

Summary of 2022 in the energy industry as a year of changes and challenges

- **Although the energy crisis did not bring the predicted catastrophe to Europe, it did lead to a significant turnaround in resource and raw material policies.**
- **Accelerating distributed energy development in the EU today is a race against time and other markets - a race for stable and lower energy prices on the Old Continent.**
- **In the face of new challenges, the energy transition all the more needs to be implemented in a smooth, rational and economically efficient manner.**

With Russia's attack on Ukraine on 24 February 2022, the old order to which the European continent had been accustomed to for more than 20 years, was gone. Until that day, fluctuations in energy commodity prices were stabilized by the steady supply from Russia. As it turned out, however - and this had already been noted by Polish policymakers, among others - Russia's raw materials policy not only pursued economic goals, but also served as an effective weapon in the struggle against the more broadly defined Western world. Last year was thus a sad lesson on the consequences of years of naiveté in assessing the Kremlin's intentions. Despite everything, however, we entered 2023 as a winning continent. Thanks to widespread mobilization in the face of the energy crisis, for the time being we have avoided a wave of blackouts in Europe. And while it is possible that without the support of mother nature (high temperatures + wind), the image would be less optimistic - it should also be acknowledged that so far, the darkest scenarios have not come true.

At the same time, there is no doubt that, under the influence of events beyond our eastern border, the 2022 energy policy of countries based solely on economic analysis, has been undermined. Nowadays, the strategic perception of energy, its independence, diversification of sources, stability of supply, stockpiles of raw materials, dispersion or, finally, resilience to threats, are equally important. This is not to say that such thinking has not existed in Europe before, but it has definitely been in the vanguard. Today's overhaul of European countries' energy systems is beyond economic.

With the above in mind, it is necessary to consider whether Poland's energy industry is stable, secure, efficient, and whether the existing concepts of its development are defensible when confronted with new challenges. For example - further dispersal of energy generation sources has almost become the *raison d'être* of most countries in Europe, but it is the state generation and transmission system that is supposed to guarantee the necessary energy supply to maintain production in times of emergency (e.g. war).

It is therefore worth analyzing in more depth whether accelerating the implementation of the FitFor55 package, under the provisions of RePowerEU in response to Russian aggression, is an effective response to the challenges that have arisen. In our view - no. The move away from

Russian hydrocarbons should, of course, be accompanied by the development of renewable-based generating units (and the accompanying infrastructure), but also by a rational approach to the energy resources at the disposal of European countries - coal units powered by domestic raw materials, or nuclear units. Strong acceleration and radical increase in climate targets will be a counter-effective strategy, leading to the impoverishment of European consumers. We should base plans and decisions on precise calculations and analysis. The loop made of exorbitant climate targets must not take oxygen away from the European economy and elevate energy prices, or we will irretrievably lose the industries we absolutely need to fuel the future. So, while reducing CO2 emissions and building energy efficiency are crucial, the path to zero-carbon should be smooth, economically sound and take into account the use of available sources, including assuming the rational use of coal resources.

The details will be insanely important here, because as the example of Poland has shown, mere access to a raw material such as coal, without proper safety mechanisms and regulations, will not stabilize energy prices. Besides, no EU country has passed the test of community solidarity, as egoistic interests in securing energy resources for their own local market have come to the fore in times of uncertainty.

In our view, the experience of this war should reset some opinions about the future of Poland's energy architecture, centered around large-scale energy projects currently located mainly in northern Poland. More attention should be paid to dispersing energy sources and relying mainly on renewable sources, stabilized in the future by nuclear, hydrogen, biogas and energy storage facilities. In doing so, it is important to consider what role natural gas facilities will play and what will flow through them in the future. In contrast, coal power generation should remain within the system, as a complementary and stabilizing source, supporting us in a smooth transition, but also guaranteeing energy security for as long as it is necessary.

In 2022, there was a reversal in polarization in the energy industry in 3 areas:

1. Gas and nuclear power were included in the EU taxonomy,
2. Poland concentrated on energy from nuclear and offshore wind farms,
3. In the perspective of two decades, there will be a shift of electricity production from the south to the north of Poland.

