1. **Basic Information**  
1.1 CRIS Number: 2006/018-180.02-04  
1.2 Title: Implementation of competitive energy market  
1.3 Sector: Energy  
1.4 Location: Poland, Energy Regulatory Office in Warsaw

2. **Objectives**

2.1 **Overall objective:**

Implementation of competitive energy market in Poland

2.2 **Project purpose/immediate objective:**

- To assist Energy Regulatory Office (ERO) in developing the effective regulatory tools supporting the gas market liberalisation including the implementation of opening gas market to all customers (including households) as of 1 July 2007.
- To harmonize national supply quality standards and requirements as well as grid investment policy with the best international practices.
- To assist the Regulator in preparations to fulfil requirements to open electricity and gas market to household customers as of 1 July 2007 by contributing to preparation of a uniform code of conduct for electricity and gas suppliers and network system operators.
- To provide ERO staff with practical knowledge of technical and organisational specifics of RES and co-generation enabling removal of administrative barriers, simplifying and adjusting procedures and developing regulatory tools for efficient supervision of the renewable energy and co-generation markets in Poland.

2.3 **Justification:**

According to the Monitoring Report, chapter 14 “… Poland must adopt the remaining implementation legislation regarding the internal energy market (…) open up the electricity and gas markets according to agreed schedules…”, moreover, the regulatory body, the Energy Regulatory Office, whose task it is to oversee the gas and electricity markets has been established, but it needs to be further strengthened…”

Real competition should appear at Polish energy market after transposition of the directives. The amended Polish Energy Law (entered into force on 3 May 2005) implements provisions of Directive 2003/54/EC and Directive 2003/55/EC and according to the requirements of the European Union law liberalisation of the Polish gas market has been formally fulfilled (with full market opening for household customers entering into force on 1 July 2007).

Although the legal requirements have been fulfilled the creation of competition and restructuring the gas sector has been progressing at slow pace. Practical implementation of the Third Party Access (TPA) rule is not feasible due to a number of obstacles. The foremost of these is the monopolistic structure of the gas industry. Therefore the urgent application of measures aimed at enabling new market entries through applying a gas release program is crucial.

The gap between law and practice has been deepening. Monitoring of the electricity market and performance of grid enterprises will become difficult and inefficient without specific
regulatory tools. Hence it is necessary to create a system of monitoring the quality of supply and a system of supervising investment practices of the regulated grid enterprises. According to the Annual Report on the progress in creating the internal gas and electricity market (V Benchmarking Report) the internal gas market continues to suffer from a lack of liquidity of both gas and transport capacity. The Report also states that another indicator of the lack of real competition is that switching by customers remains limited in most Member States and that choosing a new supplier from another Member State remains the exception. The Commission also declares that Member States and national regulators must ensure that appropriate rules on information and transparency and simple switching procedures exist, to provide the necessary confidence to customers. Furthermore, the Commission will remain vigilant, in particular regarding the social and employment consequences of the restructuring of energy companies, the effect of competitive energy process on employment in energy intensive industries and the protection of consumers from unfair selling practices. There are diverse reasons for lack of progress in creating the competitive markets (unfair network access arrangements, the lack of opportunities available for real competition and the maintenance of price controls are some of the named ones). Therefore application of improved tools of monitoring and supervision are demanded. Given the structure of Polish legal framework and overall reluctance of the energy companies for any changes in their policy towards household customers, it is necessary to provide the Regulator with an effective tool to influence companies’ conduct in their relations with eligible end-users, with special regard to the household customers’ service and protection aspect. Active participation of the Regulator in shaping the market players’ behaviour is indispensable, especially in the context of the governmental policy and their programs aimed at consolidation of the energy enterprises. Since the Directive 2001/77/EC was adopted in Poland has failed to narrow a gap between the indicative target set for the year 2010 and the actual share of electricity produced in RES. Therefore urgent improvements in regulatory tools applied in monitoring the purchase obligations of the renewable energy are necessary.

3. Description

3.1 Background and justification

The President of the Energy Regulatory Office (ERO) is a central organ of government administration acting on the basis of to the Energy Law Act and the Code of Administrative Proceedings. The tasks and duties of the President of the ERO cover inter alia implementation of rules of competitive energy (electricity and gas) market in Poland, issuing of licenses, approval and control of tariffs of grid enterprises (electricity and gas), supervision of the quality of electricity and gas supplies and customer service quality standards with respect to trade in electricity, approving development plans of grid enterprises, resolving disputes related to grid access (TPA) and monitoring the market as well as behaviour of the energy market participants. He is also responsible for supervising the fulfilment of renewable energy and co-generated electricity purchase obligations.

