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Recent developments on the Polish gas market

Energy Regulatory Office
Department for Promotion of Competition

Gas Regional Initiative – Region South–South East

Gdynia, 25-26 June 2009

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Law regulations

Energy activity in Poland is regulated by The Polish Energy Law Act of 10th April 1997

Implementation of EU Law

Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas

- **On March 4th 2005 implemented to the Polish Energy Law Act**

Directive 2004/67/EC of the Council of 26 April 2004 concerning measures to safeguard security of natural gas supply

- **Implemented to the Polish Energy Law Act on July 21st 2006 (came into effect on September 22nd 2006)**

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Statutory duties of the Energy Regulatory Office

The President of the ERO - an independent regulatory authority

The basic method of exercising supervisory competences of the President of the ERO is to constantly monitor functioning of the gas system and gas market and applying the measures provided by the law.

ERO - institution responsible for regulations of energy sector:

- licensing entrepreneurs of energy markets
- approval of tariffs
- controlling of the energy activity
- promotion of competition

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Law conditionings activities of the President of Energy Regulatory Office

Energy Law Act

Article 21

The tasks of the regulator of the fuel and energy economy and the tasks aimed at the promotion of competition shall rest upon the Chairman of the Energy Regulatory Office (ERO), hereafter referred to as the "Chairman of ERO"

Article 23

The Chairman of ERO regulates the activity of the energy enterprises on the basis of the act of law and the state energy policy, aiming at balancing the interests of the energy enterprises and the fuel and energy customers.

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Law conditionings activities of the President of Energy Regulatory Office

Energy Policy of Poland until 2025

Rules

- Full integration of energy market and internal gas market
- Liberalized market mechanisms with the necessary administrative regulation
- The fulfilment of the Accession Treaty obligations
- Implementation of the principle of the regulated Third Party Access (TPA) as the key tool for de-monopolization and liberalization of the natural monopoly of network companies

Objectives

- The necessary diversification of gas supplies
- Establishing of competitive markets through stimulating competition and effective elimination of barriers
- Developments of interconnectors on the internal gas market

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Energy activity

Requires licences and tariffs regarding activities on the field of:

- **gas storage**
- **gas transmission and distribution**
- **trade**
- **LNG activity**

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Key Gas Figures	2008	2007
Yearly Consumption	14.34 bcm	13.88 bcm
Domestic gas production	4.1 bcm	4.3 bcm
Storage capacity	1.66 bcm	1.66 bcm
Import supplies	10.03 bcm	9.29 bcm

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Structure of the Polish Gas Sector

Gaz-System S.A. (T**SO**)
Transmission System Operator
Joint – Stock Company, 100 % state-owned

- **EuRoPol Gaz Joint-Stock Company**
  Owner of Polish part of the Yamal-Europe gas transmission system

- **POLISH OIL AND GAS COMPANY**
  98 % of the Gas Market
  (exploration, import, storage, trade and owner of the distribution system operators)
  since 31st of December 2008 function as Gas Storage Operator

- **Six distribution system operators (DSO)**

- **many small companies operating on the Polish gas market eg.** ENESTA S.A.,MOW, GEN GAZ Energia, KRI S.A., EWE energia and CP Energia – about 2 % of the market, mostly in local distribution and trade

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Natural gas transmission system in Poland

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DISTRIBUTION SYSTEM OPERATORS

Six distribution system operators: operation, maintenance, expansion of the distribution system

- Dolnośląska Spółka Gazownictwa
- Górnośląska Spółka Gazownictwa
- Karpacka Spółka Gazownictwa
- Mazowiecka Spółka Gazownictwa
- Pomorska Spółka Gazownictwa
- Wielkopolska Spółka Gazownictwa

