Hungarian Energy Office

Annual report to the European Commission

Budapest, August 2010

Table of contents

Security of supply

Natural gas transmission
Strategic natural gas storage
Commercial natural gas storage

Price preparation, price regulation

Characteristics of the price system and price regulation from 1 January 2009 to 30 June 2009
Characteristics of the price system and price regulation from 1 July 2009 to 31 December 2009
Works in relation with the price regulation, price preparation

Public service obligation, consumer protection

Approval of codes
Service quality
Consumer complaints

Regulation of district heat production

Regulation

Licennsing

Competition

Security of supply

Price preparation, price regulation

Public service obligation and consumer protection

Energy saving, environmental protection

Energy saving

Environmental protection

Use of the renewable energy sources
Greenhouse gas emission allowance trading

Operation of the HEO, institutional relations, publicity

Institutional and international relations, publicity

Bilateral institutional relations
International relations
The Energy Interest Representation Board (EIRB)

Report on the activity of Hungarian Energy Office and the supervised energy sector in 2009

Budapest, August 2010

Summary

The foundation of the Hungarian Energy Office (hereinafter HEO) was ordered by the Act XLI of 1994 on Natural Gas Supply. The present responsibilities of HEO are determined by the Act XVIII of 2005 on District Heat Supply (hereinafter the District Heat Supply Act), the Act XLII of 2003 on Gas Supply (hereinafter the old Gas Act), the Act XL of 2008 coming into force in 2009 (hereinafter the Gas Act), the Act LXXXVI of 2007 on Electric Energy (hereinafter the Electricity Act) and the government and ministerial decrees issued on the basis of these acts. The Act LXVII of 2008 on Enhancing the Competitiveness of District Heat Supply (hereinafter District Heat Competitiveness Act) was issued in 2008, and significantly extended the circle of responsibilities of HEO from 2009. HEO performed its tasks with regard to market opening and market surveillance taking into account Directives 2003/54/EC and 2003/55/EC, as well as 2009/72/EC and 2009/73/EC of the European Parliament and the European Council.

The Act LVII of 2006 on the Central Administrative Bodies, and the Legal Status of the Members of the Government and of the Secretaries of State defined that HEO is a governmental office, which was controlled by the Government and supervised by the Minister of Transport, Telecommunication and Energy in 2009. The Act was repealed by the Act XLIII of 2010 on the Central Administrative Bodies, and the Legal Status of the Members of the Government and of the Secretaries of State, but HEO's legal status remained unchanged; HEO is a governmental office with independent responsibilities and competences.

The key responsibilities of HEO have been since its foundation licensing and surveillance of regulation of the activities of network energy companies, consumer protection and the preparation of administrative prices of electricity and natural gas as well as approval of price applications. After full opening of network energy market, the price of energy as a product has been ceased to be regulated for the customers not entitled for universal supply. System operation and the use of lines and pipelines being legal and natural monopolies, respectively, fall under administrative price setting. With regard to electricity and natural gas, the universal service provider's intent to change prices of universal service was approved by HEO in resolution in 2009. From July 2010 the universal supply falls under administrative price setting.

After the full opening of the natural gas and electricity markets, there have been significant changes in the role and activity of HEO. In addition to the regulation of the activity of energy industry licensees, other tasks tended to gain increasing importance like price application, consumer protection and information supply, also the surveillance of the competitive market, enhancing competition, guarding and forcing fair competition,

monitoring the competitive market environment, and, if necessary, changing or initiating changes in this environment.

In 2009, HEO made 853 resolutions (including 388 on licensing, 109 on consumer protection, 68 on price review, 134 on data supply and 154 on other issues), and proceeded in 1877 cases associated with consumer protection.

Network energy market regulation (licensing and price regulation)

The network energy market was fully regulated market from 1994 till the end of 2002. On 1 January 2003, the gradual opening of the markets started with the liberalization of the electricity market, which was followed by the liberalization of the natural gas market on 1 January 2004. In the first step, only large industrial customers, and from 1 July 2004 all non-residential customers could enter the competitive electricity market.

Licensing

Electricity sector

The electricity market was characterized by a hybrid model till the end of 2007. This corresponds to the co-existence of a public utility and a free market segment. In 2008, the hybrid model ceased to exist and was replaced by a competitive market model. In the latter model, the competition can be restricted only in the interest of the protection of vulnerable consumers, or with a view to prevent the abuse of market power. Customers and traders can purchase, and producers can sell electricity under free market conditions, except for the co-generated electricity and the electricity generated from renewable energy sources. This electricity is not for free market sales but to be compulsorily bought by the transmission system operator at a supported price as specified in the Electricity Act (KÁT balance circle), then allocated among electricity traders supplying end users in the proportion of the electricity quantities they sell to end users.

In the summer of 2008, the European Commission closed the investigation initiated against Hungary in 2005 in the subject of the potential state aid nature of long term power purchase agreements (hereinafter PPA). In the Decision closing the investigation, the European Commission requested the Hungarian authorities to end all these state aids and have the affected power plants obliged to pay back the illegal state aids. These PPAs were concluded between seven power plants and MVM, the single public utility wholesaler in the period from 1995 to 2001, and accounting for more than 60% of the Hungarian electricity production, hindered competition to evolve. The Parliament passed the Act 70 of 2008 on Certain Issues in Association with Electricity on 10 November 2008, which provide for ending PPAs by the deadline 31 December 2008 and for the method of the determination of state aids to be paid back. The latter has to be elaborated by the Government, and approved by the European Commission. In 2009, the Government had negotiations with the affected parties and the European Commission.

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

(new Electricity Directive), and Regulation 714/2009/EC 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 were published on 13 July 2009. The provisions of the Regulation came into force on 3 September 2009, while the provisions of the Directive have to be implemented from 3 March 2011.

Natural gas sector

The Gas Act came fully into force on 1 July 2009. The new act ceased hybrid model and public utility supply by this date. The public utility segment has been replaced – similarly to the electricity sector – by universal service to supply small customers in the form of a new licensee.

Although the full legal opening of the natural gas market was completed already on 1 July 2007, residential gas users started slowly entering free market. The number of registered eligible customers entering competitive market was 3938 by the end of 2008 including 2515 residential consumers.

2009 saw a significant increase in the number of customers entering the competitive market, although the definition also changed on 1 July. The number of users leaving universal service grew to 137 532 (including 2527 non-household and 135 005 household customers) by the end of the year. The number of licensed free market traders was 31 at the end of 2009. The share of competitive market in the annual total natural gas consumption amounted to 48.2%.

The Gas Act (alike the Electricity Act) defines users entitled for universal supply on one hand, and users not entitled for universal supply on the other hand. Users entitled for universal service are residential customers and other customers with gas meter below 20 m^3/hour.

Public utility will fully cease by 30 June 2011. The obligation of the non-household customers' entering free market is gradually enforced during the one-year transitory period. In the transitory period, the following users are also entitled for universal service:

- Users with capacity exceeding 20 m^3/hour but below 100 m^3/hour, until 30 June 2010 and
- Users having district heat production specified in a separate act, until 30 June 2011.

In 2009, the key tasks in natural gas market regulation were the implementation of the provisions of the Gas Act. As one of the first steps, experts of HEO participated in the elaboration of the government decree 19/2009 (30.01) on the Enforcement of the Gas Act (hereinafter enforcement decree of the Gas Act) in close cooperation with the Energy Department of the Ministry of Transport, Telecommunication and Energy (KHEM).

With a view to enhance the security of natural gas supply, the institute of last resort supplier to be appointed by HEO has been introduced. A last resort supplier is to supply the customers of a universal service provider or a trader if they fail to supply their entitled

customers. HEO appoints last resort natural gas trader from among universal service providers. Rules on last resort supply are specified by a separate government decree.

The Gas and also the Electricity Act focuses on enhancing consumer protection as an outstanding task. Consumer protection tasks in relation with residential customers' complaints on settlement, billing, charge payment and metering have been taken over from HEO by Nemzeti Fogyasztóvédelmi Hatóság (Hungarian Consumer Protection Authority). The Gas Act introduced the fundamental rules of the institute of vulnerable customers also on the natural gas market. Vulnerable customers have two main groups: socially disabled and physically and/or mentally disabled customers. The available benefits and the special treatment are adjusted to the special needs of these two groups.

As the Gas Act provides, the charges for natural gas system use remained under the authority price control of the Minister. The charges for system use are set by a separate statutory provision, the KHEM decree 31/2009 (25. 06) on the Setting of Natural Gas System Use Charges.

The claim to enhance security of supply makes it necessary to construct a new international transmission pipeline. It is Hungary's fundamental interest to have such a pipeline on its territory since it would considerably increase the secure natural gas supply of the country.

On behalf of conducing the transmission pipeline system's establishment the enforcement decree of the Gas Act regulates in details the conditions of one-stop capacity sales. One-stop supply ensures a significant comfort for traders and shippers because they have to address and contact only one company irrespective of the number of the countries they are to transit. It is the one-stop capacity seller who may sell the capacity of the one-stop international transmission pipeline to traders.

A further important element of the Gas Act is the regulation of capacity booking including the 'rucksack' principle (customer driven system). The point of regulation is that each and every user may have access to the system up to the measure of their own consumption, however, in order to avoid virtual capacity bookings; traders must apply a simultaneity factor in the case of access to the transmission pipeline.

The Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (new Gas Directive), and Regulation 715/2009/EC European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation 1775/2005/EC (new Gas Regulation) were published on 13 July 2009. The provisions of the Regulation came into force on 3 September 2009, while the provisions of the Directive have to be implemented from 3 March 2011.

The preparatory works of the adoption of the provisions of the new Gas Directive started as early as autumn 2009 similarly to the new Electricity Act, and the experts of HEO participated in the legislator work of KHEM.

District heat production

Both the production and the supply of district heat remained activities subject to license, while the installation of district heat equipment is subject to license only over a heat output of 5 MW. However, the licensing competence is divided between the municipalities of settlements and HEO. All district heat producers that also generate electricity must apply for a license to HEO, while the licensing of district heat production without electricity generation falls under the competence of municipalities.

Price preparation and price regulation

Electricity and natural gas

In 2008, a new era started in the price regulation of electricity supply with the ceasing of public utility supply and the introduction of universal service. For customers not entitled for universal service (large, non-residential customers) can buy electricity only from competitive market traders at a price evolved on the base of demand and supply of the market. (In 2009, there were 4 large and approximately 20 small electricity trading licensees.) Small customers – unless they entered free market – could continue buying electricity in the framework of universal service i.e. at a price monitored by authority even in 2009.

The feed-in obligation scheme is regulated by the Government Decree 389/2007 (23.12) on Feed-in Obligation and Price of the Electricity Generated from Renewable Sources or Waste, or Co-generated Electricity enforcing the provisions of the Electricity Act. The generation of electricity sold in the framework of the feed-in obligation scheme obtained significant support also in 2009 through the fixed administrative prices, which are higher than market prices.

In the first half of 2009, the natural gas market was still characterized by the 'hybrid market' model (co-existence of a public utility segment and a competitive market). Accordingly, customers choosing public utility supply (customers who do not wish to enter competitive market) were able to purchase the product (natural gas) by paying administrative prices (public utility prices) for complex services, including both the price of energy and the price of system use. Customers entering competitive market were able to buy the energy at a non-regulated price, while paid administrative charges for system use.

On 1 July 2009, each users with gas meter exceeding 100 m^3/h – except those having license for district heat production – had to enter free market. If they failed to do this, they were automatically transferred to their public utility supplier's competitive market trader.

As the consequence of model change in both sectors, the price preparation activity of HEO is focused on monopole activities remaining within the framework of administrative price setting, i.e. on decrees on system use charges, and obligatory feed-in prices and universal service prices in the case of electricity, and universal service prices in the case of natural gas (starting price of natural gas and price margin).

A new (four-year) price regulation period started in 2009 for electricity system use, and in 2010 in the natural gas sector. The preparation of the 2010 natural gas starting prices was preceded by a detailed asset and cost review completed in 2009 and the shaping of the price regulation scheme of the new period. (The starting prices of electricity system use were prepared and the price regulation scheme was established in 2008.)

In 2009, HEO received 10 requests on (universal service) price change. Five of them were approved, and five were partly approved.

With regard to natural gas, there was one request on price revision submitted by TIGÁZ-DSO Ltd. (distributor) in 2009. The request concerned the taking into account of the gas meter change programme, as the consequence of which HEO acknowledged 341 million HUF reasonable excess cost in network tariffs.

District heat supply

In virtue of the District Heat Act modified by the District Heat Competitiveness Act, HEO has performed price control over residential district heat prices since 1 July 2009. In 2009, district heat suppliers submitted to HEO requests on residential district heat price change with regard to 25 settlements. The majority of the requests aimed to decrease charges. In 2009, 19 cases were closed by resolution including one initiating price increase, which was rejected.

Consumer protection

In 2009, the Office had 1877 cases related to consumer protection. This case number is 2% more than the case number of the previous year. The insignificant rise is a result of the fact that while the number of electricity complaints grew by 74%, the number of natural gas complaints dropped by 23% due to sharing the competence amongst HEO and the Nemzeti Fogyasztóvédelmi Hatóság (Hungarian Consumer Protection Authority). 65.1% of the complaints managed by HEO were direct consumer complaints. Residential customers' complaints on settlement, billing, charge payment, metering, suspension or disconnection from natural gas supply due to overdue payment and reconnection to supply after the debt is paid have been managed by Nemzeti Fogyasztóvédelmi Hatóság in the whole year in the case of electricity, and since 1 July 2009 in natural gas sector. Accordingly, HEO transferred 328 such complaints to Nemzeti Fogyasztóvédelmi Hatóság, on the management of which the latter has competence. Complaints were evaluated, resolutions were issued and measures were taken continuously. As a result of the inspections conducted on the basis of experience gained during the process of consumer complaint management, HEO did not impose any fine in 2009 but imposed in its resolutions other obligations bound to deadline. If a licensee fails to meet those, a fine may be imposed on it. For not meeting the obligations of quality of service, HEO imposed a fine of 60 million HUF in only one case.

In 2009, HEO conducted a consumer satisfaction survey for the fourteenth time. In the opinion of approximately 10 000 electricity consumers and 10 000 natural gas consumers, there were no significant changes in the tendencies of the previous years. The most critical fields were uninterrupted supply, restoration of breakdowns, complaint management and availability of Call Centers in both sectors. Construability of bills was a source of several problems in both sectors.

HEO maintained active relations with other administrative bodies working in the field of consumer protection. An especially intensive dialogue developed between HEO and the Hungarian Consumer Protection Authority. HEO provided professional support in the management of the consumer complaints difficult to be judged, the spheres of authority have been clarified as a result of modification of several legal rules and in accordance with HEO's new resolutions on client service quality, the formal and contentual requirements of data supply obligation have been reregulated. HEO operated the Energy Interest Representation Board (EIRB) also in 2009 with a view to ensure the continuity of the dialogue between customers and licensees.

Energy saving, environmental protection

The Office cooperated in the implementation of energy saving and improved energy efficiency strategy of the Government. As an expert, it participated in the work of the inter-ministerial commission evaluating tenders aiming at the improvement of energy efficiency, as well as in the work of the commission evaluating tenders in the Environmental Protection and Infrastructure Operational Programme. It also assisted in the preparatory work of calls for tenders.

Energy information, publicity and information

The supply and the processing of technical and economic data of licensees required by HEO for meeting its responsibilities as well as the data supply towards international organizations and co-authorities were continuous.

The President of HEO, in compliance with his task specified by the relevant law, submitted a report on the activities of HEO in 2008 to the Government in 2009 as well. HEO prepared its annual national report presenting the operation of the electricity and natural gas markets in accordance with the Directive 2003/796/EC and with the appropriate content specified in the Directive 2003/54/EC on electricity, and the Directive 2003/55/EC on natural gas.

HEO performs its data supply obligations towards international organizations (EUROSTAT, International Energy Agency, etc.) regularly including, among others, the most important data of the electricity and natural gas sectors.

Experts of HEO played an active role in the various organizations of the European Commission, as well as in its professional committees, in the working groups of the

Council of European Energy Regulators (CEER), and of the European Regulators Group for Electricity and Gas (ERGEG).

HEO issued its publication on the activity of HEO and the key technical and economic data of the supervised sector, and the Electricity Statistical Yearbook containing the data of the electricity system also in 2009. The senior management of the Office regularly informed the written and electronic press on consumer related issues.

On its homepage at www.eh.gov.hu, the Office provides information on its activities, its resolutions of public interest, its announcements, and the main events of the energy market.

Claims against HEO's resolutions

In 2009, in addition to the cases of consumer protection, HEO made 853 resolutions. 27 of them were challenged at law court. From among them, 4 cases were tried, and 23 cases are still in progress. 49 lawsuits were carried over to 2009 from earlier years. From among these cases, 24 were tried in 2009 and 25 cases are still in progress.

In 2009, HEO proceeded in 1877 cases associated with consumer protection. Stakeholders contested the resolution of HEO in 93 cases. From among these, 9 cases were tried and 84 cases are still in progress. 61 lawsuits were carried over from the former years to 2009. From among these cases, 19 lawsuits were tried and 42 cases are still in progress.

Péter Horváth
President

1. Regulation and operation of the electricity market

1.1. Regulation

1.1.1. Licensing and supervision

In 2009, HEO issued 302 resolutions to electricity undertakings. From among them, 43 were simplified license for small power plants and 53 were resolutions on license modifications. HEO issued 30 trading licenses, 39 resolutions on the approval or modification of codes, approved 6 events in relation with corporate law and 121 other cases, decided to launch inspection in 10 cases and made 2 resolutions on imposing fines.

1.1.1.1. Licensing procedure for small power plants and the scheme of feed-in obligation

The Electricity Act specified cases when a simplified licensing procedure must be conducted for small power plants of capacity of 0.5 MW or above. Licensing was continuous in 2009.

The amount of the electricity to be fed in under feed-in obligation (quota), the duration of the obligatory feeding-in, and the expiration date of the operational licenses must be determined by HEO taking into account the international commitments of Hungary on the share of renewable electricity, the competitiveness of power generated from renewable sources, the impact of the given technology on the balanced operation of the electricity system, the ability of consumers to pay, the position of the system operator, and the extent of other approved supports. The electricity co-generated with heat has also fallen under the scope of this regulation since 1 January 2008.

In accordance with Section (5) of Article 171 of the Electricity Act, selling rights regarding sales of the electricity co-generated with heat falling under feed-in obligation, and not regulated by any authority resolution on the determination of the volume of the electricity falling under feed-in obligation and the period of obligatory feeding in, will cease to exist on 31 December 2010. In cases specified in the Act, HEO may determine the quantity of the electricity to be fed in and the period of feed-in obligation for the period ending by 31 December 2015 at latest. In 2009, HEO issued 100 relevant resolutions to small power plants.

1.1.1.2. Licensing of wind power plants

HEO did not issue any new license in relation with wind power plants.

The KHEM Decree 33/2009 (30.06) on the Conditions of the Tender on the Establishment of Wind Power Plant Capacity, the Minimum Content Requirement of Tender and the Rules of Tendering Procedure was published on 30 June 2009.

On 28 August 2009, HEO called for tenders on the right to establish wind power plant capacity in total of 410 MW. The deadline for submitting tenders was 1 March 2010. HEO held a consultation on tendering on 14 September 2010, and modified the Tender Dossier on 28 September taking into account the remarks made on the consultation.

1.1.1.3. Inspection of power plants

In the course of the inspections performed at power plants in 2009, HEO concluded that the required fuel reserves specified in legal regulations were available in all power plants, and in several places reserves even exceeded the required quantity. Maintenance was carried out upon different principles but according to the schedule on all locations thus ensuring reliability and availability.

In compliance with the relevant Decision of the European Commission, MVM Zrt. terminated its long term power purchase agreements with 4 power plants of the 7 affected power plants, and concluded new agreements for a shorter term.

In the course of the inspections, power plants presented their electricity sales contracts concluded with electricity traders after terminating their long term PPAs. Where it was possible, contracts included ancillary services, as well.

In general, power plants have several-year contracts for fuel purchases.

Power plants observed the regulations on environmental protection, so the developments and reconstructions carried out earlier made the power plants suitable for complying with the strict norms, and no power plant had to be closed.

Reviewing the status of quality assurance, it can be claimed that all of the power plants were operating quality assurance systems. These systems are adapted and audited according to the changes. Some of the large power plants have started the development of an integrated quality controlling, environment controlling, labor health and labor security system. Several power plants have an integrated environment centered controlling and quality controlling system.

1.1.1.4. Licensing and inspection of transmission network company

The application of MAVIR Zrt. for operational license for system operation was approved by HEO on 1 January 2008 in its resolution 84/2208. The license was modified twice in 2009 upon MAVIR's request. First, annexes to the operational license were updated by the resolution 191/2009 dated on 21 May 2009, which was followed by a change in MAVIR's headquarter acknowledged in the resolution 469/2009 dated on 22 July 2009.

In accordance with the provisions of the Electricity Act, a special balance circle for the settlement of the electricity falling under feed-in obligation (hereinafter KÁT) was established on 1 January 2008. The balance circle manager is the transmission system operator MAVIR Zrt.. After this balance circle started operation in the first half of 2008, several KÁT producers submitted a complaint to HEO. Similar problems did not occur in 2009 thank to changes in legislation and to clearing several practices. However, there are rules that brought significant challenges to MAVIR Zrt. in daily operation like among others ensuring liquidity and avoiding inaccurate schedules of producers. With a view to solve these problems, HEO made a proposal to the Ministry of Transport, Telecommunication and Energy on the amendment of the relevant effective decrees (Government Decree Nr. 389/2007 (23.12) on the obligatory feed-in and feed-in price of electricity generated from waste or from renewable energy sources, or by combined heat production (CHP) as well as Decree of the Minister of Economy and Transport (GKM) 109/2007 (23.12) on allocation of electricity under feed-in obligation by the TSO and on calculation method of prices to be applied in allocation) by sending a draft wording of provision on 11 December 2009.