3.1.1 Component 1:

The goal is to set up an appropriate legal and institutional framework which will enable efficient and smooth practical implementation of gas market opening and liberalisation of the gas sector according to EU standards. According to the data on market opening and development of consumers’ attitudes, published by the European Commission in its Annual Report on the progress in creating the internal gas and electricity market (V Benchmarking Report) Poland falls behind as compared to the most of EU Member States in terms of progress in developing competitive gas market. There still exist structural, institutional and economic barriers to the development of real competition in
the gas sector. The gas imports, domestic input, wholesale trade, and storage remain monopolized by a single company. There is practically no possibility of genuine new market players’ entry. Therefore the customers’ right to switch cannot be executed further preventing market liberalisation.

3.1.2 Component 2:
According to the Polish Energy Law energy enterprises that conduct transmission or distribution activities (network companies), shall prepare development plans to meet present and future demand for electricity and natural gas. Draft plans are prepared by network companies for the territory of their operation. Draft plans prepared by gas and electric network companies shall be submitted to the President of ERO for his approval. From the President of ERO point of view, the main goal of development plans approval is to assess the costs of modernization and development - which are the part of justified costs estimated during the price control review. Experience shows that during the price control review companies tend to show in their development plans higher capital expenditure than it (in fact) would be realised. This practice enables the network companies receiving an additional (unjustified) part of their revenue.

Due to above described effect, the Regulator must examine development plans prepared by the network companies for the term of regulation (usually 3 years) and estimate appropriate level of capital expenditure. During the examination the main regulator’s problem is asymmetry of information between the regulator and the network company. Only the company knows what investment is really needed. To carry out the task the regulator should develop a method allowing him to estimate the appropriate level of capital expenditure and simultaneously ensure minimizing outlays and costs borne by a distribution company so that they do not cause excessive increase of prices and fee rates paid by customers in short-term and to ensure continuity, reliability and good quality of supplies in long-term.

As it is planned to extend the term of regulation (period between price control review), it is necessary to develop and apply a method which makes precisely capex assessment possible. The well defined and measured quality of supply level shows if investment needs are met in a proper way (feedback).

With respect to continuity, reliability and good quality of supplies in long-term the Polish Regulator is obliged to supervise fulfilment of quality standards by distribution companies. According to the Polish Energy Law, energy enterprises are responsible for the quality of service, but in fact there is no system enabling the Polish regulator to control - in a permanent way - quality of service. The energy enterprises present data that are not comparable and homogenous. Thanks to the result of this project the Regulator will be able to harmonize methodology of collecting data among distribution companies according to the best international practices. Therefore the project will positively influence development of regulatory policy.

3.1.3 Component 3:
The goal is to enhance Regulator’s influence on companies’ conduct in relations with eligible final customers, with special regard to the household customers’ services and protection of their interests and rights. This will be achieved by working out the Code of Energy Suppliers’ Conduct in electricity and gas sub-sectors established on the basis of the study on the retail market functioning. So far in Poland no data on suppliers’ performance with relation to household customers’ services has been available. No independent complex market analysis on the subject matter has been conducted so far. This is also due to the fact that although the Energy Law Act in many provisions stipulates the protection of customer’s interests, in real terms the scope of Regulator’s effective tools for affecting market arrangements and its supervision is limited. Successful realisation and implementation of the project will positively influence development of regulatory policy.
will serve not only as an instrument for eliminating the knowledge gap but will also allow the Regulator to participate in the process of shaping the retail market solutions on terms equal with other market players.

The Code of Conduct for Energy Suppliers will also underlay the provisions of the licences that will be granted to the distribution companies (in present Polish legal framework they are mere administrative decisions with no relevance to the individual circumstances of the energy enterprises). The licences already granted to distribution companies will expire in 2008 and there will be a possibility to change their character and contents, taking as the source of reference or incorporating the provisions of the Code.

3.1.4 Component 4:
The goal of this component is to strengthen abilities of the Polish Regulator to implement *acquis communautaire* in the field of promotion of electricity production from renewable energy sources and wider utilisation of combined heat and power production (co-generation). Directive 2001/77/EC (with regard to Renewable Energy Sources - RES), 2004/8/EC (with regard to Combined Heat and Power- CHP) and 2003/54/EC (with regard to electricity market) oblige Member States to implement appropriate legal framework. Therefore, it is compulsory to prepare and equip ERO staff with proper knowledge and tools and to adjust procedures that will enable execution of the regulations. Actions in this component will cover three areas. The first one is related to issuing licences for electricity producers from RES and CHP (need to eliminate regulatory barriers and adjust requirements for small producers). The second is issuing Certificates of Origin (CoO) for electricity from RES and CHPs (currently only RES CoO are being implemented). The third area is monitoring of activities of these producers and control of energy enterprises subject electricity purchase obligations. All above mentioned areas need improvements and further developments to create transparent rules for market participants and effective regulatory tools for effective supervision of the RES and CHP markets.

