



Weekly Briefing

Poland social briefing:

The actions of the Polish government in the face of the energy crisis

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The actions of the Polish government in the face of the energy crisis

Summary

Faced with rising energy prices in Poland and around the world as a result of the war in Ukraine, the Polish government is taking active measures to limit the effects of the crisis. The Polish government's actions include subsidies for individual households using coal, gas and oil for heating, a partial freeze on electricity prices for households and for sensitive entities such as schools or hospitals, as well as small and medium-sized businesses. The Polish government is also introducing legal mechanisms to reduce energy prices, such as the abolition of the exchange obligation, i.e. the obligation to purchase energy through the stock exchange. It is also expanding cooperation with local governments to better distribute coal, a key resource for Poland, which accounts for more than 70 percent in the Polish energy mix. Environmental criteria have also been relaxed, and it has been permitted to burn inferior quality coal, such as lignite or coal dust. Efforts are underway to increase coal exports from such destinations as Colombia, Australia, and Indonesia to replace raw material from Russia and its own mining. New gas connections that have been under construction for many years – The Baltic Pipe with Denmark and a pipeline with Slovakia - have also opened in recent months.

Introduction

The Polish parliament passed in October the mechanism for a maximum electricity price of no more than about 165 euros/MWh for sensitive entities, including hospitals, nurseries, universities and small and medium-sized businesses. For households, the maximum price above the limit (2 MWh per year - ed. note) will be 145 euros/MWh. This is the maximum level accepted by the European Commission. The solution is to be financed from a special fund and the state budget. According to Climate and Environment Minister Anna Moskva, the main source of funding for support for vulnerable electricity consumers, micro, small and medium-sized companies, will be the revenues of energy producers. In turn, as Development and Technology Minister Waldemar Buda assured, the assistance of establishing maximum energy prices is directed to almost all companies. He also informed that the guaranteed energy price level will apply to 80 percent of a company's energy consumption, as these are EU requirements.¹

Electricity prices in 2023 at 2022 prices

Earlier, the Polish parliament passed a law according to which in 2023 electricity prices will be frozen at this year's levels up to a certain consumption limit: 2 MWh per year for a household, 2.6 MWh for households with people with disabilities and 3 MWh for families with the Large Family Card (an entitlement that gives discounts to large families for using many services) and farmers. Once the indicated consumption limits are exceeded, customers will be billed for each additional amount of energy consumed according to the tariff rates or price lists in effect in 2023. The freeze in energy prices is accompanied by a freeze in distribution fee rates up to the indicated consumption limits.

The new law also stipulates that if, between October the 1st of this year and December 31st in 2023, a customer reduces his consumption by at least 10 percent compared to the period October 1st, 2021-December 31st, 2022, in 2024 the seller is to offer him a discount of 10 percent of the cost of electricity from the period October 2022-December 2023. Electricity companies are also to receive compensation for electricity price freezes and discounts.

The law also provides for the introduction of an electricity allowance for households whose main heating source is powered by electricity. The amount of the electricity allowance has been differentiated into two thresholds depending on annual electricity consumption. The source of funding for the new measures is to be the Covid-19 Counteracting Fund.

The law also stipulates that measures be taken to reduce the electricity consumption of government and local government offices. Managers of units in the finance sector from December 1, 2022 to December 31, 2022 are to reduce the consumption of electricity in occupied buildings, by technical equipment, etc. by 10 percent compared to the 2018-2019 average, while in 2023 the target of a 10 percent reduction from 2022 consumption is also to apply. Those who fail to meet this obligation are to be subject to a fine of up to 4170 euros.ⁱⁱ

Elimination of the obligation to purchase energy through the exchange

At the end of September, the Polish parliament also passed a law abolishing the so-called exchange obligation, i.e. the obligation to sell electricity through an exchange. In the justification for the bill, the government pointed out that the obligation is a regulation that limits the freedom of entities in the electricity market, and that competition can be achieved in other ways. After the abolition of the exchange obligation, commercial transactions will continue to be carried out on commodity exchanges, with the use of this form of trading to be decided by each market participant on its own, according to its own market strategy, the government

indicates. The law also introduces penalties for "energy market manipulation" and the use of inside information to trade in energy products on the wholesale market.

The President Andrzej Duda has also signed into law the Gas Security Act. Among other things, the law extends until the end of 2027 the obligation of the President of the Energy Regulatory Authority to approve gas tariffs for certain customers. This applies to tariffs for gas sales to domestic customers and strategic public benefit institutions, such as hospitals, schools and kindergartens.

Cheaper coal for local authorities

Parliament also passed a bill that sets the price of coal sales to local governments at a maximum level of about 315 euros. This means, as government plans, that coal for the end user will be much cheaper.ⁱⁱⁱ Under the legislation, municipalities, municipal companies and municipal unions will be able to buy coal from importers at about 315 euros per ton, to then sell it to residents at no more than about 415 euros per ton. As the government explains, the difference of 100 euros per ton is a means for municipalities to cover coal distribution costs, such as transportation costs.

To buy coal from the local government, residents will apply to the municipality for preferential purchase. The solution will be available to those who are entitled to receive the so-called coal allowance. After taking into account this allowance, which is about 625 euros, the effective price of coal per ton is expected to be only about 210 euros, which is much lower than the market price. Limits on the purchase of coal will be included in a regulation to the law.