In Poland in 2022, it was not possible to notice a particular legislative acceleration enabling increased diversification of energy sources, guaranteeing energy security. Quite the contrary - there was the will to further concentrate the sector. The protracted discussions on the windmill law and direct lines have delayed the passage of these laws, which are extremely important for the development of distributed sources. Meanwhile, wind power should be expanded on a par with photovoltaics to complement each other in the future. The availability of clean and cheap energy should not be held hostage to political struggle. These issues require consensus spanning the divisions.

The scapegoat of the 2022 energy crisis was also the long-developed Commodity Power Exchange. The abolition of the exchange obligation and legal interference in market mechanisms, which was supposed to guarantee a reduction in price fluctuations, in retrospect will not change the market to provide greater flexibility and lower prices, but will strain its transparency.

In 2023 - as in the previous year - the bottleneck for the energy industry will be the distribution network, which cannot accept and distribute the amount of energy we are able to produce at peak times. The associated connection problems basically prevent work on new projects, which in the coming years will exacerbate the deficit of green energy which is badly needed by Polish industry. The PSE company, which manages the grid, sees solutions in expanding existing connections and increasing their capacity, without leaning toward promoting to potential producers the construction of new sources, energy storage, or direct lines that would relieve pressure on the grid. There is also a lack of simplified procedures for entrepreneurs to build their own energy sources. These issues will hopefully be addressed in the updated Energy Policy of Poland 2040 strategy.

The 2022 summary should not overlook positive signs, showing that policymakers are slowly realizing the threat to the overall economy from the green energy deficit in the Polish market. The power of prosumer energy, which is becoming a significant shareholder in the energy market, supporting the green transition, indicates that taking part of the market out of institutional oversight serves a common cause. It is also noticeable that the legal foundation is being laid for the construction of local energy communities planning to invest in renewable energy sources. Local initiatives are an extremely important source of modern energy development, and any state assistance in this regard is most welcome. In doing so, it is important to emphasize the need to relieve the pressure on the high- and medium-voltage power grid, for production and direct distribution of energy locally.

What is also positive is the idea of sharing the profits with surrounding communities for locally produced energy from RES. This leads us to think more deeply about the advantages of renewable energy, especially windmills, which have long since ceased to be associated in the minds of the society with negative environmental effects, and have even become a positive part of the non-urban landscape. The government's amendment to the windmill law in the form of a mandatory contribution of 10% of the energy generated for local consumers is, in this case, perhaps not the best way to build an investor-community coalition. However, the initiative itself seems to have had a positive reception and, most importantly, has subjected long-held views in this area to critical thinking.

The Union of Entrepreneurs and Employers also welcomes the amendment to the Renewable Energy Sources Law and the extension of the time for the first sale of PV energy in support schemes from 24 to 33 months, putting the technology on a par with wind farms. The basis for these changes was to mitigate the effects of broken supply chains during the pandemic, intended to give PV power generators additional time to adjust to the new market situation and ease price pressures.

We are very happy about the doubling of the auction volume for investments in offshore wind farms (RES Act UC 99). This is an important initiative for investment in this type of RES and, in the future, the basis of the hydrogen industry.

We are closely and optimistically following the preparatory process for a law on so-called cable pooling, i.e. making already owned connection power available to other types of renewable sources, within the framework of the existing connection agreement. The law will allow more flexible use of existing transmission lines, which could translate into additional investment in RES and a rapid increase in the supply of green energy for the Polish economy.

On the other hand, the Law on Emergency Measures to Curb Electricity Prices and Support Certain Consumers in 2023 and its secondary legislation are, in our opinion, inaccurate, and in the opinion of market participants, changes have been introduced that are unfavorable to the entire energy system, which in turn may result in a reduction in energy production in Poland. The rules for calculating the price cap introduced by this regulation pose a threat to the profitability of RES investments. Seeing what role RES played during the summer and autumn months, where the use of renewable energy gave the conventional power industry the time it needed to replenish gas and coal storage, these decisions that are hard to understand.

