

## Gas market in Poland 2006

### Introduction

Poland produces about 30 % of its natural gas needs; the remaining approximately 70 % being imported from Russia – 45 %, (via Belarus and Ukraine), Uzbekistan – 10 %, Kazakhstan – 6.2 % and Germany - 2.5%.

		Amount [bln m <sup>3</sup> ]*	Consumption share	Import share
<b>Total (1+2+3+4)</b>		<b>14,4013</b>	<b>100,00%</b>	<b>-</b>
1.	Domestic production	4,3182	29,98%	-
2.	Total import (2.1+2.2)	9,9189	68,88%	100,00%
2.1	Import from East (2.1.1+2.1.2+2.1.3+2.1.4)	9,0797	63,05%	91,54%
2.1.1	Import from Russia Federation	6,5454	45,45%	65,99%
2.1.2	Import from Ukraine	0,0012	0,01%	0,01%
2.1.3	Import from Uzbekistan	1,4248	9,89%	14,36%
2.1.4	Import from Kazakhstan	0,8941	6,21%	9,01%
2.1.5	Import from Turkmenistan	0,2142	1,49%	2,16%
2.2	Import from other directions (2.2.1 + 2.2.2 + 2.2.3)	0,8392	5,83%	8,46%
2.2.1	Import from Germany	0,3538	2,46%	3,57%
2.2.2	Import from Norway	0,4851	3,37%	4,89%
2.2.3	Import from Czech Republic	0,0003	0,00%	0,00%
3.	Export	-0,0418	-0,29%	-
4.	Gas storages (net)	0,2060	1,43%	-

Dated half a year of 2006

According to the Ministry of Economy natural gas supplies to Poland achieved in 2006 14.4bcm.

Gas consumption in Poland is slowly growing. In 2006 natural gas sales on Polish market achieved 14.4 bcm, almost 0.7 bcm more than in 2005. Polish natural gas production reached in 2006 the amount of 4.3 bcm (30 % of Polish consumption). The growth of Polish natural gas production on the same level in 2007 is expected.

All core of activities in the gas sector is carried out by the Polish Oil and Gas Company – POGC, which deals with exploration, production, storage, trade and distribution. Moreover there are many small companies operating on the Polish gas market e.g. MOW, GEN GAZ Energia.

The transmission grid is operated by OGP Gaz-System Joint - Stock Company which is the transmission system operator. Gaz-System operates a gas pipeline network with total length of 15.000 km.

Since January 2003 gas distribution and retail activities are carried out by 6 regional distributors whose operations are separate from those of POGC and from 1st January 2007 were given the status of the distribution system operators.

In 2006 there were 145 licences approved for gas supply: 3 for the production, 64 for transmission and distribution, 77 for gas trade and 1 for gas storage.

The underground gas storage capacity in Poland achieved 1.6 bcm. in 2006.

According to the decision of the President of Energy Regulatory Office on 1<sup>st</sup> February 2006 on the granting license for gas fuels storages, the Polish Oil and Gas Company can carry out storage services. So, there is a legal and formal base for the POGC to apply for nominating it a storage system operator.

### Gas Market Liberalization

The regulations of Directive 2003/55/EC were introduced into the Polish Energy Law Act on 4<sup>th</sup> March 2005.

To provide the independence, the TSO (GAZ-System) was separated from natural monopoly company and since 1<sup>st</sup> of July 2004 has been working as independent company.

On 1<sup>st</sup> July 2005 it was given the status of the transmission system operator.

As I mentioned before, according to the amendement of energy law act, gas distribution carried out by 6 regional distributors, were separated on 1<sup>st</sup> July 2004 from POGC.

Those gas distributors, by the decision of the President of Energy Regulatory Office, since 1<sup>st</sup> January 2007 have been functioning as a distribution system operators.

Full separation of trade and technical activities in distribution will function, according to the implementation of EU Gas Directive, on 1<sup>st</sup> July 2007.

According to the program of introducing competition into Polish gas sector and its schedule dated on 27<sup>th</sup> April 2004 the process of eliminating barriers connected with the TPA rules, is conducting.

In Poland, since 1<sup>st</sup> July 2004 non-household consumers have a free choice of supplier and it will be free for all customers since 1<sup>st</sup> July 2007.

