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REGULATION OF UTILITY SERVICES IN SLOVAKIA (REVIEW OF IMPORTANT INITIATIVES)

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Introduction

The Regulatory Office for Network Industries (hereinafter referred to as the Regulatory Office) holds a central role as the national regulatory authority supervising the following sectors: electricity, natural gas, heat sector, and water management. Established in August 2001, the Regulatory Office operates as an independent state entity mandated to ensure a balance between the interests of investors and consumers and stands as the singular state (public) authority entrusted with the oversight of network industries.¹ Its core mandate is to safeguard the interests of both parties, recognizing that investment viability hinges on profitability while ensuring consumers are not subjected to unfair pricing practices. Thus, the Regulatory Office is tasked with fostering an investment-friendly environment without compromising consumer welfare, thereby fostering fairness in pricing for all stakeholders.

Its primary objective lies in monitoring the performance of regulated activities within the electricity, natural gas, and heat sectors, safeguarding the rights of all the parties. Legislatively, the authority of the Regulatory Office stems from primary legislation, notably Act on Energy No. 251/2012 Coll. and Act on Network Industries No. 250/2012 Coll., empowering it to regulate prices and substance within network industries. However, each sector within the network industry operates under specific legislative provisions, imposing the conditions for their respective activities.

1. Liberalization of Energy Markets

The liberalization of the electricity and gas markets in Slovakia began in the early 2000s as part of the country's efforts to align with the EU regulations and promote competition. This process aimed to open up these markets to multiple suppliers, giving consumers more choice and fostering price competition. The initial steps involved unbundling the generation, distribution, and supply activities of electricity and gas companies, separating monopoly network operations from competitive supply services. Over time, both markets saw an increase in private and foreign investment, with regulatory oversight provided by Regulatory Office. Despite challenges, the liberalization has gradually enhanced transparency and market efficiency.

The liberalization of the electricity and gas markets was driven by several key laws and provisions aligned with EU directives, notably:

- Act on Energy No. 656/2004: This law was crucial for setting up the framework for liberalizing the electricity and gas sectors. It mandated the unbundling of production and distribution services and introduced competition in supply, allowing new market players to enter.
- Act on Regulation in Network Industries No. 276/2001: This law established Slovakia's Regulatory Office for Network Industries (ÚRSO), an independent regulatory body to oversee market activities, set tariffs, and ensure fair practices in network industries, including electricity and gas.

¹ About URSO (2024). Regulatory Office for Network Industries. Available online: https://www.urso.gov.sk/about-urso/

- Act on Energy No. 251/2012: This updated energy legislation further aligned Slovakia with EU energy directives, particularly those from the EU's Third Energy Package, which focused on unbundling and consumer rights. It also introduced measures to enhance market transparency, improve infrastructure access, and protect consumers.
- Third Energy Package (EU): While not a domestic law, this EU directive heavily influenced Slovakia's market liberalization process. It emphasized full ownership unbundling for transmission operators, promoted energy efficiency, and strengthened consumer rights, fostering a competitive market environment in line with EU standards.

The core principle of the regulation for the five-year regulatory period is based on a price cap method. This approach ensures profitability only when businesses operate efficiently, motivating network operators to minimize their own losses. The new regulatory policy for the 6th regulatory period (January 1, 2023, to December 31, 2027) adopted by the Regulatory Office promotes innovative supply products with dynamic tariffs and new distribution tariffs to encourage new technologies and support storage and flexibility services. To advance trends like aggregation and flexibility, the policy introduces dynamic pricing for reserved capacity and distribution. During this period, the Regulatory Office aims to better manage distribution loads through flexibility and dynamic tarification, maximizing system efficiency, reducing deviations, and accommodating the needs of new market participants.

In electricity Slovakia implemented the Price Coupling of Regions (PCR) solution to connect power markets across Europe. The establishment of the 4M Market Coupling (4M MC)² in 2014 and launch in 2021 advanced the creation of the European Internal power market by integrating the markets of four Central and Eastern European countries: OTE in the Czech Republic, HUPX in Hungary, OPCOM in Romania, and OKTE in Slovakia (short-term electricity market operator). The 4M MC was a significant step toward a common power market and regional market coupling solution. It operates as an ATC-based day-ahead auction with implicit allocation, striving for compatibility with the EU target model.

