at a contractually agreed entry and exit point of the transmission system and on individual rates of natural gas used for the operational purpose according to the price decision approved by the Office.

A structure of tariff groups for four entry-exit points of the transmission system in 2011 remained unchanged, compared to the year 2010, and depending on the agreed daily maximum capacity of gas transportation it is divided into the four categories:
T_{en1}, T_{ex1} – up to 1,75 mil. m³
T_{en2}, T_{ex2} – from 1,75 mil. m³ to 40 mil. m³
T_{en3}, T_{ex3} – from 40 mil. m³ to 132 mil. m³
T_{en4}, T_{ex4} – from 132 mil. m³

In 2011 the average annual increase in initial rates of tariffs by 0.5% was influenced by an EU inflation rate at the level of 1%, whereas only its 50% value is included in the escalation factor.

Tariff groups T_{en1} and T_{ex1} applicable in the Slovak market as well as for transit with a contractually agreed daily capacity lower than 1.75 mil. m³ relate to all Slovak gas consumers that would decide, based on the agreement with the operator of the transmission system, to transmit natural gas to their point of offtake individually. On the basis of model calculation of total annual payment for gas transmission made by the Office the standard industrial consumer in Slovakia I4, according to Eurostat with a different factor of network load 250 and 330 days on the transmission path Veľké Kapušany – a local point, pays more by 0.5% in 2011, compared to the previous year.

The following graph illustrates the development of average prices for natural gas transmission in model calculations of the users of the transmission system with the load factor 250 days (MA) and 330 days (M2) with the annual transmitted gas volume of 11.2 mil. m³.



Model examples of users of the transmission system with load factor at a level of 250 and 330 days with the volume of transported gas of 11.2 mil.m³

III.2.2. Gas distribution

Price regulation of gas distribution in 2010 was imposed on regulated business, whose:

a) number of offtake points was higher than 100 000, i.e. for the single operator of the distribution system SPP – distribúcia, a.s., which also plays the role of the gas dispatch centre on the restricted territory,

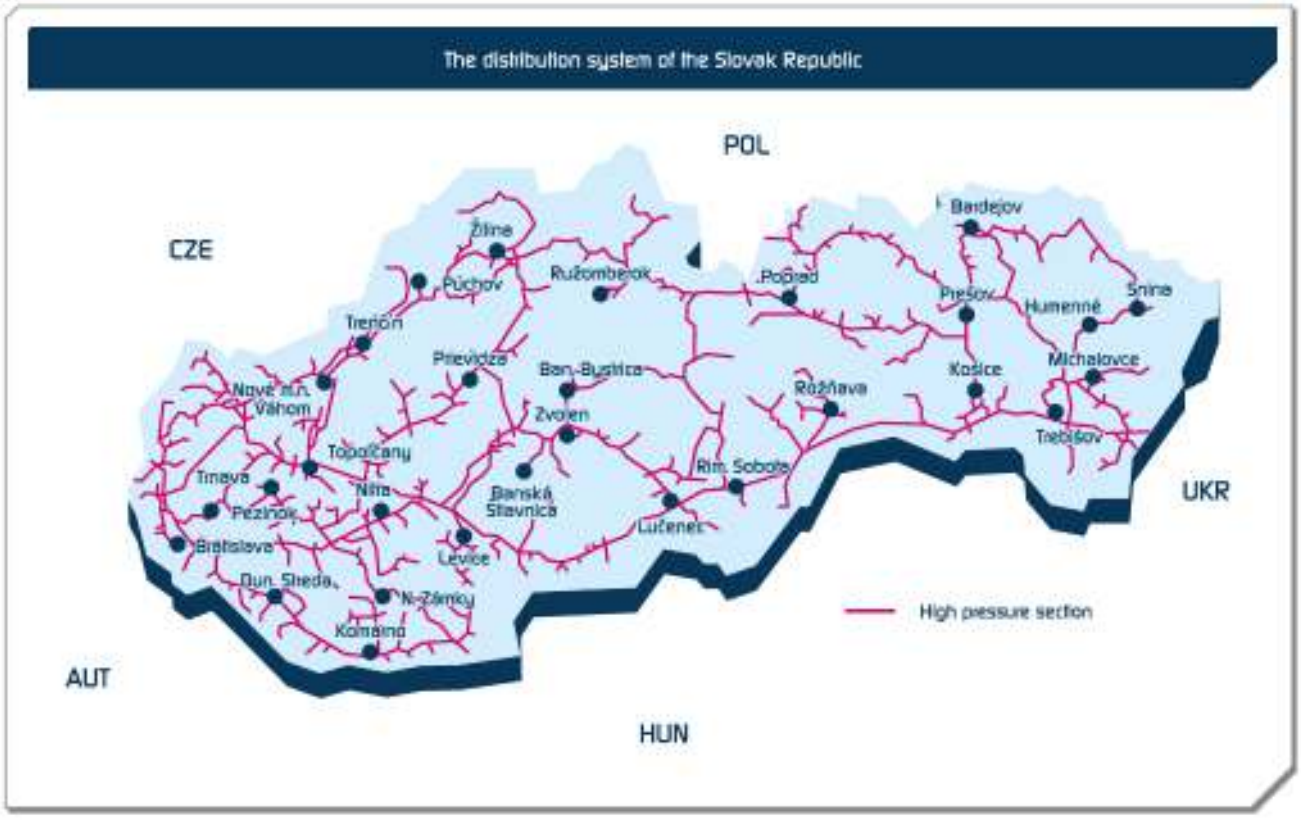
b) number of offtake points from the distribution system did not exceed 100 000, which are mainly area-based operators of the distribution systems on the restricted territory, the so-called local distribution systems.

In 2010 the Office issued for SPP – distribúcia, a.s., a price decision, by which it approved the 2011 tariffs for access to

the high pressure transmission system and gas distribution and tariff for provision of ancillary services that are not provided within tariffs for access to the distribution system and gas distribution, together with the conditions regarding the application of these tariffs. As a background the average price was used for access to the distribution system and gas distribution for 2010 adjusted according to the Decree No. 4/2008 with the value of core inflation, effectivity factor and annual difference of the price of gas used to cover losses and internal gas consumption in the distribution system. Calculation of the average price for access to the distribution system and gas distribution takes into account also the size of costs of a regulated entity related to the fulfillment of obligation in the event of emergency situation pursuant to

Total average price for access to the distribution system and gas distribution, when calculated based on the planned data referring to the number of gas consumers, the agreed daily maximum and amount of distributed gas in 2011 went annually up by 1.95%.

Tariffs for gas distribution are determined on the principle of the so-called postage stamp, i.e. according to the annual volume of distributed gas regardless of the distance of a point of offtake and they were proposed without cross subsidies between individual groups of gas consumers. Tariffs also include charges for exceeding contractually agreed daily distribution capacity.



14 (12) and (14) of the Act No. 656/2004 Coll. and the value of annual depreciation of listed new long-term tangible assets for the previous year maximally up to 2.5% of its acquisition price.

Through a price decision for 2011 the Office also approved for SPP – distribúcia, a.s. prices for connection to the distribution system, separately for the category of household gas consumers

and separately for the category of off-household consumers, whereas they were designed so that they would not exceed the planned average costs for connection to the distribution system in line with the Decree No. 4/2008.

In 2010 the Office issued for operators of local distribution systems 9 price decisions applicable in 2010 and 27 price decisions applicable in 2011, based on which there were approved prices or tariffs for access to the distribution system and gas distribution. As a background for the price setting were used eligible costs for operation of the distribution system limited by the value of maximum eligible costs and an adequate profit. The Office approved prices for connection to the distribution system in 2010 for two operators of local distribution systems. The following chart shows the development of average prices for gas distribution in individual tariffs from 2009 to 2011, calculated based on the planned data in 2011.