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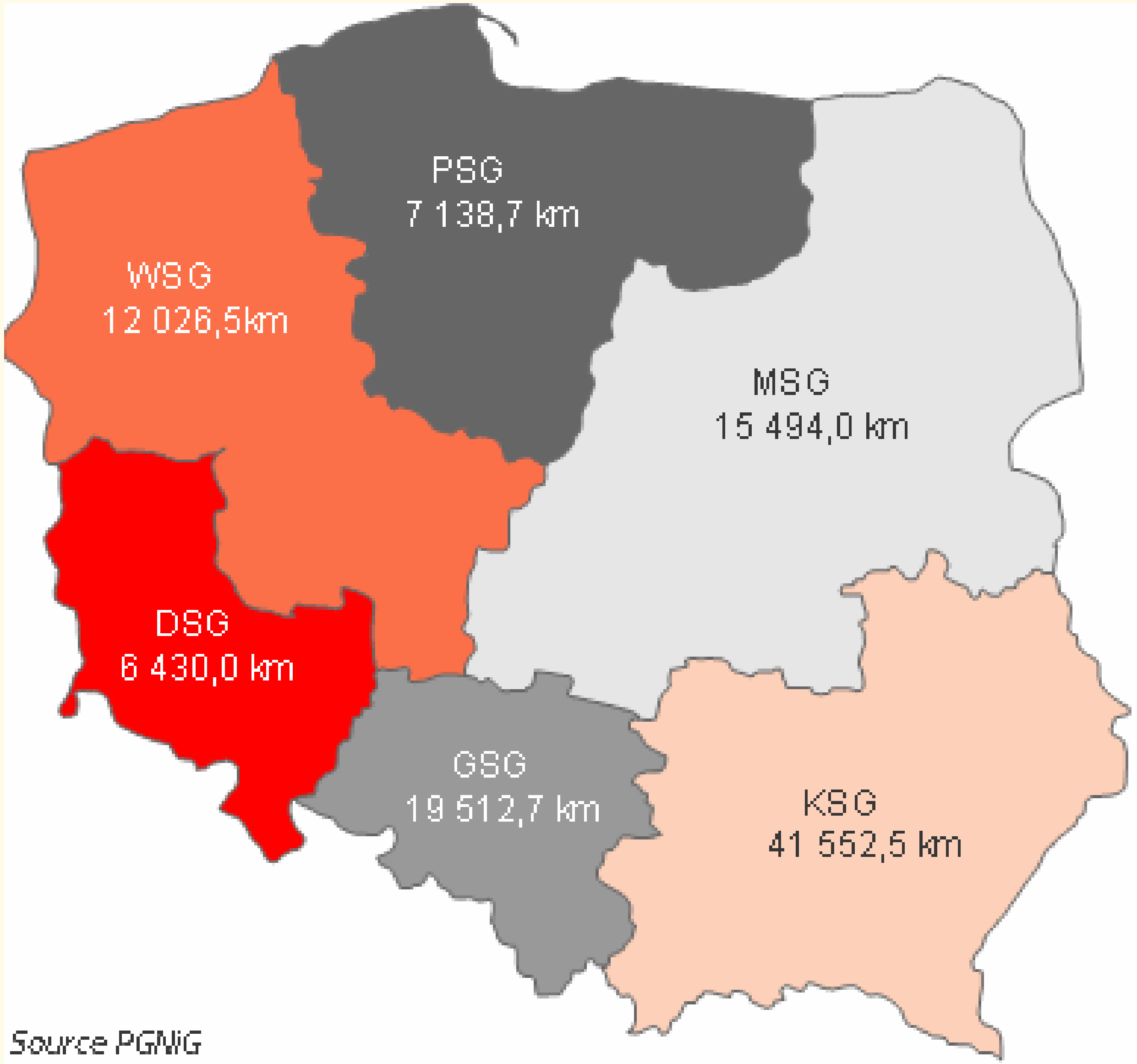
DISTRIBUTION SYSTEM OPERATORS

