1. Basic Information

1.1. CRIS Number: 2005/017-464.07.01

1.2. Title: Preparation for the opening of the market in electricity and gas to households

1.3. Sector: Energy

1.4. Location: Slovak republic

2. Objectives

2.1. Overall Objectives:
Preparation of conditions for development of Electricity and gas Markets in accordance with Directive 2003/54/EC and Directive 2003/55/EC.

2.2. Project purpose:
Preparation for opening of the markets in electricity and gas to households on 1 July 2007. In connection with market liberalisation for households, to change decisions on regulation of distribution and supply of electricity and natural gas to end consumers. Revision of regulation setting for companies supplying electricity and natural gas to households.

2.3. Justification:
With respect to the Comprehensive Monitoring Report on Slovakia’s preparations for membership – November 2003: “The regulatory body, the Network Industry Regulatory Office, whose task is to oversee the gas and electricity markets, is established but needs to be further strengthened. Slovakia should transpose the recently adopted electricity and gas directives in line with the timetable provided for by this acquis. Slovakia must complete alignment by adopting implementing legislation as regards the newest acquis on energy efficiency. It also needs to continue to further strengthen administrative capacity in the energy sector.”

3. Description

3.1 Background and justification:
The Regulatory Office for Network Industries (hereinafter “RONI”) has been established under the EC Directives as a state office for regulation of network industries.

RONI is a budgetary organisation residing in Bratislava. Since the beginning of its activity, RONI has created a legislative framework for the regulatory process in network industries, i.e., in
generation, purchase, transmission and distribution of electricity, gas, heat, and water supply and sewerage in the area of Slovakia.

RONI has a mandate to protect the consumers from negative consequences stemming from the monopoly position of energy suppliers, to protect interests of licence holders to achieve reasonable return rates on investments, and to create conditions that stimulate market competition and to eliminate political influence on price setting.

In order to ensure correct implementation of EU legislation, namely Directive 2003/54/EC, Directive 2003/55/EC, Directive 2001/77/EC (hereinafter: “Energy Directives”), Regulation No. 1228/2003 regarding the internal market of electricity and gas, a new Energy Act Nr. 656/2004 Coll. a new Heat Energy Act Nr. 657/2004 Coll. and an amendment of Act on Regulation Nr. 658/2004 Coll. came into force on 1 January 2005. Concerning secondary legislation the fundamental valid decrees are the following: Decree by the RONI dated 31 August 2004 No. 2/2004 laying down the details on procedure of price regulation with regard to electricity generation, transmission, distribution and supply and for determination of the scope of economically justified costs and a reasonable profit, Decree of the Regulatory Office for Network Industries of 30 July 2003 No. 2/2003 laying down details of the procedure for regulation of prices in the natural gas industry and determination of the extent of economically justified costs and reasonable profit, Decree by the RONI dated 23 August 2004 No. 1/2004 laying down the details concerning price regulation with regard to heat production and distribution and determination of the scope of economically justified costs and a reasonable profit. Strategy of Raw materials of the SR and Energy Strategy of the SR, coming into force in the second quarter 2005, are under preparation by the Ministry of Economy of the Slovak Republic. RONI developed the Regulatory Strategy of the SR that entered into force on April 1, 2005. Slovakia is in compliance with the above-mentioned EU directives in the field of regulation of entities subject to regulation in transport, distribution, and supplies of electricity and gas to eligible customers, which, since 1 January 2005, include all customers except for households.

The aim of the new project:

A additional time will be necessary for full implementation of the EU directives and energy laws of the SR stated above through further RONI decrees and decisions focused on the period of fully liberalised gas and electricity market including households from July 1, 2007. In connection with the date, there will be necessary to re-evaluate the regulation efficiency and impacts on the regulated subjects and to modify its exercise for residential end users. However, RONI has not sufficient experience in this field. The proposed project should complete the system of secondary legislation, which will be focused on households in the coming period. In this area, Slovakia does yet not have an established model compliant with EU requirements. In this respect, revision of regulation methods is required in the field of regulation of companies supplying electricity and gas to households to ensure consumer protection while maintaining safety, quality, and reliability of energy supplies.

For this reason, the position of the Regulator is expected to be strengthened in the process of creating secondary legislation, which should ensure that Regulatory Authorities are able to carry out their duties in an efficient and expeditious manner. The professional capacity of RONI is sufficient for absorption of project results and for bringing tangible results by strengthening its position in the energy sector.

