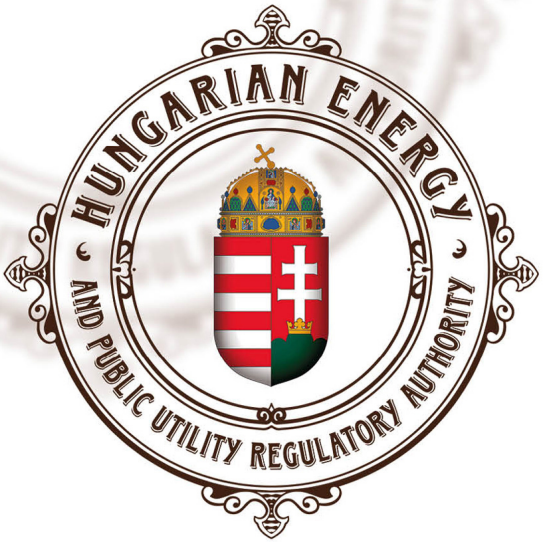

HUNGARIAN ENERGY AND PUBLIC UTILITY REGULATORY AUTHORITY

ANNUAL REPORT

2014

SECURITY OF SUPPLY • AFFORDABILITY • QUALITY OF LIFE

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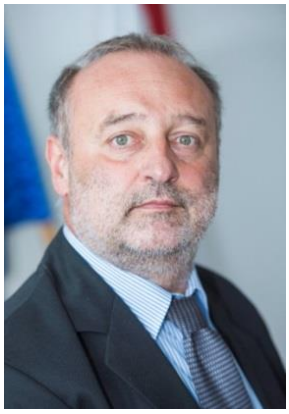
THE PRESIDENT'S MESSAGE

Dear Reader,



Our Annual Report provides a detailed presentation of the sectors supervised by the Hungarian Energy and Public Utility Regulatory Authority, the energy and public utility sectors, as well as the market processes and our efforts for guaranteeing continuous security of supply in the ever-changing market environment and EU legislative framework, and for a long-term quality service.

Last year was the first full calendar year when HEA supervised electricity, natural gas, district heating and water utility supply as an independent regulatory authority and proposed the fees for public waste management services. The Authority issued twelve regulations, which included, for the first time, regulations laying down the conditions for the application of natural gas and electricity connection fees, simplifying the previous regulatory system.

Construction of the Slovakian-Hungarian gas pipeline on the territory falling within the scope of our regulation and supervision posed a new task, as did the conversion of the gas dispatching system into a two-operator system. Creating the regulatory framework for the new model was one of the key objectives of last year.

As part of the National Statistical Data Collection Programme, we liaise with roughly 5700 data suppliers: in cooperation with the International Energy Agency (IEA) and Eurostat, we regularly extended the databases of supervised market sectors.

Setting up the national regulation in line with the new EU legislation commenced last year, and transposition of the Network Codes is in progress. To establish the procedural rules under REMIT (Regulation on Energy Market Integrity and Transparency) market monitoring, the Authority started processing information and data sources.

Among our priority tasks, maintaining security of supply and protecting retail, public and industrial consumers remain part of our key activity. In 2014, our experts continued to regularly inspect the licence holders' billing, contract management and customer service activities, and we closed roughly three thousand complaints as part of the official procedures. In addition to imposing various obligations, we imposed fines in eight cases on account of incomplete customer information and non-standard billing.

For the eighteenth time now, our staff conducted a survey among consumers, assessing their satisfaction with the services of electricity and natural gas licence holders; the results were considered when planning this year's supervisory activity.

Dr. Lajos Dorkota

President

EXECUTIVE SUMMARY

Legal status and responsibilities of the Authority

The Hungarian Energy and Public Utility Regulatory Authority was established as an independent regulatory body under Act XXII of 2013 as of 4 April 2013. The legal predecessor of the Authority is the Hungarian Energy Office as established under Act XLI of 1994 on Gas Supply.

The Authority is an independent regulatory body for the energy and utilities industry, responsible for the licensing, supervision, price regulation and pricing for electricity, natural gas, district heating, and water utility supply, as well as for the pricing of public waste management services. The Authority also performs tasks related to the standard national energy statistics, and as an official statistical body, it complies with the data reporting obligations to various national and international bodies and other organisations.

Table 1: Key legislation governing the Authority's responsibilities

Sector	Act
Electricity	Act LXXXVI of 2007 on Electricity (hereinafter: VET)
Natural gas	Act XL of 2008 on Natural Gas Supply (hereinafter: GET or Gas Supply Act)
District heating	Act XVIII of 2005 on District Heating Supply (hereinafter: Tszt.)
Water Utility Supply	Act CCIX of 2011 on Water Utility Supply (hereinafter: Vksztv.)
Public waste management services	Act CLXXXV of 2012 on Wastes (hereinafter: Wastes Act)
Statistics	Act XLVI of 1993 on Statistics (Stt.)

Functions relating to the supervised sectors

Licensing and supervision

In line with the provisions of the VET, the Gas Supply Act, the Tszt. and Vksztv., the Authority establishes the conditions for conducting licensed and related activities in the licence issued by the Authority. Compliance with the requirements laid down therein is monitored continuously and the legal consequences are applied as appropriate.

Electricity

In relation to the licensing and supervision of electricity companies, in 2014 the Authority passed 424 resolutions in total, 61 of which were new licences[1].

Table 2: New electricity licences issued by the Authority in 2014

Licence type	Number of new licences
Electricity trading licence	3
Limited electricity trading licence	15
Simplified licence for small power plants	23
Licence for public lighting operation	20

[1] Amended licences are not included.

In 2014 the Authority performed the following functions in relation to the supervision of electricity licence holders:

- **Securing electricity supply:**
  In order to ensure security of supply of electricity, the Authority continuously monitors the situation on the Hungarian electricity market, as well as the activities and operations of licence holders.As part of this activity, the Authority inspected power plants for winter preparations, the existence of statutory fuel stocks, and conducted several on-site inspections.
- **FiT inspections:**
  The Authority regularly inspected compliance with the FiT Decree rules; in two cases, it found that the sales did not comply with the legislation.
- **Public lighting:**
  In 2014, the Authority held on-site inspections at seven licensed public lighting operators.
- **Market supervision:**
  The Authority continuously monitored operation and pricing on the organised electricity market (HUPX).

Natural gas

As part of licensing and supervising the natural gas market players, the Authority passed 131 resolutions in 2014, 16 of which were new operating licences and 5 were revoked natural gas trading licences, all at the request of the relevant licence holders.

Table 3: New gas licences issued by the Authority in 2014

Licence type	Number of new licences
Natural gas trading licence	5
Limited natural gas trading licence	11

In 2014 the Authority performed the following major functions in relation to the supervision of gas licence holders:

- **Securing natural gas supply:**

  In order to ensure security of supply of natural gas, the Authority continuously monitored the situation on the Hungarian natural gas market, as well as the activities of individual players. Considering the situation in Ukraine, the Authority regularly examined the natural gas stockpiles of Hungary and member states of the EU, as well as the domestic national gas sources and utilisation, the intensity of delivery to Ukraine, the evolution of spot market prices, and the EUR and USD exchange rates.

  Similarly to the previous years, during heating season it prepared weekly forecasts for scenarios of any unexpected failures in gas supply received through Ukraine and extreme weather conditions.

  In October 2014, the natural gas trader was appointed for the natural gas sector; by the end of 2014, the Authority extended the appointment on three occasions. As part of the official procedure initiated at the request of district heat generators, the HEA appointed Magyar Földgázkereskedő Zrt (Hungarian Gas Trading Ltd), which has the long-term import contract capable of satisfying a significant portion of domestic gas demand.

- **Development plan:**

  On 30 October 2013, the Authority rejected the ten-year network development plan submitted by the transmission system operator and obligated it to revise the proposal. The Authority approved the revised proposal on 30 June 2014.

- **Market supervision:**

  The Authority investigated and passed resolution in licence holder disputes in 17 cases.

- **Regulation:**

  In December 2013, the Authority granted approval for the rules, procedures and methods regarding the operation of the cooperating natural gas system, the minimum content requirements of agreements related to network usage, measurement-settlement and data exchange, as well as the Network Code, including the detailed rules of daily balancing submitted by the transmission system operator. The transmission system operator submitted the amended draft code to the Authority on 30 June 2014.

  The Authority approved the Balancing Energy Platform (EP) Code on 30 June 2014.

District heating

In relation to the licensing and supervision of the district heating sector, the Authority passed 56 resolutions in 2014, including 6 new licences.

Table 4: New district heating licences issued by the Authority in 2014

Licence type	Number of new licences
Issuance of operating licences for district heating suppliers	1
Issuance of operating licences for district heating generation	4
Issuance of establishment licences for district heating generation	1

To ensure seamless district heat supply, the Authority acted as mediator in some disputes between district heat suppliers and district heating generators, to ensure the swift and effective resolution of disputes. In this function the Authority provided expert consultancy to local governments and the involved parties on several occasions.The Authority verified accounting separation in connection with district heat suppliers and district heating generators.

Water Utility Supply

In 2014, resolutions were passed for 45 operating licences. The Authority rejected the operating licences in some cases, and the amendment and issuance of operating licences in a larger number of cases; additionally, it considered 526 applications for operational agreements.

By the end of 2014, on account of the conversions and expiration of fixed-term licences, the number of licensed suppliers fell to 43.

Price regulation

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

Similarly, households and public institutions can purchase district heating at a regulated price, while prices are set in bilateral agreements for the rest of consumers.

Within the electricity and natural gas sectors, the Authority prepares the universal service prices for the Minister. The Authority also prepares the prices for district heating generation and service provision, as well as the utility fees for water and waste management. The Authority determines the system charges of electricity and natural gas in a regulation.

In addition, the Authority supervises fees and performs cost review. As part of the fee supervision, the Authority examines whether licence holders actually apply the fees set by the minister or the Authority. As part of the cost review process, the Authority determines the eligible costs for licence holders, which form the basis of regulated price setting.

Electricity

The end-user price of electricity for consumers eligible for universal service[2] consists of the universal service fee of electricity, the system charges, the energy tax paid by non-household users and pertaining VAT, as well as the separately managed assets (subsidy for the structural reform of coal industry, subsidy for the reduced-price electricity supply for electricity industry pensioners, subsidy for connected production structure reorganisation) paid only by non-household consumers as of 1 November 2013, as stipulated in Art. 147 of the VET.

End-user retail prices of electricity in the universal service declined 5.7% on 1 September 2014; the various level and extent of amendments to price components on 1 January 2015 had no impact.

Natural gas

The universal service end-user prices [3](fix and variable charge) contain the product price of natural gas, the system charges and working gas financing charges, as well as the trade margins. The prices are subject to VAT.

The contribution fee of members of the Hungarian Hydrocarbon Stockpiling Association (strategic stockpiling fee) passed through to non-household consumers appears separately on the bills of universal service providers, which amounted to HUF 0.0605/MJ in 2014. From January 2013, licensed universal service providers may recover this fee in connection with household consumption; hence it cannot be recharged.

The specific natural gas price applied in the price of universal service is determined based on the natural gas price formula set out in the KHEM Decree No. 29/2009. (VI.29.) on the pricing of universal service in the gas market. This formula takes several factors into account. In the case of non-storage natural gas, the weight of regulated (spot and forward) prices climbed to 75% on 1 April 2014, while the weight of oil-indexed gas prices declined to 25%. In the case of natural gas from storage, regulated market prices continue to represent 90%, while oil-indexed gas prices account for 10%.

[2] This includes retail and non-retail consumers eligible for universal service.
[3] This includes retail and non-retail consumers eligible for universal service.

The Act XXII of 2013 grants the Authority legislative power and entitlement to set system charges in a regulation; hence in 2014 they were published in a regulation.

Due to the Government's utility cost reduction measures, an extraordinary price determination was carried out in April 2014: retail end-user gas prices declined 6.5% on 1 April 2014. The prices for non-household end users purchasing natural gas under universal service remained unchanged.

In order to supply those eligible consumers not using universal service, from 1 November 2014 the gas offering system was extended to gas traders pursuant to Art. 141/C of the Gas Supply Act.

District heating

The Authority is responsible for the preparation of the proposal regarding district heating prices sold to district heating service providers, district heating prices for households and specific institutions, and district heating subsidies before 31 August of each year. The Authority prepared its price and subsidy proposal for the 2014/2015 heating season and the relevant amendments of the Ministerial decrees were enacted on 1 October 2014. In accordance with the act on the implementation of utility cost reduction, retail end-user district heat prices shrank 3.3% from 1 October 2014.

The Authority's functions include the continuous monitoring of district heat subsidy applications and disbursements, and initiating official procedures in case of violations.

Water Utility Supply

In 2014, the Authority's key task was to prepare and submit within the statutory time limit its draft on the official water utility supply prices (and delivery prices) to the minister of national development.

The Authority also submitted to the Minister its detailed concept of the tariff system, the benefits and possible risks of the official tariff alternatives, as well as its proposals on the legal amendments necessitated by the enactment of the tariff decree.

Waste management

In Q1 2014, the HEA specified the substantial and formal requirements for the data reporting necessary for preparation of the prices for the public waste management service, and processed and analysed the data received. The Authority submitted its pricing proposal to the Minister of National Development.

Chimney-sweeping

Simultaneously with the legal amendments regulating the temporary supply of the public chimney-sweeping service, the legislator vested the Authority with competence to evaluate the justification of costs for the temporary service. In 2014, as part of the non-regular public chimney-sweeping service, seven applications for extra costs were received and in several cases it fell to the Authority to act in connection with extended appointments.

Energy saving, energy awareness

In 2012 the new energy efficiency directive of the EU (2012/27/EU, Energy Efficiency Directive, hereinafter referred to as: EED) was adopted, which sets mandatory energy efficiency targets for member

states. Among others, the Directive requires Member States to achieve new energy saving of 1.5% per year and to modernise 3% of the properties of the central administration every year between 2014 and 2000. For the implementation of the directive, an Energy Efficiency Working Group has been established within the Authority, to support and coordinate the Authority's contribution. The Authority actively participates in the legislative drafting processes related to the EED, namely the drafting of the transposition of Article 8 (energy audits), Articles 9-11 (metering and billing), and Articles 14-15 (authorisation, system use).

The Authority also contributes to the implementation of the energy saving and energy efficiency strategy of the Government.

The Authority delegates national experts to the Working Party on Energy Efficiency (EEWP) of the International Energy Agency (IEA). The main activities of the IEA EE Working Party are: preparation of general political proposals, monitoring the energy efficiency market of OECD member states, examination of the external impacts of energy efficiency-related policies, preparation of international databases, international cooperations.

Consumer protection

One of the main tasks of the Authority is consumer protection. In this function, the Authority examines the quality and continuity of supply, the quality of customer service provided by energy suppliers, and whether the criteria of the so-called Guaranteed Standards are satisfied. The Authority examines the practices of service providers both ex officio and at the request of consumers under shared competence with the Hungarian Authority for Consumer Protection.

In 2014, several ex officio audits were initiated in connection with the billing, contract management and customer service activities of licence holders. As part of these processes, where justified by the violations committed, the Authority imposed fines on the licence holders in addition to the various obligations ordered. In 2014, the fines imposed totalled HUF 25 million.

Similarly to the previous year, in 2014 the Authority audited the data submissions of electricity and gas licence holders and the automatic compensations related to the Guaranteed Standards. To ensure the reliability and continuity of electricity supply, the data submissions were audited on site at each electricity distribution licence holder.

The Authority's competence also includes approval of the Operational Rules of the universal suppliers and licensed distributors. Taking into account the position of the Hungarian Authority for Consumer Protection, the Operational Rules of a total number of eight universal suppliers and five distributions operators were amended in 2014.

Last year, 1599 new consumer complaints were filed against the service providers, triggering official procedures; the Authority requested submission of missing information in roughly 1100 cases. Consumer complaints eligible for triggering procedures were related to gas supply (45%) and electricity supply (55%). During the year, the Authority closed 2871 complaints as part of official procedures, leading to a 25% decline in the number of open cases.

In 2014, the Authority continued its consumer information activity to ensure better information and utility cost reduction advice to consumers. The Authority provided advice on 12 thousand occasions by phone, in writing, and in person.

Last year, the Authority conducted its 18th annual consumer satisfaction survey about the practices of electricity suppliers and gas licence holders. In addition to evaluating the survey results and adopting the future action plans of the licence holders, the Authority started to revise the satisfaction survey.

The Authority's instruction to universal suppliers and distribution system operators to disclose their Operational Rules retroactively for five years, executed in 2014, was aimed at consumer information and their exercise of rights.

As a result of collaboration with the Hungarian Authority for Consumer Protection, last year witnessed the completion of the European Energy Consumer Checklist harmonised with the laws in force, to facilitate consumers in obtaining information.

Statistics

In 2014, the Authority continued the regular collection and processing of the technical and economic data submitted by roughly 800 licence holders, necessary for supervision and official functions as required by legislation. Additionally, in line with Government Decree 288/2009 (XII.15) on the National Statistical Data Collection Programme, the Authority expected to receive energy statistical data from roughly 5,700 data suppliers.

As in the previous years, HEA released several general and thematic energy statistics publications in 2014:

- 2013 Statistics on the Hungarian Electricity System;
- 2013 Statistics on the Hungarian Natural Gas System;
- Report on the evolution of renewable electricity generation and feed-in tariff system in 2013 (online publication).

Publicity

As part of its press relations, the Authority replied to 115 inquiries by journalists and issued 39 press releases, achieving in excess of 2,600 appearances. This resulted in a 18,202 point media exposure index.[4] 32 percent of the publications had a positive impact on HEA's image, 67 percent was neutral, while negative media reports amounted to merely once percent of media exposure. Exposure was also increased by the Authority's renewed contract with InfoRadio in 2014.

In 2014, the Authority published 51 pieces of news on its website, and 55 bulletins were published on the Intranet for staff. September 2014 marked the start of the development of a new, more user-friendly and transparent website and internal portal (intranet).

Involving in-house and contracted experts, the Design Project Team established late 2013 produced the final form of the Authority's new logo and corporate identity elements.

Table 5: The Authority in the press in 2014

Period	Press releases	Replies to journalist inquiries	Appearances			
			Print	Radio and television	Online	Total
Total in 2014	**39**	**115**	**500**	**201**	**1909**	**2610**

[4] **Media exposure index**: it is used for summarising the media impact of appearance, taking into account the media reach data and appearance content. Aggregate data can be used for comparing the weight of certain topics, players, media sources or issues on agenda in the measured period.

1. Operation, financial management and cooperation of the Hungarian Energy and Public Utility Regulatory Authority

1.1. Legal status and responsibilities of the Authority

The Authority was established as the legal successor of the Hungarian Energy Office under Act XXII of 2013 on the Hungarian Energy and Public Utility Regulatory Authority as of 4 April 2013.

The Authority is an independent regulatory body of the energy and utilities industry, responsible for the licensing, supervision, price regulation and price preparation for electricity, natural gas, district heating and water utility supply, as well as the price preparation of public waste management services.

Duties for the Authority may be imposed solely by law or under authorisation granted by the law. The Authority is in charge of supervising the activities of entities and individuals falling within the scope of the Act XL of 2008 on Natural Gas Supply, Act XXVI of 2006 on Strategic Stockpiling of Natural Gas, Act LXXXVI of 2007 on Electricity, Act XVIII of 2005 on District Heating, Act CCIX of 2011 on Water Utility Supply, and Act CLXXXV of 2012 on Wastes, and within other legislation issued under authorisation granted by these acts. In this function, the Authority implements the provisions of directly applicable EU regulations, EU legislation and the mandatory legislation issued in accordance therewith. The Authority may propose legislation and amendments to the competent minister and has an advisory function in the preparation of decisions and legal regulations affecting individuals, organisations and its roles and competence falling within the scope of the aforementioned legal regulations.

The Authority's main activities stipulated in its statute are the following. The Authority carries out functions in relation to

- natural gas and electricity supply;
- ensuring the security of supply in natural gas and electricity and effective operation of the natural gas and electricity market;
- strategic stockpiling of natural gas;
- application of the requirement of equal treatment and fostering effective competition;
- licensing the establishment of district heating generation facilities and district heating generation, approval of the connection charge of district heating, preparation of proposal regarding the district heating price for district heating sold to service providers and the fee of district heating supplied to household consumers and priority institutions, as well as reviewing district heating-related subsidies;
- elaboration of the rules for determining and regulating natural gas and electricity system charges, the criteria for determining connection charges and the elements of connection charges, and the fees and scope of universal service and services to be provided for a specific fee, preparation of the amount of subsidy and equalised subsidy for connected production structure reorganisation for domestic natural gas producers in relation to natural gas offerings and the price of domestic production, as well as customer protection-related duties relating to natural gas, electricity and water utility supply as stipulated in pertaining legislation;
- regulatory duties;
- obligations stipulated in the Act on water utility supply;

- issuance of guarantee of origin for electricity produced from renewable energy resources or waste, and electricity generated in cogeneration facilities;
- price determination, price preparation and price revision relating to public waste management services as stipulated in pertaining legislation;

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

- collects and handles energy-related statistical data as part of the National Statistical Data Collection Programme;
- implements and maintains the information system of national energy and utility statistics to provide public information;
- supplies data to the European Union, international organisations and organisations of official statistical services in accordance with the provisions of the VET, Stt. and other relevant legal regulations.

1.1.1. Report on the Authority's litigation cases

Table 6: Evolution of the Authority's litigation cases in 2014

LITIGATION CASES NOT RELATED TO CUSTOMER PROTECTION	
Number of actions filed, of which:	**45**
• Closed in 2014	5
• Suspended	1
• On hold	0
Litigation cases continued in 2014, of which:	**64**
• Closed finally in 2014	42
• Suspended	0
• On hold	0
Litigation cases pending in 2014, of which:	**109**
• Closed finally in 2014	47
CUSTOMER PROTECTION LITIGATION CASES	
Number of actions filed, of which:	**113**
• Closed in 2014	21
• Suspended	0
• On hold	2
Litigation cases continued in 2014, of which:	**155**
• Closed finally in 2014	77
• Suspended	0
• On hold	0
Litigation cases pending in 2014, of which:	**268**
• Closed finally in 2014	98
LABOUR LITIGATION CASES	
Litigation cases pending in 2014, of which:	**11**
• Closed finally in 2014	3

In 2014, a total of 109 litigation cases (45 filed in the reporting year and 64 in previous years) were pending against resolutions not related to customer protection passed by the Authority. Forty-seven of these cases were terminated in the reporting year.

In 2014, a total of 268 litigation cases (113 filed in the reporting year and 155 in previous years) were pending against resolutions related to customer protection passed by the Authority. Ninety-eight of these cases were terminated in the reporting year.

In addition, in 2014 eleven lawsuits related to labour rights were pending, of which 3 were closed in the reporting year. A total of 388 litigation cases were pending, of which 148 were closed. In 2014, the Authority passed 100 resolutions in relation to corporate legal affairs and acquisition of a significant shareholding, and released 21 new internal codes.

1.2. Financial management of the Authority

Act XXXI of 2013 on the Amendment of Act CCIV of 2012 on the 2013 Central Budget of Hungary determines the Authority's budget autonomously under Subtitle 23 of Chapter - Parliament I. By operation of law, its new classification of the Authority is: central budgetary institution administering a budget chapter.

The totals of expenditures and revenues of the Authority's budget may only be cut by the Parliament. The Authority operates solely from revenues originating from supervisory and administrative service fees. Revenue rates and collection procedures are determined by the President of the Authority, by authority granted by Art. 21(2) of Act XXII of 2013. Based on the referred provision, the Authority issued Regulation 1/2014 (III.4) on the rates of administrative service fees of the Hungarian Energy and Public Utility Regulatory Authority and the rules for collection, management, recording and reimbursement of administrative service fees and other revenues. The regulation entered into force on the 31st day following publication. Due to legislative amendments, the regulation was amended by HEA Regulation 10/2014 (XI.6). The Authority collected the projected supervisory and regulatory fees.

The volume of expenditures corresponds to the amount of projected revenues. Act CCXXX of 2013 in Art. 10(3) requires the Authority to pay 2029.1 M HUF into the central budget in monthly instalments from February before the 20th of each month and another 1/12 portion by 10 December. The Authority fulfilled its statutory payment obligation.

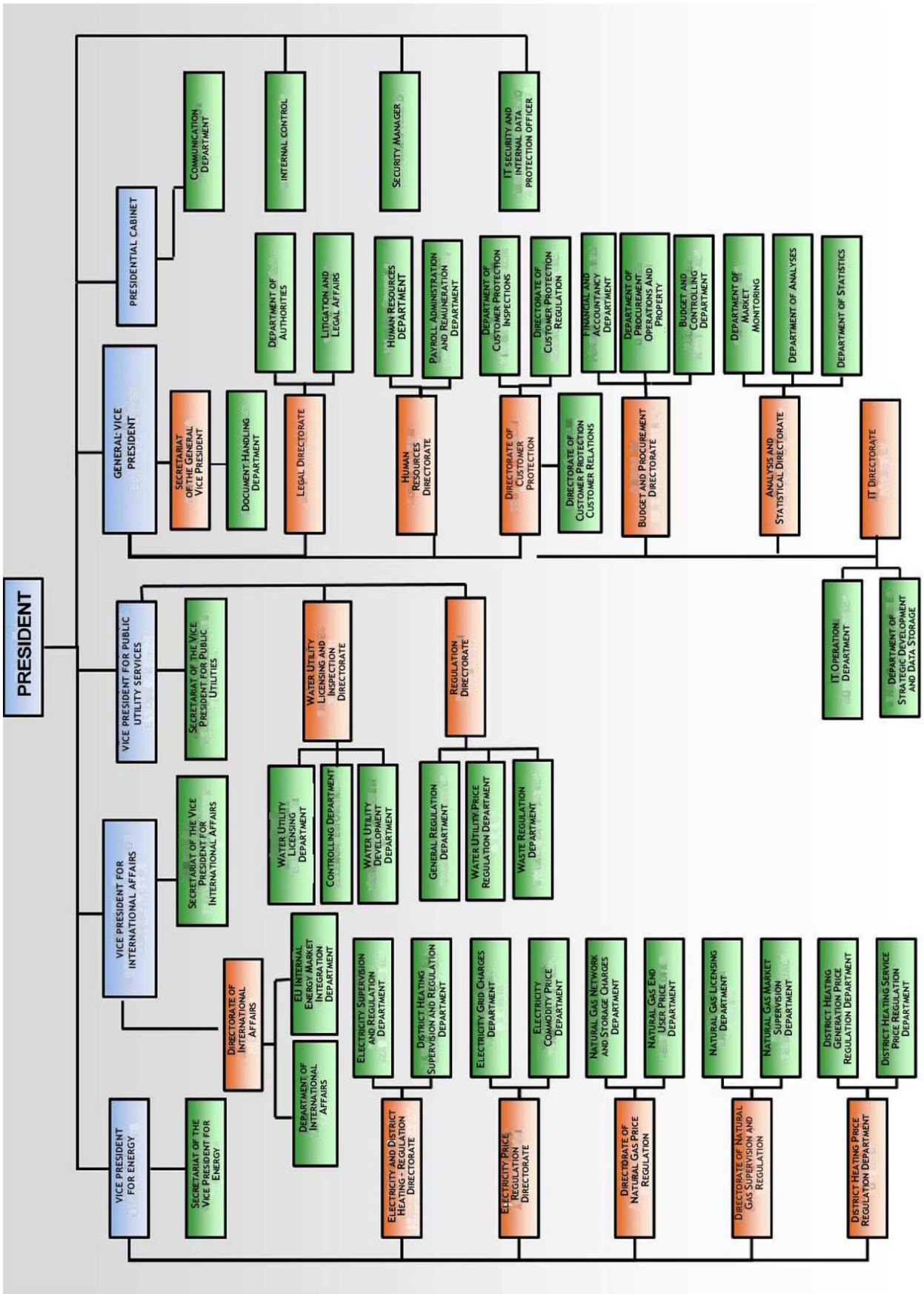
Funds for the operational and accumulation expenditures were secured in the financial year. The Authority has fully complied with the statutory provisions regarding payment obligations.

1.3. The Authority's organisation

The organisation of the Authority is laid down in the HEA Directive No. 1/2013 (VII. 25.) on the organisational and operational rules of the Hungarian Energy and Public Utility Regulatory Authority. The organisational structure ensures optimal conditions and clear roles and responsibilities for the Authority to conduct its duties of outstanding importance in terms of national economy.

In 2014, the staff of the Authority totalled 280 in accordance with the Organisational and Operational Rules. During the course of the year, 83 new entries and 27 exists were reported.

Figure 1: Organisational structure of the Authority in 2014



Training and development:

As an employer, the Authority attaches special importance to continuously strengthening its staff's commitment and creating a positive workplace, as the Authority's operational efficiency and success depend on the knowledge and value-creation ability of its human resources.

An important component in the value-creation ability of human resources is knowledge. For this very reason, an essential part of the Authority's human policy practice are trainings and courses aimed at satisfying the expectations related to daily operation and foreseeable professional standards. Under Government Decree 273/2012 (IX. 28.) from 1 January 2014, public officers, including the staff of the Authority, are obligated to participate in public service training. Compliance with the training obligations is based on training plans; a key focus in the preparation of these plans is the development of professional competences. The Authority provides regular support to its staff in application, attendance and preparation for the mandatory examinations imposed to public officers.

The Authority sent 244 individuals to mandatory training, while attendance in optional trainings was 447.

Recruitment policy:

Our continuous aim is to recruit employees who are able to identify with the Authority's objectives, are highly qualified and help the Authority to meet the high standards and expectations imposed. Taking into account the demands of various professional areas, we emphasise the assessment of personal and professional competences of applicants in the recruitment process. To this end, written professional tests and personal interviews were used most often, involving the department or units concerned in the applications.

1.4. Bilateral institutional relations

In 2014, the Authority continued to develop its relations with the national administrative bodies, institutions and other energy stakeholders. The Authority's staff liaised regularly with central administrative bodies in charge of energy policy, and attended the meetings of the parliamentary working group for utility cost reduction. Additionally, the Authority expressed its opinion on draft legislation on energy and contributed to the legislative efforts by expressing opinion and making proactive proposals related to draft legislation for various sectors.