HEO started reviewing the required regulatory steps following the coming into force of Directive 2009/72/EC and Regulation 714/2009/EC so that Transmission System Operator could operate under conditions in accordance with the relevant provisions from 3 March 2011.

The European Commission launched proceedings for failure to fulfill obligations against 25 Member States including the Republic of Hungary at a case number 2009/2172 because of the misimplementation of Regulation 1228/2003/EC of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity, as well as of the Annex to the former, amended by Decision 2006/770/EC.

Following the official notice from the Commission, the Ministry of Foreign Affairs involving professional authorities answered the Commission's concerns. A part of the concerns is unjustified including e.g. the publication of preliminary weekly estimation of cross-border capacities. However, taking note of the notice of the Commission, provisions were fulfilled.

A significant proportion of the issues will be topical to be fulfilled in the future. Such issues are the implementation of intra-day congestion management and the introduction of the method and procedure of joint and coordinated allocation of cross-border transmission capacity, for example. However, there were issues (like the determination of TRM), which are fulfilled, even though are not unambiguous. With a view to enhance transparency, MAVIR Zrt. was working on the publication of data and information specified in the Regulation and its Annex in 2009. Accordingly, the majority of the earlier lacking data is available and in given cases, MAVIR Zrt. indicates excess information with reference to the given Sections of the relevant rules.

In addition, a part of data on information specified in given Sections of the guideline is disclosed on the internationally developed data site of ETSOVista (data on cross-border operation schedules, cross-border trade schedules and physical flows). However, indeed, MAVIR Zrt. did not published daily preliminary information on planned breakdowns and

fact information on the previous day's planned or not planned breakdowns of production units larger than 100 MW. These have been completed and are available on the homepage of MAVIR Zrt.

1.1.1.5. Licensing and inspection of distribution companies

HEO did not issued any new licenses in 2009, and there were no reason for amending any of the already existing ones, there were no changes in licensees' organizational structure and operation in 2009 relative to the previous year.

HEO acting within its inspection competence conducted inspection against two distribution licensees in relation with breakdowns caused by the extreme weather condition in January 2009. In the course of inspection HEO found that the affected regions in the given period witnessed such weather conditions accompanied by a large extent of ice accretion, which resulted in physical damages in networks. Distributors removed damages in such way as it was expected in similar cases. However, HEO imposed penalty on licensees for irregularities with regard to outsourced activity and failures revealed in informing customers.

1.1.1.6. Licensing of electricity traders and universal service providers

The amendments to the Electricity Act and the enforcement decree of the Electricity Act changed the rules of licensing for electricity trade in 2009 as well. Since 1 July 2009, HEO, in line with the relevant Section of the Electricity Act, has issued operational licenses for electricity trade including licenses for universal service providers for an indefinite time period contrary to the former 10-year definite time period. Those applying for limited electricity trade license do not have to attach the declaration of the regulatory authority of the registered headquarter on the intent of the foreign regulatory authority to cooperate with HEO in any possible authority administration. Amendments to rules of the enforcement decree of the Electricity Act on licensing further decreased the number of documents to be submitted in the licensing procedure.

In 2009, a total of 30 (including 13 limited and 1 simplified) licenses for electricity trade were issued. There was not any new application for universal service.

1.1.1.7. Licensing for organized electricity market

Since 1 July 2009, in accordance with the relevant Section of the Electricity Act and similarly to licenses for electricity trade, HEO has issued a license for the operation of organized electricity market for an indefinite time period contrary to the former 10-year time period.

In April 2009, HEO issued a license to HUPX Magyar Szervezett Villamosenergia-piac Zrt (HUPX Hungarian Organized Electricity Market Zrt.), the affiliate company of MAVIR Zrt. for the operation of organized electricity market. HEO made a condition to

the effective start of operation, which was the submitting to HEO the agreements concluded with the IT supplier conducting the settlement and ensuring the operation of the organized electricity market, and HEO's approval on the various codes specified by legislation. These conditions have not been fulfilled by 31 December 2009 but negotiations revived at the end of the year and the effective operation are expected to start at the middle of 2010.

In November 2009, also the Power Exchange Central Europe residing in Prague submitted an application for license for the operation of the electricity market. The procedure was still in process on 31 December 2009.

1.1.1.8. Allocation of cross-border capacities and congestion management

Legal background

Since 1 January 2008, the issues defined in the Regulation 1228/2003/EC have been detailed in the Commercial Code on the basis of Section (2) h) of Article 47 of the enforcement decree of the Electricity Act.

With a view to implement Article 3 of the Regulation 1228/2003/EC, a 0.25 HUF/kWh transmission system operation charge was imposed on the import from a country, which is not a party to the contracts of the transmission system operator.

Cross-border capacity allocation in 2009

MAVIR Zrt. and the cooperating system operators have performed cross-border capacity auctions since 2003 at the common intersections. When comparing the results of the annual auction of 2008 and the previous years to the results of the annual auction of 2009, the following statements can be made. With regard to the available import capacities, there was a significant drop in transmissions from Slovakia to Hungary. 400 MW compared to the previous year's 700 MW was allocated already in the framework of a joint auction. With regard to the import from Austria to Hungary, while 300 MW baseload capacities were auctioned for 2008, there were 180 MW baseload and 120 MW peak capacities to auction for 2009. The potential import capacity from Romania to Hungary grew from 100 MW to 150 MW by the commissioning of the second cross-border line.

With regard to the export of electricity, the capacity available for transmissions from Hungary to Croatia rose by 150 MW to 600 MW. There was a significant drop in capacities available for transports from Hungary to Austria. 100 MW baseload and 50 MW peak capacities were allocated compared to the previous year's 200 MW baseload and 150 MW peak capacities. However, there was a significant rise in capacities required for transmissions to Romania and Serbia; from 50 MW to 150 MW. There was no annual capacity auctioned for transmissions from Ukraine.

Results of the annual auction were compensated to a certain extent by capacities allocated at monthly auctions. Accordingly, with regard to the most important Austrian and

Slovakian import, the quantity of monthly capacity grew by average 70 MW and 200 MW, respectively, in 2009 compared to 2008. With regard to export, the average monthly quantity of Croatian export declined by approximately 70 MW.

On the Hungarian-Ukrainian intersection, the scheme of unilateral monthly auction was maintained also in 2009, in addition to which daily auctions were introduced in the second half of the year. There were changes in the auction rules also on the Romanian-Hungarian intersection, where joint auction has been introduced with regard to each period. Accordingly, long term – annual and monthly – auctions are held by the Romanian system operator, while the daily auction is held by MAVIR Zrt. since December 2009.

With regard to import directions, MAVIR Zrt. did not call to auction on the determinant Slovakian intersection in 2008 because of the decreased available capacities and of the already allocated capacities still reserved for 2008. As a consequence, the settlement price for cross-border capacity that emerged for 2008 was 16.79 EUR/MWh on the Romanian and 12.17 EUR/MWh on the Austrian intersections. With regard to 2009, settlement prices slightly decreased on the Romanian intersections to 14.47 EUR/MWh, while the Austrian settlement price grew moderately to 12.91 EUR/MWh. (Certainly, these prices assume 100% utilization).

The situation in the South Eastern European region that evolved in 2008 because of the extreme weather conditions in 2007 (the extraordinary drought implied a significant rise in electricity import) ceased. Accordingly, while the settlement cross-border price of the 2008 auction was 11.86 EUR/MWh on the Croatian intersection and 8.95 EUR/MWh on the Serbian intersection, settlement prices show a drastic drop for 2009 to 0.58 EUR/MWh and 1.88 EUR/MWh, respectively.

In December 2009, the annual auction for 2010 brought the following changes. The changes in the amounts of capacities relative to the previous years are as follows. The import capacity from Austria decreased to 120 MW baseload (by 60 MW) and 120 MW peak, from Slovakia to 300 MW (by 100 MW), and increased to 200 MW (by 50 MW) from Romania. The reason behind the falling import capacities from Austria and Slovakia is that the transmission system operators of the Central Eastern European region are planning to introduce a coordinated flow-based capacity auction in 2010, therefore – in agreement with the regulatory authorities – they decreased the amount of the annual capacities by 40% on the debit of the monthly auctions (this practically means that the values did not change but capacities will be allocated on monthly auctions instead of the annual one).

With regard to export directions, there were not any change in available transmission capacities to Croatia, Serbia and Romania (allocated capacities are 600 MW, 100 MW and 150 MW, respectively).

Table 1 Transmission capacity indices of the Hungarian electricity system (MW) 2009 annual ATC values

Relation		Auction	TTC	TRM	NTC	AAC	ATC annual
IMPORT	Austria - Hungary[1]	Auction-A1	500	200	300	0	180+120
	Croatia - Hungary[2]	Auction-H1	400	200	200	100	100
	Slovakia - Hungary[3]	Auction-S1	600	200	400	0	400
	Serbia - Hungary[4]	Auction-SM1	200	100	100	50	50
	Romania - Hungary[5]	Auction-R1	250	100	150	75	75
	Ukraine - Hungary[6]	Auction-U1	-	-	-	-	-
EXPORT	Hungary - Austria[1]	Auction-A2	350	200	150	0	100+50
	Hungary – Croatia[2]	Auction-H2	800	200	600	300	300
	Hungary - Slovakia[3]	Auction-S2	600	200	400	0	400
	Hungary - Serbia[4]	Auction-SM2	200	100	100	50	50
	Hungary. - Romania[5]	Auction-R2	250	100	150	75	75
	Hungary - Ukraine[6]	Auction-U2	-	-	-	-	-

Source: MAVIR-HOSZ, PSZO

Abbreviations:
AAC = Already Allocated Capability
ATC = Available Transmission Capability
NTC = Net Transmission Capability
TRM = Transmission Reliability Margin
TTC = Total Transmission Capability

Explanation:
ATC values correspond to a given date.
ATC values are to be contrued in separate relation.
ATC values are not to be added.

1. Allocated by APG on behalf of MAVIR and APG. Auction Office can be contacted at http://www.auction-office.at
2. shared by HEP-OPS and MAVIR; annual ATC to be allocated by MAVIR
3. Spare transmission capacity to auction is allocated in the framework of SEPS a.s. - MAVIR joint auction organised by MAVIR
4. shared by EMS and MAVIR; annual ATC to be allocated by MAVIR
5. shared by TRANSELECTRICA any MAVIR; annual ATC to be allocated by MAVIR is under negotiation
6. Not allowed by the Ukrainien party because of cooperation problems

The transmission system operators (hereinafter TSOs) of the Central Eastern European region as defined in the Annex to Regulation 1228/2003/EC including also MAVIR Zrt., established the Central Allocation Office (hereinafter: CAO) in Freising (Germany) on 17 July 2008 in order to operate a coordinated market based capacity allocation mechanism. The founders of the CAO are the Czech (CEPS), the Slovenian (ELES), two German (E.ON and VE-T), the Polish (PSE-O), the Slovakian (SEPS), the Austrian (APG) and the Hungarian (MAVIR) TSOs with equal shares. The main objectives of the CAO are the following:

- development and implementation of concepts to provide an optimized solution for the allocation of capacities characterized by congestion,
- coordination and calculation of available capacities characterized by congestions, and the analysis of factors that indicate the extent of the load on network congestions caused by electricity transmission,
- provision and operation of the necessary support services (e.g. support for scheduling, billing, risk management, secondary market of capacities characterized by congestion).

NTC-based coordinated auction was continued among CEPS, a.s.; E.ON Netz GmbH; PSE-Operator S.A.; SEPS, a.s. and Vattenfall Europe Transmission GmbH transmission system operators even in 2009. Elektro-Slovenija, d.o.o., MAVIR Zrt. and VERBUND APG AG, however, – similarly to previous years – allocated the available spare transmission capacities in the framework of bilateral auctions on annual (with regard to the year of 2009) and monthly auctions. The 8 Transmission System Operators agreed in the proportions how they preliminarily allocate quantities for annual, monthly and daily auctions in order to ensure capacity preliminarily for the flow-based allocation (FBA) that were to be introduced in 2009 and extended to all the eight Transmission System Operators. In retrospect, plans of Transmission System Operators and regulatory authorities on the introduction of FBA in 2009 were too ambitious therefore parties postponed the launch of the new capacity allocation procedure to 10 March 2010 (the procedure failed to start even by that date).

The first phase of FBA testing (Dry-RUN) started at the end of August 2009. In the course of this, CAO registered 155 users representing 65 different market players. CAO organized 2 monthly and 14 daily auctions, investigated the IT system, electricity traders' bidding strategies and analyzed the output of the allocation. In the assessment, CAO said that bidding was not always in line with the effective market conditions, which had a negative effect on the output of allocation. The second phase of Dry-RUN started in October 2009 with an aim to let market players better learn the auctioning scheme, to further assess allocation outputs and to develop the IT system. On the request of electricity traders, testing will continue until FBA is introduced.

1.1.1.9. Regulation of responsibilities of transmission system operator and distribution network companies

In Hungary, one Transmission System Operator (TSO) and six distribution companies (DSOs) were in operation in 2009.

Earlier, MAVIR Zrt. had both a system operation and a transmission network license for being a subsidiary of the MVM Holding (as such, it was also the owner of transmission network assets). These two licenses were replaced by one single transmission system operation license on 1 January 2008 on the basis of the Electricity Act. In 2009, this license was modified twice. First, annexes to the license were updated (HEO resolution 191/2009), then MAVIR headquarter has changed (HEO resolution 469/2009). On 3 September 2009 at the time of the coming into force of Directive 2009/72/EC, MAVIR Zrt. operated as an affiliate to a vertically integrated company.

Since 1 January 2008, MAVIR Zrt. has been responsible for operating and balancing the balance circle established for the settlement of the electricity falling under feed-in obligation (KÁT). The rules required to perform these activities are specified in the Government Decree 389/2007 (23. 12) on the feed-in obligation and the feed-in price of the electricity generated from renewable sources or waste, or co-generated electricity, the Government Decree 109/2007 (23. 12) on the allocation of the electricity falling under feed-in obligation to be conducted by the system operator and the determination of prices applicable in the course of allocation and the Business Conduct Rules of MAVIR Zrt. The latter one was approved by HEO in its resolution 6/2009 on 14 January 2009 then in the resolution 471/2009 dated on 23 June 2009.

The European Commission launched proceedings for failure to fulfill obligations against 25 Member States including the Republic of Hungary at a case number 2009/2172 because of the misimplementation of Regulation 1228/2003/EC of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity, as well as of the Annex to the former, amended by Decision 2006/770/EC.

Each of the six distribution companies operating in Hungary are owned by professional foreign investors. Three of them are owned by E.ON, two of them are owned by RWE-EnBW and one of them is in the ownership of EdF. On a January 2009, the share of German investors in the ownership of the six distribution companies was 81.6% and that of French investors was 18.4%.

In 2009, there were not any legal changes in the responsibilities of the distribution network licensees.

1.1.2. Unbundling of activities

In 2009, electricity transmission and distribution system operators operated in accordance with the rules of the Electricity Act based on Directive 2003/54/EC. The third energy package of the EU providing new unbundling requirements was published in July 2009. HEO started preparing for implementing the provisions of the energy package.

1.1.2.1. Requirements for unbundling in the Hungarian electricity industry

In Hungary, the obligatory provisions on the unbundling of natural monopole activities (transmission system operation, distribution) from other, competitive electricity sector activities (generation, supply and universal service) are included in the Electricity Act and its enforcement decree.

In 2006, the system operator was reintegrated into the state owned MVM Zrt, which also performed generation and commercial activities, and therefore Hungary switched from the previous ISO (Independent System Operator) model to the TSO (Transmission System Operator) model, which is in line with the Directive. As a result of the transaction, the transmission network became the property of the system operator, which functions as a separate subsidiary but still a part of MVM Zrt. Holding. MVM Zrt. created a corporate structure, in which the holding company coordinating the subsidiaries does not perform any licensed electricity market activities. In 2008, as the single system operator in Hungary, MAVIR Zrt. performed its licensed activity as an independent subsidiary of MVM Zrt. Support functions that were centralized within MVM Zrt. in 2007, e.g. IT, finance, accounting etc. kept up also in 2009. HEO paid and will pay a special attention to the supply of services within the company group, and the outsourcings, which may allow for cross-financing.

In 2009, there were not any significant changes with regard to the regulation of unbundling of activities.

1.1.2.2. Practical experience on the compliance of the rules on unbundling

Transmission System Operator

The Transmission System Operator (similarly to the Independent System Operator before) is physically unbundled from other activities of the vertically integrated company (separate headquarters and office buildings). The previous ownership unbundling has led to a strong and independent corporate culture at the system operator, which meant that not only professional, but also financial and business decisions were made independently from other electricity sector activities. This strong and independent corporate structure has weakened as a consequence of reintegration. The wave of outsourcings, which is also increasingly characteristic of the energy sector, had an impact also on the Transmission System Operator. Outsourcings were carried out at the system operator in 2007. In 2009, the contracts on outsourcing were modified, essentially with regard to costs.

1.1.2.3. Distribution network companies

Since 1 January 2008, all of the six distribution network companies have been operating as a part of vertically integrated companies with legal unbundling in compliance with the relevant provisions on legal unbundling of the Directive 2003/54/EC.

The Hungarian electricity regulation does not use (cannot use) the exemption rule relating to 100 000 consumers, since currently all distributors have more than 100 000 connected customers. Network assets are owned by the network companies.

The communication of distribution licensees towards third parties is not sufficiently independent yet, however the framework of legal unbundling induces a continuous improvement in this field. 2009 witnessed a much more clear separation both in structure and in management associating with legal unbundling.

Legal unbundling decreases the importance of the unbundling of accounting, because distribution licensees perform non-network activities only at an insignificant rate.

1.2. Competition

In 2009, the operation of the Hungarian electricity market was determined by the demand decreasing effect of the crisis and the transformation at the end of 2008 of the previous system that was based on long term PPAs concluded between MVM and power plants. The basic elements of the regulation based on the parallel operation of universal service and free market has remained unchanged.

In 2009, the circle of customers entitled for universal service was extended by an amendment in law in 2008. The Gas Act passed on 9 June 2008 increased the limit for connection capacity entitling for universal service to 3x63 A and extended the right for universal service to given general government units specified in a separate legislation, local governments, local government units performing public tasks, legal entities of churches performing public tasks and institutions maintained by foundation, performing public tasks.

The extended circle of customers entitled for universal service resulted in the fact that several medium and small size customers left free market by 2009. Therefore, the share of the customers circle affected by administrative price regulation shifted from 36% to 40% of the total consumption. (The structure of the decline in demand also contributed to the decreased share of free market consumption: the demand/consumption of industrial customers buying electricity typically on free market dropped to a larger extent than that of small and medium size customers opting for universal service.)

Table 2 Share of regulated (public utility segment and universal service) and free market consumption in total consumption (%)

	2004	2005	2006	2007	2008	2009
Free market	20.0	32.8	36.7	21.9	64.4	60.0
Public utility	80.0	67.2	63.3	78.1	35.6	40.0

The economic recession resulted in a decline in electricity consumption of approximately 5%. Decreased demand was accompanied by a drastic fallback in the output of domestic power plants (10%) and by a significant rise in net import. The total share of domestic producers within gross consumption dropped from 90% to 83%, while the share of net import within gross consumption, which decreased temporarily to 10% in 2007-2008

compared to 15-20% in the year subsequent to market opening, approached 20% again in 2009.

There was a significant change in the relative market position of power plant investors: while the total production of baseload producers (Paks, Mátra) slightly rose, production of natural gas fuelled large power plants halved. Since the above baseload producers constituted a part of MVM's contracted portfolio also in 2009, the MVM-focused nature of wholesale market failed to change; majority of electricity required to satisfy domestic consumption (near two thirds) was still sold through MVM group to universal service providers and traders supplying customers.

1.2.1. Wholesale market

The Hungarian generation market showed a low concentration also in 2009, using conventional tools for analyzing concentration. In the course of the privatization of the power plant sector between 1995 and 1997, the majority of power plants belonging to the vertically integrated state corporation (Magyar Villamos Művek Tröszt) were acquired by foreign strategic investors (Electrabel, RWE, AES) ***(Table 3)***. The market share of the three largest generators was 62% in terms of installed capacities and 56% in terms of generation, while the Herfindahl-Hirschman Index (HHI), which may vary between 0 and 10 000 and measures the concentration of a market, would be somewhere between 1400 and 1800 depending on the calculation method, which indicates a less concentrated, multi-participant market in ordinary circumstances.

Table 3 Market share of domestic power plant companies (groups) in terms of installed capacity (2007) and production (2009)[1]

	Installed capacities (MW)	Market shares (in terms of capacity)[11]	Production (TWh)	Market shares (in terms of production)[12]
MVM[2]	2560	29%	15.1	46%
Electrabel[3]	1676	19%	1.5	5%
AES[4]	1197	14%	1.6	5%
RWE[5]	863	10%	5.1	16%
Atel[6]	389	4%	1.0	3%
EdF[7]	406	5%	0.6	2%
Other domestic power plants[8]	1755	20%	7.6	23%
Total domestic power plant	8846	100%	32.5	83%
Net import	-	-	6.7	17%
Gross consumption			39.2	100%
The 3 largest power plant comapnies[9]	5 433	62%	21.8	56%
HHI-index[10]		1520		1813

1. Power plant companies in the Table correspond to investor groups owning power plants. To be simple, we did not try to exclude power plant units active in the market of ancillary services (e.g.. Dunamenti F, or AES Tisza blocks)
2. MVM: Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant), Vértesi Erőmű Zrt. (Vértes Power Plant), Gázturbinás Erőműveket Üzemeltető és Karbantartó Kft. (an Ltd. operating and maintaining gas engine power plants)
3. Electrabel: Dunamenti Erőmű Zrt.
4. AES: AES-Tisza Erőmű Kft, AES Borsod Energetikai Kft.
5. RWE: Mátrai Erőmű Zrt.
6. Atel (Alpiq since 1 February 2010): Csepeli Áramtermelő Kft.
7. EdF: Budapesti Erőmű Zrt.
8. Total share of power plant investors having a market share of less than 5%
9. The three largest power plant companies calculated on the basis of installed capacities (MVM, Electrabel, AES) differs from the three largest ones calculated on the basis of production (MVM, RWE, AES).
10. Compensation values would be higher if available or the effectively accessible capacity were taken into account, and lower if import capacities were taken into account
11. Calculated based on gross installed capacity data (figures of 2007).
12. (Net) production of a given power plant company fed in into the network divided by national gross consumption (figures of the year 2009).

