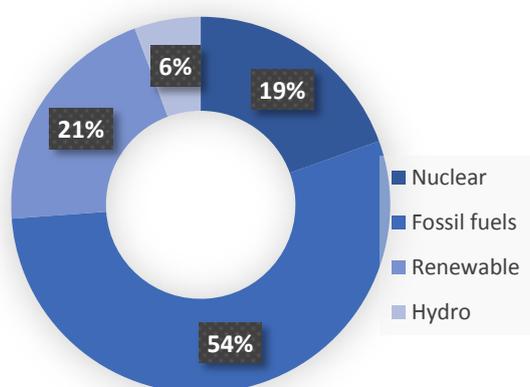


## IV Strategic Communication in Energy Sector in Czech Republic

### 1. Energy Sector in Czech Republic - Overview

#### 1.1. Energy mix

#### Net generation 2018 CZ



<sup>1</sup> The Czech Republic is the fifth-largest net electricity exporter in the EU in 2017, after Germany, France, Sweden and Norway. Most of its exports flow into Austria, the Slovak Republic and Germany. In 2017, electricity was mainly generated from domestic coal (51%) and nuclear energy (33%). Small amounts of natural gas (4%) were used as a complement in multi-fired units and in peaking units. Roughly one-third of the country's electricity produced from coal is generated in combined-heat-and-power plants.

In the Czech Republic, fossil fuels have always played a big role in the energy mix and still account for the bulk of total energy supply and domestic energy production. This is due to the substantial coal resources available in the country. Ostravsko-Karvinské Doly (OKD), the country's sole hard-coal producer and one of the largest employers, operates four deep bituminous coal mines in the Moravian-Silesian Region. There have been ongoing re-organisation in the country's mining industry in light of recent insolvency procedures in OKD, with the government announcing a gradual phasing out of mining by 2030 at the latest.

The Czech Republic is highly dependent on imported crude oil and natural gas, as indigenous oil and gas production is negligible. In 2017, almost all of the country's natural-gas supply originated from Russian imports under long-term contracts with Gazprom (which extend until 2035), after contracts with Norwegian suppliers expired. It is important to note however that approximately 30% of imported natural gas in the country are purchased through the European spot markets and may therefore come from sources other than Russia or Norway. Almost all of the crude oil supplied to the Czech Republic is imported from Former Soviet Union countries, namely Russia (56%) and Azerbaijan (33%), complementing the country's small domestic production from Southern Moravia. The use of renewable energy in the Czech Republic increased from only 2% of its total primary energy supply in 2000 to about 10% in 2017. Though renewable energy has been promoted to

<sup>1</sup> ENTSO-E Statistical Fact Sheet 2018

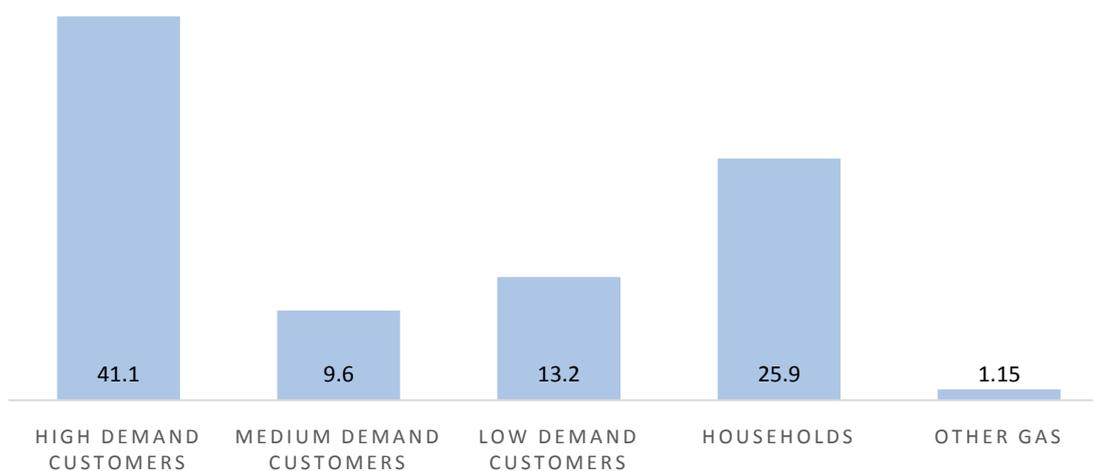
[https://docstore.entsoe.eu/Documents/Publications/Statistics/Factsheet/entsoe\\_sfs2018\\_web.pdf](https://docstore.entsoe.eu/Documents/Publications/Statistics/Factsheet/entsoe_sfs2018_web.pdf)

increase energy security and reduce GHG emissions, the 2015 Update to the State Energy Policy indicates nuclear power as an essential element of the diversification strategy.<sup>2</sup>