At the end of 2014, the Authority's Vice President for Public Utility Services contacted the Office of the Chief Medical Officer of State, the National Directorate General for Disaster Management within the Ministry of Internal Affairs and the Hungarian Authority for Consumer Protection, for cooperation in the comprehensive supervisory inspections of public water utility service providers. The initiative resulted in the preparation of the cooperation agreement to be signed with the Office of the Chief Medical Officer of State.

To carry out its duties related to the non-regular public chimney-sweeping service and public waste management service efficiently, the Authority regularly liaised with the National Directorate General for Disaster Management.

In 2014, our colleagues consulted the Hungarian Water Utility Association on several occasions for information, cooperation and resolving disputes and issues related to the sector. As a result of these discussions, the public water utility service providers took a common stance in most official procedures and interpreted the legislation in force together, which considerably facilitated the Authority's activity.

Beside the Authority, other administrative bodies also undertake partial or full customer protection duties. These agencies are: the Hungarian Competition Authority, Office of Parliamentary Commissioners, data

protection commissioner, Hungarian Authority for Consumer Protection, Hungarian Trade Licensing Office. Following the practices from previous years, the Authority liaised regularly with these bodies and harmonised its activity with them, while engaging into various discussions with them on consumer protection. Additionally, under the cooperation agreement signed with the Hungarian Authority for Consumer Protection, the Authority participated in regular and ad-hoc discussions on professional matters; one of the most spectacular results of these talks was the completion of the European Energy Consumer Checklist in December 2014, which supports consumer information in line with the legislation in force.

In 2014, the Authority revised and confirmed its cooperation with the Hungarian Competition Authority and the National Bank of Hungary (Magyar Nemzeti Bank), and signed cooperation agreements with the Hungarian Office for Mining and Geology, as well.

Besides the public administrative bodies, the Authority liaised regularly with the civil consumer protection organisations. As part of these contacts, the civil organisations contributed opinion to the amendments of the Operational Rules; they participated in the evaluation meetings for the data reporting submitted as part of the various quality control decisions and for the Consumer Satisfaction survey, and received direct material support for their lobby activity in some cases.

We discussed with the National Gas Distribution Cooperation Forum, the Hungarian Energy Traders' Association, and transport and storage system operators on current matters related to gas price regulation and the transposition of EU laws into the Hungarian legislation.

In 2014, the Authority reorganised and collaborated closely with the Hungarian Electrotechnical Association organisation, which is the top professional public benefit organisation in the Hungarian electricity industry. As part of the reorganisation, we extended the membership considerably and currently we count 27 members. During the course of the year, we organised several meetings for members with professional programmes and other events.

Last year, the Authority continued its professional cooperation with the Hungarian Energy Association and the Hungarian Scientific Society of Energy Economics; representatives of the Authority participated in the various events and conventions of these organisations both as lecturers and as attendants. Our staff also attended the national customer service conferences organised by Energetikai Kiadó as lecturers on consumer protection matters.

Our colleagues contributed to the MAVÍZ X. National Customer Service Competition and Sales Conference both as lecturers and members of the evaluation committee, and as lecturers to the MATÁSZSZ XIV. District Heat Supply Conference and Professional Exhibition.

1.5. International relations

In 2014 the Authority continued its international activity on European, regional and bilateral level. The primary goal of these collaborations was to promote local initiatives at the international forums, and to leverage the international experiences acquired also within the Authority. The Authority contributes expertise to the elaboration of European Union Network Codes (hereinafter referred to as: NC) in order to promote the Hungarian interests (in the elaboration and approval processes of five NCs applicable to the natural gas markets and ten NCs applicable to the electricity markets).

1.5.1. International organisations

In 2014, the Authority continued its professional cooperation with the energy policy organisations, committees, licensee organisations (ENTSOG, ENTSO-E) of the European Union and the cooperation organisations of the regulatory authorities of the Member States.

Experts from the Authority participate in the activity of the highest forum of the Agency for the Cooperation of Energy Regulators (ACER), the Board of Regulators, and of five working groups and the thirty-three Task Forces and Workstreams.

Delegates from the Authority contributed to the elaboration of various drafts, position papers, publications and provided professional contribution in the joint work in eight working groups and sixteen Task Forces and Workstreams, as well as in the highest forum (General Assembly - GA) of the Council of European Energy Regulators – CEER.

The Authority is also a member of the Energy Regulators Regional Association (ERRA). This organisation gathers the national regulators of several Member States of the European Union and non-EU countries (primarily in Eastern Europe and Asia). In 2014 the Authority delegated members of its senior management and experts to participate in the work of three committees and one working group of ERRA: Chairmen Committee, Licensing/Competition Committee, Tariffs/Pricing Committee, Consumers and Retail Markets Working Group. These included the ERRA committee meetings and General Assembly meeting in Istanbul, the G20 Outreach Energy Regulators Dialogue organised in the headquarters of the Authority and the meeting on water utility regulation in Tbilisi. The Authority sent representatives also to the first meeting of the Presidium elected in March in Budapest, and the 13th Energy Regulation and Investment Conference in Baku. In 2014, the Authority contributed to the settling the legal status of ERRA.

To facilitate the improvement of the European internal market from a regulatory point of view, in 2014 the Authority attended the following forums established by the European Commission: European Gas Regulatory Forum (Madrid Forum, May 2014, October 2014) and the European Electricity Regulatory Forum (Florence Forum, May 2014, November 2014).

1.5.2. Regional collaboration

The Authority also contributed to the harmonisation of the systems of rules aimed at facilitating the cooperation of the Member States in the electricity and natural gas markets in the EU, with the final goal of establishing an internal energy market. A substantial result is the coupling of the Czech-Slovakian-Hungarian (CZ-SK-HU) day-ahead electricity markets, successfully operating since 2012, joined by Romania after intensive preparation. The successful live start of the market coupling thus extended, which applies the price coupling method following the European Target Model, was on 19 November 2014. In addition, preparations for implementing a flow-based market coupling – set as the EU target model for the Central Eastern European (CEE) region – are still continuing. As part of this, the framework necessary for the implementation of the NWE-CEE flow-based market coupling (NWE-CEE FBMC) was set up and assessment and elaboration of duties have commenced. Negotiations are being conducted also on Romania's participation in this project. These projects contribute to the establishment of the internal EU energy market by supporting price harmonisation, they encourage competition and thereby create favourable choices for consumers in terms of services and products.

Regional gas market consultations continued in 2014:

- the Authority proposed a multilateral coordination meeting on the matter of the Croatian-Hungarian cross-border gas pipeline in Ljubljana, which was attended by ACER, the concerned regulatory authorities and transmission system operators.
- The purpose of the Romanian-Hungarian-Austrian natural gas corridor is to transport the natural gas produced in the Black Sea to Baumgarten. Project details are being elaborated in collaboration with the concerned regulators and transmission system operators. We attended the meetings held as regards the implementation of the Regional Booking Platform (RBP) elaborated

by FGSZ Zrt, together with the Romanian energy regulation authority, the Romanian TSO and FGSZ. We regularly support the application of the platform during the Romanian-Hungarian-Austrian project meetings.

- The Authority sent its representatives to the V4 meetings organised to facilitate collaboration on the Eastern European gas market and contributed efforts in the preparation of various regional drafts (V4 trading licences, V4 regional preventive action plans and emergency plans). Energy regulatory authorities from the V4 countries met in December 2014 in Ostrava.

1.5.3. Bilateral cooperation

In January 2014, the Authority welcomed the managers of the Danube Water Programme operating within the World Bank. The purpose of the meeting was to revive professional and political dialogue in the Danube region to promote sustainable water management and waste water management.

In February 2014, the Authority met with five experts from Japan who mapped the conditions for the investment they planned in the Borsod County area. The project envisages the production of synthetic gas from the coal mined there with a new technology.

In March 2014, we conducted bilateral negotiations with the commercial attaché of the Canadian embassy in Budapest about opportunities for collaboration with Canadian energy corporations operating in Hungary.

In March 2014, at the European Commission's request, we received two experts from the Ukrainian regulatory authority (NERC) as part of the TAIEX programme; the meetings were attended by the relevant departments and experts from MAVIR Zrt and Csepel Alpiq Kft. The purpose of the study tour was to familiarise the Ukrainian experts with the Hungarian practices related to the electricity ancillary services.

In May 2014, the Authority held a three-day consultation for the 19-member delegation from the Macedonian energy regulatory authority (ERC), with experts from FGSZ Zrt, FŐGÁZ Földgázelosztó Kft, ERRA, MAVIR and HUPX. The purpose of the study tour was introducing our experience gained in the liberalisation of the energy market.

In May 2014, the British Secretary of State for Energy visited our Authority for discussions on energy prices and projects of common interest in energy security and energy infrastructure.

In May 2014, the Authority met with the commercial attaché of the US Embassy in Budapest, discussing matters related to the security of domestic supply, gas supply disruption procedures and consumer limitation rules.

In October 2014, Urban Rusnák, Secretary General of the European Energy Charter visited the Authority for talks about the importance of the Energy Charter and the European investment environment.

In November 2014, the Authority welcomed the 24-member delegation of senior executives from the Thailand Central Electricity Regulatory Commission. Experts from the Authority held presentations on our duties and competences, matters related to electricity and gas regulation, as well as price regulation, the restructuring of the Hungarian energy sector, consumer protection and quality of supply.

In 2014, the Authority conferred with the Central Eastern European energy regulatory authorities on opportunities for coupling the electricity markets and details of gas trading through the cross-border pipelines, meeting with experts from the HERA (Croatian energy regulator), URSO (Slovakian energy regulator), AERS (Serbian energy regulator) and ERC (Macedonian energy regulator).

1.5.4. The integrity and transparency of wholesale energy markets (REMIT)

The Working Group dealing with the EU Regulation on the integrity and transparency of wholesale energy markets (REMIT) started its operations in its present form on 7 December 2013 within the Authority. On the basis of the authorisation provided by legislation, the reorganisation and development of the processes within the Authority has been commenced in the recent period to ensure efficient work. In doing so, we started to test and introduce in the Authority the 'CEREMP' system administering the registration of market players, in accordance with Article 9 of the REMIT. To establish the legal background necessary for the application of the CEREMP, we made suggestions to the Ministry regarding the regulatory scope of the ministerial decree. Regarding the publication webpage developed and operated by HUPX intended to publish insider information, we developed a draft methodology for checking the completeness of the information published. The draft internal regulation necessary for conducting administrative actions has been completed. We made a proposal to the Ministry on the amendment of the procedural rules related to the REMIT (REMIT Article 13). According to Articles 6 and 8 of the REMIT, the Authority commenced assessment of the currently available information, knowledge and data sources for developing the market monitoring system, and with respect to the necessary data, the Authority signed a cooperation agreement with ACER under which the Authority will also be able to access the data reported to the ACER.

1.5.5. Regulation on infrastructure

According to Regulation (EU) No. 347/2013 on guidelines for trans-European energy infrastructure (hereinafter: Infrastructure Regulation), the Authority prepared the manual of procedures for the permit granting process of projects of common interest, which the Authority published in June 2014 on its webpage, after negotiations with the relevant authorities involved. The first list of projects of common interest (PCI) entered into force in January 2014. The Infrastructure Regulation provides that the realisation of projects shall be monitored on an on-going basis; the related tasks shall be carried out by the ACER, the Commission and the competent authorities appointed in accordance with the Regulation (in Hungary, the Authority).

Regulatory bodies and ACER are obliged to form an opinion about the proposal and inform the European Commission and member states thereof.

1.6. Statistics

In 2014 the Authority continued to collect and process the energy statistics data supplied by nearly 800 licence holders containing the technical and financial information necessary for the proper functioning of the Authority. This meant the receipt, verification and registration of more than 35,000 data sheets annually – received electronically through the data reception interface called Energy Information Database on the Authority's website.

During the year new data requirements and sets of forms have been introduced in accordance with the demands of professional units and the changes in legislation.

In regard to the data collections regulated in Decree No. 288/2009 (XII. 15.) on data collected and taken over by the National Statistical Data Collection Programme (hereinafter: OSAP), the statistics unit expected to receive energy statistical data from approximately 5,700 data suppliers.

For the purpose of improving the relationship with our data suppliers, we have organised multiple consultations at the beginning of the year within the framework of the National Statistical Data Collection

Programme, and we also operated a Helpdesk service where the employees of the Authority were ready on the phone and via email to help our data suppliers with filling in the data sheets properly.

As in the previous years, the Authority released several general and thematic energy statistics publications in 2014. In accordance with the practice of previous years, also in the year 2014, our publication prepared in cooperation with MAVIR Zrt., titled *"Statistical data of the Hungarian electricity system of 2013"* appeared in November 2014. In December 2014, the publication titled *"Statistical data of the Hungarian natural gas system of 2013"* , produced by the Authority and FGSZ Zrt., appeared for the first time to provide an overview of the Hungarian natural gas system.

It took almost a year's work to finish our annually published online publication titled *"Report on the evolution of renewable power generation and feed-in tariff system in 2013"* in October last year, which appeared on the Authority's website. This study, also known as the FiT Report, is also the most important collection of statistical data related to renewables.

The operation of the national energy statistics system was passed on to the Authority as of 1 January 2012. The development of the Authority's department specialised in statistics begun in 2013 and continued in 2014. The positive feedbacks from International Energy Agency (IEA) and Eurostat have justified our efforts that lead to our achievements in connection with the strengthening of the professional background and the fulfilment of regular data supply obligations.

We also made a significant progress in the performance of the annual questionnaires (IEA/Eurostat Joint Annual Questionnaires), which may be regarded as a top product of the statistical filed. Within the framework of the statistical data collection in 2013, we processed the data from almost 6000 data suppliers and besides the reduction of time necessary for data processing, we also achieved spectacular improvements in terms of data quality and data consistency.

The Authority is aware of the growth of the government's energy statistic demands, and it also takes all efforts to meet the more and more detailed data supply requirements set by the European Commission.

In order to simplify data supply and improve the efficiency of data processing tasks done by the Authority, the renewal of the IT infrastructure serving as a basis for the OSAP has been started in 2014, which extended the data processing and checking process by a number of automatisms that allow us to save a significant amount of labour that can thus be redistributed to the benefit of professional work processes.

2. Operation and regulation of the Electricity market

2.1. Operation of the Electricity market

2.1.1. Operating model

In the supply chain of electricity system, power generation companies sell the generated electricity to traders and universal service providers, who resell it on the wholesale market or supply it directly to consumers. Electricity flows from generators to consumers through transmission and distribution networks. Despite the monopolistic situation of the owners of this transport infrastructure, the domestic regulations ensure non-discriminatory access to the infrastructure in compliance with the EU regulations. The transmission and distribution activities are to be conducted by independent companies that cannot be involved in production or supply.

Figure 2: Structure of Hungarian electricity market in 2014 (physical flow)

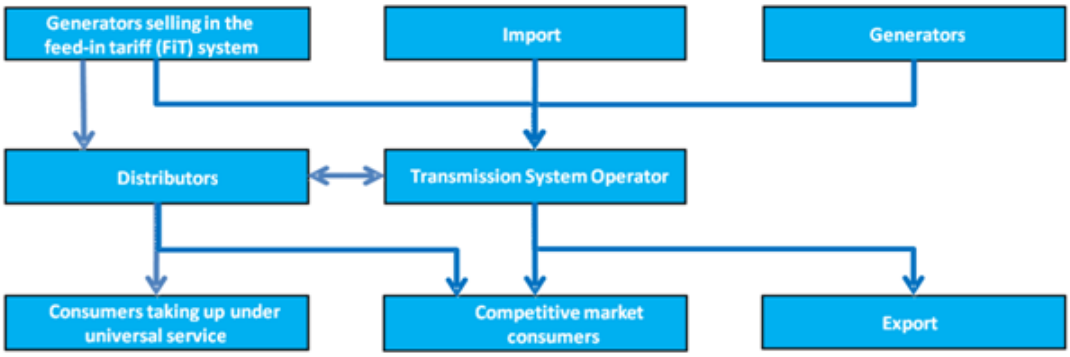
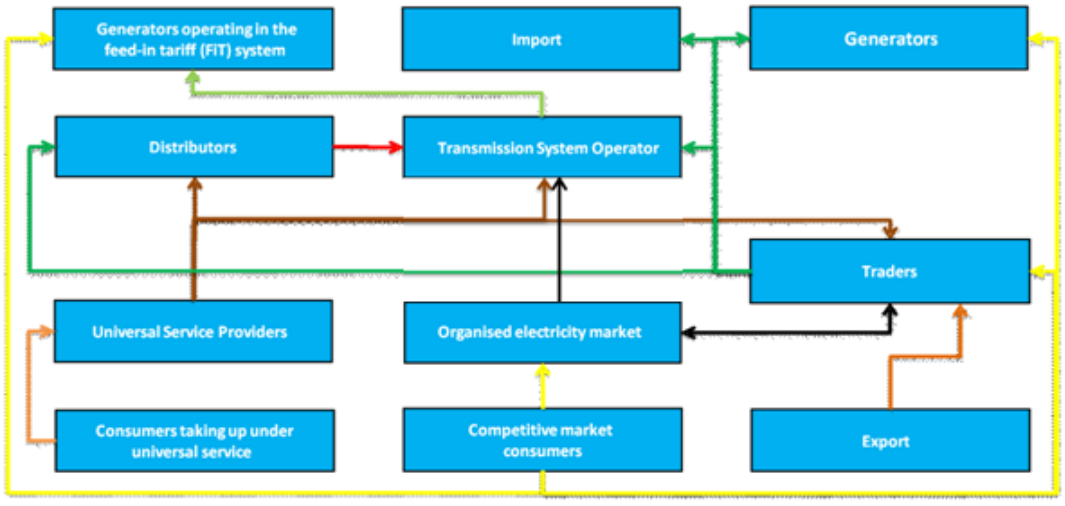


Figure 3: Structure of Hungarian electricity market in 2014 (financial flow)



The current structure of the Hungarian market essentially took shape around 1995, when the majority of large power plants, the operating public utility suppliers and the distribution networks were privatised.

Presently, domestic power plants sell the majority of their power generation in the framework of medium-term power purchase agreements concluded with the former public utility wholesaler (MVM).

Approximately one fifth of power plant generation is sold directly to the free market in the framework of short-term (mostly annual) contracts. Typically, MVM establishes contracts with power plants for 5 to 8 years. MVM sells approximately half of the electricity purchased from domestic power plants through framework contracts, PSAs to universal service providers supplying electricity to consumers eligible for universal service (residential and small consumers, public institutions etc.).

Approximately half of the electricity available from generators is sold by MVM to traders either under bilateral contracts or at public capacity auctions. A significant part of primary purchases of traders goes through a secondary trade within the trading sector before reaching final consumers or export markets. The trade of electricity generated from renewable resources and waste falls in a special trading category. This kind of electricity has to be purchased from generators by the transmission system operator under the feed-in tariff (FiT) scheme (at a price specified in the respective legislation and in volumes and during a period defined by the Authority). MAVIR Zrt. sells part of the electricity sold in the framework of FiT and the corresponding balancing energy to the traders, and another part in the organised electricity market.

2.1.2. The generation and wholesale markets

The total installed capacity of domestic power plants amounted to 8490 MW by the end of 2014, of which four units of the Paks Nuclear Power Plant accounted for 2000 MW. Further significant power plant capacities are the natural gas-fired Dunamenti Power Plant (854 MW), and the basically lignite-fired Mátra Power Plant (950 MW).

Table 7: The market share of the domestic power generation companies/groups in 2014 by installed capacity and generation

	Installed capacities (MW)[11]	Market shares (by capacity)[12]	Net generation (TWh)	Market shares (by generation)[13]
MVM[1]	2766	32.6%	15.31	38.7%
MET Power AG[2]	854	10.1%	0.17	0.4%
RWE[4]	950	11.2%	5.36	13.6%
Tisza Erőmű Kft.[4]	900	10.6%	0.00	0.0%
E.ON[5]	528	6.2%	0.70	1.8%
Alpiq[6]	403	4.7%	0.43	1.1%
EdF[7]	396	4.7%	0.88	2.2%
Other domestic power plants[8]	1693	19.9%	3.85	9.7%
Domestic power plants total	8490	100.0%	26.69	67.5%
Net import			13.39	33.9%
Gross consumption			39.52	100.0%
3 largest power generators[9]	4616	48.4%	21.55	54.5%
HHI index[10]		1483		1694

Explanation:
Power generation companies in this table are understood as the majority shareholder investor groups having a majority ownership of the power stations. The grouping by company only includes power plants with installed capacities of 50 MW or above.

1. MVM: Paksi Atomerőmű Zrt., Vértesi Erőmű Zrt., MVM GTER Zrt.
2. Acquisited Dunamenti Erőmű Zrt. from GDF SUEZ
3. RWE: Mátrai Erőmű Zrt.
4. Property of Invest Finance Consulting Group Zrt.
5. E.ON: E.ON Erőművek Kft., Debreceni Kombinált Ciklusú Erőmű Kft.
6. Alpiq (Atel until 1 February 2010): Csepeli Áramtermelő Kft.
7. EdF: Budapesti Erőmű Zrt.
8. Consolidated share of power plants with a market share below 5%

9. Calculated according to gross installed capacity.
10. The concentration indices one may obtain are higher when calculated with available or actually usable capacities and lower when taking import capacities into consideration. Upon calculation of the HHI index, power plants with installed capacities below 50 MW (the line "Other domestic power plants") have not been taken into account.
11. Calculated according to the 12th month of the year concerned.
12. Net (fed to the grid) generation of the power generation company in question divided by the gross national consumption.
13. Gross generation of the given power generation company divided by the total national consumption.

Table 8: Sales patterns of national power generation companies

	Sales of electricity (TWh)			Share
	2012	**2013**	**2014**	**2014**
MVM	22.0	20.3	20.1	**75.2%**
Power feed-in scheme	1.9	1.9	2.4	**9.0%**
Traders and other	7.4	5.3	4.2	**15.8%**
Total	**31.3**	**27.5**	**26.7**	**100%**

The structure of the wholesale electricity market is different in terms of selling to universal service providers and traders. In 2014, universal service providers have further diversified their procurement: a part of one third of their electricity procurements was no longer purchased from MVM. In the universal service provider segment subject to price control by the authorities (although its size is only a fraction of that of public utility), MVM still remained a dominant player in 2014 with its market share of 65.2%. In 2014, the universal service providers did not have to purchase renewable energy generation subject to the feed-in scheme.

Table 9: Procurement patterns of universal service providers

	Electricity procurement (TWh)			Share
	2012	**2013**	**2014**	**2014**
MVM	10.8	9.1	7.3	65.2%
Power feed-in scheme	0.6	0.0	0.0	0.0%
Other	0.8	2.6	3.9	24.8%
Total	**12.2**	**11.7**	**11.2**	**100%**

Contrary to universal service providers, the procurement activities of free market traders are determined by wholesaling activity besides consumer demand. Primary purchases of traders in 2014 (i.e. disregarding trading among traders) relied essentially on four basic sources. These included import sources, electricity from power generation capacities reserved by MVM, sales by domestic power plants outside FiT and reselling electricity purchased by MAVIR under the feed-in tariff scheme and power originating from balancing the FiT balance group. Electricity purchased from primary sources (a significant part of it was subject to trader to trader transactions previously) is sold partly on the domestic wholesale and retail market and partly abroad.

Table 10: Primary procurement patterns of traders[1]

	Electricity procurement (TWh)			Share
	2012	**2013**	**2014**	**2014**
Import	23.2	22.0	24.4	**58.8%**
MVM	9.9	10.1	11.0	**26.5%**
Domestic power plants	6.5	5.5	4.7	**11.3%**
Other[2]	1.4	1.8	1.4	**3.4%**
Total	**41.0**	**39.4**	**41.5**	**100%**

Explanation:
1. Primary procurement of traders means electricity purchased directly from domestic power plants, import or from MVM. The table does not contain the significant transaction volumes among the traders and their turnover realised on the organised market.
2. E.g. electricity purchased under the feed-in tariff scheme or balancing energy procured from the transmission system operator.

Although an organised energy market (i.e. power exchange) had already been established in Hungary, electricity trading still took place in essence in the form of bilateral energy contracts in 2014 similarly to other EU member states. For reasons of comparison, the trading system of HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX Hungarian Power Exchange Company Limited by Shares) in 2014 an amount of 12.6 TWh spot and 3.6 TWh forward products were traded, while intra-traders turnover according to the data received by traders was nearly 183 TWh in 2014. In spite of this, the volume of spot products traded on HUPX in comparison to domestic consumption is even considered very high by international standards: In 2014, it exceeded 31% of the gross domestic consumption (39,520 MWh).

The jurisdiction of ex-ante intervention stipulated in the VET intended to prevent abuse of market power is exercised by the Authority to influence the evolution of free market prices. Official ex-post (competition supervision) functions laid down in Act LVII of 1996 on the prohibition of unfair trading practices and unfair competition (hereinafter referred to as the Competition Act) concerning the subsequent investigation and sanctioning of the abuse of dominant position are performed by the Hungarian Competition Authority (hereinafter referred to as: GVH).

The VET applies special rules in order to avoid abuse of significant market power: the regulatory practices applicable for licensees with significant market power were introduced which is a new tool in the regulation of the electricity sector but is well known in the electronic communications industry. The Act and the corresponding enforcement decree contain detailed provisions for the purposes of identification and management of licensees with significant market power.

Under this new regulation the Authority as a supervisory agency may impose additional special obligations (such as electricity sales under public capacity auctions, cost based pricing, preparation of sample bids, etc.) on any licensee deemed to possess significant market power after the conduct of a market analysis – be it a player on the wholesale or retail market.

Imposing obligations serves the prevention of abuse of market power and the establishment of more efficient market competition. The Authority identifies the licensees possessing significant market power based on market analyses in collaboration with the GVH and imposes special additional obligations adjusted to their respective market positions.

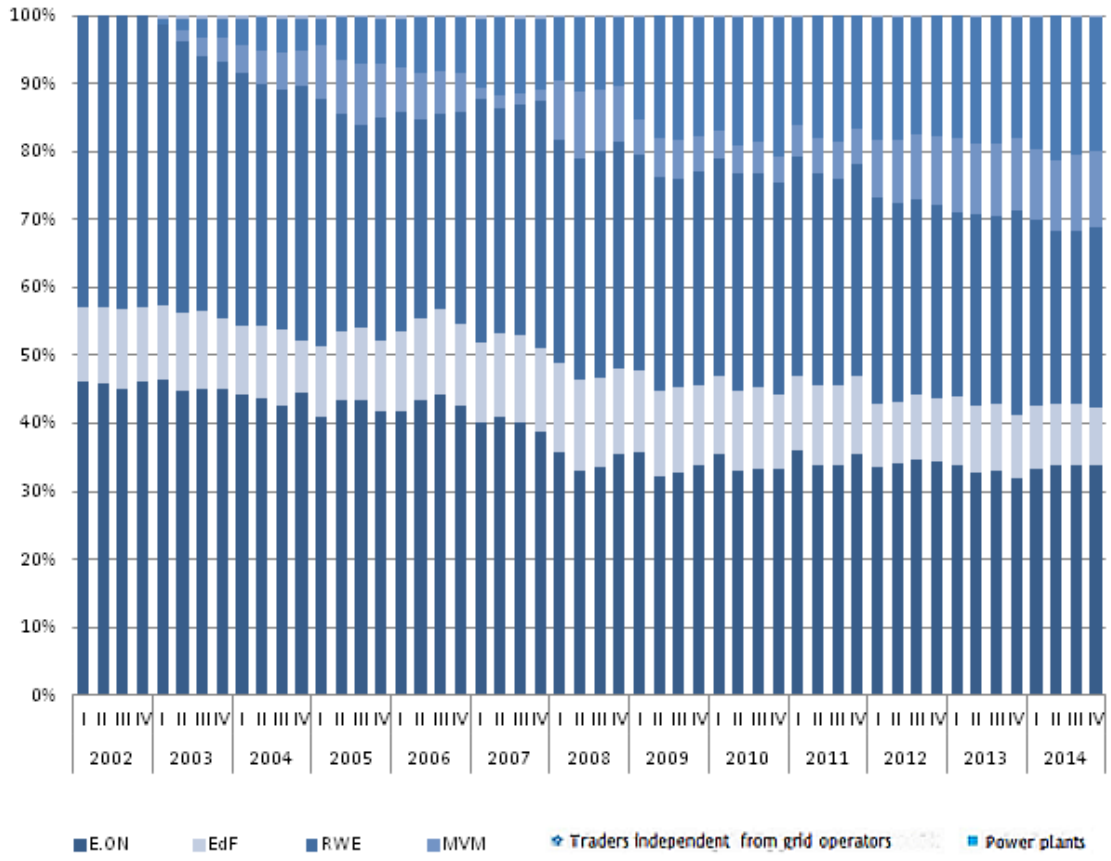
2.1.3. The retail market

The retail market has been characterised by a dual structure since the market opening in 2003, i.e. the two distinct segments of the regulated price and the free market. As of 2008, the regulated public utility services formerly available to all consumers were replaced by universal services, available to a far more limited range of eligible consumers.

Consumers eligible for universal services are still predominantly supplied by the former public utility service providers, now holding universal service provider licences. Universal service providers are obliged to sell electricity to and establish contracts with consumers eligible to universal services.

Consumers not eligible for universal services either purchased power already from the free market (mainly large consumers) or were exposed to the free market only upon termination of the public utility scheme (mainly medium and small consumers). Small consumers exposed to the free market in 2008 upon termination of the public utility services mostly remained with their former service providers, who supplied energy to these free market consumers holding their respective trading licences.

Figure 4: Changes in the retail market share of investor groups (2002–2014)



Companies holding universal service provider and trading licences – E.ON Energiaszolgáltató Kft. (E.ON Energy Supplier Ltd.), Budapesti Elektromos Művek (ELMŰ) Nyrt. (Budapest Electric Works Ltd.), Észak-magyarországi Áramszolgáltató (ÉMÁSZ) Nyrt. (North Hungarian Electricity Supply Plc.) and EDF Dél-magyarországi Áramszolgáltató (EDF DÉMÁSZ) Zrt. (EDF South Hungarian Electricity Supply Ltd.) – are also interested in the operation of the distribution grids through their subsidiaries or affiliates. The universal service providers are owned by three multinationals – E.ON, RWE and EDF –, also providing power to consumers through other trading companies apart from those referred to above. The total market share of these groups of companies on the domestic retail market is still significant even 10 years after market opening in 2003, amounting to about 70%, meaning they lost 30% of their market in the past 12 years.

