

National Regulators' Annual Report to the European Commission

July 2005

Foreword by the Chairman

By adopting the Act on Regulation in Network Industries and the establishment of the Regulatory Office for Network Industries (hereinafter only „Office“) in 2001 the Slovak Republic has joined the countries that substantially changed their framework for regulation of network industries.

The Government of the Slovak Republic abandoned its power to intervene into regulation of energy prices and passed this competence on an institution being independent of the Government. Such transfer of responsibilities for price regulation on the Office enabled transparent and consistent regulation in business activities in network industries that are subject to regulation and ensures the fair allocation of revenues from regulated activities.

The Office had to prepare decisions on price regulation in all regulated areas at very short time period. The things, on which other teams of experts in foreign countries had been working on for many years, had to be accomplished by the Office within months. It was enormously difficult to search for the best possible solution, as the process of such searching happened at the time that was unique and unrepeated.

Such unique situation consisted in parallel implementation of highly complicated processes of transformation and privatisation of the energy sector and liberalisation of the trading with electricity and gas. The situation was also so complicated, as it was important to take into consideration not only the existing situation, but also expected changes.

Each year of the Office's existence brought significant measures applied in technical and price regulation of network industries.

Through regulation the Office provides for non-discriminatory and transparent performance of regulated activities, the reduction of risks associated with the violation of rules of an economic competition, the protection of consumers and justified interests of regulated companies and last, but not least, reliable, economical and high-quality delivery of energy and related services.

Accession of the Slovak Republic into the European Union speeded up the process of harmonisation of legislation of the Slovak Republic with that of the EU.

In the year 2004 works on new Energy Act, the Act on Heat Supply and an Amendment of the Act on Regulation of Network Industries were completed.

A new package of energy acts has been harmonised with EU legislation governing the energy sector and regulation, reflecting predominantly changes in network industries of the Slovak Republic over the past years as a result of transformation, privatisation and regulation. An Amendment of the Act on Regulation of Network Industries awarded the Office new competences and obligations.

Based on the empowerment in acts the Office will gradually issue general legal binding provisions that will set out the details regarding performance of regulated activities.

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Network industries of the Slovak Republic have been functioning without any major failures and consumers are not forced to control their consumption, nor are they exposed to any damages caused by disruptions in delivery of goods and services ordered. The Office took all measures resulting from the extension of its position, thoroughly fulfils its tasks arising out of its competences and is ready to carry on in this trend in the forthcoming period, too.

Signed

Ján Matuský
Chairman of the Regulatory Office
for Network Industries

2. Summary

The competences of the Regulatory Office for Network Industries in the field of regulation of network industries

The Regulatory Office for Network Industries (hereinafter only "the Office") is a state administrative authority established by the Act No. 276/2001 on Regulation of Network Industries and on amendment and supplement of certain acts in the wording of latter provisions related to regulation of network industries (hereinafter only "the Act on Regulation"). The Office is a state budgetary organisation based in the town of Bratislava. Under the Act on Regulation the chairman and the vice-chairman act as statutory bodies of the Office.

Chairman of the Office is the chairman of the Regulatory Council, having the following responsibilities:

- Managing the Office and bearing responsibility for performance of its activities,
- Acting as a statutory body on behalf of the Office in all the matters, however, being bound by decisions made by the Regulatory Council,
- Signing generally binding provisions issued by the Office,
- Approving the organisational order of the Office as soon as it has been negotiated by the Regulatory Council,

If absent, the chairman of the Office is represented by the vice-chairman. The vice-chairman of the Office is the vice-chairman of the Regulatory Council.

The Regulatory Council outlines the regulatory policy and respective implementation tools. Its responsibilities include:

- Approving a budget proposal for the Office,
- Electing and withdrawal of the chairman of the Regulatory Council and the vice-chairman of the Regulatory Council into and from the Regulatory Council,
- Making decisions on the exemption of a regulated activity from regulation provided that the grounds for regulation ceased to exist, especially if market forces act sufficiently to maintain the purpose that gave reason for regulation.,
- Approving the meeting agenda for the Regulatory Council,
- Approving the Annual Report of the Office,
- Making decisions on appeals against decision issued by the Office in the first instance proceedings,
- Fulfilling other tasks arising out of the regulatory activities of the Office.

The Regulatory Council has six members and has a quorum, if at least four of its members are present, however, the chairman or the vice-chairman of the Regulatory Council must always be present. The Regulatory Council takes decisions with the majority of votes of all of its members. The chairman of the Regulatory Council is responsible for managing and calling the sessions of the Regulatory Council. Along with

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the vice-chairman or another member of the Regulatory Council he also signs rulings and decisions issued by the Regulatory Council.

Members of the Regulatory Council are appointed and withdrawn by President of the Slovak Republic. The membership in the Regulatory Council is a publicly available position, which means that a member of the Regulatory Council must be a citizen of the Slovak Republic, who complies with professional and moral criteria. President of the Slovak Republic appoints three members of the Regulatory Council based on the proposal submitted by the National Parliament of the Slovak Republic and three members of the Regulatory Council based on the government of the Slovak Republic (hereinafter only "the Government"). There are at least two candidates for each position of a member of the Regulatory Council.

The service term of members of the Regulatory Council lasts six years. Every two years the Regulatory Council replaces one third of its members. The membership in the Regulatory Council is not compatible with holding the position of a member in the National Parliament of the Slovak Republic or the Government, or with any work position or the membership in central or local state administration authorities and territory-confined municipal authorities. In addition, the membership in the Regulatory Council is not compatible with any business activities or with the membership in management, supervisory and controlling bodies of private enterprises.

A member of the Regulatory Council is not allowed to become an employee of regulated companies, a member of management, supervisory and controlling bodies of regulated companies, he or she is not allowed to have any equity participation in business activities of regulated companies acting on his or her behalf or by means of an association of individuals; such constraints will continue to exist one year following the termination of the membership in the Regulatory Council.

The organisation structure of the Office is as follows:

- Heat Supply Regulation Division
- Gas Regulation Division
- Water Supply Regulation Division
- Electricity Regulation Division
- Legislative Division
- Surveillance and Inspection Division
- Economic and Administrative Division
- Chairman's Department
- Personal Department

The objectives of the regulatory policy are as follows :

- to ensure non-discriminating and transparent performance of the activities in network industries,

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- to reduce any risks associated with the violation of rules of an economic competition by abusing the dominant position in the market with goods and services in order to protect the rights of eligible consumers and households,
- to ensure reliable, economical and high-quality delivery of goods and services
- to ensure effective development, safe and reliable operation of energy, water supply and sewage systems,
- to ensure non-discriminatory and fair conditions for all entities in the electricity and gas market,
- to create conditions aimed at increasing a competitive environment in electricity and gas markets by improving efficiency of the market functioning and their integration with the EU markets,
- to protect energy and water consumers by enforcing such price regulation methods that will provide incentives for regulated companies to diminish their costs and improve their economic effectiveness in regulated business activities,
- to protect justified interests of license and certificate holders allowing them to carry out business activities in network industries, as well as any measures aimed at achieving an adequate return on investments,
- to reduce the costs for regulated activities by maintaining the quality of supply by means of an up-to-date regulatory method,
- to bring incentives for private businesses to make investments into advanced technologies, development of which is part of the national energy policy, by using appropriate regulatory methods
- to ensure the compliance with the goals of the energy policy of the Slovak Republic.

Under the Act on Regulation *the subject of regulation* is to determine or approve a method, procedure and conditions for the following:

- a connection and access to the transmission system, the distribution system and the transportation system,
- electricity transmission in a specified service area,
- gas transportation and distribution in a specified service area,
- provision of ancillary services in the electricity and gas sectors,
- provision of services of the transmission system operator and the distribution system operator,
- access and a connection of new electricity and gas producers to the system,
- heat production and distribution

In addition, *the subject of regulation* is regulation of prices for goods and services provided in network industries and determination of the conditions for their implementation (hereinafter only "price regulation"). The following areas are subject to price regulation:

- Production of electricity from renewable energy sources, combined heat and power production or local coal,
- A connection into the grid, in case of storage tanks it is in the extent specified by the rules for the gas market,

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- A connection of new producers of electricity or gas into the grid, in case of storage tanks it is in the extent defined by the rules for the gas market,
- Access to the grid, in case of storage tanks in the extent defined by the rules for the gas market,
- Electricity transmission and distribution,
- Electricity supply to households,
- Provision of balancing services in the electricity sector,
- Provision of ancillary services in the electricity and gas sectors, in case of storage tanks it is in the extent defined by the rules for the gas market,
- Gas transport and distribution,
- Gas supply to households,
- Heat production, distribution and supply,
- Potable water production, distribution and supply through the public water supply system,
- Discharge and treatment of waste water through the public sewage system,
- Provision of water supply services associated with utilisation of hydro potential of river flows and treatment, supply and extraction of surface water and extraction of water from river flows for energy purposes.

The price regulation method applied on goods or services, delivery or provision of which is subject to regulation, may be determined as

- Direct determination of the maximum or fixed price, or a comparable price, or
- Determination of the calculation method for setting the maximum or fixed price, or a comparable price, whereas the calculation method has to take into account justified costs and an adequate profit, including the scope of investment, which may be included into the price; the scope of justified costs has to take into account the scope of investments required to provide long-term operability of the system, including the proportional part of mandatory levies for liquidation of nuclear installations and disposal of burnup fuel and radioactive waste, as set out by a special provision, or
- Determination of the scope of justified costs that may be included into the price; the scope of justified costs has to take into account the scope of investments required for provision of long-term operability of the system, including a proportional part of mandatory levies for liquidation of nuclear installations and disposal of burnup nuclear fuel and radioactive waste, as set out by a special provision, or
- Determination of the amount of an adequate profit, including the scope of investments that may be included, whereas the amount of an adequate profit has to take into account the scope of investments required for provision of long-term operability of the system. The amount of an adequate profit will also take into account a proportional part of mandatory levies for liquidation of nuclear installations and disposal of burnup nuclear fuel and radioactive waste, as set out by a special provision.

Individual price regulation methods can be put together or combined.

The subject of regulation also includes a method, procedure and conditions of :

- Operation of the system,
- Electricity and gas supply to households,
- Production, transmission and distribution of electricity based on renewable energy sources, combined heat and power production and domestic coal.

