



Audit Conclusion from Audit No.

15/02

State budget funds provided for support of energy savings

The audit was included in the audit plan of the Supreme Audit Office (“SAO”) for the year 2015 under the number 15/02. The audit was managed and the audit conclusion drawn up by the SAO Member Petr Neuvirt.

The aim of the audit was to scrutinise the provision of financial resources to promote energy savings and assess the results achieved compared to the goals set and the funds used.

The audit was conducted at the audited entities from January 2015 to August 2015.

The period of 2012 to 2014 was audited; where relevant, the preceding and following periods were also scrutinised.

Audited entities:

Ministry of Industry and Trade; Business and Investment Development Agency CzechInvest; Ministry of the Environment; State Environmental Fund of the Czech Republic; Ministry of Regional Development; State Housing Development Fund; INTERHOTEL BOHEMIA a.s., Ústí nad Labem; TAMERO INVEST s.r.o., Kralupy nad Vltavou; the statutory city of České Budějovice; the town of Hluboká nad Vltavou; the statutory city of Jihlava; JIHLAVSKÉ KOTELNY, s.r.o.; Stora Enso Wood Products Ždírec s.r.o., Ždírec nad Doubravou; the statutory city of Brno; Secondary School of Informatics and Communications Brno; Secondary School of Construction Trades Brno–Bosonohy; Veolia Průmyslové služby ČR, a.s., Ostrava; TEPLŮ Kopřivnice s.r.o.; PRECHEZA a.s., Přerov; D Ř E V O P A R , s.r.o., Loštice; the municipality of Kunčice pod Ondřejníkem

Objections filed by the Ministry of Industry and Trade, the Ministry of the Environment, the State Environmental Fund of the Czech Republic, the statutory city of Jihlava, and D Ř E V O P A R , s.r.o., Loštice, against the audit protocols were settled by the head of the group of auditors by way of decisions on objections. Appeals filed by the statutory city of Jihlava, D Ř E V O P A R , s.r.o., Loštice, and the Ministry of Industry and Trade against the decision on objections were settled by way of resolutions of the Board of the SAO.

The Board of the SAO at its XIV meeting held on 19 October 2015

issued Resolution No. 15/XIV/2015 ***approving***

the audit conclusion worded as follows:

I. INTRODUCTION

“Energy savings” means an amount of saved energy determined by measuring and/or estimating consumption before and after implementation of an energy efficiency improvement measure, whilst ensuring normalisation for external conditions that affect energy consumption.¹

“Energy efficiency” means the ratio between an output of performance, service, goods or energy, and an input of energy.¹

Directive 2012/27/EU of the European Parliament and of the Council on energy efficiency (“EED”) is introducing binding measures that should ensure the fulfilment of the goal of the European Union (“EU”) to increase energy efficiency by 20% by 2020 and establish the conditions for greater energy efficiency after this term. This goal is part of the broader EU energy and climate strategy until 2020, which also includes a 20% reduction in greenhouse gas emissions and a 20% share of renewable energy in EU energy sources.

Pursuant to Section 13(1)(a) of Act No. 2/1969 Coll.,² the Ministry of Industry and Trade (“MoIT”) is, among others, the central body of public administration for energy. The MoIT also coordinates the preparation of legislation and the implementation of European law, thus the EED as well. Other ministries contributing substantially to the realisation of energy savings are the Ministry of the Environment (“MoE”) and the Ministry of Regional Development (“MoRD”).

In the majority of programmes, energy savings are a secondary effect and not the primary objective of these programmes. The primary objectives are, e.g., promoting business, protecting and improving the quality of the environment, modernising and revitalising housing in deprived urban areas, constructing and purchasing rental housing designated for social housing, and improving the state of residential buildings and flats.

II. CONCEPTUAL DOCUMENTS

Ministry of Industry and Trade

Based on Section 3 of Act No. 406/2000 Coll.,³ the MoIT is in charge of drawing up the State Energy Policy (“SEP”). The SEP is a strategic document expressing the state’s energy objectives over the next 30 years in line with the need to secure the basic functions of the state and economic and social development needs even in times of crisis, including environmental protection, and serving as the basis for creating regional energy policies. The

¹ Definition according to Article 2 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

² Act No. 2/1969 Coll., on the establishment of ministries and other central government authorities of the Czech Republic

³ Act No. 406/2000 Coll., on energy management

SEP is also the Czech Republic's basic conceptual document for energy savings. In the audited period, the SEP approved by Resolution No. 211 of the Government of the Czech Republic of 10 March 2004 was valid until 17 May 2015. In 2009, the MoIT began working on updating the SEP, and this update was approved by Resolution No. 362 of the Government of the Czech Republic of 18 May 2015.

Another important conceptual document for energy and energy savings is the National Energy Efficiency Action Plan of the Czech Republic ("NEEAP"), which the MoIT drew up according to the requirements of the Energy Efficiency Directive of the European Parliament and of the Council.

