

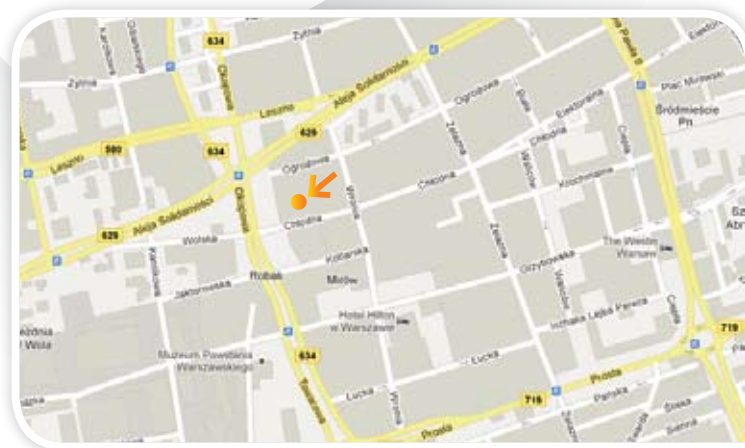
# ENERGY REGULATORY OFFICE





# Energy Regulatory Office

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The President of Energy Regulatory Office is a central government body, set up under the terms of the Energy Law Act of 10 April 1997.

- The President realizes tasks connected with promotion of competition and regulation of fuels and energy markets.
- The President is appointed by the Prime Minister from the candidates chosen in an open competition, upon the proposal of the minister responsible for economy affairs.
- The President's authority is supported by the Energy Regulatory Office that comprises of the head office and 9 regional offices.



## MISSION

Energy regulator's activities comprise of creating conditions for developing competition and preventing negative effects of natural monopoly, promoting sustainable development, ensuring energy security, and encouraging economic and rational use of fuels and energy. The President of ERO regulates the activities of energy enterprises in accordance with the national energy policy, in order to balance the interests of all of the energy market actors, i.e. end users and energy enterprises.



*According to the ERO President...*

*Regulated markets should function in the most predictable regulatory environment. A status of the regulatory body, corresponding with the EU law, should guarantee this predictability.*





## ERO IN NUMBERS:<sup>\*</sup>

- In operation from **1998**
- Employs **300** people
- **93%** of employees with higher education of minimum Masters degree

### Among them:

- Economists – **22%**
- Lawyers – **20%**
- Management specialists – **10%**
- Power engineers and electricians – **8%**
- Business administrators – **8%**
- Environmentalists – **7%**
- Mechanical engineers – **6%**
- Other professionals – **19%**

### Budget:

- Expenses – **35** million zloty
- Income – **96** million zloty (gained from energy companies in license fees; remitted wholly to the national budget)
- **10 251** – number of energy enterprises licensed by ERO
- Nearly **4000** – number of complaints lodged to ERO in 2010 against energy enterprises
- Over **200** decisions settling disputes were issued by ERO President in 2010, inter alia, on suspending supplies, on refusing to enter into sales agreement or on refusing to enter into grid connection agreement
- Nearly **5000** – number of administrative decisions issued yearly by the President of ERO

<sup>\*</sup> status at the end of 2010

## MARKET IN NUMBERS:<sup>\*</sup>

- **16,5** mln end users of energy; therein **13,5** mln households (**82%** of all users)
- **157 414** GWh – volume of gross national energy production in 2010
- **156 060** GWh – national energy usage
- **35 756** MW – installed capacity in Public Power System
- **90%** of energy is produced from hard and brown coal
- **14 416,8** mln m<sup>3</sup> – total usage of natural gas in Poland
- **10 066,4** mln m<sup>3</sup> – foreign gas supply – cover **70%** of the whole natural gas supply

# Regulatory activities

The President of ERO has an authority to control the licensed enterprises' adherence to the conditions of conducting business.

