



Position Paper of • EZ, a. s. on the Preliminary Report of DG COMP

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• EZ, a. s., April 2006



I. Introduction

In 2006, the European Commission will conduct an investigation into the energy sector and will focus on the existing barriers to creating a fully functioning European market in electricity and gas.

On 16 February 2006, DG COMP published a Preliminary Report on the results of the Energy Sector Inquiry. The Report is compiled on the basis of the comments of actors in the energy sectors and customers. It summarizes all of the results collected to date relating to the serious dysfunction of the EU energy market. The DG COMP's Report finds problems in particular in the following areas: market concentration, vertical foreclosure, insufficient market integration, transparency, price issues.

Interested parties may submit comments on the Preliminary Report during the two-month consultation period, which ends on 30 April 2006.

At the time when DG COMP was collecting data for the Preliminary Report by means of the questionnaire, • EZ, a. s. was preparing to undergo fundamental procedural and structural changes, which are not reflected in the Report. Therefore, • EZ, a. s. has covered in its Position Paper all the new circumstances and fundamental changes, which occurred in the second half of 2005 and the first months of 2006. Some information contained in DG COMP's Preliminary Report thus does not reflect the current situation in the Czech Republic.

The Czech Republic fulfilled the requirements of the second Directives more than a year in advance. As of 1 January 2006 the market is fully liberalized. In the case of • EZ, a. s., this represented a key period during which the company was significantly restructured in order to implement EU and national legislation.

The information contained in the Position Paper of the • EZ Group is a response to certain passages of the Preliminary Report. Given that many of DG COMP's statements are based on data that is no longer valid today, we have included in the Annex those parts of the questionnaires that have undergone substantial changes in the last few months.



II. Objections of DG COMP Against • EZ/the Czech Republic

1) Vertical integration between generation and retail activities

Preliminary Report, p. 138, para. 431:

The impact of vertical integration on the net positions can be demonstrated by the Czech example. In 2003 the Czech incumbent, • EZ, acquired control over five of the seven retail companies active at the time. The integration of long (• EZ) and short positions (retail companies) within the same group led to a 40-50% drop in the net positions. On the other hand, the widely held belief by market participants that the drop in wholesale market liquidity in the United Kingdom is related to an increased vertical integration could not be confirmed by this analysis.

Position of • EZ, a. s.:

The Czech Republic fully implemented the provisions of the second Directives relating to electricity and gas by amending the Act No. 670/2004 Coll., the Energy Act, as subsequently amended. The • EZ Group belongs among the most important economic groups in the Czech Republic and, at the same time, also numbers among the 10 largest energy groups in Europe both in terms of installed capacity and the number of customers.

The • EZ Group exercises its right to make use of commercial opportunities and to increase the value of its shareholders' assets within the limits defined by European and national legislation. By its actions, it fully supports the creation of a competitive environment on the future common market for electricity in the European Union.

In its business activities, the • EZ Group focuses on the Central and South Eastern Europe regions where it is trying to secure a leading position on the electricity market. Following its expansion with three Bulgarian and one Romanian distribution companies, the • EZ Group has become a group with an international presence. It is contributing to stabilizing and integrating the European region through its investments and acquisitions in Poland, Romania, Bulgaria and the other countries of Central and South Eastern Europe. In February 2006, the market capitalization of • EZ, a. s., exceeded for the first time the benchmark of 10 billion dollars, thus placing it amongst the largest international actors.

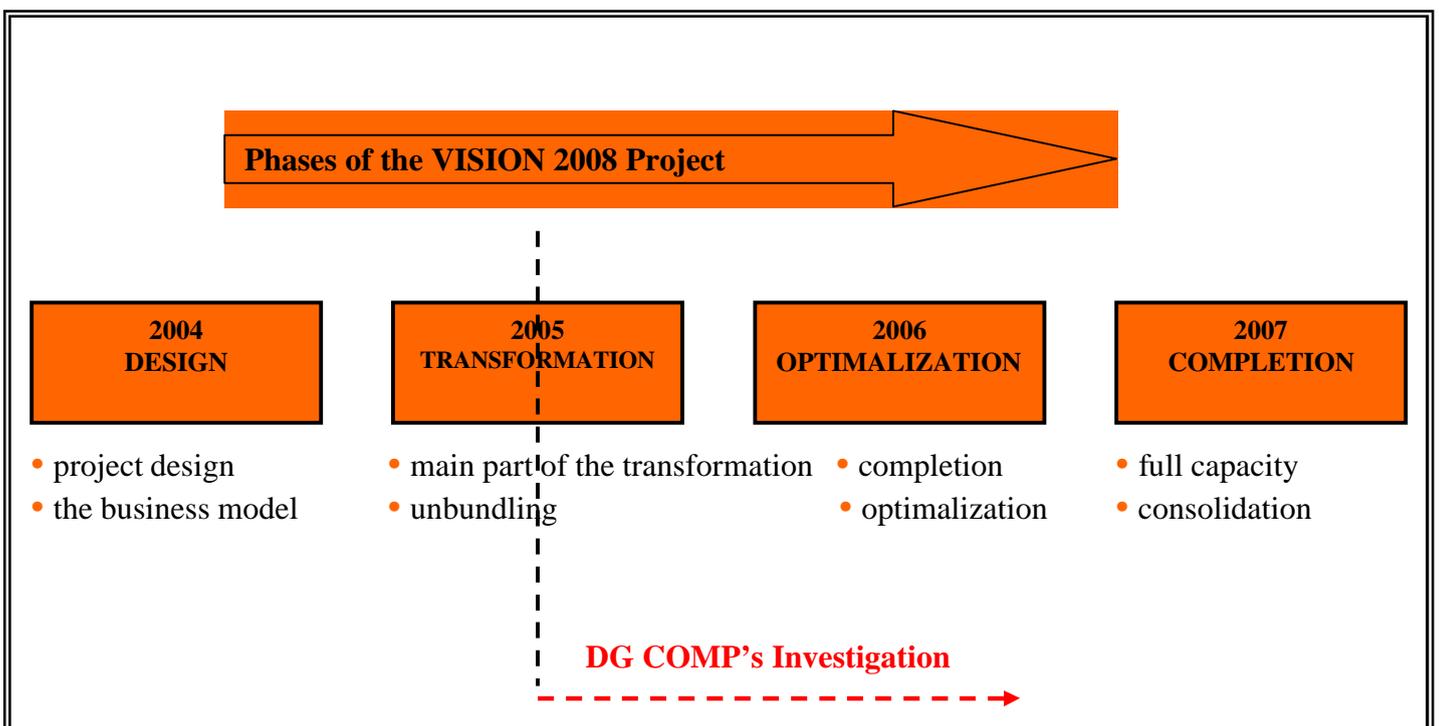
The • EZ Group is greatly changing under the "VISION 2008" restructuring process currently underway, which is essentially aimed at fulfilling the requirements of the second EC Directives on unbundling and also on increasing the efficient functioning of the Group and its more flexible management.

The Project VISION 2008 de facto is a fulfillment of the requirements of the European Union and, as of 1 January 2006, through its implementation the generation, sale and distribution activities within the • EZ Group energy chain were separated on a legal, organizational, accounting, managerial and information basis.



At the time when DG COMP was collecting by means of its questionnaires the data for the Preliminary Report, the • EZ Group was preparing to undergo fundamental procedural and structural changes, which are not reflected in the Report. • EZ, a. s., as the parent company of the • EZ Group and the entity answering DG COMP's questions on a consolidated basis on behalf of the • EZ Group, has therefore included in its current Position Paper all of the new circumstances, which occurred in the second half of 2005 and the first months of 2006.