While the concentration is relatively low in terms of power plant capacity, the concentration is high in the wholesale market. The reason for this is that the capacity required for supplying end-customers was contracted by the former public utility wholesaler (MVM) in the years of the privatization of the power plant sector (1995 to 1997) through long term power purchase agreements (PPA-s). Although the Act LXX of 2008 on certain issues of electricity terminated these PPAs by 30 December 2008, MVM concluded new, 5-8-year agreements with most of the affected power plants. Through the new agreements, MVM Trade (hereinafter MVM) disposed over approximately 40 to 50% of the total available capacity of domestic power plants in 2009, which practically meant that approximately 62% the generation of domestic power plants (including MVM Partner 's long term purchases from power plants) was sold through one single company, the MVM ***(Table 4)***.

Table 4 Sales structure of domestic power plant companies

	Electricity sales (TWh)					Market share
	2005	**2006**	**2007**	**2008**	**2009**	**2009**
MVM-PPA[1]	23.8	23.6	26.5	26.8	19.9	62%
Trader[2]	2.9	3.2	3.6	3.2	5.0	15%
Feed-in obligation[3]	4.4	4.5	5.0	6.5	7.4	23%
Other	2.1	2.0	1.9	0.2	0.3	1%

1. Purchases by MVM Rt, MVM Zrt., and MVM Trade Zrt. (public utility wholesaler prior to 2007) in the framework of PPAs and 5-8-year electricity purchase agreements. In 2008, license for public utility wholesale ceased, MVM Trade Zrt. since then has had only a license for trade. Purchases of MVM Rt, MVM Zrt, and MVM Trade Zrt. from sources other than PPAs (e.g. sales of given large power plants in the framework of feed-in obligation prior to 2007) are excluded.
2. Sales of power plants to traders include MVM Partner Zrt.'s purchases from power plants.

3. Sales of power plants in the framework of feed-in obligation were bought mainly by public utility suppliers and in a small proportion by the public utility wholesaler prior to 2007 and exclusively by MAVIR Zrt. since 2008.

The structure of the electricity wholesale market is different in the case of sales to universal service providers and to traders. Near three fourths of universal service providers' electricity purchases continue to take place through fixed channels and at regulated prices due to HEO's resolution on significant market power. In November 2007, public utility suppliers concluded electricity sales contracts (so called VEASZ) with MVM for four years. The selling prices to universal service providers within the framework of VEASZ were regulated by the resolution 839/2008 (30. 06. 2008) of HEO, while the selling prices of universal service providers to the end-users are regulated by the decree of the Minister of Economy and Transport 115/2007(XII. 29.) on the pricing of universal service of the electricity market and the product packages to be provided within the framework of universal service. In the universal service segment falling under administrative price setting (though its size is just a fragment of the public utility segment), the dominance of MVM remained unchanged, as much as 74% ***(Table 5)***. The remaining purchases of universal service providers were primarily covered by co-generated electricity or electricity produced from renewable energy sources by small power plants sold to MAVIR at administrative prices and allocated on the affected suppliers.

Table 5 Purchase structure of public utility suppliers/universal service providers

	Electricity purchase[1] (TWh)					Market share 2009
	2005	2006	2007	2008	2009	
MVM[2]	18.7	17.7	22.9	10.5	10.4	74%
Feed-in obligation	3.6	3.7	4.4	2.3	3.1	22%
Other	0.7	0.9	0.8	0.0	0.5	3%

1. The Table contains the electricity amounts bought in order to satisfy customer demand emerging only in public utility segment and universal service, respectively. Public utility suppliers' purchases in order to satisfy distribution network losses (which were satisfied by MVM Rt./MVM Zrt./MVM Trade Zrt. prior to 2007) are excluded.
2. Sales to public utility suppliers for satisfying distribution network losses are excluded.

The purchases of free market traders were not constrained by law contrary to those of public utility suppliers; therefore the structure of free market, which is much smaller than the public utility segment and the dominance of MVM prevailed purely to a limited extent, was much more heterogeneous. However, MVM rapidly increased its free market sales in 2008 parallel to the increasing free market consumption, so its role in supplying the traders who supply eligible customers was continuously increasing. In 2009, the primary purchases of traders (excluding trade between traders) essentially came from four sources ***(Table 6)***. These are the import sources, the electricity sales from power plant (and import) capacities contracted by MVM, spare capacities of domestic power plants not contracted by MVM and since 2008, the sales of energy fed in by MAVIR in the framework of feed-in obligation. The majority of the electricity purchased from primary

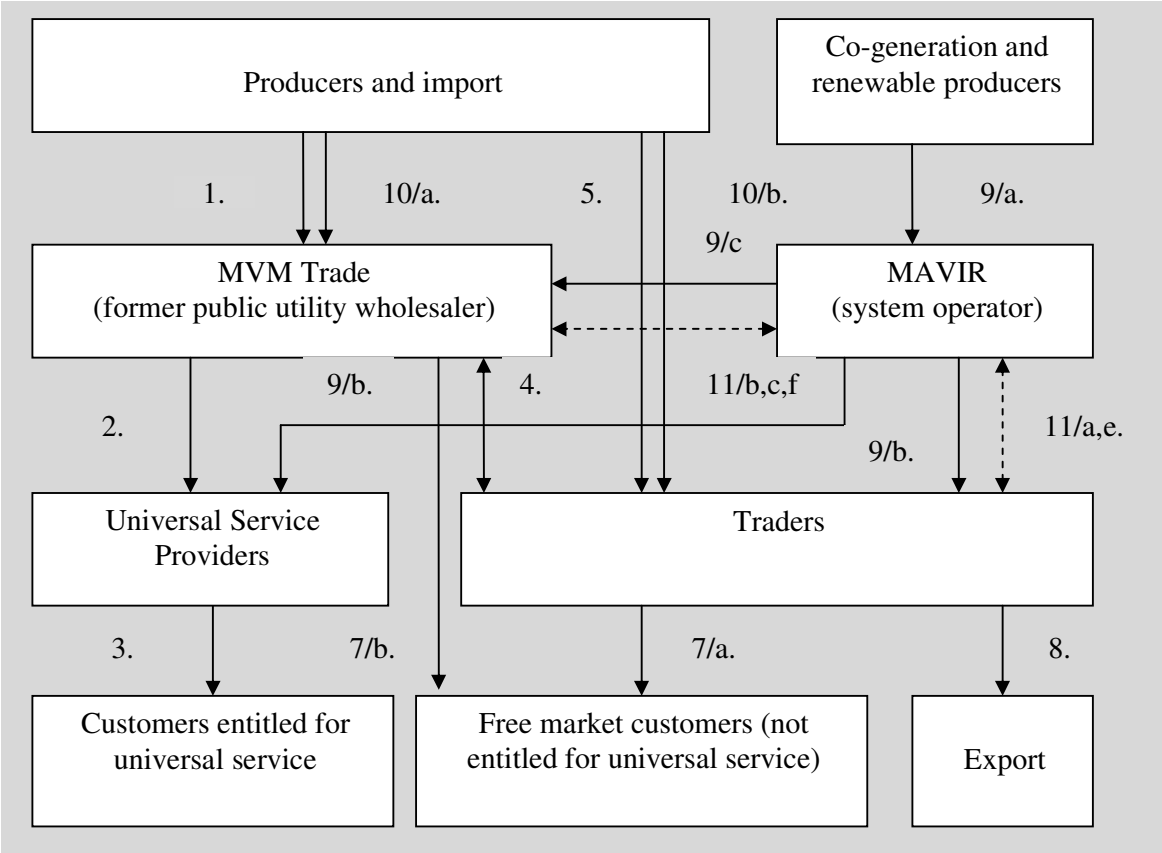
sources (a significant part of which passes several traders) was sold on the Hungarian retail market, and only a smaller proportion was sold abroad.

Table 6 Primary purchase structure of traders[1]

	Electricity purchases (TWh)					Market share 2009
	2005	2006	2007	2008	2009	
Import[2]	6.0	7.7	9.9	11.9	15.0	42%
MVM	6.5	6.5	5.1	14.3	9.2	26%
Domestic power plants	2.9	3.2	3.6	3.2	5.0	14%
Other[3]	0.2	0.2	0.2	4.5	6.3	18%

1. Primary purchase of traders is the electricity deriving directly from domestic power plants or import and from MVM as (the former) public utility wholesaler. The Table excludes the (significant) electricity turnover of electricity traded among traders. Traders' purchases exclude the purchases of MVM Trade Zrt – with a view to make possible the comparison of the periods prior to 1 January 2008 and thereafter.
2. Traders' import as indicated in the Table excludes the electricity that is bought and sold abroad.
3. Prior to 2007, it includes primarily the balancing energy bought from the system operator, and since 2008, it has included also the electricity bought from the system operator in the framework of feed-in obligation.

In Hungary, there is an organized energy market (energy exchange) but did not work in 2009; therefore electricity trade was fundamentally conducted within the framework of bilateral contracts. Electricity sales are illustrated on **Figure 1** (transactions in relation with ancillary services are excluded).



1. Figure Transactions on electricity market

Majority of the production of domestic power plants was sold through 5-8-year agreements concluded with the former public utility wholesaler (MVM) **(1)**, near a fourth of their production (co-generated and renewable production) was bought by MAVIR in the framework of feed-in obligation at a fixed price specified in decree **(9/a)**. 15% of power plant production was sold on the free market in the framework of short term (mainly one-year) agreements **(5)**. Typically, MVM's agreements with power plants are concluded for the period of 5 to 8 years. MVM sold nearly half of the electricity bought from domestic power plants in the framework of 4-year framework agreements, so-called VEASZs (long term electricity sales contracts), at a regulated price specified by HEO in its SMP resolution to universal service providers supplying customers entitled for universal service – at an administrative price **(2-3)**. In 2009, 40% of the domestic electricity consumption took place through this channel characterized by authority price regulation.

MVM sold nearly the half of the electricity it bought from power plants to traders through bilateral contracts or through public capacity auctions **(4)**. Although traders primarily based their activity on import sources in the first year of the market opening, the sales of power plant capacities contracted by MVM became the key source of purchases for free market traders in addition to import **(10/b)** in a few years' time (after the initial excess import capacities disappeared). Significant proportion of primary trader purchases went through secondary trade within the trade sector **(6)**, before the electricity was sold to users

(7) or on export markets **(8)**. The sales of electricity generated from renewable energy sources or co-generated with heat fall in a special sale category **(9/a-b)**. The system operator (MAVIR) is obliged to purchase this electricity from the generators within the framework of feed-in obligation (KÁT) at a price specified by law, and in an amount and within a period determined by the resolution of HEO **(9/a)**. Traders and universal service providers are obliged to purchase the electricity sold within the framework of KÁT in the proportion of their sales to users **(9/b, 9/c)**.

1.2.2. Market events and changes in regulation

The Decision 2008/C 223 of the European Commission - which closed the investigation initiated against Hungary in the subject of state aids - was issued on 4 June 2008. The Decision concluded that power plants received illegal state aids through the PPAs and requested the Hungarian authorities to end these state aids. In order to execute the Commission's Decision, the Parliament passed the Act 70 of 2008 on certain issues in association with electricity on 10 November 2008, which provide for the ending of PPAs and oblige the affected power plants to pay back the illegal subsidies.

On the effect of the actions of public administration following the Decision of the Commission, MVM Trade Zrt started renegotiating the PPAs regarded as the source of state aids. It concluded new, medium-term (5 to 8 years) product-based contracts with the majority of power plants (except for Dunamenti Power Plant, and AES Tisza Power Plant). With renegotiating the agreements, MVM Trade transformed its former PPA portfolio into a smaller but more competitive one.

On 30 June 2008, HEO issued its resolution 739/2008 on significant market power (SMP resolution) in which it designated MVM Trade Zrt as an undertaking with SMP and imposed auctioning obligation and price limit on MVM Trade Zrt. The resolution (which was amended by the resolution 963/2008 in December 2008) specified three different price limits, two for the sales to universal service providers in 2008 and in 2009 (16.34 HUF/kWh and 15.60 HUF/kWh) and one for the company's total sales on the wholesale market in 2009 (19.05 HUF/kWh).

With a view to fulfill its auctioning obligation with regard to the year of 2009, MVM held an auction on 27 and 28 October, on which primarily 2009 products were sold. Quarterly and monthly products were sold on quarterly auctions. The total of electricity MVM sold on the yearly and the following quarterly auctions was 9 TWh.

In April 2009, MVM made a proposal that it would sell yearly products of 2010 on three auctions to be conducted at three different dates instead of the former big single auction. HEO approved the proposal, thus yearly products of 2010 were sold on three auctions. Short term (quarterly and monthly) products continued to be sold on quarterly auctions.

1.2.3. Retail market

The main peculiarity of the retail market is still the dual structure prevailing even after the market opening in 2003: the co-existence of an administrative and a free price segment.

However, the relative weights of the two segments have considerably shifted since 2008. The public utility supply at administrative prices, which any consumers could avail of, was replaced by universal service in 2008, for which a much narrower circle of consumers is entitled. In 2008, only residential customers and customers with a connection capacity not exceeding 3x50 A were entitled for universal service.

In 2009, 60% of end-users consumption took place in free market, while 40% of end-users bought electricity at administrative prices (in the framework of universal service).

Customers entitled for universal service are still supplied by their former suppliers who now own universal service licenses. The universal service provider is obliged to sell electricity for and conclude a contract with the users entitled for universal service at administratively controlled prices.

Customers not entitled for universal service have already purchased electricity from the free market (primarily the large customers) or just entered the free market when the public utility segment ceased (mainly medium and small customers). Small customers forced to enter the free market after the public utility supply ceased in 2008 usually stayed with their former supplier who supplied these customers in the possession of a trading license.

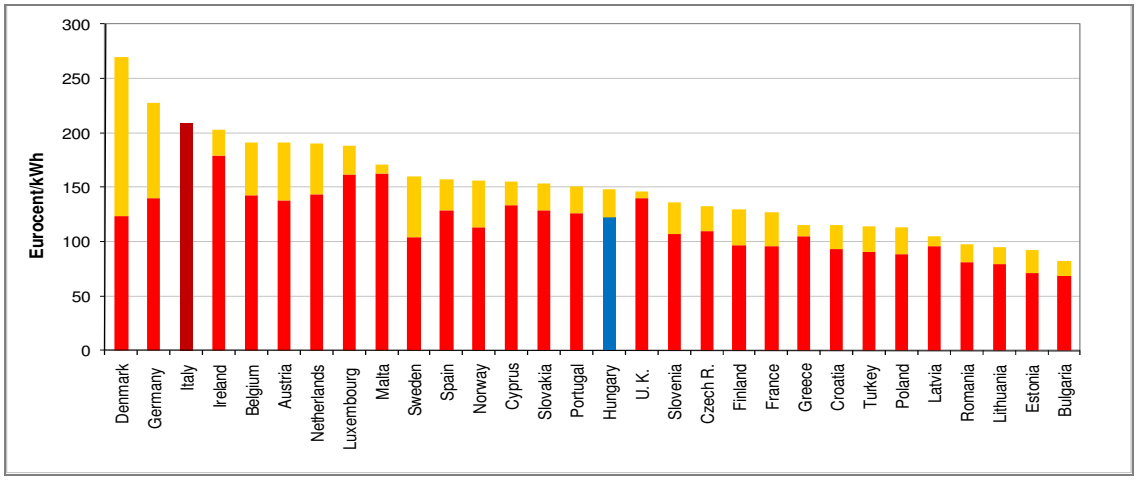
The companies with universal service license, which are E.ON Energiaszolgáltató Zrt., Budapesti Elektromos Művek Nyrt., Észak-magyarországi Áramszolgáltató Nyrt. and Dél-magyarországi Áramszolgáltató Nyrt., are interested also in the operation of distribution networks through their subsidiaries or joint ventures. Universal service providers are owned by three multinational companies, E.ON, RWE and EdF, which supplied customers not only through their affiliates entitled to provide universal service, but also through their trading subsidiaries established with a view to perform free market activities. Thus, the total market share of these companies within the total domestic retail market was very significant, approximately 77% even 6 years after the market opening in 2003.

Despite the strong market concentration, there were traders entering the market, who also undertook to supply customers in addition to their domestic wholesale activity. Among these there are both multinational companies with several subsidiaries in the region, and small domestic traders. In 2009, there were 22-24 traders operating on the retail market, whose owners were fully independent from any of the domestic distribution network companies. Their market share was approximately 23%, but only 17% excluding the traders belonging to MVM group. Some of the traders were established to supply only a given circle of customers, primarily a company group.

In 2009, the market share of the companies formerly being public utility suppliers continued to decrease. However, their market position is still very strong, since 95% of as much as hundred thousand users supplied in the framework of universal service (primarily small and medium size customers not entitled for universal service) are supplied by the

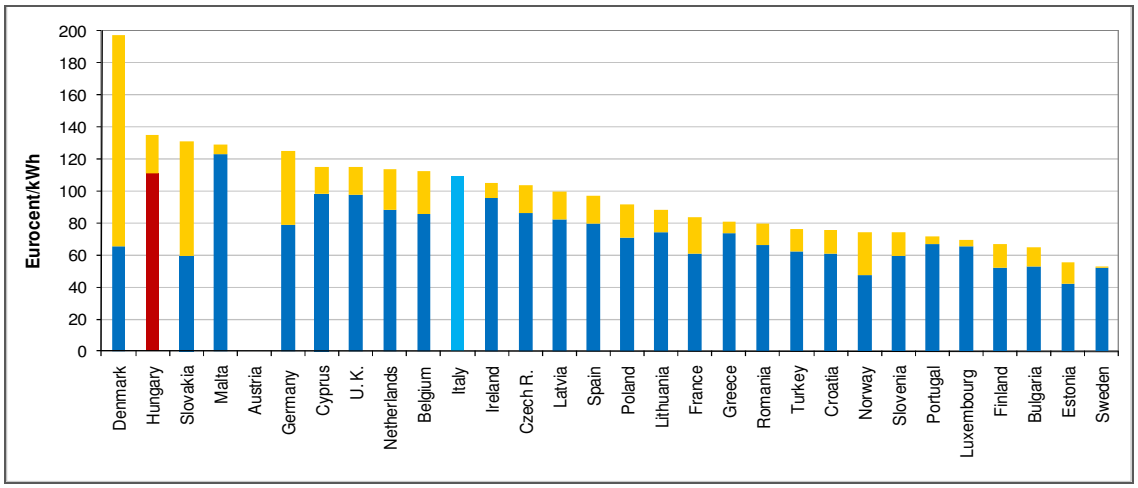
traders of the three big incumbent suppliers. If the market position of suppliers and traders are calculated according to the consumption of their users instead of the number of the users, this rate is much smaller: former public utility suppliers and their joint ventures supplied 59% of free market consumption in 2009. Figures clearly reveal that new traders continue to vie only for large customers.

In 2009, domestic prices in comparison with the prices of the European Union were in the middle range in the residential customer segment; with regard to prices to be paid by large industrial customers with consumption between 20 and 70 GWh, Hungary became one of the countries consuming electricity at the highest prices in 2009. **(*Figures 2 and 3*).**



Source: EUROSTAT

2. Figure Comparison of electricity tariffs to be paid by residential customers in the EU27 (2500 – 5000 kWh annual consumption; first half of 2009)
(red bar: tariffs excluding taxes / yellow bar: taxes)



Source: EUROSTAT

3. Figure Comparison of electricity tariffs to be paid by non-residential users with annual consumption of 20 – 70 GWh in the EU27 (first half of 2009)
(blue bar: tariff excluding taxes / yellow bar: taxes)

1.2.4. Measures to prevent abuse of market power

The ex post authority tasks of competition surveillance specified in the Act 57 of 1996 on Prohibition of Unfair and Restrictive Market Practices governing the posterior investigation and sanctioning of market abuses are performed by the Hungarian Competition Authority (Gazdasági Versenyhivatal, hereinafter GVH). The ex-ante interventional rights specified in the Electricity Act, which aim to prevent market abuses, are exercised by HEO.

The Electricity Act applies special rules to avoid market abuses. It introduced the regulatory practice concerning licensees of significant market power, which, although new in the regulation of the electricity industry, was already a known tool in the telecommunications sector. The Electricity Act and the associating enforcement decree include detailed rules on the designation of licensees as having significant market power and their treatment.

Within the framework of the new regulation, HEO as a supervisory authority may impose special additional obligations (e.g. selling electricity on public capacity auctions, cost-based pricing, preparation of a bidding sample etc.) on all licensees including both wholesale and retail market players who, following a market analysis, turn out to have significant market power. The imposition of obligations all served to prevent the abuse of market power and enhance the efficiency of competition. HEO, in cooperation with GVH and relying on market analyses, designates the licensees as having significant market power and imposes special additional obligations adjusted to their market positions.

HEO acting within its legislative competence conducted the required market analysis on the wholesale market and on the market of ancillary services, and issued its resolutions on 30 June 2008 (739/2008 and 727/2008). In the course of the procedure conducted on the wholesale market, HEO designated MVM Trade Zrt as an undertaking with significant market power and imposed on it the obligation of auctioning and a price limit. Resolutions on the approval of the public auctions, and resolution 963/2008 on the modification of price limits imposed on the sales to the universal service providers in 2009 associate with the resolution on the wholesale market.

HEO designated MVM Trade Zrt as a licensee with significant market power in the market of reserves for balancing, and the MVM GTER Zrt on the market of breakdown reserves. HEO imposed on the affected companies an obligation of bidding at cost based pricing.

HEO regarded the termination and renegotiation of PPAs in 2008 as a significant event from the viewpoint of competition, therefore decided in September 2009 to launch a new SMP procedure both on wholesale and on ancillary services.

