

Distribution



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In 2007, the segment posted an operating loss minus PLN 1.311bn. The loss followed from the asset revaluation, which brought on a PLN 1.317bn decrease in the segment's operating result, however with no impact on the cash flow. The principal causes for the asset revaluation at distribution companies comprised:

- » Insufficient revenues under the distribution tariff approved by the Energy Regulatory Authority;
- » Costs of distribution activities growing at a rate higher than projected in the previous years;
- » Capital expenditure on replacement of distribution assets being higher than projected.

Distribution activities are conducted under licences and consist in transmission of natural gas via distribution networks to end customers. The activities are performed by the following six companies:

- » Górnośląski Operator Systemu Dystrybucyjnego (GOSD), with its head office in Zabrze and operating branches in Opole and Zabrze;
- » Karpacki Operator Systemu Dystrybucyjnego (KOSD), with its head office in Tarnów and operating branches in Jarosław, Jasło, Kielce, Kraków, Lublin, Rzeszów, Sandomierz and Tarnów;
- » Mazowiecki Operator Systemu Dystrybucyjnego (MOSD), with its head office in Warszawa and operating branches in Białystok, Łódź and Warszawa;
- » Pomorski Operator Systemu Dystrybucyjnego (POSD), with its head office in Gdańsk and operating branches in Bydgoszcz, Gdańsk and Olsztyn;
- » Wielkopolski Operator Systemu Dystrybucyjnego (WOSD), with its head office in Poznań and operating branches in Kalisz, Koszalin, Poznań and Szczecin;
- » Dolnośląski Operator Systemu Dystrybucyjnego (DOSD), with its head office in Wrocław and operating branches in Wrocław, Wałbrzych and Zgorzelec.

In 2006 and H1 2007, natural gas trade and distribution were handled by the gas companies operating within the PGNiG Group. To comply with the requirements of the Polish Energy Law implementing EU Directive 2003/55/EC, in 2007 we carried out a legal separation of gas trade and distribution. As a consequence, in mid-2007 Distribution System Operators, which replaced gas companies, were spun-off by way of taking over all of the assets of gas companies (their sole owner being PGNiG). Since Q4 2007, wholesale and retail sales were consolidated in PGNiG.

The restructuring process was divided into three stages:

- » Stage I – organisational separation of trade and distribution by way of spinning off six Trading Branches from the existing gas companies (one Trading Branch per each gas company), whose structure comprised 23 gas distribution companies conducting trading activities;
- » Stage II – division of gas companies and transfer of the six Trading Branches from each gas company to a separate temporary company;
- » Stage III – integration of temporary companies with PGNiG.

The restructuring model was selected with a view to improving operating efficiency and strengthening the market position of the PGNiG Group. The organisational change within the PGNiG Group and at our Head Office leads to a greater transparency, concentration of competences and expertise, and optimisation of processes in individual business segments.

» Operating results posted by the Distribution segment in 2005–2007

[PLN m]		
2005		133
2006		231
2007		(1,311)

	MOSD	WOSD	DOSD	GOSD	KOSD	POSD
No. of end customers [m]	1.5	0.9	0.8	1.2	1.4	0.7
Volume of distributed gas [bcm]	1.7	1.4	0.9	1.2	1.9	0.8
Pipeline length, excluding connections [¹ 000 km]	6.9	19.8	42.5	16.2	7.9	13.4

Data for 2007.

The Distribution System Operators are strategic companies of the PGNiG Group. The profile of each individual Operator depends on the location, historical factors, advancement of urban development, industrialisation level, or even economic standing of local populations.

The Distribution System Operators (DSO) provide their services across Poland. The aggregate length of their network approximates 107 thousand km. The Operators deliver gas to 6.5 million individual and industrial customers (where the former account for 97% of the total number of customers).

The Distribution System Operators are responsible for management and operation of the distribution network by way of:

- » transmitting natural gas to end customers;
- » connecting new customers to the transmission network;
- » managing transmission network assets;
- » operating, maintaining and expanding the network.

When settling transactions with customers, the Distribution System Operators use the tariff effective as of April 25th 2008.