The strong market concentration was reduced by the appearance of traders undertaking the supply of consumers upon market liberalisation in addition to their wholesale trading operations. They equally included multinational companies controlling several subsidiaries in the region and smaller domestic traders. About 30 traders which had no proprietary relations to domestic distribution system operators were active on the retail market in 2014. Their respective share was – similarly to last year – approximately 20%. MVM's market share is 10%.

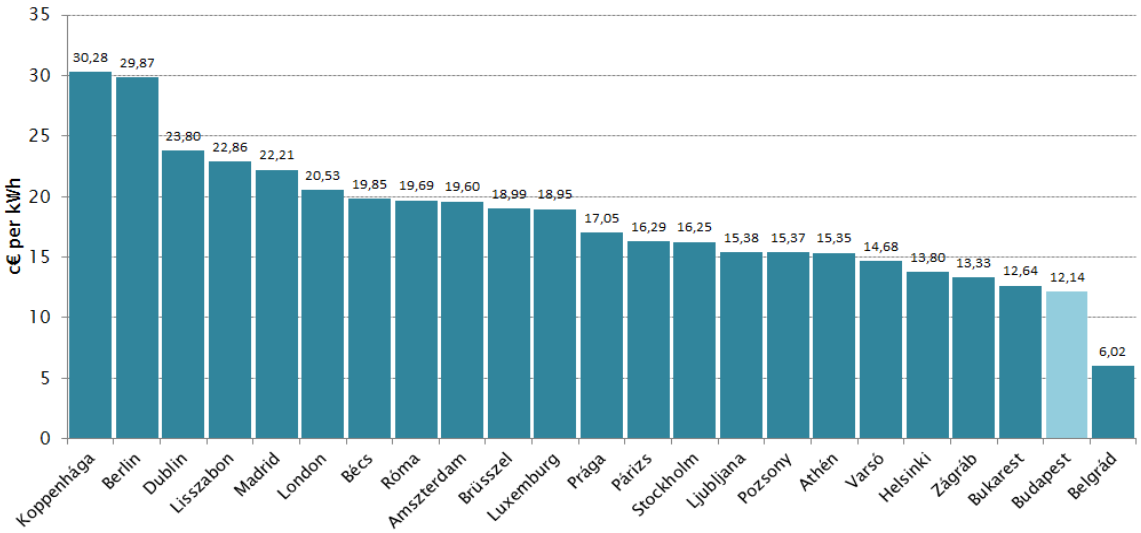
The market share of the three large multinational groups (E.ON, EDF and RWE) is still high as the majority of consumers purchase electricity in the form of universal service. It however must be emphasized that 40% of the approximately 330,000 free market consumers are served by the traders of the three large groups of companies (primarily the small and medium consumers not eligible for universal services).

Table 11: Market shares based on the number of points of delivery in December 2014

Company/Number of consumers	Universal service	Free market	Total	Share (total)
E.ON Energiaszolgáltató Kft., E.ON Energiaszolgáltató Kft.	2,367,308	24,578	2,391,886	**43.40%**
ELMŰ Nyrt., ÉMÁSZ Nyrt., Magyar Áramszolgáltató Kft.	2,077,663	89,101	2,166,764	**39.31%**
EDF DÉMÁSZ Zrt.	733,876	19,431	753,307	**13.67%**
Magyar Telekom Távközlési Nyrt.	0	104,831	104,831	**1.90%**
MVM Partner Energiakereskedelmi Zrt.	0	63,550	63,550	**1.15%**
Other	0	31,427	31,427	**0.57%**
Total	**5,178,847**	**332,918**	**5,511,765**	**100.00%**

On a European scale – as reported by the Authority – the domestic residential end user price was one of the lowest ones in the region in December 2014. Calculated by purchasing power parity however, it was in the mid-range.

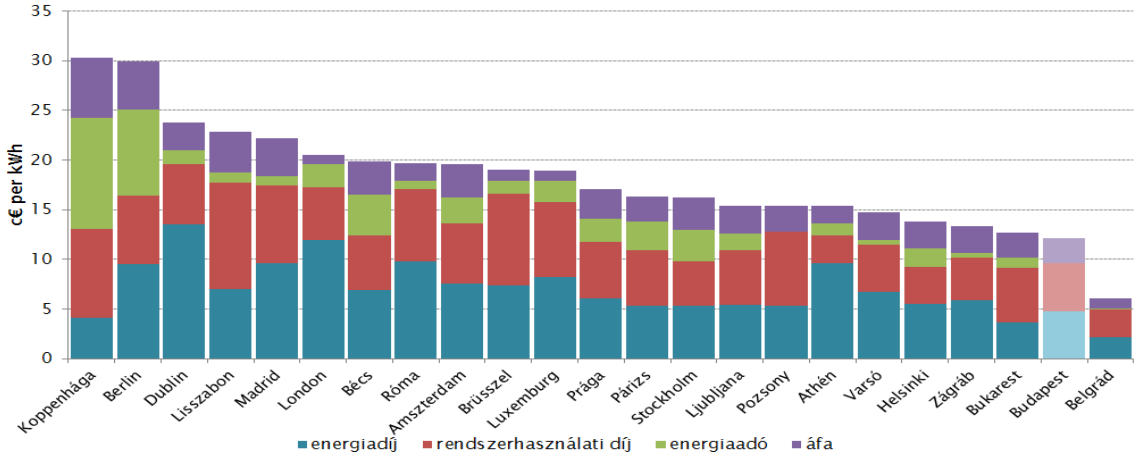
Figure 5: Average electric power prices for household consumers (EUR cent/kWh), December 2014



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

Source: HEA

Figure 6: Electric power fee elements for household consumers (EUR cent/kWh), December 2014

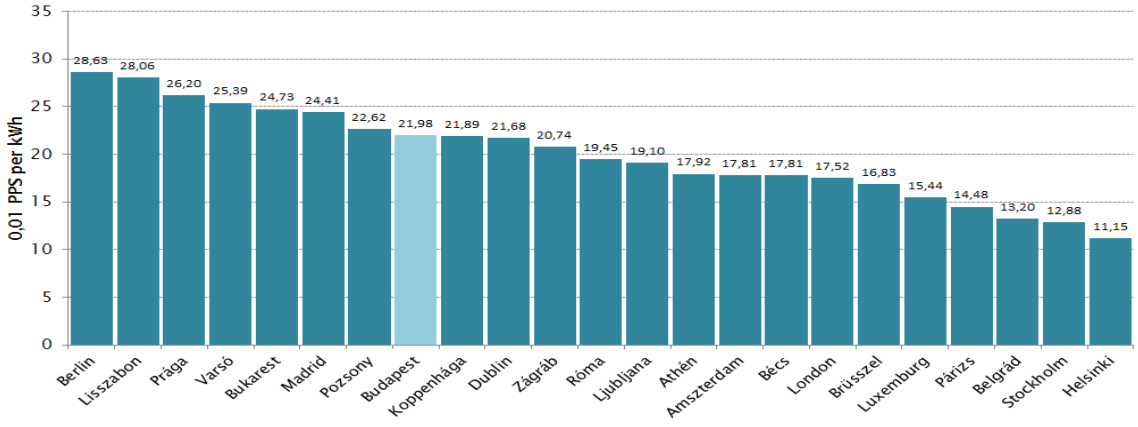


Copenhagen, Berlin, Dublin, Lisbon, Madrid, London, Vienna, Rome, Amsterdam, Brussels, Luxembourg, Prague, Paris, Stockholm, Ljubljana, Bratislava, Athens, Warsaw, Helsinki, Zagreb, Bucharest, Budapest, Belgrade

energy fee / system charge / energy tax / VAT

Source: HEA

Figure 7: Residential consumer electric power average prices at purchasing power parity (0,01 PPS/kWh), December 2014

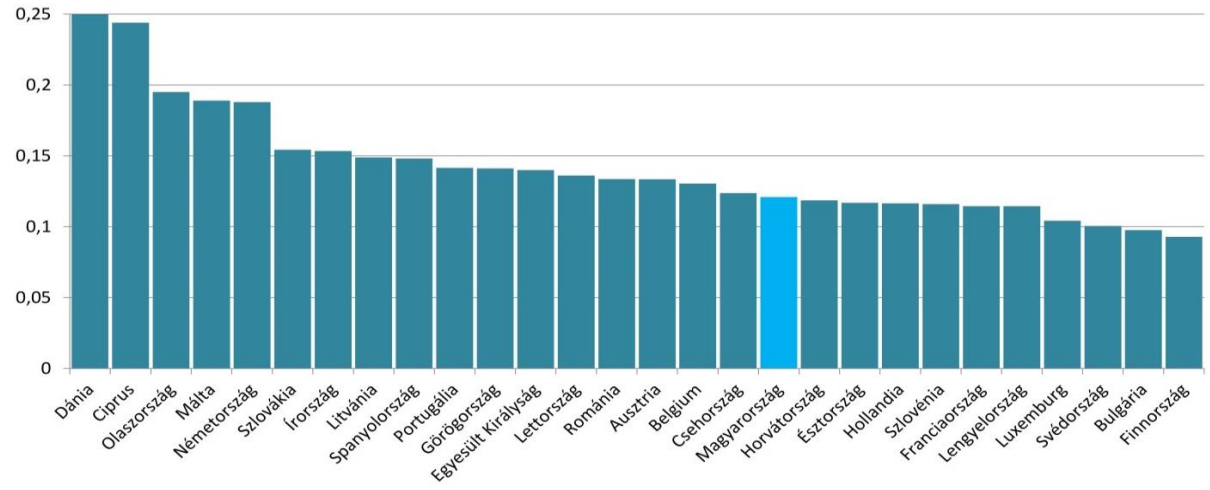


Berlin, Lisbon, Prague, Warsaw, Bucharest, Madrid, Bratislava, Budapest, Copenhagen, Dublin, Zagreb, Rome, Ljubljana, Athens, Amsterdam, Vienna, London, Brussels, Luxembourg, Paris, Belgrade, Stockholm, Helsinki

Source: HEA

For industrial consumers, the Hungarian competitive market mean price for electricity is in the EU mid-range.

Figure 8: Comparison of mean electricity prices for industrial consumers in Europe (500–2,000 MWh annual consumption; first half of 2013, EUR/kWh)



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

Source: EUROSTAT

2.1.4. Security of supply

For the purposes of security of supply it is reassuring that for the most part of the year 2014 power plant capacity reserves larger than that set forth by ENTSO-E (1350 MW) were available. Due to the resulting market situation, the increasing share of import forces domestic generators out, as a consequence of which the rate of the actually available secondary current reserves – within that, markedly in the "downward" direction – shows an increasingly deteriorating tendency. The Authority evaluated the preparation for winter – this being a crucial period from the aspect of security of supply – by taking the annual scheduled maintenances, the realisation of developments, the fuel stocks required for winter months as specified in the relevant rules and regulations, the electric capacity, the electricity balance, the reserve capacities and the availability of cross-border capacities into consideration. In its evaluation, the Authority established that power plants completed the winter preparation programme for 2014, having completed their annual maintenance programme until 15 October 2014, and contracted their required fuel demand.

The power plants for which the availability of fuel stock laid down in Decree 44/2002. (XII. 28.) GKM is obligatory have duly fulfilled their respective liabilities in 2014. In the winter period of 2014-2015 – based on the preliminary maintenance plans submitted by power plants - the output balance of the Hungarian electricity system had larger than required reserve levels from the beginning of October to the end of April. The capacity balance of the Hungarian electricity system for the second half of 2014 was adequate.

In scheduling the maintenance, power plants had to consider that the maximum capacity demands in the summer – due to the increasingly widespread use of HVAC equipment – nearly reach those of the winter (in July 2014 it was 6,050 MW, while the maximum peak load in 2014 was 6,461 MW in December 2014).

Shut down of natural gas supply to hydrocarbon-fired power plants may be necessary in the cold winter season, therefore cooperation between the electricity transmission system operator dispatcher and the natural gas transmission system dispatcher FGSZ Földgázszállító Zrt. (FGSZ Natural Gas Transmission

Company Ltd.) is still necessary. No shut down of natural gas supply occurred in the winter of 2013–2014. Though measures were taken to prevent the freezing of coal supplies, in the event of a substantial temperature drop such incidents may nevertheless occur, limiting the generation of Mátra Power Plant. In such cases, quick action may be needed to switch reserve capacities on. No reserves had to be switched on due to freezing of coal supplies in the winter of 2013–2014.

From among the factors affecting the security of energy supply in the winter, the responsible behaviour of market players, the continuous availability of natural gas supply and, to a lesser degree, that of the alternative fuels (biomass) are the most important. Therefore, a harmonised cooperation of natural gas and electricity markets ensuring adequate flexibility is of special importance.

Of power plants having installed capacities of 50 MW or above, the following major – in progress or planned – developments and changes are known as of 2014:

Table 12: Developments of power plants having installed capacities of 50 MW or above in 2014

MVM Paksi Atomerőmű Zrt.	The power plant underwent a series of developments in the recent period. Among these issues, modifications connected to management of serious accidents, flooding of reactor shaft through the ventilation system, new accident-related instrumentation and replacement of auxiliary gas nozzles are specially emphasized. Reconstruction of HVAC system, 1st phase of renovation of turbine oil cleaning technology, modification of auxiliary water preparator and leachate drainage system, renovation of oil dust extractor system, reinforcement of earthquake protection of machinery of bunkers and renovation works of meteorological system are in progress. Modernisation of 6 kV block distributors, implementation of Serious Accident Simulator and renovation works of computer rooms are completed, reconstruction of elevated passageways between buildings as well as of the chemical sampling and metering system is in progress. The power plant has commenced with statical calculations in connection with the expansion of operating time. Replacement of 6 kV cables of the water works II. with new and modern cables is in progress.
Alpiq Csepel Kft.	The power plant has completed the replacement of DCS operator stations as well as the development of the calorimetry data collector system as well as the control of flue gas routes of gas turbines.
Bakonyi Erőmű Zrt.	Preparation works for a single gas turbine CCGT block at the company's Almásfüzitő site are in progress. Official supervision of several main equipment is completed. Mechanical renovations were made on the turbo machine groups. Permission procedure required for the renovation of the slurry removal system is in progress.
Tisza Erőmű Kft.	In this power plant, electricity production is suspended as of 1 July 2013 on the basis of the operation suspension licence received from the Authority.
Debreceni Kombinált Ciklusú Erőmű Kft.	In this power plant, electricity production is suspended as of 1 July 2013 on the basis of the operation suspension licence received from the Authority.
Dunamenti Erőmű Zrt.	The power plant renewed the water works obsolete from the point of view of control engineering and modified it according to changing requirements on cooling water. The operating permit of blocks F of the power plant expired, thus their demolition is in progress. Maintenance works at blocks G1 to G3 are completed.
E.ON Erőművek Termelő és Üzemeltető Kft.	No significant developments influencing the operation of the Gönyű Combined Cycle Power Plant took place recently. The annual maintenances have been performed according to the plans.
Budapesti Erőmű Zrt.	An emphasized task in this year was the first overhaul of the Kelenföld steam turbine including the opening up the housing as well as the control of the hot gas route of the Újpest gas turbine which was due.
ISD Power Kft.	In the power plant, boiler chamber gas system was modified, status survey of steam turbine stator and rotor as well as partial replacement of auxiliary water preheater and flue gas channel is completed and a turbo blower was renewed. Furthermore, official revision of boilers and turbine was done, which was due.

Mátrai Erőmű Zrt.	In the frame of optimisation of the flue gas desulphuriser system, power plant completed the overhaul of blocks III. and IV, and, in parallel, the performance enhancement of the flue gas absorber I. as well as the optimisation of the electro filter and the flue gas desulphuriser from the point of view of fluid mechanics. As the NOx emission limits get more rigorous, implementation of SNCR system is in progress. The power plant completed all the prescribed and necessary maintenance works. At the flue gas desulphuriser, the oxidation air system and the hydrocyclone system were extended, and the control system was enhanced. The power plant completed the new slurry area project and finished the recultivation works of the old slurry area. Status check of the pressure vessels and pipelines was performed according to the instructions.
MVM BVMT Zrt.	No significant developments influencing the operation of the power plant took place recently. The annual maintenances have been performed according to the plans.
MVM GTER Zrt.	Fire alarm centres, sensors and transmitters have been replaced, cables have been checked, new graphical display monitors have been installed. The modernisation of the larger air handlers has been performed. The investment process of a tank of 1000 m^3 equipped with a steel protective ring has been started in the GT Power Plants of Litér and Sajószöged (1 tank per power plant).
Vértesi Erőmű Zrt.	The new firing system project has been launched. The power plant has performed the improvement of pumps, control engineering devices, turbine base and it has developed the new system of the receipt, unloading and dispatching of coal wagons. The power plant has performed the diagnostic measurements of the main installation as part of the planned maintenance.
Pannon Hőerőmű Zrt.	The power plant has optimised several processes at the unit fuelled by baled herbaceous crops. The technical review required for the further operation of unit VI has been started. The replacement of breakers and instrument transformers has been started at the 120 kV substation. The improvement of cooling tower no. 6 has continued. The partial improvement of the electro filter of boiler no. 10 has been performed. The tendering procedure necessary for the introduction of SNCR system has been started.

The effective MAVIR Operational Code (Üzemi Szabályzat) – specified by Art. 67 a) of the VET – (MEH resolution no. 891/2011; hereinafter referred to as: ÜSZ) was modified once in the year 2014. The Authority approved the modification of the ÜSZ in resolution no. 3069/2014 dated 10 December 2014.
With the resolution 1346/2013 of the Authority the Rotational Load Shedding Order (hereinafter: RKR) regulated by Government Decree 285/2007 was approved on 9 July 2013. According to this resolution, MAVIR Zrt. is obliged to initiate revision of the scope of fundamental and essential consumers by taking into account the recommendations of the Crisis Working Committee and in view of the results, it is further obliged to amend the RKR and submit it to the Authority for approval not later than 31 March 2015.

The Authority initiated the modification of Gov. Decree No 285/2007. (X. 29.) on the measures to be taken in case of severe disturbances in the electricity system and in emergency situations of electricity supply with the purpose of contributing to an optimal categorisation of fundamental and essential consumers.

Fundamental and essential consumers were categorised based on the effective RKR in an amount and pursuant to different principles in each county that – in case of an eventual emergency situation – the number of consumers categorised as fundamental and essential would technically make it much more difficult to manage such a situation and would endanger the effective, proportional and technically well-founded application of the RKR in line with the effective decree. In November 2014 the Authority targeted the establishment of an optimal categorisation with the initiated modification that complies with the legal regulation, is realisable in practice, can be implemented technically and does not impose a heavy financial burden on the power network companies and the population.

Within the scope of its supervisory activities, the Authority has been preparing assessments of the operational security of electricity transmission by May-June of each year for over a decade. MAVIR Zrt's report for 2013 complied with the set of criteria set up by the Authority. The two indicators monitored particularly closely in order to promote operational security of the transmission network licence holder, namely the "Outage indicator" and the "Average unavailability of the transmission network connection" showed better 3 year average figures than those expected by the "Expected level of operational security" and therefore better than the "Minimum quality requirement" as well. The breakdown event occurred on 14 March 2013 – in respect of the extreme weather conditions – was classified as extraordinary operational event, therefore the system operator did not have to take into account this event when determining the values of 2013.

The Ócsa-Zugló 200 kV and the Albertirsa-Göd I-II. 400 kV long distance transmission lines were damaged due to the extreme weather conditions experienced in the region of Budapest on 1-2 December 2014. The operation of the domestic electricity transmission system remained continuous despite the damages, the supply was not limited as no breakdowns occurred in the transmission network. MAVIR asked the Authority in an official request to classify the above mentioned breakdown as extraordinary operational event, therefore the System Operator does not have to take into account the event occurred at the beginning of December in its quality indicators of 2014. The Authority investigates whether the request for classification is justified.
The breakdown occurring at the beginning of December 2014 led to an event in the distribution network that limited the electricity supply: within the service area of E.ON ÉDÁSZ 2,276 consumers were affected by the extreme weather conditions, the lost capacity amounted to 11,635 kWh. 63,522 consumers were affected within the service area of ELMŰ, the lost capacity amounted to 61,000 kWh. The aggregation of total outage in the service area of ÉMÁSZ is still in progress.

2.1.5. Network development

Regarding network development, it is the task of MAVIR Zrt. as the transmission system operator and the distribution licensees to ensure long term, safe availability of the transmission and distribution networks constituting an integral part of the Hungarian electricity system, meeting national and international expectations for development, improvement, maintenance and operation activities and to maintain a European level security of electricity supply on the national grid.

In respect of the transmission network numerous investments are in progress. Major part of these is in design and/or licensing phase, whereas some of them are under construction. In order to develop the distribution networks, the following developments have been implemented in 2014:

- ELMŰ Hálózati Kft.: Splitting of the Dunamenti – Szigethalom T – (Soroksár) long distance transmission line, connecting to Dunavarsány substation.
- ÉMÁSZ Hálózati Kft.: Line regulation due to the removal of Tiszapalkonya Power Plant.
- E.ON Észak-dunántúli Áramhálózati Zrt.:
    - Splitting of new 132 kV Csepreg substation, splitting of Szombathely Vépi út – Kőszeg, connecting to Csepreg substation;
    - Implementation of new 132 kV long distance transmission line: Sümeg – Zalaszentgrót (Operating at 20 kV before the commissioning of the 132/20 kV Zalaszentgrót substation).
- E.ON Tiszántúli Áramhálózati Zrt.: Splitting of Debrecen OVIT – Balmazújváros long distance transmission line, connecting into 400/132 kV Debrecen Józsa substation.

2.1.6. Use of renewable energy sources

The share of the renewable energy sources within the total gross energy consumption in Hungary was 9.81% according to data from 2013. The ratio of electricity generation from renewables within total electricity use was [5]6.68% in 2013, which is a slight increase compared to the figure of 6.29% in 2012. In its Renewable Energy Action Plan, Hungary set the objective of achieving a share of 10.9% for electricity by 2020.

A significant part of the renewable electricity generation is sold in the feed-in tariff (FiT) system. Electricity generation from renewable energy sources was 2828.31 GWh[6] in 2013 which is 3.00% higher than the figure of 2727.60 GWh in 2012.[7] This is mostly made up of the growth of pure biomass firing electricity generation (by the start of operation of the biomass power plant of Pannon-Hő Kft. at Pécs). The effect of this overcompensated the decrease of electricity generation from wind energy and coal-biomass co-firing. The generation from wind power decreased due to the wind conditions, beside unchanged installed capacity. In addition to this, solar energy generation also increased rapidly, similarly to biogas and landfill gas based generation, but the effects of these latter are not significant.

Table 13: Trends of electricity generation from renewable energy sources and waste in Hungary (GWh)[8]

Electricity production (GWh)	2008	2009	2010	2011	2012	2013	Change (GWh) 2013/2012	Change (%) 2013/2012
Wind power	211.05	332.11	534.66	626.01	771.73	718.71	–53.02	–6.87%
Hydro power	213.80	228.62	188.72	222.76	213.51	213.41	–0.10	–0.05%
Biomass firing (pure)	617.19	647.53	725.04	588.24	693.39	835.37	141.98	20.48%
Coal-biomass co-firing	1285.42	1458.82	1338.03	963.68	655.98	628.25	–27.73	–4.23%
Biogas	34.20	39.32	63.31	105.67	152.89	155.76	2.87	1.88%
Landfill gas	10.48	11.89	24.76	38.02	49.75	51.93	2.18	4.39%
Sewage gas	25.10	35.17	44.28	65.02	65.01	64.57	–0.43	–0.67%
Solar energy[9]	0.36	0.41	0.73	1.97	8.24	24.62	16.38	198.83%
Renewable part of the waste	77.53	126.63	179.81	121.31	117.11	135.68	18.57	15.86%
Total renewable:	2475.14	2880.51	3099.34	2732.68	2727.60	2828.31	100.71	3.69%
Total waste:	231.87	232.88	291.66	250.23	227.21	235.49	8.28	3.65%
Total (renewable+waste)	2707.00	3113.39	3391.00	2982.91	2954.81	3063.80	108.99	3.69%
Gross final electricity consumption	43,928	41,422	42,566	42,626	42,294	42,196	–98	–0.23%
The ratio of electricity generation from renewable energy sources in total gross final electricity use	5.57%	6.92%	7.29%	6.44%	6.29%	6.68%	–	–

[5]According to Article 5 of the 2009/28/EC Directive 5, this is a calculated share, i.e. the ratio of the gross consumption of electricity generated from renewables and the total gross electricity consumption. We have also taken into account the estimated generation of small power plants of household scale and those operating as autoproducers for the calculation of shares.

[6]This includes the share of the electricity generated in the waste recovery plant of the Fővárosi Közterület-fenntartó Zrt. and the share of the Mátra Power Plant's generation from biodegradable communal waste (47.9% and 80% in 2013, respectively).

[7]The data for 2014 will be processed during 2015.

[8] The data provided are based on data supplied by the power plants and distribution system operators and also include the own consumption of the plants. We have also taken into account the estimated generation of small power plants of household scale and those operating as autoproducers.

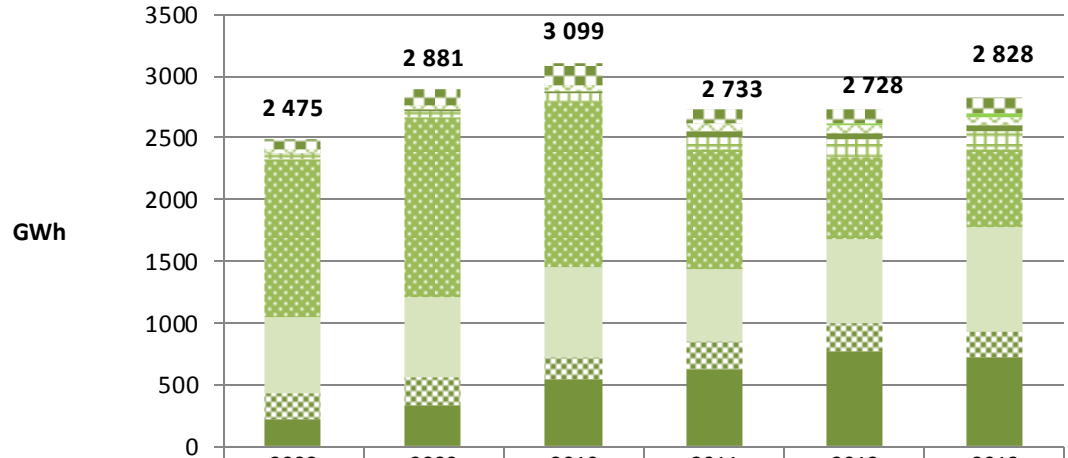
[9]The electricity generation of household scale photovoltaic devices connected to the grid and non FiT small photovoltaic power plants was estimated on the basis of data supplied by distributors by taking the average of the total installed capacity of the end of the year concerned and that of the end of last year, and multiplying this by an estimated number of equivalent full power hours of 1000 hours/year. As no data were available for the year 2007, for estimating the generation for 2008, the capacity at the end of the year was multiplied by an estimated number of equivalent full power hours. The same procedure was followed for wind, hydro and biogas household scale power plants, where the estimated number of equivalent full power hours was derived from the average of the larger power plants generating throughout the year concerned.

Electricity generation from biomass accounts for the overwhelming majority of electricity generation from renewable energy sources. This accounted for more than half (51.75%) of the total electricity generation from renewable energy sources in 2013. The electricity generated by pure biomass firing saw growth in 2013, too, similarly to the year 2012 after the decrease in 2011, thanks to the commissioning of Pannon-Hő Kft's new straw fired power plant at Pécs.

Co-firing has been showing a decreasing tendency since 2010 (due to the expiry of the FiT eligibility) although this decrease has not been significant over the last year, totalling 628.25 GWh in 2013. During the year 2013, co-firing power plants were reintroduced to feed-in tariff scheme due to legislative changes, thus their generation has been increasing from 2014.

Electricity generation from wind power also shows a continuously increasing tendency, although 2013 showed some decrease due to unfavourable wind conditions, to 718.71 GWh. Within the green electricity mix, wind power however continues to have a significant share (in excess of 25%). At the end of 2013 installed wind-power capacity of non-household scale reached 324.45 MW, indicating stagnation in comparison to the previous years. The cause of stagnation is that wind turbines larger than household scale connected to the grid may only be built through tendering and no such tenders have been announced.

Figure 9: Electric power generated from renewable energy resources in Hungary 2008–2013 (GWh)



	2008	2009	2010	2011	2012	2013
The renewable part of waste	77,53	126,63	179,81	121,31	117,11	135,68
Solar energy	0,36	0,41	0,73	1,97	8,24	24,62
Wastewater gas	25,10	35,17	44,28	65,02	65,01	64,57
Landfill gas	10,48	11,89	24,76	38,02	49,75	51,93
Biogas	34,20	39,32	63,31	105,67	152,89	155,76
Coal-biomass co-firing	1 285,42	1 458,82	1 338,03	963,68	655,98	628,25
Biomass fueling (pure)	617,19	647,53	725,04	588,24	693,39	835,37
Hydro power	213,80	228,62	188,72	222,76	213,51	213,41
Wind power	211,05	332,11	534,66	626,01	771,73	718,71
Total:	2 475,14	2 880,51	3 099,34	2 732,68	2 727,60	2 828,31

Electricity generation from biogas, landfill gas and sewage gas reflected a significant increase in the recent years, but sewage gas stagnated in 2013 (as no new sewage gas power plant was commissioned). In contrast to this, a number of landfill gas power plants have commenced generation and generation from biogas saw growth thanks to an increase in the share of biogas utilisation in one of the power plants.

In addition, the generation of solar power plants grew significantly, since in 2012 only one solar plant larger than household scale was registered in generation, while their number rose to nine by 2013. In a single year, solar electricity generation thus nearly tripled, due mostly to the rapid growth in usage of

household scale small power generation systems[10], reaching 24.62 GWh in 2013. The causes of the growth are the rapidly decreasing costs of the technology and the favourable effect of the investment subsidies granted.

Generation from waste only saw slight growth (235.49 GWh) as no new power plant has been commissioned in 2013. Over the recent period, the Budapest waste recovery plant owned by Fővárosi Közterület-fenntartó Zrt. and Mátra Power Plant used waste types that could be accounted as renewable sources. Due to the growth of waste incineration of this type at Mátra Power Plant, the overall generation of this category increased from 117.11 GWh in 2012 to 135.68 GWh in 2013.