The first NEEAP for the Czech Republic was published in 2007 and the second in 2011. Both action plans were drawn up in accordance with the requirements of the European and Council Directive 2006/32/EC.⁴ The target for the Czech Republic set out in this Directive was to reduce average annual energy consumption from the years 2002-2006 by 9% in the period 2008-2016. This directive was replaced by the EED on 5 June 2014, with the originally defined national targets of the various Member States to be achieved by 2016 being expanded. The third Czech NEEAP was approved by Resolution No. 1085 of the Government of the Czech Republic of 22 December 2015. It sets out an indicative national energy efficiency target.

According to the EED, every Member State lays down its own national energy efficiency targets based on primary energy consumption or final energy consumption, primary energy savings or saving in final energy consumption, or energy performance. The Czech Republic stipulated its binding national target pursuant to Article 7 of the EED at 47.78 PJ (47 780 TJ) of new savings in final energy consumption by 2020, with the cumulative target equal to 191.10 PJ.

National energy savings is monitored by the MoIT in connection with drawing up the NEEAP and in its assessment. The 2020 target value was calculated based on analyses of the hitherto results in energy savings and predictions on their further development, with all energy saving measures being taken into account.

Article 3 of the EED binds Member States to set and report indicative national energy efficiency targets for 2020. The EED was implemented into Czech law by the amendment of three acts in particular: Act No. 458/2000 Coll.⁵, Act No. 406/2000 Coll.³, and Act No. 165/2012 Coll.⁶

Article 5 of the EED "*Exemplary role of public bodies' buildings*" states that each Member State has the obligation to renovate 3% of the total floor area of heated or cooled buildings

⁴ Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC.

⁵ Act No. 458/2000 Coll., on business conditions and on the state administration performance in energy sectors and amendments to certain acts (the Energy Act)

⁶ Act No. 165/2012 Coll., on promoted energy sources and amendments to certain acts.

owned and used by central government institutions per year between 2014 and 2020. According to the MoIT's analysis announced in the Government Document No. 828/14, this 3% share will be calculated based on the overall floorage of buildings that do not fulfil the minimum energy efficiency requirements under Act No. 406/2000 Coll. ³ as at 1 January of each calendar year.

On 16 March 2015, the Czech Government, in the Government Document No. 277/15, took note of information about the scope of the planned energy efficiency measures implemented by central government institutions in 2015 in buildings owned and used by them. It ensues from the mentioned document that the planned investment in the buildings of central government institutions, including heritage buildings, in 2015 represents CZK 0.5 billion, and savings due to investments were estimated at 4 400 MWh.⁷ However, the necessary annual savings amount is approx. 9 100 MWh for attaining the overall reduction in energy consumption by 59 800 MWh or the cumulative savings of 73 900 MWh (266.04 TJ) in the period 2014-2020. These planned savings in buildings of central government institutions attained in the period of 2014-2020 represent about 0.14% of the Czech Republic's total planned savings in all areas, which is 191.10 PJ (191 100 TJ) for the period of 2014-2020.

The amount of investment in the contemplated projects in the period 2016-2020 is planned at CZK 4.9 billion. At this time, however, no financing has yet been arranged for these contemplated investments.

Table No. 1: Proposed fulfilment of cumulative savings targets in the case of central government institutions (including heritage buildings)

| Target fulfilment analysis | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|-----------------------------------|------------------|-------|-------|--------|--------|--------|--------|--------|---------|
| Savings from renovations per year | MWh ⁷ | 2 200 | 4 400 | 13 800 | 13 700 | 13 500 | 13 300 | 13 000 | 73 900 |
| Cumulative savings | MWh ⁷ | 2 200 | 6 600 | 20 400 | 34 100 | 47 600 | 60 900 | 73 900 | 245 700 |
| Investment estimate | CZK billion | 0.5 | 0.5 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 | 5.8 |

Source: Govt. Doc. No. 277/15

The data indicated in the Document No. 277/15 for 2014 and 2015 are a rough estimate. The "Third Report on Progress Achieved Towards National Energy Efficiency Targets in the Czech Republic", which the MoIT submitted to the European Commission ("EC") before 30 April 2015, says that as part of the fulfilment of Article 5, measures implemented in the buildings of central government institutions generated energy savings amounting to 7.243 TJ (2 012 MWh)⁷ in 2014.

The data for 2015 are taken from the investment plans of individual institutions.

To achieve the targets in Table No. 1, it will be necessary in the coming years to increase the speed of implementation of investments in the relevant buildings of the central government

⁷ 1 MWh = 3.6 GJ = 0.0036 TJ

institutions. The risk of unsecured project financing enumerated according to the MoIT material at about CZK 5.8 billion by 2020 persists.

It is not clear whether the targets in Table No. 1 can be attained. The planned sudden jump in values for 2016 constitute a threefold increase of necessary savings compared to 2015, with the data for 2015 being a rough estimate. The actual figures for 2014 are more than half lower than the estimate for 2015. The ability to achieve such a high amount of savings is rather unrealistic and will also depend on resolving the risk of failure to secure sufficient investment. For 2016, these investments would amount to approx. CZK 1 billion.

The Czech Government tasked the MoIT with drawing up a building refurbishment plan for 2016 with a view to 2020 and submitting it to the Government by 30 June 2015. The MoIT, however, did not submit the plan by the deadline.