In addition, the Office shall

- Publish its valid decisions in the Office Internal Journal and on the web page,
- Publish the report on compliance with the rules for the functioning of electricity and gas markets,
- Publish the annual report of the Office in the Office Internal Journal and on its web page,
- Provide the Ministry of Economy with information on any allocated capacities of tie-ins for the purpose of cross-border electricity exchange, on their allocation and the amount of payments for such cross-border electricity exchange under the EC Regulation No. 1228/2003,
- Provide, upon request of the EU authorities, data on regulated activities,
- Keep and publish records including the lists of license holders with permit to carry out regulated activities,
- Inform the European Commission on the following issues :
 - any reasons for rejection of an application for granting a license for performance of business activities in the energy sector,
 - measures aimed at providing access to gas production systems,
 - any decisions made with regard to granting exception from the obligation to provide access to the gas transportation system, the gas distribution system or gas storage tanks,
 - a share of individual participants in the electricity market and on the compliance with the rules for an economic competition applied in network industries as determined by the Act in question and on any measures adopted to ensure the competition in the market; this report is submitted on a yearly basis not later than until 31 July 2010 and every other year following the year 2011,
 - electricity import to third countries; such information is quarterly reported to the European Commission on a regular basis,
- Submit the European Commission the applications on :
 - granting any exceptions from the obligation to provide access into the system for new or existing tie-ins,
 - granting exceptions from the obligation to provide access of third parties to the system or storage tanks,
- Request the publication of any details concerning tendering procedures in the Official Journal of the European Union in the periods determined by the Office for official publications of European Communities.

With a view of complying with the provisions of the Act on Regulation the Office shall:

- Perform surveillance over the compliance with the Act on Regulation, special acts and generally binding provisions issued for the purpose of their execution,
- Enforce measures to eliminate and remedy any deficiencies identified during the inspection,
- Impose penalties for violation of obligations arising out of the act in question.

In addition, the Office shall carry out other duties related to regulation of access to the transmission system for the purpose of cross-border electricity exchange and settlement of any disputes with regard to access to the transmission system for the purpose of electricity exchange under the EC Regulation No. 1228/2003.

Responsibilities of the Ministry of Economy with regard to the energy sector

Under the Act No. 656/2004 on the Energy Sector and on amendment of some acts (hereinafter only “ the Energy Act“) the Ministry of Economy shall be responsible for the following :

- Development of the energy policy for the period of at least 20 years, making the energy policy updates at least in a 5-year cycle with an intention of using indigenous natural resources and natural, technical and human potencial,
- Compliance with the commitments adopted in the energy sector, arising either out of agreements that are binding for the Slovak Republic or of the membership in international organisations,
- Monitoring of the security status with regard to electricity and gas supplies,
- Development of measures aimed at ensuring safety of electricity and gas supplies,
- Determination of the scope of criteria for technical security of the systems,
- Determination of the obligations in any emergency situations or with an intention to avoid any emergency situations and last, but not least, in general economic interest,
- Determination of responsibilities for any system deviations in a specific service area,
- Making decisions related to the application of obligations in general economic interest,
- Making decisions related to the implementation of measures in the following situations :
 1. prevention of any emergency situation or the emergency situation itself,
 2. any threat imposed on the integrity of the system,
 3. any threat imposed on safety and reliability of the system performance, or
 4. any threat imposed on life and health of human beings or property of natural and legal persons,
 5. any violaiton of regulations related to the environmental protection,
- Making decisions related to the issuance of license for the construction of an energy installation,
- Adoption of measures aimed at achieving the intentions related to promotion of electricity generation from renewable energy sources,

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- Making analyses of how the measures aimed at providing electricity generation from renewable energy sources are being put into practice,
- Annual publication of the report, not later than until 31 July, on the results of the monitoring of safety in electricity and gas supplies and on all measures adopted and planned with a view of providing security of electricity and gas supplies; the report is published in the Official Journal and on the web page of the Ministry,
- Publication of the report, in five-year periods, on the plans in the field of electricity generation from renewable energy sources and on the measures adopted with a view of achieving such plans in electricity generation from renewable energy sources; the report is published in the Official Journal and on the web page of the Ministry,
- Publication of the report, every two years, on the situation with regard to the completion of plans in electricity generation from renewable energy sources and the measures adopted with a view of ensuring reliability of the guarantee on the origin of supply of electricity generated;
- Providing the European Commission (hereinafter only „the Commission“) with the application for granting exception from obligations, execution of which results from the common rules for the internal market with electricity and gas,
- Implementation of measures imposed by the Commission.

In addition, the Ministry shall report to the Commission on the following

- Measures aimed at the execution of an obligation to provide universal service,
- Measures aimed at the execution of obligations in general public interest; any changes in the adopted measures regularly, in a two year period,
- Reasons for rejection of request for the issuance of a license for the construction of an energy installation,
- Results of the monitoring of security of electricity and gas supplies and any measures adopted or planned with a view of resolving the issue of safe electricity and gas supplies,
- Technical rules that determine technical, structural and operational requirements related to a connection with a system.

Main developments in the gas and electricity markets

The adoption of new energy legislation, being fully harmonised with EU directives, has established favourable conditions for the development of the electricity market in Slovakia. The electricity market rules that came into force on 1 April 2005 and related legislative provisions issued by the Ministry of Economy and the Regulatory Office for Network Industries have established the assumptions for transparent and non-discriminating conditions for all participants of the electricity market and also valuable participation of the Slovak Republic in the international electricity market. A degree of the market opening will depend on how the competition will be evolving among domestic and foreign suppliers in the near future. It will be positively affected by prices of services associated with transmission and distribution and the maintenance of stability and reliability of the operation of the electricity system. One of the objectives of the regulatory policy enforced by the Regulatory Office for Network Industries is to use all available tools of regulation in order to reduce the costs incurred by such services and to

allow to include into price only economically justified costs. An important step for ensuring the higher amount of cross-border flows and the establishment of a regional electricity market will be a gradual removal of „bottlenecks“ in cross-border profiles. The investment activities of Slovenská elektrizačná prenosová sústava (the Slovak Electricity Transmission Company - SEPS, a.s.) are focused right on this objective.

Development of the electricity market will be substantially affected by the regulatory office, the role of which is to protect consumers and achieve maximum effectiveness of electricity production and supply, however, at the lowest possible price for the final consumer.

The objectives of the energy policy of the Slovak Republic cover the demand for international co-operation in the field of natural gas transportation, the extension of the co-operation with other interconnected systems, the establishment of long-term fair relationships on a non-discriminatory basis with all actual and potential users of the transportation system and the establishment of the functional liberalised gas market in conformity with national interests and the EU rules and recommendations.

The gas industry has a 150-year tradition in Slovakia. Its largest boom, however, happened as a result of the construction of the gas transit system in the year 1971. Together with gas storage tanks the gas transit system provides for self-sufficiency of the country, with gas transit having significant impact on effectiveness of the gas industry in the Slovak Republic. The country has almost 100% dependence on the import of Russian natural gas. Nevertheless, it is not assumed that gas flows will have solely a one-way direction. Liberalisation of the market indicates some possibilities of cross-border flows from other sources. It is important to take into account overall European trends and projects which, once they come into existence, will have a significant impact on the existing structure of the European market with natural gas.

3. Regulation and Performance of the Electricity Market

3.1 Regulatory Issues

3.1.1 Degree of the market opening

The first phase of the electricity market opening in Slovakia was initiated for the largest consumers (over 100 GWh per year) in January 2002, in accordance with secondary legislation, i.e. the Decree issued by the Ministry of Economy, which set out the smallest amount of annual electricity consumption for eligible consumers. Later on, consumers with smaller amount of consumption had a possibility to become eligible consumers. The electricity market was officially opened, as eligible consumers were allowed to opt for their electricity supplier and distribution companies (being simultaneously traders) were obliged to transport electricity to these consumers through their networks. In practise most of the eligible consumers were however „hidden“ under the umbrella of captive consumers.

In relation to the accession of Slovakia to the EU and subsequent implementation of EU energy directives the market opening was declared directly by law and since 1 January 2005 all the consumers, except for residential consumers, have become eligible consumers.

Households will be given an opportunity to select their supplier as the last group of consumers, due to their protection, since 1 July 2007.

The number of consumers that changed their electricity supplier as of 1 January 2005 may be roughly estimated to about 1 % based on unofficial statistical sources.

Tab. 3.1.1 The limits for eligibility of industrial consumers and the market opening defined by law

Date	Customer Eligibility Threshold	Market opening [%]	Effective supplier switching [%]
1 January 2002	100 GWh	31%	n. a.
1 January 2003	40 GWh	40%	n. a.
1 January 2004	20 GWh	42%	n. a.
1 January 2005	All non-households	79%	1% *
1 July 2007	All customers	100%	-

* Estimation

3.1.2 Management and allocation of interconnection capacity and mechanisms to deal with congestion

Management and allocation of interconnection capacity among individual countries is in full responsibility of the Slovak transmission system operator which is the Slovak Transmission System Company (Slovenská elektrizačná prenosová sústava, a. s. – hereinafter only „SEPS, a.s.“ or „TSO“), being the only operator of HV networks (400 kV and 220 kV) and at the same time the system operator, as a matter of fact. The EC

Regulation No. 1228/2003 on conditions for access to the system for the purpose of cross-border electricity exchanges was taken into account, while drafting new energy legislation – the Energy Act, as well as the Government Regulation No. 124/2005, enforcing the rules for the functioning of the electricity market (hereinafter only „The Electricity Market Rules“). Within this specified legislative framework the details on management of cross-border exchanges have been taken into account in the SEPS Operational Code, which is at the moment in the process of approval by the Regulatory Office.

The management of system congestion has priority to commercial wholesale activities. Prevention from any system congestions is directly handled by the Electricity Market Rules.

In case of any system congestion the TSO is obliged to deal with the situation by :

- changing the connection of its power plants,
- changing the dispatch of power plants,
- electricity export from or import to the transmission system to be used for purpose of regulation.

Any changes in the dispatch of power plants are managed by the Dispatch Center of the transmission system. Participants of the electricity market will carry out the change in dispatch of their generating stations based upon the requirements of the Dispatch Center that collaborate on the removal of congestion with a respective TSO in an EU member state or the third country. If the above-mentioned measures appear to be insufficient for dealing with congestion, the Dispatch Center will arrange export or import of electricity from or to the system for the purpose of system regulation.

3.1.3 The regulation of the tasks of transmission and distribution companies

Transmission

Electricity transmission throughout Slovakia is performed by the SEPS, a. s. company. It provides transmission of electricity from power plants to distribution networks and large consumers connected to 220 kV and 400 kV grids. Electric lines and substations of the transmission system enable import, export and transit of electricity and its accurate measurement. At the same time, the company performs technical management of the electricity system of the Slovak Republic by means of the Slovak Dispatch Center. This company is in fact the system operator. SEPS, a. s. is a joint stock company, with the 100% share ownership by the National Property Fund of the Slovak Republic; the Ministry of Economy has been commissioned to execute shareholder rights.

Tab. 3.1.3.1 *Transmission networks*

Voltage level [kV]	Length of power lines [km]			Unrolled length [km]
	Simple	Double	Total	
400	1 267,586	242,684	1 510,270	1 752,954
220	613,943	174,152	788,095	962,247
110	0,000	21,354	21,354	42,708
Total	1 881,529	438,190	2 319,719	2 757,909

Distribution

The Slovak market is historically divided into three regions (territorial units). Each region is served by one dominant regional distributor. Besides major regional distributors there are about 150 local distribution systems – the so-called area suppliers.