2.2. Licensing and supervision

In the field of electricity licensing and supervision the Authority issued 424 resolutions to electricity companies in 2014. The following table shows the types of the resolutions:

Table 14: Resolutions issued in 2014 in the field of electricity licensing and supervision

Resolution type	**pcs.**
Transmission System Operator	**21**
Distribution	**25**
Licence holder for organised electricity market	**3**
Trading licence holder	**33**
new licence	3
licence amendment	8
exemption from the Operational Rules	1
licence withdrawal	4
amendment of the Operational Rules	6
approval of the Operational Rules	6+6
closure of procedure	-
licence extension	1
Limited trading licence holders for electricity	**25**
new licence	15
licence amendment	4
licence withdrawal	6
Universal Service Provider	**-**
Power plant with a nominal generation capacity in excess of 50 MW	**7**
establishment licence	0
corporate legal affair	2
exemption from the Operational Rules	0
licence amendment	5
licence withdrawal	0
suspension	0
Simplified licence for small power plants	**63**
new licence	16
licence amendment	19
termination of generation	6
new licence + establishment of FiT	7
licence withdrawal	13
electricity and district heating generation licence	2
FiT	**29**
establishment	27
unauthorised supply	2

[10] The generation of the household scale small power plants is an estimated value.

Rating of generation unit	**161**
Public lighting	**54**
new licence	20
licence amendment	33
withdrawal of licence	1
Identification, designation of the critical systems and facilities	**9**
Establishment of private lines	**2**
TOTAL	**425**

2.2.1. Licensing and supervision of generators

Power plants with a nominal generation capacity of 50 MW or above

The Authority issued 7 different licences and licence amendments concerning power plants with a nominal generation capacity of 50 MW or above. These included two corporate legal affairs and 5 licence amendments.

Small power plants

In cases provided for by the VET, a simplified licensing procedure should be conducted for small power plants with a nominal generation capacity of 0.5 MW and above. Licensing was carried out on an ongoing basis in 2014. The installed capacity of actively generating small power plants was 1381 MW in December 2014. In 2014, the Authority issued a total of 63 resolutions concerning small power plants, of which 16 were consolidated licences for small power plants.

Power plants using renewable energy resources

The number of requests slightly increased in 2014 as compared to the previous year. No requests were submitted in relation to establishment of biomass power plants. The Authority issued a total of 3 licences for biogas power plants. Among small power plants without licensing obligation, the Authority issued in a total of 27 instances a so-called FiT quota resolution in order to determine the volume of electricity to feed in and the period of takeover. 78% of the applications targeted the construction of solar power plants.

Supervision of power plants

The Authority continued to supervise the availability of the fuel stocks required by law in 2014 and established that several generators possessed stocks even in excess of the requirements. Maintenance – albeit based on different principles – is conducted according to schedule, thus ensuring reliability and availability. Power plants usually have contracts in place to procure fuel for several years.

The power plants comply with the environmental protection related regulations, proving the effectiveness of former developments and restructuring in satisfying the strict standards.

In review of quality assurance it can be established that all generators above 50 MW of generation capacity operate quality assurance systems. Some large power generators are in the process of developing integrated quality assurance, environmental management and work health and safety systems. Several sites already operate integrated environmental management and quality assurance systems.

The Authority conducted an on-site inspection at 9 power plants of an installed capacity exceeding 50 MW in accordance with Act CXL of 2004 on the General Rules of Administrative Proceedings and Services and Act LXXXVI of 2007 on Electricity.

As part of this series of inspections we conducted a priority inspection at 5 power plants based on Decree 44/2002. (XII. 28.) GKM in accordance with the sectoral legislation.

One of the conducted on-site inspections identified the violation of prescriptions set out in the relevant legislation and licences, in which a fine was imposed. In the remaining cases, the Authority found that the power plants operate in compliance with the statutory requirements.

The Authority conducted inspections at the simplified licences for small power plants – with special attention to the inactive generators – based on its database. The Authority called them each for the clarification of the facts during the inspection. Some of these power plants have been subject to bankruptcy proceedings or liquidation. The Authority withdrew the licences which do not fulfil the prescribed conditions.

Identification, designation of the critical systems and facilities

The Authority has performed the official work in accordance with Act CLXVI of 2012 on the Identification, Designation and Protection of the Critical Energetic Systems and Facilities and Government Decree No 360/2013 (X. 11.) (hereinafter referred to as: Special Enforcement Decree) on the implementation of Act CLXVI of 2012.

23 electricity companies have submitted an identification report in accordance with the Special Enforcement Decree.

According to the information provided by MAVIR Zrt. – pursuant to the criterion set out in Art. 4(2) of the Special Enforcement Decree – the power reduction exceeding a minimum of 620 MW and lasting at least for 24 hours would justify the designation of the domestic electric power plants as a system component of national critical infrastructure.

The Authority found that 14 companies of the inspected 23 are not subject to the Special Enforcement Decree, to which the Authority sent a letter and thanked for the efforts in relation to the preparation of the identification report.

We viewed the identification documentation with the security manager of the Authority (as prescribed by the Special Enforcement Decree) as part of the on-site inspection, we examined the expediency of the demarcation of elements, the legality and completeness of the identification process.

The following companies were subject to the inspection:

1. Mátrai Erőmű Zrt.,
2. Dunamenti Erőmű Zrt.,
3. MAVIR Zrt.,
4. E.ON Észak-dunántúli Áramhálózati Zrt.,
5. E.ON Dél-dunántúli Áramhálózati Zrt.,
6. E.ON Tiszántúli Áramhálózati Zrt.,
7. ELMŰ Hálózati Kft.,
8. ÉMÁSZ Hálózati Kft.,
9. EDF DÉMÁSZ Hálózati Elosztó Kft.

The Authority has approved and accepted the identification report of each inspected company after the on-site inspection, which reports concluded that no system components were identified as critical system components in any case. The Authority has issued resolutions on its decisions for the companies listed above (no. 1-9). Upon the issuance of resolutions the Authority has finished the rating by the deadline (30 September 2014), the administrative procedure has ended.

Provision of opinion on legislation, transposition of EU Directive

The Ministry of National Development requested professional opinion on draft legislation in 4 cases, to which the Authority sent the answers as prescribed. The Authority has prepared the professional opinion on the energy efficiency directive of the EU and has sent it to the Ministry of National Development.

System of guarantee of origin

The previous origin certification system was terminated by the modification of Act LXXXVI of 2007 on electricity (hereinafter referred to as: VET) effective from 22 June 2013, and was replaced by the so called guarantee of origin. According to Art. 12(1) of the VET, the volume of electricity produced from renewable energy sources or from high efficiency cogeneration may only be certified by the generator to the consumer exclusively with a guarantee of origin. The detailed rules of the system of guarantee of origin and the trading with guarantees of origin are set out in Government Decree No 309/2013 (VIII. 16.) on the guarantee of origin of electricity produced from renewable energy sources or from cogeneration with high efficiency (Szgr.).

A guarantee of origin shall be issued for an electricity volume generated from renewable energy sources or from high efficiency cogeneration, if the generation unit has the rating resolution that was issued based on the Szgr. The standard size of a guarantee of origin is 1 MWh. The guarantee of origin is a negotiable official certificate, by the purchase of which the consumers/service providers can certify the source of electricity used/supplied.

The renewable generation units selling electricity in the FiT system are obligated to obtain a certificate specified in the Szgr. after 1 March 2014. The Authority issued 161 qualification resolutions in the course of 2014, save a few exceptions these were all concerning FiT power plant units.

Pursuant to the Szgr., the guarantees of origin are registered by the Authority through an electronic management system. In order to access to the management system, the generator and the buyer of the guarantee of origin must open a current account at the Authority, the annual fee of which is HUF 20,000. A total of 7 current accounts were opened in the course of 2014.

Upon the request of the account holder, the Authority shall issue a guarantee of origin from the management system regarding the electricity supplied by a power unit certified in accordance with the Szgr. A total of 293,241 guarantees of origin were issued in the course of 2014. No import or utilisation of guarantees of origin were made during the year.

2.2.2. Licensing and supervision of the transmission system operator company

One transmission system operator (TSO) operated in Hungary in 2014. With its resolution no. 2047/2014, the Authority approved modification no. 1 of the operating licence of MAVIR Zrt. as Transmission System Operator on 22 May 2014.

In its letter received on the 29th of October, 2014 and registered under file number 00658/JIG/2014, MAVIR submitted a request for approval of amendment number 11 of the Telecommunications Network Usage Agreement (TNUA) to the Authority. With its resolution no. 2967/2014, the Authority approved amendment no. 11 of the TNUA on the 22nd of November, 2014.

Discussions regarding MAVIR's participation in the TSO Security Cooperation (TSC) have already started between the Authority and MAVIR in 2010. TSC is an operational security cooperation founded by Central and Eastern European transmission system operators, which currently has 13 members. As of the 25th of September, 2014, MAVIR became a full member of the TSC. The Authority also detected lately that the fluctuations in production by the ever growing number of power plants generating from weather-dependent renewable energy resources have increased and the transmission system operators – also including MAVIR – are forced to use more and more complex solutions in order to maintain the

security of supply and operations. In addition to its original purpose – operational security cooperation – today the TSC also assists its members in day-ahead and intraday operational planning, which improves the security of operations and supply in Hungary, as well.

MAVIR Zrt's Business Code was amended four times in 2014 – regarding its content – (by resolutions: no. 1871/2014, dated 24 April, 2014; no. 2304/2014, dated 30 June, 2014; no. 2538/2014, dated 12 August, 2014; and no. 2890/2014, dated 4 November, 2014). The key changes affecting the operations of the electricity system were the following:

- As of 1 January 2014, the distribution of electricity subject to feed-in tariff scheme by the transmission system operator and on the method of determining prices to be applied in the course of distribution have changed. Modification of the new model proved to be necessary on various occasions in the course of year 2014 (settlement, consideration of own production, etc.).
- On the 19th of November, 2014, the coupling of Czech, Slovakian and Hungarian electricity markets with the Romanian electricity market was commenced and the related regulations have changed regarding Romanian-Hungarian border. Obviously, the former daily explicit allocation was replaced by implicit market coupling, however modifications shall also be implemented with regard to long-term allocations (the order of restriction of capacity rights shall be complemented by the capacity rights received in the course of implicit allocation) and the shadow auction of transmission capacities shall also be introduced at the Romanian-Hungarian border, such as to ensure conformity with the Slovakian-Hungarian shadow auction regulations.

2.2.3. Licensing and supervision of distribution network companies

Six distribution system operators (DSO) operated in Hungary in 2014.

Figure 10: Regional distribution of electricity distribution companies in Hungary

In 2014 the Authority issued no further distribution system operator licences, but the act on electricity became effective as of 11 April 2013 and the operating licences were amended as per the new regulations appertaining to outsourcing the activities subject to licence. The licence holders completed the transformation of their organisational structures and operational processes in accordance with the legal regulations and the operating licences in the spring of 2014, in connection to which the Authority checked conformity of the fulfilment of obligations related to the outsourcing of individual elements of the activity subject to licence - pursuant to Art. 94 of the VET and Art. 84/A – 84/D of the implementation decree of the VET - in the course of a site visit. The Authority checked conformity with legal regulations in connection with the state of implementation and the new operating models based on previous reports and service contracts submitted by the distribution licensees.

In the course of the audit, the Authority did not reveal any deficiencies.

2.2.4. Licensing and supervising electricity traders and universal service providers

During the year 2014 a total of 18 new electricity trading operational licences were issued. Within these, the number of limited electricity trading licences made up a total of 15. In relation to one limited electricity trading licence application, the procedure was concluded in 2015. No new application for universal service provision was received. A total of 10 power trading licences were withdrawn in 2014 upon the request of the licensees. One of the potential reasons for withdrawal was that in addition to the Hungarian subsidiaries registered earlier on, the limited power trading licence was also obtained by the foreign owners for the parent companies and they were only involved in wholesale trading anyway.

Several electricity trading licences issued for a finite period of 10 years in accordance with the formerly effective legal regulations have reached their expiry deadlines. 1 licence was extended in 2014 (3 extensions took place in 2012 and 1 in 2013) and 2 companies opted not to extend the validity of their licences. The total number of issued resolutions affecting electricity traders and universal service providers in 2014 was 54 (licence amendments, approvals and amendments of the Operational Rules and other resolutions affecting the field). At the end of 2014 the Authority registered 171 electricity trader licensees, of which 79 were limited electricity trader licensees.

2.2.5. Licensing and supervision of the organised electricity market

HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX) started commercial operations in day-ahead (spot) trading on 20 July 2010 with 10 members. From 53 at the end of 2013, the number of members grew to 61 by the end of 2014. The rise in trading volume experienced over the previous years continued in 2014, although the pace of growth slowed down. Average monthly turnover on the day-ahead market exceed 1 TWh (1055.5 GWh), as compared to the average monthly turnover of 756 GWh in 2013. HUPX reached its monthly peak in July of 2014, where the volume of traded electricity was 1115.1 GWh. The average monthly turnover may be considered stable, provided that the monthly traded volume of electricity exceeded 1 TWh throughout the year, except for two months: February and May. In 2014, the entire traded volume in comparison to the previous year grew by almost 40% to over 12.6 TWh, which corresponds to approximately 23% of domestic gross electricity consumption. Its daily peak of all times was reached by the HUPX on the 20th of November, 2014, when it reached nearly 43.5 GWh.

Long-term physical futures electricity trading (HUPX Physical Futures – HUPX PhF) was launched on the HUPX on 19 July, 2011 with 10 members and the number of members grew to 33 by the end of 2014 (there was no change as compared to the previous year). Furthermore, the organised electricity market also provides services supporting OTC trading opportunities to its members. Long-term physical futures electricity trading in 2014 was approximately 3.6 TWh. This is a significant decline of over 49%, as

compared to year 2013. Similarly, the other indices also showed a decrease as compared to 2013. The monthly turnover in November 2014 was 761 GWh (in October, 2013 nearly 943 GWh); the daily peak on the 11th of September, 2014 was 178 925 MWh (315 240 MW on the 17th of April, 2013); and the volume of OTC trading was 158 GWh in 2014 (930 GWh in 2013). The decline occurred in the first half of the year, in the second half the volume of OTC trading increased once more, however it only served to mitigate the weak performance of the first half year.

One of the most important events in 2014 – for the HUPX and the Hungarian electricity market – was the expansion of the coupling of Czech, Slovakian and Hungarian electricity markets on the 19th of November, 2014, to include Romania. The new market coupling was named 4M MC – 4 Markets Market Coupling. It is a significant achievement that the electricity exchanges involved have already introduced the PCR solution, the calculation method used in the European target model. However, there remains one important difference, which is one of the reasons (among multiple other reasons) for the 4 electricity markets for not having joined the West European coupling so far (Multi Regional Coupling – MRC), which is defining the submission deadline of offers at 11:00 a.m. (this deadline is 12:00 a.m. in MRC). The reason for this is that without coupling with the MRC, the market participants of the countries involved are ensured more trading opportunities on the relatively small 4M MC electricity market with this measure. As a result of coupling - as also seen before - the prices of the electricity exchanges involved converged due to more efficient capacity allocation and utilisation.

2.2.6. Licences for public lighting operation

In order to establish social public utility services, following entry into effect of the Act XXIV of 2013 on the amendment of the energy laws, the regulation of public lighting by the VET changed after 11 April 2013. If the public lighting system is not operated by the body obligated to provide public lighting, then it requires a public lighting operation licence – with the exception of the public lighting operation equipment of the public lighting distribution grid – which is issued and may be withdrawn by the Authority.

The applicant for the licence must substantiate with documents and data its suitability for performing the activity subject to licensing obligation and must also possess a valid contract with the party obligated to provide public lighting. The scope of documents to be attached to the application are determined by the VET and the implementation decree of the VET.

In the year concerned, the Authority issued a total of 20 public lighting operation licences and 33 licence amendment resolutions and withdrew 1 licence.

The lighting armatures operated by the licensees exceeds 1.27 million with the accounted capacity being 98.7 MW. The average accounted capacity of a light armature is 77 W. The average accounted capacity of a light armature in Budapest is 112 W.

Based on the licences, the breakdown by type of light source of the public lighting equipment is as follows: compact fluorescent lamps 50.9%; sodium vapour lamps 44.0%; mercury vapour lamps 1.9%; LED lamps 2.2%, fluorescent lamps 0.6%; metal halide lamps 0.2% and others 0.2%.

2.2.7. Allocation of cross border capacities and congestion management

In the Central and Eastern European Region (hereinafter referred to as: CEE Region) as defined in the Annex of Regulation 714/2009/EC, congestion management is administered by the CAO Central Allocation Office GmbH (CAO). Congested cross-border capacities are managed on the basis of net

transmission capacities (NTC) under a coordinated auction between the following transmission system operators:

- APG Austrian Power Grid AG (formerly: VERBUND APG AG);
- CEPS a.s.;
- Elektro-Slovenija, d.o.o.;
- HOPS d.o.o.;
- MAVIR Zrt.;
- PSE S.A.;
- SEPS, a.s.;
- TenneT TSO GmbH (formerly E.on Netz GmbH);
- 50 Hertz Transmission GmbH (formerly: Vattenfall Europe Transmission GmbH).

The work aimed at the adoption of a coordinated flow based allocation system (FBA) that has been in progress in the CEE Region for years and the implementation of flow-based market coupling (FBMC) commenced in March 2012, were continued in 2014 as well. The 8 transmission system operators involved in the project (the above transmission system operators except for HOPS d.o.o.) and 7 electricity exchanges (BSP Regionalna Energetska Borza d.o.o.; EPEX Spot SE; EXAA Energy Exchange Austria; HUPX Hungarian Power Exchange Company Limited by Shares.; OTE, a.s.; OKTE, a.s.; TGE Towarowa Gielda Energii S.A.) signed a Memorandum of Understanding in February of 2014, regarding the introduction of NWE-CEE FBMC. The two key pillars of the project are the flow-based capacity calculation methodology on part of the transmission system operators and the calculation algorithm (PCR solution) allowing market coupling on part of the electricity exchanges. In April, 2014, the work was continued with the establishment of the project organisation, followed by the preparation for project execution (compilation of budget and roadmap, creation of working groups).

The CAO shall also face important changes in the coming period. In the second half of 2014, the CASC.EU (auction office operating in Western Europe), the CAO and the 20 transmission system operators as owners of these announced that they wish to establish a joint auction office with seat in Luxembourg, named Joint Allocation Office S.A. (JAO). Based on further plans, all legal and organisational restructuring will be finished by September, 2015 and the annual auctions for year 2016 will already be conducted by the JAO. The capacity calculation activity currently performed by the CAO shall be taken over by TSCNET Services GmbH.

2.2.8. Unbundling of operations

In the supply chain of electricity, distribution and transmission network activities are natural monopolies, since the operation of one single distribution network company in a region or one single transmission network operator in a country is a more economical way of operation as a whole. In order to provide for the non-discriminatory access to network and avoid cross-financing among activities conducted under regulated and free market conditions, the regulatory authority regularly monitors the compliance with the unbundling rules included in statutory provisions.

The transmission system operator and distributor companies operate according to the unbundling rules of the VET based on the 2009/72/EC directive.

Unbundling rules of electricity industrial activities in Hungary

The VET and the implementation decree of the VET contain the mandatory requirements of unbundling natural monopolies (transmission system operation and distribution) from other competitive electricity operations (generation, trade and universal services) in Hungary.

In 2006, the system operator was integrated into MVM Zrt. (Hungarian Electricity Ltd.), which was owned by the state and conducted generation and trading activities via its subsidiaries, thus Hungary switched from the previous Independent System Operator (ISO) model to an Independent Transmission Operator (ITO) model, where ITO operates as an independent subsidiary within a vertically integrated company. In the course of the transaction, the transmission network was acquired by the transmission system operator.

MVM Zrt. developed a corporate structure where the holding company coordinating the subsidiaries is not engaged in any electricity industrial operations subject to licensing. MAVIR Zrt., the single transmission system operator in Hungary, continued to conduct its licensee activity in 2013 as an independent subsidiary of MVM Zrt. In order to fulfil the requirements set out in the Third Energy Package, the contracts concerning outsourced activities were terminated by the beginning of 2012.

Practical experiences of complying with the activity unbundling regulations

Transmission System Operator

The transmission system operator implemented the necessary measures to comply with the new unbundling regulations as set out in the Third Energy Package by 2012. During the year 2012, the certification process was successfully concluded and the corresponding transmission system operator licences were issued (ITO) and the Compliance Programme, the General Terms of Business and the Internal Rules of Selection have been approved.

Distribution network companies

The six distribution network licensees operate as part of vertically integrated electricity sector undertakings, in compliance with the legal unbundling provisions of 2009/72/EC European Union Directive, in accordance with the rules of full legal unbundling. The Hungarian electricity regulation does not use the exemption rules applicable to 100 thousand consumers, as each distributor has more than 100 thousand connected consumers at present. The network assets are owned by network companies.

2.2.9. Preparations for the adoption of smart metering

According to Directives 2009/72/EC and 2009/73/EC Member States shall ensure the adoption of smart metering systems. However, the introduction of the so-called smart metering systems depends very much on the economic assessment of all costs and benefits incurred by the market operators, on the cost efficiency of each smart metering model and the timing of their installation.

The Authority operates a Smart Metering Work Committee with the involvement of all parties affected. The distributors implemented pilot projects in connection with smart metering in 2013-2014, which were terminated by the end of 2014. The evaluation of findings and the related reports are under preparation. The preparation of Központi Okos Mérés Zrt.'s (Central Smart Metering Zrt.) (KOM) pilot project was continued in 2014.

2.3. Price preparation, price regulation

2.3.1. System charges

The transmission system operation charge forming the part of the system charges is set to cover the acknowledged costs of high voltage network operation and maintenance, the physical network loss and the cost of management of the national electricity system.

The charge of ancillary services basically is intended to cover the cost of reserving capacities to ensure the balance of electricity production and consumption. The two fee elements above must provide cover for the acknowledged costs of the core activities of the transmission system operator.

Electricity generated in power plants is forwarded to the distribution network via the transmission network. The distribution network in Hungary is currently operated, maintained and developed by 6 distributor companies (licensees), each having territorial monopolies.

Distribution tariffs (namely: distribution base charge, distribution energy charge, distribution network loss charge and capacity charge for certain customer categories, reactive power charge and distribution balancing charge) and the public lighting charge are therefore set to cover the costs of operation and maintenance of distribution networks for distributors, their costs related to customer service as well as the eligible costs of network loss.

The preparation of system charges for 2015 and the calculation of new fees were made in accordance with the price regulation principles. The following changes were effectuated as of the 1st of January 2015.

The transmission system operation fee decreased by 1% and the charge of ancillary services decreased by 31.5%. The latter, rather significant decrease was mainly the result of the favourable purchase of secondary and tertiary reserves in 2014 and to a smaller part was attributable to the consideration of (subsequent) corrections carried over and related to this fee element. The smaller degree decrease in the transmission system operation fee was due to the aggregate effect of fee increase resulting from the corrections carried over and related to this fee element and fee decrease resulting from the surplus in the income from cross-border capacity auctions in the previous year.

The joint effect of the decrease of the two fee elements was HUF 0.322/kWh.

The distribution tariffs decreased by 1.4-3.3%, depending on the voltage level and the average decrease was 2.4%. Three factors explain the reduction:

- due to the low inflation, operational expenses were not indexed,
- the recognised value of the capital cost and depreciation was reduced due to the lower level of capitalised investments than the formerly recognised depreciation,
- the recognised cost of electricity to be purchased to cover the distribution network loss fell in keeping with changes in the market price of electricity.

Price regulatory incentive to the service quality of distributors

The incentive system works through the annual evaluation of the quality-of-service indicators.

Accordingly while reviewing distribution costs, the Authority considers (before the start of the price regulatory cycle) how distributors met the expected level of quality-of-service indicators in the year under review and quality of service that distributors achieved in comparison to one another. According to this, when determining the value of recognised justified expenses (in the course of the comparative analysis of the operational expenses of technical non-core activities) the Authority lowers the level of cost reduction that would otherwise be deemed as necessary in case of distributors that “perform better”.

In relation to the initial cost base in 2013, this concerned EDF DÉMÁSZ, ELMŰ and ÉMÁSZ to various extent.

The other element "on the price side" of the incentive system of service quality is the regulation set out in MEKH Decree 4/2013 (X. 16.) and on the guarantee of origin of electricity on the electricity system charges and the rules of their application, which sanctions the deterioration of distribution service quality indicators.[11] Under this regulation distribution service providers "not performing up to standard" have to provide a specified amount of discount on distribution tariffs charged to consumers in the second half of the following year, in the event of a substantial deterioration of any service quality indicator, to the extent determined in the above decree of the Authority (depending on the degree of deterioration and the number of indicators concerned).

After the data were made available and processed, the Authority carried out the evaluation of the service quality indicators for 2013 by May 2014.As the evaluation of the service quality indicators did not justify the application of any sanction, no obligatory price discounts were offered in the second half of 2014. (For more detailed information on the analysis of service quality, see the chapter on "Customer Protection".)

2.3.2. Universal service

Price regulatory frames of the universal service

Consumers with small consumption and public institutions could (unless they entered the liberalised market) continue to purchase electricity in 2014 in the framework of universal service. i.e. at a price officially regulated in all its components.

Consumers with small consumption (eligible for universal service) are understood as household[12] consumers and those receiving electricity at a low voltage with connection capacity less than 3x63 A in aggregate in respect of all their service locations (mostly small businesses).

Since the introduction of the universal services in 2008, the universal service price of electricity as a product appears as a separate price element for household and non household consumers receiving electricity in this way, as well as the system charge (charges) ensuring that this "product" is delivered to consumers and taxes (and other tax type items).

As a measure taken in the framework of the so-called second reduction of utility costs in November 2013, the tax type items (the so-called funds) no longer appear in the invoices of household consumers – contrary to former times – and (similarly to the energy tax) tax type items are only paid by non-household consumers.

From July 2009, universal service prices vary in each supply area, whereas other price components (system charges, funds and energy tax) are consistent in the whole country.

In respect of electricity, the concept of the universal service price only refers to the product in terms of content (along with the recognised expenses of the service provider) and does not include the system charges (and any other price components indicated above).

The subsidy for the structural reform of coal industry which appears as one element of the three so-called fund items in the electricity bill – only to be paid by non-household consumers from 1 November 2013

[11]Prior to 1 November 2013 the rules of incentive were included in NFM Decree No 64/2011 (XI. 30.) on the rules of establishment and application of electricity system charges.

[12] From 31 December 2013 apartment blocks are also classified as household consumers under certain conditions (Art. 3.42 of the VET).

(regardless of being supplied by competitive market traders or a universal service provider) – is meant to cover the costs of operation of the Márkushegy coal mine owned by Vértesi Erőmű Zrt. (until it is shut down) which are not recoverable from the sale of electricity generated from coal. Another fund ensures an allocation for the subsidy for the reduced-price electricity supply to pensioners retiring from the electricity industry, while the third fund (cogeneration restructuring fee) is meant to subsidize district heat supply.

From 1 February 2011, universal service prices are set [in NFM Decree 4/2011 (I. 31.)] by the minister of national development. The Authority makes recommendations for the prices to the minister. The Authority prepared its proposition for the modification of the decree in respect of the universal service prices to be effective as from September 2014 and January 2015 as stipulated by the Utility Cost Reduction Act. The preliminary calculations included the recognised average purchase price of electricity purchased by universal service providers on arm's length basis, assuming the annual realisation of the annual average price control margin as stipulated by law.

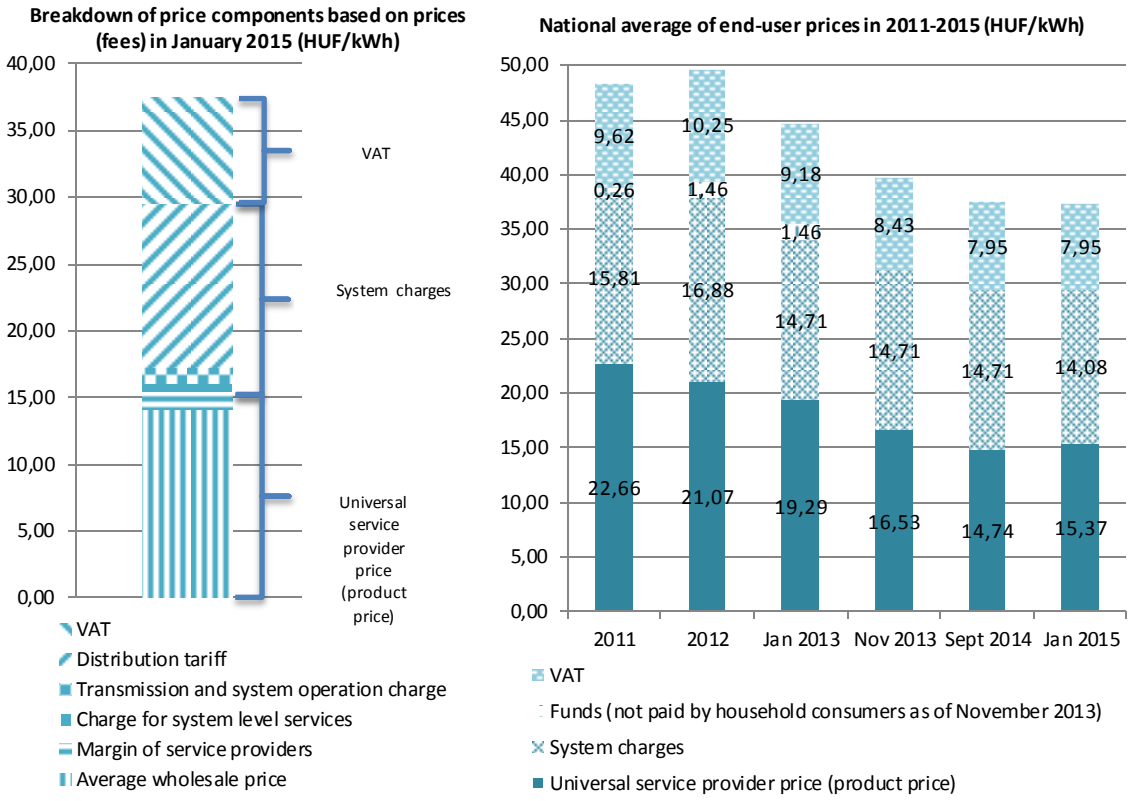
The recognised specific margin of universal service providers (HUF 0.986/kWh) did not change either from 1 September 2014 or from 1 January 2015.

