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Introduction

The year 2011 was the last year of the three year regulatory period during which the energy industry experienced predominantly negative impacts of the world financial and economic crises. In spite of this situation the Slovak electricity and gas markets were successfully developing, also thanks to the stimulating policy enforced by the Regulatory Office for Network Industries (hereinafter only "the Office"). In 2011 the market was truly functional what justified further dynamic development.

Progressive liberalisation and development of the markets with electricity and natural gas were manifested by the significant growth in the number of consumers that switched their suppliers. Therefore, the year 2011 is regarded as the milestone, since then there has been no reason to differentiate between traditional and "alternative" suppliers, there are only suppliers as such. The Office is ready to further promote the development of market environment and liberalisation that will have a positive impact on the development of energy prices.

The year 2011 brought no substantial changes into the rules governing electricity and gas supplies to households and small-sized companies. In this regard it is worth mentioning that last year ended the regulation of electricity supply to small-sized companies, so the year 2012 represents a new milestone in the market liberalisation process. Final electricity prices were largely affected by an increase in VAT from 19 % to 20 %, especially by the introduction of a fee for levies to the National Nuclear Fund for Decommissioning of Nuclear Installations and Disposal with Burnup Nuclear Fuel and Radioactive Waste at the amount of 3 €/MWh. Unfortunately, the Office had no influence on such circumstances.

The year 2011 also brought a whole range of experience which made a negative impact, thus imposing a useless burden, on the performance of the Office. The Office along with the Board for Regulation had to face several attempts from certain lobbyist groups to gain control and subordinate the Office to state power. Such efforts included mainly legislative proposals aimed at the dissoluting or personnel re-organising of the Board for Regulation and statutory representatives of the Office. Media attacks against the Office, accompanying these efforts, were disturbing for the peaceful working atmosphere and largely disoriented the public.

The tense atmosphere culminated in the action taken by one of the largest regulated companies, Slovenský plynárenský priemysel, a.s. (SPP - the Slovak Gas Industry). The company delivered the Office totally 18 submissions requesting the rise of price of natural gas for households and natural gas used for residential heat production already in 2011. In its proposals the company requested almost a 50 % price rise, which would cause the social disaster for most of the Slovak population. SPP acted this way despite the fact that many of its proposals did not comply with the fundamental conditions stipulated by law. Such behaviour did not give the justified reasons for the proposals, but there was an attempt to discredit the Office.

The following year 2012 will be the first year of a new five-year regulatory regime. For this reason, a new regulatory policy was outlined in 2011. When drafting the regulatory policy for the subsequent period, the Board for Regulation leaned on the evaluation of the previous regulatory period with the aim to ensure a stable market environment for regulated companies. There was also an intention to enforce the maximum transparency and respect for changes and needs in the market. The draft regulatory policy was subsequently submitted for a wide discussion. The large number of regulated companies provided comments either in writing or personally, which were then included into the regulatory policy.

The time period has been extended because in the past, when prompt changes had to be made, regulatory periods lasted one or three years. Now, when the situation has been stabilized and Slovakia has



Regulatory Board (from the left):
Ing. ***Milan Krajčovič*** *(member),*
JUDr. Ing. ***Ján Hijj,*** *PhD. (member),*
Ing. ***Viliam Mikuláš*** *(member),*
Ing. ***Jozef Holjenčík,*** *PhD. (chairman of the board acting as Chairman of the Regulatory Office),*
Ing. ***Radoslav Naništa*** *(Vice-chairman),*
Ing. ***Vladimír Čepko*** *(member)*

a functioning liberalised market, it has proven that it will be more beneficial to have a longer time period in order to enforce quality, security and reliability of electricity and gas supplies. Obviously, regulated companies also appreciated such approach. The Board for Regulation leaned towards such solution and the length of a regulatory period was set for the period from 2012 to 2016.

The regulatory policy aims to strengthen transparency in all areas, to reinforce the market principles in network industries with an emphasis given to the consumer protection and justified interests of regulated companies. An emphasis is given on using incentive regulatory methods, mainly price cap which has been used in most of the EU member states. The policy clearly concentrates on monitoring and sanctioning of any non-compliance with the quality standards being a new method of regulation which will be playing an increasingly important role and basically representing a new scope for state regulation of network industries following the end of the regulation of household energy supplies.

I. An Overview of Current Legislation

Act No. 276/2001 Coll. on Regulation in Network Industries and on amendment and supplement of some acts in wording of the Act No. 397/2002 Coll., the Act No. 442/2002 Coll., the Act No. 658/2004 Coll., the Act No. 107/2007 Coll., the Act No. 112/2008 Coll., the Act No. 283/2008 Coll., the Act No. 73/2009 Coll. and the Act No. 309/2009 Coll., the Act No. 142/2010 Coll. and the Act No. 558/2010 Coll., the Act No. 117/2011 Coll. and the Act No. 136/2011 Coll. (hereinafter only "the Act No. 276/2011 Coll.")

Act No. 656/2004 Coll. on Energy and on amendments of some acts in wording of the Act No. 555/2005 Coll., the Act No. 238/2006 Coll., the Act No. 107/2007 Coll., the Act No. 68/2008 Coll., the Act No. 112/2008 Coll., the Act No. 283/2008 Coll., the Act No. 476/2008 Coll., the Act No. 73/2009 Coll., 293/2009 Coll., the Act No. 309/2009 Coll., the Act No. 136/2010 Coll. and the Act No. 142/2010 Coll. and the Act No. 12/2010 (hereinafter only "the Act No. 656/2004 Coll.")

Act No. 657/2004 Coll. on the Thermal Energy Industry in wording of the Act No. 99/2007 Coll., the Act No.309/2009 Coll., the Act No. 136/2010 Coll. and the Act No. 184/2011 Coll. (hereinafter only "the Act No. 657/2004")

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

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

Act No. 309/2009 Coll. on Promotion of Renewable Energy Sources and Highly Efficient Combined Heat and Power Production and on amendment and supplement of the Act No. 492/2010 Coll., in wording of the Act No. 558/2010 Coll., in wording of the Act No. 117/2011 Coll. and the Act No. 136/2011 Coll. (hereinafter only "Act No. 309/2009 Coll.")

Ordinance of the Government of the Slovak Republic No. 755/2004 Coll. setting out the amount of non-regulated payments, charges and the details concerning the charging of water sources in wording of the Ordinance No. 367/2008 Coll. (hereinafter only "the Ordinance No. 755/2004")

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

Ordinance of the Government of the Slovak Republic No. 317/2007 Coll. laying down the rules for the functioning of the electricity market in wording of the Act No. 309/2009, the Ordinance of the Government No. 211/2010 Coll. and the Ordinance of the Government No. 440/2011 Coll. (hereinafter only "the Ordinance of the Government No. 317/2007 Coll.")

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

Decree of the Regulatory Office for Network Industries No. 328/2005 Coll., defining the method for verification of efficiency of the operation of thermal equipment, energy efficiency indicators related to the plants used for production and distribution of heat, normative indicators of heat consumption, the scope of economically eligible costs for verification of efficiency of the operation of thermal equipment

and the method of covering related costs **in wording of the Decree** of the Regulatory Office for Network Industries **No. 59/2008 Coll.** (hereinafter only "the Decree No. 328/2005 Coll.")

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

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

Decree of the Regulatory Office for Network Industries No. 315/2008 Coll., setting out the quality standards of electricity supply and provision of related services in wording of the Decree No. 96/2011 Coll. (hereinafter only "the Decree No. 315/2008 Coll.")

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

Decree of the Regulatory Office for Network Industries No. 317/2008 Coll., setting out the quality standards of potable water supply through the public water supply system and discharge and treatment of waste water through the public sewage system and related services in wording of the Decree No. 93/2011 Coll. (hereinafter only "the Decree No. 317/2008 Coll.")

Decree of the Regulatory Office for Network Industries No. 328/2008 Coll., setting out the quality standards of gas supply and provision of services in the gas industry in wording of the Decree No. 94/2011 Coll. (hereinafter only "the Decree No. 328/2008 Coll.")

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

Decree of the Regulatory Office for Network Industries No. 415/2008 Coll. on the method of keeping the unbundled accounts on costs, revenues, assets and liabilities and submitting the regulatory reports from such unbundled accounts (hereinafter only "the Decree No. 415/2008 Coll.")

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

Decree of the Regulatory Office for Network Industries No. 490/2009 Coll., specifying the details on promotion of renewable energy sources, highly efficient combined heat and power production and biomethane services in wording of the Decree No. 437/2011 Coll. (hereinafter only "the Decree No. 490/2009 Coll.")

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

Decree of the Regulatory Office for Network Industries No. 92/2011 Coll. setting out the quality standards of heat supply and related heat supply services (hereinafter only "the Decree No. 92/2011 Coll.")

Decree of the Regulatory Office for Network Industries No. 189/2011 Coll. on the scope of price regulation in network industries and the method of its enforcement (hereinafter only "the Decree No. 189/2011 Coll.")

Decree of the Regulatory Office for Network Industries No. 216/2011 Coll. establishing price regulation in the gas industry (hereinafter only "the Decree No. 216/2011 Coll.")

Decree of the Regulatory Office for Network Industries No. 217/2011 Coll. establishing price regulation in the production, distribution and supply of potable water through the public water supply pipeline and the discharge and treatment of waste water through the public sewage system (hereinafter only "the Decree No. 217/2011 Coll.")

Decree of the Regulatory Office for Network Industries No. 218/2011 Coll. establishing price regulation in providing water supply services related to the utilisation of water sources (hereinafter only "the Decree 218/2011 Coll.")

Decree of the Regulatory Office for Network Industries No. 219/2011 Coll. establishing price regulation in the thermal energy industry (hereinafter only "the Decree No. 219/2011 Coll.")

Decree of the Regulatory Office for Network Industries No. 225/2011 Coll. establishing price regulation in the electricity industry in wording of the Decree No. 438/2011 Coll. (hereinafter only "the Decree No. 225/2011 Coll.")

Decree of the Regulatory Office for Network Industries dated 28 July 2008 **No. 2/2008,** establishing price regulation in the electricity industry (Notification No. 311/2008 Coll.) in wording of the Decree dated 1 October 2008 **No. 7/2008** (Notification No. 377/2008 Coll.), the Decree dated 10 June 2009 **No. 2/2009** (Notification No. 239/2009 Coll.), the Decree dated 9 September 2009 **No. 7/2009** (Notification No. 362/2009 Coll.) and the Decree dated 23 June 2010 **No. 2/2010** (Notification No. 302/2010 Coll.) and the Decree dated 29 March 2011 **No. 7/2011** (hereinafter only "the Decree No. 2/2008")

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

Decree of the Regulatory Office for Network Industries dated 23 July 2008 **No. 4/2008,** establishing price regulation in the gas industry and supplementing the Decree of the Regulatory Office for Network Industries dated 31 July 2007 **No. 4/2007** defining the scope and structure of eligible costs, the method of setting the adequate profit and background documents required for the price proposal in the gas industry (Notification No. 291/2008 Coll.) in wording of the Decree dated 1 October 2008 **No. 7/2008** (Notification No. 377/2008 Coll.), the Decree dated 10 June 2009 **No. 4/2009** (Notification No. 241/2009 Coll.) and the Decree dated 23 June 2010 **No. 4/2010** (Notification No. 303/2010 Coll.) (hereinafter only "the Decree No. 4/2008")

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

Decree of the Regulatory Office for Network Industries dated 23 July 2008 **No. 6/2008,** establishing

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

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

Regulation of the European Parliament and Council (EC) No. 713/2009 dated 13 July 2009, establishing the Agency for the Cooperation of Energy Regulators (hereinafter only "the European Regulation No. 713/2009")

Regulation of the European Parliament and Council (EC) No. 714/2009 dated 13 July 2009 on the conditions for access to the network for cross-border exchanges and repealing Regulation (EC) No. 1228/2003 (hereinafter only "the European Regulation No. 714/2009")

Regulation of the European Parliament and Council (EC) No. 715/2009 dated 13 July 2009 on the conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1775/2003 (hereinafter only "the European Regulation No. 715/2009")

Regulation of the European Parliament and Council (EC) No. 1227/2011 dated 25 October 2011 on wholesale energy market integrity and transparency (hereinafter only "the European Regulation No. 1227/2011")

Regulation of the European Parliament and Council (EC) No. 994/2010 dated 20 October 2010 on the measures ensuring the security of natural gas supply, repealing the Council Directive 2004/67/EC (hereinafter only "the European Regulation No. 994/2010")

Directive of the European Parliament and Council 2005/89/EC dated 18 January 2006 concerning measures to safeguard security of energy supply and infrastructure investment (hereinafter only "the European Directive 2005/89/EC")

Directive of the European Parliament and Council 2006/32/EC dated 5 April 2006 on energy end use efficiency and energy services, repealing the Council Directive 93/76/ECC (hereinafter only "the European Directive 2006/32/EC")

Directive of the European Parliament and Council 2009/72/EC dated 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (hereinafter only "the European Directive 2009/72/EC")

Directive of the European Parliament and Council 2009/73/EC dated 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (hereinafter only "the European Directive 2009/73/EC")

Directive of the European Parliament and Council 2009/28/EC dated 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (hereinafter only "the European Directive 2009/28/EC")



II. Implementation of the Regulatory Policy

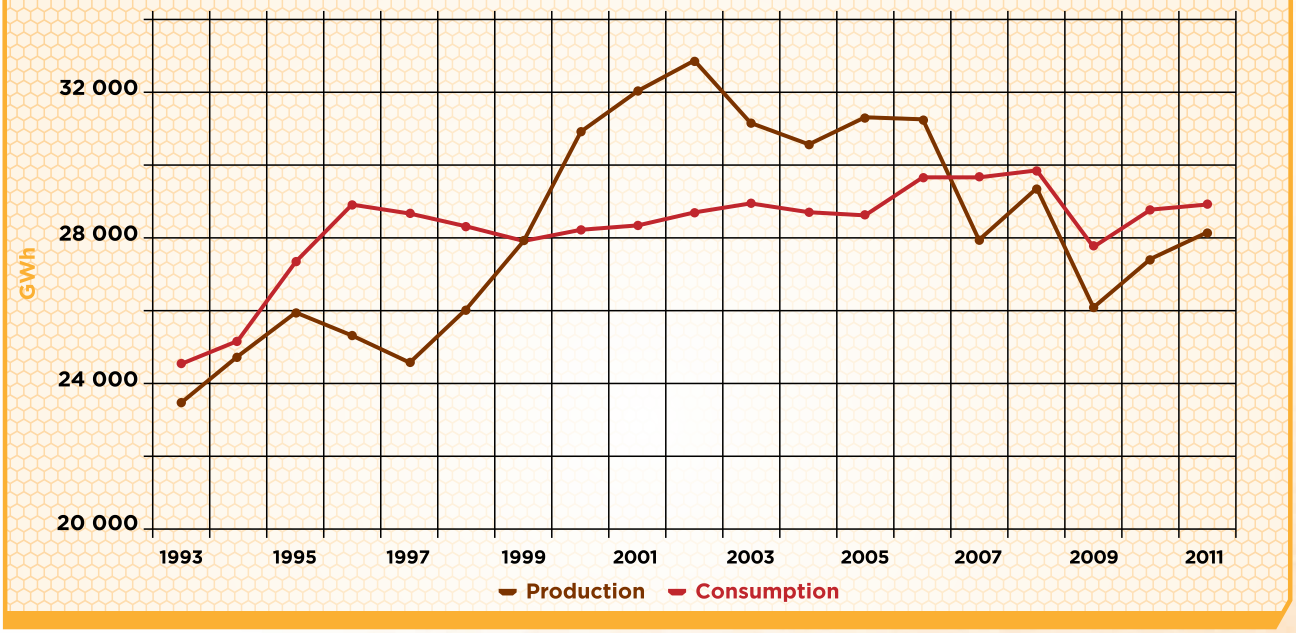
II.I. The Electricity Industry

The factor which profoundly influenced the electricity industry in the year 2011 was the world financial and economic crises. Although electricity consumption went annually up by 0.35 % to 28,862 GWh and electricity generation by 1.50 % to 28,135 GWh, these values of consumption and generation of electricity did not achieve the level characteristic three years before.

The basic principle of regulation of prices, either approved or determined by the Office in 2011, remained unchanged. The price cap method has been in use for the third year already.

The price decisions approved by the Office brought for domestic electricity consumers the rise of average prices for combined electricity supply in 2011, compared to 2010, by 5.70%. Considering individual

Production and consumption of electricity in the Slovak Republic



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

- A more extensive development of the electricity market, especially dynamic entry of alternative electricity suppliers offering attractive prices for electricity supply not only to large and medium scale consumers, but also to small businesses and domestic electricity consumers. Moreover, these prices are not burdened with operating costs of the companies.

price components, only the tariff for system operation increased by 135.71% up to the value of 14.85 €/MWh (as a result of the legislative support of the production of electricity from renewable energy sources and highly efficient combined heat and power production technologies, plus the government´s support of domestic coal production for the purpose of electricity generation) and on the contrary, tariff for balancing services decreased by 6.77 %. For the second time the tariff for balancing services

also included electricity spot market costs. On the other hand, grid charges declined by 0.44 % and the price of active power by 0.16 %.

The efforts for establishing a real competitive environment in the area of electricity trading got "green" after allowing the entry of other so called alternative electricity suppliers into the Slovak market which became competitors for traditional dominant electricity suppliers in the local market, supplying electricity not only to non-household electricity consumers, but also to household consumers. In 2011 there were overally 140 electricity suppliers (an increase by 16 new companies in 2011), of which 41 companies supplied electricity also to domestic electricity consumers.

The development of the market and progressing liberalisation were manifested through the annual growth in the number of electricity consumers that had switched their suppliers.

Since 2009 a market coupling has been in operation, i.e. the interconnection of day-ahead electricity markets of the Czech Republic and the Slovak Republic, and trading based on implicit capacity auctions. The market coupling has significantly strengthened the liberalisation process and the development of the electricity market throughout Europe which has valuably contributed to stability and reliability of electricity supplies and is fully in line with the targets aimed at developing the single electricity market by the year 2014.