3.2 Linked activities:
Two projects were implemented in 2000: Twinning project 2000 (PL9707) Energy market regulation (PL/IB/2001/EY/01) was finished in 2004 (the project was connected with the liquid fuel stock systems) and project realised due to agreement among Danish Ministry of Economy and Business Affairs/the Danish Energy Authority and the Ministry of Economy and Labour of Poland - "Poland - Electricity and Gas Market Development Study and Practical Guidelines for Using EU Funds". ERO was invited to participate in the projects as a potential beneficiary, but was not a formal party of the contracts. The project “Reinforcing the regulatory supervision of the energy sector” CRIS number: 2005/017-488.02.04 is to be started and examined by ERO in 2006. This project encompasses two components. The results of Component 1 foresee the following: elaboration of criteria, methods and principles for application of load profiles, elaboration of methodology for balance settlements for small electricity consumers, elaboration of metering and data transmission standards for effective customer switching, elaboration of costs related to customer switching to be born by distribution companies estimated. The results of the Component 2 will be as follows: implementation of system of collecting information on the level of electricity supply quality (for example: the amount of supply interruption, the duration of each interruption), preparation of report on identified levels of electricity supply quality at the customer delivery points.

It should be stressed that the project of TF 2005 constitutes foundation in some areas for the activities that will be conducted under the project “Implementation of competitive energy market”. This refers especially to Component 2 that deals with quality issues.

3.3 Results:
3.3.1 Component 1:
Gas release program developed and implemented by the end of 2007.
The spot gas market created by the end of 2008.
Gas supplier switching enabled.
Part of energy market affected: all market players

3.3.2 Component 2:

Methodology and tools (ie. procedure, algorithm) for evaluation and verification of
development plans prepared by the distribution companies for the term of regulation
elaborated and published.

A method which allows to estimate appropriate level of capital expenditure elaborated
and published.

Benchmarking report on quality of electricity supply among distribution companies at
national level elaborated.

A set of data and information for the international benchmarking report on quality of
supply elaborated.
Part of energy market affected: all market players (energy enterprises) and Regulator

3.3.3 Component 3

Report on the retail energy market functioning and the Code of Energy Suppliers’
Conduct elaborated and published.
Part of energy market affected: all market players (especially customers)

3.3.4 Component 4

Procedures adjusted for RES and CHP as well as supporting tools for licensing the
renewable energy producers and CHPs, elaborated and published.

Procedures for issuing of RES and CHP Certificates of Origin elaborated and published.

Monitoring and control methods with database for collection and preparation of analyses
for RES and CHP sectors elaborated and implemented.
Part of energy market affected: market players (energy enterprises in RES and CHP
areas) and Regulator

3.4 Activities:

3.4.1 Component 1 – technical assistance: approx. 0,30 M€
The contract will be realised through Technical Assistance. Experts, with working
knowledge on measures applied in gas markets, preferably employed at institutions like
TSOs, DSOs, gas trading hubs etc., will support the ERO to work out and put in practice
instruments enabling liberalisation of the gas market. The final reports require the
following activities:

- evaluation of the criteria, guidelines and principles for gas release program,
- economic analysis of potential options of diversification of gas supplies, including
evaluation of economic viability of building the liquefied natural gas (LNG) terminal,
- analysis of preconditions to removal of the tariff approval obligation in gas traded,
- analysis of applicability of virtual gas trading in the Polish gas system,
- analysis of potential for emerging downstream competition on gas market,
- methodology for balance settlements for small gas consumers elaborated,
- metering and data transmission standards for effective gas customer switching elaborated,
- costs related to customer switching to be born by gas distribution companies estimated.