Ministry of the Environment

In the audit period, the basic conceptual material of the Ministry of the Environment was the updated *“State Environmental Policy of the Czech Republic for 2012-2020”*. It contains parts focused on energy savings. The *“energy efficiency development”* indicator will be monitored as the development of the share of GDP on the consumption of primary energy sources. The indicators of the *State Environmental Policy of the Czech Republic for 2012-2020* do not have specific target values, the first assessment of their development is planned in 2015. In the area of energy efficiency, the state environmental policy which is the responsibility of the MoE is in line with the government-approved documents that are within the purview of the MoIT.

Each year, the MoE draws up the reports on the environment of the Czech Republic. These are approved by the Czech Government and then sent to the Chamber of Deputies and the Senate of Parliament of the Czech Republic. The reports for 2012 and 2013 discuss in detail and from various points of view the development of energy efficiency in the Czech Republic from 2000. They assess energy efficiency depending on GDP, according to the main sectors of consumption (industry, transport, households), compare energy consumption per capita with other countries, and the like. They assess energy production according to type of fuel and call attention to the impact of energy production on human health and ecosystems. The various parts mention the specific relationships to national documents, specifically in this case the State Energy Policy and the National Energy Efficiency Action Plan. In the annually prepared reports on the environment in the Czech Republic, the MoE assesses in detail the energy efficiency indicators.

Ministry for Regional Development

The basic conceptual document of the Ministry of Regional Development in the audited period was the *Housing Policy Concept of the Czech Republic till 2020* (“Concept”). The

Concept states that although the housing fund may correspond in size to the European average, it is obsolete and under-invested, not only in terms of construction but also in terms of energy. In relation to the energy savings, the Concept assumes that buildings with low energy costs will be built.

The Concept states that the financial resources helping to promote housing policy targets are to a great extent dependent on the state of public budget, and the structure of the portfolio of supporting instruments must not have a long-term negative impact on the state budget. The development of public financing clearly indicates that financial intervention by the state in housing will have to focus on revolving instruments and on limiting non-recoverable financial assistance as much possible, but in a way that allows assistance to people who truly and objectively need it. All available financial resources have to be used, especially as a motivational tool, to set up the system for financing the state housing policy. The programme, which is based on guarantees and loan products with a high rate of return, should compensate for the narrowly targeted subsidy programmes.

Objectives and priorities, especially “accessibility, stability, and quality”, also ensue from the Concept. Each year, the Ministry of Regional Development assesses in detail the progress being made to reach the various targets and objectives under the Concept and submits progress reports to the Czech Government. In terms of the focus on energy savings, the reports assess in particular the priorities in the following areas:

- Reducing housing-related costs
- Securing a stable portfolio of financing resources
- Reducing the financial burden of the system
- Reducing the investment debt.

III. SUBSIDY PROGRAMMES

The following programmes were audited:

- Operational Programme *Enterprise and Innovation* (MoIT)
- Operational Programme *Enterprise and Innovation for Competitiveness* (MoIT)
- *Green Savings* and *New Green Savings* Programme (MoE)
- Operational Programme *Environment* (MoE, SEF)
- *Support for the Construction of Subsidised Housing* (MoRD)
- *Construction of rental housing* (SHDF)
- *Panel 2013+* (SHDF)
- *Integrated Operational Programme* - JESSICA financial instrument (SHDF)

Ministry of Industry and Trade

The Ministry of Industry and Trade drew up the Operational Programme *Enterprise and Innovation* (“OPEI”) for the 2007-2013 period. In accordance with the Resolution No. 175 of

the Government of the Czech Republic of 22 February 2006, the MoIT holds the position of the Managing Authority of the OPEI.

The topic of energy savings is the content of Priority Axis 3 of the OPEI. Energy savings are part of Area of Intervention 3.1 “*Energy savings and renewable energy sources*”, which the MoIT calls the ECO-ENERGY programme. The aim of this programme is to stimulate through subsidies or subordinated loans⁸ with a financial contribution the activities of entrepreneurs, especially SMEs, in efforts to improve the energy performance of buildings, reduce consumption of primary energy sources, and increase the use of renewable and secondary resources and their sustainable growth.

Table No. 2: Indicator of Priority Axis 3 “Reduction of Energy Consumption” - actual

| Name of indicator | Unit of measure | 2012 | 2013 | 2014 |
|---------------------------------|-----------------|---------|-----------|-----------|
| Reduction of energy consumption | TJ/year | 848.545 | 2 589.959 | 5 799.077 |

Source: OPEI Annual Reports for 2012, 2013 and 2014

The target value of the indicator for 2015 is 11 000 TJ. In 2014, savings of 5 799.08 TJ of energy were made as part of Priority Axis 3 ECO-ENERGY, which represents 52.7% of the planned indicator value.

It ensues from the overview of projects supported by the MoIT in the period from 2007 to 4 February 2005 that a total of 1 217 projects pertaining to energy savings of approximately 13.6 billion were supported.

Table No. 3: Energy Savings projects of Priority Axis 3 from 2007 to 2015.

| Number of projects | Subsidy amount | Paid out as at 4 February 2015 |
|--|----------------|--------------------------------|
| | in CZK | |
| 1221 | 14 519 849 000 | 13 574 045 235 |
| of which 4 projects were completed without financing | 13 895 000 | 0 |

Source: MoIT

The Operational Programme *Enterprise and Innovation for Competitiveness* for the 2014-2020 programming period was approved by the European Commission on 29 April 2015. Energy savings is, just like OPEI, a part of Priority Axis 3.