Energy Law Act enables the President to control the activities of energy enterprises during the process of license granting or changing as well as through taking appropriate action after notification from other government body or user (e.g. in a form of complaint) of any violation of law or a suspicion of noncompliance with the law or conditions of the issued license. The result of revealing the incorrectness is an intervention with the use of available legal means, including financial penalties.

### It is worth knowing that...

The President of ERO regulates the activities of energy, gas, heat engineering and liquid fuels enterprises by:

- Licensing
- Approving tariffs and prices
- Designating transmission system operators and monitoring the fulfillment of the operators' tasks
- Monitoring biocomponents and liquid fuels market

The regulation methods should support the development of infrastructure. One of the means to realize this goal is prolonging the period of the tariffs' validity, because the stable regulatory frame in the long run helps operators to develop long-term strategies. At the same time the operators should be required to improve the operational effectiveness.





# Promotion of competition and strengthening the consumer's position

Promotion of competition is a priority for the President of ERO manifesting itself in the current evaluation of the influence of adopted decisions on the development of competition on the energy market and optimal decision-making from this point of view.



ERO's President does not have a wide range of competences directly connected with the promotion of competition. Among main activities of the regulator leading towards eliminating the barriers for competition on the energy market are:

- **approving the instruction for operation and maintenance of the grid:** resolutions determining the conditions of balancing the system and managing the system limitations, as well as the conditions of use and conducting traffic, exploitation and planning the development of the grid;
- **approving the programs for the compliance of the distribution system operators** – program for the compliance is a document that may significantly aid the competition on the energy market as well as aid the creation of the competitive gas market by ensuring non-discriminating treatment of the system users;
- **monitoring the mechanisms for balancing the system** – through analysis of the information and periodical transmission system operator's reports; the President also evaluates the functioning of the principles for balancing and congestion management in the National Power System based on monitoring the situation on the market and analyzing the causes of possible disruptions;

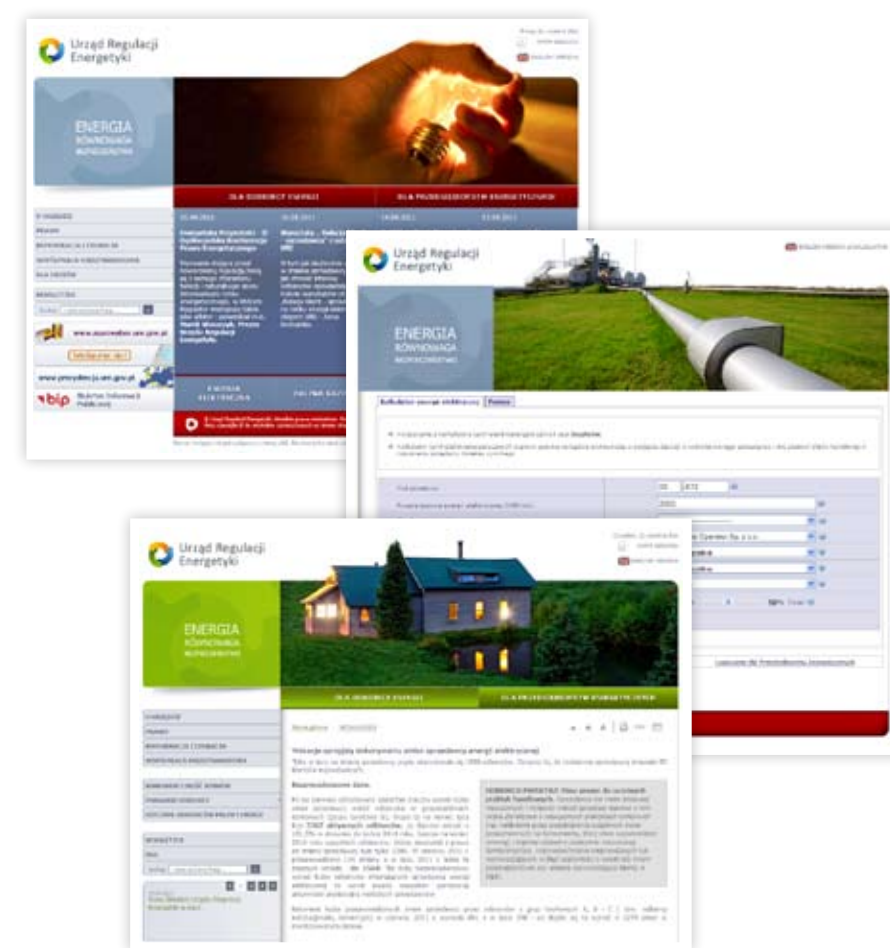
- **monitoring the conditions for connecting the enterprises to the grid** and how they are fulfilled as well as monitoring modernization works on the grid. This is done by verifying and analyzing the information coming from energy enterprises and users; especially through monitoring the fulfillment of the enterprises' obligation to inform the President of ERO about every case of refusal to connect to the grid; during resolving disputes concerning refusal to enter into agreement for connection to the grid and considering the complaints of consumers against the energy enterprises; monitoring is also conducted at ERO during the licensing process (including license changes);