Network tariffs

Regulation in electricity transmission and distribution is based on capacity regulation, which means that maximum permitted revenues earned from a regulated activity „is dissolved“ through planned electricity flows at individual voltage levels in the tariffs for transmission and access to the grid and the tariff for distribution and finally, the tariff for electricity supply to households that is subject to regulation until 30 June 2007. A structure of tariffs for individual regulated activities is not determined by the Office, it is the matter of business policy of regulated enterprises

The Office is the only body regulating prices for regulated activities. Actually, there are no other governmental or non-governmental institutions involved in the process of price regulation.

Tab. 3.1.3.2 *Price regulation of network companies (inclusive losses) 2005*

	Number of regulated companies	Approx network access charge [Euro/MWh]			Interruptions - minutes lost per customer per year
		Ig	Ib	Dc	
Transmission	1	2,85			n. a.
Distribution	3	5,675	17,052	37,113	n. a.

- Excluding VAT

The companies, activities of which are subject to regulation, shall submit their price proposals for approval made in line with the methodology determined by the regulatory

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office; at present the Ruling No. 2/2005 is in force. Price proposals for electricity transmission and distribution are submitted by regulated enterprises not later than until 31 August of the current year. Within the price setting process the Office has 30 days for approval or remake of price proposals, as defined by the Act on Regulation.

Apart from background information specified by the Ruling No. 2/2005 the price proposal is accompanied with the following background documents:

- A proposal of tariffs and their structure, determined under the above-mentioned Ruling, which a regulated company will have to invoice to individual groups of consumers for individual services and regulated activities, including the conditions for recognition of individual tariffs, for the year „t“,
- Data required for verification of tariffs, especially the anticipated amount of electricity supply in individual tariffs, the number of points of supply, the size of contractual or measured technical peak loads in individual tariff groups in MW and similarly, for the year „t-1“.
- The financial statements for the year „t-2“,
- The annual report and the auditor's report to the financial statements for the year „t-2“, if there is an obligation to perform audit,
- A plan of investments and depreciations for a regulated activity in the year „t“,
- A way of allocation of assets and liabilities, costs and revenues and the rules for depreciation of individual regulated activities.

Benchmarking tariffs or charges are not used in regulation of the electricity sector.

The quality of functioning of the transmission system, distribution systems and electricity supply will be dealt with by part of secondary legislation being prepared by the Office – the Decree on Quality Standards (the expected date of effect – January 2006).

The information on market participants is provided by transmission and distribution operators through price lists of distribution companies, business conditions of distribution companies and the commercial code, business conditions and the dispatch order of the transmission system operator - SEPS, a. s. that are approved by the Office.

Balancing

The territory of Slovakia is one integrated balancing territory. The subject of deviation settlement are mainly the SE company, distribution companies and large-scale industrial consumers – Slovalco, a. s., the Orava Ferro-Alloy Works, a. s., Duslo Chemical Works, a. s., the US Steel, a. s. and the others. Electricity used for the purpose of regulation is subject to assessment, whereas the unit of assessment is 1 hour.

Assessment, settlement of and payment for deviations in the system and dealing with market participants is provided by the deviation settlement unit, which is SEPS, a. s. The subject of settlement are the payments for:

- deviation,

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- a corresponding proportion in costs for procurement of electricity for the purpose of regulation,
- assessment and settlement of deviations.

A price for deviation is not determined directly by the Office. The Office has determined a price framework, so a price will be determined in the tendering procedure intended for providers of electricity for the purpose of regulation. Proportions in costs for procurement of such electricity are not subject to regulation by the Office. The payment for assessment and settlement of deviation represents a regulated charge.

The deviation settlement body notifies a clearing entity the assessment and deviation settlement, which contains the size of deviation made by a specific company in MWh for each commercial hour, a clearing price per MWh, a proportion of a company in the costs for procurement of electricity used for the purpose of regulation, total payment to a company for deviation, total payment of the deviation settlement body to a company, the size of deviation in the system for each commercial hour.

The deviation settlement body publishes, on its web page in the nearest working day after the day, when the information was provided, the amount of delivered positive and negative electricity, used for the purpose of regulation, in individual hours and the size of deviation in the system in MWh per each commercial hour.

In the case of system congestion any deviation resulting from export, import or change in dispatch of power plants operated in a given system of an EU member state or the third country is assessed as TSO deviation.

The bids submitted by neighbouring systems are accepted in case of any emergency situation.

3.1.4 Effective unbundling

The dominant participants in the electricity market are:

- the transmission system operator – SEPS a.s.
- Západoslovenská energetika a.s., (ZSE) - the Western Slovak Distribution Company
- Stredoslovenská energetika a.s., (SSE)- the Central Slovak Distribution Company
- Východoslovenská energetika a.s. (VSE)– the Eastern Slovak Distribution Company

The SEPS, a. s. company, being the Slovak TSO, is not part of a vertically integrated company, therefore, management of the transmission system is legally unbundled from the activities related to production, distribution and supply of electricity.

The Western Slovak Distribution Company (ZSE) based in Bratislava was established in 2002. In that year, following the privatisation of 49 % stake, it become part of the largest European energy group called E.ON. 9 % of its shares was later sold to the EBRD. The National Property Fund owns 51% of the ZSE shares, whereas the Ministry of Economy has been commissioned to execute ownership rights. The main activities of the company include the sales and distribution of electricity and provision of related complex services for all categories of consumers, ranging from households, through private

businesses, to strategic enterprises of the Slovak economy. Electricity is supplied through internal distribution networks covering the territory of four districts of Western Slovakia and Bratislava with almost 990 000 consumers. The supply area covers nearly 15 000 km².

The Central Slovak Distribution Company (SSE) based in Žilina was established on 1 January 2002. In May 2002 a decision was issued on the privatisation of a 49% stake by direct sales to the company Electricité de France International. The National Property Fund owns 51% of the SSE shares, whereas the Ministry of Economy has been commissioned to execute ownership rights.

SSE, a.s. is a regional distribution utility covering central Slovakia. It supplies electricity to manufacturing companies, private businesses and households. In the SSE's service area there is a large number of manufacturing companies, ranging from small to large-size mechanical engineering, metallurgical and chemical giants. By means of its power installations the company supplies electricity to almost 700 000 consumers. The service area is of mountainous nature having severe climatic conditions, especially in winter months. The company also provides special electricity supplies to households in several mountainous villages and isolated places. The service area covers almost 18 000 km².

The Eastern Slovak Distribution Company (VSE) based in Košice is a regional distribution company. Its main activities include purchase, distribution and sales of electricity for the purpose of its supply to households and private businesses.

At present VSE distributes electricity in the territory of Eastern Slovakia. The service area covers almost 16 000 km².

VSE supplies electricity to nearly 600 000 consumers through its power installations, however, does not operate any power generating stations. Electricity distributed to its consumers is purchased from the SE company, industrial power plants and small power producers.

In the year 2003 the company sold nearly 4,5 TWh of electricity. Since the year 2003 its 49% shares is owned by the German energy utility RWE Energy. The National Property Fund owns 51% of the shares, whereas the Ministry of Economy has been commissioned to execute ownership rights.

After having unbundled distribution and supply from transmission and generation of electricity in a historical vertically integrated energy company or after having established three independent legal entities – distribution companies in 2001-2002, there remains the only legally bundled activity – distribution. Since 1 January 2005 energy legislation of the Slovak Republic has implemented all the requirements for accounting, operational and legal unbundling, including the required schedule in conformity with the Directive 2003/54/EC. Under new energy legislation the Office is obliged to adopt secondary legislation governing the unbundling of accounting. Such legislation is under preparation. The unbundling of accounting was completed as of 1 January 2005 and the subject of the Decree is the unbundling of accounting of regulated activities carried out by regulated companies.

Unbundled accounting is not subject to auditing due to the fact that accounts on the unbundled activities are not subject to law.

Tab. 3.1.4 *Summary Information on Unbundling*

	Transmission	Distribution
Separate Headquarters (Y/N)	Y	Y
Separate corporate presentation (Y/N)	Y	Y
Unbundled regulatory accounts with guidelines (Y/N)	N	N
Audit of unbundled accounts (Y/N)	N	N
Publication of unbundled accounts (Y/N)	N	N
Separate board of Directors without Directors from other group companies? (Y/N)	N	N

3.2 Competition Issues

3.2.1 *Description of the wholesale market*

Generation market

Total electricity consumption in the Slovak Republic has been stabilised with a slight increase over the past years. Consumption was covered by activating production in domestic generating stations available and partly by electricity import with a view of providing stabilised balance of the electricity system. Availability of generating assets enabled to place electricity in foreign markets, while maintaining the active trade balance of export and import of the Slovak Republic since 1998.

An organisational structure of the wholesale electricity sector has basically remained unchanged over the past three years. The most significant electricity generator is the SE company, having its share in total installed capacity of almost 83 % and a share in generation of about 84 %.

Last year the Slovak government made decision on privatisation of a 66% package of the shares in a state-owned company – the Slovak Electric (SE). As a result, the announcement was made on an international tender, the winner of which became an Italian power utility ENEL. The overall purchasing price of SE amounted to 840 mill. EUR. The final entry of ENEL to SE is assumed to happen until the end of this year. Part of the privatisation agreement is also the compliance with deferral conditions. Amongst them, the most important conditions include the separation of a crashed nuclear power plant A1 and a nuclear power plant V1 in Jaslovské Bohunice into the liquidation plant VYZ, the separation of a hydro power plant Gabčíkovo from a state-owned Water Construction Company and an agreement with ENEL on a strategic investment plan for