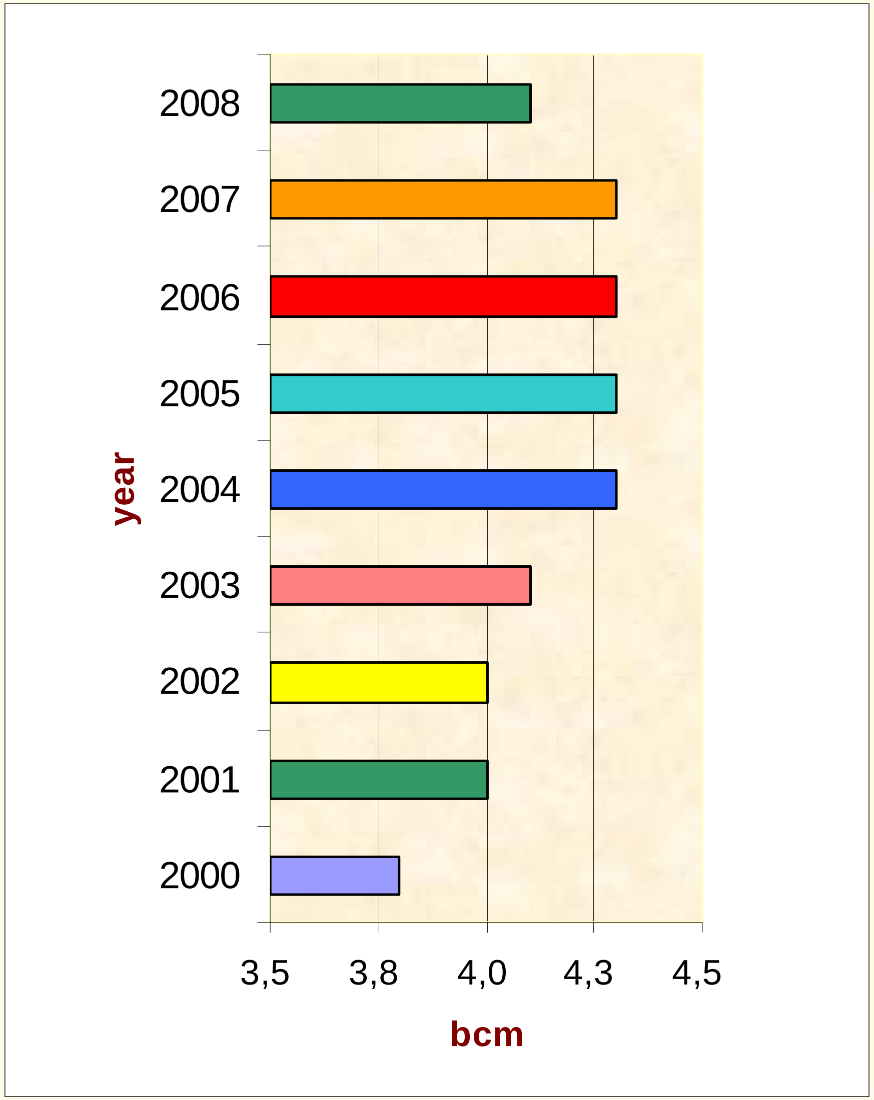


GAS CONSUMPTION IN POLAND

In 2008 total gas consumption in Poland reached 14,34 bcm domestic production amounting to 4,1 bcm.

Comparing to 2007 total gas consumption increased by 3,2 % but national production decreased by about 4,7 %.

Production from national sources



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SOURCES OF GAS SUPPLIES (in the year 2008)

	Amount [mcm]
Total foreign supplies	10 264,2
Yamal contract	7 056,7
EU supplies a) Czech b) Germany	 0,2 847,3
other import a) Ukraine b) Central Asia	 4,8 2 377,2
Domestic production	4 073,9
Gas storage (balance)	+ 11,8

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Main supply contracts

- **Long-term contract for supplies of Russian gas with OOO "Gazprom Eksport" dated September 25th 1996, and valid until December 31st 2022**
- **Agreement for gas supplies with VNG-Verbundnetz Gas AG, dated August 17th 2006 and valid until October 1st 2016**
- **Contract signed with ROSUKRENERGO AG for the import of Central Asia**

  The supplies began from January 1st 2007, reaching 2,5 bcm and was to be continued until January 1st 2010 with possible prolongation for the next 3 years.

