



**POSITION OF THE POLISH
CONFEDERATION LEWIATAN
ON PRELIMINARY ASSUMPTIONS
CONCERNING THE ENERGY UNION**

February 2, 2015, Warsaw, Poland

1. Why Energy Union project is important for entrepreneurs in Poland ?

Leviathan Confederation brings together both energy producers and consumers. Hence, we have cross-sectional view on what role energy issues play for businesses and the economy as a whole. These issues are of growing importance for everyone. Issues of energy prices and guaranteed supply are important for industry and services. For producers, questions of efficient markets for gas and electricity as well as the development of cross-border transmission infrastructure are relevant. In all these areas, at the national and EU level, we see potential for improvement. Therefore we welcomed the Energy Union project – one that was listed among five main priorities of the President of the European Commission – with enthusiasm. We believe that addressing the issues of this project sufficiently can be of great importance for the energy market business models and competitive positions of European enterprises in the long term. We declare our willingness to participate in the development of the concept of the Energy Union and to share our experience and expertise to that end.

2. Poland and energy issues

Electricity market in Poland

Regarding domestic resources, Poland is practically independent regarding electricity production (83% from coal, 10% from RES). At the same time, most of its energy generation assets are technically obsolete (45% of these assets are more than 30 years old, 77% more than 20 years old) and require modernization or closure. This means that the energy sector in Poland is facing a great investment challenge. Unfortunately, the current situation on the electricity market which is characterized by low prices on the wholesale market and the increasing amount of renewable energies entering the mix means that investments are discouraged and there is a strong desire to shut down the old power plants. Therefore, due to the security of the system, changing the business model of the electricity market is a key factor for enabling uninterrupted production and a responsible investment policy which can guarantee a secure electricity supply in the long term.



Natural gas market in Poland

Contrary to the resource situation in the electricity market, Poland has to import most of its natural gas (imports are 75%, three-quarters of which come from the east). Therefore, in the opinion of the Polish Confederation Lewiatan, it is necessary to rationally develop existing or construct new cross-border two-way capacities towards selected directions (with the EU). At the same time, we see a number of barriers at the national level which hinder market activities, and see a need for further liberalization of the Polish gas market and the elimination of a number of administrative barriers.¹

3. Energy Union by the Polish Confederation Lewiatan

ELECTRICITY

- The first step is to evaluate the effects of the current performance of the EU and regional energy markets. Evaluation should show whether they generate signals for investment (in power generation, transmission lines). If such signals do not exist, the evaluation should ascertain the causes of such a situation and include recommendations with respect to possible reconstruction of the wholesale energy market model of the EU.
- The current debate at the European Commission level did not address the existing problems relating to the security of the electricity supply. We believe that an energy market based solely on the energy capacity (energy-only market) does not provide long-term supply security. Thus, the EC should initiate a discussion on such a model of a wholesale market, which will provide security of supply – both long-term (generation adequacy) and real time (reserves and other ancillary services).

¹ In its statements the Gas Council of the Polish Confederation Lewiatan identifies these barriers in detail and gives recommendations on how to eliminate them.



- Ensuring security of electricity supply also requires a definition and valuation of regulatory services in a situation of increasing generation of renewable energies, which results in displacement of conventional sources from merit order.
- Individual EU countries already implement – in an uncoordinated way – capacity mechanisms, which lead to further disruption of operations on energy market. If the EC wishes to create regional markets, and ultimately a common market, it needs to coordinate these activities.
- We support the development of regional markets and the improvement of regional cooperation, including solidarity and the establishment of a platform for information sharing on important national resolutions affecting the energy systems of other countries. Our question is: What will the next steps after the foundation of such a platform be?
- Interconnectors must be built primarily in order to integrate markets and energy systems. This is a very important step towards ensuring the EU's energy security. Expansion of cross-border infrastructure cannot be implemented solely for the benefit of RES.

OIL / PETROLEUM PRODUCTS:

- The assumptions of the Energy Union do not even make reference to these, despite the EU's substantial dependence on oil imports (almost 90% from outside the EU).
- Oil market is global and allows a quick change of supplier when necessary. However, some EU refineries are limited in their possibilities of changing suppliers, due to the existing logistical framework (pipelines). E.g. some refineries are landlocked. This issue was analyzed by the European Commission and a program of pipeline expansion was prepared, although no further steps have been taken.
- Concerning the supply of petroleum products, a potential restriction in the availability of fuel in emergencies is to be expected. Hence the deterioration of the European refining industry will result in the closure of subsequent refineries, which poses a serious threat to the supply security of petroleum fuels.



