ÚRAD PRE REGULÁCIU SIEŤOVÝCH ODVETVÍ

REGULATORY OFFICE FOR NETWORK INDUSTRIES

VÝROČNÁ SPRÁVA
ANNUAL REPORT
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ÚRSO

RONI

Foreword

At the present time hardly anybody has doubt over the fact that state regulation enforced on the energy industries is a sort of relic. On the contrary, its highly urgent need has already been proven. A strong evidence was manifested by the world economic and financial crises and the theorem on „the invisible hand" which is supposed to find positive solutions for all such problems, thus leading to the economic growth, can retreat to the world of unfulfilled dreams.

Similarly to the years preceding the constant fight for establishing the stabilised regulatory framework, the producers, suppliers and consumers presented in 2013 the completely contradictory interests and concerns to the Regulatory Office of Network Industries (hereinafter only „the Office"), including the questions, the reflections of which reached out the authorities of the European Union. The 2013 problem consisted in electricity network fees that were subject to hot discussions leading to the accusations of the Office against the market destructions.

Despite the various pressures the Office realised its resolutions outlined in the regulatory policy and by means of its interference and measures it successfully managed to cut down the network fees, thereby maintain the final electricity price virtually unchanged for the period of five years.

Within price regulation the supplies of electricity and natural gas the Office gives preference to the incentive based regulatory method, for instance „the price cap method" used for setting maximum prices. Electricity and gas suppliers may not exceed such maximum prices but every consumer has possibility of using the whole range of tools to acquire new customers in a competitive environment. However, it needs to be pointed out that the correct practice is constantly monitored and thoroughly inspected by the Office.

Each legislative action taken by the Office is scrutinized in the internal detailed analysis made by the Department specially established for this purpose. All prepared and taken actions are evaluated from the point of view of the impacts to the electricity and gas markets. The studies and analysis are elaborated on the basis of data provided from regulated companies and the personal and written communication with the market participants. The Office also adopted the measures aimed at improving the functioning of the energy market, thus ensuring safe and reliable supplies. The Slovak Republic managed to implement the effective standard procedures aimed at protecting the consumers applicable in other countries of the European Union.

The regulator managed to maintain the stable electricity prices due to its interference made on the basis of new competences that had been granted through the Energy Act and the Act on Regulation in Network Industries adopted in 2012, then to optimise the negative impact of the costs on generation of electricity from renewable energy sources that enabled to reduce the final electricity price.

A new legislation provided the positive incentive to make the efforts by the regulator aiming to reduce the costs of regulated companies. Monitoring and ad-hoc interference of the Office in the event of service level agreements within the vertically integrated company resulted in a more detailed specification of eligible costs and elimination of non-eligible costs that, although hidden, substantially affected the final prices of energies and water.
The progress was also achieved in a new kind of state regulation – the quality standards. Their introduction brought not only a higher quality of supplies and services in the energy

and water sectors, but also the more intensive protection of consumers. In 2013 automatic compensation payments were put into practice to penalise any violation of quality standards and therefore, Slovakia ranked among a few countries applying such modern method of regulation.

From the perspective of international markets, it is worth mentioning a successful interconnection of markets (the market coupling) that enables the efficient allocation of free cross-border capacities. The electricity traded across the interconnected markets contributes to higher reliability of supplies, higher liquidity in the market and lower price volatility. A larger interest of the Central and Eastern European countries in establishing the co-operation in this field proves the correct orientation in building up the regional markets with electricity and natural gas.

The Office experts also put more intensive efforts in implementing the twinning project in Serbia, since the year 2013 was regarded as the crucial year for this project. Serbian colleagues as well as the highest representatives of the Serbian Republic highly appreciated the contribution of the Slovak regulator in building up the national regulator in Serbia.

In the end I am pleased to state that the reputation of the Office improved not only in the professional energy field, but also among the general public. This is proven annually by an increasing number of initiatives and complaints received from the market participants which were resolved by the Office and that are the proof of trust given to the competences of the regulator acting in favour of consumers.

Jozef Holjenčík, PhD.
Chairman
Regulatory Office of Network Industries

Regulatory Board

(from the left): **Ing. Jozef Holjenčík, PhD.** (chairman of the Board and chairman of RONI), **Ing. Viliam Mikuláš** (member), **JUDr. Ing. Ján Hijj, PhD.** (member), **Ing. Vladimír Čepko** (member), **Ing. Ján Horkovič** (member), **Ing. Milan Krajčovič** (member), **Ing. Radoslav Naništa** (vice-chairman of the Board), **Ing. Miroslav Čelinský** (vice-chairman of RONI, he isn´t member of the Board)

Negotiation of the Regulatory Board

1 THE ELECTRICITY MARKET

In the year 2013 the national markets with electricity and natural gas of the Slovak Republic were further making progress and developing in harmony with the plans and policy of the European Union which means that the development was moving towards the establishment of the single market with the maximum level of liberalisation and the protection of vulnerable consumers, taking into consideration the specific features of the Slovak national economy, and all the possibilities awarded to individual member states by means of the Directive of the European Parliament and the European Council 2009/72/EC on the Common Rules for the Single Electricity Market (hereinafter only „Directive 2009/72/EC") and the Directive of the European Parliament and the European Council 2009/73/EC on the Common Rules for the Single Gas Market (hereinafter only „Directive 2009/73/EC").

System Regulation

Unbundling

The Slovak Republic transposed the Directive 2009/72/EC on the Common Rules for the Single Electricity Market into its national legislative system and already completed the unbundling process in accordance with the Directive of the European Parliament and the European Council 2003/52/EC. According to the Directive 2003/72/EC the single electricity market improved and apart from that the process of certification of the transmission system operator came to an end in compliance with the requirements relating to the functioning of the single electricity market.

The Regulatory Office of Network Industries (hereinafter only "Office") revealed during the process of certification that the Slovak Transmission System company (hereinafter only „SEPS") being the only transmission system operator in the Slovak Republic had complied with all the terms and conditions set forth in the Act No. 251/2012 Coll. on the Energy Industry and on Amendment and Supplement of several acts (hereinafter only „Act 251/2012 Coll.). Under the Act No. 250/2012 Coll. on the Regulation of Network Industries (hereinafter only „Act 250/2012 Coll.) the Office through its decision dated October 14, 2013 granted the certificate to the company. When releasing its decision the Office took into consideration the opinion of the European Commission. The final point in the whole certification process was the issuance of the decision by the Ministry of Economy dated November 22, 2013 on the compliance with the conditions relating to the ownership unbundling for the transmission system operator.

Technical Functionality of the System

The activities of the Office conducted in 2013 were primarily aimed at granting approval of the operational codes for the system, approving and monitoring the ways and volumes of ancillary services including maximum prices and the compliance with quality standards in order to make sure the system is reliable and secure being in line with the development of the single electricity market.

On December 2, 2013 the transmission system operator submitted for approval a 10-year system development plan that had been outlined in accordance with the existing legislation. The plan covered the description of the existing situation and objectives, plus investments scheduled for the 10 year time period. The Office exercised its competences and initiated the public discussion on the document submitted by TSO in relation to the existing legislation.

Ancillary services and balancing services

Slovakia provides for the electricity base load coverage between the producer and the consumer either directly or via electricity traders. Regulatory power is supplied by the transmission system operator. On the basis of the agreement on provision of ancillary services (hereinafter only „ancillary services provision") TSO purchases all such services from certified service providers. The principle of free competition based on the economically effective principle is thoroughly applied at the time of purchase. Since Slovakia has a thorough unbundling of production, transmission and distribution of electricity, the competition in ancillary services market is sufficient. In 2013 the situation with regard to ancillary services can be characterised by the emphasis given to the provision of services with short activation period.

The provisions of ancillary services in a period from 2011 to 2013

Indicator/year	2011	2012	2013
No. of anc. service providers	25	26	24
No. of bids by ancillary service providers	3 408	2 791	4 062
No. of contracts concluded ancillary service providers	82	33	29

The comparison of regulatory power supplies in years 2012 and 2013 (MWh):

Type of regulatory power/year	2012	2013	Change 2013/2012 (%)
Primary Power Control +	7 822	7616	-2,37
Primary Power Control -	7 815	7561	-2,99
Secondary Power Control +	204 594	176 648	-13,42
Secondary Power Control -	229 813	237 181	3,49
Tertiary Power Control 3 min. +	6 633	3 542	-46,45
Tertiary Power Control 3 min. -	2 802	3 497	25,15
Tertiary Power Control 10 min. +	2 712	3 151	16,51
Tertiary Power Control 10 min. -	145	183	26,55
Tertiary Power Control 30 min. +	16 372	2 047	-87,46
Tertiary Power Control 30 min. -	14 355	6 706	-53,16
Decrease in demand	2 286	542	-76,23
Increase in demand	31	0	-
Import of emergency el. supply	800	0	-
Non-guaranteed regulatory el. +	0	0	-
Non-guaranteed regulatory el. -	100	0	-
Positive regulatory electricity	241 219	193 546	-19,54
Negative regulatory electricity	255 061	255 128	0,30

source: SEPS

System Tariffs for Connection and Access

In 2013 the electricity sector applied the method of so-called price cap based on which the network tariffs were charged for connection with and access to the electricity system as outlined in the approved regulatory policy for a period of 2012–2016. Such incentive-based price regulation method provides system operators with an opportunity to retain a higher profit in order to behave effectively and optimise the costs.

The fundamental implementation tool for price regulation imposed on the electricity sector in 2013 was the Decree of the Office No. 225/2011 Coll. by means of which price regulation was enforced in the electricity sector in the wording of latter provisions.

As regards price regulation imposed on the respective activities in 2013 the Office issued:

- 327 price decisions on access to the transmission system and electricity transmission, for access to the distribution system and electricity distribution, for network connection, for household electricity supply and the last resort electricity supplier,
- 87 decisions on electricity price for setting an additional fee for electricity producers using technologies based on combined heat and power production,
- 2,377 decisions on electricity prices for setting an additional fee for electricity producers based on renewable energy sources,

In 2013 in compliance with the Act 250/2012 Coll. the Office prepared the Office Decree No. 221/2013 Coll. by means of which price regulation was enforced in the electricity sector (hereinafter only „Decree 221/2013 Coll.")

While drafting the Decree 221/2013 Coll. the Office addressed regulated entities and requested from them to submit any ideas that might be useful for the market development. Subsequently, the draft decree was made and then went through the public commenting procedure during which all regulated companies and mandatory commenting entities were allowed to submit relevant comments related to the draft decree in question. All the comments had been negotiated and those that were considered to be useful for the market development were incorporated into the final version of the decree. The decree in question was then discussed in the working committee at the Ministry of Finance that bears responsibility for financial law. Once the comments raised by the respective committee were published in the Collection of Acts, the legal paper entered into effect. The whole discussion and its results became publicly available on the portal of legal regulations of the Slovak Republic. The pricing procedure conducted by the Office was then preceded under the Decree approved in 2013 for the year 2014.

A tariff for electricity transmitted in 2013 against 2012 declined by 51.26 %, a tariff for reserved capacity increased by 25.49 %, compared to 2012, which was due to the change in the ratio of weights of reserved capacity and transmitted electricity (work). A tariff for balancing services went up, from the value of 7.33 €/MWh to the level of 7.95 €/MWh, which means an increase by 8.46 %. A tariff for electricity transmission losses increased by 20.04% due to the unscheduled electricity transmission caused by „loop" flows from Germany as a result of the operation of renewable energy sources.

The size of a tariff for the system operation in 2013 increased by 0.32 €/MWh, compared to 2012, up to the value of 16.02 €/MWh, which means an increase by 2.04 %. This was caused mainly by intensive construction of renewable energy based generating plants and their mandatory support in compliance with the valid EU directives and also highly efficient combined heat and power production. Apart from this, another reason for raising tariffs was the support given to local coal used for the purpose of electricity generation (in compliance with Directive 72/2009/EC) and the costs for the performance of the electricity spot market organiser that makes a significant contribution to the liberalisation of the electricity market on the restricted territory.

The Cross-border Issues

Regarding the cross-border capacity allocation and congestion management on the cross-border profiles of SEPS – the TSO adheres to the rules governing the electricity market and the transmission system operational code approved by the Office. The capacity of cross-border transmission system inter-ties ensures sufficient stability and security for the system not only in the Slovak Republic, but also in the conditions of the European Union.

In 2013 the Office co-operated in the matters related to cross-border trading with respective regulators and the Agency for Co-Operation of Energy Regulators (hereinafter only „ACER") under the provisions of the Ordinance No. 2009/EC/714 within the region of Central and Eastern Europe (hereinafter only „CEE region").

On the cross-border profile between the Slovak Republic and the Czech Republic there has been a day-to-day capacity allocation used since 2011, and this is free of charge, based on the adoption of assigned requirements related to the cross-border transmission, using the principle „first come, first served".

On the cross-border profiles between Slovakia and the Czech Republic on one side and Slovakia and Hungary on the other side the day-to-day capacity has been allocated since September 11, 2012 through the implicit auction within the framework of the common spot market established among those countries, the so-called trilateral or the market coupling used for the method of calculation of available capacity the memorandum of understanding among five countries: the Czech Republic, Slovakia, Hungary, Romania and Poland concerning the extension of the trilateral market coupling activities with further two countries. Due to the withdrawal of a Polish market participant, only four remaining countries continued to be part of the coupling project during 2013.

Within the trilateral market coupling project the systems put into practice have been developed for the target European model of the day-ahead electricity market (hereinafter only „the target model"). Such a model applying the principle of marginal price determination was based on the ACER framework guidelines concerning the allocation of capacities and congestion management in the CEE region.

The revenues from the fees earned from congestion management for the SEPS company accounted for 24,983,097.64 euro in 2013. In the given year the Office began the monitoring of revenues pursuant to Article 16 (6) of the Ordinance No. 2009/EC/714 and came to conclusion that all the revenues earned by the national transmission system operator resulting from the connection of interties were used to guarantee the actual availability of the actual allocated capacity and the maintenance or increase in capacities of connection lines by means of investments.

Competition Promotion

The Wholesale Market

In 2013 the major electricity market players in the Slovak Republic were the following entities:

- Slovenské elektrárne, a.s. (the Slovak Electric Utility) – the dominant electricity producer, in 2013 this company covered 70.74 % of electricity generation from internal generating plants on the territory of the Slovak Republic. Electricity production in the volume of 20.224 GWh covers 70.51 % of electricity demand on the territory of the Slovak Republic. An installed capacity of internal generating plants owned and operated by SE company amounts to 4,992.9 MW
- Supported electricity generators using renewable energy sources and highly efficient combined heat and power production.
- SEPS company being the exclusive holder of electricity transmission permit, the transmission system operator also meeting the tasks of energy dispatch centre (bears responsibility for the full balance on the restricted territory of the Slovak Republic).
- Then, there is OKTE, a.s. the spot electricity market organiser being an institution responsible for assessing and organising spot electricity market and ensuring the

clearing, assessment and settlement of deviations on the territory of the Slovak Republic.
- Západoslovenská distribučná, a.s. (Western Slovak Distribution Utility), Stredoslovenská energetika – distribúcia, a.s. (Central Slovak Distribution Utility) and Východoslovenská distribučná a.s. (Eastern Slovak Distribution Utility) – they are exclusive operators of the regional distribution systems (hereinafter only „DNO") in the respective restricted territories where more than 100,000 points of supply are connected to the system. Apart from the above-mentioned companies there are other 160 holders of electricity distribution actively doing business in the electricity market. Those are primarily the operators of local distribution systems being operated in manufacturing and non-manufacturing companies where fewer than 100,000 consumers are connected.
- There are about 435 other entities having the business licence in the electricity sector.

The Retail Market

A gradual increase in electricity supplies by new electricity suppliers has reached a significant level and nowadays suppliers are not divided into traditional and alternative, but rather into old and new or large and small.

In 2013 price regulation was imposed on the following areas related to electricity supply:
- Electricity supply for households;
- Electricity supply to small businesses;
- Electricity supply by the last resort supplier.

A progressing process of liberalisation and the electricity market development is manifested through the annual increase in the number of electricity consumers that had switched their electricity supplier.

Household Electricity Supply

For 2013 the Office determined the maximum prices for household electricity suppliers actively doing business in the Slovak Republic together with the implementation terms and conditions. The maximum prices for household electricity supply are made of two components, consisting of the monthly payment per a point of offtake and the electricity consumed in the low band or the high band. Household electricity supply is divided into eight rates.

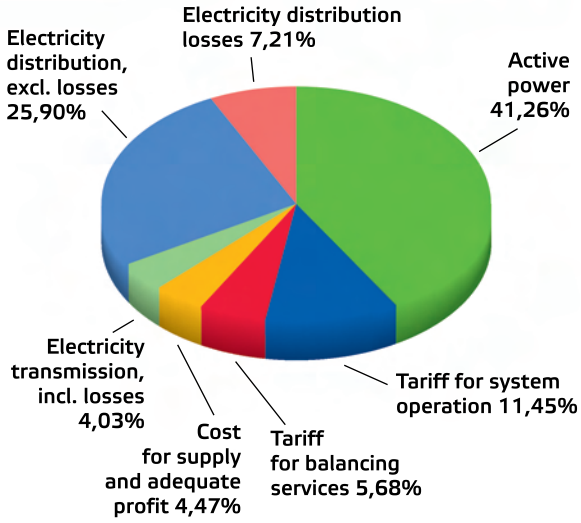
The Office always determines the maximum prices through its decisions. As part of their business activities suppliers came up with various discounts and benefits for their consumers. On its web site the Office offers the so-called price calculator which can help any consumer in selecting the specific supplier depending on the most suitable electricity supplier based on the assumed demand and the price approved for such consumer by the regulator.

The reference parameters, on the basis of which the maximum price for household electricity supply was determined for the year 2013, was the arithmetic average of the daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE), the product of F PXE CZ BL Cal-t, then the coefficient expressed in the percentage at the amount of 12 % as a maximum for the coverage of the scheduled electricity load curve diagram for households and the costs incurred by the deviation caused by the household electricity supply.