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

From 1 January 2014, the end-user tariff of electricity was reduced by 5.7% in comparison to the prices effective in August 2014 for household consumers receiving electricity in the form of universal service in accordance with requirements of the Utility Cost Reduction Act. On 1 January 2015 this end-user tariff did not change for these consumers.

Figure 11 below shows the national average end-user tariffs of household consumers supplied through universal service and their components as of 1 January 2011, 1 January 2012, 1 January 2013, 1 November 2013, 1 September 2014 and 1 January 2015.

Figure 11: National average end-user tariff of household consumers purchasing electricity through universal service ("A1" tariff, subject to a consumption of 2400 kWh/year) is made up from the following components (HUF/kWh)



Margin control

The Authority is obliged to check the sales margin of universal service providers of electricity as stipulated in the decree until 31 March of the year following the year concerned. The Authority completed the margin control in 2014 in due time.

3. Regulation and operation of the natural gas market

3.1. Operation of the natural gas market

3.1.1.Natural gas market model

In the present natural gas market model, imported and domestically produced natural gas is sold to domestic consumers by traders and universal service providers and consumers have the possibility to purchase natural gas at their own right.

Initiated in order to boost natural gas trade in the domestic market (including trade on the organized market, CEEGEX), the Authority established a new type of gas trading licence from 1 January 2013, which enabled gas traders that are registered in an EU member state to enter the Hungarian natural gas market through a simplified procedure.

The limited trading licence for natural gas trade permits bilateral wholesale trade transactions and transactions on the organised market in Hungary. It does not, however, permit supplying to end users. Taking the advantages offered by the new type of licence, altogether 20 new market participants entered the domestic natural gas market in 2013 and 2014 – the trend is expected to be similar in the coming years. New participants are active to various extents; in several cases market circumstances – high tariffs, the congested capacity of the western interconnection point – do not enable high activity.

In March 2014 MVM Magyar Villamos Művek Zrt. acquired all the shares of RWE Gas International N.V. held in Fővárosi Gázművek Zrt., an entity holding operating licences for natural gas trade and universal service provision, as a result MVM now owns 49.83% of shares in Fővárosi Gázművek Zrt. and has thus acquired indirect shares in FŐGÁZ Földgázelosztási Kft., a gas distribution licence-holder, owned by Fővárosi Gázművek Zrt.

In Q4 2014 the Authority gave consent to the transfer of shares representing 50%+1 vote in Fővárosi Gázművek Zrt. held by the Municipality of Budapest to Magyar Nemzeti Vagyonkezelő Zrt. (MNV Zrt.) and then to the acquisition of another 31.6% from the shares of MVM Zrt. leading to a 81.6% direct control of MNV Zrt. in Fővárosi Gázművek Zrt.

In the course of November 2014, the Authority approved of Magyar Nemzeti Vagyonkezelő Zrt. acting on behalf of the Hungarian State, acquiring direct control exceeding 75% (99.9693%) in Magyar Gáz Tranzit Zrt.

Import supplies that ensured the supply of the country came from the East on the network point at Beregdaróc through Brotherhood pipeline and from the West through the HAG pipeline coming from Baumgarten, Austria.

On the Ukrainian and Hungarian cross-border point outbound supplies from Beregdaróc started from 1 June 2013.

On the Serbian, Croatian and Romanian connection, supplies were outbound from the country, even though the Croatian and Romanian interconnectors were constructed to facilitate reverse flows, and it has been possible to take advantage of backhaul capacities going opposite to the direction of physical supply.

At the beginning of December 2014 Russia announced that it was no longer able to construct the South Stream pipeline and the project was closed. The Slovakian-Hungarian interconnector that reached the stage of test period by the end of 2014 and the expansion of interconnections that may replace the South Stream can in the long run improve the security of supply and contribute to the further diversification of routes.

Figure 12: Structure of the domestic natural gas market (physical flows)

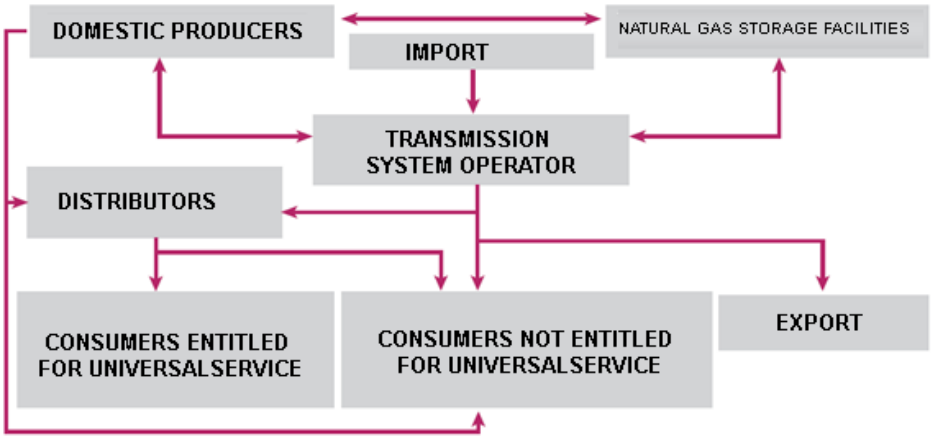
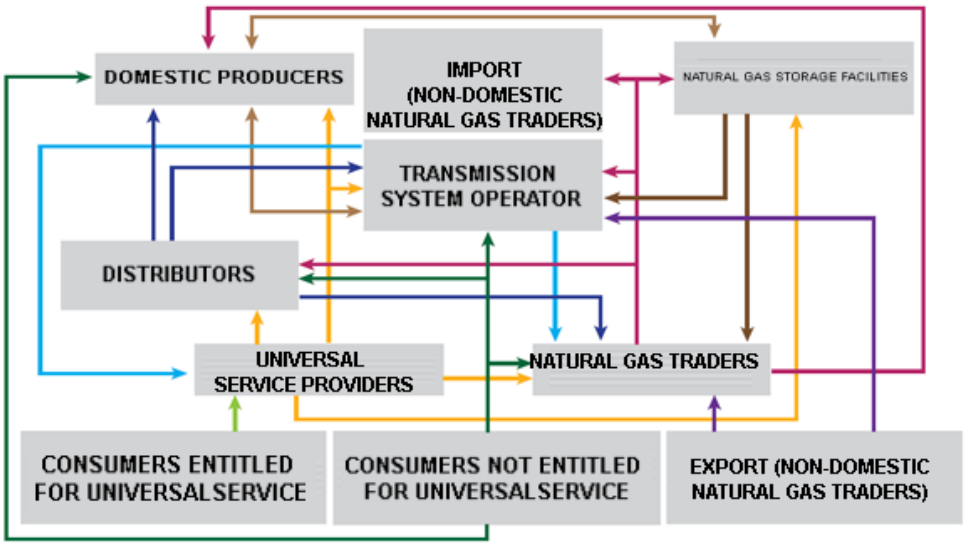


Figure 13: Structure of the domestic natural gas market (financial flows)[13]



The seasonality of the gas consumption of households, i.e. the increased gas demand in the winter heating period requires that – in addition to the existing import sources and domestic production – supply is ensured from gas storage facilities filled up during the summer period. In order to maintain the balance of the interoperated natural gas system, the transmission system operator and the network users continuously cooperate.

During 2014 given the situation that arose due to the Ukrainian and Russian conflict and our import dependency it was typical of our country to increase injection to storage, and as a consequence the injection period was extended until the end of the year contrary to the established practice.

For storing the strategic natural gas inventory, a capacity of 1200 million m^3 is available to Hungary on the inventory level determined by the minister responsible for energy policy, primarily with the aim of

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

supplying household consumers to mitigate possible scarcity of supply that may arise as a result of loss of natural gas imports.

Art. 2/B(1) of NFM Decree 13/2011 (IV. 7.) on the volume of the strategic natural gas inventory, its sale and replace injection sets the level of the strategic stocks of natural gas at 915 million m^3 from 1 July 2014.

Based on the former decision of the Minister of National Development MMBF Zrt. remains responsible for storing the strategic gas reserve. The level of strategic inventory was 920.6 million m^3 on 31 December 2014.

The level of strategic natural gas inventory is, under NFM Decree 13/2015 (III.31.), in effect at the moment, 915 million m^3 as from 1 July 2015.

3.1.2. Wholesale and retail trade

The composition of gas sources secured in 2014 are presented in the table below.

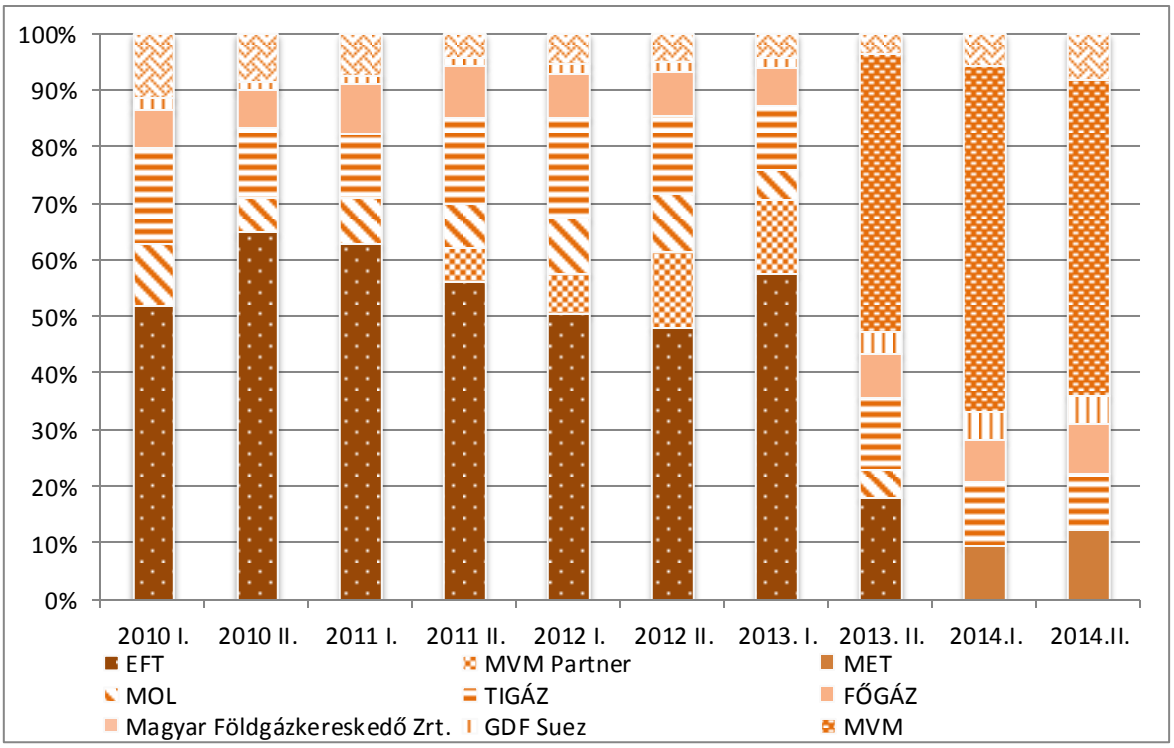
Table 15: Natural gas source structure

	Billion m^3	%
Annual import and domestic production:	**10.66**	**100**
Domestic production:	1.72	16.1%
Import:	8.94	83.9%
- from Eastern direction:	4.83	54.0%
- from Western direction:	4.11	46.0%

Import gas sources are predominantly of Russian origin, most of the natural gas purchased from Baumgarten, Austria through the HAG pipeline is also of Russian origin in terms of its molecular composition. Domestic production fell by approximately 10% in 2014 compared to the previous year, whereas imports grew. Consequently, the 20-80% ratio of domestic production and import that characterised previous years changed to 16-84% in 2014. Similarly to the previous year import from the East exceeded import from the West in 2014.

Figure 13 shows how market shares calculated based on purchased sources (import and production) changed as a result of market and structural changes. By the second half of 2013, the market share of MVM Group calculated based on purchased sources grew to 54% due to the acquisition of E.ON Földgáz Trade Zrt. (EFT). The market share of MVM Group in 2014 was 55%, whereas the market share of MET (formerly: MOL Energiakereskedő Zrt.) which was 5.5% in 2013 grew to more than 10% in 2014.

Figure 14: Change in the market share of gas traders, based on the amount of purchased sources (2010-2014)*



* In respect of the data concerning the second half of 2013 and the year of 2014 MVM comprises MVM Partner and, from 1 September 2013, Magyar Földgázkereskedő Zrt. (Hungarian Gas Trading Ltd.). MET corresponds to former MOL Energiakereskedő Zrt.

Since the market opening in 2004 the retail market has been characterised by a dual structure: the two distinct segments are characterized by the regulated price and the free market price. The relative weight of the two segments in relation to each other shifted continuously towards the free market after the liberalization. As of 1 July 2009, public utility supply available to all consumers at a regulated price was replaced by universal service available to a much more limited scope of eligible consumers.

Consumers eligible for universal service (household consumers, other consumers with purchased capacity below 20 m^3/hour, local governments up to the capacity to supply consumers living in the rented apartments of the local government) are still predominantly supplied by universal service providers. Universal service providers are bound by the obligation to sell natural gas to and contract with consumers eligible for universal service.

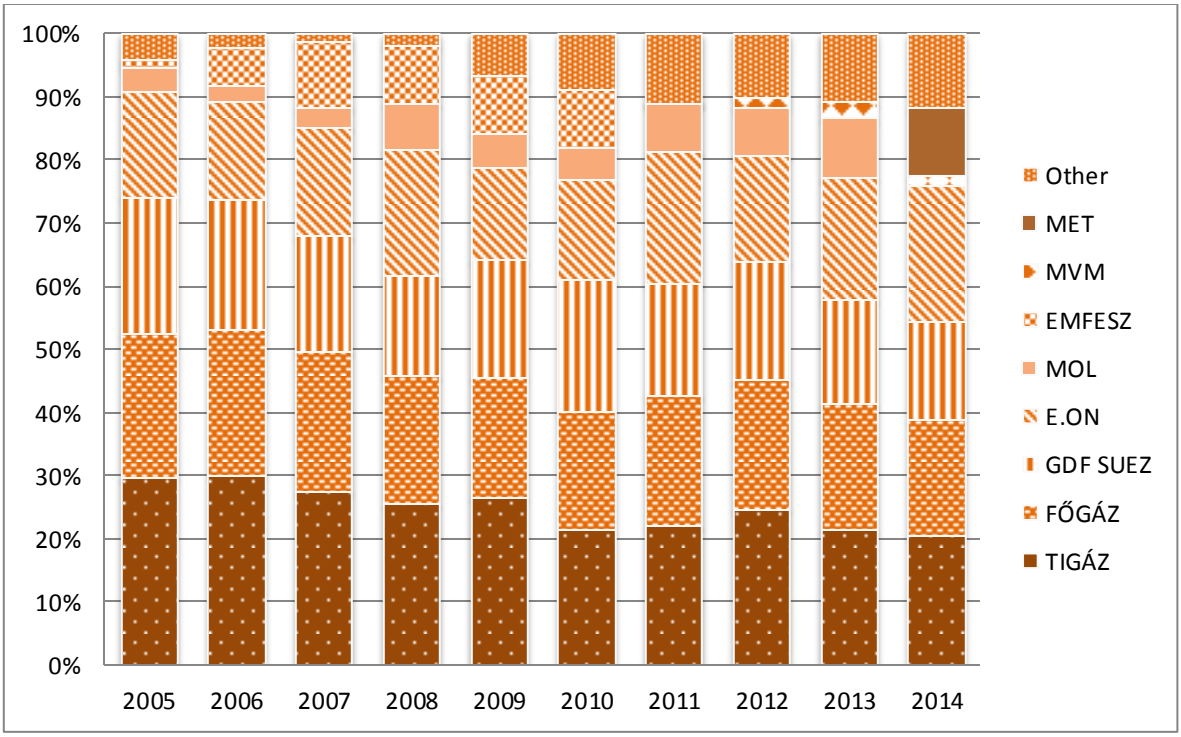
Non-eligible consumers either purchased natural gas from the free market as earlier or they entered the competitive market only upon the termination of their eligibility to universal service (consumers with medium and low consumption and district heating generators). With the cessation of public utility supply, and later with the restriction of eligibility for universal service, low and medium consumption consumers also ensured their natural gas supply from natural gas traders.

In addition to companies holding both universal service provision and trading licences (Fővárosi Gázművek Zrt., GDF SUEZ Energia Magyarország Zrt. and TIGÁZ Zrt.), E.ON Energiaszolgáltató Kft. (as universal service provider) and E.ON Energiakereskedelmi Kft (as free-market natural gas trader) appeared as independent companies carrying out different activities. These companies also have interest in the operation of the distribution networks through their subsidiaries or affiliates. With the exception of

state-owned FŐGÁZ Zrt., universal service providers are in the ownership of multinational corporate groups.

In 2014, 44 companies held operating licences for natural gas trade, mostly selling natural gas to industrial consumers or other natural gas traders.

Figure 15: Shares of investment groups in terms of quantity of natural gas sold on retail market (2005–2012)



As compared to the previous year, the aggregated market share of the four main company groups (TIGÁZ, FŐGÁZ, E.ON, GDF SUEZ) stayed nearly the same. Their market position continues to dominant since the majority of consumers purchases natural gas within the framework of universal service. Furthermore, there are two other market participants with gradually increasing presence in the natural gas market: Magyar Földgázkereskedő Zrt. (MVM group) and MET Magyarország Zrt. (partly owned by MOL).

Table 16: Market shares based on the number of service locations in December 2014

Company/Number of consumers	Universal service	Free market	Total	Share
TIGÁZ Zrt.	1,187,825	3709	1,191,534	34.59%
Fővárosi Gázművek Zrt.	806,058	4,744	810,802	23.54%
GDF SUEZ Energia Magyarország Zrt.	753,727	4944	758,671	22.02%
E.ON Energiaszolgáltató Kft. **E.ON Energiakereskedelmi Kft.**	608,758	4957	613,715	17.82%
Magyar Telekom Távközlési Nyrt.	0	67,087	67,087	1.95%
Other	313	2575	2888	0.08%
Total	3,356,681	88,016	3,444,697	100%

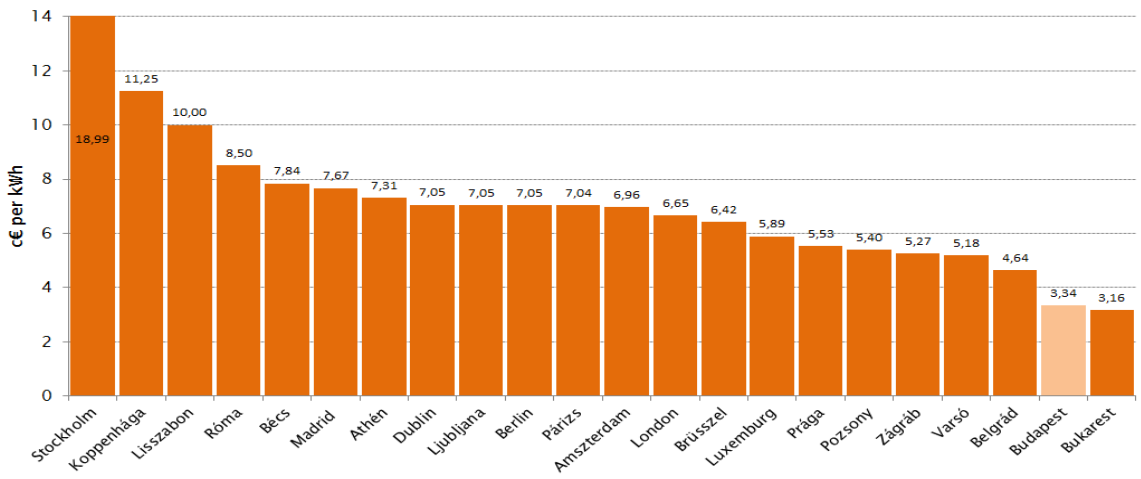
3.1.3. Market events

Domestic natural gas consumption - inter alia - follows changes in the GDP and weather conditions (e.g. cold winter). It can be stated that with the termination of public utility structure and the introduction of the universal service narrowed down to a specific scope of eligible consumers (households, small consumers, public institutions), from 2008 the segment with regulated prices only has a share below 40% within the total gas consumption, which share was 37% in 2014. Figures show that the total domestic natural gas consumption has been decreasing for years.

In 2014, domestic gas consumption was 8.3 billion m³. Household consumers supplied through the universal service consumed 3.1 billion m³ gas in 2014. As for the distribution of natural gas import, there was a turn compared to years 2011 and 2012. While in 2011 and 2012 the import from the west exceeded the import from the east, then in 2014 similarly to 2013 the import from the east (4.83 billion m3) exceeded the import from the west (4.10 billion m^3).

In December 2014 the Hungarian household price was one of the cheapest natural gas prices in the European Union – according to the statistics of the Authority.

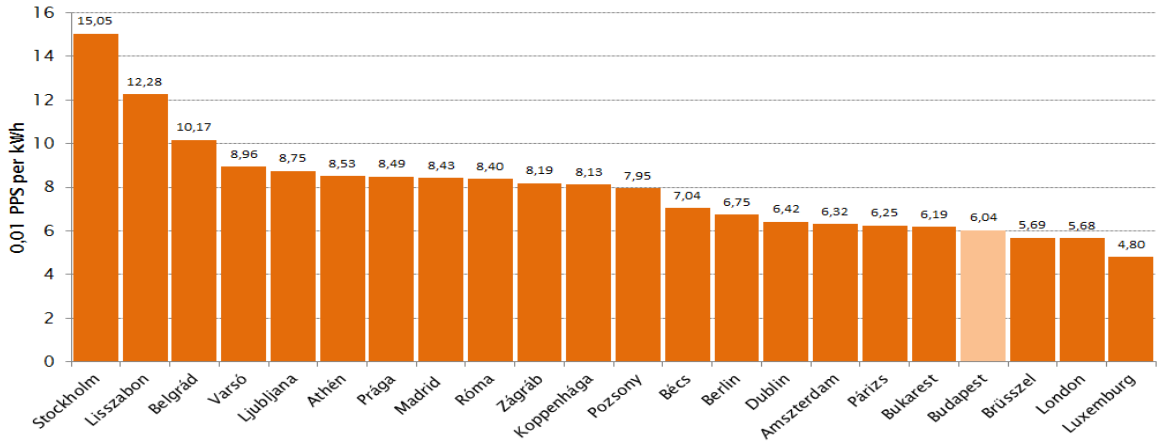
Figure 16: Average natural gas prices for household consumers (EUR cent/kWh), December 2014



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

Source: HEA

Figure 17: Average natural gas prices for household consumers based on purchasing power parity (0.01 PPS/kWh), December 2014

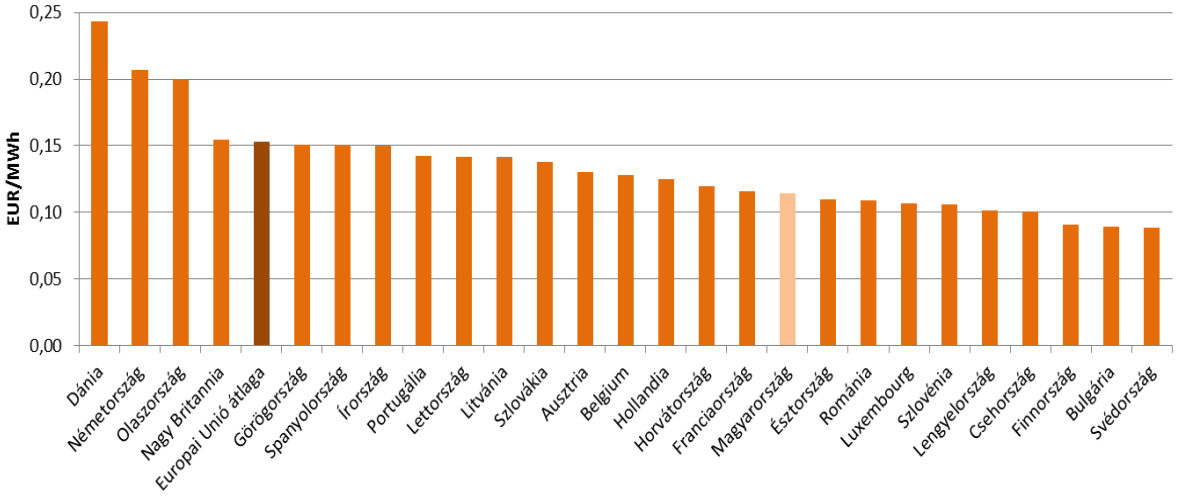


Stockholm, Lisbon, Belgrade, Warsaw, Ljubljana, Athens, Prague, Madrid, Rome, Zagreb, Copenhagen, Bratislava, Vienna, Berlin, Dublin, Amsterdam, Paris, Bucharest, Budapest, Brussels, London, Luxembourg

Source: HEA

For industrial consumers, the Hungarian competitive market price for natural gas is in the EU mid-range, the average price is above the EU average.

Figure 18: Comparison of average natural gas prices for industrial consumers in Europe (10,000–100,000 GJ annual consumption; first half of 2014, EUR/GJ)



Source: EUROSTAT

Denmark, Germany, Italy, United Kingdom, EU average, Greece, Spain, Ireland, Portugal, Latvia, Lithuania, Slovakia, Austria, Belgium, Netherlands, Croatia, France, Hungary, Estonia, Romania, Luxembourg, Slovenia, Poland, Czech, Finland, Bulgaria, Sweden

3.1.4. Licensing and supervision

In accordance with the provisions of the Gas Supply Act and the relevant government decree, the Authority establishes the conditions necessary for performing the activities of natural gas market licence holders and other related activities in the licences issued by it. The Authority monitors adherence to the provisions of the licence, continuous compliance with the requirements and apply legal consequences if necessary.

Regarding licensing and supervision the Authority adopted 131 resolutions and issued 13 orders in 2014. In 2014 five operating licences for natural gas trading and eleven limited trading licenses were issued. The Authority withdrew five operating licences for gas trade – upon the request of licence holding companies. As a result, the number of natural gas trading licence holders did not change in 2014, only the identity of natural gas market participants, whereas by the end of the year altogether 20 licence holders had limited licence for gas trading. (Licenses have been revised and modified 28 times in total. The Authority passed resolutions related to financial collateral 26 times. In addition, the Authority passed decisions on compliance reports and programmes in 15 cases, on outsourcing in 9 cases and on the approval or modification of the Operational Rules in altogether 11 cases.)

After EMFESZ Kft. went bankrupt in January 2011, it happened for the second time in October 2014 that a natural gas trader was appointed to supply natural gas sector on an on-going basis, which appointment the Authority had to extend 3 more times by the end of 2014. In the official public administration procedure initiated at the request of district heat generators, the Authority appointed Magyar Földgázkereskedő Zrt., a market participant with a long-term import contract capable of satisfying a significant proportion of domestic gas demand. Its predecessor, E.ON Földgáz Trade Zrt. had been identified as an entity with significant market power (SMP) by the Authority due to its dominant role and high market share on the domestic market.

The Authority based its decision on the fact that without intervention the interruption of natural gas supply to an interruption district heat generation which may jeopardize the district heat supply to households and public institutions in a number of towns.

As an exception, the Authority approved of the assignation request on account of equitable circumstances such as the supply of a high number of household district heat consumers in the heating period of concern. However, the Authority also noted that those consumers utilizing natural gas for district heat generation have to take care of the requirements necessary for their activity subject to licensing in accordance with Tszt. (including the procurement of natural gas) on their own. The affected consumers did not find a solution for the problem, the Authority had to extend the assignment several times.

General rules and conditions of natural gas transmission and the conditions to be met for obtaining natural gas transmission licences are detailed in GET. Besides natural gas transmission, the most important task of the natural gas transmission company is daily balancing. Pursuant to the law, the activity related to securing balancing gas is not deemed to be a commercial activity. During the performance of its duties, the natural gas supplier operates an internet-based IT system that provides the data flows necessary for maintaining the hydraulic balance of the interoperated natural gas system and for administering nominations and allocations.

The nationwide high-pressure transmission pipeline system is operated by FGSZ Földgázszállító Zrt (FGSZ Natural Gas Transmission Company Ltd). FGSZ Zrt. is in possession of the transmission system operation licence issued by the Authority. Considering that FGSZ Zrt. was the only transmission system operator in 2014, it performs the system operation tasks of the interoperable natural gas system.

Another licence for natural gas transmission was issued by the Authority in 2011 to Magyar Gáz Tranzit Zrt. (hereinafter referred to as MGT). The main function of the company is the construction of the new Slovakia-Hungary interconnection pipeline and, after obtaining the relevant licence, its operation. In preparation to obtaining the license for transmission system operation, MGT requested the certification of its compliance with the requirement of complete ownership unbundling prescribed by European law.

Moreover, in December 2014, MGT submitted a request for approval of the so-called Open Season procedure related to demand assessment, capacity booking and capacity allocation on the interconnector. The pipeline is expected to be commissioned in 2015. Upon the request of FGSZ Földgázszállító Zrt. as

transmission system operator licensee, the Authority conducted a public administration procedure in the summer of 2014 in relation to the approval of the Business and Commercial Code (hereinafter: ÜKSZ), but due to the expected changes in applicable EU regulation (Network Codes) and in relevant national legislation, no decision has been made in 2014.

The GET provides for the general rules of operation for natural gas distribution including licensing conditions and the obligation of the licensee for cooperation in order to ensure the development and operation of the interoperable natural gas system. The law explicitly lists the cases when the distributor may refuse the connection of a consumer or the commencement of distribution or the continuation of services to an already connected consumer. The gas distribution company keeps records on the gas consumer locations in the distribution network, their typical and mandatory characteristics, and shall transfer such data upon request to the consumer consuming gas at the given location or to the trader that supplies gas to him. The detailed rules on natural gas distribution services are contained in the Gas Distribution Code constituting the Annex to the GET enforcement decree.

Natural gas distribution systems are operated by 10 regional distributor companies. Most of the regional distribution activity – with the country geographically divided between them – is carried out by five large companies of the above.

