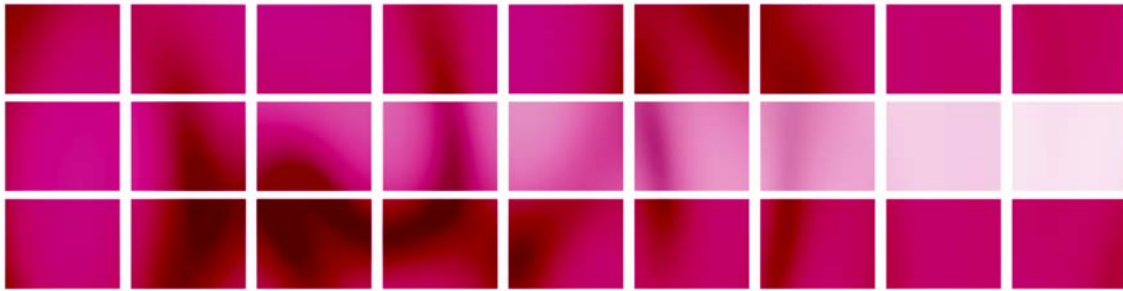


PIQUE.



**PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON
QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE)**

Liberalisation, privatisation and regulation in the Polish electricity sector

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Country report on liberalisation and privatisation processes and forms of
regulation

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1. MARKET STRUCTURE

1.1. Market structure before liberalisation

Before the liberalisation began, the energy sector was not divided into the three segments of generation, transmission and distribution. In Poland there was only one vertically integrated power company named “Wspólnota Energetyki i Węgla Brunatnego” (The Community of Power Industry and Lignite Coal) (Wojtkowska-Łodej 2002), owning generating assets producing electricity, transmitted by grids belonging to these enterprises, and selling the energy to all customers. The Community supervised five territorially distinguished districts and covered power stations and combined heat-and-power plants. These districts were operated as state enterprises, whereas the power stations and combined heat-and-power plants worked on the principles of internal economic accounting.

The Community conducted activities according to five-year and annual plans, which contained tasks connected with energy and thermal production, extracting and processing the lignite coal, the expansion of the power stations, the combined heat-and-power plants and the power grid. The plans were approved by the Ministry of Industry. Until the end of the 1980s the organization of Polish power industry was based on public property, central planning and vertical and horizontal integration. The level of internal integration was so high that nobody tried to introduce legal or economic unbundling. The power sector was identified with the infrastructure of the economy (Dobroczyńska/Juchniewicz 2004).

1.2. Steps and processes of liberalisation

In 1989 the power industry districts were liquidated (Ustawa 1990). Reforms in the Polish energy sector began with organizational changes instituted in 1990 (Włodarczyk 2001). The electricity and coal-mining industries were officially separated. Generation, transmission and distribution of electricity became separate segments. The institutional framework for competition was established. The main goal of the energy sector transformation were the introduction of competition and the improvement of efficiencies of electricity companies. These purposes were to be achieved by the division of the energy sector.

As a result, 33 national distribution companies, 32 power stations and a heat-and-power plant and several dozen local heat-and-power plants were established. In 1990 Polskie Sieci Energetyczne S.A. (Polish Power Grids Company) was established as a one-person company of Treasure. From the point of view of implementing competition into the energy market, the PSE S.A.’s emergence from the structure of five vertically integrated enterprises was positive. But on the other hand it enabled PSE S.A. to obtain a monopolistic position (Włodarczyk 2001).

PSE S.A. acted as a transmission system operator and had a monopolistic position in the wholesale energy trade in Poland.

To sum up, the process of reconstructing the energy sector started at the turn of the 1980s and 1990s. A commercialisation was the first stage. The state reduced its control of the energy sector in order to concentrate on activities directed at raising effectiveness and profitability. This policy was accompanied by a corporatisation relying on establishing economically and legally separated enterprises, still owned by the state. The functional division of the sector into generation, distribution and transmission was an undoubted success (Dobroczyńska/Juchniewicz 2004).

The regulatory framework for the Polish energy sector was defined in the Energy Law Act, adopted on 10 April 1997 (Prawo energetyczne 1997). The Energy Law changed the structure of the energy market. To achieve objective accounting, organizational and legal unbundling, new undertakings dealing exclusively in electricity trade entered the market.

The Energy Law does not provide any particular limitations to the development of particular forms of energy trade. The electricity trade is carried out in three main forms: on contract, balance and exchange markets. On the contract market trading is done on the basis of contracts concluded among energy producers, undertakings operating the transmission grid and distribution networks, companies trading in energy and energy consumers. The balance market is intended to close the energy balance in the whole electric energy system. It enables consumers to purchase additional amounts of energy not covered by the previously concluded contracts.

The Energy Law provides conditions for the gradual implementation of a market mechanism. Following EU practice, Poland adopted a system of gradually introducing Third Party Access (TPA). Depending on the quantity of energy purchased, particular consumer groups will have access to the grid.

In September 2001 another segment of the electricity market – the daily/hourly balancing market started to operate. On this market the transmission system operator, in hourly cycles, obtains a balance of production and demand, taking into account contracts and transactions concluded earlier by market participants in other segments and submitted balancing offers with 24 hours advance notice (Zerka 2003).

The establishment of the daily/hourly balancing market, and simultaneously a gradual limiting of the sales of energy within long-term contracts, had a positive impact on the development of different forms of energy trading.

1.3. Current market structure and remaining challenges

Some experts in energy policy argue that the process of liberalisation of the energy market in Poland stopped in 2002. In April 2002, the Government accepted the “Obsolete Energy Policy Assumptions by 2020”. This document presents the overall ownership policy of the Ministry of Privatisation (Minister Przekształceń

Własnościowych). Some changes in the methods of shaping the energy market structure were introduced in this document. In accordance with this document, a horizontal consolidation of electric power distribution started. In January 2003, the Council of Ministers accepted two documents specifying the aims and directions of changes which the government intends to introduce to energy sector, i.e. the “Obsolete Programme of the Introduction of a Competitive Electricity Market in Poland” prepared by the Ministry of Economy, Labour and Social Policy, and the “Realization Program of an Ownership Policy of the Ministry of Treasury Towards the Power Engineering Sector” by the Ministry of Treasury (Przybylik 2005). The Ministry of Treasury worked out a program of privatization of the energy sector. The process of privatization should be divided into three stages: a horizontal consolidation of producers and distributors, the restructuring of joined subjects and then their privatization (“Raport roczny dla Komisji Europejskiej” 2005). The consolidation process was led separately in the generation and distribution sectors. All non-privatized distribution companies were assembled in five groups with a plan to transform them into five independent holdings. The consolidation processes of further two groups are being continued to the present moment. A separate consolidation process took place in the generation and distribution sectors. The processes of consolidation and privatization is described in more detail in the chapter on Actors/Ownership.

The process of restructuring the energy market in Poland is not finished yet. Some questions arise how it should be continued. Supporters of the free market have pointed to the requirements of the Directive 2003/54/EC to separate distribution system operators from supply functions. They are convinced that the separation of other company functions could result in an increase of productivity through the specialization of the separated parts. That is why the consolidation should be left to market forces and distribution companies. Some industry experts argue that the earlier consolidation will make distribution companies more effective and capable of competing with companies from other EU countries.

In 2004 Poland joined the EU and had to comply with its regulations. In January 2005 the Polish government passed an amendment to the Energy Law implementing the EU’s Directives into the national legislation and paving the way for a competitive market. An important part of this document is related to the need of an increase in the efficiency of Polish energy companies. Further changes to the energy market structure took place. The Energy Law stated that the transmission system operator, the distribution system operator and the interconnected system operator which is part of a structure of vertically integrated undertaking should remain independent with respect to their legal and organizational form and decision-making capabilities from other activities not related to transmission or distribution of electricity (Prawo energetyczne 1997).