The development of average prices for access to the distribution system and gas distribution from 2009 to 2011 (excl. VAT)

Tariff (by annual volume of distibuted gas in m³)		2009 €/m³	2010 €/m³	2011 €/m³
M/Da	(up to 200)	0.5651	0.5633	0.5658
M/Db	(from 200 to 1 700)	0.1637	0.1515	0.1621
M/Dc	(from 1 700 to 6 500)	0.1287	0.1268	0.1273
M/Dd	(from 6 500 to 60 thous.)	0.0891	0.0865	0.0869
S	(from 60 thous. to 400 thous.)	0.0803	0.0777	0.0780
Ve	(from 400 thous. to 2 mil.)	0.0701	0.0677	0.0680
Vb	(from 2 mil. to 15 mil.)	0.0487	0.0461	0.0463
Vc	(from 15 mil. to 25 mil.)	0.0363	0.0338	0.0340
Vd	(from 25 mil. to 300 mil.)	0.0290	0.0273	0.0274
Ve	(from 300 mil. to 500 mil.)	0.0170	0.0156	0.0158

III.2.3 Gas storage

On the territory of the Slovak Republic there are two companies operating undeground gas storage tanks: NAFTA a.s., operating a complex of underground storage tanks Láb 1.–3. and Gajary-báden and POZAGAS a.s., operating an underground gas storage tank Láb 4, construction near Malacky. For the needs of the Slovak Republic and for technical reasons of the operator of the distribution system SPP – distribúcia, a.s., there is also an underground storage tank Dolní Bojanovice in use, which is used on the territory of the Czech Republic. This underground storage tank is connected to the Slovak gas system and is used for the need of physical balancing of the distribution system.

The main function of underground storage tanks is to balance any differences between gas supply and gas demand. They serve mainly for gas storage in the summer season and for gas production in the winter time, when gas consumption is higher than contractually agreed amount of supplied gas in Slovakia. Gas storage tanks are also an effective tool for ensuring safety of gas supplies. The operators of gas storage tanks store gas not only for participants of the gas market in the Slovak Republic, but also for foreign gas companies.

Storage capacity of operators of underground gas storage tanks

Underground storage tank operator	Tech. working capacity (in mil. m³)	Tech. injection rate (in mil. m³/day)	Tech. production capacity (in mil. m³/day)
NAFTA a.s.	2 165	22.00	27.50
POZAGAS a.s.	620	6.85	6.85
Total:	2 785	28.85	34.35

Since 2010 access to a storage tank and gas storage has been subject to price regulation by setting the maximum price. Under the Decree No. 4/2008 a price proposal for access to a storage tank and gas storage is based on an analysis of prices for access to a storage tank and gas storage by operators of storage tanks in other EU member states that operate storage tanks with similar parameters as gas storage tank operators in the Slovak Republic.

In 2010 the Office issued two decisions for operators of storage tanks, thus setting the prices for access to a gas storage tank and gas storage on the territory of the Slovak Republic for a period starting from May 1, 2011 to April 30, 2012, i.e. a period identical with the gas year of the operators of gas storage tanks. The regulated maximum price per 1 m3 of annual storage capacity for both operators of gas storage tanks annually increased, because it reflects an extended bid of storage services by storage tank operators. For 2011 NAFTA a.s. offers a new product in the form of extended standard package of services with exploitability from 88 to 120 days, which is more flexible from the point of views of customer needs. POZAGAS a.s. prepared the conditions for improvement of the mutual interconnection of systems by eliminating

the existing barriers, thus allowing a higher comfort in using storage services in a storage tank PZZP Láb 4. Both operators of storage tanks offer their free storage capacity in a transparent and non-discriminatory manner in the form of public biddings. One of the criteria for allocation of storage capacity is a price level offered by those interested in storage capacity, while respecting the ceiling of the maximum regulated price.

The following chart shows maximum prices for access to a storage tank and gas storage in 2010 and 2011 for individual storage services (excluding VAT).

the number of offtake points with the changed suppliers to the total number of offtake points in a given year. While in 2009, in the first year of entry of new traders in the Slovak gas market, the switches were made mainly in the category of large-scale consumers, in 2010 a group of small consumers appeared to be more active, an indicator of switching achieved 4.1%. Such increase may be attributed to the active policy of RWE Gas Slovensko, s.r.o. In 2010 the Office also registered the return to the traditional gas supplier.

Maximum prices for access to a storage tank and gas storage in 2010 and 2011 for individual storage services (excl. VAT)

Underground storage operator	Storage capacity (€/[m³/year])		Working capacity (€/m³)	Injection rate	Production capacity (€/[m³/day])		Production capacity (€/[m³/day])	
	2010	2011	2010	2011	2010	2011	2010	2011
NAFTA a.s.	0.0642	0.0704	x[1]	x[1]	2.3900	1.9300	2.7600	2.3400
POZAGAS a.s.	0.0649	0.0666	0.0323	0.0324	3.4265	3.4625	2.9465	3.0858

[1] Nafta, a.s. does not provide the working capacity as an individual service in the given period

III.2.4 Gas supply

III.2.4.1 Development of competition in the liberalised gas market

In the 2010 Slovak market there were the traditional supplier SPP, a.s plus five other gas traders that purchased gas from various foreign gas suppliers. The local supplier SPP, a.s., having the major share in the gas market, had several competitors in the area of gas supply to final industrial gas consumers including RWE Gas Slovensko, s.r.o., VNG Slovakia, spol. s r.o., SHELL Slovakia, s.r.o., ELGAS, s.r.o., and Lumius Slovakia, s.r.o.

The year 2010 was important from the point of view of the number of switches of a gas supplier. The category of small consumers experienced a sharp rise of the number of switches of gas consumers. Liberalisation of the market is evaluated using the percentage coefficient, the so-called switching which expresses

The chart shows the switches of gas suppliers at individual offtake points in 2009 and 2010. The data in the chart do not take into account the switching of a gas supplier at offtake points in local distribution systems.

The switching of a gas supplier

Type of extraction point	2009 No. of switched offtake points	2010 No. of switched offtake points	2009 Switching	2010 Switching
Large-scale consumer	39	84	4.4%	10.1%
Medium-scale consumer	14	84	0.4%	2.7%
Small-scale consumer	5	2950	0.0%	4.1%
Households	0	0	0.0%	0.0%

III.2.4.2 Development of annual gas consumption

In 2010 consumption of natural gas by final gas consumers in the Slovak Republic achieved 57.3 TWh. Compared to 2009, when consumption of natural gas reached 53.3 TWh, it means an increase by 7.5 %.

The most significant share in the given gas consumption in 2010 had the traditional gas supplier SPP, a.s. having a 84.9 % share in the market with gas supplies to final consumers. RWE Gas Slovensko, s.r.o. achieved a 13.1 % share in the market with gas supplies to final consumers and other fours gas traders had totally a 2% share in the consumption.

III.2.4.3 Price regulation of gas supplies

Price regulation in the area of gas supply governs the following:
a) Gas supply to households,
b) Supply of gas for the purpose of heat production for households,
c) Gas supply by the last resort supplier.

The Decree No. 4/2008 determined for a regulated activity of gas supply the method for calculation of maximum prices according to the regulation methodology called the price cap method. Such method set a price level for a regulatory period. The annual change in the average price for gas supply is influenced by an inflation coefficient, effectivity coefficient and change in the gas purchase price charged for gas supply to gas consumers. Price regulation of gas supply by the last resort supplier is undertaken in the last year of the regulatory period as direct setting of the maximum price for gas supply by the last resort supplier.

Gas supply to households

Despite the entry of new traders in the Slovak gas market, there was no competition in the category of household gas consumers in 2010. All household gas consumers extracted gas from the traditional gas supplier SPP, a.s., which was established from the originally vertically integrated company.

Through the decision dated December 9, 2010 the Office set for SPP, a.s. maximum prices for gas supply to households for the year 2011 along with the conditions of their implementation.

Maximum prices for gas supply to households are two component prices, consisting of the maximum size of a fixed monthly rate and the maximum size of a rate for extracted gas. The structure of tariffs remained unchanged and it is divided into three tariff groups D1 to D3 according to the amount of annual gas consumption. No regulation is imposed on gas supply to households in a tariff group D4 with a consumption above 6 500 m³ (68 575 kWh) similarly to off-households gas consumers.

