

Energy Regulatory Office

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Electricity market: a historic sectoral agreement between the Regulator and the Distribution System Operators

The President of the Energy Regulatory Office (URE) and the heads of the five largest electricity distributors in Poland signed the Charter for the Efficient Transformation of Poland's Power Distribution Networks

A unique agreement for exceptional challenges

Looking ahead to 2030, the national power system (NPS) is facing huge change. This includes the need for the connection of new sources including at least: over 20 GW of solar units^[1] with generation capacity of 21 TWh/year, over 14 GW of onshore wind units with generation capacity of 37 TWh/year and nearly 11 GW of offshore wind units with generation capacity of 40 TWh/year.

Over that time, the number of customers connected to the grid is expected to increase by more than 2 million. We will witness and benefit from the digitalisation and automation of networks and services, which will lead to improved network flexibility and the resulting increased activity of market participants, and the development of new products and services. Due to the growth of the electromobility sector, more and more electric vehicle charging points will need to be installed. By that time, all of the 18 million electricity consumers in Poland will have their consumption read remotely with smart meters. The above transformation will be underpinned by a multi-year comprehensive investment process of unprecedented scale. This will turn around the Polish power distribution system, making it more user-friendly for power consumers, ensuring the security of power supply and consumption, while contributing to the development of a civic energy sector based on renewable energy sources. Consequently, these measures should give the power industry an increasingly local dimension and encourage end users to be proactive. The need for businesses operating in this market to ensure reliable connectivity, cybersecurity and uninterrupted service to the growing number of end users will also be crucial.

Need for long-term regulation based on a consensus among market participants

In order to address the huge and unprecedented challenge ahead of the infrastructure segment, the President of URE put forward the initiative to work out a sectoral agreement, which took the form of the Charter for the Efficient Transformation of Poland's Power Distribution Networks, signed today. The agreement between the sector's regulator and energy companies is part of the process of adapting the electricity distribution networks to a new power market architecture based increasingly on distributed sources with a

significant share of renewables. By enabling the achievement of an approximately 50 per cent share of electricity from RES in the domestic energy mix already in 2030, the document will contribute to a sustained reduction in electricity prices for consumers, as well as a significant reduction in the carbon footprint of the national economy, which in turn will translate into increased competitiveness of Polish businesses.

The rapidly changing needs of electricity networks, mainly in the area of investment, put new demands on the regulatory policy. In times like these, we need smart long-term regulation, based on the consensus of market participants. That is why the Charter is particularly needed today - notes Rafał Gawin, President of URE

We are at the early stage of the distribution sector transformation. The trends, phenomena and processes taking place should urgently be addressed with the financial and regulatory support they deserve, and be significantly accelerated. The Charter creates a stable regulatory environment for energy companies over a multi-year time horizon with regard to investments in network modernisation and development. Thus, it will help simplify the investment decision-making process and should also make it easier for the DSOs to raise financing for investments from sources other than the tariff - added the Regulator

Representatives of the five ministries and agencies that shape the reality of the Polish electricity sector were involved in the preparation of the document, namely:

- Ministry of Climate and Environment,
- Ministry of State Assets,
- Government Plenipotentiary for Strategic Energy Infrastructure,
- Ministry of Development Funds and Regional Policy,
- Ministry of Development and Technology.

The distributors' representative on the Steering Committee is Mr Robert Zasina, President of the Polish Power Transmission and Distribution Association (PTPiREE). *'The agreed document is an important statement for the electricity distribution sector, as it clearly identifies the investment challenges the industry will be facing in the run up to 2030, as well as the associated financing needs. I would like to thank the President of the Energy Regulatory Office for taking this initiative, which, by indicating investment priorities, sets the direction for the development of the power market. The expected results include, among other things, further increase in renewable capacity, digitalisation and automation of the grid and services – including the installation of remote reading meters at 18 million customers by the end of 2030, and the development of the network to enable the connection of 2 million new customers by the end of the decade -* said Robert Zasina, President of the Management Board of PTPiREE and President of TAURON Dystrybucja.

Arrangements resulting from the adopted agreement will enable the coherent implementation of the energy transition objectives and the identification of additional sources of funding to avoid significant impact on the level of tariffs' - he added

Professor Wojciech Myślecki, an independent energy market expert, also participated in the work of the Steering Committee.

A distinguished group of experts worked on the document. Its signing is a milestone in the transformation of the Polish power sector. The Charter is a pivotal agreement between the parties to the investment process and the President of URE. And

these parties are willing to work together for the best possible development of the sector and the economy as a whole, which is one of the most remarkable outcomes of the work on this document' - Professor Myślecki pointed out

Extra premium for the implementation of priority projects

In the Charter, the parties agreed on the possibility of differentiating the return from capital employed depending on the prioritisation of objectives. This means potential incentives for investments identified as priority projects, according to an additional bonus mechanism. The regulator, in consultation with the distributors, has set out to update the Return on Capital (ROE) methodology, in particular as regards the weighted average cost of capital (WACC^[2]).

It will be possible for the defined solutions to be reflected in financing decisions concerning investments in the sector already in 2023.

At the same time, the signatories of the Charter declare to take measures to make use of external sources of investment project financing to the maximum possible extent, as well as to develop and implement solutions aimed at optimising the use of existing network connections (flexibility services, hybrid RES installations, connection sharing). These measures should help reduce the impact of the necessary investments on consumer bills.

What comes next?

The signing of the sectoral agreement concludes the first phase of the Team's work. In order to fulfil the provisions of the Charter, the next steps will involve drafting of proposals for the necessary changes to the DSO regulatory model and the consistent implementation of investment programmes. The members of the Steering Committee also undertook to initiate the legislative changes required to reflect the new regulatory requirements and to provide, among other things, support measures for DSOs. Other necessary activities will include continuous monitoring of the transformation progress, analysis of the results achieved and informed adjustments to ongoing investment processes to ensure desirable outcomes.

The signatories of the Charter have agreed that their intention is to incorporate the provisions of the document already in the distribution tariffs for 2023, to the maximum possible extent.

- The Team tasked with [drafting the Charter started working in October 2021](#)

- In November 2021, individual [Task Groups](#) were set up to define solutions relevant to the national network infrastructure in the context of sector transformation. The groups included representatives of distribution system operators.
- The signing of the Charter between the Regulator and the country's five largest power distributors (Enea, Energa, PGE, Stoen and Tauron) took place on 7 November 2022 in Warsaw during the [36th EuroPOWER & 6th OZE POWER Conference](#).
- The Charter for the Efficient Transformation of Poland's Power Distribution Networks is an open initiative, which means that any DSO, regardless of the scale of its distribution operations, can join the Charter and submit to its provisions at any time.

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^[1] Excluding prosumer installations built after 31.12.2021.

^[2] An indicator that reflects the company's cost of capital according to the relative share of individual capital sources.



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