From the point of view of • EZ, a. s., the second half of 2005 was a key period during which the company was fundamentally changed in order to comply with EU and national legislation.





a) Distribution

In 2003, the •EZ Group expanded through the purchase at market prices of ownership interests in regional energy companies (“REJSC”). Thus, the •EZ Group was formed whereby •EZ, a. s., acquired in this transaction a majority ownership interest in the companies Severo•eská Energetika (S•E), Severomoravská Energetika (SME), St•edo•eská Energetika (STE), Východo•eská Energetika (V•E) and Západo•eská Energetika (Z•E). The regional energy companies that were integrated into •EZ Group during the energy integration process also provided, apart from commercial services, the distribution of electricity to the final customers. As a result, the •EZ Group found itself in 2003 in the position of a vertically integrated group of companies, which did not comply with the requirements of European and national legislation on unbundling.

Therefore, •EZ, a. s. implemented in 2004, on the basis of European and national legislation in force, a plan for the new structure for the •EZ Group that fulfils all of the requirements of EU and national legislation not just in their letter but also in their spirit.

The actual process of transforming the •EZ Group started in the beginning of 2005 and led to fundamental structural changes. The implementation of European Parliament and Council Directive 2003/54/EC of 26 June 2003 concerning common rules for the internal market in electricity and gas (and within the meaning of Act No. 458/2000 Coll.) led to the establishment of the independent distribution company •EZ Distribuce, a. s., as the distribution system operator, which was formed by the merger of the distribution businesses of each of the REJSC.

•EZ Distribuce, a. s., is a company, which within the meaning of the above-mentioned Directive and the Energy Act acts as the operator of the distribution system on the cadastrally defined territory and which holds the license for electricity distribution. The company operates on the cadastral territories on which the former REJSC companies (SME, STE, S•E, V•E, Z•E) used to operate. The main objective of the company is to distribute electricity to natural persons and legal entities and to continuously increase the quality and reliability of its supply. The structure and market functioning of the •EZ Group to date fully complies with the requirements provided for in Chapter V (Articles 13 to 17 – Distribution System Operation) and Chapter VI (Articles 18 to 19 – Unbundling and Transparency of Accounts) of Directive 2003/54/EC. The •EZ Group has thus fulfilled the requirements of national legislation for unbundling more than a year ahead of time:

Article 15 of Directive 2003/54/EC (the legal unbundling of the distribution system) provides that:

1. Where the distribution system operator is part of a vertically integrated undertaking, it shall be independent at least in terms of its legal form, organization and decision making from other activities not relating to distribution. These rules shall not create an obligation to separate the ownership of assets of the distribution system operator from the vertically integrated undertaking.

Position of •EZ: •EZ Distribuce, a. s., is an entity that is legally independent of the parent company. The company has its own statutory bodies, which are fully independent when



taking decisions on operations without the parent company influencing the decisions taken by the statutory bodies and the daily operations of the company.

2. In addition to the requirements of paragraph 1, where the distribution system operator is part of a vertically integrated undertaking, it shall be independent in terms of its organisation and decision-making from the other activities not related to distribution. In order to achieve this, the following minimum criteria shall apply:

(a) those persons responsible for the management of the distribution system operator may not participate in company structures of the integrated electricity undertaking responsible, directly or indirectly, for the day-to-day operation of the generation, transmission or supply of electricity;

Position of • EZ: • EZ Distribuce, a. s. has its own independent management structure and Board of Directors. The persons involved in the activities of the statutory bodies of the company • EZ Distribuce, a. s., nor those persons in the management structures do not participate at the same time in the statutory body or organizational structure of the parent company • EZ, a. s. The Board of Directors of • EZ, a. s. has no influence on the decision-making, operations and structure of • EZ Distribuce, a. s.

(b) appropriate measures must be taken to ensure that the professional interests of the persons responsible for the management of the distribution system operator are taken into account in a manner that ensures that they are capable of acting independently;

Position of • EZ: See the information outlined above in point a). The Board of Directors of • EZ Distribuce, a. s. does not own any ownership interests in the parent company.

(c) the distribution system operator shall have effective decision-making rights, independent from the integrated electricity undertaking, with respect to assets necessary to operate, maintain or develop the network. This should not prevent the existence of appropriate coordination mechanisms to ensure that the economic and management supervision rights of the parent company in respect of return on assets, regulated indirectly in accordance with Article 23(2), in a subsidiary are protected. In particular, this shall enable the parent company to approve the annual financial plan, or any equivalent instrument, of the distribution system operator and to set global limits on the levels of indebtedness of its subsidiary. It shall not permit the parent company to give instructions regarding day-to-day operations, nor with respect to individual decisions concerning the construction or upgrading of distribution lines, that do not exceed the terms of the approved financial plan, or any equivalent instrument.

Position of • EZ: • EZ Distribuce, a. s. has independent capacity mechanisms and its own assets required for operating, maintaining and developing the distribution system. The company • EZ Distribuce, a. s. is subject to sectoral regulation by the Energetický Regulační Úřad (ERÚ), the national regulatory authority. The • EZ Distribuce, a. s., Board of Directors develops the proposal of the financial plan which is approved by the • EZ Distribuce, a. s., Advisory Board subsequently. Finally, the financial plan proposal is submitted to ERÚ to be considered and approved.



(d) the distribution system operator shall establish a compliance programme, which sets out measures taken to ensure that discriminatory conduct is excluded, and ensure that observance of it is adequately monitored. The programme shall set out the specific obligations of employees to meet this objective. An annual report, setting out the measures taken, shall be submitted by the person or body responsible for monitoring the compliance programme to the regulatory authority referred to in Article 23(1) and published.

Position of • EZ: • EZ Distribuce, a. s., took over the compliance programs from each REJSC from which it was formed that comply with the provisions of Act No. 458/2000 Coll., on the business conditions and public administration of the energy sectors and on the amendment of certain acts (the Energy Act). Currently, the company • EZ Distribuce, a. s. is preparing a uniform Compliance Program that will replace the existing five programs and which is being prepared in full cooperation with the national regulatory authority and which also fully complies with the requirements of EU law. On the basis of the existing program in effect, the company • EZ Distribuce, a. s. fully respects the principles of non-discriminatory conduct and acts towards all the users of its services in a non-discriminatory manner, i.e. in the same way. It does not differentiate between users or categories of users, in particular to the benefit of its subsidiaries or shareholders. • EZ Distribuce, a. s., protects the commercially sensitive information of a confidential nature which it obtains during its activities. Actually, • EZ Distribuce, a. s., is in the process of updating the current Compliance programme.

Article 15 is implemented in the national legislation of the Czech Republic in Article 25a of Act No. 458/2000 Coll., on the business conditions and public administration of the energy sectors and on the amendment of certain acts, as amended by Act No. 670/2004 Coll. (the Energy Act). The practical implementation of Article 15 was carried out as of 1 January 2006 in the Czech Republic in accordance with national legislation in effect when the last two distribution system operators in the Czech Republic were legally unbundled.



Article 18 of Directive 2003/54/EC (right of access to accounts) provides that:

1. Member States or any competent authority they designate, including the regulatory authorities referred to in Article 23, shall, insofar as necessary to carry out their functions, have right of access to the accounts of electricity undertakings as set out in Article 19, where this is necessary for them to carry out their functions.

Position of • EZ: The obligation to permit right of access to Member States or the authorities designated by them, including regulatory bodies, provided for under Directive 2003/54/EC has been transposed into the national legislation of the Czech Republic. The • EZ Group acts in accordance with the EU and national legislation in effect and provides full unlimited cooperation in allowing access to the accounts and the provision of information to the institutions specified under the law.

2. Member States or any competent authority they designate, including the regulatory authorities referred to in Article 23, shall preserve the confidentiality of commercially sensitive information. Member States may provide for the disclosure of such information where this is necessary in order for the competent authorities to carry out their functions.

Position of • EZ: At the national level, the • EZ Group is subject to the provisions of the Energy Act and the Commercial Code with respect to the protection of confidential information. The protection of confidential information is carried out within the company by setting specific procedures for handling confidential information issued under the company's internal regulations and, last but not least, this system is defined at the level of the distribution system operator in the Compliance Program of • EZ Distribuce, a. s.

