National Report

The President
Of The Energy Regulatory Office
In Poland

2009

July 2009

Abbreviations

EMA SA……………………………………….Energy Market Agency SA

n.a. ………………………………………….....not available

CNG……………………………………………....Compressed Natural Gas

PGNiG SA………………………..………..Polish Oil and Gas Company SA

IRiESD………………………………………....Distribution Grid Code

IRiESP……………………………………..….Transmission Grid Code

LT PPAs………………………………………...Long Term Power Purchase Agreements

NES…………………………………………….National Electricity System

LNG……………………………………………....Liquefied Natural Gas

Gaz System SA ……….....................Operator of Gas Transmission Pipelines Gaz-System SA

DSO…………………………………………….Distribution System Operator

SSO……………………………………………....Storage System Operator

TSO…………………………………………......Transmission System Operator

RES…………………………………………….Renewable Energy Sources

PSE SA ……………………………….…......Polish Power Grid Company SA

PSE Operator SA……………..……….....Polish Transmission Operator SA

TPA…………………………………………….Third Party Access

UCTE………………………………………..….Union for the Co-ordination of Transmission of Electricity

EU…………………………………………….....European Union

ERO…………………………………………..….Energy Regulatory Office

UOKiK…………………………………..……..Office of Competition and Consumer Protection (OCCP)

1. FOREWORD

The year 2008 was the eleventh of functioning the institution of the President of the Energy Regulatory Office established with the aim to realization tasks related with energy sector regulation as well as promotion of competition, but also another year of the Polish Regulator's struggle for energy policy to become more economical and more friendly for people and environment.

The context of the regulatory functioning proved, that – due to the effect of consolidation in power sector and recentralization of trade in gas for energy industry and its markets – the efficiency of the regulations require many new norms and diversified actions. It was strongly highlighted by the President of the ERO by presenting many initiatives in this field. Among them one should mention especially the preparation of ”Roadmap of price liberalisation for all electricity consumers…”, establishing research team concerning the subject of vulnerable customers as well as consulting project called the *Customer Zone*, whose scope is to identify barriers facing the energy customers.

The Report presented herein constitutes an analysis of the actions of the President of the Energy Regulatory Office based on application of all available legal means. The premise of the appropriate regulatory actions is based on the Regulator's knowledge about conditions, structure and changes in energy sector, its subsectors and situation on energy markets. This knowledge is based on information, collected and processed by the Energy Regulatory Office, which comes from the statistical data and regular monitoring of functioning of energy systems.

The document presented to the European Commission is the fifth report prepared by the President of the Energy Regulatory Office, who has thus complied with his obligation specified in the Energy Law Act, and in the Directives 2003/54/EC and 2003/55/EC.

2. MAIN DEVELOPMENTS IN THE GAS AND ELECTRICITY MARKETS

Wholesale market

In 2008 the governmental *Program for power sector* was completed in the part concerning the vertical consolidation of the energy enterprises. As a result, created subjective structure of the supply side of the market, as well as the economic situation in the country resulting in the increase of demand for electricity, caused, that the electricity market in 2008 was a market of supplier with little activity of the customers. In the production sector the concentration indicator HHI increased in relation to net installed generation capacity, however it decreased in relation to net electricity production. On the same level was the number of producers, who have at least 5% of the market share.

On the wholesale market the trade of electricity was featured by high concentration, especially inside vertically consolidated energy groups. The concentration indicator HHI increased by unchanged number of enterprises holding a minimum 5% of the market share. Almost 90% of electricity sold by the system producers was sold to trade companies in the frame of bilateral contracts, the rest was realized (until the first quarter of 2008) in the frame of long-term contracts and in vestigial amounts on the energy exchange. The sale of electricity on the balancing market (including the need to ensure secure operation of the National Electricity System), reached a level not much higher than in 2007.