The transmission system operator and distribution system operator are appointed by administrative decision made by the URE President on the proposal of the owner of the transmission or distribution network. The transmission system operator was established in July 2004 but the regulations adjusting activity of distribution system operator are more recent. Up to the time of distinguishing them from the structures of vertically

integrated undertakings, the distribution companies are serving as them, but no later than until 31 December 2006.

Distribution companies are obliged to unbundled distribution activities from trade. The independent distribution system operator should guarantee equal access to the grid. Some experts have emphasized that the success will be complete if distribution system operators introduce a universal system of metering, equipped with the newest technology.

The Energy Law led to the principle of organizational and legal unbundling, moreover the legal should be carried on to July 2007.

Some energy industry experts have pointed out that the amendment process of the Energy Law, which was completed in April 2005, did introduce the main points of the EU directives but did not take into account the Polish reality. No market model, neither wholesale nor retail, emerged from the amended Energy Law.

Generally, the market consisted of two main levels of energy trade: wholesale and retail. Each of these levels is divided into competitive and regulated sections. This was the result of technical properties of the energy market and of the need to break the process of competition development up into several stages. The basic difference between them was the use of tariffs approved by the Chairman of URE. Wholesale and retail trade operations are carried out by both distribution companies and undertakings dealing exclusively in the electricity trade. At the beginning, the trade undertakings bought electricity only from generation undertakings, later the trade undertakings set up mutual trade contracts and contacts with distribution companies (Szczygieł 2003).

Generation sector: In 2005, the total amount of electricity generated in Poland reached 156,938 GWh. Compared to 2004, this was an increase of 1.8%. Most of that was generated in system power stations. The sector of electricity producers consists of system power stations and combined heat-and-power plants, producing energy mainly from fossil fuels, as well as producers of electricity from renewable energy sources. Generation sector included power producers: 12 power plants, 19 heat-and-power stations and over 270 local power plants and thermal power plants connected to distribution network. In 2004 holding BOT Górnictwo i Energetyka started to operate. It caused the increase of concentration indicator HHI.

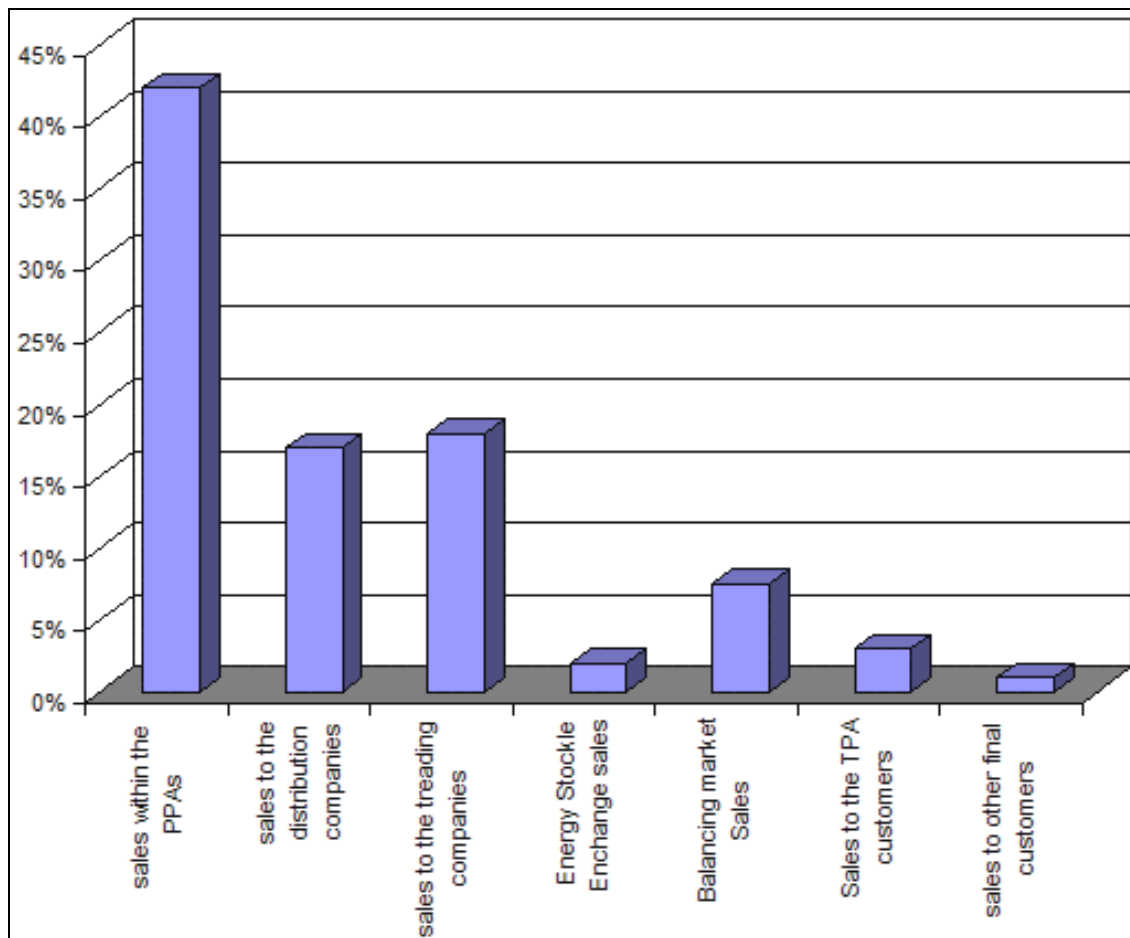
Transmission sector: Polskie Sieci Energetyczne S.A. (Polish Power Grid Company), – one-person company of Treasure – acting as a Transmission System Operator – an energy enterprise dealing with the transmission of electricity, responsible for grid operation in electricity transmission system, the ongoing long term operational security of that system, the use, maintenance and repair and the necessary expansion of the transmission grid, including its connections to other electricity systems.

Distribution sector: After consolidation, out of 33 distribution companies operating in 1990, in 2004 only 14 remained on the market. The process of consolidation in the distribution sector is not completed.

The group of undertakings dealing with the transmission and distribution of electricity by grids also included producers operating in transmission and distribution on a small scale, for example in factories, mines or special economic zones, exploiting local transforming stations and delivering energy to customers located in their region or in adjacent areas.

The Polish electricity market is divided into two main parts: sales of energy within long-term contracts (its non-competitive part) and sales beyond long-term contracts (subject to competition).

Figure 1: Segments of the electricity market in Poland (2004)



Source: ERO.

Table 1: Market structure

	Before the process of liberalisation		After the process of liberalisation (2004)
	Stage I	Stage II	
Generation	One vertically integrated power company named "Wspólnota Energetyki i Węgla Brunatnego" (The Community of Power Industry and Lignite Coal), owning generating assets producing electricity, transmitted by grids belonging to this enterprise, and selling the energy to all customers.	32 power stations, heat-and-power plants and several dozen local heat-and-power plants	12 power stations (large system generators) 19 heat-and-power plants Local heat-and-power stations
Transmission		Polskie Sieci Energetyczne S.A. (Polish Power Grids Company)	Polskie Sieci Energetyczne S.A. (Polish Power Grids Company)
Distribution		33 distribution companies	14 distribution companies
Sales			About 270 undertakings dealing exclusively in electricity trade

2. REGULATIONS

2.1. Instruments of regulation

The level of internal integration before the process of liberalisation was very high. There was only one vertically integrated company comprising the production, transmission and selling of electricity. Company activities were fully coordinated by the state. At the end of the 1980s, from a formal point of view, there were no legal regulations that explicitly formulated the responsibility for the energy policy. In practice, the following pattern of decision making applied: The Minister of Industry and Trade was responsible for working out the stages of energy sector development. The Minister of Finance set energy prices. These prices did not reflect the costs of energy production or distribution. The pricing policy was subordinated to social purposes (Włodarczyk 2001).