Based on the anticipated development of prices of crude oil and oil products in 2011 and the assumed development of an exchange rate of EURO against U.S. dollar, the average price for gas supply to households in 2011 has increased by 4.47 % on average, when compared to the previous year.

Maximum prices for gas supply to households in a period from 2009 to 2011 (excl. VAT)

	Fixed monthly rate (€/month)			Rate for extracted gas (€/kWh)		
Tariff	2009	2010	2011	2009	2010	2011
D1	1.7427	1.7427	1.76	0.0511	0.0491	0.0509
D2	4.1383	4.1382	4.15	0.0372	0.0355	0.0372
D3	6.4423	6.4424	6.46	0.0359	0.0339	0.0356

The development of average final prices for gas supply to households (excl. VAT)

Tariff (by annual volume of supplied gas in kWh)	2008 €/kWh	2009 €/kWh	2010 €/kWh	2011 €/kWh
D1 (to 2 100)	0.0841	0.0864	0.0843	0.0858
D2 (from 2 100 to 17 935)	0.0427	0.0416	0.0397	0.0414
D3 (from 17 935 to 68 575)	0.0384	0.0385	0.0364	0.0384

The following graph illustrates the comparison of a structure of the average price for household gas supply from 2009 to 2011, including VAT. The most significant share in the final payment for gas supply to households makes the purchase of natural gas from a foreign supplier.

Gas supply for household heat production

Due to an insufficient competitive environment in the market with gas supplies and bearing in mind the protection of the most vulnerable group of household heat consumers, the Office undertook in 2010 price regulation of gas suppliers that supplied gas for the purpose of heat production for households.

In 2010 the Office issued 5 price decisions, by which it approved or set for 2011 maximum prices for gas supply for the purpose of heat production for households, together with the conditions of application of prices for SPP, a.s., RWE Gas Slovensko, s.r.o., VNG Slovakia, spol. s r.o., ELGAS, s.r.o. and CHIRANA–PREMA Energetika, a.s.

The 2011 average price for gas supply for heat production for households for SPP, a.s., compared to the average price for gas supply for household heat production in 2010, increased by 6.12 % on average. Since the most significant share in the annual change of price had a gas purchase price, such increase was caused by the anticipated development of prices of crude oil Brent and oil products in the world commodity markets for 2011 and the development of the average exchange rate of EURO against U.S. dollar.

A tariff structure for the year 2011 has not been changed, when compared to the year 2010 and it was divided into 8 tariff groups M2 to V4, whereas tariff goups S to V4 include two rates for daily maximum, which is related to the more realistic costs of gas storage included into the final price. A consumer with balanced gas consumption during the year pays for gas supply less than a consumer with seasonal gas supply which relates to higher costs for gas storage.

Maximum prices for gas supply for household heat production for SPP, a.s.
In a period from 2009 to 2011 (excl. VAT)

Tariff	Fixed monthly rate (€/month)			Rate for daily maximum value (€/(m³/day))			Rate for extracted gas (€/kWh)		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
M2	5.30	5.34	5.34		-	-	0.0500	0.0452	0.0472
M3	7.87	8.02	8.02		-	-	0.0483	0.0434	0.0454
M4	21.62	21.81	21.81		-	-	0.0459	0.0410	0.0428
S a	56.55	49.08	49.08	8.7042	8.5882	8.5882	0.0271	0.0251	0.0270
S b	56.55	49.08	49.08	8.7042	8.2229	8.2229	0.0271	0.0251	0.0270
V1 a	180.79	175.94	175.94	8.5814	8.5168	8.5168	0.0268	0.0247	0.0266
V1 b	180.79	175.94	175.94	8.5814	8.1515	8.1515	0.0268	0.0247	0.0266
V2 a	3556.51	3602.01	3602.01	8.3905	8.4504	8.4504	0.0249	0.0229	0.0249
V2 b	3556.51	3602.01	3602.01	8.3905	8.0851	8.0851	0.0249	0.0229	0.0249
V3 a	13038.53	10227.42	10227.42	7.7402	7.8845	7.8845	0.0245	0.0226	0.0245
V3 b	13038.53	10227.42	10227.42	7.7402	7.5192	7.5192	0.0245	0.0226	0.0245
V4 a	29904.27	32025.86	32025.86	7.4033	7.4529	7.4529	0.0238	0.0219	0.0239
V4 b	29904.27	32025.86	32025.86	7.4033	7.0876	7.0876	0.0238	0.0219	0.0239

Gas supply by the last resort supplier

Bearing in mind the protection of gas consumers the Decree No. 1/2009 in the wording valid for 2010 extended the scope of price regulation with gas supply by the last resort supplier to become effective for the year 2011. Price regulation of gas supply by the last resort supplier is performed in the last year of the regulatory period by setting the maximum price for gas supply by the last resort supplier.

The Office issued for the last resort supplier on the restricted territory of the Slovak Republic, i.e. for SPP, a.s., three price decisions which determined for 2011 the maximum prices for gas supply by the last resort supplier to household gas consumers, consumers of gas for household heat production and for gas consumers being off-household gas consumers and are not the consumers of gas for the purpose of heat production for households.

III.3 The Thermal Energy Sector

In the heat market there has been the stabilised number of heat suppliers for several year, which is about 330. Heat is supplied in all towns on the territory of Slovakia. Annual heat supply reaches approximately 16 000 MWh. Out of this, 40% is supplied to flats and 60% to off-household consumers, which are mainly the tertiary sector and industry or for the purpose of auxiliary consumption.

Heat prices for 2010 were determined under the Decree No. 1/2009, according to which price regulation is imposed on production, distribution and supply of heat and price regulation is performed by defining the method of calculation of the maximum heat price. The method and procedure applied for heat price regulation in 2010 were determined by the Decree No. 6/2008 in the wording of the Decree dated October, 2008 No. 7/2008 and the Decree dated June 10, 2009 No. 6/2009.

Amendments of the Decree No. 6/2008 did not substantialy changed the method of heat price regulation in 2010. A variable component of the heat price was determined in €/kWh based on the ordered volume of heat, whereas it was separately determined for households and separately for other off-hoousehold consumers. Such procedure resulted from the regulation of price of gas used for household heat production and from the implementation of the Act No. 609/2007 Coll. on Consumer Tax from Electricity, Coal and Natural Gas and on Amendment and Supplement of the Act No. 98/2004 Coll. on Consumer Tax from Mineral Oil in the wording of latter provisions (hereinafter only "the Act on Consumer Tax"). A fixed component of the heat price was determined on regulatory input and was expressed in €/kW of regulatory input. The growth of fixed costs was restricted, with the exception of making investments into rationalisation of heat production and distribution, ecologization and scheduled overhaults. An increase in fixed costs was also allowed when eliminating breakdowns and accidents caused by natural disasters and events caused by third persons that might impose the threat on health of persons or cause large damage. In those events and in the case of construction of a heat generating plant or its part, planning to utilise renewable energy sources, it was allowed to partially increase fixed costs under precisely specified circumstances as defined in the Decree No. 6/2008. The joint heat price for a supplier was determined for a town or its specific part. It is still possible to include a higher profit in the heat price for those suppliers that ensure heat production with at least a 20% share of renewable energy sources, whereas the heat price does not exceed the limit prices of variable and fixed components of the heat price determined in the Decree No. 6/2008. Also, there is still a possibility to settle eligible costs in the set heat prices following the termination of the regulatory period, which brought the possibility of cummulating saved costs in the first two years and use them in the third year of the regulatory period.

Amendments in the Decree No. 6/2008 adopted for heat price regulation in 2010 related mainly to the introduction of EURO currency, a changed definition of some eligible costs, adjustment of the pricing procedure and supplement of price proposal with other background documents in relation to the adopted Act No. 429/2008 Coll. on Submission of Price Proposals by Businesses and amendment and supplement of the Act No. 513/ 1991 Coll. Commercial Code in wording of latter provisions. It was allowed to re-allocate eligible fixed costs and an adequate profit after the termination of the regulatory year among individual consumers according to the actually supplied heat. The Decree No. 6/2008 responded also to the implications of the economic crisis leading to the reduced industrial demand, which significantly affected the economic situation of relevant suppliers. In such critical situations the decree allows to make heat price adjustments. By amendment of the Decree No. 6/2008 the Office intended to maintain incentives to a higher utilisation of renewable energy sources at the existing prices of natural gas as a competitive fuel and for this reason it updated the specific conditions for setting prices, when using renewable energy sources.