No significant changes took place in the power sector in reference to capacity of electricity interconnectors. The volume of cross-border exchange is influenced by technical barriers, such as: insufficient transmission capacity on the synchronic connections with neighbouring countries, increasing year by year loop flows of electricity resulting from wind generation in the north of Germany, as well as economic conditions, such as: the results of the financial crisis in Europe already felt in the second half of 2008, or the exchange rate of Polish currency against euro. On the other hand, there are no limitations due to coming discriminating transmission capacity allocation rules, or from the lack of proper means of supervision over the activities of the TSO.

On the 1st April 2008 Long Term Power Purchase Agreements were terminated, and the electricity from these agreements was directed to the market. However, it did not increase the liquidity of the trade on power exchange, because practically all the electricity was sold in bilateral contracts. The volume of electricity traded on the power exchange constitutes around 1,8% of all the electricity sold to end customers. Moreover, forward contracts were not concluded on the exchange. Besides trade on the trade platforms whose volume is similar the one on power exchange is not covered by the supervision of the market regulator (the lack of registration of such platforms), so the possibility of constant monitoring are very limited.

In order to improve the situation on the electricity wholesale market (counteracting the negative effects of vertical consolidation), as well as taking into consideration further integration of domestic markets, legislative actions were taken with the aim of administrative support of public forms of electricity trade, including the power exchange.

The current shape of the wholesale gas market is the consequence of many years functioning model of single supplier and relatively isolated natural gas transmission system, with contractually conditioned one direction gas flows (east-west). In reality the transactions take place in relation between PGNiG SA and end customers, on the basis of long-term or unlimited duration sales agreements. The other companies dealing with gas trade in general deal only with retail sale.

Insufficient integration of domestic transmission system with neighbouring systems, particularly of those of the European Union Member States, with the total reservation of nominations at the “entry” points for PGNiG SA results in the lack of activities of national and foreign trade enterprises in cross-border exchange and on regional hubs. Similarly, gas trade or exchange trade on the level of the national transmission system do not exist, that is why it is difficult to speak about liquidity of that market. Moreover, the transmission system operator consequently rejects providing transmission services to these importers, who cannot comply with the legal duty to maintain compulsory stocks of natural gas in storage installations situated on the Polish territory – by the way, that all of them belong to PGNiG SA. It is actually the indicated insufficiency of storage capacities of existing installations, in the light of contracted obligations of PGNiG SA, that is the main reason for rejecting to provide storage services. These are the barriers of entry for new suppliers, who could as well participate in co-financing of the gas infrastructure from the point of view of security of supplies. Moreover, there are no other regulatory tools allowing efficient execution of new investment.

Retail market

The year 2008 was the period characterised by many changes on the electricity retail market, in which prices for industrial consumers were released. However, on account of the necessity to protect customers from tariff group G – mainly household customers – against unjustified price increase, the President of the ERO maintained the obligation to submit tariffs for approval in relation to this group.

14 trade companies unbundled from vertically consolidated distribution companies, that sold over 91% of electricity, had the biggest share of the market. The position of the three biggest suppliers, in electricity purchase for certain customer groups, did not change significantly in comparison with the previous year.

The dynamics of the situation on the wholesale market, as well as "closing" the trade of energy within capital groups, had a significant result on the retail market. It was indicated by the stagnation in attracting new customers, and the lack of competitive sales offers did not activate the customers themselves. As a consequence only a few of them took the advantage of the right to choose supplier, even after considerable simplification of procedures to switch supplier. The barrier against the TPA rule should be sought mainly on the wholesale market as well as in the behaviour of the distribution system operators in relations with electricity suppliers, whose indications are the provisions for general distribution agreements.

Average annual price increase for electricity, in comparison with 2007, amounted to 28%, whereas comparing to the IV quarter to the same period – 34,6%. The biggest increase concerned small enterprises connected with low voltage, which amounted to 32% and 43% respectively. On the other hand the lowest increase was with the household customers – 17% and 22%. In the case of electricity distribution the rates increased on average (year by year) by 6% whereas comparing to IV quarters – 5,4%.

The customer in relation with the energy enterprises remains largely in a weaker position, that is why in the frame of the ERO structure and the competence of the regulator, the Spokesman for fuel and electricity consumers is active. The scope of help provided to the customers by the Spokesman comes down to providing knowledge necessary to take actions in the frame of existing energy law regulations, giving help in classifying the case, as for example civil law or directing it to the right consumers organizations.