The process of energy market liberalisation began in 1990. The electricity industries were separated and a division into the generation, transmission and distribution of electricity was established. A prerequisite of every free market, the free flow of products from seller to buyer is also an important aspect of energy sector liberalisation. Energy is seen as a specific product. In order to introduce a competitive energy market it is necessary to separate energy as a product from the service of its transmission. Only in this way can prices of energy be connected to the costs.

The legal regulations in place in the first half of the 1990s were no longer suited the requirements of the current situation. The energy sector was still regulated by legislation

passed in 1984. One should remember that these regulations referred to a centrally planned economy, with the state as an owner and the regulator of the entire energy sector. The energy sector was a strictly centralized sector of the economy, managed by a command system and almost completely dominated by state-owned property. The activities of the central offices supervising the functioning and restructuring of the Polish power industry were characterized by a lack of coordination, responsibility and competence.

The Minister of Trade and Industry was responsible for supervising the functioning the energy sector.

By means of pricing and tax policies, the Minister of Finance influenced the financial situation of the sector, thus determining both its developmental possibilities and the restructuring process.

By implementing credit policies, setting interest rates and credit limits, the National Polish Bank defined the possibility of acquiring the means for energy sector restructuring.

The Minister of Privatization was in charge of the privatization processes in the energy sector.

The Minister of Economic Cooperation with Foreign Countries defined the conditions of foreign trade exchange by setting limits, taxes and customs [ibid.].

This major lack of concentrated decision-making powers on a central level caused serious economic problems in the energy sector.

Until 1998 the regulation of electric energy prices followed two mechanisms: The Minister of Finance set consumer prices, guided by a realization of social purposes and an anti-inflation policy. The Ministry of Industry and Trade established the prices for the energy wholesale trade. PSE S.A. (Polish Power Grids Company) bought the energy from the power stations at the prices defined by the Ministry. The electricity trade was carried out in the form of bilateral contracts. (Szablewski 2003),

Because of the subordination of the pricing policy to social policy there was constant financial deficit in the energy sector. As a result, enterprises of better financial standing had to bear the burden of the weak financial position of the entire sector. Instead of being rewarded, they were punished. This did not contribute to an increase in economic effectiveness. In this way, the suppression of rises in price for social reasons led to ineffective regulations in the energy sector[ibid].

2.2. Problems: long-term contracts

At the beginning of the 1990s the Polish power sector entered a period of structural reforms aimed at adjusting it to the requirements of a general market reform of the Polish economy. It was necessary to start a huge investment program aimed at doing away with long-time negligence, specially as far as the efficiency of electricity

generation and environmental protection is concerned. The scope of necessary investment and financial means exceeded the potential of power generators. The means for investments were generated in a system where the price level was not the result of economic realities but of an arbitrary administrative decision lowering energy prices due to social pressure. The needed investment means had to be covered mainly by external sources. The emerging banking sector was too weak to take on the risk of financing such a huge investment without proper security measures. There was also a lack of proper knowledge of the mechanisms of the international credit market (Czekaj 2001).

The Polish Power Grid Company was obliged to buy specified quantities of capacity and electricity from involved generators at prices set on the assumption that fixed generation costs would be covered by capacity payments and variable costs would be covered by electricity payments. This means that the ultimate responsibility for paying credits was passed on to the final consumers of energy [ibid].

It is estimated that the most important mistake was assuming that energy prices would cover the costs of generation and credit without, however, creating incentives for improving efficiency. Long-term contracts dominated economic conditions in the energy sector. At first it was assumed that they did not cover more than 30% of energy, but ultimately they covered from about 75% at the end of the 1990s to about 45% in 2005 [ibid].

The comfortable market situation of the generation sector did not result from a growth in economic efficiency but was due to administrative decisions. The existence of long-term contracts became the main obstacle in the introduction of market mechanisms.

Already in 1996-1997, when the Energy Law was under discussion, opinions emerged voicing the necessity of abolishing long-term contracts. The first proposals were prepared by the power sector itself, and were focused on the protection of the interests of generators [ibid]. It became clear that this problem could not be solved within the sector. The reasons were as follows: a necessity of capital flow from external sources, the necessary monitoring of costs by the government, the necessity to combine the abolishment of long-term contracts with a program of sector restructuring, the limitation of prices increases.

The first program proposed the restructurization of long-term contracts by means of a voluntary termination of contracts with distribution companies. The distribution companies however were not interested in this suggestion. The next program, the so-called System of Compensation Fees, was proposed by URE. It was based on the introduction of a system in which the energy generated by producers covered by long-term contracts would be sold at market prices. The generators suffering losses would be fully compensated. This system was not implemented because of legal and taxation obstacles, and was abandoned in 2001.

The next program, the "securitisation" of long-term contracts, was drawn up by external experts. The project proposed an obligatory expropriation of generators with long-term

contracts, and repaying proper compensations. The European Commission acknowledged that repayment of compensation could be classified as prohibited public aid.

Currently the problem of long-term contracts is the object of discussions and analyses.

2.3. Current energy market regulations

The construction of a liberal energy market began in 1997, with the adoption of the Energy Law. The provisions of the Energy Law allowed for an introduction of competitive mechanisms to the energy sector. The Energy Law was adopted on 10 April 1997. It has been amended 27 times and updated to ensure the further harmonization of Polish law with European law, including the provisions of Directive 98/30/EC and recently with the Directives 2003/54/EC, 2003/55/EC and other relevant acts. The Energy Law as well as regulations issued on its basis include instruments of promoting competitiveness and of protection against monopoly abuse.

In 1997, in order to implement and supervise the liberalisation process of the energy market, the regulatory authority represented by the President of the Energy Regulatory Office was established. The regulatory authority was created with the aim of supporting uniformity of solutions in the field of energy regulation, adoption of the relevant EU standards and thus facilitating appropriate structural and system transformations in energy undertakings.

The regulation of the energy market is taking place on three levels:

- The Energy Law is the highest level; it contains essential principles of regulation as well as fundamental institutional solutions.
- The government directives to the Energy Law issued by Councils of Ministers, the Prime Minister and the Minister of the Economy.
- Regulations issued by the Chairman of ERO. (Szczygieł 2003)

The Energy Law created the mechanisms of transition to a competitive market. It introduced some new principles of functioning of the market. The most important of them are (Juchniewicz 2005).

Regarding the principle of separating the function of energy policy, three functions were distinguished from the state's duty to the power industry: the function of making the energy policy, the control function and the owner's function. The Energy Law allowed for keeping regulations neutral, irrespective of the owned structure.

Another one is the principle of the equal treatment of entrepreneurs active in the energy market. All entrepreneurs act according to the same rules and conditions of pursuing business activities. Any kind of privilege relating to the status or condition of working was outlawed.

The Energy Law determined that an energy enterprise should ensure the equal treatment of customers and the elimination of cross-subsidizing. Energy enterprises are also

obliged to keep their accounts in a way that allows for a separate accounting of costs and revenues, profits and losses for business the activity performed.