1.3. Security of supply

1.3.1. Security of electricity supply

1.3.1.1. Preparations for winter

HEO assessed the preparedness of licensees participating in electricity supply and the expected level of security of supply taking into account the below terms:

a) Implementation of the annual planned maintenances and developments (plan and fact figures),

b) Ensuring fuels required for the production expected in the winter months, according to fuel types,

c) Availability of reserves specified in GKM Decree 44/2002. (28.12) on the least measure of the stockpile of energy carriers for power plants of 50 MW or above and on the order of stockpiling,

d) electric capacity, electricity balance, availability of reserve capacities,

e) availability of cross-border capacities.

HEO examined and evaluated the preparations of licensees for the winter period, and drew the following conclusions:

- the power plants accomplished their winter preparation programs,
- the power plants accomplished their annual maintenance programs till 15 November 2009.
- the supply of power plants with fuel is ensured by contracts.

All power plants for which the decrees prescribe the fuel stockpiles possessed the required stock.

Gas restrictions due to the Russian-Ukrainian gas debate in January 2009 resulted in the fact that power plants suitable for oil fuelling had to switch to oil fuelling. The majority of power plants were successful in switching; however, there were some power plants that experienced technical problems. In the period of oil fuelling, stocks were decreasing, which referred to the fact that the oil could not have been replaced everywhere at due pace. HEO used the experience gained in the course of switching for the inspections of preparations for winter.

In the winter period, the capacity balance of the Hungarian electricity system can be regarded as reassuring if the import capacities on the northern and eastern borders do not decrease significantly, and the export on the southern borders do not increase significantly. In this case, the available capacity is sufficient to satisfy the demand, and also the reserve capacity, which is sufficient according to the plans, is available. In the cold winter period, however, natural gas disconnection may occur in the case of the hydrocarbon fired power plants, therefore the cooperation between the MAVIR dispatch centre and the MOL dispatch centre is a must. Though measures were taken in order to prevent the coal from being winter-killed, such an event cannot be fully excluded. A case like this could hinder the generation of the Mátra Power Plant and a quick measurement would be necessary to involve reserves.

1.3.1.2. Network development

The transmission system operator MAVIR Zrt is responsible for ensuring the long term and secure availability of the system with its development, maintenance and operation activities on the transmission network constituting part of the Hungarian electricity system, in line with Hungarian and international requirements and thus providing for the maintenance of the domestic electricity supply at a European level. Within the framework of network development:

- By December 2009, the construction of a 400-kV transmission line between Szombathely and Hévíz and the extension of Hévíz substation was completed. The 400 kV new transmission line between Szombathely and Hévíz on the one hand provides for the second support to the 400/120-kV substation in Szombathely required because of the (n-1) criterion, and, on the other hand, increases the transmission capacity from North to South-West within the European electricity system, which enhances system security not only at regional but also at European level.
- The establishment of the interconnection 2x400 kV between Pécs (Hungary) and Ernestinovo (Croatia) is in process, works have been completed according to schedule, and the deliverance and acceptance is expected in 2010.

1.4. Price preparation and price regulation

1.4.1. Electricity as product (universal service)

A new era started in the electricity supply in 2008 with the ceasing of the public utility segment, which was replaced by universal service. The electricity for which residential and non-residential small customers now appeared in separate categories of the electricity as a product, of the use of the network ensuring the delivery of the product to the customer (system use) and of taxes and other items of tax nature. Residential customers – unless they entered free market – could purchase electricity also in 2009 within the framework of universal service, which means that they continued to buy the electricity at an administrative price.

In January 2009, universal service prices (prices to be paid for the energy as product) were reduced by the price authority by 1%. Taking into account the increased prices for system use, the average price increase affecting users supplied in the framework of universal service was 2.9 % in January 2009. In 2009, universal service prices of all the four universal service providers rose twice (in July-August and in November). Two universal service providers modified (reduced) the prices for universal service also from 1 January 2010. Including also the latter, the price for the electricity (including system use) on 1 January 2010 (relative to 31 December 2009) to be paid by the users supplied in the framework of universal service changed by -3.1 to +1.9 % depending on residence (site).

Based on experience gained in 2009, significant amendments on price regulation to the decree on universal service came into force by 1 January 2010 [KHEM Decree 44/2008 (31. 12) on the setting of universal service prices on the electricity market and on the product packages to be provided in the framework of universal service].

It was not justified any more to take into account the price of gas purchased by power plants to determine the costs of the justified electricity purchase costs of universal service providers – considering also the purchase portfolio (the significantly decreasing share of gas fuelled electricity production) of MVM Zrt. providing for the majority of the supply of universal service providers. Prices, price relations and price changes of the Leipzig energy exchange (as the most significant energy exchange of the region) may serve as a long term base (supplemented by a kind of index of rates) to determine the justified costs of electricity purchases. The aim of the taking into account of prices of the Hungarian auctions with relatively large electricity turnover is to map the currently effective electricity purchase conditions.

The annual average value of the trading margin to be applied by universal service providers was 1.9 HUF/kWh also in 2009, although the level of their operational costs were growing due to the increasing general price level and the extending circle of legal obligations. With the justified specific trading margin's remaining unchanged in 2009 (relative to 2008), suppliers could realize a rising total margin – thank to the growing circle of customers.

The regulation prior to 2010 provided for the case when the universal service provider's annual average trading margin exceeds the ceiling specified in statutory provision, however excluded any provisions for the case when this trading margin lags behind the ceiling. This 'shortage' has been ended by adopting a provision to the decree on universal service to provide for the possibility of supplementing trading margin, in virtue of which the sum adequate to the missing trading margin (determined by HEO in a resolution) may be realized in universal service prices in the following year.

Prior to 2010, there were not any regulation on the price ratio of the controlled and the universal service tariffs. Taking into account the interest of both customers and the electricity system, controlled universal service tariffs may be maximum 70% of the price according to whole-day tariff since 2010.

Based on environmental considerations (facilitating sustainable development on the long term), a separate tariff was elaborated in 2009 for the electricity supply of heat pumps (devices directly serving the operation of equipment using heat from solar energy and other renewable energy sources for supplying heat to buildings). The electricity at discounted price both with regard to product price and the price for system use may be bought (under specialized terms) by the beginning of the heating season of 2010-2011.

1.4.2. System use

The fourth four-year (from 2009 to 2012) cycle of price regulation for electricity system use started on 1 January 2009.

The specific administrative prices for natural monopole activities (transmission system operation, ancillary services, distribution) were determined by the Decree of the Minister of Economy and Transport (GKM) 119/2007 (29.12) on charges for electricity system use. By virtue of domestic regulation taking into account also the various international practices, only those who receive electricity from the network have to pay a charge for system use. Those who feed electricity in the network (power plants) are excluded from this obligation.

HEO prepared in 2008 and published on 31 October 2008 a methodology guideline on price regulatory scheme of the new price regulatory period – in accordance with Section (5) of Article 142 of the Electricity Act. This was modified by HEO ex officio on 22 October 2009 – with regard to the fallback (exceeding 5%) in the electricity turnover in 2009 implied by the economic crisis and to a few unavoidable corrections revealed in the meantime by the practice. HEO prepared charges for system use of 2010 accordingly, and proposed to the Minister the promulgation thereof. Charges for system use effective from 1 January 2010 were published in the KHEM Decree 69/2009 (4. 12) on the amendment of the GKM Decree 119/2007 (29. 12) on the charges for electricity system use.

The sum of charges for transmission system operator and ancillary services grew by 53.5% on 1 January 2010 (compared to 1 HUF/kWh in 2009), but still was lower than the value of 2008. The growth above was resulted from 3 key factors.

- (Posterior) Price regulatory adjustments carried over from the previous cycle ending by the year 2008;
- Significant increase in the price of reserve capacities (primarily secondary ones) of Dunamenti and AES Tisza power plants entering free market because of the termination of the PPA portfolio of MVM Trade Zrt;
- Amendment in price regulation executed by HEO – in association with the decline in electricity turnover.

Distribution charges dropped by average 0.4% on 1 January 2010 compared to 2009 (within this, values of changes varied depending on voltage levels between -33% and +2%). Figures above are explained by the inflation-indexed increase of charges covering fix costs and the declined purchase cost of electricity loss of distribution network.

An annual distribution charge of 1800 HUF (excluding VAT) - in the case of a controlled tariff category only 600 HUF - has been imposed even on the smallest consumption places including also residential customers since 1 January 2009. The costs that have been covered by the base charge since 2009 were covered previously by the consumption proportional distribution turnover charge, so the increase in this charge was lower than it would have been without it. In other words, the introduction of the base charge did not mean an effective rise in the costs, but induced a restructuring among the various groups of customers.

System operation charges between 2008 and 2010 are shown in Tables ***7. a) – c)***.

Table 7 Aggregated electricity system use charges (excluding VAT[1]) from 2008

a) Charges for transmission system operation and ancillary services (HUF/kWh) and the changes thereof

In the case of user (customer) connecting to distribution network	Tariffs			Changes in tariffs	
	From January 2008	From January 2009	From January 2010	January 2009	January 2010
Charge for transmission system operation	1.000	0.577	0.823	-42.3%	42.6%
Charge for ancillary services	0.672	0.423	0.712	-37.1%	68.3%
Total	**1.672**	**1.000**	**1.535**	**-40.2%**	**53.5%**

b) (Average) Distribution charges[2] and average changes thereof (calculated on the basis of similar quantity weights)

	Tariffs				Changes in tariffs	
	From January 2008[5]	From January 2009[5]	From January 2009[6]	From January 2010[6]	January 2009	January 2010
High voltage connection	0.709	0.969	1.017	0.672	36.6%	-33.9%
Connection to high/medium voltage transformer	1.842	2.247	2.647	2.176	22.0%	-17.8%
Medium voltage connection	3.606	4.275	4.230	4.158	18.5%	-1.7%
Connection to medium/low voltage transformer	6.425	6.260	6.338	6.141	-2.6%	-3.0%
Low voltage connection I.[3]	11.605	13.601	13.647	13.889	17.2%	1.8%
Low voltage connection II. (controlled)	4.750	6.357	6.325	6.134	33.8%	-3.0%
Low voltage connection III.[4]	10.367	12.070	12.705	12.566	16.4%	-1.1%
Average	**6.845**	**8.046**	**8.001**	**7.967**	**17.5%**	**-0.4%**

Remarks:

1. In the indicated period prior to 30 June 2009 20%, and 25% since 1 July 2009.
2. Excluding charges for distribution schedule balancing calculated with average quantity data according to categories.
3. In the case of contracted capacities not exceeding 3*50 A in 2008, and 3*80 A from 2009.

4. in the case of contracted capacities exceeding 3*50 A in 2008 and 3*80 A from 2009.
5. Calculated with quantity weights taken into account in the calculation of prices for 2009.
6. Calculated with quantity weights taken into account in the calculation of prices for 2010.

c) Aggregated charges for system use (excluding ÁFA[1]) from 2008

Average tariff and tariff changes		Tariffs (HUF/kWh)				Average tariff changes[2]	
		From January 2008[8]	From January 2009[8]	From January 2009[9]	From January 2010[9]	January 2009	January 2010
In the case of connection to transmission network[3]		1.52	1.00	1.00	1.54	34.3%	53.5%
In the case of connection to distribution network[4, 5]	High voltage connection	2.38	1.97	2.02	2.21	-17.3%	9.4%
	Connection to high/ medium voltage transformer [6]	3.51	3.25	3.65	3.71	-7.6%	1.7%
	Medium voltage connection	5.28	5.27	5.23	5.69	-0.1%	8.9%
	Connection to medium/low voltage transformer	8.10	7.26	7.34	7.68	-10.3%	4.7%
	Low voltage connection I.[7]	13.28	14.60	14.65	15.42	10.0%	4.9%
	Low voltage connection II. (controlled)	6.42	7.36	7.32	7.67	14.6%	5.3%
	Low voltage connection III.[8]	12.04	13.07	12.71	14.10	8.6%	4.7%
	Average	8.52	9.05	9.00	9.50	6.2%	2.9%

Remarks:

1. In the indicated period prior to 30 June 2009 20%, and 25% since 1 July 2009.
2. Calculated with similary quantity weights.
3. Sum of the charges for transmission system operation and for ancillary services.
4. Sum of the average value of transmission system operation charge, the charges for ancillary services and the average value of distribution charges.
5. Excluding charges for distribution schedule balancing.
6. In the case of contracted capacities not exceeding 3*50 A in 2008, and 3*80 A from 2009.
7. In the case of contracted capacities exceeding 3*50 A in 2008, and 3*80 A from 2009.
8. Calculated with quantity weights taken into account in the calculation of 2009 prices.
9. Calculated with quantity weights taken into account in the calculation of 2010 prices.

1.4.3. Electricity under feed-in obligation

The prices for the electricity falling under feed-in obligation changed on 1 January 2009 and the prices for the co-generated electricity changed on 1 October induced by changes in gas prices.

The increase in the prices in January was varying between 2.25 and 6.6%. The significant standard variation resulted from the application of different price regulation formulas of the various energy sources.

In October, the price of energy generated by gas fired cogeneration – simultaneously with the decrease in natural gas prices on 1 October and according to the provisions of the effective Government decree [389/2007 (12.23.)] – decreased by 9.88%.

There is a significant standard variation (varying between -2.86% and +4.1%) of feed-in price changes on 1 January 2010 – again, due to the different price regulation of the various energy sources (prices of gas fuelled CHP decreased due to a further decrease in gas prices in January, while the feed-in prices of electricity from other CHP, waste and renewable grew in line with the taking into account of inflation in a different measure). Changes in feed-in prices of gas fuelled electricity production after 1 July 2009 is adequate to the index of gas price change calculated in accordance with the provisions of Government Decree 389/2007. (23.12).

There were not any significant changes in other terms of the feed in of electricity sold in the framework of feed-in obligation at supported price in 2009.

With regard to wind power plants, which drew special attention because of the keen interest and the difficulties in the operability of the system, HEO issued operational licenses representing a total capacity of 330 MW, from which 176 MW was in operation by the end of 2009. On the basis of the new Act and the secondary legislation on its enforcement, further similar capacities can obtain a license and connect to the system of feed-in obligation only by tendering. Accordingly, HEO, following the preparation and the publication of KHEM Decree 33/2009 (30. 06) regulating the terms of tendering, called for tenders to establish new wind power plant capacity of a total of 410 MW. The deadline for submitting tenders was 1 March 2010.

In 2009, the total capacity of gas engines generating and supplying electricity based on feed-in obligation remained essentially unchanged (500 MW). At the same time, feed-in obligation and the associating favorable feed-in prices had a positive effect on production. The sum of this incentive appearing in increasing production grew again significantly (relative to a virtual benchmark market price) – approximately by 14% (despite a price decrease in October).

The source of incentives is the price premium allocated by MAVIR Zrt. on traders, built implicitly in the price of electricity fed in under feed-in obligation and forwarded to users. Accordingly, the sum of incentives in 2009 is as much as 80 billion HUF (relative to a virtual benchmark market average price of 15.29 HUF/kWh) compared to the annual 67 billion HUF in 2008. Within this sum, 24 billion HUF derived from electricity produced from renewable, approximately 1 billion HUF from electricity produced from waste and 55 billion HUF was pertaining to CHP.

1.4.4. Requests on price reviews and price modifications

In 2009, HEO received ten initiations from universal service providers on the change of prices. Five requests were approved and five were partly approved by HEO.

In May, all the four universal service providers submitted request to HEO on price increase. The measures of price increases included in the requests were different according to suppliers. HEO, after examining the calculations attached to the requests, made partially approving decisions in all the cases (allowing price increases of 1.6-10.9%). The new universal service prices came into force in July and August, respectively, thus essentially ended the uniform price level of residential electricity supply in Hungary.

In September, universal service providers submitted other requests to HEO on price increase that were different according to universal service providers. Universal service prices coming into force on 1 November based on three approving resolutions (DÉMÁSZ, ELMŰ, ÉMÁSZ) and one partially approving resolution (E.ON) were higher by 2.2% to 10.2% on the average than the prices effective since July and August, respectively.

Price increases required for reaching the trading margin specified in legislation were justified in all cases mainly by the share of electricity under feed-in obligation (within total consumption) increased relative to 2008 and by price level that was higher than in the previous year (due to gas price increases in 2008).

The difference in the measure of price increases is explained primarily by the different sales and purchase structure of the given universal service providers.

E.ON submitted a request to HEO on price decrease in November 2009 and DÉMÁSZ in December. HEO approved the requests. The new universal service prices (lower than the prices in November by average 6.85% and 3.2%, respectively) came into force on 1 January 2010.

1.4.5. Trading margin cap and incentives of quality of supply

HEO is obliged to conduct an inspection on the capped trading margin of universal service providers till 31 March of the year subsequent to year under review. In the inspection, HEO found that each universal service provider had an extra trading margin in 2008 to be reimbursed to customers. HEO provided in resolutions on the measure of the amount to be reimbursed and on the way of reimbursement.

HEO has to complete the inspection of trading margins with regard to the year 2009 until 31 March 2010.

With introducing an income leveling mechanism for distributors in August 2006, there was no reason any more to maintain the instrument of distributors' profit cap. Since the

new price regulation cycle, the income leveling mechanism will serve as a tool also for the operation of a scheme of incentives on service quality for distributors. The new elements of this scheme were disclosed in the already mentioned methodology guideline on price regulation of system use charges (published on 31 October 2008). In line with this guideline, indices of service quality affect the rate of the inflation correction factor to be taken into account in annual price adjustment. Distributors who achieve better service quality indices while distribution charges are uniform nationwide, gain extra money through the income leveling mechanism to the detriment of distributors achieving worse indices. HEO, after availing and processing the data, could complete the assessment of service quality indices of 2009 by late spring in 2010, therefore their effect will be reflected in the administrative prices of 2011. In addition to the above, on HEO's proposal, the regulation on the sanctioning of worsening service quality indices of distributors was included again in the Decree on the setting of charges for system use [GKM Decree 119/2007. (29.12)]. In line with this provision, if the service quality indices specified in a HEO resolution worsen, the distributor must give a price discount of 1-3% to the customers from its distribution charges in the second half of the subsequent year.

HEO is examining the possibility of the extension of this scheme of incentives on service quality also to the transmission system operator.

1.5. Public service obligation and consumer protection

1.5.1. Approval of Codes

The Electricity Act and its enforcement decree were modified several times in 2009. These changes required a continuous adjustment of licensees' Business Conduct Rules to the effective statutory provisions. After comprehensive discussions in more rounds, provisions serving the protection of users have become more stressed in the modified Business Conduct Rules. HEO did not issue any resolutions on the approval of Business Conduct Rules, but issued 7 resolutions on the modification thereof in 2009.

1.5.2. Service quality

The minimum quality requirements concerning individual consumers are prepared on the basis of the annual data supply of the scheme of Guaranteed Services and the evaluation of the licensees' activity in the previous year was completed in June 2009, and can be seen also on the webpage of HEO. In 2009, also the scheme of Guaranteed Services itself was modified in accordance with the new regulation and also in line with the activity of the distribution licensees, and also with the activity of universal service licensees operating within a new legal framework. The resolution on Guaranteed Services imposed the obligation of automatic penalty payment with regard to 10 of 13 minimum quality requirements on distribution licensees, 4 of 5 minimum requirements on universal service

providers and 3 of 4 minimum requirements on trading licensees. Aggregate figures on Guaranteed Services are shown in ***Table 8***.

Table 8 Aggregated data of Guaranteed Services (2008)

Licensee	Number of cases (total)	Number of cases (failed)	Proportion of failed cases (%)	Payment of penalty (HUF)
DÉMÁSZ Hálózati Elosztó Kft.	475 654	747	0.16	3 576 438
ELMŰ Hálózati Kft.	591 686	3 777	0.64	589 000
ÉMÁSZ Hálózati Kft.	242 219	702	0.29	19 000
E.ON Észak-dunántúli Áramhálózati Kft.	1 491 431	22 133	1.48	1 493 200
E.ON Észak-dunántúli Áramhálózati Kft.	2 977 416	72 676	2.44	2 136 200
E.ON Tiszántúli Áramhálózati Kft.	2 163 151	23 402	1.08	1 711 400
Distribution, total	**7 941 557**	**123 437**		**9 525 238**
DÉMÁSZ Nyrt.	126 866	3 878	3.06	5 171 418
ELMŰ Nyrt.	602 494	36 102	5.99	1 800 492
ÉMÁSZ Nyrt.	238 465	9 438	3.96	327 000
E.ON Energiaszolgáltató Kft.	531 341	12 323	2.32	4 919 000
Universal service, total	**1 499 166**	**61 741**		**12 217 910**
Total	**9 440 723**	**185 178**	**1.96**	**21 743 148**

In 2009, HEO, following a discussion that took for several months, made a detailed regulation on the requirement II of Guaranteed Services for distribution licensees, the 'restoration of interruption of electricity supply affecting several consumption places' taking into account the effects of extreme weather conditions 'accompanied by a disturbance occurring on the effect of extreme wear and tear beyond design conditions'. It was required particularly by the failure between 27 January and 2 February and the growing number of requests on exemption due to the increasing number of failures. The modification affected the procedure of the qualification of extraordinary events and the requirements of restoration of supply. It is now the licensees' responsibility to qualify instead of an independent organization; however, if the distribution licensee fails to observe the deadline for the restoration of breakdown, it will pay a penalty to the affected user. Users are entitled for a repeated penalty for each further 12-hour outage after the deadline of restoration of breakdown expires. This is a tool for HEO to motivate

distributors to accelerate the restoration of breakdowns. Penalty payment will be automatic from 2011 taking into account the time required for the development of the IT systems of distribution licensees. Prior to that, penalty is paid based on the users' claim.

In 2009, HEO investigated whether distribution licensees observed the provisions specified in the resolutions on Guaranteed Services to be provided by distribution licensees, paid the penalties to be paid automatically and managed properly the rides of forestry. HEO stated that licensees' data registry is suitable to fulfill the Guaranteed Services, and the order of procedure of rider management is suitable for the secure operation of networks.

Licensees paid a total of 22 million HUF to users for failing to perform Guaranteed Services.

