

**Use of electric and thermal energy from renewable sources and electrical energy manufactured in association with heat**

**An SCC audit announcement for the EUROSAT WGEA Vienna Seminar**

**September 2005**

In July 1999 the Parliament of the Republic of Poland adopted a resolution on use of energy from renewable sources. The resolution stated that increasing use of energy from renewable sources should become an integral component of sustainable development of the state. Perceiving the need to remove barriers still existing in this field the Parliament called upon the Government to develop a strategy for developing renewable energy in Poland along with an program of actions towards implementation. The strategy was to be strictly harmonized with energy manufacturing and ecological policies of the state. It was developed in 2000 and included 27 specific tasks, one part of which ensued directly from the Assumptions for Poland's Energy Manufacturing Policy until 2020. It was decided, among others, that the share of energy from renewable sources in the fuel and energy balance of the state should be increased to 7.5% in 2010 and 14% by 2020.

The most important component of the support system for renewable energy manufacturing development in Poland is the obligation contained in the Energy Manufacturing Law for all energy manufacturing companies involved in trading to purchase specified amounts of electric energy manufactured from renewable sources.

In 2003 the SCC on their own initiative carried out an audit aimed at assessing the degree of implementation of the said obligation by energy manufacturing companies.

The audit also provided an opportunity to assess the degree of implementation of the Strategy for development of renewable energy manufacturing. The SCC audit covered Ministry of Economy, responsible for performance of the majority of tasks connected with Strategy implementation, and 17 energy manufacturing companies. Audit studies covered the period between 2001 and the first quarter of 2003.

The audit showed partial implementation by Minister of Economy of tasks vested on him in the field of renewable energy manufacturing. Out of 17 tasks allocated to the Minister on the basis of renewable energy manufacturing Strategy and Assumptions for Poland's energy manufacturing policy until 2020, 8 tasks were fully implemented, 2 were partly implemented and 7 remained not implemented (among those were the tasks related to establishing a system of guarantees on the origin of electrical energy coming from renewable sources, along with the so-called Green Certificates, and creating databases on available technologies of manufacturing energy from renewable sources). The SCC assessed in a positive way the development of legal and economic assumptions for developing energy manufacturing from renewable sources, and in particular

- Carrying out an assessment of functioning of the Energy Manufacturing Law in the field of renewable energy use;
- Establishing in the Energy Manufacturing Law of the obligation to assess local renewable energy sources, and the profitability of their use, in energy manufacturing balances of communities;
- Simplification of rules and procedures for acquiring licenses on manufacturing electric energy from renewable sources;
- Creation of economic instruments designed to increase profitability of renewable energy sources, including acceptability of providing financial support to such energy manufacturers from public resources.

The audit indicated that in the period studied in Poland a development of renewable energy sources occurred. Yet, that development would not guarantee sufficient supplies of energy from such sources, so implementing the legal obligation to purchase specified amounts of energy from renewable sources proved impossible to all energy manufacturing companies. The phenomenon of the so-called multiple trading in electric energy coming from such sources occurred. The mechanism consisted in counting as obligatory energy purchases of the same energy volumes by two or more companies involved in energy trading. It is illustrated by statistical data on trading in renewable energy. For example, in 2002 from the collective amount of green energy purchased by 33 distribution companies only 67.6% became sent to final users, while the remaining part was sold to other companies. The SCC moved for unambiguous confirmation that the obligation to purchase energy from renewable sources could be met with assistance from third parties, i.e., companies exclusively involved in trading in electric energy.

In general, in the SCC's opinion it was a systemic mistake to vest the obligation to purchase specified amounts of energy from renewable sources on all companies involved in trade, irrespective of their trade scale. Companies involved in the so-called industrial energy manufacturing, which view trading in energy as a side activity to delivering energy to entities connected to internal company networks, in reality had no opportunity to meet the obligation imposed. Hence the motion by the SCC to adequately amend the Law by way of establishing a minimum amount of energy subject to trade on exceeding which the company in question would be covered by the obligation to purchase energy from renewable sources.

Over one half of audited distribution companies indicated negative financial results achieved in trading in purchased energy coming from renewable sources. That was caused by purchasing such energy at prices higher than those used for calculating tariffs. The audit indicated at the same time that average price levels expected by manufacturers of energy from renewable sources vividly exceeded price levels actually achieved.

The SCC critically assessed the ordinance issued by Minister of Economy to permit one of major participants in the energy market (i.e., the Joint Stock Company of the Polish Electric Power Networks) to introduce and modify the Balancing Market Regulations, and thus single-handedly establish the rules for the functioning of a significant segment of the energy market. The rules ensuing from the Balancing Market Regulations caused significant financial losses to distribution companies, where instable sources of renewable energy (in particular wind-powered electric power plants) were connected into the networks. Such companies were risking purchasing missing amounts of energy in the balancing market at high prices (in case of obtaining lower than forecasted volumes of renewable energy from wind-powered plants), or selling surplus energy at low prices. In the course of the SCC audit the Office for Consumer and Competition Protection initiated an antimonopoly proceeding related to establishing the two price levels.

Poland has significant water and geothermal energy resources. Possibilities to exploit those resources are to a great degree limited by the necessity to bear high investment cost of making holes necessary for the exploitation.

The SCC moved for considering the possibility to provide additional financial resources by the National Fund for Environment Protection and Water Resources Management to investors who take up exploitation of water resources and geothermal energy. On top of the above, in connection with the irregularities and flaws caused by lack of harmonization of agreements concluded with manufacturers of renewable energy with the requirements contained in the Energy Manufacturing Law, and thus taking away from such energy manufacturers the guarantee of such energy purchases, the SCC moved for

- Intensifying actions towards developing a system of guarantees on the origin of energy from renewable sources;

- Speeding up actions towards developing and implementing the concept of the so-called Green Certificates to facilitate trade in energy coming from renewable sources irrespective of the place of its manufacture;
- Guaranteeing coordination of the current monitoring system of databases on available technologies for energy from renewable sources;
- Neutralizing negative financial consequences of purchasing energy from renewable sources resulting from the rules of functioning of the balancing market;
- Introducing a clause to guarantee purchases of energy from renewable sources to Conditions for Connecting to Electric Power Networks applicable to energy from renewable sources .