*All actions and decisions concerning liberalization of the rules and principles of the market's functioning have to be taken keeping in mind the resulting advantages for end users. Energy user has to be the final beneficiary of the liberalization process.*

- **monitoring the conditions of gas storage, liquefying natural gas;**
- **control over the realization of the obligation of public electricity sale (exchange obligation);**
- **committing to the implementation of the entry-exit tariff system** – including consultations with the gas TSO as regards rates in the entry-exit system and the rules of their calculation.

Among many activities for the promotion of competition, it is worth to distinguish the ERO President's educational and informational campaigns organized on a large scale, in order to strengthen the demand side of the market.

The number of suppliers' switching cases measures the development of the competitive energy market. The ERO President systematically monitors the degree of the use of the possibility to choose the energy provider by the authorized consumers. The results of the monitoring show that in Poland mostly the industrial and institutional consumers benefit from TPA rule. However more and more consumers know about their right to change the provider and learn to use that right. ERO's guidebook website promoting TPA has thousands of guests daily ([www.maszwybor.ure.gov.pl](http://www.maszwybor.ure.gov.pl)).



## Good Practice

ERO undertakes a number of initiatives and actions leading to improvement of the gas and energy market's functioning. An example of such an initiative is an elaboration of documents „Good Practice for Providers and Distribution System Operators” of gas and energy.

Good Practice documents are recommended by the President of ERO to be used by energy enterprises during elaborating of their own Good Practice codes. The documents created with a view on strengthening the end users' position regulate matters such as: complete information on the sale offer before signing a contract; transparency of the contract; appropriate course of entering into contract; the quality of customer service; the rules of settling complaints and disputes between the consumer and provider; the right to information on the consumer rights concerning energy and natural gas supplies; carefulness and complete honesty towards consumers when it comes to the readings, measurement and calculation services; the right to change the supplier free of charge and in accordance with procedures.

*The essence of the social responsibility of the energy sector is the business input into the realization of the national energy policy through managing the enterprise in such a way to combine the effectiveness with reliability – that manifests in the enterprises' withdrawal from using the monopoly to its advantage.*



# Tariffication

**Every year the President of ERO conducts around 1200 administrative proceedings concerning approving energy, gas and heat tariffs.**

