

**HUNGARIAN ENERGY AND PUBLIC
UTILITY REGULATORY AUTHORITY**

**ANNUAL REPORT
2015**



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Dear Reader,



In addition to its primary tasks – the supervision of the electricity, natural gas, district heating, and water utilities – the Hungarian Energy and Public Utility Regulatory Authority (HEA), which operates as an independent regulatory authority, received new important functions in 2015.

In accordance with the provisions of Act LVII of 2015 on energy efficiency, the Authority supervises the mandatory energy audits of corporations, and in this context, it also maintains the register of auditors and audit organisations entitled to carry out energy audits. It licenses and supervises the activity of registered organisations. The Authority is responsible for compiling information on end-user energy savings as well as for recording and publishing energy savings data. It plays a key role in raising the awareness of consumers about energy efficiency; for this purpose, it has launched an informational website on energy efficiency and renewable energy resources.

In the spring of 2015, changes in the legal environment enabled universal service providers of the natural gas sector to initiate the revocation of their operation licences at the Authority. Three universal service providers applied for this procedure, as a result of which FŐGÁZ Zrt. was appointed for the scheduled takeover of the affected consumers in all three cases.

An important change in the field of market supervision was that on 7 January 2015, the Implementation Decree of the European Union Regulation on Wholesale Energy Market Integrity and Transparency (REMIT Implementation Decree). In line with the EU requirements, the Authority established a new organisational unit for the performance of the tasks related to the implementation of REMIT.

In 2015, as a member of the official statistical service HEA continued to collect and process the technical and financial data required for the performance of supervision, supervisory and price regulatory tasks submitted by nearly 1300 licensees and waste management public service providers. Besides, the Authority requested energy statistics data from around 7000 organisations as part of the National Statistical Data Collection Program (OSAP), which HEA made available to the public partly on the website of the Authority and partly in special energy statistics publications.

Performing its consumer protection function, the Authority continuously verified the quality and continuity of supply, the standard of the customer service activities of energy suppliers, as well as the fulfilment of the criteria of the so-called Guaranteed Services throughout 2015. The Authority imposed fines in multiple cases, and ordered the payment of penalties to consumers amounting to hundred millions of Hungarian Forints.

In order to support the realisation of national sectoral targets, HEA is an active member of more than 60 working groups of the Agency for the Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators (CEER), the Network of European Water Service Regulators (WAREG) and the Energy Regulators Regional Association (ERRA), and our staff members regularly participate in the meetings and workshops of these organisations.

I hereby recommend to your attention our Annual Report 2015, which discusses the supervised sectors, the relevant market processes, and our work for security of supply and for long-term quality services.

A handwritten signature in blue ink, appearing to read 'Lajos Dorkota'.

Dr. Lajos Dorkota
President

EXECUTIVE SUMMARY

Legal status and responsibilities of the Authority

The Hungarian Energy and Public Utility Regulatory Authority was established as an independent supervisory authority under Act XXII of 2013 on 4 April 2013. The legal predecessor of the Authority was the Hungarian Energy Office as established under Act XLI of 1994 on gas supply.

The Authority is an independent supervisory authority responsible for licensing, supervision, price regulation, the price and tariff setting related to the supply of electricity, natural gas, district heating and water utility services and the tariff setting of waste management public service. It also performs tasks related to the uniform national energy statistics, and - as an official statistical body - it reports data to various national and international bodies and other organisations.

Table 1: Key legislation governing the Authority's responsibilities

Sector	Act
Electricity	Act LXXXVI of 2007 on electricity (Electricity Act)
Natural Gas	Act XL of 2008 on the natural gas supply (Natural Gas Act)
District Heating	Act XVIII of 2005 on district heating services (District Heating Act)
Water Utility Service	Act CCIX of 2011 on the water utility service (Water Utility Act)
Public Waste Management Service	Act CLXXXVI of 2012 on waste (Waste Act)
Statistics	Act XLVI of 1993 on statistics (Statistics Act)

Functions relating to the supervised sectors

Licensing and supervision

In order to ensure security of supply, the Authority sets out the requirements for licensed and related activities in licences pursuant to the provisions of the Electricity Act, Natural Gas Act, District Heating Act and the Water Utility Act, and monitors compliance with the provisions of the applicable sector-specific legislation.

Electricity

In relation to the licensing and supervision of electricity companies, the Authority issued 316 resolutions in 2015, 26 of which were new licences ¹.

Table 2: New electricity licences issued by the Authority in 2015

Licence type	Number of new licences
Universal service provider license	1
Electricity trading licence	5
Limited electricity trading licence	10
Simplified licence for small power plants	4
Licence for public lighting operation	6

¹ Amended licences are not included.

Based on the requests of producers using renewable energy resources, the Authority established feed-in rights in 66 cases, and it also continuously monitored compliance with the rules of the feed-in tariff system. No instances of violation were found. The Authority participated in the consultations regarding the amendment of the legislation on the feed-in tariff system as well.

In 2015, within the framework of the supervision of licensees in the electricity market, the Authority carried out the following key tasks:

- **Ensuring security of electricity supply**

In order to ensure a secure supply of electricity, it (HEA) continuously monitored the status of the domestic electricity market, as well as the activity of the licensees. Within the framework of the above, it verified the completion of winter preparations by power plants and the presence of statutory fuel stockpiles, it held on-site inspections, and investigated the operational security problems of the distribution network caused by extreme weather conditions.

- **Ensuring the efficient operation of the electricity market**

The Authority participated in the international tasks related to the framework guidelines on cross-border capacity allocation and congestion management procedures in collaboration with MAVIR Zrt. and HUPX Zrt. The Authority also contributed to the preparations preceding the establishment of the intraday market launched by HUPX Zrt. at the beginning of 2016.

- **Market supervision activity**

The new Department Of Market Monitoring And Surveillance was created to perform the tasks of the Authority related to the implementation of the REMIT and significant market power procedures, among others.

Natural gas

Within the framework of the licensing and supervision of natural gas market participants, the Authority issued a total of 196 resolutions and 130 orders in 2015; it issued 18 new operation licences, revoked the operation licences of 5 universal service providers and 1 natural gas trading licensee - all upon request by the licensees in question –, amended existing operation licences on more than 70 occasions, and issued 36 decisions in the context of the Commercial Codes and rules of licensees.

Table 3: New natural gas licences issued by the Authority in 2015

Licence type	Number of new licences
Natural gas trading licence	5
Limited natural gas trading licence	12
TSO licence	1

In 2015, within the framework of the supervision of licensees in the natural gas market, the Authority carried out the following major tasks:

- **Implementation of EU gas market regulations**

In order to ensure compliance with the provisions of EU legislation, especially those of Commission Regulation (EU) No 984/2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (CAM NC) and Commission Regulation (EU) No

312/2014 establishing a Network Code on Gas Balancing of Transmission Networks (BAL NC), the Authority actively participated in their transposition into the national legislation, the establishment and necessary modification of the Hungarian legal environment, as well as the development of operating models suitable for the new processes.

- **Ensuring security of natural gas supply**

In order to ensure the secure supply of natural gas, the Authority continuously monitored the state of the Hungarian natural gas market and the activities of individual market participants. In October 2014, a natural gas trader was appointed to continuously perform natural gas industry activities, which needed to be extended by the Authority on multiple occasions in 2014 and 2015. In the course of the administrative proceedings initiated upon request of natural gas consumers engaged in district heating supply activities, HEA appointed Magyar Földgázkereskedő Zrt. (MFGK).

In the spring of 2015, changes in the legal environment allowed natural gas universal service providers to request the revocation of their operation licences from the Authority. The Authority carried out the procedures in compliance with the legal provisions, as a result of which the operation licences of the following universal service providers were revoked: E.ON Energiaszolgáltató Kft., effective 1 January 2016; GDF SUEZ Energia Magyarország Zrt., effective 1 July 2016; and TIGÁZ Tiszántúli Gázszolgáltató Zrt., effective 1 October 2016. In the cases of all three licensees, the only offer for the future supply of their consumers entitled to universal service was submitted by Fővárosi Gázművek Zrt. (FŐGÁZ Zrt). Following the evaluation of the proposal, the Authority appointed FŐGÁZ Zrt. for the scheduled takeover and supply of the affected consumers. In addition to the above, the Authority revoked the universal service provider licences of ISD POWER Kft. and OERG Ózdi Energiaszolgáltató és Kereskedelmi Kft., which were no longer providing services to consumers at the time of the submission of the request for the revocation of their licences.

- **Approval of the development plan**

On 9 November 2015, the Authority partially approved the national ten-year network development plan submitted by the transmission system operator, with conditional approval of certain sections depending on market and economic developments and the relevant re-assessment.

- **Regulatory tasks**

On six occasions in 2015, the Authority approved the rules, processes, and methodologies concerning the operation of the interoperable natural gas system submitted by the transmission system operator, as well as the minimum content requirements of trade-, accounting and metering-, and data provision agreements, and the amendments of the Network Code, which contains the detailed rules of daily balancing.

In 2015, the Authority approved the Operational Rules applicable to each of the trading platforms operated by FGSZ Földgázszállító Zrt. and CEEGEX Közép-Kelet-Európai Szervezett Földgázpiac Zrt. in accordance with the applicable EU legislation. The Operational Rules of the capacity booking platforms operated by FGSZ Földgázszállító Zrt. and Magyar Gáz Tranzit Zrt. were also approved in 2015.

District Heating

Within the framework of the licensing and supervision of the district heating sector, the Authority issued 69 resolutions in 2015, fifteen of which were in regard to the issuance of new licences, 1 was in regard to

the ex officio revocation of a licence and the appointment of a new licensee, and 44 concerned licence amendments.

Table 4: A new district heating licences issued by the Authority in 2015

Licence type	Number of new licences
District heating operation licence	3
District heat producer operation licence	8
District heat producer establishment licence	4

With respect to district heating service providers and district heating producers, the Authority verified the unbundling of accounts. In addition to its supervision function, it acted as an intermediary in the event of disputes between district heating service provider(s) and district heating producer(s) as necessary in order to ensure quick and effective solutions to problematic issues. In addition, it provided expert consultation opportunities for municipalities and the operators concerned on multiple occasions.

Water Utility Service

During 2015, the approval of operation licences and the amendments thereof was carried out continuously; the performance of this task was uninterrupted by the acquisition of new supply areas by service providers. The Authority issued 33 resolutions regarding operation licences in 2015. Requests for the approval or amendment of operating agreements concerning new supply areas were constantly submitted. 462 requests for the approval of operating contracts were evaluated last year; the requested approvals were generally granted, with one exception.

2015 did not see changes concerning water utility service providers on a similar scale to 2013; however, due to some further changes and the expiry of fixed-term licences, the number of licensed service providers at the end of the year was 41 compared to 43 in 2014.

Price regulation

As a result of the liberalisation of electricity and natural gas markets (in 2008 and 2009, respectively) each consumer is entitled to choose its electricity and gas supplier freely. In the competitive market segment, the prices of energy products are determined by the market, while consumers entitled to universal service can purchase power and natural gas at a regulated (capped) price.

Similarly, households and public institutions are also supplied with district heating at regulated prices, while for the rest of the consumers, prices are shaped during bilateral agreements.

With respect to the electricity and natural gas sectors, the Authority sets the universal service tariffs for the Minister in accordance with the applicable legal provisions. It is also the responsibility of HEA to prepare the prices of district heating production and service, as well as the utility fees for the water and waste management sectors. Electricity and natural gas network use charges are defined in the resolutions of HEA.

Additionally, the Authority performs price supervision and cost and asset reviews. As part of its price supervision function, the Authority verifies whether the licensees apply the tariffs set by the Minister and the Authority. As part of the cost and asset review process, the Authority determines the revenue requirement, which serves as the basis for establishing regulated prices.

Electricity

The end-user price of electricity for consumers entitled to universal service² consists of the following items: universal service provision fee of electricity, the network use charge, energy tax paid by non-household consumers, the total VAT payable, and the contributions (coal industry restructuring contribution, electricity industry contribution for the discounted electricity supply of pensioners, cogeneration restructuring contribution), which are managed separately (paid only by non-household consumers since 1 November 2013) pursuant to Section 147 of the Electricity Act.

End-user electricity prices for households in case of universal service remained unchanged on 1 January 2015 and 1 January 2016.

Natural gas

The end-user price of natural gas for consumers entitled to universal service³ (fix and variable rate) contains the product price of natural gas, the network use fees, the costs of working-gas financing, and the trade margins.

The membership contribution (strategic stockpiling fee) payable to the Hungarian Hydrocarbon Stockpiling Association and passed on to non-household consumers, which amounted to HUF 65.15/GJ between 1 January and 30 June 2015, and HUF 71.67/GJ from 1 July 2015 onward, appears as a separate item on the bills issued by universal service providers. From January 2013, universal service provider licensees can reclaim this amount based on household consumption; therefore, it cannot be passed on.

The specific natural gas price applied in the pricing of universal service is determined based on the natural gas pricing formula set out in Decree 29/2009 (VI.29.) of the Ministry of Transport, Telecommunication and Energy on the pricing of the natural gas universal service. In accordance with the status act on the Authority, HEA was authorised to establish the network use charge in resolutions; therefore, they were published in an HEA resolution in 2015 as well. The rules of inter-TSO compensation were also established in a HEA resolution.

The price of natural gas for consumers entitled to universal service remained unchanged in 2015.

Taking into account that several of the resource contracts constituting part of the system of offering natural gas for sale expired in 2015, the offering system was renewed through the conclusion of contracts under Sections 141/I and 141/J of the Natural Gas Act.

District Heating

The Authority is responsible for preparing a proposal regarding the prices of district heating sold to district heating service providers, the prices of district heating supplied to households and priority institutions, and district heating benefits before 31 August each year. The Authority prepared its price and benefits proposal for the 2015/2016 heating season, the relevant amendments of the Decrees of the Ministry of National Development entered into force on 1 October 2015.

The functions of the Authority include the continuous monitoring of the application and disbursement processes of the district heating benefit, and the initiation of official procedures in the event of violations.

² This includes both household and non-household users of the universal service.

³ This includes both household and non-household users of the universal service.

Water Utility Service

In 2015, in compliance with subsection (1) Section 4 of Act LIV of 2013 on the implementation of utility bill reductions, water utility service providers were still only entitled to invoice charges whose value did not exceed 90 percent of the per-service-unit fee legally applied on 31 January 2013 (including the base fee) with respect to household consumers and any usage accounted for at household rate. In September 2015, another discount was introduced in regard to household consumers and any usage accounted for at household rate in the form of a 10 percent statutory reduction on the temporary rates set by the Authority for water utility services not previously provided. Last year, the Authority received applications concerning the pricing of water utility services not previously provided with respect to more than 65 towns, which have either been decided upon or are undergoing a comprehensive examination of the circumstances.

Waste Management

In 2015, with regard to the field of waste management public services, the Authority processed the reported data required for the supervision fee, tariff setting, and decisions on applications concerning additional costs that are not covered by the fee of the temporary service, in accordance with the system developed in the previous years. The enquiry into the legality of the applied waste management public service fees affected a total of 2,831,148 residents of 64 towns. The Authority found that 21 public service providers applied illegal rates; in these cases, the public service providers were obliged to refund the additional revenue so obtained.

Chimney-sweeping

Simultaneously with the legal amendments regulating the temporary supply of the public chimney-sweeping service, the legislator vested the Authority with competence to evaluate the justification of costs for the temporary service. Last year, as part of the non-regular public chimney-sweeping service, five requests for the inclusion of additional costs in the regulated revenue were submitted to, and it fell to the Authority to act in connection with extended assignments in several cases.

Consumer protection

As part of its consumer protection function, the Authority examines the quality and continuity of supply, the quality of customer service provided by energy suppliers, and whether the criteria of the so-called Guaranteed Services are satisfied. The Authority inspects the practices, consumer-related procedures, and measures of service providers both *ex officio* and based on submissions by consumers, a competence shared with the Hungarian Authority for Consumer Protection and with government authorities in the first instance.

In 2015, several audits were initiated in connection with the activities of licensees. These audits included the replacement of metering equipment with expired certifications, the inspection of the operation of customer-service offices (waiting times at branch offices, top-up of prepaid meters, the activity of the pre-filtering personnel), and other current factors affecting the quality supply of consumers, among others. In addition to issuing official requests for compliance, the Authority elected to impose fines in multiple cases where the circumstances of the issue, especially the detrimental effects on users and consumers justified such action. It should be highlighted that the

Authority ordered the payment of penalties to consumers in an amount of several million Hungarian forints in order to protect their financial interests.

Similarly to the previous year, in 2015 the Authority audited the data submissions of electricity and gas licensees and the automatic compensations related to the Guaranteed Services. The scope of the audits also included the fulfilment of the obligation of information provision concerning the Guaranteed Services.

Last year, 1423 new consumer complaints were filed against the service providers triggering official procedures; the Authority requested submission of missing information in 800 cases. 53% of consumer complaints eligible for triggering procedures were related to gas supply, 42% to electricity supply, and 5% to water utility services. The Authority closed 2637 complaints.

The Authority continued to perform its consumer information activities in 2015 at a new customer service location, and to ensure the highest possible level of service to consumers, a modern call centre was also established. The Authority provided information to consumers over the telephone, in writing, or in person in about 7 thousand cases last year.

2015 was the 19th year that HEA conducted its consumer satisfaction survey on the performance of electricity sector and natural gas sector licensees with the participation of 7200 household and 2400 non-household consumers. The results of the study showed high levels of satisfaction among both groups.

Administrative data collection and statistics

As a member of the official statistical service, the Authority is solely responsible for the operation of the national energy statistics system. The Authority submits energy statistics data to Eurostat, the statistical body of the European Union, and to the International Energy Agency (IEA) in monthly, half-yearly, and yearly breakdown. In 2015, the Authority continued the regular collection and processing of the technical and economic data submitted by roughly 1300 licensees and waste management public service providers, necessary for supervision, control, and price regulation functions as required by legislation. Additionally, in line with Government Decree 288/2009 (XII.15) on the National Statistical Data Collection Programme (hereinafter referred to as OSAP), the Authority collected and processed energy statistics data received from about 7,000 organisations.

As in the previous years, HEA released several general and thematic energy publications in 2015:

- 2014 Statistics on the Hungarian electricity system;
- 2014 Statistics on the Hungarian natural gas system;
- 2014 Statistics on the Hungarian district heating sector;
- Report on the evolution of renewable electricity generation and feed-in tariff system in 2014 (online publication).

International affairs

The Authority is an active member of more than 60 working groups of the Agency for the Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators (CEER) and the Energy Regulators Regional Association (ERRA). Within the framework of its international activity, it participates in the meetings, telephone conferences and workshops of these working groups, processes the relevant documents and minutes, and represents the positions of HEA.

The experts of the Authority are involved in the work of certain professional organisations of the European Commission as well. Some examples among Regional Initiatives (RI) are the organisations related to the electricity markets – Regional Cooperation Council (RCC); Implementation Group (IG); Strategic Group (ST) – as well as the Florence Forum (electricity), the Madrid Forum (natural gas) and the London Forum (consumer protection). The Authority provides professional support to the Ministry of National Development of Hungary during the meetings of Coordination Committees (CEEE Forum) and the comitology meetings of the European Commission. In addition to the above, it hosts the delegations of partner organisations and other professional organisations, and holds professional negotiations with them both in Hungary and abroad.

Publicity

As part of its press relations, the Authority replied to 165 enquiries by journalists and issued 36 press releases, achieving in excess of 2,300 appearances. In 2015, the Authority published 60 news articles on its website which was renewed in terms of both content and graphics. In addition – in compliance with Act LVII of 2015 on energy efficiency – HEA launched a new informational website on energy efficiency and renewable energy resources, which is discussed in detail in Chapter 5.

Table 5: The Authority in the press in 2015

Period	Press releases	Replies to journalist enquiries	Appearances			
			Print	Radio and television	Online	Total
2015 total	36	165	508	346	1456	2310

1. Operation, financial management, and relations of the Authority

1.1. Legal status and responsibilities of the Authority

The Authority was established as the legal successor of the Hungarian Energy Office under Act XXII of 2013 on the Hungarian Energy and Public Utility Regulatory Authority (hereinafter referred to as the HEA Act) on 4 April 2013. The Authority is an independent supervisory authority of the energy and utilities industry, responsible for licensing, supervision, price regulation, and tariff setting for electricity, natural gas, district heating and water utility services, as well as tariff setting for waste management public services.

Duties for the Authority may be imposed solely by an Act of Parliament or a law adopted pursuant to an authorisation granted by such an Act. The Authority is responsible for supervising the activities of organisations and individuals falling within the scope of Act XL of 2008 on the natural gas supply, Act XXVI of 2006 on strategic stockpiling of natural gas, Act LXXXVI of 2007 on electricity, Act XVIII of 2005 on district heating services, Act CCIX of 2011 on the water utility service, and Act CLXXXV of 2012 on waste, and of other legislation adopted pursuant to an authorisation granted by these acts. As part of this function, the Authority implements the provisions of general-scope, directly applicable EU laws, EU legal provisions and the binding resolutions issued in accordance therewith. The Authority may propose legislation and amendments to the competent ministers and is entitled to act as an advisor during the preparation of decisions and regulations affecting the individuals and organisations falling within the scope of the aforementioned regulations, as well as its functions and scope of competence.

The main activities of Authority as stipulated in its statute are the following. The Authority performs tasks in connection with

- the natural gas and electricity supply;
- ensuring security of supply of natural gas and electricity and the effective operation of the natural gas and electricity markets;
- the strategic stockpiling of natural gas;
- ensuring compliance with the requirement of equal treatment and promoting efficient competition;
- licensing the establishment of district heating production facilities and district heat generation activity; the approval of the connection fees of district heating service; the preparation of proposals regarding district heating prices applicable to service providers and the district heating service fee applicable to household consumers and priority institutions; as well as supervising subsidies related to district heating;
- the framework rules applicable to the establishment and regulation natural gas and electricity network use fees; the criteria for determining connection fees and the components of connection fees; the rules concerning the fees and scope of universal service and the services subject to additional fees; the preparation of the rate of the cogeneration restructuring fee and balancing contribution payable to indigenous producers, applicable to the price of offering natural gas for sale and to domestically produced natural gas; as well as consumer protection measures pertaining to natural gas and electricity supply and to water utility service as stipulated in sector specific legislation;
- regulatory duties;

- the obligations stipulated in the Act on the water utility service;
- the issuance of guarantee of origin for electricity produced from renewable energy resources or waste, and for electricity generated in cogeneration facilities;
- the pricing, tariff setting and price supervision duties relating to waste management public services as stipulated in the applicable legislation.

As part of its duties related to energy statistics, the Authority:

- collects and manages energy-related statistics data within the framework of OSAP;
- establishes and operates the information system for national energy and public utility statistics to provide information to the general public;
- provides data to the European Union, international organisations, and organisations belonging to the official statistical service in accordance with the provisions of the Electricity Act, the Statistics Act. and other applicable regulations.

1.1.1. Report on the Authority's litigation cases

Table 6: Evolution of the Authority's litigation cases in 2015

CASES NOT RELATED TO CONSUMER PROTECTION	
Number of actions filed, of which:	109
• Closed in 2015	28
• Suspended	0
• Pending	0
Litigation cases continued in 2015, of which:	51
• Final decision issued in 2015	21
• Suspended	0
• Pending	0
Ongoing litigation cases in 2015, of which:	160
• Final decision issued in 2015	49
CASES RELATED TO CONSUMER PROTECTION	
Number of actions filed, of which:	319
• Closed in 2015	77
• Suspended	0
• Pending	0
Litigation cases continued in 2015, of which:	156
• Final decision issued in 2015	90
• Suspended	0
• Pending	0
Ongoing litigation cases in 2015, of which:	475
• Final decision issued in 2015	167
LABOUR LITIGATION CASES	
Ongoing litigation cases in 2015, of which:	8
• Final decision issued in 2015	1

In 2015, a total of 160 litigation cases (109 filed in the reference year and 51 in previous years) were in progress against resolutions passed by the Authority and not related to consumer protection. Out of these cases, 49 were terminated in the reference year.

In 2015, a total of 75 litigation cases (319 filed in the reporting year and 156 in previous years) were in progress against resolutions related to consumer protection passed by the Authority. Out of these cases, 167 were terminated in the reporting year.

Eight lawsuits related to labour rights were in progress in 2015, of which one was closed.

In 2015, the Authority passed 55 resolutions in relation to company law issues and acquisition of majority shareholding, and released 42 new internal codes.

1.2. Financial management of the Authority

Subtitle 23 of Chapter I: Parliament of Act XXXI of 2013 on the Amendment of Act CCIV of 2012 on the 2013 Central Budget of Hungary establishes an individual budget for Authority. By operation of law, the new classification of the Authority is: central budgetary institution administering a budget chapter.

The gross sums of the budgetary expenditure and revenue of the Authority may only be reduced by the Parliament. The operation of the Authority is financed with the revenue generated from supervisory and administrative service fees. The rates and collection procedures of these fees are determined by the President of the Authority, under the authorisation granted by clause (2) Section 21 of Act XXII of 2013. Based on the legal authorisation referenced above, the Authority issued HEA Regulation 1/2014 (III.4) on the rates of administrative service fees of the Hungarian Energy and Public Utility Regulatory Authority and the rules for collection, management, recording and refunding of administrative service fees and other revenues, as amended by HEA Regulation 10/2014 (XI.6.). The Authority collected the planned supervisory and administrative fees for 2015.

The amount of expenditure equals the sum of projected revenues. Subsection (3) Section 9 of Act C of 2014 requires the Authority to pay HUF 2029.1 million into the central budget in twelve monthly instalments from February onwards before the 20th day of each month and another 1/12th portion by 10 December each year. The Authority fulfilled its payment obligation.

Funds for the operational and stockpiling expenditures were made available throughout the financial year. The Authority has fully complied with the statutory provisions regarding payment obligations.

1.3. The organisational structure of the Authority

HEA Directive No. 1/2013 (VII. 25.) on the Rules of Organisation and Operation of the Hungarian Energy and Public Utility Regulatory Authority, which established the organisational structure of the Authority until 10 February 2015 was superseded by HEA Directive 1/2015 (II.9.) on the Rules of Organisation and Operation of the Hungarian Energy and Public Utility Regulatory Authority effective from 10 February 2015.

From 10 February 2015 the staff of the Authority totalled 321 in accordance with the Rules of Organisation and Operation. During the course of the year, 83 new entries and 27 exits were reported.

Human Resources

In order to recruit experts from the market and retain them, it is important for the Authority to create and maintain a good working atmosphere and ensure the continuous satisfaction and commitment of its staff.

Individual job performance was determined and evaluated within the framework of the competency-based performance appraisal system applied in the public sector. The specific know-how, skills, competencies, and attitudes required from employees as part of the performance appraisal process are part of their job descriptions and can also be used while selecting the right applicants.

Training and skills development

The knowledge and value-creation capability of HEA personnel and the efficient management of human capital are essential for the effective and successful functioning of the Authority.

In order to satisfy the expectations related to daily operations and potential professional requirements, education and training constitute an integral part of the human resources practices of the Authority. Under the effective legislation, the civil servants employed by HEA are obliged to participate in public service training. The training courses are attended on the basis of individual plans; in which context the Authority considers the development of professional competencies especially important. During the organisation of these training courses, HEA made an effort to ensure that staff members can hold internal trainings that fulfil the special professional requirements and the specificities of the Authority.

The Authority continuously supports its employees during the process of applying for, participating in, and preparing for the statutory examinations arising from their public servant status.

Within the framework of this public service training programme, 237 staff members of the Authority took part in 175 different professional training courses. The internal training organised by HEA was attended by 185 people. Altogether, employees and officers of the Authority completed a total 854 training courses during 2015.

1.4. Bilateral institutional relations

In 2015, the Authority signed cooperation agreements with the National Tax and Customs Administration, the Hungarian Investment Promotion Agency and the Hungarian Chamber of Engineers, and also began preparations for the conclusion of cooperation agreements with the Hungarian Central Statistical Office and the Public Procurement Authority.

Besides the Authority, other administrative bodies also undertake consumer protection duties (in part or in full), such as the Hungarian Competition Authority, the Office of Parliamentary Commissioners, the data protection commissioner, the Hungarian Authority for Consumer Protection, and the Hungarian Trade Licensing Office. Following the practice of the previous years, the Authority liaised regularly with these bodies and harmonised its activity with them, while also holding consultations with them about consumer protection.

The Authority revised and strengthened its cooperation with the Hungarian Authority for Consumer Protection in 2015. Based on the renewed cooperation agreement, the two parties work together during administrative proceedings, the preparation of legislation on consumer protection, and the organisation of joint professional events as required. The cooperation agreement maintained the practice of the previous years, according to which the two authorities hold consultations regarding professional matters both on a monthly and an ad hoc basis.

Besides public administrative bodies, the Authority liaised regularly with the civil consumer protection organisations as well. As part of this cooperation, the civil organisations commented on the amendments of the Commercial Code; they participated in the evaluation meetings concerning the data reported pursuant to the various quality control resolutions and the Consumer Satisfaction Survey. In addition to the above, the Authority also requested the opinion of these civil organisations regarding issues that affected a large number of consumers, in the context of the legislative activity of the Authority.

On a professional level, the Authority monitored the work of the so-called Jedlik Ányos Cluster, which was created to promote electromobility in Hungary, and commented on the legal and other proposals developed by the Cluster.

In the electricity sector, in order to facilitate the spread of smart technologies, the Authority cooperated with the participants of the "Elosztói Okos mérés" (distribution smart metering) pilot project as well as of the pilot project implemented by Központi Okos Mérés Zrt.

The Authority held regular consultations with the Association of Hungarian District Heating Enterprises regarding professional issues affecting the sector. Within the framework of the cooperation, HEA staff members participated in the spring and autumn professional workshops of the Association.

1.5. Wholesale energy market integrity and transparency (REMIT)

The year 2015 was an important milestone in the implementation of Regulation (EU) No 1227/2011 (REMIT). Commission Implementing Regulation (EU) No 1348/2014 of 17 December 2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (hereinafter referred to as REMIT Implementing Regulation) entered into force on 7 January 2015. Pursuant to HEA Decree 1/2015 (II. 9.) on the Rules of Organisation and Operation of the Hungarian Energy and Public Utility Regulatory Authority, the new Department Of Market Monitoring And Surveillance was established, which performs the tasks related to the implementation of the REMIT and the duties of the Authority concerning significant market power procedures.

A registration system for market participants had to be created within three months of the effective date of the REMIT Implementation Regulation; the task was carried out without problems. The transaction reporting obligation to the Agency for the Cooperation of Energy Regulators with respect to standard contracts entered into force on 7 October 2015 under the REMIT Implementation Regulation.

Following international cooperation on the text of the regional cooperation agreement, the final draft was accepted and is expected to be signed by the national regulatory authorities of the neighbouring EU Member States in 2016.

Market participants are obliged to report data to the Agency on their transactions and certain fundamental data under REMIT. In order to address the IT challenges faced in relation to the implementation of REMIT, the Agency established the ARIS system (short for Agency's REMIT Information System), which processes and stores the reports received from market participants.

To ensure that the authorities of all Member States are able to operate their own market monitoring system and obtain the necessary data, information available at the Agency is also required. In this context, the Agency and the authorities of the Member States jointly developed a framework that regulates the key requirements of cooperation and data transfer:

1. who has access to what data,
2. what requirements do the authorities of the Member States need to fulfil to be eligible for receiving data,

3. what is the framework for cooperation with the authorities of other Member States and with the Agency during the investigation of certain issues.

In 2015, the Agency requested the investigation of two Hungarian market participants under suspicion of market manipulation; the review of the relevant transactions is currently in progress.

In compliance with the above, the Authority assessed the scope of activities and resources necessary for the development of the market monitoring system, and it has begun the procurement of the IT systems required for the operation of the market monitoring system, as well as the necessary human resource development.

1.6. Administrative data collection and statistical activity

In 2015, the Authority continued to collect and process mainly technical and economic data reported by nearly 1300 licensees and waste management public service providers in compliance with the relevant resolution necessary for the performance of supervision, supervision, and price regulation duties of the Authority. On an annual scale, this means the receipt, verification, and recording of more than 45,000 electronic forms.

In order to ensure data provision, the quality assurance system introduced in 2014 and relevant methodology were improved in 2015. Furthermore, the forms for collecting data from the organisations under the supervision of the Authority were reviewed, improved and supplemented with a form validation tool and completion instructions.

In order to ensure compliance, the Authority issued more than 3,900 data reporting resolutions, sent out about 1,500 letters of formal notice to request missing data or the correction of existing information, and imposed fines on nearly 100 occasions.

As in previous years, the Authority issued several general and special energy publications both in printed and electronic format in 2015. In line with the practice of previous years, the Authority prepared the publication titled “*Statistical Data of the Hungarian Power System 2014*” in cooperation with MAVIR Zrt., and the publication titled “*Statistical Data of the Hungarian Natural Gas System 2014*” in cooperation with FGSZ Zrt. In December 2015, the Authority and the Association of Hungarian District Heating Enterprises jointly published the publication titled “*Statistical Data of the Hungarian District Heating Sector 2014*” for the first time.

The annually published electronic publication “*Report on renewable electricity production and the feed-in tariff system 2014*” was also published in last October and can be found on the Authority’s website. The comprehensive survey, which is also known as the FiS Report, is one of the most important collections of statistics data on renewable energy.

The Authority was assigned the task of operating the national energy statistics system on 1 January 2012. In 2015, HEA continued to fulfil its monthly, half-yearly, and yearly data reporting obligations to Eurostat, to International Energy Agency, and to other domestic and international organisations, which obligations facilitate the monitoring of the progress of different energy-related EU targets (energy efficiency, renewable energy, Energy Union). The sources of the data reported are the statistics data collection performed within the framework of the National Statistical Data Collection Programme and the administrative data of the Authority. The Authority, as a member of the official statistical service, participated in the EU expert study of the Hungarian statistical system in 2015. The study was coordinated by Eurostat, the statistical body of the European Union, and it primarily audited the statistical offices of the Member States but the Authority also participated as a voluntary subject of the study. The Authority filled in a self-assessment questionnaire but the independent experts commissioned by Eurostat also held personal interviews in order to assess whether the Hungarian statistical system as a whole complies with the European Statistics Code of Practice. The recommendations provided in the report on

the European Union peer review of the Hungarian statistical system are in line with the key targets of the 2015 amendment of the Regulation on European Statistics: the strengthening of the coordinating role of the national statistical offices within national statistical systems as well as the more intensive use of administrative data, among others.

Under the authorisation granted by the data collection provisions of Government Decree 288/2009 (XII. 15.) on the data collection and data receipt of the National Statistical Data Collection Programme, the statistics department collected and processed energy statistics data from about 7,000 data providers and compiled the energy balances. In order to improve relations with data providers, the Authority organised consultations on multiple occasions for data providers participating in the National Statistical Data Collection Programme, and also operated a Helpdesk where HEA staff is available both via telephone and email to help fill out the forms correctly.

2. Operation and regulation of the electricity market

2.1. Operation of the Electricity market

2.1.1. Operating model

In the supply chain of the electricity system, power plant operators sell the power generated to traders and universal service providers, which either resell the electricity on the wholesale market or use it to supply the consumer. Electricity is transmitted from electricity producers to consumers through the transmission and distribution system. Although the owners of the transmission infrastructure are in a monopolistic position, the Hungarian regulatory environment ensures access to the infrastructure without discrimination, in compliance with the regulations of the European Union. The transmission and distribution activities have to be carried out by different companies, which cannot engage in production or commercial activities.