The development of the electricity spot market is shown in the following data:

Indictor/year	9.–12. 2009	2010	2011
Number of the spot market participants	22	35	41

The year 2011 was the second year in which electricity produced from renewable energy sources (hereinafter only „RES") and combined heat and power production (hereinafter only „CHP") began to be fully promoted under the Act No. 309/2009 Coll. This fundamental legislative standard governing RES and CHP ensures the support for the generation of „green electricity", especially by:

- preferential connection of an installation to the distribution network,
- the right for electricity offtake by an operator of the regional distribution network,
- supplementary charge,
- assuming the responsibility for deviation,

By making amendments to the relevant legislation the Office has contributed through its proposals to stability and development of the market environment. As regards primary energy legislation governing rights and obligations of electricity market players as well as categorisation and methods of promoting renewable energy sources (mainly photovoltaics as an unpredictable source of energy), the changes have been made to certain obligations of network operators, producers and suppliers of electricity. In addition, responsibilities of the organiser of the electricity spot market have also been modified.

The price regulation tools in the electricity industry used by the Office include generally binding legal regulations issued based on the empowering provisions of the Act No. 276/2001 Coll.

Through Decree No. 1/2010 on the scope of price regulation in network industries and the method of its enforcement the Office enforced the 2011 price regulation in the electricity industry on the production of electricity from renewable energy sources, combined heat and power production technologies and from domestic coal, grid connection, access to the transmission network and electricity transmission, access to the distribution network and electricity distribution, electricity supply to households and small businesses and provision of balancing and ancillary services in the electricity industry.

In 2011 the fundamental tool for enforcement of price regulation in the electricity industry was the Office Decree No. 2/2008 in wording of latter decrees, especially the Decree No. 2/2010 establishing price regulation in the electricity industry. The decree has brought the following key changes to price regulation, including:

- Setting out the scope of the maximum 8 rates for electricity supply and 8 rates for access to the distribution network and electricity distribution for domestic electricity consumers and the scope of the maximum 11 rates for users of the distribution network, except for domestic electricity consumers,
- Introducing the higher level of adequate profit from electricity supply to households and small-sized companies,
- More detailed specification of calculation of maximum price for electricity supply to small-sized companies, procedure and conditions for pricing, details on price proposals and the method of submitting price proposals,
- Setting out the scope of the maximum 11 rates for electricity supply to small-sized companies,
- A more detailed procedure for negotiating reserve capacity,
- If any regulated company does not have the approved price as of January 1, year „t", then the price approved by the Office for the year „t-1" is in use by the time the price decision is delivered,
- Adjusting the categories of technologies and prices of electricity produced from renewable energy sources and combined heat and power,
- Setting the pricing procedure for organising the electricity spot market,
- Imposing restriction on a proportion of revenues earned from the charges for reserve capacity and overall revenues for access to the distribution network, except for revenues earned from electricity distribution losses up to 0.66 as maximum,
- A more detailed specification of calculation, procedure and conditions for using the tariff for system operation, legislatively, the Act No. 142/2010 Coll. and No. 558/2010 Coll. determined several new concepts that are crucial for the development of the electricity market, especially for organisation of the electricity spot market, changes have been made to the details,

The Office issued the following documents governing price regulation in 2011:

- 335 price decisions for SEPS, a.s. (The Slovak Transmission System Operator), SE, a.s. (Slovak Electric), ZSE, a.s. (Western Slovak Utility), ZSE - Distribucia, a.s. (Western Slovak Distribution Company), SSE, a.s. (Central Slovak Utility), SSE Distribucia, a.s. (Central Slovak Distribution Company), VSE, a.s. (Eastern Slovak Utility), VSDS, a.s. (Eastern Slovak Distribution Company) and other regulated companies in the area of the electricity industry, covering access to the transmission network and electricity transmission, access to the distribution network and electricity distribution, grid connection, electricity supply to households and small-sized companies and electricity supply by the last resort supplier,
- 40 decisions on the electricity price, setting supplementary charge for the generators of electricity using combined heat and power technologies,
- 1,492 decisions on the electricity price, setting supplementary charge for the generators of electricity produced from renewable energy sources.

An important role of the Office is to monitor the behaviour of individual players in the electricity market and to create the conditions for the development of a competitive environment. The Office had adopted responsible approach towards this commitment and the outcome of its analyses and practical experience was the amendment of the other generally binding legal regulation – the Ordinance of the Government No. 317/2007 Coll. as amended, resulting in the Government Ordinance No. 440/2011 Coll. (hereinafter only „the market rules"). This document specified basic notions, introduced the conditions for the system of co-operation of synchronously interconnected operators of transmission networks in order to

eliminate mutual secondary regulation, modified the conditions of a period of notice in case of power supply agreements concluded from 1 January 2012, specified the conditions for providing balancing services, modified the conditions of evaluation, financial settlement and deviation settlement.

The other tools of technical regulation that support transparent and non-discriminatory procedures and conditions in the electricity market are operational orders issued by the Office for the Transmission Network Operator and the operators of regional and local distribution networks. The Act No. 276/2001 Coll. requires from operational orders to include the market rules, therefore, the Office issued 30 decisions on the approval of operational orders following the amendment of the Ordinance of the Government No. 317/2007 Coll. The approved operational order is a binding document for all participants in the electricity market.

The Office has also issued the decision for Slovenské elektrárne, a.s. approving the rules for electricity sales by means of an auction. The publication of the rules has introduced the transparent procedures governing electricity sales by means of auctions.

Towards the end of 2011 the Office made the price calculator for the 2012 calculations of electricity supply to households by individual household electricity suppliers that allow electricity consumers to get a better understanding when choosing a specific rate provided that technical conditions of electricity offtake allow that. Now thanks to the publication and continual update of the information on the Office´s web site it is much easier for consumers as well as regulated companies to orientate in the liberalised electricity market, since it allows them, for example, to see which actions to take when switching an electricity supplier, the information on approved maximum prices of suppliers for domestic electricity consumers, as well as the sample prints of various application forms and sample charts that regulated companies are obliged to complete and forward to the Office, as stipulated by law.

II.2 The Gas Industry

In 2011 price regulation in the gas industry governed the connection to the transmission and distribution networks, access to the transmission network and gas transmission, access to the distribution network and gas distribution, access to storage tank and gas storage, provision of ancillary services in the gas industry, household gas supply, gas supply for the purpose of heat production for households and gas supply by the last resort supplier. Production and storage of natural gas are not subject to price regulation, but to negotiated access according to the gas market rules.

The Decree No. 1/2009 in wording of the Decree No. 1/2010 was used as the basis for setting the prices for 2011. An implementation tool for price regulation in 2011 was the Decree No. 4/2008 in wording valid for 2011. In 2011 price regulation in the gas industry was enforced by means of:

a) Setting out the method of calculation the fixed price for connection to the transmission network and connection of new gas producers to the transmission network,
b) Setting out the method of calculation of the maximum price and the fixed price for connection to the distribution network and connection of new gas producers to the distribution network,
c) Direct determination of the comparable price for access to the transmission network and gas transmission,
d) Direct determination of the comparable price for access to gas storage tank and gas storage,
e) Setting out the method of calculation of the maximum price and tariff for access to the distribution network and gas distribution,
f) Setting out the method of calculation of the maximum price for gas supply to households,

g) Setting out the method of calculation of the maximum price for supply of natural gas for the purpose of heat production for households,
h) Direct determination of the maximum price for gas supply by the last resort supplier,
h) Direct determination of the fixed price for provision of ancillary services.

The setting of prices for the year 2012, which is the first year of a new regulatory period, was carried out under the Decree No. 189/2011 Coll. and the Decree No. 216/2011 Coll. Owing to the positive results of the previous regulatory period the price cap method has remained the prevailing method also in the subsequent regulatory period of 2012–2016, whereas the initial maximum price for access to the distribution network and gas distribution, plus household gas supply was determined for the first year of this regulatory period.

The prices for access to storage tank and gas storage in 2012, similarly to the price for access to the transmission network and gas transmission, were based on the benchmarking method, i.e. a comparison of prices for gas storage in the Slovak Republic with those in the other EU member states. (hereinafter only „the EU“) .

Price regulation governing access to the distribution network and gas distribution for the operators of local distribution networks, whose number of points of supply does not exceed 100,000, was carried out according to the cost based regulatory method. The final price therefore reflects eligible costs of a regulated company spent for the operation of the system, adequate profit approved by the Office and correction of revenues depending on the development of eligible costs of a regulated company in the previous period.

Apart from price regulation the Office, in accordance with the Act No. 276/2001 Coll., has developed the rules for the functioning of the gas market, governing rights and obligations of participants in the gas market and setting out the conditions for the functioning of the liberalised gas market in Slovakia.

The other binding documents for participants in the gas market promoting transparency and effectiveness of the gas market are operational orders where the system operators incorporated the gas market rules adapted to their internal operational conditions. In 2011 the Office, based on the requests of the operators of networks and storage tanks, reviewed and approved 12 operational orders.

In 2011 the liberalisation process was intensified in the Slovak gas market, which brought more intensive competition in the area of gas supplies to industrial consumers and resulted in the higher number of switches of the gas suppliers in all groups of gas consumers, including households. Along with the traditional supplier Slovenský plynárenský priemysel, a.s., (hereinafter only „ SPP, a.s.“), there were more than 15 gas traders in the Slovak gas market.

II.3 The Thermal Energy Industry

The year 2011 was the last year of the regulatory period from 2009 to 2011, whose primary objective was to ensure the stable development of heat prices with the aim to avoid any radical changes in heat pricing. This objective was gradually achieved by applying the scope of heat price regulation based on the approved regulatory policy for the period of 2009 to 2011. The foundation for the stabilised regulatory framework in the thermal energy industry was a generally binding legal regulation that was applicable over the whole regulatory period, which is the Office Decree dated 23 July 2008 No. 6/2008 enforcing heat price regulation. Although its amendment was adopted for each year of the regulatory period, the basic method and scope of regulation were not changed. Respective amendments only supplemented and specified in detail the wording of the decree. The changes were made and adopted in the Decree

No. 7/2008 dated 1 October 2008, the Decree No. 6/2009 dated 10 June 2009 and the Decree No. 10/2010 dated 23 June 2010. The main tools of stabilised heat price regulation in the regulatory period of 2009 to 2011 were the following:

- The same heat price for a regulated company in all points of supply in municipalities,
- A regulated price of natural gas determined for residential heat production,
- Restricted annual growth of fixed costs or regulation of cost increase only due to eligible investments ensuring a better efficiency of the production and distribution of heat or utilisation of renewable energy sources,
- Regulated calculation of costs for the production of heat by combined heat and power production technology,
- A possibility of regulated companies to use eligible costs in the approved annual prices over the entire regulated period.

The scope and structure of eligible costs remained basically unchanged during the regulatory period; the same applies to the possible differentiation of adequate profit of the regulatory asset base of regulated companies. Such complex measures in price regulation have contributed to reliable economically effective, financially competitive and high quality heat supply. After the end of the regulatory period it may be stated that the heat price was mostly influenced by the market price of natural gas and the price of natural gas for the purpose of residential heat production. However, because of the higher world prices of light and heavy fuel oil over the year 2011 the market price of natural gas substantially changed. Such change also influenced the price of natural gas used for residential heat production which were, apart from that in 2011, also increased by the consumption tax imposed on natural gas consumption for heat production in general.

II.4 The Water Service Industry

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

In 2011 the Office applied the methods, procedures and conditions for the price setting in line with the regulatory policy approved for the years 2009–2011, as stipulated by the Office Decrees No. 3/2008 and No. 3/2009, in the scope of production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system in accordance with the Decree No. 1/2009 in response to Article 12 (1) (n) and (o) of the Act No. 276/2001 Coll.

In the last year of the regulatory period of 2009–2011, but also during the entire period, the main priority of price regulation in the area of production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system was to apply the procedures and methods aimed at stabilising the prices and ensuring the protection of potable water consumers and waste water producers against any unjustified and inadequate increase in the prices for production and supply of potable water through the public water supply system and for discharge and treatment of waste water through the public sewage system.

The Office enforced price regulation by direct setting of the maximum price and the method of calculation of maximum price using the price cap method which appears to be the most objective method having a positive impact on stable water prices that cover solely eligible costs being essential for ensuring the operability of the equipment and systems of public water supply and public sewage.

b) Provision of Water Services

In the area of provision of water services price regulation is imposed on provision of services related to the utilisation of hydropower potential of river flows, extraction of surface water from a river flow and extraction of water from a river flow for energy purposes.

In accordance with the approved regulatory policy for the period of 2009–2011 the Office set out as a method of price regulation in 2011 the method of calculation of the fixed price for the extraction of surface water from a river flow, the fixed price for utilisation of hydro power potential of a river flow (by means of tariffs) and the fixed price for the extraction of water from a river flow for energy purposes, using the cost based regulatory method. The method, procedure and conditions of setting prices, including the scope, the structure of eligible costs and the amount of allowed profit in individual regulated activities were already determined by the Decree No. 5/2008 and No. 5/2009 and remained unchanged also for the year 2011.

When providing water services an emphasis is also given to the price stabilisation achieved through restricting the inadequate annual growth of eligible costs and setting adequate profit in order to generate finance required for the upgrading of the existing water service plants used for the regulated activities.



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

III.1 The Electricity Industry

In the electricity industry price regulation was enforced by:

a) Direct setting of the fixed price of electricity produced from:
   - renewable energy sources,
   - combined heat and power,
   - domestic coal,
b) Setting out the method for calculation of the maximum price for:
   - connection to the system,
   - connection of new electricity generators to the network,
   - electricity supply to households and small-sized companies (with the annual electricity consumption up to 30,000 kWh),
   - electricity supply by the last resort supplier.
c) Setting out the method for calculation of the tariff for
   - access to the transmission network and electricity transmission,
   - electricity transmission and distribution losses,
   - access to the distribution network and electricity distribution,
d) Direct setting of the maximum price for providing ancillary services.
e) Direct setting of the tariff for providing balancing services in the electricity industry, setting out the method of calculation, procedure and conditions for using the tariff for system operation (taking into consideration a respective proportion of the costs for the performance of the activities carried out by the organiser of the electricity spot market).

III.I.1. Development of regulated components of the final electricity price

a) Electricity transmission

A regulatory framework was established to provide the transmission network operator with the finance required for making future investments, taking into account all revenues earned from the provision of transmission and balancing services as well as the settlement of deviations ensuring the stable and secure operation of the power system of the Slovak Republic.

For the year 2011 the Office, exercising its powers, determined or approved for the transmission network operator – Slovenská elektrizačná prenosová sústava, a.s. (SEPS, a.s.) the following:

- Tariffs for access to the transmission network and its control for final electricity consumers directly connected to the transmission network,
- Tariffs for transmission losses,
- Prices and tariffs for providing ancillary services and regulatory power,
- Tariffs for providing balancing services in the electricity industry,
- The tariff for system operation for the operator of a local distribution network directly connected to the transmission network and for an electricity generator directly connected to the transmission network.

The following graph presents electricity transported through the transmission network within the restricted territory of the Slovak Republic:

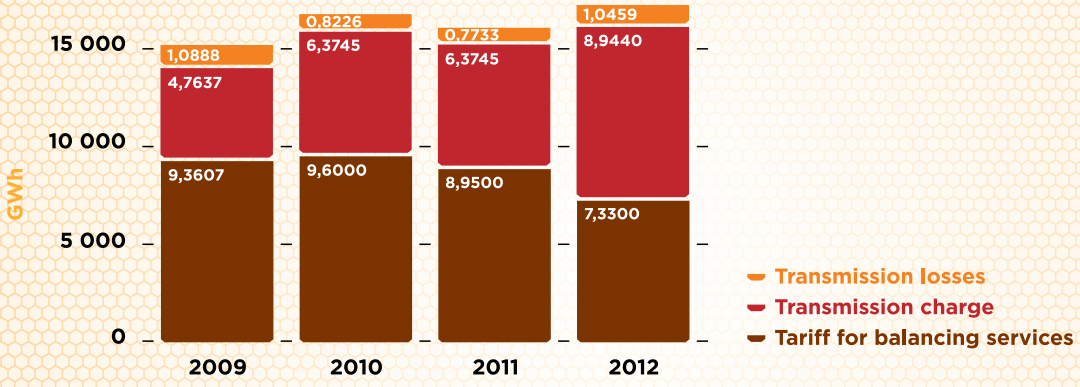
Year	2009	2010	2011
Electricity transported through the transmission network	24 117	23 436	28 342

The following charts and graphs show that in 2011, compared to 2010:

- The tariff for transmitted electricity did not increase on an annual basis,
- The tariff for reserve capacity increased annually by 6.37 % due to an increase in the amounts of electricity transported through the transmission network and a decrease in reserve capacity,
- The tariff for balancing services went slightly

The development of regulated charges for SEPS, a.s.

	2009 €/MWh	2010 €/MWh	2011 €/MWh	2012 €/MWh	change 10/09	change 11/10	change 12/11
Tariff for balancing services	9,3607	9,6000	8,9500	7,3300	2,56%	-6,77%	-18,10%
Transmission charge	4,7637	6,3745	6,3745	8,9440	33,82%	0,00%	40,31%
Transmission losses	1,0888	0,8226	0,7733	1,0459	-24,45%	-5,99%	35,25%
Total regulated charges	**15,2131**	**16,7971**	**16,0978**	**17,3199**	**10,41%**	**-4,16%**	**7,59%**



down, from 9.60 €/MWh to 8.95 €/MWh, which makes a 6.77% decline,
- The tariff for transmission losses decreased by 5.99 % due to a decline of commodity price and a decline in the planned deviation costs

Acting within its powers, the Office determined or approved for the organiser of the electricity spot market (OKTE, a.s.) the following:
- The tariff for settlement, evaluation and billing of deviations on a quarter hourly basis determined for an electricity trader with own responsibility for deviation, whose final consumption at the points of supply belonging to its balance group in 2011 is higher than 1,500,000 MWh and for an electricity consumer with its point of supply on the restricted territory in 2011,
- The annual fixed charge for settlement, evaluation and billing of deviations in 2011 determined for an electricity trader with its own responsibility for deviation, whose final consumption at the points of supply belonging to its balance group in 2011 is lower than 1,500,000 MWh and an electricity generator with its own responsibility for deviation that does not supply electricity to the point of supply,
- The annual fixed charge for managing the electricity spot market for a billing entity that is a participant of the organised electricity spot market,
- The tariff for managing and assessment of the electricity spot market, for electricity purchased and sold to the participants of the electricity spot market.

b) Electricity distribution

Through its decisions for 2011 the Office determined or approved for the operators of regional distribution networks, having more than 100,000 points of supply, the following:
- Maximum prices for connection to the distribution network up to 1 kV,
- Tariffs for access to the distribution network and electricity distribution for users of the distribution network, except for domestic electricity consumers,
- Tariffs for access to the distribution network and electricity distribution for domestic electricity consumers,
- Tariffs for providing balancing services and tariffs for system operation for the operators of local distribution networks, electricity generators and

final electricity consumers connected to a regional distribution network.