3.2. Linked activities:
The Feasibility Studies made by National Economic Research Associated (NERA), USA, and EA Technology, London, GB, and co-financed by the World Bank and by the Slovak Government during 2001 – 2004:

Diagnostic report of Natural Monopoly Regulation in Slovakia
Institutional Arrangement for Natural Monopoly Regulation in Slovakia
Initial Framework for Energy Tariff Regulation
Implementation Plan for Natural Monopoly Regulation in Slovakia
Identification of Suitable Consumer Assistance Programs
Price Regulation Framework for Gas Transmission and Distribution
Price Regulation Framework for Electricity Distribution
Price Regulation Framework for Electricity Transmission
Electricity Market Rules
Gas Market Rules

Gas market rules and Electricity market rules are under final preparation of the RONI, but they will be published by the government through the government order with effect from April 1, 2005. The market rules have to be supplemented in the next years by provisions related also to the full market opening for households.


This project started in 2000 with the Ministry of Economy acting as its beneficiary. After its establishing RONI was participating in the sub-project No. 1 “Regulation of the Network Industries”. The project was completed on December 2002.

For reasons of lack of time the cooperation with twinning advisors did not exhaust all the possibilities. Despite of this fact the adequate legislative and material basis has been laid down. In cooperation with twinning advisors and with the Ministry of Economy, the basic regulatory framework in the form of primary legislation was established and personnel building of the RONI started.


This project has started in the year 2002 and the Ministry of Economy acted as its beneficiary. RONI is participating in sub-project No. 1 “Regulation of the Network Industries”. The project was completed on June 2004.

The project was focused on application of EU Energy Directives in the area of regulation in the network industries. The project assisted in drafting of secondary legislation in regulation of entities subject to regulation in the area of generation, transmission, distribution, and supplies of electricity and gas to eligible customers except for households. The legislation conditions have been created for full electricity and gas market liberalisation from January 1st, 2005 with respect to all the users except for households. In addition, human resources of the regulator were trained using the best training practices and the administrative capacity of the regulator was enhanced.

3.3. Results

A. To modify electricity and gas market rules and to solve metering of electricity and gas consumption in households and responsibility of households for deviation of their consumption by creating type diagrams. Preparation an ordinance on metering of electricity
and natural gas consumption by consumers of household type and definition of at least the principles of settlements (financial adjustment between suppliers, after knowledge of the exact consumption of customers of each supplier.

B. Preparation a decree on quality standards for delivery of electricity and gas and services connected with their delivery to end consumers of electricity and natural gas. To prepare the experts within the staff of RONI for this area.

C. To perform a revision of regulation setting for distribution of electricity and natural gas.

To draft an ordinance on the scope of price regulation for distribution of electricity and natural gas

D. To provide rules for consumer information (about switching possibilities) and customer protection. To define rules for customer switching. To elaborate procedures for dispute settlements. To prepare the experts to solve the disputes.

3.4. Activities:

Support provided in this connection should be carried out through the following activities:

Activities related to Result A:

A. 1. Identification of problems connected with opening of the market in electricity and gas to households

A. 2. On the basis of an analysis of the Slovak environment and a comparison with the situation of older EU countries, to draft measures necessary for opening of the market in electricity and natural gas to households in accordance with EU requirements.

A. 3. Review of operational models from EU countries

A. 4 Methodological help in elaboration of principles of functioning of the Slovak model

A. 5. Identification of risks of market opening for consumers of the household type

A. 6. Workshop on full electricity and gas market opening focused on benchmarking

A. 7. Preparation of measures tied with metering of the consumer consumption and principles regarding financial adjustment between suppliers.

Activities to Result B:

B. 1. To draft the new decrees and decisions connected with quality standards for delivery of electricity and gas

B. 2. Draft amendments to existing decrees and decisions

B. 3. Training of the RONI staff focused on standards of quality of electricity and gas supplies to the end users.

Activities to Result C:

C. 1. To evaluate the last regulation period of regulation and the used methods as the basement for new regulation methods to July 1st, 2007.
C. 2. To draft decrees and decisions on the scope of price regulation for distribution of electricity and gas to ensure non-discriminatory conditions on the electricity and gas markets for households upon their involving to the eligible consumers.

