

# National Report of the President of URE 2022

## – executive summary

The National Report of the President of URE presents the situation on the Polish electricity and gas market in 2021. The report also presents actions taken by the Polish regulator to develop competition, balance the interests of energy companies and customers and integrate the Polish gas and electricity markets.

### Legal and regulatory changes

In 2021, significant amendments to the Energy Law Act were introduced.

Noteworthy is the amendment to the Energy Law Act of 20 May 2021, which introduced significant changes to the rights and obligations of regulated markets participants. The amendment to the Act introduced new key solutions from the point of view of the competence of the President of URE and the functioning of the electricity and gas markets, including further supervision of the transmission infrastructure, in particular gas transmission infrastructure. A critically important change is the definition of the rules for the operation of the metering system. Among the most important regulations related to the establishment of the Central Energy Market Information System (CSIRE) is the appointment of the Energy Market Information Operator (OIRE), as the entity responsible for managing and administering CSIRE and processing the information collected in this system for the purposes of market processes. It should be noted here that the entry into force of the described regulations was spread over time. In the reporting year, the regulations allowing for the construction of the structure of the information system came into force, while the remaining regulations will come into force at a later date.

Other key changes include:

- 1) a change in the approach to the application of the TPA principle in the gas market, consisting in a different ranking of the sequence of events entitling energy companies to refuse to fulfil their network access obligations (Article 4h),
- 2) increased protection for household customers by prohibiting the conclusion of contracts for the sale of gaseous fuels or electricity off-premises (Article 5 para. 4c),
- 3) regulating the operation of closed distribution systems, including declaring by means of a decision that a specific distribution system is a closed system, defining the rules for exemptions from operator obligations (that is, submitting tariffs for approval, drawing up development plans and introducing control of the application of prices and tariff rates - Article 9da et seq.),
- 4) changes to the range of entities obliged to develop Network Codes (Transmission Network Code – TNC and Distribution Network Code - DNC) and to the procedure for approving such Network Codes (Article 9g),
- 5) significant changes in the area of licensing, covering in particular new types of licences (storage of electricity and gaseous fuels, liquefaction and regasification of natural gas), new exemptions from the obligation to obtain a licence (Article 32 et seq.),
- 6) specification of the provisions relating to the establishment of a financial collateral by the entity applying for a licence (Article 38),
- 7) extension of the catalogue of cases enabling the President of URE to withdraw a licence or modify its scope (Article 41 para. 4),
- 8) changes to the tariff approval procedure, including the specification of the time limit for submitting a tariff or tariff modification for approval, the regulation of the rules for settlements between an energy company and customers in the period between the licence obtaining and the approval of the tariff, modification of the rules of application of the existing tariff (Article 47),
- 9) extension of the catalogue of fines as a consequence of the introduction of new obligations, setting minimum thresholds for fines (Article 56).

In 2021, there were also other amendments to the Energy Law made by separate acts, including the following:

- 1) On 1 September 2021, changes resulting from the Act of 23 July 2021 amending the Capacity Market Act came into force. The amendment consisted in the introduction of Article 8e1, which clarified

the conditions to be considered when drawing up an expert report on the impact of equipment, installations or networks on the electricity system.

- 2) Further amendments, which came into force on 8 September 2022 and 22 September 2021, result from the Act of 11 August 2021 amending the Act on the fuel quality monitoring and control system and certain other acts. Among other things, this Act added Article 62da, which broadens and clarifies the reporting obligation of companies operating in the liquid fuels market.
- 3) In turn, on 10 December 2021, changes resulting from the Act of 2 December 2021 amending the Energy Law Act came into force. With this Act, a one-off regulation was introduced to protect customers from unprecedented increases in the price of gaseous fuels. The added Article 62f provides specific rules for tariffs, including the possibility of spreading over time the justified costs incurred by energy companies.
- 4) On 24 December 2021, amendments resulting from the Act of 2 December 2021 amending the Act on Electromobility and Alternative Fuels and certain other acts entered into force. The changes made by the aforementioned Act consisted in adjusting the Energy Law Act regulations to the amended provisions of the Act on Electromobility and Alternative Fuels. In particular, road charging infrastructure was included in the regulations on connection to the electricity grid and the remit of competence of the President of URE was extended in the case of refusal to connect road charging infrastructure of public transport to the grid in the first place (Article 8 para. 1). The regulator was also empowered to approve, by way of a decision, the general conditions of the tender for the sale of a public charging station, conducted at the request of a distribution system operator (DSO).

The year 2021 was also the first year of the Offshore Wind Farms Act, which came into force on 18 February 2021. This Act regulates the principles and conditions for granting support for electricity generated in offshore wind farms, the principles and conditions for the preparation and implementation of investments in the field of construction, operation and decommissioning of offshore wind farms. The regulations contained in this Act provide for a number of new competencies for the President of URE, related to the implementation of the support system for electricity generation in offshore wind farms.