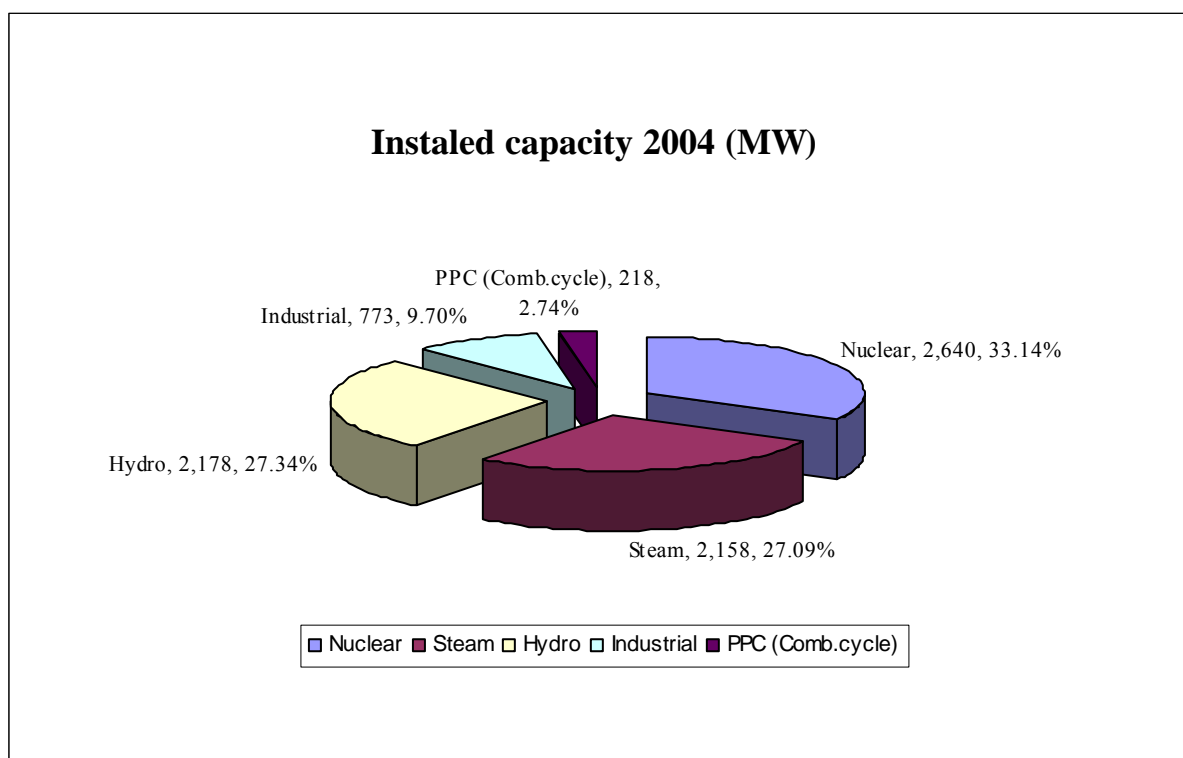
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the SE's development in the nearest future. The separation of two units of the nuclear power plant Bohunice V1 with a total installed capacity of 880 MW is related to the commitment of the Slovak Republic to shut down those units in the years 2006 and 2008, as agreed in the Accession Treaty signed with the EU.

Tab. 3.2.1.1 Development of the wholesale market

	Supply [GWh]	Demand [GWh]	Peak [GW]	Installed capacity [GW]	No. of companies with >5% generation	Share of the three largest generation companies [%]
2001	32 003	28 325	4 393	8,363	1	87
2002	32 830	28 674	4 421	8,306	1	86
2003	31 147	28 892	4 338	8,297	1	86
2004	30 543	28 682	4 349	8,267	1	86

Fig. 3.2.1 Share of electricity sources



Tab. 3.2.1.2 *Volume of electricity traded (TWh)*

Year	Total consumption	Traded in spot PX market	Traded in forward PX market	Bilateral OTC trading
2002	28,7	x	x	28,7
2003	28,9	x	x	28,9
2004	28,7	x	x	28,7

Ancillary services

The main problem of the market with ancillary services in Slovakia is the shortage of independent power producers being able to provide such ancillary services. Despite this situation, these services are provided by means of the bidding process. The types of ancillary services with the dominant position of the local SE company are limited by the maximum price.

The volume of ancillary services in primary and partly in secondary regulation is determined by the regulations and requirements of UCTE.

The ancillary service providers take part in the bidding procedure. Service contracts are then signed for a period of one year. The grid operator has a one-year plan for plant dispatch with a view of providing ancillary services, made on the basis of the bids submitted by ancillary service providers.

In the year 2005 the annual need for individual types of ancillary services was as follows:

- primary regulation	350 GWh
- secondary regulation	1 138 GWh
- tertiary regulation (+)	876 GWh
- tertiary regulation (-)	876 GWh
- quick start	3 854 GWh
- dispatch reserve	3 854 GW

3.2.2 Description of the retail market

Retail supply to final consumers is at present provided mainly by three largest distribution companies and licensed traders. The shares in individual major companies are described in the following table. These companies are not legally bundled with the companies providing either generation or transmission of electricity.

The following section presents the market with final supplies split according to the number of connections among three decisive regional distributors.

Tab. 3.2.2 National retail relevant market

Number of supply points	ZSE	SSE	VSE	SR
Very high voltage consumers	26	22	20	68
	38,24%	32,35%	29,41%	100,00%
High voltage consumers	4.659	5.001	2.878	12.538
	37,16%	39,89%	22,95%	100,00%
Low voltage & households	1.051.784	766.787	663.741	2.482.312
	42,37%	30,89%	26,74%	100,00%
All	1.056.469	771.810	666.639	2.494.918
	42,34%	30,94%	26,72%	100,00%

The current price level

Price proposals for electricity supply to captive consumers – households – are submitted by regulated companies not later than until 31 October of the current year. Since electricity supply is subject to price regulation, the process of setting electricity prices is different only in the phase, when the Office sets out the maximum price of electricity supplied to households, including prices of electricity used for the coverage of losses.

Table 3.2.2.2 Current price level in 2004

Breakdown of currently prevailing price levels - exclusive VAT [Euro/MWh]			
	Ig	Ib	Dc
Network charges (exclusive levies) - transmission	2,854	2,854	2,854
Network charges (exclusive levies) - distribution	5,675	17,052	37,113
Levies included in network charges	x	x	x
Energy costs and supply margin	54,661	71,414	48,463
Taxes	x	x	x
Total (including all taxes)	63,19	91,32	88,43

3.2.3 Measures to avoid abuses of dominance

Under the Energy Act the electricity generator is obliged to install the plant being able to provide ancillary services, if the total installed capacity of such plant is higher than 75 MW. The purpose of such obligation is to ensure the operational reliability of the system and providing balancing services, then provide the transmission system operator and distribution system operator with technical data required to ensure safety and reliability of the system, provide the information on the share of individual types of primary sources and on the environmental impacts of electricity generation, prepare a 5-year development plan of electricity generation, which is then annually submitted to the Ministry of Economy and last, but not least, comply with the quality of generated electricity.

The electricity supplier is obliged to provide the electricity supplier with the information on individual types of primary energy sources in electricity supplied, to provide the information on the environmental impacts of electricity supply or to make reference to such source, to conclude the agreement on electricity supply in a specific service area with whoever asks for it provided that business conditions related to electricity supply are complied with, to determine the standard electricity load diagram for the eligible consumer if there is no continuous load measurement in such plant.

4. Regulation and Performance of the Natural Gas Market

4.1 Regulatory Issues

4.1.1 General

In accordance with the EU requirements and the European efforts made in setting up a single liberalised gas market Slovakia undertakes a gradual process of liberalisation. The conditions for the opening of the Slovak gas market are not connected only with a percentage share of eligible consumers, but they are also determined by their liberal and competitive possibilities for entries of new players in the market, contractual conditions supporting the competition, technical and operational possibilities of the network, flexibility of responds by partners and a possibility of adequate investments related to new development trends in the market and by other factors. A legal aspect of these matters are anchored in the Energy Act and the Act on Regulation, secondary legislation specifies the conditions for contractual relations among partners in more detail from the point of view of output performance. Following the date of 1 January 2005, when new legislation came into effect, the degree of the opening of the gas market went up to 72 % in Slovakia.

Tab. 4.1.1 Gas Market Opening Table

Date	Customer Eligibility Threshold	Market opening [%]	Effective supplier switching [%]
1 January 2004	237 GWh	33	-
1 January 2005	All non-households	72	-
1 July 2007	All customers	100%	-

4.1.2 Management and allocation of interconnection capacity and mechanisms to deal with congestion

As of 1 January 2005 the transportation system had almost 2 270 km of gas pipelines, including four compressor stations. An annual capacity of this grid is more than 90 mld. m³. The capacity of the transportation system is sufficient, as it has managed to comply with all the requirements imposed by consumers.

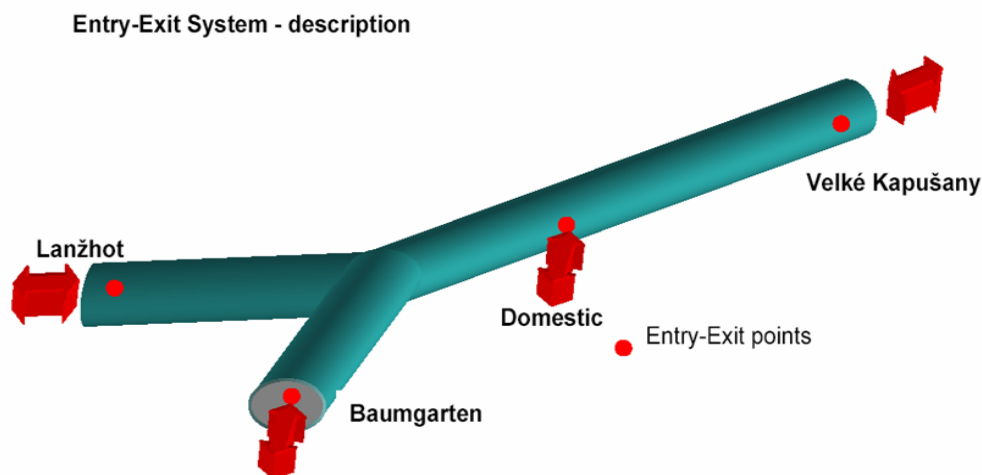
The rules on the functioning of the gas market set out the procedures related to capacity allocation, congestion and exceeding the capacity of the transportation and distribution systems. They also set out the conditions for publishing the information on free transport capacities in the system. So far, Slovakia has not had any secondary market with cross-border gas trading and the issues related to congestion or free capacities have not been of such relevance for the Slovak market due to long-term agreements and the technical capacity of the Slovak transportation system. So far, this area has not been covered legislatively in detail. It is assumed that secondary legislation will be flexible depending

on actual development. From the point of view of historical circumstances and a 97% dependency of the Slovak gas market only one single gas supplier on the gradual opening of the market appears to be realistic. Gas transportation is carried out on the basis of the „entry – exit“ tariff system; the appraisal of transport charges is undertaken, taking into account the benchmarking methodology and EU Gas Directives, however, coming out of Slovak legislation.

The operator of the transportation system has not experienced either physical system congestion or the congestion of the system capacities agreed contractually. At present we do not assume that such congestion could occur in the upcoming years. Despite these conditions the operator of the transportation system provides users of this system regular information on availability of transportation capacities. Also, the maintenance work program is annually or quarterly discussed and co-ordinated with all transporters as well as with neighbouring operators of transformation systems with an intention to optimise the timing and duration of work in accordance with expected transportation needs.

At the moment the Slovak Republic does not conduct any secondary trading with capacity.

Fig. 4.1.2



List of Entry-Exit points:

- HPS Velké Kapušany
- HPS Lanžhot
- HPS Baumgarten
- Domestic (Point Virtual - unique for all HPSs and storages)

With regard to the balancing of deviations in the system there is no agreement concluded among neighbouring TSOs. At present transporters agree with the Slovak Gas Company on the balancing conditions on a contractual basis.