NATURAL GAS:

We agree that improving the security of the gas supply requires both regulatory action and infrastructure improvement:

For regulatory action, we believe there is the need to:

Encourage voluntary joint purchasing. This suggestion refers mainly to the future and does not interfere with existing contracts concluded by individual member states or energy companies. Such measures seem to be particularly reasonable regarding the feasibility of joint purchasing of large volumes of gas in the form of LNG.

- Transparency of contracts
 - Laying down minimum requirements for transparency for all existing import contracts by introducing the obligation to submit the key contract conditions to the EC, which will significantly reduce the potential for abuse of monopoly positions by gas producers.
 - Empowering the EC to control the projects of setting up import contracts if they are in line with the requirements of the EU law.
 - Development of an EU act defining standard, common and the EU-wide contract conditions for all new gas supply contracts.
- Fostering the implementation of the third energy package by member states
- Member states' obligation to create and maintain stocks of natural gas. Initiative to create the EU-wide shared strategic reserve system at the European level, used in case of emergencies², based on the mechanism to maintain minimum stocks of crude

² Defined in accordance with the Regulation (EU) No 994/2010 (the so-called Regulation SoS) of the European Parliament and of the Council.



oil or petroleum products and monitored by the International Energy Agency³. Provisions would be jointly financed by all member states, proportional to gas consumption in each country. Such a solution would reduce the risk of an interruption in gas supplies to the EU states as well as minimize the risk of falling prey to energy blackmail by producers, and would strengthen the EU's negotiating position. This mechanism should be implemented primarily at the regional level as one of the most important elements to promote integration in order to improve the level of security.

- The revision of the Regulation on SoS. In light of the Regulation on SoS⁴, the improvement of reverse gas flow is closely related to the infrastructure standard, the so-called N-1 standard. According to the wording of Article 7 (2) of the Regulation: "The proposal to implement reverse flow capacity or the request for a derogation, (...) are based on an assessment of (...) the possible effect of reverse flow capacity and other possible measures on standard infrastructure." In practice, this implies the N-1 standard does not support the integration of markets and is focused only on the improvement of national security. In order to improve the integration of the market and its liquidity, it is necessary to change the approach to improving transmission infrastructure and supply security from "inward-oriented" to more "integrated". The suggested solution is a revision of the Regulation on SoS in order to modify the N-1 standard or obligate the operators to expand the reverse flow capability, regardless of the implementation level of the infrastructure standard.

³ Required by Council Directive 2009/119 / EC of 14 September 2009, which imposes an obligation on Member States to maintain minimum stocks of crude oil or petroleum products.

⁴ Regulation (EU) No 994/2010 of the European Parliament and Council of 20 October 2009 on measures to safeguard security of gas supply and overriding Council Directive 2004/67 / EC.



Regarding infrastructure we need to:

- Construct pipelines allowing to diversify gas suppliers (e.g. the Southern Gas Corridor supplied from Azerbaijan and Iran)
- Construct interconnectors between member states
- Construct gas storage facilities

INDUSTRY COMPETITIVENESS

- Important issues for industry are energy prices and supply security. In this respect, a properly operating energy market is important, as is shown above.
- Furthermore, we expect pragmatic actions for creating the post 2020 climate policy. The priority is to reform the EU ETS in order to provide an efficient mechanism for preventing carbon leakage.
- We expect a new global agreement on climate change to emerge in Paris Conference in December 2015. We believe that all efforts should be made to outline a resilient agreement, which will oblige everyone to cooperate. If the Paris Summit does not generate comparable climate commitments for the largest economies in the world, the EU climate policy should be revised radically. It should pursue the competitiveness of European businesses and should shift from mitigation to adaptation measures.
- It is necessary to create all programs and regulations counting emissions of the entire production chain. This is particularly important for reducing both energy consumption and CO₂-emissions with respect to alternative fuels for road transport (electricity and hydrogen). In some cases, when subjecting such fuels to extended cost/benefit analyses, they are not shown to be low-carbon (e.g. if cars in Poland were electrically powered, the overall emission would be higher than at present). Further policy planning will require prudence and a holistic approach.

