

1st question: Current and likely future development of the gas and electricity markets

In Hungary all major European energy companies (E.on - Ruhrgas, EDF, RWE, ENI, Gaz de France) are present on the electricity and gas markets.

In Hungary the regulatory framework follows the EU Directives and there is TPA to the main infrastructures (Transmission, Storage, Distribution).

The gas market was opened from 1st of January 2004. It is open for all non-residential clients, so far the free market represents around 6 % of the total gas market. There is a dual market; the public sector and the free market exist in parallel until July 2007, when the total market will be open.

In our opinion there are four major risks concerning future market development:

- **Gas source risk:** In some part of Europe (eg : Hungary), there is no gas-gas competition on the market, because of lack of supply diversification. When there is a domestic production, most often in the hand of an unique Company, it is declining year by year, so the importance of the import is growing. This could be an opportunity to diversify the supply in order to avoid such major barriers of market development.
- **Infrastructure risk:** When transmission network and storage facilities have not enough spare capacity there is a need for infrastructure development what would support both the market development and the safety of supply. Gas prices and infrastructure tariffs should cover the investment costs and return on capital to encourage further capacity development. This would result higher safety of supply and diversification.
- **Market concentration:** When there is dominant energy supplier possessing assets in various field (eg : electricity distribution, gas distribution, wholesale, trading, storage, transport) this create strong vertical and horizontal integration on the market, which would further delay and slow down market development, because there is a risk of control all elements of the gas/electricity supply chain and it would have negative impact on the gas/electricity retail market. That is why it is crucial to prevent any discrimination of competitors on the free market by the mean of regulation.
- **Political risk:** High crude oil prices result high gas prices, which should be reflected in the residential and non-residential gas prices. These increases challenge the governments in power. Today in some areas of Europe, residential clients pay less for natural gas than the biggest industrial or power plant clients. If the end users' gas prices do not reflect and do not cover the actual costs of the gas supply in the public sector it slows down the free market development and increases the risk of safety of supply. Also to encourage further infrastructure investments, stable and predictable tariffs and regulation is needed which is not always the case.

2nd question: Possible improvements of the market opening framework at National or Community level.

- **Strong regulator control:** Because of the strong market concentration and vertical integration in some countries (eg : Hungary) it is the precondition of successful market opening to prevent any discrimination. For this purpose there should be clear and simple TPA rules and strong regulator control over the licensees' activity. There is also a need for gas release program when an actor controls all gas import long-term TOP contracts. There should be access to domestic exploration sources as well.
- **Incentive tariffs:** Regulations and regulated tariffs should incite investments in gas infrastructures. These tariffs should cover the real cost and the return on capital in order to ensure the stability and safety of supply and to encourage further development of the gas market

3rd question: Protection of customer interest

- It is needed to follow EU directives in this respect.
- Besides establishing the regulatory framework of market opening safety of supply should be also considered because it is the crucial interest of all clients on the gas market.
- Regulator should consider long-term interest of clients, not only short-term ones in order to develop a stable, predictable market environment. He should examine with big concern the adequation between offer and demand so as to allow such long term commitments towards the clients.