2.3.1. Licenses

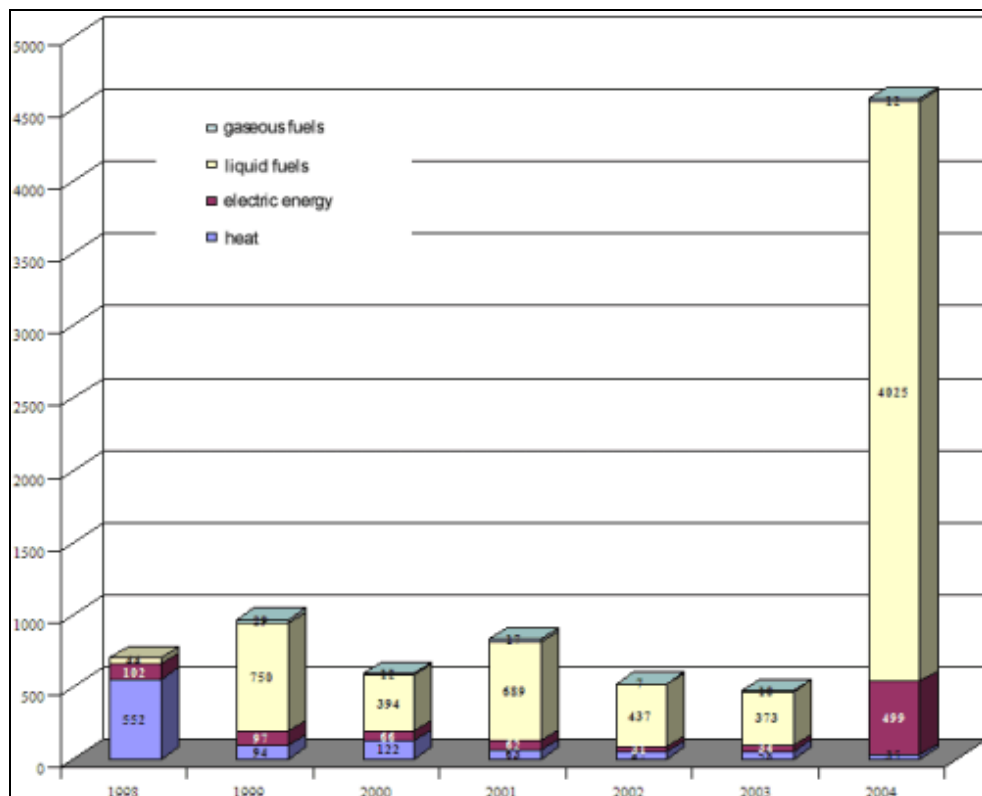
Under Polish law, licences are obligatory for all entrepreneurs engaged in energy activities in the field of electricity generation of a capacity of 5MW or more, in the transmission and distribution of electricity, in trading in electricity with the exclusion of trading through consumer-owned installations of a voltage below 1 kV, as well as trade in power exchange.

The Energy Law states the scope of licensing, the terms of issuing and refusal to issue a license, the content of the application forms, the required documents, the scope of a licence and the terms of its extension, any changes of terms and conditions and license withdrawal.

Licensed undertakings are subject to subsequent regulatory regimes, in particular the regulation of prices enforced by the obligation of developing tariffs and submitting them to the Chairman of the ERO for approval.

Since 1 July 2001, entrepreneurs who have a license for electricity production or trade operating in a competitive market have been exempted by the Chairman of the ERO from the obligation of submitting tariffs for approval.

Figure 2: Number of undertakings possessing licenses (as of December 2004)



Source: ERO.

2.3.2. *Tariffs*

In view of tariff regulations, Polish solutions provide for an ex-ante regulation that – in comparison with the ex-post type of regulation – allow for providing more effective control. The effective regulation of tariffs on access and use of networks is the initial condition to suppress monopolistic position of network companies.

According to the Energy Law, the energy enterprises determine energy tariffs in accordance with the scope of their business activity. The tariffs should be calculated in a way that ensures: covering the justified expenses of the business activity of the energy enterprises related to the generation, transmission and distribution energy, covering the justified expenses borne by the transmission and distribution system operators in relation to the execution of their tasks, protecting customers against an unjustified increase of the prices and fee rates.

The minister in charge of economic affairs consults the Chairman of ERO and determines, by way of ordinance, detailed terms of establishing and calculating tariffs applicable to electricity as well as the detailed rules of settlement in the trade in electricity, taking into consideration: the state energy policy, ensuring the coverage of the justified expenses of the energy enterprises, including the cost of their development, the protection of customers against a unjustified price and fee levels, an improvement of the efficiency of supply and use of electricity, an equal treatment of customers, eliminating cross-subsidizing and the transparency of prices and fee rates.

Energy enterprises who have been granted licenses specify energy tariffs – subject to approval by the Chairman of ERO – and suggest the term of their validity. The energy enterprises who have been granted licenses present their tariffs to the Chairman of ERO by their own initiative or by request of the Chairman of ERO. The Chairman of ERO approves the tariffs submitted or rejects a tariff if it is inconsistent with the principles and provisions.

2.3.3. *The Third Party Access*

According to EU directives, member states can choose between three different systems of grid access: negotiated, regulated or single supplier. In Poland a sort of mixed negotiation-regulation approach was adopted. It imposes an obligation on the network companies to guarantee access on certain conditions, including technical and economic criteria, agreed by the parties. The Chairman of ERO is responsible for regulating access charges and for settling disputes concerning access conditions in order to prevent access being blocking by distribution companies.

In 2002-2003, only those customers were authorized to use transmission services that in the previous year had acquired electricity for their own use to an amount of no less than 10GWh. Therefore, in 2003 the estimated number of authorized customers (641) did not differ from the number of 2002. Similarly, their total acquisition of electricity can be estimated at 38TWh in 2003, which means about 37% of the market opening. Since 1 January 2004, authorized customers became those who in 2003 had acquired electricity

to the amount of no less than 1GWh. Their number was estimated at more than 6,000 and thus a total acquisition of electricity of 53TWh, which equals over 50% of the market opening. Now non-household customers are eligible [URE].

The introduction of Third Party Access has not accelerated the liberalisation of the energy market. In total, the annual acquisition of electricity by users who have obtained the right to choose a supplier amounts to 7% of the total distribution to end users.

Table 2: Volume of energy supplied by distribution companies to TPA Customers

Distribution companies	Customers TPA	Volume of electric energy supplied to TPA Customers (GWh)	Share of electric energy supplied to TPA customers in total supplied energy in 2005 (%)
ZE Białystok SA	0	0	0
LUBZEL SA	0	0	0
ENION SA	9	2,372	14
Vattenfall Distribution Poland SA	8	2,674	26
Rzeszowski Zakład Energetyczny SA	1	32	1
EnergiaPro Koncern Energetyczny SA	4	886	7
Łódzki Zakład Energetyczny SA	0	0	0
Koncern Energetyczny ENERGA SA	3	1,031	6
Zamojska Korporacja Energetyczna SA	0	0	0
ZEORK SA	2	135	3
ENEA SA	2	18,6	0,1
Zakład Energetyczny Łódź – Teren SA	1	83	2
STOEN SA	4	167	3
ZE Warszawa SA	1	35	0.7
Total	35	7,433	7

Source: URE.

The TPA rule only works to a very small extent. There are many barriers which make progress towards a competitive market impossible. The most important of them include (“Raport roczny dla Komisji Europejskiej” 2005):

- using transmission services causes additional costs related to customer’s activities on the energy market
- the high costs related to modernizing the metering system, to setting up data transmission links to a distribution system operator
- the lack of price competitiveness and the small producers’ interest in direct sales to customers

- Trade undertakings argued that they have no opportunity to participate in the balancing market with so-called open contractual position. This means that they are unable to fully participate in the energy market
- There is a lack of provisions defining the participation of non-tariff customers in the acquisition of electricity from unconventional and renewable sources.