⁸ A subordinated loan is a type of special long-term loan (its conditions are set up to allow priority satisfaction of receivables of all of the subsidy recipient’s other creditors during the subordination period).

Ministry of the Environment

The strategic objective of the Operational Programme *Environment* ("OPE") in the programming period 2007-2013, which is in the purview of the MoE, is protection and improvement of the quality of the environment as the basic principle of sustainable development; the fulfilment of the requirements of EU environmental regulations and requirements ensuing from the Czech Republic's other international commitments is also important. As part of Priority Axis 3 "*Sustainable Use of Energy Sources*", it is directly focused on energy savings in Area of Intervention 3.2 "*Realisation of Energy Savings and the Use of Waste Heat*" ("OP 3.2"). The objective of OP 3.2 is to increase energy savings through technical measures, especially by promoting reduction of energy consumption of buildings belonging to the non-profit sector through more energy efficient building envelopes and more effective energy distribution systems. The specific objectives of Priority Axis 3 include greater use of waste heat, energy savings, and reduction of the energy consumed for heating.

Priority Axis 3 utilises subsidies from the European Union through the *Cohesion Fund*. The contribution from public resources, which is usually in the amount of 5% of eligible expenditure, is secured especially by resources from the State Environmental Fund of the Czech Republic ("SEF"). Allocation of resources to OP 3.2 was significantly boosted over the entire period of realisation of the OPE: the amount allocated from the *Cohesion Fund* increased from the original approx. EUR 310 million to EUR 793 million as at the end of 2014. In connection with this, the numerical value of the programme indicator "*Reduction of Energy Consumption*" that expressed the objective of OP 3.2 was increased. The final value is an annual reduction of energy consumption of 2 000 TJ.

In Area of Intervention 3.2 of the OPE, 12 calls for projects were announced. The SEF is responsible for checking the fulfilment of general and specific acceptability also by performing a point evaluation of the environmental relevance and technical level of the projects.

The audit found that the number of points required for an application to be approved was gradually reduced, which resulted in the softening of the conditions for granting subsidies. For the SEF, for the advisory bodies taking part in evaluating the applications, and for the Managing Authority of the operational programme issuing decisions on awarding subsidies, however, achieving energy savings continued to be the basic criterion, and this was fulfilled.

The MoE, together with the SEF, monitors and assesses the fulfilment of the indicators of the various projects as well as the development of indicators related to Intervention Area 3.2.

Table No. 4: Indicator of Priority Axis 3 “Reduction of Energy Consumption” - actual

| Name of indicator | Unit of measure | 2012 | 2013 | 2014 |
|---------------------------------|-----------------|--------|--------|----------|
| Reduction of energy consumption | TJ/year | 257.05 | 398.86 | 1 206.92 |

Source: OPE Annual Reports for 2012, 2013, and 2014

As at 31 December 2014, CZK 18.637 billion was paid out, with 1 206.92 TJ of energy being saved for the year, and a decision was issued to earmark CZK 20.868 billion, with the aim of attaining energy savings of 3 600 TJ. The conditions for meeting or exceeding the objective expressed by the indicator “Reduction of Energy Consumption” have thus been created.

There are a further four “Green Savings” programmes running under the MoE. These programmes are aimed at saving energy used for heating. The financing differs for each programme and, as a result, so do the administration procedures.

- *Green Savings (residential housing)* programme, launched in 2009, allocation in excess of CZK 20 billion (amount obtained from AAU⁹ sales), the acceptance of applications closed, fund utilisation ended at more than 99%. As at 30 June 2014, a total of CZK 20.254 billion was paid out to 74 061 projects. Annual energy savings for heating of approx. 4 700 TJ were achieved, which is in line with the approved programme objectives.
- *Green Savings (public buildings)* programme, utilisation commenced in 2013, resources mainly from the state budget, allocation of CZK 0.4 billion.
- *New Green Savings 2013*, programme launched in 2013, financed from the SEF sources, allocation of CZK 1 billion (call), acceptance of applications closed.
- *New Green Savings Programme*, launched in 2014, resources from the state budget (sale of emission allowances),¹⁰ total allocation under the programme: CZK 27 billion by 2023; allocations in 2014 and 2015 in connection with calls for projects: CZK 3.3 billion.

Other “green savings” programmes launched in 2013 and 2014 are still underway and their results have not been assessed.

⁹ AAU = Assigned Amount Unit = a unit defined under the Kyoto Protocol and that represents a tradable right of a State to emit one tonne of green house gases into the air in the period from 2008 to 2012).

¹⁰ The source for the *New Green Savings* programme is funds obtained from trading with emission allowances within the EU, where such allowances are part of the state budget pursuant to Act No. 383/2012 Coll., on the conditions for trading with greenhouse gas allowances.”

The audit found that the objectives and results of the MoE subsidy programmes fulfil the energy saving policies of the Ministry. They programmes contribute significantly to the objectives set out in the national conceptual documents on energy efficiency.

