

## Poland's adjustment in retail electricity and gas prices postponed to second half of next year

Poland's new government has decided to extend the electricity and natural gas price freeze to households by six months - until mid-2024. This decision prevents an abrupt upward price adjustment, but gradual hikes are pending. This will affect next year's inflation path and possibly reduce the central bank's readiness to cut interest rates



Coal power plant in Bełchatów, Poland

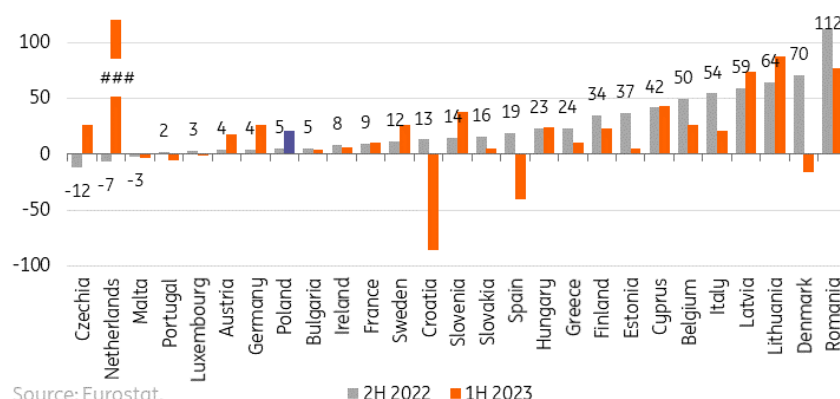
### Poland's energy shield against record high market prices

Poland's former government enacted policy measures to mitigate the effects of high energy prices, especially the rise in natural gas prices driven by Gazprom in late 2021, and after the outbreak of the Russian war in Ukraine in February 2022. According to Eurostat, Poland's hikes in electricity prices and natural gas prices to households were among the lowest in the EU due to regulatory and fiscal intervention.

Electricity bills of average Polish households (all taxes and levies included) increased by 5% year-on-year in the second half of 2022 compared to median growth of 14% among the EU member

countries. Six EU countries recorded hikes of 50% or more. In the first half of 2023, Poland's retail electricity bills increased by 20% YoY, mainly due to the restoration of VAT on electricity and continued increases in distribution fees, but still, this adjustment was close to the EU median. Many of the EU countries hiked electricity prices to households significantly both in 2022 and 2023.

## Growth in electricity prices to households (with taxes) in 2022-23, YoY, in national currency, in %



## Frozen energy price in electricity bills to households from 2022

The household increase in electricity and natural gas prices was contained in 2022-23 as tariffs to households were frozen at 2021 levels, which still remain regulated in Poland. In September 2022, the energy price in the electricity tariff was frozen at PLN412/MWh for 2023 for annual consumption below 2500KWh per household. Higher thresholds were applied for farmers or families with three children or more. For consumption above the standard 2500KWh threshold, the electricity price went up to PLN693/MWh. This rate was defined in a legal act adopted by the parliament (lower tariff band), while the upper tariff band was set at PLN1077. In practice, this band did not apply to households (they could not pay more than the lower band), but only to settlements of transfers between the government and power companies. The aforementioned pre-tax electricity price accounts for nearly half of the average bill. The rest consists of various fees (transmission, distribution, etc.) that were also frozen.

The settlement system was extremely complicated and well understood only by the small group of energy lawyers and experts in the country. The overall principle was similar to that applied in other countries – electricity providers selling below market prices were compensated for doing so with public money or dedicated budgetary funds, partially funded by energy producers. While setting the parameters of the mechanism, the authorities estimated the budgetary costs to be around 2% of GDP in 2022.

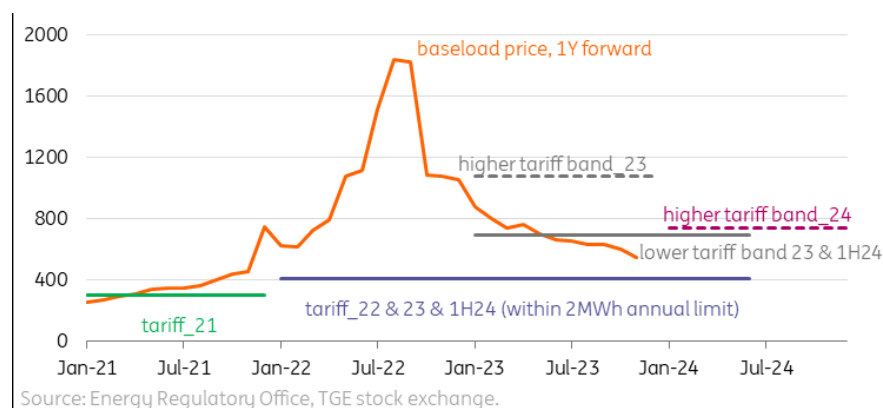
## Surprisingly fast normalisation of energy market in 2023

Fortunately, and to some extent surprisingly, intervention from the European Commission and member states in late 2022, supported by positive trends in global energy commodities and favourable weather conditions, led to a swift normalisation of the energy market situation over the course of 2023.