Article 19 of Directive 2003/54/EC (unbundling of accounts and its transparency) provides that:

1. Member States shall take the necessary steps to ensure that the accounts of electricity undertakings are kept in accordance with paragraphs 2 to 3.

Position of • EZ: • EZ Distribuce, a. s. is an independent legal entity and as such is obligated to keep accounting records of its activities and annual accounts. The company maintains its accounting in the SAP R4 system in a separate accounting domain for • EZ Distribuce, a. s. At the same time, the internal accounting domain runs on the independent expense domain of • EZ Distribuce, a. s., which corresponds to the accounting domain of • EZ Distribuce, a. s. • EZ Distribuce, a. s., and • EZ, a. s., accounts are published and audited separately.

2. Electricity undertakings, whatever their system of ownership or legal form, shall draw up, submit to audit and publish their annual accounts in accordance with the rules of national law concerning the annual accounts of limited liability companies adopted pursuant to the



Fourth Council Directive 78/660/EC of 25 July 1978 based on Article 44(2)(g)(12) of the Treaty on the annual accounts of certain types of companies(13).

Position of • EZ: The • EZ Group maintains regular annual accounts of its activities. The results are reported on a consolidated basis for the whole • EZ Group with breakdowns of the economic performance of each company within the • EZ Group. The economic results of the company • EZ Distribuce, a s. as an independent distribution system operator is reported separately.

The financial results that reflect the level of the Group companies business activities for the previous calendar year are always audited by an independent auditing company (Ernst & Young). The financial results are published in the form of an annual report and are notified to the Komise Pro Cenné Papíry (the Czech Securities Commission). The annual report is accessible both in printed as well as in electronic form.

3. Undertakings which are not legally obliged to publish their annual accounts shall keep a copy of these at the disposal of the public in their head office.

Position of • EZ: • EZ, a s., and • EZ Distribuce, a s., have a legal obligation to publish their annual accounts.

4. Electricity undertakings shall, in their internal accounting, keep separate accounts for each of their transmission and distribution activities as they would be required to do if the activities in question were carried out by separate undertakings, with a view to avoiding discrimination, cross subsidisation and distortion of competition. They shall also keep accounts, which may be consolidated, for other electricity activities not relating to transmission or distribution. Until 1 July 2007, they shall keep separate accounts for supply activities for eligible customers and supply activities for non-eligible customers. Revenue from ownership of the transmission/distribution system shall be specified in the accounts. Where appropriate, they shall keep consolidated accounts for other, non-electricity activities. The internal accounts shall include a balance sheet and a profit and loss account for each activity.

Position of • EZ: There is no company in the • EZ Group that is subject to unbundling requirements which is carrying out distribution activities at the same time as generation or commercial activities. Maintaining separate accounts for distribution activities from the other activities of the • EZ Group is already ensured by means of the character of the company • EZ Distribuce, a s., which is an independent legal entity whose distribution activities are subject to regulation. The company • EZ Distribuce, a s., maintains its accounting in the separate FIS module, which is independent of the other modules for the other activities of the • EZ Group and which in its structure does not permit access by the parent company • EZ, a s. to the accounts of the company • EZ Distribuce, a s.

5. The audit referred to in paragraph 2 shall, in particular, verify that the obligation to avoid discrimination and cross-subsidies referred to in paragraph 3, is respected.



Position of • EZ: Within the • EZ Group, standard and transparent procedures as used as required under the law and the business conditions. • EZ Distribution, a. s., treats all entities that it comes into contact with both in ownership or commercial relations in the same manner and there is no discrimination nor does it subsidize the entities. The transparency of its conduct is reflected in the report on the interconnection of companies, which forms a part of the annual reports. The annual reports are audited by an external auditor.

Article 19 is implemented in the national legislation of the Czech Republic through the fulfillment of Articles 24a and 25a, and is further defined in Article 20 of Act No. 458/2000 Coll., on the business conditions and public administration of the energy sectors and on the amendment of certain acts (the Energy Act).

By separating distribution from the generation and sale of electricity, • EZ, a. s. has fully implemented not just in letter but also in spirit the European Parliament and Council Directive 2003/54/EC of 26 June 2003 concerning the common rules for the internal market in electricity and repealing Directive 1996/92/EC. Distribution is, from a legal, organizational, management and accounting basis, fully separated from the generation and sale of electricity.

The integration of the generation and sale within the • EZ Group is carried out in accordance with the European and national competition rules, which was confirmed by the approval of the transaction by the antitrust authority.



b) Transmission

Until April 2003, the company • EZ, a.s. was the one hundred percent owner of the company • EPS, the Czech distribution system operator. Within the process of separating the regulated activities, a 66% share in this company was sold to the Czech state and state-owned entities and the remaining 34 % share was sold off to the Czech state in the beginning of September 2004.

Article 10 of the Directive 2003/54/EC is transposed into national legislation in the Czech Republic in Article 24a of Act No. 458/2000 Coll., on the business conditions and public administration of the energy sectors and on the amendment of certain acts (the Energy Act).

The actual practical carrying out of Article 10 was implemented even before the amendment of Act No. 458/2000 Coll., on the business conditions and public administration of the energy sectors and on the amendments of certain acts (the Energy Act) came into effect and which implemented this Article into the national legislation of the Czech Republic.

• EZ, a. s., does not currently own any ownership interests in the transmission system in the Czech Republic.



2) Long-term power purchase agreements

Preliminary Report, p. 143, para 444:

(444) Potentially traded volumes appear to be less affected by the long-term contracts signed in countries like the Czech Republic or United Kingdom. However, in the former case, such a conclusion may be partly misleading. The Czech PPAs were concluded between the vertically integrated incumbent and independent generators, and their impact was further upstream. Consequently, although these contracts do not immediately affect the volume of electricity that needs to be traded they do affect the number and degree of parties with long positions and add to the already high degree of concentration at the generation level, as is shown by Figure 58.

Position of • EZ: The volume of electricity relating to the contractual integration has been steadily decreasing since 2005 (see graph no. 1). In the Czech Republic there are numerous players both in generation and in the wholesale market (approximately 10 independent traders – suppliers), thus customers have the opportunity to choose from a greater variety of offers.

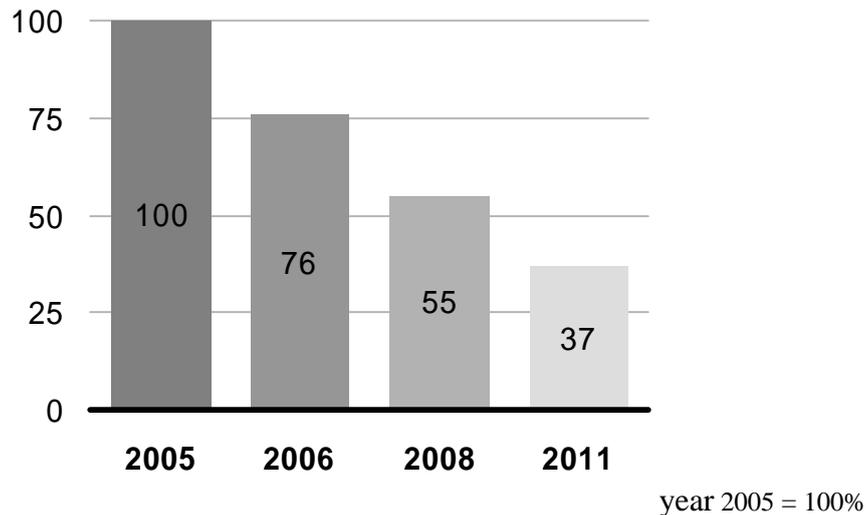
• EZ, a. s., offers generated electricity in an annual auction for wholesale market prices to all its commercial partners without any volume or price discrimination. The sale of a virtual • EZ electricity plant with a total capacity of 400 MW helps expand alternative offers. This capacity is sold in blocks of 50 MW. The electricity wholesale market functions on the basis of market prices, which are amongst the lowest in the EU.