Ministry of Regional Development

The MoRD was appointed the Managing Authority for the *Integrated Operational Programme* (“IOP”) for the 2007-2013 programming period based on Resolution No. 175 of the Government of the Czech Republic of 22 February 2006. One of the three basic intervention areas of the IOP is the “*issue of public services focused on territorial development in selected areas of tourism, cultural heritage, housing, and territorial policies.*” The issue of housing is dealt under Priority Axis 5 - *National Support of Territorial Development*, Intervention Area 5.2 – *Improvement of the environment in problematic housing estates.*

The IOP includes the financial instrument “*Joint European Support for Sustainable Investment in City Areas*” (“JESSICA”), which is focused on projects included in integrated urban development plans with the aim of ensuring the repeated use of public resources. The objective is to modernise and revitalise the housing fund in deprived urban zones using long-term low-interest loans.

Energy savings is defined as a reduction of energy consumption in residential buildings located in problematic housing estates and is expressed as the difference between energy consumption prior to the energy refurbishment of residential buildings and energy consumption after it. The target value of energy savings in the case of projects included in the JESSICA programme is 20%.

As at 31 December 2014, a total of 103 loan agreements were concluded with applicants for projects valued at over CZK 360 million, which is more than half of the resources earmarked for JESSICA. Energy savings were achieved in 72 projects and the total savings achieved by these projects in that year was 54 004 GJ (51.004 TJ). The other 31 projects were not aimed at energy savings.

Table No. 5: Result indicators

| Name of indicator | Unit of measure | 2012 | 2013 | 2014 |
|---------------------------------------|-----------------|--------|--------|--------|
| Number of regenerated housing units | Number | 35 888 | 45 341 | 55 099 |
| Energy savings by residential housing | % | 33.75 | 28.4 | 30.54 |

Source: IOP annual report for 2014

In the audited period, the MoRD announced only one programme relating to housing: the *Housing Support* programme. The sub-programme *Support for the Construction of Subsidised Housing* had an impact on energy savings. Energy savings under this programme was

achieved as a secondary effect, as the primary objective of the sub-programme was the construction and acquisition of rental housing intended for social housing with support in the form of investment subsidies for specific investment projects.

This programme achieved energy savings by the requirement that acquired buildings fulfil class B energy efficiency according to the valid decree on energy performance of buildings ¹¹ as one of the conditions for being awarded a subsidy. With regard to the acquisition method, i.e., construction of a new building or the reconstruction of one that is not suitable for living, it is not possible to stipulate original consumption and thus it is not possible to assess the amount of savings achieved. In the period from 2012 to 2014, subsidies were awarded to 201 projects totalling more than CZK 687 million.

Another form of assistance is the *Construction of Rental Housing* programme announced by the State Housing Development Fund ("SHDF"), which is regulated by the Decree No. 284/2011 Coll. of the Government of the Czech Republic of 8 September 2011. The assistance generated energy savings by setting the energy performance that the building should fulfil after its construction. As the matter concerned the construction of new buildings, we cannot speak of actual energy savings, but the new building achieves better energy performance and meets class B requirements under the current Decree regulating energy performance. No objectives or parameters have been set for the programme in the field of energy savings. The primary objective and purpose of the programme is to build rental housing. In 2013 and 2014, loans exceeding CZK 320 million were awarded to 10 projects.

The *PANEL 2013+* programme is regulated by the Decree No. 48/2012 Coll. of the Government of the Czech Republic of 5 December 2012 and is also announced by the SHDF. The government decree regulates the conditions for using financial resources in the form of loans to repair and modernise buildings. The *PANEL 2013+* loan programme is not aimed only at energy savings; it is also intended for improving the state of residential buildings and flats. No objectives or parameters have been set for the programme in the area of energy savings. In 2013 and 2014, loans exceeding CZK 978 million were awarded to 283 projects.

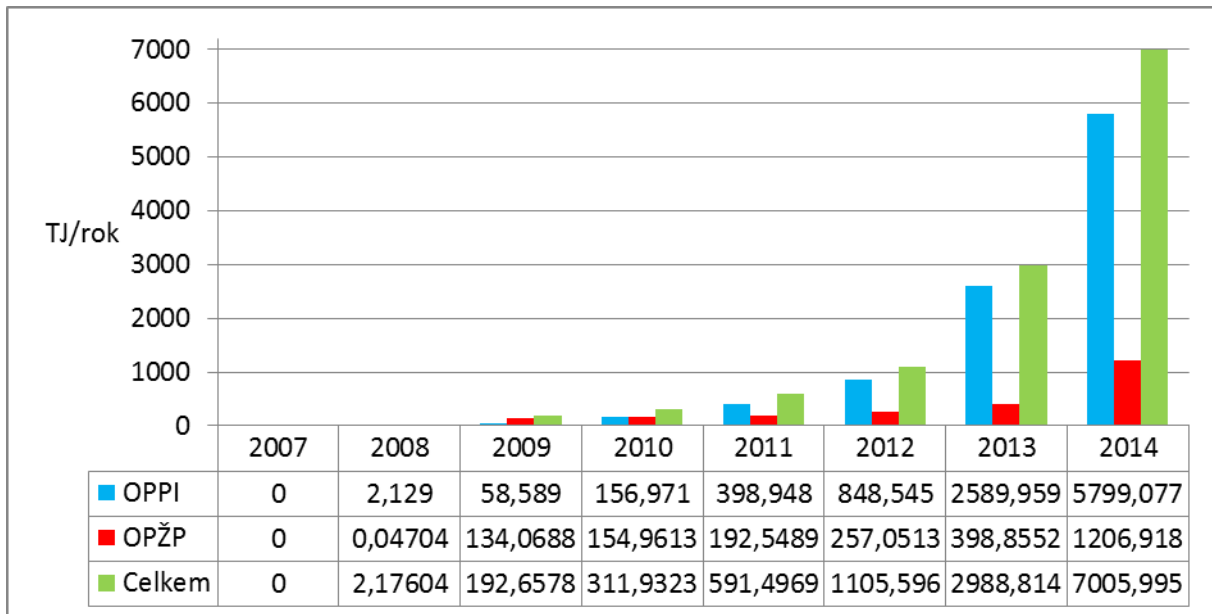
Monitoring the course and results of projects at subsidy providers