Apart from the operators of regional distribution systems, including ZSE Distribúcia, a.s., SSE - Distribúcia a.s. and Východoslovenská distribučná, a.s., there are also 148 operators of local distribution networks, with fewer than 100,000 points of supply connected. These include the premises of both manufacturing and non-manufacturing enterprises, where the company acts as an operator of the distribution network and quite often as a licenced electricity supplier. For these regulated companies the Office determined/approved:

- Maximum prices for connection to the distribution network up to 1 kV,
- Tariffs for access to the local distribution network and electricity distribution,
- The tariff for balancing services for final electricity consumers,
- The tariff for system operation for final consumers,
- Maximum prices for electricity supply to small-sized companies (upon submission of price proposal),
- Maximum prices for household electricity supply (upon submission of price proposal).

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

Considering electricity distribution effectiveness factor was also applied in 2011, restricting the impact of escalating coefficients leading to the optimisation of costs. Applied was also the annual reduction of percentage of permissible distribution losses at a respective voltage level which together with the introduction of the effectiveness factor motivate distribution utilities in optimising all their costs.

At the low voltage level the Office introduced the categories of distribution rates.

The tariff for access to the distribution network and electricity distribution is divided maximally into eleven rates C1 to C11 for the users of the distribution network, except for domestic electricity consumers. The tariff for access to the distribution network and electricity distribution determined for domestic electricity users is divided maximally into eight rates D1 to D8 for domestic electricity consumers.

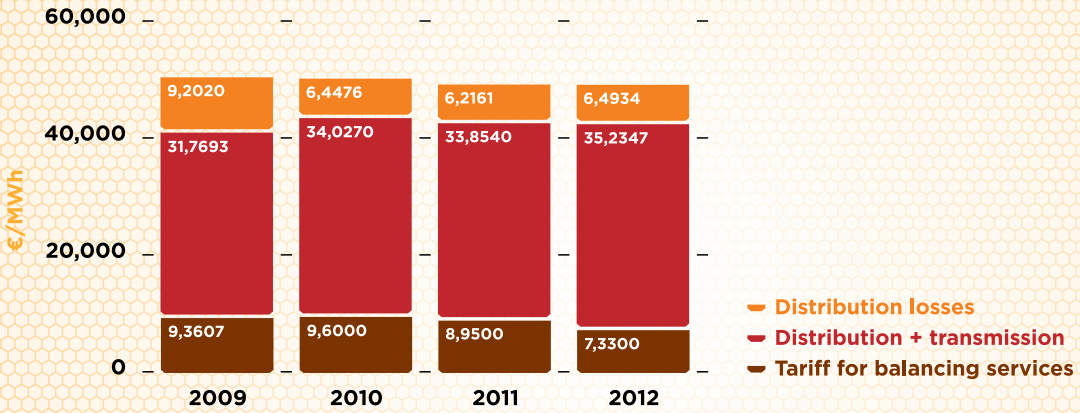
The amounts of electricity distributed by the operators of regional distribution networks on the restricted territory of the Slovak Republic are presented in the following data and chart:

Year	2009	2010	2011
Amounts of electricity distributed (GWh)	17 235	17 817	18 058

Over the past years the Office has experienced a decrease in the proportion of grid charges in the final electricity price; however, further attention will be paid to this matter.

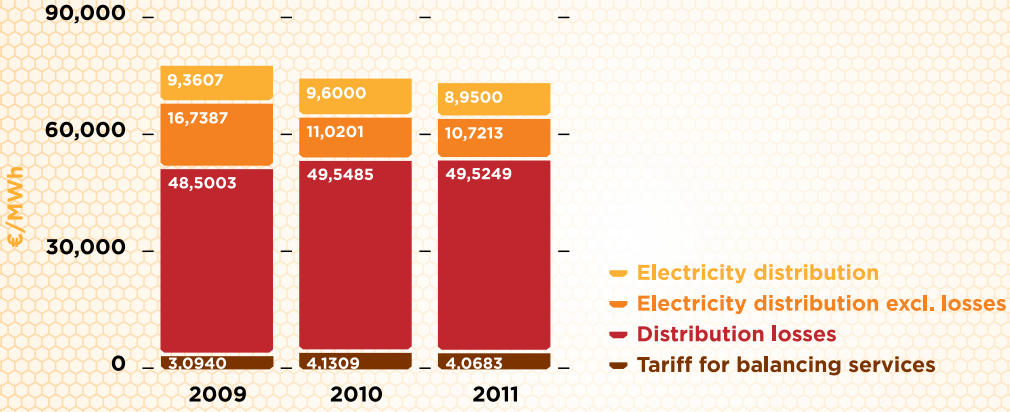
Development and structure of regulated charges for users of the distribution system

	2009 €/MWh	2010 €/MWh	2011 €/MWh	2012 €/MWh	change 10/09	change 11/10	change 12/11
Tariff for balancing services	9,3607	9,6000	8,9500	7,3300	2,56%	-6,77%	-18,10%
Distribution + transmission	31,7693	34,0270	33,8540	35,2347	7,11%	-0,51%	4,08%
Distribution losses	9,2020	6,4476	6,2161	6,4934	-29,93%	-3,59%	4,46%
Total regulated charges	**50,3320**	**50,0746**	**49,0201**	**49,0581**	**-0,51%**	**-2,11%**	**0,08%**



The components of the price for access to the distribution network and electricity distribution for small-sized companies

			2009 €/MWh	2010 €/MWh	2011 €/MWh	change 10/09	change 11/10
Grid charges	Electricity distribution including transmission and distribution losses	Electricity transmission	3,094	4,1309	4,0683	30,28%	-1,51%
		Electr. distribution excl. losses	48,5003	49,5485	49,5249	2,16%	-0,001%
		Distribution losses	16,7387	11,0201	10,7213	-34,2%	-2,71%
	Tariff for balancing services		9,3607	9,6000	8,9500	2,56%	6,77
Total			**77,6937**	**74,2995**	**73,2645**	**-4,37%**	**-1,393%**



c) A price of active power (commodity)

The activities subject to price regulation are specified by Act No. 276/2001 Coll. On the liberalised market electricity consumers may choose their electricity supplier, thus influence a non-regulated component of the final price for electricity supply.

The size of the price for active power in the wholesale market depends mainly on the price level of products traded in power exchanges, especially in the liquid European Energy Exchange AG (EEX). At the turn of 2008 and 2009 the economic and financial crisis caused a sharp decline in electricity consumption and subsequently a decline in the price of electricity and the price rise in power exchanges.

d) Electricity supply for households and small-sized companies

In 2010 as well as in 2011 alternative electricity suppliers offered lower prices of active power in the electricity market, which was the result of their higher flexibility in purchasing active power and reduced administrative costs. Annually, modifications are made to the structure of rates and tariffs for households based on the business and marketing policy of electricity suppliers, with a special focus given to the optimisation of costs for electricity purchase and, at the same time, effective utilisation of the assets.

Towards the end of 2011 overally 41 electricity suppliers supplied electricity to domestic consumers, of which 6 suppliers had a rather substantial share, about 73 %, in the electricity market.

A progressing liberalisation and development of the electricity market have been manifested by the annual increase in the number of electricity consumers that switched their electricity suppliers. The following data illustrate such development:

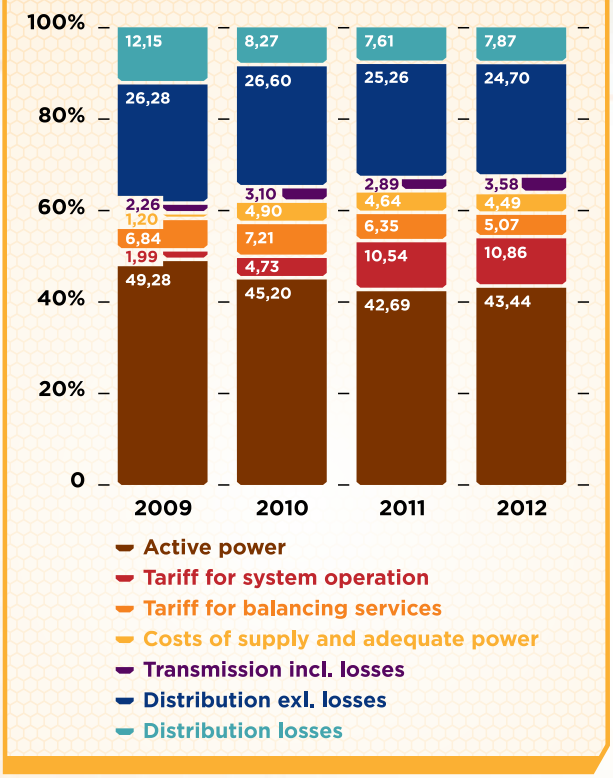
Year	2008	2009	2010	2011
Number of household consumers switching supplier	29	7 697	17 208	40 574
Number of non-household consumers switching supplier	1 462	2 999	4 702	2 210

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

In the last year of the regulatory period price regulation imposed on electricity supply by the last resort supplier was enforced in the form of direct determination of the maximum price for electricity supply by the last resort supplier. For the three last resort suppliers operating in the areas of the restricted territory of the Slovak Republic, i.e. ZSE Energia, a.s., SSE, a.s. and VSE, a.s. the Office issued three price decisions which determined maximum prices in 2011 for household electricity supplies by last resort suppliers in a respective area of the restricted territory.

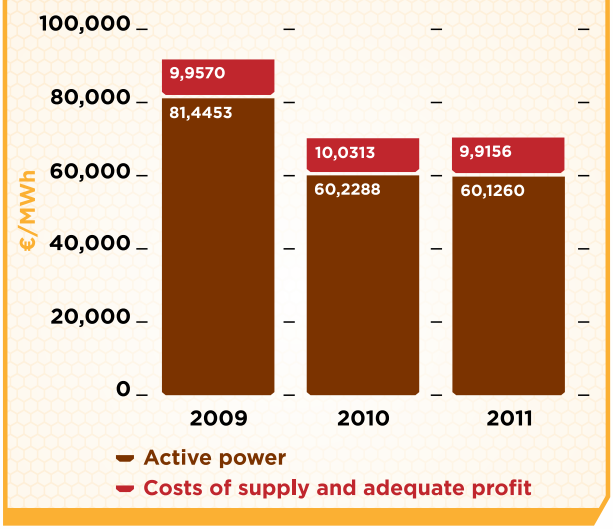
In 2011 there were no substantial changes in the rules for electricity supplies to households. The Office continued to approve maximum prices for every electricity supplier. Final electricity prices were influenced by a VAT rise from 19 to 20 % in 2011, especially by the introduction of a fee for levy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

The comparison of a structure of the final electricity price for households in a period from 2009 to 2012



Components of the price of electricity supply to small businesses

	2009 €/MWh	2010 €/MWh	2011 €/MWh	zmena 10/09	zmena 11/10
Active power	81,4453	60,2288	60,1260	-26,05%	-0,17%
Costs of supply and adequate profit	9,9570	10,0313	9,9156	0,75%	-1,15%
Total	91,4023	70,2601	70,0416	-23,1%	-0,31%



The year 2011 was the last year of price regulation of electricity supply to small-sized companies. The Office ceased to regulate electricity supplies to these small-sized companies due to the sufficient level of liberalisation and competition in the electricity market in this particular segment.

e) Grid connection

A price for grid connection is in the form of a single charge. Through its decree the Office determined the conditions for connection of:

- The operator of the distribution network to the transmission network,
- The final electricity consumer or the electricity producer to the transmission network,
- The electricity consumer or the electricity producer to the distribution network.

f) Tariff for system operation

The tariff for system operation includes the support of electricity produced from renewable energy sources and highly efficient combined heat and power production technologies, the support of production of domestic coal used for the purpose of electricity production and a respective part of costs of the organiser of the electricity spot market. This tariff has a specific position in the system of regulation. Even though it belongs to the regulatory portfolio of the Office, its components are explicitly set by the decisions of other state authorities made in the state interest, therefore the Office is merely an executor of accounting operations using prior given data. Therefore, the Office has limited powers in influencing its size, although it directly affects the final electricity price.

The tariff for system operation is included into the price for transmission and distribution of electricity and is paid by every electricity consumer.

Under the Act No. 309/2009 Coll. the support of electricity produced from renewable energy sources and electricity generated in CHP plants is related to electricity supplied to cover losses in regional distribution networks and such support is provided in the form of fixed prices determined by the Office Decree.

The price of electricity from renewable energy sources and highly efficient combined heat and power production was used on the basis of certificate on origin of supply and a price decision issued by the Office.

The costs related to the support of electricity produced from renewable energy sources and highly efficient heat and power production are taken into account by the operator of regional distribution networks by means of the tariff for system operation.

A developing market competition in the segment of electricity sales for households and businesses partly cuts down the final electricity price, however, its size is significantly influenced by the tariff for system operation which includes the support of electricity produced from renewable energy sources and CHP and since 2010 also a respective part of the costs related to the organisation of the electricity spot market.

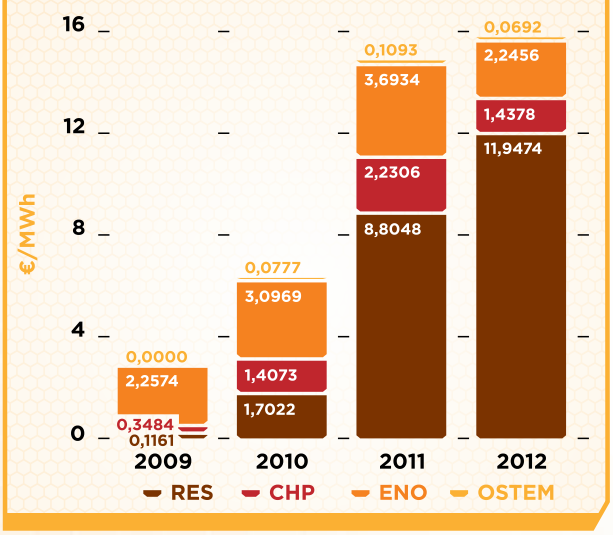
The largest part of an annual increase in this tariff falls on photovoltaic power plants that have the highest feed-in tariffs of all renewable energy sources. Following the approval of the amendment of the Act No. 309/2009 Coll., which modified the conditions concerning the support of electricity produced from renewable energy sources and highly efficient CHP, the Office is obliged to comply with the requirements arising out of the law and accordingly include all the factors having influence on tariffs for system operation into the calculation of the electricity price for 2011. Compared to 2010, the size of tariff for system operation in 2011 is higher by 8.55 €/MWh thus achieving the value of 14,85 €/MWh, which brings an increase by 135,71 %.

Price regulation also governs electricity produced from coal which is produced in Slovakia. For the year 2011 the Office, through its decision, determined for a regulated company Slovenské elektrárne, a.s. a tariff for each MWh of electricity supplied to the system that was evidently produced from domestic coal in a thermal power plant operated by a holder of the generation licence. Based on the decision of the Ministry of Economy of the Slovak Republic imposing an obligation in general economic interest (pursuant to Article 3(2) (f) and (h) of the Act No. 656/2004 Coll.) electricity produced from domestic coal must be purchased from the electricity producer by such electricity supplier, whose electricity supply to the final electricity consumer was higher than 1,500 GWh in 2010 and such electricity supplier pays to the electricity producer the tariff – a supplementary charge for each MWh evidently produced from domestic coal. The costs for using such tariff are taken into account in the tariff for system operation.

A share of individual components of the tariff for system operation in the years 2010, 2011 and 2012 is shown in the following data:

Individual components of the tariff for system operation

	2009	2010	2011	2012
RES	0,1161	1,7022	8,8048	11,9474
CHP	0,3484	1,4073	2,2306	1,4378
ENO	2,2574	3,0969	3,6934	2,2456
OSTEM	0,0000	0,0777	0,1093	0,0692
Total TSO	2,7219	6,2841	14,8381	15,7000



Photovoltaics covers the largest share in the costs for supporting electricity from renewable energy sources. Over the past years the Office indicated that a chaotic increase in the number and capacity of photovoltaic generating plants had a negative impact on the final electricity price, however, it is not in the powers of the Office to grant permits for the construction of such power plants. Within its competences the Office made in 2011 the inspections of generators of electricity produced from renewable energy sources in the installations generating electricity from solar power with an installed capacity exceeding 100 kW. It also proposed some other measures which, however, were not accepted in further legislative process, on the contrary, the final wording of the Act No. 309/2009 Coll. as amended brought a number of changes resulting from uncoordinated motions to amend which brought about the higher support of renewable and CHP plants, a higher impact on the final electricity price for all final consumers, including households.

The total installed capacity in cumulative megawatts according to Office price decisions:

Type of RES	2009	2010	2011
Biomass	32,46	50,91	53,69
Biogas	2,03	14,77	39,01
PV power plant	0,19	185,47	507,07
Small hydro (up to 5 MW)	40,93	48,69	58,99
Co-firing (biomass+fossil fuels)	6,30	134,3	134,3
Hydro (over 5 MW) *	0	631,62	631,62
Wind energy	3,14	3,14	3,14
Total	**85,05**	**1068,89**	**1427,82**

III.2 The Gas Industry

III.2.1 Gas transmission

Natural gas used for the needs of the Slovak market as well as international markets is conveyed through the high pressure gas transmission network that is operated by the single licenced operator of the transmission network eustream, a.s. Considering the amount of transmitted gas being 74.0 bil. m^3 in 2011 and the annual capacity of the transmission network of more than 90 bil. m^3, Slovakia is the largest shipper of Russian natural gas in the EU.

