

# Boundaries of the playing field



Full utilisation of the economic potential of the PGNiG Group in its core business depends on the revenues from gas sales, which are driven by the tariff regulations of the President of the Energy Regulatory Authority.

From the legal perspective, the activity of the PGNiG Group is based primarily on two legal acts:

Energy Law (Journal of Laws of 2003, No. 153, item 1504, as amended) dated 10 April 1997, together with secondary regulations – concerning the activities in respect of trade, transmission and storage of gas.

Geological and Mining Law (Journal of Laws of 1994, No. 27, item 96, as amended) dated 4 February 1994 – concerning the production activity and the related gas sales.

In addition, there is an act of 23 March 2007 on stocks of crude oil, petroleum products and natural gas and the principles of conduct in case of a threat to national fuel security or disruptions in the petroleum market (Journal of Laws of 2007, No. 52, item 343). This act obligates PGNiG to maintain mandatory stocks of natural gas which, by 2012, will have to reach the level of 30 days of the average daily volume of gas imports. Another important provision of this act concerns the guaranteed

rate of return on capital employed in the storage activity at the level of at least 6%.

In accordance with the Energy Law, the activity in respect of trade, transmission and storage of gas is subject to obtaining a license from the Chairman of the Energy Regulatory Authority.

In 2006, the PGNiG Group held licenses for:

- Transmission and distribution of gas No. PPG/4/652/U/1/2/99/PK dated 30 April 1999,
- Trade in gas No. OPG/4/652/U/1/2/99/PK dated 30 April 1999,
- Foreign trade in gas No. OGZ/1/652/W/1/2/2001/AS dated 17 April 2001,
- Storage of gas No. MPG/2/652/W/2/2005/2006/BT dated 1 February 2006.

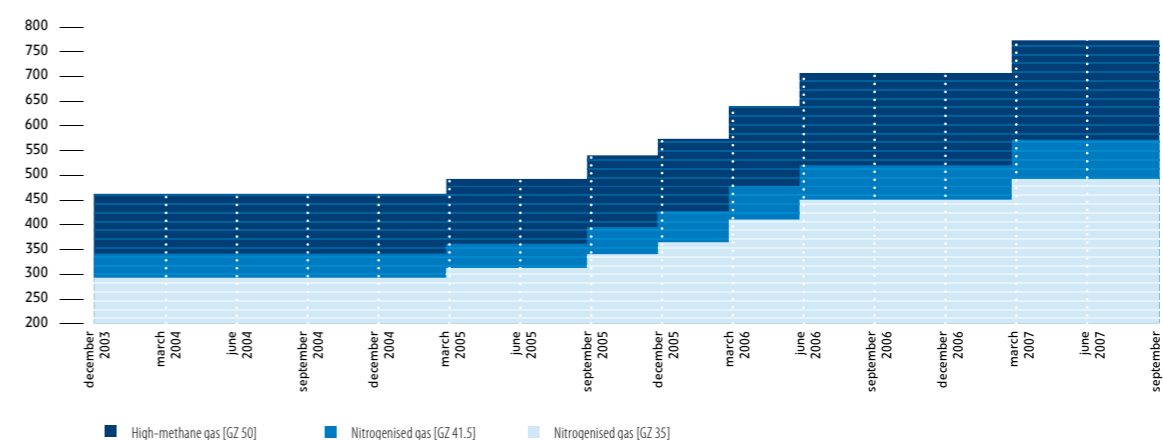
The business activity related to prospecting or exploration of mineral

deposits, extraction of minerals from fields, non-reservoir storage of substances and waste disposal in the rock mass, including underground depleted deposits, is also subject to a license.

By 31 December 2007, PGNiG obtained:

- 66 licenses for prospecting and exploration of crude oil and natural gas deposits,
- 208 licenses for production of crude oil and natural gas from fields,
- eight licenses for underground gas storage (UGS),
- four licenses for waste disposal.

Tariff sales price for high-methane gas (GZ 50) and nitrogenised gas (GZ 35; GZ 41.5) from December 2003 to September 2007 [PLN/1000 m<sup>3</sup>]



## Tariff Policy

The tariff level approved by the Chairman of the Energy Regulatory Authority is one of the key factors determining the results of the company. In accordance with the Energy Law, and, specifically, the ordinance of the Minister of Economy and Labour of 15 December 2004 concerning the detailed principles of tariff design and calculation and settlements in gas trade, the tariff level should take into account the justified costs of business activity and allow for a return on the capital employed.

The gas sales prices of PGNiG in the first quarter of 2006 were based on the gas tariff No. 1/2003 approved by the Chairman of the Energy Regulatory Authority (ERA) on 16 September 2003, as amended (last amendment dated 14 December 2005). On 17 March 2006, the Chairman of the Energy Regulatory Authority implemented new tariffs, which took into account the unbundling of the transmission activity (OGP GAZ-SYSTEM SA) from gas sales (PGNiG), and

the increase in the cost of gas sourcing. The gas tariff No. 4 introduced new settlement terms and charges for:

- gas transmission through high-pressure networks – charged on the basis of the tariff applied by the Transmission System Operator GAZ-SYSTEM SA,
- gas transmission through transit networks – charged on the basis of the cost of transmission service purchased from the transit gas system operator SGT EuRoPol GAZ SA in accordance with the PGNiG tariff,
- storage of high-methane gas – based on the PGNiG tariff,
- gas as a commodity – based on the PGNiG tariff,
- subscription fees – based on the PGNiG tariff.

The principles of tariff setting are defined in the secondary regulations relative to the Energy Law. The applicable tariff design methodology is based on the calculation of prices and tariff rates based on the projected costs and

planned natural gas sales volumes. In accordance with the guidelines issued by the regulator, the price calculation for gas trade took into account the cost of gas sourcing from all possible directions of gas supply, including imports and domestic production.

Effectively, this meant that both the foreign trade and domestic production was subject to price regulation. Thus, the resultant tariff price chargeable to consumers was lower than the purchase cost of imported gas, which had a negative impact on the financial results of the company throughout the year 2006. By decision of 15 December 2006, the Chairman of ERA approved the tariff adjustment requested by PGNiG with respect to the gas prices and extended the validity of the gas tariff No. 4 until 31 March 2007. Consequently, the gas price increased by 9.9% as of 1 January 2007. In March 2007, another decision was issued on the extension of the tariff being in force in the first quarter of 2007 until 30 September 2007.