Standard Summary Project Fiche

1. Basic Information

1.1. Desiree Number
CZ00-04-04

1.2. Twinning Number
CZ2000/IB/EY/01

1.3. Title
Strengthening Regulation and Enforcement of Energy Acquis

1.4. Sector
Internal Market

1.5. Location
Ministry of Industry and Trade (MoIT)

2. Objectives

2.1. Wider Objective
- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

2.2. Immediate Objectives
The Immediate Objectives of this Project are to:
- Ensure the establishment and operational functioning of the Energy Regulatory Authority (covering the electricity, power, gas and heat sectors), enabling it to perform its task as energy sector regulator, in compliance with the acquis (in particular, participation in the EU’s internal energy market).

2.3. Accession Partnership / NPAA Priority
The Accession Partnership (December 1999) highlights the following priority:
- Medium-term: Prepare for the internal energy market, notably the electricity and gas directives (including adaptation of energy prices to cost levels and the establishment of a regulator).

The National Programme (May 1999) chapter 12 (Energy) highlights the following priorities:
- Short-term: the elimination of price distortions for end consumers and also sale prices between CEZ (Transgas) and distribution companies;
- Medium-term: to have the clear implementation of regulation mechanism in the sphere of energy production, gas production and heating mechanism similar to those in the EU member countries.

3. Description

3.1. Background / Justification
The Energy Act of November 2, 1994 „On Conditions of Business Activity and State Administration in the Energy Industries” and „On State Power Inspection” covers the basic principles for regulation of the power sector and, consequently, for gas manufacture. Concerning price regulation, the Act on Prices No. 526/1990 is considered the primary legislation. The Bill of Prices, issued by the Ministry of Finance, determining regulated prices valid for physical and juridical persons is a secondary legislation document.

On 22 November 1999 the Government approved a Report analysing the costs of regulated energy companies together with the proposal for further steps in eliminating distortions of electricity and natural gas prices (a summary of the Report is provided in Annex 4).

State regulation is carried-out by Ministry of Industry and Trade, in conformity with the above mentioned laws. In view of the significance of regulated activities and their scope for the energy
sector, MoIT, with effect from January 1998, has established a special section called Energy Regulatory Administration at the MoIT managed by MoIT’s Senior Director, who is subordinated directly to the Minister.

MoIT, as a state regulatory body, represents the only body entitled to submit proposals of price changes to the Ministry of Finance, which is according to the Act on prices entitled to determine electricity and gas prices with final effect. Furthermore, MoIT is responsible for the state authorisation of business in the electric power, gas manufacture and heat production sectors.

MoIT has elaborated a draft Bill on Energy, according to which the energy regulation should be detached from the Ministry and, with the competence to regulate prices from the Ministry of Finance, incorporated into a newly established Energy Regulatory Authority (covering the electricity, power, gas and heat sectors), where the regulatory authority should be reinforced.

The Bill on Energy will be discussed by the Government and Parliament this year and it is expected that the new Energy Act should be in force from January 1, 2001.

3.2. Linked Activities

In 1999 the draft of new energy Act was prepared by NERA under the Phare project (CZ 9703-01-02-03) „Foundation of Energy Regulatory Institution,“. This Act stipulates the conditions for business activities and tasks of state administration in the energy sector. Apart from the legislative work the project was concentrated particularly on the following issues:

- Comprehensive description of the ERA rights;
- Definition of the terms of public interest and service;
- Carry out an economic analyses of the market, competition and prices;
- Give proposal on transparent pricing and price regulation and take into account valuation of the companies.

In 1999 MoIT implemented the project on „Approximation of CEEC to EC legislation“ which was financed from the Multi-country Phare Energy programme. The most important task in this project was to assist in the beneficiary countries in drafting of new energy legislation and develop the country strategy which will cover remaining legislative gaps.