Under the bill, formalities related to the purchase and sale of coal by municipalities are to be simplified. Local governments will be exempt from applying the Public Procurement Law and from issuing a certificate of origin for coal. The municipality will be able to distribute coal through: its own organizational units, selected companies such as municipalities, an agreement with a coal depot, an agreement with another municipality. Municipalities that bought coal for sale before the new law takes effect will be able to request a refund of the difference in price. The laws are to take effect retroactively. There are to be 50 coal distribution points throughout Poland operated by state-owned coal and oil companies Węglokoks and PGE Paliwa. Coal will also be able to be picked up from the ports.

Subsidies for entities heating with coal, gas and oil

In August, a bill entered into force, which stipulates that a one-time support of about 638 euros will be available to households heating with hard coal. The coal allowance is available to households whose main source of heating is appliances for which at least 85 percent of the fuel is hard coal.^{iv} The subsidy will also apply to heating sources other than coal, such as row pellets, biomass, chunk wood, LPG gas, and fuel oil, and in this case will range from 106 to 638 euros.^v The law also provides for surcharges for certain network heat customers to limit price increases for individual heat consumers. The act also loosens the ecological criteria regarding the possibility of using coal in households for heating purposes, allowing the use of lower-quality coal.

Subsidies to energy bills totaling a total of 255 million euros will also be given to sensitive entities. The aid will be granted on a one-time basis for a selected heat source. Support will be available to those entities that incur the cost of purchasing coal, briquette or pellets containing at least 85% coal, wood pellets, as well as other types of biomass, LPG, fuel oil, used for heating purposes, in connection with the performance by these entities of their statutory activities. This includes hospitals, clinics, units organizing social assistance, night shelters, schools, nurseries, cultural institutions, among others. The amount of the allowance will be 40% of the increase in heating supply costs.^{vi}

Opening of Baltic Pipe gas pipeline with Denmark and connection to Slovakia

September also saw the launch of two important Polish gas connections that have been under construction for many years. The Baltic Pipe pipeline in the Baltic Sea is intended to diversify sources of gas supply to Poland and Denmark and other countries in the Baltic Sea region and Central and Eastern Europe from Norway and become independent of Russian supplies. It will provide Poland with direct access to gas deposits located on the Norwegian Shelf. It is being implemented in close cooperation between the Polish gas transmission system operator GAZ-SYSTEM and the Danish gas and energy transmission system operator Energinet.^{vii}

In late August, the prime ministers of Slovakia and Poland inaugurated the new Poland-Slovakia gas link. The total length of the constructed gas pipeline is more than 165 kilometers, of which 61 kilometers are on the Polish side. - This is a peace pipeline that creates a security community based on the strategic community of the Tri-Mountain region, Prime Minister Mateusz Morawiecki said. The Poland-Slovakia interconnector is a two-way high-pressure gas

pipeline connecting the national system's gas hub in Strachocina in Podkarpacie with Slovakia's Velke Kapuszany hub near the Ukrainian border.^{viii} The pipeline is an important part of the North-South Corridor and is one of the key energy investments in the region, which will strengthen the resource security of Poland and Slovakia.

Conclusion

The Polish government is taking comprehensive measures to curb the increase in energy prices for consumers, through subsidies for households using coal, gas and oil for heating purposes, freezing electricity prices for households, companies and sensitive institutions, and cooperation in coal distribution with local governments. New gas connections to other countries are also being launched, with the aim of boosting Poland's energy security and independence in supply from Russia.

i _____ The Radio RMF FM https://www.rmfm24.pl/ekonomia/news-maksymalne-ceny-pradu-dla-podmiotow-wrazliwych-premier-o-szc,nld,6340739#crp_state=1

ii _____ The Daily Gazeta Prawna <https://serwisy.gazetaprawna.pl/finanse-osobiste/artykuly/8558488,zamrozenie-cen-pradu-dodatek-elektryczny-ustawa-dla-kogo.html>

iii _____ Polish Press Agency <https://samorzad.pap.pl/kategoria/aktualnosci/rzad-przyjal-projekt-ustawy-okreslajacej-cene-sprzedazy-wegla-dla-samorzadow>

iv _____ The BusinessInsider.com.pl Portal <https://businessinsider.com.pl/twoje-pieniadze/dodatek-weglowy-przyjety-ustawa-trafi-na-biurko-prezydenta/gzy2rd>

v _____ The Economic portal Money.pl <https://www.money.pl/pieniadze/doplaty-do-innych-zrodel-ogrzewania-niz-wegiel-sejm-zdecydowal-6808072862648864a.html>

vi _____ The Ministry of Climate and the Environment <https://www.gov.pl/web/klimat/rzadowe-wsparcie-dla-wszystkich-zrodel-ciepla>

vii _____ The Office of the President of the Republic of Poland <https://www.prezydent.pl/aktualnosci/wydarzenia/gazociag-baltic-pipe-uroczyscie-otwarty,59171>

viii _____ The Economic portal Money.pl <https://www.money.pl/gospodarka/rusza-gazociag-polska-slowacja-polaczenie-oficjalnie-uruchomione-6805500884359936a.html>