  The company (RosUkrEnergo) - since the beginning of the year did not fulfill its contractual obligations.
- **on 1st of June 2009**, POGC and OOO Gazprom Export **signed a short-term** contract for natural gas deliveries to Poland. The contract will last until 30 September 2009 and involves the delivery of 1,024 bcm of natural gas.

  This amount allows POGC to fill its underground gas storage facilities in anticipation for the fall/winter season, which would otherwise be impossible due to RosUkrEnergo's failure to perform under a contract.

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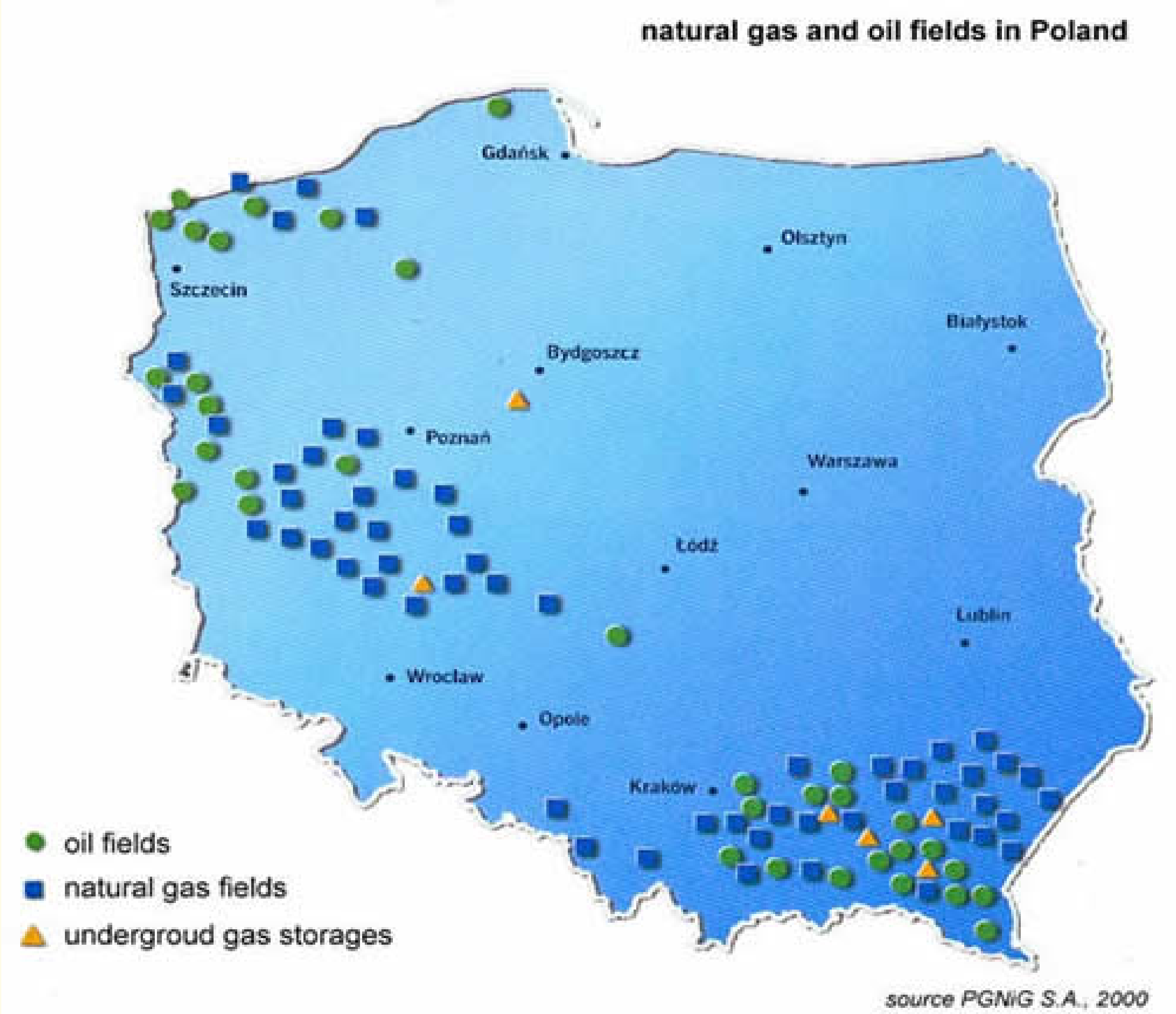
Existing natural gas - and oil fields



