BALANCE BETWEEN MARKET & REGULATION: A Case of Polish Gas Sector

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THEORY OF REGULATION

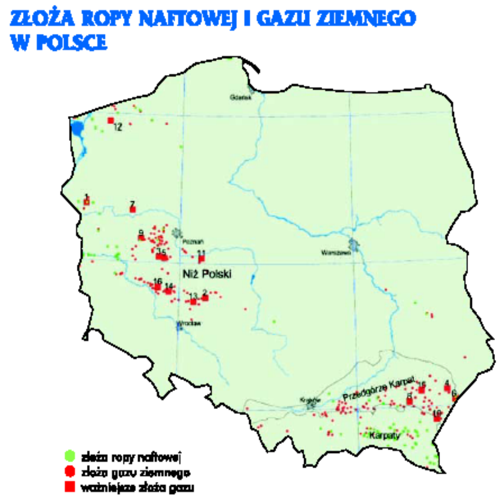
- **Regulatory paradox of the network industries liberalisation**
  - market vs. state intervention
  - competition through regulation
- **Origin, purpose, forms and instruments of modern regulation** (licensing, tariffs, monitoring, dispute resolution, etc.)
- **Pitfalls of an imperfect regulation**
  - lack of independence
  - restrictive licensing requirements
  - asymmetry of information
- **Polish regulatory framework**

MARKET AND REGULATION: interaction areas

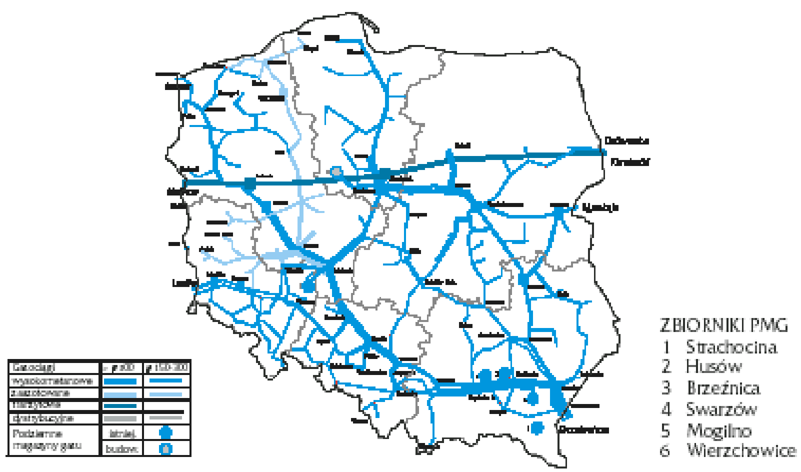
- **SECURITY OF SUPPLY**
  - the concept and its definition
  - economic accessibility (acceptable prices)
  - infrastructure adequacy (investments)
  - cross-border cooperation (interconnectors, harmonisation of standards)
  - EU import dependency (cost of diversification)
  - the role of regulatory bodies
- **Demand Side Management**
  - consumer education (promotion of gas consumption,
  - promotion of energy efficiency (e.g. ESCO, energy audits)
- **Environment and Innovations**
  - alternative / renewable energy sources (LNG, CNG, fuel-cells)
  - exploring possible new applications for gas
- - new market solutions for gas trade (trading hubs, spot market)
- **Who is going to pay for this?**

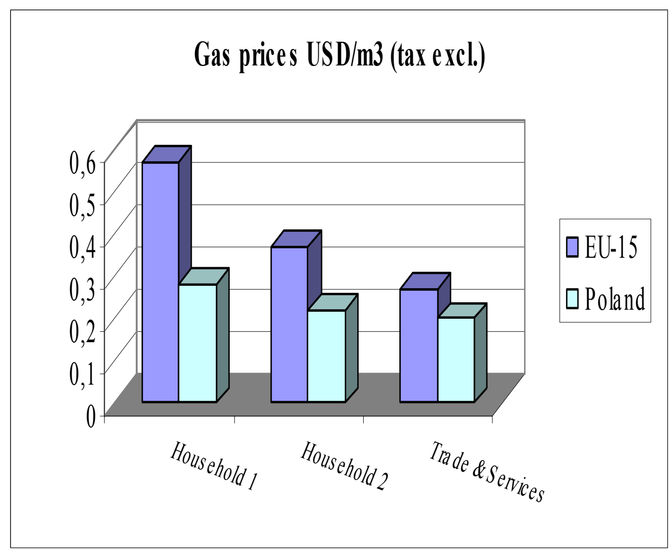
POLISH GAS SECTOR: characteristics

- **Gas sales** (2004): 13.4 bcm
- **Domestic production:** 4.3 bcm (32%of total domestic consumption)
- **Storage capacity:** ca. 1.5 bcm
- **Transmission network (km):** 15 451
- **Transmission network (km):** 109 860