2.3.4. *Other regulations*

According to the Energy Law the transmission system operator and the distribution system operator are obliged to develop the instructions on the operation and use of the transmission grid and the instructions on the operation and use of the distribution grid. The instructions prepared for electricity grids should specify the detailed terms of use of those grids by the system users and the terms and the method of grid operation, use and the planning of the development of those grids.

The distribution system operator should include the requirements specified in the instructions of operation and use of the transmission grid, developed by the transmission system operator. The transmission system operator submits the part of the instruction which deals with the transmission system balancing and the management of system restrictions for approval by a decision to the Chairman of ERO, including the information on the comments from system users. After approval within 60 days the distribution system operator presents instructions on operation and use of the transmission grid to the Chairman of ERO for approval. Earlier this instruction was forced.

Table 3: Instruments of regulation

	Before the process of liberalisation	During the process of liberalisation	After the process of liberalisation
Generation	Vertically integrated "The Community of Power Industry and Lignite", fully coordinated by state. It was a strictly centralized sector of economy, managed by command system and almost completely dominated by state. The Minister of Industry and Trade was responsible for working out the plans of energy sector development.	The Law passed on 1984-regulation which treated the central planned economy. The Minister of Industry and Trade established the prices in energy wholesale trade	Energy Law of 1997 Licenses for entrepreneurs who carry out energy activities in activities in the field of generation of electricity of a capacity of 5MW or higher. Tariffs, ex-ante type of regulation
Transmission	The Minister of Finance established prices of energy	The Law passed on 1984 The Minister of Finance established the prices for consumers	Energy Law of 1997 Licenses Tariffs, ax-ante type of regulation The transmission system operator is obliged to develop instructions on the operation and use of transmission grid. An obligation to agree draft development plans with the President of the ERO
Distribution		The Law passed on 1984 The Minister of Finance established the prices for consumers	Energy Law of 1997 Licenses Tariffs, ax-ante type of regulation The distribution system operator is obliged to develop the instruction on operation the distribution grid.
Supply/sales		The Law passed on 1984 The Minister of Finance established the prices for consumers	Energy Law of 1997 Licenses for entrepreneurs who carry out energy activities in the field of electricity trade with the exclusion of trade through consumer-owned installations of a voltage below 1 kV. Tariffs, ex-ante type of regulation

2.4. *Actors*

There are four bodies in the state administration playing the key role in relation to the power sector and to energy policy. The main governmental body relevant for issues of energy policy is the Minister of the Economy. With respect to energy policy, the Minister of the Economy's tasks include: preparing the proposal of the state energy policy and coordinating its implementation, specifying the detailed terms of planning and the operation of energy supply systems, supervising the security of electricity supply and the supervision of the operation of the national energy systems to the law, coordinating issues related to the planning and construction of energy supply systems with the regional (voivoidship) governors and local authorities, coordinating cooperation with international government organizations. The Minister of Treasury performs ownership functions. He is responsible for the privatization policy (Szczygieł 2003).

As the activity of energy transmission has the character of a natural monopoly, on which market mechanisms can only act in limited ways, a regulatory body, Urząd Regulacji Energetyki (Energy Regulatory Office), has been set up with the aim to stimulate the business efficiency in this market. The Chairman of ERO is the central body of government administration. ERO regulates the energy enterprises with the objective to secure the interests of end users. The main responsibilities of ERO include:

- issuing licenses to the energy enterprises whose business is the generation, transmission and trade of energy,
- approval of and supervision of the application of energy tariffs,
- control of the quality standards of services provided to customers,
- approving the instructions of grid operation and use with respect to the aspects of system balancing and the management of system restrictions,
- solving disputes.

A special role in this model is fulfilled by the Transmission System Operator, which, via the grid code, creates duties and gives access rights to his services to market participants. Some parts of the grid code referring to balancing and congestion management are now analyzed by the Energy Regulatory Office. The most important issue is – according to the president of the ERO – to make sure that these regulations do not create new barriers against competition.

Table 4: Regulating actors

Before the process of liberalisation	After the process of liberalisation
<p>The Minister of Trade and Industry was responsible for supervision of functioning the energy sector</p> <p>Via pricing and tax policies, the Minister of Finance influenced the financial situation of the sector, determining its developmental possibilities and restructuring.</p> <p>By implementing credit policy, setting interest rates and credit limits, the National Polish Bank defined the possibility of acquiring means for energy sector restructuring.</p> <p>The Minister of Privatization was responsible for the processes of privatization in the energy sector.</p> <p>By setting limits, taxes, customs, the Minister of Economic Cooperation with Foreign Countries, defined the conditions of foreign trade exchange.</p>	<p>The regulation of energy market is taking place on three levels:</p> <ul style="list-style-type: none"> ▪ The Energy Law is the highest level – it contains essential principles of regulation as well as fundamental institutional solutions. ▪ Government directives pertaining to the Energy Law issued by the Council of Ministers, the Prime Minister and the Minister of the Economy. ▪ Regulations issued by the Chairman of ERO.

3. ACTORS/OWNERSHIP

3.1. Electricity production

The sector of electricity producers consists of power stations and system and industrial combined heat-and-power plants (CHP), producing electricity mainly from fossil fuels, as well as from renewable sources.

Table 5: Production of electricity (in GWh)

	1990	1995	2000	2003	2004
Total	128,199	130,555	137,798	143,328	14,5613
Power stations and heat-and-power plants	124,899	126,775	133,831	14,0218	142,151
Combined heat-and-power plants	12,690	16,051	2,0458	23,905	25,233

Source: Agencja Rynku Energii 2005, p.33.

3.1.1. Before liberalisation

Table 6: The most important energy producers (energy production in GWh)

	1989	1990
Total	133,151	124,899
Power station: Bełchatów	28,246	26,509
PAK (combined powered stations)	13,703	13,366
El. Pątnów		
El Adamów		
El Konin		
El Turów		
El Kozienice	11,769	12,316
El. Dolna Odra (combined powered stations)	10,623	8,975
El Dolna Odra	8,769	7,576
El. Szczecin		
El.Pomorzan		
El Połaniec	8,482	7,963
El. Rybnik	10,524	9,878
Combined power station and heat-and-power station – Ostrołęka	2,956	2,839

Source: statystyka elektroenergetyki Polskiej 1990. The Ministry of Industry.

3.1.2. At present

After the process of consolidation, the biggest generating plants are: BOT GiE SA, PKE SA, EL Kozienice SA. Their share in total electricity production amounted to 62.6% (2003 – 49.0%, 2004 – 62.1%, 2005 – 62.6%) (Source: URE).

Table 7: Energy production (in GWh) in Poland in 2004

Supplier	Production (in GWh)
Total production	142,151.0
BOT EI Bełchatów:	4,430.0
EI Turów	2,027.0
EI Pątnów	1,600.0
EI. Adamów	600.0
EI Konin	538.0
Południowy Koncern Energetyczny PKE S.A.	4,952.7
<i>EI Jaworzno</i>	<i>1,345.0</i>
<i>EI Łaziska</i>	<i>1,155.0</i>
<i>EI Siersza</i>	<i>786.0</i>
<i>EI. Łagisza</i>	<i>840.0</i>
<i>EI. Halemba</i>	<i>200.0</i>
<i>EI. Jaworzno2</i>	<i>190.0</i>
<i>EI. Blachownia</i>	<i>165.0</i>
<i>Ec. Katowice</i>	<i>135.0</i>
<i>Ec. Bielsko –Biała</i>	<i>81.2</i>
<i>Ec. Bielsko-Pólnoc</i>	<i>55.0</i>
EI Kozienice S.A.	2,820.0
EI Połaniec S.A.	1,600.0
EI. Rybnik S.A.	1,775.0
EI Dolna Odra	1,492.0
BOT EI Opole S.A.	1,492.0

Source: cire.pl.