Location of existing and planned Underground Gas storages

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Underground gas storages

Name	Type	Total working capacity [million m^3]
Wierzchowice	depleted natural gas field	575.0
Mogilno	salt cavern	380.17
Husów	depleted natural gas field	400.0
Strachocina	depleted natural gas field	150.0
Swarzów	depleted natural gas field	90.0
Brzeźnica	depleted natural gas field	65.0
Total		1 660.17

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Development of new infrastructure, including projects:

- Skanled
- Baltic Pipeline
- LNG terminal
- Interconnectors
- Increase of natural gas production
- Extending the storage capacity

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Baltic Pipe

Baltic Pipe is one of the elements that would enable to establish a new gas transportation route from Norwegian Continental Shelf (NCS) to European market, consisting of:

- Gas supply sources on NCS,
- Gas transportation route from Norway to Denmark - **Skanled,**
- Gas transportation through the Danish Transmission System (DTS),
- **Baltic Pipe** - Gas transportation route through Baltic Sea to Poland.

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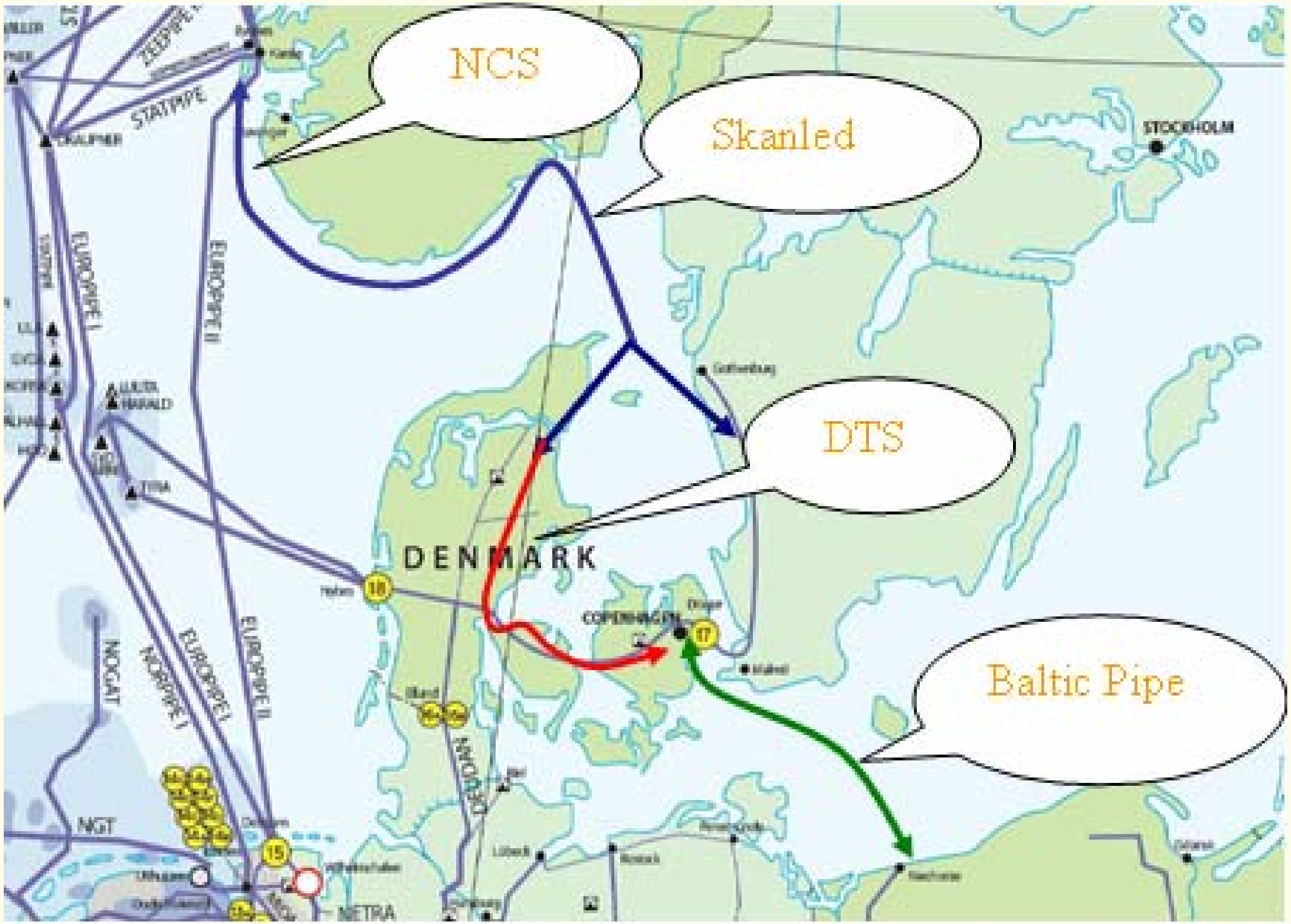
Baltic Pipe



LNG Terminal

- The feasibility study and technical and economical conditions of LNG import to Poland was completed at the end of 2006
- Decision made - selecting Świnoujście as a location for development plan
- In April 2007 the company Polskie LNG was established
- The main task of the company is to build an LNG terminal and in further steps its exploitation and operation
- 24th of April 2009 the Polish Parliament has adopted the special act facilitating the process of creation of the LNG terminal

The investment is **planned to be acomplished in 2014**

Initial capacity 2.5 bcm/per year, with enable further capacity extension up to 5 – 7.5 bcm/ per year of course if justified by increased gas demand.

At present preparing stage of investment takes place connected with administrative decisions: to prepare documentation allows to gain construction permissions etc.

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Investment planned – interconnectors

At the end of 2008 Transmission System Operator Gaz-system launched the Market Screening procedure whereby the interested parties had the possibility to submit non-binding declarations of interests in the transportation of natural gas through the transmission system.

- connection between **Poland and Denmark** near Niechorze (with the system operated by Energinet.dk)
- Connection between **Poland and Germany** near Szczecin (with ONTRAS system)
- Connection between **Poland and the Czech Republic** near Cieszyn (with the system of RWE Transgas Net)
- Connection between **Poland and Lithuania** near Suwałki (with the system of AB Lietuvos Dujos)