Connection and access to the transmission network, plus gas transmission are all subject to price regulation. The price regulation method imposed on access to the transmission network and gas transmission is governed by the Act No. 276/2001 Coll. and is enforced through direct determination of the comparable price based on the analysis of prices for gas trans-

mission in other EU member states using the entry-exit tariff system. The analysis makes a comparison of the total average prices for natural gas transmission including the calculation of length units, taking into account a respective distance of entry and exit points of the transmission network. Through its decision dated 6 October 2010 the Office approved for eustream, a.s. in 2011 the comparable prices for access to the transmission network and gas transmission. In accordance with the Ordinance of the Government No. 409/2007 Coll. respective tariffs also include the appraisal of the entry-exit point Veľké Zlievce within the planned project of the Slovak-Hungarian interconnection of transmission networks.

The price regulation of connection to the transmission network is enforced through setting out the method of calculation of the fixed price for connection and under the Decree No. 4/2008 such price is set based on the actually incurred and proven costs of the transmission network operator. In 2011 the Office did not issue any price decision for connection to the transmission network.

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

In 2012 the structure of tariff groups for four entry-exit points of the transmission network has remained unchanged, compared to 2011, and depending on the negotiated daily maximum capacity of gas transmission it is divided into the four categories:

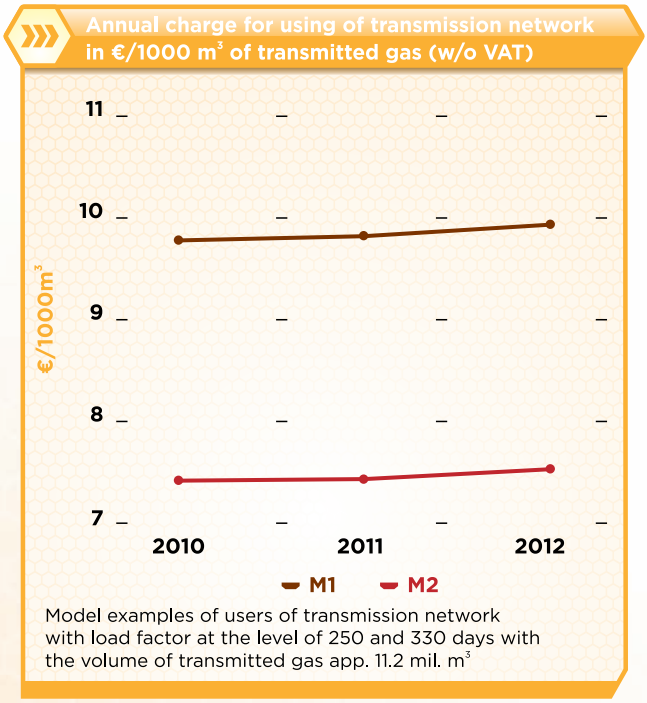
Ten_1, Tex_1 – up to 1,75 mil. m^3
Ten_2, Tex_2 – from 1,75 mil. m^3 to 40 mil. m^3
Ten_3, Tex_3 – from 40 mil. m^3 to 132 mil. m^3
Ten_4, Tex_4 – from 132 mil. m^3

In 2012 the average annual increase in initial tariff rates by 1.05 %, compared to the previous year, was influenced by the EU inflation rate at the level of 2.1 %, whereas only its 50 % value is included in the escalation factor.

Tariff groups T_{en1} and T_{ex1} applicable in the Slovak market as well as for transit purposes with the contractually agreed daily capacity below 1.75 mil. m^3 relate to all Slovak gas consumers that would decide, based on an agreement with the operator of the transmission network, to transmit natural gas to their points of extraction on a case-to-case basis. Using the model calculation of total annual payment for gas transmission made by the Office the standard industrial consumer in Slovakia I4, according to Eurostat with a different factor of network load 250 and 330 days on the transmission route Veľké Kapušany – a local point, pays for gas transmission by 1.05 % more in 2012, compared to the previous year.

The following graph illustrates the development of average prices for natural gas transmission in model calculations of the users of the transmission network with the load factor 250 days (MA) and 330

days (M2) with the annual quantity of transmitted gas being 11.2 mil. m³.



Model examples of users of transmission network with load factor at the level of 250 and 330 days with the volume of transmitted gas app. 11.2 mil. m³

III.2.2. Gas distribution

In 2011 the price regulation in gas distribution was imposed on those regulated companies, whose:

a) number of extraction points is higher than 100,000, i.e. for the only operator of the distribution network SPP – distribúcia, a.s., which also acts as the gas dispatching centre on the restricted territory,
b) number of extraction points from the distribution system does not exceed 100,000, which are mainly the area based operators of the distribution networks on the restricted territory, the so-called local distribution networks.

In 2011 the Office issued for SPP – distribúcia, a.s., the price decision approving the 2012 tariffs for access to the high pressure distribution network and gas distribution and the tariff for providing ancillary services that are not covered through the tariffs for access to the distribution network and gas distribution, together with the conditions concerning the use of such tariffs. The initial maximum price for access to the distribution network and gas distribution determined for the first year of the regulatory period under the Decree No. 216/2011 Coll was used as a starting point. To calculate the initial maximum price the Office determined the initial annual value of depreciations, operating costs and adequate profit. For the purpose of calculation the Office took into account the value of costs of a regulated company related to the fulfilment of obligations at the time of emergency situation pursuant to Article 14 (12) and (14) of the Act No. 656/2004 Coll. and the value of the scheduled costs for coverage of losses and auxiliary gas consumption in the network.

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

Through its price decision for 2012 the Office also approved for SPP – distribúcia, a.s. the prices for connection to the distribution network, for the category of domestic gas consumers and for the category of non-household gas consumers, respectively, whereas they were designed not to exceed the scheduled average costs for connection to the distribution network in accordance with the Decree No. 216/2011 Coll.

In 2011 the Office issued for the operators of local distribution networks 9 price decisions valid for 2011 and 29 price decisions valid for 2012, based on which prices or tariffs were approved for access to the distribution network and natural gas distribution. The

eligible costs for operation of the distribution network limited by the value of maximum eligible costs and adequate profit were used as the basis for the price setting. For the year 2011 the Office approved the price for connection to the distribution network for one operator of the local distribution network.

The following chart presents the development of average prices for gas distribution in individual tariffs from 2010 to 2012, calculated based on the data planned for 2012.

The development of average prices for access to the distribution network and gas distribution from 2010 to 2012 (w/o VAT)

Tariff (by annual size of distributed gas in m³)	2010 (€/m³)	2011 (€/m³)	2012 (€/m³)
M/Da (up to 200)	0,5931	0,5958	0,5959
M/Db (from 200 to 1 700)	0,1602	0,1609	0,1610
M/Dc (from 1 700 to 6 500)	0,1272	0,1277	0,1278
M/Dd (from 6 500 to 60 thous.)	0,0867	0,0870	0,1039
S (from 60 thous. to 400 thous.)	0,0782	0,0785	0,0836
Va (from 400 tis. to 2 mil.)	0,0683	0,0686	0,0711
Vb (from 2 mil. to 15 mil.)	0,0492	0,0494	0,0508
Vc (from 15 mil. to 25 mil.)	0,0306	0,0308	0,0323
Vd (from 25 mil. to 300 mil.)	0,0246	0,0248	0,0259
Ve (from 300 mil. to 500 mil.)	0,0180	0,0181	0,0191

III.2.3 Gas storage

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

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

Storage capacity of underground gas storage tank operators as of 31 December 2011

Underground storage tank operator	Technical working capacity (in mil. m³)	Technical injection rate (in mil. m³/day)	Technical prod. capacity (in mil. m³/day)
NAFTA a.s.	2 235	23,00	30,50
POZAGAS a.s.	647	6,85	6,85
Total:	**2 882**	**29,85**	**37,35**

Access to gas storage tank and gas storage are subject to price regulation by setting the comparable price. Under the Decree No. 216/2011 the price proposal for access to storage tank and gas storage is based on the analysis of the prices for access to storage tank and gas storage by the operators of storage tanks in other EU member states that operate storage tanks with the parameters similar to those in the Slovak Republic. The comparable prices for access to gas storage tank and gas storage are determined in the form of maximum prices for access to gas storage tank and gas storage.

In 2011 the Office issued two decisions for the operators of storage tanks, thus approving the prices for access to gas storage tank and gas storage on the territory of the Slovak Republic for the period starting from May 1, 2012 to April 30, 2013, i.e. the period identical with the gas year of the operators of gas storage tanks. Both operators of storage tanks offer

free storage capacity in a transparent and non-discriminatory manner by means of public bidding. One of the criteria for allocating storage capacity is the price offered by the parties interested in storage capacity, while respecting the cap price.

The following chart presents the maximum prices for access to storage tank and gas storage in 2011 and 2012 for individual storage services (w/o VAT).

Underground storage tank operator	Storage capacity (€/(m³/year))		Working capacity (€/m³)		Injection rate (€/(m³/day))		Production capacity (€/(m³/day))	
	2011	2012	2011	2012	2011	2012	2011	2012
NAFTA a.s.	0,0704	0,0686	x[1)]	x[1)]	1,9300	2,0100	2,3400	2,4400
POZAGAS a.s.	0,0666	0,0629	0,0324	0,0353	3,4625	3,4964	3,0858	2,4721

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

III.2.4 Gas supply

III.2.4.1 Development of competition in the liberalised gas market

In 2011 the Slovak gas market had one traditional supplier SPP, a.s, plus a number of other gas traders that purchased natural gas from various gas suppliers. The local supplier SPP, a.s., having the major share in the gas market, had several competitors in the area of gas supply to final industrial gas consumers, including mainly RWE Gas Slovensko, s.r.o., VNG Slovakia, spol. s r.o. and ELGAS, s.r.o.

The year 2011 was important for the number of switches of a gas supplier, especially in the case of domestic gas consumers. Liberalisation of the market was evaluated using the percentage coefficient, the so-called switching, which expresses the number of extraction points with the changed suppliers to the total number of extraction points in a given year. A sharp rise in the number of switches of gas suppliers occurred in the category of small-scale consumers, where the switching coefficient achieved 6.44 %. In 2011 the first switches of a gas supplier in the residential sector were caused by transfer of households from the traditional supplier to competitive gas suppliers. However, in the same year the Office also recorded the return to the traditional gas supplier.

The chart represents the switching of a gas supplier at individual extraction points from 2009 and 2011. The data in the chart does not take into account the switching of a gas supplier at extraction points in local distribution networks.

The switching of a gas supplier			
Year	2009	2010	2011
Categories of extraction points	No. of switches	No. of switches	No. of switches
Large-scale consumer	39	84	99
Medium-scale consumer	14	84	267
Small-scale consumer	5	2 950	5 270
Households	0	0	21 376
Total	**58**	**3 118**	**27 012**

III.2.4.2 Annual gas consumption development

In 2011 the consumption of natural gas by final gas consumers in the Slovak Republic achieved 57.9 TWh. Compared to 2010, when the consumption of natural gas reached 57.3 TWh, it means an increase by 1.1 %.

The traditional gas supplier SPP, a.s. occupied the most significant share in the 2011 gas consumption, having a 77.1 % share in the market of gas supplies to final consumers. RWE Gas Slovensko, s.r.o. achieved a 15.6 % share in the market with gas supplies to final consumers and other major natural gas traders covered overally a 7.3% share in the consumption.

III.2.4.3 Gas supply price regulation

In 2011 price regulation in the area of gas supply was imposed on the following:

a) Gas supply to households,
b) Supply of gas for the purpose of heat production for households,
c) Gas supply by the last resort supplier.

The Decree No. 216/2011 Coll. determined for a regulated activity of gas supply the method for calculation of maximum prices according to the regulatory method called the price cap method. Such method sets a price level for the regulatory period, the basis of which is the first year of the regulatory period with the maximum initial price for natural gas supply to households. The price regulation of gas supply by the last resort supplier has been enforced by setting the method of calculation of the maximum price for gas supply by the last resort supplier.

a) Residential gas supply

The year 2011 was the first year when the market liberalisation was fully manifested also in the category of domestic gas consumers. More than 21,000 households decided to switch the traditional gas supplier SPP, a.s.

Through its decision dated 9 December 2011 the Office determined for SPP, a.s. the maximum prices for gas supply to households for the year 2012 alongside the conditions of their implementation. Maximum prices for gas supply to households are two component prices, made up of the maximum size of the fixed monthly rate and the maximum size of the rate for natural gas offtake. The structure of tariffs has remained unchanged and they are divided into three tariff groups D1 to D3 depending on the amount of annual gas consumption. No regulation is imposed on gas supply to households in tariff group D4 with consumption above 6,500 m^3 (68,575 kWh) similarly to non-households gas consumers.

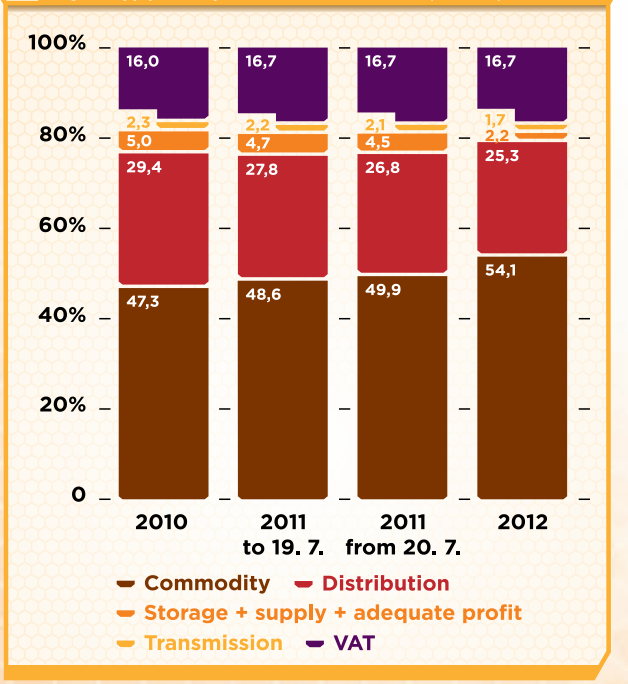
Based on the anticipated development of prices of crude oil and oil products in 2012 and the assumed development of the exchange rate of EURO against U.S. dollar, the average price for gas supply to households in 2012 has increased by 5.53 % on average, compared to the previous year.
The following graph illustrates a comparison of the

structure of the average price for household gas supply from 2010 to 2012, including VAT. The most significant share in the final payment for household gas supply represents the purchase of natural gas from a foreign supplier.

Maximum prices for household gas supply in the period from 2010 to 2012 (w/o VAT)

Tariff	Fixed monthly rate (€/month)				Rate for gas offtake (€/kWh)			
2010	2011	2011 to 19.7.	2012 from 20.7.	2010	2011	2011 to 19.7.	2012 from 20.7.	
D1	1,7427	1,76	1,76	1,76	0,0491	0,0509	0,0537	0,0561
D2	4,1382	4,15	4,15	4,15	0,0355	0,0372	0,0400	0,0424
D3	6,4424	6,46	6,46	6,46	0,0339	0,0356	0,0384	0,0408

A comparison of the structure of the average price for household gas supply in the period from 2010 to 2012 (w/- VAT)



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

Tariff (by annual volume of supplied gas in kWh)	2010 (€/kWh)	2011 do 19.7. (€/kWh)	2011 od 20.7. (€/kWh)	2012 (€/kWh)
D1 (to 2 100)	0,0843	0,0858	0,0886	0,0881
D2 (from 2 100 to 17 935)	0,0397	0,0414	0,0442	0,0465
D3 (from 17 935 to 68 575)	0,0364	0,0381	0,0409	0,0436

b) Gas supply for household heat production

Due to an insufficient competitive environment in the gas supply market and bearing in mind the protection of the most vulnerable group of domestic heat consumers, the Office performed in 2011 the price regulation of those gas suppliers which supplied gas for the purpose of heat production for households.

The new regulatory period brought changes in price regulation enforced in heat production for households. The Office does not approve any specific prices or tariffs for individual regulated companies supplying natural gas for heat production for households, but it solely determines the scope of eligible costs that may be included into the prices

including adequate profit earned from such gas supply. In 2011 the Office issued 13 price decisions where the scope of eligible costs and the size of adequate profit for individual companies were determined.

size of adequate profit for both categories: household gas consumers and non-household gas consumers.

Maximum prices for gas supply for heat production for households for SPP, a.s. in 2010 and 2011 (w/- VAT)

Tariff	Fixed monthly rate (€/month)			Rate for daily maximum (€ / (m³/day))			Rate for gas offtake (€/kWh)		
	2010	2011 to 19. 7.	2011 from 20. 7.	2010	2011 to 19. 7.	2011 from 20. 7.	2010	2011 to 19. 7.	2011 from 20. 7.
M2	5,34	5,34	5,34		-	-	0,0452	0,0472	0,0507
M3	8,02	8,02	8,02		-	-	0,0434	0,0454	0,0489
M4	21,81	21,81	21,81		-	-	0,0410	0,0428	0,0463
S a	49,08	49,08	49,08	8,5882	8,5882	8,5882	0,0251	0,0270	0,0305
S b	49,08	49,08	49,08	8,2229	8,2229	8,2229	0,0251	0,0270	0,0305
V1 a	175,94	175,94	175,94	8,5168	8,5168	8,5168	0,0247	0,0266	0,0301
V1 b	175,94	175,94	175,94	8,1515	8,1515	8,1515	0,0247	0,0266	0,0301
V2 a	3 602,01	3 602,01	3 602,01	8,4504	8,4504	8,4504	0,0229	0,0249	0,0284
V2 b	3 602,01	3 602,01	3 602,01	8,0851	8,0851	8,0851	0,0229	0,0249	0,0284
V3 a	10 227,42	10 227,42	10 227,42	7,8845	7,8845	7,8845	0,0226	0,0245	0,0280
V3 b	10 227,42	10 227,42	10 227,42	7,5192	7,5192	7,5192	0,0226	0,0245	0,0280
V4 a	32 025,86	32 025,86	32 025,86	7,4529	7,4529	7,4529	0,0219	0,0239	0,0274
V4 b	32 025,86	32 025,86	32 025,86	7,0876	7,0876	7,0876	0,0219	0,0239	0,0274

c) Gas supply by the last resort supplier

Bearing in mind the protection of gas consumers the Decree No. 216/2011 Coll. enforces the price regulation of gas supply by the last resort supplier for the entire regulatory period. In the first year of the regulatory period such price regulation is enforced through setting out the method of calculation of the maximum price for gas supply by the last resort supplier.