Figure 2: Structure of the Hungarian electricity market in 2015 (physical flow)

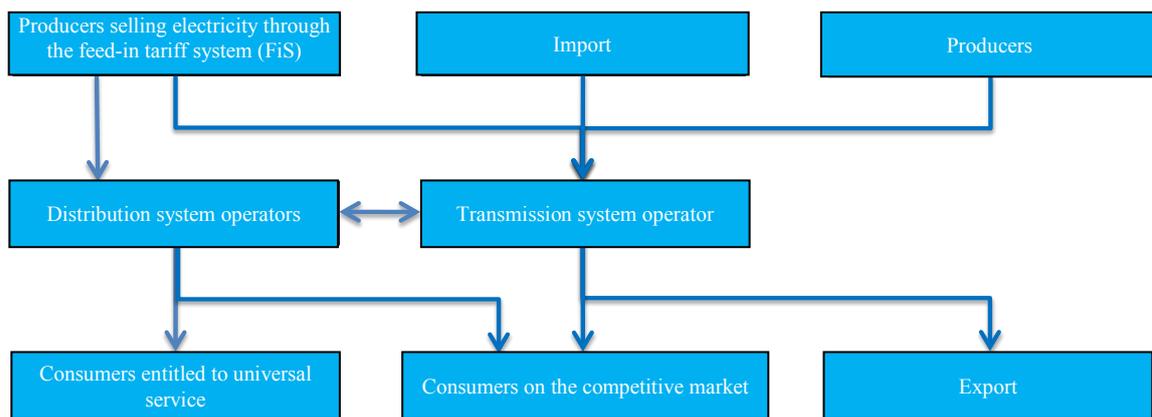
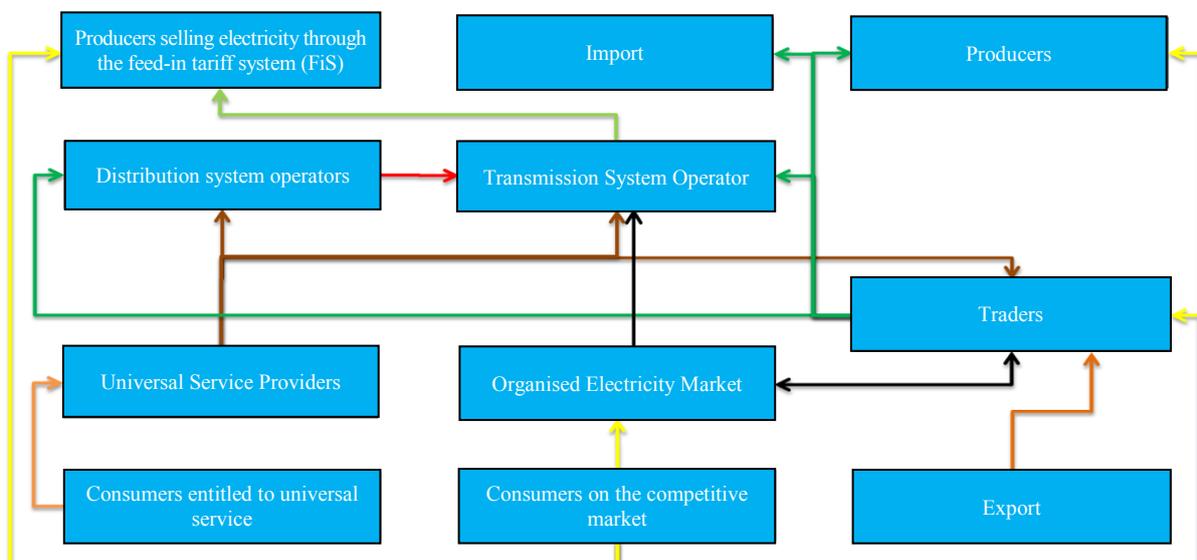


Figure 3: Structure of the Hungarian electricity market in 2015 (financial flow)



The basic structure of the domestic market emerged around 1995, when the majority of large power plants and the public utility service providers were privatised (together with the distribution networks). Currently, the dominant domestic power plants sell most of their production within the framework of medium-term contracts entered into with the former public utility wholesale trader (MVM).

About one-fifth of the power plant output is sold directly on the competitive market under short-term (typically one year) contracts. The power plant contracts of MVM typically have a term of 5-8 years. MVM sells about half of the electricity purchased from domestic power plants under framework contracts, so-called electricity supply contracts to the universal service providers who supply the consumers entitled to universal service (household and small-scale consumers, public institutions).

MVM sells approximately half of the power plant output at its disposal to traders through bilateral contracts or public capacity auctions. A significant proportion of primary trader procurement is resold within the trade sector in the form of secondary trading before being sold to the consumers or being sold as export. The sale of electricity generated using renewable sources or waste falls within a special sales category. The transmission system operator is obliged to purchase this type of electricity from producers within the framework of the feed-in tariff system (FiS) (at the price provided in the relevant legislation, in the volume and over the term specified in the licence issued by the Authority). MAVIR ZRt. sells the electricity purchased from producers within the framework of the FiS partly to traders and partly on the organised electricity market.

2.1.2. The producer and wholesale markets

The total installed capacity of domestic power plants amounted to 8,474 MW at the end of 2015, of which the four reactors of the Paks Nuclear Power Plant accounted for 2000 MW. Further significant power plant capacities are provided by the natural gas-fired Dunamenti Power Plant (794 MW), and the primarily lignite-fired Mátra Power Plant (966 MW).

Table 7: The market shares of the domestic power plant operator companies/groups in 2015 by installed capacity and production

	Installed capacity (MW) ¹¹	Market shares (by capacity)	Net production (TWh)	Market shares (by production) ¹²
MVM ¹	2766	32.64%	15.387	37.37%
RWE ²	966	11.40%	5.323	12.93%
Tisza Erőmű Kft. ³	900	10.62%	0	0%
MET Power AG ⁴	794	9.37%	0.494	1.20%
E.ON ⁵	433	5.11%	0.966	2.35%
Alpiq ⁶	403	4.76%	0.474	1.15%
EP Energy ⁷	396	4.68%	0.992	2.41%
Veolia ⁸	95	1.12%	0	0%
Other domestic power plants ⁸	1721	20.31%	3.850	9.35%
Domestic power plants total	8474	100.00%	27.488	66.75%
Net import			13.690	33.25%
Gross consumption			41.178	100.00%
3 largest power plant operator companies ⁹	4632	54.66%	20.711	50.3%
HHI-index ¹⁰		1468		1578

Explanation:

In the table, power plant operator company refers to the group of owners/investors with majority shareholding in the power plant. The company-based breakdown includes only power plants with an installed capacity of 50 MW or higher.

1. MVM: MVM Paksi Atomerőmű Zrt., Vértesi Erőmű Zrt., MVM GTER Zrt.
2. RWE: Mátrai Erőmű Zrt.
3. owned by Invest Finance Consulting Group Zrt.
4. MET Power AG: Dunamenti Erőmű Zrt.
5. E.ON: E.ON Erőművek Kft.
6. Alpiq: Alpiq Csepel Kft.
7. EP Energy: Budapesti Erőmű Zrt.
8. Veolia: DKCE Kft.
9. Calculations based on gross installed capacity.
10. Using the available or actually available capacities yields higher concentration indices, while including imported capacities in the calculations results in lower concentration indices. During the calculation of the HHI-index, power plants with installed capacities below 50 MW (the row “Other domestic power plants”) were not taken into account.
11. Calculated on the basis of data from the 12th month of the reference year.
12. Gross production of the given power plant operator divided by gross consumption.

The structure of the electricity wholesale market is different in the case of selling to universal service and in the case of selling to traders. In the universal service segment (although this segment is just a fraction of the size of the public utility sector) which is subject to administrative price regulation, MVM continues to be the dominant player with its 80% market share. Universal service providers purchased one fifth of their electricity supply from sources other than MVM in 2015 and they still did not have to purchase renewable feed-in production.

Table 8: Procurement structure of universal service providers

	Electricity procurement (TWh)			Share
	2013	2014	2015	2015
MVM	9.1	7.3	9.0	79.6%
Feed-in	0	0	0	0%
Other	2.6	3.9	2.3	20.4%
Total	11.7	11.2	11.3	100.0%

As opposed to the universal service providers, the procurement activity of traders active on the competitive market is determined not only by consumer demand but by wholesale activities as well.

The primary procurements (which do not take into account the trading volume) of traders in 2015 had four main sources. These were import sources, electricity from power plant capacities contracted by MVM, purchases from other domestic power plants outside the feed-in tariff system, and the resale of the electricity dispatched to MAVIR within the framework of the FiS or originating from the balancing of the FiS balance group. The electricity procured from primary sources (a significant portion having been a part of trading volume as well) is sold either on the domestic wholesale or retail markets, or abroad.

Table 9: Primary procurement structure of traders¹

	Electricity procurement (TWh)			Share
	2013	2014	2015	2015
Import	22	24.4	27.1	57.5%
MVM	10.1	11	13.0	27.6%
Domestic power plants	5.5	4.7	4.9	10.5%
Other²	1.8	1.4	2.1	4.4%
Total	39.4	41.5	47.1	100.0%

Explanation:

1. The primary procurement of traders refers to the electricity purchased directly from a domestic power plant or from MVM or purchased as import. The table does not include the significant transactions concluded between traders or on the organised market.
2. E.g. electricity purchased within the framework of the feed-in tariff system or balancing electricity procured from the transmission system operator.

In 2015, electricity trade has taken place primarily – similarly to other EU Member States – through bilateral agreements, despite the fact that an organised energy market (energy exchange) has been in operation in Hungary since 2010. To put this in context, in the trading system of HUPX Magyar Szervezett Villamosenergia-piac Zrt., 15 TWh spot, and forward products worth of 6.5 TWh were sold in 2015; by comparison, the trading volume amounted to approximately 277 TWh according to the data reported by the traders. Nevertheless, the spot trading volume handled by HUPX constitutes a relatively high proportion of the total domestic consumption even in international comparison: in 2015, it exceeded 37% of the gross domestic consumption (40.75 MWh).

The Authority can influence the development of the competitive market prices using the ex-ante intervention powers provided for in the Electricity Act with the aim of proactively preventing abuses of dominant market position. It is the Hungarian Competition Authority (hereinafter: GVH) that performs the ex post administrative duties related to market supervision, which are provided for in Act LVII of 1996 on the prohibition of unfair and restrictive market practices (hereinafter: Competition Act) relating to the retroactive discovery and sanctioning of abuses of dominant market position.

The Electricity Act and its implementation decree contain detailed rules for the identification and treatment of licensees with significant market power. Under the above mentioned legislation, the Authority – as a supervisory authority – may impose special, additional obligations (e.g. the sale of electricity through public capacity auctions, the application of cost-based pricing, the preparation of a sample quotation, etc.) on any licensee, about which it establishes – following a market analysis – that it possesses significant market power, be it a wholesale or retail market player.

The imposition of these obligations aims to prevent abuses of dominant market position and to create a more efficient competition. The Authority, in cooperation with the GVH, identifies the licensees with significant market power based on market analyses and imposes special, additional obligations adjusted to their market position.

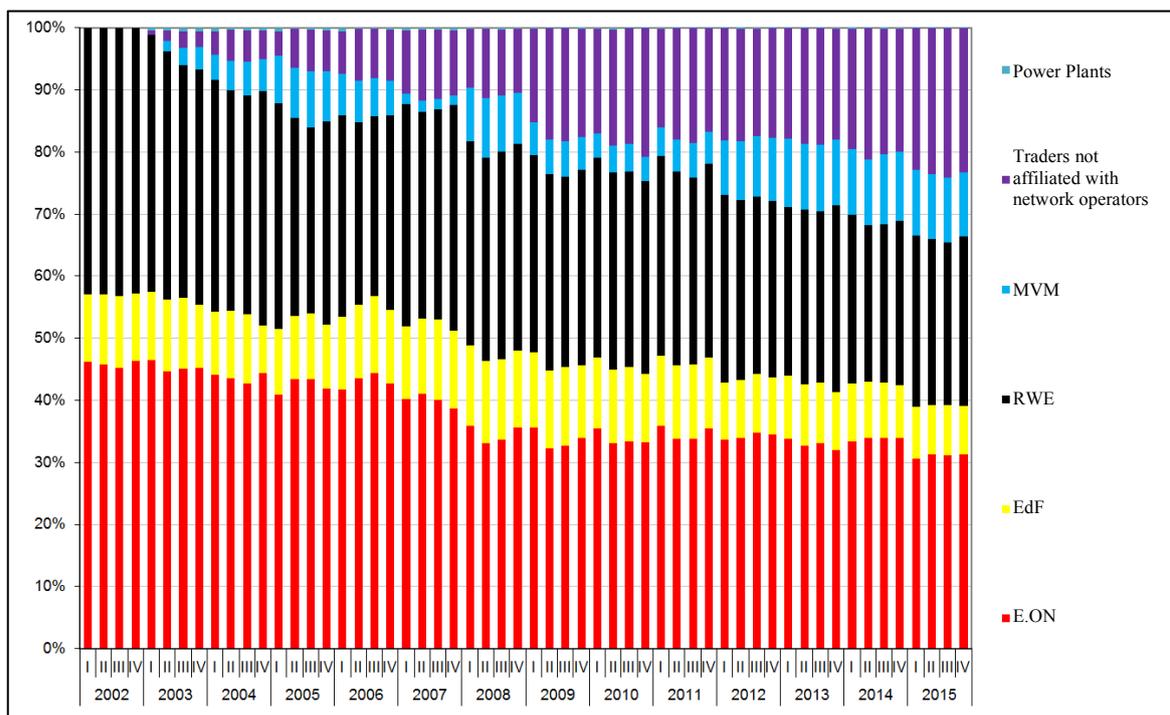
2.1.3. The retail market

Ever since its opening in 2003, the retail electricity market has been characterised by a dual structure: the regulated price segment and the competitive market segment are separated from each other. The public utility service subject to regulated pricing – which used to be available to all consumers – was replaced by universal service in 2008, to which a significantly smaller scope of consumers is entitled.

Consumers entitled to universal service continue to be supplied predominantly by the former public utility service providers who now possess universal service provider licences. Universal service providers are obliged to supply electricity to and conclude contracts with the consumers entitled to universal service.

The consumers not entitled to universal service had either already been purchasing energy on the competitive market (mostly large-scale consumers) or started trading on the competitive market when the public utility form of service was abolished (mostly small and medium-sized non-household consumers). The small-scale consumers that entered the competitive market in 2008 when the public utility service was abolished predominantly stayed with their former service providers, which supplied these consumers under their trading licences.

Figure 4: Development of the shares of investor groups in the retail market (2002-2015)



Companies possessing universal service provider and trading licences – E.ON Energiaszolgáltató Kft., Budapesti Elektromos Művek Nyrt. (until 30 November 2015), Észak-magyarországi Áramszolgáltató Nyrt. (until 30 November 2015), ELMŰ-ÉMÁSZ Energiaszolgáltató Zrt. (from 2015 December 1), and EDF Dél-magyarországi Áramszolgáltató (EDF DÉMÁSZ) Zrt. – are stakeholders in the distribution system operation as well, through their subsidiaries or affiliated companies. Universal service providers were owned by three multinational company groups in 2015 (E.ON, RWE, and EDF), which supplied consumers not only through the above mentioned companies but through other trading companies as well. The total share of these company groups in the entire domestic retail market continues to be significant,

70%, even 13 years after the opening of the market in 2003, which means they lost 30% of the market in the past 12 years.

The strong market concentration was reduced by the appearance of traders on the retail market that began supplying consumers in addition to their domestic wholesaler activity when the market was opened. This category includes multinational enterprises that own multiple subsidiaries in the region as well as smaller domestic traders. In 2015, about 30 traders were active on the retail market that were not affiliated with the Hungarian distribution network companies through ownership. Their market share was approximately 23%. The market share of MVM is 10%.

The market shares of the three major company groups (E.ON, EDF, and RWE) is still high, mainly because the vast majority of consumers purchases electricity within the framework of universal service. However, it should be noted that 40% of the approximately 330,000 consumers purchasing electricity on the competitive market (mainly small and medium-sized consumers not entitled to universal service) are supplied by the traders of the three major company groups.

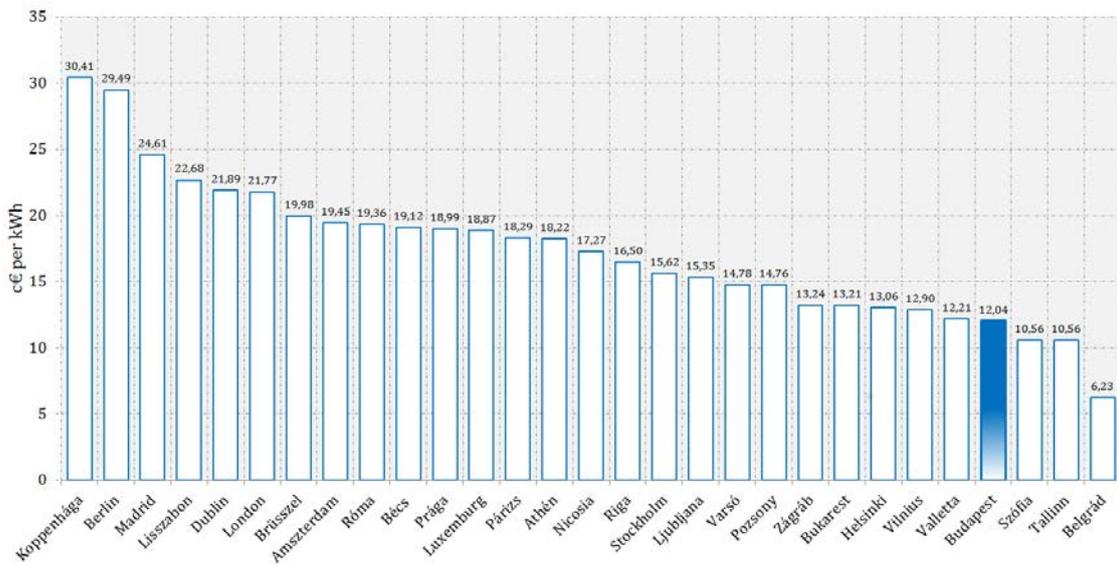
Table 10: Market shares based on the number of service locations in December 2015

Service provider/number of consumers	Universal Service	Competitive Market	Total	Share (total)
E.ON Energiaszolgáltató Kft., E.ON Energiakereskedelmi Kft.	2,374,491	28,527	2,403,018	43.24%
ELMŰ-ÉMÁSZ Energiaszolgáltató Zrt.*, ELMŰ Nyrt., ÉMÁSZ Nyrt., Magyar Áramszolgáltató Kft.	2,094,897	106,161	2,201,058	39.60%
EDF DÉMÁSZ Zrt.	731,710	21,746	753,456	13.56%
Magyar Telekom Távközlési Nyrt.	0	106,564	106,564	1.92%
MVM Partner Energiakereskedelmi Zrt.	0	68,885	68,885	1.24%
Other	0	24,611	24,611	0.44%
Total	5,201,098	356,494	5,557,592	100.00%

*As of 1 December 2015, the Authority withdrew the operation licences of two former universal service providers (ELMŰ Nyrt. and ÉMÁSZ Nyrt.) upon the request of the aforementioned licensees and simultaneously appointed ELMŰ-ÉMÁSZ Energiaszolgáltató Zrt. as the universal service provider on the service areas of ELMŰ Nyrt. and ÉMÁSZ Nyrt.

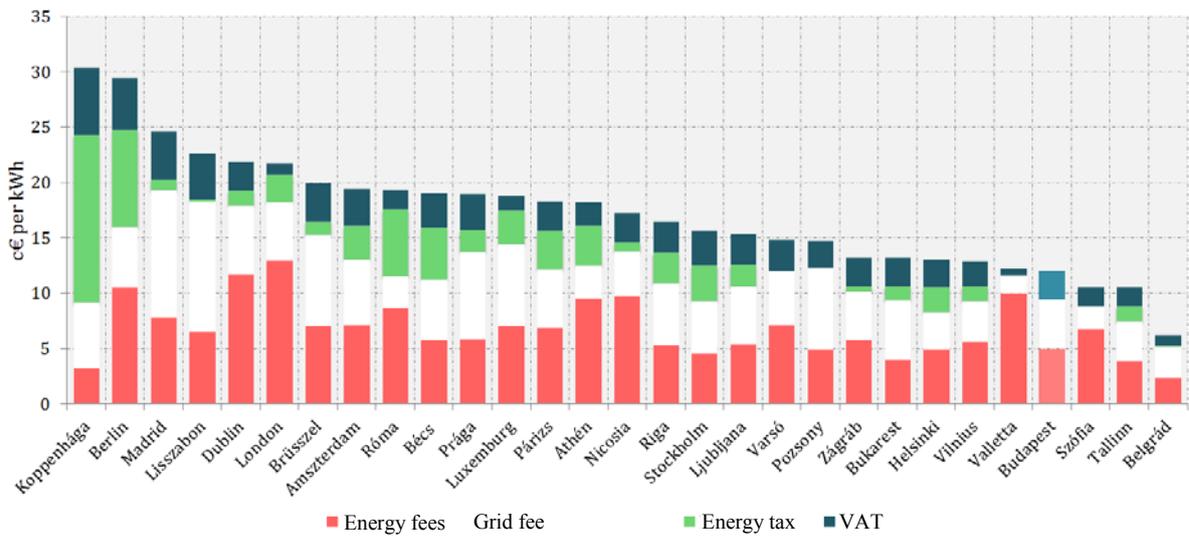
By European standards, the Hungarian end-user household prices were among the lowest in the region in December 2015 based on the accounts of the Authority; accounting for purchasing power parity, they fell in the middle of the spectrum.

Figure 5: Average prices of electricity for household consumers in euros (euro cents/kWh); December 2015⁴



Copenhagen, Berlin, Madrid, Lisbon, Dublin, London, Brussels, Amsterdam, Rome, Vienna, Prague, Luxembourg, Paris, Athens, Nicosia, Riga, Stockholm, Ljubljana, Warsaw, Bratislava, Zagreb, Bucharest, Helsinki, Vilnius, Valletta, Budapest, Sofia, Tallinn, Belgrade

Figure 6: Components of the electricity fee payable by household consumers in euros (euro cents/kWh); December 2015⁵

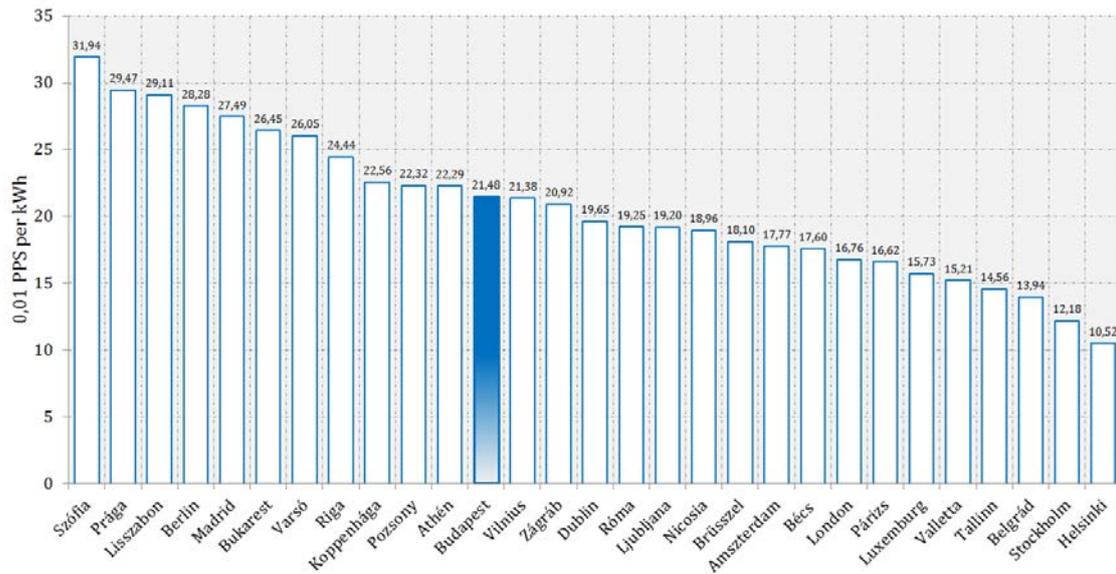


Copenhagen, Berlin, Madrid, Lisbon, Dublin, London, Brussels, Amsterdam, Rome, Vienna, Prague, Luxembourg, Paris, Athens, Nicosia, Riga, Stockholm, Ljubljana, Warsaw, Bratislava, Zagreb, Bucharest, Helsinki, Vilnius, Valletta, Budapest, Sofia, Tallinn, Belgrade

⁴ Source: HEA

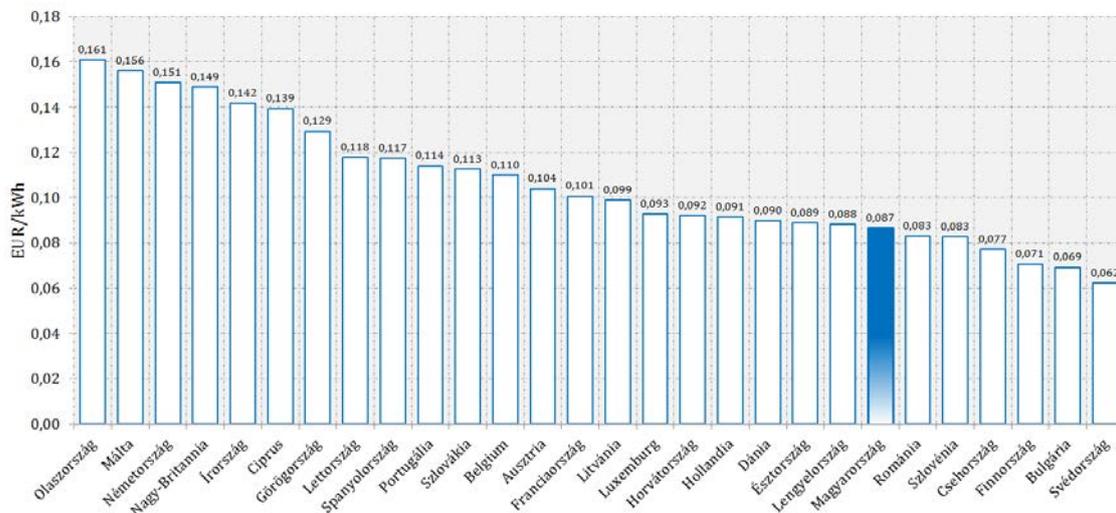
⁵ Source: HEA

Figure 7: Average prices of electricity for household consumers at purchasing power parity (0.01 PPS/kWh), December 2015⁶



Sofia, Prague, Lisbon, Berlin, Madrid, Bucharest, Warsaw, Riga, Copenhagen, Bratislava, Athens, Budapest, Vilnius, Zagreb, Dublin, Rome, Ljubljana, Nicosia, Brussels, Amsterdam, Vienna, London, Paris, Luxembourg, Valletta, Tallinn, Belgrade, Stockholm, Helsinki

Figure 8: Comparison of European average prices of electricity for industrial consumers (with a yearly consumption of 500-2000 MWh; first half of 2015, EUR/kWh)⁷



Italy, Malta, Germany, Great Britain, Ireland, Cyprus, Greece, Latvia, Spain, Portugal, Slovakia, Belgium, Austria, France, Lithuania, Luxembourg, Croatia, Netherlands, Denmark, Estonia, Poland, Hungary, Romania, Slovenia, Czech Republic, Finland, Bulgaria, Sweden

⁶ Source: EUROSTAT - http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_ppp_ind&lang=en (last updated on 17 December 2015, data on 2014, GDP aggregation).

⁷ Source: EUROSTAT

2.1.4. Security of supply

Power plants

With respect to security of supply, it is reassuring that for the most part of the year 2015, the available power plant capacity reserves were higher than the value prescribed by ENTSO-E (1350 MW). Due to the current market situation, the increasing share of imported capacity forces more and more domestic producers out of the market, as a consequence of which the amount of the actually available secondary rotating reserves – particularly in the “downward” direction – shows an increasingly negative trend. The Authority evaluated the preparation for winter, which is a crucial period in terms of security of supply, while taking into consideration the performance of annual scheduled maintenance and developments, the availability of fuel stockpiles required for the plant production planned for winter months as specified in the relevant legislation, the electric capacity, the electricity balance, the reserve capacities, and the cross-border capacities. In the course of the evaluation process, the Authority established that the power plants had completed their 2015 winter preparation programmes successfully, having finished their annual maintenance programmes by 15 October 2015, and the continuity of their fuel supply was ensured (through contracts).

The power plants required to possess the fuel stockpiles set forth in Decree 44/2002 (XII. 28.) of the Ministry of Economy and Transportation fulfilled their relevant obligations in 2015. In the winter period of 2015-2016 – based on the preliminary maintenance plans submitted by power plants - the capacity balance of the Hungarian electricity system had larger than required reserve levels from the beginning of October onwards. The capacity balance of the Hungarian electricity system was adequate in the second half of 2015.

When scheduling their maintenance activities, power plants had to take into account that the maximum capacity demand in the summer – due to the increasingly widespread use of HVAC equipment – not only reached the winter maximum demand but even exceeded it in 2015 (in July 2015, the summer peak load was 6,457 MW, which was also the highest value in 2015, while the winter peak load in 2015 was 6,447 MW).

The disruption of natural gas supply to hydrocarbon-fired power plants may become necessary in the cold winter season; therefore, cooperation between the dispatcher of the electricity transmission system operator and the natural gas dispatcher of FGSZ Földgázszállító Zrt. continues to be necessary. The natural gas supply was not disrupted in the winter of 2014– 2015. Although measures were taken to prevent the freezing of coal supplies, it can still occur in the event of a substantial temperature drop, which may limit the output of the Mátra Power Plant. In such cases, quick action may be required for switching to reserve capacities. It did not become necessary to switch to reserves due to the freezing of coal supplies in the winter of 2014–2015.

Among the factors affecting security of energy supply in the winter, the responsible behaviour of market players and the continuous availability of natural gas supply and, to a lesser degree, of alternative fuel (biomass) are the most important. Therefore, a harmonised cooperation of natural gas and electricity markets is especially important as it ensures the adequate flexibility.

With respect to power plants with installed capacities of 50 MW or higher, the following major developments and changes – in progress or planned – were known in 2015:

Table 11: Developments of power plants with installed capacities of 50 MW or higher in 2015

MVM Paksi Atomerőmű Zrt.	<p>The main developments and investments of the power plant are as follows:</p> <ul style="list-style-type: none"> - reactor modifications and safety improvement measures, new accident instrumentation, - turbine modifications, safety improvement measures, improvement of the efficiency of turbine oil coolers, - External technology as well as chemical, electrical and control technical modifications, - architectural and IT reconstructions. <p>The annual maintenance works were carried out according to plan.</p>
Alpiq Csepel Kft.	<p>The main cooling water system was modified in the power plant in order to reduce the minimum load.</p> <p>The annual maintenance works were carried out according to plan.</p>
Bakonyi Erőmű Zrt.	<p>At the Almásfüzitő site of the company, the preparations for the installation of a new gas turbine CCGT unit continued. The licensing procedure required for the modernisation of the sludge removal system continued.</p> <p>The annual maintenance works were carried out according to plan.</p>
Tisza Erőmű Kft.	<p>Electricity generation was suspended in the power plant as of 1 July 2013 in accordance with the suspension licence issued by the Authority.</p>
Debreceni Kombinált Ciklusú Erőmű Kft.	<p>Electricity generation was suspended in the power plant as of 1 July 2013 in accordance with the suspension licence issued by the Authority.</p>
Dunamenti Erőmű Zrt.	<p>Since the operation licence of the F units expired at the end of 2012, the power plant began their demolition. The power plant performed maintenance works on the G1-G3 units. The power plant did not carry out any developments.</p> <p>The annual maintenance works were carried out according to plan.</p>
E.ON Erőművek Termelő és Üzemeltető Kft.	<p>At the Gönyű Combined Cycle Power Plant, development works were performed in order to reduce the minimum capacity of the gas turbine and improve its partial efficiency.</p> <p>The annual maintenance works were carried out according to plan.</p>
Budapesti Erőmű Zrt.	<p>The most important tasks carried out this year were:</p> <ul style="list-style-type: none"> - The installation of bidirectional commercial metering equipment on the North and Káposztásmegyér branches in relation to the coupling of the Újpalota district heating area, - installation of a throttle valve on the North joint return line, - the construction of a by-pass branch in case the circulated water mass current reaching the Újpest CCGT unit was insufficient due to system operation reasons, - expansion of the data link between the process control systems of FŐTÁV-BERT. <p>The peak time steam reducers were replaced in the Kispest and Újpest plants.</p>
Mátrai Erőmű Zrt.	<p>The following developments and investments were implemented in the power plant:</p> <ul style="list-style-type: none"> - Establishment of a 16 MW photovoltaic solar power plant (the country's largest photovoltaic solar power plant unit to date) - increasing the efficiency of the flue gas purification equipment (rheological optimisation of the electro-filter, installation of an SNCR system). <p>The required and necessary maintenance works of the units were carried out by the power plant.</p>
MVM GTER Zrt.	<p>In order to increase the start-up safety of the gas turbines at the Bakonyi Gas Turbine Power Plant, a system was implemented and commissioned to protect the air intake houses with gates. The annual maintenance works were carried out according to plan.</p> <p>The implementation of the investment project for expanding the capacity of the fuel oil tanks at the Litér and Sajószöged Power Plants continued; the project is expected to be concluded in 2016. As part of the modernisation of the cooling systems of the electric and control engineering equipment, the HVAC systems in the relevant rooms, the central data processing units of the accounting metering system, and the measurement equipment installed on the tanks were replaced.</p> <p>The annual maintenance works were carried out according to plan.</p>

Vértési Erőmű Zrt.	The plant completed the modification project of boilers 1 and 2 in order to allow them to accept SRF, and the engine-room, boiler house and roof renovations were also concluded. The annual maintenance works were carried out according to plan.
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Operational Code

The Operational Code pursuant to clause a) Section 67 of the Electricity Act (HEA Resolution 891/2011; hereinafter referred to as Operational Code) was amended on one occasion in 2015. The Authority approved the amendment of the Operational Code by Resolution 904/2015 dated 26 March 2015.

Crisis Plan

On 4 June 2015, MAVIR requested the approval of the amendments of the Crisis Plan. Acting under authorisation pursuant to subsection (2) Section 7 of Government Decree 285/2007 (X. 29.) on the measures to be taken in the event of a significant operational disruption in the electricity system or an electricity supply crisis, the Authority approved the amended version of the Crisis Plan in its Resolution 5195/2015 dated 4 August 2015.

Operational security of the transmission system

As part of its supervisory activity, the Authority has evaluated the operational security of the electricity transmission system until May-June each year for about a decade. The 2014 report submitted by MAVIR ZRt. met the criteria specified by the Authority. The 3-year average values of the two indices that received particular attention relating to the incentivisation of higher levels of operational security at the transmission system operator licensee – the “Loss index” and the “Average downtime of transmission line connections” – exceeded both the “Minimum quality requirement” and the “Expected level of operational security”.

Extreme weather conditions

The extreme weather conditions present in the Budapest area on 1 and 2 December 2014 resulted in damage to the Ócsa-Zugló 220 kV and Albertirsa–Göd I-II 400 kV transmission lines. Despite the damages, the operation of the Hungarian electricity transmission system remained uninterrupted and the operational disruption did not restrict the supply of electricity through the transmission system.⁸

Service continuity, reliability, operational disruptions

The basis for the financial incentives for the continuous improvement of the standard of supply to be provided by electricity distribution system operator licensees comprises of the minimal quality requirements applicable to the average frequency and length of unplanned long-term operational disruption in the electricity supply and the loss index, which is defined as the quotient of the electricity not supplied over the available volume of electricity.

⁸ The administrative procedures relating to operational disruptions caused by exceptional weather conditions affecting the distribution network are outlined in Section 2.3.3.