With regard to the date of accession of the Slovak Republic to the EU as of 1 May 2005, the Directive No. 91/296/EC has not been implemented into the legal system of the

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Slovak Republic, which meant that companies have not been governed under this document. However, the Energy Act also covers this issue in transient provisions. The agreements concluded under Article 3 (1) of the Directive 91/296/EEC on transit of natural gas through networks, in case of which the validity has not expired, yet and which are executed under the conditions of this Directive in question, remain in effect following the date, when this act comes into effect. The agreements on electricity and gas transit concluded under the current regulations remain effective until the date agreed among contracting parties; such period of validity of the agreement may not be extended by contracting parties once the act becomes effective.

4.1.3 The regulation of the tasks of transmission and distribution companies

Network tariffs

On the territory of the Slovak Republic there is one operator of the transmission system and one dominant operator of the distribution system, both owned by one single owner. This is a vertically integrated company providing comprehensive gas activities that was unbundled on a level of accounting. A gradual legal unbundling is being underway only these days. Since 1 January 2005 all requirements related to accounting, operational and legal unbundling are contained in energy legislation of the Slovak Republic, including the required implementation schedule under the Directive 2003/55/EC.

The Office appoints the operator of the transportation system and sets out the methodology for calculation of prices and tariffs for operators of the distribution network. In relation to new legislation a new Ruling of the Regulatory Office for Network Industries dated 30 June 2005 No. 4/2005, came into effect, setting out the scope of price regulation in the gas industry and the way of its performance, the scope and a structure of economically justified costs, the way of setting the amount of an adequate profit and background information for a price proposal. In relation to new legislation there has been a change made as a result of the revision of calculation methodologies applied so far – the Office determines prices for gas transport through the transportation system, for distribution and supply of gas to suppliers for final gas consumers in households.

In the year 2005 the tariffs for gas distribution went substantially down after making calculations and a comparison with the year 2004.

Gas production and storage are not subject to price regulation. Access to gas storage tank is subject to agreement, as stipulated by the Act.

The price for transportation is determined using the method of comparison applied to the prices of EU member states on the basis of the „entry – exit“ tariff system. Tariffs for gas transportation and access to the transportation system are determined according to individual groups of consumers on the basis of contractually agreed maximum daily capacity of gas transport.

The price for distribution is determined by the price cap method. Tariffs are based on the postage stamp system. A charge for exceeding daily deviation and cumulated deviation is

determined by the Office in a manner that makes users of the distribution system act without imposing any threat on safety and reliability of gas supply.

For local distribution systems the price determined for gas distribution inevitably covers the costs incurred by distribution within a specific local grid and an adequate return on assets that are required to carry out such activities.

The price of gas supply is determined only for residential gas consumers.

Balancing

In accordance with the Energy Act the obligations of the operator of the transportation system and the distribution system also includes the balancing of the transportation system. Providing such condition is associated with the intensive co-operation of the operator of the distribution system with an operator of gas storage tanks and gas suppliers in order to avoid any disruptions in continuous, reliable, safe and effective operation of the entire system.

In this regard the task of the regulator is to monitor and supervise over the compliance with obligations imposed on individual gas market players with a view of providing non-discriminatory and transparent performance in order to protect rights and obligations of eligible consumers and households on one hand and to provide reliable, economical and high-quality supply on the other hand. For this purpose, the regulator keeps monitoring the adherence of obligations imposed on the grid operator and performs inspection over their compliance with provisions of the act and generally binding legal provisions, imposes measures aimed at eliminating any deficiencies identified and in case of any violations of the obligations arising out of the act the Office charges a penalty in accordance with the Act on Regulation. The Office performs surveillance and makes evaluations of the adopted measures aimed at dealing with the situation of how to avoid the congestion of the system, how to actually deal with any congestion and imposes new measures aimed at dealing with such conditions. The Office also ensures monitoring of the compliance with rules related to the balancing of any imbalances in the system under the Gas Market Rules.

If the balance between the amount of gas entering the grid to be supplied to a participant of the gas market and the amount of gas extracted from the grid by a market participant, i.e. the commercial balancing and deviation, are not maintained, it is subject to charging. Such imbalance is evaluated by the operator of the distribution system. A participant of the gas market is responsible for deviations. The Slovak Republic represents one balancing zone from the point of view of a user of the distribution system. There is a daily balancing system. Such balancing is carried out and evaluated per one gas day.

Calculation of the amount of daily deviation is made using the balancing equation in accordance with the Government Regulation setting out the rules for the functioning of the gas market. Daily deviation is calculated once a day following the end of a gas day for every user of the distribution system as the difference between the amount of gas supplied to a user of the distribution system at the entry point and the amount of gas extracted by a user at the exit point of the distribution system. The operator is obliged to notify the calculated daily deviation per a preceding gas day not later than until 2 pm of a given day. Charges paid for the balancing of the distribution system include the charges for exceeding allowed daily deviation and cumulated deviation in the balancing account

of a user of the distribution system. Maximum cumulated deviation of a user of the distribution system is determined five times as high as allowed daily deviation for a user of the distribution system

At the end of the contractual period the balancing account is closed and the amount of gas at the size of absolute value of cumulated deviation in the balancing account is settled and purchased by :

- a) the operator of the distribution system from a system user
- b) a system user from the operator of the distribution system

for the reference price under Government Regulations for the rules of gas market functioning.

The operator of the system undertakes a set of activities aimed at the physical balancing of the system in order to provide for safe, fair and non-discriminatory operation of the system for all market participants located in a specific service area at any time and make fair allocation of costs to individual participants in the gas market. The distribution system operator is responsible for the settlement of deviations. This operator reserves part of storage capacity, especially for covering daily deviations in the gas market. Costs for such capacity are included into the price for gas distribution.

Providing that such capacity is not sufficient for physical balance of the distribution system, the operator of the distribution network requires from participants in the gas market to adjust the amount of compressed gas or gas extracted from a storage tank up to the level of the capacity agreed. If such measure is not sufficient, the storage operator is required to provide free capacity for the balancing of the distribution system. If technical conditions allow to do that, the operator of a storage tank accepts such request. The distribution system operator and the transportation system operator ensure an interconnection of the distribution and transportation systems and the collection of data required for the system balancing.

4.1.4 Access to storage, linepack and other ancillary services

Access to storage tanks is allowed on the basis of the Agreement on Storage Tank Access, i.e. this is a contractually based access. Storage tanks are operated by an independent operator that allocates a participant in the gas market :

- fixed storage capacity, or
- interruptable storage capacity

in underground storage tanks of natural character. Interruptable storage capacity is allocated only in case if there is no free fixed storage capacity.

Price calculation methodology and price decisions issued by the regulatory office are related to gas distribution and transportation services. They do not cover access to gas storage tanks.

Services in the form of free compressed output or free production output on a fixed or interruptable basis and services for the balancing of gas pressure and quality may become additional services.

4.1.5 *Effective unbundling*

Since 1 January 2005 the requirements arising out of Directive 2003/55/EC on accounting, operational and legal unbundling have been implemented into valid legislation, including the required schedule of their implementation. A specific structure of the gas industry in Slovakia makes the procedures set out by law even more complicated. Accounting and operational unbundling has been completed in relevant companies. The cost accounts of both grid operators are kept on a separate basis. At the moment the operator of the transportation and distribution system is not legally unbundled from its parent company. Legal unbundling of the distribution system operator and the transportation system operator is gradually underway.

The rules for accounting unbundling are under preparation. Regulated companies are subject to surveillance by the regulatory office, to whom they, upon request, submit their financial statements of the company audit. The Office sets out the scope, way and rules for keeping separate records for the purpose of accounting under the special provision for the needs of price regulation and compliance with the obligation to keep separate records for the purpose of accounting. In case of violation the Office may impose a penalty at the amount set out by the Act on Regulation.

Tab. 4.1.5 *Summary Information on Unbundling*

	Transmission	Distribution
Separate Headquarters (Y/N)	N	N
Separate corporate presentation (Y/N)	Y	Y
Unbundled regulatory accounts with guidelines (Y/N)	N	N
Audit of unbundled accounts (Y/N)	N	N
Publication of unbundled accounts (Y/N)	N	N
Separate board of Directors without Directors from other group companies? (Y/N)	N	N

4.2 *Competition Issues*

As defined by the act, the Office is also responsible for setting up a transparent, non-discriminatory and effective competition in network industries. Its tasks include ensuring the effective functioning of the gas market and monitoring the transparency and competition achieved by the gas market.

4.2.1 *Description of the wholesale market*

The 2004 gas consumption in the Slovak Republic accounted for 6,7 bill. m³. In previous years there appeared to be some fluctuation around this value of consumption, which is attributed especially to rationalization and saving measures taken in all the segments of consumption and the effects of higher temperatures. Saving measures are related to the increase in the gas price which has become realistic and the removal of cross-subsidies, plus the improvement in energy efficiency on the gas demand side. The sales of natural gas in the limited territory of the Slovak Republic declined by 4,4 % in the year 2004, compared to the year 2003.

As regards domestic production of natural gas in the long run there is an assumption to continue in production in the existing sources, however, with a descending trend. Changes may evolve in the case of newly discovered deposits – in that case the actual production level will be dependent on the scope, character and location of new potential deposits.

In the year 2004 the domestic production level achieved the value of 178 mill. m³, and for the year 2005 an assumed level is 114 mill. m³.

Around 98% of local gas consumption is imported from the Russian Federation. The agreement between the most significant Slovak company in the gas industry – Slovenský plynárenský priemysel, a.s. (the Slovak Gas Industry) and the Russian company Gazexport, which provides gas supply to cover demand needs of the Slovak Republic, is valid until the year 2008. At present this supply fully covers demand for natural gas in the country.

There is one company in the Slovak Republic, with a market share higher than 5% - Slovenský plynárenský priemysel, a.s. (the Slovak Gas Company - SPP, a. s.).

The price for distribution is determined by the price cap method. Tariffs are based on the postage stamp system. The charges for exceeded daily deviation and cumulated deviation are determined in a way that makes users of the distribution system behave without imposing any treat on safety and reliability of gas supplies.

For local distribution companies the price determined for gas distribution covers essential costs for distribution within the local network and an adequate return on assets that are required for performing such activity.

The price for gas supply is determined only for residential gas consumers.

The process of drafting the Decree on Service Quality Standards is currently underway, with the expected date of effect on 1 January 2006.

The companies owning the shares in capacity available are SPP, a.s. and NAFTA, a.s.

Tab. 4.2.1 *Development of the wholesale market*

	National production [bcm]	Demand [bcm]	Import capacity [bcm/year]				No. of companies with >5% generation
			Total	Reserved transit	Reserved LTC	unreserved	
2001	0,165	7,5	94	71,5	71,5	22,5	1
2002	0,156	7,1	94	70,4	70,4	23,6	1
2003	0,150	6,8	94	72,7	72,7	21,3	1
2004	0,143	6,5	94	82,7	82,7	11,3	1

Foreign companies are active in the Slovak market by means of their equity participation in the Slovak Gas Company, in which the Slovak Gas Holding, B.V. (made up by Ruhrgas and Gaz de France) owns 49% of the shares.