The regulation of the quality of client service - constituting a part of quality of service - was renewed in 2008. In 2009, HEO did not issue any new resolutions. However, there were several discussions among HEO and the licensees on the interpretation of the content of the resolutions. The evaluation of data supplied on the basis of resolutions pertaining to 2008 was completed in June 2009 and can be found on the homepage of HEO.

In accordance with the provisions of the Electricity Act and its enforcement decree that came into force on 1 January 2008, licensees have to maintain a client service office in each small region. Licensees evaluated the activity of the newly opened (local) offices and the quality of services provided by these offices in 2009. Several offices that proved to be too small for the client turnover or the ones that were too difficult to access were moved to another place or have been expanded. Experience of the operation of (local) offices show that user like using the points of personal communication in their neighborhood. However, the offices are rarely visited after 18.00 hour on small micro-regions, in particular, while their operation consumes considerable financial resources, which have to be paid by the users community in the price of electricity. In aware of the figures on client turnover, it would be worth rethinking the regulation of the local offices so that customers be charged only with the maintenance costs of those offices where the operation results in an essential, assessable and measurable improvement of comfort for customers.

In 2009, HEO conducted a consumer satisfaction survey giving a comprehensive picture on the satisfaction of customers with the activity of distributors and universal service licensees for the fourteenth time. 7400 household customers and 2400 non-household customers participated in the survey. The method of the survey was the same as in 2008; therefore outcomes can be directly compared. On the basis of aggregated results, it can be stated that 2009 did not bring any significant changes relative to the previous years. Customers still focus on uninterrupted supply, voltage fluctuation, early restoration in the case of interruption and long breakdowns and answering calls on failures from among the activities of distribution licensees. Within the sphere of tasks of universal service licensees, both residential and non-residential customers were the least satisfied with the service quality of complaint management. Satisfaction with bills and the understandability of bills definitely worsened.

1.5.3. Breakdowns

The financial basis for the incentives to electricity distribution network licensees to improve service level is the minimum quality requirements on the frequency and duration of non-planned interruptions, and the outage index corresponding to the ratio of the non-supplied electricity. In 2008, indices started improving after a fallback in 2007. The aggregated effect of the favorable changes at national level exceeded the size of deteriorations in given cases. The key statements with regard to the given licensees are shown in the Table below.

Table 9 Interruptions (figures of 2008)

	E.ON Dél-Dunántúli Áramhálózati Zrt.	DÉMÁSZ Hálózati Elosztó Kft.	ELMŰ Hálózati Kft.	E.ON Észak-Dunántúli Áramhálózati Zrt.	ÉMÁSZ Hálózati Kft.	E.ON Tiszántúli Áramhálózati Zrt.
Non-planned interruptions (frequency)	Accepted	Accepted	Accepted	NOT accepted	Accepted	Accepted
Non-planned interruptions (duration)	Accepted	Accepted	Accepted	NOT accepted	Accepted	Accepted
Outages	Accepted	Accepted	Accepted	NOT accepted	Accepted	Accepted
Remark	Indices of restoration of medium voltage breakdowns are below expected values by 37%.	Frequency and duration of planned interruptions are worse than the expected level.	Number of breakdowns per 100 km is 3% worse than the expected level.	Further four indices lagged behind the expected levels.	However, further five indices were worse than the expected level.	Further four indices were moderately worse than the expected level compared to 2007.

In 2009, following a fine of 50 million HUF imposed by HEO in 2008, HEO imposed another fine of 60 million HUF on E.ON Észak-Dunántúli Áramhálózati Zrt., because the average duration of interruptions was more than 40% worse than the national average despite the fact that HEO ignored in its evaluation the effects of outages due to the extreme weather conditions.

One of the most important elements of the monitoring system established by HEO in order to detect voltage quality is the ratio of customers supplied durably (for over 12 months) by irregular voltage. The figures of this index with regard to 2008 show that the values varied according to licensees from year to year in both size and direction. However, there are some companies that have not had any users supplied by irregular voltage even for several years. It is justified to continue inspections in order to be able to shape a well-founded professional opinion.

1.5.3.1. Reliability of electricity supply

In 2008, the Electricity Act provided a possibility to HEO again to determine minimum quality requirements and expected service levels. These requirements and standards were calculated on a three-year basis with a view to mitigate the effects of extreme weather conditions. In its resolution, HEO requires annual improvement also with regard to three expected service level indices expressed in an annual percentage value relative to the performance of the previous year in addition to the minimum quality requirements on the indices serving as a base to financial incentives on service levels to be provided by electricity distribution licensees.

In June 2009, HEO assessed the level of the reliability of electricity supply in 2008. In its assessment available also on HEO's homepage, HEO claimed with regard to national figures that one of the internationally accepted index serving for the measuring of continuity of supply – System Average Interruption Frequency Index – definitely improved in 2008 to 1.61 interruption/user (after 1.90 in 2007). The other international index serving for measuring of the continuity of supply is the System Average Interruption Duration Index. Following an improving tendency from 2000 to 2005, this index stagnated in 2006 and 2007, which was followed by improvement again in 2008. The duration of interruptions per customer was 111 minutes in 2008 (following 139 in 2007), which matches the values of the international middle range. The duration of interruption projected to the number of users improved in the case of each licensee in 2008. The outage index (non-supplied energy per supplied energy), which is one of the indices in the electricity sector that has been kept track of for the longest time, was characterized by an improving tendency for several years until 2005. The index worsened by 22% in total in 2006 and 2007, which was followed by a 20% improvement in 2008.

Following a thorough analysis taking into account all conditions of each case, HEO gave an exemption from taking into account a part of breakdown events due to the weather conditions beyond design conditions. To sum it up, it can be stated that distribution licensees make large efforts to observe the annually increasing levels determined in the resolution of HEO. The detailed documentation of the annual evaluations can be found on the homepage of HEO.

In 2009, HEO investigated data collections made by distribution licensees in relation with reliability of electricity supply, the documentation of planned and non-planned failures and data supply to HEO. In the course of the investigation, HEO found that licensees' data supply is in compliance with the provisions specified in the relevant decrees.

1.5.4. Consumer complaints

2009 did not see any significant changes in HEO's complaint management. The Electricity Act divided the competence of complaint management amongst HEO and Nemzeti Fogyasztóvédelmi Hatóság (Hungarian Consumer Complaint Authority) on 1 January 2008. The Act failed to unambiguously regulate the management of several complaint types, which required the two authorities to have frequent discussions on competences in 2008. The amendment of the Electricity Act during 2009 (on 1 July 2009)

ceased these uncertainties, and both HEO and Nemzeti Fogyasztóvédelmi Hatóság could unambiguously determine their circle of competence and the borders thereof, respectively. With a view to ensure the relevant knowledge required for the management of complaints of the electricity sector, HEO provided a regular and frequent support in the whole year to Nemzeti Fogyasztóvédelmi Hatóság.

As a result of the division of authority specified by the Electricity Act, the number of consumer notices received by HEO in 2009 essentially remained unchanged following a decrease of 41.35% in 2008. The number of complaints grew from 1841 to 1877, which correspond to an increase below 2%. In 328 cases of the 1877 complaints, HEO did not have authority to proceed, so all of these complaints were transmitted to the Nemzeti Fogyasztóvédelmi Hatóság. Accordingly, HEO handled 1549 notices in the end. From among these, 655 were not regarded as complaint. From among the total of 894 complaints, there were 405 that affected electricity licensees. This amount is higher by 74% than the figure in 2008. HEO launched supervisory procedures in the case of each complaint and made the relevant resolutions on each case. Based on the resolutions, 34% of the complaints on distribution licensees - mainly in the field of breach of contract – and 44% of the resolutions on universal service providers - mainly in the field of billing – could be qualified justified.

In addition to the increasing number of complaints on electricity licensees (by 80%), HEO enhanced its supervising activity. Within the framework of this activity in 2009, the inspected areas were the following: compliance of the content of bills with statutory provisions, service level of call centers, operation of automatic call answering systems, order of procedure for the management of contract breaching behaviors, compliance with statutory provisions on vulnerable customers, data supplies specified in resolutions on service quality, registration and professional correctness of responds to documented requests and the establishment and operation of client service offices and local offices. In the course of the inspections closed by resolution, HEO did not find any deficiencies serious enough to impose a fine. However, HEO imposed various obligations on licensees including the transformation of workflows, provision for technical conditions and modification of the content of fill-in forms in its 13 resolutions closing the inspections, which were issued in 2009.

2. Regulation of the natural gas market and its implementation

2.1. Regulation

2.1.1. Licensing

The new regulatory environment has not significantly changed the general rules of licensing. In accordance with the provisions of the Gas Act, HEO, in the license issued, sets the conditions of performing licensed activities and related activities. On the basis of the Gas Act, Articles 124 -130 of the enforcement decree determines the new, detailed rules of licensing in the changing market environment. It is an important requirement to continuously control the compliance of the licensees with these conditions. HEO supervises the licensees whether or not they comply with the provisions of the license and, if necessary, applies sanctions.

With regard to licensing, the enforcement decree of the Gas Act defines general rules and for certain activities subject to license it also defines special rules specifying the type of documents to be submitted by the applicants together with the applications for license as defined by the Gas Act and the instruments they have to possess. In addition to the general and special rules, the enforcement decree of the Gas Act has detailed provisions concerning the contents of the different licenses, and the compulsory requisites of the applications for licenses; these are included in the annexes of the Decree.

According to Section (1) of Article 140 of the Gas Act, public utility service licensees submitted their applications for licenses prior to 30 November 2008. On the basis of the applications, HEO has issued 9 new licenses for universal service by 30 January 2009 in accordance with Section (3) of Article 140 of the Gas Act.

The enforcement decree of the Gas Act regulates in details – in accordance with the regulations of the Gas Act – the provisions in connection with ensuring the natural gas sources for the consumers entitled to universal service. These provisions determine that the universal suppliers have to dispose of what kind of natural gas sources to secure the safe supply of the consumers.

The Universal Service Code is a separate annex of the enforcement decree of the Gas Act by itself, which contains the detailed rules of the relation between the consumer entitled to universal service and universal supplier supplying services (determined in the Article 35 of the Gas Act) for him. It also contains the obligatory formal and the contextual requirements of the universal service contract emerging between the universal supplier and the consumer.

The consumers not entitled to universal service have to organize their supply or contract with a trader on their own.

HEO, on the basis of Section (1) of Article 140 of the Gas Act, has issued 46 new operational licenses effective since 1 July 2009, in accordance with the change of the legal background. More precisely, 2 new pipelined LPG gas, 1 new natural gas

transmission, 2 new natural gas storage, 29 new natural gas trade, 11 new natural gas distribution, and 1 new universal service licenses were issued.

Existing licenses were modified in 39 cases, and 5 licenses were withdrawn in 2009. HEO issued resolution approving the establishment of direct pipelines in two cases. The resolutions issued by HEO enabled the operation of six additional competitive natural gas traders, which meant that the number of natural gas trade licensees increased to 31 in 2009.

Due to the model switch the types of activities subject to license changed compared to the previous period. The new types of activities subject to license are the universal service and the one-stop-shop capacity sales.

License types that discontinued in 2009 are the following:

- public utility wholesale license
- public utility service license
- operational license for access to cross-border transmission pipelines of natural gas

New activities subject to license are the following:

- universal service
- one-stop-shop capacity selling

Universal service is a new institution on the domestic natural gas market with the main task to provide a special supply for small customers. Residential customers and other users having contracted capacities not exceeding 20 m^3/hour capacities are entitled for universal service. In a transition period the users who have license for district heat production determined in a separate law (till 30 June 2011) and the users whose consumption exceed 20 m^3/hour but do not reach 100 m^3/hour (till 30 June 2010) are entitled for universal service too.

The Gas Act allows the issuance of new licenses for one-stop-shop capacity selling. The demand of enhancing the security of supply makes it necessary to build a new transmission pipeline crossing several countries. The new license specified in the Gas Act aims to facilitate the management of the applications for the construction of international pipelines operating on the basis of one-stop-shop principle by the adequate modification of the regulatory environment. The one-stop-shop principle ensures significant comfort for shippers and traders because they have to contact and contract with only one company independently from how many countries they wish to cross with their transport.

HEO has not yet issued a one-stop-shop capacity selling license in 2009, but it has in its resolution obliged the investor and future operator of the NABUCCO pipeline – NABUCCO Gas Pipeline International GmbH – to apply for the license in the future.

2.1.2. Allocation of cross-border capacities and congestion management

Capacities of cross-border interconnection points are the following:

- Western entry point – Mosonmagyaróvár: 13.1 million m^3/day

- Eastern entry point - Beregdaróc: 42 million m^3/day (until 30 June 2009), then 72 million m^3/day (from 1 July)

Gas turnover of the cross-border interconnection points:

- Mosonmagyaróvár: 5.7 million m^3/day import gas on average, for domestic use;
- Beregdaróc: 21 million m^3/day import gas for domestic use + 12 million m^3/day transit towards Serbia and Bosnia and Herzegovina.

The major part of cross-border capacities have been allocated by long term contracts.

Long term natural gas import contracts and their duration:

Panrusgas	9000	million m^3/year	until 2015
E.On Ruhrgas	500	million m^3/year	until 2015
Bothli Trade AG	900	million m^3/year	until 2014
Gaz de France	600	million m^3/year	until 2012

The long term transit contract concluded with Serbia, which includes a 12 million m^3/day continuously contracted pipeline capacity, will expire in 2012. There are contracted congestions on the Eastern, Beregdaróc cross-border point. . By 1 July 2009, the new pipeline development project of the transmission licensee had been finished, which had practically doubled the import capacity from the Eastern direction. In the course of the construction works in 2008, a new pipeline of 1000 mm diameter from Beregdaróc to the compressor station was built, which extends the Eastern entry capacity by 30 million m^3/day. In addition to the dissolution of the aforementioned congestions, the primary aim of the pipeline is to ensure the possibility of filling up the strategic natural gas storage being built in Szőreg-I level of the Algyő gas field. As a result of another development of the transmission licensee FGSZ Földgázszállító Zrt., another pipeline was built in 2009 towards Romania. The Hungarian side of the Szeged-Arad pipeline is already completed, it will feature a 700-mm-diameter pipeline with a two-directional gas transmission capacity of 12.1 million m^3/day.

2.1.3. Regulation of the responsibilities of transmission and distribution companies

The high-pressure transmission pipeline system is operated by a single company (FGSZ Földgázszállító Zrt.). FGSZ has two operational licenses issued by HEO: a natural gas transmission license and a system operation license. The Gas Act defines the general rules on natural gas transmission activities, and lists in details the conditions of issuing a license for natural gas transmission. The most important task of a natural gas transmission company – in addition to natural gas transmission – is the daily balancing. The activities related to the provision of balancing gas are not considered natural gas trading by the law. The transmission company, for fulfilling its responsibilities, operates an information system that provides an internet-based data traffic necessary for the hydraulic balance of the natural gas system.

The Gas Act introduces and regulates the daily natural gas and capacity trade. The objective of that regulation is to ensure that the commercial transactions necessary for the maintenance of the daily balance-keeping of the natural gas system are market-based. Compared to the previous regulation, it provides a more detailed regulatory guidance with regard to the capacity allocation in the natural gas system and to the access to the system, the rules of which are detailed in the enforcement decree of the Gas Act.

Eligible customers are entitled for the transmission, storage or cross-border transmission capacity contracted in their public utility contract even after the public utility contract itself is terminated. This capacity is not regarded as a new demand for capacity contracting. The right of capacity and the right of connection are fixed to the point of consumption after the public utility segment ceased.

Natural gas distribution systems are operated by 10 regional distribution companies. The Gas Act specifies the general rules on the natural gas distribution activity including the conditions of license issuing, the obligation of a distributor to cooperate in the interest of the development and operation of the cooperating natural gas system, and it also lists in details the cases when the distributor may refuse the connection of any consumer, or the start of natural gas distribution activity or the continuing of supply for a consumer already connected. Natural gas distributors have to register the consumption places withdrawing natural gas from distribution pipelines as well as their typical and prescribed data and deliver this information on request to the user withdrawing natural gas at the consumption place or to his trader. The detailed rules of natural gas distribution services are included in the Natural Gas Distribution Code constituting one of the annexes of the enforcement decree of the Gas Act.

HEO, in the approval resolution 871/2008 of October 2008, did not only prescribe modifications regarding the Network and Commercial Code (hereinafter ÜKSZ – Üzemi és Kereskedelmi Szabályzat) concerning the technical operation of the natural gas system and the trade process, as submitted in May 2008, but also imposed a fine on the system operator. The resolution imposing the fine was contested by the system operator at the court, but it soon withdrew the lawsuit and submitted the new, modified version of the ÜKSZ in December 2008. The new approval procedure was conducted taking into consideration that a completely new ÜKSZ will be necessary after 1 July 2009 due to the change of the relevant legislation, which needs to be prepared soon after the coming into force of the enforcement decree of the Gas Act. Resolution 127/2009 of HEO ordered a modification of the rules concerning the profile-based settlement system, and the calculation method of the capacity transfer in connection with switching traders, and the price of the balancing gas, allowing for the possibility to submit the modified rules as part of the new ÜKSZ.

The new ÜKSZ was submitted on 30 April 2009. HEO has approved the ÜKSZ, but in spite of negotiations with the system operator during the approval process, resolution 432/2009 of HEO prescribed 351 different modifications, corrections, amendments, 197 of which were significant ones. The rules of capacity booking, supplier switching and isolated operation were especially disputed. The resolution in some cases ordered the review of entire chapters. A frequent problem was that the procedures of the various system operators (transmission, storage and distribution) were not harmonized, which would have resulted in insolvable problems at the connection points of the systems. The

modified ÜKSZ was submitted by the system operator on 18 September. The approval procedure was in progress until 2010. The shortages found by HEO show that the most problems for licensees arise from the handling of isolated operation, the interpretation and application of the system of registered capacities, and the elaboration of the different detailed rules of the profile-based settlement, however, the harmonization of procedures of the different systems could not be entirely fulfilled either.

The problems of the preparation of ÜKSZ lies in the fact that rules and regulations were significantly modified without having enough time to discuss and accept the new notions and concepts, and the application method of these could not be streamlined, while as a consequence of the new regulation, the tasks of licensees have significantly changed, they increased in number, and lawmaking did not even reach a stable state.

2.1.4. Unbundling of activities

The accounting unbundling in accordance with the Gas Act is compulsory for all natural gas undertakings, no exemption can be granted. If the activities of natural gas transmission, distribution and storage are performed by a vertically integrated natural gas undertaking, the activities subject to license have to be performed in organizations and through decision making procedures that are separated from the directly not related other activities, legally unbundled and independent from organizational and decision making viewpoints, except for

a) the natural gas transmission company with system operation license,

b) natural gas trader companies supplying less than 100 000 consumers,

c) Pipelined LPG suppliers.

FGSZ Földgázszállító Zrt. is a legally unbundled company of MOL Nyrt. According to Article 6 of the enforcement decree of the Gas Act, the transmission activity has to be performed in a separate organizational unit and with an independent decision making process. The senior managers of the system operator may not take part in other natural gas activities (subject to license) either directly or indirectly. With regard to the flow of information, the system operator has to perform its natural gas activities in the same way in the case of parties belonging to the same ownership structure as in the case of other actors of the market. The natural gas transmission company is also physically (headquarters, office building) separated from all other business organizations performing natural gas activities.

Five out of the ten natural gas distribution licensees are major regional companies with more than 100 000 consumers. In accordance with the provisions of the Gas Directive 55/2003/EC, the five large public utility suppliers and natural gas distribution companies already completed legal unbundling in 2007. Accordingly, they perform the natural gas distribution and public utility supply activities in separate companies. The public utility wholesale activity was performed by E.ON Földgáz Trade Zrt. until 30 June 2009, which is a vertically integrated firm of E.ON Ruhrgas International GmbH, even though it operates in a fully separated way from the gas storage licensee E.ON Földgáz Storage Zrt.

Public utility segment ceased from 1 July 2009. E.ON KÖGÁZ Zrt. and E.ON DDGÁZ Zrt. performing the distribution of natural gas are also legally unbundled companies.

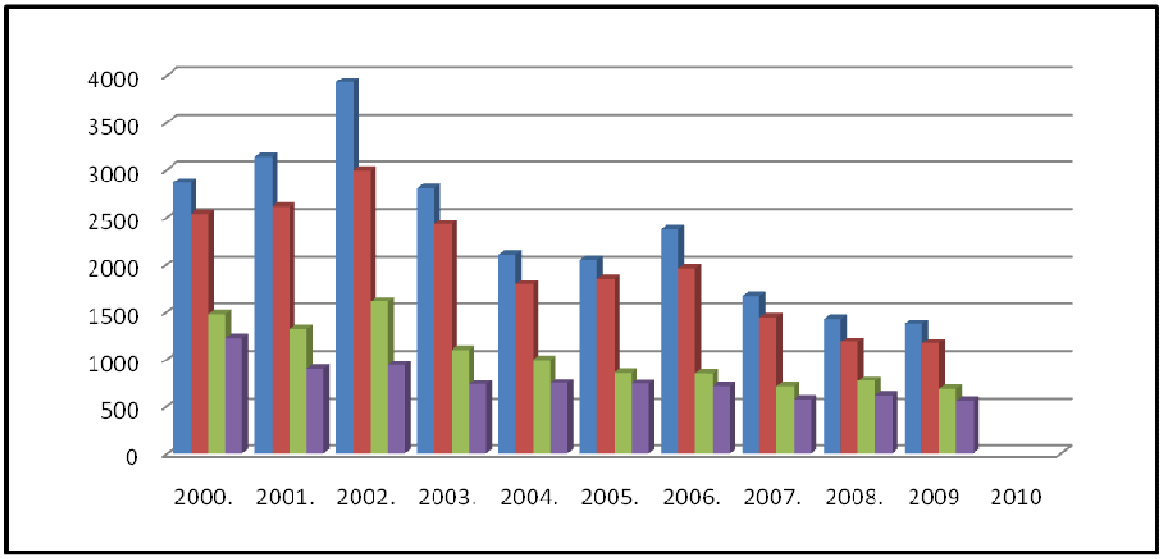
2.1.5. Quality of supply

Customers expect continuous supply, i.e. a uninterrupted availability of natural gas. Certainly, the pipelined gas supply is accompanied by various, accidentally occurring or planned, or otherwise caused outages. Outages can be caused by breakdowns or other reasons, e.g. maintenance, reconstruction works, etc. Some of the reasons are directly related to the supplier, others in turn are independent from him. The quality of the physical process of pipelined natural gas supply can be assessed and demonstrated by the reason, time and duration of outages.

