1. **Basic Information**

1.1. Désirée number: CZ01-04-06

    Twinning number: CZ01/IB/OT/05

1.2. Title: **Electricity market operator**

1.3. Sector: Internal Market/Energy

1.4. Location: Ministry of Industry and Trade (MIT), Czech Republic

2. **Objectives**

2.1. Overall Objective

   • Existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union

   • Opening of the internal energy market in electricity and construction of its institutional framework in conformity with the relevant EU acquis and the energy policy of the Czech Republic

2.2. Project Purpose

   • To ensure its efficient functioning of the Market Operator in the market according to the new Energy Act and the relevant acquis (in particular Directive 96/92/EC and internal energy market).

2.3. Accession Partnership and NPAA Priority

Accession priority

   • To speed up the process of the opening of the internal electricity market

NPAA (March 2000) priority chapter 14 Energy

   • **Short-term:**
     
     Preparation of the last phase of privatisation and reorganisation of the electricity sector;

   • **Medium-term:**
     
     Finishing of reorganisation of the electricity sector and constructing of the new institutional framework;

     Realization of the last phase of privatisation in the electricity sector (privatisation of distribution companies);

     Removal of the main price deformation until 2002;

     Gradual opening of the internal electricity market (in three steps) until 2005.
3. Description

3.1. Background and Justification

The new Energy Act “On Business Conditions and Public Administration in the Energy Sectors and on Amendment to Other Laws” (Act 458/2000 Coll.) came into force on January 1, 2001. It provides for a gradual opening of the electricity market according to the following schedule:

- In 2002 it will be opened up to the level of eligible customers with the annual consumption higher than 40 GWh (Estimated opening is over 30% of the market);
- In 2003 it will be opened up to the level of eligible customers with the annual consumption higher than 9 GWh (Estimated opening is over 40% of the market);
- In 2005 it will be opened up to the level of eligible customers with the annual consumption higher than 100 MWh (Estimated opening is over 50% of the market);
- The 100% opening of the electricity market is expected in 2006.

The new Energy Act also defines competencies and responsibilities of the electricity market participants and the new institutions to organise the market (notably the Market Operator and the Energy Regulatory Office).

Establishment of the market operator follows from the Directive 96/92/EC (Chapter II, III, VI, VII).

Existing electricity market operators in EU member states (e.g. in Spain and the Scandinavian countries) are models for constructing the Czech market operator.

The functions of the market operator will be gradually developed in line with the opening of the electricity market in the Czech Republic and according to the wider international changes of methods and structures of electricity trading:

The most important functions of the market operator are:

- to ensure financial settlement of the trade in electricity;
- to ensure clearing of differences between the actual and originally proposed trade in electricity;
- to prepare, develop, apply and supervise the rules of electricity trading;
- to set up a spot market in electricity (in relation to stock-exchanges).

The number of market participants will gradually rise in accordance with the gradual market opening as outlined above and provided by the new Energy Act.

The market operator must resolve the methodology of applying load profiles.

The trading will be functioned on the wholesale market.

The budget of the market operator and the method of its functionality are set by the Energy Regulatory Office.

3.2. Linked Activities

In 1999 the draft of the new Energy Act was prepared by NERA under the Phare Project (CZ 9703-01-02-03) „Foundation of energy regulatory institution”.

In 1999 the Ministry of Industry and Trade 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 the new energy legislation and develop the country strategy, which will cover remaining legislative gaps.

This project follows up the Twinning Project (CZ 00.04.04) „Energy Regulation Administration“ - of the Phare 2000 Programme, which focuses on integrating the Energy Regulatory Office (ERO) (according to the new Energy Act) into the overall regulatory framework and providing the ERO with relevant skills to ensure regulatory procedures in the line with EU Directive 96/92/EC and the ERO position on the internal energy market.

The next step of the construction of the new institutional framework in the Czech electricity sector is the establishment of the market operator at the latest in the 1Q/2001 (financed from the state budget) and its provision with relevant skills to ensure its right functions on the electricity market (in accordance with the new Energy Act and in line with EU acquis).

