

Direct lines – key to the development of the modern power industry

- Direct lines and cPPAs are key to a new energy reality in the EU
- The draft act to implement **Directive 2019/944 into the Polish legislation fails to guarantee the expected investment freedom in the area of direct lines**
- **Hampering the development of RES installations powering industry will have implications for the entire national economy**

One of the most significant regulations currently in development, of key importance to the Polish energy transformation, concerns the principles of operation of direct lines, that is the possibility of direct transmission of energy from the producer to the consumer. This aspect is particularly important for the undisturbed functioning of enterprises exporting their products to countries where it is already necessary to document that green energy was used for manufacturing purposes. The supply of energy from RES, or rather the lack thereof, may therefore become a fundamental problem for the further functioning of enterprises.

In accordance with the definition contained in Art. 3 sec. 11 (f) of the Polish Energy Law: *“direct line – a power line connecting an isolated generation site directly with a customer or a power line connecting an generation site of an energy company with installations belonging to that company or installations belonging to its subsidiaries”*. This translates into an entrepreneur’s own investment or a partnership with a RES producer. This instrument is crucial for the development of the cPPA/vPPA sector, that is long-term B2B contracts for the purchase of green energy.

The currently processed amendment to *the Energy Law and the Act on Renewable Energy Sources (UC74)*, which is planned to be adopted by the Council of Ministers in the first quarter of 2023, aims to implement into the Polish legal system, among others, the **Directive 2019/944 on common rules for the internal market for electricity. It also covers the issue of direct lines.**

As the legislators themselves have noted, current practices of the market regulator and the courts indicate that the provisions regarding direct lines, in their current wording, **are insufficient to achieve the objectives provided for in Directive 2019/944**. Thus far, the main problem has come down to **the narrow interpretation of the direct line as an installation operating in an**

island system. For this reason, **obtaining a permit for the construction of a direct line has so far only been possible, as a rule, when it was impossible to connect the recipient to the power grid.** Meanwhile, direct lines should, on the one hand, be a substitute for the distribution network, and on the other hand, it is only when the coexistence of these two types of connections on a customer's end (network and via a direct line) is enabled that the act has a chance to positively influence the development of the market in this area.

The Union of Entrepreneurs and Employers is of the opinion that this is an extremely important issue for the economic development of our country, due to the fact that, in the future, direct lines will become a fundamental element of market rules in energy trading. It is regrettable that this issue is one of several included in the UC74 draft act that negatively affect not only the clarity of legal provisions, but also the pace of their processing. A separate act would therefore be a preferred solution. All the more so, since any regulations concerning the development of distributed energy in Poland should in the future take into account the new rules regarding the operation of direct lines. It is, however, certainly good news for entrepreneurs that work on these regulations is still in progress.

One ought to clearly state in this place that direct lines will not be a threat to the national energy system or to the functioning of the traditional power industry, because due to their capacity, they will serve an entirely different segment of the economy. At the same time, they will in the future significantly improve the functioning of medium- and low-voltage lines, which in turn will have a positive impact on the operation of the power system as a whole.

The overarching objective of direct lines should become the key incentive for lawmakers with regard to this type of lines: direct supply of energy to industry as well as local, medium-sized enterprises, mainly manufacturing companies, which require cheap, green energy to develop.

The present model of network operation is incompatible with the provisions on direct lines contained in Directive 2019/944, which obliges member states, among others, to undertake all necessary measures to enable all producers and electricity supply undertakings operating in individual countries to supply their own premises and customers through direct lines, **without being subject to disproportionate administrative procedures or costs.**

The currently proposed version of the UC74 draft act obliges the recipient to include the trading company even if the producer of electricity and the recipient thereof are the same entity and they only partially use the power line. Such an approach on the part of the legislator will have a significant impact on the prices of electricity supplied through direct lines.

And reducing the cost of energy supply is the main objective of direct lines, especially for large consumers, energy-intensive entities in particular.

Then again, the regulations regarding the need to enter direct lines for production units with a capacity of more than 2 MW to a registry kept by the Energy Regulatory Office (Urząd Regulacji Energetyki) significantly limit the possibility of free investments. This in turn will slow down the investment processes related to generation of distributed energy. It will also significantly limit the use of direct contracts between the producer and the recipient (cPPA/vPPA).

The proposed shape of the regulation is unacceptable, as it limits the possibility of increasing supply of green energy to the industry, which may in the end hamper the development of the entire economy.

The form of the so-called solidarity fee (a surcharge to be paid by recipients connected to the power grid in spite of the fact that most of their energy supplies will be sent through direct lines) also changed in the latest proposal of the regulations. The introduction of the solidarity fee is in its essence understandable, because the operator is legally obliged to bear the maintenance costs of the energy network to which the recipients are connected, despite the decreasing supply of energy through these lines. However, according to the draft, the fee is to be related to the amount of energy transmitted through a direct line and will be paid to the trading company. In the opinion of the Union of Entrepreneurs and Employers, the fee payment mechanism should be covered by a transitional period and fully regulated later in the future, when both producers and consumers already have more experience in this new energy trading model at the local level, based on direct lines.

The number of rejected motions to connect new RES installations to the distribution and supply network is constantly growing, which impedes the development of investments and threatens the Polish economy. Investment opportunities in direct lines are supposed to remedy such barriers and the emphasis here should be on expanding the rights of producers and recipients followed by reducing administrative costs and obligations.

One ought to keep in mind the determination of the European Commission in establishing a common energy market, where direct lines and cPPAs are key elements in creating a new energy reality. A reality based on a different business model in the power industry than before, where relations between producers and recipients are not burdened with unjustified additional costs.



It might be worth considering how such a new business model is going to affect the competitiveness of the economies of countries that will actively participate in it.

The Union of Entrepreneurs and Employers calls for the abolition of all legislative restrictions on investment processes related to the construction of direct lines.