Bearing in mind the above mentioned circumstances the structure of household electricity supply prices is presented in the following chart:

Component of el. price	€/MWh	Share in final price
Active power	57,7470	41,26%
Tariff for system operation	16,0200	11,45%
Tariff for balancing services	7,9500	5,68%
Cost for supply and ad. profit	6,2496	4,47%
El. transmission, incl losses	5,6382	4,03%
El. distribution, excl. losses	36,2380	25,90%
Electricity distribution losses	10,0832	7,21%
Total	**139,9259**	**100,00%**

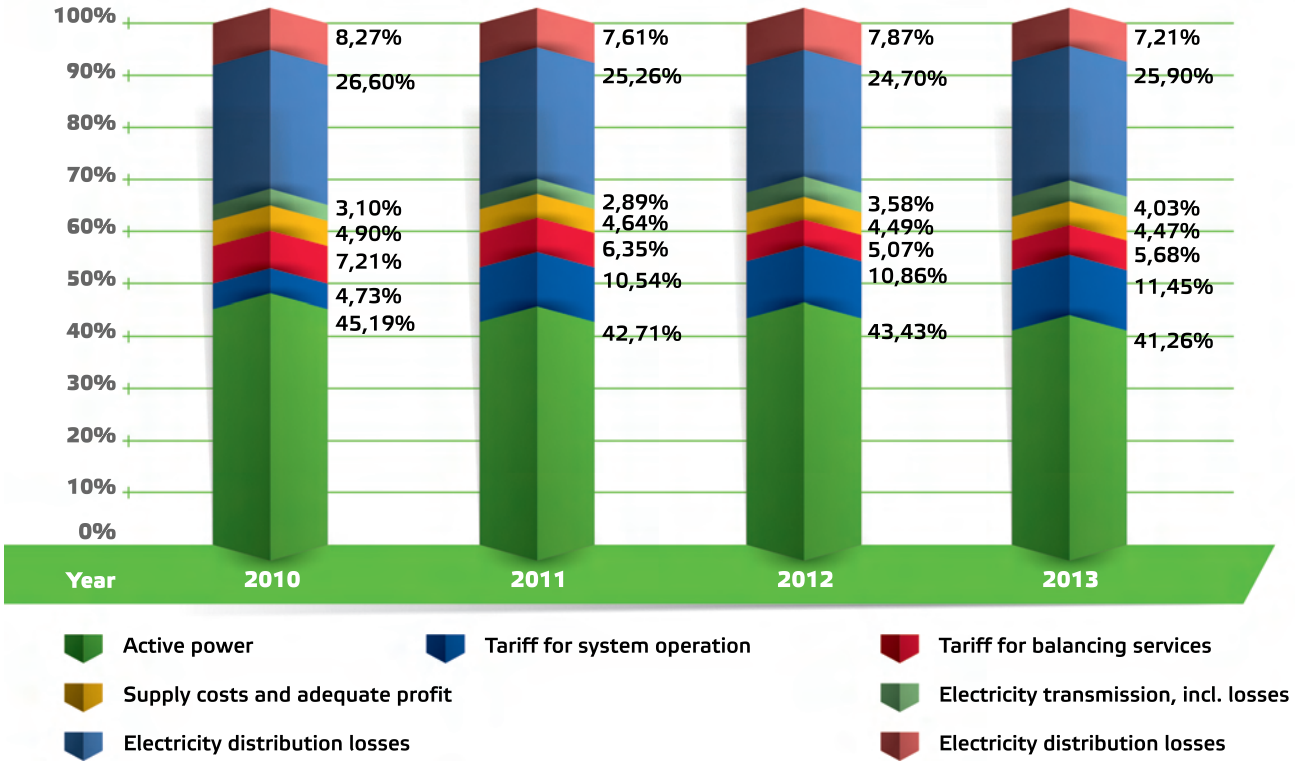
A structure of electricity prices for households in 2013



A list of household electricity suppliers

No.	Regulated company
1	A.En. Slovensko s.r.o.
2	AC energia s. r. o.
3	BUKÓZA ENERGO, a. s.
4	ČEZ Slovensko, s.r.o.
5	ELGAS, s.r.o.
6	Energie2, a.s.
7	EP ENERGY TRADING, a.s., organisational branch
8	Europe Easy Energy Slovensko a. s.
9	MAGNA E. A. s.r.o.
10	PB Power Trade, a.s.
11	PBPT Holding, a.s.
12	Pow-en a.s.
13	RIGHT POWER ENERGY, s.r.o.
14	SE Predaj, s.r.o.
15	SLOVAKIA ENERGY, s.r.o.
16	Slovenská energetika, a.s.
17	Slovenský plynárenský priemysel, a.s.
18	Stredoslovenská energetika, a.s.
19	UTYLIS s. r. o.
20	V-Elektra Slovakia, s.r.o.
21	Východoslovenská energetika, a.s.
22	ZSE Energia, a.s.

A comparison of the structure of final electricity price for households in the period from 2010 to 2013



Electricity Supply to Small-scale Businesses

In 2012 price regulation imposed on electricity supply to small businesses was cancelled. Such cancellation of price regulation in 2012 brought higher prices for electricity supply to some electricity consumers even by about 20 %. Due to the unjustified price increase in this market segment the Office has initiated price regulation in the field of electricity supply to small-scale businesses since January 1, 2013. Price regulation imposed on the electricity supply to small businesses in 2013 was introduced in compliance with the Directive 2009/72/EC.

The small-scale business is defined as the final electricity consumer with the annual electricity demand in all their off-take points exceeding 30,000 kWh per year that precedes the year of submitting a respective price proposal. Supply of electricity to small-scale business is split into eleven price rates. For 2013 the Office issued 109 price decisions related to electricity supply to small-scale businesses.

THE ELECTRICITY MARKET

Tariff components		2013 €/MWh
Electricity supply	Active power	57,7455
	Cost for supply and adequate profit	9,9456
Electricity distribution, incl. transmission distribution losses	Electricity transmission	5,6382
	Electricity distribution, excl. losses	55,2324
	Distribution losses	10,0832
Other regulated tariffs	Tariff for system operation	16,0200
	Tariff for balancing services	7,9500
Total		**162,6149**

Electricity Supply to the Last Resort Supplier

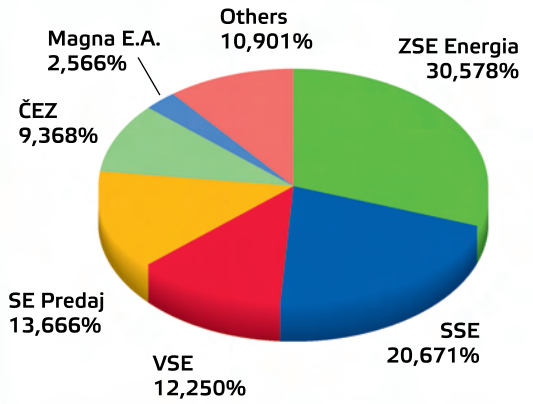
Supply of electricity to the last resort supplier has an obligation to deliver electricity to electricity consumers that are connected to the distribution system and whose supplier lost the ability to supply electricity or the whole process of switching supplier that does not have electricity provided in the other way was completely ceased.

In the course of 2013 the concept of the last resort supplier was used just in two cases in which small consumer (Vaša energia, s.r.o.) ceased to comply with its obligations on the restricted territories of the operators of distribution systems operated by the Central Slovak Distribution Utility and the Eastern Slovak Distribution Utility under the existing legislation and its commitments related to electricity supplies to final consumers were taken over by the last resort suppliers.

The share of major electricity suppliers in the electricity market is shown in the following chart:

A share of off-household electricity suppliers in 2013

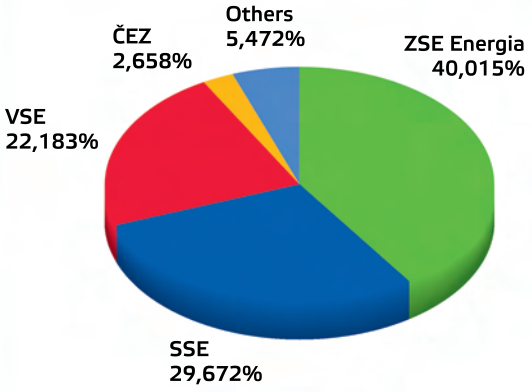
Indicator/Year	Unit	2011	2012	2013
ZSE Energia	GWh	4 433,00	4 473,00	4 361,00
SSE	GWh	3 295,00	2 731,00	2 948,00
VSE	GWh	2 004,00	1 739,00	1 747,00
SE Predaj	GWh	1 423,00	1 659,00	1 949,00
ČEZ	GWh	1 036,00	1 475,00	1 336,00
Magna E.A.	GWh	280,00	358,00	366,00
BCF	GWh		8,70	10,70
PB Power Trade	GWh	44,90	64,80	68,00
Slovakia Energy	GWh	19,00	49,90	59,30
Pow-en	GWh	12,30	27,70	73,80
GEON	GWh	6,80	8,20	8,60
ELGAS	GWh		132,50	209,80
Energie2	GWh		1,40	4,70
UTYLIS	GWh			0,01
PBPT Holding	GWh			1,30
ŽSR	GWh		24,60	25,00
SPP	GWh		0,90	24,50
Others unnamed	GWh			1 069,00
Total		**12 554,00**	**12 753,70**	**14 261,71**



Others	%
BCF	0,075
PB Power Trade	0,477
Slovakia Energy	0,416
Pow-en	0,517
GEON	0,060
ELGAS	1,471
Energie2	0,033
UTYLIS	0,000
PBPT Holding	0,009
ŽSR	0,175
SPP	0,172
Others unnamed	7,496
Total	**10,901**

A share of household electricity suppliers in 2013

Indicator/Year	Unit	2011	2012	2013
ZSE Energia	GWh	2 108,00	2 047,00	1 977,00
SSE	GWh	1 592,00	1 467,00	1 466,00
VSE	GWh	1 184,00	1 124,00	1 096,00
SE Predaj	GWh	0,07	1,50	3,20
ČEZ	GWh	14,00	103,60	131,30
Magna E.A.	GWh	24,60	23,00	23,80
BCF	GWh		2,00	2,60
PB Power Trade	GWh	2,10	2,30	1,40
Slovakia Energy	GWh	98,90	62,90	83,50
Pow-en	GWh	0,40	0,40	0,60
GEON	GWh	1,50	1,60	1,90
ELGAS	Gwh			
Energie2	GWh		0,50	4,30
UTYLIS	GWh			1,10
PBPT Holding	Gwh			
ŽSR	GWh		2,00	2,10
SPP	GWh		0,90	63,40
Others unnamed	GWh			82,50
Total		**5 025,57**	**4 838,70**	**4 940,70**



Others	%
SE Predaj	0,065
Magna E.A.	0,482
BCF	0,053
PB Power Trade	0,028
Slovakia Energy	1,690
Pow-en	0,012
GEON	0,038
ELGAS	0,000
Energie2	0,087
UTYLIS	0,022
PBPT Holding	0,000
ŽSR	0,043
SPP	1,283
Others unnamed	1,670
Total	**5,472**

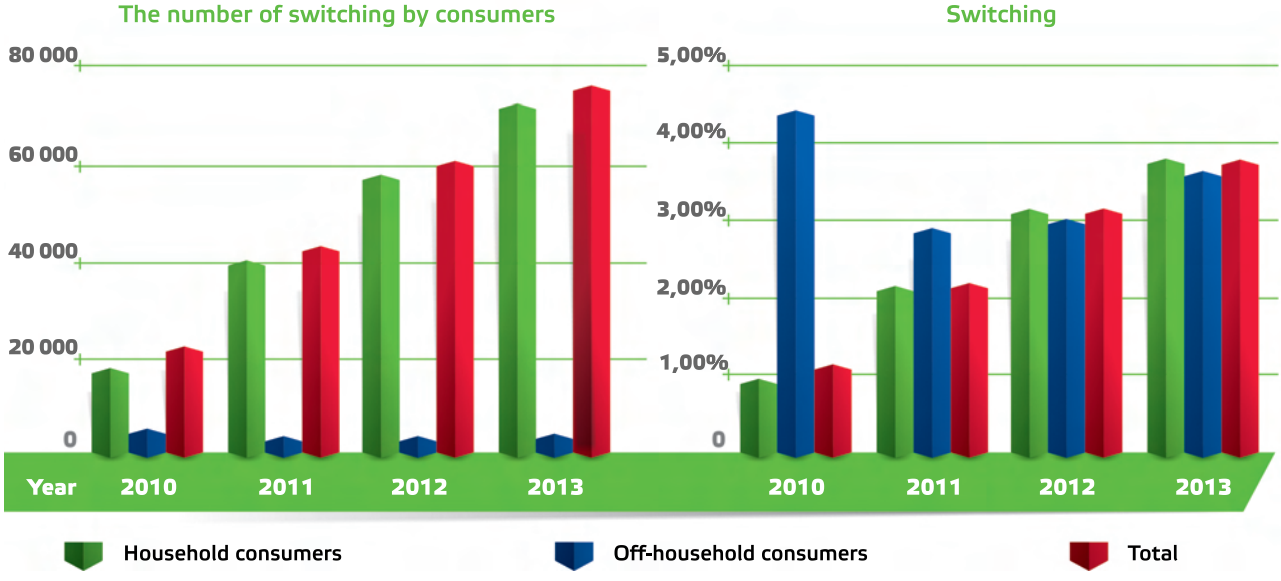
The progressing liberalisation and the electricity market development are expressed by the annual increase in the number of electricity consumers that switched their electricity supplier. When switching the electricity supplier the key factor for taking such decision is the electricity price and quality of services (advisory services, personal approach and individual offer, contractual terms and conditions, the complex services related to electricity supply, etc.). Taking into account the most recent practical experience it may be stated that almost half the consumers have the size of tariffs and rates that are not fair and they might save the significant part of the costs incurred by electricity supply.

For the purpose of assessing the level of liberalisation of the electricity and gas markets, there is a coefficient called **switching** (expressed in percentage). In the electricity sector such coefficient is used to express the ratio of the number of consumers switching their electricity suppliers to the total number of consumers and in the gas sector such coefficient is used to express the ratio of the number of offtake points switching suppliers to the total number of offtake points in the given year.

The number of electricity consumers that switched their supplier:

The number of switching by consumers

	The number of switching by consumers				Switching (%)			
Category of consumers	2010	2011	2012	2013	2010	2011	2012	2013
Household consumers	17 171	39 762	57 307	72 033	0,89%	2,08%	3,09%	3,73%
Off-household consumers	4 644	2 985	2 986	3 661	4,35%	2,83%	2,95%	3,58%
Total	**21 815**	**42 747**	**60 293**	**75 694**	**1,07%**	**2,12%**	**3,08%**	**3,72%**



The Monitoring of Transparency Including the Compliance with the Obligations and the Level and Efficiency of the Opening to the Market and Economic Competition

Apart from price regulation the Office, in accordance with the Act 250/2012 Coll. published the Office Decree No. 24/2013 Coll. laying down the rules dealing with the functioning of the internal gas market. This decree provides an explanation of the rights and obligations of the electricity market players and specifies the conditions for the functioning of the liberalised electricity market in Slovakia. The decree has introduced the measures aiming to raise the transparency of the electricity market and specified the details for the creation of data storage plant and the central invoicing system.

The other binding documents for the electricity market participants promoting transparency and effectiveness of the electricity market are the Operational Codes approved by the Office, into which the network operators incorporated the electricity market rules tailored to their internal operational conditions. In addition, the Office prepared the sample Operational Code for the distribution system operators. Any modifications made to the Operational Codes against the sample Operational Code are subject to approval by the Office. On the basis of applications submitted by the network operators the Office reviewed and approved 49 Operational Codes.

A new important competence awarded to the Office arising out of the Act 250/2012 Coll. includes the approval of business terms and conditions for the electricity supplier providing universal service. The business conditions form an inseparable part of the agreements on electricity supply and specify in detail the rights and obligations for both the supplier and the consumer in relation to electricity supply. The Office made the sample business conditions for electricity suppliers providing universal service (suppliers to small-scale businesses or households). Such sample business terms and conditions unified the level of the protection of consumers so that they are obliged to comply with them, thereby increasing the protection of electricity consumers and avoiding any unfair business practice. Any changes in the business conditions are approved by the Office. In 2013 the Office approved 61 decisions governing the business terms and conditions in the electricity sector.

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ÚRSO

2 THE NATURAL GAS MARKET

In 2013 the Slovak gas market was developing in harmony with the European legislation defined by the Third Energy Package transposed into national energy legislation and the main goals of the European Union included for instance the establishment of the single functioning internal gas market with the maximum level of liberalisation while respecting the specific features of the economic situation in the Slovak Republic and taking into account the protection of vulnerable gas consumers using all the possibilities that member states are provided with by the Directive 2009/73/EC and the Regulations of the European Parliament and the Council (EC) No. 715/2009 on the Conditions Regulating Access to Natural Gas Transportation Systems.

In 2013 natural gas consumption of final consumers on the territory of the Slovak Republic achieved 54.8 TWh. Compared to 2012, it represents an increase by 1.1% of gas consumption.

Considering the number of active gas suppliers in 2013 the market saturation may be observed and no assumption is made indicating their significant increase. In the category of household gas consumers, despite the so-called forced switching of a gas supplier caused by the closure of one gas supplier and takeover of a breed of consumers of one company with the other one due to the transfer of ownership rights, an annual decline was recorded in the number of gas supply switches up to 88 thous. Compared to the previous year this means a decline by more than 43 thous. of gas supplier switches. Despite this fact the efforts of consumers to switch their gas supplier may be observed. The rising tendency in switching a gas supplier may be observed in the category of medium and large-scale consumers in which the switching indicator achieved the highest possible value of 26.9% in 2013, compared to the value of 17.1 % in 2012.

Gas Market Participants

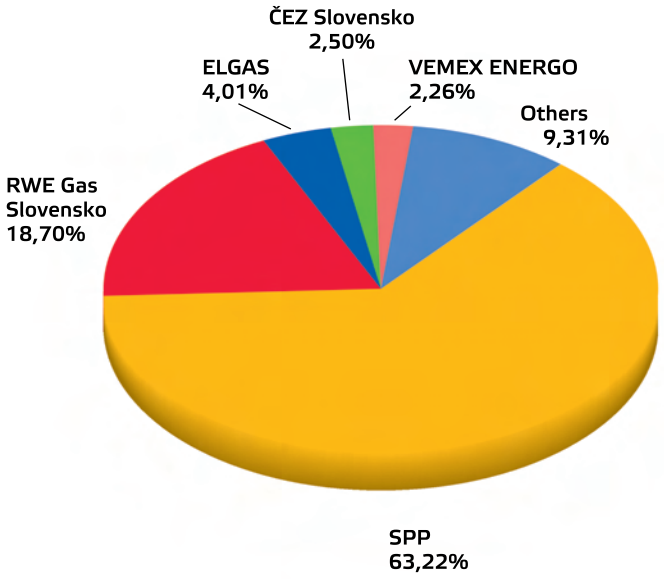
In 2013 the major gas market participants in the Slovak Republic were the following:

a) Transmission system operator (eustream, a.s.)
b) The distribution system operator on the restricted territory of the Slovak Republic (SPP-distribúcia, a.s)
c) Storage tank operators (POZAGAS a.s., NAFTA a.s.)
d) 26 gas suppliers, whereas some of them also acted as gas traders; the gas trader in the conditions of the Slovak Republic is a licensee of the gas supply that does not supply natural gas only to final consumers but also sells natural gas to other smaller gas suppliers,
e) Gas consumers.

In 2013 the most significant share in the market with gas supply had Slovenský plynárenský priemysel, a.s (hereinafter only „SPP, a.s.“) having a 63.2%, then RWE Gas Slovensko, s.r.o. company that achieved an 18.7 % market share and ELGas, s.r.o., a company having a 4.0% market share. The remaining 23 gas suppliers covered a 14.1% share of final gas consumption.

A share of gas supplies to final consumers in 2013

Gas suppliers	Share
SPP	63,22%
RWE Gas Slovensko	18,70%
ELGAS	4,01%
ČEZ Slovensko	2,50%
VEMEX ENERGO	2,26%
GAS Trading	1,79%
ZSE Energia	1,38%
MET Slovakia	1,07%
Lumius Slovakia	0,93%
SHELL Slovakia	0,88%
Energetické centrum	0,77%
VNG Slovakia	0,47%
Slovakia Energy	0,43%
Pow-en	0,33%
Magna E.A.	0,32%
A.EN. GAS	0,20%
SSE	0,19%
BCF	0,16%
Energie2	0,13%
Right Power Energy	0,13%
LAMA energy	0,08%
V-elektra Slovakia	0,03%
Vaša energia	0,01%
UTYLIS	0,01%
G&P Trade	0,01%
SE Predaj	0,003%
Total	**100,00%**



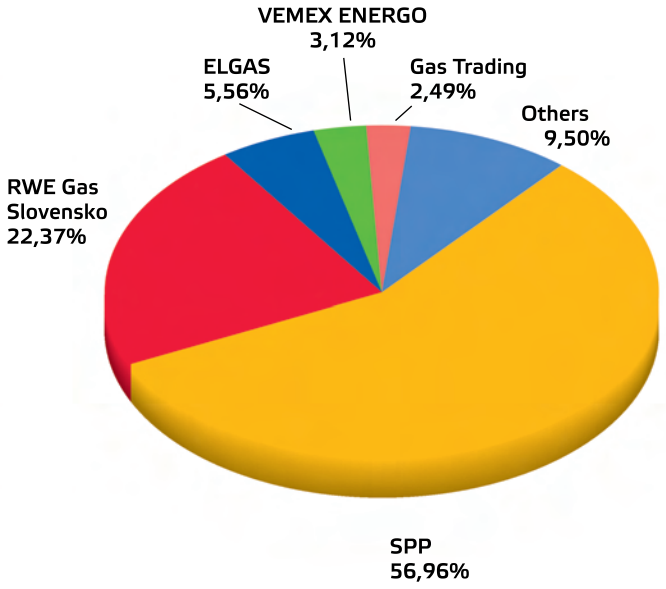
Domestic gas consumption is covered by approximately 98 % with the gas imported from abroad. Natural gas supply for the needs of the Slovak Republic is provided based on the long term contract of SPP, a.s. signed with Gazprom export LLC. The other gas suppliers purchased natural gas from various sources, mainly from foreign gas suppliers, in the Power Exchange or from Slovak suppliers that functioned here as gas traders.