The Czech gas system is comprised of the transmission system gas pipelines, regional distribution and local distribution system gas pipelines. The gas transmission system is comprised of 3,822 km of high-pressure gas pipelines serving for both transit and inland gas transport. Gas storage facilities located in the Czech Republic are at a good standard in terms of both capacity and technical parameters. In 2017, three storage system operators (Pražská plynárenská Distribuce, a.s, GasNet, s.r.o., E.ON Distribuce, a.s) operated in the Czech Republic eight storage facilities with an aggregate capacity of 3.176 bcm. Operating stores peaked at 3.069 bcm of gas. Gas storage facilities make it possible for gas suppliers to respond flexibly to unexpected surges in gas demand, mainly in the cold months of the year.<sup>3</sup>

In 2017, annual gas consumption in the Czech Republic totaled **8,527.5 mcm, i.e. 90,996.2 GWh** (the average GCV in the country amounted to 10.67 kWh/m<sup>3</sup>, i.e. 38.42 MJ/m<sup>3</sup>). Despite minor variations in some years, natural gas demand in the Czech Republic has declined since 2001, when

### NATURAL GAS CONSUMPTION IN THE CR BY CUSTOMER CATEGORY IN 2017 (TW)



it reached the highest ever level. Between 2001 and 2017, consumption dropped by 12.7%. Although compared with 2016, actual consumption rose by 3.3%, mainly due to the colder weather and the growth in natural gas consumption in electricity generation.

#### 1.2. Main energy providers

In view of the number of gas suppliers, the gas market can be said to be saturated. There are four biggest gas suppliers that could be distinguished: Innogy SE, Pražská plynárenská, a.s., E.ON Energie, CEZ Group.

<sup>2</sup> OECD Fossil Fuel Support Country Note: Czech Republic, p.1:

[file:///C:/Users/Nesterenko.YI/Downloads/EN\\_CZE\\_Country\\_Brief\\_Apr2019.pdf](file:///C:/Users/Nesterenko.YI/Downloads/EN_CZE_Country_Brief_Apr2019.pdf)

<sup>3</sup> Yearly Report on Operation of the Czech Gas System for 2017, p.28

[https://www.ery.cz/documents/10540/4583838/Yearly\\_report\\_gas\\_2017.pdf/2d151f61-0f9d-4294-8a0a-05ce150087d1](https://www.ery.cz/documents/10540/4583838/Yearly_report_gas_2017.pdf/2d151f61-0f9d-4294-8a0a-05ce150087d1)

Innogy SE is an established European energy company. With its three business areas of Renewables, Grid & Infrastructure and Retail. One fifth of the innogy distribution system currently consist of gas pipelines. The system currently spans five countries – making innogy the biggest electricity grid operator in Germany. Innogy currently supplies reliable energy at a fair price to around 7 million gas customers in 11 European countries.<sup>4</sup>

Pražská plynárenská, a.s. has long been one of the most important Czech energy suppliers. With gas and electricity, company supply almost 420,000 offtake points reliably.<sup>5</sup>

E.ON Energie, a.s. is responsible for trading electricity and gas on the Czech market. Company activities include the production of electricity and heat in the Czech Republic. E.ON Energie supply natural gas to more than 220,000 customers, mainly in southern Bohemia and southern Moravia.<sup>6</sup>

CEZ Group is an established, integrated electricity conglomerate with operations in a number of countries in Central and Southeastern Europe and Turkey, headquartered in the Czech Republic. Its principal businesses encompass generation, trading, and distribution of power and heat, as well as coal mining. Apart from the production and sale of electricity, CEZ Group also deals in telecommunications, informatics, nuclear research, planning, construction and maintenance of energy facilities, mining raw materials, and processing energy by-products. CEZ Group is currently one of the three largest heat suppliers in the Czech Republic. CEZ Group was created in 2003. Today, CEZ Group belongs among ten of the largest energy companies in Europe, both in terms of installed capacity and number of customers. It occupies a leading position on the electricity market in Central Europe.<sup>7</sup>