The licensed operator of the organised natural gas market, CEEGEX began its activity on 1 January 2013. In 2014, the number of deals concluded on the organised natural gas market was low. By the end of the year, there were 7 members of the organised market, some of them being foreign participants that obtained limited trading licence for gas trade in the past year. CEEGEX Zrt. commenced its commercial OTC interface on 1 October 2014. The goal of CEEGEX Zrt with the introduction of CEEGEX OTC is to further expand its services in accordance with best practices implemented abroad, and to serve market needs at an ever increasing standard.

3.1.5. Unbundling of operations

Pursuant to GET, unbundling of accounting is mandatory to all businesses in the natural gas sector, no exemption can be granted. If natural gas transmission, distribution and storage is conducted by a single vertically integrated company, the licensed operations shall be provided through a legally unbundled organisation with independent organisational chart and decision making, separated from other operations not directly related to them, except for:

a) natural gas traders supplying less than 100,000 consumers ,

b) piped PB gas service providers.

The requirement of unbundling and the obligatory certification procedure examining it results from the fact that transmission, distribution and storage are monopoly activities, therefore strict rules have to be applied in accordance with the European regulations, such as: providing non-discriminatory access to infrastructure and separating these activities from production and trade.

Under Art. 6 of GET implementation decree, transmission operations should be carried out in an unbundled, separate organisation and by an independent decision making process. System operation managers may not participate in any other gas sector activities (subject to licensing) either in a direct or indirect manner. In respect of information flow, the system operator is required to perform its natural gas sector activity the same way for those in its ownership and for any other participant on the market.

FGSZ Zrt. is separated physically (registered office, office building) as well as legally and with respect to its activity from any other business organisation conducting natural gas sector activity. FGSZ Földgázszállító Zrt. operates according to the ITO (Independent Transmission Operator) model that ensures compliance with the unbundling requirement of EU regulation. The main principle of the model

is that the company which is engaged in the transmission system operation activity and which is part of a vertically integrated company group, shall be able to operate within the company group in line with the regulations on its separation from production and commercial activities. In the frame of the ITO model, FGSZ Zrt. shall operate unbundled both from parent and subsidiary companies.

At the end of 2014, acting on behalf of the State, Magyar Nemzeti Vagyonkezelő Zrt. has acquired an influence exceeding 75%, and almost reaching 100% in MGT Zrt., previously a legally separated company of Magyar Villamos Művek Zrt. In Government decision 1455/2014. (VIII. 14.) the Government requested the Minister of National Development to transfer the proprietary rights of MGT to the Ministry of Internal Affairs. With NFM decree 48/2014. (XI. 27.) the Minister of National Development appointed the Ministry of Internal Affairs to practice the proprietary rights of the State upon Magyar Gáz Tranzit Zrt. until 31 December 2020. Taking advantage of the option provided by Article 9(6) of EC directive 2009/73, MGT intends to realise the requirements of ownership unbundling according to the OU-model through separate government bodies within the state, and for this purpose submitted a request for certification to the Authority. The Authority carried out the certification procedure and on 22 December 2014, in compliance with the related EU provisions, it officially submitted its decision proposal to the European Commission.

Among the ten natural gas distribution licensees, there are five major regional companies with more than 100,000 consumers each. The five large companies have already completed legal unbundling in 2007, and consequently they perform gas distribution and trading in separate companies. Nine of the former public utility licensees applied for and were granted universal service provider licences by the Authority. Most of them holds free market gas trader licences as well. They perform these activities with unbundled accounting or they have created legally independent trading licence holder entities within the company group.

3.2. Security of supply

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

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

Having regard to the situation that emerged in Ukraine in 2014., and the Ukrainian-Russian conflict, the Authority regularly examined the changes in the natural gas storages stockpiles of Hungary and member states of the EU as well as the domestic national gas sources and usage, the intensity of delivery to Ukraine, the changes of the prices in spot markets, and the changes of the EU and USD exchange rates. The participants of the natural gas market - mainly MFGK Zrt. - responded to the protracting conflict and a possible disruption of sources from the east by storing more natural gas in the gas storages compared to the storage stockpile levels indicating falling trends in previous years, thus Hungary entered the heating season with the highest stockpile level of the past years.

The highest natural gas consumption ever measured in Hungary was 89.5 million m^3/ day (9 February 2005). In comparison, the highest natural gas consumption measured in 2014 was 54.8 million m^3/ day (31 December 2014), the second highest figure was on the previous day (30 December 2014) with 53.3 million m^3/ day, while the third highest figure was registered in the first month of the year (27 January 2014) with 53.0 million m^3/ day. Compared to the data above it can be seen that the current capacity of the domestic natural gas supply system is more than twice of the highest data and thus the technical background to security of supply is appropriate.

Table 17: Maximum technical capacity of the Hungarian natural gas supply system (million m^3/day)

Domestic production	**10.5**
Import HAG (Western direction)	**14.4**
Import Beregszász (Eastern direction)	**56.3**
Import Csanádpalota (Southeastern direction)	**4.8**
Import Drávaszerdahely (Southwestern direction)	**19.1**
Commercial gas storage	**60.1**
Strategic gas storage	**20.0**
TOTAL	**185.2**

Article 4 of Regulation No 994/2010/EU obliges member states to identify factors threatening security of supply, and in order to decrease the risks of security of supply to elaborate a Risk Assessment and a Prevention Action Plan based thereon, as well as an Emergency Plan for mitigating possible emergencies.

Pursuant to the directives of the Regulation, the Authority elaborated the Risk Assessment in detail in 2011 and sent it to the European Committee as required. One of the main elements of the Risk Assessment is the N-1 analysis. This is essentially to define the largest independent natural gas infrastructure, and to calculate the load (availability) of the remaining infrastructure in case of its failure and to determine if this is suitable to meet the total gas demand of the country. The analysis showed that the N-1 indicator of Hungary totalled 105% in 2012 that meets the requirements of the Regulation. (It is 124% for 2015 and 122% for 2020, thus the security of natural gas supply in Hungary is adequate on the long term as well.) The Authority prepared and sent the Prevention Action Plan and Emergency Plan coordinated with the neighbouring member states to the European Committee by the specified deadline, until 3 December 2012.

Fulfilling its legal obligation, in 2014 the Authority revised the previously created Risk Assessment. The Authority shall modify the Prevention Action Plan and Emergency Plan on the base of the results given in the course of the revision.

3.2.1. Allocation of cross-border capacities and congestion management

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

Interconnection point capacities are shown in Table 18. In addition to the indicated import entry points, Hungary also has a natural gas transmission pipeline interconnection towards Serbia (with a capacity of 13.2 million m^3/day) but this is only used for transit flow purposes.

Long term natural gas import contracts and their effect:

- Panrusgas 9000 million m^3/year until 2015
- E.On Ruhrgas 500 million m^3/year until 2015

The long term transit contract concluded with Serbia will expire in 2017 and engages a pipeline transmission capacity of 12 million m^3/day permanently.

Similar to the past 3 years, the Western HAG pipeline saw physical congestion in 2014 as well (on 129 of the 365 days of the years). In order to manage the congestion, FGSZ Zrt. has completed a compressor station expansion on the Western import entry point which enabled to meet higher natural gas demand during the winter period (14.4 million m^3/day), however in the second half of the year, even this increased capacity proved to be insufficient.

3.2.2. Natural gas transmission

FGSZ Földgázszállító Zrt., the transmission system operator licensee owned by MOL is responsible for the operation of the natural gas system and the transmission network.

The ten year network development plan submitted by the transmission system operator and returned by the Authority in October 2013 for revision has been revised and submitted for approval in December 2013 by FGSZ Zrt. The Authority carried out the procedure and partly approved the ten year development plan with its decision dated 30 June 2014. The Authority obligated FGSZ Zrt. to update and revise the declined parts of the proposal.

As a result of pipeline developments carried out in 2010 by FGSZ Földgázszállító Zrt., import diversification possibilities have widened, thus increasing the security of supply. Pipelines constructed to Romania and Croatia do not only enable gas trades to the neighbouring countries, but they are also parts of the North-South gas corridor which from 2011 on is considered to be a priority project by the European Commission.

The northern Slovakian-Hungarian cross-border pipeline realised and owned by Magyar Gáz Tranzit Zrt, the planning and construction of which had begun in 2013 and was realised in 2014, had become a part of the aforementioned gas corridor. Following the test run in the beginning of 2015, the interconnector can start its commercial operation in 2015. The Slovakian-Hungarian cross-border pipeline will have a capacity of 14.4 million m^3/day.

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

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

The publicly owned Magyar Gáz Tranzit Zrt. also holds an operation licence for the transmission of natural gas. With this licence, it can establish the Slovakian-Hungarian cross-border natural gas interconnector pipeline. The company will be eligible for obtaining the transmission system operation licence – also suitable for pipeline operation – after obtaining the specification on the unbundling of activities.

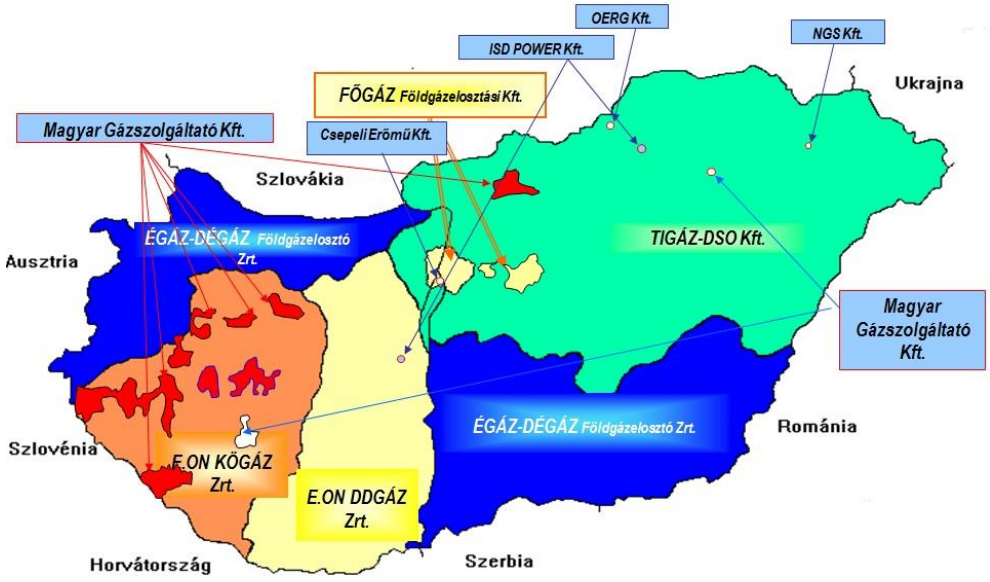
The Slovakian-Hungarian interconnector was constructed implementing bidirectional gas transmission.

3.2.3. Natural gas distribution

There are ten gas distributor companies operating in Hungary:

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

Figure 19: Regional distribution of natural gas distributor companies in Hungary



3.2.4. Natural gas storage

Strategic natural gas storage

Act XXVI of 2006 on the strategic stockpiling of natural gas adopted by the Parliament in March 2006 provided for the storage of 1.2 billion m^3 natural gas and the establishment of the necessary underground storage facility until 2010. Strategic natural gas reserves should be stored in storages with a withdrawal capacity of 20 Million m^3/day for a period of at least 45 days. The strategic stockpiles set by the law serve exclusively for the security of supply of household and communal consumers. Strategic reserves did not have to be used due to emergency during the year 2014.

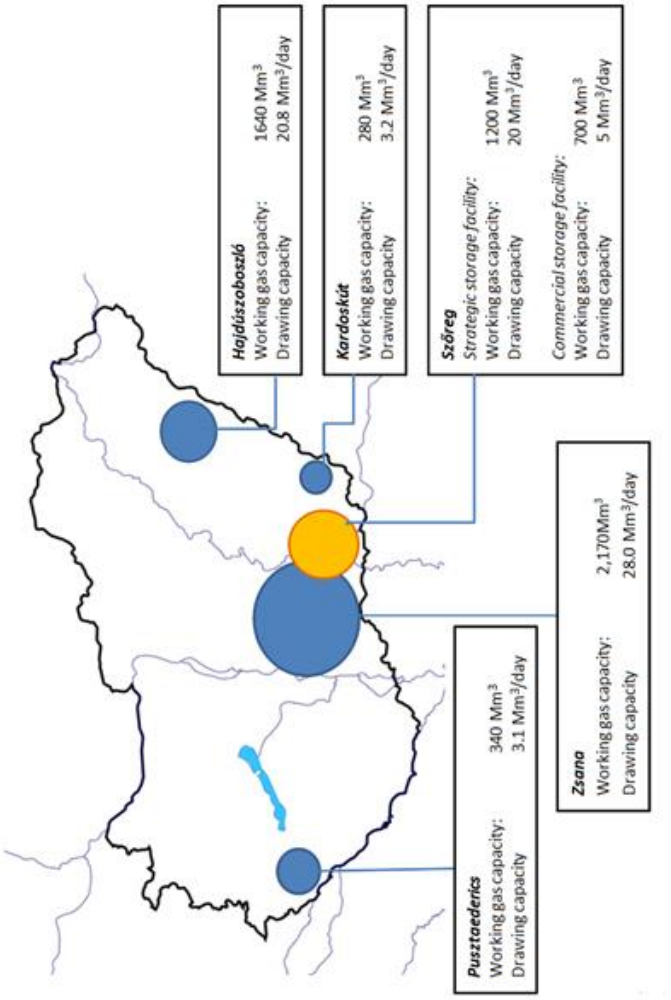
The NFM decree 13/2011 (IV.7.) on the volume of the strategic natural gas inventory, its sale and its amendment in 2013 temporarily decreased the working gas reserve of the strategic storage to 615 million m^3. Pursuant to the April 2014 amendment , the released stockpiles are to be reinjected with natural gas in two steps: 915 million m^3 until 30 June 2014, and 1.2 billion m^3 until 30 June 2015. Magyar Szénhidrogén Készletező Szövetség (MSZKSZ) informed the Authority in the Summer of 2014. that the strategic reserve prescribed by the decree has been reinjected on 28 June 2014.

On 25 July 2013, Magyar Földgáztároló Zrt. (formerly called E.ON Földgáz Storage Zrt.) was also granted a license from the Authority for the strategic stockpiling of natural gas if the Minister in charge of energy policy appoints said licensee to perform strategic gas storage.

Commercial natural gas storage

Four of the five commercial gas storage facilities in Hungary were operated by Magyar Földgáztároló Zrt. (formerly called as E.ON Földgáz Storage Zrt.) in 2014. MMBF Zrt. applied for and was granted by the Authority a commercial gas storage licence as well, which – beside the strategic supplies – allows for the storage of an additional 700 million m^3 of working gas in the Szőreg-I facility. This is associated with a 5 million m^3/ day commercial withdrawal capacity according to the licence. Thus the fifth commercial gas storage is operating in the Szőreg-I facility. At present, both natural gas storage operator licensees (MFGT Zrt and MMBF Zrt) have licences for the storage of both commercial and strategic natural gas reserves.

Figure 20: Location of underground gas storage facilities in Hungary and their working gas capacity



It is important and reassuring with respect to supply security that – at an appropriate filling level – two thirds of the domestic daily peak demand can be provided by the system from commercial storage facilities. Regulations of Decree No 994/2010/EU announced on 12 November 2010 were implemented with related amendments in GET, and furthermore in Government Decree No 265/2009 (XII. 1.) on the restriction of supply and on the use of strategic reserves of natural gas, and other measures required in the event of any emergency in the supply of natural gas.

3.2.5. Specification of the gas restriction sequence

The Authority specifies a restriction sequence in each year to be applied in case of supply disturbances by which the continuity of gas supply to certain consumers can be secured with the restriction of certain consumers. In the category to be restricted first, the Authority qualifies all gas-fired power plants which are covered by legal requirements to stockpile liquid fuel stocks as alternative energy sources sufficient to operate for 16 days continuously. Should the restriction of this category be insufficient, further consumers may be restricted according to the restriction sequence.

The restriction sequence has been prepared pursuant to Government Decree No 265/2009. (XII. 1.) on the restriction of natural gas consumption, the usage of strategic gas reserves and the other actions to be taken in case of a gas supply crisis, establishing eight categories for the restriction system. The needs of industrial consumers whose gas supply restriction could not be realised earlier within the time limits stipulated in the legislation since their too quick shutdown caused large scale technological damage were also settled by law. The situation of these consumers is facilitated by the Amendment of Government Decree No 265/2009 [Gov. Decree No 293/2011, (XII. 22.)] which allows for them to submit an application to increase the time frame available for complying with the restriction requirements from 8 hours to 72 hours in such cases.

The Authority issued its decision about the current restriction categories at the end of November 2014.

3.3. Price preparation, price regulation

3.3.1. System charges

Effective from 1 April 2014. - resultant of the 6.5% decrease in the average price for household end-users in accordance with the reduction of the base rate of the universal service - the distribution base rate has also been decreased in a way that didn't affect average distribution prices. Consequently, the volume fees of the segment have increased compared to the fees in November 2013.

The Authority adopted a resolution on 30 April 2014 on the division of booked gas storage capacities, according to the extent necessary for supplying consumers eligible and not eligible to universal services, respectively.

As per the content of the status law on the Authority, the Authority was granted the right to issue decrees and was entitled to set system charges in a decree, the regulations for the incentives of increasing the quality of supply provided by the system operator through system charges, the system charges applicable depending on the quality of supply provided, and also the conditions for the application of system charges, the connection fees and the regulations of their application. Accordingly, natural gas transmission, storage and distribution charges are set out in MEKH Decree No 1/2013 (VII.11.) on gas system charges, the regulations for the incentives of increasing the quality of supply provided by the system operator through system charges, the system charges applicable depending on the quality of supply provided, and the conditions for the application of system charges. The system charges subject to the regular price correction set out in KHEM decree 74/2009. (XII. 7.) are also determined by MEKH decree MEKH decree 1/2013. (VII. 11.). The charges changed as follows.

In regards to transmission capacity charges - pursuant to the planned community regulations -, cost allocation between the entry and exit points have been modified in a way that entry-exit rate is set to be 60-40%. As a result of this and the modifications taken into account at the regular price corrections, the average price of transmission have increased somewhat. In order to increase the utilisation of domestic storages, the deprivation of auction fees have been realised on the storage entry point charges. The quantitative correction of distribution charges has been realised on 1 October 2014 as a part of the

extraordinary price correction, in the course of which the decrease in the distributed amount was taken into consideration. Due to the modification, charges to be paid after capacities already allocated to consumers (either entitled to universal service or not) have increased, and the average distribution price for consumers between 20 and 100 m^3 have decreased somewhat (by 4.89%).

The Authority – based on the results of a professional review carried out in 2013 –, following multiple conciliations, finalised and prepared the legal regulations replacing the previous connection charge calculation practice. The purpose of legislation change was the vast restructuring of the current system resulting in better utilisation of the existing infrastructure. In consequence, NFM decree 35/2014. (VIII. 15.) and MEKH decree 6/2014. (VIII. 28.) have been prepared. Effective from 1 October 2014, GET have conferred the determination of the regulatory framework of connection charges to the competence of the Authority, and in consequence, the previous dual-decree regulation has been combined in MEKH presidential decree 9/2014. (IX. 29.).

Table 18: Gas system charge trends from 2011 (data in HUF/m^3)

		From 01.01.2011	From 13.07.2011	From 01.07.2012	From 01.01.2013	From 26.07.2013	From 01.11.2013	2014 average*
In the supply of consumers eligible for universal services:	Transmissior	4.23	4.20	4.16	3.64	3.64	3.11	3.22
	Storage	10.15	11.05	11.06	10.12	11.18	10.02	10.01
	Distribution	17.78	16.43	16.44	14.77	15.07	11.22	11.32
	Total	**32.16**	**31.69**	**31.66**	**28.53**	**29.89**	**24.35**	**24.55**
In the supply of consumers not eligible for universal services:	Transmissior	4.23	5.20	5.16	5.16	5.16	5.16	5.39
	Storage	12.49	13.39	13.41	13.41	16.73	16.73	16.72
	Distribution	5.72	7.38	9.06	9.11	9.42	8.73	8.45
	total	**22.44**	**25.97**	**27.62**	**27.67**	**31.30**	**30.61**	**30.56**
Average system access fees:	Transmissior	4.71	4.68	4.63	4.23	4.23	4.58	4.78
	Storage	11.38	12.12	11.57	10.73	12.01	11.03	14.04
	Distribution	11.91	12.05	12.91	12.06	12.38	9.98	9.96
	total	**28.00**	**28.86**	**29.11**	**27.01**	**28.62**	**25.60**	**28.78**

* Arithmetic average with calendary and regulatory quantitative impact taken into account

In accordance with the task determined by Art. 105(6) and Art. 133/A(4) of GET, at the end of 2014, the Authority has prepared the so called balancing mechanism between transmission system operators, which decree was issued in the beginning of February 2015, however it will only be applied from the start of commercial operation between transmission system operators. Beside the issue of the balancing decree, transmission system-operation fees have also been modified as a part of the extraordinary price correction, and the previous entry-exit rate of 60-40% have been changed to 50-50%. This has been in application since 1 January 2015.

3.3.2. The price regulation framework for the universal service

Consumers eligible for universal service purchase natural gas on a regulated price. Consumers eligible for the universal service are household consumers, other consumers with purchased capacity below 20 m^3/hour, and local governments up to the capacity to supply the households of consumers living in the rented apartments of the local government.

Natural gas universal service price composes of the recognised price of natural gas as a product, the system charges (in contrast to universal service in the electricity sector), the wholesale margin and the universal service provider margin, as well as the financing costs of working gas.

The natural gas offering system

The part of the specific cost of natural gas recognised in the universal service rates which falls beyond the domestically produced natural gas sold at regulated prices is determined on the basis of the natural gas price formula in Decree No 29/2009 (VI. 29.) KHEM on pricing with respect to universal service provision on the natural gas market. This formula takes several factors into account. In the case of imported gas, the weight of regulated (spot and forward) prices climbed from 70% to 75% on 1 April 2014, while the 30% weight of oil-indexed natural gas prices declined to 25%.

In the case of storage gas, organised market prices were still calculated with 90% weight and oil-indexed prices with 10% weight. Organised market prices are generally lower than the oil-indexed prices set in the long term contract, therefore taking into account the organised market prices with a higher weight makes recognised gas price lower.

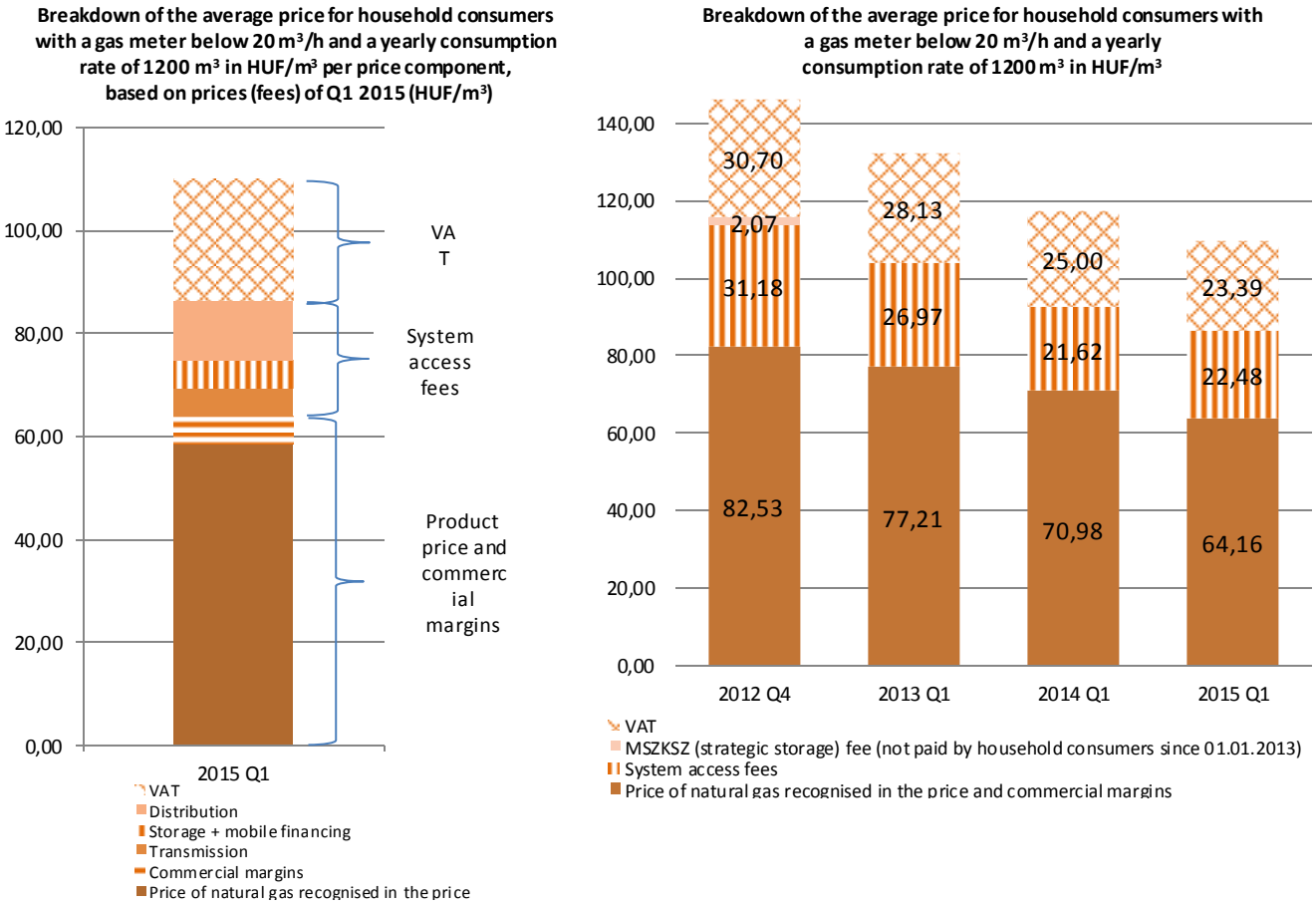
Keeping natural gas costs low and further decreasing them in April made it necessary in 2014 as well that universal service providers have access to natural gas at a lower price than the price resulting from the formula set out by the KHEM decree no. 29/2009. (VI. 29.). This was facilitated by the price set by the authority for domestically produced gas from gas fields set into production before 1 January 1998, which is significantly lower than the market prices.

The Authority prepared its proposal for the offer prices for the second, third and fourth quarter of 2014 and the first quarter of 2015 and sent it to the Ministry of National Development (NFM), in line with the regulations of the NFM decree no. 19/2010. (XII. 3.).

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

Tariffs for household consumers supplied in the universal service were cut on one occasion in 2014. From 1 April 2014, the base tariff and the gas tariff of household consumers decreased by approximately 6.5%. Compared to the prices applicable as at 31 December 2012, the above factors resulted in a price cut of 25.19% in total.

Figure 21: Average end-user price of household consumers purchasing gas in the universal service (consumer category I, with 1200 m^3/year consumption) had the following components (HUF/m^3)



Fines and proceedings related to natural gas price regulation

In 2014, the Authority imposed fines in 3 cases for violations related to natural gas price regulation.

On 17 April 2014, the Authority imposed a HUF 5 million fine on Prvá Slovenská Propanbutanová Spoločnosť, a company selling propane-butane gas within the framework of cross-border services for non-compliance with its obligation to supply data as required by the GET in connection with the LPG gas utility cost reduction.

Similarly, on 30 July 2014, the Authority imposed two times HUF 10 million in two different cases on Magyar Földgázkereskedő Zrt. (Hungarian Gas Trading Ltd) for refusal of its obligation to supply data. The company denied access of the Authority – inter alia – to its contracts providing for the supply of universal service consumers and the quantities and prices of the natural gas purchased in 2013 on the basis of the long-term Russian-Hungarian import agreement.

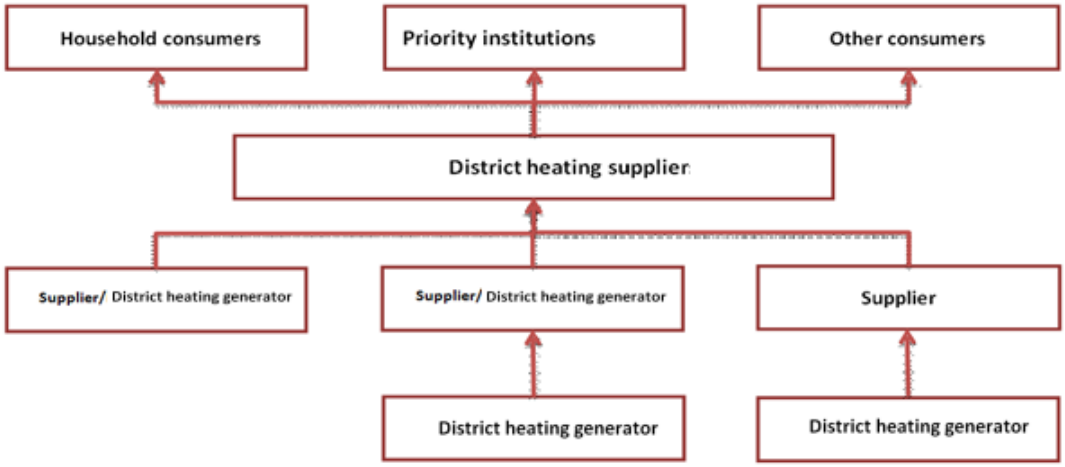
4. District heating generation, operation and regulation of district heating services

4.1. Operation of the district heating sector, its main characteristics

In Hungary, there are approximately 650 thousand apartments in total supplied by district heating in 95 towns. Approximately 80% of the thermal energy sold by district heating suppliers is consumed by households (for heating and hot water consumption). The Authority is responsible for the licensing and supervision of district heating generators and suppliers.

District heating services are local public utility services. The simplified model of district heating supply is shown in the figure below.

Figure 22: Simplified model of district heating supply in Hungary



Sector participants are:

- district heating suppliers,
- district heating generators (who are generally traders, too) and
- district heating traders (who do not generate heat but buy that from generators and sell it to district heating suppliers).

The Authority issued district heating supplier licences by towns. In general, one district heating supplier operates in each town. On the other hand, there are towns with more than one district heating supplier with operating licence, and there are companies that are engaged in district heating supply in more than one town.