The company NAFTA, a. s., which owns and operates underground gas storage tanks, has the following structure of shareholders - SPP, a. s. 55%, Ruhrgas 40%, and other shareholders 5%.

A structure of shareholders in POZAGAS, a. s., which owns an underground gas storage tank is as follows – SPP, a. s. 35%, NAFTA, a. s. 35% and Gaz de France 30%.

The Slovak Republic represents the national gas market, which is interconnected with Ukraine, the Czech Republic and Austria. The Slovak transportation system covers a significant part of the European gas network and represents an outstanding, reliable and safe route from transportation of natural gas to Central and Western European countries. Another area of co-operation includes utilisation of gas storage tanks – the Slovak Republic uses a storage tank (Dolní Bojanovice), which is situated on the territory of the Czech Republic and is directly linked to the gas supply system of the Slovak Republic. At the same time, companies running storage tanks store natural gas for several foreign companies.

4.2.2 *Description of the retail market*

The SPP company does not register any consumers that would not be connected to the transportation or distribution systems. The company covers all market segments, including residential consumers, small and medium enterprises and even large-scale manufacturing companies.

Despite the legislative possibilities provided to private businesses that is no such known case, in which a consumer decided to opt for a different supplier. Therefore, the SPP company continues to be the largest supplier in the market.

5. Security of Supply

5.1 Electricity

5.1.1 Development of electricity demand and consumption, including the 2005 forecast

Total electricity consumption in the Slovak Republic has been stabilized, with a slight increase over the recent years.

Table 5.1.1 presents the data on „Generation, consumption and loading of the electricity system of the Slovak Republic in the years 2000, 2001, 2002, 2003, 2004 and 2005“. The year 2005 is based on a forecast.

Tab. 5.1.1 *Generation, consumption and load*

Year	Generation	Consumption	Average load	Peak load
	[GWh]	[GWh]	[MW]	[MW]
2000	30 877	28 204	3 220	4275
2001	32 003	28 325	3 233	4393
2002	32 830	28 674	3 273	4421
2003	31 147	28 892	3 298	4338
2004	30 543	28 682	3 274	4349
2005	30 500	29 010	3 312	4390

5.1.2 Demand forecast for a period of 2006 - 2010, with a perspective until the year 2020

Demand forecast was calculated for various scenarios of the economic development, whereas the growth is expected even in the case of the most pessimistic development scenario.

Table 5.1.2 presents „The forecast of consumption and loading of the electricity system of the Slovak Republic in the years 2005, 2010, 2015 and 2020“.

Tab. 5.1.2 Consumption of load - estimation

Year	Consumption			Average load			Maximum load [MW]
	low [GWh]	reference [GWh]	high [GWh]	low [MW]	reference [MW]	high [MW]	
2005	29 010	30 140	30 984	3 312	3 441	3 537	4275
2010	29 934	32 106	34 363	3 417	3 665	3 923	4393
2015	31 201	34 879	40 161	3 562	3 982	4 585	4421
2020	32 352	37 943	46 579	3 693	4 331	5 317	4338

5.1.3 Load coverage of the electricity system in the years 2006 - 2010

This period will bring many changes into the structure of the electricity sector of the Slovak Republic. As the country is obliged to fulfil its commitments arising out of accession negotiations held with the EU and due to the obsolescence or non-compliance with ecological requirements some significant generating stations will be gradually decommissioned. Considering the current status with investments they will, however, be gradually replaced with new ones past the year 2010.

Table 5.1.3 shows the data on the planned decommissioning of generating stations in the ownership of the SE company.

Tab. 5.1.3 Decommissioning of the generation sources

Thermal power station	Facility	Installed capacity [MW]	Generation [MWh]	Year of decommissioning
Nováky A	TG2, TG3	54	190 000	2006
Nováky B	3. and 4. block	220	600 000	2006
Vojany 1	3. and 4. block	220	700 000	2006
Vojany 2	25. and 26. block	220	100 000	2006
Jasl. Bohunice V1	1. block	440	2 800 000	2006
Jasl. Bohunice V2	2. block	440	2 800 000	2008
Independent		200	900 000	2003-2010
Total		1794	8 090 000	2003 - 2010

Safety in electricity supply and maintenance of the system stability is the task of a state-owned joint stock company SEPS a.s. Bratislava (the Slovak Power Transmission Company), which is the only operator of the entire transmission system of the Slovak Republic.

In the SEPS Development Program for the years 2005 to 2015 the company plans to utilise generating stations to cover the expected load in three "time cross-sections", i.e. in the years 2005, 2010 and 2015. The actual dispatch of generating stations will depend on

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decisions of individual owners of generating stations. Actual dates of the commissioning of new capacities in the Slovak Republic will depend on decisions made by several investors. Under the SEPS conditions there are currently calculations made for the purpose of the SEPS Development Program for the years 2008 to 2017, in which three "time cross-sections" are/will be verified - 2008, 2012 and 2018. In principle, several scenarios of electricity generation shortage in the Slovak Republic are/will be verified by calculations, with consideration given to various dispatch regimes for generating capacities in the country. Calculations will be completed at the end of November 2005. As soon as the SEPS Development Program for the years 2008 to 2017 is completed, the SEPS company, being in the position of TSO, may announce, whether it will be possible and necessary in a given period to deal with any discrepancies by higher import from abroad.

5.1.4 Planned and constructed generating capacities, foreign co-operation with regard to electricity supplies

Table 5.1.4 shows the data on the expected construction of new generating capacities in the Slovak Republic. Such data has been gathered from potential investors.

Tab. 5.1.4 *New sources - estimation*

Project	Increasing capacity [MW]	Generation [GWh]	Introduction [year]
Increasing of the nuclear safety and seismological resistance – power station Bohunice V2	62	350	2008
Completing of the power station - Mochovce 3,4	942	6 000	2011
Increasing of the installed capacity - Mochovce 1,2	62	350	2011
Reconstruction of the power station Nováky A			2007
Reconstruction of the power station Nováky	125	630	2007
Power station Vojany 1 Two fluids blocs	250	1 250	2009
Power station Vojany 1 2xST, blocs.5,6	64	320	2014
Power station Vojany 2 PPC 400 MW	400	1 900	2017
Other sources (Malženice, Žilina, ZE a pod.)	1100	6000	gradually to 2015
Renewable sources	140	560	gradually to do 2015
Water PS Ipeľ	600	900	after 2020
Total	3 735	18 260	

An actual time schedule for the commissioning of new generating capacities in the country will depend on many factors, primarily on the development in the liberalised electricity market. From the point of view of the SEPS company it is considered to apply the general principle of load coverage by the electricity system that at first favours the utilisation of domestic generating stations, whereas any shortage will then be covered by electricity imported from abroad. However, such approach will also be affected by price relations in individual countries and the impact of trading activities in the liberalised electricity market of the EU. A level of import will also be dependant on sufficiency of generating stations in the EU, or a possible interconnection of UCTE with the former Soviet Union states (IPS/UPS) and on availability of transmission routes/capacities in foreign countries. As stated in point 3, as soon as the SEPS Development Program for the years 2008 to 2017 is completed, it will be possible for the SEPS company, being TSO, to announce, whether it will be possible in a given period to deal with all predicted discrepancies by foreign import.

5.1.5 Measures for peak load coverage and dealing with outages of one or several generating stations

SEPS, a.s. performs the activities of TSO and provides electricity transmission via its 400 and 220 kV lines in the Slovak Republic, including import, export and transit of electricity. Moreover, the company also ensures operability of the electricity system, quality and reliability of electricity supplies from the transmission system and restoration of synchronous operation following the disintegration of operation of the electricity system, so-called balancing services (regulation of frequency and supplied capacities, hot and cold standby reserves, voltage and reactive power control in the electricity system, stability of transmission, restoration of operation after full or partial disintegration of the system, loss of synchronisation or feeding).

The SEPS company bears direct responsibility for the stabilised on-line balance of consumption/generation. Through its electricity dispatch center the company manages the operation of the entire electricity system with a view of ensuring the stabilised balance of consumption/generation. It deals with the instanteneous situations as well as situations with perspective of 1 year as maximum. Internal company documents including Operational Instructions, Preparation of the Operation of the Slovak electricity system for a respective calendar year and the Dispatch Order not only cover such issue, but they also contain procedures and information on how to cover system load, how to deal with any contingencies, crises, outages of one or several generating stations. In case of large outages, such as black-outs, the company has prepared operational procedures and instructions like Defence Plans against Propagation of Large Failures, based on the UCTE methodology, frequency shedding, etc.

The SEPS company purchases ancillary services from their providers (their facilities are able to provide some or all of the following services: primary output regulation of the block, secondary output regulation of the block, tertiary output regulation of the block, fast start of standby reserve, cold standby reserve, U/Q regulation, readiness for quick

start, readiness for island operation, provision of electric lines, transformers and transformer stations of the distribution system for black start) on the basis of agreements concluded for a respective period of time. At present the SEPS company concludes one-year agreements with companies doing business in the electricity market in the following areas:

- standby reserve for the needs of SEPS,
- electricity transmission for distribution companies and direct consumers of SEPS,
- balancing and ancillary services,
- emergency assistance – an effort to conclude agreements with foreign partners

By covering any deviations and activating ancillary services the Slovak Dispatch Center provides reliable and safe operation of the electricity system of the Slovak Republic from the point of view of load diagram coverage during peak load periods or in case of any outages of generating stations

Ancillary services used for covering peak load or any plant outages in the year 2005 are structured as follows:

- primary output regulation (PRV +/-)
- secondary output regulation (SRV +/-)
- 10 minutes positive tertiary output regulation (TRV10min+)
- 30 minutes tertiary output regulation (TRV30min+)
- 30 minutes negative output regulation (TRV30min-)
- hourly tertiary output regulation (TRVh).

The issue of setting the required amount of ancillary services is covered by the Methodology for Determination of Size of Ancillary Services, which will be Annex of Technical Conditions for Interconnection, Access and Operation of the Electricity System. Reliability and economic criteria are applied, when setting the optimum amount of individual types of ancillary services. When specifying the optimum amount of ancillary services, there is the principle of time distribution and seasonal aspect applied.

5.1.6 Quality and maintenance standards

Maintenance work on main technological equipment of the Slovak transmission system are completed in line with the planned extent in previous years. Its quality is proved by the fact that failures that occurred during the transmission system operation were not caused by those facilities that had undergone maintenance work. However, the factor of ever increasing average age of major technological equipment of the system has indicated that it is necessary to expect in the future an increased level of more complicated maintenance and repair works and higher operational costs in this area.