3.3. Results

The following guaranteed results will be achieved by this project:

1) Operational establishment of the independent electricity market operator, functioning in line with the new Energy Act and in compliance with the EU acquis. In particular, the project is to enable the electricity market operator to efficiently settle and clear electricity trade and organise the spot market in electricity. The electricity market operator will be supported in its management of the progressive opening of the spot market to consumers, distributors and generators.

2) Preparation of relevant secondary legislation to be proposed to the Energy Regulatory Office.

3) Development of a comprehensive and integrated procedural manual. The manual will cover:
   - market rules for all participants (traders, generators, distribution companies, transmission company and consumers)
   - rules and methods for the settlement of markets
   - rules and methods for the clearing of markets

4) Development of the human resources of the market operator. In particular all operational staff is to be provided with the skills including: methods for concluding bilateral transactions in electricity; functions of the spot markets in electricity and their clearing including functions of the stock exchanges, methods of the clearing differences (agreed supply – actual supply) between electricity market participants, and principles and rules of electricity trading.
   This includes:
   - Development and Introduction of a Manual
   - Training Sessions
   - Seminars on special issues

5) Information of all market participants about the objectives, tasks and functioning of the market operator.
3.4. Activities

The project consists of a single contract for a Twinning and Training Package.

A Pre-Accession Advisor (PAA), to stay for 12 months, to provide senior management support to the newly established electricity market operator and co-ordinate all activities supporting the operation of the market operator. The PAA will deliver advice on the efficient and effective performance of the market operator in accordance with EU legislation, in particular on the:

- organization of the electricity market
- settlement of the trade in electricity
- clearing of the trade in electricity
- organization of the spot market in electricity
- progressive opening of the spot market to consumers

The PAA will also help preparing proposals for new or updated secondary legislation in line with the new Energy Act (e.g. metering, trading, etc) in order to allow the market operator to operate most effectively. He will in the beginning of the project develop a comprehensive and integrated procedural manual for the market operator as specified under point 3.3 above. He will also be responsible for the preparation of an information strategy to inform all market participants about the objectives, tasks and functioning of the market operator.

The PAA long-term twinning expert should have minimum 2 years experience as senior manager in the electricity market operator in an EU country.

Six short-term experts to support human resource development by providing training through seminars and workshops in the following areas:

- organization of the electricity market: two experts each five times two weeks
- settlement of the trade in electricity: one expert five times two weeks
- clearing of the trade in electricity: one expert five times for two weeks
- organization of the spot market in electricity: two experts each five times two weeks

The experts have to bring to the Czech Republic deep expertise in the given field, modern methods of work and schemes as they are provided in the EU countries. They could be from different countries (with different experience of the functioning of the market operator). The training should proceed step by step. So there is a need to spread it in the long-term time horizon (12 months).

Study visits and operational training of experts of the market operator in EU Member States to obtain experience with applied mechanisms. 10 experts twice for 10 days each.

4. Institutional Framework

The new Energy Act defines competencies and responsibilities of the market operator, Energy Regulatory Office and other electricity market participants - eligible customers,
protected customers, the transmission system operator, distribution system operators, electricity traders.

The market operator and the Energy Regulatory Office are mutually independent institutions. According to the new Energy Act (§27) the Market Operator (MO) will be regulated by the Energy Regulatory Office (ERO) (which is the central administrative authority for regulation in the energy sector). The market operator will be a joint-stock company established by the state. In future private and legal persons may hold up to a maximum of 5% of shares each. This is possible only after the privatisation of CEZ.

The Market Operator shall submit to the Energy Regulatory Office:

- at least once a year a report on the long-term electricity balances;
- information about electricity supplies that might be subject to import restrictions;
- background information for the draft rules of electricity trading.

The most important tasks of the Market Operator mentioned in the Energy Act are:

- preparation of balances of the supply of and consumption for electricity for the specified periods on the basis of electricity supply contracts between the electricity market participants;
- organization of the electricity market;
- preparation of assessments of the actual and agreed electricity supplies and intakes on the basis of the electricity supply contracts and the actual readings of measurements;
- providing settlement between the electricity market participants as to the differences between the actual and agreed supplies;
- preparation and publishing of monthly and annual assessment reports on the Grid;
- preparation of reports on the long-term electricity balances.