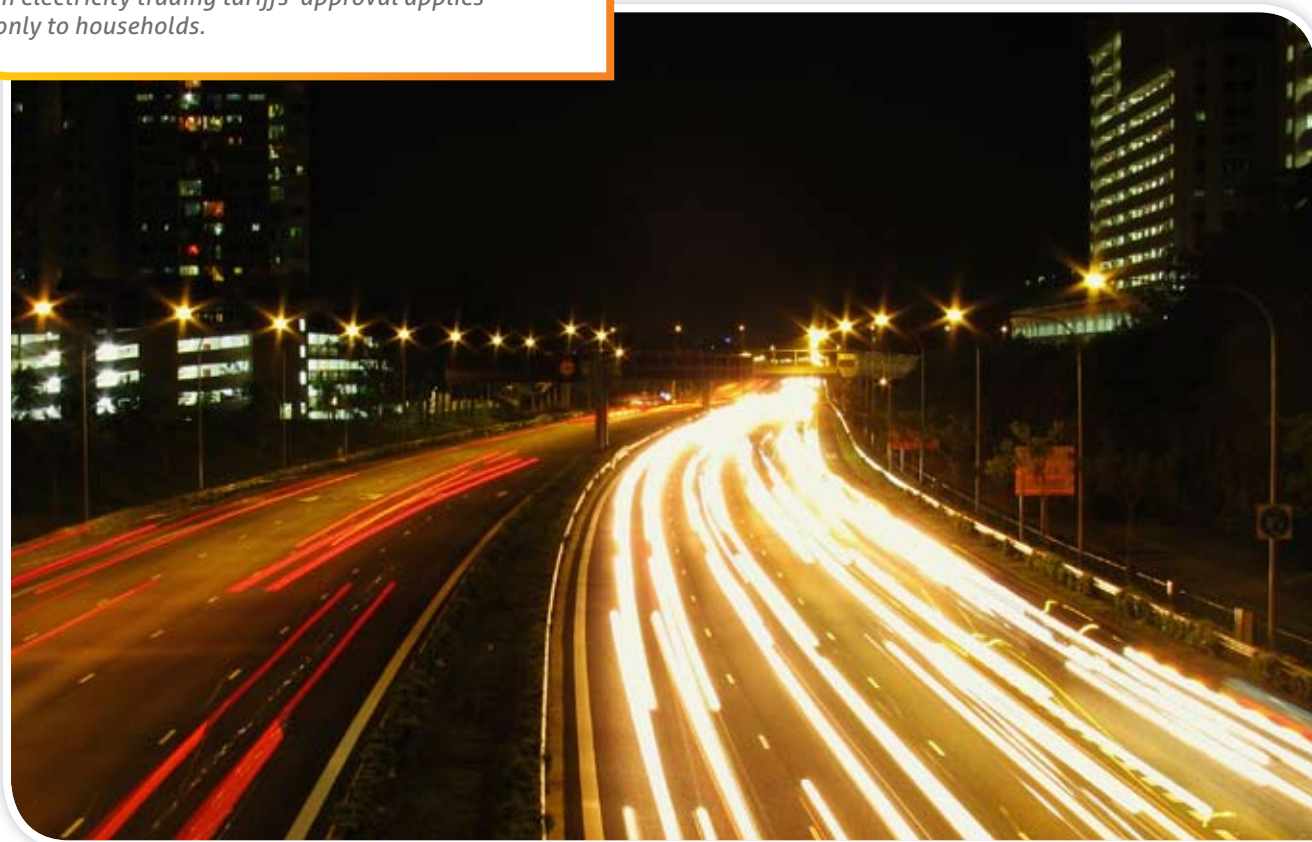
One of the key issues is developing a methodology of benchmarking analysis and financial projection for tariffication needs of the largest distribution system operators as well as establishing for those enterprises the amount of justified return on the capital. Incentive regulation model with elements of comparative analysis has been used for a few years now in energy operators' activities, whereas in case of gas the appropriate model was implemented in 2011.

## *It is worth knowing that...*

*The President of ERO approves the tariffs for transmission and distribution of energy. In electricity trading tariffs' approval applies only to households.*

At the same time ERO controls tariffs inter alia in terms of compliance of the presented tariffs with the law, the obligation to use approved tariffs and to apply tariffs – especially in accordance with their conditions.

