

# Energy Regulatory Office

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## Investment and regulation in electricity sector in Central and Eastern Europe is the subject of panel discussion organized by the URE during XIX Economic Forum in Krynica

The President of the Energy Regulatory Office dr Mariusz Swora was the host of the electricity panel during the second day of meetings of the Economic Forum. The participants of the discussion included: prof. Vidmantas Jankauskas - long time Chairman of the Lithuanian State Commission for Price and Electricity Control, and during the years 2003 - 2005 the President of the Energy Regulators Regional Association (ERRA), Alessandro Ortis - the President of Italian Regulatory Authority for Electricity and Gas, Maciej Woźniak - the Principal Advisor of Prime Minister D. Tusk concerning energy security issues , Dariusz Lubera - the Chairman of the Board of Tauron Group, as well as Janusz Moroz - the Member of Board of RWE Polska.



The Discussion - moderated by Marek Woszczyk, the URE Vice-President - covered subjects connected with investment in new technologies, continuity and diversification of supplies as well as means leading to the improvement in electricity efficiency. The panel organized by the URE was the first one dedicated to matters of electricity market in the nineteen-year history of the Economic Forum. And as the moderator commented: *It is difficult to talk about electricity without mentioning regulation, especially in the times of European*

*integration and building one common market.*

The discussion was divided into two parts. The first part covered problems connected with the integration of local markets in the European aspect. After joining European Union the countries of Central and Eastern Europe became members of Regional Markets, and though each of these markets is different due to the regional specificity, in the end they are about to create common, internal European market. The participants of the panel considered if and when there would be a possibility of competitive market in a scale that would enable free purchase of electricity, for example in Lisbon for the use in Warsaw or Vilnius.

Prof. Vidmantas Jankauskas in his speech pointed out significant differences between countries of Western and Central-Eastern Europe. *Within Central and Eastern Europe region we have high and constantly increasing prices of electricity. It is also more difficult to introduce reforms than in the West* - he concluded.

Alessandro Ortis - the President of Italian Regulatory Authority for Electricity and Gas paid attention not only to the size of electricity policy between the East and the West, but also to the necessity to include the north-south line. He indicated the need for social education in the process of increasing electricity efficiency in Europe and the value of cooperation between the regulators in this master. Strategic challenges, according to the Italian regulator, are the 'energy hunger', balanced development as well as forming such electricity market, which would be free from presently existing disadvantages, such as: information asymmetry and the lack of transparency. The President A. Ortis referring to sport terminology indicated - *On the electricity market we need good sportsmen, who would compete with each other; judges - regulators as well as a pitch, which means unified market. And the pitch has to be built yet.*

Minister Maciej Woźniak pointed out the importance, which has the introduction of regional electricity systems into electricity systems of Western European countries for the Baltic Sea region. He discussed projects leading to ensure electricity security of the region and Europe, in which Poland participates, and most of all activities undertaken in the frame of a High-level Group responsible for Baltic Plan of Interconnectors, which was established by the European Commission. He cited such projects as: gas pipeline Moravia (connection with the Czech, which will allow the increase of natural gas import from the southern direction, and in the future transmission of gas from the Nabucco pipeline) as well as LNG terminal in Świnoujście.

In the context of building common European market and ensuring the continuity of electricity supplies Mariusz Swora, the URE President pointed out the necessity to extend cross-border interconnections, especially those important for the investment region, such as the electricity bridge with Lithuania and clearing the connection with the Ukraine. The building of common market is also strictly connected with liberalization, thanks to the separation of trading and production activities from transmission (unbundling), which is foreseen in the III package. *Having a choice of a few solutions guaranteeing unbundling of*

*network activities from the structures integrated vertically of the electricity enterprises, we voted for the solution far reaching - full ownership unbundling. However, the common European market will be formed by different patterns of administrative unbundling, foreseen in the III package, what will not favour uniform solutions* - underlined the President M. Swora. The membership countries will be able to choose among three options of unbundling: full ownership unbundling (integrated enterprises would have to sell their networks and create a separate entity, which would be proper in the area of network management), independent system operator (transferring the management of the network to an appointed, separate entity) or independent transmission operator (it allows to retain the integrity of trade and transmission of electricity, but at the same time obligates such entities to comply with some regulations, which ensure that these two parts of the enterprise operate independently in practice).

In the discussion about the role of the regulator on the electricity market, the URE President Mr Swora confirmed, that the transformation of the industry and the electricity sector creates new challenges for the regulators. He also referred to the position of electricity market regulators, established by the third liberalization package, pointing out, that apart from being independent from the enterprises, the package states the necessity to ensure them the independence from any government bodies.

The second part of the panel discussion concerned the main problem of European electricity, which is the insufficient level of investment resulting in the lack of trans-system connections, domestic networks not adapted for the needs of transit. The participants of the panel noticed, that although it was the electricity, where the European integration started (the Europeans coal and Steel community), it is actually that area of industry, which remains still behind in integrity. Insufficient integrity limits the freedom of exchange, and so it limits the possibilities of development of competition in Europe.

It has been repeated for many years, that the investment promises are not realized, because the regulators (through tariff regulation) limit the means of enterprises to realize such investment. The regulation, according to some, leads at the same time, to worsening economic indicators and crediting conditions for electricity investment. In the opinion of the others, it is difficult to find more secure and more profitable business than electricity, and so it is not possible to justify the lack of investment by any regulation. So, is the regulated market a chance or a threat? Is the competition able to secure the proper level and the right structure of investment? And finally, how can we stimulate investment?

In this part of the panel we heard the voice of the sector representatives. Janusz Moroz representing RWE Polska confirmed, that the investment in infrastructure and increasing the security are the hottest problems in electricity. - *The hotter, because we are behind, as infrastructure is getting old* - explained the RWE representative. Janusz Moroz, among conditions necessary to secure investment, mentioned the creation of competition as well as making real value of assets by the regulator and creating stable situation for investment.

The Chairman of Board of Tauron Group, Dariusz Lubera indicated that the situation on the

market is changing from year to year, and the investment decision has to be taken considering long time spectrum. - *Regulator should balance the interest of the consumers and enterprises, seeing one common target for them - the possibility for investment* - expressed the Chairman Lubera.

At the end of the discussion Robert Zajdler, an expert from the Sobieski Institute, expressed his opinion, asked to comment on this, by the Institute for Eastern Studies, the organizer of the Forum. He noticed, that in the context of investment challenges which are faced by the electricity sector and the resulting role of the regulator, it is necessary to redefine the term market. The market is no longer the market of the producer; it also becomes the market of the customer. The investment needs and the role of the regulator should be also defined through the required investment on the demand side, and so enabling active management of demand. The customer stops being only and solely the recipient of goods and services, but also provides services for the electricity system. The role of the regulator is to care for competition on such defined market.

The URE is a Partner of the Institute for Eastern Studies, the Organizer of the Forum, which takes place between 9-12 September 2009. You can read more about the meeting in Krynica on [www.forum-ekonomiczne.pl](http://www.forum-ekonomiczne.pl).



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