According to the new Energy Act (§ 17) the Energy Regulatory Office (ERO) has the executive decision in:

- the granting of a licence, amendment thereto or revocation thereof;
- the holding of more than one licence by an individual or legal entity in compliance with the implementing regulation;
- imposition of the supply obligation beyond the scope of the licence;
- price regulation based on special legal regulations.

The MO will be established at the latest in the 1Q/2001 (the establishment will be financed from the state budget) and will be the independent beneficiary of the Phare contribution and also the recipient of the project results.

### 5. Detailed Budget (in M €)

<table>
<thead>
<tr>
<th>Contract</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 Covenant</td>
<td></td>
<td></td>
<td>0.6</td>
<td>0.6</td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>0.6</td>
<td>0.1</td>
<td></td>
<td>0.7</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

The contact person for the Project is: Mr. Miroslav Marvan, Director of the Central Dispatch Centre of the Czech Republic ÚED CR, Seifertova 55, 130 00 Praha 3, Tel.: (+420-2) 2408 6743, Fax: (+420-2) 6279806, E-mail: mmarvan@ued.cz

The planned Twinning is described under item 3.4. The project is expected to start in the first quarter of 2002.

The market operator will be the independent beneficiary of the Phare contribution.

6.3. Non-Standard Aspects

The "Practical Guide to Phare, Ispa & Sapard contract procedures" shall be followed.

6.4. Contract

(1) contract - Twinning Covenant: 0,6 M €

7. Implementation Schedule

7.1. Launch of Twinning Request to Member States: 2Q/01
7.2. Selection of MSs for Twinning: 2Q/01 – 3Q/01
7.3. Elaboration of Twinning Covenant: 4Q/01 – 1Q/02
7.4. Twinning Implementation: 1Q/02 – 1Q/03

8. Equal Opportunity

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

9. Environment

N/A

10. Rates of Return

N/A
11. Investment Criteria

N/A

12. Conditionally and Sequencing


The market operator will be established in accordance with this Act (§ 27) at the latest in the first quarter of 2001.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix
2. Detailed implementation chart for the Project
3. Contracting and disbursement schedule for the Project
4. The new Energy Act - § 17, § 27
**LOGFRAME PLANNING MATRIX FOR**