The development of the number of outages is shown in ***Figure 4*** based on the data of ***Table 10***. The Figure shows that customers were hit by the outages to an increasing-decreasing extent. The proportion and absolute number of the outages where the suppliers were directly responsible increased in the first half of the period, and then it continuously decreased. The Figure is also indicating the frequency of the breakdowns causing outages, which is constantly lower than the total frequency of outages.

Table 10. Number of events causing outages in natural gas supply
(pcs/year)

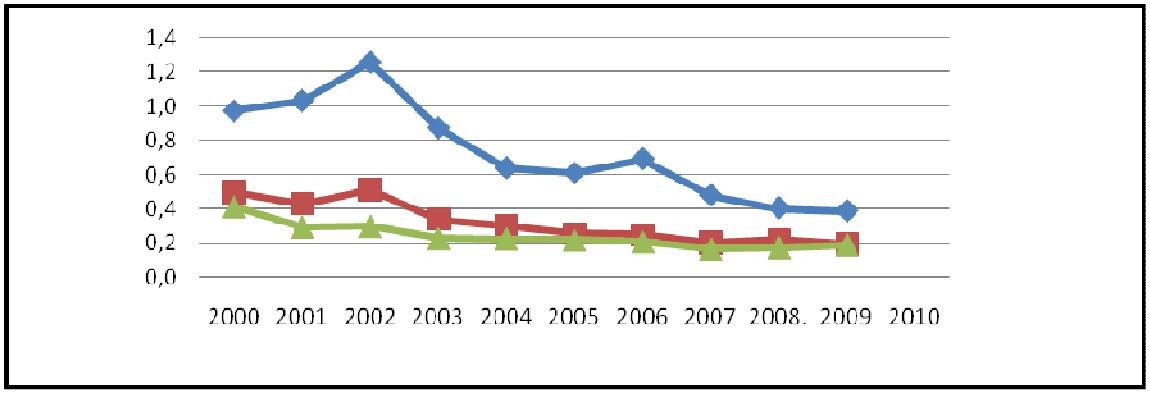
Description/year	2000.	2001.	2002.	2003.	2004.	2005.	2006.	2007.	2008.	2009
Number of events causing outage	2862	3138	3924	2802	2103	2049	2368	1666	1424	1368
Within which: outages due to breakdown	2532	2604	2988	2424	1786	1848	1953	1440	1178	1164
Number of outages with direct responsibility of the suppliers	1473	1312	1607	1090	989	853	847	705	766	680
Within which: breakdowns with direct responsibility of the suppliers	1222	894	933	731	743	738	707	574	614	560



Blue: Number of events causing outage
Red: within which: outages due to breakdown
Green: Number of outages with direct responsibility of the suppliers
Purple: within which: breakdowns with direct responsibility of the suppliers

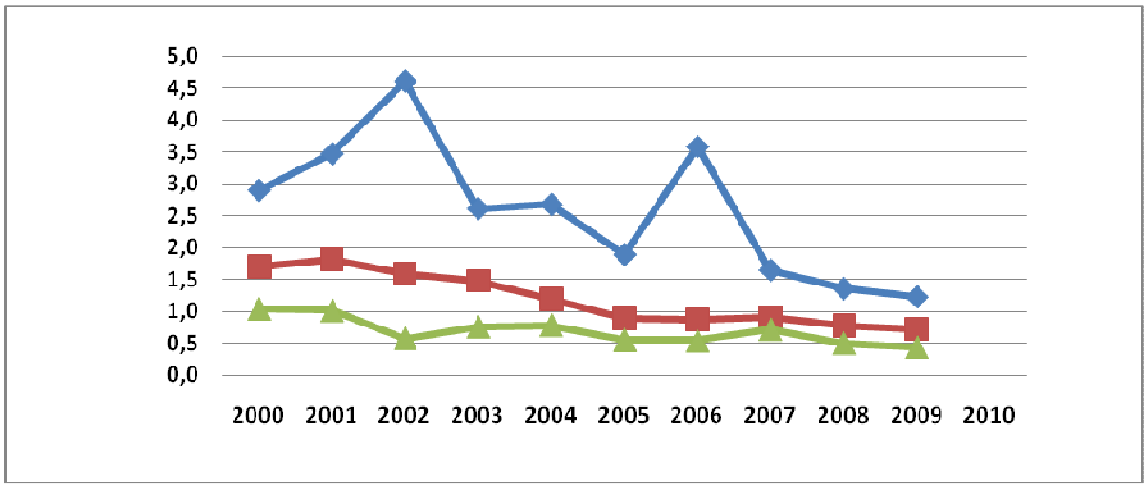
4. Figure Quantitative data of the events causing outages (pcs/year)

The physical process of the pipelined natural gas supply can be assessed using the specific indicators calculated as the number of events and the duration of consequent outages per 1000 consumers. ***Figures 5 and 6*** demonstrate the country-level frequency and duration when the customers were without supply. The specific number and duration of outages for the total of outages is fluctuating in the observed period, while the events with direct responsibility of the suppliers have a smaller proportion and show a continuous improvement.



Blue: total outages
Red: outages with direct responsibility of the supplier
Green: outages with direct responsibility of the supplier, due to breakdowns

5. Figure Number of the events causing natural gas outages per 1000 consumers (pcs/1000 consumers/year)



Blue: total outages
Red: outages with direct responsibility of the supplier
Green: outages with direct responsibility of the supplier, due to breakdowns

6. Figure Duration of the events causing natural gas outages per 1000 consumers (hours/1000 consumers/year)

2.2. Competition

2.2.1. Wholesale market

The data in the below table summarizes the natural gas consumption of the country in 2009, and the composition and percentage of the sources for 2009 [billion m^3/year].

Table 11 Sources and composition of the natural gas consumption of the country in 2009

	billion m^3	**%**
Natural Gas Consumption of the Country	11.115	100
Domestic Production	3.090	27.8
Import	8.025	72.2
-from Eastern direction	6.064	54.6
- from Western direction	1.961	17.6

The import sources of natural gas are primarily of Russian origin; even the natural gas received from the Austrian Baumgarten through the HAG pipeline and bought from E.ON Ruhrgas has Russian molecular origin.

The natural gas consumption of the country significantly decreased from 14 billion m^3 in 2008, by 3 billion m^3. The proportions of the natural gas sources significantly changed in 2009 compared to 2008 and the previous years. The volume of domestic production – after two decades of declining – increased by 17% in 2009 to over 3 billion m^3, thank to the production from Hajdúnánás field newly discovered by Magyar Horizont Kft who newly entered the market in August. Accordingly, the domestic/import ratio which was characteristically at 20/80% in the past years, also changed significantly, to 28-72%.

The import from the East decreased from 9 billion m^3 in the year 2008 to 3 billion m^3, which is mainly resulted from the consumption cut resulting from the economic crisis, and from the alternative fuel consumption of residential customers.

The number of registered eligible customers entering the competitive market rose to 9782 in 2009 (2527 non-household, and 7255 household customers).

The Resolution of the Commission of the European Union, DG Competition of 21 December 2005 (Case No COMP/M.3696-E.ON/MOL) approved the 100% acquisition of MOL Földgázellátó Rt and in MOL Földgáztároló Rt by E.ON Ruhrgas International AG as subject of specific conditions. One of the key conditions is the implementation of Gas Release Program, which mean that E.on Ruhrgas AG is obliged to offer an annual amount of 1 billion m^3 natural gas for sale in the natural gas market, for a period of 8 years (2006-2013). The program is to be implemented in the form of auctions during the given years, where the annual 1 billion m^3 quantity must be divided into the following sales units:

- 5 lots of 100 million m³ units,
- 5 lots of 50 million m³ units,
- 10 lots of 25 million m³ units.

The affiliates of E.ON cannot either directly or indirectly take part in the auctions.

The winners of the auctions may conclude contracts with ERI under the following terms and conditions:

- The contracted amount of gas will be transported in two years, in two equal parts, through the import entry points – Beregdaróc 80%, Mosonmagyaróvár 20%.
- The supply contracts will provide the same level of flexibility as the upstream contracts of MOL Földgázellátó Rt.

The auctions are carried out by an international information technology service provider.

E.ON Földgáz Trade Zrt. held its fourth natural gas auction in March 2009, in accordance with the relevant rules.

The most important one of the provisions of the Gas Act facilitating competition is the reinforcement of the market environment; on the basis of that, HEO started its investigation procedure in 2008 (on 30 October 2008) concerning significant market power. If the investigation of HEO states the imperfection of the market competition and the presence of significant market power, HEO can oblige the affected licensees to the execution of the obligations defined in the Act. In the course of the procedures of designating licensees having significant market power and of imposing obligations on them, HEO cooperates with the Competition Authority, and takes into consideration its professional opinion.

2.2.2. Retail market

The enforcement decree of the Gas Act separately provides detailed rules for switching traders, the essence of which is that the customer or the new natural gas trader charged by him can abrogate the commercial contract or the public utility contract – unless agreed in the opposite – by the first day of the second month following the notification. The customer may charge the new natural gas trader with arranging the procedure of trader switching. The notice period cannot be less than 30 days.

A new element of the Gas Act is the revisiting of the gas sales on gas-days, in the framework of which the Act introduces and regulates the daily natural gas and capacity trading. The purpose of this provision is to promote that the transactions necessary for the daily balance-keeping of the natural gas system are market-based.

In the retail market there was a significant change in 2009, as the public utility segment ceased from 1 July, and the public utility supply was replaced by universal service. In accordance with Section (1) of Article of the Gas Act, public utility supply licensees submitted to HEO their applications for universal service license by 30 November 2008. On the basis of the applications, HEO issued 9 new licenses for universal service until 31 January 2009. The majority of household customers did not switch suppliers, they remained with regional universal service providers. Therefore competition is not yet prevailing in the retail market, the position of market actors do not reflect a competitive situation with regard to the supply of all consumers groups, but rather reflects traditional regional distribution, the situation before market opening.

2.3. Security of supply

Table 12 Maximum technical capacity of the domestic natural gas system as of 31 December 2009
[million m^3/day]

Domestic production	10.5
Import (Western direction)	13.1
Import (Eastern direction)	60.0

Commercial gas storage	55.1
Security gas storage	20.0
TOTAL	158.7*

(* in the case of a -15 C^o daily average temperature the technical capacity ensures the continuous gas supply of the country)

The highest-ever natural gas consumption of the country, 89.5 million m^3/day, was measured on 9 February 2005. Comparing that to the above data, it can be seen that the capacity of the domestic natural gas system is much higher than this value, the technical background of the security of supply is appropriate.

The new Gas Act defines a gradual handling of the disturbances occurring in the natural gas system. In the case of small breakdowns, licensees shall take measures by themselves. In the case of critical situations when the majority of the customers should be affected by interruption – e.g. in the case of a significant outage of imports – it is the Government who can order emergency measures.

2.3.1. Natural Gas Transmission

From the point of view of security of supply, it is important that the repair and replacement of the malfunctioning pipeline sections discovered in 2009 during the pipeline and structure reconstruction works improving the availability and the security of the transmission capacity, and during the in-line intelligent pig inspection was completed.

The dispatch centre of natural gas system operator and the dispatch service of the MAVIR Zrt. are maintaining a continuous operative connection. MAVIR Zrt informs the natural gas system operator before the beginning of each gas days on the expected size of power plant consumption. If a significant power plant upload is expected within a given gas day, MAVIR Zrt. indicates its expected size, which allows the natural gas dispatch center to regulate the mode of the connecting pipelines accordingly. If there is any change in the operation of the natural gas transmission system that affects the operation of power plants generating electricity, than the dispatch center will warn immediately MAVIR Zrt. about this event.

2.3.2. Strategic natural gas storage

In line with the provisions of Article 3 and 4 of Directive 2004/67/EC, Hungary has also put the issue of security gas storage in the foreground. Act XXVI of 2006 on the security storage of natural gas prescribes the storage of 1.2 billion m^3 gas, and the construction of an underground storage required for that by 2010. The natural gas security storage must be placed in a UGS facility that has a daily withdrawal capacity of 20 million m^3 for at least 45 days. The security storage of natural gas prescribed by the Act exclusively serves the secure supply of natural gas to household and communal customers.

Until 31 December 2009, the spare capacity of the present natural gas storage facilities determined the degree of the security storage, which – if an adequate quantity of spare capacity is available – could not be less than

a) 150 million m^3 from 1 October 2006 to 30 September 2007,

b) 300 million m^3 from 1 October 2007 to 31 December 2009.

If this capacity cannot be secured from the remaining, free storages it can be replaced by the adequate quantity of petrol products, to be accurate this means heating oil. According to the above mentioned the Hungarian Hydrocarbon Stockpiling Association injected 200 million m^3 natural gas as security storage in the Zsana underground gas storage facility of the E.ON Földgáz Storage Zrt and 100 million m^3 in the Szőreg-I underground safety gas storage facility of the MMBF.

The Hungarian Hydrocarbon Stockpiling Association has announced a call for tender for the construction of the security storage facility, which was awarded to MOL Nyrt. The Hungarian Hydrocarbon Stockpiling Association and MOL Nyrt established MMBF Zrt for the tasks of investment and operation of the security storage facility. Construction started in 2007 at the Szőreg-I layer of the Algyő gas-field. The project was continued in 2008-2009 by drilling 44 new double-function wells (withdrawal-injection). The investment progressed according to the plan, and from 1 October 2009, when the compressor-technology was ready, the operative injection started, and by the end of the year the prescribed 1.2 billion m^3 natural gas has been put in the storage.

2.3.3. Commercial natural gas storage

Table 13 Capacities of the underground gas storage facilities of E.ON Földgáz Storage Zrt. at the end of 2009

Name of the underground gas storage facility	Maximum storable working gas stockpile (million m^3)	Injection capacity (million m^3/nap)	Withdrawal capacity (million m^3/nap)
HAJDÚSZOBOSZLÓ	1440	11.50	20.8
KARDOSKÚT	280	2.35	3.2
PUSZTAEDERICS	340	2.90	3.1
ZSANA	2170	17.00	28.0
Total:	4230	33.75	55.1

E.ON Földgáz Storage Zrt. finished the investment of phase IV of Zsana underground gas storage on 1 December 2009, in the framework of which working gas capacity was increased by 600 million m^3, and the exploitation capacity rose by 4 million m^3 per day, thereby creating the largest gas storage facility not only in Hungary, but in the entire Central Eastern European region. During the year 2009, the Maros-I gas storage facility was intruded by water, therefore the gas storage activity was discontinued there. The capacity lost was compensated by the Zsana development.

From the point of view of security of supply it is important that more than half of the country-level daily peak demand can be covered from storage.

2.3.3.1. Determination of natural gas restriction order

HEO determined a restriction order for the case of supply disturbances back at the end of September 2008, which ensures the continuity of gas supply to certain circles of customers. Currently, HEO ranks into the category of primarily restrictable customers all the gas fuelled power plant units that are able to switch to alternative fuelling, for which the law requires to keep a liquid fuel stock sufficient to ensure a 16-day continuous operation. Unfortunately, restriction was needed to be put in place right in January 2009 as detailed in the next subsection.

The restrictive provisions of the enforcement decree of the Gas Act have partly taken into account the experience of the January gas crisis. By the end of August a new restriction classification was prepared for the years 2009/2010, which listed more categories than previously and this was approved – after the modifications requested by HEO were made – by resolution 591/2009 of HEO on 15 October. Due to customer complaints, the classification of two users had to be modified ex officio at the end of November.

2.3.3.2. Handling of the gas crisis of January 2009

As a result of the Russian-Ukrainian gas debate, the import gas transmission from Eastern direction decreased to one third by 6 January, and it fully stopped by 7 January. In the evening of 6 January, the system operation licensee ordered – in accordance with the enforcement decree of the Gas Act – the restriction of the first category (large customers above 2500 m^3/hour consumption), which was followed by the restriction of category II (customers between 500-2500 m^3/hour) on 7 January. On 7 January – on the basis of GKM Decree 75/2007 (17.08) – the Natural Gas Crisis Committee convened a meeting, and coordinated the necessary measures on the following days. E.ON Földgáz Storage Zrt. increased the withdrawal from the gas storage facilities from 6 January to the maximum. The restriction of category II was removed after one day, the large customers of category I. (primarily the gas-combustion power plants) remained under restriction until 15 January. MOL Nyrt. also increased the production of the domestic natural gas fields to the maximum available level. KHEM Decree 1/2009 (07.01) on the authorization of the use of the security natural gas reserve was issued, but in the end there was no need to use it. After 2 days of reduced operation (2 million m^3/day) on 8 January, thank to the measures taken by E.ON International GmbH, the level of the import from the Western

direction increased (8-9 million m^3/day) out of which the Hungarian Government was able to help out Serbia, who was undergoing an absolute crisis. Finally, on 20 January the Eastern import gas transmission started, and on 21 January it already operated at full capacity.

As a summary, the outage of gas import affected Hungary the least compared to the surrounding countries, thanks partially to the extent of the established gas storage capacity, to the adequate winter preparations, and to the fair cooperation of the affected organizations.

On the basis of the experience of the January gas supply crisis and Directive 2004/67/EC, Government Decree 265/2009 (1.12) was issued on the restrictions of natural gas off take, the use of the natural gas safety reserve, and the measures necessary in the case of a natural gas crisis.

2.4. Price preparation, price regulation

With regard to price regulation, 2009 brought a significant change. GKM Decree 105/2005 (12.19) on the frameworks of price regulation of natural gas served as a basis for system use charges and the public utility end user charges until 30 June 2009. After the model switch in natural gas market in July 2009, the above decree only provides for the price regulation of the system use charges till 31 December 2009.

On 1 July 2009, public utility supply ended, and the group of customers supplied in the framework of universal service was reduced compared to public utility customers. On 1 July 2009, KHEM Decree 28/2009 (25.06) on the setting of prices in connection with the natural gas universal service came into force.

2.4.1. Characteristics of the price system and price regulation from 1 January 2009 to 30 June 2009

GKM Decree 105/2005 (19.12) on the frameworks of natural gas price regulation ordered the application of a regular price adjustment for 1 January and 1 April on the basis of the factors affecting the purchase costs of natural gas.

The resale charges (resale capacity charge and resale gas charge) serving as the basis for the settlement between the wholesaler and the public utility service provider have not changed in the first half of 2009. With the model switch, the public utility wholesaler status has ceased to exist since 1 July 2009.

2.4.2. Characteristics of the price system and price regulation from 1 July 2009 to 31 December 2009

After the model switch of 1 July 2009, the price preparation activity of HEO is focused on the system use charges. In the new model, universal service providers replacing public utility service providers supply customers under 100 m^3/h as well as district heat generation licensees who have not entered the competitive market. HEO in resolution decides about the charges to be applied by universal service providers – on the basis of pricing requests of licensees (once each quarter).

GKM Decree 70/2003 (28.10) on the setting of natural gas system use charges was amended in January and April 2009, and subsequently it was repealed by KHEM Decree 31/2009 (25. 06) on the setting of natural gas system use charges, which came into force on 1 July 2009 (hereinafter system use decree), the October modification of which contains the change of distribution charges.

The changes of system use charges in 2009 are summarized by ***Tables 14, 15, and 16.***

Table 14 Change of the transmission charges in 2009

Transmission charges	**01.07.2008**	**01.07.2009**	**Change**
Entrance charge {HUF/(m^3/h)/year}	8373	9932	19 %
Exit charge {HUF/(m^3/h)/year}	2455	2231	-9 %
Volume charge (HUF/m^3)	1.165	0.833	-29 %
Average price (HUF/ m^3)	3.702	4.01	8 %

On the basis of the proposal of HEO, in order to promote the use of storage (to lessen the dependence on imports) and to handle the different flexibility of domestic and import feed-in points, varying entrance charges were introduced for each entry point from July 2009. The reason for the increase of the entrance charge was the acknowledged justified costs of the investments carried out by the transmission company. The significant decrease in the transmission volume charge was justified by the change (decrease) of the purchase price of gas.

Table 15 Change of the storage charges in 2009

Storage charge	**2008. 07. 01.**	**2009. 07. 01.**	**Change**
Injection charge (HUF/m^3)	1.369	0.78	-43 %
Withdrawal charge (HUF/m^3)	0.439	0.119	-73 %

Storage working gas charge (coefficient)	4.93	5.32	8 %
Storage peak charge (coefficient)	219.81	230.26	5 %
Average price (HUF/m^3)	2.815	2.799	-1 %

The decrease of the quantity-based (HUF/m^3) charges on 1 July was partially allowed by the decrease of the purchase price of gas, and partially by the transfer of the capital cost element to the peak charge. Accordingly, working gas and peak charges increased.