So-called indicators were used to monitor the course and results of the implementation of projects, intervention areas, priority axes, and programmes as regards to the stipulated objectives. The MoIT and MoE, as part of their operational programmes, i.e., Operational Programme *Enterprise and Innovation* and Operational Programme *Environment*, monitor

¹¹ Decree No. 148/2007 Coll., concerning the energy performance of buildings or, as of 1 April 2013, Decree No. 78/2013, on the energy performance of buildings.

the “Reduction of Energy Consumption” indicator. This indicator is assessed annually in the annual reports of the operational programmes. Graph 1 depicts the development of this indicator.

Graph No. 1: Achieving the value of the “Reduction of Energy Consumption” indicator



Source: OPEI Annual Report for 2014 and OPE Annual Report for 2014

[TJ/rok = TJ/year, OPPI = OPEI, OPŽP = OPE, Celkem = Total]

The data in the graph clearly show that the Czech Republic is able to generate approx. 7 005.9 TJ of new savings a year through these two operational programmes as of 2015. Furthermore, the graph shows the slow growth in the value of the indicator in the period from 2007 to 2012.

Fulfilment of the indicator is regularly evaluated and the data is collected into the OPEI and OPE annual reports for the purpose of evaluating the NEEAP. Both the MoIT and MoE transfer the values of these indicators through the information system to the central monitoring system of structural funds and the *Cohesion Fund* (MSC2007). Other than monitoring the savings in these two operational programmes, savings achieved by other entities and measures where energy savings occur with the use of subsidies from the state budget are not fully monitored.

This indicator is not set by the MoRD although numerous measures leading to new energy savings are being implement by it. With the exception of the *JESSICA* programme, energy savings in the MoRD programme were not monitored in full in the 2012 - 2014 period and the MoIT did not require the results of energy savings to be submitted.

IV. SUBSIDY BENEFICIARIES

Audit sample and audit area

The selected beneficiaries received subsidies through programmes managed by the MoIT and MoE. In Intervention Area 3.2 *“The Realisation of Energy Savings and Use of Waste Heat”*, the OPE included 11 projects implemented by 7 subsidy beneficiaries under the OPE in the audit sample. In the audited sample of projects, subsidies paid out to beneficiaries amounted to more than CZK 210 million in the audited period.

In Intervention Area 3.1 *“Energy savings and renewable sources of energy”*, the OPEI programme included 8 projects implemented by 8 subsidy beneficiaries under the “Third Call to Submit Projects as part of OPEI ECO-ENERGY” in the audit sample. In the audited sample of projects, subsidies paid out to beneficiaries amounted to approx. CZK 648 million in the audited period.

Fulfilment of project objectives and binding monitoring indicators, attained energy savings

The SAO audit found that the objectives, purpose, and binding monitoring indicators of the selected projects were fulfilled. Other than the exception discussed below, it was found that the beneficiaries achieved substantial energy and financial savings through the implemented projects. In the case of two projects, the monitoring indicators (reduced energy consumption and reduced CO₂ emissions) were not fulfilled for objective reasons (weather, gradual setting of heat consumption regulation).

In the case of two projects, the deadline for fulfilling binding monitoring indicators was extended to 30 September 2016 and 31 December 2016. For this reason, the SAO audit could not examine the fulfilment of indicators.

In the case of one project, the fulfilment of the objectives and purpose of the project is jeopardised due to unforeseeable circumstances (breakdown of the boiler in the sulphuric acid plant). The fulfilment of the objectives and purposes of the project will depend on reopening the sulphuric acid plant.

In the case of one project, the SAO further assessed the achieved steam turbine performance parameters as risky. If the low electricity output of the turbine of 50 - 55% of the values guaranteed by the supplier continues in years to come, the fulfilment of the binding indicators and monitoring indicators under the sustainability project will be jeopardised with an impact on the overall project benefits.

Shortcomings in the procurement procedure in the “*Improvement of Energy Performance of E. Rošický Basic School, Jihlava*” project ¹²

The subject of the project was the insulation of the outside walls, replacement of insulation panels, and insulation of the ceiling under the roof in buildings with a total area of 6 835 m². The Managing Authority approved and paid out a subsidy of CZK 10 753 834 ¹³ covered by the *EU Cohesion Fund* resources and SEF resources.