Tariffication of the infrastructural enterprises is an indirect method of monitoring the security of supply. During the tariffication process decisions on the extent of financing the assets indispensable for the fuel supply are being made. The amount of investment in the network assets, the amounts dedicated to renovation and modernizing the assets determine its condition. Approved tariffs assure good financial condition of enterprises but also the possibility to finance planned investments, modernizations and renovations.

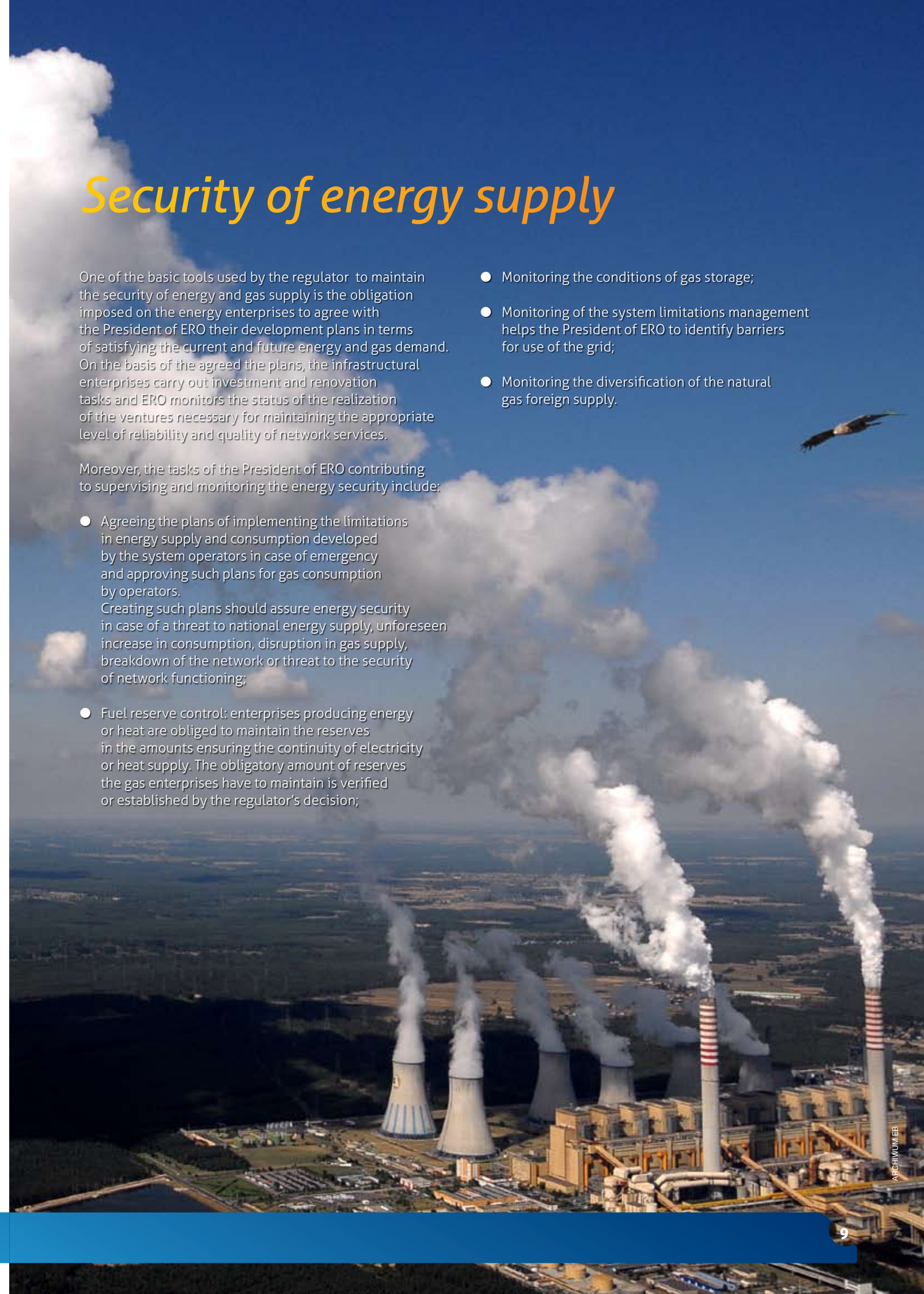


# Security of energy supply

One of the basic tools used by the regulator to maintain the security of energy and gas supply is the obligation imposed on the energy enterprises to agree with the President of ERO their development plans in terms of satisfying the current and future energy and gas demand. On the basis of the agreed the plans, the infrastructural enterprises carry out investment and renovation tasks and ERO monitors the status of the realization of the ventures necessary for maintaining the appropriate level of reliability and quality of network services.

Moreover, the tasks of the President of ERO contributing to supervising and monitoring the energy security include:

- Agreeing the plans of implementing the limitations in energy supply and consumption developed by the system operators in case of emergency and approving such plans for gas consumption by operators. Creating such plans should assure energy security in case of a threat to national energy supply, unforeseen increase in consumption, disruption in gas supply, breakdown of the network or threat to the security of network functioning;
- Fuel reserve control: enterprises producing energy or heat are obliged to maintain the reserves in the amounts ensuring the continuity of electricity or heat supply. The obligatory amount of reserves the gas enterprises have to maintain is verified or established by the regulator's decision;
- Monitoring the conditions of gas storage;
- Monitoring of the system limitations management helps the President of ERO to identify barriers for use of the grid;
- Monitoring the diversification of the natural gas foreign supply.