<table>
<thead>
<tr>
<th>Project</th>
<th>Programme name and number: CZ01-04-06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity market operator</strong></td>
<td>Contracting period expires: 31/10/2003</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires: 31/10/2004</td>
</tr>
<tr>
<td></td>
<td>Total Budget: 0.7 M EUR</td>
</tr>
<tr>
<td></td>
<td>Phare contribution: 0.6 M EUR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union; • Opening of the internal energy market in electricity and construction of its institutional framework in conformity with the relevant EU acquis and the energy policy of the Czech Republic.</td>
<td>• Acknowledgement by the European Commission;</td>
<td>• EC Regular Report</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To ensure efficient functioning of Market Operator in the electricity market according to the new Energy Act and the relevant acquis (in particular Directive 96/92/EC and internal energy market).</td>
<td></td>
<td>• Project Report</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The independent market operator (MO) operationally established and functioned in line with the new Energy Act and in compliance with the EU acquis;</td>
<td>• The MO provided with all relevant skills on its tasks: • organization of the electricity market; • settlement of the trade in electricity; • clearing of the trade in electricity; • organization of the spot market in electricity. • Management of progressive opening of the spot market to</td>
<td>• Project Report • PAA Assistance Report</td>
<td>• Continued Government commitment to role of market operator • Legislation adopted and implemented by Electricity Regulatory Office • Manual applied • Staff retained</td>
</tr>
<tr>
<td>Relevant secondary legislation prepared to be proposed to the Energy Regulatory Office;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A comprehensive and integrated procedural manual developed;</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Human resources of the MO developed;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All electricity market participants informed about the objectives, tasks and functioning of the MO.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| consumers as well as distributors |
| Secondary legislation prepared especially on: |
| Metering |
| Trading |
| The manual will cover: |
| market rules for all electricity market participants; |
| rules and methods for the settlement of markets; |
| rules and methods for the clearing of markets. |
| All MO operational staff (15-20 from the total number of the MO staff /30/) provided with the skills including: |
| methods for concluding bilateral transactions in electricity; |
| functions of the spot markets in electricity and their clearing including functions of the stock exchanges; |
| methods of the clearing differences (agreed supply – actual supply) between electricity market participants; |
| principles and rules of electricity trading; |
| 10 experts of the MO provided with practical experience from the functioning electricity markets in EU member states. |
| Seminars for: |
| electricity traders |
| generators |
| transmission system operator |</p>
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Advice on efficient and effective performance of activities of the market operator in accordance with EU legislation:</td>
<td>- The project consists of a single contract for a Twinning and Training Package;</td>
<td>- This project follows up the Twinning Project &quot;Energy Regulation Administration&quot; – of the Phare 2000 Programme, which focuses on integrating the Energy Regulatory Office (ERO) (according to the new Energy Act) into the overall regulatory framework and providing the ERO with relevant skills to ensure regulatory procedures in the line with EU Directive 96/92/EC and the ERO position on the internal energy market;</td>
</tr>
<tr>
<td>- organization of the electricity market;</td>
<td>- A Pre-Accession Advisor (PAA), to stay for 12 months, to provide senior management support to the newly established electricity market operator and co-ordinate all activities supporting the operation of the market operator. The PAA will also help preparing proposals for secondary legislation, develop a procedure manual and be responsible for the creation of an information strategy towards the market participants;</td>
<td>- Establishment of the market operator (MO) with 30 members of staff and an annual budget of 51m CZK at the latest in the 1Q/2001 (will be financed from the state budget) and its provision with relevant skills to ensure its right functions in the electricity market (in accordance with the new Energy Act and in line with EU acquis) is the next step by the construction of the new institutional framework in the Czech electricity sector;</td>
</tr>
<tr>
<td>- settlement of the trade in electricity;</td>
<td>- The PAA should have minimum 2 years experience as senior manager in the electricity market operator in an EU country;</td>
<td>- The market operator and the Energy Regulatory Office are mutually independent institutions (for the specification of relations between the MO and the ERO see Preconditions).</td>
</tr>
<tr>
<td>- clearing of the trade in electricity;</td>
<td>- 6 short-term experts to support human resource development by providing training in the following areas:</td>
<td></td>
</tr>
<tr>
<td>- organization of the spot market in electricity;</td>
<td>- organization of the electricity market – 2 experts each five times 2 weeks;</td>
<td></td>
</tr>
<tr>
<td>- progressive opening of the spot market to consumers</td>
<td>- settlement of the trade in electricity – 1 expert five times for 2 weeks;</td>
<td></td>
</tr>
<tr>
<td>- Preparation of proposals for new or updated secondary legislation in line with the new Energy Act in order to allow market operator to operate most effectively in accordance with EU legislation;</td>
<td>- clearing of the trade in electricity – 1 expert five times for 2 weeks;</td>
<td></td>
</tr>
<tr>
<td>- Development of a comprehensive and integrated procedure manual for market operator;</td>
<td>- organization of the spot market in electricity – 2 experts each five times 2 weeks;</td>
<td></td>
</tr>
<tr>
<td>- Advice for preparation of information strategy for all market participants about the objectives, tasks and functioning of the MO;</td>
<td>- The experts have to bring to the Czech Republic deep expertise in the given</td>
<td></td>
</tr>
<tr>
<td>- Training of the MO operational staff. This include:</td>
<td></td>
<td></td>
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<tr>
<td>- Development and Introduction of a Manual</td>
<td></td>
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<tr>
<td>- Training Sessions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Seminars on special issues</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Study visits and operational training of experts of the MO in EU member states.**

- Modern methods of work and schemes as they are provided in the EU countries. They could be from different countries (with different experience of the functioning of the MO). The training should proceed step by step. So there is a need to spread it in the long-term time horizon (12 months);
- 10 experts twice for 10 days each should obtain experience with applied mechanism.