As of January 1, 2010 the Office issued 330 price decisions for the year 2010. In the course of 2010 it issued other 12 decisions, thus performing changes resulting mainly from the fuel mix used for heat production during the regulatory year. Heat supply subject to price regulation in 2010 amounts to about 15 500 GWh, of which 6 200 GWh of heat is supplied to flats for space heating and preparation of hot domestic water and the remaining 9 300 GWh is supplied to other off-household consumers. The main type of fuel used for heat production is natural gas, which accounts for 66 %, then coal (23 %) and biomass (10 %). Since 2008 there has been an increase in the biomass

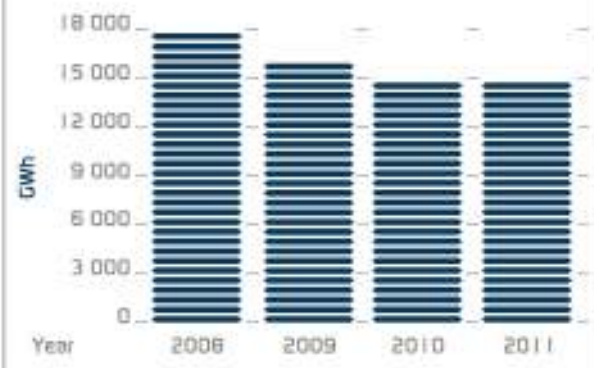
consumption for heat production, which leads to a decline in natural gas consumption. The following table illustrates the consumption of individual types of fuels used for production of heat, which has been supplied on the market since 2008 as well as data on the heat supplied.

The following chart presents the average heat prices for heat consumers based on the Office decisions in a period from 2008 to 2011.

The consumption of fuels for heat production

Year	Natural gas [MWh]	Coal [t]	Oil [t]	Biomass [t]	Heat supply [MWh]
2008	13 151 820	929 046	4 852	371 044	18 281 029
2009	11 819 065	954 503	3 216	583 164	16 486 436
2010	11 738 581	921 162	4 565	798 796	15 643 390
2011	10 596 642	893 732	3 848	1 027 963	15 540 283

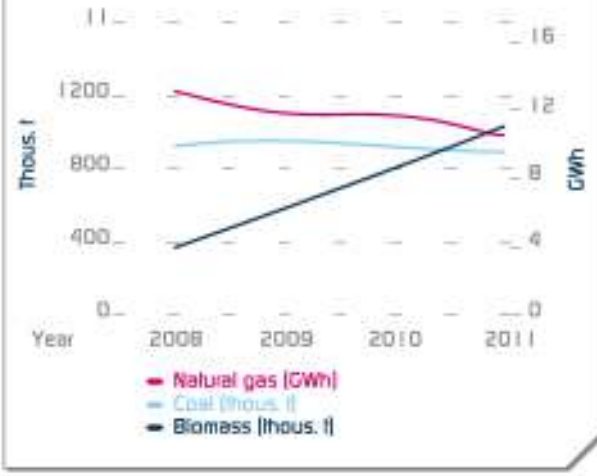
Heat supply



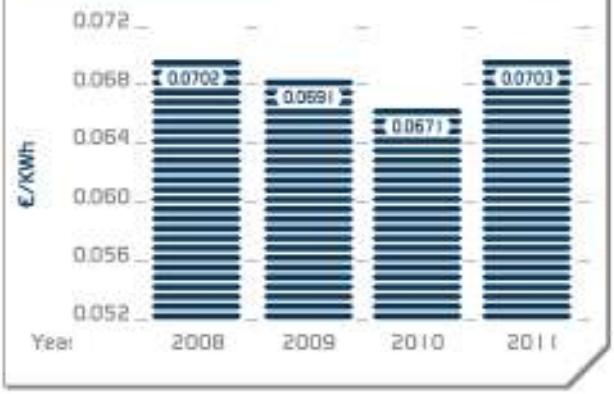
Heat price based on Office decisions

	2008	2009	2010	2011
Variable component of maximum household heat price [€/kWh]	0.0482	0.0453	0.0433	0.0468
Variable component of maximum heat price for other consumers [€/kWh]	0.0482	0.0529	0.0491	0.0459
Fixed component of maximum heat price [€/kW]	116.53	125.93	126.05	124.69

The development of fuel consumption



Heat price calculated in the form of single component price

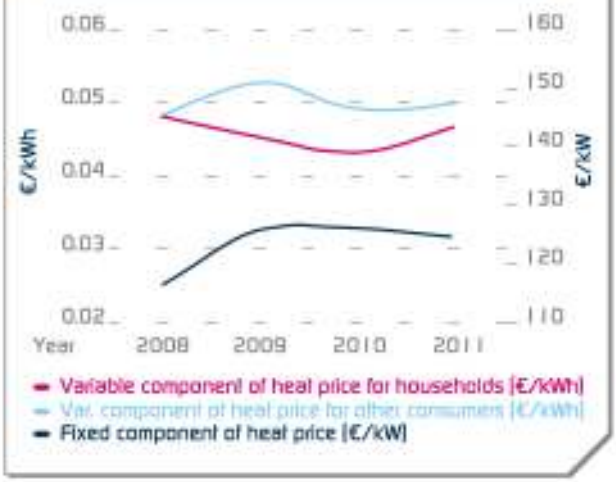


As of January 1, 2011 the Office issued 301 decisions on the maximum heat price. The average heat price is largely affected by a price of natural gas, which is the most frequently used fuel for heat production. Up to 66 % of supplies is covered with heat produced from natural gas. A variable component of the heat price therefore adequately follows a price of natural gas. In case of prices of heat supplied to households it reflects the price determined by the Office for a respective year and in case of heat for other consumers it depends on the world prices of crude oil and an exchange rate of €/USD.

As a result of decline in a regulated price of natural gas in 2010 the average variable component of the heat price for households went down by 4.4%, when compared to the year 2009. A regulated price of natural gas for heat production in 2011 increased by 6%. This fact as well as cancellation of exemption of gas and coal used for heat production from the consumer tax starting from January 1, 2011 resulted in an increase in the variable component of the heat price for households in 2011 amounting to 10% on average.

The heat price in a variable component for other off-household consumers decreased by 7.1 % in 2010, compared to 2009, and increased by 1.6% in 2011. Gas and coal used for heat production in this category of consumers was charged with the consumer tax already in the previous years, and therefore an increase in the heat price is lower than in households.

The development of maximum heat price



With regard to the rules of regulation imposed on fixed costs and stabilisation of regulatory input during the entire regulatory period a fixed component of the heat price in 2010 remained at the level of 2009 and in 2011 it is lower by 1% on average, when compared to 2010. A comparison of heat prices depending on the size of supply points out to lower heat prices of large-scale heat consumers and on the contrary, higher prices of small-scale consumers. Also the size of a fixed component of the heat price is detrimental to smaller suppliers with heat supply up to 2 MWh.