In 2013 the Office registered 147 licensees for gas supply, which means an increase by 21 licensees, compared to 2012. Of this number, there were 26 licence holders that supplied natural gas to final gas consumers and actively performed on the whole territory of the Slovak Republic. In the gas market there are also 34 local gas suppliers owning or having rented some local distribution system and supply natural gas only to consumers that have their own off-take points situated in their premises.

The following chart depicts a share of gas suppliers delivering natural gas to the segment of industrial consumers that are not subject to price regulation.

A share of gas supplies to industrial gas consumers, excl. gas supply to small consumers in 2013

Gas suppliers	Share
SPP	56,96%
RWE Gas Slovensko	22,37%
ELGAS	5,56%
VEMEX ENERGO	3,12%
GAS Trading	2,49%
ČEZ Slovensko	1,91%
MET Slovakia	1,48%
Lumius Slovakia	1,29%
SHELL Slovakia	1,22%
ZSE Energia	0,91%
VNG Slovakia	0,66%
Pow-en	0,46%
Magna E.A.	0,41%
A.EN. GAS	0,28%
BCF	0,23%
SSE	0,22%
Right Power Energy	0,17%
LAMA energy	0,10%
Slovakia Energy	0,07%
V-elektra Slovakia	0,07%
Energie2	0,02%
Vaša energia	0,01%
G&P Trade	0,01%
Energetické centrum	0,01%
SE Predaj	0,004%
UTYLIS	0,000%
Total	**100,00%**



System Regulation

In 2013 the Office performed price regulation for the following activities:

- Access to the transmission system and gas transmission
- Access to the distribution system and gas distribution,
- Connection to transmission and distribution systems,
- Provision of ancillary services in the gas sector,
- Repurchase of gas installation
- Setting maximum prices for purchase of an gas installation valid from January 1, 2014, in accordance with the Office Decree No.193/2013 Coll. enforcing price regulation in the gas sector.

Unbundling

Transposition of the Directive 2009/73/EC in the Act 250/2012 Coll. and the Act 251/2012 Coll. allowed extending powers of the Office concerning supervision, inspection and imposing sanctions for any failure to comply with the conditions. In this regard the Office had to issue some implementation regulations.

On November 28, 2012 the government of the Slovak Republic through its Resolution No. 656 approved the proposal to identify any ownership misuse by the transmission system operator and at the same time, it also specified in detail that pursuant to Article 50, Para 8 Act 251/2012 Coll. it will not use ownership unbundling of the transmission system operator that is part of the vertical integrated gas company pursuant to 50 Para 1 to 7 of Act 251/2012 Coll.

Under Act 251/2012 Coll. eustream, a.s. company is part of vertically integrated company and in such a case eustream company, a.s. is subject to conditions of independence from the transmission system operator, the so-called ITO model.

During the process of certification the Office revealed that eustream company, a.s., being the transmission system operator, complied with all the conditions specified in the Act 251/2012 Coll. and on the basis of this, through its decision dated October 28, 2013 the company was awarded with the licence according to the Act 250/2012 Coll. Following the issuance of the decision it took into account, in a largest possible extent, the opinion of the European Commission. The completion of the process of certification itself was the issuance of a decision by the Ministry dated November 22, 2013 regarding the compliance with the conditions of unbundling of the transmission system operator.

System Technical Functionality

The Transmission System

The inter-state as well as international gas transportation is performed by means of the high-pressure transmission system operated by the sole operator of the transmission system eustream, a.s.

The transmission system is made up of the system of four sections and in some parts even five parallel pipelines having diameter 1200/1400 mm and operational pressure 73 bars. Pressure in the transmission system is provided by four compressor stations with a capacity of more than 1,000 MW. The most important compressor station is situated on the Slovak-Ukrainian borders in the town of Veľké Kapušany. Having the capacity of more than 300 MW this is the largest compressor station in the EU. A technical capacity in the entry point into the Slovak transmission system in Veľké Kapušany is 2,548 mil. MWh per day.

An up-to-date overview of technical, contractual but also free capacities in all entry-exit cross-border points of the transmission system

Border point	Capacity [GWh/d]		
	Technical	Contractual	Free
ENTRY Veľké Kapušany	2 548	2 382	166
EXIT Veľké Kapušany	859	0	859
ENTRY Baumgarten	248	0	248
EXIT Baumgarten	1 560	1 517	43
ENTRY Lanžhot	520	510	10
EXIT Lanžhot	780	733	47

Under the Act 251/2012 Coll. the eustream, a.s. company developed and submitted to the Office the transmission system development plan including the development of connections for a period of ten years. The project approving an extended capacity on the cross-border points of the transmission system is Slovak-Hungarian interconnecting gas supply pipeline that is part of Northern-Southern corridor and will be connecting the gas supply pipelines all across Central and Eastern Europe, thus contributing to a significant diversification of energy sources and gas transportation routes. This project is in compliance with the Regulation of the European Parliament and the Council (EC) No. 347/2013 on Guidelines for the Trans-European Energy Infrastructure.

Distribution System

The distribution system operated by SPP-distribúcia company whose network is made up of large-scale, medium-scale and low-scale gas supply pipelines covering the whole territory of the Slovak Republic ensures gas distribution for 98 % of the total volume of distributed gas. Out of the total number of 2,928 towns and villages in the Slovak Republic 2,234 of them were gasified (77 %) in 2013, thereby enabling them to have access up to 94 % of Slovak inhabitants in the country. Out of the total length of the distribution system being 33,182 km, as of December 31, 2013 high pressure gas supply pipelines achieve 6,291 km and medium and low-pressure gas supply pipelines have 26,891 km. A tendency to apply thermal insulation on residential buildings as well as the switch to heating medium used for space heating in households in family houses is caused by a lower level of use of primarily low pressure gas supply pipelines. The insufficient use of an oversized distribution system is proven by the fact that in the course of ten years the amount of gas distributed in the course of ten years went down by about 23 %, whereas the length of medium and low pressure gas supply pipelines has increased by about 6.5 %.

The chart illustrates the development in the number of offtake points and the amount of gas distributed through the gas distribution system operated by SPP-distribúcia in the year 2011 to 2013.

	2011	2012	2013
No. of offtake points	1 504 472	1 508 309	1 502 898
Volume of gas distributed in m^3	5 333 301 032	5 025 579 749	5 026 557 010

The development of investments made into the upgrading and reconstruction of the distribution system operated by SPP-distribúcia in the year 2011 to 2013 is presented in the following chart.

	2011	2012	2013
Investments (in mil. €)	45	42	31

Apart from SPP-distribúcia on the territory of the Slovak Republic gas distribution is also provided to gas consumers by the operators of local distribution networks whose supply system is not owned by SPP-distribúcia company. These are mainly the local distribution systems located in the premises of large enterprises or industrial parks. In 2013 the regulated activity on the territory of the Slovak Republic was carried out by 39 operators of local distribution systems that ensured the distribution of local distribution systems at the amount of 951 mil. m^3.

Network Balancing

The role of the national gas dispatch is played by SPP-distribúcia. As for physical balancing of the distribution system, apart from storage possibilities of the distribution system, SPP-distribúcia uses the distribution network, including a gas storage tank in Dolné Bojanovce, located on the territory of the Czech Republic that is connected to the Slovak Gas Network. In 2013 there were no problems caused by imbalance in the distribution system.

SPP-distribúcia company also ensured trading balance on a day-to-day basis for the users of the distribution system by means of the calculation of daily and cumulative deviations originating from the amounts of gas nominated at the entries into the distribution system and quantities actually flowing out of the distribution system and keeping the balancing account and deviation settlement.

Gas Storage Tank

The gas storage tanks primarily ensure the balances of differences between gas supplies and gas demand. The underground storage tanks on the territory of the Slovak Republic are operated by two companies, NAFTA, a.s. (hereinafter only „NAFTA"), operating a complex of underground gas storage tanks Láb 1-3 and Gajary-Báden and POZAGAS, a.s. company (hereinafter only „POZAGAS" that operates an underground natural gas storage tank Láb 4, situated near Malacky.

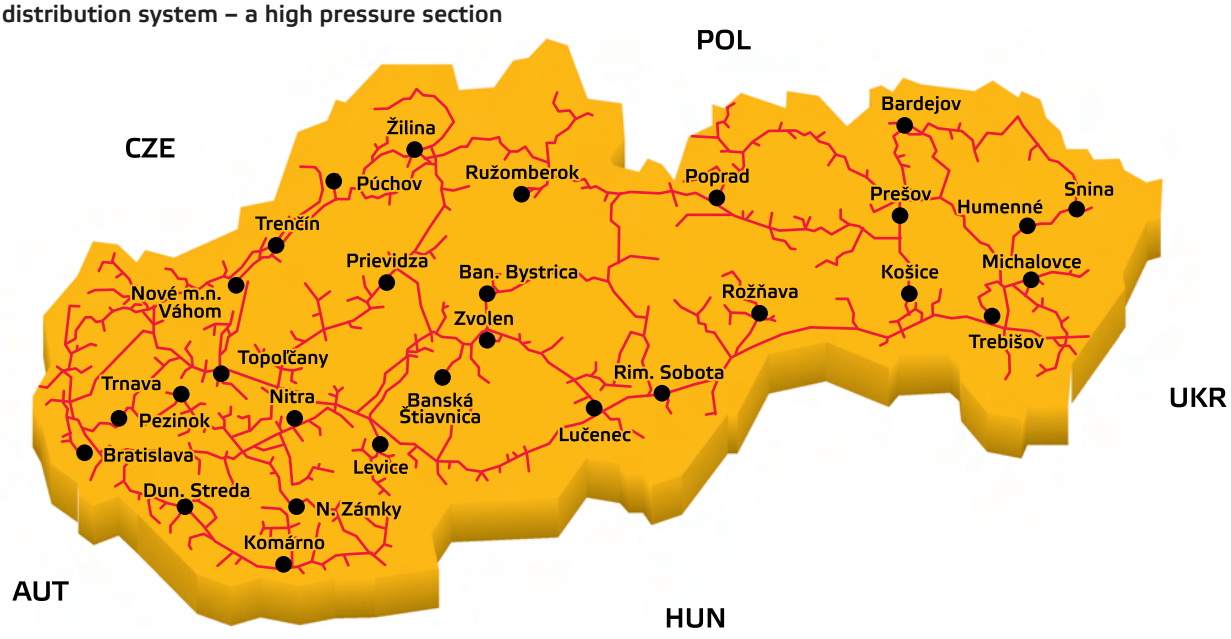
The Operators of Underground Gas Storage Tanks

Since 2013 access to storage tanks and gas storage tanks have been taken out of price regulation.

The storage capacity of operators of gas storage tanks as of December 31, 2013

Underground storage operator	Technical working volume (in mil. m^3/y)	Technically injected capacity (in mil. m^3/d)	Technically production capacity (in mil. m^3/d)
NAFTA a.s.	2 365	24,94	32,40
POZAGAS a.s.	655	6,85	6,85
Total	**3 020**	**31,79**	**39,25**

The distribution system – a high pressure section



Utilisation of storage capacity operated by NAFTA, a.s. in 2013

Users of storage tank	Share
SPP	65,01%
RWE ČR	22,83%
RWE Nemecko	7,04%
GDF SUEZ	2,68%
VNG Nemecko	1,22%
SHELL Slovakia	0,91%
ZSE Energia	0,21%
VNG Slovakia	0,10%
Total	**100,00%**

Utilisation of storage capacity operated by POZAGAS, a.s. in 2013

Users of storage tank	Share
SPP	1,83%
GDF SUEZ	63,10%
RWE Nemecko	1,83%
MET AG	4,37%
Morgan Stanley	7,43%
Danske Commodities	0,73%
Gunvor International	2,40%
Koch Supply & Trading	1,00%
MERCURIA ENERGY TRADING	1,40%
NITROFER	0,90%
Vattenfall Energy Trading	1,60%
ČEZ ČR	7,80%
ČEZ Slovensko	0,51%
MET Slovakia	0,77%
ZSE Energia	3,13%
SLOVAKIA ENERGY	1,20%
Total	**100,00%**

Network Tariffs, Tariffs for Connection and Access to the Networks and LNG

Price regulation of access to the transmission system is performed by means of direct setting of a comparable price that is determined by comparing price for gas transport in the Slovak Republic with the prices for gas transportation in other comparable prices for access to the transmission system and gas transmission are determined in the form of tariffs. For using the transmission system by local as well as foreign users there has been the entry-exit tariff system in use since 2005.

Regarding price regulation of the access to the distribution system and gas distribution the price cap method is used in this area of business. Such incentive method ensures price stability during the entire regulatory period, taking into account new investments, the escalation factor for operational costs and changes in prices of natural gas used for covering any losses in the distribution system. Maximum price for access to the distribution system and gas distribution is applied in the form of tariff based on the principle of the so-called postage stamp.

A cost-based model of price regulation of access to the distribution system is applied to the operators of local distribution systems (the networks to which fewer than 100,000 off-take points are connected).

In 2013 no LNG facility became operational in 2013.

The Transmission System Operator

Annual capacity of the transmission system accounts more than 90 bil. m^3 of transported gas.

In 2013 58.5 bil. m^3 was transported in 2013 by the largest user of the transmission system in terms of the volume of gas transported by Gazprom Export company.

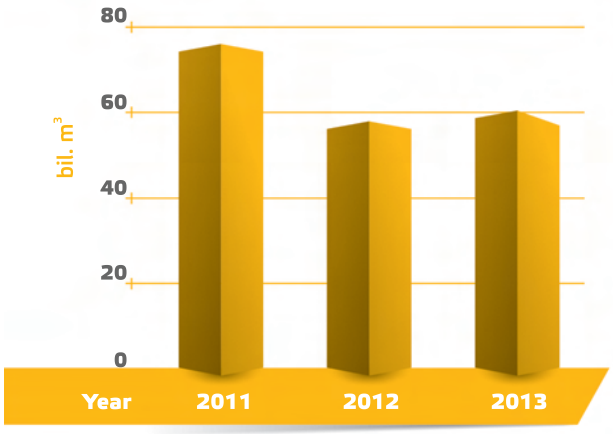
The method of price regulation of access to the transmission system and gas transmission arises out of the Act 250/2012 Coll. and is given by direct determination of comparable price arising out of the analysis of gas transportation in other member states of the European Union and a price for gas transmission in the Slovak Republic.

Through its decision dated October 10, 2012 the Office approved for the eustream company 2013 tariffs for access to the transmission system and gas transmission. Tariffs are determined for the individual entry-exit tariff system and are applicable for both Slovak and foreign users of the transmission system. Initial tariff rates in all the tariff groups in which the network users classified depending on the contractually agreed maximum daily capacity of gas transmission were increased by 1.55 % on average in 2013, compared to 2012, whereas only its 50% value enters the escalation factor. The tariff system in the price decision for 2013 is defined in energy units (so far the prices were determined in volume units), which means that the Slovak tariff system is comparable with those used in other systems operated by other operators of transmission systems in neighbouring countries.

Through the second decision dated May 2, 2013 in compliance with the Act 250/2012 Coll. and effective Decree No. 216/2011 Coll. the Office approved proposal for changes in price proposal which adjusted the size of tariffs at the entry points of the transmission system Lanžhot and Baumgarten. The Office gave approval to change tariffs following the thorough analysis. The main reasons were significant changes in physical commercial flows of gas transportation and the ongoing decline in the gas flow at the entry point from the Ukraine, which eventually had a negative impact on the set mechanism of the tariff system.

A regulated price for connection to the transmission system is based on the actually incurred costs required for documentation, technical and implementation phases of the connection approved by the Office on the basis of the submitted price proposal. In 2013 the Office did not issue any price decision relating to the connection to the transmission system.

The development of natural gas transmitted (in bil. m³)



Year	2011	2012	2013
Volume of transmission (in bil. m³)	74,0	56,5	58,5

A comparison of initial tariff rates at the entry points into the transmission system (in EURO/MWh of the ordered daily transmission capacity) depending on the ranking into the tariff group (T1 to T4) in the period from 2012 to 2013

	Lanžhot			Baumgarten			Veľké Kapušany			Veľké Zlievce			Domestic node		
Tariff group	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.
T1	28,91	29,36	102,76	52,12	52,92	79,39	158,08	160,53	160,53	78,31	79,53	105,84	14,92	15,14	15,14
T2	29,37	29,82	104,37	52,93	53,75	80,63	160,55	163,04	163,04	79,53	80,77	107,50	15,15	15,38	15,38
T3	20,68	21,00	73,51	37,28	37,86	56,79	113,09	114,84	114,84	56,02	56,89	75,72	10,67	10,84	10,84
T4	15,22	15,46	54,10	27,43	27,87	41,80	83,23	84,52	84,52	41,23	41,87	55,73	7,86	7,98	7,98

A comparison of initial tariff rates at the exit points into the transmission system (in EURO/MWh of the ordered daily transmission capacity) depending on the ranking into the tariff group (T1 to T4) in the period from 2012 to 2013

	Lanžhot			Baumgarten			Veľké Kapušany			Veľké Zlievce			Domestic node		
Tariff group	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.	2012 volume	2013 till 1.5.	2013 from 2.5.
T1	157,20	159,63	159,63	178,79	181,56	181,56	219,63	223,04	223,04	79,88	81,12	181,56	80,62	81,87	81,87
T2	159,66	162,13	162,13	181,59	184,40	184,40	223,07	226,53	226,53	81,13	82,39	184,40	81,88	83,15	83,15
T3	112,46	114,20	114,20	127,89	129,88	129,88	157,12	159,55	159,55	57,13	58,03	129,88	57,67	58,56	58,56
T4	82,77	84,05	84,05	94,13	95,59	95,59	115,63	117,43	117,43	42,05	42,71	95,59	42,45	43,10	43,10

The Distribution System Operator

In 2013 price regulation for access to the distribution system and gas distribution was performed for the distribution system operator, whose:

a) Number of off-take points to the distribution network exceeds 100,000, i.e. for the distribution system operator, i.e. SPP-distribúcia that at the same time fulfils the task of the Gas Dispatch Centre on the restricted territory,
b) Number of off-take points does not exceed 100,000, these are the distribution system operators serving the restricted territory, the so-called local distribution systems.

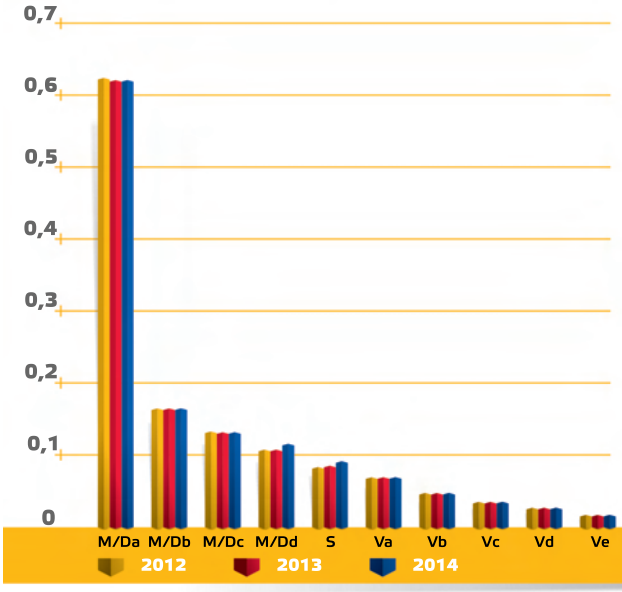
A comparison of initial tariff rates at the entry points of the transmission system depending on the size of the contracted daily capacity (T1 to T4) in 2012 and 2013.

In 2013 the Office issued for SPP-distribúcia company the price decision approving tariffs for access to the high pressure distribution system and tariffs for gas distribution and a tariff for providing ancillary services that are not provided within tariffs for access to the distribution system and gas distribution.

Tariffs for gas distribution reflect a principle of the so-called postage stamp, i.e. setting the tariffs depending on the annual amount of gas distribution regardless of a distance of an off-take point from a gas installation.

