

Energy Regulatory Office

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The page is in the archive.

The wholesale gas market after the introduction of the obligation to sell a set part of gas through the gas exchange. Towards a gradual price deregulation.

In order to discuss the expected effects of a phasing-out of gas price regulation and fulfilment of the obligation to sell gas through the exchange, the President of URE has arranged consultation meetings with the participants of the Polish wholesale gas market. Almost 80 sector representatives as well as the representatives of the Ministry of Economy, the Office of Competition and Consumer Protection and the Polish Financial Supervision Authority were discussing the problems and challenges connected with the new market rules.

The essential aim of these consultations was to identify the problems existing on the wholesale gas market and elaborate solutions to ensure proper functioning of the gradually deregulated natural gas market in Poland.

During the meeting, the President of URE discussed the market liberalization process in the context of the ongoing and planned changes resulting from the “Roadmap for gas market deregulation”, while the representatives of PGNiG S.A. spoke about company’s plans after the price release and the introduction of an obligation to sell a set part of gas through the gas exchange.

PGNiG S.A. indicated e.g. its newly introduced pricing policy that consists in offering gas to other market participants at competitive prices, as compared to currently binding tariff rates and to costs of purchasing natural gas on neighbouring EU markets and its transmission to Poland. Moreover, the importance of entering into force of the new regulations of the Polish Power Exchange (POLPX) was emphasized. This regulations allow for auction-based gas trading. What is more, since 1 November 2013, gas companies may become direct members of the POLPX, what should lower their brokerage costs.

Furthermore, the representatives of PGNiG S.A. informed that in order to reduce the risk of unbalancing of customers who purchase standard products, the company is planning to introduce products to the over-the-counter market that allow for flexible gas intake.

Following the discussion in the Energy Regulatory Office, some conclusions and requirements were presented, which were related to the functioning of the wholesale gas market after the introduction of the mandatory public gas trading and price deregulation.

Requirements expressed by the meeting participants:

- Obtaining information (from PGNiG S.A) on the planned form of the exchange obligation fulfilment. The company should take on the role of the spot market maker on the exchange and inform the market in advance about auctions of gas sales on the gas exchange.
- Preparing an attractive OTC offer by PGNiG S.A., as an alternative for the gas exchange offer.
- The highest possible stability of the new PGNiG S.A.'s pricing policy.
- Diversifying access to supply sources by limiting to 10% the technical capacity that can be purchased by a single entity within the transmission capacity allocation procedure for the physical reverse on the Yamal pipeline.
- Introducing solutions that would allow for reducing costs of unbalancing to the level resulting from the presently executed comprehensive agreements.
- Launching a balancing market with balancing offers and flexible contracts (including intra-day contracts). Providing ex ante information on the price formula used for calculating the costs of balancing market participants by Gaz-System (TSO).
- Clarity, predictability and stability of the balancing market rules.
- Informing the consumers about the possibility of renouncing a part of gas purchased under long-term contracts for supplying gas to end customers so that an appropriate volume could be sold on the exchange.
- Amending the Act on mandatory reserves as in its current form it constitutes an entry barrier for companies that wish to purchase gas from abroad in volumes greater than 100 mcm per year.
- Obtaining information about the regulator's approach to the method of verifying the criterion for individual exemptions from the public sale obligation.
- Reducing the transmission tariff for interruptible capacity and short-term services which should be cheaper as new smaller participants use them.
- Changing the Take-or-Pay formula to enable a customer to resell the contracted gas that it is not able to consume.

The consultation meeting was organised in order to support market participants in their adaptation to changing market conditions - the exchange of views between market

participants and regulators may mitigate the risk related to running business activity in the transitional period.

The consultations held at the Energy Regulatory Office premises on 23 October 2013 were the first in the series of open meetings for market participants. The next meeting is scheduled for mid-November 2013, after carrying out the first gas auctions on the POLPX. It will focus e.g. on possible solutions for balancing the wholesale gas market. Information on the meeting date will be published on the URE website.

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[Next Page](#)