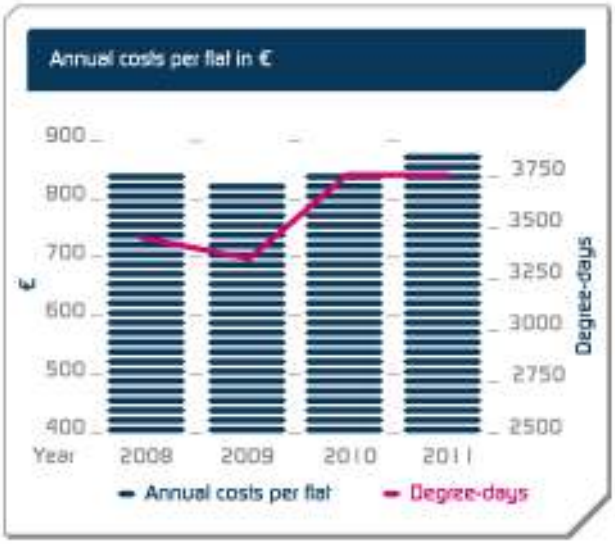
Heat price depending on the size of heat supply

Heat supply in GWh	Heat price 2010 Variable component households v €/kWh	Heat price 2010 Fixed component v €/kW	Heat price 2011 Variable component households v €/kWh	Heat price 2011 Fixed component v €/kW
Up to 2	0.0491	149.34	0.0512	139.51
2 to 10	0.0443	110.62	0.0484	115.24
10 to 100	0.0426	118.17	0.0457	121.72
Above 100	0.0355	137.77	0.0375	129.79

Heat price depending on fuel

Heat supply in GWh	Year 2010 Variable component households v €/kWh	Year 2010 Fixed component v €/kW	Year 2011 Variable component households v €/kWh	Year 2011 Fixed component v €/kW
Fuel mix with min. 20% share of biomass	0.0400	138.81	0.0424	144.65
Natural gas	0.0470	118.97	0.0518	113.77
Coal	0.0360	113.53	0.0375	111.67

Costs for heat supply depend on its volume and the price for heat supplied. The following graph illustrates the development of costs for heat in a standard three-room flat with centralised heat supply for space heating and preparation of hot domestic water, which is corrected according to the climatic conditions in respective years.



III.4 The Water Service Sector

III.4.1 Production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system

In the present regulatory period including the year 2010 the price cap method was applied, allowing the annual inflation growth and the application of the effectivity factor which ensured price stability in the area of production, distribution and supply of potable water through the public water supply system. As regards the discharge and treatment of waste water through the public sewage system price regulation uses the factor of investment development to support the construction of sewage systems and waste water treatment plants in line with the EU requirements with an aim of stimulating regulated companies to draw subsidies from the EU funds, thus meeting the relevant commitments, which the Slovak Republic had committed to comply with until the year 2015.

This method of price regulation significantly contributes to ensuring the protection of rights of potable water consumers and producers of waste water against any unjustified and inadequate increase in prices for production and supply of potable water through the public water system and discharge and treatment of waste water through the public sewage system.

The procedure and conditions of the price setting in 2010 were defined and supplemented by the Office through the Decree No. 3/2009. Through an amendment of the decree the Office extended the scope, the structure and the size of eligible costs, supplemented and adjusted the approach of submitting price proposals and background documents being relevant for the price proposals with an emphasis given on a document proving the approval of a price proposal by the General Assembly signed by an authorised person.

During 2010 in accordance with the Act No. 276/2001 Coll. the Office received 17 proposals for changing a price proposal, which approved the prices for production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system in 2010, of which 11 were submitted by the water service companies. Changes related mainly to prices for production and supply of potable water through the public water supply system due to the substantial modification of economic parameters which were used as a basis for setting the price in the previous year or in the first year of the regulatory period (2008). Most proposals for price adjustment were justified by the need for increased funding necessary for repairs in the water service facilities due to the large number of emergency situations in public water supply systems and public sewage systems, thus higher material use, rising depreciations related to putting new water service installations into operation following the completion of large investment projects. In this regard it needs to be pointed out that large pressure on price rise rather than cost increase is caused by the constant decrease in the quantity of potable water supplied.

When changing the price during 2010 the Office used exclusively the cost based method with an emphasis given on the exploration of actual costs from the previous year in the scope of inevitably spent eligible costs. Based on the identified development of economic results in regulated activities, while taking into account the needs of a regulated company to ensure quality, uninterrupted and safe performance of a regulated activity as well as bearing in mind the protection of individual consumers of potable water or producers of waste water, the Office changed the price for production and supply of potable water through the public water supply system and the price for discharge and treatment of waste water in eigth cases.

The Office accepted such change only up to the size of eligible costs required for the performance of a regulated activity and clearly supported by background documents submitted by a regulated company in order to ensure operability of equipment with the as effective use of financial means as possible. Price regulation in 2010 was undertaken by direct setting of the maximum price and defining the method of calculation of the maximum price. Apart from the cost-based method there is also the price cap method in use with a possibility of the annual inflation growth, including the application of the effectivity factor and the investment development factor. The purpose of the effectivity factor is to rationalise and optimise the disposal of eligible costs for a regulated activity.

A regulated company cannot exceed maximum prices, but in the water service market it can use the price lower than those approved or determined by the Office, so setting prices as maximum

The prices for production and supply of potable water (excl. VAT)

	2008 Maximum price Sk/m³	2008 Maximum price €/m³	2009 Maximum price €/m³	2010 Maximum price €/m³	2011 Maximum price €/m³
Bratislavská vodárenská spoločnosť	23.40	0.7767	0.8266	0.8964	0.8964
Trnavská vodárenská spoločnosť	19.78	0.6566	0.6566	0.6879	0.6879
Západoslovenská vodárenská spoločnosť	29.25	0.9709	0.9709	1.0000	1.0000
Trenčianska vodohospodárska spoločnosť	26.90	0.8929	0.8929	0.8929	0.8929
Považská vodárenská spoločnosť	24.00	0.7967	0.7967	0.8365	0.8365
Severoslovenské vodárne a kanalizácie	22.58	0.7495	0.7495	0.8000	0.8000
Turčianska vodárenská spoločnosť	20.98	0.6964	0.6964	0.7229	0.7229
Oravská vodárenská spoločnosť	23.00	0.7635	0.7635	0.8398	0.8398
Vodárenská spoločnosť Ružomberok	21.50	0.7137	0.7137	0.7137	0.7137
Liptovská vodárenská spoločnosť	22.20	0.7369	0.8199	0.8199	0.8199
Stredoslovenská vodárenská prevádzková spoločnosť	26.90	0.8929	0.9313	0.9639	0.9639
Podtatranská vodárenská prevádzková spoločnosť	27.90	0.9261	0.9493	0.9825	0.9825
Východoslovenská vodárenská spoločnosť	32.00	1.0622	1.1485	1.2415	1.2415
Vodárne a kanalizácie mesta Komárno	23.00	0.7635	0.7635	0.7635	0.7635

prices has a stimulative character which gives a regulated company a right to decide on for example discounts for socially weak groups of population, or threatened water consumers (hospitals, schools, etc.). In reality, it is very exceptional to charge lower prices than those determined by the Office.

Prices for production, distribution and supply of potable water through the public water supply system in 2010 increased by 5.4% on average, compared to 2009, however, in 2011 they remained at the level of 2010.

The share of eligible costs for production and supply of potable water in 2010

7 % - Material consumption
6 % - Payments and charges for water offtake
10 % - Energy consumption
6 % - Outsourcing services
10 % - Other services
28 % - Personnel costs
0,4 % - Taxes and charges
2 % - Other operational costs
30 % - Depreciation of minor tangible assets and minor intangible assets
1 % - Financial costs

In order to fulfil the commitments of Slovakia against the EU and to utilise the funds provided by the EU there has been quite an edensive construction of public water supply systems over the past years, mainly of public sewage systems and waste water treatment plants. Apart from the protection of the environment, a benefit of the newly constructed public sewage systems was also the rising number of producers and the quantity of waste water. The economic crises, leading to the rationalisation of households and private companies, caused a decline in demand of potable water and subsequently the lower production of waste water. This situation leads to a lower utilisation of not only newly constructed investments, but also the existing systems. As a result there is the rise of operational costs per cubic meter of waste water, thus imposing pressure on further price rise. For this reason the price proceedings, withing the competences of the Office, put an emphasis on the investigation of effective utilisation of the assets for regulated activities.

Prices for discharge and treatment of waste water through the public sewage system in 2010 increased by 6.5%, compared to 2009, and by 3.6% in 2011, compare to 2010, mainly due to the application of the investment factor in calculation of the price for discharge and treatment of waste water, the objective of which is the support of public sewage systems and waste water treatment plants, or the support of fulfilment of the commitments of the Slovak Republic to the EU.