The Office issued for the last resort supplier on the restricted territory of the Slovak Republic, i.e. for SPP, a.s., three price decisions which determined maximum prices for gas supply by the last resort supplier in the form of the scope of eligible costs that may be included into the prices, including the

III.3 The Thermal Energy Industry

For several years there has been the stabilised number of heat suppliers, which is about 340, in the thermal energy market. Their number is changing over the year, but mostly due to the optimisation of the portfolio of energy utilities. Heat supply through the district heating system is provided in all Slovak towns with the complex housing areas. Annual heat supply achieves about 15,500 MWh, however, there has been a long term downward trend in heat supplies for the purpose of space heating. On the basis of the knowledge of the market participants it may be claimed that the number of cases when heat supply was stopped due to the construction of an individual generating station in the last regulatory period de-

creased which may be explained with a relatively stable heat price, especially its fixed component. As regards further development of the district heating systems a negative aspect is the inability to attract new heat consumers, especially in connection with the construction of new apartment buildings, multi-purpose buildings and shopping centres. Further development of the district heating system is also hindered by the lengthy administrative procedure of approving the construction of heat supply pipelines, outstanding ownership of land required for the construction of pipelines, absence of long-term agreements and, last but not least, the uncompetitive heat price due to the investment costs required for the construction of a new heat source. Presently, 40 % of the heat is supplied to household consumers and 60 % to non-household consumers, mainly to the tertiary sector and the industrial sector.

Depending on the range of supplies thermal plants may be divided into in-house boiler rooms, block boiler houses supplying heat to several buildings or municipal CHP plants supplying thermal energy to most of the municipal consumers. Heat supply is governed by the Act No. 657/2004 Coll. on the Thermal Energy Industry as amended on the basis of a heat supply agreement. Due to the existence of natural monopolies in the area of heat distribution this act defines some of the duties of the heat supplier in relation to access to the distribution network and other duties limiting their dominant position.

Price regulation in network industries, also including the production, distribution and supply of heat, also attempts to eliminate any abuse of the dominant position in the market. On the contrary to the last year, the year 2011 was significant because the rules were made for the new regulatory period which is extended for a period of five years and lasts until 2016. A new regulatory policy, having been adopted by the Board for Regulation, has defined the scope and method of regulation in the thermal energy industry. The Office Decree No. 219/2011 Coll. (hereinafter only „Decree") lays down the rules of price regulation governing production, distribution and supply of heat in the period from 2012 to 2016, thus enforcing price regulation in the thermal energy industry.

When drafting the decree the Office was inspired by positive experience with the method of regulation in the previous regulatory period, whereas its main motto was to maintain the stable price regulation without any significant changes restricting the development of a stable and predictable business environment. Therefore, the scope of eligible costs remained almost unchanged; however, some of the rules have been changed regarding the application of the price and the allocation of the costs for combined heat and power production. A variable component of the heat price is determined in €/kWh based on the contracted amount of heat and it is determined for households and for other non-household consumers, respectively. This is caused by somehow transient period when the prices for natural gas for heat production for households were slightly deregulated. Since 2012 the price for natural gas supply for heat production for households has been regulated through setting the scope of eligible costs included into the price, which might have brought the identical price for both groups of heat consumers in some cases. Under the Act No. 609/2007 Coll. on Consumption Tax from Electricity, Coal and Natural Gas and on Amendment and Supplement of the Act No. 98/2004 Coll. on Consumption Tax from Mineral Oil as amended the consumption tax has already been at the same level for all the consumers. The fixed component of the heat price is determined under the decree for regulatory power input and it is set in €/kW of regulatory power input. A substantial change has been made to the fixed component of the heat price which is the change in the calculation of regulatory power input calculated on a standard basis from the last year of heat supply when heat consumption by the consumer was measured. From that point of view the consumers that

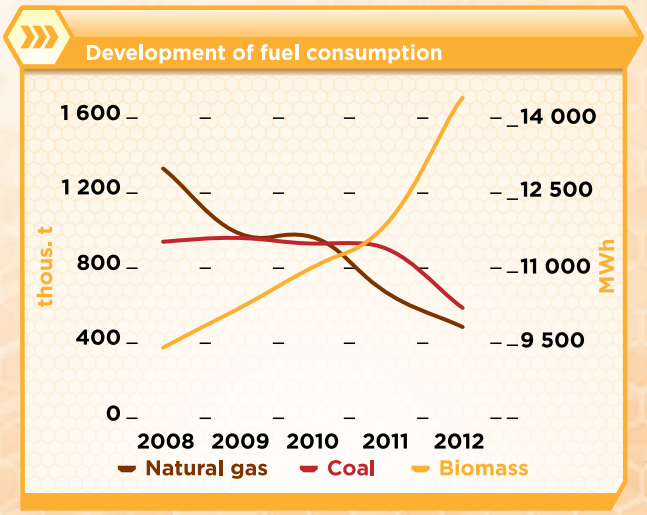
receive the whole amount of thermal energy from a central heat source and have uniform demand during the entire year are in a better position. When setting regulatory power input some specific cases may be corrected by the re-allocation of fixed costs among consumers depending on the actual heat consumption in a given year.

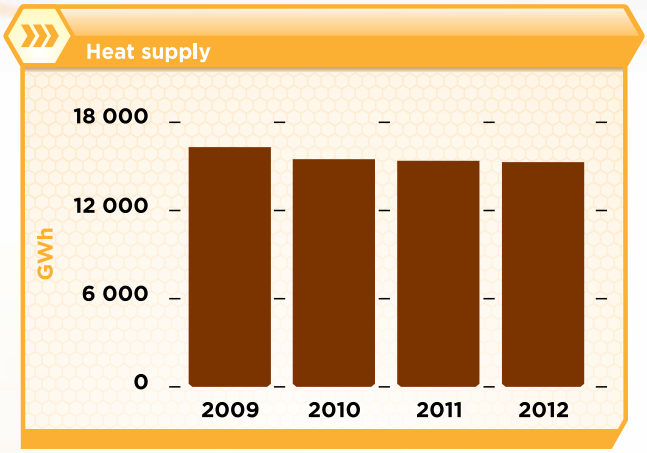
The growth of fixed costs over the regulatory period is again subject to regulation, except for the cases when the investments have been made to make production and distribution more efficient and ecological and to schedule general overhauls. It is allowed to increase fixed costs during the year for the purpose of removal of any faults and accidents caused by natural disasters or events caused by the third persons that might impose threat on human health or cause substantial damage. Using the same heat price within a town or municipal district has been preserved so far because it ensures a certain stability of the heat price and the optimum distribution of cash flow. In addition, there is still a possibility of including a higher profit into the heat price for those suppliers that produce thermal energy with at least a 20% share of renewable energy sources. However, their heat price may not exceed the limit prices of variable and fixed components of the heat price. The decree has also changed the allocation of the costs for heat production in CHP technologies. Supporting electricity generation through highly efficient CHP should not therefore be cut down by the heat price.

The largest change was brought by the decree on the method of settlement of actually eligible costs in the approved heat price. A regulated company is obliged to perform after the end of each year in the regulatory period. The method used so far has not been transparent, specific and caused regulated companies the problems when applying tax and accounting procedures. Therefore the decree partly responds to changes that are underway in the area of costs for production of greenhouse gases.

Heat supply subject to price regulation represents about 15,400 GWh, of which 6,300 GWh is supplied to flats for the purpose of space heating and the preparation of hot domestic water and the remaining 9,100 GWh is supplied to other non-household consumers. The prevailing type of fuel used for heat production is natural gas making 57 %, then there is biomass (27 %) and coal (15%). It is obvious from the data on fuel consumption that the consumption of biomass for the purpose of heat production has increased several times. The act on promotion of electricity produced from renewable energy sources has brought a synergic effect also in the area of heat production. The development in consumption of domestic fuel base was naturally influenced by the increase in prices of oil products and unfavourable exchange rate of EURO to USD. However, it needs to be pointed out that the rise of prices of biomass frequently copied the growth of fossil fuels what could have been caused by the business strategy of biofuel sellers, but also by the limited possibilities of increasing the production of suitable wood substance. In the future limited production of wood chips might cause the disintegration of the district heating system.

The following chart and graphs show the development of heat supply and consumption of individual types of fuels used for the production of heat supplied to the market since 2009.

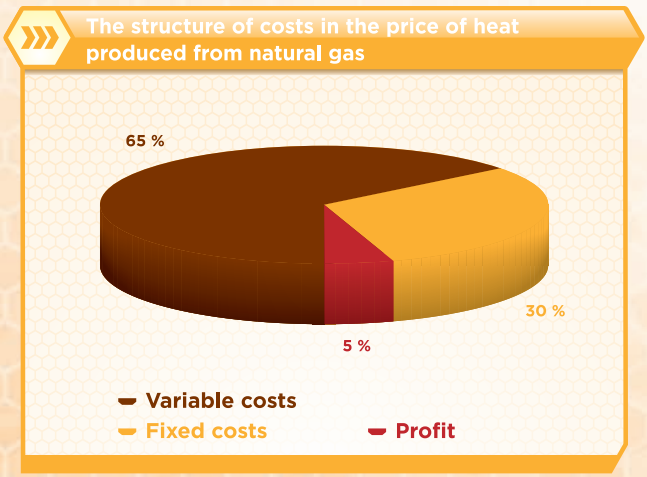


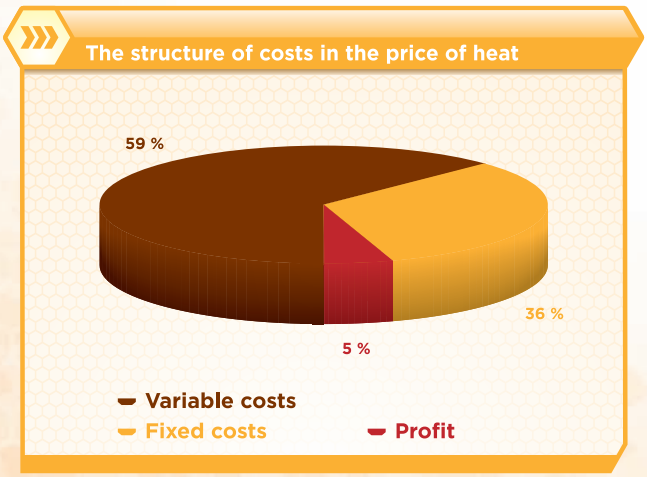


Maximum prices for supply of natural gas to households from 2010 to 2012 (w/-VAT)

Year	Natural gas [MWh]	Coal [t]	Oil [t]	Biomass [t]	Heat supply [GWh]
2009	11 819 065	954 503	3 216	583 164	16 500
2010	11 738 581	921 162	4 565	798 796	15 650
2011	10 596 642	893 732	3 848	1 027 963	15 540
2012	9 867 974	580 570	3 735	1 704 942	15 400

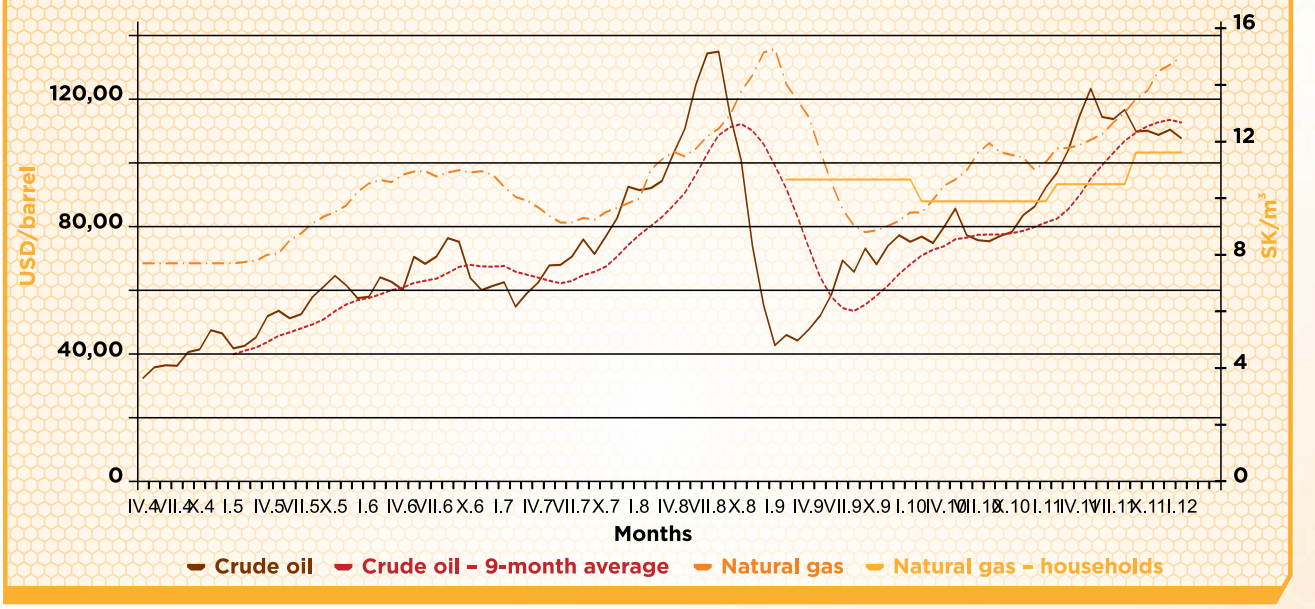
59% of the heat price is made by the price of fuel on average. If the heat is produced from natural gas, then the fuel costs make up to 68 %.





The following graph illustrates the reliance of the non-regulated price of natural gas on the nine month profile of the price of crude oil and oil products in the international commodity markets and an exchange rate of €/USD and the profile of the regulated price of natural gas.

The price of crude oil and natural gas



The prices of heat supplied to non-household consumers are calculated with the assumed price of natural gas for the respective regulatory year. The following chart presents the assumed and actual average market prices of natural gas used for production of heat for those non-household consumers and the price of natural gas for production of heat for households. However, since 2012 there has been a partial deregulation in this field. Gas prices are specified for the consumer of natural gas with annual consumption being 4,226 MWh. The planned price of natural gas approved in heat prices after the end of the regulatory year is subject to financial settlement of real prices.

Year	Gas price in specific heat prices in €/kWh	Actual average annual gas price in €/kWh
2009 households	0,03376	0,03376
2009 others	0,04166	0,03469
2010 households	0,03206	0,03206
2010 others	0,03700	0,03321
2011 households	0,03608	0,03608
2011 others	0,03780	0,04202
2012 households, others	0,04120	-

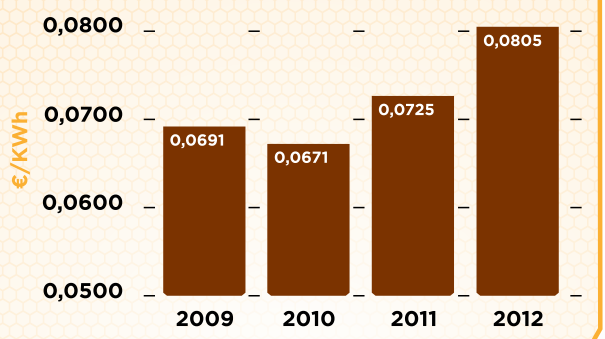
As of 1 January 2011 the Office issued 328 price decisions for the year 2011. During 2011 it issued other 124 decisions, thus enforcing changes arising mainly out of the altered price of natural gas used for the purpose of heat production.

Change in heat price in 2011	1. 1. 2011	31. 12. 2011	2011
Variable component of maximum heat price for households (€/kWh)	0,0461	0,0484	0,0470
Variable component of maximum heat price for other consumers (€/kWh)	0,0495	0,0512	0,0501
Fixed component of maximum heat price (€/kW)	134,84	135,81	135,26

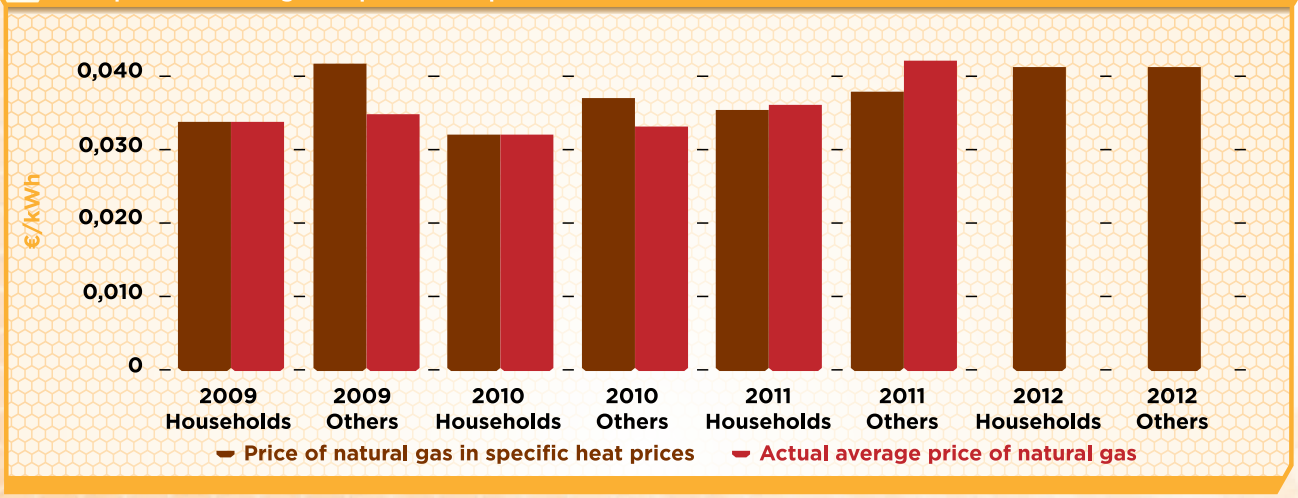
Towards the end of 2011 the Office issued other 313 price decisions for the period starting from 1 January 2012 to 31 December 2012. The following chart illustrates the average prices of heat supplied to heat consumers based on the Office price decisions taken for the period from 2009 to 2012.