3.2. *Electricity transmission*

Before the liberalisation and at present there was and there is one transmission system operator: **Polskie Sieci Energetyczne S.A. (Polish Power Grids Company)**. PSE SA acts as energy enterprise dealing with the transmission of electricity, responsible for grid operation in electricity transmission system, the ongoing long term operational security of that system, the use, the maintenance and repair and the necessary expansion of transmission grid, including its connections to other electricity systems.

3.3. *Electricity distribution*

Wholesale and retail trade operations are carried out both by distribution companies and undertakings dealing exclusively in electricity trade.

3.3.1. At the beginning of liberalisation

In 1990, at the beginning of liberalisation there were 33 distribution companies.

Table 8: Distribution companies areas of activity in 1990

	Area of activity (km)
Total	312,692
ZE Warszawa Miasto	486
ZE Warszawa Teren	18,299
ZE Białystok	27,229
ZE Bielsko-Biała	3,860
ZE Bydgoszcz	10,349
ZE Częstochowa	6,100
ZE Elbląg	6,103
ZE Gdańsk	7,394
ZE Gorzów	8,484
ZE Jelenia Góra	4,378
ZE Kalisz	11,651
ZE Będzin	2,553
ZE Gliwice	4,006
ZE Skarżysko Kamienna	16,504
ZE Koszalin	8,470
ZE Kraków	8,830
ZE Legnica	4,037
ZE Lublin	12,145
ZE Łódź Miasto	1,523
ZE Łódź Teren	15,094
ZE Olsztyn	12,327
ZE Opole	8,558
ZE Płock	11,479
ZE Poznań	20,510
ZE Rzeszów	16,382
ZE Słupsk	7,453
ZE Szczecin	9,981
ZE Tarnów	4,151
ZE Toruń	9,750
ZE Wałbrzych	4,168
ZE Wrocław	6,287
ZE Zamość	15,283
ZE Zielona Góra	8,868

Source: Statystyka elektroenergetyki Polskiej 1990. The Ministry of Industry.

3.3.2. *Distribution companies during consolidation process.*
Table 9: Distribution companies areas of activities and number of consumers in 2004

	Areas of activity (in km)	Number of consumers (in thousands)
Total	312,668	15661.6
STOEN stołeczny ZE S.A.	486	820.8
ZE Warszawa Teren S.A.	18,299	795.2
Łódzki ZE S.A.	1,523	795.2
ZE Łódź Teren S.A.	15,094	592.5
ZE Płock S.A.	11,479	349.2
ZE Białystok S.A.	27,229	655.7
Lubelskie ZE Lubzel S.A.	12,144	514.7
Zamojska Korporacja En. S.A.	15,283	423.0
Rzeszowski ZE S.A.	16,382	657.7
ZE Okregu Radomsko-Kieleckiego	16,504	735.8
ENION S.A.	25,529	2298.4
Energetyka Kaliska S.A.	11,651	439.8
EnergiaPro Koncern Energetyczny S.A.	27,429	1631.2
Grupa Energetyczna ENEA	58,192	2240.0
Elbląskie ZE S.A.	6,103	180.6
ZE Toruń S.A.	9,634	422.4
ZE Słupsk S.A.	7,453	167.0
ENERGA	7,394	612.0
Gdańska Kompania Energetyczna En. SA.		
ZE S.A. w Olsztynie	12,327	298.5
ZE Koszalin S.A.	8,471	215.5
Górnośląski ZE S.A.	4,062	1101.4

Source: cire 2005.

Table 10: Sales of electric energy by distribution companies in 2005

Company	Volume of sales (TWh)	Share (%)	Number of consumers (million)	Share (%)	Share in the market* (%)
Koncern Energetyczny ENERGIA SA	18.00	17.1	2.71	17.3	92.1
ENEA SA	15.23	14.5	2.26	14.4	99.8
EnergiaPro Koncern Energetyczny SA	12.31	11.7	1.56	10.0	90.8
L-6	19.62	18.6	3.78	24.1	98.5
ENION SA	16.83	16.0	2.34	14.9	81.3
Ł -2	6.93	6.6	1.08	6.9	98.4
STOEN SA	5.98	5.7	0.83	5.3	96,2
Vattenfall Distribution Poland SA	10.44	9.9	1.1	7.0	68.1
Total	105,35	100.0	15.66	100.0	-

*) the sale of electric energy by distribution companies to consumers connected to the grid of this company, compared with the total volume of electric energy supplied to these consumers.

Source: URE 2005

3.4. The processes of consolidation and privatisation

3.4.1. System power stations

1. ZESPÓŁ ELEKTROWNI DOLNA ODRA S.A. (ZEDO): Ministry of Treasury and Spanish ENDESA initiated a contract concerning sales of 85% of shares to ZESPÓŁ DOLNA ODRA S.A. The contract should have been signed after ending the negotiations between the investor and staff on a social package. According to the governmental project 'Program dla elektroenergetyki', ZEDO will be incorporated into POLSKA GRUPA ENERGETYCZNA (PGE). POLSKIE SIECI ENERGETYCZNE will be the integrator of PGE. Up to 35% of PGE will be on sale on public offer in 2008. PGE's predictable income of is ca. 20 bn zł after 2010.
2. ELEKTROWNIA KOZIENICE S.A.: Six investors (Czech CEZ a.s., Spanish ENDESA EUROPA S.L., Polish ENEA S.A., Spanish IBERDROLA S.A., German PCC AG and Swedish VATTENFALL AB) submitted a binding offer for purchasing shares of ELEKTROWNIA KOZIENICE. The Ministry of Treasury decided to continue negotiations with these potential investors: CEZ as, ENDESA EUROPA S.L., ENEA S.A., IBERDROLA S.A., and VATTENFALL AB. A group of companies (mine BOGDANKA, ENEA and ELEKTROWNIA KOZIENICE) will be formed. The shares of companies will be sold on the stock exchange after the consolidation.