The prices for discharge and treatment of waste water (excl. VAT)

	2008 Maximum price Skk/m³	2008 Maximum price €/m³	2009 Maximum price €/m³	2010 Maximum price €/m³	2011 Maximum price €/m³
Bratislavská vodárenská spoločnosť	22.70	0.7535	0.7900	0.8295	0.8625
Trnavská vodárenská spoločnosť	23.84	0.7913	0.8308	0.8973	0.9422
Západoslovenská vodárenská spoločnosť	21.00	0.6971	0.7319	0.7685	0.7685
Trenčianska vodohospodárska spoločnosť	24.50	0.8133	0.8541	0.8968	0.9416
Považská vodárenská spoločnosť	24.30	0.8066	0.8471	0.8895	0.9340
Severoslovenské vodárne a kanalizácie	23.61	0.7837	0.8229	0.9052	0.9500
Turčianska vodárenská spoločnosť	23.60	0.7834	0.8225	0.9048	0.9048
Oravská vodárenská spoločnosť	25.50	0.8464	0.8889	0.8889	0.8889
Vodárenská spoločnosť Ružomberok	22.00	0.7303	0.7668	0.8051	0.8454
Liptovská vodárenská spoločnosť	25.50	0.8464	0.8886	0.8886	0.8886
Shedoslovenská vodárenská prevádzková spoločnosť	24.20	0.8033	0.8764	0.9167	0.9625
Podtatranská vodárenská prevádzková spoločnosť	23.10	0.7668	0.8444	0.8824	0.9265
Východoslovenská vodárenská spoločnosť	20.00	0.6639	0.7103	0.7967	0.8326
Vodárne a kanalizácie mesta Komárno	20.50	0.6805	0.7133	0.7483	0.7857

The share of eligible costs for discharge and treatment of waste water in 2010

4 % - Material consumption
3 % - Payments and charges for water extraction
12 % - Energy consumption
6 % - Outsourcing services
12 % - Other services
24 % - Personnel costs
0.4 % - Taxes and charges
1 % - Other operational costs
37 % - Depreciation of minor tangible assets and minor intangible assets
1 % - Financial costs

III.4.2 Provision of water services

The Office determines the size of payments for utilisation of surface water under the Act No. 364/2004 Coll., which defines payments subject to price regulation imposed by the Office, subsequently in accordance with the Ordinance of the Government No. 755/2004 Coll.

Regulation of prices for the provision of water services related with the utilisation of a river flow in 2010 was governed by the Decree No. 5/2009 issued by the Office.

The dominant regulated company having the monopoly position in this area is Slovenský vodohospodársky podnik, š.p., Banská Štiavnica. (Water Service Company).

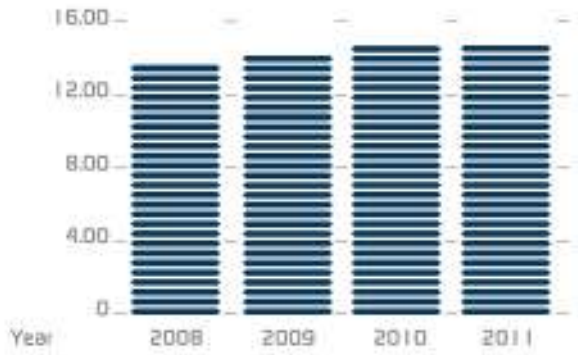
For 2010 the Office increased for this regulated company a price for extraction of surface water from a river flow at 0.0963 €/m³ (by 15.5% against 2009) due to the substantial decline in extractions. Furthermore, the Office determined the payment for utilisation of hydro power potential of river flows in water constructions managed by a water source manager with an installed capacity exceeding 100 KW as tariffs for support of smaller producers of electric power, or users of hydro power potential: from 100 kW to 1 000 kW at the amount of 4.4902 €/MWh, from 1 001 kW to 10 000 kW at the amount of 7.4837 €/MWh and above 10 000 kW at the amount of 15.2667 €/MWh). The average price for utilisation of hydro power potential increased by an inflation rate, compared to 2009, which means 3.5%. A fixed price for extraction of water for energy purposes in water facilities in the ownership of a user of hydro power potential of a river flow with an installed capacity exceeding 10 MW was increased by 0.0164 €/1000 m³ by the Office.

Prices for provision of water services (excl. VAT)

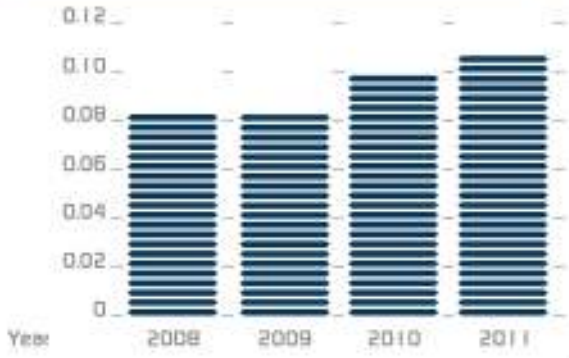
	2008		2009	2010	2011
	Skk	€	€	€	€
Price for extraction of surface water per 1 m³	2.51	0.0833	0.083317	0.0963	0.1059
Average price for utilisation of hydro power potential per 1 MWh	419.28	13.9175	14.4625	14.9674	15.1021
Price for extraction of water energy purposes per thous. m³	2.70	0.0896	0.132776	0.1492	0.1492

A price for extraction of surface water from a river flow determined for the regulated company Slovenský vodohospodársky podnik, š.p., Banská Štiavnica increased in 2011, compared to 2010. The average price for utilisation of hydro power potential of a river flow increased by an inflation rate, compared to 2010, to be precise by 0.9%. Again, tariffs are applied according to an installed capacity of hydro power plants in order to support smaller generators of electricity or users of hydro power potential. A price for extraction of water from a river flow for energy purposes remained at the level of 2010. In spite of rationalisation and regulatory measures implemented over the recent years a higher increase in prices for water services has caused, mainly as a result of the economic crisis, the ongoing and relatively substantial decline in water extraction in all regulated services.

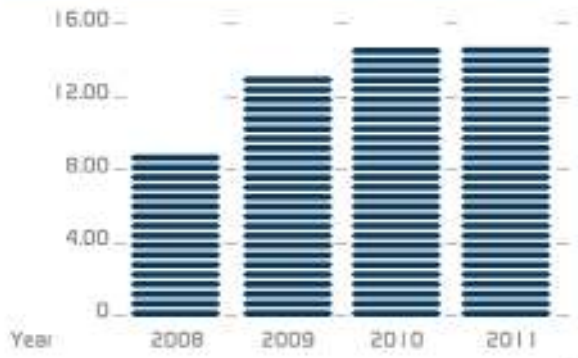
The average price for utilisation of hydro power potential in €/MWh (excl. VAT)



Price for extraction of surface water in €/m³ (excl. VAT)



Price for extraction of water for energy purposes in v €/thous. m³ (excl. VAT)



IV. Business Licence in Network Industries

IV.I Business licences in the energy sector

Pursuant to Article 5 (1) of the Act No. 656/2004 Coll. it is allowed to do business in the energy sector only when holding the business licence. The Office issues decisions on the issuance, amendment and withdrawal of a licence for performing regulated activities pursuant to Article 5 (1) of the Act No. 276/2001 Coll. Pursuant to Article 4 of this act the subject of business activities is the following:

- Generation, transmission, distribution and supply of electric power,
- Operation of the short-term market with electricity,
- Production, transmission, distribution and storage of natural gas,
- Operation of pipelines for transportation of automotive substances,
- Operation of pipelines for crude oil transportation,
- Operation of equipment used for filling pressure vessels,
- Operation of equipment for distribution of liquified hydrocarbon.

According to the Act No. 656/2004 in wording of the Act No. 142/2010 Coll. the operation of the short-term market with electricity has become a business activity since January 1, 2011.

The Act No. 656/2004 Coll. sets out the conditions for issuing a licence for natural persons and separately for legal persons. Once the entity proves the fulfilled requirements and conditions, the Office issues a decision on licence for doing business activities.

An overview of valid licences in the electricity sector under Article 5 (2) (a) and (b) of the Act No. 656/2004 Coll.