In 2008 the Spokesman received three times more complaints than in 2007. It resulted from great changeability of the circumstances and the conditions of the functioning of the electricity market (for example, restructuring, prices). The complaints concerned mainly the issues of tariff calculations, cases connected with grid connections as well as illegal consumption.

The promotion of competition is, next to the regulation of fuel and energy industry, the prime target activity of the President of the ERO, however vast majority of granted competence concerns the latter task. For this reason, many of the activities undertaken by the President of the ERO in the field of promoting competition can be classified to the so called "soft category", to which the President of the ERO is not obliged directly, but which he sees as necessary for the realization of aim. 2008 was the period of intensified information-promoting activity of the Office. The President of the ERO started and continues diversified activities addressed to households. Through the whole 2008 the ERO was runny educational campaign, directed to individual electricity consumers from one side – including the first time also for young people, from the other side – to the local, district and town level consumer advocates. Moreover, the representatives of the ERO took part in many symposiums, conferences and educational workshops discussing issues connected with the market functioning and the activity of the President of the ERO. By the end of 2008 the President of the ERO launched a new initiative – *Customer Zone* – which collecting the representatives of customers, state offices as well as enterprises operating on the electricity, gas and heat markets, has an aim to solve problems, addressed by customers, jointly with the aim to work out standards of good practices in the energy market.

The main reason for the stagnation on the retail market is the lack of activity from the side of the energy enterprises, which is caused by the situation on the wholesale market as well as insufficient knowledge of the customers about their rights and duties on the free electricity market. In the opinion of the Regulator the most effective solution in the short term is to increase the competence of the President of the ERO in the frame of monitoring the market and promoting competition on the market, which was proposed by the working group[1], in whose works participated many representatives from different state bodies.

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1) Inter-department working group to prepare drafts of legal acts providing vulnerable customers the right level of protection on the competitive electricity market as well as awarding the President of the ERO with the right role and regulatory tools on this market. The participants were representatives of the Ministries: Treasury, Finance, Labour and Social Policy, Infrastructure, Environment, Economy as well as the Presidents of : the Energy Regulatory Office and the Office of Competition and Consumer Protection. The Chairman of the group became the Vicepresident of the ERO.

The monopolistic position in the field of retail sale of gas still holds PGNiG SA. Process of centralizing retail trade in the frame of capital group PGNiG SA, formally completed in 2007, only strengthened this position. It should be underlined, that this idea was undertaken by the occasion of conducting the unbundling of distribution activities from own initiative of the company and was not covered by any government program.

There are no alternative gaseous fuel suppliers practically operating on the market, however there are many other enterprises dealing with reselling of natural gas purchased from PGNiG SA.

To the end of 2008 the prices of gas for all customers were regulated. In comparison to 2007 the average delivery price for natural high-methane gas increased by 11,3%, whereas for the household customers – depending on the tariff group – the increase was between 12,3 ÷ 13,3%, for industrial customers on the distribution network – 10,3 ÷ 12,3%, and for the industrial customers on the transmission network – 8,4 ÷ 10,2%. Moreover, none of the eligible gas customers exercised the possibility to switch supplier.

Taking into consideration the fact of keeping high quality standards for end customer services, as well quality parameters of delivered gas, explanatory proceedings were undertaken – upon the application of the President of the ERO – which concerned complaints about high gas bills as well as the quality of the gas delivered. The report included a diagnosis and proposals for necessary legislative changes needed to improve the quality standards of the natural gas deliveries, as well as how calculations are managed.

Conclusions: general status of markets

The process of vertical consolidation in the power sector in Poland caused the creation of limited number of groups, with a very strong market power. Almost all the volume of electricity is sold in bilateral agreements. Releasing electricity from the long term contracts did not bring the expected results in the form of increased competition, growth of liquidity or the market transparency. The competition of suppliers on the retail market is still limited, as well. The differences in prices of trade enterprises are not attractive enough to encourage customers to switch supplier.