Currently the power purchase agreements (PPAs) of the • EZ Group include a electricity volume of 4219 GWh (see graph no. 2), which represents about 7.1 % of the total supply of • EZ, a. s., whereby it is questionable whether contracts concluded for an indefinite period of time with the possibility of termination by notice may in fact be considered to be long-term as these contracts must always be extended for the following calendar year by means of an amendment. If such an amendment to the contract is not concluded, then the contract becomes invalid for the given year and supply is not provided on the basis of the contract. It is important to note that the initiator of these PPAs have always been the counterparties of • EZ, a. s.

It is also necessary to mention the fact that at least half of the contractual obligations passed on to the • EZ Group from the former REJSC (see p. 5) and thus were concluded before the unbundling which occurred in 2005.



Decreasing the Contractual Integration of • EZ (%)



• EZ	GWh	Term of Contract	Notes
SUAS1	1500	2007	fixed diagram, fixed price, concluded on an annual basis
SUAS2	500	Indefinite period of time*	fixed diagram, fixed price, concluded on an annual basis
ECKG	709	Up to 2020	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ
T UL	460	Up to 30. 6. 2008	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ
PE	400	Up to 2010	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ
PT	410	Up to 2010	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ + flexibility for • EZ
P•ibram	110	Up to 2016	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ
Aliachem	90	Indefinite period of time**	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ + flexibility for • EZ
Harpen	40	Up to 2008	agreed annual volume of supply, the supply is negotiated by the generator, transfer of liability for any variation to • EZ
TOTAL	4219		

* Nine-month termination notice period

** Six-month termination notice period



3) Vertical integration between supply and distribution system network

Preliminary Report, p. 148, para. 466:

(466) German, Polish and Czech respondents also report cases where network related charges were increased when a customer switched or where, which amounts to the same, customers were not invoiced the entire network charges due as long as the customer was supplied by the supply company affiliated to the DSO.

The procedures of the distribution system operators (the holders of licenses for distribution) for securing the access of customers to the distribution network are defined in the Czech Republic in the following legislation:

- Act No. 458/2000 Coll., on the business conditions and public administration of the energy sectors and on the amendments of certain acts (the Energy Act),
- Decree No. 541/2005 Coll., on the rules of the electricity market, the principles of forming prices for the activities of the operators of electricity markets and the implementation of certain other provisions of the Energy Act,
- Price Decision of the ERÚ No. 14/2005 of 30 November 2005, which sets the prices for electricity and the services associated with it.

All regulated prices provided for in this Price Decision of the Energy Regulatory Authority (ERÚ) are fixed prices, i.e. the distribution system operator may not adjust the prices according to the customers and it must charge the same prices to all customers – see Price Decision of the ERÚ No. 15/2005 of 30 November, which sets the fixed prices for the distribution of electricity to the final customers in low voltage grids.

The distribution system operator • EZ Distribuce, a. s., which is a member of the • EZ Group, is as of 1 January 2006 independent of the companies of the • EZ Group licensed within the meaning of Act No. 670/2004 Coll., i.e. the holders of the license to trade in electricity and to generate electricity. To this date the legal unbundling within the • EZ Group was carried out in accordance with Article 25a of Act No. 670/2004 Coll., on the business conditions and public administration of the energy sectors and the amendments of certain acts (the Energy Act).

The company • EZ Distribuce, a. s., acts in accordance with the above-mentioned legislation, which governs the securing of distribution and the payments relating to it without differentiating who is the supplier of the electricity as a commodity for the final customer on the basis of a license issued for trading in electricity or a license for the generation of electricity.



The procedures for the conduct of the company • EZ Distribuce, a. s., are defined in the adopted and published Compliance program, which the holder of the license for distribution is required to prepare and publish pursuant to Article 25a (3) of Act No. 670/2004 Coll. (the Energy Act).

The cases when the legislation in effect permits the distribution system operator to agree otherwise with the customer (see the Price Decision of the ERÚ No. 14/2005 of 30 November 2005, which sets the prices for electricity and the services associated with it) are clearly defined within the company • EZ Distribuce, a. s., including a description of the cases when the exemption may be applied. The rules for granting exemptions are known to the contractual partners of the company • EZ Distribuce, a. s.

Given the above, it is clear that the company • EZ Distribuce, a. s., acts towards all its customers and contractual partners in the same way without discrimination (all customers are provided with the distribution tariff without any discrimination practices and the tariff is regulated by ERÚ - Price Decision of ERÚ mentioned above), nor does it give preferential treatment to the holders of licenses for trading in electricity and the generation of electricity within the • EZ Group.



4) Comparison of net positions – vertical integration between generation and retail

Preliminary Report, p. 137, para. 428:

(428) To demonstrate the real extent of vertical integration between generation and retail per Member State, the figures on net positions have been compared with the total size of respective national markets (see Figure 52). The inquiry reveals that in countries such as the Czech Republic, Netherlands, Germany and United Kingdom, the positions that need to be cleared by trading electricity represents 25-40% of the market. In Belgium and France, this percentage is substantially lower.

Within the project VISION 2008 (see p. 3-4) generation and trading on the wholesale market were separated from the supply to final customers in the same manner as unbundling the distribution from the other licensed activities.

The parts of the business relating to sales in electricity were separated from the former REJSC (see p. 5) and the part of the business aimed at sales to final customers was separated from the parent company • EZ, a. s. These parts were transferred to a separate company, • EZ Prodej, s.r.o., which is fully independent from a legal, organizational, managerial, accounting and information basis from • EZ, a. s.

As a result, • EZ, a. s. is as of 1 January 2006 a generator of electricity and a trader of electricity which operates solely on the wholesale electricity market.

Share of • EZ, a. s. on Net Generation in the Czech Republic

Share of • EZ, a. s. on Net Generation in the Czech Republic	
2004	2005
72.86 %	71.74 %

Share of • EZ, a. s. on the Net Exports of the Czech Republic

Share of • EZ, a. s. on the Net Exports of the Czech Republic	
2004	2005
68.81 %	56.31 %



Share of • EZ, a. s. on the Domestic Wholesale Market in the Czech Republic

Share of • EZ, a. s. on the Wholesale Market in the Czech Republic	
2004	2005
74.20 %	75.19 %

The company • EZ Prodej, s.r.o. is an independent legal entity and a holder of the license to trade in electricity, that purchases electricity on the wholesale market and supplies electricity solely to end customers. It is also the entity responsible for accounting for any variations. The company • EZ Prodej, s.r.o. has independent statutory bodies and is independent on the decision-making of the parent company • EZ, a. s.

The calculating method may be used to retroactively determine the share of the sale of electricity to final customers of the company • EZ Prodej, s.r.o. The total electricity supplied by the former suppliers that were incorporated into • EZ Prodej, s.r.o. for the final consumption amounted to:

Total Electricity for Final Consumption	
2004	2005
56.95 %	53.42 %

Through the effects of active competition, the company • EZ Prodej, s.r.o. reports for 2006 the following changes in the structure of final customers compared to 2005:

Changes in the Structure of Final Customers for 2006		
Loss of Customers	New Customers	Net Loss
1 975 GWh / year	300 GWh / year	1 675 GWh / year
2 553 End-Users	350 End-Users	2 203 End-Users

Given the above, it is clear that the company • EZ Prodej, s.r.o. is a independent company whose activities in the supply of electricity to final customers is separated from the activities of the parent company • EZ, a. s., i.e. the generation of electricity and trade in electricity on the wholesale market are fully separated.



5) Transparency

Preliminary Report, p. 169, para. 525:

(525) Despite the widespread recognition of the need for transparency in order for wholesale markets to develop, the sector inquiry has provided evidence that the level of transparency in the wholesale markets in the EU is not satisfactory. It is also widely divergent. In the context of the sector inquiry national regulators were asked whether adequate information was made publicly available in their Member State on 49 precise issues (...).

