

Risks and threats

Amendments to the energy law

The Energy Law and its implementing acts shape the country's energy policy, the principles and conditions for the supply and use of fuels and energy and define the authorities competent for fuel and energy management.

On 3 December 2020 the Sejm received a governmental draft of an Act amending the Act "The Energy Law". This draft concerns the adjustment of Polish law to the provisions in force in the European Union and the introduced amendments to the regulations are to enable implementing the regulation of the European Parliament and the Council (EU) 2015/1222 of 24 July 2015 which established guidelines on capacity allocation and congestion management.

The draft included among others regulations concerning the system of intelligent measuring, involving the duty to install intelligent meters for remote readings from end recipient's location. It also includes gradual digitalization of the power market – information and data are to be gathered by Central System of Information CSIRE and the system is to be managed by Information Operator at Power Market OIRE. The draft act also introduces complex solutions in the field of electricity storage functioning in the National Electricity System.

Carbon dioxide emissions

The risk associated with CO₂ emissions and the need to use up a certain amount of emission allowances is increasing, as the actual CO₂ emissions were lower than the limits allocated to the Company under the National Plan of Distribution of Allowances (KPRU). The low amount of emission allowances granted under KPRU III for 2013-2020 means:

- changes in the method of distribution of allowances into an auction system according to the new Directive on emission allowances,
- only a certain part of the allowances will be received by the Company free-of-charge - under the National Implementing Measures and the National Investment Plan (KPI), the allocations for heat and electricity, respectively, will need to be evidenced with completed investment projects,
- starting from 2020, all the allowances will be acquired through auctions.

This means implementing additional investments in improving the efficiency of

production and temporary increase of production costs owing to the necessity of purchasing emission allowances.

Factors related to changes in demand for heat capacity by customers

In Wrocław, there is a large activity in the development industry, new buildings connected to the heating network increase demand for heat and power from the heating system.

In 2020, the estimated growth of the heat market was about 55 MW, of which KOGENERACJA S.A. connected about 9 MW and the heat distributor Fortum about 46 MW. In 2019, the estimated growth of the heat market was about 64 MW, of which KOGENERACJA S.A. connected about 13 MW and the heat distributor Fortum about 51 MW.

On the new construction market (primary market) 50 MW was connected (54 MW in 2019), while on the secondary market (existing buildings) 5 MW was connected (10 MW in 2019). The development of the secondary market is an effect of the low emission elimination program carried out jointly with the City of Wrocław and the heat distributor as well as connecting facilities under realized project ZIT Zakrzów, co-financed by NFGOŚIGW under the Integrated Territorial Investments funds.

Another important factor in the development of the heating network is the implementation by KOGENERACJA S.A. of the construction of new heat distribution lines (in the area of Zawidawia and Siechnice) with a total planned budget of about PLN 13 million, co-financed by NFGOŚIGW under the Integrated Territorial Investments funds.

Heat and Power Plant Zielona Góra in 2020 connected to the heat network 46 facilities and 32 modules for preparing hot usable water, gaining in the same time 13.2 MW of heat capacity from heat market in Zielona Góra (in 2019, 67 facilities and 13.1 MW of heat capacity from finishing new connections).

Factors responsible for the variation in heat and power sales

The main factors determining the demand for electricity and heat include the weather conditions, such as the air temperature, wind and precipitation, socioeconomic factors, such as the number of energy users, prices of energy resources, economic development and GDP growth and technological factors, such as the technological development and generation technology. Each of those factors has a bearing on the technical and economic conditions of energy generation and, consequently, on the Company's performance results.

The volume of energy sales varies throughout the year depending mainly on the weather conditions (air temperature and length of the day). Higher demand for electricity is observed mainly in the winter months and is considerably lower in the summer. Moreover, seasonal variations are observed for certain groups of consumers. The seasonality effect is much more prominent in the case of households than in the case of industrial customers. The sale of the Company's products is subject to significant seasonal fluctuations. In the period from October to April the demand for heat is much higher than in other months. This means that the possibility to generate electricity in the combined system is also seasonal. The Company does have the technological capacity to generate electricity also in the period of a lower demand for heat (through the so called "pseudo-condensation") but this has been significantly limited since 1 July 2007, i.e. following the entry into force of another revision of the Energy Law, due to the requirement to keep the minimum gross efficiency of transformation of chemical energy into electricity and heat in the cogenerated system at 75%. In 2020, EC Wrocław achieved the efficiency of 83.5% (vs. 82% in 2019), while EC Czechnica 78% (77% in 2019).