Pursuant to the Electricity Act, the Authority is entitled to establish in a resolution the minimum quality requirements and expected standard of service applicable to the activities of the licensees, which were determined based on three-year averages in order to counteract the impact of extreme weather conditions, allowing for the exclusion of exceptions that do not fall within the scope of responsibility of the licensees.

Beside the minimum quality requirements determined upon the internationally accepted indicators constituting the basis for the financial incentivisation of the electricity distribution system operator licensees in order to improve their standard of service, the Authority prescribed annual improvement percentages with respect to three additional expected standard indicators in its resolution.

As for the loss index, the data on Hungary has fallen in the middle of the spectrum for years – and so, in 2014 as well – when compared internationally.

Based on the evaluation, all distribution system operator licensees fulfilled the minimum quality requirements specified in the resolution of the Authority with regard to the three-year averages of the 2012-2014 period.

When looking at the expected standard indicators (in the case of which, non-compliance does not result in direct sanctions), the distribution system operators often fell short of the required level. In the future, the Authority will put greater emphasis on incentives for the fulfilment of expected standard indicators.

Voltage quality

The measurements taken at the sites of distribution system operator licensees in a rotating system initially using 400 voltage quality meters initiated by the Authority introduced a culture of uniform voltage quality measurements in Hungary. The annual data reporting obligation of the licensees and the evaluation thereof aim to facilitate the continuous monitoring and improvement of the measurement values.

In addition to the monitoring measurements, further information can be gained regarding the quality of the supplied voltage by monitoring the number of consumers permanently supplied with non-standard voltage. Beginning with the 2011 annual report, the Authority prescribed a breakdown based on duration with regard to the data provided in response to the Guaranteed Services requirement “*Voltage at the connection point of the low-voltage service location*” of the Guaranteed Services resolution. This allows the assessment of the number of voltage quality complaints submitted in the reference year and those still in progress from the previous years as well as the efficiency of their solution.

Based on the Guaranteed Services resolution of the Authority, the distribution system operator licensees pay automatically penalties to consumers at the site of whom it is established by measurements that the voltage quality is inadequate. The frequency of penalty payments is directly proportional to the duration of the voltage quality problem. In 2014, distribution system operator licensees paid a total of HUF 6.99 million to the consumers nationwide due to an inadequate quality of voltage, which constitutes a 10.5% increase compared to the amount of the total penalties paid in 2013. This increase is caused by the fact that although there were only 200 cases in 2014 as opposed to the 268 in 2013 (a 25% decrease), the unsolved cases still in progress from the previous years increased the number of payments by more than 1,000. In 2014, all licensees had ongoing cases. The payments are all made automatically.

In order to ensure a higher standard of service, improve consumer satisfaction and reduce the number of consumer complaints, the Authority endeavours to further increase the number of voltage quality monitoring measurements in cooperation with the distribution system operator licensees.

2.1.5. Network development

With respect to network development, it is the responsibility of MAVIR Zrt. as transmission system operator, and of the distribution system operator licensees to ensure the long-term and secure availability of the transmission and distribution systems by performing development, modernisation, and maintenance works that fulfil the Hungarian and international requirements on the transmission and distribution networks constituting part of the Hungarian electricity system, and thus, the maintenance of security of the electricity supply in the country at a European standard.

There are multiple investment projects underway concerning the transmission system. The majority of these is in the planning and/or licensing phase; a small portion of them is undergoing implementation. The most important investment project on the transmission network in 2015 was the establishment of the Perkáta 400/120 kV substation, which was completed by the beginning of 2016 and commissioned on 26 February 2016.

The following investments were implemented in 2015 in order to develop the distribution network:

- E.ON Dél-dunántúli Áramhálózati Zrt: installation of a new 123 kV double circuit transmission line section in order to connect the Perkáta 400/120 kV substation to the network, including line arrangement,
- E.ON Észak-dunántúli Áramhálózati Zrt: installation of a new 132 kV transmission line section: Bicske Dél-Dorog.

2.2. Feed-in tariff system

One of the means of incentivising the use of renewable energy resources or waste for the production of electricity is the feed-in tariff system (hereinafter: FiS), where electricity can be sold at a price (feed-in tariff) higher than the market price as specified in the relevant legislation.

The operational framework of the feed-in tariff system

The legislation laying down the framework for the domestic application of the feed-in tariff system is presented in the following summary:

- Act LXXXVI of 2007 on electricity (hereinafter: Electricity Act);
- Government Decree 389/2007 (XII. 23.) on the feed-in tariff system and feed-in tariff of electricity generated using renewable energy resources or waste as well as of cogenerated electricity (hereinafter: FiS Decree);
- Decree 63/2013 (X. 29.) of the Ministry of National Development on the allocation of electricity generated in the feed-in tariff system by the transmission system operator and on the methodology used for determining the prices applicable during the allocation process (hereinafter: Allocation Decree).⁹

The subsidized feed-in tariff is different in the case of electricity generated using renewable energy resources and waste, and feed-in tariffs are differentiated based on nominal electric capacity, date of

⁹ Superseded by Decree 1/2016 (I.27.) of the Ministry of National Development on the detailed rules for the determination and payment of the amount of funds required for financing the operating subsidies for electricity generated using energy from renewable sources or waste” as of 4 April 2016.

acquisition of the right (before or after 1 January 2008), the zone time (peak, off-peak and deep valley periods) and in part on the technology (solar, wind) as well. The current feed-in tariffs are published on the website of the Authority¹⁰.

Pursuant to the Electricity Act, the Authority establishes in a resolution the amount of electricity generated using renewable energy resources or waste that can be sold within the framework of the FiS as well as the feed-in period. Upon expiry of the period or the premature use of the total licensed quota, the eligibility for selling electricity in the feed-in tariff system ceases to exist. By specifying the feed-in period and the amount of energy allowed to be sold within the framework of the FiS, it can be ensured that the investor only receives the subsidy until its investment returns. The Authority publishes a methodological guide on its website¹¹ for determining FiS eligibility. The benchmark feed-in periods included therein – effective from 1 July 2015 onward – are as follows:

- | | |
|--|----------|
| • Biomass, power plant unit with a capacity not higher than 20 MW: | 20 years |
| • Biogas-fired biogas power plant, gas-engine power plant unit with a capacity not exceeding 5 MW: | 15 years |
| • Gas from landfills, gas-engine power plant unit: | 5 years |
| • Solar, power plant unit with a capacity not higher than 2 MW: | 25 years |

The above values apply to new greenfield power plants that do not contain used equipment. If the power plant receives any other kind of subsidy, the feed-in period is reduced proportionally. In other cases, the Authority determines the feed-in period on a case-by-case basis, using the methodology guide. The above benchmark values do not apply to producers that are subject to district heating price regulations.

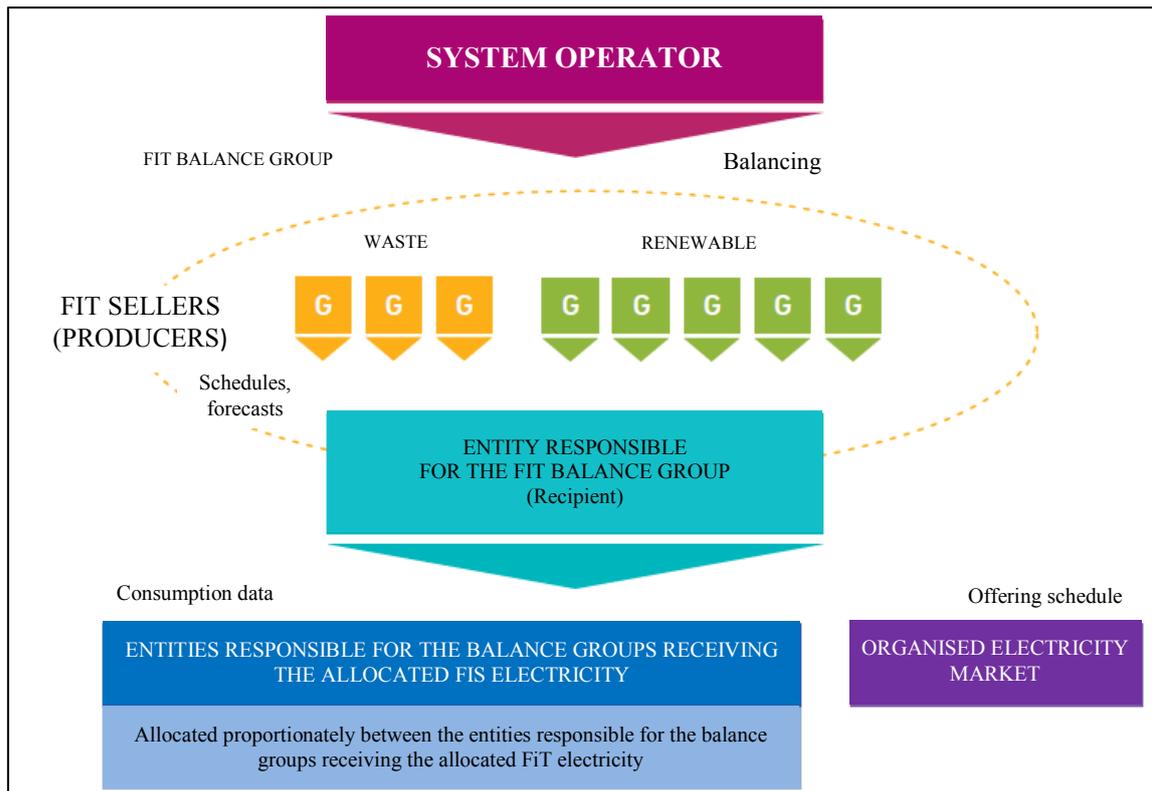
The FiS operates based on the so-called feed-in balance group, which has been functioning since January 2008. Under the Electricity Act, the power plants selling electricity using the FiS constitute a separate balance group, for which the transmission system operator (MAVIR ZRt.) is responsible, as the Recipient.

The tasks of the Recipient are to receive the electricity supplied through the feed-in tariff system, operate the FiS balance group, balance out deviations from the schedule, and allocate, sell, and account for the volumes of electricity received in the FiS system.

¹⁰ http://www.mekh.hu/download/3/7a/10000/kat_arak_megujulo_hulladek_2008_2016.xlsx

¹¹ http://www.mekh.hu/download/c/a5/10000/kat_meghatározás_20150701tol.pdf

Figure 9: Operation of the FiS balance group¹²



A producer of electricity subject to the feed-in obligation (Seller) is entitled and obliged to join the FiS balance group if it fulfils all other legal requirements. MAVIR Zrt., as the entity responsible for the FiS balance group, concludes a balance group membership contract with the Sellers. MAVIR, as the Recipient, pays the feed-in tariff to the Sellers for the electricity supplied to the balance group.

The more-or-less constant supply of electricity from FiS Sellers (the so-called “base-load”) is allocated to the entities responsible for the balance group obliged to receive in the FiS system in proportion to the consumption of consumers not entitled to universal service within their balance group. The consumption of consumers entitled to universal service supplied by electricity traders may only be exempted from allocation if

- the electricity trading service is provided in accordance with the pricing specified in the Ministerial Decree on the pricing of the electricity universal service,
- at prices that do not exceed the universal service fee components applicable to the specific service location and at least one of the fee items is lower than in the case of universal service, and
- the services to be made available to consumers supplied within the framework of the universal service as specified in the Government Decree on the implementation of certain provisions of the Electricity Act are also provided.

The remaining volume of electricity to be allocated (approx. 40% of the total volume) is sold on the organised electricity market (HUPX), which is the responsibility of MAVIR.

From 1 April 2016, the electricity received through the feed-in tariff system will be sold entirely on the organised electricity market.

¹² Source: MAVIR

The additional costs of electricity received through the feed-in tariff system (the subsidy value above market value) will be allocated among the entities responsible for the balance groups obliged to receive electricity in the FiS in proportion to their respective electricity sales that are not subject to universal service.

The additional costs allocated to the entities responsible for the balance groups obliged to receive electricity in the FiS are passed on within the framework of bilateral contracts, based on voluntary agreements by the parties. From 1 April 2016 onward, the entities responsible for the balance groups will have to pass on the values published by MAVIR in Ft/kWh and indicate it as a separate item on their invoices.

The Authority publishes an annual report on the progress of the feed-in tariff system, which is available on the website of the Authority.

Guarantee of origin system

The previous certificate of origin system was abolished by an amendment of the Electricity Act effective from 22 June 2013, and it was superseded by the so-called guarantee of origin. Under subsection (1) Section 12 of the Electricity Act, the volume of electricity from renewable energy resources or high-efficiency cogeneration may only be certified by the seller to the consumer in the form of a guarantee of origin. The detailed rules of the guarantee of origin system and trading with guarantees of origin are defined in the Government Decree 309/2013 (VIII. 16.) on the certification of the origin of electricity from renewable energy resources and high-efficiency cogeneration (Guarantee of Origin Decree).

Guarantees of origin may be issued for volumes of electricity produced from renewable sources of electricity or high-efficiency cogeneration, provided that the relevant power plant unit has been issued a classification resolution by the Authority pursuant to the Guarantee of Origin Decree. The standard volume included in a guarantee of origin is 1 MWh. Guarantees of origin are tradable official certificates, which consumers/service providers can use to certify the origin of the electricity they consume/supply.

In accordance with the Guarantee of Origin Decree, the Authority operates the register of guarantees of origin using an electronic management system. In order to be able to access the management system, the producer and/or the buyer of the guarantee of origin need to open a holding account with the Authority, for an annual fee of HUF 20,000. In 2015, thirteen holding accounts were opened altogether, increasing the total number of account holders to 20 until the end of the year.

Guarantees of origin are issued by the Authority through the management system, upon request by the account holder, for volumes of electricity generated by a power plant unit classified under the Guarantee of Origin Decree. In 2015, a total of 27,448 guarantees of origin were registered with respect to electricity generated in Hungary. A further 354,293 guarantees of origin were recognised by the Authority upon the request of the account holders with respect to electricity generated abroad. It is thus apparent that the certificates used in the Hungarian trade of guarantees of origin originate primarily from abroad.

The purpose of these guarantees of origin is to certify to consumers the (renewable) origin of the electricity. In 2015, the renewable origin of 369,207 MWh electricity in total was certified to consumers using guarantees of origin.

2.3. Licensing and supervision

The Authority issued 316 resolutions for companies active in the electricity industry in 2015 in the fields of electricity licensing and supervision. The types of resolutions issued are provided in the following table:

Table 14: Resolutions issued in 2015 in the field of electricity licensing and supervision

Type of Resolution	Number
Transmission system operator	33
Distribution system operator	18
Organised electricity market licensee	3
Trading licensee	34
New licence	5
Licence amendment	8
Exemption from Commercial Code	3
Revocation	6
Commercial Code amendment	8
Commercial Code approval	2
Termination of proceedings	1
Licence extension	1
Limited electricity trading licensees	18
New licence	10
Licence amendment	5
Revocation	3
Universal service provider	4
New licence	1
Revocation ¹³	1
Licence amendment	2
Power plant with a nominal output higher than 50 MW	10
Establishment licence	0
Company law event	0
Exemption from Commercial Code	0
Licence amendment	9
Revocation	0
Suspension	1
Consolidated licence for small power plants	70
New licence	3
Licence amendment	58
Termination of production	4
New licence + FiS approval	1
Revocation	4
FiS	65
Establishment	65
Unauthorized sale	0
Power plant unit certification	21
Renewable energy resource certificate	21
High-efficiency cogeneration certificate	0
Public lighting	40
New licence	6
Licence amendment	32
Licence revocation	2
Installation of private power lines	0
ALL	316

¹³ The revocation of the universal service provider licences of ELMŰ Nyrt and ÉMÁSZ Nyrt and the appointment of ELMŰ-ÉMÁSZ Energiaszolgáltató as a universal service provider were performed in a single resolution.

2.3.1. Licensing and supervision of producers

Power plants with a nominal output of 50 MW or higher

No licences were issued with respect to power plants with a nominal output of 50 MW or higher; however, the Authority issued a total of 9 licence amendments.

Small power plants

Based on the provisions of the Electricity Act, in the case of a power plant with a nominal output of 0.5 MW and higher but below 50 MW, a simplified licensing procedure has to be followed in certain cases. Licensing was performed continuously throughout 2015. The installed capacity of consolidated small power plant licensees actively engaged in production was 1288 MW in December 2015. In 2015, the Authority issued 70 resolutions regarding small power plants, of which 4 were new consolidated small power plant licences.

Renewable energy power plants

Compared to the previous year, 2015 saw an increase in the number of FiS applications especially among small power plants exempt from licensing. No applications were received for the establishment of biomass power plants. The Authority issued one licence for the establishment of a biogas power plant. The Authority issued so-called FiS quota resolutions for small power plants exempt from licensing on 65 occasions, which pertain to the volume of electricity and the length of the feed-in period. The vast majority – approx. 96% – of the applications concerned the establishment of solar power plants.

Since 1 March 2014, power plant units may only produce electricity for the feed-in tariff system if they possess a classification resolution issued by the Authority. In 2015, a total of 21 classifications were issued by the Authority.

Power plant audits

The Authority continued to put increased effort into verifying the availability of the statutory fuel stockpiles in 2015 and established that the stockpiles of the power plants often exceeded the legally required quantities. Maintenance is carried out based on different principles but according to plan at each location, which ensures reliability and availability. The power plants typically sign multi-year contracts for purchasing fuel.

The power plants comply with environmental regulations; therefore, the earlier developments and modernisations proved to be sufficient to meet the strict standards.

When reviewing the quality assurance situation, it can be concluded that all power plants with a nominal output higher than 50 MW operate a quality assurance system. In the case of certain large power plants, integrated quality control, environmental control, and occupational health and safety systems are being developed. Multiple sites already operate integrated environmental management and quality control systems.

The Authority performed on-site inspections in 4 power plants with nominal outputs higher than 50 MW in accordance with the provisions of Act CXL of 2004 on the general rules of administrative proceedings and services and of the Electricity Act.

In 2015, the Authority carried out on-site inspections at consolidated small power plant licensees as well. During the drawing up of the audit plan, it was an important objective to carry out inspections in power plants using as many different technologies as possible. This way, biogas-fired small power plants, solar power plants, natural gas-fired power plants, and landfill small power plants were also inspected. The Authority did not discover any non-compliance during the inspections.

The Authority requested information from biomass-fired power plants selling electricity generated in the feed-in tariff system in order to verify compliance with subsection 9 Section 3 as well as subsections (2)-(3) Section 7 of the Government Decree 389/2007 (FiS Decree). All power plants fulfilled the Authority's request. There was no need to initiate administrative proceedings or exercise administrative rights.

2.3.2. Licensing and supervision of the Transmission System Operator

In 2015, a single transmission system operator (TSO) was active in Hungary. On 9 April 2015, the Authority approved Amendment No 2 of the Transmission System Operator Licence of MAVIR ZRt. in its Resolution 4281/2015.

MAVIR requested the approval of the Operational Code on 27 February 2015, which the Authority granted in its Resolution 904/2015 dated 26 March 2015.

MAVIR submitted a request to the Authority on 6 July 2015 with respect to the approval of Amendment No 12 of the Telecommunications Network Use Agreement (THHSZ). The Authority approved Amendment No 12 of the THHSZ in its Resolution 5368/2015 issued on 27 August 2015.

Negotiations between the Authority and MAVIR regarding the participation of MAVIR in the TSO Security Cooperation (TSC) started as early as in 2010. The TSC is an operational security cooperation between Central European, Eastern European, and Western European transmission system operators, which currently consists of 13 members. On 25 September 2014, MAVIR became a full member of the TSC. The Authority also noticed that fluctuations in production have become more prevalent lately due to the ever increasing number of power plants using intermittent renewable energy resources and that transmission system operators – including MAVIR – need to avail themselves of more and more complex solutions to maintain security of supply and operational security. In addition to its original purpose of operational security cooperation, the TSC nowadays also provides assistance to its members in day-ahead and intraday operational planning, which helps improve operational security and security of supply in Hungary as well. Besides operational planning and information exchange, the TSO members of the TSC help each other out, if necessary, by way of multilateral redispatch (MRA). From 1 September 2015, MAVIR participated in the relevant agreement (including the related cost sharing); however, the sum of the balancing energy costs allocated to MAVIR within the framework of the agreement approached the expense limit set by the Authority (EUR 1 million), which resulted in MAVIR withdrawing from the agreement after just a few weeks of participation. Coordinated operational planning is also a requirement of both the effective electricity network codes and the ones currently under comitology procedure.

The Commercial Code of MAVIR was approved for the definite period of one year, in accordance with the relevant practice of the Authority. The Commercial Code was approved in Regulation 633/2015 of the Authority dated 23 February 2015, effective between the business day of 1 March 2015 and 29 February 2016.¹⁴ Following the approval, the Authority amended the contents of the Commercial Code on three occasions in 2015 (Resolution 4447/2015, dated 14 May 2015; Resolution 5744/2015, dated 15 October 2015; Resolution 5943/2015, dated 17 November 2015).

¹⁴ Beforehand, the Commercial Code was amended once more in January 2015 (Resolution 221/2015, dated 21 January 2015), at the end of the previous approval period, since the year for approval proceedings ends on 1 March.

The most important change in the operation of the electricity system is the new auction rules introduced for the allocation of the forward capacity rights (yearly and monthly) for 2016. As a result of the early implementation of the Forward Capacity Allocation Guideline (FCA GL), the allocation will be performed on the basis of the uniform auction rules harmonised by ENTSO-E (ENTSO-E Forward Capacity Allocation Rules, 17 June 2015, or EU HAR) including their region- and border-specific appendices in regard to all EU borders of Hungary from 1 January 2016 onward.

2.3.3. Licensing and supervision of the Distribution System Operators

In 2015, six Distribution System Operators (DSO) were active in Hungary.

Figure 10: Spatial distribution of electricity distribution system operators in Hungary



The Authority did not issue new distribution system operator licences in 2015.

Distribution system operator licensees submitted a total of 6 requests to the Authority for classifying a breakdown caused by extreme weather conditions as a “Miscellaneous network disruption”. In the 3 closed cases, the Authority established that the operational disruptions were caused by events outside the control of the licensees and declared these cases “Miscellaneous network disruptions”. The Authority authorised the licensees to include the values of their sanctioned indicators among the minimal quality requirements in a separate column in the annual data report, and not to include them in the calculation of their own quality indicators.

2.3.4. Licensing and supervision of electricity traders and universal service providers

In 2015, a total of 15 new operation licences for electricity trading were issued. Among the licences issued, the number of limited operation licences for electricity trading was ten. A total of 9 operation licences for electricity trading were revoked in 2015 upon request by the licensees. One of the assumed reasons for the revocations was that in addition to the Hungarian subsidiaries of foreign owners, their parent companies also obtained their own limited electricity trading licences, and they only performed wholesale activities anyway.

Some of the electricity trading licences issued for fixed periods of 10 years in accordance with the formerly applicable legislation have expired. In 2015, one such licence was extended (one licence was extended in each of 2013 and 2014 as well).

The total number of resolutions issued in connection with electricity traders was 52 in 2015 (licence amendments, Commercial Code approvals and amendments, and other resolutions concerning the sector). At the end of 2015, the Authority oversaw 173 electricity trading licensees, of which 87 were full electricity trading licensees and 86 were limited licensees.

On 22 December 2015, Energetikai Központ Zrt. submitted an application to the Authority for appointing a trading licensee of last resort in order to supply its household consumers due to its insolvency. In order to ensure the secure, continuous supply of the affected household consumers, the Authority appointed the universal service providers operating in the respective areas as so-called service providers of last resort in January 2016.

RWE, a German company group, established a new company under the name ELMŰ-ÉMÁSZ Energiaszolgáltató Zrt., which company applied for both an electricity trading licence and an electricity universal service provider licence. ELMŰ-ÉMÁSZ Energiaszolgáltató Zrt., ELMŰ Nyrt., and ÉMÁSZ Nyrt. requested in a joint application the revocation of the universal service provider operation licences of ELMŰ Nyrt. and ÉMÁSZ Nyrt., as well as the appointment of ELMŰ-ÉMÁSZ Energiaszolgáltató Zrt. as the universal service provider for their supply area. The procedure was closed on 30 November 2015 and took effect on 1 December 2015. The Authority has been continuously monitoring the takeover of the affected consumers since then.

2.3.5. Licensing and supervision of the organised electricity market

HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX) started the operation of the day-ahead (spot) electricity market with 10 members on 20 July 2010. The increase in activity observed in the previous years continued in 2015. The average monthly turnover was 1.24 TWh on the day-ahead market (the annual average was 15 TWh). HUPX reached its monthly record trading volume in August 2015, with the volume of traded electricity being 1439.06 GWh. The monthly average turnover can be considered stable as the volume of electricity traded exceeded 1.15 TWh in each month with the exception of February. The total volume traded in 2015 was approximately 15 TWh, which is an 18% increase compared to last year. This increase is due to – in part – the coupling of the Czech, Slovakian, Hungarian, and Romanian markets, which was implemented in November 2014, as well as the 5 new members (EDF Déász Zrt., ARELCO POWER SRL., EVN Trading South East Europe EAD., EPS Trgovanje doo., DufEnergy Global Commodities).

On 19 July 2011, physical futures trading (HUPX PhF) was launched on the HUPX with 10 members; by the end of 2014, the number of members was 33, which decreased to 31 by the end of 2015. In addition to the above, the organised electricity market also offers a service for its members that allows for OTC trading. The volume traded on the physical futures electricity market was approximately 6.5 TWh in 2015, which means an almost 80% increase compared to 2014.

In mid-2015, work began at HUPX to introduce the intraday market as early as possible. The Authority continuously participates in the project by way of the working group created for this purpose. The legislative and electricity supply code provisions required for the launch of the Hungarian intraday market have already taken effect. HUPX informed the Authority at the end of 2015 that the market branch would open for the first time on 11 February 2016.

2.3.6. Public lighting operation licences

Following the entry into force of Act XXIV of 2013 on the amendment of certain acts on energy in order to establish the social public utility service, the provisions of the Electricity Act on public lighting were amended on 11 April 2013. If the public lighting equipment is not operated by the statutory public lighting service provider, the operation thereof requires a public lighting operation licence that is issued and may be revoked by the Authority, with the exception of the public lighting equipment of the public lighting distribution system.

An applicant requesting a licence has to provide documentation and data in support of its suitability for performing the licensed activity and it has to have a contract in effect with the statutory public lighting service provider. The list of documents to be attached to the application is provided for by the Electricity Act and the Implementation Decree of the Electricity Act.

In the reference year, the Authority issued 6 public lighting operation licences and 32 resolutions for amending existing licences, and revoked 2 licences.

The Authority held on-site inspections at the premises of a total of eight public lighting operation licensees. The inspections did not reveal any non-compliance.

The number of lighting fixtures operated by licensees exceeds 1.3 million, with an accounting capacity of 99.3 MW. The average accounting capacity of a single lighting fixture is 76 W. The average accounting capacity of a single lighting fixture in Budapest is 112 W.

According to the issued licences, the breakdown of public lighting fixtures based on light source types is as follows: compact fluorescent lamps 49.93%; sodium lamps 43.19%; mercury lamps 2.01%; LED 3.79%, fluorescent lamps 0.56%; metal halide lamps 0.27%; other 0.25%.

2.3.7. Allocation of cross-border capacities and congestion management

New auction rules have been introduced for the allocation of (yearly and monthly) forward capacity rights for 2016. As a result of the early implementation of the Forward Capacity Allocation Guideline (FCA GL), the allocation will be performed on the basis of the uniform auction rules harmonised by ENTSO-E (ENTSO-E Forward Capacity Allocation Rules, 17 June 2015, or EU HAR) including their region- and border-specific appendices in regard to all EU borders of Hungary from 1 January 2016 onward.

In the Central and Eastern European region (CEE region) specified in the Annex of Regulation (EC) No 714/2009, the CAO Central Allocation Office GmbH (CAO) used to be responsible for congestion management in the past. Congestion management was performed on the basis of net transmission capacity (NTC), in coordinated auctions. In the second half of 2014, the auction office

operating on the western half of Europe, CASC.EU, the CAO, and their 20 transmission system operator owners announced that they wish to open a joint auction office under the name Joint Allocation Office S.A. (JAO), headquartered in Luxemburg. The planned conversion was fully concluded on 1 September 2015, and the yearly auctions for 2016 were already managed by the JAO; however, this change only affected capacity allocation. With respect to capacity calculation, the other important element of congestion management, the conversion was carried out even earlier; from June 2015 onwards, this activity was taken over from the CAO by TSCNET Services GmbH.

The works for the introduction of coordinated flow-based allocation (FBA) in the CEE region, which has been in progress for years, and the works for the implementation of the flow-based market coupling (FBMC), which has been ongoing since March 2012, continued in 2015 as well. The 8 transmission system operators (the above specified TSOs, with the exception of HOPS d.o.o.) and 7 power exchanges (BSP Regionalna Energetska Borza d.o.o.; EPEX Spot SE; EXAA Energy Exchange Austria; HUPX Magyar Szervezett Villamosenergia-piac Zrt.; OTE, a.s.; OKTE, a.s.; TGE Towarowa Gielda Energii S.A.) signed a memorandum of understanding in regard to the introduction of the NWE-CEE FBMC. The two main pillars of the project are the flow-based capacity calculation method, provided by the transmission system operators, and the calculation algorithm for market coupling (PCR solution), provided by the power exchanges. The works continued in April 2014 with the establishment of the project organisation, which was followed by the preparation for the implementation of the project (drawing up of a budget and schedule, establishment of working groups). On 11 September 2015, the Authority approved MAVIR's signing of the framework contract required for the commencement of the project.

On 14 August 2015, Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM GL) entered into force, the implementation of which was carried out in Hungary on a statutory level.

On 13 November 2015, MAVIR submitted the proposal on capacity calculation regions, which was developed jointly by all transmission system operators, to be approved by the national regulatory authorities within 6 months according to the CACM GL. On 10 December 2015, the Authority appointed HUPX Zrt. as the Nominated Electricity Market Operator (NEMO).

2.3.8. Unbundling of activities

In the supply chain of electricity, distribution and transmission system activities can be considered natural monopolies, since the operation of a single distribution system operator in a region and a single transmission system operator in a country is more economical overall. In order to ensure non-discriminatory access to the network and avoid cross-financing between activities conducted under regulated and competitive market conditions, the regulatory authority continuously monitors compliance with the unbundling requirements included in statutory provisions.

The transmission system operator and distribution system operators of the electricity sector carry out their activities in accordance with the unbundling rules of the Electricity Act based on Directive 2009/72/EC.

Unbundling rules for electricity sector activities in Hungary

In Hungary, the mandatory requirements for the unbundling of natural monopoly activities (transmission and distribution system operation) from other, competitive electricity sector activities (production, trade, and universal services) are contained in the Electricity Act and the Implementation Decree of the Electricity Act.

In 2006, the system operator was merged with MVM Zrt., which is owned by the state and conducts production and trading activities via its subsidiaries, thus, Hungary switched from the previous Independent System Operator (ISO) model to the Independent Transmission Operator (ITO) model, where the ITO operates as an independent subsidiary within a vertically integrated company. As part of the transaction, the transmission system was acquired by the transmission system operator.

MVM Zrt. developed a corporate structure where the holding company coordinating the subsidiaries is not engaged in any electricity sector activities subject to licensing. MAVIR, the only transmission system operator in Hungary, continued to perform its licensed activity in 2015 (as an independent subsidiary of MVM Zrt.). In order to fulfil the requirements set out in the Third Energy Package, the contracts concerning outsourced activities had been terminated by the beginning of 2012.

2.3.9. Preparations for the roll-out of smart metering

In accordance with Directives 2009/72/EC and 2009/73/EC, the Member States shall ensure the introduction of smart metering systems. However, the introduction of the so-called “smart” metering systems depends heavily on the economic assessment of all costs and benefits incurred and obtained by the market participants, on the cost efficiency of each smart metering model, and the potential schedule for their installation.

The Authority operated a Smart Metering Working Committee in 2015 with the involvement of all stakeholders. The distribution system operators implemented pilot projects in connection with smart metering in 2013 and 2014, which were completed by the end of 2014. The last meeting of the Smart Metering Working Committee of the Authority was held on 19 February 2015.

The preparations for the pilot project of Központi Okos Mérés Zrt. (KOM) continued in 2015 as well.

2.4. Price preparation, price regulation

2.4.1. Grid fees

Among the grid fees, the purpose of the transmission system operation fee is to cover all justified costs arising from operation and maintenance of the high-voltage transmission network, physical losses on the network, and the operation of the national electricity system. The purpose of the ancillary service fee is essentially to cover the costs of reserving the capacities necessary for maintaining the production-consumption balance of the electricity system at all times. The above two fee components have to cover the recognised expenses of the main activity of the transmission system operator.

Through the transmission network, the electricity generated by power plants reaches the distribution network. The Hungarian distribution network is currently operated, maintained, and developed by 6 distribution system operators (licensees), each of which has monopoly in their respective regions.

The purpose of the revenue from distribution fees (distribution base fee, distribution service fee, distribution loss fee, and – in the case of certain consumer categories – distribution capacity fee, distribution reactive power fee, and distribution schedule balancing fee), as well as from the public lighting distribution fee is to cover the justified expenses of distribution system operators arising from the operation and maintenance of the distribution networks, their customer service obligations, and network losses.

The preparation of the 2016 grid fees and the calculation of the new fees were carried out in compliance with the applicable price regulation principles.

Price regulatory incentives for the improvement of distribution service quality

The incentive scheme is implemented through the annual assessment of service quality indicators.

Accordingly, the Authority takes it into account (before the start of price regulation cycle) during distribution cost reviews whether distribution system operators achieved the required values of the service quality indicators and what service quality levels they achieved compared to each other. Based on this, when the Authority establishes the value of the recognised justified expenses (during the comparative examination of the operating costs associated with technical activities), it reduces the amount of expense deduction otherwise deemed to be necessary in the case of distribution system operators that “perform better”.

With respect to the initial cost base of 2013, this primarily affected EDF DÉMÁSZ, ELMŰ, and ÉMÁSZ out of all the distribution system operators, to different extents.

Another component of the service quality incentive system – the one related to pricing – is the regulation that imposes sanctions on the deterioration of certain distribution service quality indicators, as provided in Decree 4/2013 (X. 16.) of the HEA on electricity grid fees and the rules for the application thereof.¹⁵ In accordance with this regulation, in the event of the more significant deterioration of any of the indicators specified in a resolution of the Authority, the non-complying distribution system operator is obliged to provide a discount to consumers from the distribution fees in the 2nd half of the following year, the rate of which is determined pursuant to the aforementioned Decree (depending on the extent of the deterioration and the number of consumers affected).

Following the data becoming available and being processed, the Authority completed the evaluation of the 2014 service quality indicators in May 2015. Based on the evaluation, the development of the service quality indicators did not necessitate the application of the sanctions; therefore, no mandatory discount was provided in the 2nd half of 2015.

¹⁵Before 1 November 2013, the rules for incentives were provided for in Decree 64/2011 (XI. 30.) of the Ministry of National Development on the rules for the determination and application of electricity grid fees.

2.4.2. Universal service

The price regulatory framework of the universal service

In 2015, low-power consumers and public institutions continue to be entitled to purchase electricity within the framework of the universal service at a price all components of which are regulated (unless they entered the competitive market).

Low-power consumers (entitled to universal service) include household consumers¹⁶ and consumers that use low voltage electricity and their overall connection capacity does not exceed 3x63 A on all service locations (mostly small businesses).

Since the 2008 introduction of the universal service system, the universal service fee payable for electricity as a product, the grid fee (fees) payable for delivering this “product” to consumers, and taxes (and other public burdens) are indicated as a separate price component for household and non-household consumers entitled to the service.

As a measure implemented in November 2013 as part of the so-called second utility fee reduction programme, the public burden component (the so-called contributions) was no longer included in the invoices issued for household consumers – unlike previously – as these are now payable by non-household consumers only (similar to the energy tax).