For SPP-distribúcia company the Office, through its decision made in 2013, also approved the prices for connection to the distribution system and this is separately for the category of household gas consumers and separately for the category of off-household consumers.

The development of average prices for gas distribution in individual tariffs in the period from 2012 to 2014 (in €/m³ excl. VAT)



Tariff (under the annual volume of gas distributed in m³)		2012	2013	2014
M/Da	(up to 200)	0,6225	0,6190	0,6190
M/Db	(200–1 700)	0,1634	0,1632	0,1632
M/Dc	(1 700–6 500)	0,1307	0,1301	0,1301
M/Dd	(6 500–60 thous.)	0,1062	0,1062	0,1137
S	(60–400 thous.)	0,0820	0,0832	0,0894
Va	(400 thous.–2 mil.)	0,0670	0,0670	0,0670
Vb	(2–15 mil.)	0,0453	0,0452	0,0452
Vc	(15–25 mil.)	0,0330	0,0330	0,0330
Vd	(25–300 mil.)	0,0248	0,0248	0,0248
Ve	(300–500 mil.)	0,0150	0,0150	0,0150

Price regulation of the operators of local distribution systems for access to the distribution system and gas distribution was performed on the basis of a cost-based regulation method and the final fixed price reflects justified costs of a regulated entity incurred by the network operation, an adequate profit defined by the Office and correction of revenues depending on the development of eligible costs for 39 operators of local distribution systems.

A price for connection to the distribution system as well as to the local distribution systems is determined in order not to exceed any planned average costs of a regulated company incurred by the connection to the distribution system. Prices for connection to the distribution system are proposed separately for household gas consumers and separately for off-household gas consumers.

Natural Gas Production
Production of natural gas in 2013 achieved 100 mil m^3, what represents an increase of 2 mil. m^3 compared to 2012.

Cross-border Issues

As regards the procedures related to cross-border capacities and congestion management on cross-border profiles the Slovak operator of the transmission system (eustream, a.s) follows the gas market rules and the operational code applicable for the transmission system that is obviously approved by the Office. A mutual connection of transmission systems is only with the Ukraine, the Czech Republic and Austria. A capacity of cross-border inter-connections of the transmission system of the Slovak Republic is sufficient.

In 2013 the Office co-operated in cross-border matters with relevant regulatory bodies and ACER in accordance with provisions of the Regulation No. 2009/EC/715 within the region of Central and Southern Europe (hereinafter only „CEE Region").

As regards the market integration within the region, Slovakia took part in the project aimed at establishing the common regional market of the so-called „Vysegrád Group" (V4). Within this project the roadmap was developed presenting the integration of the V4 region including the vision of the target gas model of this region.

Another form of the cross-border co-operation was the participation in the tender for infrastructural projects of common European interest as well as an exchange of experience gained in the gas sector within the framework of regional investment plans (GRIP).

In spring 2013 the construction of Slovak part of the gas supply pipeline was initiated, connecting the gas systems of Slovakia and Hungary. The Slovak-Hungarian gas supply pipeline has the strategic meaning for the Slovak Republic. This connection will give access to a planned Southern gas supply corridor or LNG terminal in Croatia. The project of Hungarian–Slovak interconnection is part of a planned European North–South corridor, thus making contribution to European energy security and diversification of transportation routes and gas sources. The gas supply interconnection of Slovakia with Hungary will link high pressure transmission systems between Veľké Zlievce on the Slovak side and a Hungarian village of Vercsés at the outskirts of Budapest. A two-way gas supply pipeline with an annual capacity being 4.38 bil. m^3 will be 110.7 km long (of this 92.1 km on the territory of Hungary and 18.6km on the Slovak territory). In March 2014 the eustream, a.s. company finished the construction of Slovak section of the gas supply pipeline, being 18.6 km long. The beginning of the commercial operation is scheduled for January 1, 2015.

Transmission Capacity

The transmission system operator eustream, a.s. has free transmission capacity that is sufficient for volumes of transmitted natural gas; this brings advantage for any potential businesses with an interest in gas trading and the potential for further development of competition in the Slovak gas market. This is something what makes the gas market in Slovakia different from other European transmission system operators that are obviously utilised to a maximum possible extent. The development of the market with transmission capacities from 2010 to 2013 is presented in the chart below:

Development of the market with transmission capacities in a period from 2010 to 2013

Indicator/Year	2010	2011	2012	2013
No. of applications for access to the transmission system	72	56	154	537
No. of applications for connection to the transmission system	0	0	0	0
No. of signed contracts on connection to the system	0	0	0	0
No. of signed contracts on transmission of natural gas with the fixed transmission capacity	72	52	154	485
Of which: long-term	2	1	1	4
annual	42	35	49	22
short-term	28	16	104	459
No. of concluded contracts on transmission of natural gas with interruptible transmission capacity	0	0	1	52
No. of users of the transmission system	23	30	36	21

In 2013 the users of the transmission network were mainly Slovak and foreign companies, for instance from Russia, the Czech Republic, Germany, Italy, Switzerland, Great Britain, Denmark and Austria.

A share of local users and foreign users of the transmission system in terms of the overall volume of transported natural gas is presented in the chart below. The total amount of natural gas transported in 2013 was 58.5 bil. m^3.

The shares of domestic and foreign users of the transmission system in overall volume of transmitted gas

Indicator/Year	2012 %)	2013 (%)
Foreign users of the transmission system	91,10	90,48
Domestic users of the transm. system	8,90	9,52
Total	**100,00**	**100,00**

Users of the transmission system in the local market (transmission to the local transmission system node)	2012 (%)	2013 (%)
Slovakia	7,11	9,52
Czech Republic	2,24	0,00
Others	0,39	0,00
Transit users of the transmission system		
Russia	63,17	66,55
Germany	9,49	9,11
Czech Republic	12,89	14,14
Italy	0,22	0,02
Switzerland	0,19	0,07
UK	0,04	0,53
Austria	0,11	0,03
Denmark	0,00	0,03
Slovakia	1,79	0,00
France	0,01	0,00
Slovenia	0,86	0,00
Netherlands	1,49	0,00
Total	**100,00**	**100,00**

The Economic Competition

The Wholesale Market

The Monitoring of Levels of Pricing, Transparency, Effectiveness of the Market Opening and Competition in the Wholesale Market

In 2013 gas suppliers arranged to have natural gas on the basis of long-term contracts with foreign suppliers, on the European power exchanges, by purchasing from parent companies or from the nearest gas node in Baumgarten in Austria. It is becoming more common to purchase natural gas „from a larger supplier by a smaller supplier". This is the way how a larger supplier tackles the problem with excess gas purchased before, for example in case the number of consumers is on decline as a result of switching their gas supplier.

The Retail Market

In the field of price regulation of gas supplies the following areas of business were subject to such regulation in 2013:

a) Household gas supply
b) Small business gas supply,
c) Gas supply by the last resort supplier.

In compliance with the Office Decree enforcing price regulation in the gas sector, specifically for household gas supply in a regulatory period (2012–2016), there is a procedure for setting the maximum prices using the price cap regulatory method. Such method determines the price cap, with the maximum starting price for household gas supply, is based on the first year of the regulatory period. Price regulation for gas supply by the last resort supplier is made by setting the way of calculating the maximum price for gas supply provided by the last resort supplier as technically defined by legal guidelines.

Household Gas Supply

Maximum prices charged for household gas supply as determined by the Office in 2013, are made of two components, composed of the maximum size of the fixed monthly rate and the maximum size of rate for extracted natural gas. A structure of tariffs is given by three tariff groups D1 to D3, depending on the amount of annual gas consumption.

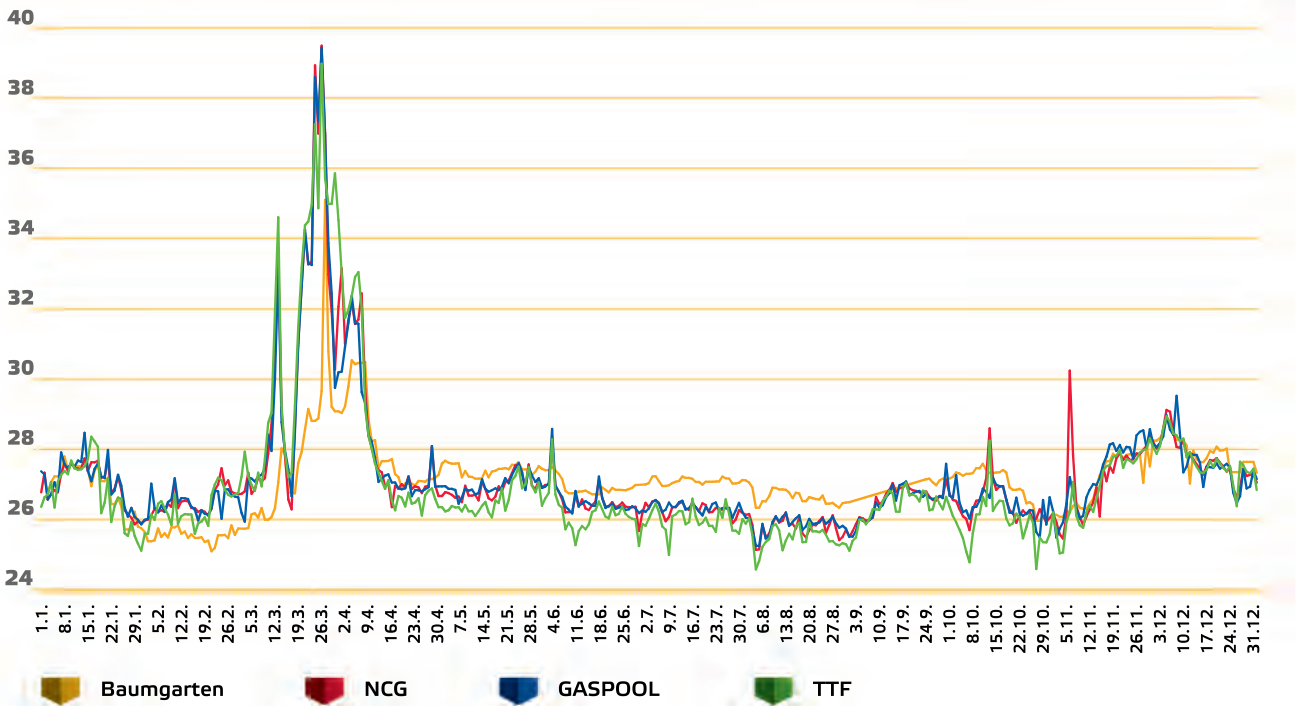
Based on the price development of the main factors having influence on the gas purchase price in 2014 and the forecasts of exchange rate of EURO against U.S. Dollar the average price of gas supply to households in 2014 went down by 0.23% on average, compared to the previous year.

Gas suppliers having a lower share in the gas market, such as SPP, a.s within the trading policy offer their suppliers the prices for gas supply that are lower than maximum prices approved by the Office. Gas suppliers publish their price decisions as well as price lists based on the maximum prices for households approved by the Office through price decisions.

In 2013 there were mainly the following suppliers involved in gas supply services to households: SPP, a.s., RWE Gas Slovensko, s.r.o. ČEZ Slovensko, s.r.o., ZSE Energia, a.s. and Energy Centre, a.s. whose consumers were taken over by Slovakia Energy, s.r.o. supplier towards the end of the year. The other companies acquired fewer than 2,000 consumers in the gas supply market and cover less than 0.3% of a market share in household gas supply.

THE NATURAL GAS MARKET

The development of natural gas prices in the wholesale market in 2013 in European power exchanges

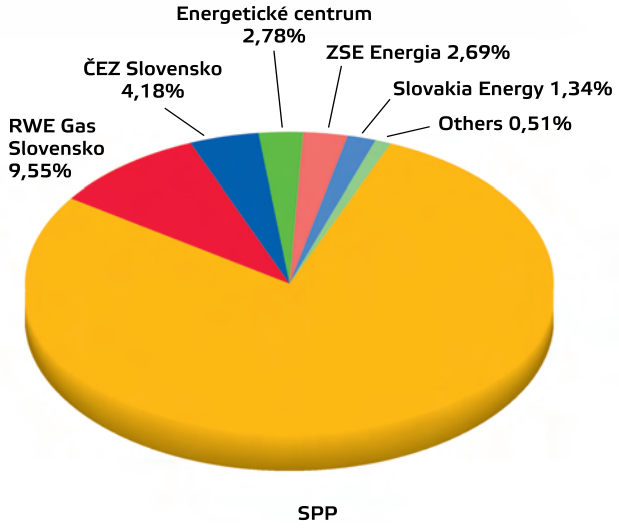


Maximum prices for household gas supply in the years 2012 to 2013 (w/o VAT)

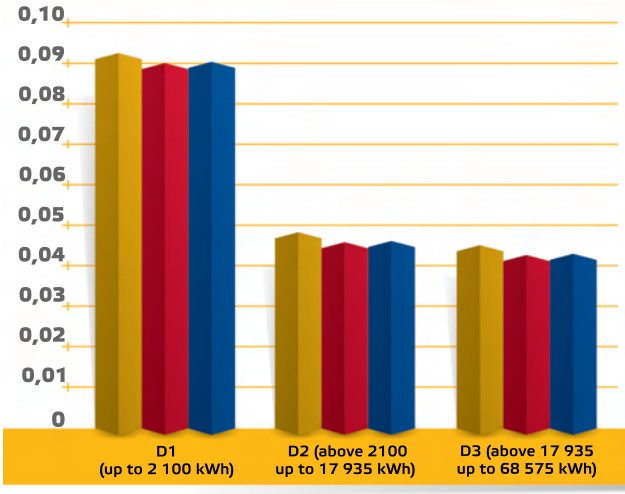
Tariff	Fixed monthly rate (€/month)			Rate for extracted gas (€/kWh)		
	2012 till 11.3.	2012 from 12.3.	2013	2012 till 11.3.	2012 from 12.3.	2013
D1	1,76	1,76	1,76	0,0561	0,0537	0,0539
D2	4,15	4,15	4,15	0,0424	0,0400	0,0402
D3	6,46	6,46	6,46	0,0408	0,0384	0,0386

A share of gas supplies to final consumers in 2013

Gas suppliers	share
SPP	78,95%
RWE Gas Slovensko	9,55%
ČEZ Slovensko	4,18%
Energetické centrum	2,78%
ZSE Energia	2,69%
Slovakia Energy	1,34%
Energie2	0,29%
SSE	0,13%
Magna E.A.	0,05%
UTYLIS	0,03%
Vaša energia	0,01%
VEMEX ENERGO	0,001%
Right Power Energy	0,001%
ELGAS	0,001%
LAMA energy	0,0002%
A.EN. GAS	0,0001%



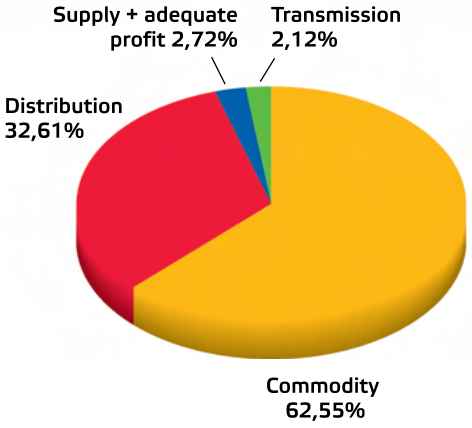
The development of average final prices for household gas supply from 2012 to 2013 (in €/kWh excl. VAT)



Tariff (under annual volume of gas supplied in kWh)	2012 till 11.3.	2012 from 12.3.	2013
D1 (up to 2 100)	0,0908	0,0884	0,0886
D2 (above 2 100 up to 17 935)	0,0468	0,0444	0,0446
D3 (above 17 935 up to 68 575)	0,0436	0,0412	0,0414

2012 till 11.3.
2013 from 12.3.
2014

The structure of average price for household gas supply in 2013



Gas Supply for Small-Scale Businesses

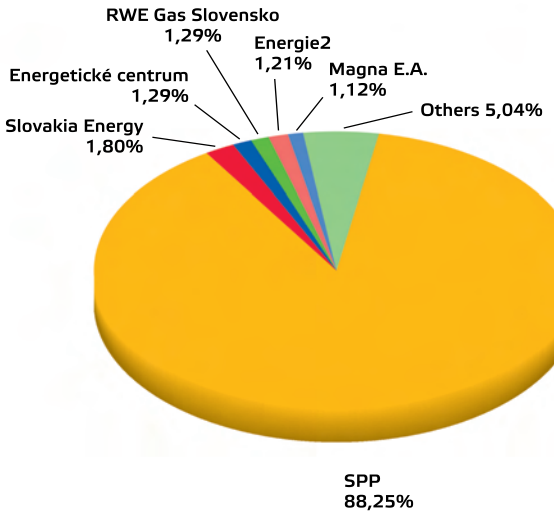
In accordance with the Act 250/2012 Coll. since January 1, 2013 price regulation has also been imposed on gas supplies to vulnerable consumers, including small-scale businesses. A small-scale business is defined as the consumer of natural gas whose annual consumption does not exceed the value of 100,000 kWh of gas in the previous year.

Price regulation was performed using the cost-based method; prices for gas supply to small-scale business included all eligible costs and an adequate profit. In 2013 the Office issued 34 price decisions. The prices were approved by the Office as the maximum prices, composed of four tariff groups M1 to M4 depending on annual gas consumption.

The share of gas suppliers in gas supply to small businesses in 2013

Gas suppliers	Share
SPP	88,25%
Slovakia Energy	1,80%
Energetické centrum	1,29%
RWE Gas Slovensko	1,29%
Energie2	1,21%
Magna E.A.	1,12%
Others	**Share**
LAMA energy	0,95%
VEMEX ENERGO	0,83%
Right Power Energy	0,76%
V-elektra Slovakia	0,50%
UTYLIS	0,45%
ČEZ Slovensko	0,28%
ELGAS	0,24%
A.EN. GAS	0,15%
DNV Energo	0,11%
ISTROCHEM REALITY	0,10%
MET Slovakia	0,08%
COMAX-TT	0,08%
ENERGOSAM	0,06%
ZVS holding	0,06%
Dalkia Industry	0,04%
TMC Servis	0,04%
ENERGOTRENS	0,04%
Kord Slovakia	0,04%
SE Predaj	0,03%
GEON	0,03%
CHIRANA PREMA	0,03%
TP 2	0,03%
ENERGOBLOK	0,02%
GAS Trading	0,02%
Priemyselný park Štúrovo	0,01%
KSP	0,01%
SSE	0,004%
Total	**100,00%**

The share of gas suppliers in gas supply to small businesses in 2013



Gas Supply by the Last Resort Supplier

In order to protect gas consumers having lost their gas suppliers, however, not because of their fault, the Office performs price regulation in the area of gas supply provided by the last resort supplier. The Office issued the price decision for the last resort supplier on the restricted territory of the Slovak Republic, which is the SPP, a.s. company, by which it determined maximum gas prices for the last resort supplier providing gas supply.

Last resort supply lasts for three months as maximum. The last resort supplier notified the Office about 410 cases of last resort supply, most of them were due to the extinction of one single gas supplier in the gas market of the Slovak Republic. The reason for other cases was for example the request to switch a supplier delivered after the date set forth by law, failure to order distribution capacity, and an incorrect identification of off-take points.

The Monitoring of Price Level, Level of Transparency and Effectiveness of the Market Opening and Economic Competition in the Retail Market

As a result of systematic activities conducted by the Office, the process of liberalisation in the category of household gas consumers, a more detailed specification of legislative conditions and evaluation of the impacts of regulatory measures were already initiated in 2010, however, new suppliers in the gas market in 2013 had substantially a more difficult position than in the course of previous years, when the gas market experienced a rising tendency in switching suppliers to households.

A significant increase in the number of gas suppliers was recorded in the category of medium and large-scale consumers, in which the switching factor has been progressing rather fast. A sharp rise in switches of a gas supplier was recorded in the category of wholesale consumers, in which the switching indicator achieved 26.91 %.