On 1 September 2021, the Act of 23 July 2021 amending the Capacity Market Act entered into force. The amendments made by the aforementioned Act resulted from the need to harmonize the provisions of the Capacity Market Act with Regulation 2019/943. The provisions of this Regulation entered into force on 4 July 2019 and the first capacity auction in 2020 was held directly pursuant to these provisions. The Regulation established rules to ensure the functioning of the internal energy market and environmental policy requirements, including CO<sub>2</sub> emission limits for capacity covered by capacity mechanisms. The Regulation also introduced changes to the rules for the participation of generating units in capacity mechanisms operating in Member States. The primary issue regulated by the aforementioned amendment was therefore to define the rules for the participation in the capacity market, from 1 July 2025, of units emitting more than 550g of fossil-fuel CO<sub>2</sub> per kWh of electricity generated ("emission limit"). With regard to the powers of the regulator, new information competences of the President of URE related to the organization of capacity auctions should be highlighted.

## **Electricity market**

The volume of gross domestic electricity production in 2021 was higher than that of the preceding year and amounted to 173,583 GWh (increase by 14% in comparison to 2020). In the reported period, gross domestic electricity consumption amounted to 174,402 GWh and increased by 5.4% as compared to 2020.

The increase in domestic electricity consumption was slightly smaller than the increase in GDP in 2021, which according to the Central Statistical Office's (GUS) preliminary estimate was 5.7%.

In 2021, in the national balance of physical flows of electricity, the share of imports accounted for 8.0% of total revenue, while the share of exports amounted to 7.6% of electricity outflows. In comparison to 2020, the share of imports decreased by 3.8 percentage points, while the share of exports increased by 3.4 percentage points.

The structure of electricity generation in 2021 changed only slightly compared to 2020. The vast majority of generation is still based on conventional fuels, that is hard coal and lignite.

In 2021, the installed capacity of the national electricity system was 53,656 MW and the generating capacity was 54,382 MW, an increase of 9.0% and 10.8%, respectively, compared to 2020<sup>1)</sup>.

The average annual capacity demand was 23,673.00 MW, with a maximum demand of 27,617.20 MW, an increase of 5.6% and 3.1% respectively, compared to the previous year.

The ratio of available capacity to generating capacity in 2021 was 57.6% (decrease by 4.1 percentage points compared to 2020)<sup>2)</sup>.

In 2021, similarly to previous years, the largest market share in the electricity generation subsector has been held by the PGE Polska Grupa Energetyczna S.A. group. It amounted to 42.4%, while in 2020 it was 40.6%<sup>3)</sup>. During the period in question, the Group also maintained its leading position on the market for sales to final customers.

Trade in electricity on the domestic wholesale market is carried out under bilateral contracts (OTC market), on the organized market run by TGE S.A. (energy exchange) and through brokerage platforms.

In 2021, out of over 17 million customers in the retail market (18.5 million if calculated according to energy delivery points), around 90.3% were consumers who purchase energy for household consumption (data based on a survey conducted by the President of URE among 47 DSOs). The remaining group of final customers were customers belonging to tariff groups A, B and C. Groups A and B consist of customers supplied from the high and medium voltage grid and are the so-called industrial customers from groups A and B, while group C includes customers connected to the low voltage grid, who use electricity for business purposes, the so-called business (commercial) customers. Electricity consumers have the right to receive electricity in an uninterrupted and reliable manner from the supplier of the energy of their choice.

In the retail electricity market, there were five large DSOs, subject to the obligation of legal unbundling, whose networks are directly connected to the transmission network (so-called DSOp), and 182 undertakings designated as DSOs, whose networks have no direct connections with the transmission network (so-called DSO<sub>n</sub>).

The supply side of the retail energy market consists of energy sellers offering the commodity to final customers. This group includes 6 suppliers operating within groups, jointly with distribution system operators, but as separate legal entities. The second group consists of suppliers in entities that are also distribution system operators (in 2021, there were 182 of them), and the third is independent electricity suppliers – entities not related to distribution activity in Poland.

With regard to institutional customers, suppliers are not obliged to submit electricity tariffs to the President of URE for approval, while tariffs for households are approved only at the request of default supplier and with regard to those consumers who choose not to switch their supplier (sales under public obligation). However, default suppliers may - in addition to selling energy using the prices and rates specified in the tariff - present a market offer with a freely shaped price to all customers, including all customers in households. In the case of household customers connected to the network of the operator on whose territory the suppliers perform the tasks of a default supplier, the choice of tariff or market offer depends on the customer.