3.4.2 Component 2 – technical assistance: approx. 0.45 M€
The contract will be realised through Technical Assistance. Experts, with working knowledge on measures applied in quality of electricity supply, preferably employed at institutions like, TSOs, DSOs etc., will support the ERO to work out and put in practice instruments enabling effective incentive based regulation. The final reports require the following activities:

Methodology for evaluation and verification of development plans prepared by the distribution companies for the term of regulation term and estimation of the appropriate level of capital expenditure: approx. 0.18 M€

- setting the criteria for evaluation of development plans prepared by the distribution companies,
- development of the methodology and the model,
- preparing investment plan questionnaire,
- preparing guidelines for distribution companies,
- preparing guidelines for ERO for evaluation of development plans

Benchmarking report on quality of electricity supply among distribution companies made (national level) : approx. 0.27 M€

- preparation of questionnaires on quality of supply
- dissemination of questionnaire to distribution companies
- analysis of quality of data reported in the questionnaires by the distribution companies
- Initial Benchmarking Report on Quality of Supply,
- preparation of data and information for international benchmarking report on quality of supply.

3.4.3 Component 3 – technical assistance: approx. 0.30 M€
The contract will be realised through Technical Assistance. Experts, with working knowledge on customers protection measures, preferably employed at institutions like Antimonopoly Authorities, Distribution System Operators, etc., will support the ERO in carrying out works aimed at preparation and implementation of the country-wide binding Code of Energy Suppliers’ Conduct. The following activities are needed:

Report on the retail energy market functioning: approx. 0.15 M€

- data collection on customer service;
- working out methodology and assessment of the customers’ rights awareness;
- working out methodology and evaluating contracting practice in respect to protection and abiding customers’ rights;
- assessment of the implemented supplier switching procedure;
- conclusions formed on the basis of data collected
- working out methodology for preparation of the unified contracts
- development of the unified contracts.

Code of Energy Suppliers’ Conduct: approx. 0,15 M€
- assistance in preparation of the draft Code on the basis of the study conducted;
- assistance in the process of consultation of the draft Code with market players;
- assistance in development and implementation of the final version of the Code of Energy Suppliers’ Conduct;
- working out methodology for assessment of the Code’s influence on retail market functioning
- evaluation of the Code’s influence on retail market functioning

3.4.4. Component 4 – technical assistance: approx. 0,45 M€
The contract will be realised through Technical Assistance. Experts, with working knowledge on RES and CHP technology as well as support schemes applied, preferably employed at institutions like TSOs, DSOs, power exchanges etc., will support the ERO to work out and put in practice regulatory instruments enabling effective monitoring of the purchase obligations. The final reports require the following activities:

Licensing: approx. 0,17 M€
- preparation of the overview of current Polish legal framework and technical specification of RES and CHP installations to simplify and improve licensing procedures,
- preparation of the overview of licensing procedures in other EU countries and recommendations for improvement of licensing procedures and updates in legal documents,
- organisation of at least 3 training seminars for ERO staff. The seminars will cover technical and economic issues and will include visiting different kind of RES and CHP installations including co-firing installations,
- preparation of database for RES and CHP installations as integral part of database of licensed energy companies with training of database operators,
- preparation of guidelines for investors on licensing procedures of RES and CHP installations with templates and examples in Polish and English languages,
- participation of ERO representatives in at least 3 seminars for presentation of information about licensing with dissemination of guidelines.

Certificates of Origin (CoO): approx. 0,20 M€
- review of RES and CHP CoO systems in different countries – general organisation (governance, auditing, links with electricity disclosure, combination of RES and CHP), required technical infrastructure, costs, flexibility of systems, prospects for international exchange of CoO.
- elaboration of criteria for quick verification of production for issuing CoO for RES and CHP developed and integrated with RES&CHP CoO database,
- preparation and implementation of computer database for RES&CHP CoO with training of database operators,
- preparation of guidelines for producers and investors about CoO system for RES and CHP in Poland with templates and examples.
- participation of ERO representatives in at least 3 seminars for presentation of information about organisation of CoO system for RES and CHP with dissemination of guidelines.

Monitoring and control: approx. 0,08 M€
- overview of best practices of monitoring methods and tools used for monitoring of RES and CHP sectors in different countries.
- preparation of a model and a database for monitoring of RES and CHP producers including structure of data required for statistics and analysis.

3.5 Lessons learned:
The ERO had possibility to participate in the PHARE projects which do not have direct relation to the present project.
The ERO is to start the project within Transition Facility Programme – “Reinforcing the regulatory supervision of the energy sector” CRIS number: 2005/017-488.02.04 in 2006.
The experiences gained thanks to previous projects, may be a good starting point for the advanced qualitative and quantitative analyses which are proposed to be performed within the present project.

4 Institutional framework
The Energy Regulatory Office will be responsible for the general project coordination and for its appropriate implementation. Neither the project itself nor the project results will lead to any institutional changes.