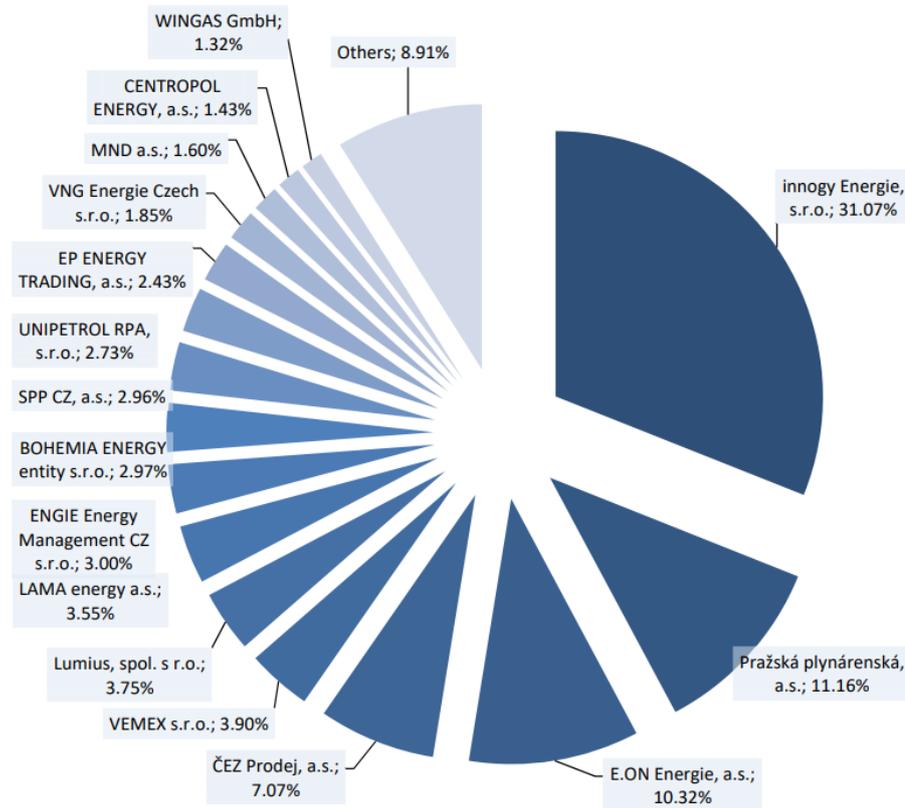
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<sup>4</sup> <https://www.innogy.cz/en/about-innogy/>

<sup>5</sup> <https://www.ppas.cz/o-nas>

<sup>6</sup> <https://www.eon.cz/en/about-eon/about-eon/eon-czech-republic/eon-czech-republic>

<sup>7</sup> <https://www.cez.cz/en/cez-group/cez-group.html>

**Chart 12 Traders' shares of gas supply in 2017**

Abovementioned regional distribution companies communicate data on gas quality control to regulator to ensure security of supply.

## 2. Strategic communication in energy crisis in Czech Republic

Personal interviews with governmental and civil actors about gaps and good practices of their communication have been taken in March and April 2018. Respondents from government and business bodies as well as civil society who deal with energy issues were invited via email. Total number of invited respondents were 14. The main refusal cause of invited respondents is the reason that energy security is overrunning their full powers (Ministry of industry and trade, ČEZ. a.s., The Institute of International Relations Prague (IIR) or they lack competence in this domain (MND Group, THE PRAGUE SECURITY STUDIES INSTITUTE (PSSI)).

Much research and policy analysis assumes that the nature of contemporary energy systems depends on the mix of the two institutional worlds of the state and the market. Meanwhile, many experts traditionally headline that the state should be responsible for the energy security and stability and this is the government's commitment to prevent an energy crisis or to do all possible to mitigate the consequences of the crises. The question is what actors in Czech Republic should be responsible for energy security and to whom are governmental, business and civil actors ready to grant responsibility over this issue?

<sup>8</sup> National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic in 2017, p.34 : [https://www.ceer.eu/documents/104400/6319351/C18\\_NR\\_CzechRep-EN.pdf/f28c39b1-a005-ebf9-70a2-399a625cd049](https://www.ceer.eu/documents/104400/6319351/C18_NR_CzechRep-EN.pdf/f28c39b1-a005-ebf9-70a2-399a625cd049)

In this respect, currently the Ministry of Industry and Trade is the competent authority. As part of its competences, also the Energy Regulatory Office monitors and evaluates the performance of the obligation to meet the security standard for gas supply in the Czech Republic.