During the operational preparation the maximum efforts were made in the co-ordination of "switch-off plans" including shutdowns of generating stations. There is an effort to prevent in a maximum possible extent from the reduction of reliability of power supply from individual generating stations. This area is specially complicated in the case of power supplies from nuclear power plants. Another relevant issue is the coverage of internal consumption by power plants in the event of disrupted feeding from a tap transformer of the power plant. Due to the final shutdown of one reactor of the nuclear

power plant Bohunice - V1 – the basic diagram is currently defined for the 220kV substation Križovany and subsequently, all the maintenance diagrams, so that there was no decrease in reliability of power supply from NPP Bohunice V1, at the same time, ensuring the coverage of internal consumption of NPP Bohunice and obviously, preventing from any reduction in reliability of the system itself.

At the same time, an emphasis is given on co-ordination of "switch-off plans" with operators of distribution systems.

Eastern Slovakia is still struggling with the problem of dependency of power supplies on the power plant units of Vojany 1. This is a problem of providing supplies from several nodal areas of one single 400/220 kV transformer and 220 kV lines. In a basic connection it is necessary to operate at least 3 units of the Vojany 1 power plant. In the event of outage of a transformer 220kV lines would be overloaded with the smaller number of power units. Such dependency of several nodal areas in the transmission system on one 400/220 kV transformer and 220 kV lines will be removed only after installing a 400/110 kV transformer in the substations of Lemešany, Križovany and Sučany. A 400/110 kV transformer in the Križovany substation plans to be put into trial operation already in the year 2006.

As regards the maintenance work carried out on the transmission system the problem is also with regard to substations (400 kV, 220 kV) that are fed in a basic connection only from two lines. In case of a planned switch-off of one of these lines due to maintenance work they will be fed only from one line. In the case of the transmission system of the Slovak Republic there are the following substations : 400 kV substation Spišská Nová Ves, 400 kV substation Moldava, 400 kV substation Stupava, 400 kV substation Gabčíkovo, 400 kV substation Rimavská Sobota, 400 kV substation Horná Žďaňa, 220 kV substation Považská Bystrica, 220 kV substation Medzibrod, 220 kV substation Senica and 220 kV substation Vôľa. In case of disconnection in those substations it is important to ensure larger co-ordination with operators of distribution systems.

Based on the results achieved in a previous period it may be stated that the Slovak electricity system fulfilled its priority task without any major deviations. However, in the upcoming years it will have to respond to some new factors, primarily:

- increased consumption in all economic sectors and households,
- decommissioning of several generating stations,
- moral and physical obsolescence of energy installations in the transmission and distribution systems and related needs for their upgrading,
- a need for increase in safety and reliability of supplies for all categories of consumers,
- an increasing importance of the transmission system of the Slovak Republic within the co-operation of EU member states with their neighbouring states

5.2 Gas

5.2.1 Gas supply and consumption, expected demand and available supplies

The dominant company having the largest share in the Slovak gas market is Slovenský plynárenský priemysel, a.s. Bratislava (the Slovak Gas Company - SPP). In the year 2004 the company provided its services to approximately 1 441 thous. consumers divided into individual segments (large consumption, small consumption and households).

Natural gas consumption of the Slovak Republic accounted for 6,7 bill. m³ in the year 2004. This value of consumption was fluctuating in previous years, which was caused especially by rationalisation and saving measures taken in all segments of the demand side and the effects of higher temperatures. The saving measures are related to the increase in the gas price that turned to be realistic and to removal of cross-subsidies, plus improvement in energy efficiency on the gas demand side. The sales of natural gas on a limited territory of the Slovak Republic declined by 4,4% in 2004, compared to 2003.

Roughly 98% of domestic gas consumption is covered by gas imported from the Russian Federation. The agreement between the most significant enterprise in the Slovak gas industry – SPP and the Russian company Gazexport, which ensures gas supplies for the demand needs of the Slovak Republic, is valid until the year 2008. This currently fully covers domestic demand for natural gas.

In the long run it is assumed to continue in domestic production of natural gas from present sources, however, with a declining trend. Changes may emerge in case of newly discovered deposits – the actual production will depend on the scope, character and location of new deposits.

It is possible to expect in the period of about 3 to 5 years a slight increase in demand in relation to new generating plants generating electricity from natural gas, as authorisations for the construction of such plants have already been awarded.

Table 5.2.1 illustrates the assumption of gas demand in the Slovak Republic with the target year 2008 with a perspective until the year 2020.

Tab. 5.2.1 *Estimation of the natural gas consumption*

Consumption [bill. cbm]	2008	2010	2020
Households & low consumption	2,2	2,2	2,1
Industrial	2,8	2,8	2,9
Electricity and heating generation	1,8	1,9	2,0
Total	6,8	6,9	7,0

The gas supply system of the Slovak Republic comprises the transportation and distribution systems. They play an important role in ensuring security of supply. The national gas supply system is interconnected with neighbouring countries, such as Ukraine, the Czech Republic and Austria. Close to the Slovak-Austrian border there is

also a significant gas node Baumgarten, which is an intersection of several transportation systems (Austria, Germany, Italy, Slovenia and Hungary).

Over the monitored period gas supplies were provided without any serious disruptions. The consumers' requirements were fully settled. During the entire period the extraction of gas was carried out under the extraction degree and the basic heating curve (i.e. all extractions were carried out in line with the amounts agreed in the agreement).

No outages were recorded with regard to the operation of the transportation system that would impact gas supplies to consumers in the country, nor to companies transporting natural gas across the territory of Slovakia to other countries.

With a view of ensuring integrity, reliability and safety of the transportation system in the country inspections, routine repairs and maintenance were carried out under the specified priority criteria. Also, deficiencies identified during external and internal inspections of gas supply pipelines were eliminated by making repairs or upgrades of gas installations.

As of 1 January 2005 the transportation system is made up by almost 2 270 km of gas supply pipelines and four compressor stations. Annual capacity of the transportation system exceeds 90 bill. m³. The Slovak transportation system makes a significant part of the European gas supply network and represents an important, reliable and safe transportation route, which is used for transporting natural gas to Central and Western European countries. In case of a higher demand for transportation it is possible to increase transportation capacities at relatively lower costs compared to implementation of new projects. However, in the period of the nearest 3 years no substantial capacity extension is under consideration.

So far, the distribution system has not experienced any disruptions that would have any impacts on gas supplies to Slovak consumers.

Several short-term clearly local outages lasting for a limited time (several hours) have occurred in gas supplies caused by the need for an interruption of supply for safety reasons. The reasons were mainly damages made to local gas infrastructure, for example, during some construction activities or other types of work, however, in most cases the reason was a failure of a human factor, and floods.

Within the distribution system made by a complex of gas supply installations, including the gas supply pipelines and technological devices, inspections are made under the prescribed priority criteria, which contribute to its integrity, reliability and safety. Any deficiencies identified during external and internal inspections of gas supply pipelines were removed by repairs or upgrading of gas installations.

As of 1 January 2005 the status of the distribution system is as follows: high pressure gas supply pipelines are 6 278 km long, medium and low pressure pipelines are 24 256 km long and with 1702 regulation stations in operation. The placing of transfer stations respects the needs of a loop of the high pressure gas supply network. The stations are equipped with a monitoring system enabling data transmission to the Gas Dispatch Center with an intention of providing safe and effective operation of transfer and regulation stations. In the event of any failure such monitoring system allows immediate intervention with the optimisation of system control until the failure is removed.

Over the next three years the distribution system will be extended only at rather slow pace. There are considerations given to extend the length by about 300 km, whereas the planned extension of annual capacity of the distribution system is at a level of about 150 mill. m³.

Slovakia operates underground gas storages situated in the region of Záhorie, which play an important role at the time of peak loads. At present their operators provide gas storage services to a number of gas supply companies, too.

Overall capacity of storage systems is about 2,3 bill. m³, whereas maximum daily production output is about 32 mill. m³ and maximum daily compression output is about 27 mill. m³.

An underground storage tank situated in the Czech Republic (Dolní Bojanovice) and connected to the national gas supply network is also in use.

In the year 2004 no serious failures were registered that would have any impact on the operation of storage tanks.

In the forthcoming three years operators of underground storage tanks, companies NAFTA, a. s. and POZAGAS, a. s. have no plans to extend storage capacities.

5.2.2 Measures for peak load coverage, dealing with disruptions in supplies

By adopting the Energy Act the following conditions were set out with regard to management of the gas supply system.

The distribution system on the territory of Slovakia is managed by the „Gas Dispatch Center“ that is responsible for operative management of the distribution network. If there are more operators of the distribution system covering one service area, then the Ministry of Economy makes decision, which of the operators will be obliged to fulfil the tasks of the Gas Dispatch Center on a given service area.

The Gas Dispatch Center on the limited territory of the Slovak Republic undertakes the following tasks:

- Operative management of interconnected distribution networks on a confined service area,
- Management of interconnected transportation systems on a confined service area at the time of emergency and during the activities that directly prevent from such status,
- Technical management with regard to running gas sources and gas installations on a confined service area,
- Development of balances of gas extraction and supply through interconnected distribution systems on a confined service area,
- Development of quarterly reports on the system status, or a level of utilisation of distribution capacity, including the assessment of distribution via the distribution system, submitted to the Ministry of Economy and the regulatory office,
- Declaration of restrictive measures at the time of any emergency situations,
- Submission of proposals on declaration of emergency situations to the Ministry of Economy,
- Determination of measures aimed at eliminating any emergency situations.

The distribution system operator that does not fulfil its tasks of the Gas Dispatch Center is obliged to establish its own dispatch center in order to fulfil duties imposed on such body. The dispatch center established this way fulfils the identical tasks allocated to the distribution system operator serving part of the service area as the Gas Dispatch Center on the limited territory of the Slovak Republic. The distribution system operator that has not established its own dispatch center is obliged to fulfil the tasks by means of the Gas Dispatch Center.

At the time of peak load a significant role is played by underground storage tanks that are located in Western part of Slovakia and used for providing the continuous gas supply to gas consumers throughout the entire year.

Overall storage capacity achieves about 2,3 bill. m³, with maximum daily production output being about 32 mill. m³ and maximum daily compression output being about 27 mill. m³.

A gas storage tank located on the territory of the Czech Republic (Dolní Bojanovice) is also in use, being directly connected to the gas supply system of the Slovak Republic.

On 7 April 2005 the Regulation of the Government of the Slovak Republic No. 123/2005 Coll., setting out the rules for the functioning of the gas market entered into force. This regulation was issued on the basis of empowerment provision of the Act No. 658/2004 Coll. The regulation sets out the rules for the functioning of the gas market and inter alia the conditions for determination of the procedure for prevention from and dealing with any congestions in the transportation system and the distribution system and the condition of system balancing.

5.2.3 Prevention from and dealing with congestion in the transportation system

If the total of required transportation capacities is higher than technical capacity for a respective entry or exit points of the transportation system, the system is overloaded.