Increasing the cross-border trade of electricity requires considerable investment and will be easier with the moment of introducing fully coordinated congestion management mechanisms in the regions. It will allow more effective use of existing possibilities of transmission network with the advantages for the market participants, as well as it should lead to the planning harmonization of the European transmission network development.

The current state of the gas wholesale market is far from expected competition level. This is due to historical conditions as well as present technical limitations (network, physical) and contractual. Holding on *status quo* is also the consequence of the country policy towards gas industry directed preferentially for providing security of supplies as well as the state of law (lack of regulations pertaining to detailed rules of functioning of the gas system an to tariffs setting, which would outline a model for the gas market on the basis of the tariffs “entry/exit”).

The changes should take place after determining by the regulatory body PGNiG SA for the storage system operator (the end of 2008), approving appropriate storage tariff (June 2009) as well as developing code for providing storage services (July 2009).

Infrastructure

In relation to the transmission and distribution infrastructure the President of the ERO possesses regulation tools such as agreeing with him by DSO and TSO investment development plans. This procedure stays in close relation to issuing decisions concerning tariff approval in electricity and gas, and it also allows the verification of planned expenses when it comes to the possibilities of their financing from the sources taken from the customers (the payment possibilities of customers).

In 2008 agreements existed from 2007 towards 14 electricity DSO’s. By the end of the year 3 DSO’s proposed the President of the ERO changes, which were included in the present year. By calculating tariffs DSO’s for 2009 guidelines were accepted, that the combined model expenditure for that year will increase in comparison to 2008 by 12,6%.

Existing version of the project concerning development plan for PSE Operator SA (TSO) for the years 2006-2020 was prepared in 2006. Due to the fact that the investment intentions were expressed in detail only for the period of 2006-2010, the settlements concerned only this period of time. For 2011-2020 only investment directions were indicated[2)].

In gas industry in 2008 existed for DSO's agreements prepared in the development plans for the years 2006-2008. Because of legally new circumstances (unbundling from currently existing enterprises) the operators were called to prepare draft developments plans covering the years 2009-2013. The agreeing procedure has not been completed yet.

Moreover, works were continued concerning the agreeing of the draft development plan for Gaz-System SA for the years 2008-2013 among others because of works on the construction the LNG terminal and the gas pipeline called "Baltic Pipe".

In 2008 the energy undertakings were not exempted from the duty of providing TPA services with application of new network infrastructure, following to article 7 of the Regulation 1228/2003 as well as Directive 2003/54/EC for electricity, and following to article 16 of the Regulation 1775/2005 of the European Parliament and the Commission as well as article 22 of the Directive 2003/55/EC for gaseous fuels.

There were no changes to the scope of cross-border interconnections with other countries in 2008. Eliminating transmission congestions on the synchronic auctions with EU countries is based on the market rules – in the process of coordinated tenders[3)].

Providing export and import access transmission capacities takes place and is managed by PSE-Operator SA on yearly, monthly and daily auctions. Due to the low level of power reserves in NES, which made the elimination of transmission congestions impossible, as well as increasing year by year loop flows from the territory of Germany (the result of dynamic development of wind generation), resulting in transmission capacities amounted to 0 MW. It was caused by accepting considerably higher transmission reliability margin.

The above mentioned situation shows the need – noticed by the market participants – to develop cross-border interconnections with the aim of increasing the electricity trade. Due to the fact, that the investment process is a long lasting one, the effective use of the existing infrastructure becomes a priority. Its possible through cooperation of all parties, what is realized in the frame of Regional Initiatives ERGEG. This common work should lead to the launching of fully coordinated auction for transmission capacity in the region of Central and Eastern Europe (CEE) from the beginning of 2010 where the capacities are calculated and allocated accordingly to flow based methods.

In relation to the functioning of the gas transmission system, the rules of allocation are included in the network code of Gaz-System SA, which validity was extended until 31 December 2009. In the introduced changes, provisions concerning nomination and re-nomination were precised as well as records concerning the providing of transmission services on the interrupted rules in a wider sense were supplemented[4)], which can lead to the increase of the use of transmission network and number of ordering transmission services. This change was also reflected in the TSO tariff content – for the first time rate for services realized on the interrupted principles was introduced.