The purpose of incentive-based quality control is to reduce the number and duration of both planned and unplanned electricity distribution interruptions. The ERO also significantly contributes to measures to safeguard the security of gas supply under Regulation (EU) 2017/1938. As part of its competences, the Energy Regulatory Office monitors and evaluates compliance with the security standard (BSD) for gas supply in the Czech Republic. The obligation to provide for this standard is laid down in Regulation (EU) No 994/2010 concerning measures to safeguard security of gas supply. This regulation has been implemented in Czech law through the Energy Act and Ministry of Industry and Trade Public Notice 344/2012 on states of emergency in the gas system and on methods for ensuring the security standard of gas supply. In response to interest shown by market participants and expert circles, the Office has introduced Monthly Reports on the Evaluation of the BSD in the Czech Republic, which the Office posts on its website on a regular basis during the heating season. The Office has repeatedly stated that one of the key pillars of its activity is adopting measures that will ensure safe and reliable gas supply to customers in the Czech Republic, including review mechanisms, and the Office therefore devotes great attention to monitoring gas traders' compliance with the obligation to keep the BSD. Having evaluated the experience with compliance with the BSD obligation and the related findings, the ERO has drawn up a proposal for legislative changes intended to eliminate the cases where gas traders take an ambiguous approach to BSD or where effective measures help to mitigate the impact of any disruption in gas supply in the Czech Republic only insufficiently.<sup>9</sup>

## **2.1. Communication with civil society**

Nowadays the issues of energy security are the top-theme of research including the infrastructure, market, cyber, policy and many other elements of security. Many analytical centers regularly do the energy market and policy analysis both regional and global. It is crucial to understand the value of think-tanks in envisaging trends of the possible crisis and to help decision-makers to be always aware of the changes in this domain. Majority of surveyed professionals read analytics daily and some top officials and managers, who does not have time to read all reports themselves, use their analytical teams for preparing swat analyses. Among the institutions, whose reports are well – liked among the interviewed professionals are Blue, Reuters, Gas storage Europe, European analysis, Oxford Energy, OECD, OSW, PISM and Bruegel. Respondents' first choice is foreign analytics from EU institutions (especially European Commission), ENTSO-E and mixture of think tanks from US, Germany, Poland. Respondents mention that especially Polish analytics has become stronger.

Interviewed professionals observe the problem not in the number of materials or frequency of their publishing but in the lack of specialized energy security content in the analysis. Apart from that, there is number of drawbacks mentioned:

- most of analysis does not provide perspective for a long run;

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<sup>9</sup> National Report of the Energy Regulatory Office on the Electricity and Gas Industries in the Czech Republic in 2017, p.35-36 : [https://www.ceer.eu/documents/104400/6319351/C18\\_NR\\_CzechRep-EN.pdf/f28c39b1-a005-ebf9-70a2-399a625cd049](https://www.ceer.eu/documents/104400/6319351/C18_NR_CzechRep-EN.pdf/f28c39b1-a005-ebf9-70a2-399a625cd049)

- there is no adequate analysis on gas storage capacity and economic features of gas storage capacity providers (the lack of gas storage capacity monitoring and predictions is viewed over all EU system; it can grow into a problem for energy security in future);
- energy security topics are blurred and merged together with other topics and politics (typical example is, that EU and most developed countries talk about climate and mix it with energy policy);
- authors of the reports quite often are more theoretical political scientists than experienced practitioners;
- untimely and obsolete information in the reports;
- not enough statistical information;
- lack of scenario-based approaches of market reality.

The abovementioned list can serve as a feedback from business and government to especially independent think tanks, for them to make their approach and research in energy security more efficient for decision makers.

Besides, there is one substantial positive sign to this end. Czech think tanks, engaged in the energy security, successfully provide their expertise and proposals for governmental and business actors. They use different ways of communication from official to private contacts. Think tanks have good relations with government and Czech energy industry business. Such communication is associated with impartiality of NGOs. Moreover, such inter-institutional relations are supplemented with the good personal connections between employees of NGO and business entities.

Recommendations both refer to the reports and role of civil society. In general, representatives of civil society consider that Ministry of Industry and Trade and Ministry of Foreign affairs are responsible for the energy security. From their point of view, the ministries have access to more detailed intelligence necessary for the evaluation of the situation. Civil society should play more integral role in dialog and decision making, as well as, think tanks should provide evaluation of current political and energy security issues to support the situation. It would be relevant to focus on stress tests and drills (especially learning from 2009 crises). In Czech Republic it is important to speak about energy democracy, energy justice that can make all more effective. This could prevent any imbalances in system. Communication should shift from conferences to regularly meetings with experts and journalists in working group discussing problems in the energy sector.

