What to expect following Poland's 2025 retail electricity price freeze

Freezing retail electricity prices through September 2025 lowers Poland's inflation path, but it also begs the question of which steps need to be taken next. We see a balancing act emerging between ensuring the affordability of electricity prices and reaching the long-term goal of launching ambitious energy investment programmes

Krakow, Poland

Electricity prices for households to remain unchanged until September 2025

While retail electricity prices in Poland are heavily regulated, authorities have made several significant interventions in recent years to protect households from global energy shocks. In 2023, the electricity price was frozen at the 2022 level of PLN 412/MWh (net). A partial unfreeze was introduced in mid-2024. But with the official tariff set by the Energy Regulatory Office (ERO) at PLN 623/MWh, the government introduced a cap of PLN 500/MWh by the end of 2024 and ceased collecting the capacity charge until the end of 2024. This charge is one of several fees in electricity bills, in addition to the net electricity price.

Market electricity price and price cap for households from 2022, in PLN/MWh

Source: Poland Energy Commodity Exchange, ING.

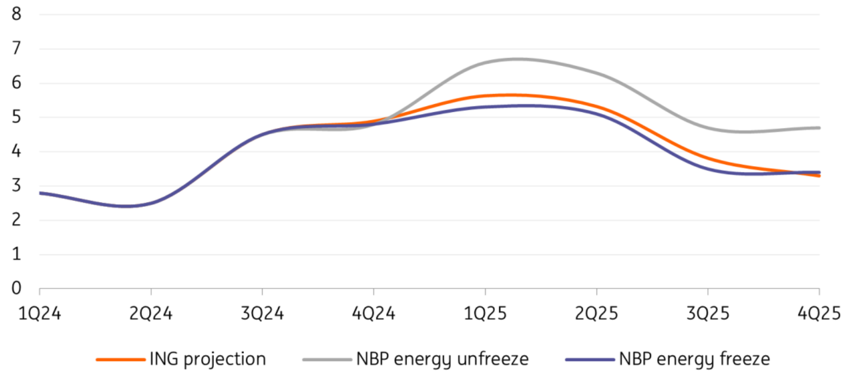
As the year draws to a close, officials have made the long-awaited decision to extend protective measures into 2025 to prevent retail prices from rising to the current tariff of PLN 623/MWh. In the case of no action, this tariff would come into action from 2025, which would mean a 25% hike. Prime Minister Donald Tusk's cabinet has extended the maximum price of PLN 500/MWh until September 2025. At the same time, the capacity fee will not be charged until the end of June next year.

The new law will also oblige electricity providers to submit new tariff applications, and the energy market watchdog will be authorised to call for new applications if the market situation changes markedly. The government hopes there will be no need for further interventions in the energy market in the second half of 2025, provided that market prices go down.

No major impact on monetary policy prospects despite lower CPI

Since protective measures will be extended into most of 2025 and households electricity prices will not increase at the beginning of the year, the CPI outlook has improved. We currently estimate average consumer inflation in 2025 to be 4.5%. This is substantially lower than the National Bank of Poland's (NBP) November projection of 5.6%, based on the assumption of a full unfreeze of electricity prices.

CPI inflation projection paths, %, YoY



Source: NBP and ING projections.

In our view, the prospects for lower headline inflation in 2025 do not alter the monetary policy outlook. Regardless of the peak in CPI inflation in March 2025 (most likely below 6% year-on-year), rate setters want to see a turnaround in headline inflation before making any decisions on rate cuts.

Inflation is expected to continue rising in the first quarter of 2025. We believe the Monetary Policy Council (MPC) will start discussing rate cuts in March 2025, following the next round of projections from the NBP – but we don't think it will implement the first cut until the second quarter of 2025 at the earliest. Recent statements from Council members and the NBP board also support this scenario, although the MPC appears divided on the optimal timing for the first cut.

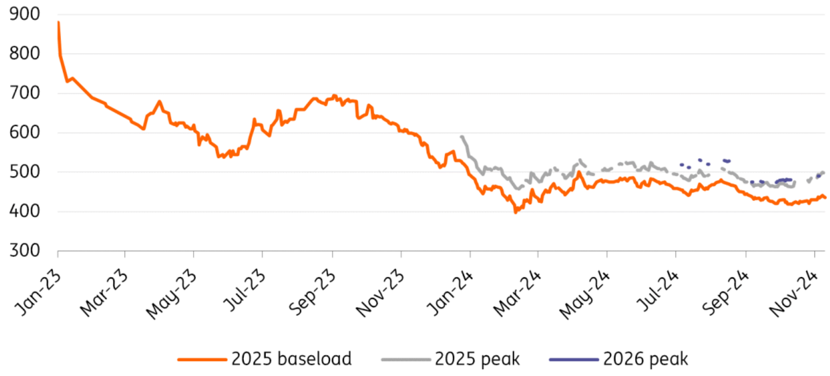
What to expect after nine months of 2025

Freezing the retail electricity price through to the end of September 2025 provokes the question of what the next steps might be. Tusk hinted at the press conference that market prices may go down, and energy companies may agree with the Energy Regulatory Office (ERO) on new rates, so further freezing may not be needed anymore. If so, then the government will consider it again. Minister of Finance Andrzej Domański explained that next decisions on retail tariffs will be made at the beginning of the second quarter of 2025, when energy providers will propose new tarrifs to the ERO for the second half of the year.