Universal service prices have been different for each service area since July 2009, the rates of the other components (grid fee, contributions, energy tax) are nationally uniform.

In the case of electricity, the notion of universal service price only applies to the product (including all recognised expenses of the service provider), it does not include the grid fees (and the other above-mentioned price components).

The coal industry restructuring contribution included in electricity bills as one of the three so-called contributions – payable only by non-household consumers since 1 November 2013 (regardless of whether they are supplied by a competitive market trader or a universal service provider) – covers those operational expenses of the Márkushegy coal mine owned by Vértési Erőmű Zrt. (until it is closed), which are not able to be recouped from the sale of electricity generated using coal. Another component of the contributions provides financing for the electricity supply provided to pensioners at a discounted price, while a third one (the cogeneration reconstructing fee) aims to subsidise the district heating service.

Universal service prices have been established by the Minister of National Development in a decree [Decree 4/2011 (I. 31.) of the Ministry of National Development] since 1 February 2011. The Authority submits its recommendations to the Minister with respect to the prices. The Authority prepared its proposal for the amendment of the decree concerning the universal service fees applicable from January 2016 in compliance with the relevant provision of Act LIV of 2013 on the implementation of the utility bill reductions. The preparatory calculations took into account the average recognised purchase price of electricity purchased on the market by universal service providers as well as the assumption of the annual realisation of the annual average price regulatory margin as provided in the relevant legislation. The recognised unit rate of the universal service provider margin (0.986 HUF/kWh) did not change on 1 January 2016.

¹⁶ Under certain conditions, condominiums also qualify as household consumers from 31 December 2013 (clause 42 Section 3 of the Electricity Act).

The end-user price payable by household consumers entitled to universal service

The final price payable by household consumers entitled to universal service did not change on 1 January 2016.

Figure 11: The national average end-user price payable by household consumers entitled to universal service (“A1” pricing, at a consumption of 2400 kWh/year) consists of the following components (HUF/kWh)

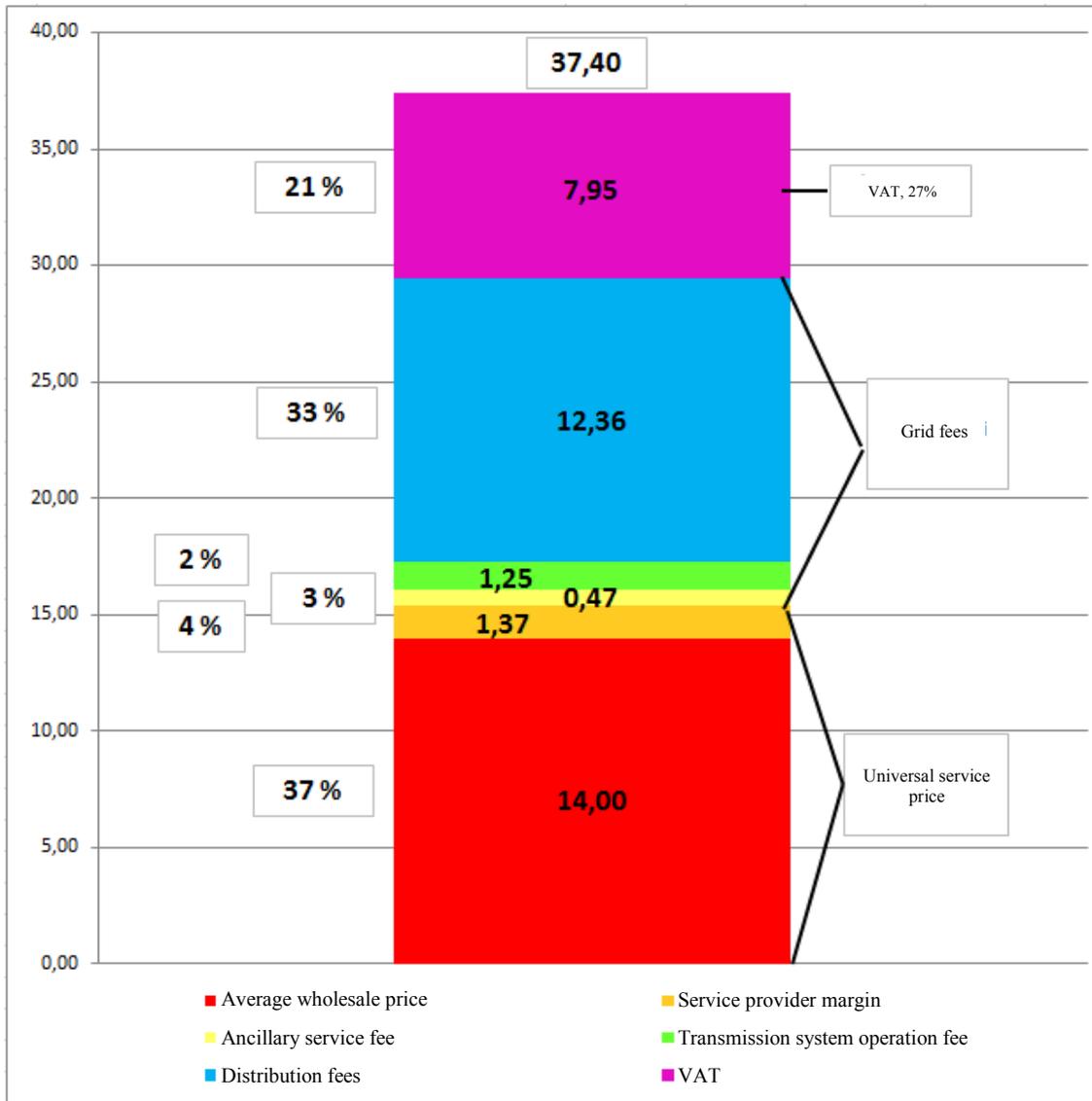
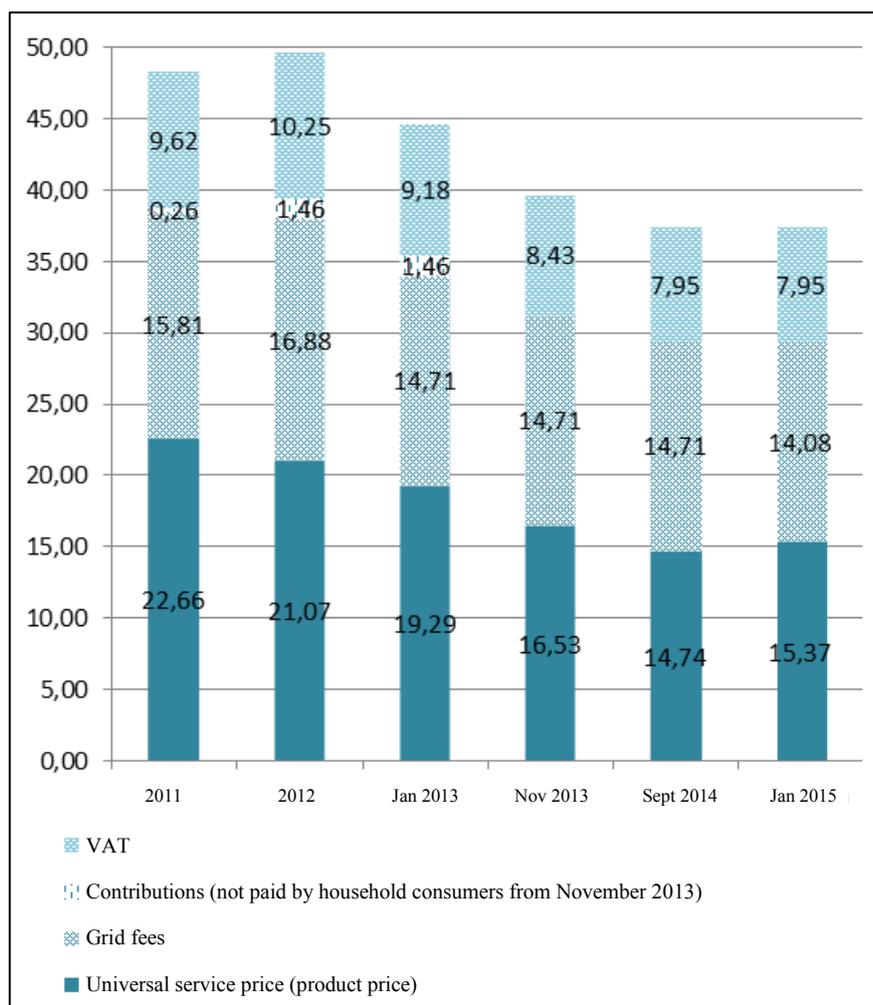


Figure 12 shows the national average end-user prices payable by household consumers entitled to universal service and the components thereof, applicable in 2011, 2012, between January and October 2013, in the period between November 2013 and August 2014, and from 1 January 2015 onward. (Neither the final price nor the price components have changed by 1 January 2016.)

Figure 12: National average end-user prices of the universal service from 2011 (HUF/kWh)



Margin audit

The Authority is obliged to perform the audit of the trading margin of electricity universal service providers determined in the relevant decree by 31 March of the year following the reference year. The Authority completed the audit before the specified deadline in 2015 as well.

3. Regulation and operation of the natural gas market

3.1. Operation of the natural gas market

3.1.1. Natural gas market model

Due to the fundamental characteristics of the liberalised natural gas market, the consumers may decide between purchasing natural gas at their own right or being supplied by natural gas traders. These resources may derive from imports or domestic natural gas production.

In order to boost domestic natural gas trade, the limited natural gas trading operation licence introduced in early 2013 provides an opportunity for the natural gas traders registered and operating in an EU Member State to enter the domestic natural gas market through a simplified procedure. As a result of that, 12 new market players entered the domestic natural gas market in 2015, therefore, by now 32 limited natural gas traders hold operation licences.

In respect of the universal service, substantial transformations were commenced in 2015. As a first step, in the spring of 2015, the universal service operation licence of FŐGÁZ Zrt. operating under the guidance of ENKSZ Első Nemzeti Közműszolgáltató Zrt. was extended to the whole country. As a result of the development of the regulatory environment, E.ON Energiaszolgáltató Kft., GDF SUEZ Energia Magyarország Kft., TIGÁZ Tiszántúli Gázszolgáltató Zrt., ISD Power Kft. and OERG Kft. had the opportunity to request the withdrawal of their operation licence as universal service provider. In 2015, the preparation of migration of consumer portfolios of the affected universal service providers to the FŐGÁZ Zrt. was commenced, in order to make it possible for the consumers entitled to universal service in Hungary to be included in the service by FŐGÁZ Zrt. in a scheduled manner, in phases of several steps over 2016.

On 1 June 2015, the Authority gave its approval to the acquisition of direct influence by MFB Magyar Fejlesztési Bank Zrt. acting on behalf of the Hungarian government in FŐGÁZ Zrt, in excess of 75% (99.83%). In September 2015, the Authority gave its approval to the acquisition of direct influence by FŐGÁZ Zrt in GDF SUEZ Energia Magyarország Zrt. (GSEM) in excess of 75% (99.936%), which resulted in that the consumers supplied by GSEM were now supplied by FŐGÁZ Group nearly three quarters of a year earlier in relation to the date 1 July 2016.

The Authority gave its approval to other so-called corporate law events with respect to natural gas, including for example,

- reduction of equity capital: TIGÁZ Zrt., Dunamenti Erőmű Zrt.;
- reduction of authorised shared capital: NYKCE Nyíregyházi Kombinált Ciklusú Erőmű Kft.;
- acquisition of influence (direct or indirect) in the case of ELGAS Kft., TOTAL Hungaria Kft., DKCE Debreceni Kombinált Ciklusú Erőmű Kft., NYKCE Nyíregyházi Kombinált Ciklusú Erőmű Kft.

Import supplies ensuring the service of the country were carried out through the network point at Beregdaróc though pipeline Testvériség from the Eastern direction and through pipeline HAG coming from Baumgarten, Austria, from the Western direction. Magyar Gáz Tranzit Zrt. (MGT Zrt.), following the final certification process gained transmission system operation licence with effect from 1 June 2015.

On the Ukrainian-Hungarian cross-border point transmission outgoing from the country is also carried out from 1 June 2013 with some shorter or longer interruptions.

On the Serbian-Croatian-Romanian interconnection still only transmission outgoing from the country is carried out, even though the Croatian and Romanian interconnection was constructed to facilitate reverse flows, as well as it is possible to use backhaul capacities going opposite the direction of the physical transmission.

Figure 13: Structure of the domestic natural gas market (physical flows)

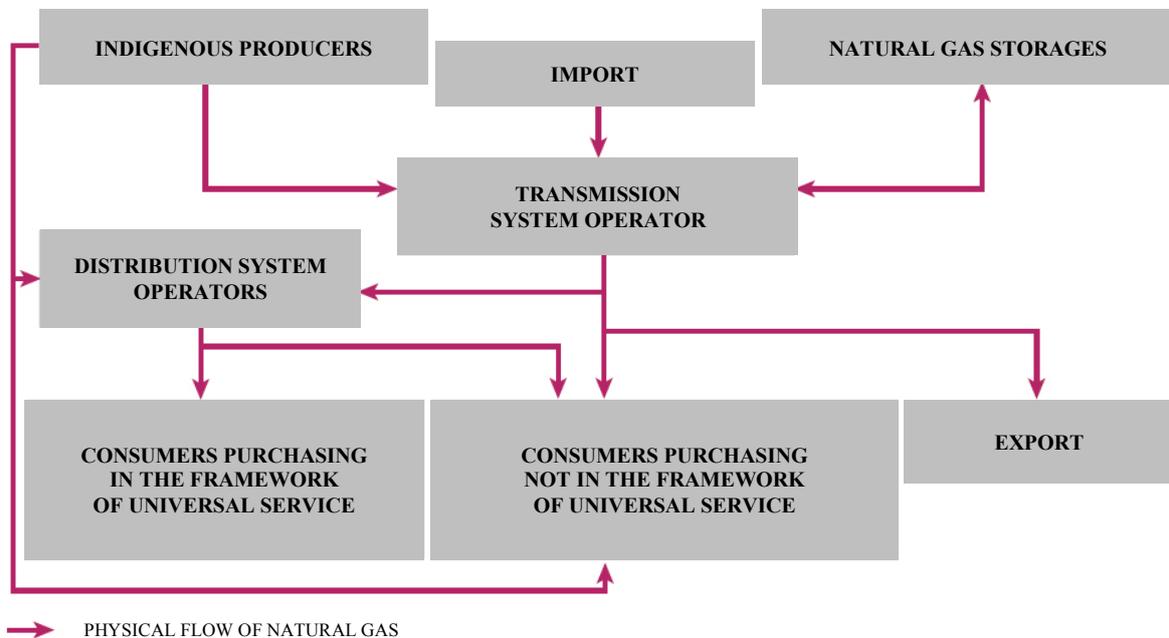
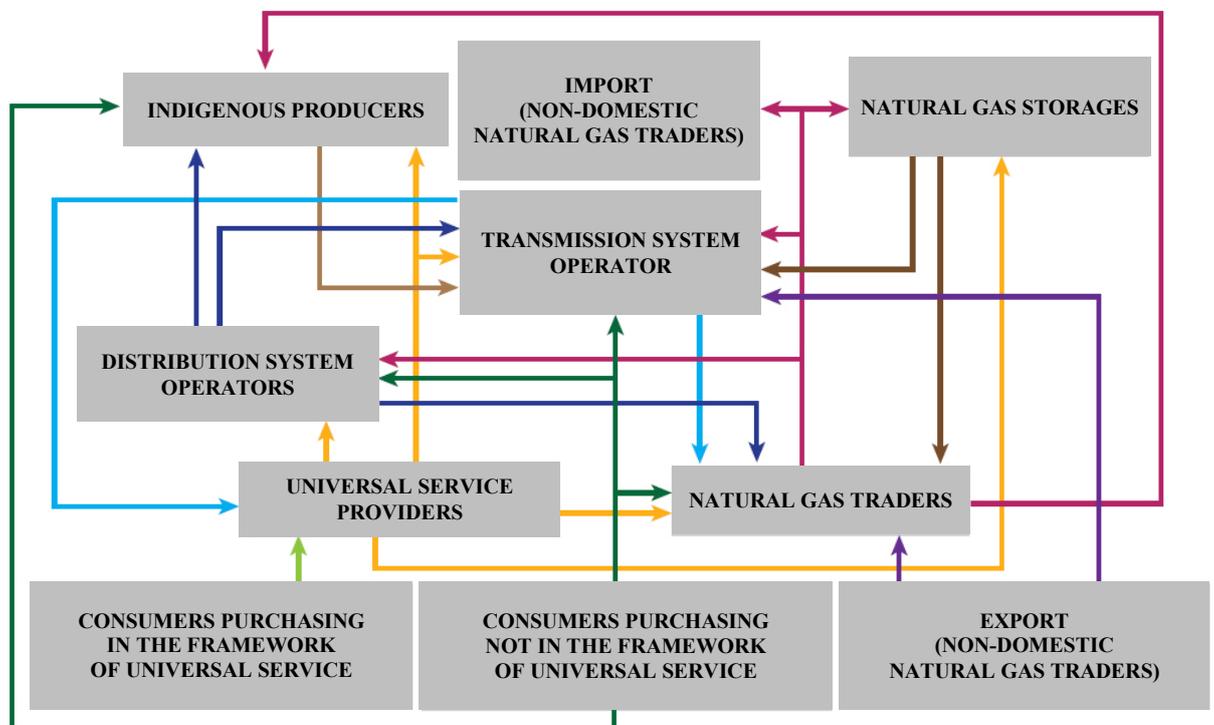


Figure 14: Structure of the domestic natural gas market (financial flows)¹⁷



¹⁷ Each colour represents a separate financial relationship and is to be construed as a natural gas industrial activity, and therefore it may not necessarily correspond to corporate data.

The seasonality of natural gas consumption by households, that is the increased gas demand in the winter heating period requires that in addition to the available import sources and domestic production, full supply from gas storage facilities that were filled up during the summer period is also ensured. In the natural gas storage facilities, due to their statutory obligations, primarily the universal service providers store a greater amount of natural gas, typically from a source purchased within the framework of the offering system and in an indirect manner.

For storing the strategic natural gas stocks, a capacity of 1200 million m³ is available for Hungary at the stock level determined by the minister responsible for energy policy, primarily with the aim of supplying household consumers, in order to mitigate a possible lack of sources that may arise as a result of a loss in natural gas import sources.

The level of natural gas strategic stocks, under Decree No. 13/2015 (III. 31.) of the Minister of National Development on strategic stocks of natural gas is 915 million m³.

Based on the former decision of the Minister of National Development, MMBF Zrt. remains responsible for storing the strategic stocks of natural gas, the level of which was available in its entirety on 31 December 2015.

3.1.2. Wholesale and retail trade

The composition of gas sources secured in 2015 is presented in the table below:

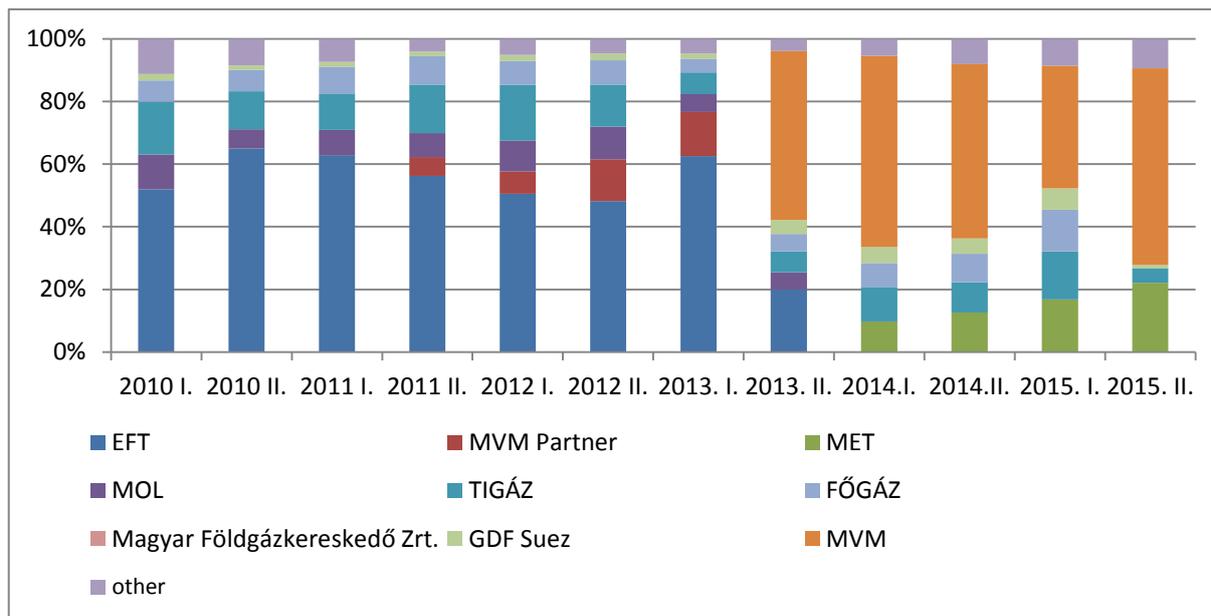
Table 13: Natural gas source structure

	BCM	%
Annual import and domestic production:	8.31	100
Domestic production:	1.55	18.7%
Import:	6.76	81.3%
- within that from the Eastern direction:	3.99	59.0%
- within that from the Western direction:	2.77	41.0%

The import gas sources are predominantly of Russian origin, most of the natural gas purchased through HAG pipeline from Baumgarten, Austria is also of Russian origin in terms of its molecular composition. Domestic production, following the tendencies in the previous years, fell by approximately 10% in 2015 compared to the previous year, likewise import decreased by 10% as well in 2015. As a result of this, the rate of 20-80% of domestic production and import that was characteristic for the previous years, compared to the rate of 16-84% in 2014 changed again to 19-81%. In 2014, import from the Eastern direction, similarly to the previous year, exceeded the import from the West.

Figure 15 shows how market shares calculated based on the purchased sources (import or production) changed as a result of market-related and structural changes. The market share of MVM Group in 2015 was 53%, while the market share of MET (formerly: MOL Energiakereskedő Zrt.) increased to more than 20% in 2015.

Figure 15: Change in the market share of gas traders, based on the amount of purchased resources (2010-2015)*



*MVM, in respect of the data regarding the second half of 2013 and the year of 2014, includes MVM Partner and from 1 September 2013, Magyar Földgázkereskedő Zrt. as well. MET indicates the former MOL Energiakereskedő Zrt.

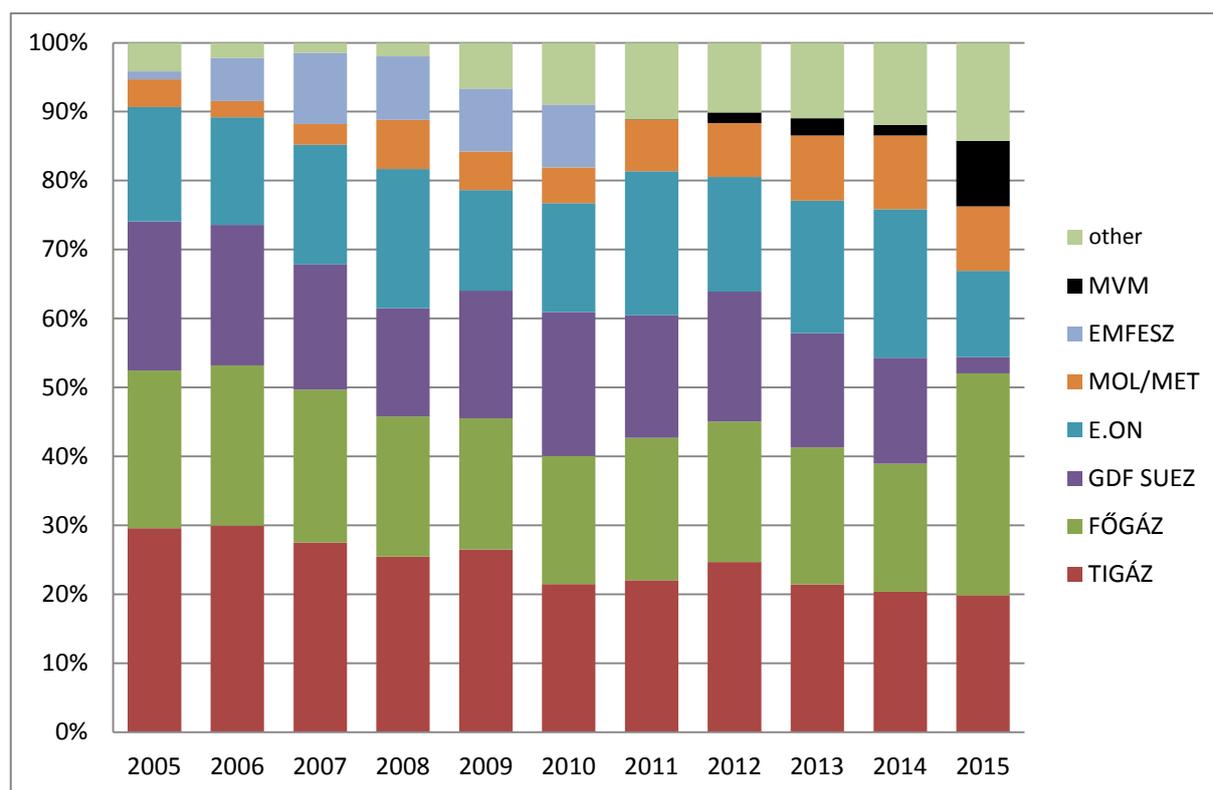
Since its opening in 2004, the retail market has been characterised by a dual structure: it is divided into a segment using regulated prices and another segment using competitive market prices. The relative weight of the two segments in relation to each other continuously shifted towards the competitive market after the liberalisation. As of 1 July 2009, public utility service that was earlier available to all consumers at a regulated price was replaced by universal service available to a significantly more limited scope of entitled consumers.

The consumers entitled to universal service (local government, to the extent of supplying service locations of household consumers, other consumers with purchased capacity below 20 m³/hour and residents of flats rented from municipalities) are still predominantly supplied by universal service providers. The universal service providers are bound by the obligation to sell natural gas and to conclude contract with consumers entitled to universal service.

The consumers not entitled to universal service either purchased natural gas from the competitive market earlier already or entered the competitive market only upon the termination of their eligibility to universal service (consumers with medium and low consumption and district heating producers). With the termination of public utility service, and later with the reduction of eligibility for universal service, consumers with medium and low consumption also selected their natural gas supplier from the natural gas traders.

In 2015, 46 companies held operation licences for natural gas trade, which mainly sold natural gas for industrial consumers or other natural gas traders.

Figure 16: Changes in shares of investment groups in terms of quantity of natural gas sold on retail market (2005-2015)



In 2015, as compared to the previous year, beside the four main company groups (TIGÁZ, FŐGÁZ, E.ON, GDF SUEZ) - due to ownership restructuring - MVM Group was also included among the greatest market participants as a fifth dominant company group. The market position of the company group enhanced this way remained very strong since the majority of consumers purchases natural gas within the framework of universal service. Furthermore, of MET Magyarország Zrt. (partly owned by MOL) is also to be mentioned here, the presence of which in the natural gas market is gradually increasing.

Table 14: Market shares based on the number of service locations in December 2015

SERVICE PROVIDERS / NUMBER OF CONSUMERS	Universal service	Competitive market	Total	Share
Fővárosi Gázművek Zrt. and ENKSZ Észak-Dél Regionális Földgázszolgáltató ZRt.	1,532,129	8,058	1,540,187	45.85%
TIGÁZ Zrt.	1,192,153	4,172	1,196,325	35.61%
E.ON Energiaszolgáltató Kft. and E.ON Energiakereskedelmi Kft.	607,884	3,798	611,682	18.21%
Magyar Telekom Nyrt.	0	7,427	7,427	0.22%
Other	143	3,294	3,437	0.10%
Total	3,332,309	26,749	3,359,058	100%

3.1.3. Market events

The total domestic natural gas consumption has been showing a declining tendency for the last years. In 2015, the country's gas consumption was 8.9 BCM. The household consumers supplied through universal service consumed 3.2 BCM in 2015. Upon the termination of the public utility scheme and the introduction of the universal service was narrowed down to a specific scope of consumers, since 2008 onwards, the regulated price segment has represented only a share of less than 40% of the total natural gas consumption, which rate was 36% in 2015. As for the division of natural gas import, imports from the Eastern direction (3.99 BCM) exceeded the imports from the Western direction (2.77 BCM) in 2015.

3.1.4. Licensing and supervision

In accordance with the provisions of the Natural Gas Act and the relevant government decree, the Authority in the licences issued specifies the conditions required for performing the activities of natural gas market licensees and other related activities. The Authority monitors the adherence to the provisions of the licence, continuous compliance with the requirements and applies legal consequences if necessary.

Regarding the subject of licensing and supervision, the Authority issued 187 resolutions and issued 118 decisions in 2015. In 2015, 5 operation licences for natural gas trading, 12 limited natural gas trading licences and 1 transmission system operation licence were issued. 5 operation licences for universal service providers and 1 operation licence for natural gas trading were withdrawn by the Authority – upon the request of the licence holding companies. As a result of this, the number of natural gas trading licensees grew in 2014 to a minimum extent, by the end of the year a total of 32 licensees held a limited natural gas trading licence. (Licences were revised and modified 73 times in total. In addition, the Authority issued decisions in the subject of compliance reports and programmes in 10 cases, and in the subject of approval or modification of Commercial Codes, policies in 36 cases altogether.)

A natural gas trader was appointed in October 2014 in order to protect the consumers supplied by district heating service. Appointments for continued activity in natural gas industry were extended by the Authority 3 times by the end of 2014, and 3 more times in 2015. In the administrative proceedings initiated upon the announcement of termination of gas supply, Magyar Földgázkereskedő Zrt. (MFGK) was appointed by the Authority to supply the consumers using district heating service, as a market participant holding a long-term import contract allowing it to satisfy a significant proportion of domestic gas demand.

The Natural Gas Act provides for the general rules of natural gas transmission activity, and specifies the detailed conditions for issuing a licence on natural gas transmission. The most important task of a natural gas transmission system operator, beside the transmission of natural gas is to maintain a daily balance. The activity related to the provision of balancing gas shall not constitute trading activity under the act. During fulfilling its duty, the transmission operator shall operate an information technology system that provides the data flow required to maintain the hydraulic balance of the interoperable natural gas system and to carry out nominations and allocations on an online basis.

The nationwide high-pressure transmission pipeline system was operated by FGSZ Földgázszállító Zrt. until 1 June 2015 as single transmission system operator, however, from that date Magyar Gáz Tranzit Zrt. also holds transmission system operation licence issued by the Authority. With respect to that a significant part of the high-pressure transmission pipeline system is still operated by FGSZ Zrt and it performs the system operating tasks of the interoperable natural gas system.

Subsequent to the construction of the new Slovakia-Hungary interconnection pipeline, the main function of Magyar Gáz Tranzit Zrt. (MGT) is to operate it. In order to obtain the relevant licence, MGT requested the Authority to initiate the certification of its compliance with the requirement of completing unbundling of ownership stipulated by the act, which procedure was closed down by the Authority by positive consideration in its decision issued on 13 March 2015.

The Authority attended each session of the Code Committee related to the preparation and further development of the Operating and Commercial Code (Network Code), one of the basic documents of the gas market, held industry-related consultations in order to ensure that the principles of a non-discriminatory, transparent and effective market competition are in their best possible effect.

In this context, the Network Code was modified at several occasions - mainly by the reason of the implementation of the EU legislation, such as CAM NC and BAL NC in 2015, following conducting consultations and issuance of an experts' analysis.

In addition to that, as a result of the European gas market rules, the Operational Rules of the Regional Booking Platform regarding the platforms operated by FGSZ Földgázz szállító Zrt. and Magyar Gáz Tranzit Zrt., and the Operational Rules of Trading Platform regarding the trading platforms operated by FGSZ Földgázz szállító Zrt. and CEEGEX Közép-Kelet-Európai Szervezett Földgázpiac Zrt. were approved.

The Natural Gas Act provides for the general rules of operation for natural gas distribution, including the licensing conditions and the cooperation obligation of the licensee in order to ensure the development and operation of the interoperable natural gas system. In addition, the act specifies a detailed list of the cases when a distribution system operator may refuse the connection of a consumer or the commencement of distribution or continuation of services to an already connected consumer. The natural gas distribution system operator shall keep records on the service locations purchasing gas from the distribution pipeline, their typical and mandatory characteristics, and shall transfer such data upon request to the consumer purchasing gas at the service location or to the trader supplying the consumer with gas. The detailed rules on natural gas distribution service are contained in the Gas Distribution Code constituting the Annex of the Government Decree on the enforcement of Natural Gas Act.

Natural gas distribution systems are operated by 10 regional distribution system operator companies, from which five large companies carried out most of the regional distribution activity through geographically dividing the country among each other.

The supervisions conducted by the Authority indicated that the corrective accounting processes applicable to the distribution system failed to work in the past few years due to disputes between the licensees, therefore the Authority, besides amending the regulations from 1 January 2016 and consulting with the representatives of the industry initiated the implementation of the accounting process.

According to the EU directives, the Authority has developed a process, within the frameworks of which an operating model complying with the directive will be introduced in 2016. In order to support this, the Authority has taken the necessary preparatory measures in 2015.

Based on the consultations, the Authority prepared a proposal on the key technical requirements for the equipment required for the establishment of data transmission and remote telemechanic system for the consumption metering equipment with performance between 20 to 100 m³/hour.

CEEGEX Zrt., licensed operator of the organised natural gas market commenced its activity on 1 January 2013. The number of organised gas market transactions concluded in 2015 was low. By the end of the year, the number of members of the organised market was 8, including some foreign operators acquiring limited natural gas trading licences in the past year.

3.1.5. Unbundling

Pursuant to the Natural Gas Act, the unbundling of accounts is mandatory to all companies in the natural gas sector; no exemption shall be granted. If natural gas transmission, distribution or storage is conducted by a single vertically integrated natural gas industry company, the licensed activities shall be provided by

a legally unbundled organisation with independent organisational and decision making scheme, separated from other operations not directly related to them, except for

- a) natural gas traders supplying less than 100,000 consumers,
- b) piped LPG service providers.

The requirement of unbundling and the obligation to be subject to the certification procedure revising compliance thereto is a result of the fact that transmission, distribution and storage are monopolistic activities, therefore strict rules are to be applied in accordance with the EU regulations regarding the provision of non-discriminatory access to infrastructure and separation of these activities from production and trade.

In accordance with the relevant provisions of the legislation, transmission operations shall be carried out by an unbundled, separate organisation ensuring independent decision making process. The management of system operators shall not participate in any other gas sector activity (subject to licensing) either in a direct or indirect manner. In respect of information flow, the system operator is required to perform its natural gas sector activity regarding those belonging under its ownership the same way as regarding any other market player.

FGSZ Zrt. became physically (registered office, office building), legally and also with respect to its activity separated from all other business entities performing activity in the natural gas sector. FGSZ Földgázszállító Zrt. operates according to the ITO (Independent Transmission Operator) model that ensures compliance with the unbundling-related requirements of the EU. The main principle of the model is that a company, if it is involved in a vertically integrated group of companies and it is engaged in a transmission system operation activity shall operate in line with the regulations requiring its activity to be separated from production and commercial activities within the company group. Within the framework of the ITO model, FGSZ Zrt. shall operate in unbundled form both from the parent and the subsidiary companies.

Magyar Gáz Tranzit Zrt., taking the opportunity provided by the legislation fulfilled the conditions of ownership unbundling in compliance with the OU-model through separate public bodies within the state organisation. Its request for certification was submitted to the Authority in 2014. The Authority carried out the certification process and formally submitted the draft resolution on its decision in accordance with the relevant EU legislation to the European Commission on 22 December 2014, and in March 2015 its final decision on certification was issued.