Regulation, unbundling

Scope of duties of the President of the ERO are strictly connected with the state policy, towards energy sector as well as external requirements (obligation of implementation *aqui communitaire*). The activities undertaken by the regulatory body concern the fulfilment of goal made up by the legislator, with the aim to create conditions for sustainable development of the country, ensure energy security, economical and rational use of fuels and energy, development of competition, prevent adverse effects

[2)] On application of the President of the ERO, PSE Operator SA in the middle of 2008 handed over for approval the updating of the draft plan for the development in the frame of 2008, 2009 and 2010. Taking into consideration the fact that the company is planning to submit the President of the ERO until the middle of 2009 (for approval), new edition of the draft plan for development in the scope of satisfying present and future needs for electricity, in which major changes are going to take place (that is, the change of basic guidelines, including forecasts for demand for power and electricity, renewed definition of investment needs, renewed verification of schedule for the realization of previously identified investment tasks), the update of the development plan was agreed for the years 2008-2009.

[3)] In coordinated auctions for cross-border transmission capacity currently take part five transmission system operators: VE-T and E.ON (Germany), CEPS (the Czech Republic), SEPS (Slovakia), PSE Operator SA (Poland).

[4)] From 2008 the transmission service can be offered on the interrupted conditions as well, when the probability of the interruption is difficult to estimate and exceeds estimated level.

of natural monopolies, considering the requirements of environmental protection, obligations coming out from international agreements as well as balancing the interests of energy undertakings and energy consumers.

The Energy Law has been amended many times, as a consequence it created the increase of task catalogue, addressed to the President of the ERO. New tasks, which realization has been performed since 2008 includes duties arising from the act concerning the termination of LT PPAs, act on reserves and act on bio-fuels.

The competencies of the President of the ERO in the scope of imposing fines arising from article 56 of the Energy Law. They concern the lack of performing duties imposed on the market participants by the act as well as legal regulation *aqui communitaire*. Financial penalty can be imposed on the energy undertaking, and additionally on the manager of company.

Power transmission system operator is responsible for the security of the system operation. With this aim it has at its disposal the operation of production units connected to the transmission network as well as it arranges the counter trading and re-dispatching with the scope of ensuring of temporary balance between demand and production of electricity. The above activities are performed day and night as an element of planning and operating the work of the system. At the same time TSO manages the balancing mechanism, determining by this the rules of participation in the balancing market, the settlement rules for imbalances and conditions of cooperation between TSO and the participants of the market. The balancing mechanisms allow the day ahead scheduling, as well as the organization of cross border exchange on the same manner. The intra day market should be launched in 4th quarter of 2009. The scope of information made available to market participants is high, though it still requires enlargement according to the Transparency Report prepared by the regulators associated in Regional Initiatives ERGEG. Extended catalogue of information is published after changing the rules for balancing the system from 1 January 2009. The power exchange is operated by the entity independent from TSO, though the rules of its operation are strictly connected with the rules for balancing the system.

The realization of unbundling in Poland took place gradually. Finally the process of transformation leading to the full independence of DSOs and as a result fulfilling the above mentioned formal-legal requirements, was completed at the end of 2008. From 1 January 2009 all legally unbundled DSOs by virtue of the decision of the President of the ERO have the DSO status being in force until the expiry date of the license for electricity distribution.

There is only one TSO in Poland – PSE Operator SA. It is a joint stock company (State owned) and the owner of the transmission assets. Moreover, at the end of the year there were 20 DSOs, including 14 unbundled legally from former distribution companies as well as six so called local operators towards whom the rule of 100 000 customers was applied. Most of the legally separated operators work in the frame of capital groups, vertically integrated, which are supervised by the State Treasury (indirectly through holding companies or mother companies being its property). Only in the case of two DSOs their owners are companies, where the main shareholders are foreign companies.