Activities to Result D:

D. 1. Identification of problems connected with customers (households) switching
D. 2. To draft decree on rules for publication of information related to prices of goods and services and their supply conditions
D. 3. To draft the rules of customers switching. To elaborate procedures for dispute settlements.
D. 4. Training of the RONI staff focused on protection of customers

Means:
The project will be provided through a twinning arrangement with duration of 18 months.

Experts’ profiles:

RTA expert – senior expert:

Requirements: Academic technical or economic background; more than 5 years of experience in issues of electricity and gas markets, knowledge of electricity and gas market types in EU countries, skills in the area of organisational communication, and presentation abilities; fluent English. The RTA expert will be supported by the RTA assistant, fluent in English.

The RTA expert will have the overall responsibility for the timely and effective provision of the assistance required for the project, short-term expertise and training included. She/he will be in charge of the activity C. In addition, she/he will be assisted in performing the above activities by a pool of short-term experts.

He/she will be permanently active in everyday solving of problems, which will arise in the course of routine operation of the RONI in the field of price regulation focused on households. He/she will participate in a creating of RONI legislation.

Estimated man / months: 18 (from October 1st, 2005 to March 31st, 2007 or according to signature of the Twinning contract)

Project leader – senior expert:

Requirements: Academic technical or economic background; more than 5 years of experience in issues of electricity and gas markets, mainly in promotion of competition in these markets, effective separation of network activities, knowledge of electricity and gas market types in EU countries, skills in the area of organisational communication, and presentation abilities; fluent English. He/she shall act in terms of Twinning manual.

He/she will be participating personally in training courses, seminars, workshops and, as the case may be, arranging other experts from the respective fields.

Estimated man / days: 75

Short-term expert – senior expert (for activities A, B):
Requirements: Academic technical or economic background; communication and presentation abilities; fluent English. More than 5 years of experience in one or more of the following areas:
Organisation and procedures in coordination of system operators,
procedures, methods and problems in the area of balancing markets,
development in trade of electricity and gas,
regulation in the field of energy supplies to household
methods of inter-TSO compensation
working with appropriate organisations in line with the electricity and gas markets (UCTE, ETSO, GTE, …)
He/she will compare conditions SR according to EU legislation and experiences, preparing of datas, analysis and material.
Estimated man / days: 90

Short-term expert – senior expert (for activities D):
Requirements: Academic background in law or economy; communication and presentation abilities; fluent English. More than 5 years of experience in one or more of the following areas:
issuing recommendations in line with the electricity and gas EU Directives and Regulations,
gathering information and examining the merits of the specific electricity and gas issues,
regulation in the field of energy supplies to household
protection of consumers.
He/she will compare conditions SR according to EU legislation and experiences, preparing of datas, analysis and material.
Estimated man / days: 50

3.4. Lessons learned

The 2001 Phare SR0105 “Support for the Energy policy in the SR”, Twinning Code: SR/IB/2001-EY-01 has mainly supported the preparation of relevant legislation such as the new Energy Act, Act on Heat and provided support in drafting and implementation of secondary legislation to the Regulatory Office for Network Industries (RONI).

The Final version of the Interim Evaluation No. R/SR/INT/0204 from 10 December 2004 evaluates the previous PHARE Programme related to RONI as follows:

Component 3 – Energy and Transport (ENE&TRA)

SR-0105 Energy Policy in the Slovak Republic

“This TW was supporting the responsible Slovak authorities in charge of the regulation in the energy network industries, energy efficiency and renewable energies, and the management of oil stocks. Accordingly, the project was divided into three sub-projects: implementation of legislation on energy regulation for the Regulatory Office for Network Industries (RONI), further improvement of energy efficiency and the use of renewable energies in co-operation with the Ministry of Economy, and management of obligatory oil stocks for Administration of State Material Reserves (ASMR)”
The report stated that TW assisted in preparing an amendment of the Act on RONI, mainly ensuring its harmonisation with the new EU Directives on electricity and gas. Assistance was provided also on secondary legislation and on the practice of building up the structures and measurements for the regulated bodies. The report did not include exactly formulated recommendations for the next period.

Results and recommendations of the previous projects became the basis of the current project. Implementation of the proposed project will ensure consistency of the whole process of regulation within the liberalised market in electricity and gas in the Slovak Republic.