Among the ten natural gas distribution licensees operating in Hungary there are five major regional companies with more than 100,000 consumers each. The five large companies already completed legal unbundling in 2007, and consequently they perform gas distribution and trading activities in separate companies. Most of the former public utility licensees holding universal service provider licences hold competitive market gas trading licences as well. They perform these activities through unbundled accounting or they created legally independent trading licensee entities within the company group.

3.2. Security of supply

The Authority is responsible for monitoring security of natural gas supply, controlling sufficiency of available natural gas sources and taking measures in the case if any of these are insufficient.

In order to ensure security of supply of natural gas, the Authority continuously monitors the situation on the Hungarian gas market, activities and operations of the individual market players, and prepares forecasts on a weekly basis in the heating season for the cases when unexpected disruptions of gas deliveries from the Ukrainian border occur or extreme weather conditions are experienced. The forecast provides the opportunity for the Government for timely and appropriate interventions in order to secure the undisturbed supply of natural gas in Hungary.

The Authority regularly supervised the development of available natural gas stocks and resources in the domestic gas storages, the gas storages of EU Member States and the consumption thereof, the intensity of transmission towards Ukraine, the price changes on the spot markets, as well as the development of EUR and the USD exchange rate.

The highest natural gas consumption ever measured in Hungary was 89.5 million m³/day (9 February 2005). Compared to this, the highest natural gas consumption measured in 2015 was 55,5 million m³/day (7 January 2015), the second highest figure was achieved on the next day (8 January 2015) with 54,8 million m³/day, while the third highest figure was registered before this 6 January 2015) with 50,2 million m³/day. In relation to the data above it can be seen that the current supply capacity of the domestic natural gas system is more than three times higher than that, so the technical background of security of supply can be considered as appropriate.

Table 15: Maximum technical capacity of the Hungarian natural gas system (million m³/day)

Domestic production	10.5
Import HAG (West)	14.4
Import Beregszász (East)	56.3
Import Csanádpalota (Southeast)	4.8
Import Drávaszerdahely (Southwest)	19.1
Import Balassagyarmat (North)	12.0
Commercial gas storage	60.1
Strategic stocks of natural gas	20.0
TOTAL	197.2

Article 4 of Regulation 994/2010/EU obliges member states to identify the factors threatening security of supply, and in order to decrease the risks of security of supply they shall elaborate a Risk Assessment and a Preventive Action Plan based thereon, as well as an Emergency Plan for mitigating possible emergencies.

To comply with the provisions of the Regulation, the Authority prepared a Risk Assessment in detail in 2011 and as required, sent it to the European Commission. One of the key elements of the Risk Assessment is the N-1 analysis, which essentially specifies the largest independent natural gas infrastructure and calculates the load (availability) of the remaining infrastructure in case of its failure and states whether it is suitable to satisfy the total gas demand of the country. The analysis showed that the N-1 indicator of Hungary for 2015 was 124%, which meets the requirements of the Regulation. (It is 122% by 2020, thus security of natural gas supply in Hungary is adequate on the long term as well.) The Authority prepared and sent the Preventive Action Plan and Emergency Plan reconciling with the neighbouring Member States to the European Committee by the specified deadline, until 3 December 2012.

To fulfil its legal obligation, the Authority revised the previously prepared Risk Assessment in 2014. In accordance with the findings of the revision, the Authority updated the regionally reconciled Preventive Action Plan and Emergency Plan by the end of 2015.

3.2.1. Allocation of cross-border capacities and congestion management

A cross-border gas pipeline is a transmission pipeline which crosses the border of Hungary and has gas metering station installed on it. Congestion (contractual and/or physical) occurs when demand for natural gas transmission exceeds transmission capacity.

In addition to the import entry points, Hungary has a natural gas pipeline interconnection point toward Serbia as well, (with a capacity of 13.2 million m³/day) but this is only used for transit flow purposes. Unlike in the recent years, congestion on the western HAG pipeline was not observed or was observed at a minimum number of occasions in 2015 (on 6 from 365 days of the year).

3.2.2. Natural gas transmission

FGSZ Földgázszállító Zrt., the holder of transmission system operation licence in the ownership of MOL is responsible for the operation of the natural gas system and the transmission network.

The transmission system operator submitted the ten-year network development plan for approval to the Authority at the end of December 2014. The Authority carried out the procedure and partly approved the ten-year development plan or approved some provisions conditionally in its decision dated to 9 November 2015.

As a result of the pipeline developments carried out in 2010 by FGSZ Földgázszállító Zrt., import diversification possibilities widened up, increasing security of supply. The pipelines developed towards Romania and Croatia enable not only gas trades to the neighbouring countries, but they are a part of the North-South gas corridor, which has been considered to be a priority project by the European Commission since 2011.

The Slovak-Hungarian cross-border pipeline also became part of this gas corridor, which commenced its commercial operation in the summer of 2015. The capacity of Slovak-Hungarian interconnection pipeline in import direction is 14.4 million m³/ day, while in export direction it is 4.8 million m³/ day.

Regulation No 994/2010/EU of the European Parliament and the Council on the measures to be taken to maintain security of gas supply and Article 7 of Regulation on repealing the Council Directive 2004/67/EC stipulates the obligation to create bidirectional capacity for all cross-border natural gas pipelines within the European Union.

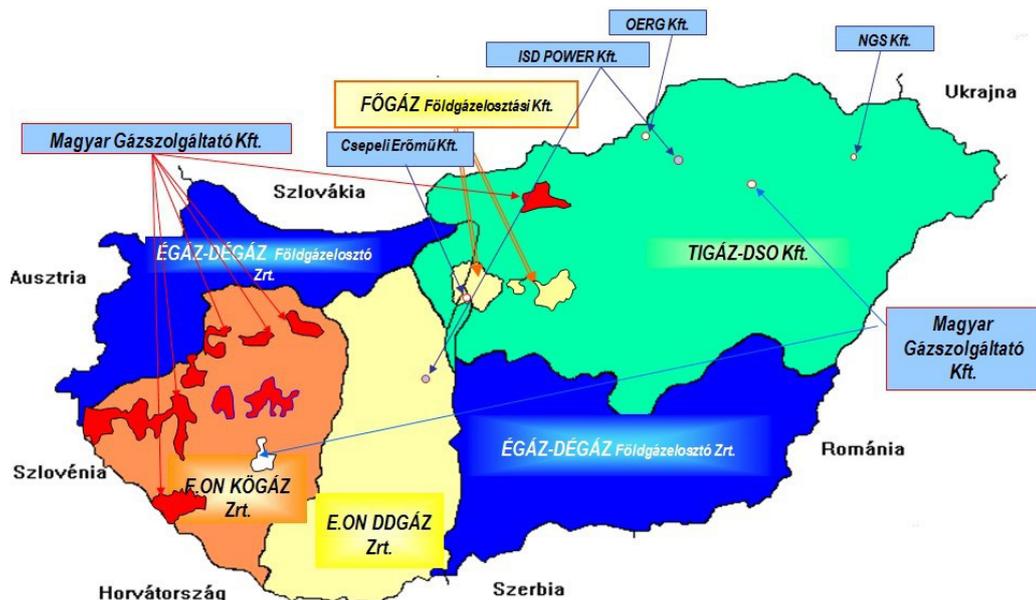
The Austrian-Hungarian HAG pipeline was constructed the way it makes it suitable for bidirectional transmission, similarly to the Croatian-Hungarian interconnector. The development required to make the Romanian-Hungarian interconnector capable for bidirectional transmission (construction of a compressor station) is carried out by the Romanian transmission system operator Transgas.

3.2.3. Natural gas distribution

There are 10 natural gas distribution system operator companies operating in Hungary:

- ÉGÁZ-DÉGÁZ Földgázelosztó Zrt. (GDF SUEZ affiliate),
- E.ON Dél-dunántúli Gázhálózati Zrt. (E.ON affiliate),
- E.ON Közép-dunántúli Gázhálózati Zrt. (E.ON affiliate),
- FŐGÁZ Földgázelosztási Kft. (MFB Magyar Fejlesztési Bank Zrt. majority shareholder)
- TIGÁZ-DSO Földgázelosztó Kft.,
- Csepeli Erőmű Kft.,
- ISD POWER Energiatermelő és Szolgáltató Kft.,
- Magyar Gázszolgáltató Kft.,
- NATURAL GAS SERVICE Ipari és Szolgáltató Kft. and
- OERG Kft.

Figure 17: Regional distribution of natural gas distribution system operators in Hungary



Ukraine, Slovakia, Austria, Slovenia, Croatia, Serbia, Romania

3.2.4. Natural gas storage

Strategic natural gas storage

Act XXVI of 2006 on the strategic stockpiling of natural gas adopted by the Parliament in March 2006 provided for the storage of 1.2 BCM natural gas and the establishment of the required underground storage facility by 2010. The strategic natural gas reserves should be stored in storage facilities with a withdrawal capacity of 20 million m³ /day for a period of at least 45 days. The strategic stocks specified by the act serve exclusively for security of supply of household and communal consumers. The strategic reserves were not to be used due to emergency during the year 2015.

Decree 13/2011 (IV.7.) of the Ministry of National Development on the volume of the strategic natural gas stocks, its sale and its replenishment and its amendment in 2013 temporarily decreased the working gas reserves of strategic stocks to 615 million m³. Pursuant to the amendment of the Decree in April 2014, the released stocks were to be refilled with natural gas in two steps. Decree 13/2015. (III. 31.) of the Ministry of National Development adopted in March 2015 on the volume of strategic stocks of natural gas recorded the stocks as refilled on 28 June 2014.

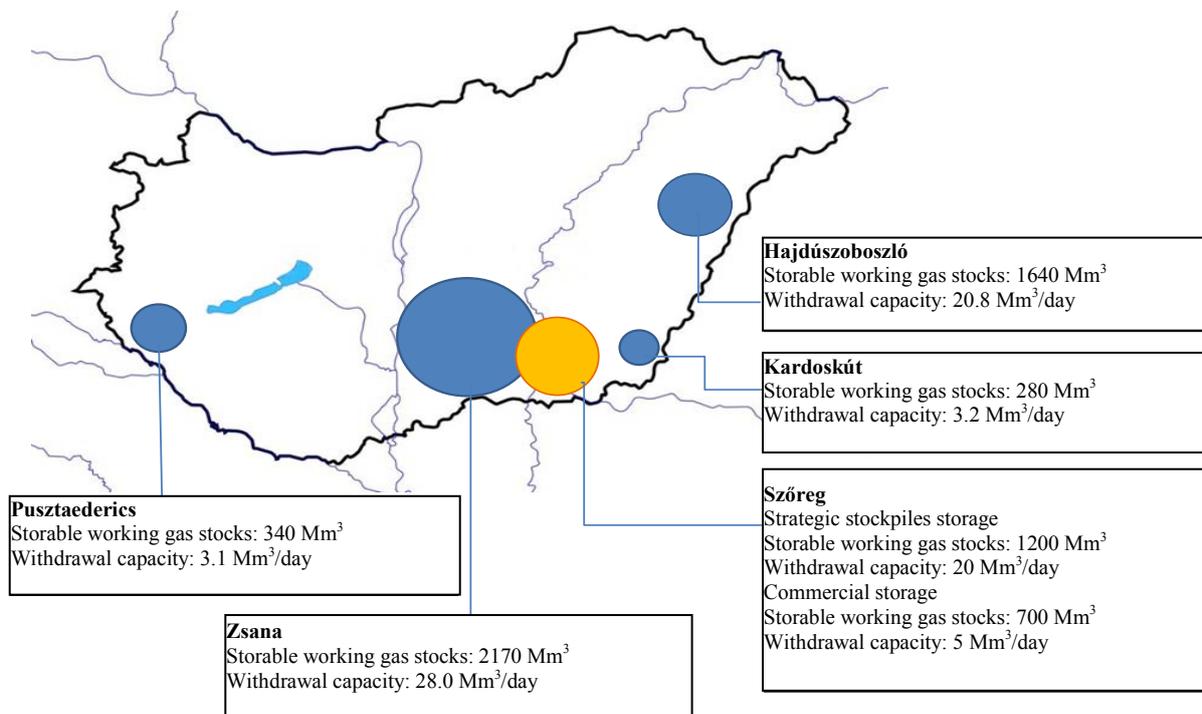
In 2013, Magyar Földgáztároló Zrt. (formerly called E.ON Földgáz Storage Zrt.) was also granted a licence by the Authority for strategic stockpiling of natural gas, however, the Minister responsible for energy policy appointed MMBF Zrt, which was earlier already performing this task, to perform the task as single licensee for strategic natural gas stockpiling.

Commercial natural gas storage

Similarly to the previous years, four of the five commercial gas storage facilities in Hungary were operated by Magyar Földgáztároló Zrt. (formerly called as E.ON Földgáztároló Zrt.) in 2015 as well. MMBF Zrt. applied for and was granted a commercial gas storage licence by the Authority, which –

beside the above mentioned strategic stocks – allows for the storage of an additional 700 million m³ of working gas in the geological layer Szőreg-I. This is associated with a commercial purpose withdrawal capacity of 5 million m³/day according to the licence. Thus the fifth commercial gas storage licensee is operating in the Szőreg-I geological layer. At present, both natural gas storage operator licensees have licences for the storage of both commercial and strategic natural gas reserves.

Figure 18: Location of underground gas storage facilities in Hungary and their working gas capacity



With respect to security of supply, it is important and reassuring that – at an appropriate refilling level – the system is able to provide two thirds of the domestic daily peak demand from commercial storage facilities.

3.2.5. Specification of gas restriction sequence

The Authority specifies a restriction sequence in each year to be applied in case of supply disturbances by which the continuity of gas supply to certain consumers can be secured through the restriction of certain consumers. The Authority includes all alternative fuel-fired power generating units which are stipulated by the legislation to hold stocks of liquid fuel ensuring continuous operation for 16 days in the category to be restricted first. Should the restriction set forth in this category is insufficient, further consumers may be restricted according to the restriction sequence.

The restriction sequence was set up pursuant to Government Decree 265/2009. (XII. 1.) on the restriction of natural gas consumption, the usage of strategic gas reserves and the other actions to be taken in case of a gas supply crisis, establishing eight categories for the restriction system. The requirements of industrial consumers whose gas supply restriction was not possible to be realised earlier within the time limits stipulated by the legislation since their early shutdown caused large scale technological damage were also specified by law. The situation of these consumers was eased by the Amendment 265/2009 to Government Decree [Gov. Decree 293/2011, (XII. 22.)] allowing for them to submit an application to increase the time frame available for complying with the restriction requirements from 8 hours to 72

hours as required in the certain cases. The resolution concerning the approval of the current restriction sequence was issued by the Authority on 17 November 2015.

3.3. Price preparation, price regulation

3.3.1. Preparation of the new price regulation period

The natural gas price regulation is carried out in price regulation cycles of 2-6 years. Prior to each cycle, the Hungarian Energy & Public Utility Regulatory Authority specifies the justified expenses for each licensee within the framework of an assets and costs review, on the basis of which the so-called starting prices and margins are established in a decision of the Authority.

The decree of the Authority on the commencement of the next price regulation cycle was issued on 12 November 2015, pursuant to which the new gas price regulation cycle lasts from 1 January 2017 until 31 December 2020. In order to commence the price regulation cycle, the Authority commenced the preparation works on the assets and costs review.

3.3.2. Development of grid fees

The Authority issued a resolution on the division of allocated natural gas storage capacities on 28 April 2015, according to the extent required for the supply of consumers entitled and not entitled to universal service.

The status act on the Authority granted the Authority the right to adopt resolutions and at the same authorised the Authority to establish grid fees, the rules for the stimulation of increase in the quality of supply provided by the system operator through grid fees, the grid fees applicable depending on the quality of the supply provided, as well as the conditions for the application of grid fees, the connection fees and the regulations of their application in its resolutions. Accordingly, natural gas transmission, storage and distribution fees are specified in Resolution 1/2013 (VII.11.) of HEA on natural gas grid fees, on the regulations for the stimulation of increase in the quality of supply provided by the system operator through the grid fees, the grid fees applicable depending on the quality of supply provided, and the conditions for the application of grid fees. The grid fees complying with the regular price correction carried out under Resolution 74/2009. (XII. 7.) of the Ministry of Transport, Communications and Energy applicable from 1 July 2015 were specified by the Authority through amending Resolution 1/2013. (VII. 11.) of HEA.

In order to comply with EU Regulations, the start and end date of the gas year changes from 2017 onwards, instead of the earlier period from 1 July to 30 June, the gas year runs from 1 October to 30 September. A transition period was designated to carry out the transition: the current gas year runs from 1 July 2015 to 30 September 2016.

In regards to transmission capacity fees - according to the EU legislation – cost allocation at entry and exit points was modified on 1 January 2015 allowing for the entry-exit ratio to be recorded in 60-40%. The transition to kWh based accounting was completed in 2015. Regular price adjustment was carried out on 1 July 2015 in respect of transport and storage fees, the grid fees were modified again on 1 October 2015. In order to stimulate the utilisation of the storages, the transmission licensees' reasonable income demand was allocated to each entry point in a way different from the previous ratio: the storage entry point fees decreased by 75%, while the fees of gas producers for import and domestic entry points

increased. To achieve further increase in the utilisation of the domestic storages, withdrawal of auction fees took place at the storage entry point in 2015 as well.

The quantitative adjustment of distribution fees took place on 1 July 2015 within the framework of regular price adjustment, in the course of which reduction in the allocated amounts was taken into consideration. As a result of the amendment, fees to be paid for the capacities already allocated in order to ensure the supply of consumers both entitled and non-entitled to universal service increased.

Resolution 1/2015 (II. 13.) of HEA on equalization payments related to the revenue from system operation fees was published on 23 February 2015. Subsequent to the publication of the resolution, the establishment of the extent of preliminary monthly equalisation payments and their revision based on actual data took place.

3.3.3. Price regulation framework for universal service

The consumers entitled to universal service purchase natural gas at a regulated price. The consumers entitled to universal service are household consumers, other consumers with purchased capacity below 20 m³/h, and local governments up to the capacity to supply the service locations of consumers living in apartments rented from the municipality.

Natural gas market universal service price includes the recognised price of the natural gas as a product, the grid fees (in contrast to universal service of electricity), the specific grid fee, the wholesale and universal service margin, as well as financing costs of working gas.

Natural gas source offering system

The part of the specific natural gas price taken into account in the price of universal service fees other than the natural gas domestically produced and sold at a regulated price is specified on the basis of the natural gas price formula in Resolution 29/2009 (VI. 29.) of the Ministry of Transport, Communications and Energy on pricing in respect of universal service provided on the natural gas market. This formula takes into account several factors. In the case of imported gas, the ratio of organised market prices (forward) is 70%, the weight of prices of natural gas purchased according to pricing indexed to oil products is 25%.

In the case of gas stored in storage facilities, organised market prices were taken into account in a ratio of 90% and oil-indexed prices in 10%. The organised market prices are typically lower than the oil-indexed prices specified in the long term contract, therefore taking into account the organised market prices with a higher weight makes the organised market gas price lower. In the event if the oil-indexed price is lower than the organised market price, only the former will be taken into account in 100% weighting in the natural gas price formula.

Keeping natural gas prices low made it necessary in 2015 as well that the universal service providers have access to natural gas at a price lower than the price resulting from the formula specified by Resolution 29/2009. (VI. 29.) of the Ministry of Transport, Communications and Energy. This was facilitated by the price set by the Authority for gas produced domestically from gas fields set into production before 1 January 1998, which is significantly lower than the market prices.

The majority of resource contracts on natural gas produced domestically from fields that were put into production before 1998, offered for universal service providers and sold at regulated price was terminated in 2015. In order to make continued natural gas supply available for the consumers entitled to universal service without a significant increase in source costs, it became necessary to renew the offering system and to develop a legislative framework for the new resource contracts. The preparation of the required Natural Gas Act amendments was completed with the Authority's involvement. Following the approval of

the amendments by the Parliament, the involved industry players concluded the contracts ensuring that the offering system functions until 30 September 2016 in May 2015.

The Authority prepared its proposal for the offer prices for the second, third and fourth quarters of 2015 and the first quarter of 2016 and sent it to the Ministry of National Development (NFM).

Changes in the end-user prices of household consumers supplied through universal service

The prices for consumers supplied within the framework of universal service remained unchanged in 2015. The slight change in the average price shown in the diagram below occurred due to the change in the consumer structure: the price payable for universal service has not changed.

Figure 19/a: National average end-user price of household consumers purchasing gas through universal service (consumer category I, with consumption of 1200 m³/year) consisted of the following (HUF/m³)

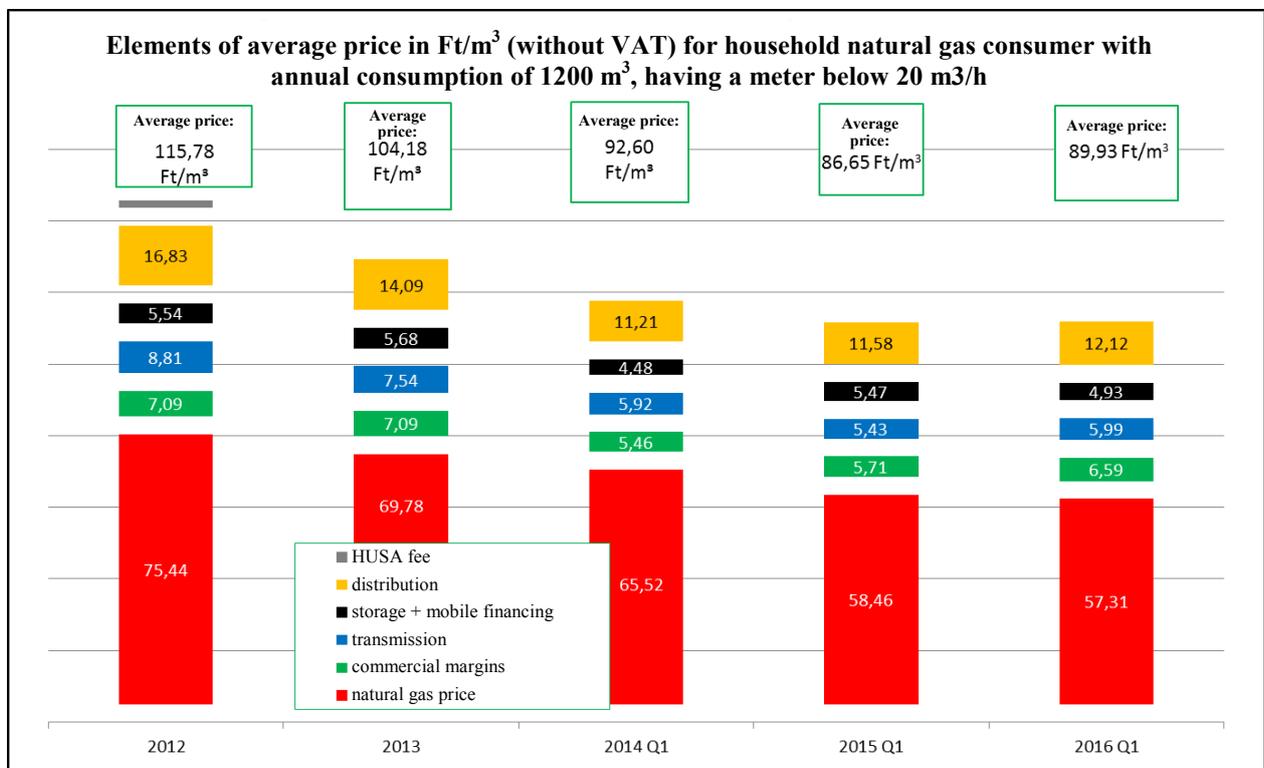
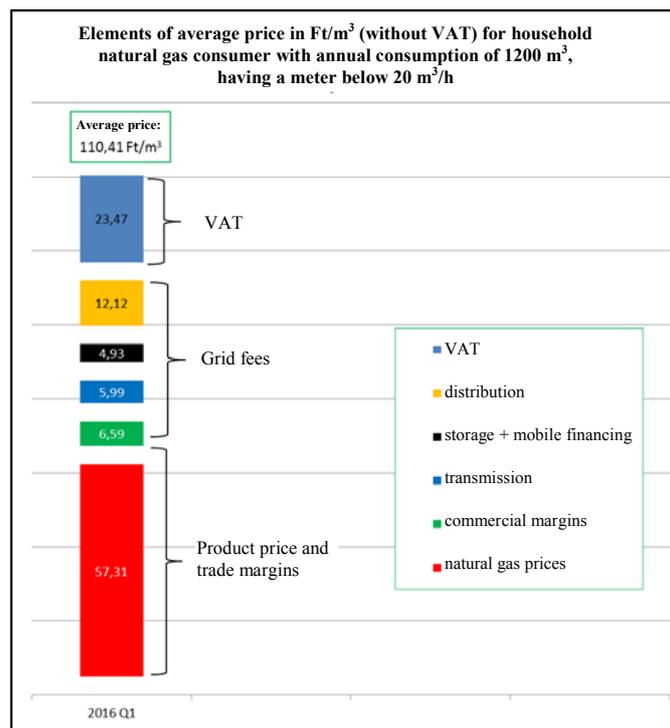
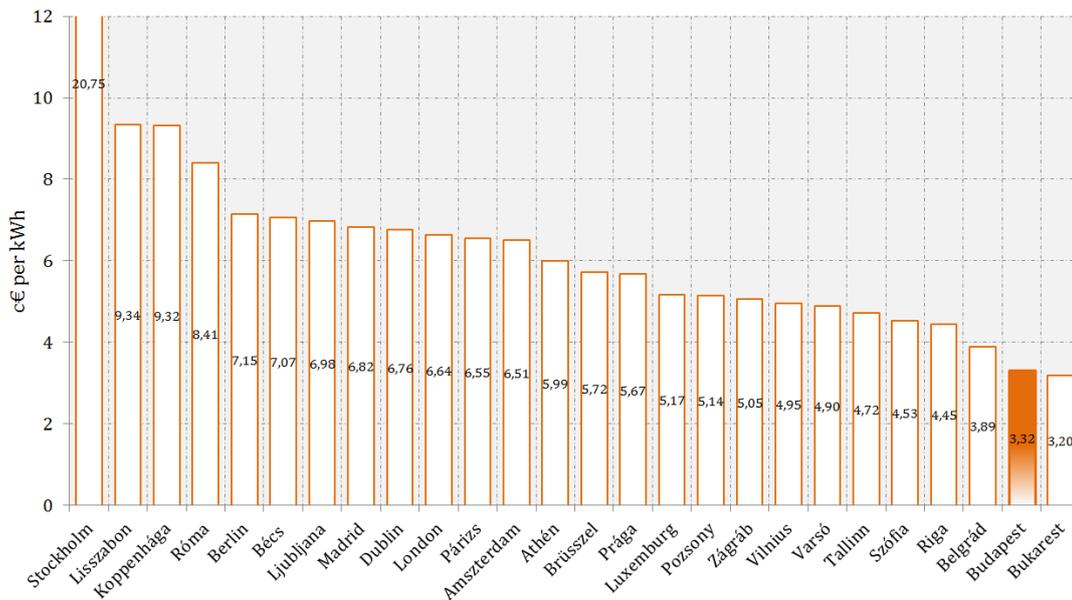


Figure 19/b: National average end-user price of household consumers purchasing gas through universal service (consumer category I, with consumption of 1200 m³/year) consisted of the following (HUF/m³)



The price for domestic household consumers, compared to European prices - according to the statement of the Authority – was one of the lowest natural gas prices in the European Union in December 2015.

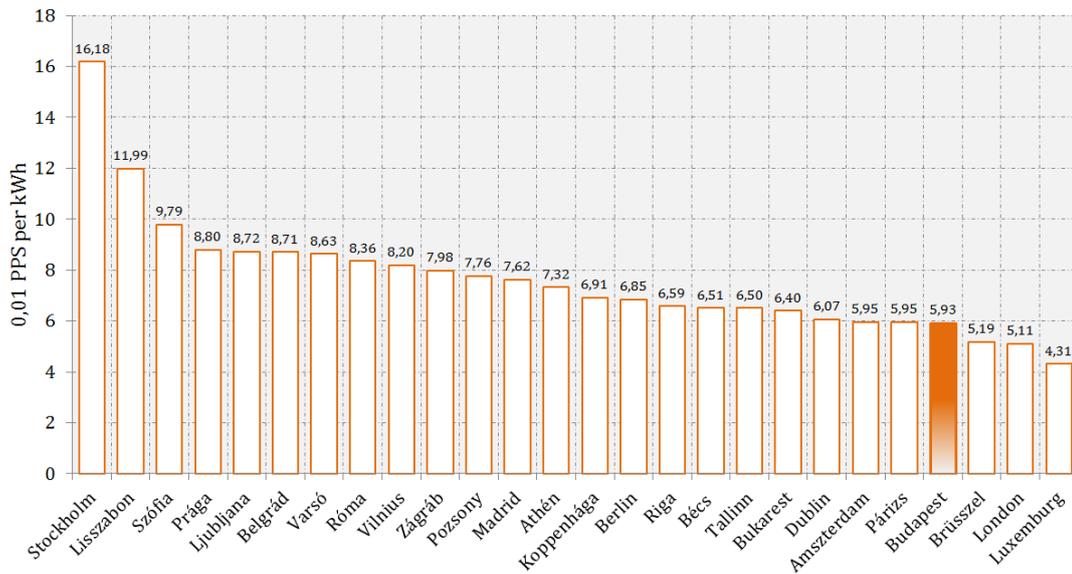
Figure 20: Average natural gas prices for household consumers in EUR (€ cent/kWh), in December 2015¹⁸



Stockholm, Lisbon, Copenhagen, Rome, Berlin, Vienna, Ljubljana, Madrid, Dublin, London, Paris, Amsterdam, Athens, Brussels, Prague, Luxembourg, Bratislava, Zagreb, Vilnius, Warsaw, Tallinn, Sofia, Riga, Belgrade, Budapest, Bucharest

¹⁸ Source: HEA. Due to a lack of considerable natural gas consumption, Helsinki, Nicosia and Valletta are not included in the comparison.

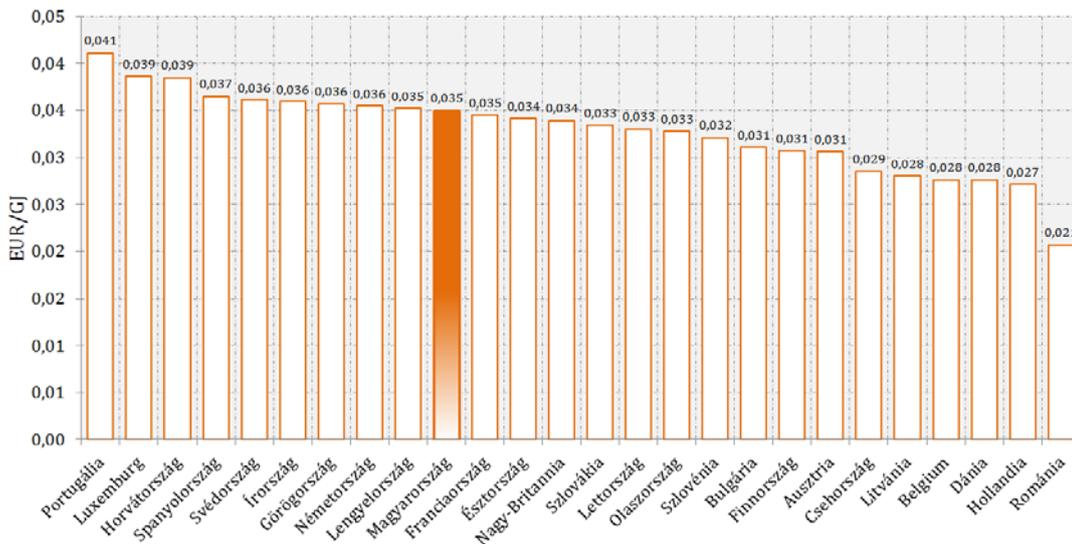
Figure 21: Average natural gas prices for household consumers at purchasing power parity (0.01 PPS/ kWh) December 2015¹⁹



Stockholm, Lisbon, Sofia, Prague, Ljubljana, Belgrade, Warsaw, Rome, Vilnius, Zagreb, Bratislava, Madrid, Athens, Copenhagen, Berlin, Riga, Vienna, Tallinn, Bucharest, Dublin, Amsterdam, Paris, Budapest, Brussels, London, Luxembourg

The level of end-user price of natural gas for industrial consumers

Figure 22: Comparison of average European prices of natural gas for industrial consumers (at a consumption of 10,000-100,000 GJ per year; first half of 2015, EUR/GJ)²⁰



Portugal, Luxembourg, Croatia, Spain, Sweden, Ireland, Greece, Germany, Poland, Hungary, France, Estonia, Great Britain, Slovakia, Latvia, Italy, Slovenia, Bulgaria, Finland, Austria, Czech Republic, Lithuania, Belgium, Denmark, Netherlands, Romania

¹⁹ Source: EUROSTAT – http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_ppp_ind&lang=en (last updated on 17 December 2015, data on 2014, GDP aggregation)

²⁰ Source: EUROSTAT

Fines and proceedings related to natural gas price regulation

The Authority imposed fines for natural gas price regulation-related offenses on two occasions in 2015. Due to failure to comply with reporting obligations, the Authority imposed a fine of HUF 20 million on Magyar Földgázkereskedő Zrt, due to sale of natural gas sources provided for universal service at regulated price for the purpose of non-universal service, the Authority imposed a fine in amount of HUF 3 million on Tigáz Zrt.

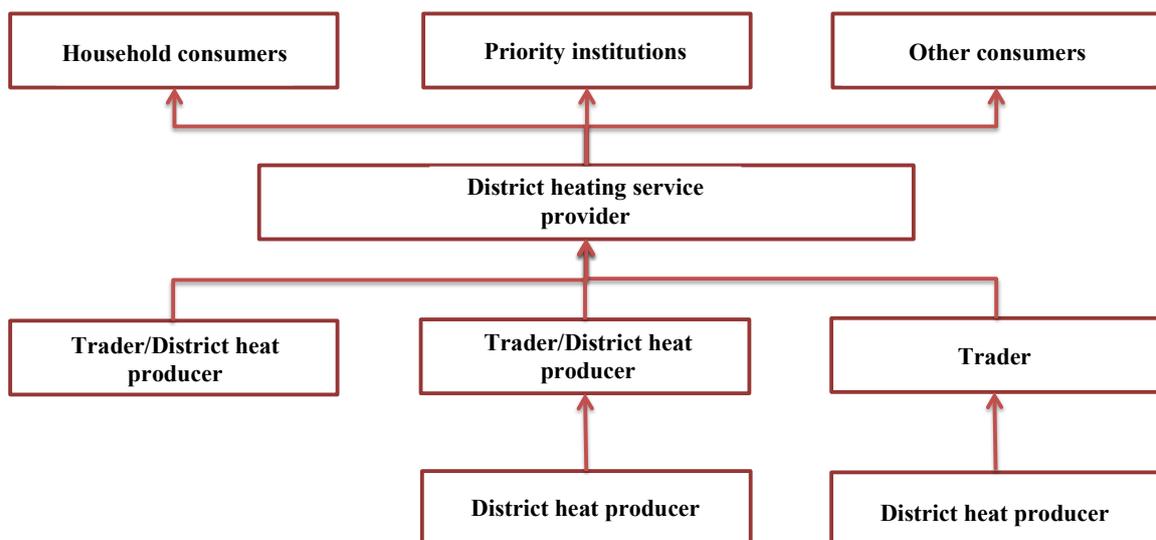
4. District heating generation, operation and regulation of district heating services

4.1. Operation and main characteristics of district heating sector

In Hungary, there are approximately 650 thousand flats in total in 95 towns supplied by district heating. Approximately 75% of the heat sold by district heating service providers is consumed by household consumers (for heating and hot water consumption).