**Preconditions**

- Finishing of reorganisation of the electricity sector;
- Removal of the main price deformation until 2002;
- Gradual opening of the electricity market will take place in three steps:
  - Presently distributors may buy electricity from any generator they please in the Czech Republic, but consumers may only buy from local monopoly distributor
  - In 2002 it will be opened up to the level of eligible consumer with the annual consumption higher than 40 GWh (Estimated opening is over 30% of the market);
  - In 2003 (from January 1) it will be opened up to the level of eligible consumer with the annual consumption higher than 9 GWh (Estimated opening is over 40% of the market);
  - In 2005 it will be opened up to the level of eligible consumer with the annual consumption higher than 100 MWh
(Estimated opening is over 50% of the market);

- The 100% opening of the electricity market is expected in 2006.
- The market operator will be established in accordance with the new Energy Act (§ 27) at the latest in the 1Q/2001 (the establishment of the MO will be financed from the state budget);
- The market operator (MO) will be regulated by the Energy Regulatory Office (ERO) which began to operate as independent institution on January 1, 2001;
  
  According to the new Energy Act the MO shall submit to the ERO:
  - at least once a year report on the long-term electricity balances;
  - information about electricity supplies that might be subject to import restrictions;
  - background information for the draft rules of electricity trading;

- The most important tasks of the MO mentioned in the Energy Act are:

  - Managing an exchange where distributors may buy electricity from generators. Progressively this market will be opened up to allow consumers to buy directly from generators
  - preparation of balances of the supply of and consumption for electricity for the specified periods on the basis of electricity supply contracts between the electricity market participants;
  - organization of the electricity market;
  - preparation of assessments of the actual and agreed electricity supplies and intakes on the basis of the electricity supply contracts and the actual readings of measurements;
  - providing settlement between the electricity market participants as to the differences between the actual and agreed supplies;
  - preparation and publishing of monthly and annual assessment reports on the Grid;
  - preparation of reports on the long-term electricity balances;

- According to the new Energy Act (§ 17) the Energy Regulatory Office (ERO) is the central administrative authority for regulation in the energy sector; the ERA has the executive decision in:

  - the granting of a licence, amendment thereto or revocation thereof;
  - the holding of more than one licence by an individual or legal entity in compliance with the implementing regulation;
  - imposition of the supply obligation beyond the scope of the licence;
  - price regulation based on special legal regulations;

- The twinning project “Energy Regulation Administration” within the bounds of the programme Phare 2000 is focused on the ERO (see above); it is to start in mid-2001.
- The functioning electricity market operators exist nowadays e.g. in Spain (OMEL) – the Czech Republic is passing through the similar development of the electricity market (network) as did Spain in the past – and in Sweden, Finland, Denmark and Norway (Nord Pool);
- Training and methodology extension.
## Detailed Implementation Chart for the Project

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed Project Implementation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>J J A S O N D</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Launch of Twinning</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Request to Member States</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Selection of MSs for Twinning</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Elaboration of Twinning Covenant</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Twinning Implementation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legend:
- **J**: January
- **F**: February
- **M**: March
- **A**: April
- **M**: May
- **J**: June
- **J**: July
- **A**: August
- **S**: September
- **O**: October
- **N**: November
- **D**: December

The chart shows the timeline for the detailed implementation of the project, with specific activities scheduled from 2001 to 2003.
### Cumulative Contracting and Disbursement Schedule for the Project (M EUR)

#### Cumulative Quarterly Contracting Schedule (M EUR)

<table>
<thead>
<tr>
<th>Project</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>4Q/03</th>
<th>1Q/04</th>
<th>2Q/04</th>
<th>3Q/04</th>
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<tbody>
<tr>
<td>Investment in Target Electricity market operator</td>
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<td></td>
<td></td>
<td></td>
<td>0.60</td>
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</table>