The statutory city of Jihlava breached Section 6 of Act No. 137/2006 Coll., ¹⁴ as under the procurement procedure for the public contract “*Improvement of the Energy Performance of E. Rošický Basic School, Jihlava*”, it did not proceed in line with the principle of fair treatment. In the additional information to the award conditions, Jihlava neither provided the bidders with the corrected bill of quantities, nor did it define clearly the method to be used to price the items listed in the additional information in the bids. This created a situation where the bidders each proceeded in a different way and the prices offered for each item under additional information thus became impossible to compare. Due to the ambiguously defined way of pricing items under the additional information, two offers were excluded without grounds. By its approach, Jihlava violated the competitive environment. This approach also had a substantial impact on the selection of the most advantageous offer.

Ineligible expenditure under the “*Reconstruction of the Karel Svobinský Basic School in Kunčice pod Ondřejníkem*” project¹⁵

The project concerned the reconstruction of the Karel Svobinský Basic School in Kunčice pod Ondřejníkem, specifically the replacement of windows and openings and insulation of the facade and roof. The Managing Authority approved and paid out a subsidy of CZK 7 736 722 covered by the *EU Cohesion Fund* resources and SEF resources. ¹⁶

The municipality of Kunčice pod Ondřejníkem treated the costs of the design documentation dated 12/2008 in the amount of CZK 473 025 as eligible expenditure. In reality, however, the municipality executed the project according to the updated design documentation dated 02/2012 and made use of only part of the original design documentation. The SAO found during the audit that the part of eligible expenditure that pertained to the executed project

¹² OPE Project No. CZ.1.02/3.2.00/10.08050

¹³ Eligible expenditure of the project amounted to CZK 11 948 704, the subsidy amounted to 90% of eligible expenditure (of which 85% of eligible expenditure from the *Cohesion Fund*, 5% of eligible expenditure from SEF resources), own resources amounted to 10% of eligible expenditure.

¹⁴ Act No. 137/2006 Coll., on public procurement

¹⁵ OPE Project No. CZ.1.02/3.2.00/10.07778

¹⁶ Eligible expenditure of the project amounted to CZK 8 596 358, the subsidy amounted to 90% of eligible expenditure (of which 85% of eligible expenditure from the *Cohesion Fund*, 5% of eligible expenditure from SEF resources), own resources amounted to 10% of eligible expenditure.

amounted to only CZK 330,767. The municipality thus received a subsidy of CZK 128 032.20 for costs that were not eligible or effective, as they were not directly related to the preparation and execution of the project and were not required for the execution of the project. These were thus ineligible expenditure that could not be financed from the *EU Cohesion Fund* resources or SEP resources.

Ineligible expenditure under the “Energy Conservation by Boiler Replacement” project ¹⁷

The project concerned the construction of a new biomass boiler house plus its accessories. The installation of a steam turbine with an asynchronous generator was tied to the construction of the new boiler house. The project also included refurbishment of the steam technology system and comprehensive insulation of the canteen and sanitary facilities. The Managing Authority approved and paid out a subsidy of CZK 15 042 166¹⁸ covered by the *EU Cohesion Fund* resources and state budget resources.

Financial resources of CZK 3 809 873 for the delivery of the boiler house were transferred to the supplier’s bank account by D Ř E V O P A R , s.r.o., Loštice (“Dřevopar”) on 25 February 2015. On 28 February 2013, this amount was returned to Dřevopar’s account. Dřevopar stated that this amount served as a retention fee and as a source of funds for eliminating repeated defects of the boiler house. Dřevopar reported this amount as eligible expenditure despite it not being possible to treat this cost as expenditure that could be co-financed from EU structural funds resources or state budget resources. Dřevopar received a subsidy of CZK 1 904 936.50 for ineligible project expenditure that could not be financed from the *EU Cohesion Fund* and/or from state budget resources.

Other findings

The statutory city of Brno did not retain original documents pertaining to the public contracts “*Insulation of Horní Basic School*”, “*Insulation of Janouškova Basic School*” and “*Insulation of Masarova Basic School*” in accordance with Section 155 of Act No. 137/2006 Coll.¹⁹

As part of its management of public contracts, the city of Jihlava did not publish:²⁰

¹⁷ OPEI No. CZ.1.03/3.1.00/13.00361

¹⁸ Eligible expenditure of the project amounted to CZK 30 084 332, the subsidy amounted to 50% of eligible expenditure (85% of the subsidy paid out from the *EU Cohesion Fund*, 15% from state budget resources), own resources amounted to 50% of eligible expenditure

¹⁹ Project No. CZ.1.02/3.2.00/10.07939 *Insulation of the basic schools Horní, Janouškova and Masarova*

²⁰ Project No. CZ.1.02/3.2.00/14.25700 *Reducing the energy performance of the basic schools Demlova 32 and 34, Jihlava – Phase 1*, and Project No. CZ.1.02/3.2.00/12.14070 *Reducing the energy performance of the basic school Kollárova 30, Jihlava*.