The simplified model of district heating service is shown in the figure below.

Figure 23: Simplified model of district heating service in Hungary



Participants in the industry sector are as follows:

- district heating service providers,
- district heat producers (who are generally traders as well) and
- district heating traders (who do not generate heat but buy that from producers and sell it to district heating suppliers).

The Authority issued district heating supplier licences by towns. In general, one district heating service provider operates in each town. There are more than one district heating operation licensees operating in 5 towns, and 6 enterprises provide district heating service in more than one settlement.

In 93 towns, district heating service is provided by 92 companies with district heating service operation licence, holding altogether 103 district heating service operation licences.

The district heating service providers purchase heat from a district heat producer (heating plant or heating power plant) and/or produce it themselves in boiler plants, or more and more frequently in co-generations (e.g. with gas engines). The supplied heat was produced by heating plants realising co-generations in nearly 60 towns. The heating fuel used in district heat generation is mostly natural gas.

14 from the district heating service licensees perform no or perform not significant heat production, they purchase heat from other heat producing companies. 81 from the district heating service providers hold operation licences for district heat generation as well. Along with them, the number of district heat

generation operation licensees is 143, which hold a total of 157 district heat generation licences altogether.

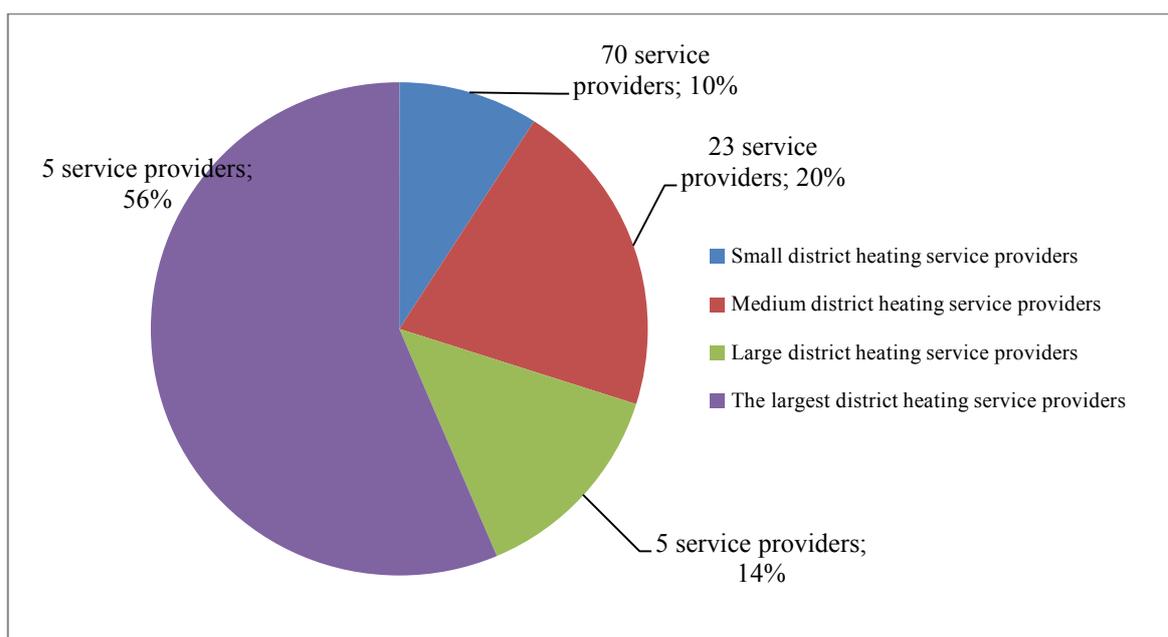
District heating service provider companies are mostly owned by municipalities, in some places the district heat producer (heating power plant subject to electricity licence) also acquired ownership in the service provider. In some towns, the operation of district heating service is performed by a private enterprise under a concession contract.

The number of companies holding a district heating service licence in direct or indirect majority ownership (over ownership ratio of 50%) of the municipality is 61, the number of companies holding a district heating service licence not owned by a municipality is 15, in the case of the other 16 companies the direct ownership of the municipality is less than 50%.

In 2015, 55.39% of all district heat consumers – based on the number of consumers – was supplied by the five district heating service companies holding the largest shares.

Almost 56% of the heat provided in 2015 – based on the number of consumers – was supplied by the five district heating service companies holding the largest shares.

Figure 24: Distribution of district heating service licensees according to the annual volume of heat supplied (transmitted to the consumers) 2015

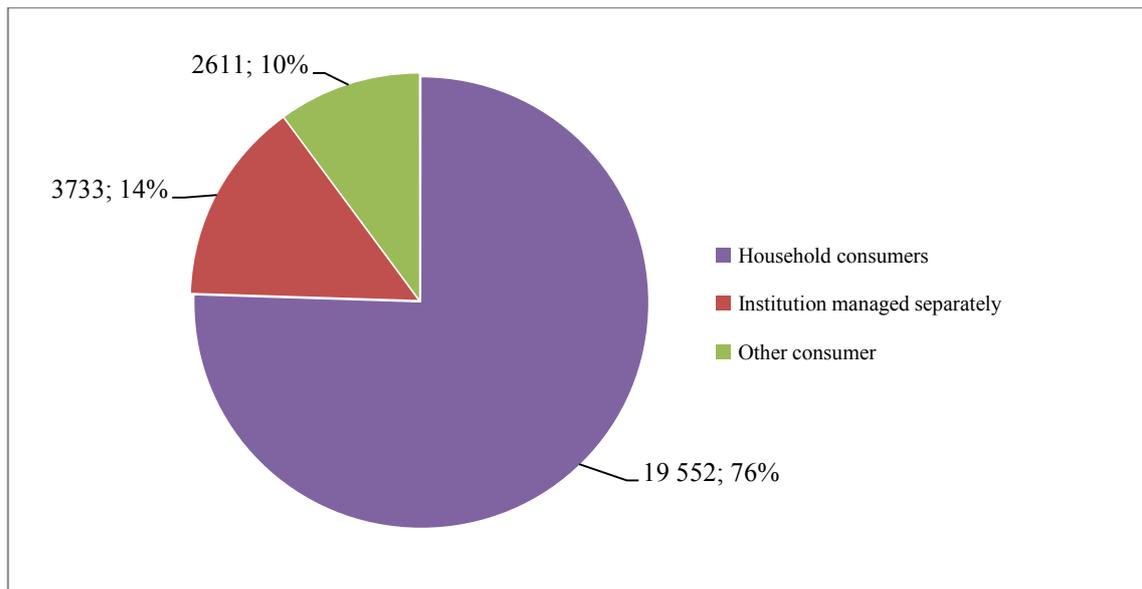


Explanation: Categories and classifications in the table are as follows:

- Small district heating service providers: below 100 TJ heat sold annually;
- Medium district heating service providers: between 100-500 TJ heat sold annually;
- Large district heating service providers: between 500-1000 TJ heat sold annually;
- Largest district heating service providers: above 1000 TJ heat sold annually.

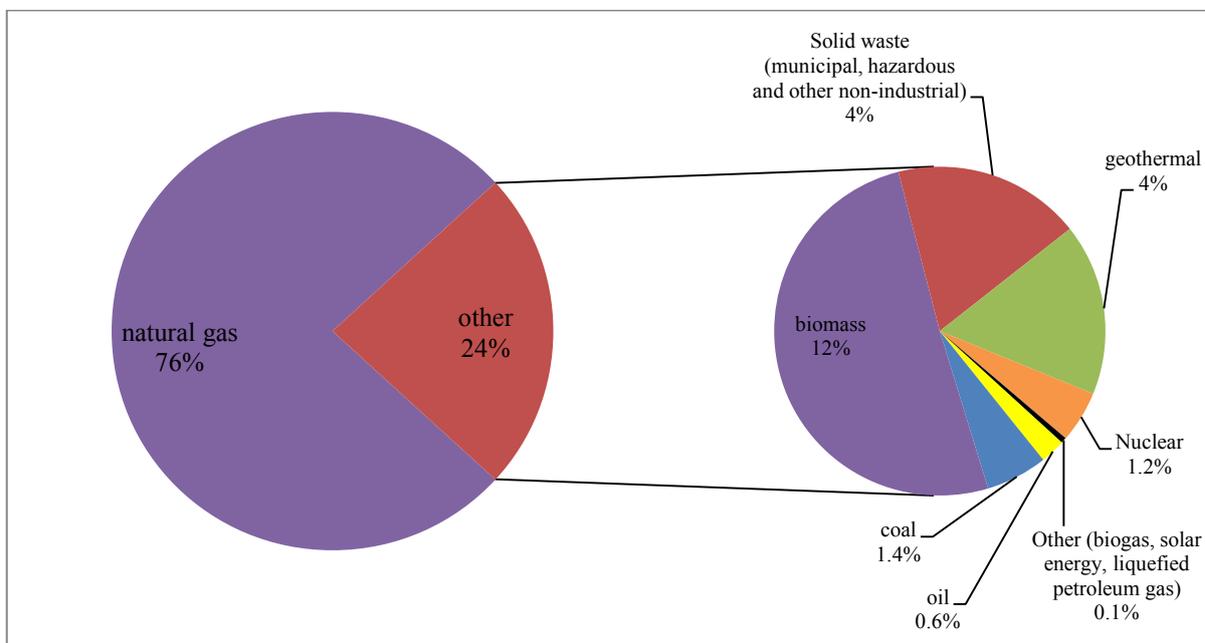
The volume of heat sold by district heating service providers was 25.896 TJ in 2015, 76% from which was used by household consumers. Household consumers used the purchased district heat primarily for heating and to a smaller extent for hot water supply.

Figure 25: Volumes of heat supplied within the framework of district heating service (TJ; %) in 2015



The district heat to meet the consumers' needs in 2015 was mainly – about 76% – produced from natural gas by the producers and service providers. In addition to this, the largest proportion, 12% was represented by biomass, followed by geoheat in 4%. (The ratio of geoheat was only 2.7% in 2014.)

Figure 26: Distribution of fuels used in district heat generation in 2015



4.2. Licensing and supervision

District heating production and service are operations subject to licensing; the establishment of district heating production units is also subject to licensing beyond heat output of 5 MW. The operation licences

of district heating service providers and the heating production facility establishment and operation licences of district heat producers producing heat in cogenerated or non-cogenerated way (heat generation in boiler plants) are issued by the Authority. The number of district heat generation and district heating service provider licences issued by the Authority and currently being in force (157 and 103) is a total of 260.

The Authority issued 69 resolutions in the subject of district heating licensing and supervision in 2015. The resolutions issued are shown in the following table by their types.

Table 16: Resolutions issued in 2015 regarding district heat generation and district heating service

Issuance, amendment and withdrawal of licences for district heating service providers and district heat producers in 2015	number
Issuance of operation licences for district heating service providers	3
Issuance of operation licences for district heat producers	8
Issuance of construction license for district heat producers	4
Withdrawal of operation licences of district heating service providers	2
Withdrawal of operation licences of district heat producers	5
Withdrawal of district heating service and district heat generation licence (in one resolution)	1
Withdrawal of district heating service and district heat generation licence and appointment (in the same one resolution)	1
Withdrawal of district heat generation facility establishment licence	1
Amendment of operation licences of district heating service provider	11
Amendment of operation licences of district heat producer	29
Amendment of district heat generation facility establishment licence	4
TOTAL	69

No on-site supervision took place with any of the district heating operation licensees in 2015. The Authority supervised data service on the website specified by legislation with 103 district heating operation licensees. In the course of the inspections, the Authority's revealed failure in disclosing documents and insufficient data and information provision in the disclosed documents. Administrative proceedings were initiated against the licensees failing to comply with the legislative provisions on data provision in order to eliminate the deficiencies.

During inspecting compliance with the requirements set forth in the licences of district heating operation licensees, on-site supervision took place once in order to verify compliance with the establishment licence of the facility. The inspection did not reveal any substantial deficiencies.

4.3. Security of supply

As in the second half of 2014, the Authority, in the case of the district heat producers and district heating service providers struggling with gas supply problems (in Szekszárd, Kiskunfélegyháza, Szolnok and Szeged) resolved their gas supply by appointing a gas trader with a temporary effect to ensure the district heating service. The Authority's intervention in the functioning of the sector through using the means of appointment was required in the first half of 2015 as well.

In order to resolve unsustainable conditions developed in some cases - keeping security of supply in mind - the Authority intervened.

Two significant licence withdrawal cases occurred in year 2015:

- In the resolution dated to 2 April 2015, the Authority withdrew the district heat generation and district heating service operation licences of Szeged Heat Kft. with effect from 6 pm 16 April 2015, and at the same time the IKV Ingatlankezelő és Vagyongazdálkodó Zrt. was appointed to perform district heat generation and provide district heating services in Szeged for the period until its district heat generation and district heating service operation licences to be issued through ordinary proceedings become final.
- In the resolution dated to 30 September 2015, the Authority withdrew the district heat generation and district heating service operation licences of Alfa-Nova Kft. in respect of Szekszárd. At the same time, district heat generation and district heating service operation licences were granted to Szekszárdi Vagyonkezelő Kft. by the Authority in respect of Szekszárd.

4.4. Price preparation, price regulation

The Authority completed its proposal for the amendment of the related legislation proceeding acting within in its price preparation and district heating subsidy preparation function by the deadline (31 August each year), in the course of which its proposal regarding nearly two hundred business associations concerned in district heating sector was submitted to the Ministry of National Development, specifying their highest regulated prices, and the extent of the available district heating subsidy. The Authority received 50 comments on the amendments being in force from 1 October 2015, 33 of which were not substantiated, in 11 cases the difference was attributable to the licensee's failure to comply with its data reporting obligation, while in 6 cases the issues arose in a matter of principle, which were managed by the legislature satisfactorily in the future through the Authority's proposal.

In 2015, the Authority submitted proposals on more modifications at system level in the subject of subsidy and price preparation regulation. One of the most important elements was that the subsidy structure was restructured in order to modify the former one-factor subsidy system, and in order to neutralise weather effects it was replaced by a fixed (to cover the gap between fixed costs and fixed revenues) and a variable (correlated to the heating supplied for the public) factor in the subsidy system by the legislature. Along these lines, it was worth to modify the calculation of the announced regulated district heat generation prices to the extent they cover the fixed expenses of district heat producers, while the flow-proportionate district heating fee covers the variable expenses of district heat producers.

This amendment was specifically issued to eliminate the over or under-subsidized system that occurred in the previous one-element subsidy system, originating in weather effects (the effect of too mild or too cold winter) but it had another substantive effect as well: the cash flow (liquidity) of the budgetary institution that ensures the subsidy has become more balanced, so there is no need for the legislature to make or receive payments in order to maintain liquidity during the year.

Another essential new element of price regulation that the legislature, in accordance with the proposal of the Authority specified a price cap of price benchmark type for those district heat producers, which produce district heat only from waste energy from industrial processes other than processes with the purpose of district heat or electricity production. This exemption will hopefully result in an improved use of waste energy in the district heating production, especially in light of that the legislature granted exemption from the mandatory application of legal institution of profit limit in the case of district heat of such special parameters.

Another important amendment is that the so far rigid rules for the usability of profit above the profit limitation have eased, so the use of profit above the profit limitation is no more subject to prior approval granted through the Authority's proceedings but it can be automatically invested by the certain licensee,

although the obligation to use it for investment purposes remains with respect to the licensees, the fulfilment of which is monitored by the Authority.

In addition to the above mentioned, further progress is that the legislature, in accordance with the Authority's proposal expanded and amended the scope of rules in the subject of recognition of justified costs, which apply to the recognisability of costs of foreign capital. As a result of this, the current legislation transparently reflects the expectations for those who plan to invest that are to be complied with in order to make the costs of foreign capital recognisable as justified cost during the preparation of price and subsidy.

The Authority highlighted the importance of the enforcement of data service based on accounting separation under the conditions provided by law for the licensees in 2015 as well as before, in order to do so, it initiated 24 proceedings, of which the proceedings were terminated in 6 cases, but in 18 cases the Authority issued a resolution of binding content in order to remedy the identified deficiencies.

With respect to the profit above the profit limitation generated in 2014, the Authority issued 6 decisions and 35 resolutions in 2015.

5. Energy efficiency

The European Union, in order to achieve the targets set forth in the subject of energy efficiency issued a directive that stipulates complex energy efficiency obligations for the Member States. The Parliament, in the light of the provisions of the European Union, adopted Act LVII of 2015 on energy efficiency that came into force on 7 June 2015 (the Act). The Authority actively participated in the framework of implementing the Directive on Energy Efficiency in national legislation, in cooperation with the Ministry of National Development. The Energy Efficiency Act assigns a number of tasks within the competence of the Hungarian Energy & Public Utility Regulatory Authority. The Authority, among others, is now responsible for energy audits mandatory for large companies, keeps a registry on auditors and auditing organisations authorised to conduct energy audits, authorises and supervises the activity of registrars. The Authority is responsible for recording and publishing data on energy savings achieved by means of certain policy measures, required in order to aggregate the end-user's energy savings. The Authority received three applications on performing organisational registering activity of energy auditors in 2015, from which one applicant (the Hungarian Chamber of Engineers) received approval on 18 September 2015. In the other two cases, due to failure in fulfilling the obligation of rectifying the deficiencies, decisions to terminate the proceedings were issued.

In 2015, the Authority considered 44 applications for registration in the registry (energy auditor, energy auditing organisation). Complying with the obligations set out in the Act, the list of accredited auditors and auditing organisations is regularly updated on the website of the Authority and on the website on energy efficiency. To facilitate the submission of proper applications of energy auditors, the Authority developed a guide that is also available on the website.

The Authority continuously monitors the activity of the registered organisation, including the preliminary assessment of the energy auditors' applications, examinations and preparatory courses for the energy auditors. In order to ensure effective and consistent performance of supervisory activity, a uniform curriculum and syllabus for the preparatory courses and the compulsory tests were compiled in 2015. The respective percentage of the fees collected by the registering organisation (one-fifth of the income from the fees) to be paid to the Authority amounted to HUF 391.722 in 2015.

The energy auditing obligations mandatory for large companies raised a number of legal interpretation issues, in connection with which the Agency responded to hundreds of enquiries in writing and on the phone. In order to inform the concerned parties, following the entry into force of the Act, the Authority developed an informational material (in the form of Frequently Asked Questions), which was uploaded on the website and it is continuously updated based on the current issues.

The Authority also participated in the amendment of Energy Efficiency Act in December 2015, as a result of which the annual registration obligation of the enterprises obliged to be subject to energy audit was introduced.

5.1. Detailed tasks related to the informational website on energy efficiency

The informational website with the title energiyahatekonysag.mekh.hu has been available since the end of December 2015, the establishment and operation of which was set forth for the Authority by Act LVII of 2015 on energy efficiency. In this context, HEA cooperates with energy efficiency and financial service providers, retail energy trading companies and other entities concerned.

The website provides information on the following topics:

- national and EU legislation on energy efficiency and renewable energy;
- financial means, funding sources available for financing and supporting the investments regarding energy efficiency services and renewable energy;
- informational, awareness-raising and training initiatives to improve energy efficiency;
- presentation of practices related to renewable energy and energy efficiency, energy saving tips, behaviour patterns;
- strategic documents of domestic energy policy;
- statistics data related to renewable energy resources and energy efficiency.

The website is updated and the topics are expanded by the Authority constantly, providing assistance to the public, companies and municipalities for their energy-related developments and investments.

6. Operation and regulation of water utility service

6.1 Situation of water utility service sector

Subsequent to the entry into force of the Water Utility Act the integration process carried on in 2015 as well, as a result of which only 41 water utility service providers were performing water utility service in 2015. As a result of the regulatory environment, on the basis of the operating agreement specified by law, water utility service providers operate through providing nearly similar supply quality, showing efficient and continuous operation. From the consumers' point of view, the aim is to provide high quality drinking water at affordable price and at high service quality standards while the obligations of the water utility service providers are clearly defined as well.

During 2015, with respect to the consumption accounted at a fee specified for household consumers, water utility service providers were to issue invoices on no higher than 90% of the amount per service unit legally applicable on 31 January 2013 pursuant to Section (1) Article 4 of Act LIV of 2013 on the application of utility fee cuts. In respect of household consumers and consumption accounted at a fee specified for household consumers as an additional discount from September 2015, 10 percent fee reduction provided for by the statutory provision for the temporary fees - for water utility services not provided previously – established by the Authority as well.

During the year, the Authority published several information materials on its website in order to facilitate the interpretation of the applicable law and a more efficient operation of water utility service providers. In 2015, the Authority was a prominent supporter of the amendments to the law related to water utility service by its proposals, and it also provided support to the water utility service sector-related legislation proposals of the Ministry of National Development. Moreover, the employees of the Authority attended a number of water utility service sector conferences both in Hungary and abroad, where they held several presentations. The cooperation with the representative body of water utility service providers, the Hungarian Water Utility Association is also excellent.

The Authority issued hundreds of opinions and provided information in connection with water utility service at the request of water utility service providers, municipalities, natural persons and legal entities. In this regard, the Authority informed the affected parties mainly about the applicable law and their rights and obligations, and made proposals and recommendations regarding the interpretation of the specific regulations.

6.2. Licensing and supervision

6.2.1. Licensing

Licensing of the operation of water utility service

In 2015, the Authority issued 33 resolutions regarding operation licences.

With regard to performing service in new areas, applications for the approval or amendment of operation licences were continuously submitted. 462 applications were considered in 2015, in the course of which the procedure ended mostly in approval and in one case it ended in rejection.

No transformation of water utility service providers comparable to year 2013 occurred in 2015, but due to further transformations and expiry of fixed-term licenses, the number of licensed service providers carried on to decrease from 43 in 2014 to 41 by the end of the reference year.

Rolling development plans

Pursuant to Article 11 of Water Utility Act, in order to ensure water utility service in the long term and taking into account the aspects of sustainable development, a rolling development plan shall be set up for each of the water utility service sectors. The rolling development plan for 15 years shall include a renovation plan, a replacement plan and an investment plan as well. The plans shall be submitted to the Authority by 15 September each year by the entities responsible for the service or – depending on the type of the operating agreement – the water utility service providers.

The nearly 350 ongoing proceedings regarding rolling development plans for years 2015 – 2029 were closed down at the beginning of 2015. The deadline for submitting rolling development plans for years 2016-2030 was 15 September 2015. Applications on rolling development plans submitted from September 2015 were classified into separate proceedings by water utility systems in accordance with the regulations, therefore around 2025 proceedings were initiated.

The work on rolling development planning was commenced before the submission of the applications, to which the Authority contributed through publishing a recommendation on its website.

The experience gained during the proceedings on the approval of rolling development plan shows that the plans submitted in 2015 were more appropriate compared to the ones in 2014, however, they were still quite various in terms of contents and quality. In the case of the majority of the applicants, the description of the individual works is superficial and too short to serve as a basis to realistically assess the soundness of separation of maintenance/renovation and renovation/investment or value for money. There are many plans among the investment projects that do not include capital expenditures, and many statements in which the entity responsible for service states that it cannot or does not intend to carry out investment tasks in the next 15 years.

Regarding the investment projects, in many cases the experience gained shows that the tasks specified in the plan are realised in the framework of EEOP investment projects, consequently, in many cases the applicant attached neither a detailed technical description nor estimated costs to the particular projects.

According to the practice of the Authority, only those rolling development plans had been/are approved in which the development goals proved to be reasonable and acceptable, and which were prepared in accordance with the legal environment in effect at the time of the submission of the application.

In regards to rolling development plans, the previous year represented a big challenge both for the Authority and the applicants. The target of the Authority with monitoring the rolling development plans is to contribute to the long-term adequate technical standard and condition of the public utility assets and operating equipment of the water utility service sector, and to the continuous and cost effective operation of water utility service. In order to do so, the Authority consistently applied the relevant provisions of legislation, however, for the purposes of future quality planning it constantly consults with the water utility service providers and the organisation of the Hungarian Water Utility Association as well.

National Water Utility Register

Last year the Authority continued to develop the National Water Utility Register that was set up on 1 September 2014, which - in addition to the up-to-date priority information - became capable to present the history (changes) of data as well.

6.2.2. Inspections

The Authority significantly increased the number of comprehensive inspections of water utility service providers in 2015, which made possible a more focused practising of supervisory powers over service providers, in addition new, previously not performed inspections took place as well (inspection of failures in submitting a rolling development plan). In the course of the increased number of inspections, service providers received significant help as well to adapt themselves properly to the changed and ever-changing regulatory environment, however, sanctions were also applied. In many cases the minor offenses detected were possible to be remedied during the proceedings. In addition to the extensive inspections, the Authority conducted a number of thematic inspections as well. In 2015, more than 70% (245 inspections) of the 341 inspections were closed down with statement and sanctions were applied.

Comprehensive inspections

Number of inspections and their results

In 2015, the Authority instituted proceedings to carry out comprehensive inspection of all-round compliance with the conditions included in water utility service provider operation licences and the related regulations against 12 service providers. The 8 inspections completed last year did not reveal substantial infringements of law, and the Authority notified the service providers in writing to rectify the violations of lower significance.

Types of identified violations

Severe violations:

- inadequate economic indicators;
- outsourcing activities subject to licence without the permission of the Authority.

Minor violations:

- violation of accounting separation rules;
- conducting procurement
 - differing from the regulations on Procurement Policy;
 - not complying with the provisions of the regulations when issuing or signing documents;
- accounting of usage fee (in more cases it occurred that the service provider included in the calculations a development or reconstruction relating to the biogas site against the usage fee to be paid to the entity responsible for the service);
- improper application of the provisions of Commercial Code;
- inadequate design of transition points, disorder of water utility systems;
- inappropriate classification of consumers belonging to "B" factor of consumer equivalent;
- water utility records do not contain all content elements required by law.

Revealing water utility service provider activities carried out without licence

Number of inspections

As a continuation of the series of inspections started in 2013 the Authority initiated only one inspection in 2015, as the possibility of that a water utility service provider performs service that had not submitted an application for operation licence would provide water utility service, or that holds no licence typically did not arise.

Results of inspections

Disqualification of unauthorised service provider did not take place as the operating legal relationship was resolved during the procedure of appointing a public operator in order to ensure security and continuity of supply.

Inspection of the use of usage fee by service providers

Number of inspections

The utilisation of usage fee was revised in the case of 14 municipalities (with differing populations).

Results of inspections

The inspections carried out with the entities responsible for service regarded the use of HUF 1.127.000.000 and in the course of 14 inspections the Authority identified violation in 8 cases.

Types of violations

- lack of a separate bank account;
- the entity responsible for service used the usage fee in an appropriate manner not complying with Article 18 of Water Utility Act;
- The use of usage fee cannot be tracked back accurately based on the current records of the entity responsible for service;
- only the income from usage fee due after the opening of the account was credited to the dedicated account instead of the total amount of unused usage fees pertaining to the whole period following 31 December 2011.

Inspection of the submission of rolling of development plans for years 2016-2030

Number of inspections

The Authority conducted thematic inspection on compliance with the obligation of submitting Rolling Development Plan by the entity responsible for the service in respect of 169 water utility systems.

Results of inspections

In accordance with the relevant legislation, in 11 cases the water utility service provider, in the remaining matters the municipal government was obliged to submit the Plan. The Authority monitors the fulfilment of the obligation according to the provisions of the decisions and if necessary, it may impose fines in order to enforce implementation.

Types of identified violations

The parties responsible for the service involved failed to comply with the obligation to submit Rolling Development Plan for the years 2016-2030 stipulated by Sections (2)–(3) Article 11 of Water Utility Act

Inspection of water utility service fees

Number of inspections

The Authority initiated price supervision procedure in respect of 2 water utility service providers, which affected 8 municipalities.

Results of inspections

As a result of the supervision procedures carried out, the Authority revealed unlawful application of fees in 8 cases. In these cases, the Authority prohibited the water utility service provider from applying the unlawful fees and at the same time, obliged it to apply lawful prices and refund the unlawfully gained additional revenue to the harmed consumers.

Considering that according to the regulations in effect, when calculating utility cost reduction, the fee lawfully applied on 31 January 2013 is to be taken into account, in the case of service providers where unlawful application of fees was stated, the Authority, subsequent to closing down the inspection initiated a procedure with the consumer protection authority competent for the supervision of utility cost reduction.

Types of identified violations:

- increasing water utility service fees to an extent exceeding 4.2% of the rate specified by law,
- introduction of a basic fee, its differentiation based on meter device.

Comparing the data from 2015 to the those from 2013 and 2014 it can be stated that as a result of the continued fee inspecting activity, the proportion of lawfully applied fees increases to a relevant extant.

6.3. Security of supply

In 2015, 172 decisions were issued with regard to the procedures for the appointment of a public operator, mainly on expanding the appointment and typically still regarded the service areas of the service providers whose applications for the operation licence were rejected in the years 2013 and 2014. The procedure was terminated in 11 cases, as the entity responsible for service succeeded to enter into operating contract with one of the water utility service provider company. No communities were left without supply, however, in many cases the Authority was able to determine the facts required to adopt a well-grounded decision only within the framework of a lengthy and complicated procedure.

6.4. Price preparation, price regulation of water utility service

6.4.1. Fees of previously not provided water utility service

In the areas, where an investment project is carried out which results in that a new water utility service which was not provided previously becomes available to consumers in the municipality, the Authority – upon the request of the water utility service provider sets forth the service fee. In the first half of 2015, until 24 July 2015, the fees of water utility service not provided previously were set forth by the Authority in agreement with the Minister. After 24 July 2015, as a result of legislative changes, the Authority decided independently without the approval of the Minister - in the issue of establishing temporary fees, with new names this time.

During 2015, applications to establish fees of water utility service not provided previously were submitted to the Authority in respect of 65 municipalities, which were either considered or a full clarification of the facts took place in the course of the proceedings.

6.4.2. Approval of the individual policies, tenders of water utility service providers, authorisation of outsourcing

The Authority is responsible for the approval of Operational Rules and Procurement Rules of water utility service providers or the amendment thereof, likewise for the authorisation of outsourcing a specific part or parts of water utility operations.

The Authority, through the approval of Operational Rules complying with the applicable legislation ensures the foundations for contractual relationships of water utility service providers with the consumers, likewise the general contractual technical, commercial, accounting and payment terms and conditions of water utility service services provided for the consumers by the water utility service providers. In the year 2015, the amendment of both Water Utility Act and the resolution on the enforcement of Water Utility Act specified more new regulations and tasks more detailed compared to the previous ones, the adoption of which to the Operational Rules was completed as a priority. The new rules primarily protect the rights and interests of the recipients of water utility services, and constitute a guarantee to increase the standards and security of water utility services.

In the cases under Section (1) Article 16 of Water Utility Act, the entity responsible for the service shall conduct a tender procedure in order to conclude the operational contract. The tender may be announced in respect of more water utility service providing sectors or more water utility systems as well at the same time. The wording of the call for tender and the tender documentation shall be prepared by the entity responsible for the service and sent to the Authority for approval. In the course of approving the documentation on call for tender, the Authority monitors the fulfilment of the conditions set forth by the government decree on the fulfilment of the requirements of the tender and the implementation of Water Utility Act. With respect to that the water utility service providers perform the operation of water supply utilities and provide water utility service almost exclusively within the areas of such entity responsible for the service which hold ownership in the water utility service providers, therefore consideration of such tender took place at only one occasion in 2015.

In parallel to the approval of the procurement policies of water utility service providers, the Authority also continuously monitored the lawfulness of procurements and contracts. Public procurement, or procurements not reaching the value threshold of public procurement have a particular significance in the water utility service sector, as pursuant to the provisions Water Utility Act, water utilities shall only be owned by the state or municipalities. In 2015, the Authority acted in proceedings on the approval of

amendments in the Procurement Rules of water utility service providers in five cases, but due to the amendments to the public procurement legislation at the end of 2015 this number is expected to rise significantly in 2016.

As regards to activities subject to outsourcing licence, provide that the other requirements stipulated by law are fulfilled, the Authority authorises outsourcing only in the case if it can be clearly stated that the outsourcing can significantly improve the cost effectiveness of water utility service, or the applicant does not have the capacities and capabilities necessary to carry out the activity at the required level and standard. To ensure that the target of the outsourcing policy is reached, and in accordance therewith, the Authority in its decision on granting the licence specifies the specific price standard above which the activity shall not be outsourced, and also specifies the quantified impact of outsourcing on cost recovery formed in fees as recognised by the Authority. Based on the experience of previous years, in respect of certain licenced outsourcing activities such specific market information also become available for the Authority, through the comparison to which the highest outsourcing amount to be licenced can be determined more precisely.

In 2015, water utility service providers applied for licence to the Authority for outsourcing of certain water utility operating activities in more than 70 cases. The water utility service providers submitted several hundreds of notifications about outsourcing activities regarding which they were not bound to being licensed by the Authority. The Authority keeps a unified record on the outsourcing activities of water utility service providers which makes supervision significantly easier. Since the participants in the water utility service sector - in accordance with the above demonstrated - utilise and make use of assets owned by the state, the strict supervision of the outsourced activities is especially important. With the strict supervision by the Authority, it can be ensured that water utility service providers only outsource the individual activities of water utility operation if it is economically justifiable and results in a significantly more efficient operation.

6.4.3. Preparation of the proposal on water utility service fees

In 2015, the Authority focused again on the proposal on water utility service fees (and delivery fees) and submitted it within the statutory deadline to the Minister of National Development. The country is highly diverse regarding employment rates and tariff structures, different pricing principles in respect of water utility service providers and supply areas are applied even now, which results in a number of different tariff categories. The differences in fees affecting the consumers as well, are significant all across the country. The main objective of price regulation on this basis is clearly to bring the differences closer to each other through placing pricing on a common basis and to work towards equalisation.

In order to prepare the proposal on fees, the Authority requested the data required for the establishment of the fee from the water utility providers. The data collected for tariff setting are mainly based on the data shown in the audited financial statements of water utility service providers for the financial year 2014 under Act C of 2000 on accounting, and general ledger extracts of the companies, however, besides these a number of calculations, contracts and statements were also taken into account.

On the basis of the provided data, the specific expenses that can be taken into account as fee elements were classified in groups like individual expenses, specific expenditure groups, costs of service activities, costs related to water utility systems operations, costs related to transmission lines, capacity costs incurred on the systems and costs related to rain water management. In the course of data request necessary for the proposal on water utility service fee, 43 water utility service providers and 3160 municipalities were notified by the Authority to fulfil data service. Following the receipt of cost data, the reasonable operating costs and fee elements for public utility drinking water supply, sewage water

disposal and water treatment were determined, pricing model was established and the proposal on fees was prepared by 15 October 2014.

As part of the proposal on fees - to contribute to the effective legislation - the Authority submitted to its detailed concept on price setting, the advantages and possible risks of the regulated fee alternatives in case of household and non-household consumers to the Minister of National Development, as well as its proposals on the legal amendments necessitated by the enactment of the decree on fees.

In addition to the proposal on water utility service fees, last year the Authority submitted proposals on the range of services to be performed for an additional fee by the water utility service provider and the fees thereof, the narrowest range of services to be provided free of charge, and the range of services that can be performed for an additional fee if the consumer breaches contract and the fees thereof. The regulated price regulation of services to be performed for an additional fee has an established practice in the energy sectors (electricity, natural gas) – on the essential legal institutions of which the Water Utility Act is based as well - as opposed to the practice of water utility service providers which shows a significant deviation, variance both with respect to the content of the service and the fees charged therefor.

With respect to the above, the Authority prepared its regulations and fee structure, similar to which had not existed previously in the sector. When submitting the proposal, the fundamental objective formulated as to establish such activities at the first time, which are not only carried out exclusively by the water utility service providers, but they affect a significant number of consumers and due to the earlier failures in regulation they represent a risk of inspection by the authority both for the water utility providers and the consumers with regard to the application and the amount of the fee.