## **2.2. Communication between state institutions and private energy sector entities**

Position of business is that the owner of the physical infrastructure is the one mainly responsible for the energy security. Besides, many energy companies are privatized in Czech Republic, most physical infrastructure is state owned. State also keeps major control on electricity and gas operations of ČEZ. The other aspects of responsibility should be on the market participants. With domination of state companies over the infrastructure issues, communication and coordination with them and private energy sector entities is of great significance for the energy security. For example, market participants notice that here is problem with open communication with the biggest supplier - ČEZ. The latter does not focus on many important issues, mainly on strategic planning. The

activities of the company are concentrated on short-term solutions. Not sufficient communication between state and private entities is a weak point of the Czech energy security policy.

There are two positive moments. Firstly, Czech power system supply is highly diversified. Czech energy companies are tightly linked with Western Europe. Last year 99,3% of natural gas came to the Czech Republic from Germany, and the rest is covered by Holland. For oil - state owns two diversified pipelines.

Secondly, communication of private companies in gas sphere is quite dynamic. Czech Gas Association has workgroup focusing on law, security and cooperation with ENSOC. Within the Association, companies focus on the security and market stability and economy stability of the gas storage.

In general, situation is good. There are rules and good level of communication between private companies and state. However, it does not exclude problems in future. Among them absence of constructive dialog between private and state companies, future government lobbyists interest and exaggerated bureaucratized interference of the Czech energy regulator in market companies activities.

Private energy sector entities consider that government automatically should be responsible for energy security. There are not many reasons to change it, because government has connections to all parts of communication and contacts with public, political parties and governments and all society groups. Ministry of Industry and Trade, Regulator and TSO have to guarantee system security and need the law and control mechanism for market participants.

### **2.3. Communication with other countries and external actors**

ENTSOG, Gas Storage Europe, Gas Infrastructure Europe, transparency platforms and EU framework (SoS and REMIT) on a regional level are sufficient foras to ensure the energy security from the perspective of majority of interviewed. However, the rules related to energy security issues are different in each country and should be unified within EU. Visegrad platform is seen as a good instrument to lobby unified standards of energy security in the EU gas sector. There should be representatives of government (Ministry of industry and trade) involved in lobbying more strict rules in the EU through Visegrad group. The question is if there is a possibility to adopt such standards because of the diverse interests of each state.

All interviewed professionals agree on importance of Visegrad group as a lobbyist however some doubt it's potential to operate as a special platform for governmental, business and civil society communication on the energy security issues. Respondents emphasize that nearly in decade no major achievement have been made on this platform. A lot of efforts have been made to push cooperation within V4 with no evident result. First of all, Visegrad group has nothing in common with energy. Moreover, energy sectors of V4 countries face different challenges and have different structures. There are countries, which rely heavily on state: Poland and Hungary and countries, who rely on market: Czech Republic. The latter cooperates with West in gas issues: Germany, France, Benelux. For Poland nothing is acceptable except of Germany. Basically, what needed is close cooperation inside EU, without any special energy Visegrad platform, because V4 states do not

agree on most things in energy. Possible successful energy security platforms could look like: CZ+SK+Aus or CZ+SK+HU, CZ+Ge+Aus+Pl.

The third option is to create new, special regional platform for governmental, business and civil society communication on energy security, functioning preferably 24/7, that monitors the environment and its influences on energy sector in regional and state level and to involve third actors in the platform aiming to make better analysis (Germany, Austrian) - communication synergy.

Most of the interviewed professionals regard government responsible through ministries and Security Council over energy security issue. Government need to set regular meetings with energy experts and create functional energy crisis management.

It would be useful to create strong communication and cooperation between V4 and Ukraine or Baltic states and EU experts from other countries who have a rich research expertise in the Eastern Europe energy policy should be invited to Visegrad platform.

Besides, there are some proposals to create new platform most respondents prefer use existing foras with higher efficiency.

## **Recommendations**

First of all, there should be coherent communication on the local level. Meanwhile, many experts traditionally headline that the state should be responsible for the energy security and stability and this is the government's commitment to prevent an energy crisis as it is currently via the Ministry of Industry and Trade and Energy Regulatory Office. Civil society should play more integral role in dialog and decision making as well as think tanks should provide evaluation of current political and energy security issues to support the situation. Civil society and expert community are ready actively participate in energy security platform. Thus, one should be created or the existing forums should be used more efficiently.

To overcome the gap with energy security analytics, think tanks should endeavor to create specialized energy security materials, not to mix this topic with general ones, provide statistical and timely data and assign this work to analysts with better practical experience in the field. Through the active participation of all parties' constructive dialog between private and state companies should be created. It would be useful to create strong communication and cooperation between V4 and Ukraine or Baltic states and EU. Experts from other countries who have a rich research expertise in the Eastern Europe energy policy should be invited to Visegrad platform.