3.3. Results / Outputs

The following Outputs will be delivered and Guaranteed Results achieved via this Project:

- Operational establishment of an independent Energy Regulatory Authority, operating in line with the new Energy Act and in compliance with the EC acquis;
- Elaboration of a detailed medium-term Action Plan to strengthen ERA;
- Procedural manuals developed, issued and used by ERA, in the following areas:
  - Tariff setting and reviews,
  - Cross-subsidies,
  - Assessing of fixed assets,
  - Licensing,
  - Access to the grid,
  - Internal administrative and personnel procedures;
- ERA information systems (for regulatory functions and internal management) established;
- Documentation/proposals concerning drafts of secondary energy legislation will cover:
Electricity trade rules,

 Sufficiency of funds, material supply and technological background,

 Granting of a licence, amendment thereto or revocation thereof,

 Method of selection of the licence holder to exercise the supply obligation the scope of the licence,

 Rules for allocation of cost, sales revenues, return of capital invested, and method of assets valuation for the purpose of regulated pricing,

 Condition for connection of protected customers,

 Condition and method of calculation of the loss and amounts of financial contributions of the licence holders to the Fund to finance the obligations beyond the licence scope,

 Quality of supplies and services;

• Personnel management and development procedures established, with training (seminars, on-the-job, fellowships/study visits) delivered.

3.4. Activities / Inputs

The Project consists of a single contract for a Twinning and Training Package - CZ 2000/IB/EY/01, consisting of:

• A 1.5 year Pre-Accession Adviser (PAA), to provide senior management support to the newly established Energy Regulatory Authority, supporting ERA with the development of internal structures and procedures to functionally regulate the energy sector, in compliance with EC requirements. The PAA, who will co-ordinate a series of short-term expert inputs, will be fluent in the English language (written and spoken) and should possess relevant professional experience from an EU Member State energy regulator.

In particular the PAA will be responsible for recommendations regarding:

• Medium-term Action Plan,

• Implementation of licences in connection with access to energy market,

• Activities of energy ERA in the area of the market control,

• Procedures to set up the tariffs and their reviews,

• Checking of supply quality,

• Activities of ERA within the liberalised market with respect to market failures,

• Relationship between ERA and regulated subjects,

• Problems that have arisen with the legal and regulatory framework in different countries and possible future changes,

• Proposal of ERA staff training;

• A series of Short-Term Expert inputs (approximately 15 person-months) to provide specialist inputs under the direction of the PAA. STEs should cover a range of skill areas: financial planning, engineers, law, training, licensing, regulation, economics, market analysis, commerce, accountancy etc.. Indicatively, support should include:

• Tariff setting and reviews (3 p/m),

• Assessing of fixed assets (3 p/m),

• Licensing (3 p/m),
4. **Institutional Framework**

MoIT’s Energy Regulatory Administration is presently preparing the establishment of the Energy Regulatory Authority and foresees the body to be established by 1st January 2001, with a staff of 90 people. The mission of ERA will be to protect the consumers’ interests in the areas of the energy sectors, on the basis of market liberalisation and access, in compliance with EC requirements.

The Chairperson of ERA will be appointed by the Prime Minister.

Within the twinning project the Steering Committee consisting of ERA experts will be established; they will monitor progress and outputs of the project.

5. **Detailed Budget (in MEUR)**

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (= I + IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning and Training Package</td>
<td>0.6</td>
<td>0.6</td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Support to Twinning and Training Package</td>
<td>0.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>0.6</td>
<td>0.6</td>
<td>0.1</td>
<td></td>
<td><strong>0.7</strong></td>
</tr>
</tbody>
</table>

6. **Implementation Arrangements**

6.1. **Implementing Agency**

The CFCU is the Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical preparation and control will remain with the beneficiary: Ministry of Industry and Trade.

6.2. **Twinning – CZ 2000/IB/EY/01**

The Contact Person for the Project is: **Mr. Petr Kacvinský**, e-mail kacvinsky@mpo.cz.

6.3. **Contracts**

One contract is foreseen: Twinning and Training Package = 0.6 MEUR.

7. **Implementation Schedule**

Start of Twinning Selection: 3Q/00
Start of Twinning Activity: 2Q/01
Project Completion: 3Q/02

8. **Equal Opportunity**

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. **Conditionally and Sequencing**

The new Energy Act should be in force by 2001. The Energy Regulatory Authority should be established by 1st January 2001. Government financing for the staff & operations of the ERA is
essential.