Heat price based on Office decisions	2009	2010	2011	2012
Variable component of maximum heat price for households (€/kWh)	0,0453	0,0433	0,0470	0,0520
Variable component of maximum heat price for other consumers (€/kWh)	0,0529	0,0491	0,0501	0,0520
Fixed component of maximum heat price (€/kW)	125,93	126,05	135,26	151,23

The illustrative heat price based on Office decisions



The price of natural gas in specific heat prices

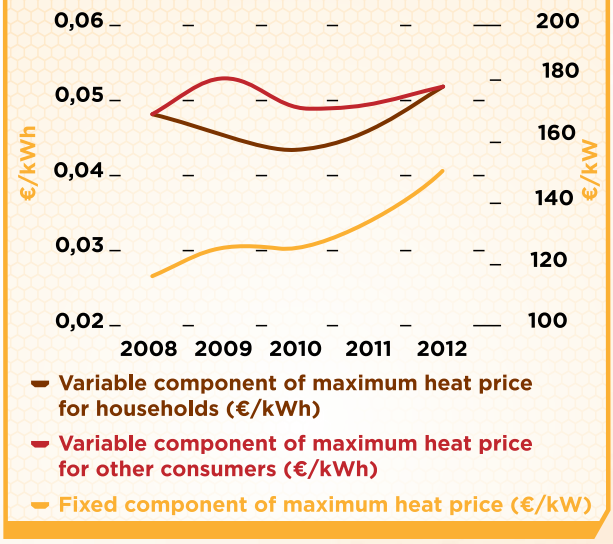


As of 1 January 2011, compared to the previous year, the average variable component of heat price for households increased by 8.5 % on average as a result of higher prices of natural gas used for heat production for households where it is the prevailing fuel used for heat production, and due to the revocation of exemption of gas and coal for heat production from the consumption tax. Over the year the situation in the international markets changed so much that the Office through its decision No. 0061/2011/P dated 16 June 2011 with the date of effect from 20 July 2011 to 31 December 2011 increased the price of natural gas for the purpose of heat production for households. The final average price of variable component of the heat price for household consumers has risen by 2% for this reason, compared to January 2011. A similar increase occurred in the non-household category of consumers which receive heat for non-regulated prices of fuels.

The heat prices charged by individual heat suppliers in the year 2012 reflect in some cases the negotiated fixed prices for this period in a variable component of fuel price and other variable costs according to the anticipated development in the course of 2012. This year the resulting average price of the variable component has a 57 % dependence on the price of natural gas, 27 % dependence on the biomass price and the remaining 16 % is represented by coal and oils. A yearly 7.4 % increase in the variable component of the heat price for households is influenced by the fact that the heat price for this segment is not precisely regulated and its anticipated size being part of the heat price is balanced by the market price of natural gas. For this reason, there are substantial differences in heat prices for households and other consumers. The heat prices for other non-household consumers have increased by about 1.5 %, since they have developed continually based on the current assumption of market prices of natural gas.

Considering the rules of the fixed cost regulation and stabilisation of regulatory power input during the entire regulatory period an increase in the fixed component of the heat price in 2011 is caused only by investments into new technologies, especially to the construction of thermal plants using renewable energy sources, or the upgrading of heat supply pipelines and the construction of residential heat exchanger stations.

The development of maximum heat price

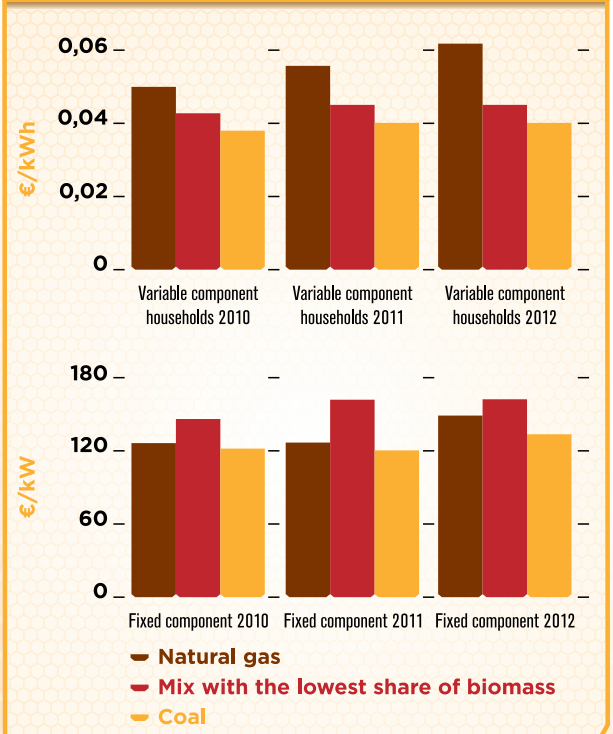


The eligible fixed prices approved in heat prices for 2012 have increased only exceptionally, compared to the previous year, due to the scheduled investments and upgrading work on heat supply systems. However, the fixed component of heat price, which makes the proportion in eligible costs and regulatory power input for 2012 has increased by 11.8 % on average. Such rise was caused by the fact that while in the regulatory period of 2009 to 2011 the fixed component of the heat price was determined for regulatory power input based on average heat consumption in the period of 2005 to 2007, for the year 2012 regulatory power input for price setting was determined from the actual consumption in 2010. And as the data on heat consumption show the effect

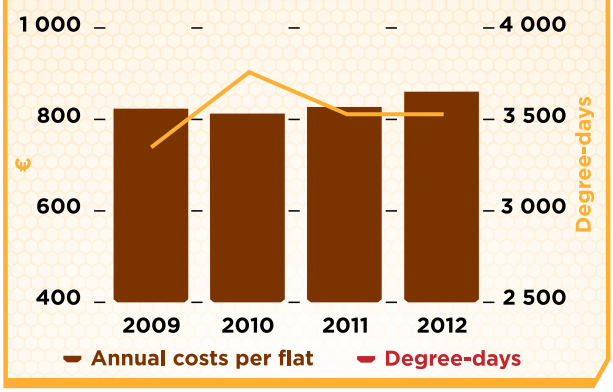
of putting thermal insulation on the apartment buildings and more rational behaviour of consumers have brought the annual decline in consumption by approximately 10 to 12 %. Such significant decline of heat consumption generally caused that specific increase in the fixed component of the heat price. However, it needs to be indicated that overall costs for actual heat supply to a standard flat in 2012 will be about 4 % higher.

The costs for heat supply are dependent on the amount of heat and the price for heat supply. The following graph presents the development of heat costs of a standard three-room flat with centralized heating and the preparation of hot domestic water that is accommodated to the climatic conditions in respective years.

Variable and fixed components of heat price from 2010 to 2012



Annual costs per flat



Variable and fixed components in heat price in the years 2010 to 2012

Fuel	Year 2010		Year 2011		Year 2012	
	Variable component in €/kWh	Fixed component in €/kW	Variable component in €/kWh	Fixed component in €/kW	Variable component in €/kWh	Fixed component in €/kW
Mix with min. 20 % share in biomass	0,0400	138,81	0,0424	154,03	0,0429	153,70
Natural gas	0,0470	118,97	0,0526	119,26	0,0592	141,42
Coal	0,0360	113,53	0,0375	111,67	0,0379	126,68

III.4 The Water Service Industry

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

In the past regulatory period including the period from 2009 to 2011 the stability of prices was ensured by introducing and enforcing the price cap regulatory method allowing the annual inflation rise and the application of the effectiveness factor used for setting the prices in the areas of production, distribution and supply of potable water through the public water supply system. Moreover, the investment development factor was used to support the construction of sewage systems and sewage treatment plants, in accordance with the requirements of the European Union, in order to motivate regulated companies to benefit subsidies from the EU funds, thereby fulfilling respective binding commitments for the Slovak Republic until the year 2015.

In accordance with the Act No. 276/2001 Coll. over the last year of the regulatory period the Office received only 11 proposals for alterations in the price decision which approved the prices for production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system in 2011, of which water service companies submitted only 4 proposals. Alterations related mainly to the price for production and supply of potable water through the public water supply system, whereas proposals for changes in prices were justified by the need for more finance needed for the operation of new water service assets after completing the large-scale investment projects (an increase in energy consumption related to new technological equipment, increased depreciations), as well as repairs of water service assets with an intention to cut down water losses due to the large number of emergency situations in public water supply systems and public sewage systems. However, the ongoing decline in the quantities of potable water supplies has imposed a higher pressure on price rise than an increase in costs.

To change the prices the Office solely used the cost based regulatory method with an emphasis on the exploration and comparison of an increase in actual inevitably incurred eligible costs in the previous year. After a detailed reviewing of the development of economic outputs in a regulated activity the Office accepted the change of price only up to the size of eligible costs being essential for the performance of a regulated activity that is evidently supported by the background document submitted by a regulated company. Taking into consideration the needs of a regulated company for providing high quality, continuous and secure performance of a regulated activity as well as the protection of potable water consumers or waste water producers, the Office altered in eight cases the price for production and supply of potable water through the public water supply system and in five cases the price for discharge and treatment of waste water.

The 2011 price regulation was enforced through direct determination of the maximum price and determination of the method of calculation of the maximum price using the price cap method allowing the annual inflation rise, including the application of the investment development factor and effectiveness factor, the purpose of which was to rationalise and optimise the eligible costs for a regulated activity.

The maximum prices, which a regulated company is not allowed to exceed, are determined to take into account eligible costs of a regulated company and adequate profit, but, at the same time, in justified cases they give a regulated company the right to take decisions to charge the prices being lower than those approved or determined by the Office, for instance, in the form of providing discounts for significant consumers, water producers or for socially

vulnerable groups of inhabitants. This possibility has not been proven in practice.

Over the past year there has been a rather intensive construction of public water supply systems, but especially public sewage systems and waste water treatment plants. Such situation is connected with the EU commitments regarding the municipal water treatment that Slovakia is bound to comply with until the year 2015. The investment development factor served to support such investments. It allowed a 5 % rise in the price maximally, taking into account the proven need for internal investment capital being essential for providing funding, especially from the EU funds.

An overview of decisions issued for 2010, 2011 and 2012 (the situation until 31 December 2011)

	2010	2011	2012
Price decisions	**160**	**181**	**133**
Water service companies	14	14	14
Other regulated companies	146	167	119
Alterations in price decisions	**17**	**11**	**0**
Water service companies	11	4	0
Other regulated companies	6	7	0
Decisions on exemptions of regul. activities from regulation	**72**	**76**	**58**
Total	**249**	**268**	**191**

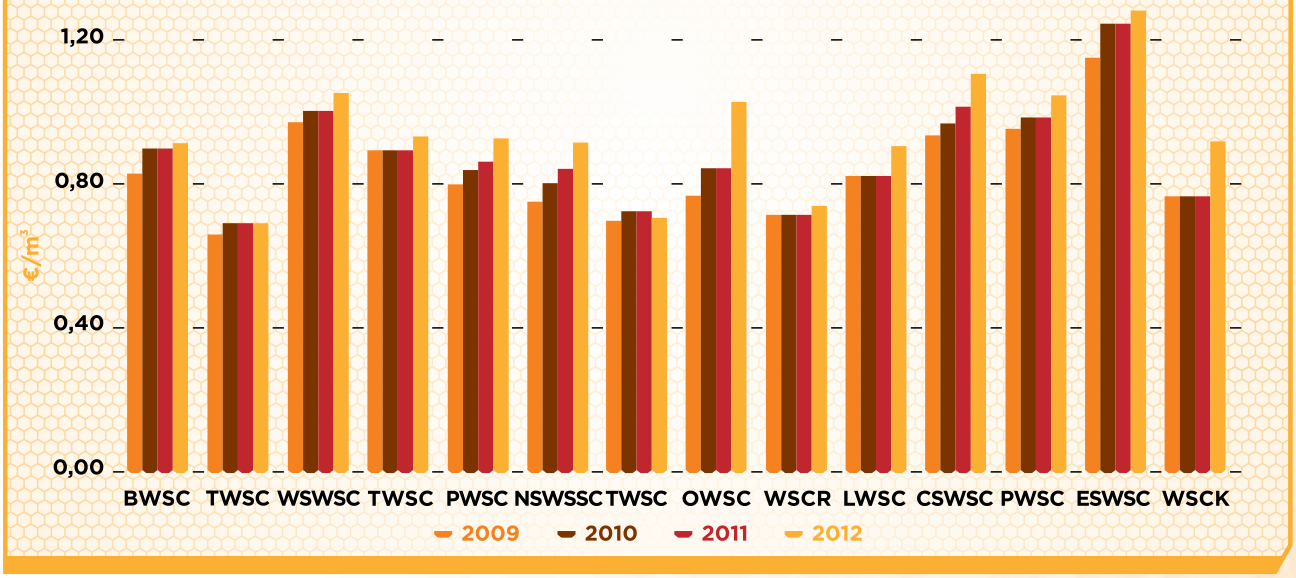
Despite the changes the 2011 prices for production, distribution and supply of potable water through the public water supply system were maintained at the level of 2010, they rose only by 1.1 % on average.

The 2012 prices for production, distribution and supply of potable water through the public water supply system have been determined by the Office according to new legislative regulations issued by the Office for the new regulatory period in accordance with the regulatory policy approved for the period from 2012 to 2016, whose primary aim is to ensure optimum prices for the operators of public water supply systems and public sewage systems with an emphasis given on the protection of consumers of potable water from the public water supply system and producers of waste water discharged by the public sewage system. This is based on the development of inevitable eligible costs for regulated activities, while taking into account the benefits of investments made in the previous regulatory period.

The scope and method of price regulation determined by the Decree No. 189/2011 Coll. in the new regulatory period have not been changed. The Decree No. 217/2011 Coll. determined eligible costs and adequate profit, the pricing method, but mainly the method of calculation of maximum prices and the maximum level of adequate profit. In the first year of the regulatory period maximum prices are approved or determined using cost based regulatory method at the level of actual eligible costs for a specific regulated activity in 2010 that are increased by the so-called regulatory depreciation (considering the technical lifetime) of the assets classified in 2011. The rate of adequate profit is calculated based on the regulatory asset base and adequate rate of their profitability, 0.10 and 0.13 per m^3 as maximum. Such size is further adjusted provided that the existing water service assets have not been actually in use for 100 % of its designed capacity. In the coming years of the regulatory period the already proven price cap method will be utilised according to which the price will be modified only by regulatory depreciation of the newly constructed assets and in case of the proven change of actual utilisation of capacity of water service assets.

The prices for production and supply of potable water (w/-VAT)

	2009 €/m³	2010 €/m³	2011 €/m³	2012 €/m³
Bratislava Water Service Company	0,8266	0,8964	0,8964	0,9106
Trnava Water Service Company	0,6566	0,6879	0,6879	0,6879
Western Slovak Water Service Company	0,9709	1,0000	1,0000	1,0518
Trenčín Water Service Company	0,8929	0,8929	0,8929	0,9300
Považská Water Service Company	0,7967	0,8365	0,8616	0,9223
Northern Slovak Water Supply and Sewage Company	0,7495	0,8000	0,8400	0,9126
Turčianska Water Service Company	0,6964	0,7229	0,7229	0,7045
Oravská Water Service Company	0,7635	0,8398	0,8398	1,0246
Water Service Company Ružomberok	0,7137	0,7137	0,7137	0,7370
Liptovská Water Service Company	0,8199	0,8199	0,8199	0,9019
Central Slovak Water Service Company	0,9313	0,9639	1,0121	1,1022
Podtatranská Water Service Company	0,9493	0,9825	0,9825	1,0415
Eastern Slovak Water Service Company	1,1485	1,2415	1,2415	1,2787
Water Service Company Komárno	0,7635	0,7635	0,7635	0,9162



After setting the new parameters the 2012 prices for production, distribution and supply of potable water through the public water supply system have significantly increased by 4.9 % on average, compared to 2011. Such rise was caused by the fact that over the previous regulatory period some of the water service companies did not altered their prices despite the growing eligible costs and declining water supplies. Such prices without VAT range from 0.6870 €/m³ in the Trnava Water Service Company to 1.2787 €/m³ in the Eastern Slovak Water Service Company. Almost a double difference currently occurred mainly due to the regional discrepancies caused by the availability of water sources meeting respective quantitative parameters and having sufficient capacity, or yield, size, but mainly the appropriate infrastructure.