On 20th of April 2009 - Open Season Procedure - announced

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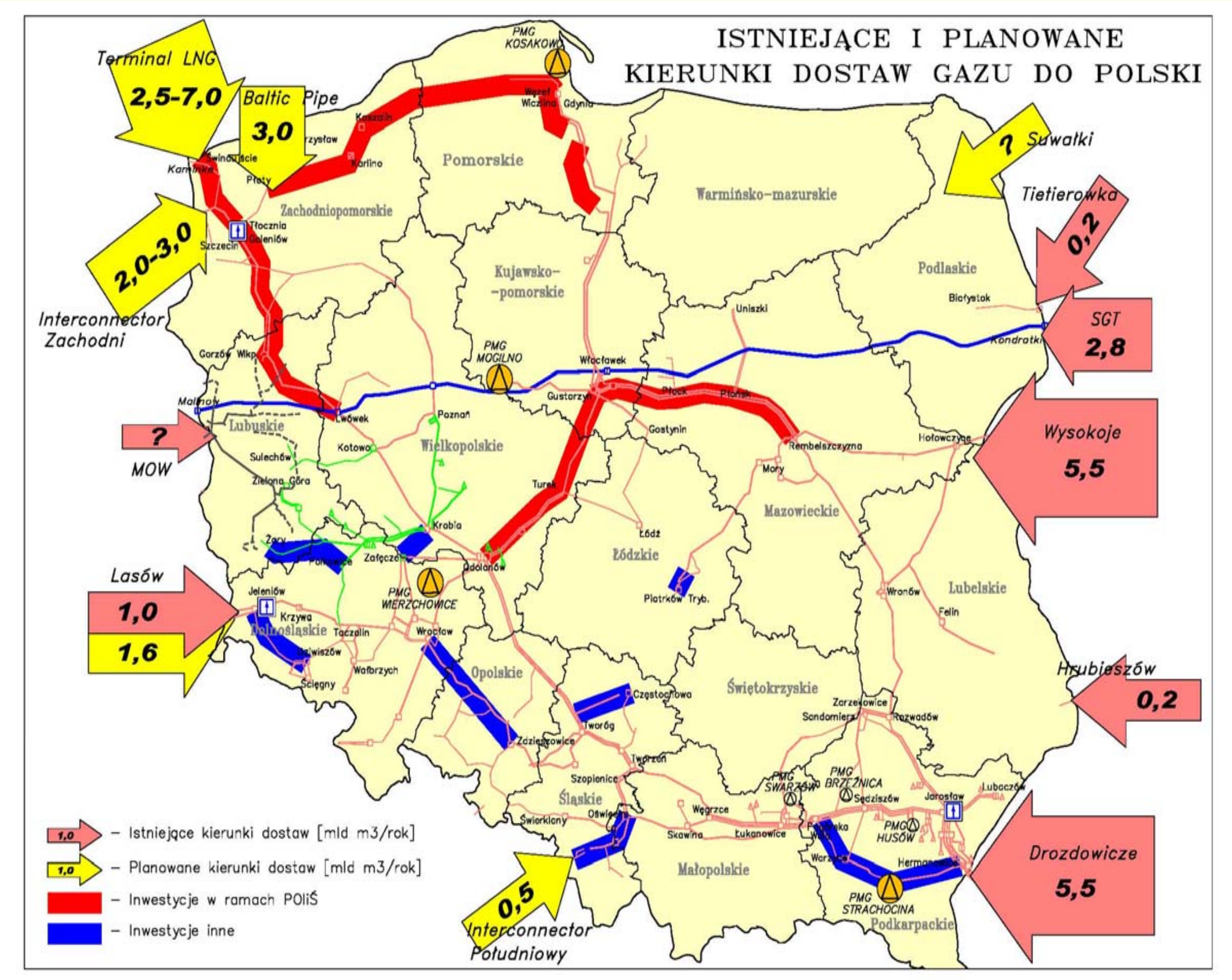
Existing and planned connections with Polish Gas Transmission System



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Increase of natural gas production

Increase of natural gas production from current 4.1 bcm annually to 4.6 bcm in 2009 and further to 6.2 bcm in 2015.

Extending the storage capacity

In order to fully meet the demand during abnormal peaks the company (POGC) plans to expand working capacity of underground gas storage facilities to 2.8 bcm by 2012 and further to 3.8 in 2015. Three from existing six underground gas storage facilities will be extended and also three new ones will be build in central and northern Poland.

Thank you for your attention

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