Annexes to Project Fiche

1. Logframe Matrix
2. Detailed Implementation Chart
3. Cumulative Contracting and Disbursement Schedule for the Project (M €)
**Logframe Matrix**

### Strengthening Regulation/Enforcement of Energy Acquis

<table>
<thead>
<tr>
<th>Wider Objective</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union</td>
<td>Acknowledgement by the European Commission</td>
<td>EC Regular Report</td>
<td>Other Copenhagen criteria fulfilled</td>
</tr>
</tbody>
</table>

### Immediate Objectives

Support the operational establishment and functioning of the Energy Regulatory Authority (covering the electricity, power, gas and heat sectors), enabling it to perform its task as energy sector regulator, in compliance with the acquis (in particular, participation in the EU’s internal energy market)

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Transparency and openness of legislative and regulatory framework for the energy sector</td>
<td>- Energy Law</td>
<td>Other parts of the acquis implemented</td>
</tr>
<tr>
<td>- ERA established</td>
<td>- Energy Regulatory Authority</td>
<td></td>
</tr>
<tr>
<td>- Staff trained to enforce the acquis</td>
<td>- Reports of the project</td>
<td></td>
</tr>
<tr>
<td>- Transparent regulatory procedures established and issued</td>
<td>- Commission assessment</td>
<td></td>
</tr>
<tr>
<td>- Energy sector liberalised</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Results

- Operational establishment of an independent Energy Regulatory Authority, operating in line with the new Energy Act and in compliance with the EC acquis;
- Elaboration of a detailed medium-term Action Plan to strengthen ERA;
- Procedural manuals developed, issued and used by ERA, in the following areas:
  - Tariff setting and reviews,
  - Cross-subsidies,
  - Assessing of fixed assets,
  - Licensing,
  - Access to the grid,
  - Internal administrative and personnel procedures;
  - ERA information systems (for regulatory functions and internal management) established;
- Documentation/proposals concerning drafts of secondary energy legislation will cover:

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Manuals for education of regulatory staff</td>
<td>- ERA</td>
<td></td>
</tr>
<tr>
<td>- Procedure manuals</td>
<td>- Project reports</td>
<td></td>
</tr>
<tr>
<td>- Tariff setting and reviews according to acquis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Assessment of fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Licensing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Access to the grid secured according to acquis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Documents concerning drafts of secondary energy legislation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Providing on-going ad hoc assistance to the ERA in undertaken its tasks and providing assistance on particular issues or problems</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Electricity trade rules,
- Sufficiency of funds, material supply and technological background,
- Granting of a licence, amendment thereto or revocation thereof,
- Method of selection of the licence holder to exercise the supply obligation the scope of the licence,
- Rules for allocation of cost, sales revenues, return of capital invested, and method of assets valuation for the purpose of regulated pricing,
- Condition for connection of protected customers,
- Condition and method of calculation of the loss and amounts of financial contributions of the licence holders to the Fund to finance the obligations beyond the licence scope,
- Quality of supplies and services;
- Personnel management and development procedures established, with training (seminars, on-the-job, fellowships/study visits) delivered

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
</table>
| Twinning and Training Package: 1.5 year PAA, approximately 15 person-months STEs, supplies and services | - Energy Law adopted by Parliament  
- Co-operation of respective bodies  
- government financing for staff & operations of ERA  
- Use of draft of new energy Act was prepared by NERA under the Phare project (CZ 9703-01-02-03) „Foundation of Energy Regulatory Institution„  
- Use of „Approximation of CEEC to EC legislation“ which was financed from the Multi-country Phare Energy programme. |
### Detailed Implementation Chart for the Project

**Annex 2**

<table>
<thead>
<tr>
<th>Detailed Project Implementation</th>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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</thead>
<tbody>
<tr>
<td>Twinning and Training Package</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Launch Twinning request to Member States (June 2000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Selection of MS(s) for twinning</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Elaboration of twinning covenant</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Submit Twinning covenant to Commission &amp; Steering Committee for approval</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
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<tr>
<td>- Twinning Package commences</td>
<td></td>
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<td></td>
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<tr>
<td>Preparation of medium-term Action Plan for ERA</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Support to establish/strengthen administrative structures</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Drafts of secondary energy legislation</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Procedural manuals developed</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Personnel management procedures established, training needs</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>------------------------------------------------------------</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Training (seminars, on-the-job, fellowships/study visits)</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Establishment of an independent Energy Regulatory Authority</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
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</tr>
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</table>
Cumulative Contracting and Disbursement Schedule for the Project (M €)  

Annex 3

Cumulative Quarterly Contracting Schedule (M €)

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/00</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Regulation/Enforcement of Energy Acquis</td>
<td>0.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
</tr>
</tbody>
</table>

Cumulative Quarterly Disbursement Schedule (M €)

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/00</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Regulation/Enforcement of Energy Acquis</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
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<td>0.6</td>
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