#### Cumulative Quarterly Disbursement Schedule (M EUR)

<table>
<thead>
<tr>
<th>Project</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>
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<th>1Q/05</th>
<th>Total</th>
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<tbody>
<tr>
<td>Investment in Target Electricity market operator</td>
<td>0.20</td>
<td>0.40</td>
<td>0.50</td>
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<td></td>
<td></td>
<td>0.60</td>
<td></td>
<td>0.60</td>
</tr>
</tbody>
</table>
Section 17

Energy Regulatory Office and the Authority Thereof

(1) The Energy Regulatory Office is established as the administrator Office to exercise regulation in the energy sector, having a special heading in the national budget of the Czech Republic.

(2) The seat of the Energy Regulatory Office shall be at Jihlava.

(3) The mission of the Energy Regulatory Office is to support economic competition and protect consumers’ interests in energy sector areas where competition is impossible, aiming to meet all reasonable requirements for energy supply.

(4) The Energy Regulatory Office shall be headed by its Chairperson who shall be appointed, and may be removed, by the Government of the Czech Republic.

(5) The Chairperson of the Energy Regulatory Office may only be removed from his/her post before the expiry of his/her term on the following grounds: sickness permanently preventing him/her from officiating, gross breach of his/her obligations as Chairperson, effective conviction of a court for a criminal act, or resignation.

(6) The Energy Regulatory Office shall decide on the following matters:
   a) the granting of a licence, amendment thereto or revocation thereof,
   b) the holding of more than one licence by an individual or legal entity in compliance with the implementing regulation,
   c) imposition of the supply obligation beyond the scope of the licence,
   d) imposition of the obligation to let another Licence Holder use the energy facilities in cases of emergency to exercise the supply obligation beyond the scope of the licence, including any related decisions on servitude based on the provisions of special regulations\(^3\),
   e) price regulation based on special legal regulations\(^4\).

(7) The Energy Regulatory Office shall lay down:
   a) the required quality of the supplies and services,
   b) method of selection of the Licence Holder to exercise the supply obligation beyond the scope of the licence,
   c) the rules of maintenance of separate records of sales, costs and revenue for regulation purposes,
   d) conditions of connection and supplies for protected customers,
   e) the rules to organise the electricity market ("electricity market rules"), the principles of pricing in respect of the market operator\(^4\),
   f) contents of the economic information and the price regulation procedures on the basis of special provisions\(^4\),
   g) method of calculation of the provable loss suffered while fulfilling the obligation to supply energy beyond the scope of the licence and documents to evidence and specify the calculation of the provable losses,
   h) the amounts of financial contributions of the Licence Holders to the Fund and the rules of drawing money from the Fund.

\(^{3}\) Act No. 40/1064, Civil Code, as amended.
\(^{4}\) Act No. 526/1990 on Prices, as amended.
i) rules for the allocation of costs, sales revenues and return on capital invested,
j) details of the demonstration of available funds and technical facilities for the different types of licences for regulated activities,
k) method of determination of the delineated territory and details of the granting of the licence and amendments thereto.

(8) In addition, the Energy Regulatory Office shall perform the following activities:

a) decide disputes arising from failure to conclude agreements between individual licence holders and/or agreements or contracts with their customers,
b) request that the Licence Holders should disclose the information specified by the Energy Regulatory Office,
c) authorise its employees to enter the premises used for the performance of licensed activities,
d) decide disputes arising from failure to conclude an agreement on regulated access to the transmission system or distribution system,
e) approve the Rules of Operation of the Transmission System and Distribution Systems in the Electricity Sector,
f) initiate the inspection of how the obligations resulting from the decisions based on Section 17 Subsection 6 are fulfilled and initiate inspection to be performed by the State Energy Inspection Board based on the provisions of Section 93 Subsection 1 Clauses a) and c),
g) while exercising its regulating mission, impose upon the Licence Holders to remedy any identified faults and submit, within the period defined in the decision of the Energy Regulatory Office, a report on the measures taken; or prescribe the way in which the Licence Holder is to remove the identified faults,
h) propose that the State Energy Inspection Board should institute inspection proceedings,
i) propose that the State Energy Inspection Board should impose fines for breach of duties ensuing here from.

