POLAND’S ENERGY DILEMMA
New gas power traps taxpayers in a costly future

Summary for Policymakers

Date: February 2022
Report available at: https://carbontracker.org/reports/polands-energy-dilemma/

Headline Takeaways

- Poland’s plans to build a new generation of large-scale gas plants could heighten the country’s shortfall in contribution to the EU’s collective climate neutrality by 2050 goal. This would increase the scale of the challenge for other countries to ensure the aim is achievable.

- Poland’s pursuit of gas comes despite the relative cost competitiveness of renewables versus gas being abundantly clear. Investments in new renewables are already cheaper than planned new large-scale gas in the country, while some of the gas units Poland has in planning will enter the market as uncompetitive with even renewables with battery storage from day one if they proceed to development.

- None of the gas plant projects we have analysed would be financially viable without subsidies through capacity market mechanisms. Capacity markets should only be providing additional incentives to plant developers to encourage final investment decisions, as opposed to being the key element that allows projects to proceed as financially viable, as currently appears to be the case in Poland.

- But if awarded capacity payments in Poland were set at levels comparable with other capacity market mechanisms in Europe, the five projects analysed would not be financially viable. This effectively indicates that Poland’s pipeline of projects would be unlikely to be approved if planned for build in other parts of the continent.

High level recommendations

- Large-scale gas developments are incompatible with net zero 2050 and should be cancelled. Planned 30-year lifetimes for new build unabated CCGTs will make it impossible for Poland to achieve climate neutrality by mid-century. If policy makers wake up to this realisation after such projects have already begun operation and force unit closures in line with a net zero scenario trajectory, early retirements will leave developers at risk of losing substantial levels of capital investment. This could in turn expose governments to the risk of compensation claims for lost revenues.

- Poland’s capacity market will prop up new gas that would otherwise be financially unviable and should undergo policy review. While we accept that capacity markets may be a necessary feature of power systems to ensure security of supply, locking the taxpayer into funding expensive fossil fuel-based projects which may still struggle to recover initial investment appears highly misguided compared with the lower cost investment opportunities available in the renewables sector.

- A shift towards investment in renewables should be encouraged to protect domestic energy consumers from the volatile gas market. With global wholesale gas prices at record highs, now is not the time for nations to be increasing their dependence on this increasingly volatile market. Policy makers should aim to protect domestic consumers from being locked into a future of exposure to this market by providing incentives for alternative investment in low carbon infrastructure, especially in the offshore wind sector, which can generate comparable capacity factors to gas units.