5. Detailed Budget:

<table>
<thead>
<tr>
<th>€M</th>
<th>Transition Facility support</th>
<th>Co-financing</th>
<th>Total cost (TF plus co-financing)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total Transition Facility (=I+IB)</td>
</tr>
<tr>
<td>Contract 1</td>
<td>0,30</td>
<td>0,30</td>
<td>0,02</td>
</tr>
<tr>
<td>Contract 2</td>
<td>0,45</td>
<td>0,45</td>
<td>0,03</td>
</tr>
<tr>
<td>Contract 3</td>
<td>0,30</td>
<td>0,30</td>
<td>0,02</td>
</tr>
<tr>
<td>Contract 4</td>
<td>0,45</td>
<td>0,45</td>
<td>0,03</td>
</tr>
<tr>
<td>Total</td>
<td>1,50</td>
<td>1,50</td>
<td>0,10</td>
</tr>
</tbody>
</table>

(*) contributions form National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises
(**) private funds, FIs loans to private entities

Contracts 1-4 will be jointly co-financed.

*In case of Joint Co-financing, where the final overall cost is lower than foreseen in the project fiche, the National Public and Transition Facility Co-financing, are reduced proportionally so as to maintain the agreed rate of co-financing. In case of Parallel Co-financing, where the final cost is lower than foreseen in the project fiche, it must be shown that the overall objectives of the project have been fully achieved.

The amounts for national co-financing indicated in the table correspond to cash co-financing, unless otherwise stated. Contributions from the Polish administration for effective implementation of the TA may be further detailed in the Terms of references, unless otherwise indicated joint co-financing is provided.

VAT does not constitute eligible expenditure except where it is genuinely and definitely borne by the final beneficiary. VAT which is considered recoverable, by whatever means, cannot be considered eligible, even if it is not actually recovered by the final beneficiary or individual recipient.

According to the joint financing procedure, the total cost of contracts 1 (320 000 EUR), Contract 2 (480 000 EUR), Contract 3 (320 000 EUR) and Contract 4 (480 000 EUR) will be financed with both Transition
Facility funds and Polish funds, in proportions corresponding with contributions declared in the budget table.

6. Implementation arrangements

There will be a Project Steering Committee (PSC) established in order to speed up the implementation process of the given project components in the first months after Financial Decision for Transition Facility 2006 is taken. The structure of the Committee will be working as an advisory and monitoring body until particular components are contracted and thus were appropriate may be replaced by the Steering Committees for TA components independently.

The participants of the Project Steering Committee will be representatives of the following institutions: PAO, NAC, CFCU and beneficiary (SPO and contact person as indicated in the fiche). It is also recommended to invite representatives of NAO services while the issues of financial management flow are to be comprehensibly discussed. The Project Steering Committee will meet every quarter starting from the date of signing the Financial Decision and will concentrate on discussing the problem occurred at the beginning phase of project implementation as well as on defining possible solutions and corrective measures. The PAO representative will organise and chair the PSC meetings.

6.1 Implementing Agency

PAO: Tadeusz Kozek, Under-secretary of State at the Office of the Committee for European Integration, Aleje Ujazdowskie 9, 00-918 Warszawa; phone 48 22 455 52 41.
CFCU: Foundation Co-operation Fund, CFCU Director, ul. Górnośląska 4a, 00-400 Warsaw: phone: +48 22 622-88-20, fax: +48 22 622-75-65
The CFCU is responsible for handling tendering, contracting and payments of contracts on behalf of the President of the Energy Regulatory Office.

6.2 Twinning
N/A

6.3 Non Standard Aspects
N/A

6.4 Contracts:
Contract 1: technical assistance – € 320 000- gross value (Transition Facility € 300 000 + € 20 000 Polish co-financing – joint co-financing)
Contract 2: technical assistance – € 480 000- gross value (Transition Facility € 450 000 + € 30 000 Polish co-financing – joint co-financing)
Contract 3: technical assistance – € 320 000- gross value (Transition Facility € 300 000 + € 20 000 Polish co-financing – joint co-financing)
Contract 4: technical assistance – € 480 000- gross value (Transition Facility € 450 000 + € 30 000 Polish co-financing – joint co-financing)

7. Implementation schedule

7.1 Commencement of contracting process:
Contract 1: IV ‘06
Contract 2: IV ‘06
Contract 3: IV ‘06
Contract 4: IV ‘06
7.2 Start of project implementation (signature of contract):
Contract 1: I ‘07
Contract 2: I ‘07
Contract 3: I ‘07
Contract 4: I ‘07

7.3 Project completion:
Contract 1: IV ‘07
Contract 2: IV ‘07
Contract 3: IV ‘07
Contract 4: I ‘08

8. Sustainability
The President of the ERO ensures the sustainability of the results of the project. The programs, methodologies, reports, procedures and monitoring methods developed during the project are to be implemented in the ERO practice. They will also serve as rules and guidelines for market players in planning their activities.