The operator of the transportation system shall prevent from the system congestion by :

- Evaluation of applications for access to the transportation system and subsequent regulation of access to transportation capacity in the system in conformity with conditions of the operator of the transportation system,
- Co-ordination in making repair and maintenance plans, taking into account needs of system users with regard to a time schedule, duration and the scope of work,
- Determination of gas transportation within agreed and available transport capacity,
- Allowing a gas market participant to provide unused free transportation capacity to another gas market participant.

The shortage of free transportation capacity in the system is dealt with by the agreement on gas transportation with an interruptible transportation capacity concluded with a participant of the gas market.

5.2.4 Prevention from occurrence and congestion of the distribution system

If the total of required distribution capacities is higher than technical capacity of the distribution system, the distribution system becomes overloaded.

The distribution system operator prevents from occurrence of any congestion of the network by evaluating the applications for access to the distribution system and subsequent regulation in providing such access to distribution capacity in conformity with the conditions of the distribution system operator.

If the total of required distribution capacities is higher than technical capacity of the distribution system, the operator of the distribution system requires gas market participants to adjust the size of capacity which they required in their application for grid access.

If the total of required distribution capacities in the applications for grid access is higher than technical capacity of the distribution system, the operator of the distribution system will allocate distribution capacity in a descending order based on the criteria:

- a) in the case of extension of the existing gas distribution agreement, the agreed distribution capacity is without increase,
- b) in the case of long-term gas distribution agreement or gas distribution agreement concluded for a period longer than three years,
- c) in the case of an annual gas distribution agreement,
- d) in the case of a short-term gas distribution agreement.

If the total of required distribution capacities specified in the applications for access to the distribution system, having the equal priority, is higher than technical capacity of the distribution system, the operator of the distribution system gives priority to an application for access to the distribution system for gas supply to residential gas consumers.

5.2.5 System balancing

Physical balancing of the system represents a set of activities, by which the operator of the system manages the operation of the system on a confined service area on an on-line basis so that gas transportation is provided from the entry point of the system in a specific service area to the exit point of the system at every time, ensuring appropriate, safe and non-discriminatory operation for all market participants, the fair allocation of operational costs among individual participants of the gas market.

The commercial balancing represents the keeping of the balance between the amount of gas supplied to a market participant through the system and the amount of gas extracted from the system by a market participant, whereas any imbalance and deviation are charged; commercial balancing is provided to support the operator of the system at the time of physical balancing of the network. The principles of commercial balancing during transportation are defined in interconnection agreements with operators of neighbouring transportation systems that are under preparation, taking into account European standards (good practice guidelines).

The operator of the system is responsible for physical balancing of the system. The commercial balancing of the system and deviation settlement is evaluated by the operator of the system. A participant of the gas market is responsible for deviations, whereas a participant can contractually pass responsibility for such deviation, including all related financial obligations, on its supplier in accordance with conditions of the operator of the system. A gas producer may pass its responsibility for deviation, including all related financial obligations, on its consumers in accordance with conditions of the operator of the system.

The balancing zone is the area given by a specified service area of the system operator. The Slovak Republic represents a balancing zone of the transportation system and a balancing zone of the distribution system from the point of view of physical balancing. The operator of the distribution system is responsible for physical balancing of the system and for settlement of deviations within the territory of the Slovak Republic.

If there are more operators of the distribution system covering a limited territory of the Slovak Republic, responsibility for the system balancing is given to an operator of the distribution system that is obliged to fulfil the tasks of the Gas Dispatch Center on a specified service area. Other operators of the distribution system will conclude an agreement with an operator of the distribution system that is obliged to fulfil tasks arising out of the role of the Gas Dispatch Center in a specific service area, on which it provides the interconnection of distribution systems and data exchange required for the balancing of the system.

The operator of the distribution system has a reserved part of storage capacity, mainly to cover daily deviations of gas market participants; costs for such capacity are included into the price for gas distribution.

If such allocated storage capacity is not sufficient for physical balancing of the distribution system, the operator of the distribution system will require from market participants to adjust the amount of compressed or extracted gas into the storage tank up to the level of storage capacity agreed. If such measure appears to be insufficient, an operator of the distribution system will call on a storage tank operator to provide free storage capacity required for the balancing of the distribution system. If technical conditions allow to do that, a storage tank operator will accept such requirement.

5.2.6 Dealing with emergency situations

The Energy Act has defined the emergency situation in the energy sector as a sudden shortage or threatening shortage of individual types of energy carriers that may cause reduction or interruption of energy supply or decommissioning of energy installations on a restricted service area for a period longer than 24 hours as a result of situations defined by the act.

Emergency situation on a restricted territory of the Slovak Republic or on part of a confined area is declared and cancelled by the Ministry of Economy by its decision.

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In the event of declaration of an emergency situation, holders of licenses for business activities in the energy industry are obliged to participate in eliminating reasons and implications of emergency situations and in restoration of electricity and gas supplies.

In the event of emergency situation every market participant is obliged to submit to restrictive measures, measures focused on prevention from any occurrence of emergency situations and measures focused on removal of emergency situation. Restrictive measures are put into existence in the following order :

- a) Limitation of energy consumption by consumers that operate manufacturing facilities or provide services that are energy intensive,
- b) Interruption of energy supplies to consumers under item a),
- c) Limitation and interruption of energy supply to other consumers, except for households,
- d) Limitation and interruption of energy supplies for facilities of services provided for public interest,
- e) Limitation and interruption of energy supply to residential electricity consumers and residential gas consumers.

6. *Public Service Issues*

6.1 *General economic interest under valid legislation*

Under Slovak legislation (the Energy Act) general economic interest in the energy sector means especially the following:

- providing safety of the system, including regularity, quality and price of electricity and gas supplies, the environmental protection and energy efficiency,
- giving priority to supply of electricity generated from renewable energy sources and local coal,
- using renewable energy sources, combined heat and power production and local coal for electricity generation,
- fulfilling commitments arising out of agreements that are binding for the Slovak Republic,
- fulfilling commitments arising out of the membership of the Slovak Republic in international organisations,
- providing the environmental protection.

General economic interest in the energy sector is approved by the Government of the Slovak Republic based on the proposal for the Ministry of Economy of the Slovak Republic.

The Ministry may in general economic interest impose the electricity generator, the operator of the system, the electricity and gas supplier and storage operator an obligation to provide for :

- safety, regularity, quality and price of electricity and gas supply, and energy efficiency of electricity supplies,
- the environmental protection,
- utilisation of renewable energy sources, combined heat and power production and local coal for electricity generation,
- priority access, connection, transmission, distribution and supply of electricity generated from renewable energy sources and local coal,
- protection of residential electricity and gas consumers,
- ancillary services required for ensuring operational reliability of the system and balancing services in the facilities used for generating electricity with total installed electric output higher than 75 MW.

The obligations imposed in general economic interest have to be clear, enforceable, verifiable, transparent, non-discriminatory and has to ensure the equal access of electricity companies and gas companies in EU member states to final consumers located on a specific service area.

6.2 *General economic interest – obligations imposed by the Ministry of Economy*

In order to secure safety and reliability of performance of the electricity system of the Slovak Republic the Slovak Government approved on 4 May 2005 general economic interest in utilisation of domestic coal for electricity generation. Such general economic interest may be applied in maintaining a share in electricity generated from domestic coal at the level of 15 % in total domestic electricity consumption as maximum. In reality, such share may achieve up to 8% as maximum in relation to domestic electricity generation. The Government of the Slovak Republic at the same time commissioned the vice-chairman and the economic minister to impose, in general economic interest, an obligation on participants of the electricity market to provide electricity generation from domestic coal.

At present utilisation of this energy source is bound to the electricity generator that along with utilisation of thermal power plants also provides ancillary services, production of electricity for regulation purposes and heat supply for district heating system. An analysis on management of the electricity system of the Slovak Republic completed for the first quarter of the year 2005 proved that it is necessary in regulation to also dispatch power units of the Novaky power plant, when providing ancillary services. Following the shutdown of the NPP V 1 Jaslovske Bohunice the need for operation of a thermal power plant Novaky will be even more substantial due to safety and reliability of the electricity system.

Deposits of brown coal are the only significant and perspective fuel source in Slovakia. Domestic brown coal is burnt predominantly in a SE-operated thermal power plant Novaky that was constructed right in relation to local fuel resources. Consumption of brown coal in the Novaky power plant ranged at a level of 2400 kt over the past years. A share of electricity generation from brown coal in total production in the SE company was 7% in the year 2004.

On 18 May 2005 the Ministry of Economy issued the following decisions in general economic interest:

- for the SE company, to generate electricity from domestic coal at the amount of 1651 GWh in 2005 and supply electricity generated from domestic coal at the amount of 1411 GWh in 2005; at the same time, to maintain the share of electricity generated from domestic coal at the amount not exceeding 15 % in total domestic electricity generation and keep the price of electricity generated from domestic coal, as determined by the Regulatory Office for Network Industries.
- For the SEPS company, to give priority access to generating stations using local coal for electricity generation and to provide priority access and transmission to electricity generated from domestic coal,
- For the Western Slovak Distribution Company (ZSE), the Eastern Slovak Distribution Company (SSE) and the Eastern Slovak Distribution Company (VSE), to give priority access to generating station using local coal for electricity generation, to give priority access and

distribution to electricity generated from domestic coal and preferentially supply electricity generated from domestic coal in the set volume.

6.3 *Universal service*

The Energy Act defines universal service as the service that is provided to the electricity consumers in household by the final electricity supplier for households and which also includes electricity distribution and supply. A residential electricity consumer has a right to conclude the electricity supply agreement with the final electricity supplier for household that provides universal service under the conditions set out by law, complying with the conditions defined in Annex to the Directive 2003/54/EC. The final electricity supplier to household that provide universal service for the electricity consumer in household is obliged to ensure a connection of electricity consumers in households with the system under the conditions defined by the Office, while keeping the price or methodology used for its setting determined by the Office.

Combined heat and power production (CHP)

The electricity generator that operates a generating station based on combined heat and power production with a total installed electric capacity up to 5 MW has a priority right for electricity transmission or distribution, if technical conditions of the system allow to do that; this does not apply to tie-ins.

The priority right for transmission or distribution of electricity produced in CHP with a total installed electric capacity over 5 MW is related only to electricity generation that originates at the time of heat production for the purpose of heat supplies to natural or legal persons and supplies for technological purposes.

Electricity generation from renewable energy sources

The generator generating electricity from renewable energy sources has the priority right for electricity transmission, distribution and supply provided that a generating station used for generation of electricity from renewable energy sources complies with technical and business conditions. The preferential right for electricity transmission does not relate to electricity transmission through tie-ins.

Gas industry

As regards the gas industry, if several holders of license granting the right for gas supply to final gas consumers are located on a specific service area, the Ministry through its decision will determine a holder of a license for gas supply to consumers that are not eligible gas consumers.