The average energy price for the fourth quarter of 2021, compared with the price in the same period of the preceding year, shows an increase of 6.62%, and distribution fees increased by an average of 16.35%. The energy price increases affected customers in tariff group A the most (44.58%). Only in the group of customers connected to the low-voltage network was the increase hardly noticeable (0.18%). For customers in households, the price increase amounted to 6.47% on average, but it should be remembered that more than 60% of these customers use prices set in tariffs approved by the President of URE. In 2021, the cost of electricity supply increased by 10.38% on average, as the dynamics of the increase in distribution fees were also above average (in the household group, the increase was 15.92%, and the highest – 32.48% – was in tariff group B). Overall, in the reporting year, the energy price, distribution fees and the total cost of energy supply increased in all customer groups, and their value (nominally) was at previously unobserved levels.

In 2021, the number of customers exercising their right to switch supplier increased by 2.87% compared to 2020, with a change of 4.82% in the institutional customer group (tariff groups A, B and C) and an increase of 2.25% in tariff group G (including households).

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<sup>1)</sup> As at 31 December 2020 and 31 December 2021, data provided by PSE S.A.

<sup>2)</sup> Data based on annual average values from the evening peak of business days, data provided by PSE S.A.

<sup>3)</sup> Share calculated by volume of electricity fed into the grid. The calculation of this indicator takes into account the structure of entities as at 31 December 2021.

## Gas market

Gas purchases from abroad, amounting to 190.4 TWh, were supplemented by gas from domestic sources, amounting to 40.7 TWh. The total gas supplies from abroad in 2021 included imports and intra-Community acquisitions.

490.5 TWh of high-methane gas and 8.2 TWh of nitrogenous gas flowed through the Polish transmission system. Most of the high-methane gas was transported in transit via the Yamal pipeline.

At the end of 2021, 180 entities held a licence to trade in gaseous fuels compared to 185 at the end of 2020. Meanwhile, 87 companies actively participated in natural gas trading. In 2021 GK PGNiG acquired 376.6 TWh of gas (purchase and extraction), while gas trading companies from outside the GK PGNiG acquired 99.9 TWh of natural gas.

The sale and purchase of gaseous fuels on the Polish wholesale market takes place primarily on the exchange market operated by TGE S.A. (Exchange Commodity Market - ECM and from 1 May 2020 – Organized Trading Facility – OTF). Participants of the exchange market include primarily natural gas trading companies and major final customers.

In 2021 TGE S.A. operated the following markets for the sale of gaseous fuels: Intraday Market (IDMg), Day-Ahead Market (DAMg) and Gas Forwards Market (GFM) of the Organized Trading Facility (OTF).

In 2021, as a result of the execution of contracts concluded on TGE S.A., 173,198,809 MWh of natural gas were delivered in the whole quotation period of a given contract type at the average price of 130.62 PLN/MWh (21,696,044 MWh on the DAMg market at the average price of 222.69 PLN/MWh; 6,771,099 MWh on the IDMg market at the average price of 234.58 PLN/MWh and 144,731,666 MWh on the GFM market at the average price of 111.96 PLN/MWh).

At the end of 2021, 133 suppliers had agreements with the TSO allowing them to sell gas on the retail market (a decrease by 28 compared to 2020), and in the area of the distribution network – PSG Sp. z o.o. – the number of agreements amounted to 73.

In 2021, 27 natural gas trading companies and 11 of the largest distribution system operators (DSOs) were included in the detailed assessment by the President of URE. The DSOs included in the survey had 6,750,806 customers (7,093,643 gas consumption points) connected to the network for high-methane gas and 372,701 customers (392,303 gas consumption points) for nitrogenous gas.

In the reporting year, however, total sales of high-methane and nitrogenous gas to final customers amounted to 206,626,689 MWh, of which most, or as much as 61%, went to industrial customers and 28.7% to households.

The share of GK PGNiG entities in gas sales to final customers was 88.74%, up by just over 3 percentage points on the previous year. The remaining 11.26% of gas sales to final customers were made by alternative trading companies selling to final customers in the country. The share of GK PGNiG entities in the retail market for liquefied natural gas (LNG) also increased in 2021, reaching 19.25%.

At the end of 2021, the number of supplier switching amounted to 283,649. This means that during 2021, 14,693 entities joined the group of customers who switched supplier. This number represents approximately 59.5% of the corresponding number from the previous year (24,713 customers). The relatively small increase in this number, compared to the increases observed in previous years, can at least in part be attributed to the pandemic situation, which significantly limited the ability of suppliers to reach potential customers. In addition, on 3 July 2021, the ban on concluding gas sales contracts and comprehensive contracts with household customers in door-to-door formula came into force. Thus, one channel of customer acquisition disappeared from the market, which may also translate into a lower increase in the number of supplier switching than in previous years.