According to data available from ERÚ, in the Czech Republic is published for 17 issues out of 49 issues mentioned information (this information was requested in the “Questionnaire for National Regulators” issued in summer last year).

The exact list of issues for which information is published in the Czech Republic is as follows:

- Planned line maintenance Location;
- Planned line maintenance Duration;
- Unplanned line outages Location;
- Unplanned line outages Duration;
- Net Transfer Capacity (NTC);
- Impact of planned works on the network on NTC;
- Available Transfer Capacity (ATC);
- Capacity requested by market actors;
- Price per time slot;
- Total nominated capacity;
- Year-Ahead forecasted load;
- Demand for balancing power;
- System balancing status;
- Projected new-built of generation capacity Location;
- Projected new-built of generation capacity Capacity;
- Installed generation capacity Location;
- Installed generation capacity Capacity.



III. Additional Information of the • EZ Group on the Preliminary Report

1) Full liberalization of the electricity market in the Czech Republic

In the Czech Republic, the electricity market is gradually being opened up since 2002. The share of the consumption of all entitled customers in 2005 amounted to approximately 74 % of the annual total net amount of electricity consumption in the Czech Republic. **As of 1 January 2006 in the Czech Republic, all final customers are “entitled customers” and thus the electricity market has become fully liberalized.**

As of the same date, the • EZ Group became a group of companies, which fulfilled the requirements of EU and national legislation in effect.

The generation of electricity, including its sale by the generator, is fully liberalized (electrical power and supporting services). The company • EZ, a. s., offers and sells electricity in a confirmed form in fifteen standardized products. A significant part of the electricity is sold on the national wholesale market and a large portion of it is exported. After the French energy company EDF, it is the second largest exporter of electricity in Europe.

One of the commercial partners of • EZ, a. s. is the company • EZ Prodej, s.r.o. which purchases electricity on the wholesale market to cover the supply of electricity to final customers. The price of the electricity offered to final customers is set by the company • EZ Prodej, s.r.o. by using price models on the basis of expenses for acquiring the electrical power, operating expenses, margins and (in case of blanket electricity delivery contracts) expenses for grid services.

Czech final customers prefer bilateral annual contracts for the supply of electricity (90 %). The effects of the liberalization of the market and the actual development of the market is not only demonstrated by the number of customers who have switched to other suppliers, but also by the renegotiation of contracts between customers and their existing suppliers, i.e. adjusting these contracts to the market environment. All contracts on the supply to entitled customers were newly negotiated for the period beginning 1 January 2006. The majority of the contracts are annual and the customers have maximum freedom to switch to the competition (the import capacity of the cross border profiles provides large room for offers from foreign suppliers). The effects of the market, as reflected in the renegotiation of the contracts with the customers, has brought benefits to the customers in the form of more advantageous and flexible conditions for the supply of electricity.

The small number of switches to other suppliers reflects the high-quality of services provided by • EZ Prodej, s.r.o. The company • EZ Zákaznické služby, s.r.o. provides for the servicing of small customers, i.e. the operation of commercial offices as well as the customer service personnel. It also operates the unified call center of the • EZ Group, which intermediates all contractual matters (the conclusion of new contracts, claims for refunds and termination of contracts), billing, payments and thus maximizes the comfort of customers.

The price of electrical power for customers on the low tension level (the majority of customers connected) forms a smaller part of the total price which the customer pays; the



large part is composed of taxes, fees for transmission, distribution and the system services, fees for the operator's services, the support of renewable resources and the decentralization of generation. The current price of electricity reflects the amount of its tax burden of the European policy for a sustainable environment.

In an attempt to acquire new customers and to keep existing customers, suppliers have created new non-energetic products (i.e. products other electrical power). Among the most important belong energy audits (audits of the technical condition of appliances and the possibility of energy savings), preventative maintenance (audits of the customer's electrical distribution system), power-supply directors (equipment that automatically manages the customer's consumption in real time according to previously set criteria), heat pumps provided with a discount subsidized by the supplier, etc. The afore-mentioned products are usually provided by the supplier as a part of comprehensive offer together with energy products.

The customer has access to better financial and contractual conditions. In contrast to an unliberalized market, the payment terms have, to the big customer's benefit, been extended from the previous 14 days to 30 days (in some cases as much as 60) days. Customers have the option of setting the amount and frequency of deposits, they can create payment calendars and chose the method of payment, the option of paying in currencies other than the Czech crown and the possibility of making combined or separate payments for electrical power and distribution.

Customer service has also been significantly improved. Prior to liberalization, the REJSC (see p. 5) where not motivated to fulfill the needs of customers. Now the suppliers maintain contact with customers and actively ascertain what their problems and needs are and they try within their power to help resolve them.

The involvement of the State is preserved **in the transmission and distribution of electricity** - the prices for the transmission and distribution are set by the Energetický Regulační Úřad (ERÚ), which also sets the prices for system services. The transmission and distribution of electricity are deemed under the law to be activities in the public interest, therefore not only do certain rights apply to them, but also certain obligations.



2) Capacity of the transmission systems

The Czech market for electricity is the only market that is moving towards full integration with the neighboring national markets as it is the only place where coordinating auctions of cross-border profiles are being held between the transmission system operators.

From the perspective of the •EZ Group, one of the main problems that prevents the completion of a fully functioning internal market in electricity is the insufficient capacity of cross-border profiles. This involves both the inefficient allocation mechanisms for given profiles, as well as incompatible market rules on the other side of the profiles. Setting freely tradable capacities on the entrance and exit profiles of the systems is not carried out together, but always by the respective transmission system operator while taking into account the needs of the national market. The most obvious example are the profiles of Germany, where the transmission system operator sets the freely tradable capacity for cross-border profiles in accordance with forecasts for the generation of electricity in the wind mills on the territory of Germany. This method, in our opinion, violates the provisions of the Regulation (EC) No. 1228/2003 of the European Parliament and of the Council of 26 June 2003 on the conditions for the access to the network for cross-border exchanges in electricity.

With respect to export and import, or the transit of electricity, the size of the tradable capacity is limited by restrictions on the technical capacities of transmission lines in the cross-border profiles. The size of the free cross-border capacity depends on the actual physical flows of electricity and also on the commercial use of the capacity of a given profile. The networks of neighboring states are sufficiently connected going only into the Czech Republic – the import capacity of the cross-border profiles ensures a great capacity (up to 50 %) for competition by foreign suppliers. In contrast, the capacity of the cross-border profiles for export from the Czech Republic is overloaded. Without sufficient cross-border capacity flowing from the Czech Republic, effective connection with neighboring markets may not occur, nor a lowering of the prices.

Given the low level of transparency, it is not easy for the market participants to check if the capacity of the cross-border transmission lines offered in the auction is really that which is technically the most possible (as provided for under the European Parliament and Council Regulation (EC) No. 1228/2003 of 26 June 2003 on the conditions for the access to the network for cross-border exchanges in electricity).

In light of the non-transparent calculations of tradable capacity and impossibility of confirming the claims of the transmission system operators (TSOs) about the existence of the overloading of the systems or the interconnections between the systems, it is not clear whether the decrease in the cross-border capacity is technically justified and, as a result, if it is legitimate or if it is a motivated limitation of supply on a given market or an attempt to maximize profits from an auction. In some cases, it is possible due to the lack of transparency in setting the cross-border capacities, to consider it an intentional blocking of cross-border capacity.

In this context, the •EZ Group would like to point out some discrepancies in the text of the Preliminary Report. •EZ, a. s. considers Regulation No. 1228/2003 as a significant step



towards opening the European electricity market. However, to date the TSOs in response to the Regulation have not yet undertaken the necessary steps for its implementation, particularly in the area of publishing information on free capacity (there is still a lack of transparent, common rules for determining free capacity).

