INTRODUCTION

In the Czech Republic, electricity distribution and supply have been split among 8 regional utilities. Our company provides for the distribution of electricity on the territory of the capital city of Prague and in the neighbouring town of Roztoky. PRE has a 10 per cent share of the total electricity supply in the Czech Republic, serves the smallest supply territory and has the highest registered capital. In the last few years, PRE has made, in comparison with other utilities, significant investments and has achieved the highest profit. In the Czech Republic, approximately 73 per cent of the generation of electricity is covered by the company ČEZ; the remaining percentage is generated by independent producers. At the beginning of 2003, ČEZ has had a 100 per cent ownership of the transmission company.

For a number of years, the Czech Republic has been striving to access the European Union. At present, the country is likely to obtain membership as early as in a year’s time. In the sphere of electrical energy, the Acquis have been drafted with the intention to create a unified market, which is expected to provide better services and thus increase the competitiveness of European products with similar products from the U.S. and the Far East. Directive 96/92 has been reflected in the Czech Act No 458/2000, which came into force on January 1, 2001. In the course of 2001, the Ministry of Industry and Trade, together with the Energy Regulatory Authority (ERÚ), established on the basis of the Act, have issued a number of implementing Decrees. Moreover, the Electricity Market Operator commenced its operation at the beginning of 2002; it realises deals on electricity market one day in advance. For illustration, PRE concluded 1.7 per cent of its electricity purchases via this operator in 2002.

Act No 458/2000 stipulates the following process of market opening in the Czech Republic:

- Since 2002, any customer with its annual consumption exceeding 40 GWh at one premise shall be considered an eligible customer. On the generation side, producers with installed capacity exceeding 10 MW shall be allowed to supply electricity.
- From 2003, the category of eligible customers shall be extended by any customer with annual consumption over 9 MWh. Any producer shall be considered an eligible producer.
- From 2005, any customer connected to a high voltage network and the largest non-industrial customers with annual consumption exceeding 100 MWh shall be considered eligible customers.

Last year, there were 60 eligible customers in the country, out of which 4 were in PRE; this year the number has increased by other 500 customers, of which 34 are in PRE. The competition for eligible customers began at the end of 2001. Not only the 8 utilities, but also ČEZ and tens of licensed traders compete for these customers. In this context, the fact that PRE has so far retained all its customers can be considered a success.

Act No 458/2000 also stipulates the principles of regulation governing the sector of electrical energy. In 2001, these principles were elaborated in the form of implementing decrees issued by ERÚ. Simplistically, it can be said that the principles of a third-party access to networks for regulated prices are being applied. Apart from the network usage price, the regulator also stipulates the prices for captive customers which has been a highly complex task yet to last until the end of 2005, i.e. until captive customers cease to exist. Regulation has been based upon the profitability of fixed assets and the principle of increasing the effectiveness of regulated activities has been applied annually. The Energy Regulator also sets the maximal purchase price of electricity for captive customers. This price is a basis for calculating electricity price of obligatory purchase of electricity from combined cycles and renewable.

The company's preparation for the new environment has lasted for several years. In the first stage, PRE, in cooperation with a consultancy company, mapped its internal corporate processes. Afterwards the company's strategy was defined, also in collaboration with consultants. The proposed strategy was approved by the company's executive bodies, i.e. both by the Board of Directors and by the Supervisory Board. On the basis of the established strategy, individual tasks were included in the Change Programme. The Change Programme consists of eight key changes focused upon increasing the effectiveness of individual activities performed within the utility and the optimisation thereof, and upon the sphere of electricity purchasing and selling. Work on some of the key changes is still under way, while other key changes have been already completed.

One of the critical key changes was a change to the organisation and a change to the financial management of the company and its subsidiaries.

In drafting the new organisation, several factors have been taken into account:

- Regulated activities are now distinguished from unregulated ones, which is a new approach.
A regulated activity means anything associated with the network, incl. metering.

An unregulated activity means any other activity. For the transient period, lasting from 2002 to 2005, the regulator regulates also the operators of distribution networks in terms of prices for captive end customers.

- The necessity of increased customer care for the category of eligible customers, different from the period of monopoly in the sphere of electrical supply.
- A pressure to reduce costs.