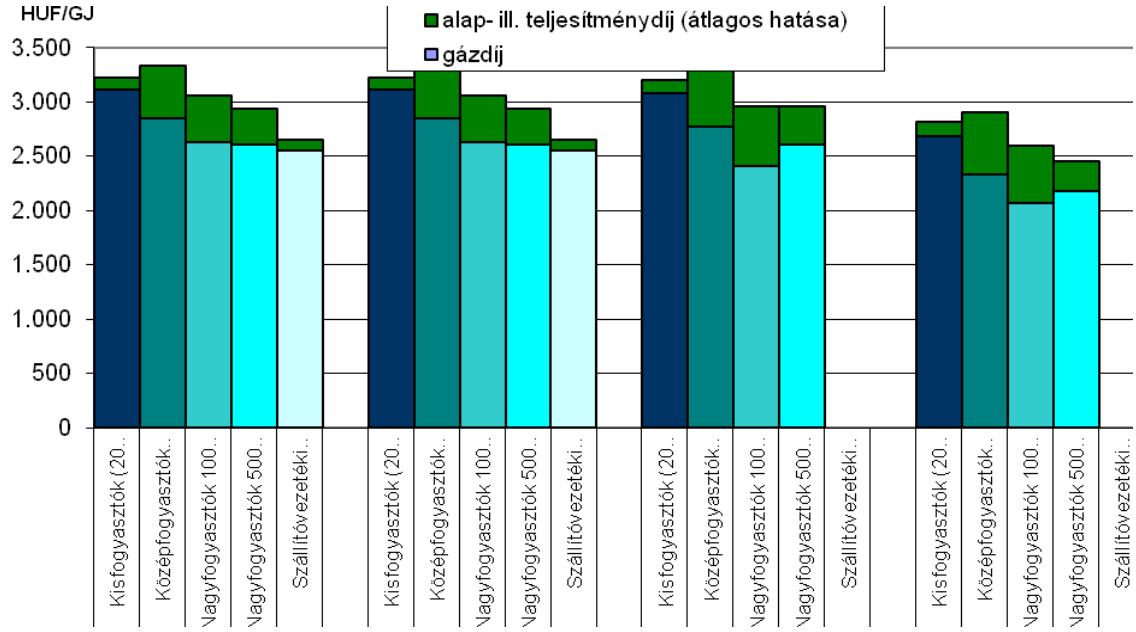
Table 16 Change of the distribution charges in 2009

Distribution charges	**Base charge (HUF/year) or Capacity charge (HUF/m^3/h/year)**			**Lump sum charge (HUF/m^3) or volume charge(HUF/m^3)**		
	01.10.2008	**01.10.2009**	**Change**	**01.10.2008**	**01.10.2009**	**Change**
Customers without gas-meter	0	0	-	11.390	12.078	6 %
Customers with a meter of less than 20 m^3/h nominal capacity	5940	6828	14.9%	7.65	7.584	-0.9 %
Customers with a meter of 20-100 m^3/h (total) nominal capacity	8592	9900	15.2%	7.1	5.804	-18.3 %
Customers with 101-500 m^3/h booked capacity	11892	12912	8.6%	3.78	0.812	-78.5 %
Customers over 500 m^3/h booked capacity	11892	11892	0.0%	0.53	0.845	59.4 %

In contrast to transmission and storage charges, distribution charges could change quarterly. The above table compares the level of 1 October 2009 with that of 1 October 2008.

In the case of customers with no metering equipment, the distribution lump sum charge is paid according to the type of flat. The reasons for the increase of distribution charge is the additional cost acknowledged on the basis of the request of the natural gas distribution licensee TIGÁZ-DSO on price revision and the ex-post correction of the so-called temperature-adjusted quantity taken into account in the calculation of charges, which was based on the calculations of an independent expert.

In 2009, public utility and universal service end-user charges exhibited the development shown in ***Figure 7***.



Four periods: From 1 January 2009/ From 1 April 2009/ From 1 July 2009 / From 1 October 2009

Bar categories:
Small Consumers (less than 20 m^3/h)
Medium Consumers (20-100 m^3/h)
Large Consumers (with a gas meter of 101-500 m^3/h)
Large Consumers (with a gas meter of over 500 m^3/h)
Large Consumers connected to transmission pipelines

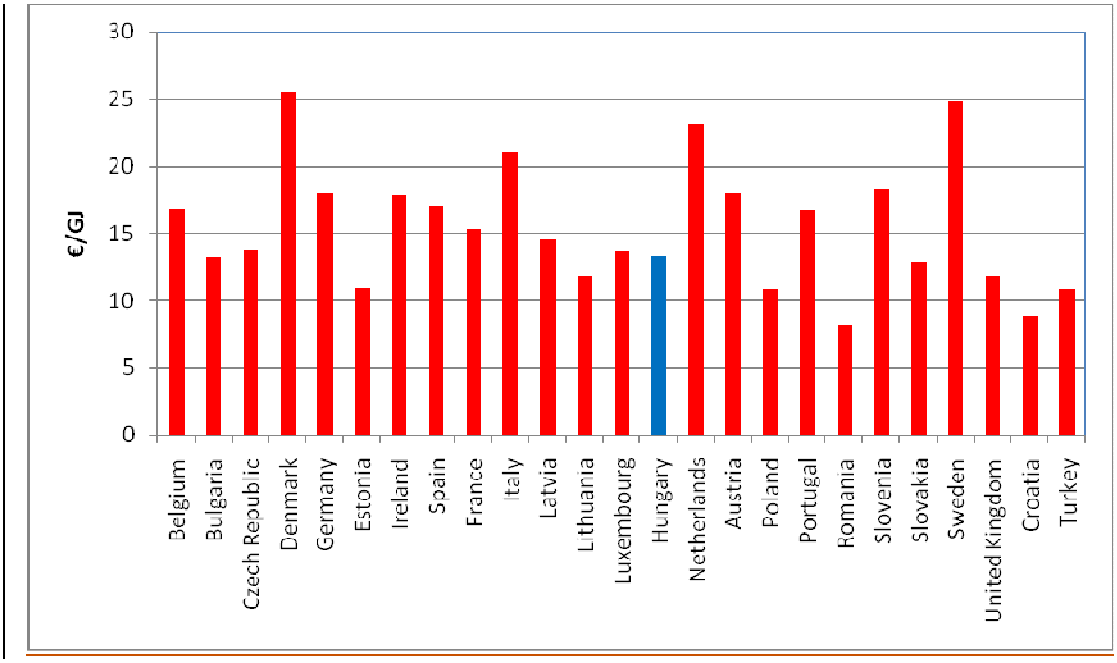
Figure 7 Quarterly development of the public utility (until 30 June) and the universal service provider (from 1 July) end user prices in 2009 (not including VAT)

The base charge increased by 15% for small and medium customers, the capacity charge remained unchanged for categories over a contracted capacity of 100 m^3/h during the year. The customers of the first two categories paid a base charge lower than the justified amount, therefore the increase was necessary. The gas charge decreased during the year in all customer categories. The decrease was 14% for small customers, 18% for medium customers, 22% for customers with a contracted capacity of 100 to 500 m^3/h, and 16% for customers with a contracted capacity of over 500 m^3/h.

Public utility end user prices and the universal service average prices decreased by 8.7% by the end of the year compared to January 2009. The price and their changes in quarterly breakdown are shown in ***Table 17***.

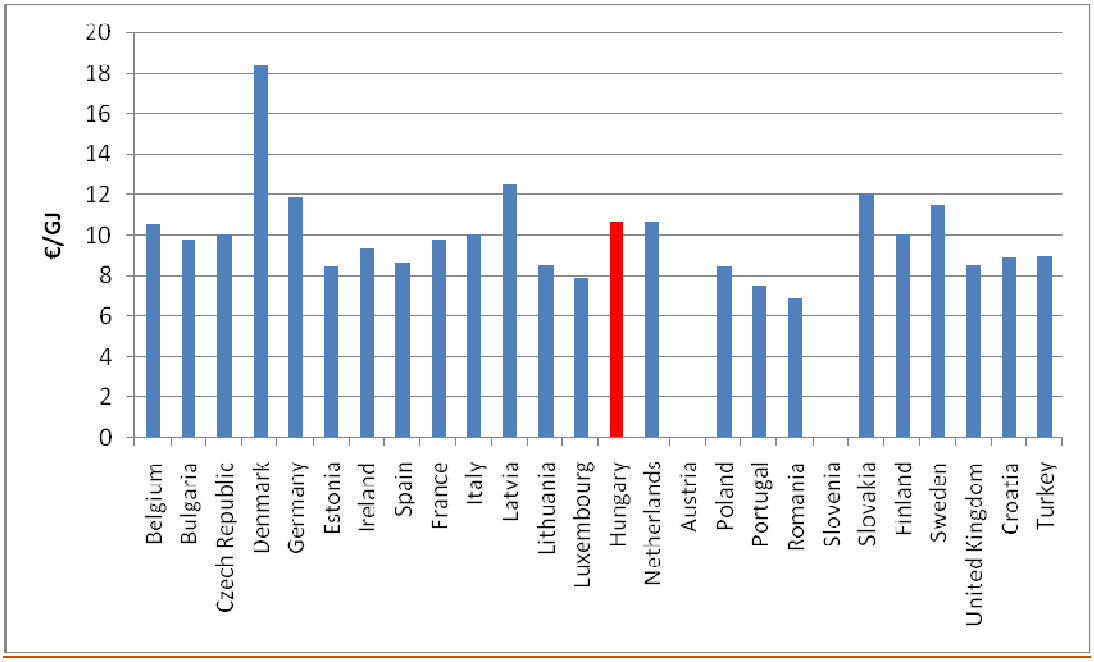
Table 17 Quarterly public utility end user prices (until 30 June) and universal service (from 1 July) average prices in 2009

	From 1 January	From 1 April	From 1 July	From 1 October
Public utility end user average prices not including VAT (HUF/GJ)	3082	3082	3200	2814
Change compared to the previous period	0 %	0 %	3.8 %	-12.1 %



Source: EUROSTAT

Figure 8 Comparison of natural gas tariffs to be paid by residential consumers with annual consumption of 20 – 200 GJ in the EU27 (first half of 2009)



Source: EUROSTAT

Figure 9 Comparison of natural gas tariffs to be paid by non-residential consumers with annual consumption of 100 000 – 1 000 000 GJ in the EU27 (first half of 2009)

2.4.3. Works in relation with price regulation, price preparation

The preparation of the universal service prices and system use charges that entered into force on 1 January 2010 took place in 2009 on the basis of a cost-review.

2.4.3.1. Profit cap and profit reimbursement

In the case of FGSZ Földgázszállító Zrt., the acknowledged costs of natural gas and the real costs are significantly different; an additional 3 billion HUF should have been taken into account during the determination of the July 2009 charges. However, the operational profit of the transmission company exceeded its cost of capital, i.e. the additional costs were covered by the revenues. Therefore, HEO did not consider justified the inclusion of the almost 3 billion cost surplus at the price modification of July 2009.

With regard to E.ON Földgáz Storage Zrt. the profit to be reimbursed to customers was 251.8 billion HUF. This amount was taken into account as a reduction during the determination of the July charges by decreasing the different charges to the proportion of the justified turnover amount, (The profit cap calculation defined by the price regulation decree was made in accordance with the Gas Act, i.e. only the profit of the public utility storage activities of the company was subject to investigation.)

2.4.3.2. Consideration of requests on price reviews

In 2009, one price reviewing claim was received by HEO from TIGÁZ-DSO natural gas distribution licensee, which related to the justified cost of their gas-meter replacement program. From the costs included in the claim (HUF 376.4 million) HEO acknowledged HUF 317.4 million for low value assets and HUF 14.3 million depreciation for assets valued over HUF 50 000. For the assets valued over HUF 50 000 HUF 9.5 million additional capital cost was also acknowledged. This corresponded to total acknowledged additional costs of HUF 341 million.

2.5. Public service obligation, consumer protection

2.5.1. Approval of codes

The publication of the new Gas Act was followed by the issuance of the enforcement decree in 2009. The Business Conduct Rules of licensees largely rely on the detailed rules formulated in the enforcement decree; therefore it was inevitable for licensees to prepare new Business Conduct Rules after these detailed rules were published, and also for HEO to carry out approval procedures regarding the new codes. As a result, HEO accepted and approved 15 new Business Conduct Rules in 2009.

2.5.2. Service quality

With regard to the resolution of HEO issued for the distribution licensees on 1 January 2004 and amended in April 2005, concerning the 'determination of the minimum quality requirements of natural gas distribution, and the expected quality level of supply', HEO issued 5 amendments to the resolution for the five licensees having the largest customer base. New resolutions were issued for 3 licensees with smaller client bases as well. The new and the modified resolutions set the required values of the operational reliability indicators for the years 2009 and 2010.

Instead of issuing resolutions concerning the 'determination of the minimum quality requirements of natural gas distribution, and the expected quality level of supply', HEO issued a total of 9 supply quality resolutions on client service in 2009 for distribution licensees and universal service licensees. The resolutions – in line with the directives that have already worked out in the electricity industry – define requirements on personal, written, and phone-based customer relations. Requirements can be classified in three groups depending on what consequences are drawn if they failed to be fulfilled. The first group includes the minimum quality requirements that – if not observed – lead to the imposition of fines. The second group contains indicators in accordance with the statutory provisions, and characteristic for the activities of the licensee, defining expected quality levels of supply. The third group contains the monitoring-type indicators, which provide information for HEO for the future fine-tuning of the regulation. The maximum amount

of fine to be imposed if requirements are not fulfilled may be HUF 50 million, or HUF 100 million depending on the extent of discrepancy.

In 2009, HEO prepared for the fourteenth time the study measuring the satisfaction of the customers with distribution licensees and universal service (public utility supply) licensees. In the course of collecting the data, the opinion of 7400 household consumers and 2400 industrial customers was surveyed. The methodology of the survey was identical with the procedure applied in 2008, thus the results obtained can also be compared numerically, directly. The transformation of the licensees – although the content and the method is the same – required HEO to issue 5 new resolutions in order to establish the base of the survey.

The aggregated results suggest that 2009 did not bring any significant changes relative to the trends perceived so far. The customers' priorities are still the uninterrupted supply and the precise consumption metering from among the activities of the distribution licensees. The majority of customers were satisfied with these services in 2009 as well. With regard to the responsibilities of the universal service licensee, the quick and professional administration at client services, understandable bills and the availability of complaint possibilities were considered important by customers. Similarly to the previous year, the satisfaction values of understandability of bills, complaint management and the availability of call centers lagged behind the expected values.

.

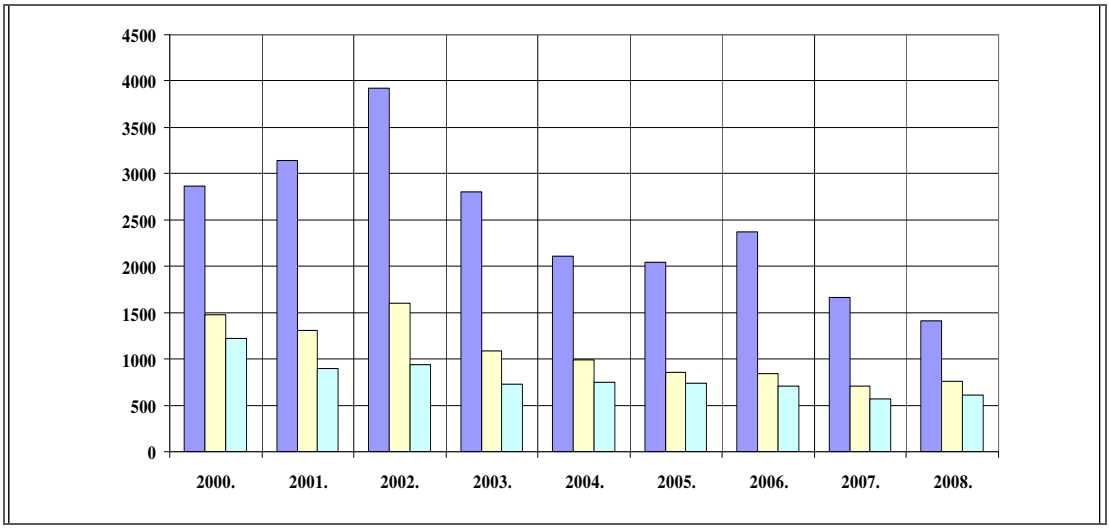
2.5.2.1. Interruptions

The consumers expect continuous supply, i.e. an uninterrupted availability of natural gas. Pipelined natural gas supply is certainly accompanied by various coincidental or planned or otherwise caused interruptions. Interruptions can be caused by breakdowns on the one hand, and by maintenance or other reconstruction works, on the other hand. The quality of the physical process of pipelined natural gas supply can be assessed and demonstrated by the cause, time and duration of interruptions.

The development of the number of interruptions is depicted in ***Figure 10*** based on the data of ***Table 18***. The Figure shows that the consumers were affected by the interruptions to an increasing-decreasing extent. The proportion and absolute number of the outages where the suppliers were directly responsible increased in the first half of the period, afterwards it continuously decreased. The Figure also shows the frequency of the breakdowns causing interruptions, which is constantly lower than the total frequency of interruptions.

Table 18 Frequency of breakdowns

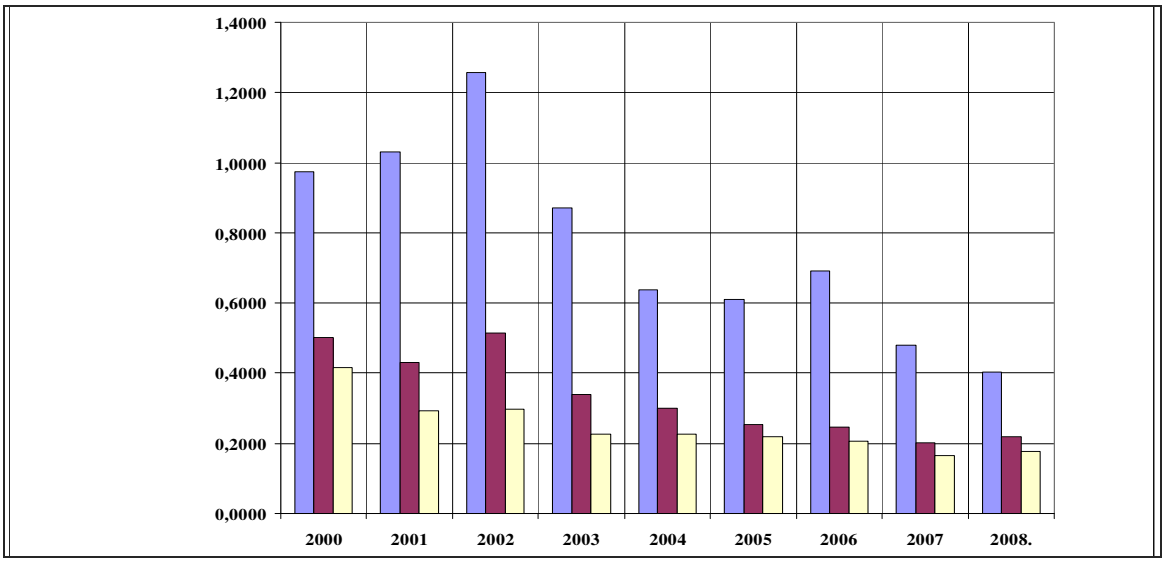
Description/year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of events causing interruption	2862	3138	3924	2802	2103	2049	2368	1666	1410
Within which: interruptions due to breakdown	2532	2604	2988	2424	1786	1848	1953	1440	1173
Number of interruptions with direct responsibility of suppliers	1473	1312	1607	1090	989	853	847	705	760
Within which: breakdowns with direct responsibility of suppliers	1222	894	933	731	743	738	707	574	614



***Blue**: number of events causing interruptions*
***Yellow**: number of interruptions with direct responsibility of suppliers*
***Cyan:** thereof the numbers of breakdowns with direct responsibility of suppliers*

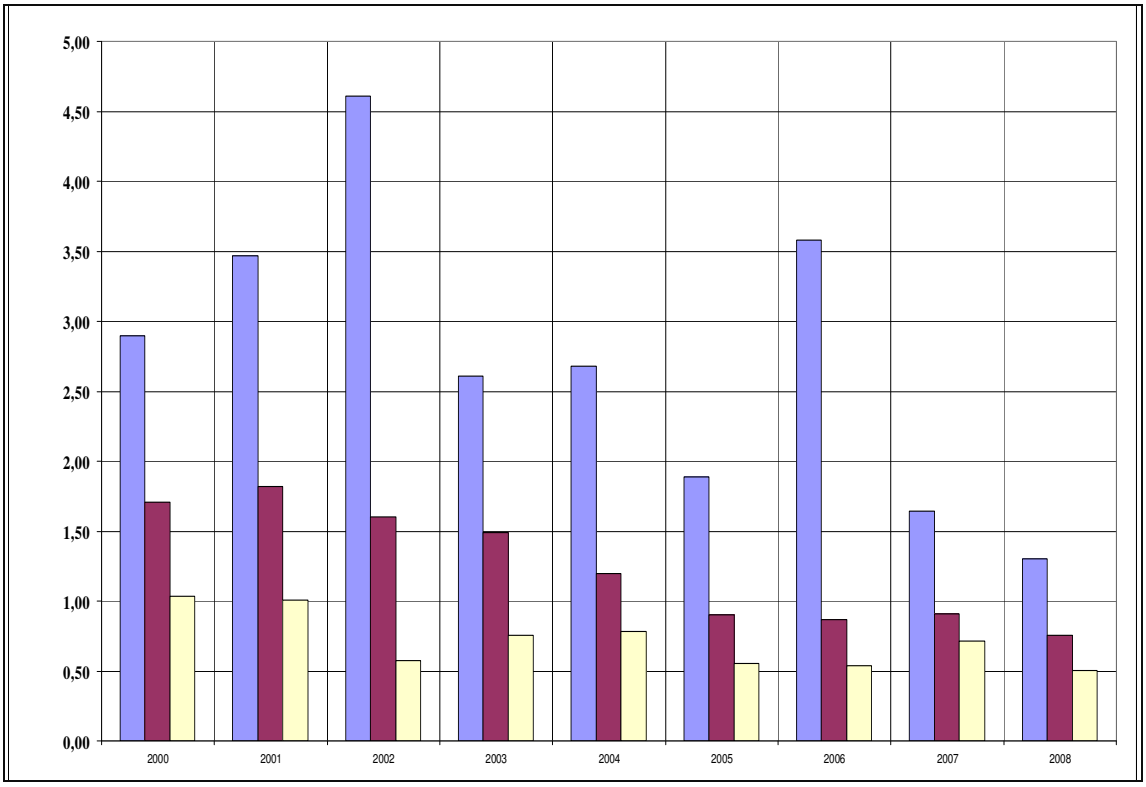
Figure 10 Quantitative data of the events causing interruptions in natural gas supply between 2000 and 2008 [pcs/year]

The physical process of the pipelined natural gas supply is labeled by the specific indices calculated as the number of events and the duration of consequent interruptions per 1000 consumers. ***Figures 11 and 12*** show the frequency and the duration of interruptions at a national level. The specific number and duration of the interruptions for the total of interruptions are fluctuating in the observed period, while the events with direct responsibility of the suppliers have a smaller proportion and show a continuous improvement.