(9) For purposes of performing their regulation mission, employees of the Energy Regulatory Office shall be entitled to:

a) enter the premises where the licensed activities are performed,
b) inspect the Licence Holders’ accounts and other documents as needed for regulation and request explanation thereof; any circumstances they may learn during their inspection work shall be treated by them as confidential while they are employees of the Energy Regulatory Office and two years thereafter.

(10) The Energy Regulatory Office shall issue the Energy Regulatory Bulletin (Regulaèní energetický vïstník) to publish information including, but not limited to:

a) lists of Licence Holders,
b) decisions issued, including also those relating to prices.

(11) The Energy Regulatory Office shall submit a report on its activities to the government and to the Chamber of Deputies of the Czech Parliament on an annual basis.
Section 27
Electricity Market Operator

(1) The electricity market operator (“market operator”) is a joint-stock company, founded by the government, with inscribed shares.

(2) Any single shareholder except the government may hold shares of the market operator representing up to 5% of the market operator’s registered capital at the maximum.

(3) The market operator may not be a holder of a licence based on the provisions of Section 5.

(4) The market operator may not establish, or be a founder of, any legal entities, nor may it take part in their establishment or constitution, nor may it acquire equity interests in such entities.

(5) The market operator shall:
   a) prepare balances of the supply of and consumption for electricity for the specified periods on the basis of electricity supply contracts between the generators, the transmission system operator, distribution systems operators, eligible customers and traders and shall submit the balances to the transmission system operator and the distribution systems operators,
   b) organise the electricity market; if a short-term electricity market is involved, the market operator shall:
      1. gather offers of and demands for electricity supply and intake,
      2. based on assessment of such offers and demands, publish the price for the short-term transactions,
      3. confirm for the participants in such short-term transactions the electricity price and volume as a basis for contractual relationships,
   c) on the basis of the electricity supply contracts and the actual readings of measurements, prepare assessments of the actual and agreed electricity supplies and intakes and provide such assessments to the individual electricity generators, eligible customers, electricity traders, the transmission system operator and the distribution systems operators concerned,
   d) based on the assessment of the actual and agreed electricity supplies, provide settlement between the electricity market participants as to the differences between the actual and agreed supplies; the electricity market participants shall cover such differences; details shall be specified in the electricity market rules,
   e) inform the transmission system operator or the distribution system operators concerned about any case of market participants’ failure to pay to cover the differences resulting from the assessment of the actual and agreed electricity supplies and intakes,
   f) prepare and publish monthly and annual assessment reports on the Grid,
   g) at least once a year prepare and submit to the Ministry and the Energy Regulatory Office reports on the long-term electricity balances,
   h) provide protection to any proprietary information which the electricity market operator may have learned during its activities,
   i) inform the Energy Regulatory Office and the Ministry of electricity supplies that might be subject to import restrictions as per Section 44,
   j) prepare background information for the draft rules of electricity trading and submit it to the Energy Regulatory Office.

(6) The market operator may:
a) require from all electricity market participants
   1. the technical data from their electricity supply contracts, such as data on output and its
      change over time, the electricity intake volume, the supply point and the electricity supply
      delivery point;
   2. data for preparing the monthly and annual assessment of electricity supplies in the Grid;
      all the electricity market participants shall provide the market operator with such data,
   b) require from the transmission system operator and the distribution systems operators the
      readings of measurements and the processed and interpreted data as the market operator may
      need to be able to discharge its obligations,

   (7) The method of organisation of the short-term electricity market, the technical data
   from the electricity supply contracts, readings from measurements, the interpreted data on the
   actual electricity supplies and the details on how such data are to be submitted shall be specified
   in an implementing legal regulation.

   (8) The prices charged for the market operator’s activities according to Subsection 5
   above and the method of billing and payment by the individual electricity market participants
   shall be defined by the Energy Regulatory Office.