The pressure to reduce costs has lead to the re-engineering of several processes, and in consequence, to a process-managed organisation. This can be implemented only with a process-oriented organisational structure. The old organisation of the company, instead of process management, complied with functional management. An advantage of a process-oriented company is the customer orientation, a straightforward definition of responsibilities of individual units in order to remove possible duplicities in the sphere of activities, which are being carried out. Interfaces among units must be well established so that cross-section processes run well. Powers and responsibilities are moved to lower organisational levels.

A transparent economic management can be implemented. The process management has brought strategic goals down to the operational level. Their implementation is carried out either by means of processes or by means of individual projects, which are applied in situations where the relevant issue concerns several processes.

The organisation chart that preceded the change was established in 1995:

**PRE - organogram**

Fig. 1 PRE - organisation chart

Apart from staff units and informatics, four units reported to the General Director. Two of these, i.e. the units of the technical director and the director of trade, were creating assets, the units of the economic and personnel directors managed financial and human resources. This arrangement was considerably unbalanced.

The largest unit was the unit of the technical director. The unit was structured on the basis of specialities and territorial division, and lacked a straightforward definition of responsibilities for individual processes. It contained a major decentralisation of a municipal-type enterprise, which resulted in non-optimal usage of resources. That is why the unit of the technical director was subjected to re-engineering. First of all, an analysis and assessment of the existing situation and processes was carried out, points of potential improvements were established, and a plan of future progress and estimates of achievable benefits were compiled. The sphere of maintenance was subjected to the biggest change. Here, not only new organisation, but also a model of supporting information systems was designed. Afterwards, a re-engineering of the remaining part of the unit was carried out. First, a rough draft of the distribution processes was prepared, which was then detailed in the comprehensive process draft. A graphic illustration of the structure of processes in ARIS was used to aid the work.

The processes identified in the technical unit were as follows:

**Area: Network policy and administration**
- Process: Network policy development;
- Process: Network design and development planning;
- Process: Network asset record-keeping;
- Process: Network asset evaluation;

**Area: Network construction**
- Process: Type solution processing;
- Process: Preparation of construction activities;
- Process: Organisation of construction activities;
- Process: Analyses of construction progress;

**Area: Network operation**
- Process: Preparation for network control;
- Process: Dispatch network control;
- Process: Defects clearance;
- Process: Network parameters monitoring;
- Process: Analyses of network control;

**Area: Network maintenance**
- Process: Definition of standards and processes for maintenance;
- Process: Maintenance planning;
- Process: Maintenance works programming;
- Process: Maintenance implementation;
- Process: Analysis of maintenance outcomes;
- Process: Contracting-out of maintenance works;

**Area: Customer relationship management**
- Process: Clearing requests for a
new changed connection;
- Process: Clearing requests for an electricity supply;
- Process: Billing of transported energy;
- Process: Completed transports of energy;
- Process: Clearing of an external customer's request to put a device out of service temporarily;
- Process: Connecting small electricity sources;
- Process: Clearing a request to move a device;
- Process: Contracting of special (above-standard) distributor services;
- Process: Information submission to customers;
- Process: Clearing requests for submission of documentation;
- Process: Clearing of complaints.

As a result of these proposals, a new organisational structure of the technical unit was drafted and the technical unit was transformed to a newly designed division “Network”. Division Network has 4 sections:
- Network asset management;
- Network operation management;
- Network maintenance;
- Telecommunications and control technology.

The newly established division was thus successfully arranged in terms of processes.

Prior to the re-organisation, the sphere of trade was the closest one to a process-oriented management. Therefore, from this perspective, less extensive changes were done than those implemented in the sphere of network. There are, however, several major qualitative changes within individual units. The trade unit is at present a free-standing division containing four sections. The former department of electricity purchases was transformed to the electricity trade section.

Trading activities are now supported by an information system incl. CRM, which is new, and it fully avails of the results of the work of the formerly established business dispatch centre. Apart from the prevailing majority of two-party contracts of electricity purchases, the purchases from the market operator and from the exchange slowly begin to gain significance.

The section of Supply to industrial customers has been, since last year, focusing mostly upon eligible customers. Specifically assigned section staff deal with individual eligible customers. They will be also supported by a new billing system, which will be identical with the customer system for retail customers. This system is implemented this year. The industrial section also includes the regulated metering and reading activity. The usage of internet for the group of large customers becomes more and more extensive.

The section of Supply to retail customers includes six business offices, a call centre, and a regulated metering activity. This year, a new system shall also be implemented for this sphere, incl. CRM. PRE’s call centre has been in operation since 2000, and it shall gradually take over more and more of the work from business offices, so that in approximately five-year period, the number of business offices is expected to drop to one or two. The call centre also deals with any issue associated with the use of internet.