The energy shock is abating, which is visible in the forward price for a contract of baseload band

electricity to be provided in the following year. Such a contract peaked above PLN1800 per MWh in August 2022, and trended down below PLN550 in November 2023. Declining market prices were confirmed by the latest decision of the Energy Regulatory Office (ERO) on 15 December, cutting the higher tariff band by 31% - from PLN1077 to PLN739. In the past, these tariffs were set closer to 1Y forward prices. This time the market pricing is much lower. The current market price of PLN550 for 2024 as a whole is also below both the above-mentioned tariff bands, and it is broadly similar to levels recorded two years ago in late 2021.

## Regulated electricity prices to households and 1Y forward baseload price, in PLN/MWh

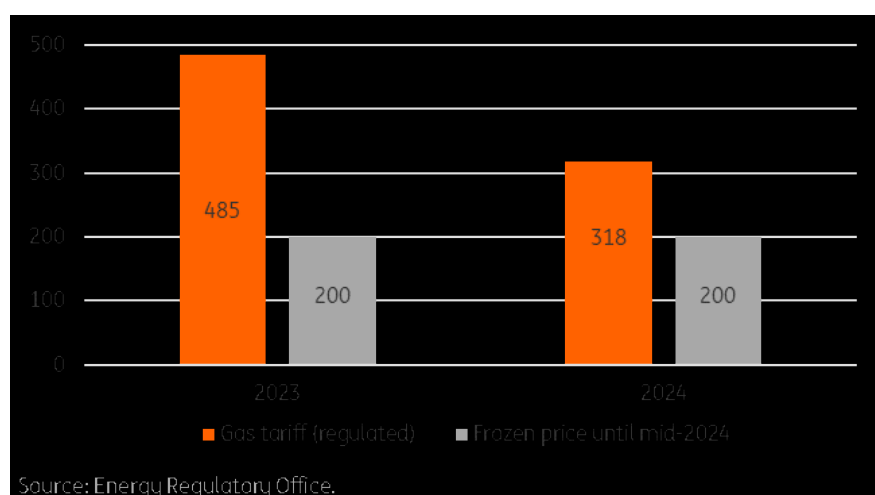


## But the price overhang between the latest tariffs and retail prices is still there, and adjustment is still ahead

The current 1Y forward electricity prices are still 33% higher than the frozen tariff levels of PLN412/MWh, while the higher tariff band recently adopted by the ERO of PLN739 is nearly 80% higher. This freeze was extended by half a year by the new Parliament after the 15 October general elections. The bill was already signed by the president, so Polish households will continue paying the same price of around PLN412 until the end of June 2024 for consumption within the proportionally reduced threshold (of 1250KWh for six months).

Similar measures were undertaken for regulated prices on natural gas. The energy market watchdog cut the tariff from PLN484/MWh in 2023 to PLN318/MWh (down by 34%), but it is still well (nearly 60%) above the frozen price of PLN200/MWh that households will be paying in the first half of 2024.

## Natural gas prices for households (PLN/MWh)



## We assume a 15% increase in electricity prices and 10% increase in natural gas prices from July 2024

Our outlook and the market consensus for oil, coal, gas, and CO<sub>2</sub> allowance prices in the EU ETS in 2024 do not point to any significant space for lower wholesale electricity market prices in the coming months. Provided that current market prices stabilise, the new government will need to decide in the coming years about any regulatory upward adjustment in electricity prices to households.

We estimate that the around 80% price overhang for the energy component of the electricity bill and around 60% for natural gas can be phased out gradually in order to smooth the upward pressure on other prices. Poland needs electricity and gas price adjustments, but not another shock.

Therefore, unless market prices decline substantially, the authorities will be forced to undertake further measures to contain the scale of the energy price adjustments from July 2024 onwards. We expect the adjustment to take place in several steps. Our baseline scenario assumes that the electricity bill will jump by 15% and the gas bill by 10%, contributing some 0.9 percentage points to headline CPI inflation. This will probably reduce the National Bank of Poland's readiness to cut interest rates in the second half of 2024.

## Upward price adjustment will be good for climate and power companies facing huge investment needs

The envisaged adjustment in regulatory electricity and natural gas prices to households is a justified step in restoring market-based mechanisms in the energy sector. They were largely replaced by public intervention during the unprecedented energy shock in 2022, provoked by the Russian war in Ukraine. The upward price adjustment is also positive for the climate, as higher prices induce a reduction of electricity consumption and motivate energy efficiency investment. Also, it would support Poland's power companies to scale up their zero-carbon investments in the coming years.

According to estimates from the Polish Electricity Association, the investment needs of the Polish power and heat sector through 2030 were estimated at EUR135 billion. The investment potential of Polish power companies was estimated at EUR29bn, while the remaining amount is to come from private and public sources, including EU funds. Under-priced tariffs affect the investment potential of power companies. As we pointed out in our recent [regional report](#), Poland needs to at least double its investments in the zero-carbon electricity supply (PV, onshore and offshore wind, nuclear) and electricity grids this decade.

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