The prices for discharge and treatment of waste water through the public sewage system in 2011 went up by 4.5 %, compared to the year 2010, which is approximately at the level of the investment

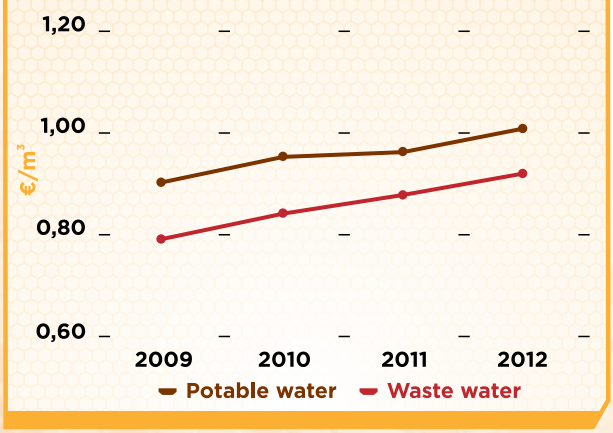
The prices for discharge and treatment of waste water (w/-VAT)

	2009 €/m³	2010 €/m³	2011 €/m³	2012 €/m³
Bratislava Water Service Company	0,7900	0,8295	0,8625	0,9030
Trnava Water Service Company	0,8308	0,8973	0,9422	1,0253
Western Slovak Water Service Company	0,7319	0,7685	0,8146	0,8302
Trenčín Water Service Company	0,8541	0,8968	0,9416	0,9416
Považská Water Service Company	0,8471	0,8895	0,9340	0,9898
Northern Slovak Water Supply and Sewage Company	0,8229	0,9052	0,9500	0,9500
Turčianska vodárenská spoločnosť	0,8225	0,9048	0,9048	0,9499
Oravská Water Service Company	0,8889	0,8889	0,8889	0,9778
Water Service Company Ružomberok	0,7668	0,8051	0,8454	0,8456
Liptovská vodárenská spoločnosť	0,8886	0,8886	0,8886	0,9792
Central Slovak Water Service Company	0,8764	0,9167	0,9625	1,0443
Podtatranská Water Service Company	0,8444	0,8824	0,9265	1,0006
Eastern Slovak Water Service Company	0,7103	0,7967	0,8326	0,8576
Water Service Company Komárno	0,7133	0,7483	0,7857	0,8643



development factor. In 2012, compared to 2011, it was by 4.7 %, which gives adequate possibilities for generating internal funding with regard to higher investments in this regulated activity. Individual prices are more stable, because this area is not under the influence by regional discrepancies and they range between 0.8302 €/m³ in the Western Slovak Water Service Company to 1.0443 €/m³ in the Central Slovak Water Service Company.

The development of average price for production and supply of potable water and discharge and treatment of waste water in €/m³ (w/- VAT)



III.4.2 Provision of water services

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

Even in the last year of the regulatory period the regulation of prices for providing water services related with the utilisation of a river flow was governed by Decrees No. 5/2009 and No. 5/2009.

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

The Office approved for this regulated company in 2011 the fixed price for extraction of surface water from a river flow at the amount of 0.1059 €/m^3 increased by 9.97 %, compared to 2010, due to the ongoing decline in demand. Furthermore, based on the almost unchanged average price the Office determined the tariffs for utilisation of hydro power potential of river flows in the water service facilities managed by a water source manager with an installed capacity exceeding 100 KW: from 100 kW to 1,000 kW at the amount of 4.5306 €/MWh, from 1,001 kW to 10,000 kW at the amount of 7.5511 €/MWh and above 10,000 kW at the amount of 15.4041 €/MWh). Their purpose is to support smaller electricity producers or users of hydro power potential. There was no alteration made to the fixed price for extraction of water for energy purposes in the water service facilities in the ownership of the user of hydro power potential of a river flow with an installed capacity higher than 10 MW at the amount of 0.1492 €/1000 m^3.

The 2012 prices have been determined under new legislative regulations issued by the Office for the new regulatory period in accordance with the regulatory policy approved for the coming regulatory period of 2012–2016, whose primary objective is to optimise the prices of water services in line with the development of inevitable eligible costs for providing regulated activities and the development of the amount of delivered mechanical energy and water extracted from water sources.

The scope of price regulation determined by the Decree No. 189/2011 Coll. has not changed in the new regulatory period; however, the method of its enforcement has been modified through setting the calculation of the maximum price (before the fixed price). The Decree No. 218/2011 Coll. determined eligible costs and adequate profit, the pricing method, but mainly the method of calculation of maximum prices and maximum adequate profit. In the new regulatory period the cost based method, taking into account real eligible costs, will be in use. The maximum rate of profit was increased from 4.8 % to 5 % of eligible costs.

Based on the above mentioned new parameters the maximum price for extraction of surface water from a water source for a regulated entity Slovenský vodohospodársky podnik, š.p., Banská Štiavnica has increased by 5.95 % in 2012, compared to 2011. The average price for utilisation of hydro power potential of a river flow increased only by an inflation rate of 1.82 %, compared to 2011, whereas different hydro power tariffs are used for individual groups of users of hydro power potential depending on the installed capacity of hydro power plants. The maximum price for extraction of water from a river flow for energy purposes has increased by 5.9 %, compared to 2011.

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

	2009	2010	2011	2012
Price for extr. of surface water per 1m^3	0,083317	0,0963	0,1059	0,1122
Average price for use of hydro power potential per 1 MWh	14,4625	14,9674	15,1021	15,3770
Price for extraction of water for energy purpose per thous. m^3	0,132776	0,1492	0,1492	0,1580



IV. Business Licences in Network Industries

IV.I Business Licences in the Energy Industry

Pursuant to Article 5 (1) of the Act No. 656/2004 Coll. doing business in the energy industry is allowed only based on the business licence. The Office issues decisions on the issuance, amendment and withdrawal of a licence for performing regulated activities pursuant to Article 5 (1) (e) of the Act No. 276/2001 Coll.

Pursuant to Article 4 herein the subject of business activities is the following:

- Generation, transmission, distribution and supply of electricity,
- Organisation of the electricity spot market,
- Production, transmission, distribution and storage of natural gas,
- Operation of pipelines for transportation of fuels,
- Operation of pipelines for crude oil transportation,
- Operation of the equipment used for filling pressure vessels,
- Operation of the equipment for distribution of liquefied hydrocarbon gas.

According to the Act No. 656/2004 in wording of the Act No. 142/2010 Coll. the organisation of the electricity spot market has become a business activity since January 1, 2011.

The Act No. 656/2004 Coll. establishes the conditions for issuing the licence for natural persons and legal persons, respectively. Once the company satisfies all the conditions, the Office issues a decision on the licence for performing business activities.

An overview of valid licences in the electricity industry pursuant to Article 5 (2) (a) and (b) of the Act No. 656/2004 Coll.	
Electricity generation	5
Electricity transmission	1
Electricity distribution	4
Generation and supply of electricity	91
Generation, distribution and supply of electricity	27
Distribution and supply of electricity	127
Electricity supply	140
Organizing the electricity spot market	1
Total	**396**

An overview of valid licences in the gas industry pursuant to Article 5 (2) (c) of the Act No. 656/2004 Coll.	
Gas production	2
Gas production, gas supply	1
Gas transmission	1
Gas distribution	5
Distribution and supply of gas	42
Production, distribution, storage and supply of gas	2
Gas storage	2
Gas supply	72
Total	**127**

An overview of valid licences in the energy industry – fuels and crude oil pursuant to Article 5 (2) (d), (e), (f) and (g) of the Act No. 656/2004 Coll.	
Operation of pipelines for transport of fuels	1
Operation of the equipment for filling pressure vessels	8
Operation of pipelines for transportation of crude oil	2
Operation of the equipment for distribution of liquefied hydrocarbon gases	1
Operation of the equipment for filling pressure vessels and operation of the equipment for distribution of liquefied hydrocarbon gases	1
Total	**13**

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

	2005	2006	2007	2008	2009	2010	2011 new	2011 *) withdrawn	Total
Electricity supply	39	27	21	24	23	18	16	28	**140**
Gas supply	12	16	10	6	10	17	15	14	**72**
Total	**51**	**43**	**31**	**30**	**33**	**35**	**31**	**42**	**212**

*) Pursuant to Article 69e (1) of the Energy Act the holders of certificates of professional competence had to perform the test on professional competence under Article 4 (a) of the Energy Act and to manifest their professional competence to the Office through such certificate until 1 May 2011. After failing to comply with this obligation in 2011 the Office withdrew the licences for performing business activities in the energy industry to 42 licence holders.

An overview of applications submitted and decisions issued in 2011

	New licences	Withdrawn licences	Changed licences	Interrupted proceedings	Suspended proceedings
Electricity industry	60	42	181	45	5
Gas industry	18	16	35	11	1
Fuels and crude oil	1		3	2	
Total	**79**	**58**	**219**	**58**	**6**

IV.2 Certificates on Notification Obligation

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

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

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

An overview of certificates on fulfilment of notification obligation

Activities with issued certificate	Number of issued certificates				
	2008	2009	2010	2011	**Total**
Generation and supply of electricity by a generating station with the capacity up to 1 MW	7	9	9	6	**31**
Generation and supply of electricity prod. from renewable energy sources with the capacity up to 1 MW in:					
1. small-sized hydro power plants	30	46	62	18	**156**
2. solar power plants	5	26	234	725	**990**
3. wind power plants		1			**1**
4. facilities using biogas	4	5	12	23	**44**
5. facilities using biomass	2	5	4	8	**19**
Production and supply of gas from biomass	1	1		2	
Sales of compressed natural gas for driving motor vehicles	1		2	3	
Sales of liquefied hydrocarbon gas in pressurised vessels with the capacity up to 100 litres	23	12	11	4	**50**
Sales of liquefied hydrocarbon gas for driving motor vehicles	29	11	7	4	**51**
Transport of liquefied hydrocarbon gas in pressure vessels	12	2	8	4	**26**
Total	**112**	**119**	**348**	**794**	**1373**

IV.3 Business Licences in the Thermal Energy Industry

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

An overview of valid licences in the thermal energy industry as of 31 December 2011

Production and distribution of heat	297
Heat production	23
Heat distribution	24
Total	**344**

An overview of applications submitted and decisions issued in 2011

New licences	15
Revocated licences	12
Changed licences	178
Interrupted proceedings	79
Suspended proceedings	4
Total number of applications	**288**

V. Performance of Surveillance and Inspections in 2011

In accordance with the responsibilities defined in Article 5 (3) of the Act No. 276/2004 Coll. in the year 2011 the Office:

- Performed surveillance over the adherence to the Act No. 276/2011 Coll., special acts and generally binding legal regulations issued for their enforcement,
- Imposed the measures for elimination and redress of any deficiencies identified during inspections,
- Charged penalties for breaching any obligations arising out of the Act in question.

Pursuant to Article 5 (3) (a) of the Act No. 276/2001 Coll. the Office performed in 2011 inspections in **434** regulated companies, during which **235** cases of the violation of the act was identified in **116** regulated companies. Inspections were made according to the inspection plan, submissions delivered by natural and legal persons and based on the operational needs of the Office.

The inspection activities are aimed at the following areas:

➢ *The electricity industry:*
- Verification of the compliance of a regulated activity with the licence for doing business in the energy industry
- Compliance with price regulation
- Observance of the rules of the electricity market
- Observance of the operational order of the distribution network operator
- Compliance with the quality standards
- Keeping unbundled accounts
- Verification of truthfulness of documents and information submitted to the Office
- Verification of the observance of imposed measures aimed at eliminating and redress of deficiencies identified

➢ *The gas industry:*
- Verification of the compliance of a regulated activity with the licence for doing business
- Compliance with price regulation
- Observance of the rules for the gas market
- Observance of the operational order of the distribution network operator
- Compliance with the quality standards
- Keeping unbundled accounts
- Verification of truthfulness of documents and information submitted to the Office

➢ *The thermal energy industry:*
- Verification of the compliance of a regulated activity with the licence for doing business
- Compliance with price regulation
- Compliance with the quality standards
- Verification of the observance of imposed measures aimed at eliminating and redress of deficiencies identified

➢ *The water service industry:*
- Compliance with price regulation
- Verification of the observance of imposed measures aimed at eliminating and redress of deficiencies identified

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

1. Violation of Article 11 (1) – failure to perform a regulated activity based on notification or on the basis and in the scope of the licence issued by the Office – **23 findings,** of which:
   - the electricity industry 20
   - the thermal energy industry 3

2. Violation of Article 13 (2) (a) – failure to perform a regulated activity in accordance with the act and special regulations – **54 findings,** of which:
   - the electricity industry 53
   - the thermal energy industry 1

3. Violation of Article 13 (2) (b) – failure to comply with the designated method of price regulation and failure to deliver goods and services in accordance with the approved or determined prices - **38 findings,** of which:
   - the electricity industry 7
   - the gas industry 2
   - the thermal energy industry 26
   - the water service industry 3

4. Violation of Article 13 (2) (c) – failure to submit proposal for setting the price of goods or services, the price of which is regulated by the method and in the scope defined by a generally binding regulation issued by the Office – **40 findings,** of which:
   - the electricity industry 1
   - the thermal energy industry 1
   - the water service industry 38

5. Violation of Article 13 (2) (d) – failure to keep unbundled accounts under the special regulation issued by the Office – **3 findings,** of which:
   - the electricity industry 2
   - the gas industry 1

6. Violation of Article 13 (2) (g) – failure to comply with the quality standards imposed on delivered goods and services defined by the Office and failure to submit to the Office the evaluated standards of quality of goods delivered and services provided in the scope of a generally binding legal regulation issued by the Office – **13 findings,** of which:
   - the electricity industry 6
   - the thermal energy industry 7

7. Violation of Article 13 (2) (h) – failure to perform the measures imposed by the Office – **2 findings,** of which:
   - the electricity industry 1
   - the thermal energy industry 1

8. Violation of Article 13 (2) (i) – failure to observe the rules for the functioning of the markets with electricity and natural gas – **8 findings,** of which:
   - the electricity industry 7
   - the gas industry 1

9. Violation of Article 12 (6) – failure to observe the operational order by the market participants – **2 findings,** of which:
   - the electricity industry 1
   - the gas industry 1

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

In 2011 the Office carried out an extensive inspection of electricity generators using solar power aimed at verifying the correctness and truthfulness of data related to the date of commissioning of their plant and the total installed capacity that were submitted to the Office in order to determine additional charge for electricity generated from solar power. The Office made physical inspections in 393 regulated companies where 404 photovoltaic power plants were inspected throughout the whole territory of Slovakia. Such inspection activity helped identify some cases in which entities tried to obtain a more favourable price for purchase of electricity by submitting untrue data to the Office. Furthermore, the Office identified the cases that power plants had not been constructed at all or only partly, or the plant had different installed capacity than the one declared in the price proceeding, or the data on performance of operational testing did not correspond with the reality. Such cases were qualified by the Office as the violation of law and the Office therefore co-operated with the national prosecuting authorities to resolve such cases.

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

In 2011 the Office made targeted inspections of small-sized operators of public water supply systems or public sewage systems which despite the call from the Office had not submited their price proposals to the Office. There were 41 small-sized operators of public water supply systems or public sewage systems, of which 37 small municipalities had not submitted their price proposals due to the lacking knowledge of law. Despite the regulated price they often charged the fee below the level of their internal costs which had been approved by local municipality.

As regards the thermal energy industry the Office made inspections in a smaller extent in 2011. Subject to inspection were only the prices charged in 2007 and 2008, since the year 2011 was the time when the three year regulatory period was nearing to its end and the inspections of prices charged in 2009 to 2011 are allowed to be made only after their financial settlement, i.e. in 2012.

V.1 Measures to Remove Deficiencies

Pursuant to Article 5 (3) (b) of the Act No. 276/2001 Coll. the Office imposed overally 234 measures to eliminate and redress deficiencies identified during inspections in the following areas:

- the electricity industry 151 measures
- the gas industry 6 measures
- the thermal energy industry 37 measures
- the water service industry 40 measures

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

In total amount	113,596 €
Of which:	
- electricity consumers	330 €
- gas consumers	2,572 €
- water consumers	3,542 €
- heat consumers	107,152 €
of which in:	
▪ variable component maximum price	89,769 €
▪ fixed component maximum price	17,383 €

V.2 Penalties for Breaching the Act Imposed on the I. Stage of the Administrative Proceedings

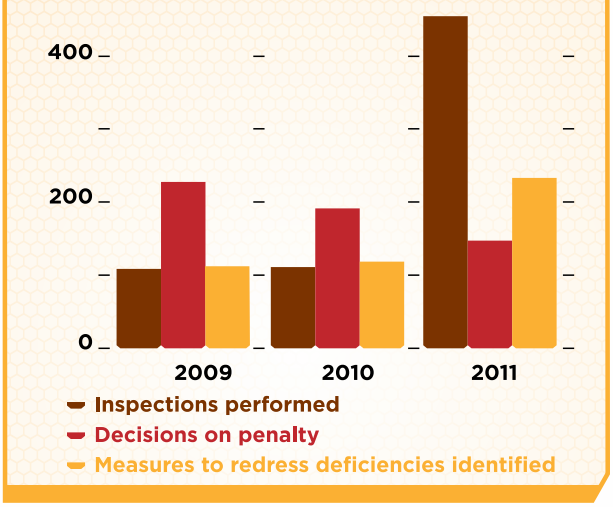
The Office as a respective administrative body pursuant to Article 5 of the Act No. 71/1967 Coll. on the Administrative Proceedings and Article 5(1)(i) of the Act No 276/2001 Coll. takes decisions in the matters regarding the breaching of obligations arising out of the act in question and special regulations.

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

Decisions	Number	Sum
Issued	147	56 350 €
Valid	125	47 250 €

An overview on the number of inspections, penalties and measures in 2009 to 2011

	2009	2010	2011
Inspections performed	109	111	454
Decisions on penalty	229	191	147
Measures to redress deficiencies identified	113	120	234



In 2011 the first stage administrative body made decision on imposing penalty for the non-compliance with the obligations specified in Article 13(2) of the Act No. 276/2011 Coll. either based on the conclusions resulting from the inspection work or based on the findings of the Office concerning the non-compliance of an obligation to submit to the Office the required documents for approval or required documents and information on a specific date. Penalties were imposed pursuant to Article 16 of the Act No. 276/2001 Coll. The first stage administrative proceeding was initiated against 149 companies, whereas two of them were transferred to the following year. Out of 147 issued decisions on imposing penalties on the first stage administrative proceedings one company made appeal against penalty imposed.

V.3 Initiatives and Complaints

In 2011 the Office also paid a larger attention to dealing with initiatives and resolving complaints raised by natural and legal persons (hereinafter only "submission"). Aiming to protect the consumer the Office preferably made inspections after receiving submissions, subsequently, gave the expert opinions and communicated personally or on the phone with respective natural and legal persons.

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

The Office largely dealt with the submissions of domestic electricity or gas consumers that opted for the switch of an electricity or gas supplier. The Office assisted in eliminating any problems of these consumers with electricity and gas suppliers as well as with distribution companies. The most frequent were the problems of domestic electricity or gas consumers prior to the beginning of the switching process, resolution of which is not in the power of the Office. This was mainly door-to-door selling to acquire new consumers. The consumers pointed out at dishonest manners of alternative electricity and gas suppliers when concluding consumer agreements, for example, acting of a business representative on behalf of the original supplier and failing to inform on the switching of a supplier, duration of an agreement, concluding an agreement for other non-regulated products, providing misleading information on the amount of savings and so forth.