Electricity generation	5
Electricity transmission	1
Electricity distribution	4
Generation and supply of electricity	56
Generation, distribution and supply of electricity	27
Distribution and supply of electricity	131
Electricity supply	152
Operation of the short-term electricity market	1
Total	**377**

An overview of valid licences in the gas sector under Article 5 (2) (c) of the Act No. 656/2004 Coll.

Gas production	2
Gas production, gas supply	1
Gas transmission	1
Gas distribution	5
Distribution and supply of gas	41
Production, distribution, storage and supply of gas	2
Gas storage	2
Gas supply	71
Total	**125**

An overview of valid licences in the energy sector – automotive substances and crude oil

Operation of pipelines for transport of automotive substances	1
Operation of equipment for filling pressure vessels	7
Operation of pipelines for transportation of crude oil	2
Operation of equipment for distribution of liquified gaseous hydrocarbon	1
Operation of equipment for filling pressure vessels and operation of equipment for distribution of liquified gaseous hydrocarbon	1
Total	**12**

The total number of licences only for electricity supply and gas supply

	2005	2006	2007	2008	2009	2010	Total
Electricity supply	39	27	21	24	23	18	152
Gas supply	12	16	10	6	10	17	71
Total	51	43	31	30	33	35	223

An overview of applications submitted and decisions issued in 2010

	New licences	Withdrawn licences	Changed licences	Interrrupted proceedings	Suspended proceedings
Electricity sector	55	11	130	46	7
Gas sector	22	4	44	6	2
Automot. substances and crude oil	2		8	3	1
Total	79	15	182	55	10

IV.2. Certificates on Fulfillment of Notification Obligation

Pursuant to Article 5 (4) of the Act No. 656/2004 Coll. licence is not required for the following activities:

a) Production and supply of electricity by a generation plant with a total installed capacity up to 1 MW,
b) Production and supply of electricity generated from renewable energy sources in a generating plant with a total installed capacity up to 1 MW, if electricity is generated in and supplied from:
   1. small-sized hydro power plants,
   2. wind power plants,
   3. solar power plants,
   4. facilities using geothermal power,
   5. facilities using biogas,
   6. facilities using biomass,
c) Production and supply of gas from biomass,
d) Production and supply from biogas,
e) Sales of compressed natural gas for motor vehicles,
f) Transportation of extracted crude oil from a point of construction to a point of processing,
g) Sales of liquified gaseous hydrocarbon in pressure vessels with a capacity of 100 l,
h) Sales of liquified gaseous hydrocarbon for motor vehicles,
i) Transportation of liquified gaseous hydrocarbon in pressure vessels.

Pursuant to Article 5 (5) of the Act No. 656/2004 Coll. legal and natural persons performing the above-mentioned activities are obliged to perform notification obligation on the beginning, alternation and termination of each of the activities performed. The Office shall issue the certificate on fulfilment of notification obligation which forms the document allowing to carry out business in the field.

An overview of certificates on fulfilment of notification obligation

Activities with issued certificate on notification obligation fulfillment	2008 (number)	2009 (number)	2010 (number)	celkom (number)
Generation and supply of electricity with a generating plant with a capacity up to 1 MW	7	9	9	25
Generation and supply of electricity generated in RES based technology with a capacity up to 1 MW:				
1. In small-sized hydro power stations	30	46	62	138
2. In solar power plant	5	26	234	265
3. In wind power plants		1		1
4. Facilities using biogas	4	5	12	21
5. Facilities using biomass	2	5	4	11
Production and supply of gas from biomass		1	1	2
Sales of compressed natural gas intended for motor vehicles		1		1
Sales of liquified gaseous hydrocarbon in pressurised vessels with a capacity up to 100 l	23	12	11	46
Sales of liquified gaseous hydrocarbon intended for motor vehicles	29	11	7	47
Transport of liquified gaseous hydrocarbon in pressure vessels	12	2	8	22
Total	112	119	348	579

IV.3. Business licences in the thermal energy sector

Performing business activities in the thermal energy sector is governed by the Act No. 657/2044. Under this act the subject of business activities are heat production, heat production and distribution or heat distribution for the consumer or the final consumer. Any business activities in the thermal energy sector may be undertaken only based on the licence. The Act No. 657/2004, similarly to the Act No. 656/2004, sets out the conditions governing the issuance of licences for carrying out business activities in the thermal energy sector and the documents, which are used by the applicant to demonstrate the fulfilment of such conditions.

An overview of valid licences in the thermal energy sector as of December 31, 2010	
Production and distribution of heat	309
Heat production	29
Heat distribution	27
Total	**365**

An overview of applications submitted and decisions issued in 2010	
New licences	15
Cancelled licences	18
Changes in licences	179
Interrupted proceedings	59
Suspended proceedings	1
Total number of applications	**213**

V. Performance of Surveillance and Inspection in 2010

In accordance with the responsibilities defined in Article 5 (3) of the Act No. 276/2004 Coll in the year 2010 the Office:
- performed surveillance over the adherence of the Act on Regulation, special acts and generally binding legal regulations issued for their execution,
- imposed the measures for elimination and remedy of any deficiencies identified during inspections,
- charged penalties for violation of the obligations arising out of the Act in question.

V.I Surveillance and Inspections

Pursuant to Article 5 (3) (a) of the Act No. 276/2001 Coll. in 2010 the Office performed inspections in 111 regulated companies, during which it identified 231 violations of the act in 75 regulated companies. Inspections were carried out according to the inspection plan and based on submissions of natural and legal persons.

The inspection activities are aimed at the following areas:
- in the electricity sector and the gas sector:
  - verification of the compliance of a performed regulated activity with the licence allowing to carry out business in the energy sector
  - compliance with price regulation
  - adherence to the rules of the electricity and gas markets
  - compliance with quality standards
  - verification of the fulfilment of imposed measures aimed at eliminating and remedy of deficiencies

- in the thermal energy sector:
  - compliance with price regulation
  - compliance with quality standards
  - verification of the fulfilment of imposed measures aimed at eliminating and remedy of deficiencies

- in the water service sector:
  - compliance with price regulation
  - verification of the fulfilment of imposed measures for eliminating and remedy of deficiencies

An overview of violations of the Act No. 276/2004 Coll. in regulatory years 2007, 2008, 2009 and 2010, identified in 2010:

1. Violation of Article 11 (1) – failure to perform a regulated activity based on a notification or on the basis and in the scope of a licence issued by the Office – 15 findings, of which:
   - the electricity sector 10
   - the gas sector 2
   - others 3
2. Violation of Article 13 (2) (a) – failure to perform a regulated activity in accordance with the act and special regulations – 19 findings, of which:
   - the electricity sector 13
   - the gas sector 2
   - the thermal energy sector 4
3. Violation of Article 13 (2) (b) – failure to comply with the determined method of price regulation and failure to deliver goods and services in accordance with approved or set prices – 117 findings, of which:
   - the electricity sector 17
   - the thermal energy sector 81
   - the water service sector 19
4. Violation of Article 13 (2) (c) – failure to submit a proposal for setting the price for goods or services, the price of which is regulated by the method and in the scope defined by a generally binding regulation issued by the Office – 42 findings, of which:
   - the electricity sector 22
   - the gas industry 2
   - the thermal energy sector 4
   - the water service sector 14
5. Violation of Article 13 (2) (g) – failure to comply with standards of quality of delivered goods and provision of services defined by the Act and failure to submit to the Office the evaluated standards of quality of delivered goods and provided services in the scope of a generally binding legal regulation issued by the Office – 17 findings, of which:
   - the electricity sector 10
   - the gas sector 1
   - the thermal energy sector 6
6. Violation of Article 13 (2) (h) – failure to perform the measures imposed by the Office – 4 findings, of which:
   - the thermal energy sector 4
7. Violation of Article 13 (2) (i) – failure to follow the rules for the functioning of the markets with electricity and natural gas – 14 findings, of which:
   - the electricity sector 14

8. Violation of Article 13 (2) (p) – failure to co-operate sufficiently with the Office with regard to the deadlines set by the Office, mainly failure to provide required documents, true background documents and information – 3 findings, of which:
   - the electricity sector 1
   - the water service sector 2

The Office obtained a feedback concerning the development of actual costs incurred by a regulated activity during inspections focused on verifying correctness and truthfulness of the documents submitted to the Office for the purpose of evaluation of price development and price regulation undertaken in the key entities performing a regulated activity: generation of electricity from domestic coal, distribution of electricity and natural gas, production, distribution and supply of drinking water through the public water supply system as well as discharge and treatment of waste water through the public sewage system. The information gathered from the outputs of the inspections was used by the Office for the purpose of regulation in the following period.