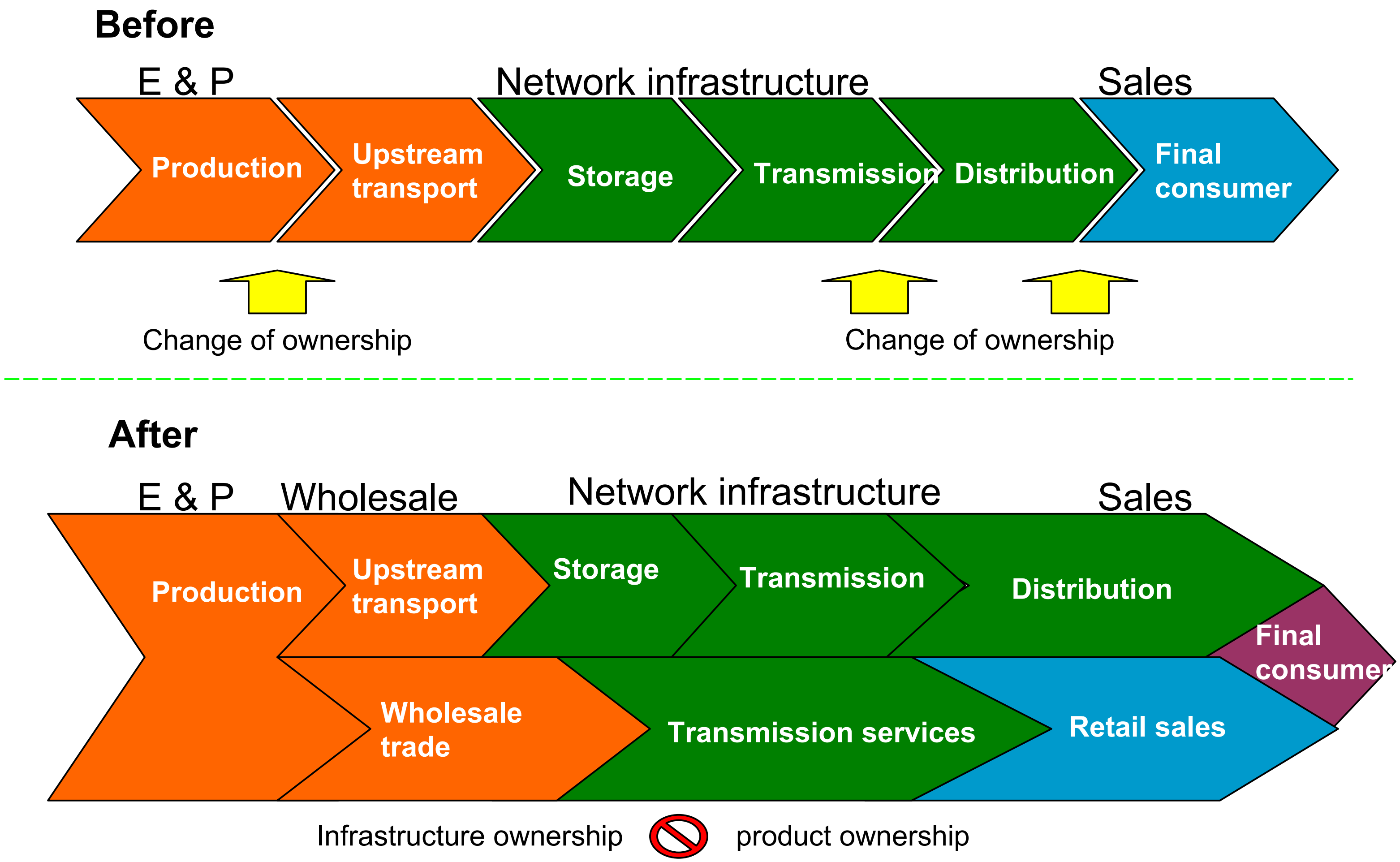


Source: PGNiG

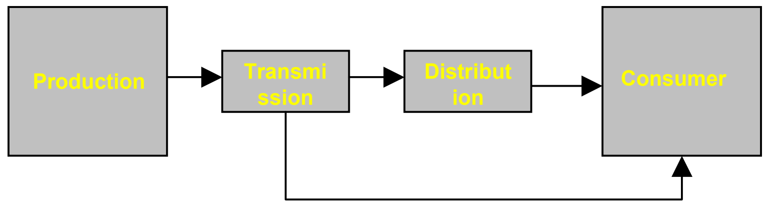




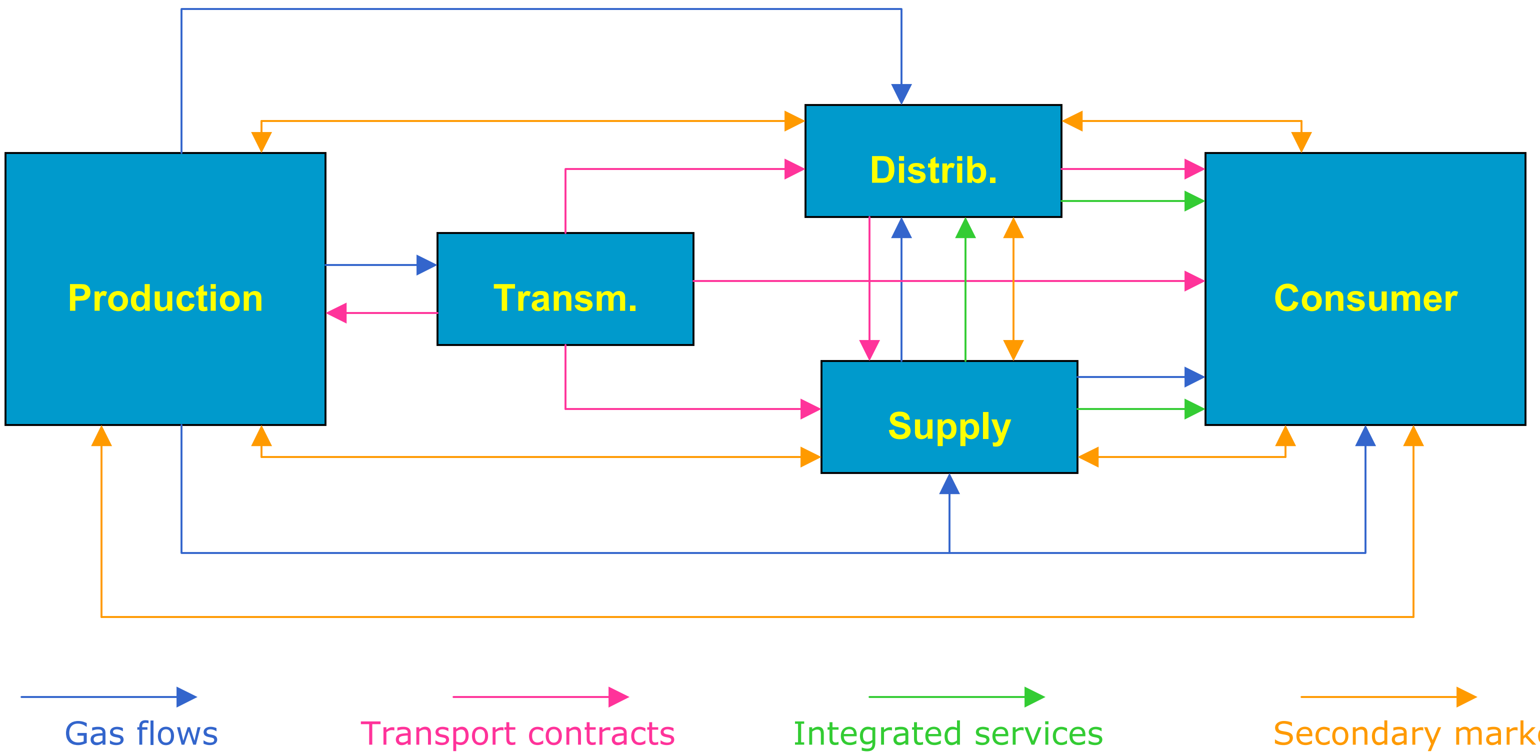
POLISH GAS SECTOR: restructuring



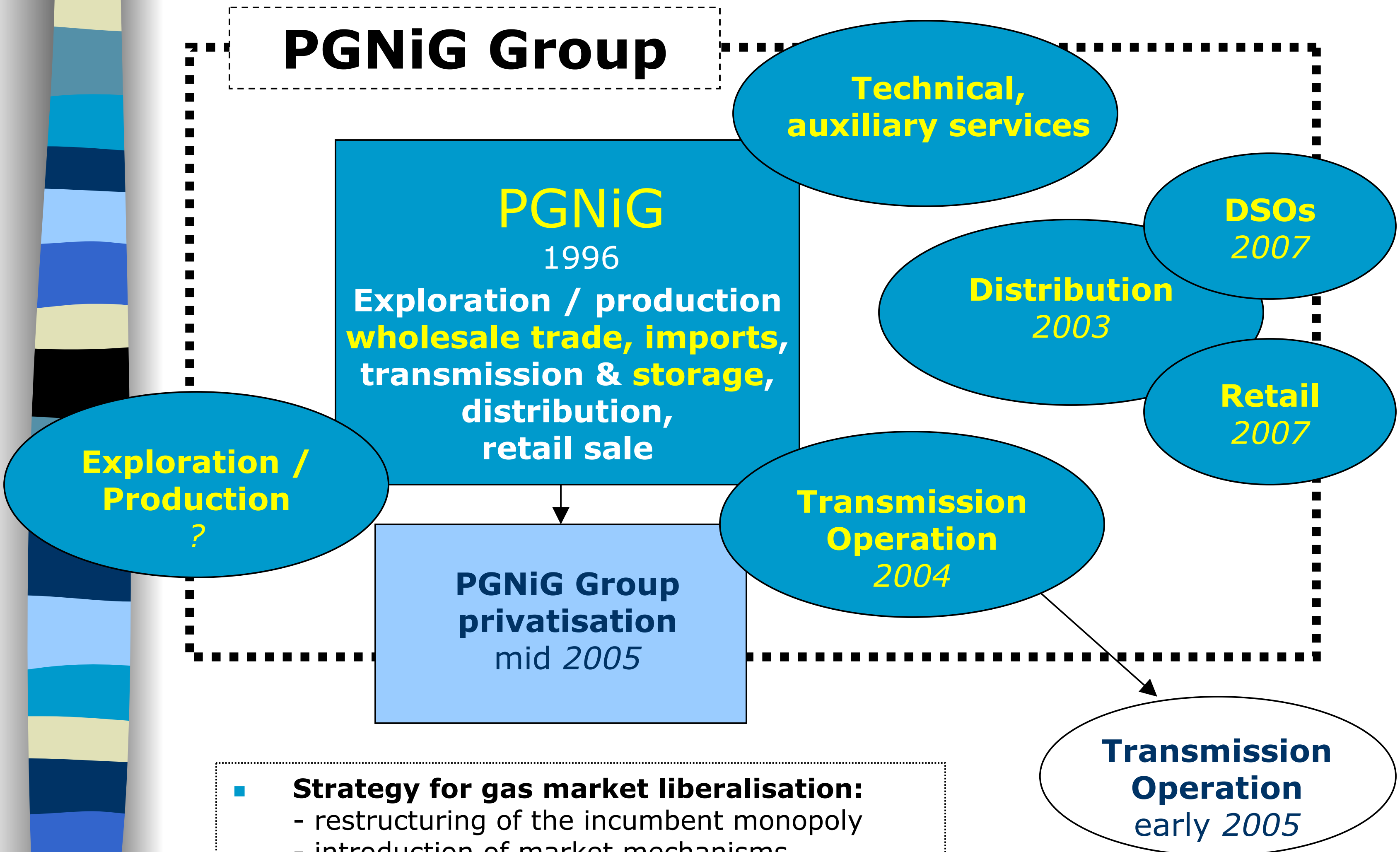
POLISH GAS SECTOR: restructuring [2]



Transactions on the market



POLISH GAS SECTOR RESTRUCTURING:
an example of balancing between market and regulation



- **Strategy for gas market liberalisation:**
  - restructuring of the incumbent monopoly
  - introduction of market mechanisms

POLISH GAS SECTOR RESTRUCTURING: an example of balancing between market and regulation [2]

- **Government program for the introduction of the competitive gas market + Program for PGNiG restructuring & privatisation**

- *Identification of barriers for competition:* monopolistic structure, long-term gas contract (Yamal contract), infrastructure inadequacies (networks, metering, interconnectiors, IT systems), transmission v. distribution network definition.
- *Guidelines on how to eliminate the barriers:* further unbundling, infrastructure and metering development, grid code, IT systems development, elimination of cross subsidies throughout cyclical tariff reviews.

POLISH GAS SECTOR RESTRUCTURING: an example of balancing between market and regulation [3]

- <u>**Trade-offs**</u>
- Dominant position of the incumbent company is retained
- Incomplete unbundling [1]: separation of exploration and production activity into an independent company within the Capital Group is deferred,
- Incomplete unbundling [2]: TSO has been separated without network ownership (costs of lease)
- Switching: difficult due to take or pay clause, reciprocity clause
- <u>**Challenges**</u>
- enforcement of market behaviour through privatization
- complete unbundling (TSO outside Capital Group and with network assets)
- renegotiation of Yamal contract (take -or-pay, destination clauses, gas release programs)
- diversification of gas supplies

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