The new project will complete the process of implementation of the EU energy legislation to the legislation of the Slovak Republic. Based on revision of the existing regulation methods with respect to the full liberalisation of the electricity and gas markets including households from July 1st, 2007 a stable regulation framework will be completed.

4. Institutional Framework
The beneficiary institution is RONI. RONI has no subordinated institutions.
The result of the project will not influence the legal structure of the beneficiary.

5. Detailed Budget

<table>
<thead>
<tr>
<th>€M</th>
<th>Transition Facility support</th>
<th>Co-financing</th>
<th>Total cost (TF plus cofinancing)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total Transition Facility (=I+IB)</td>
</tr>
<tr>
<td>1 contract (TW)</td>
<td>0.65</td>
<td>0.65</td>
<td>0.65</td>
</tr>
<tr>
<td>Total</td>
<td>0.65</td>
<td>0.65</td>
<td>0.65</td>
</tr>
</tbody>
</table>

6. Implementation Arrangements

6.1. Implementing Agency
Ministry of Finance SR
CFCU-Central Finance and Contracting Unit
Contact person: Silvia Czuczorová, PAO
Štefanovičova 5
817 82 Bratislava
Slovak Republic
Phone: +421 2 59 58 25 54    Fax: + 421 2 59 58 25 59
6.2 Twinning

**Beneficiary:**
Regulatory Office for Network Industries

Project leader:
Miroslav Škorník
Regulatory Office for Network Industries
Director of the Chairman’s Department
Bajkalská 27
820 07 Bratislava
Slovak Republic
Phone: +421 2 581 004 27
Fax: +421 2 581 004 74
e-mail: skornik@urso.gov.sk

Contact person:
Miroslav Lupták
Regulatory Office for Network Industries
Bajkalská 27
820 07 Bratislava
Slovak Republic
Phone: +421 2 581 004 22
Fax: +421 2 581 004 74
e-mail: luptak@urso.gov.sk

National Contact Point for Twinning:
Ms. Jana Minarovičová
Office of the Government of the Slovak Republic, Bratislava
Tel.: +421-2-5729 5514
E-mail: jana.minarovicova@vlada.gov.sk

6.3. **Non-standard aspects**
not applicable

6.4. **Contracts**
One contract in the amount of 0.65 MEUR

7. **Implementation Schedule**
7.1. Start of tendering/call for proposals: 3 Q 2005

7.2. Start of project activity: 4 Q 2005

7.3. Project completion: 1 Q 2007

8. Sustainability
The number of the RONI staff will be increased by about 16 in 2005. Its supervisory function will be strengthened with a focus on respecting conditions of transit, distribution and supply of electricity and gas until full opening of the market on 1 July 2007. In the next period, this supervisory function will become a priority. RONI will be financed from the state budget as before.

9. Conditionality and sequencing
All activities of RONI have to be accelerated to the maximum with respect to the limited amount of time from adopting EU Directives till their coming into force in Slovakia as full EU member.
Since 1 January 2005, all consumers except for households are eligible consumers. Since 1 July 2007, the market will be fully liberalised. In this period, RONI has to create new legislative conditions, revised regulation methods, market rules and operation codes for regulated subjects and energy buyers.
## Transition Facility log frame

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR</th>
<th>Programme number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project</td>
<td>2005/017-464.07.01</td>
</tr>
<tr>
<td>Preparation for the opening of the market in electricity and gas to households</td>
<td>Contracting period expires 15.12.2007</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires 15.12.2008</td>
</tr>
<tr>
<td></td>
<td>Total budget: 0.65 MEUR</td>
</tr>
<tr>
<td></td>
<td>TF budget: 0.65 MEUR</td>
</tr>
</tbody>
</table>

### Overall objectives

Preparation of conditions for development of Electricity and gas Markets in accordance with Directive 2003/54/EC and Directive 2003/55/EC.

**Objectively verifiable indicators**

Implementation of EU Directives:
- 2003/54/EC
- 2003/55/EC
- 2001/77/EC

**Sources of Verification**

- Official Journal of the EU
- Code of Law of the SR
- Annual Report of the RONI
- Decrees of the RONI

### Project purpose

Preparation for opening of the markets in electricity and gas to households on 1 July 2007. In connection with market liberalisation for households, to change decisions on regulation of distribution and supply of electricity and natural gas to end consumers. Revision of regulation setting for companies supplying electricity and natural gas to households.