From the point of view of the entire Polish economy, today the passing of the windmill and direct line laws is an absolute legislative priority, as is the cable pooling law. Investments related to these laws could result in an increased supply of green energy by at least 10 terawatt hours per year, starting in 2026. And this is without any visible contribution from the State, including without a particularly intensive support system.

In this context, there is also a need to rearrange dependencies in the energy industry. The current completely vertical system promotes concentration practices that deviate from the principles of a market economy.

Moving distribution into the realm of market energy would be a revolutionary move, but if it is done with the participation of a Distribution Network Operator, the existing distribution system operators will largely control the process. Such an impulse is already being felt, but the role of the state in this area is to shape it in such a way that the restriction of market principles is minimal and dictated only by Poland's energy security.

Invariably, the launch of the program of revitalization of multi-dwelling units 200+ (which awaits the concentration of coal assets under the National Energy Security Agency (NABE)) along with passing the wind law, remain important. This would clearly show the direction of Poland's transition and gradual move away from coal, as well as provide more room for negotiations with the European Commission on Poland's energy transition path, taking into account the temporarily important role of conventional power generation.

Poland should push the concept of maintaining coal mines and coal power in Europe at a level that allows the economies of European countries to function under the threat of war. In view of the military situation, maintaining only the profit criterion in the European energy industry would be a big mistake, and our country is particularly vulnerable to the consequences of a military conflict with Russia. The wealth of European countries allows the creation and maintenance of an energy reserve base based on fossil fuels.

Poland, as well as Europe, has large coal and lignite deposits that allow to maintain energy independence in special cases, and this should not be abandoned prematurely. Likewise for nuclear sources, for which the plans to extinguish in some EU countries, were a bit too hasty. It is worthwhile to make parallel efforts to develop emission-free technologies for the use of fossil resources. Such an energy policy is in no way at odds with the energy Green Deal and the need to decarbonize the power and heating industry based on carbon-free sources. On the contrary, it can inspire the development of such sources as long as it is coordinated with a program to make the operation of coal blocks more flexible.

The program of revitalization of multi-dwelling units 200+ fits perfectly into such a coordinated policy. We should present the results of this program to the decision-makers in the European Commission and try to get it approved both formally and financially.

The concept outlined above could be integrated into Poland's overall energy transition and form the basis for optimal development of both renewables and nuclear power.

The most important tasks in 2023 for policy-makers in the Polish energy sector:

- Passing a law eliminating investment barriers in onshore wind power.
- Passing a law on direct lines and cable pooling.
- Refining and passing the law on effective support for energy communities.
- Promptly developing and passing a law on investment facilitation for renewables on brownfield and post-mining sites.
- Maximum removal of barriers to development of solar power.
- Launching a program of revitalization of multi-dwelling units 200+.
- Strong presence at the European Union level - consistent opposition to ideologically motivated programs to accelerate the energy transition and tighten climate policy;
- Building a strategy for the use and development of transmission and distribution networks
- Consistent, planned construction of nuclear power plant(s)
- Changing the state's raw materials policy and the creation of permanent stocks to make Poland independent of price fluctuations

Those of the above tasks that are regulatory in nature should be implemented in the first half of 2023, so that their effects on the economy will begin to be felt as early as 2025. This means, as mentioned earlier, an increase in the supply of green energy by at least 10 terawatt hours per year.

Despite the impediments associated with the election year in our country, we are counting on constructive legislative momentum in the energy-related area and the passing of basic and necessary laws to enable the development of modern energy based on distributed sources.

According to ZPP, we could have expected a bit more legislative activity in the energy area in 2022, but the year should definitely not be counted as a lost year in terms of progress in Poland's energy transition. At the same time, it is worth remembering the consultation-based formula of cooperation between lawmakers and the society, which guarantees far better final results.

From the perspective of the EU energy market, Poland could be one of the few countries secure in terms of energy. However, the lack of crisis solutions and late legislative initiatives have only allowed ad hoc relief, without redefining the energy system. 2023 is the year of another opportunity for those in power to ensure our country's competitiveness and energy stability.