Blue: total interruptions
Red: interruptions with direct responsibility of the supplier
Green: interruptions with direct responsibility of the supplier, due to breakdowns

Figure 1 Number of the events causing natural gas interruptions per 1000 consumers between 2000 and 2008 [pcs/1000 consumers/year]



Blue: total interruptions
Red: interruptions with direct responsibility of the supplier
Green: interruptions with direct responsibility of the supplier, due to breakdowns

Figure 22 Duration of the events causing natural gas interruptions per 1000 consumers between 2000 and 2008 [hours/1000 consumers/year]

2.5.3. Customer complaints

The division of competencies between HEO and the National Consumer Protection Authority, which has been effective in the electricity sector since 1 January 2008, took place in the natural gas sector on 1 July 2009. Consequently, in the first half of 2009, it fell under the competency of HEO to judge all customer complaints regarding natural gas distribution licensees and public utility service licensees, independently from the nature of the complaint and of the customer. In the second half of 2009, however, the management of customer complaints concerning settlement, invoicing, payment, metering, suspension or disconnection of natural gas supply due to payment delays, and reconnection after the payment of liabilities fell under the competency of the Competition Authority.

The number of consumer complaints received by HEO in 2009 remained almost unchanged following a decrease of 41.35% in 2008. The number of complaints grew from 1841 to 1877, which correspond to an increase below 2%. On the basis of distribution of cases detailed in chapter 'Regulation and operation of the electricity market' and subchapter 'Public service obligation and consumer protection', 489 of the complaints affected licensees from the natural gas industry. HEO launched supervisory procedures for each complaint, and made the relevant resolutions in each case. On the basis of the resolutions 46% of the complaints concerning distribution licensees (mostly concerning breach of contract), and 31% of the complaints concerning universal service providers (mostly concerning billing issues) were justified on the side of the customer.

A 23% decrease in customer complaints enabled HEO to intensify its supervising activity. In 2009, the investigated areas were the following: registration of the necessary modifications in the registries after the change of customers or after the authenticity meter replacement, and consequently billing due to delayed registration, the content of the information provided to the customers who wish to exit district heat supply, the process of suspension of collection applied during the procedure of investigations of complaints, and the advance bills issued due to the switching of traders. For some of the investigations, the evaluation of the data, information received is still in progress. During the investigations closed by resolution, HEO did not find any deficiencies of such magnitude that would have justified the imposition of fines. HEO has in several occasions imposed obligations on the licensees affected by the investigation including the transformation of workflows and the modification of the contents of the applied fill-in forms.

3. Regulation of district heat production

3.1. Regulation

3.1.1. Licensing

The activities of district heat production and supply are still subject to license. The establishment of district heat production facilities is subject to license only over a heat output of 5 MW. Licensing competence is distributed between the local governments and HEO. All district heat generators that also generate electricity must apply for a license to HEO, while district heat generating activity without electricity generation falls under the authority of the local governments.

The licensing and supervision of district heat suppliers has been transferred as a whole to the notary of local governments. The tasks of consumer protection are provided for by the inspectorates for consumer protection. The setting of consumer tariffs remained within the authority of the representative council of the local governments of settlements, and in the case of Budapest, of the metropolitan municipality. Before setting the tariffs, the Minister of Transport, Telecommunication and Energy gave its opinion on the prices of district heat supply, this, however, was abandoned from 1 July 2009, and the District Heat Competitiveness Act (amending in this subject the District Heat Act) extended the authority of HEO to the price control of the district heat supply. HEO has a twofold responsibility in the enforcement of the Act:

- To conduct the price control procedure initiated by the district heat supplier with the purpose of changing the district heat connection fee and the prices of the residential district heat supply;
- Administrative control launched ex officio:
  - to conduct a price control procedure at the district heat suppliers to supervise the district heat connection fee and the price of the residential district heat supply and
  - to conduct a price control procedure that aims to supervise the price determined in the contract of the district heat producer and the district heat supplier.

District heat and electricity licensing procedure of power plants under 50 MW

The licensing procedure of small power plants co-generating heat and electricity (power plant with a nominal electric power under 50 MW) is different for district heat and for electricity.

- *District heat licensing procedure:* in the case of the establishment of a cogeneration equipment with a heat output of 5 MW or above, the applicant has to apply to HEO for a license for the establishment of a district heat production equipment (below 5 MW heat output, the establishment of a district heat

production equipment is not subject to license). After the establishment of the equipment and following a successful test loading, the applicant has to apply for an operational license for district heat production irrespectively of the capacity.

- *Electricity licensing procedure:* in the case of the establishment of an electricity generation equipment (including the establishment of a cogeneration equipment), if the nominal electric capacity falls between 0.5 and 50 MW, the applicant has to apply to HEO for a simplified license for small power plants. The simplified electricity generation license relates to the selection of the primary energy source of small power plants and to the electric energy generation.

In the case an electric capacity between 0.5 and 50 MW and in the case of the establishment of power plants based on combined cycle electricity generation (co-generation) with a nominal heat output of 5 MW or above, the power plants have to submit the following applications to HEO in the following chronological order:

In the period of selecting the primary energy source:
Simplified license for small power plants (on basis of the Electricity Act)

Before establishment:
License for the establishment of district heat production equipment (based on the District Heat Act)

After commissioning:
Operational license for district heat production (based on the District Heat Act)

3.1.1.1. Licensing activity of HEO in 2009

In 2009, HEO issued 12 resolutions on district heat licensing. From among these resolutions, 4 were operational licenses for district heat production, 2 prolonged establishment licenses, 4 modified existing operational licenses, 2 were approval of a demerger or acquisition of controlling interest. HEO published the resolutions in all cases.

3.2. Competition

District heat supply is a local public utility service bound to the pipeline system. One supplier operates in one area; therefore competition among suppliers for the customers is not possible. Only a limited competition can be imagined in district heat production, primarily by the introduction of cogeneration, or in the case of customer switching, when a customer switches to another heating method, but it is still a limited possibility. More and more owner-occupied blocks are breaking off the district heat system because of the discontentment experienced concerning the price and occasionally the quality of the district heat supply.

District heat suppliers supply thermal energy to household customers at administrative prices determined by the representative council of the local government. Thermal energy is purchased from district heat producers (power plants) and/or produced in boilers by the

suppliers themselves, more and more frequently using cogeneration equipment. The number of settlements where the supplied thermal energy derived at least partly from power plants co-generating heat and electricity was more than 60. District heat production increasingly uses the economic advantages of co-generation, which is further enhanced by the feed-in obligation of electricity and the associating subsidy to the administrative price. In the case of co-generating small power plants the obligatory feed-in will expire at the end of 2010 and in the cases where HEO did not extend the feed-in period because of the return of the investment, this can affect the price of the district heat produced.

At the same time the competitiveness of district heat supply compared to central heating may be significantly improved by the fact that the VAT has been reduced to 5% from 2010.

3.3. Security of supply

The regionally competent local governments - in the capital, the metropolitan municipality - are obliged to ensure through a licensee or several licensees the district heat supply of facilities that are supplied by district heat.

Most of the district heat supply companies are owned by local governments and there are some places, where the district heat producer (a power plant subject to have electricity license) has also acquired some shares of the district heat suppliers. In some settlements, however, the district heat supply company is operated by private companies based on a concession contract.

In those cases, when a district heat supplier buys the majority of the district heat from a power plant, and the power plant is privately owned or indirectly state-owned, the possible debates between the supplier and the power plant may jeopardize supply. In these debates, HEO may act as a mediator, but the debates can only be solved by the cooperation of the producer, the supplier and the local government. The recent years witnessed an effort evolving, where the local governments tried to take measures to solve the problem of district heating through the local government's own company or own supplier.

3.4. Price preparation, price regulation

The heat production prices are uncontrolled. The charge of joining the district heat supply and the charge of household district heat supply is determined by the representative council of the local government in a municipal regulation. Before the determination of the price the minister responsible for energy affairs delivered his opinion on the prices of district heat supply. This process was modified from 1 July 2009 in such a way that suppliers submit their proposal on price increase to HEO. The representative council can approve the proposal on price increase depending on the resolution of HEO.

In 2009 the district heat suppliers submitted proposals on price change of district heat price for 25 settlements. Most of the proposals intended to decrease the charge. 19 cases were closed with resolutions in 2009, thereof one proposal was refused, the intention of which was to increase the charge.

3.5. Public service obligation and consumer protection

The regionally competent local government is responsible for ensuring the district heat supply of the establishments supplied with district heat. Most of the district heat supply companies are owned by local governments; the licensing authority is the notary of the local government; the heat prices, charges are determined by the representative council of the local government, therefore the entire chain is in the hands of the local government, except for the power plan generation of district heat.

In order to ensure the transparency of district heat supply, the enforcement decree of the District Heat Act defined the types of financial data and the according technical data to be published by the district heat suppliers. In the interest of the better informing of the household consumers, district heat suppliers supplying 1000 or more flats had to create an information system (webpage).

The regional consumer protection inspectorates of the National Consumer Protection Authority are responsible for consumer protection affairs.

4. Energy saving, environmental protection

4.1. Energy saving

The Government Decree 1107/1999 (8.11) determines the energy saving and energy efficiency strategy of the Government till 2010. Based on this strategy, the National Energy Saving Program started in 2000. This program helped the implementation of energy saving projects of consumers and the district heat sector with direct subsidies and soft loans. Energia Központ Kht. (Energy Centre Non-Profit Company) was created for the execution of the annually announced Energy Saving Programs.

HEO cooperates in the implementation of the Government's strategy of energy saving and energy efficiency. As an expert it takes part in the work of the interministerial committee that awards the energy efficiency improvement tenders, in the work of the committee awarding the Environment and Energy Operative Program schemes, as well as in the preparation of the announcement of the tenders, and if required it provides consultations on the tenders of modernization of the suppliers side district heat and the use of renewable energy sources.

Within the framework of the National Energy Saving Program of 2009, in the residential programs of energy saving and use of renewable energy sources (for individuals and communities), a total of 3443 tenderers were awarded a support of 1.7 billion HUF and a soft loan of 0.6 billion HUF in total. The program allowed modernizing a total of 4.8 thousand homes at a total cost of approximately 5.5 billion HUF.

The Operational Program for Environment and Energy, part of the New Hungary Development Program, covering the period 2007 to 2013 and approved by the European Commission indicates a close relation between energy saving, energy efficiency improvement, and environmental protection. The two main goals of the program – in accordance with the Hungarian and EU energy policies – are the following:

- Increased use of renewable energy sources, which will affect the structure of energy sources in a favorable way, i.e. to shift from the traditional energy sources towards renewable energy sources.
- Improvement of energy efficiency, this will contribute to the improved security of supply, to soften the strong import dependence of energy carriers and the mitigation of environmental damages.

The realization of the objectives will help Hungary to comply with its international undertakings. With this view, the National Development Agency initiated 3 calls for tenders for the period between 2007 and 2009, and then in 2009 11 further calls for tenders for the years 2009 and 2010, which promote the improvement of energy efficiency and the use of renewable energy sources:

- The five application schemes serving the use of renewable energy sources provides HUF 30 billion support for the years 2009 – 2010, the source of which is the budget of the Hungarian Republic co-financed by the European Regional Development Fund.

- For the six application schemes concerning the improvement of energetic efficiency HUF 18.5 billion is available for the two years as indicative amount, the source of which is the budget of the Hungarian Republic co-financed by the Cohesion Fund.

The call for tenders of the remaining planning period will be outlined on the basis of the results of the investments carried out with the help of the support, and the experience gathered from the application system.

4.2. Environment protection

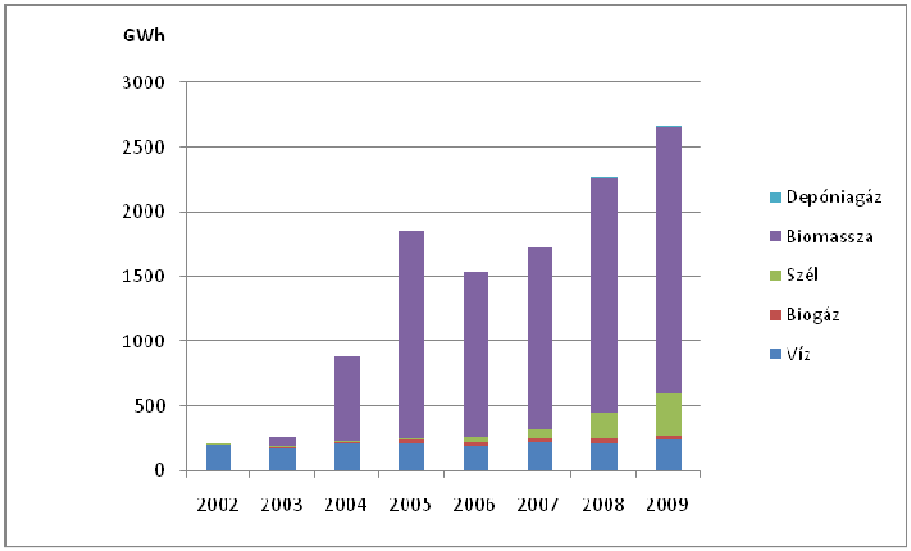
4.2.1. Use of the renewable energy sources

The electricity production based on renewable increased by 17% compared to the previous year, and exceeded 2660 GWh. This meant that the proportion of the green electricity – calculated according to the methodology of the European Union – increased to 6.42% from 5.2% in the previous year.

Table 19 Electricity produced from renewable energy sources in Hungary (GWh)[1]

	2002	2003	2004	2005	2006	2007	2008	2009
Hydro	194	171	206	203	186	210	209	228.4
Biogas	11.2	15.6	15	27	32	28	36	39.6
Wind	1.1	3.3	5.4	10	43	81	204	331.2
Biomass	0	75	655	1612	1278	1404	1812	2051.7
Waste Dump Gas							10	10.6
Total	**206.3**	**264.9**	**881.4**	**1852**	**1539**	**1723**	**2271**	**2661.5**

[1] The numerical values are based on preliminary data, the renewable energy value of the table does not yet include the electricity produced with communal waste.



Cyan – waste dump gas
Purple – biomass
Green – wind
Red –biogas
Blue - hydro

Figure 3 Electricity produced from renewable energy sources in Hungary

The major part (77%) of the renewable based electricity production comes from the use of biomass. The amount of electricity produced with biomass increased by 13.2% compared to the last year, and exceeded 2050 GWh. In spite of this considerable increase, the share of biomass in the green electricity mix shows a continuous decline in the past years (in 2009 it fell by 3% compared to the previous year).

The shift in shares can be explained by the spreading wind power plants. The share of wind increased to 12.4% within the renewable electricity production. The electricity produced from wind outshone the amount of the previous year by a 62.4% increase, and exceeded 330 GWh in 2009. Out of the 330 MW approved wind power plant capacity, 176 MW were built by the end of 2009, the establishment of the remaining capacities can be expected by the end of 2010. According to the Electricity Act, further wind power capacities can only be established through tendering. In 2009, HEO announced call for tenders for further 410 MWs of wind power plant capacity.

The share of hydro energy is 8.6% in the green electricity. The electricity generated by hydroelectric power plants increased by 9.3% to 228 GWh in 2009. The electricity produced from hydro power can be considered constant if the effect of change in weather circumstances is ignored.

The biogas-based electricity production exhibited more than 10% increase in 2009. The near 40 GWh produced from biogas accounts for 1.5% of the renewable-based electricity production. The electricity produced from waste dump gas increased by 6% in 2009 and reached 10.6 GWh, which is equal to 0.5% of the total renewable-based production.

It can be claimed that the amount of electricity produced from renewable energy sources is still exhibiting growth in a year-to-year comparison (in 2009 it exceeded the production of the previous year by 17%); this growth, however, falls short of (is approximately half of) the rate that was typical in the previous years. Due to the world's economic and financial crisis, new investments became sluggish, erratic; in some cases they were abandoned.

The promotion of renewable resources is not solely important for Hungary for environmental and security of supply reasons, but it is also an obligation in the Union, which is formulated in Directive 2009/28/EC and Decision 2009/549/EC. By 2020, Hungary has to increase the share of renewable-based energy consumption in the total energy consumption to 13%.

For the accomplishment of the above objectives and on the basis of the request from KHEM, HEO started the review of the promotion system of renewable energy use in the summer of 2009. The review encompasses the economic calculations of the renewable technologies as well as their external benefits and costs, and the revealing of the factors slowing down or impeding the licensing of investments of renewable. Using the results of the review, the aim of the project is to prepare a proposal on an optimal Hungarian renewable energy mix and a financial assistance system promoting its implementation. The results of the project contribute to the preparation and implementation of the Renewable National Action Plan (Megújuló Nemzeti Cselekvési Terv - NCsT) to be submitted to the European Commission, and also to the preparation of the regulation that adapts Directive 2009/28/EC into the national law.

4.2.2. Greenhouse gas emission allowance trading

On the basis of Directive 2003/87/EC of the European Parliament and the Council the facilities with a combustion equipment of over 20 MW capacities may perform an activity including carbon dioxide emission only in possession of an allowance. The allowance trading system of the EU is applicable to facilities producing electricity and district heat, to oil refineries, coking plants, to iron metallurgy and steel production, cement-, lime-, glass- and construction material production, as well as to paper mills.

In the first trading period – between 2005 and 2007 - the Ministry of Environment and Water (KvVM) significantly over-allocated the allowances to market actors. In most of the Member States of the European Union, a very similar situation evolved, so the price of allowances – because of the excessive offer of allowances – fell from the 30 Euro peak to 0.5 to 1 Euro in 2007.

In the 2008-2012 (so-called second) trade period Hungary probably has to expect a shortage of allowances, primarily in the electricity and district heat production sectors.

HEO as competent authority participates in the determination of the total annual sulphur-dioxide and nitrogen-oxide emission allowance of the power plants and on the basis of Act 15 of 2005 on the trade of the greenhouse gas emission allowances HEO contributes to determine the allowances for the new entrants in the Allocation Plan. HEO only gives

its positions concerning the electricity production licensees; the allocation authority is the National Inspectorate for Environment, Nature and Water.

5. Operation of HEO, Institutional Relations, Publicity

5.1. Institutional and international relations, publicity

5.1.1. Bilateral institutional relations

In addition to HEO, other administrative bodies also perform consumer protection tasks; HEO maintains – in accordance with the practice of the previous years – regular relationship with these bodies (Hungarian Competition Authority, Ombudsmen, Parliamentary Commissioner for Data Protection and Freedom of Information, Hungarian Consumer Protection Authority), and performed its work in coordination with those. The cooperation with the Hungarian Consumer Protection Authority was even closer than in the previous year, as the division of competencies, which took place in the electricity sector on 1 January 2008 and in the natural gas sector on 1 July 2009. From 1 July 1 2009, HEO provides continuous professional support for the Hungarian Consumer Protection Authority in the management of difficult customer complaints not only on electricity licensees, but also on natural gas licensees. The competency rules were made more unambiguous by the amendments of the Electricity Act and the Gas Act, therefore fewer discussions were needed. Special attention was drawn to the definition of the forms and content of the data supply, as the information on complaints serves as a basis for the regulatory and supervising activities of HEO. In order to be able to monitor the observance of the prescribed requirements it is indispensable that the data supply of the Hungarian Consumer Protection Authority fits to the statistical system according to which HEO collects the data, and on the basis of which it evaluates the activities of the licensees. HEO also has an active and continuous relationship with non-governmental organizations of customer protection. Within the framework of this relationship, non-governmental organizations give their opinion on the Business Conducts Rules and resolutions on the quality of supply, and participate in the work of the Energy Interest Representation Board on every occasion.

5.1.2. International relations

HEO is member of the Council of European Energy Regulators (CEER) and the European Regulators Group for Electricity and Gas (ERGEG), which is operating as the official advisory body of the EU Commission. The employees of HEO actively took part in the work of several working groups and subcommittees of the CEER and ERGEG in 2009, therefore they directly obtained information regarding the questions and issues of European energy affairs (safety of supply, sustainability, energy consumers), and they had the possibility to represent the Hungarian interests during the elaboration of the measures affecting the sector.

In addition to the above, from 2010, HEO delegates members to the Renewable Energy Sources Concerted Action (RES CA), which was established for the harmonic implementation of the Directive on Renewable.

The President of the UN Working Party on Gas – which performs data collection for the UN for gas storage, gas transmission and security of supply studies – is one of the employees of HEO.

HEO takes part in the work of the profession association of the energy regulators of several countries of Central Eastern Europe, Asia, and the Middle East, the Energy Regulators Regional Association (ERRA). The president of ERRA is one of the Directors of HEO; the Secretariat of ERRA operates in the building of HEO.

From the sister authorities of the neighboring countries, HEO has good bilateral relationships with the Austrian E-control and the Romanian ANRE.

5.1.3. The Energy Interest Representation Board (EÉT – Energetikai Érdekképviseleti Tanács)

In 2009, the Energy Interest Representing Board held semi-annual meetings with the participation of customers and licensees. Magyar Energiafogyasztók Szövetsége (The Association of the Hungarian Energy Customers), Ipari Energiafogyasztók Fóruma (Forum of Industrial Energy Customers) Országos Fogyasztóvédelmi Egyesület (Association for Consumer Protection of Hungary, were the permanent representatives of the customer's side.

At the first semi-annual meeting, EÉT reviewed the experience of the gas crisis that occurred at the beginning of 2009, as well as the connections between the European wholesale prices and the Hungarian consumer prices.

The Agenda of the second semi-annual meeting of EÉT included a report on the actual experience concerning the introduction of the new gas market model, a report on the experience gathered during the investigation of the electricity outage of January 2009, as well as the pricing of the universal natural gas service expected after July 2009.