The •EZ Group greatly supports the idea of greater coordination among the individual transmission system operators within the whole EU. •EZ, a. s. welcomes the proposals contained in the Green Paper (A European Strategy for Sustainable, Competitive and Secure Energy) and supports the European Center for Energy Networks' proposal which could help launch closer cooperation among the network operators within a formal framework and also accelerate the process already started of integrating the electricity market with the other neighboring markets. **We clearly support the idea for more intense and formal coordination among the individual distribution system operators in the whole EU.**

We perceive the benefit of such an institution as being foremost in the possibility of obtaining all the important information relating to the transmission networks and, at the same time, of securing legitimate rights of the national operators for the confidential nature of such information. Such an institution would also significantly contribute to greater transparency of calculating the available capacity and the actual flow of electricity (foremost divided between technical and commercial capacity forecasts), to the full harmonization of the rules and methods of calculating available cross-border capacity, the removal of preemptive rights for long-term contracts, limiting the import of electricity which in the country of its origin benefits unauthorized financial benefits and other practices which today hinder the functioning of the internal market with electricity.

The coordination of TSOs at the European level (or in the region of Central Europe) would significantly contribute to the promotion of investment projects. The collection of funds from cross-border auctions and their allocation to priority projects aimed at strengthening and developing the transmission networks is a key factor for the further development of the EU energy market.



ANNEX 1: • EZ GROUP after implementation of the PROJECT VISION 2008

CEZ GROUP has completely unbundled wholesale, supply to end customers and distribution since 1. 1. 2006.

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ANNEX 2: Updated data about the • EZ Group with respect to the questionnaire of DG COMP from 2005

List:

Update of answers to Phase 1 for the subject 0300-S-CZ (Generators, Suppliers and Traders)

- Part III General Questions – Question No. 3
- Part III General Questions – Question No. 6
- Part III General Questions – Question No. 9
- Part III General Questions – Question No. 11
- Part III General Questions – Question No. 4.2.c)
- Part VI – Question No. 6.1
- Part VI – Question No. 6.2
- Part VI – Question No. 6.6

Update of answers to Phase 2 for the subject 0300-S-CZ (Generators, Suppliers and Traders)

No changes

Update of answers for the subject 0300-S-CZ (Distributor)

- Part IV - Questions about DSO – Question No. 12
- Part IV - Questions about DSO – Question No. 13
- Part IV - Questions about DSO – Question No. 14
- Part IV - Questions about DSO – Question No. 15
- Part IV - Questions about DSO – Question No. 16
- Part IV - Questions about DSO – Question No. 17
- Part IV - Questions about DSO – Question No. 18
- Part IV - Questions about DSO – Question No. 20
- Part IV - Questions about DSO – Question No. 21
- Part IV - Questions about DSO – Question No. 22
- Part IV - Questions about DSO – Question No. 24
- Part IV - Questions about DSO – Question No. 25



Update of answers to Phase 1 for the subject 0300-S-CZ (Generators, Suppliers and Traders)

Part III General Questions – Question No. 3

Please enter the allocated identification code, which is listed in the introductory letter to this request for information. Enter this identification code when the Commission confirms receipt of the question and refer to this number in any other subsequent dealings.

Answer:

0300-S-CZ (ID • EZ, a.s.)

• EZ, a. s., as the parent company, is updating and commenting on its structure and position on the market for the following newly established licensed companies, which are subsidiaries of • EZ, a. s.:

- EZ Prodej, s.r.o. – electricity trader
- EZ Obnovitelné Zdroje, s.r.o. – producer of electricity from renewable sources of energy

and companies, whose licenses to trade within the meaning of Act No. 670/2004 Coll. have expired and which are also subsidiaries of the • EZ Group:

1406-S-CZ (ID Severo•eská Energetika, a. s.)

1408-S-CZ (ID Severomoravská Energetika, a. s.)

1528-S-CZ (ID St•edo•eská Energetická, a. s.)

Východo•eská Energetika, a. s. – no request was made

Západo•eská Energetika, a. s. – no request was made

We are answering on behalf of the • EZ Group, i.e. on behalf of • EZ, a. s. and, at the same time, on behalf of all licensed energy companies of the • EZ Group within the meaning of Act No. 670/2004 Coll. (the Energy Act).

Part III General Questions – Question No. 6

Does your company belong to a larger group of companies or undertaking?

Answer:

Yes, it belongs to the • EZ Group where • EZ, a. s. is the parent company. The company • EZ Prodej, s.r.o., which is a supplier of electricity to final customers, has newly joined the Group. The former distribution system operators and the former suppliers of electricity to final customers (Severo•eská Energetika, a. s., Severomoravská Energetika, a. s., St•edo•eská Energetická, a. s., Východo•eská Energetika, a. s. and Západo•eská Energetika, a. s.) no longer are licensed for the distribution of electricity and trade in electricity within the meaning of Act No. 670/2004 Coll., as by merging their distribution businesses one distribution system operator was created on all five defined territories of • EZ Distribuce, a. s. and through the integration of the separated parts of their business one single supplier of energy to final customers was created in the Czech Republic - • EZ Prodej, s.r.o.



Part III General Questions – Question No. 9

Please provide a list of all the legal entities with activities in the gas and electricity sectors in your undertaking and specify their exact activity (please use the same categories as those used in question no. 5) and the Member States in which their turnover is created.

Answer:

A. Transmission system operator

- None.

B. Distribution system operator* for electricity

- • EZ, a. s. – Czech Republic
- • EZ Distribuce, a. s. – Czech Republic
- Energetika Vítkovice, a. s. – Czech Republic
- ECKG Generating, s.r.o. – Czech Republic
- Ško-energo, s.r.o. – Czech Republic

+

As of 18 January 2005:

- Electrorazpredelenie Pleven EAD - Bulgaria
- Electrorazpredelenie Stolicno EAD - Bulgaria
- Electrorazpredelenie Sofia Oblast EAD – Bulgaria

+

As of 30 September 2005

- EMS Oltenia - Romania

C. Supplier* of electricity to the final customers*

- • EZ, a. s. – Czech Republic
- • EZ Prodej, s.r.o. – Czech Republic

+

As of 18 January 2005:

- Electrorazpredelenie Pleven EAD – Bulgaria
- Electrorazpredelenie Stolicno EAD – Bulgaria
- Electrorazpredelenie Sofia Oblast EAD – Bulgaria

+

As of 30 September 2005

- EMS Oltenia – Romania

D. Supplier* of electricity to third parties other than the final customers*/ trader in electricity*

- • EZ, a. s. – Czech Republic (national market), Germany, Slovakia, Austria, Poland, Switzerland (export)
- • EZ Prodej, s.r.o. – Czech Republic
- • EZ Deutschland, GmbH – Germany
- • EZ Hungary, kft - Hungary
- Coal Energy, a. s. – Germany, Slovakia, Hungary

E. Electricity production

- • EZ, a. s. – Czech Republic
- Energetika Vítkovice, a. s. – Czech Republic



- • EZ Obnovitelné Zdroje, s.r.o. (up to 20 May 2005 V• E–elektrárny, s.r.o.), Czech Republic
- ECKG Generating, s.r.o. – Czech Republic
- Ško-energo, s.r.o. – Czech Republic

F. Merchant line operator

- None

G. Any type of business activities related to gas

- Západo•eská Energetika, a.s. – Czech Republic, the company holds a license to trade in gas, however, to date it has not carried out any business activities in the field of trade in gas. The license is not being used.
- Energetika Vítkovice, a. s. – Czech Republic

H. Brokerage and/or operation of business platforms

- None

I. Energy exchanges

- The business does not operate any exchanges. It is, however, a member of the • eskomoravské Komoditní Burzy Kladno.

As Bulgaria and Romania have not yet become members of the EU, information about the Bulgarian and Romanian distribution companies is not included in the other parts of the questionnaire.

Part III General Questions – Question No. 11

What companies active in the energy sectors (any type) are minority shareholders in your company or in other companies that fall within the same undertaking and that are active in the electricity or gas sectors? For each such shareholder state in which company it has a minority shareholding, the name and activities as well as the country in which it was established.