From 2005 up to now 57 865 undertakings, covering 72 % of the market, were eligible to use TPA principle.

Due to still existing barriers, (*eg. monopolistic structure of this sector, the lack of measuring equipment, shortage of intersystem connections, the lack of IT systems, and congestion on interconnectors*), no one of eligible customers used TPA principle.

Because of that, transmission system operator activities are as following: developing the transmission grid infrastructure and connections with other gas systems and preparing the same obligatory IT standards.

#### Diversifying natural gas supplies to Poland and investments.

In the gas sector, the Polish Government established two Resolutions (of January 3<sup>rd</sup> 2006 and of 31<sup>st</sup> of May 2006), pointed out the LNG terminal at the Polish seaside as a way to solve the problem of diversifying supply sources. It is essential that gas installation LNG can be the element of diversification strategy of gas supply to Poland with other projects (gas transmission system, interconnectors and storages) and can ensure energy security of the countries and enable them economical development.

The Feasibility study and technical and economical conditions of LNG import to Poland was completed by the end of 2006. The investment conducted by POGC will start in the year of 2008 and is planned to be finished in 2011.

The POGC adopted a decision selecting Świnoujście as the location for development of the LNG terminal.

It is assumed that the initial terminal capacity will be 2.5 billion cu. m per annum. The terminal design will enable further capacity extension up to 5.0 – 7.5 billion cu. m per annum, if justified by increased demand for gas.

We are thinking about continue collaboration with Norway and other countries to build a gas pipeline from sources on the North Sea to Poland.

In 2007 the extension of underground gas storages will be continued.

This investment is important because of increasing of gas receivers market (the needs of households and industrial and power station located in northern Poland) and possibility of connecting with local gas system.

The prognosis for production of the natural gas in the following years points out the increase to the amount of 5.5 bcm in the year 2008.

#### Security of supply

Poland holds the view that the liberalisation of energy sector may not be accompanied by monopolisation on the side of energy carriers suppliers. Actual diversification means first of all different sources of origin of energy raw materials. By all means the method of transmission, reliable and independent from the suppliers, is also essential. Whenever the sole external suppliers are entities with capital and territorial ties between them, the customers may be subject to strong pressures which are tantamount to distortion of the market mechanisms. In extreme conditions, the customers may find themselves on the receiving end of energy blackmail. The lack of effective mechanism of reaction in similar situations at the European level may have disastrous results.

Further liberalisation and deaccumulation/decentralisation of energy sector entities in the conditions of simultaneous tolerance towards actual monopolies in the supplier-countries and lacking equivalence of rights and international legal obligations stemming from the absence of common implementation of the Energy Charter Treaty and Transit Protocol may bring undesired effects. Real becomes the risk of hostile takeovers of the most important sections of the market, which are essential from the strategic point of view. It is particularly current

possibility on the natural gas market, where main external suppliers do not obey the Community's regulations regarding the unbundling. Such a situation may lead to market disturbance and real danger for the competition and may abysmally affect the European consumers.

Poland supports actions proposed by the European Commission within external dimension of the EU energy policy. In Poland's view the most important priority requiring urgent actions is the energy dialogue within the framework of EU-Russia relationship.

Poland reiterates that Russia should ratify the Energy Charter Treaty and sign the Transit Protocol. Ratification of the Energy Charter Treaty and signature of the Transit Protocol must be the condition for coming into force of the new EU-Russia agreement.

Alternatively, the entire text of the Energy Charter Treaty and the Transit Protocol might be incorporated into the new EU-Russia agreement.

Poland reckons that benefits for EU-Member States and for other states from Russia's ratification of the Energy Charter Treaty and the Transit Protocol may not be underestimated. The Treaty and the Protocol constitute a constant set of rules accepted by all parties and contribute to the development of real energy market. Therefore the EU should insist on approval of those rules by significant energy suppliers like Russia.

Poland stresses that Russia has been using energy supplies as its foreign policy tool and controls extraction, transmission and within the framework of bilateral relations to a large extent, transit countries. It is detrimental to the interests of smaller and weaker Member States.

The issue of construction and maintenance of critical infrastructure is also very important as well as protection against attacks on energy transmission and production infrastructure. Poland will support initiatives aiming at creation of efficient mechanisms for developing and protecting of such infrastructure proposed by the Commission and Member States.