The main power companies are state-owned or state-controlled but proposing lower tariffs needs to be justified in the underlying operational costs, largely driven by prices of EU allowances (EUAs) and fuels like coal and natural gas. These costs affect wholesale electricity prices in the forward market.

Today's forward power contracts do not envisage much space for downward price adjustment, with 2025 baseload traded around PLN 440/MWh and 2025 peak prices around PLN 490/MWh. They've remained in a sideways trend since early 2024; the major price adjustment already occurred in 2023 following the energy shock from the previous year. The underlying fuels or EUA prices remained broadly stable in 2024, but have seen a rising trend since October.

Poland forward power prices 2023-24, in PLN / MWh



Source: Poland Energy Commodity Exchange.

Can a rising share of renewables pave the way for lower household electricity prices?

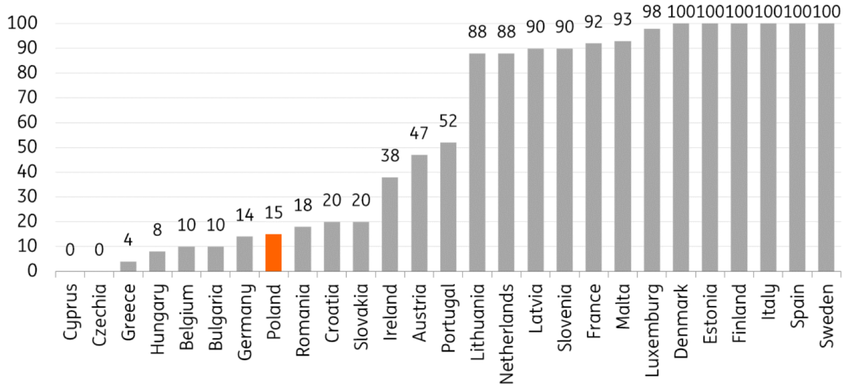
What bodes well for lower electricity bills is the rapidly rising deployment of renewable energy sources (RES). However, because these are intermittent, authorities need to ensure the stability of the power system by coal and gas-fired power plants. Amid announcements of good news for electricity consumers regarding next year's electricity tariffs, the Ministry of Climate and Environment also mentioned the shift towards a green energy mix. We've written in detail about Poland's ambitious energy strategy here. But this a long-term vision which will drive prices five, 10 or even 20 years from today.

The Ministry is working on unlocking the potential of RES, and is developing nuclear energy projects which will contribute to the long-term energy stability of the country. Parliament is processing a bill on offshore wind farms, and soon it is also set to receive a law unlocking the potential of onshore wind investments. Again, it will take time (years) to see the benefits of these projects, possibly through downward pressure on wholesale market prices. This is because the levelised cost of energy (LCOE) is much lower for RES installations than for coal or gas-fired power plants.

However, what could affect household bills relatively quickly is a broader use of dynamic electricity tariffs. The relevant law was enacted in Poland recently, in August 2024. Unlike traditional fixed-rate tariffs, dynamic tariffs adjust prices frequently and reflect changes in supply and demand. In certain circumstances – i.e., when RES generation is high as the sun shines and wind blows, and demand for electricity is relatively low – prices may go down significantly or even become negative. The latter occurred in Poland for the first time in 2023, and also on several days (for a period of a few hours) in spring this year.

However, in order to explore the benefits of dynamic electricity tariffs, households need to have smart meters. But their deployment in Poland is among the smallest in the EU; only around 15% of electricity meters are "smart".

Smart meters penetration rates in EU countries in 2022, in percent



Source: Analysis of Joint Research Center, 2023.

Aside from the accelerated deployment of smart meters, authorities may mobilise investments in electricity grids as envisaged in the latest draft National Energy and Climate Plan (NECP). According to this plan, investments in the transmission and distribution of grids in 2026-2030 are to increase six times compared to the 2021-2025 period. Such an effort would indeed allow for a much larger share of RES in Poland's electricity mix, and would exert downward pressure on market prices. However, the draft NECP is quite vague in its explanation of exactly how transforming this huge investment plan in electricity grids would take place in practice.

How to stimulate huge investments in a heavily regulated sector

The large scale public intervention in energy prices was justified during the energy shock in 2022, but further intervention into price mechanisms as a result of affordability concerns is less convincing when market prices have normalised, and wages and social transfers have gone up. Energy prices need not to only cover for associated production costs, but also encourage the acceleration of the huge investment programme in RES and nuclear power, energy storage, electricity grids, and others.

There is a balancing act for public authorities between assuring affordability of electricity for households and working towards a long-term goal of launching ambitious investment programmes – without which utility companies will be unable to make changes to the energy mix and cut electricity prices in Poland.

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