Answer:

The Ministry of Industry and Trade is the majority owner with a holding of 67.6 % shares in • EZ, a. s. The Ministry of Industry and Trade, as a governmental body, also owns shares in other companies in the gas and electricity sectors. No other company or person active in the electrical energy sector is an owner of shares in • EZ, a. s. that exceeds 0.2 %.

- • EZ Distribuce, a. s.
 - None
- • EZ Prodej, s.r.o.
 - None
- • EZ Obnovitelné Zdroje, s.r.o.
 - None



Part III General Questions – Question No. 4.2.c)

What factors determine your decision to whom to sell the electricity that you produce (affiliated company*, non-affiliated company*, final consumer*)?

Answer:

In accordance with the legislative framework in the Czech Republic, • EZ, a. s. reacts on the domestic market to each demand and it is the customer who determines who it will purchase electricity from. In the Czech Republic, • EZ, a. s. sells electricity to • EZ Prodej, s.r.o., IPP, traders and other subsidiaries (Coal Energy) without any discrimination in terms of quantity or price. • EZ, a. s. sells electricity abroad on the wholesale market and does so:

- Through exchanges (EEX), brokers (GFI, Spectron, TFS, etc.) where the counterparty is at the time of the conclusion of the sale anonymous (• EZ, a. s. has concluded 37 EFET contracts).
- Bilaterally directly or through subsidiaries (rpg GmbH).

In selecting the method of selling, • EZ, a. s. does not differentiate between the counterparty, i.e. it does contemplate to whom it shall sell - the deciding factor is solely the price.

Part VI – Question No. 6.1

Please provide a simplified overview of the customer portfolio of your undertaking and list the monthly average volumes (in GWh) supplied to all your end consumers in your Member State all well as identify the sources of such electricity during the period from 1 January 2002 to 31 December 2004.

Answer:

The customer portfolio of the • EZ Group is currently made up of only entitled customers (as of 1 January 2006).

Until the end of March 2003, • EZ, a. s. was only a producer of electricity and a trader in electricity. Under the liberalization of the electricity market in 2002, • EZ, a. s. concluded the first contracts with entitled customers for the supply of electricity. From 1 January 2002 to 31 December 2003 • EZ, a. s. thus only serviced entitled clients. To the date 1 April 2003 • EZ, a. s. acquired a majority in five distribution companies (Severo•eská Energetika, a. s., Severomoravská Energetika, a. s., St•edo•eská Energetická, a. s., Východo•eská Energetika, a. s. and Západo•eská Energetika, a. s.) which it separated internally from the CEZ Group as required by the unbundling regulation and national law. The customer portfolio of the • EZ Group thus was enlarged by the entitled customers and the protected customers of the regional distribution companies.

Within the transformation project “VISION 2008” of the • EZ Group, the company • EZ Prodej, s.r.o. was formed by merging all the trade businesses into one single company whose business activity is the supply of electricity to final customers.



Part IV – Question No. 6.2

Please provide a short summary of the methods how your business obtains electricity for your final consumers. In your answer please reflect the following questions.

- a) What factors do you take into account when you are deciding about sources of electricity?

Answer:

The company • EZ Prodej, s.r.o., as a supplier of electricity to final customers, uses all available means for obtaining electricity whereby the fundamental criteria for such decisions is the purchase price.

- b) What is your preferred method of obtaining electricity (e.g. bilateral contracts, trading on wholesale OTC markets, exchanges and your own production)?

Answer:

• EZ Prodej, s.r.o. acquires electricity for the most part on the basis of bilateral one-year contracts and it optimizes its portfolio on the wholesale OTC markets and exchanges.

- c) Are you considering increasing the share of your own production within the scope of diversifying the sources from which you acquire electricity (or acquiring your own means of production in the event that you do not have any)?

Answer:

The current share of production in the • EZ Group is sufficient and we are not considering increasing the share of our own production.

Part VI – Question No. 6.6

Please state the transmission system operators that form a part of your undertaking and/or in which your company holds a minority shareholding and which are located in your Member State (see your answer to questions no. 9 and 10 in the above general questions).

Answer:

- • EZ, a. s. – Czech Republic
- • EZ Distribuce, a. s. – Czech Republic
- Energetika Vítkovice, a. s. – Czech Republic
- ECKG Generating, s.r.o. – Czech Republic
- Ško-energo, s.r.o. – Czech Republic



Update of answers to Phase 2 for the subject 0300-S-CZ (Generators, Suppliers and Traders)

No changes

Part IV Questions for DSO – Question No. 12

Please state the number of customers connected to the distribution grid that your operate (latest available data).

Answer:

- • EZ Distribuce, a. s. – 3 463 657 end-users

Part IV Questions for DSO – Question No. 13

Please state the volume of electricity in GWh which you delivered to final consumers during the whole year 2005 by means of the distribution grid that you operate.

Answer:

- • EZ Distribuce, a. s. – 32 338 GWh

Part IV Questions for DSO – Question No. 14

Please state the total length of the distribution lines that you operate including above-ground and underground cables (latest available data).

Answer:

- • EZ Distribuce, a. s. – 153 104 km

Part IV Question for DSO – Question No. 15

Please briefly describe the obligation to separate distribution activities which relate to your DSO and how they were fulfilled. In particular, state:

Answer:

The Energy Act (Act No. 670/2004 Coll.) provides for the following minimum obligations to separate the distribution system from other licensed activities:

The distribution system operator • EZ Distribuce, a. s., which forms a part of the vertical integrated trader of the • EZ Group, is, as of 1 January 2006, with respect to its legal form, organization and decision-making, independent of the other activities not related to the distribution of electricity.

- The provision fulfilled, the company • EZ Distribuce, a. s., was formed as an independent legal entity whose business activity is the distribution of electricity. The company has statutory bodies and management employees that are independent of the parent company and which do not participate in the organizational structures of the vertically integrated trader, which is responsible for the daily operation of the production of electricity and trade in electricity.



- The statutory bodies and management employees do not receive any remuneration or other compensation from the license holders for the production of electricity, transmission of electricity, trade in electricity within the • EZ Group and the remuneration of the statutory bodies and management employees of the distribution system operators is not dependent on the financial results achieved by these holders of licenses within the • EZ Group.
- • EZ Distribuce, a. s., holds real and full decision-making rights with respect to the assets required for the operation, maintenance and development of the distribution system of • EZ Distribuce, a. s., which are independent of the vertically integrated trader; the parent company • EZ, a. s. does not issue any instructions to the distribution system operator • EZ Distribuce, a. s. relating to the day-to-day operation or maintenance of the distribution system, nor does it interfere into the decision-making regarding the construction or modernization of the distribution system, provided such decision does not exceed the framework of the approved financial plan.
- The • EZ Distribuce, a. s., Board of Directors develops the proposal of the financial plan which is approved by the • EZ Distribuce, a. s., Advisory Board subsequently. Finally, the financial plan proposal is submitted to ERÚ to be considered and approved.
- • EZ Distribuce, a. s., has adopted by an internal regulation the Compliance Program, which provides for:
 - Measures to prevent discriminatory conduct in relation to the other participants in the electricity market, especially with respect to access to the distribution system it operates and the use of its services,
 - Rules for access to information regarding the operation and development of the distribution system and access to it; any information whose provision to only certain participants on the market for electricity could benefit such participants to the harm of others the distribution system operator is required to make available in a non-discriminating manner to other participants in the electricity market in accordance to the Regulation of ERÚ No. 541/2005 and to the “Code of operating and maintaining the distribution network”.
- • EZ Distribuce, a. s., the distribution system operator, has informed the statutory body and all employees with the program and oversees that it is complied with. The program was submitted to the Energetický Regulační Úřad and the Ministry of Industry and Trade immediately on the day that it was adopted, whereby it is also accessible via the Internet. • EZ Distribuce, a. s. is currently preparing a report on the measures taken and on the performance of the Compliance Program for the year 2005 while it was in operation as the successor to the former REJSC on the defined territories. The report will be sent before the 30 April 2006 to the Energetický Regulační Úřad and the Ministry of Industry and Trade and at the same time it will be published on the Internet.
- • EZ Distribuce, a. s., may not as of 1 January 2006 hold any ownership interests in another legal entity, which holds a license for the production of electricity, the transmission electricity, trade in electricity or gas.
- The statutory body or a member thereof, proxy or a management employee of the distribution system network may not as of 1 January 2006 hold any shares exceeding 1 % of the registered capital in another legal entity within the framework of the vertically integrated trader, which is a holder of a license for the production of electricity, transmission of electricity or trade in electricity.
- As of 1 January 2006, the distribution system operator may not conclude contracts for unified control with another holder of a license for the production of electricity,



transmission of electricity, and trade in electricity. No such proceedings have been fulfilled.