**Objectively verifiable indicators**

- Decrees of the RONI (approximately 14, to the end of 2006)

**Sources of Verification**

- Code of Law of the SR
- Annual Report of the RONI
- Bulletin of the RONI

**Assumptions**

- To reach the level of the regulatory process compared to EU countries

### Results

A. To modify electricity and gas market rules and to solve metering of electricity and gas consumption in households and responsibility of households for

**Objectively verifiable indicators**

- Decrees of the RONI (approximately 14, to the end of 2006)

**Sources of Verification**

- Code of Law of the SR
- Bulletin of the RONI
- Annual Report of the RONI

**Assumptions**

- Approval of secondary legislation
deviation of their consumption by creating type diagrams. Preparation an ordinance on metering of electricity and natural gas consumption by consumers of household type.

B. Preparation a decree on quality standards for delivery of electricity and gas and services connected with the delivery to end consumers of electricity and natural gas.

To prepare the experts within the staff of RONI for this area.

C. To perform a revision of regulation setting for distribution of electricity and natural gas.

To draft an ordinance on the scope of price regulation for distribution of electricity and natural gas.

D. To provide rules for consumer information (about switching possibilities) and customer protection. To define rules for customer switching. To elaborate procedures for dispute settlements. To prepare the experts enable to solve the disputes.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| Support provided in this connection should be carried out through the following activities: | •  Decisions of the RONI (A lot of individual decision connected to decrees and other legal norms)  
•  Network codes  
•  Rules of the electricity market (30.06.2007)  
•  Rules of the gas market (30.06.2007)  
•  15 trained employees (September 2006)  
•  Decree on rules for publication of information related to prices of goods and services and their supply conditions (30.06.2007)  
•  Rules of customers switching (30.06.2007) | •  Annual report s of the regulated subjects  
•  Quarterly reports and the Final Report of the Twinning Project  
•  NAC Implementation Status Reports  
•  SMSC Monitoring Reports  
•  Cooperation with all participants of the regulatory process |

A. 1. Identification of problems connected with opening of the market in electricity and gas to households
A. 2. On the basis of an analysis of the Slovak environment and a comparison with the situation of older EU countries, to draft measures necessary for opening of the market in electricity and natural gas to households in accordance with EU requirements.

A. 3. Review of operational models from EU countries

A. 4. Methodological help in elaboration of principles of functioning of the Slovak model

A. 5. Identification of risks of market opening for consumers of the household type

A. 6. Workshop on full electricity and gas market opening focused on benchmarking

A. 7. Preparation of measures tied with metering of the consumer consumption and principles regarding financial adjustment between suppliers.

B. 1. To draft the new decrees and decisions connected with quality standards for delivery of electricity and gas

B. 2. Draft amendments to existing decrees and decisions

B. 3. Training of the Office staff focused on standards of quality of electricity and gas supplies to the end users

C. 1. To evaluate the last regulation period of
regulation and the used methods as the basement for new regulation methods to July 1st, 2007.

C. 2. To draft decrees and decisions on the scope of price regulation for distribution of electricity and gas to ensure non-discriminatory conditions on the electricity and gas markets for households upon their involving to the eligible consumers.

D. 1. Identification of problems connected with customers (households) switching

D. 2. To draft decree on rules for publication of information related to prices of goods and services and their supply conditions

D. 3. To draft the rules of customers switching. To elaborate procedures for dispute settlements.

D. 4. Training of the RONI staff focused on protection of customers

Preconditions
- Entering into force of the secondary legislation
**TIME IMPLEMENTATION CHART**

**Project number 2005/017-464.07.01**  
**Project title:** Preparation for the opening of the market in electricity and gas to households

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>J</td>
<td>A</td>
<td>S</td>
</tr>
<tr>
<td>Institution Building</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Project Activity A</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Project Activity B</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Project Activity C</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Project Activity D</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
</tbody>
</table>


CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE

**Project number 2005/017-464.07.01**

**Project title:** Preparation for the opening of the market in electricity and gas to households

<table>
<thead>
<tr>
<th>MEUR</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>0.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>0.1</td>
<td>0.2</td>
<td>0.375</td>
</tr>
</tbody>
</table>