The process of obtaining full independence by the distribution operators has a too slow progress. Undoubtedly, the reason for this is to leave the operators in structures of vertically integrated capital groups, where securing the independence of the operator is not in line with the realization of the target of maximizing the group profits. In the assessment of the Regulator the operators slowly, but effectively realize, what an important role they should play in providing equal treatment of the users in the power system and the realization of the rule for equal access to the network for all participants of the market.

In the scope of unbundling gas transmission system operators, there have been no changes. According to the regulations Gaz-System SA remained as a joint stock company owned by the State Treasury. All of the gas distribution systems operators function in the structures of companies vertically integrated, so they have the obligation to obtain independence in respect of legal and organizational form as well as decision making. However, with the lack of formally signed agreement with DSO as well as accepted distribution network code, and also due to the necessity for full adaptation of their scope of economic activity to the tasks realized by the operator, six companies received the DSOs status only to 30 June 2008.

On 31 December 2008 PGNiG SA was designated by the President of the ERO as the storage system operator for gaseous fuels for the validity of the license, that is until 31 December 2025. Designation the SSO allows to execute from the operator duties resulting from, among others the Energy law, especially publishing data concerning storage capacities as well as historic data, non discriminating treatment of the system users, or even rules related with congestion system management. The President of the ERO, approving tariffs for storage services, will also be able to check the cost effectiveness of the SSO activity and the way of using capacity in storage installations.

The increasing independence of network operators is not enough to guarantee success in the functioning of competition on the market. In the opinion of the Regulator, further legislative and organizational activities are required, which will stimulate the development of competition, both on the wholesale and retail markets, guaranteeing at the same time smooth entry on the competitive energy market and the protection for vulnerable customers.

Security of electricity and natural gas supplies

To provide the necessary level of investment in new generation capacity, governmental *Program for power sector* was accepted in 2006, assuming among others vertical consolidation in the sector. The main target was to increase the value of energy enterprises, which would enable the realization of investment. The impulse for planning new investments was also the agreement concerning the energy climate package. The effects, especially of the last activities, are the applications concerning connection to transmission grid submitted to TSO, which cover new production power on the level of 25 GW. According to the draft national energy policy, the power sector should be based mainly on coal, with the consideration of nuclear energy in the middle term. Investment intentions are also the effect of envisaged increase of demand for electricity and peak power.

Ownership independence of TSO created the preparation of expansive investment plans for network infrastructure, what is connected with significant increase of planned expenses. They also cover cross-border interconnections, including those on the border with Lithuania and Germany, being in the territory of the European Union. The realization of network investments are unfortunately hindered by administrative barriers (receiving building permissions), as well as those connected with obtaining land for the realization of these investments.

In 2008 an average consumption of electricity (year to year) increased by 0,5%. At the same time the production of electricity decreased by 2,5%. The average annual demand for power amounted to 21 222 MW and increased by 0,2% in comparison to 2007, on the other hand the maximum demand amounted to 25 121 MW and increased in comparison with 2007 by 2,1%. At the same time in cross-border exchange there was a decrease of physical export of electricity by over 25%, with increased import by over 16%.

The national strategy is aimed at diversification of natural gas sources, i.e. on balancing the supplies from the east with an increased value of gas imported from the north, as well as with further extension of storage capacities and increase in domestic production. The strategy includes the plans of constructing a LNG terminal in Świnoujście, which launch is expected in June 2014 and a new connection that will secure access to Norwegian deposits, i.e. participation in the Skanled Consortium and construction of the Baltic Pipe.

In 2008 no objections were raised in reference to the gas transmission, distribution systems as well as underground gas storages functionality. The technical condition of transmission gas pipelines can generally be described as good, whereas further extension and the so-called "doubling" of gas supply pipelines allows for fuel transmission to important customers from different transmission system points. In the opinion of the Regulator it is a very important feature of the transmission system, which allows for flexibility in reacting to for the needs of those requiring transmission services, and it also leads to providing stability of network operation in case of disruptions in gaseous fuels supplies. At the same time TSO continued its operations for the purpose of development, especially in the regions, where capacity congestions occur.

