

Energy Regulatory Office

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The role of the President of URE in the process of approving prices and fee rates in the heat market

Due to the current exceptional geopolitical situation and the heating season being already underway, concerns about the level and stability of heat prices are stirring emotions among all market participants. Considering that the President of the Energy Regulatory Office plays a significant role in the district heating market, we explain the scope of powers in this area granted to the Regulator by the lawmakers.

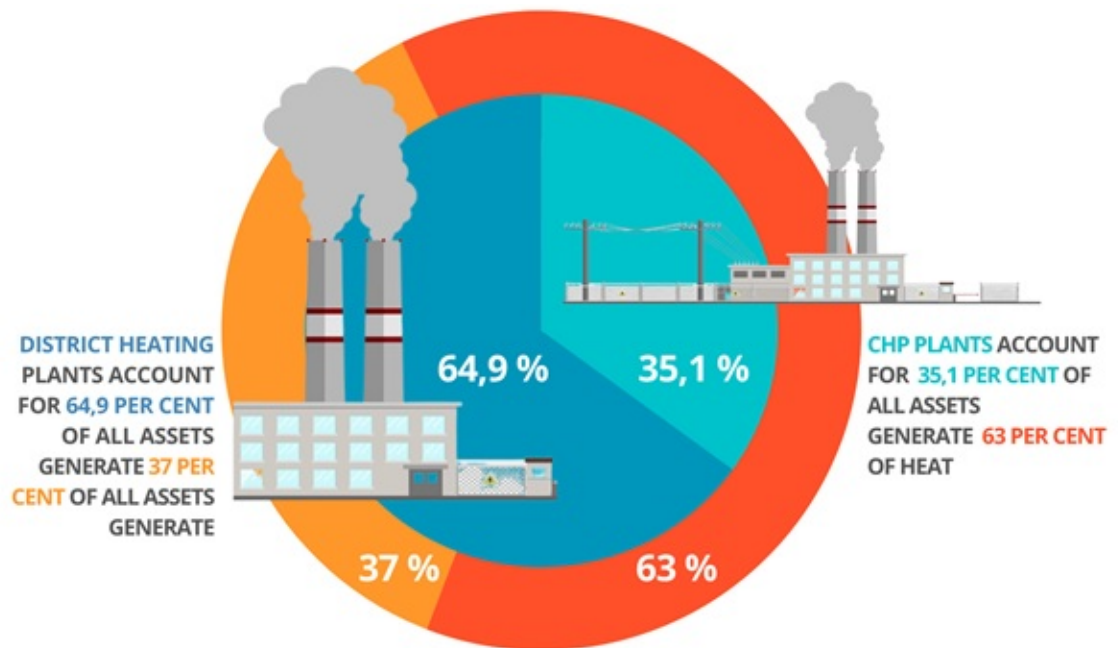
In Poland, nearly 400 licensed district heating companies are required to have their tariffs approved, and the tariffs of individual companies cover different periods, hence their approval is a continuous process, spread over the whole year (rather than, as in case of the electricity market, taking place at the end of the year for the new calendar year). Accordingly, URE issues tariff decisions for district heating companies on an ongoing basis, in response to tariff applications received by the Office and drawn up by the companies.

It should also be noted that the heat market in our country is extremely varied, as the companies differ significantly in terms of, among other things, size, generation and network infrastructure and their condition or customer profiles.

Regulation based on justified costs

A total of 379 entities are active in the Polish heat market. In terms of the number of units, district heating plants prevail with the total count of 246 (64.9 per cent). However, they generate only about 37 per cent of the total heat volume.

Fig. 1. Heat production by district heating and combined heat and power plants.



Licensed heat generators as well as heat transmission and distribution companies are required to present their proposed prices and fee rates for the consumers in the form of tariffs which are subject to approval by the President of the Energy Regulatory Office. Therefore they calculate their revenues and, on this basis, design the tariffs to be presented to the Regulator. When conducting administrative proceedings, the Regulator reviews the costs of heat supply to consumers relying on the applicable legislation and information presented by the applicants, as regards, inter alia, completed upgrades and refurbishments, scope of investments carried out, including modernisation of heat generation units and networks, and other specific data affecting the level of prices and fee rates in the tariff.

- It is up to the companies to decide if and when they apply to the Regulator for a revision of the tariffs. It is also for the entrepreneurs to decide what level of costs is presented in their applications as the basis for tariff calculation - points out Rafał Gawin, President of URE.

The President of URE conducts tariff proceedings by examining whether the tariffs proposed by the entrepreneurs meet the applicable legal requirements and reflect only justified costs together with a reasonable level of return on capital employed in the business activity related to heat supply.

- Justified costs are not the same as accounting costs - explains the President. In tariff proceedings, we are always guided by what is happening in the market environment and compare costs between peer companies.

This means that the Regulator, when conducting proceedings for the approval of heat tariffs, undertakes a comparative analysis of different energy companies engaged in the same kind of business activity related to heat supply.

The President of URE conducts such proceedings also in case when entrepreneurs request a revision of the tariff being in force in a given year. In 2022, heat generators have been exceptionally eager to exercise this right, justifying their applications with the increased costs of sourcing coal and gas used to produce heat, as well as the elevated costs of CO2 emission allowances.

The approval of a new tariff or tariff revision is denied when, in the opinion of the Regulator, the costs presented by the company in its tariff application are not justified or if the calculation of the tariff presented for approval by the company is not consistent with the principles and requirements set out in the Energy Law or the Tariff Regulation.