3. ZESPÓŁ ELEKTROWNI OSTROŁĘKA S.A.: After considering three binding offers concerning the sales of shares of ZESPÓŁ ELEKTROWNI OSTROŁĘKA, the Ministry of Treasury decided to continue negotiations with KONCERN ENERGETYCZNY ENERGA S.A., ELNORD S.A. and ELEKTROWNIA POŁANIEC, which is owned by the Belgian ELEKTRABELA. According to the governmental project, 'Program dla elektroenergetyki', privatization or consolidation of ENERGA and ZESPÓŁ ELEKTROWNI OSTROŁĘKA are taken into consideration.
4. ELEKTROWNIA STALOWA WOLA: According to the governmental project, 'Program dla elektroenergetyki', this refers to the consolidation of POŁUDNIOWY KONCERN ENERGETYCZNY with ELEKTROWNIA STALOWA WOLA and distribution companies ENION and ENERGA PRO. Privatizing this consolidated group is the next stage planned by government.
5. ZESPÓŁ ELEKTROWNI PAŃNÓW ADAMÓW KONIN (PAK) S.A.: The Ministry of Treasury owns of 50% of shares, with ELEKTRIM as strategic investor. Two companies (Czech CEZ and German RWE) are interested in purchasing the Treasury's shares, but firstly the Treasury needs to reach an agreement with ELEKTRIM on this matter.
6. BOT GÓRNICtwo I ENERGETYKA Sp. z o.o.: BOT took up operation on 22nd October 2004. According to the governmental project, 'Program dla elektroenergetyki', BOT will be incorporated into POLSKA GRUPA ENERGETYCZNA (PGE). POLSKIE SIECI ENERGETYCZNE will be the integrator of PGE. Up to 35% of PGE will be on sale on public offer in 2008. PGE's predictable income of is ca. 20 bn zł after 2010.
7. ELEKTROWNIA POŁANIEC S.A.: After coming into force, the contract signed between the Ministry of Treasury and Belgian ELECTRABEL in February 2003, the Belgian investor will own 100% of shares of the Power Plant (including shares bought from workers of the Power Plant).
8. POŁUDNIOWY KONCERN ENERGETYCZNY (PKE) S.A. (1.BLACHOWNIA S.A., 2.HALEMBA S.A., 3.JAWORZNO S.A., 4.ŁAGISZA S.A., 5.ŁAZISKA S.A., 6.SIERSZA S.A., 7.ELEKTROCIEPŁOWNIA KATOWICE S.A., 8.ZESPÓŁ ELEKTROCIEPŁOWNI BIELSKO-BIAŁA S.A.): According to the governmental project, 'Program dla elektroenergetyki', consolidation of PKE, ELEKTROWNIA STALOWA WOLA and the distribution companies ENION and ENERGA PRO is being considered. It is possible that the public offer of GRUPA ENERGETYCZNA POŁUDNIE based on PKE will be submitted no earlier than in 2007.
9. ELEKTROWNIA SKAWINA S.A.: During the first stage of privatization, PSEG Poland Distribution BV bought 35% of shares in the company for over USD 24.8m. Czech CEZ bought 75% shares of SKAWINA from PSEG, at a price of EUR 181m.
10. ELEKTROWNIA RYBNIK: After the purchase of 15% + 1 share in October 2001, the consortium of EdF and EnBW now owns 50% + 1 share. In 2003, the Ministry of Treasury sold 35% of the shares of the Power Plant for USD 108m. This payment ends the privatization of the company. Currently (with the shares bought from

workers), the EdF group owns more than 90% of Power Plant shares. In addition, an annex to the privatization agreement was signed, setting free EdF and EnBW from the duty of raising initial capital. The remaining 10% of shares are owned by the workers.

The biggest generating plants are: **BOT GiE Sa, PKE SA, EL Kozienice SA**. Their share in total electricity production amounted to **62.6%**, (2003 – 49.0%, 2004 – 62.1%, 2005 – 62.6%) (Source: URE).

3.4.2. Heat-and-power plants

1. EC BĘDZIN S.A.: The original strategic investor for the company was a German company MEAG. In August 2003 MEAG joined with German company envia ENERGIE SACHSEN BRANDENBURG. As a result of this fusion, envia MITTELDEUTSCHE ENERGIE AG (enviaM) came into existence, which became a legal successor of both companies and took over MEAG shares, including BĘDZIN CHP among other things. Ministry of Treasury is going to sell to the investor the rest of shares it possess (14.88% of shares).
2. EC BIAŁYSTOK S.A.; French company SNET paid in February 2001 48.95 million EURO for 45% of shares of the company. SNET committed itself to invest in the company 55 million EURO during the period up to five years, inclusive of 16 million EURO in increasing of initial capital. As result of the increase of the capital in April 2002, the investor increased its controlling interest up to 52.28%. On 5th February 2006 was signed an annex no.1 to the sales agreement between Treasure and SOCIETE NATIONALE D'ELECTRICITE ET DE THERMIQUE S.A., dated on 15th February 2001. According to the annex the period of realization investment commitments is extended to six months and valorisation of investment commitments, which would not be fulfilled in term 60 months from the date of the agreement to the time of their total realization, is also predicted.
3. ZESPÓŁ ELEKTROCIĘPŁOWNI BIELSKO-BIAŁA S.A.; the company was included to North Power Company.
4. ZESPÓŁ ELEKTROCIĘPŁOWNI BYDGOSZCZ S.A.; On 24th March 2006 Ministry of Treasury decided to negotiate in 30 days only with ELEKTROWNIE SZCZYTOWO-POMPOWE S.A. On 3rd August Ministry of Treasury agreed on basic conditions of sales of 85% of shares.
5. ZESPÓŁ ELEKTROCIĘPŁOWNI BYTOM S.A.; Ministry of Treasury is going to transfer shares of ELEKTROCIĘPŁOWNIA ZABRZE to ELEKTROCIĘPŁOWNIA BYTOM. The privatization of this company is the next stage planned by government.
6. EC KRAKÓW S.A.; Ministry of Treasure is going to offer to the investor possessed shares (28.05%).
7. ZESPÓŁ ELEKTROCIĘPŁOWNI WYBRZEŻE (ECW) S.A.; Ministry of Treasury applied to EdF/GdF consortium to carry out its 'put' option for selling 36% of shares of this company. Transaction was to be realized to the end of February 2004,

GdF was to buy nearly 8.1% of shares and EdF was to buy somewhat over 28.2%. In this way there was to be maintained reciprocal parity participation of these companies in ECW amounting 3.5:1.0. The price of 36% of shares was amount more or less 55 million EURO. On 22nd June 2004 EdF/GdF purchased 36.27% of shares of ECW. The value of contract was 56.3 million EURO. On 19th April 2006 sold to EdF/GdF 0.03% of shares for 54 thousands EURO. At present Ministry of Treasury possess 1 share of company.

8. EC GORZÓW S.A.; According to a privatization and consolidation programme of energy sector and liberalisation of energy market, EC GORZÓW is going to be joined to PSE.
9. DALKIA POZNAŃ ZEC; On 1st March 2004 85% of shares ZESPÓŁ ELEKTROCIĘPŁOWNIA POZNAŃSKA S.A. was sold to DALKIA TERMIKA S.A. and POZNAŃSKA ENERGETYKA CIEPLNA S.A. The value of contract was 350 million zł. Investor also committed itself to invest in the company 150 million zł. On 4th June 2004 transaction was closed. Workers have got 15% of shares. Treasury has no share of company. DALKIA is going to have 50% of shares + 1 share and PEC, which belong to French group, is going to have 35% shares – 1 share.
10. EC RADOM S.A. (bankrupt); The end of privatization in 2003.
11. EC TYCHY S.A.; Ministry of Treasury as a privatization adviser choose ABC CONSULTING Sp. z o.o. According to governmental announcement dated on 18th August 2006 in negotiations on the next stage of privatization are going to participate three investors: ENERGETYKA DWORY, DALKIA POLSKA and consortium consists on PEC TYCHY and TOWARZYSTWO ENERGO-UTECH.
12. EC TORUŃ S.A., EC ENERGOTOR-TORUŃ S.A.; Privatization contract with ZEC WYBRZEŻE was signed on 1st August 2002. The investor took 45% of capital of both companies and at the same time committed to buying from Ministry of Treasury next shares, invest at least 17 million zł (within 42 months) and increase the capital of companies by at least 17 million zł (within 42 months from the end of guaranteed investment). On 30th December 2002 the investor took 4.99% of shares of both companies. On 8th May 2003 the investor took the next packet of 10% of shares of both companies for 10.5 million zł. On 16th July EC TORUŃ S.A. took over EC ENERGOTOR-TORUŃ S.A. Currently exists only one company ELEKTROCIĘPŁOWNIA TORUŃ with a seat in Toruń. EC TORUŃ intends to end production of energy in ENERGOTOR. The decision about closure is to be taken in 2005. As Ministry of Treasury is going to sell possessed shares, the investor can be exempted from increasing capital.
13. EC WARSZAWSKIE S.A.; The privatization contract obliges to invest 600 million USD in 10 years. Ministry of Treasury is going to offer possessed packet of shares. Ministry of Treasury is going to negotiate with Swedish VATTENFALL AB.
14. EC ZABRZE S.A.; Ministry of Treasury is going transfer shares of ELEKTROCIĘPŁOWNIA ZABRZE to ELEKTROCIĘPŁOWNIA BYTOM. Process of privatization is going to be continued.