In 2008, TSO initiated operations aiming at researching the possibilities to build interconnectors with: Denmark, Lithuania, Germany and the Czech Republic in the frame of market screening procedure. The results of the study provided the basis for launching in 2009 an Open Season Procedure.

Moreover, to provide security of gas supplies for domestic customers, underground gas storages are utilized, with the working capacity of 1,66 BCM, which constitutes about 12 % of the annual consumption of domestic customers.

For some years the domestic consumption of gas has been on a similar level – over 13 BCM. In comparison with 2007 the total consumption of gas increased by 3,2%, import by about 7%, at the same time domestic exploration, which meets the domestic demand in 28% – decreased by 4,7%. Additional gas supplies were realized from the east (66%) and the west direction (6%).

In the opinion of the Regulator the national strategy for security of gas supplies should be supported by the construction of the Southern system interconnection, which will secure access to the gas hub in Baumgarten. Moreover, planned storage capacity should reached approx. 3.8 bcm, thus it is necessary to support the realization of plans by PGNiG SA concerning the development of storages in Mogilno, Strachocina and Wierzchowice.

Conclusions

The situation on the electricity market has been changing very slowly towards competition. According to the act the LT PPAs were terminated, the President of the ERO exempted energy enterprises from the obligation of tariffs submission for approval in electricity trading for non-households, in the frame of capital consolidated energy groups take place restructuring processes and the preparation to privatization. Unbundling is establishing itself. The TSO is taking investment actions for the security of NES functioning and increasing cross-border interconnections. However, the competition of suppliers on the retail market is still very limited, in spite of strong efforts of the President of the ERO to simplify the procedures for supplier switching and popularizing knowledge about the rights of electricity consumers among them.

The current structure on the gas market causes, that efforts to increase competition meet far more reaching obstacles than in the electricity sector. There is a need for a totally new governmental policy for gas industry focused on the development of competition and the continuation of activities, which will enable the entry to the market for new enterprises. It is also necessary to build new infrastructure as well as non-discriminatory access to gas storages.

Unsatisfactory level of competition on the electricity market requires further actions. Due to this fact, the Regulator prepared proposals for the Energy Law amendment, strengthening its competence in the field of, so called, soft activities, more adequate to the situation of liberalisation the price control on the market. At the end of 2008 the President of the ERO established as well a new initiative – *Customer Zone* – gathering the representatives of customers, governmental authorities as well as undertakings active on the electricity, gas and heat markets, has an aim to solve problems, which are submitted by customers, jointly and work out standards of good practices on the energy market.

In the opinion of the Regulator positive changes will bring the EU third energy package. The establishment of ACER, ENTSOE and ENTSOG should intensify the process of technical and trade integration. The harmonization of the rules governing the functioning of electricity and natural gas markets as well as common investment plans of operators of these markets, covering most of all regional markets operating from 2006, will speed up the creation of single European energy market. In the result, the concentration of activities on domestic markets should be neutralized by opening domestic electricity and natural gas markets to external competition.

Particularly the most important for the development of competition and improving the electricity efficiency are regulations related with the possibility of implementation a smart metering program[5)]. Thanks to its activity, electricity and gas consumers will get a knowledge how much energy they consume and what they pay for. They will also be aware, how their savings and choices of new electricity suppliers could influence not only the level of paid bills by them, but also how these savings influence on the protection of electricity resources and the fight with climate changes.

[5)] It is worth mentioning about initiatives of the Polish regulator, which promotes the idea of smart metering. In 2008 the President of the ERO prepared *"Feasibility study to install electronic metering devices in Poland*', which concerned both technical, cost, legal as well as social-economical aspects of introducing smart metering, as well as co-organized a scientific conference concerning the subject *"How effectively lower the consumption of electricity? Smart metering systems for electricity – new possibilities for customers and enterprises"* with the participation of experts from the electricity market. In 2009 from the initiative of the President of the ERO was signed a *"Declaration concerning the introduction of smart metering into the Polish electricity market"*, whose signatories – apart from the President of the ERO – were non-governmental organizations statutorily dealing with the protection of consumers and energy customers and promoting energy efficiency.