2. Renewable Energy Support

The introduction of the Feed-in Tariff (FiT) scheme for renewables in Slovakia began in 2009 as part of the country's effort to promote renewable energy in line with EU goals. The scheme offered guaranteed, above-market rates for electricity generated from renewable sources, intending to attract investors and stimulate growth in solar, wind, and biomass energy production.

As emphasized in the National Energy and Climate Plan (Slovak target for 2030 is 30 percent of renewables share) the support for electricity generation from renewable energy will continue primarily based on operating aid, as established by the support reform that took effect in early 2019. Under this reform, the primary form of support for installations with an installed capacity above 500 kW will remain a surcharge, which means that electricity generators are responsible for selling their electricity on the market and managing any imbalances that may occur. Successful participation in the auction process is a prerequisite for receiving this surcharge support. The reform introduced a complementary pre-fixed feed-in tariff (FIT) support scheme

² Národní regulátori k projektu market coupling (2024). Regulatory Office for Network Industries. Available online: https://www.urso.gov.sk/narodni-regulatori-k-projektu-market-coupling/

for new producers with an installed capacity of up to 500 kW. For installations with a capacity of up to 250 kW, there is an option to receive support through the FIT system by purchasing electricity while assuming responsibility for any imbalances. This support for installations of up to 250 kW will be available until 2033, at which point the purchasing entity's activities will also cease.³

In 2019, the concept of a "local source" was introduced, referring to smaller, unsupported renewable energy installations that receive certain regulatory benefits.⁴ These installations are exempt from some distribution charges, such as connection and metering fees, are given grid priority, and are not subject to tariffs for system services or grid operation. However, there are restrictions: the installed capacity of a local source must not exceed its own maximum consumption (up to 500 kW), and only up to 10% of this capacity can be fed into the grid for electricity trading. Additionally, these RES installations are ineligible for the FiT scheme.

3. Grid Modernization

An important step in developing smart grids and integrating renewable energy sources is the ACON project, a cross-border initiative between Slovakia and the Czech Republic. ACON aims to enhance the efficiency and safety of the distribution system, particularly in border areas. It focuses on unifying the Czech and Slovak electricity markets to create a sustainable and economically viable electricity system with minimal losses. ACON will incorporate smart technologies, including intelligent load management and advanced communication elements, to improve interconnection and facilitate the integration of renewable energy.⁵

Similarly, the Danube InGrid project between Slovakia and Hungary aims to enhance the integration of renewables into the distribution grid using smart technologies at both transmission and distribution levels, while also fostering collaboration between the Slovak and Hungarian electricity markets.⁶

In addition to supporting these smart grid projects, Slovakia's national objectives include timely implementation of network codes for gas transmission. The transmission system operator can currently sell transmission capacity at cross-border points through various platforms (PRISMA, RBP, GSA), and by 2030, efforts will focus on enhancing the sustainability and integration of gas markets.

4. Consumer Protection

Slovakia applies price regulation for the supply of electricity to vulnerable customers. A vulnerable customer in the electricity market includes household customers, non-household customers with an annual electricity consumption of less than 30,000 kWh (referred to as "small

³ Draft update of the Integrated National energy and climate plan for 2021-2030 (2023). Ministry of Economy of the SR. Available online: https://commission.europa.eu/document/download/4f373d12-ce73-403a-a2d5-0107bf3e0c24_en?filename=SLOVAKIA%20-

^{%20}DRAFT%20UPDATED%20NECP%202021-2030_EN.pdf

⁴ Lokálny zdroj (2024). SAPI. Available online: https://www.sapi.sk/lokalny-zdroj