15. EC ZIELONA GÓRA S.A.; Ministry of Treasure will offer to investor possessed shares.
16. EC ZDUŃSKA WOLA S.A.; On 17th May 2006 was signed agreement concerning sales of 85% of shares of company between Ministry of Treasure and SFW ENERGIA Sp. z o.o. The value of contract was 34.7 million zł.
17. KONGENERACJA S.A. WROCŁAW; The company is privatized by selling shares at the stock exchange.
18. ZESPÓŁ ELEKTROCIEPŁOWNI W ŁODZI S.A.; On 11 August 2005 DALKIA POLSKA, company belong to DALKIA INTERNATIONAL, signed agreement concerning privatization of ZESPÓŁ ELEKTROCIEPŁOWNI W ŁODZI S.A. DALKIA purchased 85% of shares for over 900 million zł. On 27th March 2006 DALKIA sold 34% of shares to IFM (Australian investment fund). At present DALKIA POLSKA has got 51% of shares.

(Source: URE)

3.4.3. *Distribution companies*

1. GÓRNOŚLAŃSKI ZAKŁAD ENERGETYCZNY S.A.: In February 2004, the investor VATTENFALL increased its shares in GZE to 75%. VATTENFALL bought 262.5 thousands of shares owned by the Treasury for EUR 170.6m. According to a privatization contract, VATTENFALL has to invest ca. 2.8 billion zł within the period of 10 years.
2. Ł2: By the end of January 2005, ZAKŁAD ENERGETYCZNY ŁÓDŹ TEREN and ŁÓDZKI ZAKŁAD were consolidated and from 1st February 2005 have been replaced by ENERGETYKA ŁÓDZKA S.A.
3. ENION S.A.: In July 2004, five power distribution companies (BESKIDZKA ENERGETYKA S.A., BZE S.A., ZE KRAKÓW S.A., ZE TARNÓW S.A., ZE CZĘSTOCHOWA S.A.) were consolidated into ENION S.A. At present the governmental project, 'Program dla energetyki', is planning to consolidate POŁUDNIOWY KONCERN ENERGETYCZNY, ENION's distribution companies, ENERGA PRO and ELEKTROWNIA STALOWA WOLA.
4. ENEA: On 1st January 2003 five companies (ZE BYDGOSZCZ S.A., ENERGETYKA POZNAŃSKA S.A., ENERGETYKA SZCZECIŃSKA S.A., ZE GORZÓW S.A., ZIELENIOGÓRSKIE ZE S.A.) were consolidated into ENEA.
5. KONCERN ENERGETYCZNY PRO: On 1st May 2004, five companies (ZE WROCŁAW S.A., ZE JELENIA GÓRA S.A., ZE OPOLE S.A., ZE LEGNICA S.A., ZE WAŁBRZYCH S.A.) were consolidated into KONCERN ENERGETYCZNY PRO. At present, the governmental project, 'Program dla energetyki', is planning to consolidate POŁUDNIOWY KONCERN ENERGETYCZNY, ENION's distribution companies, ENERGA PRO and ELEKTROWNIA STALOWA WOLA.

6. L-6 (WSCHODNIA GRUPA ENERGETYCZNA): On 28th June 2005, five companies (ZAMOJSKA KORPORACJA ENERGETYCZNA, ZE BIAŁYSTOK, ZE WARSZAWA-TEREN, ZE OKRĘGU RADOMSKO-KIELECKIEGO LUBELSKIE ZAKŁADY ENERGETYCZNE LUBZEL) were consolidated into L-6. According to a governmental project, L-6 will be incorporated into POLSKA GRUPA ENERGETYCZNA (PGE).
7. KONCERN ENERGETYCZNY ENERGA S.A. (G8): On 31st December 2004, the distribution companies of Elbląg, Gdańsk, Kalisz, Koszalin, Olsztyn, Płock, Słupsk, Toruń and KONCERN ENERGETYCZNY ENERGA S.A. were consolidated into a single group. Privatization or consolidation of ENERGEA and ZESPÓŁ ELEKTROWNIA OSTROŁĘKA are being considered.
8. STOEN S.A.: On 23rd December 2002, the Ministry of Treasury sold 85% of the distributor's shares to the German enterprise, RWE Plus.

(Source: URE)

4. *ROLE OF GOVERNMENT*

Until the end of the 1980s, the energy sector in Poland was part of the centrally planned economy. It functioned under the conditions of state monopoly. This means that the state exercised three functions simultaneously: it decided on the energy policy, it was an owner of energy enterprises and it served as the regulator of the entire system. The state integrated the entire technological chain of production, transmission and distribution of the electric energy.

At the beginning of the 1990s, the process of political and economic transformation began. Poland started to introduce a market economy system. The economic transformation was based on the Balcerowicz Plan, an economic programme adopted in 1990. Economic and political change ensued, aimed at a limitation of direct state influence on the activities of enterprises.

The Energy Law created some mechanisms of establishing a competitive market system by introducing new principles. Among them is the principle of the separation of the function of the energy policy. Three functions were shifted from the duty of the state to the power industry: the functions of making the energy policy, of control and of ownership. The Energy Law allowed for keeping regulations neutral, irrespective of the owned structure.

The characteristic feature of the Polish energy sector is a considerable concentration of property in the hands of state. The state is the owner of 75% of generation assets and 85% of distribution assets.

4.1. Social conflicts

The process of liberalising the energy market was not free of conflicts. First of all, power engineers were frightened by the process of privatization. For them it meant the end of a golden age. Their natural reaction was to try to maintain the status quo, to avert risks connected with the realization of the announcement of introducing a competitive market. For many years, the comfortable market situation ensured them long-term contracts. After securing a source of revenue for themselves, their next move was to dismiss the fear of privatization, which posed the danger of restructuring: Privatization would doubtless change the management's position. In Poland there was a peculiar anti-privatization phobia, with national security often used as an argument against privatization.

Secondly, the Chairman of ERO, Leszek Juchniewicz, emphasized that the Polish economy, and especially the power sector, is reputed to be excessively dominated by the trade unions. A few years ago, both the government and the Treasury Minister perceived this as a problem. The Minister of the Treasury, Wiesław Kaczmarek, stated that he was not going to add anything to privatization agreements apart from the standard employment package, the one that guarantees employment for three rather than thirty years.

5. CONCLUSION

It is not difficult to notice that the conditions for the liberalisation of the energy market in Poland are not easy. Energy experts have identified a number of barriers. The most important of them are:

- the unresolved problem of long-term credits
- the weak position of the Power Exchange in the turnover volume
- the monopolistic position of network companies
- Energy Law provisions relating to concessions do not allow for an effective energy market regulation, limiting the activities of the Chairman URE to identifying licensed subjects. The concession should not be treated exclusively as an administrative act for recording subjects entering the market
- the TPA rule is still only functions to a very small degree
- the processes of consolidation within the generation and distribution sector
- the slow pace of privatization.

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