9. Conditionality and sequencing

9.1 N/A

9.2 Timeframe.
Contract 1:
Choice of experts
Preparing of reports
Evaluation and acceptance of the reports

Contract 2
Choice of experts
Preparing of reports
Evaluation and acceptance of the reports

Contract 3:
Choice of experts
Preparation of the report
Evaluation and acceptance of the report
Preparation of the draft Code
Selection of the method for public consultation
Consulting Draft Code
Preparation of the final version of Code
Implementation of the final version of Code
Evaluation of the Code’s influence on retail market functioning

Contract 4:
Choice of experts
Preparing of overviews
Development databases development
Organisation of training workshops
Evaluation of component results

9.3 Most important milestones
Component 1:
Choice of experts – IV Q 2006
Preparing of reports – I – III Q 2007
Evaluation of component results – IV Q 2007

Component 2:
Choice of experts – IV Q 2006
Preparing of reports – I – II Q 2007
Evaluation of component results – III - IV Q 2007

Component 3:
Choice of experts – IV Q 2006
Preparation of the report – I- II Q 2007
Evaluation and acceptance of the report – II Q 2007
Preparation of the draft Code – II Q 2007
Selection of the method for public consultation – III Q 2007
Preparation of the final version of Code – III Q 2007
Implementation of the final version of Code – IV Q 2007
Evaluation of the Code’s influence on retail market functioning – IV Q 2007

Component 4:
Choice of experts – IV Q 2006
Preparing of overviews – I – II Q 2007
Development databases development - II – III Q 2007
Organisation of training workshop – II – III Q 2007
Evaluation of component results – IV Q 2007- I Q 2008
## Annex 1: Logframe matrix

<table>
<thead>
<tr>
<th>Project</th>
<th>Contracting period expires</th>
<th>Disbursement period expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of competitive energy market</td>
<td>IV quarter 2008</td>
<td>IV quarter 2009</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>Total budget</th>
<th>Transition Facility Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 600 000 EUR</td>
<td>1 500 000 EUR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of competitive energy market in Poland</td>
<td>Wholesale market share of dominant company falls below:  - 70% on 31 December 2008  - Supplier switching ratio at least 10% at the end of 2008  Co-relationship between the level of capital expenditure and quality of the supply proven  Actual levels of quality of electric supply for distribution companies – trend analyses performed.  Code of Conduct implemented.  Administrative procedures related to RES and CHPs simplified and shortened</td>
<td>Data on gas market shares and customer switching collected and published by the Regulator  Data on quality on supply  Number of signatories of the Code  Report published by the Regulator</td>
</tr>
<tr>
<td>Project purpose (Immediate Objectives)</td>
<td>Objectively Verifiable Indicators</td>
<td>Sources of Verification</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>----------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Component 1: To assist the ERO in preparations to gas market liberalisation including the requirement to open gas market to all customers (including households) as of 1 July 2007.</td>
<td>Gas release program comprising at least 20% of gas supplied by the incumbent company elaborated and implemented by the end of 2007</td>
<td>Data collected and published by the Regulator</td>
</tr>
<tr>
<td>Component 2: To harmonize national supply quality standards and requirements as well as grid investment policy with the best international practices.</td>
<td>Analytical tools used in regulation practice by the President of the ERO created.</td>
<td>Data collected and published by the Regulator</td>
</tr>
<tr>
<td>Component 3: To assist the Regulator in preparations to fulfil the requirements to open electricity and gas market to household customers as of 1 July 2007 by contributing to preparation of a uniform code of conduct for electricity and gas suppliers and network system operators.</td>
<td>Code of Conduct implemented.</td>
<td>Code published and implemented</td>
</tr>
<tr>
<td>Component 4: To provide ERO staff with practical knowledge of technical and organisational specifics of RES and co-generation enabling removal of administrative barriers, simplifying and adjusting procedures and developing regulatory tools for efficient supervision of the renewable energy and co-generation markets in Poland.</td>
<td>Time of licence proceedings no longer than 30 days Time of CoO proceedings no longer than 7 days Annual reports on RES and CHP production published by the 31 March.</td>
<td>Database of RES and CHP CoO Database of licensed companies Database of administrative proceedings Report on project progress and its results</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Gas release program developed and implemented by the end of 2007. The spot gas market created by the end of 2008. Gas supplier switching enabled</td>
<td>Gas release program comprising at least 20% of gas supplied by the incumbent company elaborated and implemented by the end of 2007 10% of capacity not allocated under contracts traded on spot market by the end of 2008 Supplier switching ratio at least 10% at the end of 2008</td>
<td>Data collected by the Regulator</td>
<td>Effective cooperation between administration (the Regulator) and energy suppliers Availability of appropriate data in distribution companies Activities under technical assistance contracts successfully completed. Data from energy companies delivered without delay</td>
</tr>
<tr>
<td>Component 2: Methodology and tools (ie.procedure, algorithm) for evaluation and verification of development plans prepared by the distribution companies for the term of regulation elaborated and published. A method which allows to estimate appropriate level of capital expenditure elaborated and published. Benchmarking report on quality of electricity supply among distribution companies at national level elaborated. A set of data and information for the international benchmarking report on quality of supply elaborated</td>
<td>All development plans evaluated under new methodology. All distribution companies subject to benchmarking survey.</td>
<td>Report on development plans evaluation published by Regulator Quality indicators published by the ERO as the result of the benchmarking.</td>
<td></td>
</tr>
</tbody>
</table>
Component 3:
Report on the retail energy market functioning and the Code of Energy Suppliers’ Conduct elaborated and published.