The section of business systems is a new one, and it includes methodology and support of business information systems, marketing, and energy consultancy.

The division of services is a new organisational unit. Internal and external service-based units were placed under this division. This division focuses exclusively upon unregulated activities, and contains also the finance section, which is in charge of both the corporate economy and the PRE group economy. Another section belonging to this division is the human resources section, which includes care for human resources, and a legal section, which focuses not only upon general legislation, but also upon legal proceedings in terms of collection of debts arising from business operation. Other units of this division include the section of integrated information system, the section of non-energy assets, and the section of logistics.

The section of integrated information system focuses upon the definition and optimisation of complex corporate support, upon the transformation of management principles to standards, upon increasing system effectiveness, and upon the sphere of information technologies proper.

The section of non-energy assets administration includes activities associated with increasing the value of property (assets), i.e. activities associated with the purchase, exchange, lease, and sale of immovable property, as well as activities associated with the operation of administrative buildings, maintenance of tax and legal documentation, and other services.

The section of logistics provides services to internal customers, purchases material supplies for the purposes of all PRE units, material supplies necessary for investment energy constructions, and material for the purposes of further sales. The section organises storage processes for internal customers including material control system within both the internal and external processes at the suppliers of energy constructions. Moreover, it organises transport services; where cars and cargo vehicles up to 3.5 t are concerned, such services are organised by means of ad hoc leasing. The section also operates a car rental. The following services are provided to external customers:

Sale of material supplies, in particular cables, and HV, MV, LV cable accessories; LV devices, LV distributors, and electrical installation materials.

As a result of all the above-mentioned changes, a new organisational structure was established, which took effect on July 1, 2002.
In association with the change to the organisation, the internal financial management of PRE was also replaced. From the economic perspective, the entire company was split into economic units, where each unit works like an independent business. This means that within each unit, the performance and costs of activities related to the implementation of the operation of the relevant unit are clearly established. Each unit has its own customers, its own technologies, and its own resources. The strategy of individual units is subjected to the overall corporate strategy. For its services and performance, the unit gets sales priced at the market price for external customers and by the internal planned price for internal customers. The economic units do not exactly copy the organisation of the divisions. While division Network and division Trade have one economic unit each, division Services has independent units represented by the staff units, informatics, asset administration, and logistics. Economic units are in principle designed in a manner that allows for an easy monitoring of costs and earnings of regulated activities.

For a proper understanding of and distinction among the classification of various workplaces a numbering system was developed which intertwines organisational and financial management. The system comprises of seven characters. The first character is always a letter denomination of the link with the relevant economic unit. The following six characters are intended for a numerical denomination of individual units down to the lowest organisational unit. For example: Workplace denomination for Switching Station Prague – North is S 23 1120, where:
- S stands for the economic unit of the division Network (Sít);
- 2 denotes the link to the division Network;
- 3 denotes the Network maintenance section;
- 11 means HV and station maintenance, and
- 20 means the Specific switching station.

PRE has a 100 per cent share in its 4 subsidiaries, which were established by excluding specific activities from PRE. The largest subsidiary is PREmont, which focuses primarily upon assembly activities and upon the construction of 110 kV lines and stations. Subsidiary ODEM reads electricity meters for PRE and gas meters for the Prague Gas Company (Pražská plyňářská). Subsidiary CEP purchases and gauges meters for PRE. Subsidiary PRElease was established with the intention to allow for tax optimisation of the PRE group.

These subsidiaries are, on one hand, financially managed by PRE, on the other hand some units of the division Services provide for selected activities for these subsidiaries (accounting, logistics).

As mentioned in the introduction, PRE is one of the distribution companies in the Czech Republic. On the basis of the Government Decision of May 2002, an extensive restructuring of the Czech electrical energy sector is currently under way. As of July 1, 1990, distribution companies were separated from ČEZ. At present, on the basis of this government decision and its following amendment by the anti-monopoly authority, four distribution companies will be re-integrated with ČEZ (ČEZ having a majority in each), and a property separation of the transfer system from ČEZ will take place. These movements in ownership will lead to other movements as part of the owners’ portfolio consolidation. As of January 1, 2003, PRE had two significant owners – Pražská energetika Holding, with shareholders Prague Municipality, GESO, & RWE, and the National Property Fund administering the state property. By the end of 2003, however, the portfolio of owners is likely to change.