## International cooperation

**Energy Regulatory Office operations are influenced significantly by the external conditions which role and meaning in the recent years increased along with the convergence of the regulatory activities and progressing integration of energy markets.**

While taking regulatory decisions on the national market, the regulator can not disregard good practice elaborated within associations such as CEER (The Council of European Energy Regulators) or ERRA (Energy Regulators Regional Association). Moreover, progressing integration of energy markets within EU means that many regulatory solutions elaborated by the European Commission, European Council and European Parliament are either directly applicable in the Member States or need to be implemented into the national legislation. The President of ERO takes part in the development and implementation process both on European (first within ERGEG – European Regulators' Group for Electricity and Gas, the European Commission's consulting body and now at ACER – Agency for Cooperation of Energy Regulators that replaced ERGEG) and on national level. As a result the national regulator becomes more and more involved in the international cooperation, especially within the EU.

Every year Energy Regulatory Office prepares and presents, to the European Commission, a National Report on the functioning of the Polish energy market and the activities of the President of ERO aiming at creating a competitive energy market. Furthermore, ERO regularly informs the Commission about the situation on the Polish energy market, contributes to research and analyses conducted by the EC, takes part in the sessions of Committees and working groups.

Among the institutions of international rank that the Polish regulator cooperates with a special place is taken by the regulators' associations: CEER (The Council of European Energy Regulators), ACER (Agency for Cooperation of Energy Regulators) and ERRA (Energy Regulators Regional Association).

From February 2011, the President of ERO holds the function of the Vice President of the Board of the CEER. ERO's experts contribute to the works of the Council and take part in consultations on the documents elaborated by CEER, aiming at creating the tools for the future functioning of the European electricity and gas market.

In 2010 Energy Regulatory Office began cooperation with European energy regulators within ACER, officially established by the EU Regulation in 2011. The President of ERO represents Poland in the Agency Board of Regulators. ERO representatives take an active part in the works of many ACER working groups as well as Regional Initiatives in the field of electricity (ERI): North Europe, Central Eastern Europe and gas (GRI): South and South East.

Poland is also among the founding countries of the ERRA created in 2000 by the representatives of 15 countries of Central and Eastern Europe. From 2009 the President of ERO is a member of the ERRA Presidium.