V.2 Measures to eliminate deficiencies

In order to eliminate and remedy deficiencies identified during inspections the Office imposed totally 120 measures pursuant Article 5 (3) (b) of the Act No. 276/2001 Coll.:

- the electricity sector 31 measures
- the gas industry 2 measures
- the thermal energy sector 72 measures
- the water service sector 14 measures
- others 1 measure

The Office required from regulated companies to pay back the money to electricity and heat consumers, which represented a difference between the price charged and the price which should have been charged under valid regulations

At the total amount	493 669.67 €
Of which:	
- electricity consumers	1 678.04 €
- heat consumers	491 991.63 €
of which in:	
• var. component of the max. heat price	104 166.56 €
• fix. component of the max. heat price	387 825.07 €

V.3 Penalties for violation of the Act imposed on the 1st stage of the administrative proceeding

The Office as a respective administrative body pursuant to Article 5 of Act No. 71/1967 Coll. on the Administrative Proceedings (Administrative Order) in wording of latter provisions and Article 5 (1) (i) of the Act No. 276/2001 Coll. makes decisions in the matters regarding the violation of obligations arising out of the act in question and special regulations.

Decisions on imposing penalties on the 1st stage of the administrative proceedings

Decisions	Number	Sum
Issued	191	351 900 €
Valid	184	393 600 €

In the review period the Inspection Division as the first-stage administrative body made decisions on imposing penalty for failing to comply with the obligations arising out of Article 13 (2) of the Act No. 276/2001 Coll., based on the conclusions of the inspections or based on the findings of the Office concerning the failure to comply with the obligation to submit to the Office required background documents for approval, as stipulated by law, or to submit to the Office the required background documents and information on the specific date. Penalties were imposed pursuant to Article 16 of the Act No. 276/2001 Coll. The first-stage administrative proceedings were initiated against 232 companies, whereas 3 entities appealed against the first-stage decisions. In one case a decision was examined outside the appealing proceeding.

An overview on the number of inspections, penalties and measures from 2008 to 2010

	2008	2009	2010
Inspections performed	118	109	111
Decisions on penalty	60	229	191
Measures to remedy identified deficiencies	58	113	120

An overview on the number of inspections, penalties and measures in a period from 2008 to 2010

V.4 Initiatives and complaints

Also in 2010 the Office paid a larger attention to dealing with initiatives and complaints raised by natural and legal persons (hereinafter only "submission"). With an intention to protect the consumer the Office preferably undertook inspections after receiving submissions, then it elaborated the expertise and communicated personally or on the phone with respective natural and legal persons.

The aim of submissions, similarly to the previous years, was to check the correctness of a charged price or a tariff for regulated goods or services, to inspect justification of the costs included into a regulated price or to inspect the set conditions regarding the application of a price or a tariff.

To a larger extent the Office dealt with the submissions of household electricity consumers that opted for the switch of an electricity supplier. The Office assisted in eliminating any problems of these consumers with electricity suppliers as well as distribution companies. In addition, the Office dealt with the submissions of participants in the market with electricity and gas focused on the compliance of the rules for electricity and gas markets and subsequently on the compliance with the Operational Orders of operators of electricity distribution systems and the operator of the gas distribution system and compliance with the quality standards.

174 submissions of natural and legal persons were totally submitted, of which 143 submissions were settled and 25 submissions were only partially settled, which means that they will be definitely cleared after the completion of inspections, or after the ending of the administrative proceeding. 6 submissions were passed on to the following year.

The Office's central recording system of petitions and complaints registered in the year 2010:

- 2 petitions
- 3 complaints

Out of 174 submissions 49 were initiatives for commencing inspections.

VI. International Activities

In 2010 the Office co-operated with the associations of energy regulators, either within the European Union or on a broader international level. The activities of the Council of European Energy Regulators (CEER) and the European Regulators's Group for Electricity and Gas (ERGEG) are aimed mainly at the establishment of the single and competitive European energy market. A new institution, which initiated its preparatory activities in the field of energy sector regulation, was the Agency for Co-operation of Energy Regulators (ACER). A representative of the Office took part in top meetings of all these associations – The Regulators' Countil of ACER, General Assemblies of CEER and a meeting of chairmanship of ERGEG. Within its membership in the organisation ERRA – the Energy Regional Regulators' Association, unifying some European and Euro-Asian countries, the Office was involved in the activities by means of members of working groups, as well as by its participation in the top bodies. Last year the chairman of the presidency of ERRA was elected.

The Office was actively involved in the activities of the Electricity Regional Initiative for the Central and Eastern European area (ERI CEE), whose other members are Austria (chairman regulator), the Czech Republic, Germany, Hungary, Poland and Slovenia. In 2010 there was the final stage of the project of congestion management and allocation of capacities on cross-border profiles based on physical flows by means of the common auction office of the region, the objective of which is to eliminate any barriers to free trade on a regional level and a gradual establishment of the single market with electricity.

In 2010 the 18 month twinning project was successfully completed, aimed at the implementation of European law in the energy sector of Azerbaidijan. Assistance of Slovak experts from the Office was appreciated and awarded by the top Azerbaidijan and European representatives.

VII. Quality Standards as a Tool of Price Regulation

Assessment of quality standards, comparison of performance of regulated companies with regard to quality and publishing the achieved results are the processes that represent an effective tool for stimulating regulated entities. Following the delivery of data from regulated companies on compliance with quality standards in a calendar year 2009 the year 2010 was the first year in which the evaluation of the compliance with quality standards was made for the first time. Such data was processed in the Report on Quality Standards Compliance for 2009 which was published on the official website of the Office.

VIII. Separate Recording

Under the Decree of the Regulatory Office for Network Industries No. 415/2008 Coll. operators and suppliers in the electricity sector and the gas sector shall submit the Office the outputs from separate recording on the matters in 2010 that are subject to accounting, costs, revenues, assets and liabilities and depreciations in the form of table sheets and in the electronic form, as specified in the decree and its annexes not latter than until June 30, 2011.

The main purpose of monitoring this activity is to hinder any discrimination and cross-subsidies, which means that individual companies would not compensate one activity with the other one.

Year 2010	Electricity	Gas
Number of companies submitting the outputs of separate recording	122	38

The rules for allocation of assets and liabilities, costs and revenues and depreciation rules.

Under the Act No. 656/2004 Coll. in 2010 regulated companies submitted to the Office for approval the Rules for Allocation of Assets and Liabilities, Costs and Revenues and Depreciation Rules. The rules approved by the Office will start to be implemented from January 1, 2011.

Year 2010	Electricity	Gas
Number of decisions on approval of the rules	179	48

IX. Settlement of Applications under the Act No. 211/2000 Coll. on Free Access to Information and on Amendment and Supplement of Some Acts (the Act on Freedom of Information)

In 2010 the Office dealt with 70 applications for allowing the access to information (hereinafter "the application"), of which 57 were settled in such a way that the required information was made available, in 11 cases the application was turned down and 2 applications were passed on to other person in charge.

Out of the overall number of settled applications 9 applications referred to the information on energy prices, 9 applications requested sending the background documents referring to price proposals, 7 applications referred to generally binding legal regulations governing the area of regulation in individual network industries, in 9 cases applicants asked for the information on licences granted for doing business in regulated areas, in 7 cases applicants requested the information on the activities and competences of the Office and in 5 cases they asked for the results of the inspection. The applicants also asked for the information on validity and binding character of decrees issued by the Office.

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