In respect of the establishment of the range of services to be performed for additional fee – based on the analysed data - it was established that the activities of the certain water utility providers were determined with extremely different contents, so these activities were to be examined by the Authority broken down to work processes and process sections. In respect of the individual services, the Authority took Section (1) Article 72/A of Water Utility Act into attention, according to which the scope of services to be regulated shall only extend to services performed exclusively by the water utility providers.

Based on the above, the Authority, in order to establish the range of services to be performed for additional fee for the first time, to perform a thorough analysis of the data received from the water utility providers and to bear the interests of consumers fully in mind - in accordance with the time required for this - made its proposal related to services to be performed for additional fee so that the Minister of National Development can adopt a justified decision on the basis of that.

The list of activities formulated during the discussions and the table for data collection required for pricing activities were sent to each by the Authority water utility service providers. The technical content of each activity and calculation methodology of the costs related to each activity were built up from the very basics, taking into account the practices currently used by the water utility service providers (not or partially corresponding with the new activities), striving for forming a uniform terminology and technical content, likewise creation of uniform prices possible to be implemented.

7. Preparation of price setting of waste management public service

In 2015, the Authority processed data services required for price supervision and tariff setting, and consideration of additional expenditure requests that cannot be covered from the fee of temporary supply, set up along the system in the sector of waste management public service during the previous years. All data collection from waste management public service providers was carried out – similarly to the previous years - electronically. The proposal on fees required for the preparation of the regulation of waste management public service fees subject to the scope of regulation-making powers of the Minister of National Development was sent by the Authority based on the data services submitted by the public service providers by the deadline required by the legislation.

7.1. The situation of waste management public service sector

Following the structural transformation in the waste management public service sector, no significant changes could be observed last year. The registration and follow-up of returns required for the calculation of supervisory fee, and the determination of the fee payment obligation determined based on the declarations - also similarly to the previous year - was part of the Authority's work. According to the fee declarations, with respect to 2015, 142 public waste management services providers carried out public service activity, including the 136 public service activities carried out on 31 December of the reference year. The Authority imposed procedure fine against three public waste management service providers in four cases, in view of the fact that the supervisory fee was not paid by them despite repeated requests.

The number of complaints submitted (mostly by household consumers) to the Authority on waste management public service fees significantly decreased in 2015 compared to previous years - a total of 19 complaints were received – on the contrary this the number of requests to state the Authority's position regarding the application of fees increased to 29.

7.2. Preparation of public waste management services fee

In the first quarter of 2015, the Authority specified the substantial and formal requirements for data service required for preparation of prices for public waste management service. Due to the high number of data and factors determining the waste management public service fee, the analysis of individual parameters and their combinations, and the filtering of the inappropriately provided data was carried out using a computer supported data-processing system. The data service required for the preparation of waste management public service fee was to be carried out by the obliged waste management public service providers electronically through the Customer Gate.

For the purpose of providing adequate information for the waste management public service providers, the Authority made it a priority to continuously develop the waste management public service-related contents on its website. The Authority prepared its proposal on accounting separation obligation of waste management public service providers as well, which was also made available on its website.

As a result of the resolutions regarding year 2014²¹ issued by the Authority stipulating the data service obligation of waste management public service providers, the Authority received a total of 172 data supplies that can be used and assessed in the course of the tariff setting process.

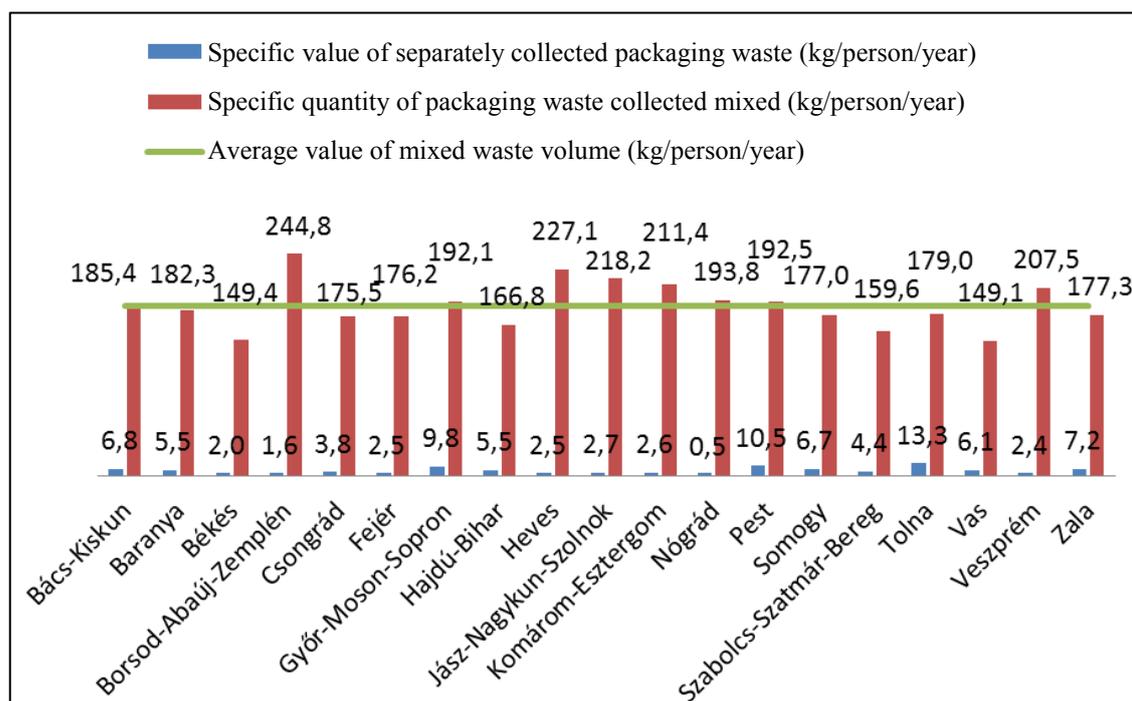
Table 17: Data service by waste management public service providers

Data received in the course of the data supply				
Subject year of data service ²²	Number of public service providers	Number of municipalities	Population	Number of households
2014	172	3133	9 768 406	4 379 295

The preparation waste management public service fee was carried out based on the natural and cost data of waste management public services recorded in 2014. The number of residents represented in the data supplies covered 99.12% of the population.

In order to establish waste management public service fee, the Authority analysed the specific values of waste quantities on the basis of which the waste management public service fee can be established, as well as the expected volumes of waste per resident and households.

Figure 27: Specific data of waste quantities broken down by urban municipalities per county



²¹ The waste management public service fee submitted on 30 October 2015 was calculated using 2014 data; therefore, there are no closed data from 2015 available for this period.

²² The deadline for the preparation of the balance reports of public service providers for 2015 is 31 May 2016; therefore, credible and financially supported data approved by the owners can be provided after this data.

7.3. Tasks related to the temporarily provided waste management public service

Based on the latest information provided by the disaster management authority, the assignment for temporary service was terminated in the case of 109 municipalities in 2015, while according to the data base valid on 31 December, public service was provided as temporary service in the case of 104 towns. Including the newly assigned and permanently assigned towns, a total of 164 towns were involved in temporary assignment in 2015, which was distributed among 28 temporarily assigned public service providers.

In the framework of temporary assignment for the provision of waste management public service, 21 justified claims for compensation of additional costs were submitted to the Authority by 14 public service providers in a total value of HUF 553,361,337. The Authority submitted a proposal to the proposal manager to cover the additional costs in 17 cases, worth a total HUF 282,873,658. In the case of 3 claims no substantive proposal was made due to deficiency in data supply, in one case the compensation claim filed by the public service provider was withdrawn; therefore, it was not considered by the Authority.

7.4. Inspections related to waste management public service

7.4.1. Number of inspections and their results

Number of inspections

The inspection of lawfulness of public waste management service fees applied affected 2,831,148 inhabitants of 64 towns in total.

Results of the inspections

The Authority revealed unlawful application of fees in 7 cases, in which cases the public service provider was obliged to refund the additional income gained by the unlawful application of fees.

Enforcement of the resolutions on the subject of fee inspections issued in 2014 resulted in repayment of fees unlawfully charged to the consumers in an amount of more than 130 million forints.

Types of identified violations

- erroneous determination of the base of the 4.2% fee increase made available for the first half of
- 2013;
- disregard of the amendment to the Act entering into force on 22 October 2013;
- incorrect determination of fees for non-natural persons.

The Authority revealed application of unlawful fees in 55% of the proceedings instituted in 2015, which is not considered as a relevant change compared to last year's ratio. That is, application of unlawful fees is still not showing a declining trend, some public service providers do not apply relevant legislation as a result of misinterpretation of the law, while others act so as a result of conscious behaviour. Resolutions of the Authority were objected before the court by waste management public service providers in a ratio of 60% which is a lower ratio compared to last year's 80%.

8. The Authority's international role

8.1. ACER

8.1.1. Working groups

ACER pursues professional activity working in five Working Groups (WG) and thirty-three Task Forces (TF) and Work Streams (WS) operating beneath the Working Groups in order to open up the electricity and gas markets with the purpose of regulating the energy markets at EU level. The Authority's staff participates in the majority of Working Group and Task Force meetings held on a monthly basis as members or observers, and co-ordinate the development of a common position between ACER, the Ministry of National Development (NFM) and other industry participants.

The Vice-Chairmanship of South South-East Gas Regional Initiative (GRI SSE) responsible for the regional cooperation of ACER in the natural gas market was taken over by the Authority from the Polish regulatory authority in November 2015.

Gas Infrastructure Task Force of ACER prepared the conditionalities for the list of projects of common interest (PCI) number II to be established on the basis of Regulation 347/2013/EU on the guidelines for trans-European energy infrastructure (TEN-E Regulation), and the Member States' approval process to be applied in respect of the projects. The Authority played an important role in the work processes.

According to the instructions of DG ENER and ACER, with the assistance of ENTSOG, project promoters developed the "Gas Candidate PCI Assessment Checklist", and for each project they prepared Cost Benefit Analysis (CBA) and Cross-Border Cost Allocation (CBCA). On the bases of those, the project promoters prepared an investment proposal draft for each project on the list, which were to be submitted to the Commission. Several regional Task Forces were set up by DG ENER to analyse the project, which by mid-October 2015 finalised the prior PCI-list partly grouped into clusters to be submitted to the Commission. ACER gave its opinion on the proposed list by the end of October, and the High Level Decision Making Body of Member States' representatives decided on the final list to be submitted on 3 November. Subsequently, the Commission issued its Delegated Act on the second EU-wide PCI list on the college meeting on 18 November 2015.

Hungary-related gas industrial projects of the list:

- Interconnection between Slovenia and Hungary;
- Bulgaria-Romania-Hungary-Austria (RoHuAt/BRUA) transmission system, which will carry out transmission of natural gas produced offshore at the Black Sea to the Austrian Baumgarten interconnection point;
- Bulgaria-Romania-Hungary-Slovakia (Eastring) pipeline system;
- Greece-Macedonia-Serbia-Hungary pipeline system (TESLA);
- Krk LNG terminal - Drávaszerdahely gas pipeline, which is supposed to transmit natural gas from LNG to Hungary.

Hungary related projects of common interest of electricity issued in a procedure identical to the one described above:

- Interconnection of Žerjavenec (HR)/Hévíz (HU) and Cirkovce (SI);
- Interconnection between Bős (Gabčíkovo) (SK) -Gönyű (HU) and Naggyöröd (Velky Ďur) (SK);
- Interconnection of Hungary and Slovakia between Sajóivánka (HU) and Rimaszombat (Rimavská Sobota) (SK);
- Interconnection of Kisvárda region (HU) and Nagykapos (Velke Kapušany) (SK).

8.1.2. Board of Regulators

BoR, the governing body of ACER holds meetings on a monthly basis, where the Authority is represented by the Vice-President for International Affairs.

8.1.3. EU Network Codes and other EU-related tasks

The development of Network Codes (NCs) was continued by the European Union in 2015 on the basis of Framework Guidelines (FG). HEA participated in the workshops, teleconferences and works on the continuous development of the codes supporting the ACER project groups.

8.1.3.1. Natural gas

Three network codes were compiled and brought into force in the natural gas market of the European Union in 2015. The Hungarian natural gas system applied two of them already, and one (TAR NC) is still under development.

- *Congestion Management Procedures*

By approving the Hungarian Operational and Commercial Code, the Authority has already issued the EU standards, therefore it is applicable in the Hungarian system. Application of the Annex to the Regulation – except from one mechanism - is binding from 1 October 2013, application without exception will be obligatory from 1 July 2016.

- *Network Code on Capacity Allocation Mechanisms (CAM NC):*

The date of entry into force of NC was 4 November 2013, which is mandatory to be applied from 1 November 2015. The second (last) CAM NC Roadmap finished by November 2015 drew attention to the incomplete application of requirements for CAM NC capacity booking platforms. The issue of capacity booking platforms is still open in respect of some cross-border points – negotiations between the system operators concerned is observed by the Authority as well.

- *Network Code on Gas Balancing (BAL NC):*

NC came into force as Regulation 312/2014/EU of the Commission on 16 April 2014. The Hungarian transmission system operator has been applying NC since 1 October 2015. Compliance with the application of NC in order to create European harmonisation is constantly discussed in international forums as well, thus compatibility of the provisions of NC with the solutions of the neighbouring transmission systems is being monitored by international experts.

- *Network Code on Interoperability and Data Exchange Rules (NC IO):*

The code harmonising the cooperation between transmission system operators was approved on 4 November 2014. The NC IO was published on 30 April 2015 by the European Commission. The Interconnection Agreement template provided for in the Regulation was developed and approved in the second half of 2015. It shall be applied from 1 May 2016.

- *Network Code on Gas Transmission Tariff Structures (TAR NC)*

The approval of draft TAR NC developed by ENTSOG (European Network of Transmission System Operators – Gas) shows significant delays to the proposed deadline, the Commission is currently working on it, at some points relying on the assistance of the experts of ACER and ENTSOG. In the course of developing regulatory positions, the Authority will continue to observe the development of draft NC proposed to the comitology meeting of 2016 as well.

- Upon the request of the Commission, in addition to Network Codes, ENTSOG worked out a so called "Incremental Proposal" amending CAM NC. This proposal affects both the already completed Network Code of Capacity Allocation Mechanisms and the Network Code of Tariffs, which is currently under development. The staff of HEA participates in developing the details of the proposal.

- HEA assumes an active role in the work carried out in the SSE (South-South East - South-Southeast) region of Gas Regional Initiative – as a so called project promoter of several current projects. Acting within its competence it periodically informs the Task Force:

- on the information related to the Regional Booking Platform (RBP);
- on the status of V4 regional Emergency Plan and the Preventive Action Plans;
- on the review of commercial licenses applied in V4.

Acting within its competences as co-chair from September 2015, the Authority also performs a coordinating role in the Task Force.

8.1.3.2. Electricity

From the eight proposed internal electricity Network Codes and guidelines of the EU (hereinafter referred to as EU network codes) one came into force in 2015, the other four were adopted by the comitology meeting and three codes are awaiting committee hearing and adoption.

- *COMMISSION REGULATION (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM GL)*

Regulation CACM GL entered into force on 14 August 2015 and it has particular significance in the development of the internal electricity market of the EU. The regulation stipulates the rules and institutional framework of Pan-European, day-ahead and intraday market coupling, as well as methods and principles of capacity calculation to be applied in a short-term time frame. Following entry into force, coordinated preparation of the adoption of Regulation CACM GL between the regulatory authorities was commenced with the participation of the Authority and coordination of ACER.

- *Draft Regulation establishing a guideline on forward capacity allocation (FCA GL)*

The Electricity Comitology Working Group voted in favour of the draft of the regulation establishing guidelines on forward capacity allocation (FCA GL) on 30 October 2015, which is expected to enter into force in the second or third quarter of 2016. FCA GL provides for the types and quantities of long-term capacity rights to be offered, the method and process of making the offer, and the extent of capacity guarantee (compensation) due to market participants holding allocated capacity rights in the case of capacity restrictions. The ultimate goal is to support the development of long-term liquid and competitive markets for the whole of Europe in a coordinated way, and to create effective management of risks associated with cross-border electricity trade for the market participants.

- *Regulation establishing a guideline on balancing regulations (draft) (EB GL)*

The ACER published its Recommendation on 16 July 2015. The comitology procedure is expected in the second or third quarter of 2016. The final content of EB GL may be amended by new proposals developed on the basis of responses submitted to the summer consultations of the Commission on new the market model.

It aims to promote the balancing regulatory markets presently mostly organised on a national basis towards markets of wider geographical expanse, thus enabling a more efficient use of various resources in different regions. This will help TSOs in making better use of regulatory resources, which can reduce the cost of balancing energy and increase security of supply. A further aim is to increase the range of service providers of balancing services through involving units producing energy from renewable resources as well as the consumer side. Subsequent to a flexibly regulated transitional period, the code provides for the creation of a uniform European balancing market and its system of regulations.

- *REGULATION of the COMMISSION on Network Code on the Requirements for Grid Connection Applicable to all Generators (NC RfG)*
- The comitology experts' working group of EU Member States approved the draft network code on the requirements for grid connection applicable to all generators (NC RfG) on 26 June 2015, that provides for the technical conditions for grid connection of production units and the main steps of the procedures to be applied. NC RfG may enter into force in the first quarter of 2016. The Network Code allows for the uniformity of technical conditions for the connection of power plants at a European level, while offering a broad scope for Member States to take into account regional specificities.

- *REGULATION of the COMMISSION on Network Code on User Connection (NC DC)*

The comitology experts' working group of EU Member States approved the draft network code on the connection of consumers (NC DC) on 16 October 2015. NC DC may enter into force in the first or second quarter of 2016. It provides for the technical conditions for the connection of distribution networks, private networks, large consumers and consumers suitable for demand-side management to the network, as well as the procedures, main steps of technical provisions to be applied in the course of connection

- *REGULATION of the COMMISSION on Network Code on Requirements for the Grid Connection of High Voltage Direct Current Systems and Direct Current-Switched Power Stations (NC HVDC)*

The comitology experts' working group of EU Member States approved the draft network code on the requirements for the grid connection of high voltage direct current systems and direct current-switched power stations (NC HVDC) on 11 September 2015. NC DC enters into force in the first or second quarter of 2016. NC HVDC specifies the technical conditions for DC connection of transmission networks and Alternative Current, and common technical conditions for DC - AC connection, including the procedures, main steps of technical revisions to be applied in the course of connection.

- *Regulation of the Commission on the establishment of guidelines for the system operation (draft) (SO GL)*

Three former EU network codes regarding system operation, subject to comitology discussions (NC OS, NC OPS and NC LFCR) were compiled under the title Guidelines for System Operation (SO) by ENTSO-E upon the request of the European Commission in 2015. The guidelines for system operation include the former code on operational security (NC OS), plant preparation and schedule management (NC OPS) and power frequency regulation and the reserves (NC LFC & R) in a consolidated form. The comitology discussions on SO GL began in December 2015.

- *Network Code on Emergency and Restoration (NC ER)*

The European Commission is preparing an impact assessment on the application of the code. The comitology procedure is expected to start in the second or third quarter of 2016. The final content of NC ER may be also modified by the new proposals developed on the basis of the incoming responses during the summer consultation on the European Commission's new market model. The ER NC stipulates provisions, requirements for the management of critical situations in the system and the recovery of the system harmonised at Pan-European level.

8.1.4. ACER Opinion 9/2015

The Polish energy regulatory authority (URE) submitted a request to the ACER in which requested the Agency in a formal way to investigate whether the cross-border electricity capacity allocation and congestion management method in the CEE²³ region meets the requirements of Regulation 714/2009/EC. The Polish party particularly questioned that the application of the procedure is not required at the German-Austrian border (DE-AT). The decision was issued in a peer review on 23 September 2015. During the procedure, the Authority supported the URE request.

The Authority considers the content of the ACER opinion as a major success and it is committed to the implementation thereof, as it verified the view of V4 regulators for long, i.e. failing to apply the capacity allocation and congestion management method set forth by Regulation 714/2009/EC at the German-Austrian border, a significant quantity of electricity flow is diverted to other transmission systems of the region, which may result in system security risks and may lead to welfare losses as well. Based on the ACER opinion, the capacity allocation procedure complying with the EU law shall be introduced at the German-Austrian border. The decision ultimately facilitates deepening the integration of electricity market and provides actual access to the internal energy market. In November 2015, the Austrian regulatory authority (E-Control) filed a notice of appeal against the ACER Opinion to the Board of Appeal of the ACER and the Court of Justice of the European Union.

8.2. CEER

8.2.1. Task Forces

The staff of HEA carries out their activity in eight Working Groups and sixteen Task Forces (TF, WS) of the CEER. The Authority is the co-chair of the Gas Storage TF of CEER.

In its communication on the Energy Union, the European Commission set as a target the creation of a comprehensive LNG and natural gas storage strategy that uses the full potential of LNG and natural gas storage in the medium and long term.

The CEER Security of Supply Task Force set up a joint position package, which was approved by the National Regulatory Authorities (NRA) of the Member States, in response to the issues of the public consultation announced by the Commission to amend Regulation 994/2010 on the security of natural gas supply. The Commission requested the Task Force (TF) to take part in the evaluation of the public consultation, on the basis of the assessment the Commission prepares a comprehensive report by January 2016.

The Authority actively participates in the Working Group of CEER dealing with consumer protection and retail market regulation (CRM WG), which provides effective support to the organisations of the European Commission dealing with issues of consumer protection. The staff of HEA was involved in responding the national consumer protection issues and other CEER researches through filling in questionnaires.

In 2015, several major projects were completed and approved within the Working Group, for example, the document on the involvement of consumer protection and representation in the European regulation, the chapters of Market Monitoring Report on consumer protection, as well as the recommendations for consumer data management. The Working Group concentrates on the topic

²³ Austria, the Czech Republic, Poland, Hungary, Germany, Slovakia, Slovenia

of service providers switching and the simplification of the process through different means (e.g. price comparison mechanisms, elimination of market or regulatory barriers).

8.2.2. GA

The Authority participates in the monthly General Assembly of CEER, in which several documents are discussed.

8.3. ERRA

The Authority is represented in the Presidium, General Assembly and all the Working Groups of ERRA. Major ERRA-related events in 2015:

- *January-May 2015* – The Presidium members informed the leaders of ERRA-member authorities on the important ERRA events and consulted on the common topics (the Authority with the leaders of the Romanian, Polish and Slovak authorities).
- *17 February 2015* - Presidium meeting in Budapest (legal status, preparation of the General Assembly in June and the annual conference in October).
- *25 to 28 May 2015* - Presidium meeting and 6th World Forum on Energy Regulation (WFER) conference in Istanbul.
- *17 to 19 June 2015* - Presidium meeting, General Assembly, presidential and committee meetings in Budapest.
- *29 to 30 June 2015* - Customers and Retail Markets Working Group meeting in Moscow. HEA held a presentation on Customer Education Market.
- *5 to 7 October 2015* - Annual ERRA conference, Presidium meeting, extraordinary general assembly, Presidium and committee meetings in Bucharest. In the framework of the annual conference, in the panel discussions on shale gas the Vice President of the Authority participated as a speaker (Impact of New Pipeline Projects and Shale Gas on Domestic Market).
- *13 November 2015* - 3rd Workshop on Water Regulation, Sofia (Bulgaria). The main topics of the workshop included international regulations on pricing system and connections.
- *7 to 8 December 2015* - Consumer and Retail Market Task Force meeting in Vilnius (Lithuania). The Authority held a lecture on the topic of illegal consumption.

8.4. European Committee

8.4.1. Forums

- *12 to 13 March 2015* - *London Forum (retail markets and consumer protection)*

The Authority takes part in the Forum regularly. The conference was an annual event held by the Commission for the seventh time, this time it concentrated on the situation of vulnerable consumers with respect to retail energy markets and energy consumer protection, energy awareness, energy efficiency, emphasizing the role of the consumer in the modified energy market of the Union.

- *8 to 9 October 2015 - Florence Forum (electricity)*

The New Energy Market Design Conference took place simultaneously with the above. Participants discussed how the new energy market model promotes the flexibility of the network, the integration of renewable energy producers, network and system security. Experts from the Authority regularly participate in the Forum.

- *9 to 10 November 2015 - EU Energy Infrastructure Forum, Copenhagen (Denmark)*

The Forum is a major key event of the Energy Union, targeting mainly the harmonisation of political resolutions related to energy infrastructure through experts' opinions.

8.4.2. Working Groups

In 2015, the Authority regularly participated in the meetings of the working group that commenced its activity as one of the main project groups of the Energy Union, dealing with Central and South-East European gas connections (CESEC). In the autumn of 2015, the Authority joined the Commission's Consumers and Market Actors Working Group (C WG). The working group was mandated in 2013 to revise consumer engagement and awareness in order to determine the possible directions for EU legislation.

The Authority, as National Contact Point appointed by the Ministry of National Development participates in the project "Concerted Action on the Renewable Energy Directive II" (CA-RES II) with effect from 1 October 2013. The CA-RES II is a project supporting the adoption of the provisions of 2009/28/EC Directive of the European Parliament and the Council (Renewable Energy Directive) by the Member States and supporting cooperation between the Member States, financed by the European Union. The Authority participates in three of the seven working groups of the CA-RES II project (Support Systems Working Group, Electricity Networks Working Group, Guarantee of Origin and Disclosure Working Group). The Authority took part in both forums of the project organised in 2015 (Dublin, Ireland; Larnaka, Cyprus).

8.5. Regional cooperation

- *13, January, 23 February, 12 March, 19 May 2015 - Reconciliation of regulatory authorities and transmission system operators on the topic of Romanian-Hungarian-Austrian Gas Corridor*

The project aims to transmit the future production of the Black Sea gas fields to Baumgarten. Development of the project details is ongoing in cooperation with the involved regulators (AT, RO) and transmission system operators.

- *Cooperation of energy regulatory authorities of V4 countries*

The Visegrad countries strengthen their cooperation in the regulatory field as well. The energy cooperation between the Visegrad countries contributes to the enforcement of the interests of Hungary and to the development of its position in the EU. The Authority plays an active role in the regional consultations, among others, through preparing technical documentations (inspection, analysis of V4 trade licenses, V4 regional risk analysis; V4 regional emergency and preventive action plans).

- *11 February 2015 - Prague - The Czech, Polish, Hungarian and Slovak regulatory authorities and transmission system operators and representatives of the ACER attended a natural gas market workshop. In the course of consulting the regulatory authorities established a common position in*

three topics (PCI, security of supply and market integration), which are summarised in the Declaration signed by the Presidents of the V4 regulatory authorities issued upon the initiative of the Czech regulator.

- *19 February 2015 - Bratislava* – in the V4 Gas Forum the ministries, national regulatory authorities and transmission system operators of the member countries were represented. Based on the commitments made at the Forum, the Slovak gas transmission operator Eustream prepared a Regional Risk Assessment by mid-April 2015 and on that basis the preparation of V4 regional emergency and preventive action plans begun.
- *13 to 14 May 2015 - Warsaw* – The leaders of the national regulatory authorities of the V4 countries, representatives of the ACER and the transmission system operators of the V4 countries held a meeting on topics of electricity security of supply and market integration.
- *27 July 2015 - Bratislava* - Representatives of the regulatory authorities took their positions in a joint declaration on the maintenance of independence of the regulatory authorities of the Member States in order to increase competitiveness of the European energy market while using low-carbon gas-emission technologies - including nuclear energy. An important topic was the increase in security of supply through a cost-effective deployment of cross-border pipelines.
- *17 September 2015 - Ostrava - "6th International Energy Club" Conference*

The energy regulatory authorities of the V4 countries met as part of the program by the Czech Presidency of the Visegrad Group. At the meeting, participants took a common position, in the context of electricity energy loop flows from Germany, division of the united German-Austrian market, impact of energy market liberalisation, and in the context of the REMIT in connection with a possibility to create common wholesale market monitoring centres of the V4 countries.

- *3 December 2015 - Hungary - Reconciliation by the energy regulatory authorities of the V4 countries*

The leaders and experts of the energy regulatory authorities of the V4 countries consulted on the following main topics: price regulation, pricing, Hungarian experience in utility costs reduction, the next step in the analysis of cross-border natural gas markets in order to maximise the use of existing and new infrastructure. The member states decided to set up an expert-level working group which will meet regularly in 2016 to develop a common price regulation study. The study will examine the pros and contras of the full liberalisation of retail markets and partial regulation from the consumer point of view. The member states decided to consult annually in the aspects of the infrastructure.

- *Market integration in the CEE region*

The ultimate objective of the harmonisation of the regulatory environments governing the cooperation of the Member States of the EU electricity market regions is the development of a single internal energy market. In the regions of Eastern and Central Europe, the preparations for the implementation of the flow-based market coupling, as the desired model for the EU continues. The working organisation required for the implementation of the project for the coupling of the Northern and Eastern European region with the Eastern and Central European region has been established, the project management office (PMO) has been appointed, and the transmission system operators and exchanges participating in the project have submitted the schedule and budget to the relevant national regulatory authorities.

8.6. Bilateral negotiations

The Authority held bilateral negotiations with the following organizations and experts in 2015:

- *14 January 2015 in Budapest; 9 September 2015, Brussels; 6 October 2015, Zagreb*

Negotiations were conducted with the institutions concerned (ministries, national energy regulators and TSOs), the ACER and the European Commission representatives with the goal to make the Croatian-Hungarian gas interconnector pipeline bidirectional.

- *18 June 2015 - meeting with the representatives of Directorate of Energy and Climate Change (DECC) and the British Government in London*
- *23 June 2015 - meeting with Mr. Ljubo Macic, President of Energy Agency of the Republic of Serbia (AERS), Belgrade*
- *14 September 2015 - meeting with the representatives of the Romanian Energy Regulatory Authority ANRE and TRANSGAZ, Budapest*
- *17 December 2015 - meeting with representatives of the Energy Regulatory Authority of Slovenia AGEN in Maribor*

8.7. Conferences, international professional forums

- *22 to 24 January 2015. – 9th Energy Forum Karpacz (Poland)*

The conference topics included nuclear energy, mining and energy security issues, which were discussed on the basis of performances and presentations.

- *26 February 2015 - CEER Workshop, Budapest*

The members of the CEER Task Force on gas storage discussed the situation of regulatory aspects of gas storage.

- *20 to 21 April 2015. - 7th European Economic Congress in Katowice (Poland)*

The Authority participated in a panel discussion at Central Europe's largest economic congress, which focused on the internal market of the EU. HEA spoke up for the following topics in the panel discussion:

- experience gained during the PCR-based extension of the Czech-Slovak-Hungarian day-ahead electricity market with Romania, compatibility with the EU target model;
- which elements of the regulation promote or hinder the creation of IEM.

- *15 to 17 June 2015. - World National Oil Companies Congress, London (Great Britain)*

The Authority participated in the panel discussion entitled “Shale and beyond: realising the potential of Unconventional Oil and Gas”.

- *24 to 25 June 2015. - International Energy Conference (KERI-IEC-2015), Kiev (Ukraine)*

The Authority was one of the participants in the panel discussion entitled "How do national energy regulatory authorities stimulate infrastructure reconstruction and development?". The conference, among others, introduced the system of regulation of the EU and Hungarian infrastructure development.

- *3 September 2015 - Presentation by the Secretary General of Eurelectric electricity future of Budapest*

Mr Hans ten Berge, Secretary General of Eurelectric arrived upon the invitation by the Authority, who addressed the theme of the European impact of the spread of renewable energy resources in electricity production including the barriers and risks, as well as the related network development.

- *8 to 10 September 2015 - 25th Economic Forum in Krynica (Poland)*

At the event, the topic of building renovation and energy efficiency was debated by dominant political and economic leaders and experts. The Authority participated on roundtable discussion dealing with correlations between building reconstructions and energy efficiency.

- *28 to 29 September 2015 - WAREG meeting, Budapest*

HEA hosted the current meeting of European Water Utility Regulators (WAREG) held with the participation of representatives of 16 European regulatory authorities. The meeting focused on the coordination of regulation of public utility services, exchange of theoretical solutions and practical experience of the regulators.

- *October 2015 - the ACER Task Force meeting, Budapest*

The members of the Task Force discussed capacity allocation and congestion management procedures in the office of HEA.

- *13 to 14 October 2015 - Twinning Seminar in Vilnius (Lithuania)*

Energy regulatory authorities of all EU countries were involved in the seminar, who intended to learn more about the "Twinning", that is tendering and conducting processes of the twinning program.

- *17 November 2015 - ACER, ENTSOG Joint Workshop on the Early Implementation of Balancing of Natural Gas, Budapest*

The Joint ACER-ENTSOG workshop of Central and Eastern Europe was organised in collaboration with the staff of the Hungarian Energy & Public Utility Regulatory Authority.

- *17 to 18 November 2015 - Shale World Europe - Warsaw (Poland)*

Vice President of the Authority held a keynote panel discussion and a presentation on the position of and the experience gained in the Hungarian and European shale gas research, research licenses.

- *22 to 24 November 2015. - Central European Energy Conference (CEEC2015), Bratislava (Slovakia)*

The conference was organised for the ninth time by the Slovak Foreign Policy Association (SFPA), the main topics of which included the German energy policy, EU legislation related to Nordstream2 and the annual report on the Union's situation.

- *3 December 2015 - European Biogas Association workshop, Budapest, HEA headquarters*

The European Biogas Association held a conference on the possibilities of domestic application of bio-methane in the Authority's headquarters for the first time. 27 participants, including the Ministry of Agriculture, the Hungarian Biogas Association, the Natural Gas Distribution Co-operation Forum and representatives of domestic companies consulted in the workshop with HEA experts on the opportunities of using biogas and bio-methane in Hungary.

8.8. International surveys

The Authority conducted international surveys on the following topics:

- *Price Comparison Tools (PCT);*
- *International practice of contract violation management;*
- *Survey on the ownership of distribution system operators (DSO);*
- *Comparative summary of the energy profiles of the EU and the neighbouring countries.*

9. Consumer protection

The Authority's official means in the field of consumer protection are the following: monitoring the activities of service providers, investigating consumer and consumer complaints and being an independent supervisory authority, setting out quality requirements.

9.1. Quality of supply

9.1.1. Electricity market

According to the practice established by the Authority, the regulation of service quality is based on four pillars. These four pillars are considerably different in terms of the specifics of the areas under regulation, the method of regulation and the consequences of non-compliance with the requirements. Accordingly, separate regulation applies to service continuity, customer relations, Guaranteed Services and voltage quality.

Customer satisfaction survey

In order to learn about the results achieved through the regulation of quality of supply and to assess the further needs of consumers, the Authority conducted a satisfaction survey of the consumers of distribution system operator licensees and universal service provider licensees for the nineteenth time, based on the opinions of 7200 household consumers and 2400 non-household consumers. The assessment of the results and preparation of plans for corrective actions were carried out last year as well. The methodology of the survey was identical to the procedure used in the year before, thus the results can be compared quantitatively and directly.

The feedbacks on distribution activities were collected focusing on two major subjects. On the one hand, the quality of electricity transmission (including e.g. the continuity of supply, perception and evaluation of voltage fluctuations among household and non-household consumers, breakdown recovery) and on the other hand, customer relations (including e.g. technical administration) were examined.

The deficiencies of electricity supply, the lengthy works on repairing the network failures still remained issues according to the opinion of the respondents, the latter received the lowest relative satisfaction scores. An about 40% of the respondents experienced short and 30% of them long power outage, approximately 20% of them experienced ripple voltage and an average 8% of them a network failure, these figures have been the most favourable data for the last four years. The overall opinion on distribution activities at national level has slightly improved both among the household and non-household consumers.

As to the areas of universal service, the survey focused on the examination of customer relations with household consumers and non-household consumers, including invoicing, complaint management and other customer service activities, as well as communication and information provision. Although the majority of respondents would opt for telephone customer service, in practice consumers use personal customer service first and online customer service as a second option.