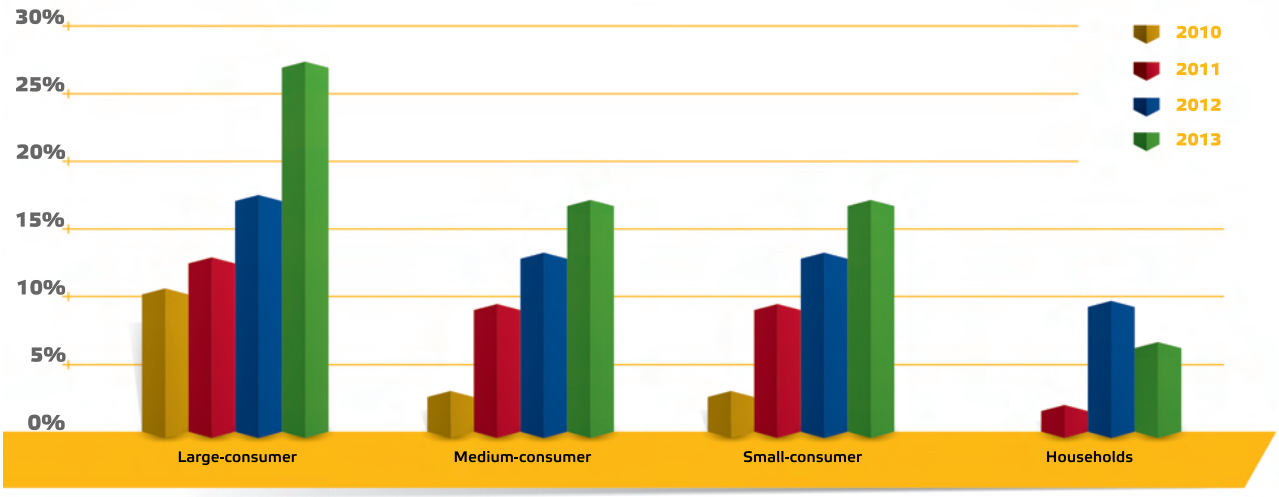
The following chart takes into account the switch of a gas supplier in individual points of gas extraction in 2010 to 2013. The data in the chart do not take into account the switching of a gas supplier at the points of extraction in local distribution systems.

Under the Act 250/2012 Coll. the Office made the Decree No. 24/2013 Coll., laying down the rules for the functioning of the internal electricity market and the rules for the internal gas market, with the date of effect on February 1, 2013.

As a result of new competences arising out of the Act 250/2012 Coll. in the 1st quarter of 2013 the Office developed a sample operational code for the distribution system, which became the fundamental document for the distribution system operators obviously making their internal operational codes. In addition, in the 2nd quarter of 2013 the Office, based on its competences related to the protection of gas consumers, issued 49 decisions by which it approved operational codes for the distribution system operators.

Furthermore, in the 2nd quarter of 2013 the Office, within its competences related to the protection of gas consumers, prepared sample business terms and conditions for gas suppliers providing universal service. Such business terms and conditions obviously form an inseparable part of the agreements on gas supply and define in detail rights and obligations for the gas supply. On the basis of the applications

The Level of Switching from 2010 to 2013



Categories of offtake points	No. of offtake points with gas supplier switching				Switching (%)			
	2010	2011	2012	2013	2010	2011	2012	2013
Large-consumer	84	99	144	204	10,12	12,42	17,08	26,91
Medium-consumer	84	267	383	480	2,67	9,04	12,81	16,61
Small-consumer	2 950	5 270	5 415	5 676	4,10	6,44	7,37	7,48
Households	0	21 376	131 385	88 028	0,00	1,51	9,25	6,21
Total	**3 118**	**27 012**	**137 327**	**94 388**	**0,21**	**1,80**	**9,17**	**6,31**

submitted by gas suppliers providing universal service the Office issued 49 decisions by means of which the business conditions were approved for the providers of universal service. Gas suppliers providing universal service have an obligation to publish the price lists for natural gas supplied within the provision of universal service on their web site and at the same time to deliver them to the Office. The price lists are made in accordance with price decisions taken by the Office regulating gas supply for household or small-scale businesses. On its website the Office publishes a list of suppliers providing universal service which is useful for a better orientation of household gas suppliers when selecting their gas supplier. The Office makes use of such price lists for the needs of filling out the data in the price calculator which can be used by gas consumers in households to make a comparison of prices for gas supply provided by individual gas suppliers.

Regarding the gas sector the Gas Regulation Department in 2013 reviewed opinions on 53 initiatives relating to the payments for gas supply received from a supplier that terminated gas supply, the conversion of volume units to energy units used in gas supply. Furthermore, expert opinions were presented with regard to price regulations and the gas market rules.

An overview of decisions made in the gas sector in 2013

I. Decisions on price regulation in 2013	**21**
of which:	
Household gas supply in 2013	5
Gas supply to small-scale businesses in 2013	9
Access to the transmission system and gas transmission in 2013, amended decision	1
Access to the distribution system and gas distribution in 2013	5
Connection to the distribution system in 2013	1
Connection to the transmission system in 2013	0
II. Decisions on price regulation in 2014	**92**
of which:	
Access to the transmission system and gas transmission in 2014	1
Household gas supply in 2014	14
Gas supply to small-scale businesses in 2014	32
Gas supply by last resort supplier in 2014	1
Access to the distribution system and gas distribution in 2014	41
Access to the distribution system in 2014	2
Purchase of gas installation	1
III. Decisions on approval of operational codes of network operators	**49**
of which:	
DSO Operational Code eustream	2
DSO Operational Code SPP-distribúcia	2
Underground Storage Tank Operational Code	3
Local DSO Operational Codes	42
IV. Decisions on approval of business terms and conditions	**79**
of which:	
Business terms and conditions related to providing universal service of gas supply under Article 69 Para 3 of the Act 251/2012 Coll.	30
Business terms and conditions of providing universal service of gas supply to household gas consumers in accordance with sample business terms and conditions in compliance with Article 45 Para 6 of the Act 250/2012 Coll.	17
Business terms and conditions related to providing universal service of small-scale business under sample business terms and conditions in compliance with Article 45Para 6 of the Act 250/2012 Coll.	32

3 THE THERMAL ENERGY INDUSTRY

The Heat Market

In 2013 the Slovak heat market did not experience any significant changes. The number of heat suppliers providing production, distribution and supply of heat as stipulated by the Act No. 657/2004 Coll. on the thermal energy industry in the wording of latter provisions (hereinafter only „the Act No. 657/2004 Coll.) has been more or less stabilised, including around 330 heat suppliers. Every year, however, such companies undergo frequent changes; some of them withdrew from the heat supply contract and ceased to perform regulated activities. On the other hand, new companies emerged in the market to supply heat produced mainly from renewable energy sources. A great number of companies merged and changed their business names. In the course of 2013 25 new business licences were issued and 169 changes made in valid licenses.

Under the Act No. 657/2004 Coll. the heat market participants include heat producers, heat suppliers and final consumers. However, such entities obviously enter the heat market only when the heat supply agreement has been signed by both parties. Flat owners, being final consumers, enter the market only by means of the consumer that redistributes the heat supplied and makes calculations accordingly.

All major towns in the country are supplied with thermal energy flowing from central heat sources into the residential infrastructure constructed in the course of the last century. In 2013 heat supply was 15,740 GWh. The declining heat demand in the residential sector caused prevailingly by the thermal insulation applied on the building envelopes; the removal of structural deficiencies of the complex housing construction leads to an annual reduction in heat supply. The overall amount of heat contractually agreed for 2014 assumes to be 14,653 GWh, i.e. 7%, compared to 2013. On the other hand, amendment of the Act on Support of Renewable Energy Sources and a measure taken to promote generation of electricity from biogas using combined heat and power production resulted in a higher number of new entities supplying heat from such renewable energy sources, even though it is used mainly in the sector of agriculture.

Over the past three years heat consumption in residential buildings declined from 5,797 GWh in 2011 to the anticipated 5,270 GWh in2014, which is approximately 3% per year. A decline in heat supply in the tertiary sector and the industrial sector is not that dramatic. In this regard a decline from 9,603 GWh in 2011 is assumed to step down to 9,383 GWh in 2014, which is annually 0.8 % on average.

Considering such development the heat supply for residential buildings, i.e. households, represents only 36% of the overall heat supply.

Some decline in heat supply also results from disconnections of consumers from the district heating systems, which, however, the extent is not so substantial, compared to the past, when considering the legislative measures adopted in the form of amended Act No. 657/2004 Coll., specifying the conditions regarding the disconnection. Apparently, the utilisation of renewable energy sources for the purpose of heat production forms a barrier for termination of contractually agreed off-take and disconnection from the heating system.

At present 87% of suppliers deliver heat produced in their internal production facilities, 6% of heat suppliers produce thermal energy and at the same time part of this energy is purchased externally and, finally, the remaining 7% of all suppliers purchase all heat supplied from external sources.

The Price Regulation Method

The number of heat suppliers depending on the type of fuel used for the purpose of heat production

Fuel	No. of users
Natural gas	261
Biomass	71
Coal	15
Biogas	7
Geothermal energy	4
Heat pump	3
Solar energy	2

Heat price for 2013 was determined under the Decree No. 219/2011 Coll. enforcing price regulation in the thermal energy industry in the wording of the Decree No. 170/2012 Coll., the Decree No. 170/2012 Coll. dated June 15, 2012 amended and supplemented the Decree No. 219/2011 Coll. only in relation to specifying in detail some provisions related to the calculation of regulatory input, the calculation of costs for heat produced in combined heat and power production or with the calculation of eligible costs in relation to greenhouse emission trading; in 2013 the scope and

method of regulation remained identical with those applied in the previous year.

Price regulation is imposed on production, distribution and supply of heat and is performed by setting the way of calculating the maximum heat price. Such method of regulation is bound to fundamental objectives and priorities of the regulatory policy which may largely be defined as effective and safe supply, ensuring stable prices and regulated optimisation of investment costs in order to provide for energy efficiency.

As in all energy industries, the heat supply industry is also characterised with a long payback period of investments. For this reason, the scope of eligible costs remained unchanged.

A variable component of the heat price was determined in €/kWh for a long period of time depending on the contractually agreed amount of thermal energy. A fixed component of the heat price is determined in €/kW of regulatory input that is calculated from the heat supply measured in the last finished calendar year. When calculating regulatory input, balanced heat demand is taken into consideration or the purpose of using heat demand. A negative perception of setting the payment for a fixed component, depending on the heat consumption in the previous period, on the side of consumers that put appropriate measures aimed at cutting down the demand in specific building premises is defined through the amended Decree providing a possibility of the re-allocation of fixed costs after the end of the year according to actual consumption in a given year, for example by putting thermal insulation on residential buildings; this is manifested in the payments made by respective consumers already in a given year.

During the regulatory period higher fixed costs are made allowed on condition that the investments are made into more efficient production and distribution of heat, improvement of environmental performance of energy installations and general overhauls. An increase in fixed costs on a yearly basis may be justified by eliminating any breakdowns and emergency situations caused by natural disasters and the events caused by the third persons that might have imposed threat on the health of persons or brought about large damage. In the existing regulatory period the joint heat price in the town or a specific municipal district remained somehow unchanged for the supplier due to a certain price stability and optimum distribution of financial flows related to management and operation of thermal installations.

In order to support the development in using non-fossil fuels there is a possibility of charging a higher profit to be included into the heat price for suppliers that ensure heat production with at least a 20% share in renewable energy sources provided that the price from such generating sources did not exceed the price limit of variable and fixed components of the heat price.

In 2013 the Decree No. 222/2013 Coll. (hereinafter only „the Decree No. 222/2013 Coll.") was issued enforcing price regulation in the heat supply sector. Such decree was put in practice for the first time during 2014 price approval process, bringing about some modifications, compared to the previous Decree No. 219/2011 Coll. Such amendments adopted in the Decree No. 222/2013 Coll. aimed to optimise the size of economically justified costs incurred by production and distribution of heat and to stabilise the heat price for the final consumer in the largest possible extent.

Fuel Consumption for Heat Production

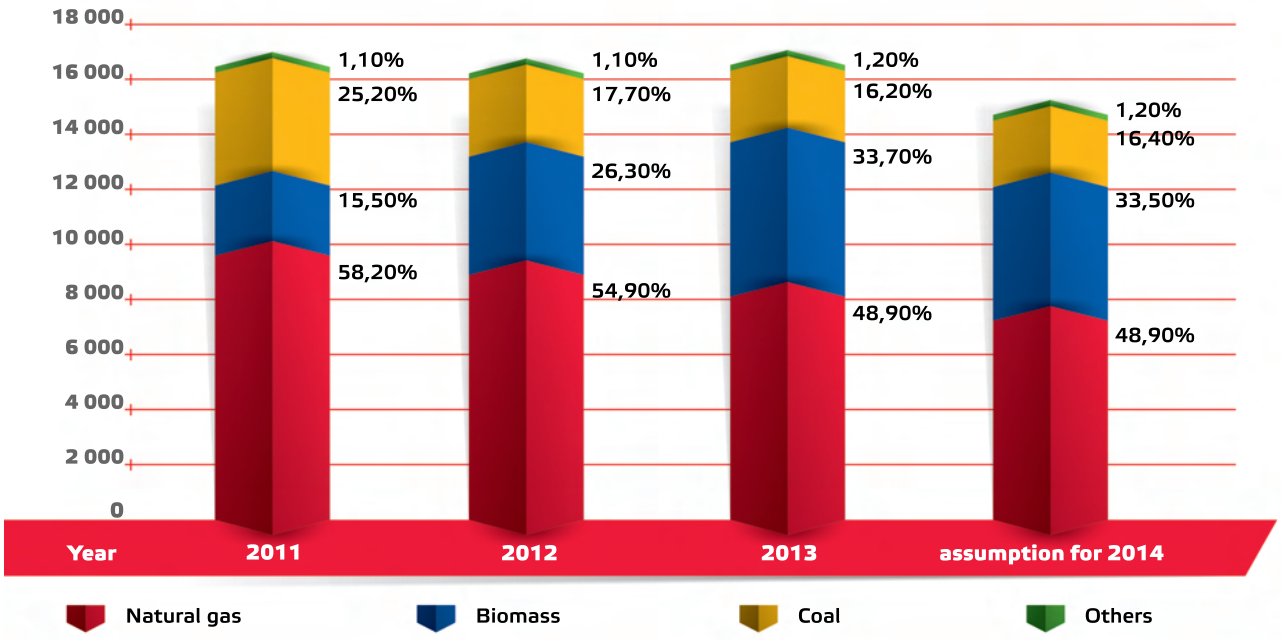
In 2013 regulated companies used 8,981 GWh of natural gas, 2,234 thous. of biomass and 6,089 thous. of coal for the purpose of heat production. The consumption of other fuel types is at a minimum level. Even though the natural gas used for the purpose of heat production over the past years went sharply down, at the moment it has about a 49 % share, as for biomass has a share being 34 %, coal has 16 % and other fuels have a 1% share. It is obvious from the data on fuel consumption that from 2011 to 2013 the consumption of natural gas for the purpose of heat production decreased by 25 %, coal by 35 % and on the contrary, biomass consumption went up by 117 %.

An increasing consumption of domestic fuels has a major impact mainly on legislative amendments. One of them includes legislative support given to electricity generated from renewable energy sources bound to useful heat as well as the support given to the district heating systems, where it is made impossible to disconnect or suspend heat extraction provided that such systems of heat installations use renewable energy sources for the purpose of heat production.

The following chart and graphs show the development of heat supply and the use of individual fuel types used for the purpose of heat production. In the monitored years heat supply does not overally correspond to the actually declining heat consumption, since such decrease is eliminated by new heat demand as a result of the restructuring of manufacturing companies where energy activities became subject

to unbundling and energy commodities were sold to parent companies which covered their heat demand on their own. Considering the data on heat consumption by individual consumers, having been monitored by the Office since 2010, it can be concluded that heat consumption declined by about 5–8 % on an annual basis as a result of putting thermal insulation on buildings and more effective behaviour on the demand side.

Heat supply in Gwh



Fuel consumption for heat production

Year	Natural gas [GWh]	Coal [t]	Oil [t]	Biomass [t]	Heat supply [Gwh]
2011	10 597	1 064 049	3 848	1 027 963	15 540
2012	9 868	738 331	3 735	1 704 942	15 400
2013	8 981	689 922	5 905	2 234 740	15 740
Assumption for 2014	8 000	619 497	4 702	1 966 416	14 653

Price Level Monitoring

As of January 1, 2013 the Office issued 293 price decisions for the year 2013. In the course of the year the regulator published 64 other decisions. In 42 cases such decisions were issued to newly established companies or those entities that had submitted their price proposals with delay or started doing business in new locations. In eight cases the Office took decisions out of its own initiative following the suspension and termination of the proceedings, since regulated companies had not removed their deficiencies in their submissions. In 15 cases the regulator approved proposals for price change due to justified rise of the anticipated eligible costs that were used for the initial price setting. Towards the end of 2013 the Office issued 326 price decisions by means of which he took decisions on 662 prices for a period from January 1, 2014 to December 31, 2014.

The number of decisions issued

Year	Total number of price decisions	Number of amended decisions	Number of approved prices
2011	452	125	642
2012	363	21	651
2013	357	15	690
1. 1. 2014	326	-	662

Heat Price Development

Heat price development

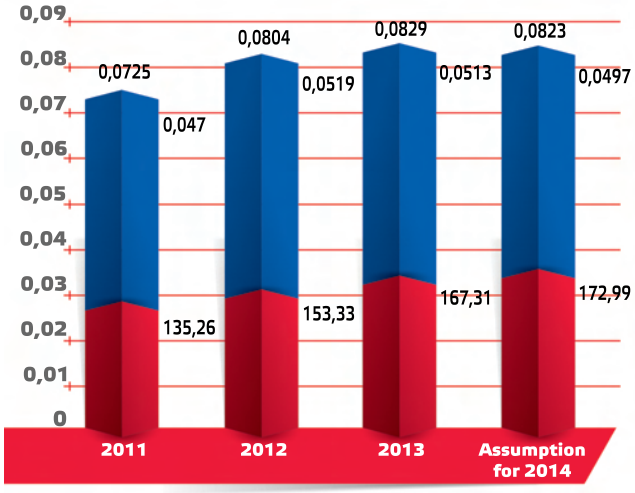
Heat price based on Office decisions	2011	2012	2013	Assum. 2014
Variable component of max. heat price (€/kWh)	0,0470	0,0519	0,0513	0,0497
Fixed component of max. heat price (€/kW)	135,26	153,33	167,31	172,99
Calculated final price (€/kWh)	0,0725	0,0804	0,0829	0,0823

The average variable component of the heat price in 2013 achieved the value of 0.0513 €/kWh which means a decline by 1.2 % against the previous year. Such situation caused rather extensive reduction of natural gas consumption for the purpose of heat production that was replaced with a higher utilisation of renewable energy sources having a lower price than fossil fuels.

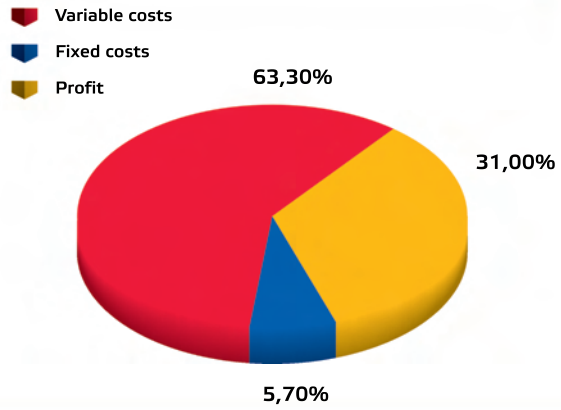
The average fixed component of the heat price that represents the ratio of eligible fixed costs and regulatory input in 2013 increased by 9.1 %. Meanwhile, the regulator approved an increase in fixed costs in heat prices for the year 2013 only in exclusive cases of justified investments aimed at making production and distribution of heat more efficient and investments into new technologies, mainly into the construction of thermal installations using renewable energy sources. For this reason an increase in a fixed component of the heat price in 2013 was primarily due to the annual decline in heat supply. Such development trend of a fixed component of the heat price has been evolving since the time when thermal insulation started to be applied on residential buildings and the tuning of the heating systems. In addition, heat demand in residential buildings is largely influenced by a conscious approach to heat conservation by flat owners.

