

## **Position paper**

Subject: implementation of the 2003/54-55/EC Electricity & Gas Directives  
*Contribution of the Hungarian EURELECTRIC Association*

### **1. Current and likely future developments of the gas and electricity markets**

- The Hungarian Electricity Law was modified on 6 July, 2005 in order to harmonise it with the 2003 Electricity Directive. However the Directive is still not implemented in a number of countries. We believe that the directive would ensure sufficient framework for the development of markets if it will actually come into force.
- The estimated growth of electricity consumption in Hungary is 1,5%/year in five years. For longer terms the estimation is 1,8%. In electricity generation the growth of gas fired production is expected, first of all cogeneration. Nuclear generation by life extension and capacity increase of the NPP Paks is also important. Another factor of diversification may be the use of lignite for power generation.
- New generation capacities will be needed in the near future in Hungary. Electricity is a capital intensive business. Electricity prices are presently too low to guarantee a fair return on new investments. Every investor knows that long-term considerations play a vital role in the energy market. The stability of the regulatory framework is of vital importance in investment decision.

Authorisation procedures become longer and longer due to environmental constraints, heavy bureaucracy, public opinion's resistance, etc. Considering these facts, the market players (Players) must confront with situations where sound and proven technologies could be eliminated and investments in network construction might not happen since tariffs provide no guarantee for a fair return on investment. The investments may require a 30-year forecast.

To make a decision on investments in power generation the following steps have to be made and/or considered:

- an in-depth analysis of the regulatory framework,
- a fair return on investments to be expected,
- public acceptance, etc.

Fuel-mix is the **key for the safeguard of security of electricity supply** in Hungary in order not to become mono-fuel dependent which may have disastrous impact on the competitiveness of the economy.

The following fuels (fuel mix) are threatened:

- coal by CO<sub>2</sub> allocation
- nuclear due to weak support;
- oil by limited reserves/prospects;
- renewables as they need back-up capacity.

Gas supply relies on essential factors: continuity of investments in transport facilities; availability of gas at a competitive price, storage. Good functioning of power markets is based on reliable gas markets.

- The cross border capacity of networks in Hungary exceeds the 20% of the requirement but to meet the requirement of the growing transit load Hungary plans new developments on each border section.

2. **Whether improvements to any aspect of the market opening framework should be explored either at national or Community level.**

- It is important to reach a better harmonization and coordination of the market opening framework both at national and Community level. Transparency and data exchanges should be fostered and consultation between the Authorities and the Players should be developed. Considering the huge investment needed in the future, it is important to ensure the stability and transparency of the regulatory framework. The liquid wholesale markets are the best guarantee for price recovery and for investment opportunities. Harmonization of the market rules and balancing markets are required.
- In accordance with the EU Strategy Paper the next step is the creation of regional markets. The Roadmap has been created by EURELECTRIC. Unfortunately, the conditions for implementation have to be ensured by governments and regulators not by the so called minifora. In this area we do not see any progress in regional harmonisation of regulation.
- We believe that regulation is acceptable on EU level. We think that equal competition terms for new members can be ensured by its practical implementation. The possible overregulation could be an obstacle to necessary developments.
- Amendment of the electricity Act was legislated on 6 July, 2005 by Hungarian Parliament in order to harmonise with the EU Directive 54/2003 EC. The amendments guarantee the legal framework for the independence of TSO and the growing supervisory role of the Hungarian Energy Office (HEO – the Hungarian Regulator). The government plans further amendments before the 100% opening of the market in 2007.

3. **Whether any reinforcement to measures to protect the interests of customers need to be considered.**

- Customers require 100% security of supply with the lowest cost. Customers need to have objective information with respect to the conditions (security of supply, risks, etc.) of purchasing electricity which require transparent operation of the market. This certainly requires cooperation from the political decision makers. All market players should have access to the same information concerning the reserve margins enabling them to prepare investments.
- We believe that there is no need for special regulation of customer protection in EU level, it is considered as of national competence.