- in six cases, the contracting authority's written report as required by Section 85 of Act No. 137/2006 Coll. on the contracting authority's profile within 15 days of finalising the procurement procedure
- in nine cases, a works contract or addendum to the works contract as required by Section 147a(2) of Act No. 13/2006 Coll. on the contracting authority's profile within 15 days of the conclusion of the works contract or addendum to the works contract.
- in five cases, the notification of the results of the procurement procedure in the *Public Contracts Journal* as required by Section 83(1) of Act No. 137/2006 Coll. within 15 days of the conclusion of the addendum to the works contract.

V. SUMMARY AND ASSESSMENT

When acceding to the European Union, the Czech Republic committed to fulfil its obligations and targets under agreements concluded with EU bodies. Directive 2012/27/EU of the European Parliament and of the Council on energy efficiency (EED) is one of these. This directive introduced binding measures aimed at ensuring the fulfilment of the EU's goal to increase energy efficiency by 20% by 2020.

Under the procedure laid down in Article 7 of the EED, which is binding for Member States, the Czech Republic set a target of 47.48 PJ of annual savings in final consumption in 2020. The total cumulative savings for the period of 2014-2020 should reach 191.10 PJ. It stems from the above that it is necessary to achieve new savings of 6.83 PJ each year.

Thanks to the completion of projects subsidised from the structural funds, the MoIT and MoE achieved about 7 PJ of annual savings in 2014. Attaining this level of savings in 2014 was the result of seven-year-long subsidy programmes (i.e., cumulative savings for 2007 - 2014 reached approx. 12 PJ). For the 2007-2014 period, a subsidy of approx. CZK 32.2 billion was approved for these projects. The condition for fulfilling the target, i.e., attaining the planned savings in 2020 and cumulative savings for the period of 2014-2020, is an annual increase in savings in the period of 2015-2020 of 100% of the value of the savings attained in 2014.

To achieve savings in the stipulated amount, the Czech Republic makes use of regulatory (legislation) and economic instruments. Both national resources and EU structural fund resources are used in the framework of the economic instruments. The individual measures for fulfilling energy saving targets are enshrined in the *National Energy Efficiency Action Plan*, and these measures are assessed regularly. The assessment takes place based on data submitted to the MoIT and MoE on fulfilment of binding indicators.

The MoIT as the central authority of the state administration for energy uses the "*Reduction of Energy Consumption*" indicator" to monitor the savings achieved by the MoIT and MoE under operational programmes. In the case of the MoRD and its energy saving programmes, the MoIT did not monitor energy savings in this way in the audited period. It is thus clear

that the method set up to monitor savings is not sufficient, as the monitored savings are achieved only in the case of two operational programmes. In all other cases, savings are not explicitly monitored using indicators or other parameters.

One of the areas where savings are realised concerns buildings in the ownership of the Czech Republic used by central government institutions. In the case of these buildings, energy savings of 2 012 MWh (7.24 TJ) were achieved in 2014. The target was thus fulfilled. In 2014-2020, energy savings of 73 900 MWh (266.04 TJ) are planned for buildings in the ownership of the Czech Republic used by central government institutions. Investments of approx. CZK 5.8 billion are planned to achieve such savings. With regard to the speed that energy savings have been attained to date and the significant financial resources required, the fulfilment of the savings in the planned amount will be problematic without additional sources of financings, which have not been secured at this time.

No shortcomings were ascertained in the provision of subsidies to beneficiaries. In one case out of 25 audited projects, the MoIT awarded subsidies of CZK 36 million in contrary to the conditions of the call, and by doing so created unfair conditions for the applicants, and such approached cannot be considered a transparent way of deciding on the provision of financial resources from the State budget. Pursuant to the Decree No. 1083/2006, such expenditure cannot be deemed eligible for a contribution from the *European Regional Development Fund*.

In the case of beneficiaries, a total of 19 projects executed by 15 beneficiaries who were awarded subsidies of approx. CZK 858 million were checked. In the case of these beneficiaries, shortcomings were discovered in the procurement procedure and in reporting and paying out ineligible expenditure totalling CZK 2 million. Shortcomings discovered by the SAO audit at the beneficiaries had no impact on achieving the stipulated targets of the projects. The projects realised by the selected subsidy beneficiaries led to an improvement in the quality of the environment, i.e., the targets set by the individual projects were fulfilled.

List of abbreviations:

| | |
|----------|--|
| AAU | Assigned Amount Unit |
| Dřevopar | D Ř E V O P A R , s.r.o., Loštice |
| EED | Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency |
| EU | European Union |
| JESSICA | <i>Joint European Support for Sustainable Investment in city Areas</i> |
| Concepts | Housing Policy Concept until 2020 |
| MoRD | Ministry for Regional Development |
| MoIT | Ministry of Industry and Trade |
| MWh | megawatt hour (energy unit where 1 MWh=3.6 GJ) |

| | |
|-------|--|
| MoE | Ministry of the Environment |
| NEEAP | National Energy Efficiency Action Plan of the Czech Republic |
| SAO | Supreme Audit Office |
| OPEI | Operational Programme Enterprise and Innovation |
| OPE | Operational Programme Environment |
| PJ | petajoule (energy unit where 1 PJ = 1000 TJ) |
| SEP | State Energy Concept |
| SHDF | State Housing Development Fund |
| SEF | State Environmental Fund of the Czech Republic |