Component 4
Procedures adjusted for RES and CHP producers procedures and supporting tools for licensing elaborated and published.
Procedures for issuing of RES and CHP CoO elaborated and published.
Monitoring and control methods with database for collection and preparation of analyses for RES and CHP sectors elaborated and implemented.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1:</td>
<td>TAC contracts signed</td>
<td></td>
<td>Effective cooperation between administration (the Regulator) and energy suppliers</td>
</tr>
<tr>
<td>- evaluation of the criteria, guidelines and principles for gas release program,</td>
<td></td>
<td></td>
<td>Successful public procurement procedure.</td>
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<tr>
<td>- economic analysis of potential options of diversification of gas supplies, including evaluation of economic viability of building g the liquefied natural gas (LNG) terminal,</td>
<td></td>
<td></td>
<td>Involvement of well qualified experts.</td>
</tr>
<tr>
<td>- analysis of preconditions to removal of the tariff approval obligation in gas traded,</td>
<td></td>
<td></td>
<td>Co-financing ensured</td>
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<tr>
<td>- analysis of applicability of virtual gas trading in the Polish gas system,</td>
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<tr>
<td>- analysis of potential for emerging downstream competition on gas market,</td>
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<tr>
<td>- methodology for balance settlements for small gas consumers elaborated,</td>
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<tr>
<td>- metering and data transmission standards for effective gas customer switching elaborated,</td>
<td></td>
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<tr>
<td>- costs related to customer switching to be born by gas distribution companies estimated.</td>
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<tr>
<td>Component 2</td>
<td></td>
<td></td>
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<tr>
<td>Verification of development plans prepared by the distribution companies for the regulated term and estimate appropriate level of capital expenditure. (To develop a method which allow to estimate appropriate level of capital expenditure)</td>
<td></td>
<td></td>
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<tr>
<td>- setting the criteria for evaluation of development</td>
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<tr>
<td>Component 3</td>
<td></td>
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<tr>
<td>- data collection on customer service;</td>
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<tr>
<td>- working out methodology and assessment of the customers’ rights awareness;</td>
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<tr>
<td>- methodology and evaluation of contracting in respect to protection and abiding customers’ rights;</td>
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<tr>
<td>- assessment of the implemented supplier switching procedure;</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- conclusions formed on the basis of data collected</td>
<td></td>
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<tr>
<td>- preparation of the unified contracts.</td>
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<tr>
<td>- assistance in preparation of the draft Code of Energy Suppliers’ Conduct on the basis of the study conducted;</td>
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<tr>
<td>- assistance in the process of consultation of the draft Code with market players;</td>
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<tr>
<td>- assistance in development and implementation of the final version of the Code of Energy Suppliers’ Conduct;</td>
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<tr>
<td>- working out methodology for assessment of the Code’s influence on retail market functioning</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- evaluation of the Code’s influence on retail market functioning</td>
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</table>

