

Energy & Natural Resources - Hungary

Renewable targets require improved electricity takeover regime

Contributed by **Nagy és Trócsányi**

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The main aims of the Electricity Act (86/2007) include the promotion of energy efficiency and energy conservation, as well as the use of renewable resources and waste for electricity generation - aims which are in line with Hungary's energy strategy and the expectations of the European Union. In order to ensure that electricity produced from renewable resources can be marketed commercially, the act implemented the mandatory electricity takeover regime in January 2008.

Mandatory electricity takeover regime

The regime is a feed-in tariff system that seeks to:

- provide a predictable and reliable environment for producers of energy from renewable resources; and
- encourage investment in the renewable energy sector.

The main principle is that the independent transmission operator (ITO) purchases a certain amount of electricity from renewable sources, with Hungarian electricity trade licensees being obliged to purchase such electricity from the ITO at a fixed price.

The cornerstone of the regime is the mandatory balance group. The ITO is required to:

- balance the group;
- supervise, control and settle the purchase and allocation of electricity within the system;
- identify the traders and importers that are subject to the purchase obligation; and
- determine the price of electricity to be purchased on a mandatory basis.

Provided that they meet the relevant legal conditions and obtain a licence from the Hungarian Energy Office, electricity producers that are subject to the requirement are free to join the balance group by entering into a membership contract with the ITO. On the basis of the membership contract and the applicable energy sector legislation, the ITO purchases electricity from members at a regulated price. Purchases are made according to the producers' annual forecasts, which are corrected and amended by the ITO on a monthly basis. Any deviations are subject to a surcharge payment imposed by the ITO.

The electricity purchased from members of the balance group is sold to traders, subject to a purchase obligation and at a fixed price. In determining the amount of electricity that traders must purchase, the ITO takes into account the trade licensee's share of the electricity market. Revenue collected through the imposition of surcharges on producers is factored in to reduce the price, whereas producers' corrections, the ITO's related liquidity costs and other factors may increase the price. The ITO may not incur expenses or derive income from the allocation procedure.

Criticisms

The regime has been criticised ever since its implementation. Experts and politicians mainly take issue with the inefficiency of the system which - in their view - is the result of the following shortcomings:

- The regime operates according to uniform purchase prices defined by law, without allowing for differentiation between production technologies;

Author

Tamás Pásztor



- The ITO does not guarantee a purchase period, which affects the system's stability;
- The regime does not consider regional features and differences;
- The regime does not consider the impact on consumer prices;
- The regime does not set efficiency or sustainability criteria for power plants; and
- The system focuses on electricity without promoting heat generation.

Next steps

The government acknowledged the system's shortcomings during its development of the new National Renewable Energy Action Plan, which was adopted in December 2010. The plan ambitiously aims to increase the percentage of renewable energy in Hungary's gross energy consumption to 14.65% by 2020. One of the priorities in aiming for this target is to conduct a comprehensive review of the mandatory electricity takeover regime and replace it with a more sophisticated system.

The government's recent thinking suggests that the regime will be replaced by a "system of mandatory takeover of heat and electricity produced from renewable and alternative resources". The action plan called on the government to conclude the revision and improvement process by the end of 2011. Although revision of the mandatory electricity takeover regime is underway, the necessary measures have not yet been taken and both energy experts and politicians expect further delays. The latest indications are that the regime is likely to be replaced in mid-2013 at the earliest.

For further information on this topic please contact [Tamás Pásztor](#) at Nagy és Trócsányi by telephone (+36 1 487 8700) or by fax (+36 1 487 8701) or by email (pasztor.tamas@nt.hu).

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