## Education and information

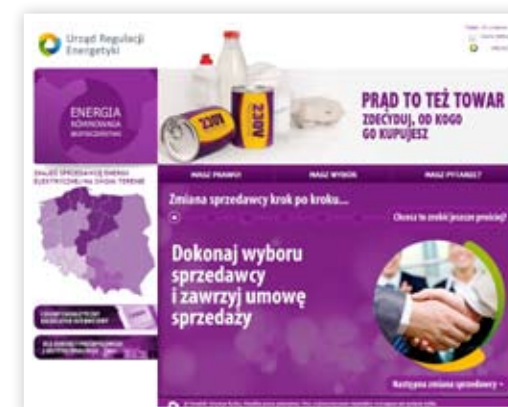
**Shaping the consumer awareness of the end users became an important goal in the ERO's strategy, which aims at creating an open and competitive energy market.**

*The consumers on the fuel and energy market have to be treated with care and their needs and expectations should be taken under consideration by the other market actors. It will not happen without guaranteed and well realized rights, institutional support in case of disputes and facilitation of the procedures of settling complaints.*

Still, many consumers do not know their rights and obligations. Therefore, informing them of the possibilities that appeared together with progressing process of market liberalization is crucial. ERO created an Information Centre for Energy Consumers „How to change the supplier”, also the Contact Point provides guidance for end users. The main responsibility of the Contact Point is to inform the consumers about their rights and obligations towards energy enterprises.

ERO leads informational and educational campaigns using new technologies and tools such as: internet, TV, radio, billboards and press. A guidebook website – [www.maszwybor.ure.gov.pl](http://www.maszwybor.ure.gov.pl) – prepared by ERO in the social campaign promoting the right to change the energy supplier is one of the examples.

In this interactive e-guide consumers can find certain information concerning their rights and procedures for changing the supplier. The website has been

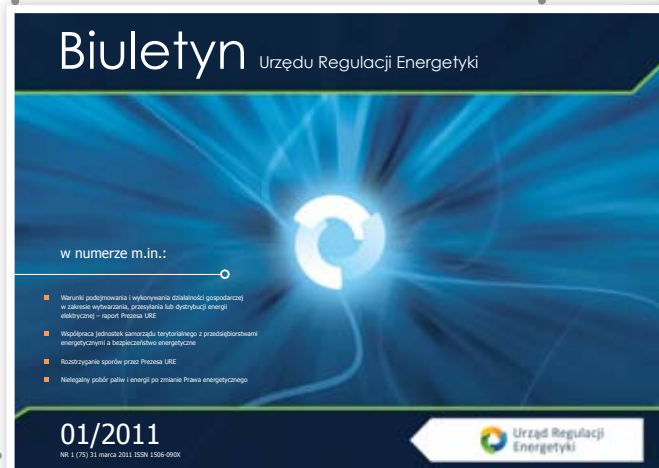


in operation from mid 2010. During the last year the website was visited by almost 100 thousand users and entered 300 thousand times.



Among tools used by ERO in the educational campaign „Energy is also a product. You decide who you are buying from” were billboards. The campaign was co-financed by the EEA and Norway Grants.





Issues raised by ERO in its educational activities are coherent with the information requirements of energy market actors. In the years 2009-2011 ERO lead also campaigns promoting the implementation of smart metering into the Polish energy system, purchase of electricity in open bids or promoting social responsibility of energy enterprises. Diversifying the form of the message depending on the needs of the target group, ERO leads educational campaigns addressed to seniors („You can change your

electricity supplier”) and to the youth (multimedia educational competition „New horizons of energy – knowledge and its use”), and to adult consumers (campaign promoting the right to change the energy supplier „Energy is also a product. You decide who you are buying from” where idea placement was used in one of the most popular TV programs as well as radio advertisement, billboards and leaflets).