With respect to the various forms of contact, as a critical point – similarly to last year - typically the cumbersome telephone menu system and long waiting time when arranging matters in person were raised by the interviewed consumers. The relatively low satisfaction with call centre service did not change considerably in 2015 either. Likewise, relatively low national satisfaction in respect of

complaint management did not improved either, neither with the household nor with non-household consumers.

The opinion on comprehensibility of invoices have shown continuous improvement with the household consumers. Nationwide, 90% of the household and 84% of the non-household consumer respondents rated the comprehensibility of the invoices as good, which broadly equivalent to the level of satisfaction in 2014 and can be considered as a permanent improvement compared to 76% in 2013. The implementation of statutory provisions regarding the application of unified invoice format passed in 2012 resulted in a considerable improvement in terms of invoice comprehensibility.

Quality of customer relations service

The quality of customer relations service constituting the other pillar of service quality was re-regulated in 2008, adopting the provisions of the Electricity Act taking effect at that time. The index system set up to regulate the quality of customer relations service is built up from successive requirements.

The lowest level consists of monitoring-type indicators not associated with either a minimum quality requirement, nor with any expected service standards. These parameters serve the assessment and comparison of the licensees, and may constitute a basis for an eventual regulation in the future.

At the middle level of the regulatory scheme are the indicators for which an expected service standard was established by the Authority - partly based on legal provisions. Non-compliance with these requirements may result in application of sanctions following a subsequent official inspection.

At the top of the regulatory mechanism the indicators are used which are associated with both a minimum quality requirement and expected service standards determined by the Authority. Depending on its extent, non-compliance with the latter may result in imposing a fine in two phases up to the amount of HUF 100 million/ indicator.

The analysis on the quality of customer relations service is available on the Authority's website.

Guaranteed services

The resolutions titled Guaranteed Services (hereinafter referred to as GS) that relates to the subject of the establishment of minimum quality requirements for universal service providers in regards to individual consumers, issued by the Authority in 2003 were renewed in 2008 in accordance with the new legislation. In response to the increasing number of breakdowns due to extreme weather conditions, the Authority reviewed GS resolutions on distribution system operators in November 2009, as a result of that, when establishing the requirements GS II on 'Elimination of electricity interruption at multiple service locations', it considered the extreme weather conditions and specified the durations the exceeding of which, in case of long-term disruptions caused by extreme weather conditions would result in a financial consideration toward the consumers.

As a result of the gradual introduction of the automatization of compensation payments, as of 1 January 2011, each not fulfilled GS requirement will automatically result in the obligation to pay a penalty. Pursuant to the GS resolutions, the distribution system operator licensees are obliged to pay penalty in case of non-compliance with 13, universal service providers in case of non-compliance with 5 minimum requirements to the consumers affected.

The GS-related activities of distribution and universal service provider licensees were also revised and assessed in 2015. The number of cases identified but not settled by the distribution system operators increased by 12.33% in 2014 compared to the finalised figures in 2013. The main reason for this is that in

the case of GS requirement "Connection of new service location or expansion of capacity" the number of cases showed a significant increase (+ 65%) compared to the previous year. However, a few licensees could not follow this due to capacity organising issues.

The ratio of the penalty paid nationally and the number of not fulfilled cases decreased to 103.72% in 2014 from 111.52% in 2013.

The decrease in the number of cases not performed by universal service providers (2148) continued in 2014. The ratio of the penalty paid nationally and the number of not fulfilled cases reached 100% in 2014. 100% of the payments was settled automatically which shows a progress compared to the ratio of 99.7% last year.

Due to non-compliance with requirements, from among the distribution system operator licensees E.ON Északdunántúli Áramhálózati Zrt., and from among universal service providers E.ON Energiaszolgáltató Kft. paid outstanding amounts to their consumers. The evaluation of the fulfilment of requirements is available on the Authority's website.

Table 18: Consolidated figures on Guaranteed Services, 2014

Licensee	Number of cases related to GS, pc	Number of not fulfilled cases, pc	Total number of penalties paid automatically, pc	Total number of penalties paid, pc	Total amount penalties paid, HUF
ELMŰ Hálózati Kft.	1,947,861	3,389	3,399	3,399	19,096,000
ÉMÁSZ Hálózati Kft.	1,582,903	866	873	873	6,014,000
EDF DÉMÁSZ Hálózati Elosztó Kft.	1,382,999	3,997	4,836	4,972	32,302,080
E.ON Dél-dunántúli Áramhálózati Zrt.	1,752,318	6,460	6,470	6,470	37,964,000
E.ON Észak-dunántúli Áramhálózati Zrt.	2,031,761	14,822	14,983	14,983	86,531,000
E.ON Tiszántúli Áramhálózati Zrt.	1,691,348	3,955	4,038	4,038	24,984,000
Distribution system operators in total:	10,389,190	33,489	34,599	34,735	206,891,080
EDF DÉMÁSZ Zrt.	60,290	1,259	1,259	1,259	7,755,000
ELMŰ Nyrt.	3,778,335	297	297	297	1,690,000
ÉMÁSZ Nyrt.	577,120	92	92	92	530,000
E.ON Energia-szolgáltató Kft.	337,398	500	500	500	2,865,000
Universal service providers in total	4,753,143	2,148	2,148	2,148	12,840,000
Total:	15,142,333	35,637	36,747	36,883	219,731,080

9.1.2. Natural gas market

According to the practice established by the Authority, the regulation of service quality is based on three pillars in the natural gas industry, which considerably differ from each other in terms of the specifics of the areas under regulation, the method of regulation and the consequences of non-compliance with the requirements. Accordingly, separate regulation applies to customer relations, Guaranteed Services and the continuity of service.

Consumer satisfaction survey

In order to learn about the results achieved through the regulation of quality of supply and to assess the further needs of consumers, the Authority conducted a satisfaction survey of the consumers of distribution system operator licensees and universal service provider licensees for the nineteenth time in 2014. The survey was based on the opinions of 7200 household consumers and 2400 non-household consumers. The methodology of the survey was identical to the procedure used in the last 7 years, thus the results can be compared quantitatively and directly.

From among the distribution activities, the survey focused on service quality, technical administration, information provision, measurement of consumption and evaluation of environmental impacts, and the consumers' feedback on the quality of the supplied natural gas. Feedbacks from household consumers showed, that – despite the high satisfaction with the quality of gas in 2014, satisfaction with gas quality, reliability of consumption measurement, information provision and environmental protection continued to grow, likewise the overall satisfaction index was increased as well. In respect of non-household consumers, the direction of the observed differed from distribution system operator to distribution system operator.

From among universal service-related activities, the consumers evaluated the quality of invoicing, complaint management, customer service and information provision. As to universal service, beside the field of electricity supply, in the field of natural gas service it can also be established that the internet is becoming more significant in customer service, its popularity is almost equal to that of personal customer service. Personal customer service was heavily criticised due to lengthy waiting periods. Satisfaction with the certain elements of customer service on phone is similar to that of last year, both with the household and non-household consumers.

Satisfaction with the clarity of invoice equals to last year's level resulting in a great improvement (compared to 59% in 2013, it was approximately 75% in 2014 and 2015). The issue raised by the consumers who were not satisfied with the invoice was that they do not understand the information given. Many complained about the confusing invoice image. The implementation of statutory provisions regarding the application of a unified invoice format passed in 2012 resulted in a considerable improvement in terms of invoice comprehensibility.

Quality of customer relations service

The quality of customer relations service, the other pillar of service quality was re-regulated in 2009, upon adopting the provisions of Natural Gas Act. In the natural gas sector in 2011, indicators of service standard became equal to the expectation levels currently applied. The rules of data service by the licensees have been the same as the electricity industry practice from 2012. As a result of that, quality control and sanctioning of customer relations services became unified in the gas and electricity sectors. The index system set up to regulate the quality of customer relations service is built up from successive requirements.

The lowest level consists of monitoring-type indicators not associated with either a minimum quality requirement, nor with any expected service standards. These parameters serve the assessment and comparison of the licensees, and may constitute a basis for an eventual regulation in the future.

At the middle level of the regulatory scheme are the indicators for which an expected service standard was established by the Authority - partly based on legal provisions. Non-compliance with these requirements may result in application of sanctions following a subsequent official inspection.

At the top of the regulatory mechanism the indicators are used which are associated with both a minimum quality requirement and expected service standards determined by the Authority. Depending on its extent, non-compliance with the latter may result in imposing a fine in two phases up to the amount of HUF 100 million/ indicator.

The analysis on the quality of customer relations service is available on the Authority's website.

Guaranteed Services

The second pillar of the regulation of quality of supply was introduced in the natural gas industry in 2010. As the last phase of the regulatory process, the resolutions titled Guaranteed Services referred to as (GS) that relates to the subject of the establishment of minimum quality requirements for universal service providers in regards to individual consumers. Licensees were required to supply data on their performance relating to Guaranteed Services for the first time in 2011. As a result of the gradual introduction of the automatization of compensation payments, as of 1 January 2011, each not fulfilled GS requirement will automatically result in the obligation to pay a penalty. Pursuant to the GS resolutions, the distribution system operator licensees are obliged to pay a penalty in case of non-compliance with 13, universal service providers in case of non-compliance with 5 minimum requirements to the consumers affected.

Based on the data provided in regards to 2014, the Authority prepared the evaluation of the activities of natural gas distribution system operator licensees and universal service providers regarding Guaranteed Services.

Based on the 2013 consolidated figures, the number of GS-related cases of distribution system operator licensees shows an 81/5% decrease in comparison to the results of 2013, while the decrease in the number of non-fulfilled cases grew by 11.64%. The ratio of the penalty paid nationally and the number of not fulfilled cases reached 100% in 2014. 100% of the payments was settled automatically

Table 19: Consolidated figures of Guaranteed Services in 2014

Licensee	Number of cases related to GS, pc	Number of not fulfilled cases, pc	Total number of penalties paid automatically, pc	Total number of penalties paid, pc	Total amount penalties paid, HUF
E.ON Dél-dunántúli Gázhálózati Zrt.	138,893	231	231	231	1,200,000
ÉGÁZ-DÉGÁZ Földgázelosztó Zrt.	130,131	382	382	382	1,950,000
FŐGÁZ Földgázelosztási Kft.	47,799	3	3	3	15,000
E.ON Közép-dunántúli Gázhálózati Zrt.	334,319	285	285	285	1,480,000
Magyar Gázszolgáltató Kft.	4687	0	0	0	0
TIGÁZ-DSO Földgázelosztó Kft.	146,398	336	336	336	1,685,000
Distribution system operators in total:	802,227	1237	1237	1237	6,330,000
GDF SUEZ Energia Magyarország Zrt.	104,528	3082	3082	3082	15,640,000
Fővárosi Gázművek Zrt.	112,807	61	56	61	305,000
TIGÁZ Tiszántúli Gázszolgáltató Zrt.	326,371	239	181	239	1,195,000
E.ON Energiaszolgáltató Kft.	78,668	113	112	113	575,000
Universal service providers in total:	622,374	3495	3431	3495	17,715,000
Total	1,424,601	4732	4668	4732	24,045,000

Regarding universal service providers, the number of cases falling into the scope of GS decreased by 33.41% compared to the previous year. There was a decrease in the case of all licensees with the exception of FŐGÁZ Zrt. In the case of distribution licensees, the rate of penalties payments resulting from non-fulfilled cases increased in the case of universal service providers, from 27.4% in 2013 to 100%. 98.1% of penalty payments were settled automatically. In 2013, universal service providers showed the biggest number of unfulfilled cases with respect to the GS-requirement "Information provision upon documented request", while the distribution licensees with respect to the GS-requirement "Keeping the appointments", therefore, the development of their case management systems remains important and necessary.

9.2. Consumer complaints, information requests

The consumers contact the Authority with complaints related to violence of contract, switching traders and invoicing. The government authorities are granted the right to manage the complaints of household consumers related to invoicing, accounting, metering as first instance consumer protection bodies, while the complaints of non-household consumers related to invoicing, accounting, metering are investigated by the Authority.

As in the previous years, last year again the vast majority of consumer complaints requested a review of procedures conducted related to violence of contracts established by the licensees, within which the dominance of complaints on licensee actions related to illegal consumption can be observed. In addition,

complaints on the process of trader switching regulated in detail by the Commercial Code of the licensees and the regulations on the sector were submitted as well, in which the consumers complained about failure or delay in the process of trader switching, as well as they requested the assistance of the Authority in the settlement of issues related to accounting and invoicing.

On 1 January 2015, the Authority had 4452 ongoing complaint cases. During 2015, the Authority received 1423 new complaints and 2637 cases were closed. As a result of that, on 31 December 2015, 3238 complaints were in progress, that is, the number decreased by 1214 cases compared to the opening data at the beginning of the year.

In order to inform consumers and users, to make the rules related to the legislation on licensees more widely known, the Authority performs customer service functions as well. The Authority provides information for the consumers through customer service in person or call centres available on phone, or it answers the questions in writing. The call centres are available through two phone numbers, one of them is a so called green (toll-free) number, through which the consumers can contact the Authority free of charge.

On the other hand, the task of customer service is to provide information on the status of the complaints and claims falling within the competence of the Authority, and to answer any other questions affecting the current public utility consumers. Customer services support the information provision for the consumers by publishing consumer information booklets and through providing targeted electronic consumer information service as well.

In 2015, the customer service of the Authority provided the consumers with information via mail in 1566 cases and through phone in 4867 occasions, and consultation in person took place in the case of 263 consumers.

Figure 28: Telephone requests by public service sectors, 2015

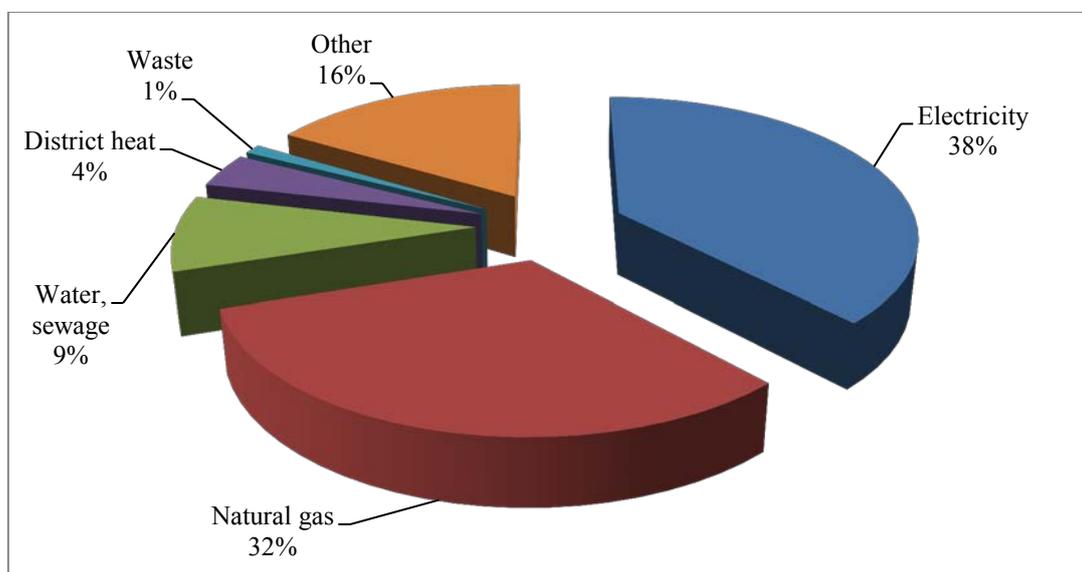
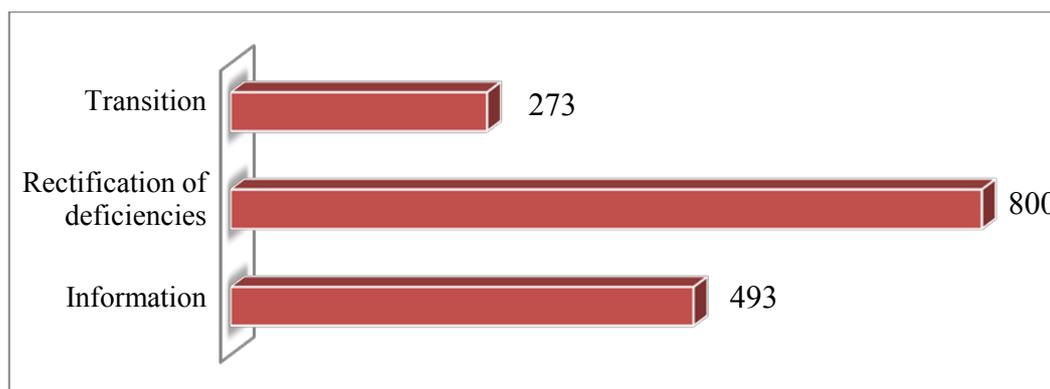


Figure 29: Distribution of written requests, 2015

With respect to the overall operation of customer service our experience shows that consumers request the Authority not only to resolve technical or legal disputes with the licensees, but they request information on their rights, as well as the legislation on the licensees prior to the development of the dispute.

9.3. Approval of codes

The Commercial Code of electricity and natural gas distribution, universal service and water utility service licensees is a document basically establishing contractual relationships. An important expectation toward the Commercial Code to be consistent with the specific regulatory environment regarding both the general and the individual service sectors, so when the applicable law is changed, the licensees are required to review, revise their Commercial Code and submit them to the Authority for approval.

In the course of the approval of Commercial Code of the certain licensees, or approving the application for the amendment of Commercial Code - particularly in the case of licensees with large consumer bases – it is necessary to conduct a special inspection from consumer point of view. This viewpoint aims at ensuring that the Commercial Code provides full effect for the consumer rights specified by legislation and that the obligations related to the consumers are not formulated under stricter conditions than it is required by the legal standards.

9.4. Inspections

In 2015, the Authority's consumer protection inspections focused on the meters with expired authenticity, the quality of supply provided for the specific consumers (information, penalty payment), the operation of customer service offices (waiting time in branch offices, top-up of pre-paid meters, activity of pre-filtering person.) and other current factors influencing the quality of supply performed to the consumers (customer service disruption). During the conducted proceedings - if it is justified by the infringement - the Authority sanctioned the licensees' actions by imposing a fine.

Inspections on the application of meters with expired authenticity:

In 2015, the Authority initiated official proceedings with electricity and natural gas distribution licensees in relation to household consumers in the subject of meters with expired authenticity. The Authority, within the framework of prior data service obligation inspected the ratio of the recorded meters with

expired authenticity with twelve licensees comparing it to the entire number of meters of the licensees, as well as analysed the figures of the so called bulk sample re-authentication procedures. The Authority inspected authenticity of the provided data on-site through random sampling. One electricity and two natural gas distribution licensees were imposed a fine of HUF 10,600,000 altogether by the Authority due to the high number of meters with expired authenticity and the Authority obliged them to accelerate the authentication process and to fulfil data service obligations every half a year for a term of one and a half year.

Inspections of customer services:

In 2015, the Authority carried out inspections on many occasions in the electricity and natural gas universal service licensees' customer service offices, revising the practice of the top-up of pre-paid meters, the waiting time at customer service branch offices and the activity of the pre-filtering personnel.

The Authority inspected two universal service provider licensees from the electricity sector with respect to waiting times at their customer service branch offices. Following the preliminary data requests, the Authority conducted an on-site inspection to examine whether the licensees complied with the resolution on customer services and whether their assessments were correct. The Authority issued official requests in order to oblige the licensees to observe the system provided in the resolution on customer services when performing their quarterly assessments and imposed a total amount of HUF 16,000,000 in fines.

The Authority inspected the activity of the pre-filtering personnel in the customer service offices of nine universal service provider licensees. Following the preliminary data requests, the Authority conducted an on-site inspection to examine in what ways the activity of the pre-filtering personnel affected customer service procedures and whether the submitted values reflected the truth. The Authority established that two licensees severely violated the applicable Customers Services Resolution of the Authority and therefore concluded the proceedings by issuing an official request of compliance. Due to the temporary prohibition on imposing fines pursuant to subsection (12) Section 99/D of the Electricity Act, fines were not imposed.

Inspections concerning quality requirements applicable to individual consumers

In 2015, the Authority performed Guaranteed Services audits of distribution system operators from the electricity and natural gas sectors in connection with, on the one hand, their obligations to provide information and, on the other hand, the compensation paid to consumers accessing the Guaranteed Services. In regard to the events of 2013, the Authority examined whether the penalties related to the Guaranteed Services had been paid. Following the preliminary data requests, the Authority established during on-site inspections that three out of the four audited distribution system operators from the electricity sector did not fulfil their payment obligation in the reference period with respect to the penalties payable due to the reduction in service quality resulting from previous extreme weather conditions in their supply areas, which was prescribed in the relevant resolution of the Authority. Due to the scale of the violation of consumer rights, the Authority issued official requests to oblige the licensees to pay the approximately HUF 350,000,000 worth of penalties due and a total of HUF 56,000,000 in fines.

Based on the previously submitted documents, the Authority inspected the practices of three electricity and two natural gas distribution system operators with respect to the format and method of fulfilling their obligation to provide information to consumers. The Authority compared the consumer information documents and data provided by the licensees with the requirements provided in the applicable

resolutions on Guaranteed Services. The Authority did not establish a violation extensive enough to warrant imposing a fine in the case of either licensee; however, it did issue official requests to oblige licensees to comply with the following: they shall publish their information documents with uniform contents as provided by the Guaranteed Services resolution of the Authority and in the formats specified in the official request.

Other consumer protection inspections:

In 2015, the inspection of certain natural gas distribution system operator and universal service provider licensees became necessary in connection with issues related to the performance of customer service activities. The Authority examined the cause of the malfunctions of the customer service systems, what procedures were conducted by the licensees in the problematic periods, and whether they did everything in their power to address the issues. Based on the reported data, the Authority established that the license holders complied with their obligation to address the issues and provide information and their customer service conduct was in compliance with the applicable legal provisions; therefore, HEA terminated the proceedings and issued official requests to oblige the licensees to submit their infrastructure development plans to the Authority.

ANNEX

List of abbreviations

ACER: Agency for the Cooperation of Energy Regulators

CAO: Central Allocation Office

CEE region: Central and Eastern European region

CEER: Council of European Energy Regulators

ERRA: Energy Regulators Regional Association

Decree on Offer Price: Decree of the Ministry of National Development 19/2010 (XII. 3) on the natural gas source offered for universal service providers and the quality and price of domestically produced natural gas and the scope of the entitled and obliged.

FGSZ: Magyar Földgázszállító Zrt. (Hungarian Natural Gas Transmission Private Company Limited by Shares.)

EIRB: Energy Interest Representing Board

ENTSO-E: European Network of Transmission System Operators for Electricity

ENTSO-G: European Network of Transmission System Operators – Gas

CE (consumer equivalent): an indicator that expresses uniformly the number of consumers using water utility service – as per water utility service sectors, taking into account the capacity demands of consumers as well.

Natural Gas Act: Act XL of 2008 on natural gas supply

Natural Gas Implementation Act: Government Decree 19/2009 (I. 30.) on the implementation of the provisions of Act XL of 2008 on natural gas service.

GVH: Competition Authority

IEA: International Energy Agency

Authority: Hungarian Energy and Public Utility Regulatory Authority

HTM: Long-term electricity production and production capacity reservation agreements of Hungary

HTM act: Act LXX of 2008 on certain issues related to electricity

HTM decree: Government Decree 149/2010. (IV. 29.) on transition costs of power plants

MATÁSZSZ: Association of Hungarian District Heat Suppliers

Minister: Minister of National Development

FiS: Hungarian feed-in tariff system

FiS-quota: amount of electricity subject to the feed-in obligation

NEMO: Nominated Electricity Market Operator

NFM: Ministry of National Development

OSAP: National Statistical Data Collection Program

District Heat Act.: Act XVIII of 2005 on district heating services

District Heat Act.: Government Decree 157/2005. (VIII. 15.) on the implementation of Act XVIII of 2005 on district heating services

Competitive District Heating Act: Act LXVII of 2008 on boosting the competitiveness of district heating services

Competition Act: Act LVII of 1996 on prohibiting unfair market conduct and the limitation of competition

Electricity Act: Act LXXXVI of 2007 on electricity

Electricity Act Implementation Decree: Government Decree 273/2007. (X. 19.) on the implementation of certain provisions specified in Act LXXXVI of 2007 on electricity

Statutory provisions related to the activity of the Authority:

Annex

Act LXXXVII of 1990	on the establishment of prices
Act III of 1993	on social administration and social benefits
Act XLVI of 1993	on statistics
Act XLVIII of 1993	on mining
Act CLV of 1997	on consumer protection
Act LXXXVIII of 2003	on energy tax
Act CXXVII of 2003	on excise tax and special rules on marketing excise products
Act CXL of 2004	on general rules of administrative proceedings and services
Act XVIII of 2005	on district heating service
Act XXVI of 2006	on strategic stockpiling of natural gas
Act LXXXVI of 2007	on electricity
Act XL of 2008	on natural gas service
Act XLVII of 2008	on the prohibition of unfair commercial practices against customers
Act LXVII of 2008	on boosting the competitiveness of district heating service
Act LXX of 2008	on certain issues related to electric power
Act XLIII of 2010	on the central administrative bodies and the legal status of members of Government and Secretaries of State
Act CXII of 2011	on the right of informational self-determination and freedom of information
Act CXCIV of 2011	on state finance
Act CXCIX of 2011	on public officials
Act CCIX of 2011	on water utility service
Act I of 2012	on the Labour Code
Act CLXVIII of 2012	on the tax of public utility lines
Act CLXXXV of 2012	on waste
Act CCXVII of 2012	on the participation in the Community trading system of greenhouse gases and the implementation of the resolution on effort-sharing
Act XXII 2013	on the Hungarian Energy & Public Utility Regulatory Authority
Act XXIII of 2013	on the imported crude oil and on strategic stockpiling of oil products
Act LIV of 2013	on the enforcement of reduction of utility fees
Act CXXV of 2013	on the certification of waste management public service activities

Act CXXXIV of 2013	on the performance of certain public services and the related legislative amendments
Act CLXV of 2013	on complaints and public announcements
Act CLXXXVIII of 2013	on the unified image of utility invoices
Act CCXXXI of 2013	on the utility fee reduction-related amendment of certain acts
Act LVII of 2015	on Energy Efficiency
Government Decree 170/1993 (XII. 3.)	on the implementation of Act XLVI of 1993 on statistics
Government Decree 157/2005. (VIII. 15.)	on the implementation of Act XVIII of 2005 on district heating services.
Government Decree 225/2007. (VIII. 31.)	on the National Consumer Protection Authority
Government Decree 273/2007. (X. 19.)	on the implementation of certain provisions of Act LXXXVI of 2007 on electricity
Government Decree 278/2007. (X. 20.)	on the detailed rules for the definition and management of the coal industry restructuring contribution
Government Decree 285/2007. (X. 29.)	on the measures to be taken in the case of severe disturbances in the electricity system and in emergency situations of the electric power supply
Government Decree 289/2007. (X. 31.)	on the social support to household pipelined natural gas consumption and district heating consumption
Government Decree 382/2007. (XII. 23.)	on the official licensing procedures in the electricity industry
Government Decree 389/2007. (XII. 23.)	on the feed-in obligation and feed-in price of the electricity produced from renewable energy or waste, and on the electricity co-generated with heat
Government Decree 19/2009. (I. 30.)	on the enforcement of Act XL of 2008 on natural gas supply
Government Decree 76/2009. (IV. 8.)	on the public proceedings in spatial planning
Government Decree 288/2009. (XII. 15.)	on data collection and data transmission of the National Statistical Data Collection Programme
Government Decree 48/2010. (II. 26.)	on the procedure to be applied in a situation when the operation of natural gas trader is isolated and natural gas supply of consumers is jeopardized
368/2011. (XII. 31.) Government Decree	on the implementation of the Act on the State Budget
Government Decree 370/2011. (XII. 31.)	on the system of internal control and internal audit of budgetary institutions

Government Decree 313/2012. (XI. 8.)	on the Construction Documentation and Information Center and the Registry of Construction
Government Decree 58/2013. (II. 27.)	on the implementation of certain provisions of Act CCIX of 2011 on the Water Utility Service
Government Decree 292/2013. (VII. 26.)	on the rules of irregular waste transportation and the appointment of the relevant governmental bodies
Government Decree 309/2013. (VIII. 16.)	on the certification of the origin of electricity produced using renewable energy resources or high-efficiency cogeneration
Government Decree 317/2013. (VIII. 28.)	on the appointment of the public service provider and the waste management public service contract
Government Decree 324/2013. (VIII. 29.)	on the unified electronic registry of public utilities
Government Decree 341/2013. (IX. 25.)	on the implementation rules of the derogation allocation on the basis of Act CCXVII of 2012 on the participation of electricity producers in the community trading system for greenhouse gases and the implementation of the effort-allocation resolution
Government Decree 360/2013. (X. 11.)	on the order of data supply from given undertakings in natural gas sector
Government Decree 511/2013. (XII. 29.)	on the rules and the appointment of public bodies acting in the course of non-regular chimney sweeping public service
Government Decree 541/2013. (XII. 30.)	on the identification, designation and protection of vital water management system elements and water facilities
Government Decree 278/2014. (XI. 14.)	on the content of the national report on greenhouse gas emissions and climate change, the preparation method thereof, the penalty to be paid in case of breach of data service obligations
Government Decree 385/2014. (XII. 31.)	on the conditions of performing waste management public service
Decree 44/2002. (XII. 28.) of MET	on the lowest level of energy stocks of power plants with output of 50 MW and higher and on the order of stockpiling
Government Decree 122/2015. (V. 26.)	on the implementation of energy efficiency act
Decree 86/2003. (XII. 16.) of MET	on the order of data service of certain natural gas enterprises

Decree 110/2007. (XII. 23.) of MET	on the calculation method to determine the amount of electricity and useful heat co-generated by high efficiency effective thermal energy
Decree 116/2007. (XII. 29.) of MET	on discounts on electricity purchases available in relation to present or past employment in the electricity sector
Decree 19/2010. (XII. 3.) of NFM	on natural gas sources offered for sale to universal service providers and the quality and price of domestic natural gas as well as the circle of those entitled to and obliged for the use of this natural gas
Decree 4/2011. (I. 31.) of NFM	on the pricing of electricity universal services
Decree 50/2011. (IX. 30.) of NFM	on the establishment of prices of heat sold to district heating service providers, household consumers and institutions subject to separate management
Decree 51/2011. (IX. 30.) of NFM	on the subsidization of the district heating service
Decree 1/2012. (I. 20.) of NFM	on the calculation method of share of energy generated from renewables
Decree 36/2009. (VII. 22.) of MTTE	on the detailed rules and given items of the use of sources spent on the priority issues of Environment and Energy Operational Programme
Decree 4/2013. (II. 4.) of NFM	on the invoice image used by the electricity and gas universal service providers
Decree 24/2013. (V. 29.) of NFM	on the rules of property assessment of water utilities and on the data to be disclosed in public interest by the water utilities
Decree 52/2013. (IX. 13.) of NFM	on the services performed by the electricity distribution system operator and universal service provider for an additional fee and services to be provided free of charge
Decree 63/2013. (X. 29.) of NFM	on the distribution of electricity subject to acceptance obligation by the transmission system operator and on the method of the establishment of prices applicable during the distribution
Decree 39/2014. (IX. 30.) of NFM	amending certain ministerial decrees on energy
Decree 25/2015. (V. 26.) of NFM	on information provision facilitating energy efficiency
Decree 26/2015. (V. 26.) of NFM	on the detailed rules for annual reports of registering organisations and energy audit-related data service
Decree 61/2009. (XII. 14.) of Ministry of Justice	on legislative drafting
Decree 6/2008. (VI. 18.) of MTTE	on certain data to be supplied in relation to control, operation and use of electricity system

Decree 27/2009. (VI. 25.) of MTTE	on the detailed rules for reimbursement of deficit of public utility wholesale licensee as specified in Act XLII of 2003 on natural gas service
Decree 28/2009. (VI. 25.) of MTTE	on determining tariffs for natural gas universal service
Decree 29/2009. (VI. 25.) of MTTE	on pricing mechanism related to universal service on natural gas market
Decree 33/2009. (VI. 30.) of MTTE	on the terms of tender called for the establishment of wind power plant capacity, minimum requirements of the tender and the procedural rules of tender
Decree 1/2013. (VII. 25.) of HEA	on the organizational and operational rules of the Hungarian Energy and Public Utility Regulatory Authority
Decree 1/2013. (VII. 11.) of HEA	on the usage fees of the natural gas system, the rules of incentivising the high quality of supply provided by the system operator through grid fees, the grid fees applicable based on the quality of the service provided, and the conditions for applying the grid fees
Decree 2/2013. (VII. 25.) of HEA	on the gas connection fees and the rules for their application
Decree 3/2013. (VIII. 7.) of HEA	on the replacement of the President of the Hungarian Energy and Public Utility Regulatory in adopting decrees
Decree 4/2013. (X. 16.) of HEA	on the electricity network fees and the rules for their application
Decree 5/2013. (X. 16.) of HEA	on the amendment of Decree 1/2013. (VII. 11) of HEA on the usage fees of the natural gas system, the rules of incentivising the high quality of supply provided by the system operator through grid fees, the grid fees applicable based on the quality of the service provided, and the conditions for applying the grid fees
Decree 6/2013. (XII. 16.) of HEA	on the amendment of Decree 1/2013. (VII. 11) of HEA on the usage fees of the natural gas system, the rules of incentivising the high quality of supply provided by the system operator through grid fees, the grid fees applicable based on the quality of the service provided, and the conditions for applying the grid fees
Decree 1/2014. (III. 4.) of HEA	on the rate of the regulatory service fees of the Hungarian Energy and Public Utility Regulatory Authority, and on the rules of the collection, management, recording, and refunding of the regulatory service fees, the supervision fees, and other revenues
Decree 4/2014. (VI. 26.) of HEA	on the amendment of Decree 6/2013. (16 XII.) of HEA on the amendment of Decree 1/2013. (VII. 11) of HEA on the usage fees of the natural gas system, the rules of incentivising the high quality of supply provided by the system operator through grid fees, the grid fees applicable based on the quality of the service provided, and the conditions for applying the grid fees

Decree 7/2014. (IX. 12.) of HEA	on the imposition criteria of electricity network connection fees, the components and rates of the fees, and the rules for the application thereof
Decree 9/2014 (IX. 29.) of HEA	on the imposition criteria of natural gas network connection fees, the components and rates of the fees, and the rules for the application thereof as well as on the amendment of Decree 7/2014. (IX. 12) of HEA on the imposition criteria of electricity network connection fees, the components and rates of the fees, and the rules for the application thereof
Decree 1/2015. (II. 13.) of HEA	on the inter-TSO compensation for the allocation of the revenue from the system operation fee
Decree 1/2015. (II. 9.) of HEA	on the Rules of Organisation and Operation of the Hungarian Energy and Public Utility Regulatory Authority

EU Directives and Regulations

Directive 2004/8/EC of the European Parliament and of the Council of 11 February 2004 on the promotion of cogeneration based on a useful heat demand in the internal energy market and amending Directive 92/42/EEC

Directive 2005/89/EC of the European Parliament and of the Council of 18 January 2006 concerning measures to safeguard security of electricity supply and infrastructure investment

Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-user efficiency and energy services and repealing Council Directive 93/76/EEC

Directive 2008/92/EC of the European Parliament and of the Council of 22 October 2008 concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users

Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC

Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community

Directive 2009/31/EC of the European Parliament and of the Council of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No 1013/2006

Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC

Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC

Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC

Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators

Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003

Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005

Commission Regulation (EU) No 774/2010 of 2 September 2010 on laying down guidelines relating to inter-transmission system operator compensation and a common regulatory approach to transmission charging

Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC

Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (REMIT)

Commission Decision of 19 November 2008 establishing detailed guidelines for the implementation and application of Annex II to Directive 2004/8/EC of European Parliament and of the Council

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