The final heat price calculated in 2013 increased only by 3.1%, compared to 2012.

The average heat price (in €/kWh)

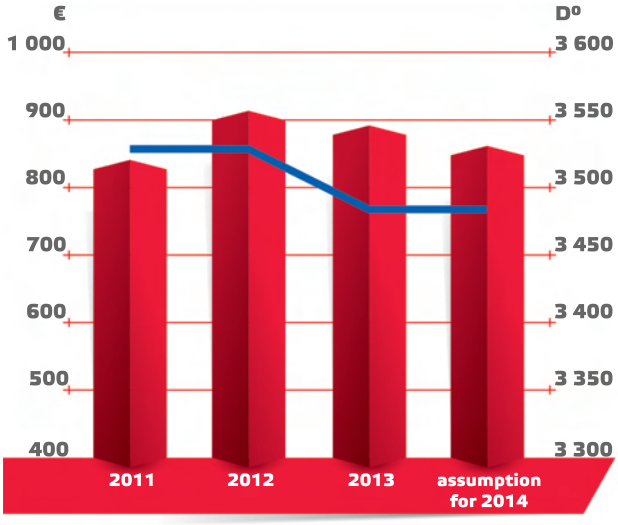


The structure of costs in determined heat price in 2013



The most relevant factor is actual annual heat costs. The following chart and graph show the average costs per flat receiving central heat supply and preparation of hot service water. In 2013 the heat costs achieved 877€ per flat on average. When compared to the previous year, a decline makes 2.7 %. The actual costs of individual flats may vary from the average values, since they are first of all dependent on the amount of heat consumed in a specific flat, the price of heat of specific heat supply, the price of heat of a respective heat supplier and mainly the method of calculating costs for heat used in a specific building.

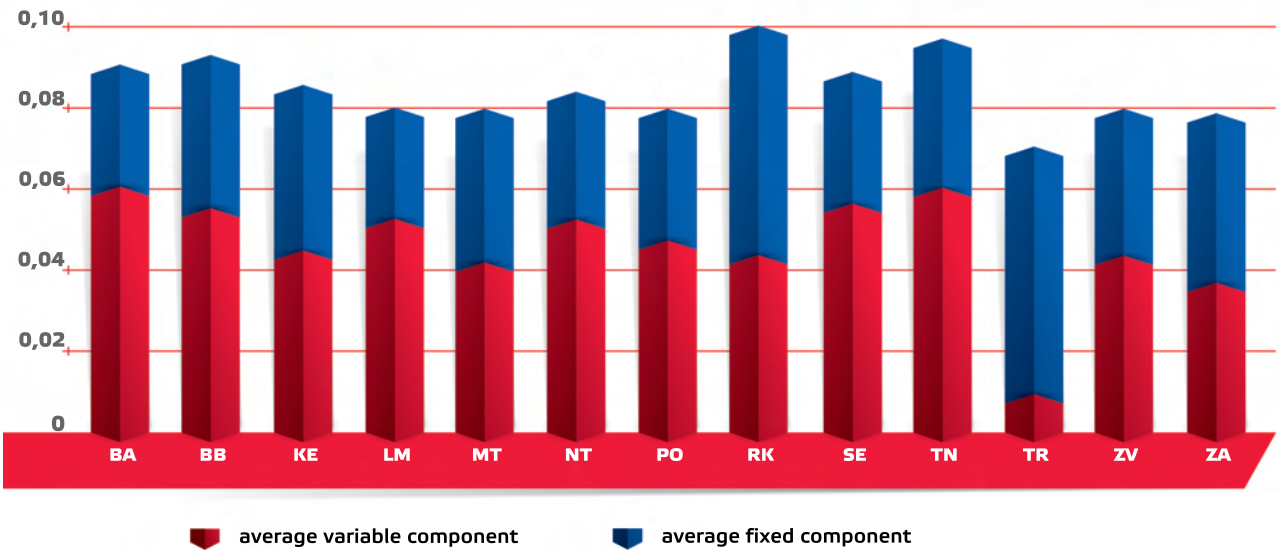
The annual cost per flat



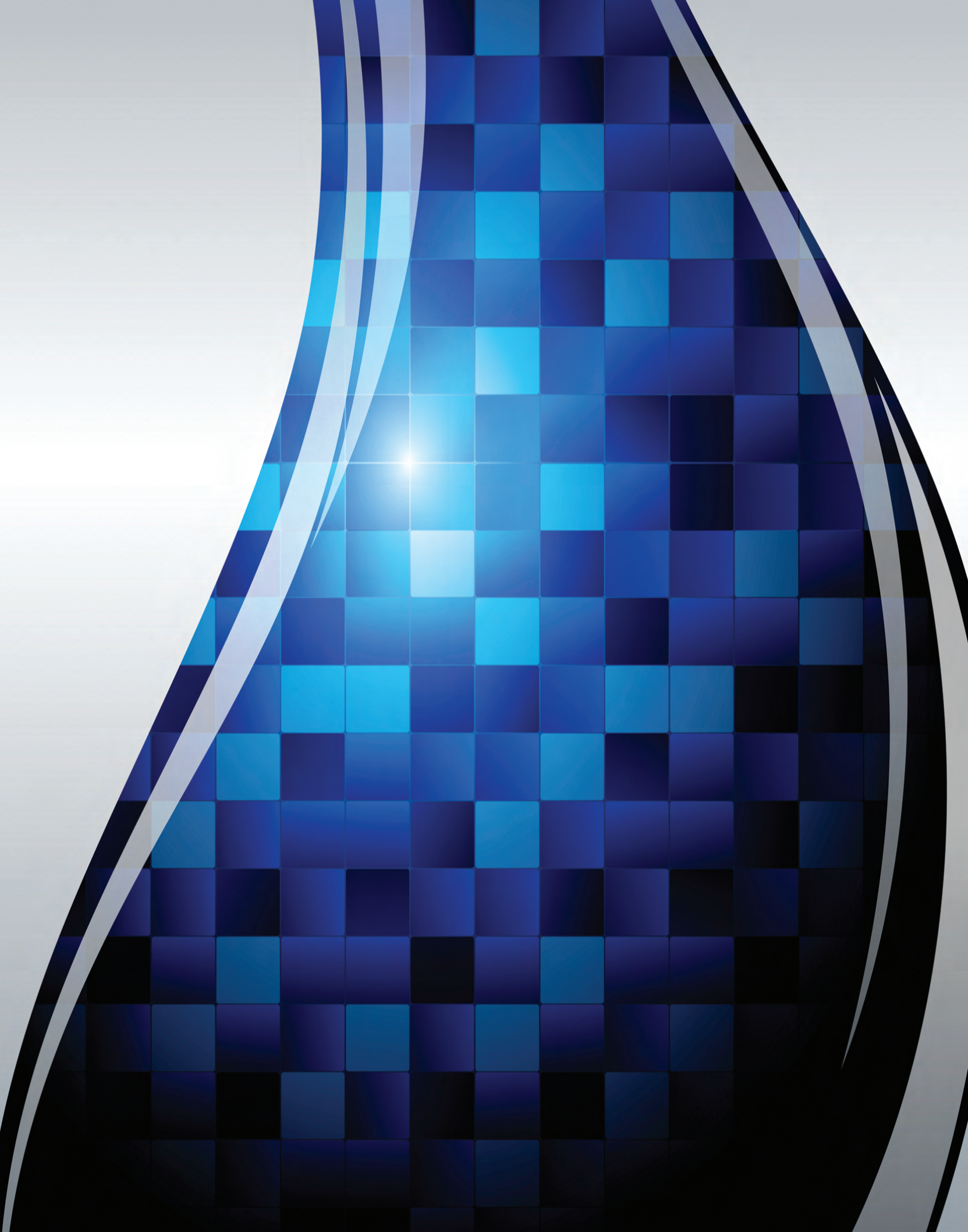
	2011	2012	2013	Assumpt. for 2014
Annual costs per flat in €	827	902	877	847

In the price proposals submitted for 2014 it is possible to observe the reduction of a share of variable costs only by 59.8 % of the overall costs. A planned reduction of variable costs is based on the positive development of natural gas price with regard to its availability in the market.

Average heat price (in €/kWh)



BA - Bratislava; BB - Banská Bystrica; KE - Košice; LM - Liptovský Mikuláš; MT - Martin; NT - Nitra; PO - Prešov; RK - Ružomberok; SE - Senica; TN - Trenčín; TR - Trnava; ZV - Zvolen; ZA - Žilina



Production, Distribution and Supply of Potable Water through the Public Water Supply System and Discharge of Waste Water through the Public Sewage System

In the existing regulatory period the main priority is to stabilise prices determined by the Office by means of price regulation, bearing in mind the protection of potable water consumers and the waste water producers against any unauthorised and inadequate increase in prices by the thorough evaluation and monitoring of adequacy and justification of costs incurred by the performance of regulated activities. Price stabilisation is also essential for the utilisation of newly-constructed water facilities in order to avoid any reduction in water demand due to the respective price rise, thus imposing pressure on further price increase.

After the adoption of the Act 250/2012 Coll. the water service sector underwent substantial changes during 2013 affecting the process of regulation in 2014 as follows:

- Redefining the person undertaking a regulated activity; after receiving the confirmation of registration it was allowed for a regulated company to become an owner of the public water supply system or the public sewage system or their leaser, or even an entity with an obligation of registration transferred by the owner, and who makes use of either the public water supply system or the public sewage system for the purpose of a regulated activity;
- A regulated company that makes use of the public water supply system or the public sewage system of I. or II. category for performing regulated activities submits price proposal to the Office in compliance with the generally binding legal regulations. In the pricing proceedings the Office shall approve or determine the price by publishing price decision.
- A regulated business – a town or village that is an owner of the public water supply system or the public sewage system of III. category, has an obligation to notify the Office about a price calculated with the method and the scope set forth by the generally binding legal regulations. In accordance with notification the regulator shall publish confirmation on price,
- The Office issued a new Decree No. 195/2013 Coll., enforcing price regulation in the areas of production, distribution and supply of potable water through the public water supply system or discharge through the public sewage system that was put into practice in the pricing proceedings for the year 2014.

In compliance with the existing legislation and price regulation imposed on the water service sector in 2013 the regulator issued totally 334 decisions, of which 197 price decisions and 435 price confirmations, of which 699 prices for production and supply of potable water and treatment of waste water were approved, however, upon request of a regulated business they may be further adjusted due to some reasonably proven change in economic parameters. An overview of decisions published in the years 2012, 2013 and 2014.

An overview of decisions issued in 2012, 2013 and 2014 (until 31. 12. 2013)

	Number		
	2012	2013	2014
Price decisions	177	191	122
Amendments in price decisions	8	6	0
Price confirmations	x	x	435
Decisions on withdrawal of regulated activities from regulation	94	103	0
Decisions on ceased proceedings	19	16	2
Decisions on suspended proceedings	26	18	4
Total	**324**	**334**	**563**

Price Level Monitoring

During 2013 the Office received six applications requesting price adjustments that were submitted by regulated companies having had the prices already approved for 2013. The water supply companies submitted two proposals for price adjustments that were, following thorough reviewing and proving the need for increased eligible costs, approved by the regulator.

In the initial year of the regulatory period the maximum prices were determined as initial prices, using the cost-based method, at the level of actual eligible costs for a regulated activity, having the set rate of a permitted profit reduced depending on the scope of utilisation of water service assets. For 2013 the price cap method was utilised. Using such method means that the maximum price determined in the previous year will be adjusted only in case of a new water service facility by the size of regulatory depreciations and depending on the actual use of design capacity of a specific water service installation used for the performance of

a regulated activity. In its decisions issued for 2014 the Office determined the prices valid until the end of the regulatory period. In compliance with existing legislation a regulated business may propose any adjustment of price decision due to changes in economic parameters having impact on economically justified costs that were used as the basis for determination of price for a regulated business. Such change had to be justified by relevant analysis of economic indicators.

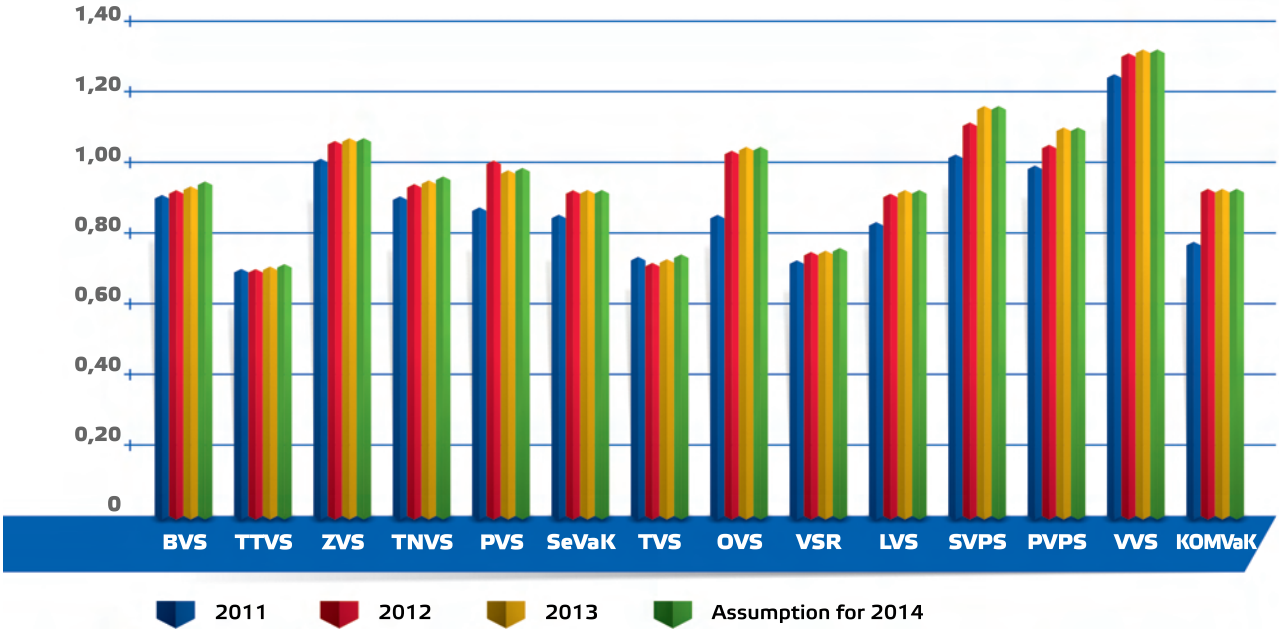
Prices Charged for Production and Supply of Potable Water

In the first year of the regulatory period when the initial parameters were set for production, distribution and supply of potable water through the public water supply system, excluding VAT, increased by 4.9% on average, in the second year, i.e. 2013, maximum prices increased by 1.5%, compared to 2012. The average price achieved the value of 1.0290 €/m^3. A price rise was largely influenced by the investment development factor which took into account depreciations from newly erected water service assets in 2012. In 2013, based on the application form related to the change in price decision due to a significant change in economic parameters, which were used as the reference point for setting prices, the prices for production and supply of potable water in Central Slovakian and Podtatranská Water Service Company were adjusted and this happened after submitting the analysis justifying higher eligible operational costs. The annual development of prices is presented in the chart below.

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

	2011 €/m^3	2012 €/m^3	2013 €/m^3	Assumpt. 2014 €/m^3
Bratislava Water Service Company	0,8964	0,9106	0,9235	0,9359
Trnava Water Service Company	0,6879	0,6879	0,6939	0,7012
Western Slovak Water Service Company	1,0000	1,0518	1,0581	1,0590
Trenčianska Water Service Company	0,8929	0,9300	0,9409	0,9495
Považská Water Service Company	0,8616	0,9943	0,9684	0,9741
Northern Slovak Water Supply and Sewage Company	0,8400	0,9126	0,9126	0,9126
Turčianska Water Service Company	0,7229	0,7045	0,7170	0,7302
Oravská Water Service Company	0,8398	1,0246	1,0353	1,0353
Water Service Company Ružomberok	0,7137	0,7370	0,7416	0,7460
Liptovská Water Service Company	0,8199	0,9019	0,9102	0,9102
Central Slovak Water Service Company	1,0121	1,1022	1,1504	1,1504
Podtatranská Water Service Company	0,9825	1,0415	1,0884	1,0884
Eastern Slovak Water Service Company	1,2415	1,3001	1,3100	1,3100
Water Supply and Sewage Company	0,7635	0,9162	0,9162	0,9162

The development of prices for production and supply of potable water in €/m³ (excl. VAT)



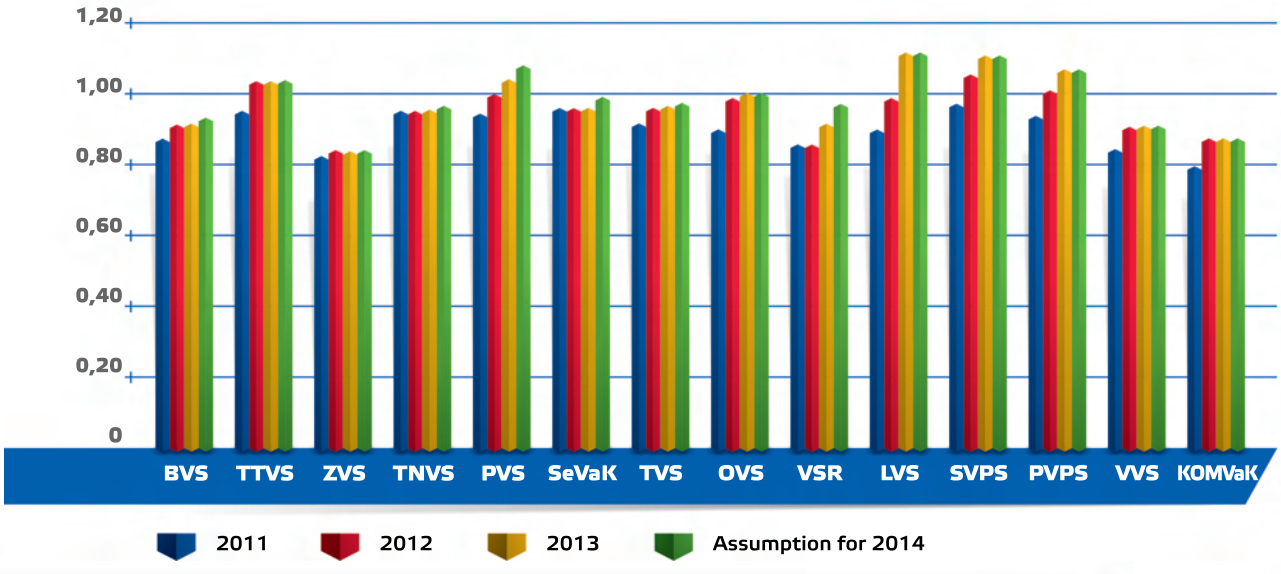
Discharge and Treatment of Waste Water Prices

Maximum prices for discharge and treatment of waste water through the public sewage system, excluding VAT, were increased by 1.6% on average, the average price was 0.9423 €/m³. In this regard individual prices were increased depending on the scope of investments made into public sewage systems and waste water treatment in a given region which profoundly impact the size of the price. The 2013 maximum prices ranged between 0.8286 €/m³ in Western Slovakian Water Service Company to 1.1068 €/m³ in the Liptovská Water Service Company. The annual price development is presented in the following chart.