The Regulator therefore guards the tariff process by ensuring that the final prices and fee rates paid by consumers reflect the justified costs of the heat companies' operations, including a reasonable return on the capital employed in the heat supply activity.

Fig. 2. The heat tariff approval process.



Simplified method for CHP plants

For combined heat and power plants that produce heat and electricity simultaneously in a single process, the legislation provides for a so-called simplified tariff calculation method.

This means that these companies estimate their revenues from heat sales to be used for the calculation of prices and fee rates^[1], taking into account the following:

- reference coefficient,
- average selling price of heat generated in non-CHP generation units owned by licensed undertakings.

The average prices are published by the President of URE on the basis of data collected each year from licensed heat generating companies.

New regulations - what is the heat price cap and who will it apply to?

As of 1 October 2022, consumer heat prices have been capped according to an act^[2] which came into force on 20 September and aims to mitigate the adverse social impact of the energy crisis and the risk of an energy poverty leap. Until 30 April 2023, i.e. the end of the heating season, heat generators will be required to apply a capped average heat price which cannot be higher than (prices excl. VAT):

- for heat generation units fuelled by gas and fuel oil - 150.95 PLN/GJ,
- for other sources - PLN 103.82/GJ.

The lower heat price will be applicable to so-called eligible customers, i.e. where heat is used for residential purposes or public services.

President of URE continues to approve tariffs

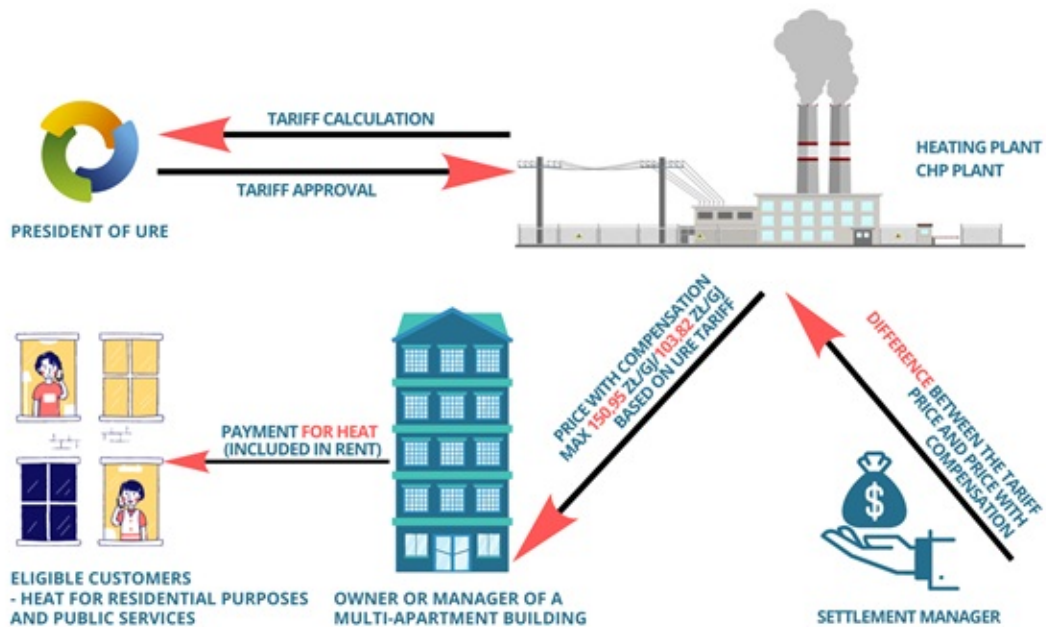
The process whereby the President of URE, following administrative proceedings, approves tariffs calculated by individual companies will continue in accordance with the applicable regulations.

- Nothing has changed in this procedure. We continue to examine the justified costs of companies and, on this basis, approve the company's tariff at a certain level - informs Rafał Gawin, President of URE.

Accordingly, the President of URE will still approve heat tariffs which set out heat prices and fee rates, as presented by licensed companies, and the companies will convert them into a single-component heat price, i.e. the average heat generation price.

If the single-component price resulting from the approved tariff is higher than PLN 150.95/GJ for gas- and fuel-oil-fired heat generation units, or exceeds PLN 103.82 for other sources, the company will be obliged to use the capped price in its settlements with customers, and it will report the difference between the single-component price under the tariff and the “subsidised” price to the Settlement Administrator^[3], that will reimburse entrepreneurs for the shortfall due.

Fig. 3. Mechanism of the application of the heat price with compensation.



It is also worth noting that heat consumers supplied by district heating companies are largely housing communities and cooperatives, and these entities are responsible for the allocation and settlement of heat costs for their residents. Heating costs are usually prepaid as a rent component.

What makes up the price of heat?

- prices for contracted thermal power – expressed in PLN per MW;
- heat prices – expressed in PLN per GJ;
- price of the heating medium, i.e. the water supplied to fill and make up for any losses in consumer’s installations or non-returned condensate – expressed in PLN per cubic metre or per tonne, as applicable.

^[1] Heat tariff for cogeneration units.

^[2] Act of 15 September 2022 on special solutions for certain heat sources in connection with the situation on the fuel market (Dz.U.2022,1967).

^[3] For more information see the article on the URE's website (in Polish only): [Ruszył portal służący do rejestracji wytwórców ciepła, którzy będą ubiegać się o wypłatę rekompensaty - Aktualności - Urząd Regulacji Energetyki \(ure.gov.pl\)](#).

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