<table>
<thead>
<tr>
<th>Component 4</th>
<th>Licensing</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Preparation of the overview of Polish current legal framework and technical specification of RES and CHP installations to simplify and improve licensing procedures.</td>
<td></td>
</tr>
</tbody>
</table>
- Preparation of the overview of licensing procedures in other countries in comparison to Polish. Recommendations for improvement of licensing procedures and eventual updates in legal documents.
- Organisation of at least 3 training seminars for URE staff. The seminars will include technical and economical issues and be combined with visiting of different kind of RES and CHP installations including co-firing installations.
- Preparation of computer database for RES and CHP installations as integral part of database of licensed energy companies with training of database operators.
- Preparation of guidelines for investors about licensing of RES and CHP installations with templates and examples in Polish and English language.
- Participation of ERO representative in at least 3 seminars for presentation of information about licensing with dissemination of guidelines.

Issuing of CoOs
- Review of RES and CHP CoO systems in different countries – general organisation (governance, auditing, links with electricity disclosure, combination of RES and CHP), required technical infrastructure, costs, flexibility of systems, prospects for international exchange of CoO.
- Elaboration of verification criteria for quick verification of production for issuing CoO for RES and CHP developed and integrated with RES&CHP CoO database,
- Preparation and implementation of computer database for RES&CHP CoO with training of database operators.
- Preparation of guidelines for producers and investors about CoO system for RES and CHP in Poland with templates and examples.
- Participation of ERO representative in seminars for presentation of information about organisation of CoO system for RES and CHP with dissemination of guidelines.

Monitoring and control
- Overview of best practices of monitoring methods and tools used for monitoring of RES and CHP sectors in different countries.
- Preparation of model for monitoring of RES and CHP producers including structure of data required for statistics and analysis.
<table>
<thead>
<tr>
<th>Preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>All components</td>
</tr>
<tr>
<td>Availability of co-financing from national budget.</td>
</tr>
<tr>
<td>Data successfully collected</td>
</tr>
<tr>
<td>The President of the ERO has foreseen adequate staff and financial resources to maintain administrative function during realisation of the projects.</td>
</tr>
<tr>
<td>The President of the ERO has foreseen coverage of costs for maintenance and up-date where necessary the equipment necessary to realise the project.</td>
</tr>
</tbody>
</table>

Component 4
CoO for CHP included in the nearest of Energy Law amendment.
### Anexes 2-3: Implementation, contracting and disbursement schedules

<table>
<thead>
<tr>
<th>Date of Drafting</th>
<th>24 February 2006</th>
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<tbody>
<tr>
<td>Planning Period</td>
<td>October 2006 – March 2008</td>
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#### Budget Allocation
Cost Estimate in MEUR

<table>
<thead>
<tr>
<th>PLANOWANE (PLANNED)</th>
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<tr>
<td>IV’06</td>
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<tr>
<td>-------</td>
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<td>I</td>
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#### Implementation schedule

<table>
<thead>
<tr>
<th>Contract 1</th>
<th>D</th>
<th>C/I</th>
<th>I</th>
<th>I</th>
<th>I</th>
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</thead>
<tbody>
<tr>
<td>Contract 2</td>
<td>D</td>
<td>C/I</td>
<td>I</td>
<td>I</td>
<td>I</td>
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<tr>
<td>Contract 3</td>
<td>D</td>
<td>C/I</td>
<td>I</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
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<td>D</td>
<td>C/I</td>
<td>I</td>
<td>I</td>
<td>I</td>
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#### Contracting schedule

<table>
<thead>
<tr>
<th>Contract 1</th>
<th>0.30</th>
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<tbody>
<tr>
<td>Contract 2</td>
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<tr>
<td>Contract 3</td>
<td>0.30</td>
</tr>
<tr>
<td>Contract 4</td>
<td>0.45</td>
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</table>

#### Disbursement schedule

<table>
<thead>
<tr>
<th>Contract 1</th>
<th>0.05</th>
<th>0.10</th>
<th>0.20</th>
<th>0.30</th>
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<tbody>
<tr>
<td>Contract 2</td>
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<td>0.30</td>
<td>0.40</td>
<td>0.45</td>
</tr>
<tr>
<td>Contract 3</td>
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<td>0.10</td>
<td>0.20</td>
<td>0.30</td>
</tr>
<tr>
<td>Contract 4</td>
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<td>0.15</td>
<td>0.25</td>
<td>0.35</td>
</tr>
</tbody>
</table>

**Legenda:**
- D = design of contract and tendering
- C = signature of contract
- I = contract implementation and payment
- * = contract implementation and payment
Annex 3: Needs assessments

There is no need for any external preparatory work.