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

	2011 €/m³	2012 €/m³	2013 €/m³	predp. 2014 €/m³
Bratislava Water Service Company	0,8625	0,9030	0,9051	0,9216
Trnava Water Service Company	0,9422	1,0253	1,0261	1,0292
Western Slovak Water Service Company	0,8146	0,8302	0,8286	0,8289
Trenčianska Water Service Company	0,9416	0,9416	0,9435	0,9555
Považská Water Service Company	0,9340	0,9898	1,0305	1,0700
Northern Slovak Water Supply and Sewage Company	0,9500	0,9500	0,9500	0,9797
Turčianska Water Supply Company	0,9048	0,9499	0,9547	0,9639
Oravská Water Service Company	0,8889	0,9778	0,9916	0,9916
Water Service Company Ružomberok	0,8454	0,8456	0,9047	0,9603
Liptovská Water Service Company	0,8886	0,9792	1,1068	1,1068
Central Slovak Water Service Company	0,9625	1,0443	1,0983	1,0983
Podtatranská Water Service Company	0,9265	1,0006	1,0585	1,0585
Eastern Slovak Water Service Company	0,8326	0,8962	0,9000	0,9000
Water Supply and Sewage Company Komárno	0,7857	0,8643	0,8643	0,8643

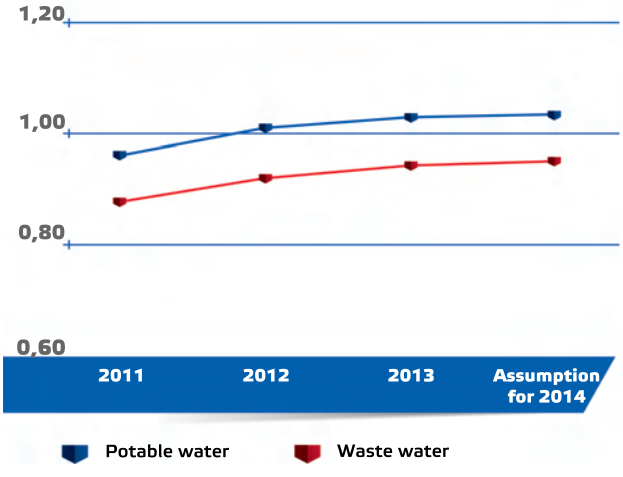
The development of prices for discharge and treatment of waste water in €/m³ (excl. VAT)



In 2013 water supply as well as water discharge fees without VAT amounted to 1.9713 €/m^3 which means an increase by 1.6%, whereas the lowest value was 1.6463 €/m^3 in the Ružomberok Water Service Company and the highest being 2,2487 €/m^3 in the Central Slovakian Water Service Company. The 2013 prices did not go up in two water service companies, the highest annual price increase by 7.2% in the Liptov Water Service Company and the lowest decline was only by 0.2% in Western Slovak Water Service Company.

According to price decisions issued in 2013 water service and waste water discharge represent altogether 1.9832 €/m^3 and went up by 0.6%.

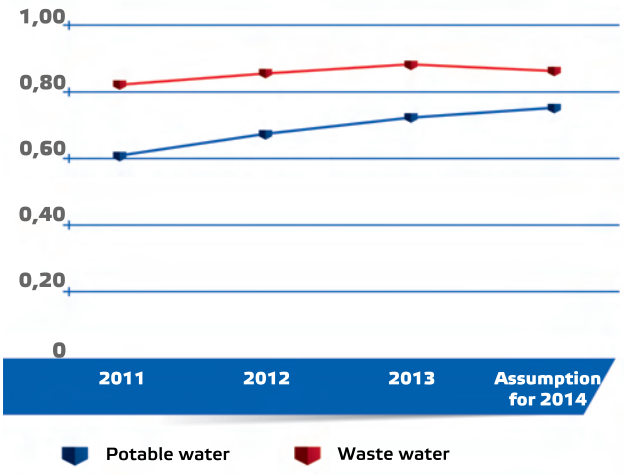
The development of average price for production and distribution of potable water and for discharge and treatment of waste water in €/m^3 (excl. VAT)



Apart from the prices for water service companies supplying potable water, 95% of the total number of inhabitants supplied in Slovakia the maximum prices were determined also for towns and villages operating the public water supply system or the public sewage system or their part in a town or village. In 2013 the average price excluding VAT increased by 7.3% in potable water and by 3.2% in waste water, whereas the average value was based on 237 prices set for production, distribution and supply of potable water through the public water supply system and treatment of waste water through the public sewage system.

In 2013 the Office determined, through its price decisions or confirmations on prices, the maximum prices for the year 2014 applicable also for villages and towns and small-scale regulated companies. Due to changes in price regulation in 2013 made in accordance with price decisions and confirmations on prices the average value for the year 2014 is based on 350 prices charged for production, distribution and supply of potable water and on 314 prices for discharge and treatment of waste water through the public sewage system. Moreover, due to the anticipated average price of potable water an increase was by 4.1%, on the contrary, the anticipated average price for discharge of waste water dropped by 2.4%.

The development of prices of small-scale regulated companies – towns and villages in €/m^3 (w/o VAT)

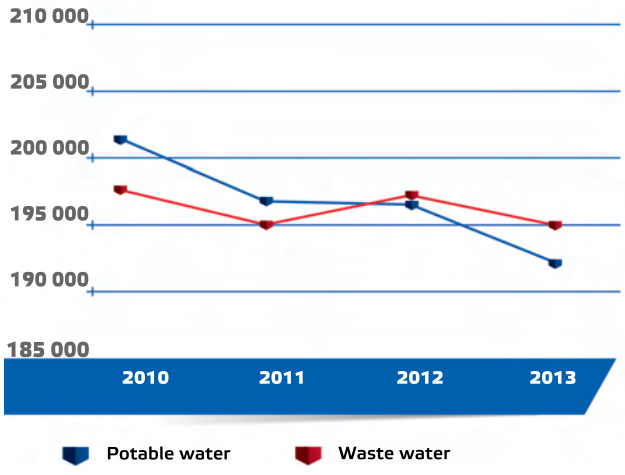


	2011	2012	2013	Assump. 2014
Potable water	0,6089	0,6712	0,7204	0,7499
Waste water	0,8201	0,8546	0,8816	0,8609

Potable Water Supply and Waste Water Discharge

In the previous decade the supply of potable water across the country featured the continuous decline in water service companies. Since 2005 supplies has declined by 16 %, i.e. by 1–2% on an annual basis, and this happened despite the construction of new public water supply systems. In connection with supply of potable water discharge and treatment of waste water were also on decline only by 5%, even though in a lesser extent. As appeared in 2012 a decline in potable water supply was interrupted and the amount of waste water even slightly increased as a result of the construction of new sewage systems in towns and villages. The year 2013 again featured a declining tendency in water consumption, with the double annual decline in potable water consumption, compared to waste water.

The development of potable water supply and waste water discharge in thous. m³



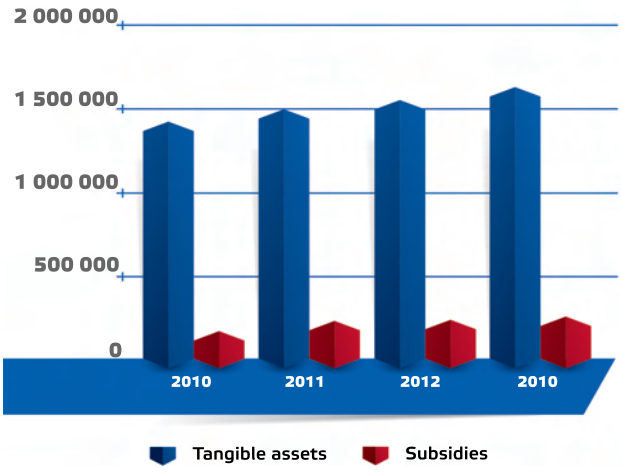
Investments

In the water service sector large investments are presently made, especially in relation to the commitments made in the area of treatment of municipal waste water which had been adopted by the Slovak Republic at the time of accession to the European Union and have to be met until 2015. Until that time all the towns and villages with the population of 2,000 equivalent inhabitants are obliged to have constructed both the sewage systems and waste water treatment systems.

The subsidies received from the EU funds and the state budget for the purpose of investment financing in new constructions as specified by the data of water service companies in 2013, compared to 2012, increased annually by 10 % and from the point of view of the asset value their share represents 13 %, which means almost doubling compared to 2010. Regarding discharge and treatment of waste water subsidies went up to 19 % on an annual basis; their share in total asset value represents 33 % and they are higher by 50 %, when compared to 2010.

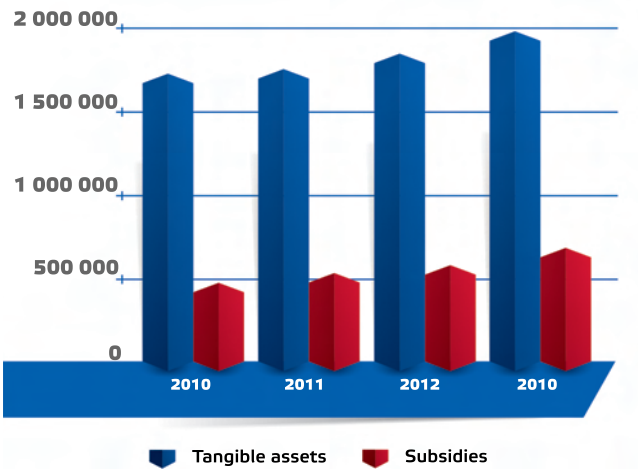
The annual increase and higher value in this area of business, but also a higher share of subsidies give evidence that the number of public sewage systems and waste water systems under construction are increasing.

The development of tangible assets and subsidies - public water supply systems (in thous. €)



THE WATER SERVICE INDUSTRY

The development of tangible assets and subsidies - public sewage systems and water treatment plants (in thous. €)



Use of Water Service Capacities

Based on the evaluation of background documents related to overall design capacity and actually used capacity of water service facilities that were operated by individual water service companies in 2013 the Office revealed that the average utilisation of public water supply systems represents 92 %. The excess use of capacities is common only in three water service companies. Using water treatment plants is only 78 % on average. A lower level of capacities used is related to the construction of new water treatment plants that are, however, not sufficiently used at the moment. Another reason is that households (producers) are not willing, despite the legal obligation, to connect the public sewage systems constructed in the towns and villages.

Provision of Water Services

In accordance with valid legislation governing the provision of water services the extraction of surface water and water used for energy purposes from water sources and the use of hydropower potential of water sources are subject to price regulation.

The development of indicators related to regulated activities performed by water service companies

Potable water	2010	2011	2 012	2013	change 2013/2012	%
Revenues from reg. activities in thous. €	186 632	187 891	197 241	196 495	-746	0
Eligible costs in thous. €	187 247	187 855	191 017	191 779	762	0
of which tangible assets in thous. €	28 719	26 842	30 724	27 493	-3 231	-11
Tangible assets in thous. €	1 365 161	1 445 384	1 500 138	1 572 226	72 088	5
of subsidies in thous. €	119 179	178 613	186 311	204 941	18 629	10
Amount of water in thous. m^3	201 470	196 784	196 560	192 153	-4 407	-2
Utilisation of capacity of tangible assets	90%	92%	92%	92%	0%	0

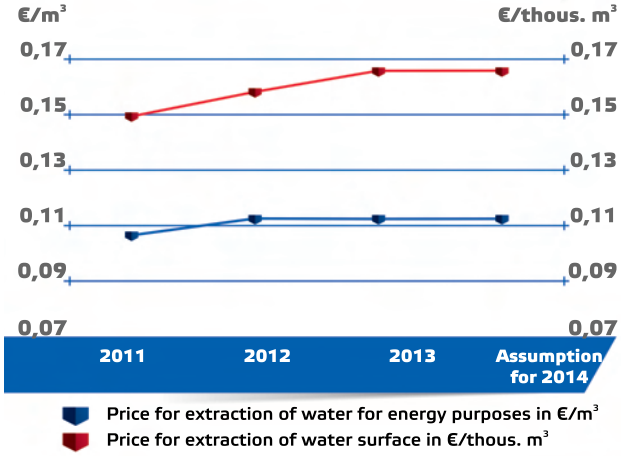
Waste water	2010	2011	2 012	2013	zmena 2013/2012	%
Revenues from reg. activities in thous. €	164 199	170 795	175 988	182 177	6 189	4
Eligible costs in thous. €	165 177	164 463	175 691	171 630	-4 061	-2
of which tangible assets in thous. €	14 613	14 438	16 728	16 313	-415	-2
Tangible assets in thous. €	1 675 173	1 704 058	1 791 539	1 931 733	140 193	8
of subsidies in thous. €	420 625	480 616	528 670	630 625	101 955	19
Amount of water in thous. m^3	197 693	195 080	197 306	194 985	-2 321	-1
Utilisation of capacity of tangible assets	80%	76%	73%	78%	5%	7

The dominant regulated company having a monopoly position and performing regulated activities in this area of business is the state-owned Slovak Water Service Company, Banská Štiavnica.

In 2013 the regulator issued new Act 250/2012 Coll. governing the above area of business activity, thus imposing price regulation on extraction of surface water and water for energy purpose from water sources. Such decree determined an obligation to further use the cost-based method, taking into account actual eligible costs and an adequate profit with the maximum size of 5 % of eligible costs spent on a regulated activity.

In 2013 the maximum price for extraction of surface water from the water source, applied by a regulated state-owned water service company from Banská Štiavnica, did not change, compared to 2012. The average price for using hydropower potential of the water source increased by an inflation rate being 2.46 %, compared to 2012, whereas different maximum prices for individual groups of the users of hydropower potential were used, depending on an installed capacity of hydro power plants. The maximum price for the extraction of water for energy purposes from the water source went up by 5.0 %.

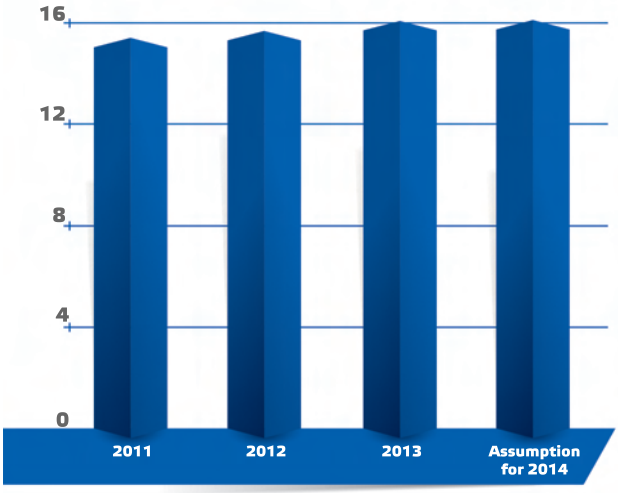
The development of prices for water extraction



Prices for provision of water services in € (w/o VAT)

	2011	2012	2013	Assum. for 2014
Price for extraction of surf. water per m³	0,1059	0,1122	0,1122	0,1122
Average price for utilisation of hydropower potential per 1 MWh	15,1021	15,3770	15,7552	15,7552
Price per extraction of energy water per thous. m³	0,1492	0,1580	0,1659	0,1659

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



5. Business Licenses in the Network Industries

As regards technical regulation the Office makes decisions inter alia on the issuance, amendment and cancellation of license for performance of regulated activities. Doing business in regulated activities in the electricity sector and the gas sector is allowed for natural and physical persons only on the basis of license issued under the Act 251/2012 Coll.

During 2013 the Office issued 87 new licenses for doing business in the electricity and gas sectors, which means almost a doubled increase, compared to 2012. The legal amendments of the conditions related to the issuance of business license in 2012 for the persons performing merely electricity or gas supply had influence on the numbers of licenses issued in 2013. Almost two thirds of licenses were issued purely for the purpose of electricity or gas supply.

An overview of submissions and decisions made in 2013

	New licenses	Cancelled licenses	Amended licenses	Suspended proceeding	Ceased proceeding
Electricity sector	61	19	111	29	14
Gas sector	26	5	17	7	11
Aut. substances and crude oil	0	0	2	1	1
Total	**87**	**24**	**130**	**37**	**26**

An overview of valid licenses in the electricity sector under Article 6 Para 2 Letter a) and b) of the Act 251/2012 Coll.

Electricity generation	4
Electricity transmission	1
Electricity distribution	6
Electricity generation and supply	98
Electricity generation, distribution and supply	28
Electricity distribution and supply	132
Electricity supply	186
Electricity spot market organisation	1
Total	**456**

An overview of valid licenses in the gas sector under Article 6 Para 2 Letter c) of the Act 251/2012 Coll.

Gas production	2
Gas transmission	1
Gas distribution	6
Gas distribution and supply	33
Gas production, distribution, storage and supply	2
Gas storage	2
Gas supply	114
Total	**160**

An overview of valid licenses in the energy sector - automative substances and crude oil under Article 6 Para 2 Letters d), e), f) and g) of the Act 251/2012 Coll.

Operation of pipelines for aut. substances transportation	1
Operation of equipment for filling pressure vessels	9
Operation of pipelines for crude oil transportation	2
Operation of equipment for distribution of liquefied gaseous hydrocarbon	1
Operation of equipment for filling pressure vessels and operation of equipment for distribution of liquefied gaseous hydrocarbon	1
Total	**14**

Notification on Compliance with Notification Obligation

It is allowed to do business in the energy sector on the basis of the certificate on compliance with notification obligation issued by the Office. Notification obligation is related to legal and natural persons that conduct the following activities:

a) Generation and supply of electricity by a generating station with the total installed capacity up to 1 MW, including,
b) Generation and supply of gas from biomass,
c) Generation and supply of gas from biogas,
d) Sale of compressed natural gas to power motor vehicles,
e) Transportation of extracted crude oil from the point of production to the point of processing
f) Transportation of liquefied gaseous hydrocarbon in pressurised vessels,

The number of valid licenses only for electricity supply and gas supply

	2005	2006	2007	2008	2009	Cancelled from 2009	2010	Cancelled 2010	2011	Cancelled 2011	2012	Cancelled 2012	2013	Cancelled 2013	Total
Electr. supply	39	28	21	24	22	14	18	2	16	27	20	4	49	10	180
Gas supply	15	20	12	7	11	7	18	3	15	15	15	1	23	2	108
Total	**54**	**48**	**33**	**31**	**33**	**21**	**36**	**5**	**31**	**42**	**35**	**5**	**72**	**12**	**288**

g) Sale of liquefied gaseous hydrocarbon for driving motor vehicles including the filling of the tank of motor vehicle with liquefied hydrocarbon for driving motor vehicles, except for the filling of pressurised vessels,
h) Transportation of liquefied gaseous hydrocarbon in pressurised vessels.

In 2013 the regulator issued 487 certificates on compliance with notification obligation. Out of the total number of such certificates issued in 2013 390 confirmations were issued for production and supply of electricity generated from photovoltaic installations with an installed capacity up to 1 MW. A decline in the number of issued licenses, when compared to 2012, was caused by the reduced size of support given to electricity generated this way.

Certificate on notification obligation under Article 6 Para 5 of the Act 251/2012 Coll.

	2013	No. of valid certificates
a) Generation and supply of electricity by equipment used for electricity generation with total installed capacity up to 1 MW including		
small hydro power stations	10	160
wind power stations	0	1
photovoltaic power stations	390	1505
biogas power stations	34	71
cogeneration units	16	60
(of which, in biogas stations)	0	10
d) Sales of compressed natural gas for driving motor vehicles	11	90
e) Transportation of extracted crude oil from the point of production to the point of processing	1	7
f) Sale of liquefied gaseous hydrocarbon in pressure vessels	8	65
g) Sale of liquefied gaseous hydrocarbon for driving motor vehicles incl. filling the tank of motor vehicle with liquefied gaseous hydrocarbon for driving motor vehicles except for filling pressure vessels	10	50
h) transportation of liquefied gaseous hydrocarbon in pressure vessels	3	31
Total	**483***	**2050**

* In 2013 other 23 certificates on notification obligation were issued due to the termination of regulated activity

The Thermal Energy Industry

It is allowed to do business in the heat supply sector also only on the basis of the license issued for doing business in the area of production of heat, production and distribution of heat or heat distribution. In 2013 the Office issued totally 25 new licenses in the heat supply sector. In the course of 2013 there were 166 alterations made in the issued licenses most of which was caused in the scope of technical installations or the changes in identification data of the license holder.

An overview of applications submitted and decisions made in 2013

New licenses	25
Revocated licenses	26
Alterations in licenses	178
Suspended proceedings	64
Ceased proceedings	2
Total	**295**

An overview of valid licenses in the heat supply sector as of Dec. 31 2013

Heat production and distribution	313
Heat production	22
Heat distribution	19
Total	**354**

Certificate to Perform Regulated Activities in the Water Service Sector

A new Act 250/2012 Coll. in Article 23 defined an obligation for the person with ownership or leasing relation to the property that is used for the performance of regulated activities to request from the Regulatory Office the registration on the basis of written application within thirty days since the date of listing the assets into accounting records or the date of signing the lease agreement.
Such certificate is required for the following activities:

- Production and supply of potable water through the public water supply system;
- Distribution of potable water through the public water supply system;
- Supply of potable water through the public water supply system;
- Discharge and treatment of waste water in the public sewage system;
- Discharge of waste water through the public sewage system;
- Treatment of waste water supplied from the waste water treatment plants through the public sewage system.