⁵ ACON (2024). ACON. Available online: https://www.acon-smartgrids.cz/sk

⁶ Danube InGrid (2024). Danube InGrid. Available online: https://danubeingrid.eu/

electricity customers"), and other selected groups of non-household customers.⁷ A vulnerable gas customer is defined as a household or a small gas customer, which refers to small enterprises. Specifically, a small gas customer is any final customer of natural gas whose annual consumption at all delivery points does not exceed 100,000 kWh in the preceding year, placing them within the vulnerable customer group. Price regulation in the field of gas supply applies to the following categories: the supply of gas to households, the supply of gas to small customers, and the supply of gas to suppliers of last resort. Additionally, during the energy crisis in 2022, non-household customers were also classified as vulnerable customers.⁸

Also, "last resort" status in gas and electricity markets serves as a safeguard to ensure continuous service to consumers if their regular supplier fails to provide energy.⁹ In the electricity sector, last resort suppliers step in if a consumer's current electricity supplier cannot continue service due to financial insolvency, loss of a license, or other business failures. This ensures that households and vulnerable customers maintain an uninterrupted electricity supply. These last-resort suppliers are often designated by the government or the Regulatory Office and are required to offer electricity to consumers at regulated prices for a limited time. During this period, consumers are encouraged to find a new supplier under standard contractual terms. Similarly, in the gas sector, the last resort supplier steps in if a consumer's regular gas supplier is unable to continue service. This option provides continuity of supply, especially critical during colder months when gas demand is high. The last-resort supplier provides gas at regulated prices and must prioritize vulnerable customers, such as households and small businesses, who are particularly dependent on stable gas access. The regulated period gives customers time to secure a new gas contract with another supplier.

Slovakia implemented the requirements from the "Clean Energy for All Europeans" package into its national legislation in July 2022, specifically focusing on the internal electricity market. This included important consumer protection provisions outlined in the EP and Council Directive (EU) 2019/944.¹⁰ Additionally, Slovakia addressed regulations regarding state intervention in pricing within the retail electricity market. The changes were formalized through amendments to two key laws: Act No. 250/2012 on the regulation of network industries and Act No. 251/2012 on energy. These amendments encompassed several important updates, including price regulation of electricity and gas retail prices and consumer protection for electricity and gas.

The recent changes to consumer protection legislation enhance consumer rights in the electricity market by establishing several key provisions. These include the right for consumers to freely choose and change their electricity supplier or aggregator, accompanied by clear rules regarding any associated fees. The legislation facilitates collective switching, allowing groups of consumers to change suppliers together, and mandates the implementation of a dynamic comparison tool for easily comparing offers from different suppliers. Additionally, new rules govern the content and format of invoices and billing information to ensure transparency, and

⁷ Zákon o regulácii v sieťových odvetviach (2024). Zákony pre ľudí. Available online:

https://www.zakonypreludi.sk/zz/2012-250

⁸ Ibid.

⁹ Dodávateľ poslednej inštancie (2024). Regulatory Office for Network Industries. Available online: https://www.urso.gov.sk/47148-sk/dodavatel-poslednej-instancie/

¹⁰ Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (recast) (2024). EUR-Lex. Available online: <u>https://eur-lex.europa.eu/eli/dir/2019/944/oj</u>

provisions for out-of-court settlement processes offer consumers an alternative method for resolving disputes with their suppliers or aggregators.¹¹

In 2022, the Regulatory Office developed a more detailed document, which included a proposed definition of energy poverty.¹² This document, positively received by energy analysts and addressing the issue of so-called hidden energy poverty, was acknowledged by the government in January 2023. However, further steps are necessary to incorporate these measures into legislation.

To advance this effort, the Regulatory Office formed a cross-ministerial working group in March 2023. This group includes representatives from key government ministries such as Social and Family Affairs, Finance, Economy, and Environment. The group's goal is to establish a methodology, propose eligibility criteria, and suggest measures to protect consumers from energy poverty. The proposed definition is as follows:

"A household is considered at risk of energy poverty if at least one of the following criteria (A, B, or C) is met:

- A) A household is at risk of energy poverty if, after paying for basic energy and water consumption—necessary to maintain a decent standard of living and the health of its members—the remaining income is less than 1.5 times the subsistence minimum, and, at the same time, its total net annual equivalent disposable income for the previous year, calculated based on the number of household members, is less than the national median.
- B) A household is at risk of energy poverty if its annual energy costs for the previous calendar year are below half of the national median, and its total net annual equivalent disposable income for the same period is less than 60% of the national median.
- C) A household without physical access to electricity for reasons explicitly defined."¹³

The proposed methodology defines a household at risk of energy poverty by assessing the balance between total energy and water costs and the household's disposable income. It also takes into account a baseline energy standard and minimum subsistence income, in line with both national and EU legislation. To further protect consumers, the Regulatory Office suggests introducing the following measures:

• Consultancy on optimizing supply and network tariffs;

¹¹ Draft update of the Integrated National energy and climate plan for 2021-2030 (2023). Ministry of Economy of the SR. Available online: https://commission.europa.eu/document/download/4f373d12-ce73-403a-a2d5-0107bf3e0c24_en?filename=SLOVAKIA%20-%20DRAFT%20UPDATED%20NECP%202021-2030 EN.pdf

¹² ÚRSO opens public consultation on draft concept for consumer protection against energy poverty (2022). Regulatory Office for Network Industries. Available online: <u>https://www.urso.gov.sk/urso-otvara-verejne-pripomienkovanie-navrhu-koncepcie-ochrany-odberatelov-pred-energetickou-chudobou/</u>.

¹³ Závery nadrezortnej pracovnej skupiny k implementačným aspektom Koncepcie na ochranu odberateľov spĺňajúcich podmienky energetickej chudoby a odporúčania ďalších krokov (2023). Regulatory Office for Network Industries. Available online: https://www.urso.gov.sk/data/files/702_zavery-nps-k-teme-energetickejchudoby.pdf

- Introduction of the obligation to offer free installment plans in justified cases;
- Mandatory provision of energy consultancy for specific customer groups;
- Discounts for additional services not subject to pricing regulation;
- Protection against the interruption ("cutoff") of energy and water supplies during the winter season;
- Prohibition of door-to-door sales of energy and drinking water;
- Prohibition of telephone agreements for additional services related to energy supply contracts;
- Rules allowing all households, including those without a direct contractual relationship with the supplier, to sign up for "regulated services."

The document also advocates for stricter energy evaluation rules for buildings, an information campaign including widespread energy advisory networks, and the active involvement of local authorities in combating energy poverty, as well as the creation of a centralized information hub on energy poverty.

5. Cross-Border Trade

Given Slovakia's position in Central Europe, the diversification of transport routes is increasingly important not only to participate at the energy market, but also to facilitate penetration of renewable energy. One of the main lessons learned by Slovakia from the 2009 natural gas crisis was the need to improve country's interconnectivity with its neighbouring countries as a measure increasing energy security and preventing repetition of the crisis that had severe consequences for its economy. During the 2009 gas crisis, Slovakia experienced a full cut-off of natural gas supplies when Russia halted deliveries through Ukraine, a major transit route for gas to Europe. This abrupt disruption had severe consequences for Slovakia's economy, as natural gas is critical to its industrial and energy sectors. As a result, a significant share of Slovakia's industrial operations had to suspend activities, leading to production losses, layoffs, and financial strain on businesses. The crisis highlighted Slovakia's vulnerability due to its reliance on Russian gas and prompted calls for diversification of supply sources, increased storage capacity, and investments in alternative energy infrastructure to mitigate future risks. The economic impact of the gas shortage underscored the need for strategic energy resilience, not only to safeguard industrial productivity but also to ensure stable economic growth.

Following the natural gas crises in 2009, facilities enabling reverse gas flow from the Czech Republic, Austria, and Ukraine were established. The commercial operation of gas interconnections between Hungary and Slovakia in 2015 and between Poland and Slovakia in 2022 has enabled transmission system connections with all neighbouring states. In electricity, Slovakia is enhancing interconnections with Hungary (Danube InGrid) and developing smart interconnections with Czechia (ACON). However, Slovakia is not interconnected with Austria for electricity because of different stance of the countries towards nuclear energy.