In addition, the Office dealt with the submissions of participants in the electricity and gas markets that entered into the process of switching their electricity or gas suppliers, focused on the observance of the rules for electricity and gas markets and subsequently

VI. Strategic Analytical Activities

on the observance of the operational orders of the operators of electricity distribution networks and the operator of the gas distribution network.

The consumers became aware of the decrees issued by the Office on the quality standards imposed on goods and services delivered. They addressed the Office mainly with the request to verify the meeting of deadline dates for verifying the settlement of payment for the supply of electricity, gas, heat and water.

Overally, **151** submissions of natural and legal persons were made, of which 104 submissions were settled and 40 submissions were settled only partially, which means that they will be definitely cleared after the completion of inspections, or after the ending of the administrative proceeding. 7 submissions were passed on to the following year.

In 2011 the Office´s central recording system of petitions and complaints registered:
- 1 petition
- 4 complaints

that were settled under the Act No. 85/1990 Coll. in wording of the Act No. 242/1998 Coll., the Act No. 112/2010 Coll. on the Petition Right and under Act No. 9/2009 Coll. on complaints.

Out of 151 submissions 42 intended to initiate inspection. With regard to the settlement of submissions there were 310 expert opinions delivered to natural and legal persons.

The Office develops analytical and futurological documents that serve as the background documents for the decision making process. One of the starting points for such activities is the collection of data from regulated companies, the monitoring of international markets and exchanges and financial trends.

a) Unbundled accounts and analysis of economic outputs of regulated entities

The operators and suppliers in the electricity industry and the gas industry submit to the Office the regulatory reports for the year 2011 on the matters subject to accounting, costs, revenues, assets, liabilities and depreciation until 30 June 2012. For this reason this section of the report contains the data only for the completed period of 2010.

The main goal for monitoring such activities is to prevent from any discrimination and cross-subsidies.

Using the data submitted by regulated companies the Office has developed the economic models to determine effectiveness of the activities of regulated companies.

Year 2010	Electricity industry	Gas industry
No. of entities submitting regulatory reports about unbundled accounts	152	44

Regulated activities performed					
No. of regulated activities performed by a single company	1	2	3	4	5
No. of companies	59	51	5	17	4

No. of companies (small-sized companies) with the proportion of revenues earned from regulated activity to revenues from overall activities

	Up to 5 %	From 5 % to 10 %	Above 10 %
Electricity distribution	37	7	32
Electricity supply	43	7	47
Electricity generation	13	3	14
Electricity industry	47	11	67
Gas distribution	23	4	2
Gas supply	15	4	13
Gas industry	18	4	16
Electricity industry and gas industry	48	13	75

The objective of the analysis of economic outputs of regulated companies, made by the Office for 2010 in 2011, was to identify and compare economic outputs of selected regulated companies by means of the ratios such as ROA, ROE, profitability of costs and WACC.

Due to the extensive nature of processed economic outputs of the analysis this report is focused on WACC, i.e. weighted average cost of capital.

The companies that achieve the final value higher than 6%, using the market parameters entering the WACC calculation, are evaluated positively.

The evaluated companies doing business in the electricity industry in the analysed period achieved a very good level of the values of ROA, ROE, profitability of costs and WACC. Considering this fact we can claim that the evaluated companies are in a good financial shape.

Obviously, the same situation may be observed in the gas industry. As regards the thermal energy industry, only 4 out of 20 companies doing business in the thermal energy industry did not achieve the required value. With companies not reaching the final value of 6% we can state that there was no annual decline, but the value of WACC remained at the same level. Similarly, the prevailing part of companies doing business in the water service industry achieved the set value, or even slightly exceeded it.

With companies that did not reach the required value of monitored indicators and WACC there is one positive point that there was no annual decline, but WACC either remained at the same level or went up annually.

The economic outcome confirms the fact that the regulatory framework and the regulatory environment were properly established in the analysed period and thus created appropriate conditions for making a transparent and non-discriminatory environment where regulated companies have sufficient space to cover their costs and to generate reasonable profit.

b) Rules for the allocation of assets and liabilities, costs and revenues and depreciation rules

Under the Act No. 656/2004 Coll. on Energy in 2011 regulated companies submitted to the Office for approval the rules for allocation of assets and liabilities, costs and revenues and depreciation rules. Through the decision of the Office regulated companies will apply the approved rules since January 1, 2012.

Year 2010	Electricity industry	Gas industry
No. of decisions on rules approval	202	60

Guarantee of origin of electricity produced from renewable energy sources

Pursuant to Article 7(a) of the Act No. 309/2009 Coll. on support of renewable energy sources and highly efficient combined heat and power production and on amendment and supplement of some acts with the date of effect on 1 May 2011 the Office issues guarantee of origin of electricity produced from renewable energy sources after satisfying the conditions stipulated by law. In 2011 no guarantees were issued on origin of electricity produced from renewable energy sources.

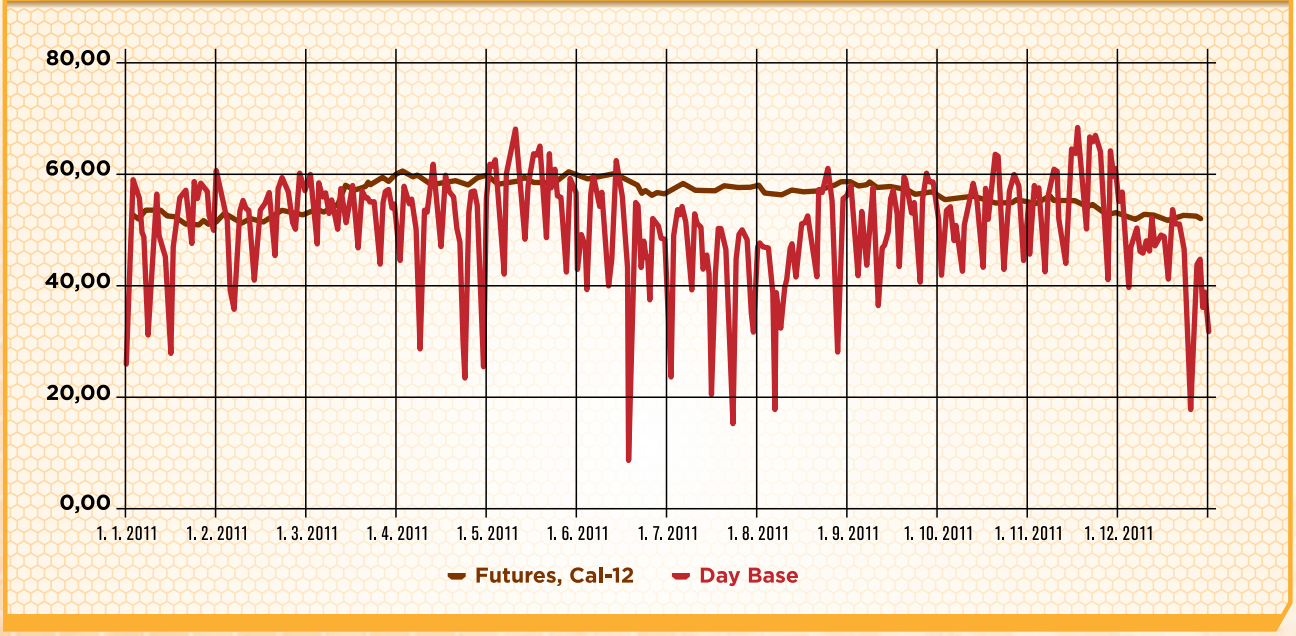
Development of commodity prices

Within its competences the Office was tightly monitoring the development of prices of electricity and natural gas in the European Energy Exchange EEX in Leipzig. Apart from the price development on the day-ahead market the Office was monitoring the development of prices on the basis of annual trades (Phelix Baseload Year Futures, Cal-11 Preise) for the estimate of impacts of the price development in this exchange on prices of electricity and natural gas for final consumers in 2012 or 2013.

The Office has been monitoring the development of oil prices that have substantial impact on the natural gas price.

Trading with crude oil and natural gas commodities is made in U.S.currency. For this reason, the Office has been monitoring an exchange rate of €/USD.

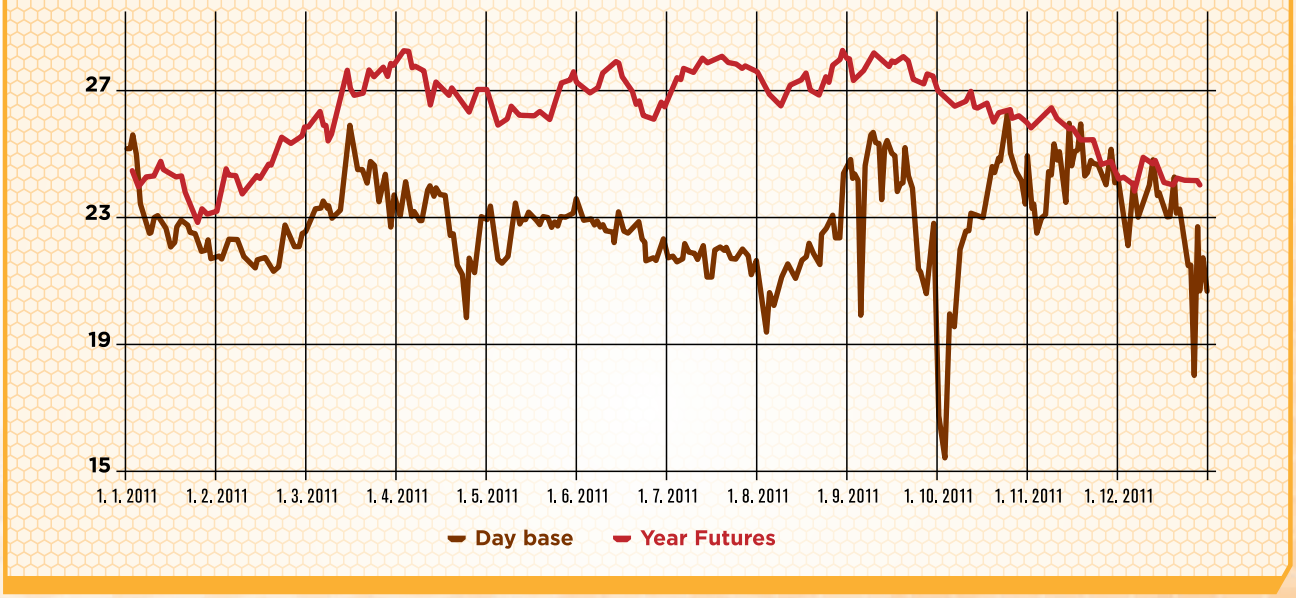
The price of electricity in €/MWh, EEX Leipzig, 2011



The price of electricity in €/MWh, EEX Leipzig, base: futures 1 year



The price of natural gas in €/MWh, EEX Leipzig, NCG Hub, 2011



The development of oil prices Brent, 2011 (USD/barrel)



c) Quality standards

The evaluation of quality standards, the comparison of performance of regulated companies with regard to the quality of goods and services delivered and the publication of achieved outcomes are the processes that form an effective regulatory tool for stimulating regulated companies. The evaluation of observance of quality standards developed by regulated companies for calendar years 2009, 2010 and 2011 were processed in the reports on the compliance of quality standards and published on the web site of the Office.

The following chart represents the annual comparison of the data from reviewed quality standards for individual commodity.

The number of delivered background documents and reviewed quality standards

	Electricity industry	Gas industry	Water service industry	Thermal energy industry
Year 2011	**129**	**53**	**32**	**234**
Electricity industry	Electricity transmission	Electricity distribution	Electricity supply	OESM
No. of delivered evaluations	1	97	122	1
No. of recorded events	21	9 437 626	55 768	23
No. of recorded events with violation of quality standards	1	148 141	2 419	0
Proportion of events with violated quality standard to recorded events	4,76 %	1,57 %	4,34 %	0 %
Gas industry	Gas storage	Gas transmission	Gas distribution	Gas supply
No. of delivered evaluations	2	1	32	41
No. of recorded events	578	2	45 727	145 914
No. of recorded events with violation of quality standards	0	0	2	520
Proportion of events with violated quality standard to recorded events	0 %	0 %	0,004 %	0,36 %
Thermal energy industry				Heat supply
No. of delivered evaluations				234
No. of recorded events				75 052
No. of recorded events with violation of quality standards				814
Proportion of events with violated quality standard to recorded events				1,08 %
Water service industry			Potable water supply	Waste water discharge
No. of delivered evaluations			30	30
No. of recorded events			48 502	36 532
No. of recorded events with violation of quality standards			1 103	867
Proportion of events with violated quality standard to recorded events			2,27 %	2,37 %

VII. International Activities

VII. 1 Membership in International Organisations

ACER

In 2003 the European Commission made decision to establish ERGEG as its official advisory body (e.g. in the process of drafting energy legislation) in the area of the internal energy market. CEER was acting as the preparatory body of ERGEG. ERGEG, being a successful example of the co-operation of regulators at the EU level and a predecessor of ACER, was dissolved by the Commission decision as of 1 July 2011. The third energy liberalisation package brought the establishment of the Agency for Co-operation of Energy Regulators. Unlike ERGEG, the Agency has the status of an EU agency with its own budget and staff, having its headquarters in Ljubljana. The agency officially started its existence and activities on 3 March 2011, on the day when the above-mentioned 3. liberalisation package entered into force.

ACER plays the central role in developing network regulations, applicable for the entire Community, which are key for the integration of the European energy market, mainly when establishing non-binding framework guidelines which the above mentioned network regulations have to be consistent with. Moreover, it is crucial for supervision over the European network of transmission network operators (ENTSO-E and ENTSO-G).

The agency provides an institutional framework for the co-operation of national energy regulators. The Office participated at the meetings of the Board of Regulators which is one of the managing authorities of the agency. In 2011 three framework guidelines were adopted for electricity (on the allocation of capacities and congestion management, grid connection and grid operation) and two framework guidelines for natural gas (on the capacity allocation mechanism for the European transmission network and balancing of natural gas). The newly drafted network guidelines will have binding character, on the contrary to framework guidelines. Regarding electricity ENTSO-E is preparing the network code for connection to the system and calculation of capacities within a day and day ahead. Regarding natural gas the network code is being prepared on the capacity allocation mechanism and balancing of natural gas. Last but not least, the preparation of opinions and recommendations for the 10 year system development plan belongs among the top priorities of the agency, contributing to the finalising of the process of establishing the single market

The project of Regional Initiatives, originally covered by ERGEG, was transferred under the competences of ACER. National regulatory authorities of Central and Eastern Europe were meeting in order to co-ordinate the project of congestion management in the region. Individual scenarios of dealing with congestion management were discussed on the level of a managing committee and work groups with the advisory work group, whereas the most reasonable model appears to be the market coupling – with a gradual joining of other countries and subsequent convergence with the CWE/NWE region. During 2011 the monitoring of congestion management and observance of transparency were made under Regulation No. 714/2009.

With respect to the adoption of the EC Regulation on the wholesale energy market integrity and transparency (REMIT), which entered into effect in December 2011, the supervision over the wholesale energy market was incorporated among other special responsibilities of the agency.

CEER

A co-operation of regulators within CEER being a voluntary body for the co-operation of national energy regulators covers the key areas of importance of pan-European dimension which do not belong among ACER priorities. They include customer issues, smart grids and smart meters, sustainability and international strategic issues. CEER covers the monitoring of implementation of the third energy package by means of the quarterly internal reviews. To simplify the establishment of an integrated and

competitive European gas market, CEER overtook the leading role in developing the target model for natural gas.

ERRA

The Energy Regulators Regional Association (ERRA) is a formalised institution having the main goal to exchange information and experience in all areas of energy regulation. An exchange of information is made on the uppermost level by the chairman, who represents the Office at the General Assembly and in the Presidium, as well as by members who are expert representatives of the Office on the level of specialised committees.

1. Bilateral co-operation

Traditionally intensive bilateral co-operation is made with the Czech regulator through meetings of Office chairmen with a focus given to current opinions of the chairmen regarding mutual exchange against the regulation of secondary reserves and the development of market coupling. Simultaneously, the principles of co-operation between the Czech energy regulator and RONI have been agreed for the coming period. As an example of specific exchange of experience and expertise we can mention the internship of the Czech employees at the Slovak regulatory body.

Last year the Office initiated a promising co-operation with the State Electricity Regulation Commission of the People`s Republic of China (SERC). The representatives of SERC visited the Office to gain information and exchange experience in the field of electricity transmission.

2. Twinning

In 2011 the Office also successfully participated in the EU twinning projects that were aimed at providing expert assistance in the process of accession of countries into the European Union. Following the completion of the twinning project in Azerbaidijan, where the Office acted as a partner – junior, our experts managed to win another 18-month twinning project in Serbia. The primary objective of this project is to build capacities of the Serbian Energy Agency (AERS) so that it would be able to develop and implement regulatory policies and strategies and to obtain the supervision over necessary reforms in the energy industry of Serbia. The start date of the project is June 2012.

VIII. Settlement of Applications under the Act No. 211/2000 Coll. on Free Access to Information and on Amendment and Supplement of Some Acts as Amended

In 2011 the Office dealt with 64 applications for allowing the access to information, of which 54 were settled, allowing the access to the information required, 9 applications were turned down and 1 application was postponed.

Out of the overall number of settled applications 3 applications referred to the information on energy prices, 10 applications requested the background documents referring to price proposals, in 15 cases applicants requested the information on the activities and powers of the Office, in 12 cases the copies of documents were required and in 7 cases the applicants requested the results of inspection. The applicants also asked for the information on validity and binding character of decrees issued by the Office, the information on validity and binding character of regulations. The number of applications for access to information on energy prices and proposals for doing business in the energy industries annually declines. The Office attributes such decline to the fact that the detailed information is published on the web site of the Office.