In the 95 towns, district heating is supplied by 91 companies with district heating supplier operating licence, possessing 104 district heating supplier operating licences in total.

In the case of cogeneration power plants (that generate heat and electricity together), the Authority issued operating licences for district heating generation for the company as a whole. The number of operating licences for district heating generation is 153, while the number of companies with operating licences for district heating generation is 142.

District heating suppliers, if they are also engaged in district heating generation (in cogeneration and/or in a boiler) also hold district heating generation licence for the municipality within their supply.

The number of district heating generation and district heating supplier licences is 256 in total (153 and 103 respectively).

17 out of all district heating supplier licence holders do not have own heat generation. They purchase 100% of the heat from traders (from other heat generation companies). There are 45 suppliers who supply consumers exclusively from their own heat generation, i.e. without buying heat from other sources. The remaining 42 district heating supplier licence holders supplies consumers from their own production and heat purchased from traders (other heat generation companies).

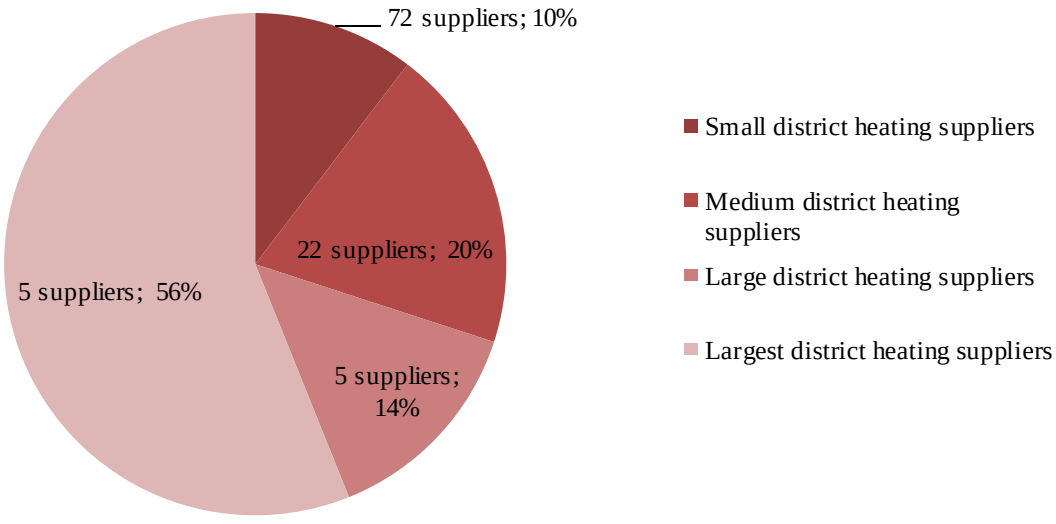
Service providers purchase thermal energy from the district heating generator (heating plant or heating power plants) and/or produce it themselves in boilers, or, in increasing proportion, in cogeneration heat and power producing plants (e.g. with gas engines). The supplied thermal energy originated partially from cogeneration power plants in approximately 60 towns, producing heat and power together. The fuel used for district heating generation is predominantly natural gas.

District heating supplier companies are mostly owned by municipalities, and in certain places the district heating generator (heating power plant subject to electricity license) also acquired a share in the service provider. In a few towns, the operation of the district heating supplier is accomplished by private companies through concession agreements.

There are 60 companies with district heating supplier licence that are predominantly (with over 98% of the shares) owned by municipalities. There are 22 companies with mixed ownership (partly owned by municipalities), the others are non-municipality companies with district heating supplier licence.

In 2014, 56% of the sold thermal energy was supplied by five district heating suppliers, while 72 district heating suppliers provide only for 10% of the total amount.

Figure 23: Shares of district heating supplier licensees according to the annual amount of thermal energy sold in 2014



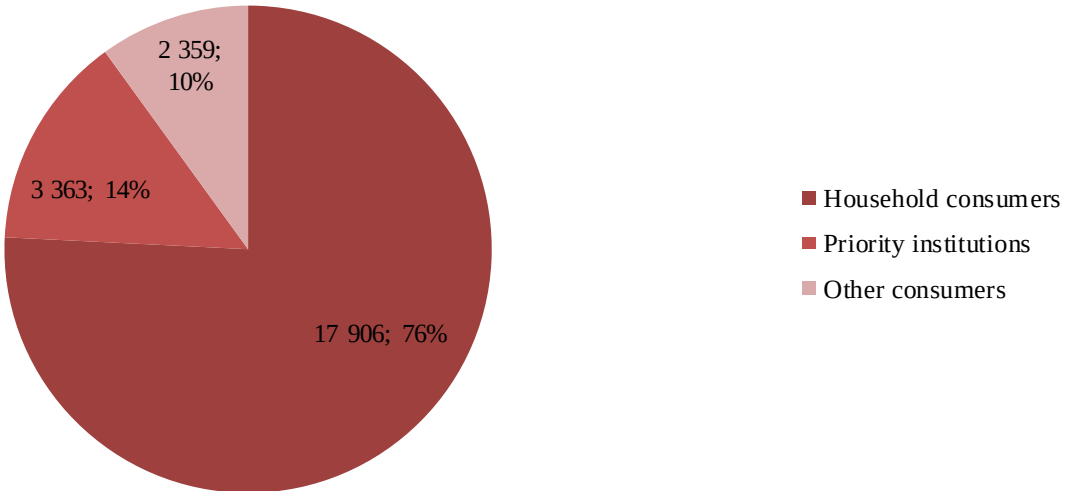
Explanation:

Categories and classifications in the table are as follows:

- Small district heating supplier: below 100 TJ thermal energy sold annually
- Medium district heating suppliers: between 100-500 TJ thermal energy sold annually
- Large district heating suppliers: between 500–1000 TJ thermal energy sold annually
- Largest district heating suppliers: above 1000 TJ thermal energy sold annually.

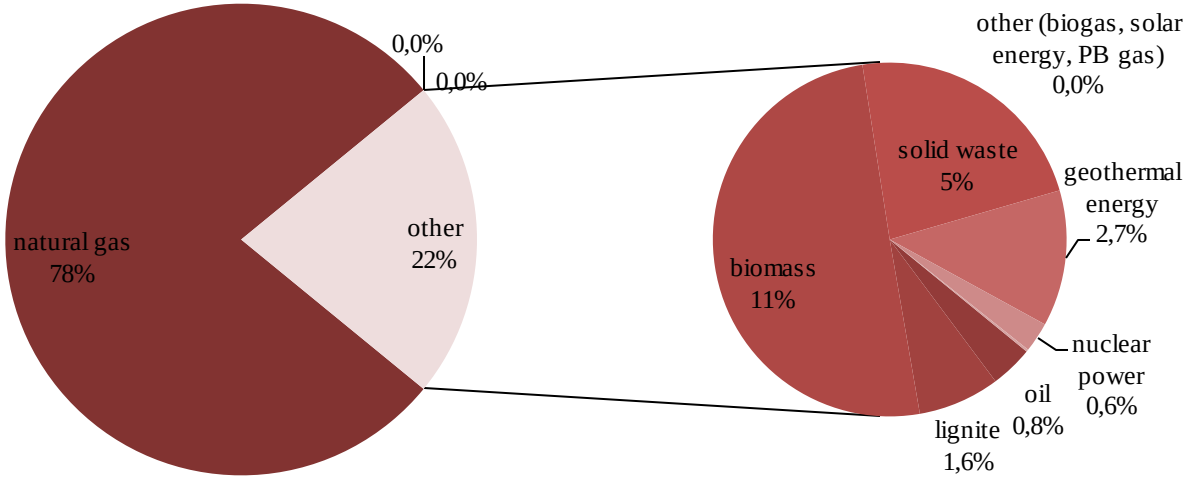
The volume of thermal energy sold by district heating suppliers was 29 PJ in 2014, 76% of which was used by household consumers. Households use this district heating primarily for heating (and to a smaller extent, for hot water consumption).

Figure 24: Heat volumes sold in district heating supply (TJ; %) in 2014



In 2014, 81% of district heating generation was produced from natural gas, the share of biomass was 7%.

Figure 25: Share of fuels used in district heating generation in 2014



4.2. Licensing and supervision

District heating generation and supply are operations subject to licensing; the establishment of district heating generation units is also subject to licensing above a heat output of 5 MW. Both the operating licence of district heating suppliers and the establishment and operating licences of district heating generators producing heat in other ways than cogeneration (heat generation in boilers) are issued by the Authority.

The Authority issued 56 resolutions related to district heating in 2014. See the resolutions issued in table 19 by licence types.

In 2014, the Authority checked the data of 101 district heating supplier licensees and compared the data in its database and the district heating generators' licences with the aim to find out whether the data in the licences are up to date and in conformity with the real situation. As a result of the inspections, the Authority called 3 district heating generators to amend their licences.

The Authority checked the web pages of 95 district heating suppliers to find out whether their data contents comply with the legal requirements. As a result of the inspections, the Authority called 40 district heating generators to complete the missing data (mainly the Operational Rules and the fees were missing), and it called 11 district heating generators to launch their websites.

Table 19: Resolutions issued for district heat generation and services in 2014

Issue, amendment and withdrawal of licences for district heating suppliers and district heating generators in 2014	number
Issuance of operating licences for district heating suppliers	1
Issuance of operating licences for district heating generation	4
Withdrawal of operating licences of district heating suppliers	0
Withdrawal of operating licences of district heating generation	4
Amendment of operating licences of district heating suppliers	15
Amendment of operating licences of district heating generation	31
Issuance licence establishing district heating generation	1
Total	56

According to the inspection plan, the Authority conducted 8 on-site inspections in 2014 at the district heating generator and district heating supplier licence holders included in the plan. During the on-site inspections, the Authority identified no violation of the prescriptions set out in the relevant legislation and licences, so it was not necessary to take any measures.

In the case of the district heating generators and suppliers struggling with gas supply problems (in Szekszárd, Kiskunfélegyháza, Szolnok and Szeged), the Authority solved their gas supply by appointing a gas trader with a temporary effect to ensure the supply of district heating.

4.3. Security of supply

In the cases when the district heating supplier purchases the majority of the heat from a thermal power plant, disputes between the service provider and the power plant may endanger the security of district heating supply. In such disputes, the Authority acted as a mediator successfully on several occasions. In recent years, the growing trend has been that efforts are made by municipalities to arrange district heating generation by the municipality through its own business or service provider.

4.4. Price preparation, price regulation

The Authority, developing its market supervisory function with regard to market trends in Hungary, initiated 73 authority procedures in total, in order to make companies strictly observe the legal regulations on the separation of accounting and the related data supply. In the administrative procedures initiated by the Authority, the affected licensees prepared accounting reports in compliance with legal regulations, based on the information provided by the Authority.

The Authority completed its obligatory tasks on price preparation and district heating subsidy preparation by the deadline (31 August).

During the preparation of price and subsidy, the Authority prescribed new data supply to licensees, with special regard to gas contracts for the 2014/2015 gas year. Based on the supplied data and the methodology outlined in the law, the Authority determines the rate of justified cost and justified revenue individually, i.e. separately for all of the nearly 200 licensees. When preparing the prices, the Authority acted in accordance with the regulations outlined in the decree of the NFM Decree No. 50/2011 (IX.30.) on the determination of district heating sold to district heating suppliers, the prices of district heating supply provided to household consumers and separate institutions. The Authority also made a proposal regarding the district heating supply support rates – these shall be determined by district heating suppliers by the decree of the NFM Decree No. 51/2011 (IX.30.).

The Authority continuously monitors the payments of district heating supply subsidies. In this process, it compares monthly data sent by MAVIR Zrt. with the data reported to the Authority by the licensees, as well as those prescribed by the law. If the Authority encounters any difference in the payments from those prescribed by the law or from the data supply of MAVIR Zrt., it settles the issue with a procedure initiated on its own motion, but it may also initiate a procedure upon request from the licensees. The Authority issued 12 resolutions in 2014.

From 1 January 2013, the Authority has a new task, namely to consider the approval of exemption from the reimbursement of the revenue above the profit limit. Essentially, the Authority – considering certain affecting factors to be present – may exempt the seller or the district heating supplier (hereinafter jointly referred to as: applicant) from its reimbursement obligation if the applicant – within 15 days from filing the annual report – certifies in a request submitted to the Authority that its profit above the profit limitation has been spent on an activated or not activated investment started in the year concerned, or wishes to spend it on an investment activated by the end of the third year from submitting the request, which investment

– incentivizes the secure production or supply of district heating at the lowest cost, the improvement of management efficiency, the efficient use of capacities, the continuous improvement of service quality or savings on district heating;

– energy production in cogeneration or with renewable energy sources has a visible environmental or energy saving benefit or decreases carbon dioxide emissions;

– it proves to be practical in terms of land development, environmental, energy efficiency or air quality protection;

– absolutely necessary in order to ensure continuous and undisturbed district heating generation or supply, or to eliminate threats to the security of supply.

If the Authority establishes with regard to the applicant – based on the annual report and business plan attached by the applicant, or the annual amount spent or planned to be spent on the investment, or the schedule of the planned investment and other documents – that

– the conditions for the exemption are partly or entirely fulfilled, it partially or completely approves the request, and may prescribe further conditions in order to be in compliance with the conditions of exemption, or

– the conditions for the exemption are not fulfilled, it rejects the request for exemption and applies the regulations on reimbursement.

The own sources used for activated investment projects (related to district heating supply and generation) in the year concerned, has to be equal or higher than the sum of profit exempt from reimbursement and amortisation in the year concerned. The own resource spent on an investment in progress, but not activated during the year concerned – due to delays in the investment – can be considered equally as that

of the year concerned, as long as the applicant certifies that it is used for the investment in a request to the Authority. In such case, the non-activated investment which had been considered earlier, cannot be considered again in the year of activation.

If the Authority determines during its inspection that the investment stated in the request has not been completed, or it has not been completed the same way as in the resolution of the Authority, it obliges the applicant to refund from its own resources spent on the investment, up to the amount reaching the profit limit. Furthermore, it can impose a fine according to the Gov. Decree No 157/2005. (VIII.15.) on the implementation of Act XVIII of 2005.

In this topic, the Authority received 19 requests in 2014. One of these has been rejected, in twelve cases the procedure finished with an approving resolution, while three procedures are still in progress.

5. Operation and regulation of the water utility supply

5.1. Situation of the water utility sector

As a result of the integration process took place in 2012-2013 (after the entry into force of the Vksztv. on 31 December 2011), out of the nearly 50 public water utility service providers still operating in 2014, by the end of 2014 there were only 43 public water utility service providers pursuing public water utility service activities (and, by the beginning of the year 2015, their number further decreased to 42). As a result of the uniform regulation environment, public water utility service providers can operate on the basis of an operational agreement defined by law, in nearly similar supply quality and with efficient and continuous operation. Due to the new rules, the principles of regionalism, solidarity and the prohibition of cross financing required by the Vksztv. can be better enforced in the pricing process. From the consumers' point of view, the goal is to provide high quality drinking water at affordable price, at high service quality standards while the obligations of public water utility service providers are clearly defined.

Pursuant to Art. 4(1) of Act LIV of 2013 on the application of utility price cuts, during the year 2014, in case of the consumption charged to the consumers and the consumption accounted at the residential fee, public water utility service providers were allowed to issue their invoices with up to 90% of the amount proportionate to the service unit that was legally applicable as at 31 January 2013.

During the year, the Authority published several information materials on its website (e.g. in connection with the amendment of the Operational Rules and public procurement rules, as well as the public water utility development contribution) in order to facilitate the interpretation of the applicable law and a more efficient operation of public water utility service providers. In 2014, the Authority was a prominent supporter of the amendments of the law related to the water utility supply by its professional proposals, and it also provided professional support to the water utility sector related legislation plans of the Ministry of National Development. Moreover, the employees of the Authority attended a number of water utility supply sector conferences both in Hungary and abroad, where they also held several presentations. The cooperation with the representative body of public water utility service providers, the Hungarian Water Utility Association, is also excellent.

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

Figure 26: Regional distribution of public water utility service providers engaged in utility water supply services (1 October 2014)

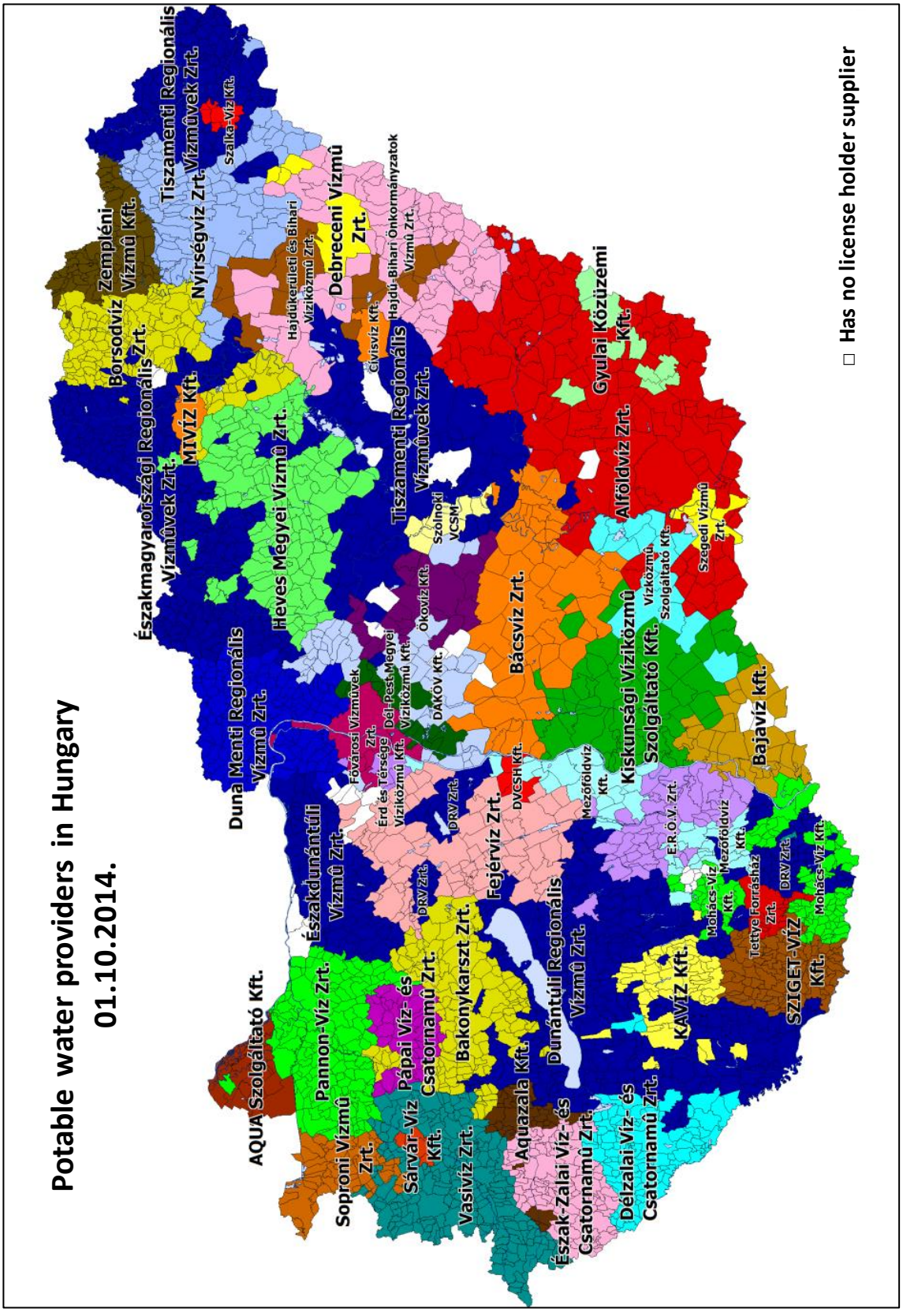
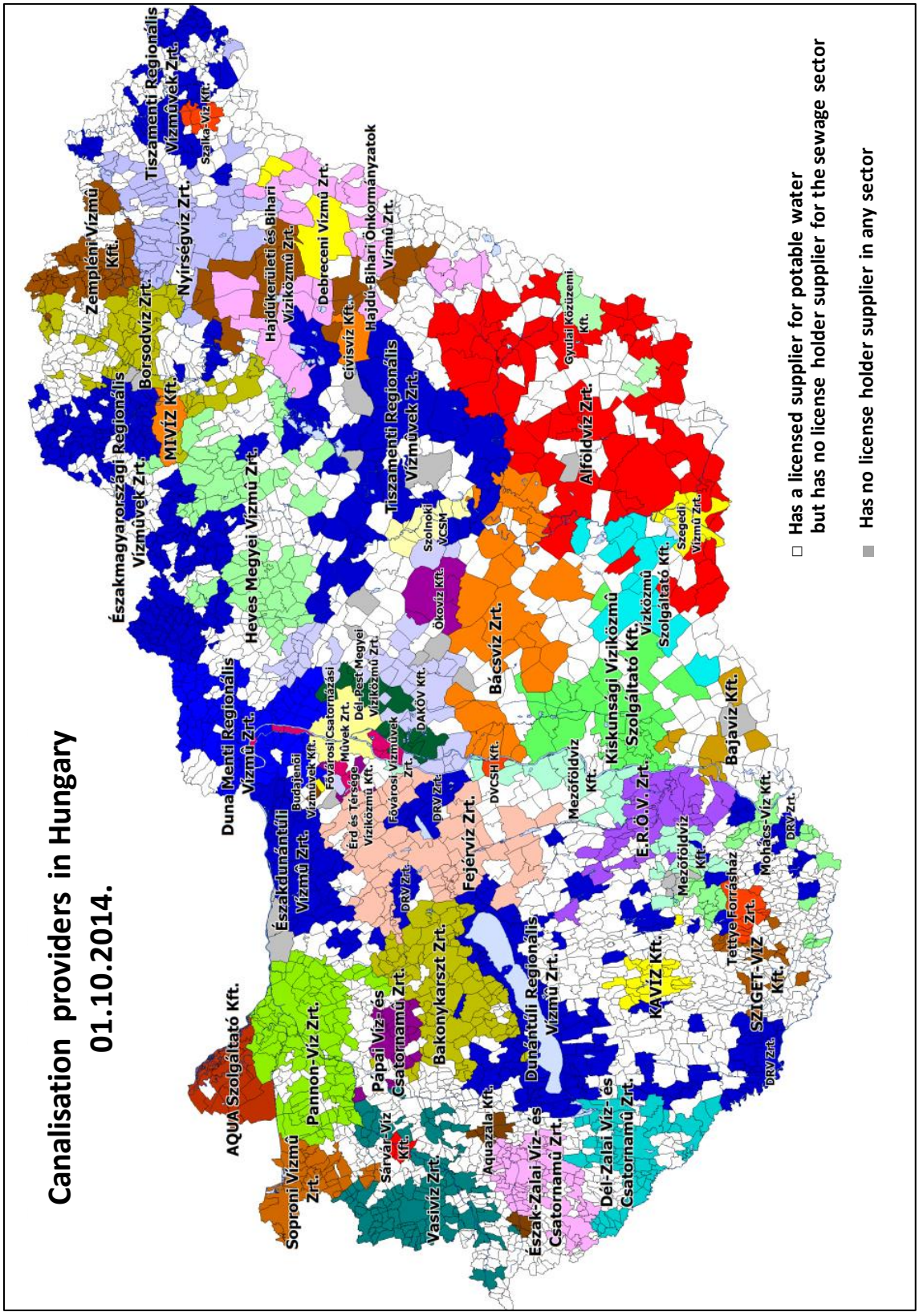


Figure 27: Regional distribution of public water utility service providers engaged in utility waste water collection and treatment (1 October 2014)



5.2. Licensing and supervision

5.2.1. Licensing

Licensing of water utility supply operation

In the year 2014, the unfinished operational licensing procedures have continued (in 2013, 46 companies were given the licences necessary for further operation), and also suppliers with an operational licence have submitted requests to the Authority for licence amendment. In 2014, the Authority passed a total of 45 resolutions with regard to operating licences or the denial of their issue.

Approaching the end of the year 2014, a growing number of requests for the approval or amendments of the operational agreement were submitted, a part of them within the context of a request for operating licence amendment, another part within the framework of a separate proceeding. In 2014, 526 requests for approval of operational agreements were assessed, where most proceedings ended with an approval, and only a few of them were rejected.

In line with the forecasts of 2013, in the year 2014 there were no conversions with respect to the public water utility service providers in the volumes experienced earlier, however, on account of the conversions and expiration of fixed-term licences, by the end of the year the number of licensed suppliers decreased to 43.

Rolling development plans

As a result of Art. 11 of the Vksztv., in order to ensure water utility supply in the long term – and with taking the aspects of sustainable development into account – a rolling development plan shall be drawn up for each of the water utility supply sectors. A rolling development plan shall consist of a renovation and replacement plan as well as an investment plan. The plans shall be submitted to the Authority by the 15th of September every year by the entities responsible for the supply or – depending on the type of the operational agreement – the public water utility service providers. The first deadline for submission was 15 September 2014.

The work related to rolling development planning begun before the submission of the requests, and since the decrees containing the detailed rules of planning were not published in the planning phase period, the Authority helped by publishing recommendations on its website.

A total of 243 requests for approval of rolling development plans have been submitted to the Authority until the deadline provided by the law (307 pcs. total by the end of 2014). The public water utility service providers holding an operational licence submitted 41 requests, the local governments responsible for the supply submitted 264 ones, and 2 requests were received from other kinds of applicants.

During the proceedings, on 26 November 2014, Government Decree no. 292/2014 (XI. 26.) on the amendment of Government Decree No 58/2013 (II. 27.) on the implementation of certain provisions of Act CCIX of 2011 on Water Utility Supply (hereinafter referred to as: Implementation decree amendment) was published, which contains the detailed rules on the requirements regarding the format and contents of rolling development plans, with an entry into effect as of 11 December 2014. With regard to this – and the Authority's offer – a considerable number of applicants took the opportunity and declared that they wish to update their plans submitted earlier.

The experience gained during the rolling development plan approval proceedings shows that the plans submitted in 2014 are quite various in terms of contents and quality. In the case of the majority of the applicants, the description of the individual works is superficial and too short to serve as a basis for making any realistic assessment of the achievement of value for money and the soundness of the separation of renovation and investment. There are many plans among the investment projects that do not include capital expenditures, and many statements in which the one responsible for supply states that it does not wish to carry out investment tasks in the next 15 years.

Regarding investment projects, in many cases the tasks presented in the plan are realised in the framework of EEOP investment projects, and consequently in many cases the applicant attached neither a detailed technical description nor an estimated cost to the particular projects.

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

2014 was a year of learning both for the Authority and the applicants in regards to rolling development plans. The aim of the Agency with the monitoring of rolling development plans is to contribute to the long-term adequate technical standard and condition of the public utility assets and operating equipment of the water utility supply sector, and to the continuous and cost effective operation of water utility supply.

National Water Utility Register

On 1 September 2014, the Authority - providing the technical background and processing the data available ex officio - have founded the National Water Utility Register, which contains the data of major significance in connection with water utility supply.

5.2.2. Inspections

In 2014 the Authority increased the number of inspections and particularly on-site inspections significantly, and applied new methods of inspection not practiced previously. The service providers have been given assistance to help adjust to the significantly changed legal environment during the on-site appearances increased in numbers, and resultantly in many cases the violations of lesser significance revealed have been rectified in the course of the procedure, making the imposition of sanctions unnecessary.

Comprehensive inspections

Number of inspections and their results

In 2014, the Authority has instituted proceedings for the comprehensive audit of all-round compliance with the conditions included in the public water utility service provider operating licence and the related legal regulations against 5 service providers. The 3 audits already finished did not reveal substantial infringements of law, and the Authority has prompted the service providers in writing to rectify the violations of lesser significance.

Types of identified violations

- misapplication of a service charge,
- carrying out of certain procurements differing from the regulations of the Procurement Policy

Revealing public water utility service provider activities carried out without licence

Number of inspections

As the continuation of the series of inspections started in 2013, the Authority has initiated 22 inspections, as in these cases there was a possibility that the water utility supply is carried out by a service provider that did not submit an application for an operating licence, and does not possess such.

Results of inspections

During the inspections it was found that 21 service providers are carrying out their activity without having submitted an application for an operating licence in regards to a total of 45 municipalities. For the sake of the security and continuity of supply in each case of prohibition from activity, a procedure for the appointment of a public operator has also been carried out.

Until the end of 2014, we have prohibited the further activity of 8 operators without licence, and in a further 13 cases prohibition can take place after the appointment of the public operator.

Inspection of the utilisation of the usage fee by the service providers

Number of inspections

We have checked the utilisation of the usage fee in the case of 25 municipalities (with differing populations), pertaining to a total of 21 water utility-service providers.

Results of inspections

The Authority found violations in case of 4 out of the 25 inspections.

Types of identified violations

- lack of a dedicated bank account,
- only the income from usage fee due after the opening of the account have been credited on the dedicated account instead of the total of the unused usage fees pertaining to the whole period following 31 December 2011.

Inspection of the application of accounting separation at public water utility service providers

Number of inspections

The Authority inspected the practical realisation of accounting separation regulations in the case of 15 randomly selected public water utility service providers.

Results of inspections

The Authority found substantial deficiencies or lack of accounting separation in the case of 3 service providers. In a further 7 cases it was found that the service providers have for the most part realised the accounting separation, however it was done with inconsistencies of lesser significance and erroneous methods.

Types of identified violations

- there was no column included by the service provider in the Profit and Loss Account or balance sheet provided in the annexes of the annual reports pertaining to the secondary activities and/or other business activities carried out on the cost of free capacity,
- the Accounting Separation Policy adequately defines the cost drivers, however in practice the Service Provider applied different cost drivers,
- the costs of the insurance effected on the water utility-assets have not been shared appropriately between sectors by the service providers,

- expenses the items of which can be allocated directly to specific branches were presented as indirect expenses, and thus they are divided between all branches,
- the independent auditor's report attached to the annual report did not contain the certification of exemption from cross financing.

Inspection of water utility supply fees

Number of inspections

The Authority initiated price supervision procedure against 34 public water utility service providers in total, which affected 111 municipalities and 617,547 consumers.

Results of inspections

As a result of the supervision procedures carried out, the Authority revealed the misapplication of prices in 14 cases. In these cases, the Authority prohibited the public water utility service provider from applying the prices against the law, and, at the same time, obliged it to apply lawful prices and refund the extra, unlawfully gained revenue to the consumers harmed.

