

## OPENING-UP OF THE HUNGARIAN ELECTRICITY MARKET

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### BACKGROUND

The Hungarian government's legislative program for the first quarter of 2000 contains the approval of a new draft on the production, trade and supply of electricity. The currently applicable Act XLVIII of 1994 (the "Electricity Act") on the same subject is proposed to be abrogated as of January 1, 2001 together with the entry into force of the new legislation.

Section 67 of the European Agreement concluded between Hungary and the European Communities on December 16, 1991 (and enacted by Act I of 1994) provides that the integration of Hungary is conditioned upon the harmonization of its laws to those of the European Communities. The draft of the new legislation is part of this process as it is based on Directive 96/92/EC of the European Parliament and of the Council of 19 December 1996 concerning common rules for the internal market in electricity. The purpose of the new legislation is to establish the legal grounds for a partial liberalization of the internal electricity market.

### THE CURRENT SITUATION

Under the current situation, the electricity market consists of the following participants:

- (i) power stations which must have an operation permit issued by the Hungarian Energy Office (the "HEO") on the basis of which they are entitled to generate electricity and they are obliged to offer their electricity generation capacity to the transmitting company (see under point (ii) below). Certain power stations are also entitled to directly supply electricity to certain customers on the basis of their operation permits if the HEO approves such direct electricity supply taking into account the overall interests of the internal electricity market;
- (ii) one single transmitting company which, on the basis of the Electricity Act, has a monopoly for the transmission of electricity, i.e. the purchase of electricity from power stations (and with certain strictly regulated exceptions, for the export and import of electricity) and the sale of electricity to electricity suppliers (see under point (iii) below). On the other hand and based on the above-mentioned monopoly, the transmitting company is obliged to provide electricity to the electricity suppliers.
- (iii) regional electricity suppliers which, on the basis of the Electricity Act, have a monopoly for and an obligation to supply electricity to all customers located within the territory designated in their operation permit as issued by the HEO. On the other hand, this also means that electricity customers are bound to the regional electricity suppliers on the basis of their location with the exception of only those which are directly supplied by power stations (as mentioned in point (i) above) and autoproducers. Based on Decree no.: 29/1995(VII.25.) of the Minister of Industry and Commerce, electricity suppliers are also

entitled to import and export electricity within strict limitations.

- (iv) customers which are linked to the local electricity suppliers on the basis of their location with the exception of the direct electricity supply by power stations under point (i) above or autoproducers.

#### **MOST SIGNIFICANT CHANGES PROPOSED**

The new legislation proposes to divide the electricity market into two parts: (i) the public supply market which will remain based on the principles of the current legislation and (ii) the liberalized trade of electricity to a group of special customers (to be specified in a government decree) which will be entitled to choose between remaining to be supplied by the regional electricity supplier and the purchase of electricity from alternative sources (eligible customers).

The above-mentioned eligible customers are foreseen to be entitled to purchase electricity (i) from electricity traders which, as new players in the electricity market, will be entitled to purchase electricity directly from power stations, from other electricity traders or on the so-called Electricity Exchange; (ii) from import sources on the basis of a special approval to this effect; and (iii) directly from power stations (which will be entitled to freely sell the electricity in excess of the amount generated for public supply purposes). In addition, the draft legislation contains a limitation on the basis of which the eligible customers will have to purchase at least half of the annually consumed electricity from Hungarian sources.

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