An owner of the public water supply system or the public sewage system may transfer, on the basis of the contract signed with the operator of the public supply system or the public sewage system, if such operator of the public water supply system or the public sewage system signed the contract on potable water supply with the consumers and the contract on waste water discharge with the producers and at the same time they keep unbundled accounts of regulated activities.

The introduction of such obligation specified in more detail the record keeping of the entities performing the activities in the field of the water service sector. Considering this provision the Regulatory Office began to issue the first registration certificates in 2013, whereas a large majority of entities have been registered so far.

Certificate on registration under Article 23 of the Act 250/2012 Coll.

Total number of valid certificates on registration	586
Division by activities performed by registered regulated businesses	
a) Production and supply of potable water through public water supply system	303
b) Production and distribution of potable water through public water supply system	26
c) Supply of pot.water through public water supply system	55
d) Discharge and treatment of waste water through public sewage system	321
e) Discharge of waste water through public sewage system	14
f) Treatment of waste water supplied to treatment plant through public sewage system	5

6. Quality Standards

In its regulatory policy the Office focuses on the strengthening of the market principles in network industries with an emphasis given to the protection of the consumer and reasonable interests of regulated businesses. The preference is given to the use of incentive regulatory methods and an emphasis is made to the monitoring and penalising any failures to comply with the quality standards as a new method of regulation.

By expanding the scope of quality regulation under Article 22 of Act 250/2012 Coll. the quality of delivered goods and services was improved, thus avoiding any abuse of the dominant position of regulated businesses in the market and protecting rights and obligations of market participants.

Regulated businesses had an obligation to submit to the Office the summary evaluation of quality standards applicable in 2013 in the scope of respective annexes enclosed in relevant Office Decrees by the end of February 2013, either in an electronic form, on-line forms, or in the paper form.

The number of delivered evaluations and events recorded in the electricity sector

Electricity sector	Electricity transm.	Electricity distrib.	Electricity supply
No. of delivered evaluations	1	119	156
No. of recorded events	12	9 147 934	230 992
No. of recorded events with violation of quality standards	0	21 804	853
Share of events with violated quality standard related to recorded events	0%	0,24 %	0,37 %

The number of delivered evaluations and events recorded in the gas sector

Gas sector	Gas storage	Gas transm.	Gas distrib.	Gas supply
No. of delivered evaluations	2	1	40	67
No. of recorded events	788	543	41 782	205 415
No. of recorded events with violation of quality standards	0	13	1	3 207
Share of events with violated quality standard related to rec. events	0%	2,39%	0,002 %	1,56%

The number of delivered evaluations and events recorded in the thermal energy sector

Thermal energy sector	Heat supply
No. of delivered evaluations	282
No. of recorded events	74 040
No. of recorded events with violation of quality standards	120
Share of events with violated quality standard related to recorded events	0,16 %

The number of delivered evaluations and events recorded in the water service sector

Water service sector	Potable water supply	Waste water discharge
No. of delivered evaluations	40	44
No. of recorded events	49 339	32 453
No. of recorded events with violation of quality standards	1 090	468
Share of events with violated quality standard related to recorded events	2,21%	1,44 %

From January 1, 2013 regulated companies had an obligation, in the event of violating the quality standards, to make automatic payment compensation to the consumer. For 2013 consumers were paid out 394,401.62 euro in total.

Compliance with the Provisions of Article 29, Para 2, 3, 4 and 5 of the Act 250/2012 Coll.

In order to establish the identical market conditions the regulator monitors the activities of the network operators with an intention to avoid using the vertical integration. A regulatory business conducting a regulatory activity in the electricity sector or the gas sector and is part of a vertically integrated company, is obliged to submit the service contract or request for amendment to the Office. In the course 2013 the Regulatory Office received 40 service contracts for approval, out of which 24 were approved.

The Office made an electronic database of regulated businesses that announced the public tender and notified the regulator on the data required under Article 29, Para 5 of the Act 250/2012 Coll. During 2013 the number of public tenders achieved 405, of which 376 were completed.

In addition, the regulator developed an electronic database of regulated companies that have completed their orders and whose value exceeds 300,000 €. In 2013 the Office announced 681 projects implemented by 88 regulated companies.

An overview of compensation payments paid out in 2013

	Regulated activity	Euro
The electricity industry	Electricity transmission	0
	Electricity distribution	314 691,20
	Electricity supply	18 781,00
	Total	**333 472,20**
The gas industry	Gas storage	0
	Gas transmission	0
	Gas distribution	5,00
	Gas supply	40 174,00
	Total	**40 179,00**
The heat supply industry	Heat supply	**19 533,29**
The water service industry	Potable water supply	1 201,59
	Waste water discharge	15,54
	Total	**1 217,13**

7. Performance of Surveillance

Under Act 250/2012 Coll. the Regulatory Office made inspections in 65 regulated companies, of which failures to comply with obligations were identified in 39 regulated businesses, as defined by the provisions of the Act 276/2001 Coll. on Regulation in Network Industries (hereinafter only „Act 276/2001 Coll."), the Act 250/2012 Coll. and the Act 251/2012 Coll. Inspections were made on the basis of the inspection plan, submissions delivered by natural and legal persons and on the ad-hoc needs of the regulator. The businesses that had been inspected and violated the act were imposed with the measures aimed at eliminating and remedy of the failures identified at the time of inspection. In the end such businesses were penalised.

In the previous year the Office directed its attention mainly to inspection over the compliance with valid regulations imposed on the regulation in the thermal energy industry which the regulator dealt with in 70 % of inspected businesses due to the ongoing inspections of the three year regulatory period starting from 2009 to 2011. In such businesses the Office verified a regulated activity performed in compliance with price regulation following the completion of the three year regulatory period and subsequent settlement of the price for heat supply, plus the adherence to the quality standards and compliance with the measures imposed in order to eliminate and remedy the identified deficiencies.

In compliance with its inspection competences related to the electricity and gas sectors the Office verified the compliance of a regulated activity with the business license, the compliance with price regulation, the rules applicable in the electricity and natural gas markets and the operational code of the distribution system operator, with an emphasis to the compliance with the process of switching the supplier, as well as the obligation of the supplier after the termination of the switching process, furthermore, adherence to the quality standards, keeping unbundled records on the matters that are subject to accounting and remedy of any shortcomings identified during previous inspections. Regulated activities in the electricity sector were subject to inspection in 43 % of regulated businesses. The same kind of inspection activities were performed in the gas sector.

As regards the water service companies performing regulated activities, the Regulatory Office made inspections over the compliance with price regulation, quality standards and the measures imposed to remove and correct any deficiencies identified.

In 2013 the Regulatory Office through its inspection activities verified regulation in a period from 2009 to 2013. The inspection outputs resulted from the failure to comply with the Act No. 276/2001 Coll. until August 31, 2012 or from September 1, 2012 due to failure to comply with the Act 250/2012 Coll. and the Act 251/2012 Coll.

An Overview of Inspected Infringements

1. Infringement of Article 11 Para 1 of the Act 276/2001 Coll. – failure to perform a regulatory activity based on notification or in the scope of license issued by the Office or on the basis of the certificate on registration – 26 findings in the following areas:
   - The electricity sector 14
   - The thermal energy industry 12

2. Infringement of Article 13, Para 2, Letter a) of the Act 276/2001 Coll. – failure to perform a regulated activity in compliance with the Act and Special Provisions – 21 findings in the following areas:
   - The electricity sector 16
   - The gas sector 5

3. Infringement of Article 13 Para 2 Letter b) of the Act 276/2001 Coll. – failure to comply with the price regulation method and failure to perform delivery of goods and services in accordance with approved goods and prices – 46 findings in the following areas:
   - The electricity sector 17
   - The gas sector 5
   - The thermal energy industry 24

4. Infringement of Article 29 Para 1 Letter c) of the Act 250/2012 Coll. – failure to settle the costs for production, distribution and supply of heat that are not regarded as economically eligible costs, in the period and in the way determined by the Office – 7 findings in the following area:
   - The thermal energy industry 7

5. Infringement of Article 13 Para 2 Letter c) of the Act 276/2001 Coll. – failure to submit the proposal for setting the price of goods or services, the price of which is regulated, in the way or the scope under the generally binding regulation issued by the Office – 5 findings in the following areas:
   - The electricity sector 3
   - The gas sector 1
   - The thermal energy industry 1

6. Infringement of Article 13, Para 2 Letter d) of the Act 276/2001 Coll. – failure to keep the unbundled records on the matters that are subject to accounting in compliance with special provision issued by the Office – 5 findings in the following areas:
   - The electricity sector 3
   - The gas sector 2

7. Infringement of Article 13 Para 2 Letter g) of the Act 276/2001 Coll. – failure to comply with the standards of quality of delivered goods and services specified by the Office and failure to submit the reviewed quality standards to the regulator and provision of services in line with generally binding legal regulation issued by the Office – 31 findings in the following areas:
   - The electricity sector 15
   - The gas sector 3
   - The thermal energy industry 13

8. Infringement of Article 13, Para 2, Letter h) of the Act 276/2001 Coll. – failure to perform the measures imposed by the Office – 5 findings in the following area:
   - The thermal energy industry 4
   - The water supply sector 1

9. Infringement of Article 13 Para 2 Letter i) of the Act 276/2001 Coll., Article 29, Para 1 Letter o) of the Act 250/2012 Coll. – failure to comply with the rules for the functioning of the electricity and gas markets – 15 findings in the following areas:
   - The electricity sector 14
   - The gas sector 1

10. Infringement of Article 12, Para 6 of the Act 276/2001 Coll. – failure to comply with the operational code by the market participants – 1 finding in the following areas:
   - The electricity sector 1

11. Infringement of Article 13 Para 2 Letter p) of the Act 276/2001 Coll. – failure to provide the required assistance to the Office when performing its competences in the dates specified by the Regulator, especially failure to provide the required documents, true background documents and information – 1 finding in the following area:
   - The electricity sector 1

12. Infringement of Article 17 Para 12 of the Act 251/2012 Coll. – failure to perform the final settlement within four weeks after switching a electricity or gas supplier – 5 findings in the following are:
   - The electricity sector 2
   - The gas sector 3

13. Infringement of Article 34 Para 2 Letter q) of the Act 251/2012 Coll. – failure to request from the distribution system operator to disconnect from the off-take point of the balancing group as of the date of termination of the contract – 1 finding in the following area:
   - The electricity sector 1

As a result of the inspection activities performed in 2013 the Office identified violation of the act in 96 cases when performing a regulated activity in the electricity sector, 21 cases were identified in the entities performing regulated activities in the gas sector, 63 cases in the entities performing regulated activity in the thermal energy industry and 1 in the water service sector.

Measures to Remedy Deficiencies Identified

In order to remove and remedy any deficiencies identified during the inspections the regulator imposed 118 measures in total, of which:

- The electricity sector 63 measures,
- The gas sector 19 measures,
- The thermal energy industry 35 measures,
- The water service sector 1 measure.

Through its measures aimed at eliminating and clearing any deficiencies the Office imposed regulated companies an obligation to pay back electricity, heat and water consumers the financial means that represented the balance between the price charged and the price that was supposed to be charged in accordance with valid provisions at the total amount of **1,008,326.42€,**
of which:

- Electricity consumers 156 893,41 €
- Heat consumers 851 433,01 €

of which in:

- A variable component of the maximum price 337 610,85 €
- A fixed component of the maximum price 513 822,16 €

Penalties Charged for Violation of the Act Imposed in the First Instance of the Legal Proceeding

The Office technically functioning as the respective administrative authority under the Act 71/1967 Coll. on Administrative Proceedings shall take decisions on penalising businesses for any failure to comply with respective obligations defined by the Act 250/2012 Coll. and special provisions. Under the Act 250/2012 Coll. the Office made decisions on penalising businesses for legal offences resulting from the violation of the Act 250/2014 Coll. and Act 251/2012 Coll. Penalties were charged for:

- Failure to meet the obligations identified at the time of inspections;
- Failure to meet obligations which the entity learnt about from administrative activities;
- Failure to record the regulatory activity into the Business Registry, providing incorrect data to the Office;
- Failure to report the data to the electricity market organiser;
- Failure to submit price proposals for 2013 in the heat supply sector and the water service sector;
- Failure to submit actual costs within the specific date in the heat supply sector;
- Failure to submit the quality standards, failure to submit the outputs from the records.

Out of 267 issued decisions concerning the penalising at the first instance administrative proceedings the respective businesses made appeal at the second instance administrative proceedings against 16 decisions on imposition of penalty.

An overview of the number of inspections, penalties and measures made in 2010-2013

	2010	2011	2012	2013
Inspections	111	454	75	65
Decisions on imposing penalty	191	147	104	267
Measures to remedy identified deficiencies	113	120	234	118

An overview of administrative proceedings held in 2013

Administrative proceedings		Decisions			
		Issued		Valid	
		Number	Penalty (€)	Number	Penalty (€)
I. Inspections in regulated entities		34	1 085 300,00	29	1 073 400,00
II. Inspections in regulated entities	- Activity not recorded in Business Registry	17	5 100,00	17	5 100,00
	- Provision of untrue data	6	1 500,00	6	1 500,00
	- Failure to report data to spot market organiser	59	19 000,00	45	15 500,00
	- Failure to submit price proposal * heat	60	6 000,00	60	6 000,00
	* water	7	1 250,00	7	1 250,00
	- Failure to submit real costs (heat)	47	8 100,00	47	8 100,00
	- Failure to submit quality standards	27	21 500,00	21	10 500,00
	- Failure to submit outputs from administrative records	7		-	
		3		-	
Total		**267**	**1 147 750,00**	**232**	**1 121 350,00**

8. Initiatives and Complaints

Due to an enormous increase in the submissions made already in 2012 a part of the competences were organisationally transferred from the Inspection Division to the newly opened Legislative Division.

Such increase further continued in 2013. 573 submissions were delivered to the Legal Division by natural and legal persons. They were related mainly to the contractual relations, but also to the performance of electricity and gas suppliers that retained money of the consumers received from excess charging and did not issue any invoices even after the standard invoicing period.

The Inspection Division settled the submissions delivered during the inspections performed in the regulated companies with consequent legal implications against the businesses violating law, but also in the form of expert opinion as long as it was not required to commence the inspection for the submission settlement. The Inspection Division received 338 submissions from natural and legal persons.

The subjects of submissions were the requirements raised by the consumers demanding the inspection of electricity and gas invoices, then doubts over the correctness of individual price items, the problems related to the supplier switching, switching a supplier in the existing offtake point, as well as the problems connected with the calculation of electricity or gas consumption in case the metering device is broken. A phenomenon included the submissions related to damage caused by unjustified extraction in the cases when the distribution system operator identified some damage of verification label on the gas metering device or damage to the specific metering equipment.

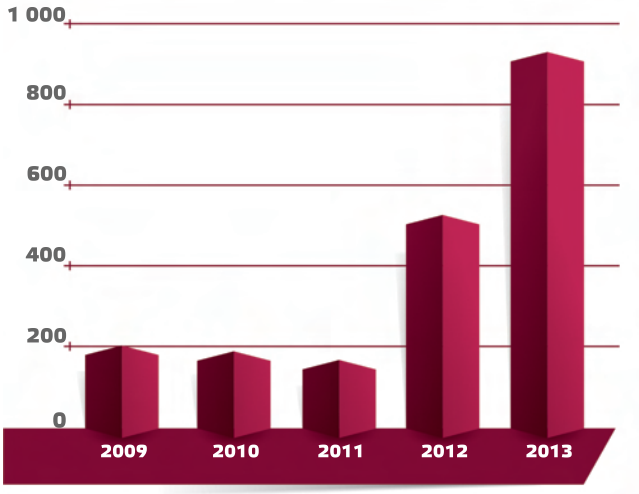
Regarding the thermal energy industry the Office through its inspections dealt with the submissions aimed at settlement of heat prices. From the regulated companies having had violated law the regulator required to return all unjustified retained financial means amounting to more than 800.000 €.

The consumers more frequently requested from the Office to hold the inspection over the compliance with the standards of delivered goods and services, mainly in relation to verification of the dates required to check the payments for electricity, natural gas, heat and water supplies.

As far as the monitoring of the contents of submissions is concerned, the consumers demonstrated their problems in complying with the following:

- The electricity market rules in 97 cases;
- The gas market rules in 88 cases;
- Article 17 of the Act on the Energy Industry in relation to electricity supplies in 153 cases;
- Article 17 of the Act on the Energy Industry in relation to gas supplies in 172 cases;
- Regulated prices charged in the electricity sector in 17 cases and in the gas sector in 7 cases;
- The Quality Standards in the electricity sector in 12 cases and in the gas sector in 11 cases;
- Other contractual relations in the electricity sector in 52 cases and in the gas sector in 42 cases;
- Other matters in the electricity sector in 2004 and the gas sector in 108 cases and in the gas sector in 99 cases.

No. of submissions settled by the Office



9. The Out-of-Court Dispute Settlement and Dispute Settlement under Article 38 of the Act 250/2012 Coll.

Providing that the final electricity or gas consumer is not satisfied about the outcome of the complaint or the way of its settlement, they may demand from the Office to have the out-of court dispute settlement with the specific regulated company (for instance with an electricity or gas supplier). The regulator deals with such dispute impartially with an intention to reach its peaceful settlement. The result of such successful settlement is a signed written agreement that is binding for both contractual parties.

In 2013 the Office received fifteen proposals for the out--of-court dispute settlement. Four proposals did not comply with the legal terms and conditions governing the out-of--court dispute settlement and subsequently, such initiatives were settled as complaints.

The other eleven proposals were resolved, however, in other cases dealing with the out-of-court dispute settlement the regulated company did not give approval from the very beginning and in some cases the consumer/proposer did not agree with the compromise that the regulatory entity was willing to accept.

Dispute Settlement

Under Article 38 of the Act 250/2012 Coll. the dispute settlement differs from the out-of-court dispute settlement under Article 37, mainly in the fact that there must be an attempt to conclude the agreement before submitting such proposal. The Office shall resolve such dispute by releasing decision in the relevant matter and it is binding for participants of the proceedings. However, it is possible to make appeal against such decision in the general court. Under Article 37 the out-of-court dispute settlement should be rather a sort of mediation which means that the Office acts only as a facilitator to dispute settlement and reaching an agreement.

In 2013 the regulator made decisions in one dispute under Article 38 of the Act 250/2012 Coll.

An overview of proposals for out-of-court dispute settlements

No. of delivered prop. for out-of-court dispute settlements under Art. 37	No. of proposals that complied with legal provisions and were resolved under Art. 37	No. of disputes terminated by agreement	No. of disputes terminated within set deadline	No. of pending disputes in 2013
15	11	2	7	2

10. The Settlement of Application Forms under the Act No. 211/2000 Coll. on Free Acces Information and on Amendment and Supplement of some Acts in Wording of Later Regulations in 2013

In 2013 the Office resolved 52 applications demanding providing access to information („hereinafter only „application"), out of which 38 were settled positively, thus allowing access to the information required, in 9 cases the applicant failed to meet the terms and conditions and in 1 case the application was referred further.

Out of the total number of the resolved applications, in seven cases the applicants demanded the information and background documents related to the decisions of the regulator in the matters of energy prices, in six cases the applicants demanded the documents prepared by the Office, in five cases the applicants demanded the information on the validity and a binding nature of legal regulations and their delivery, in one case no delivery, in five cases the applicants demanded from the Office the information related to funding, employees and alike. The applicants also requested the information on generally binding legal regulations, energy prices, licenses and permits awarded by the Office. The annual increase occurred mainly in the applications relating to the information on the documents issued by the Office and requests for various types of information arising out of the activities carried out the regulator. Such increase in the number of applications was caused primarily by the adoption of the Act 250/2012 Coll. and respective extension of competences for the Office, compared to the Act on Regulation that had been in effect until then.

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