- The structure of the information system was implemented for secure separation of the information of the distribution system operator • EZ Distribuce, a. s. from the other licensed activities.
- The Group • EZ fulfilled the requirements of the Energy Act (Act No. 670/2004 Coll.) on separating the activities exactly one year ahead of time, i.e. to 1 January 2006.

a) If your DSO is the owner of the means of the distribution system, which it operates (yes/no):

Answer:

YES

b) If your DSO operates any other activity other than distribution (yes/no);

Answer:

NO, • EZ Distribuce, a. s. does not carry out any other licensed activity within the meaning of Act No. 670/2004 Coll.

c) If your DSO also supplies electricity to final consumers (yes/no);

Answer:

NO

Part IV Question for DSO – Question No. 16

If your undertaking also supplies electricity to final consumers*, please state whether the DSO keeps separate accounts for the distribution* activities.

Answer:

The undertaking maintains accounting on the carrying out of its business activities – distribution in accordance with the Energy Act (Act No. 670/2004 Coll.) and Decree No. 439/2001 Coll.

Part IV Questions for DSO – Question No. 17

If your undertaking also supplies electricity to final consumers, please state to what extent are your organizational and decision-making structures for distribution independent of the other activities of your undertaking.

Answer:

- EZ Distribuce, a. s. does not supply electricity to final customers.

Part IV Questions for DSO – Question No. 18

Please state:

a) What information systems are being used in your DSO for the operation of the system



(technical integrity, information on measuring, management of the connection to the final consumers);

Answer:

DSO uses for the operation of the network the following systems:

- • EZ Distribuce, a. s., uses the following systems:
 - TIS – S• P (operation management system)
 - TIS – TOMS
 - TIS – MIMS
 - TIS – Oracle + Microstation
 - TIS – SAP-PS, SAP-MM, SAP-PM
 - Converge
 - SAP

- b) If some of these systems are shared with affiliated companies and if the other affiliated companies have access to the information systems operated by your DSO;

Answer:

YES. Following the legal separation and in relation to the separation of the information, the systems were transferred into the ownership of the company • EZ Data, s.r.o., which on the basis of SLA contracts, provides the respective affiliated companies with only a defined part of the given information system in accordance with the adopted the Compliance Program. All SLA contracts thus contain provisions relating to securing the independence of the distribution system operator • EZ Distribuce, a. s. and ensuring transparency in accordance with legislation in force in the Czech Republic.

- c) If these affiliated companies are active as suppliers of electricity to final consumers;

Answer:

YES. • EZ Prodej, s.r.o. is an affiliated company, which is active as a supplier of electricity to final consumers.

- d) If yes, please state in detail what information is accessible to these affiliated companies.

Answer:

A new SAP system was implemented in the • EZ Group, whose structure is fully in compliance with the Energy Act (Act No. 670/2004 Coll.). Completion of the implementation system and setting access rights for the affiliated companies to it according to the concept of the separation of information of the company fulfils the provisions on the separation of information of the distribution system operators from the other licensed activities.



Part IV Questions for DSO – Question No. 20

Please,

- a) Explain whether your DSO has implemented and published procedures for processing applications for new connections into its electrical network and the criteria on the basis of which it decides. If so, please attach a copy of such procedures and criteria to your answer.

Answer:

The distribution system operator • EZ Distribuce, a. s., acts, in processing applications for new connections into its electrical network, in accordance with the legislation in force, i.e. the Energy Act (Act No. 670/2004 Coll.) and the corresponding legislation, in particular, the Decree on Measuring (Decree No. 218/2001 Coll.).

- b) For each application specified in question 19 a) state whether it was processed in accordance with your published conditions and procedures, and

Answer:

In processing applications for new connections into its electrical network, the distribution system operator • EZ Distribuce, a. s. acts in accordance with legislation in force, i.e. the Energy Act (Act No. 670/2004 Coll.) and corresponding legislation, in particular, the Decree on Measuring (Decree No. 219/2001 Coll.).

- c) If not, that what changes were made.

Answer:

No changes were made in the procedure from the obligations provided for under legislation in force.

Part IV Questions for DSO – Question No. 21

Did the regulatory authority in your country set a standard administrative procedure which should be followed by the DSO when a final consumer* switches supplier*?

Answer:

YES. The standard administrative procedure, which • EZ Distribuce, a. s., follows when an end consumer* switches supplier* is, in its main points, defined in Article 30 of the Decree of ERÚ No. 541/2005 Coll. – the market rules. The basic legal right is defined in Article 28 (1) (g) of Act No. 670/2004 Coll.



Part IV Questions for DSO – Question No. 22

If not, and have you created a special procedure for your DSO, please describe it in detail:

Answer:

The distribution system operator • EZ Distribuce, a. s. does not have its own procedure.

Part IV Questions for DSO – Question No. 24

Please state:

- a) The average time it takes for all administrative proceedings for the final consumer who switches suppliers during the first quarter of 2005 (in days);

Answer:

The deadlines, i.e. the duration of the administrative proceedings for the end consumer when switching suppliers is defined in Article 30 of Decree of the ERÚ No. 541/2005 Coll. – the market rules. The basic right is defined in 28(1)(g) of the Act No. 670/2004 Coll. The DSO • EZ Distribuce, a. s. acts in accordance with legislation in force and fulfils all of the deadlines provided for under legislation.

- b) the average duration of all administrative proceedings for the end consumer, who during the first quarter in 2005 switched to a supplier that is a member of the same group of companies as your DSO (in days);

Answer:

Switching to a supplier who is a member of the • EZ Group has no effect on the duration of the administrative proceedings. The deadlines, i.e. the duration of the administration proceedings for the end consumer during a switch of suppliers is defined in Article 30 of the Decree of ERÚ No. 541/2005 Coll. – the market rules. The basic legal right is defined in Article 28 (1) (g) of Act No. 670/2004 Coll. The DSO • EZ Distribuce, a. s. acts in accordance with the legislation in force and fulfils the deadlines provided for under legislation.

- c) The average duration for all administrative proceedings for the end consumer*, who in during the first quarter in 2005, switched to a supplier* who is NOT a member of the same group of companies as your DSO (in days).

Answer:

Switching to a supplier who is not a member of the Group has no impact on the duration of the administrative proceedings.

The deadlines, i.e. the duration of administrative proceedings for the final consumers is defined in Article 30 of the Decree of ERÚ No. 541/2005 Coll. – the market rules. The basic legal right is defined in Article 28 (1) (g) of Act No. 670/2004 Coll. The DSO • EZ



Distribuce, a. s. acts in accordance with the legislation in force and fulfils the deadlines provided for under legislation.

Part IV Question for DSO – Question No. 25

Please state if the users of the system are exempt from notifying releases and withdrawals from your system. If so, please provide a list of the users who make use of this option.

Answer:

NO. The system users are not exempt from the obligation to notify the release or withdrawal of electricity into the system of • EZ Distribuce, a. s. In the Czech Republic, primary and secondary legislation provides for the obligation of the distribution system operator to always conclude with an applicant for the supply of electricity a contract for connection and distribution under the conditions provided for in legislation in force.