Considering that according to the legal regulations in effect at the calculation of utility cost reduction the fee that has to be taken into account is the fee lawfully applied at 31 January 2013, in the case of service providers in case of which unlawful fee has been found, the Authority has initiated the procedure of the consumer protection authority competent for the supervision of utility cost reduction at the closing of the inspection.

Types of identified violations:

- raising of water utility supply fees at a rate exceeding the 4.2% permitted by the law,
- introduction of a base rate, differentiation based on meter device.

Comparing the data from 2013 and 2014, the Authority found a price violating the law in 60% of all the supervisory/price monitoring procedures closed, in 2014 this rate has decreased to 25%. This trend indicates that as a result of the continuous price monitoring activity, the rate of lawfully applied prices increases significantly.

None of the service providers have instituted legal action for the revision of the resolutions, which shows the inclination for voluntary compliance with the law, and that the inspections have reached the goal that the service providers determine their prices lawfully. Furthermore, the inspections have contributed to the carrying out of the utility cost reduction, as one of the significant elements of the supervisions was the determination of the lawfulness of the fee serving as the base of utility cost reduction. In the cases when the fee serving as the base of utility cost reduction was found to be against the law, an exemplary cooperation took place with the Hungarian Authority for Consumer Protection.

5.3. Security of supply

In 2014, the Authority carried out a procedure for the appointment of a public operator mainly for the service areas of the service providers the requests for operating licence of which has been declined in 2013 and 2014. Of the procedures initiated, a public operator has been appointed in 154 cases. No municipality was left without service provider and service, however in many cases the Authority could only establish the facts of the case necessary for a well grounded decision carrying out a long and complicated procedure.

5.4. Price preparation, price regulation

5.4.1. Fees of water utility supply not provided previously

In those areas where an investment project is carried out which results in that a new water utility supply becomes available to consumers in the municipality which was not provided previously, the Authority – in accordance with the Minister of National Development – sets the service price upon request from the supplier. During 2014, the Authority received requests for setting the price of service not provided previously with regard to more than 30 municipalities. Most of these have been submitted to the Ministry of National Development or the clarification of the status in the procedures is in progress.

5.4.2. Approval of the individual policies of public water utility service providers, authorisation of outsourcing

The Authority ensures the foundations of its contractual relationships with public water utility service providers by the approval of the Operational Rules (in compliance with the related legal regulations) and the general contractual technical, commercial, accounting and payment terms and conditions of water utility supply services provided to the consumers by the public water utility service providers. On 11 December 2014 the amendment of the enforcement decree of the Vksztv. came into force, which laid out more detailed regulations than before in regards to the customer services of public water utility service providers, the consumers to be protected, and the 'Operational Rules' in general. The new rules primarily protect the rights and interests of the recipients of water utility services, and guarantee different kinds of allowances in regards to the consumers to be protected (e.g. instalment, delayed payment).

Parallel to the approval of the procurement policies of public water utility service providers, the Authority has also monitored the lawfulness of procurements and contracts. Public procurement and also procurements not reaching the public procurement threshold have a particular significance in the water utility supply sector as pursuant to the Vksztv. water utilities may only be owned by the state or municipalities.

As regards to activities subject to authorisation of outsourcing, given that the other requirements prescribed by law are fulfilled, the Authority permits the outsourcing if it can be clearly determined that the outsourcing can significantly improve the cost effectiveness of water utility supply, or the applicant does not possess the capacities and capabilities necessary to carry out the activity at the required level and standard. To ensure that the goal of the outsourcing policy is reached, and in accordance with it, in its decision giving permission the Authority sets the specific price level - expressed in the typical manner for the subject activity - above which the activity may not be outsourced, and also specifies the quantified effect recognised by the Authority on the cost recovery formed in outsourcing fees.

In 2014, public water utility service providers have requested the authorisation of the Authority for the outsourcing of certain water utility operation activities in more than 50 cases. The public water utility service providers submitted several hundred notifications about outsourcings regarding which they were not bound to the permission of the Authority. The Authority keeps a unified record of the outsourcing of public water utility service providers, making supervision significantly easier. Since - in accordance with the foregoing - in the water utility supply sector the participants utilise and make use of assets owned by the state, the strict supervision of outsourced activities is especially important. With the strict supervision by the Authority, it can be ensured that water utility service providers may only outsource the individual activities of water utility operation if it is economically justifiable and leads to a significantly more efficient operation.

5.4.3. Preparation of the proposal regarding water utility supply fees

The water utility service market is highly dissected due to the former regulation environment. The number of market participants was outstandingly high even in the beginning of year 2013. This fundamentally affected price preparation as well. Currently there are significant differences in prices, pricing methodologies and price structures of the public water utility service providers. These resulted primarily from the fragmented market structure and the lack of uniform pricing principles. Prices used to be determined in a different way by each public water utility service provider company, municipality, water utility service sector, and also within these categories, very often several factors were applied (single-factor/multi-factor pricing; gauge of the connection meter device; price categories according to the entity of the consumer, etc.).

In 2014, the Authority's key task was to prepare and submit within the statutory time limit its draft on the official water utility prices (and delivery prices) to the Minister of National Development. For the purpose of the preparation of the price proposal, the Authority requested the data needed for the determination of the price to be submitted by the public water utility service providers. The system of data supply and its content was designed so that the results of the integration process carried out during 2013 could be integrated in the analyses as fully as possible. Based on the data supply, the expenses that can be taken into account as fee elements have also been grouped, such as individual expenses, prioritised expense groups, costs of service provision activities, costs of activities related to water utility systems, expenses related to long distance transmission lines, capacity costs on systems, expenses from handling of meteoric water, and expenses directly related to service provider integration.

During the preliminary data request, the Authority has instituted 102 administrative procedures in April 2014, during which it issued a further 55 decisions for the local governments responsible for the supply, beyond those issued for public water utility service providers possessing a water utility service provider operating licence. The significance of these was that they allowed for the preparation of analyses for the price proposal of the Authority even in the case of municipalities for which the Authority has appointed a public water utility service provider as public operator. To ensure the fulfilment of the data supply obligation regarding audited data, the Authority has sent a list of errors to the public water utility service providers possessing an operating licence in 33 cases. In the course of the data request necessary for the water utility service price proposal, 93 tables had been sent for to be filled in per public water utility service provider, to a total of 47 public water utility service providers. The request for the submission of such a significant number of data tables was in part due to the integration process and the related water utility service transfers (that have taken place during the course of the year) to be presented accurately in the service and base fees.

Following that, in the course of the data request regarding audited data in June 2014, the Authority has issued a further 95 decisions. In the course of the audited data request, the Authority had to send a notification for compliance with the data supply in connection with the failure to comply with the obligations for 2 public water utility service providers possessing a licence. In a further 45 cases there was a need to clarify the facts of the case on multiple occasions, thus a notification for data supply had been sent out in 109 cases.

Following the receipt of expenditure data, the reasonable operating costs and fee elements have been determined, the pricing model have been established, and the proposal concerning prices have been prepared by 15 October 2014 regarding public utility drinking-water supply and sewage water disposal and cleaning.

As part of the tariff proposal - to contribute to effective legislation - the Authority also submitted to the Minister of National Development its detailed concept of the tariff system, the benefits and possible risks of the official tariff alternatives in case of household and non-household consumers, as well as its proposals on the legal amendments necessitated by the enactment of the tariff decree.

6. Preparations for setting the utility prices for public waste management services

In 2013 the Authority started the status evaluation of the public waste management services and started to build databases necessary for the price supervision and price preparation activity. As a first step, the Authority approached the municipalities to request a comprehensive data package and contacted the public waste management services during the summer, which was mainly aimed at assessing the coverage of utility service areas in Hungary. Data is requested from waste management utilities in electronic form.

The Authority also started to prepare the regulation of public waste management services fees which is in the decree competency of the Minister of National Development. Due to the interim legislative changes, the Authority was obliged to submit its proposal – based on which the Minister of National Development can adopt a decree – relating to public waste management service fees in 2014.

6.1. Situation of the public waste management service sector

In 2013 and 2014, the public waste management service sector suffered a complete structural transformation. During the multiple amendments of the Wastes Act, the ownership structure and activity of business organisations carrying out public services have changed gradually.

The registration of declarations necessary for the calculation of the supervisory fee, and the determination of the fee payment obligation determined based on the declarations was also part of the Authority's job. Based on the supervisory fee declarations - or in the absence of such, the declarations of the local governments - in 2014, 184 waste management public service providers have been carrying out public service activities, and 183 of these have fulfilled their obligation to provide a declaration for the subject year. The Authority imposed an administrative penalty against one waste management public service provider once, due to its failure to provide the supervisory fee declaration even after multiple notices.

It can be seen that in the course of the transformation of the sector, the number of waste management public service providers have changed constantly in 2014. Based on the Authority's database as at 31 December 2014, waste management services had been carried out by 144 waste management public service utility providers in Hungary.

In the course of 2014, there were somewhat fewer (mostly household) complaints regarding the price of waste management public services compared to previous years, amounting to a total of 70 complaints. Most of the complaints were objecting to disproportionate fee payment obligations on resort properties, and the increased fee resulting from the change of technical parameters.

6.2. Preparation of the public waste management services fee

In Q1 2014, the Authority specified the substantial and formal requirements for the data reporting necessary for preparation of the prices for the public waste management service. Due to the high number of data and factors determining the waste management public service fee, the analysis of individual parameters and their combinations, and the filtering of inappropriately provided data was done using a computer supported data-processing system. The configuration of the IT background necessary for data-processing required thoughtful preparatory work to be carried out by the associates of the Authority.

The data supply necessary for the preparatory works of the waste management public service fee had to be done by the obligated waste management public service providers electronically, through the Customer Gate. In connection with the electronic administration system newly introduced to the Authority's operation, it was necessary to appropriately inform waste management public service providers on several forums, and to create the appropriate conditions for reidentification necessary for electronic administration.

For the purpose of the adequate information of waste management public service providers, the Authority made it a priority to continuously develop the content related to waste management public services on its website. In connection with the accounting separation obligation of waste management public service providers resulting from the changed legal environment, the Authority has prepared a recommendation, which it also made available in its website.

As a result of the decisions issued by the Authority obligating waste management public service providers for data supply, the Authority received a total of 262 data supplies usable in the course of the fee preparation. 127 of these related to the waste management activity carried out in 2012, while 135 of them to such carried out in 2013.

Table 20: Data supply of waste management public service providers

Data received in the course of the data supply				
Subject year of the data supply	Number of public service providers	Number of municipalities	Population	Number of households
Year 2012	127	2,189	7,397,354	3,313,669
Year 2013	135	2,259	8,443,365	3,770,426

The waste management public service fee preparation was done based on the natural and cost data of waste management public services recorded in 2012 and 2013. The number of residents represented in the data supplies covered 90% of the population.

Figure 28: Distribution of data supply by territory

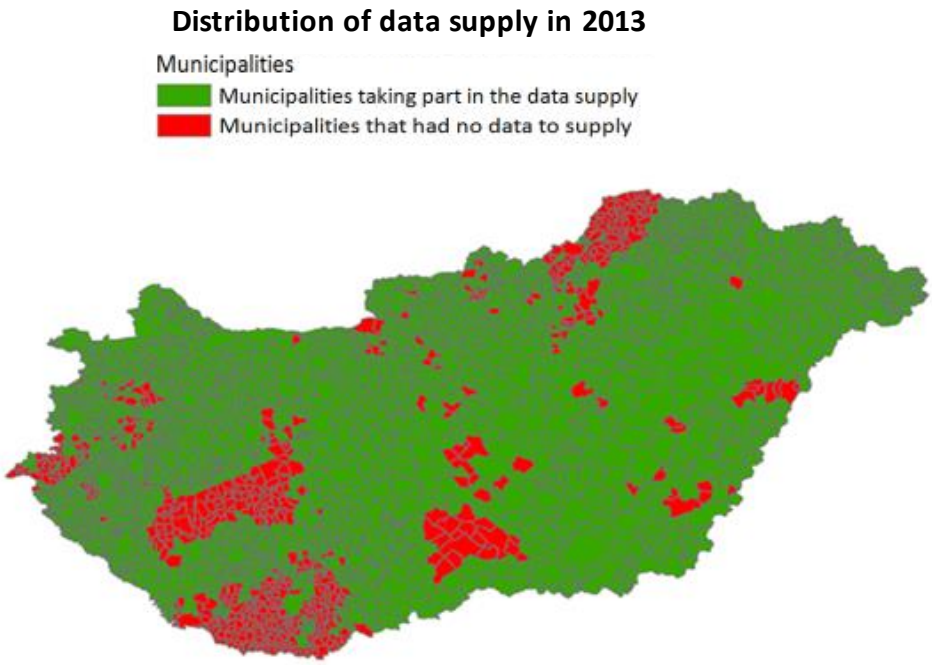
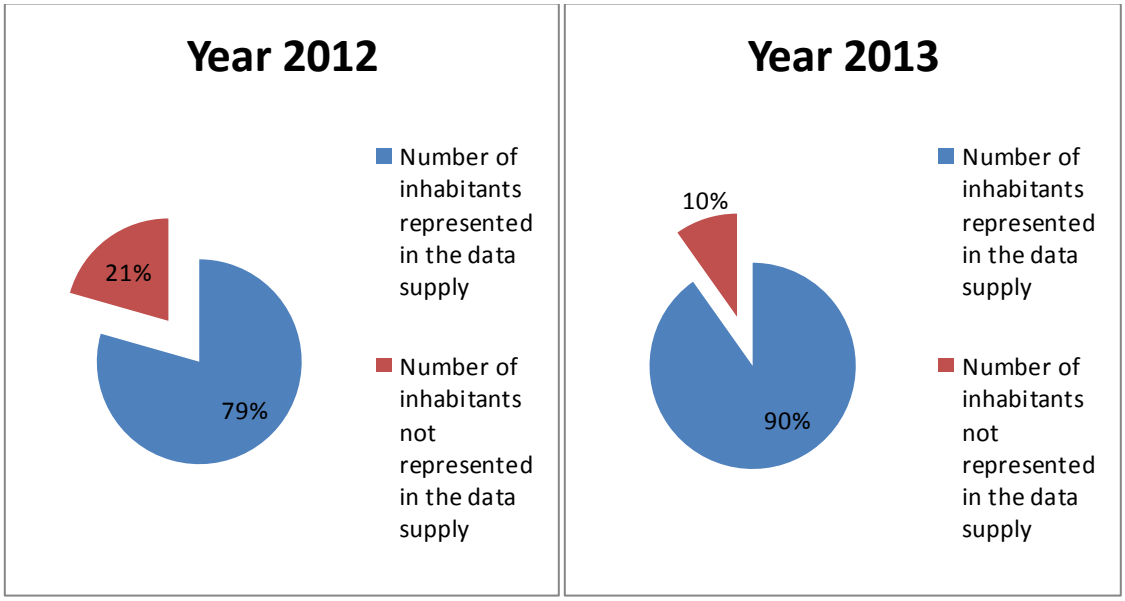
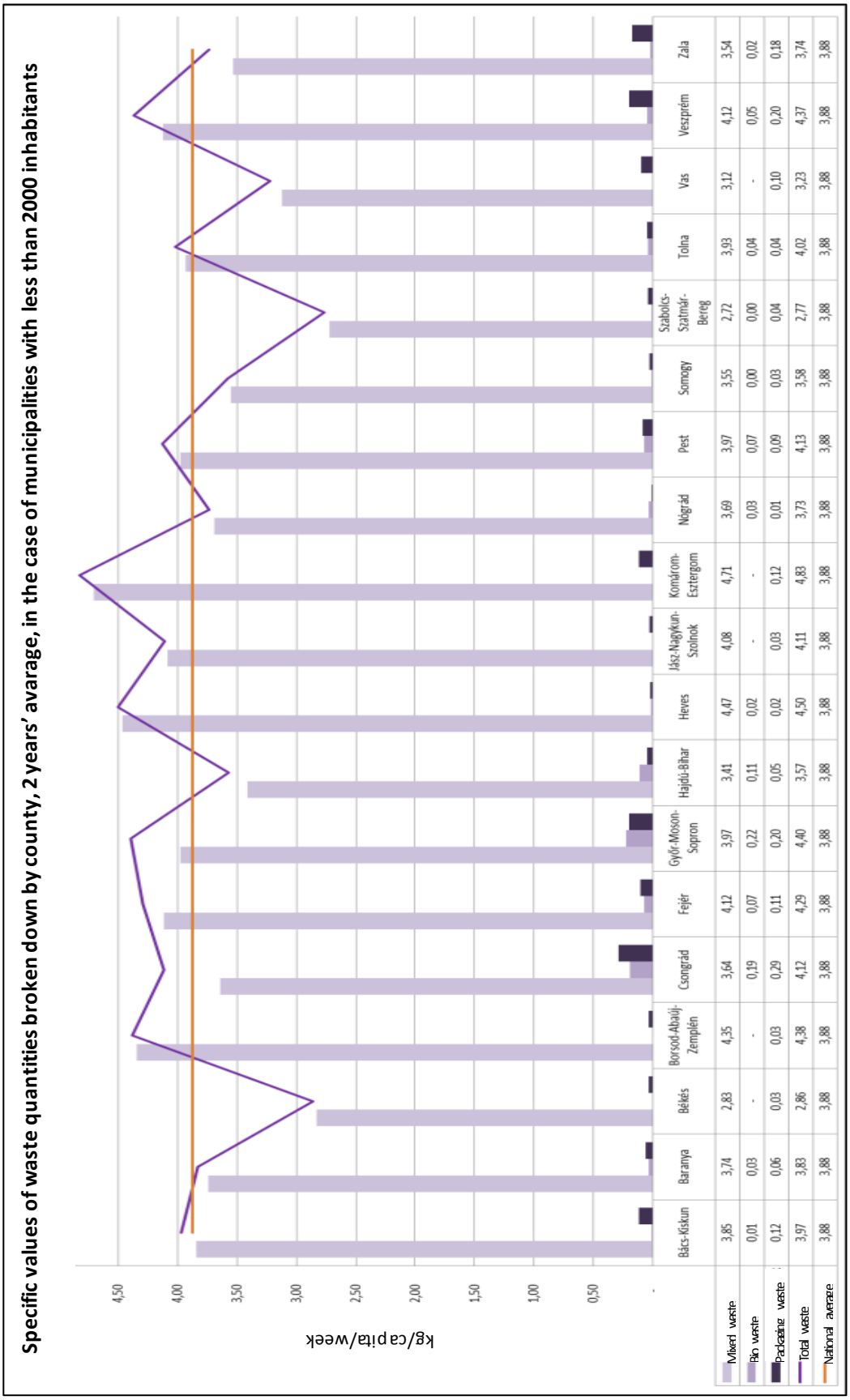


Figure 29: Distribution of municipalities represented in the data supply by population per year



To determine the waste management public service fee, the Authority analysed the specific values of the quantities of waste, based on which the waste management public service fee, and the expected quantity of waste per capita and per household can be determined. During the analyses, the Authority has determined the specific waste data of small towns and urban municipalities, based on which it can be concluded that this value is 200 kg/capita/year in small towns, and 230 kg/capita/year in bigger cities.

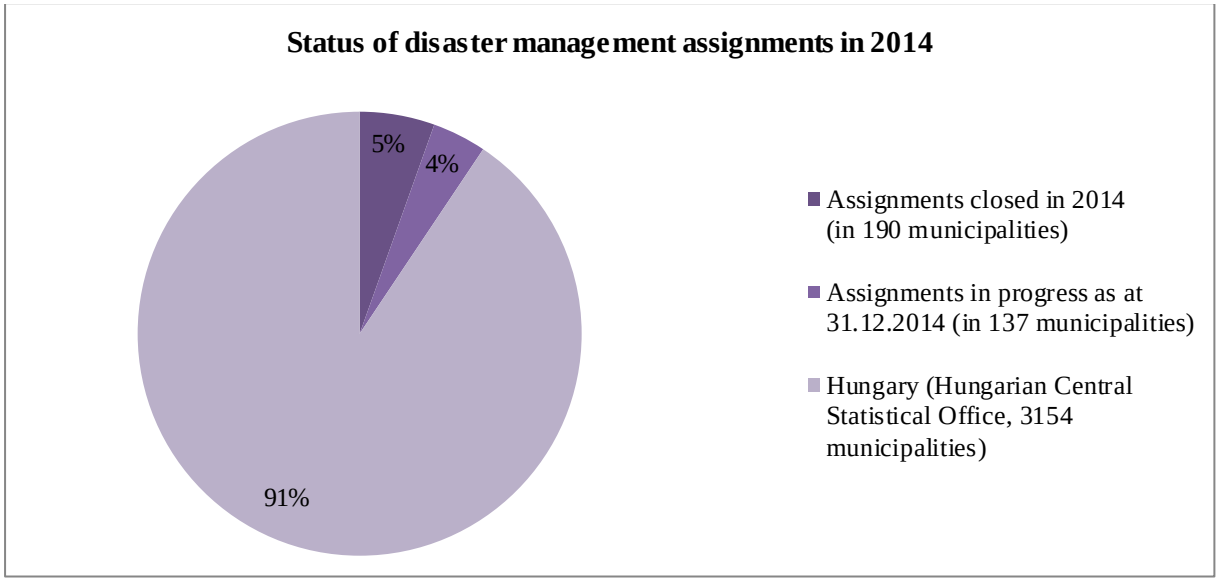
Figure 30: Waste quantity data of urban municipalities per county



6.3. Tasks related to the temporary provision of waste management public services

Based on the latest information provided by disaster management bodies, assignment for temporary service was cancelled in the case of 190 municipalities in 2014. Based on the database valid on 31 December 2014, in the case of 137 municipalities, the public service was provided as temporary service by 26 temporarily assigned public service providers.

Figure 31: State of temporary assignments



In 2014, 21 consideration claims have been submitted by 13 public service providers to the Authority for the justified extra costs to be covered in connection with the temporary assignation for waste management public service provision. In 2014, the Authority has suggested the operator of the appropriation to grant the subsidy covering the extra costs in 12 cases, amounting to a total of HUF 134,871,300. In the case of 7 requests, there was no substantive suggestion given due to the data supply's deficiency. A decision has already been made in 2015 for the 2 consideration claims submitted at the end of 2014, and a substantive suggestion was given for the amount of HUF 4,368,487 regarding one of them, while for the other, no substantive suggestion was given due to the data supply's deficiency.

It is the task of the Authority to state its position in connection with the application and interpretation of the laws regarding waste management public services when requested to do so mostly by waste management public service providers and local governments. In 2014, most positions were regarding the provisions dealing with fee calculation of the Act CLXXXV of 2012 on Wastes.

6.4. Inspections related to the public waste management service

6.4.1. Number of inspections and their results

Number of inspections

The Authority initiated authority inspections against 21 public waste management service providers in order to examine the lawfulness of public waste management service fees, affecting 1,113,343 inhabitants of 45 municipalities in total.

Results of inspections

The Authority revealed the misapplication of prices in 7 cases, in which it obligated the public service provider to refund the extra income gained by the unlawful application of fees. 15 inspections not finished in 2013 have also been closed, of which the Authority revealed the misapplication of prices in 11 cases.

6.4.2. Types of identified violations

- Erroneous determination of the base of the 4.2% price increase made possible for the first half of 2013
- Erroneous determination of the base of energy price cuts
- Illegal change of technical parameters

70% of the proceedings instituted in 2013, and about half of the 16 proceedings instituted in 2014 already closed have revealed a violation. It can be seen that the frequent changes of the relevant laws - the Act CLXXXV of 2012 on waste have changed in a relevant way 5 times in 2013-2014, considering only the pricing - made compliance with the law difficult for waste management public service providers.

The proper practical application of the text of the law leads to even more issues regarding its interpretation, which is indicated by the fact that the waste management public service providers have contested 80% of the decisions of the Authority before the court. The decisions of the Budapest Metropolitan Administrative and Labour Court and the Curia develop the legal practice of the Authority continuously.

7. Consumer protection

The Authority in particular is responsible to provide a high level of protection for the consumers, the official means of which are the following: monitoring the activities of service providers, investigating consumer and user complaints and, as an independent regulatory body, setting out quality requirements.

7.1. Service quality

7.1.1. Electricity market

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

Consumer satisfaction survey

In order to learn about the results achieved through service quality regulation and assess the further needs of consumers, the Authority conducted the satisfaction survey of DSO's and universal service providers' consumers for the eighteenth time, based on the opinions of 7200 household consumers and 2400 non-household consumers. The assessment of the results and preparation of action plans for corrective actions have been carried out in 2014 as well. The survey methodology was identical to the procedure used in 2013, thus the results can be compared directly.

Feedbacks on distribution activities have been collected in regard to two major areas. Firstly, the quality of electricity transmission (including e.g. the continuity of supply, perception and evaluation of voltage fluctuations among household and non-household consumers, breakdown recovery) and, secondly, customer relations (including e.g. technical administration) have been examined.

The deficiencies of electricity supply and the lengthiness of repairing network impairments are still considered problematic areas by the respondents, the latter receiving the lowest satisfaction rating. Approximately 39% of respondents have experienced short and 30% longer voltage loss, while 20% have experienced voltage fluctuations and 9% network impairments, which are the best results of the last three years. The opinion on the whole of distribution activities have not increased compared to 2013 however.

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

Call center service takes only the third place, which clearly shows the customers' dissatisfaction with it. Respondents emphasized the elaborateness of the call center menu system and the long waiting times in personal customer service as critical issues.

Results regarding the comprehensibility of invoices have shown continuous improvement in household consumer perception during the last few years. 88% of the respondents nationwide rated the comprehensibility of the invoice as good, which shows an increase compared to the 76% of 2013. The implementation of statutory provisions regarding the employment of a unified invoice format passed in 2012 resulted in a considerable improvement in terms of invoice comprehensibility.

Continuity and reliability of services, breakdowns

Financial incentives on the continuous improvement of supply service quality to be provided by the electricity industry distributor licence holders are based on the minimum quality requirements concerning the failure indicators related to the average frequency and duration of long-term, non-scheduled breakdowns, and the quotient of non-supplied and available electricity.

Based on the Electricity Act, the Authority may specify the minimum quality requirements and expected quality level of activities conducted by licence holders in regulation, which – in order to offset the impacts of extreme weather conditions – have been established on the basis of three-year averages, thus allowing the handling of exceptions beyond the control of licence holders.

In its resolution, the Authority imposed the percentage value of expected improvement for each year with regard to three further quality indicators in addition to the minimum quality requirements specified for the internationally recognised indicators which constitute the basis of the financial incentives for the quality of service to be provided by the licence holders.

The Authority evaluated the electricity supply reliability standard of 2013 in June 2014. Based on the evaluation, all licence holders fulfilled the minimum quality requirements specified by the Authority considering the three-year average between 2011 and 2013. The Authority found that in regard to national figures the years' long improving tendency of all the three indicators used to survey the continuity of electricity supply continued in 2013. On average, consumers experienced long-term voltage losses on 1.03 occasions last year as opposed to 1.16 in 2012. In 2013 consumers spent 67 minutes without electricity supply on average per capita, which is a significant improvement compared to the 76 minutes of 2012.

Similarly to previous years, the outage rate has slightly improved in 2013. Domestic data have ranked in the middle range on international results for years.

In terms of expected quality indicators – for which no direct sanctions are imposed in case of non-compliance – distributors usually fail to meet the requirements. The Authority will intensify its efforts to promote the fulfilment of expected quality indicators in the future. The evaluation of the distribution licence holders' 2013 performance is available on the Authority's website.

Customer relations service quality

Commercial quality, the other pillar of assessing service quality, was re-regulated in 2008, accommodating the provisions of the VET taking effect at that time.

The system of indicators created to regulate customer relations service quality was set up in a pyramid structure of successive requirements. In this pyramid structure, the lowest level consists of monitoring-type indicators not associated with either a minimum quality requirement or any expected service levels. These parameters serve the survey and comparison of the licensees and their operations, or may constitute the basis for an eventual regulation in the future.

The middle level for the regulatory pyramid is built of parameters for which the Authority established an expected service level partly based on legal provisions. Non-compliance with these requirements may result in the application of sanctions subsequently, after an official inspection. The tip of the regulatory mechanism is taken by indicators which are associated with both a minimum quality requirement and an expected service level determined by the Authority. Depending on its extent, non-compliance with the latter may result in imposing of a fine in two phases up to the amount of HUF 100 million per indicator. The comprehensive evaluation of the data of the past 3 years was done in Q1 2015.

Guaranteed Standards

The so called Guaranteed Standards (hereinafter referred to as GS) resolutions issued by the Authority, defining the minimum quality requirements of universal service providers in regards to individual consumers have been renewed in 2008 in accordance with the new legal background. In response to the increasing number of breakdowns due to extreme weather conditions, the Authority reviewed the distributor GS resolutions in November 2009, and as a result, when defining the requirement of *'Elimination of electricity interruption at multiple consumer locations'*, it considered extreme weather conditions and specified the durations the exceeding of which in case of long-term shutdowns arising from extreme weather conditions would result in a financial consideration toward the consumers.

As a result of the introduction of the automatisation of compensation payments, as of 1 January 2011, each GS requirement not fulfilled will automatically result in the obligation to pay a penalty. Pursuant to the GS Resolution, in case of non-compliance distributor licence holders and universal service providers are obliged to pay penalty to all the consumers affected by non-compliance, if failing to fulfil 13 and 5 minimum requirements, respectively.

GS related activities of distribution and universal service provider licensees in 2013 have also been examined and evaluated in 2014.

The decrease in the number of cases not performed by the distributors (18,570) continued in 2013, which is 77.73% of the figure recorded in 2012. There has been a decrease in the number of non-performed cases nationally, from the 119.92% of 2012 to 111.52% in 2013. The ratio being higher than 100% is justified by the prescription of multiple compensation payments in regards to GS II. and GS IX. requirements.

The decrease in the number of cases not performed by universal service providers (10,361) continued in 2013, which amounts to an almost 25% improvement compared to the previous year. The ratio of penalties paid and number of non-performed cases have reached 100% in 2013. Only 99.78% of the payments had been done automatically however, which is a step back from the 100% of the previous years.

Due to non-compliance with requirements, from among the distributor licence holders E.ON Észak-dunántúli Áramhálózati Zrt., and from among universal service providers E.ON Energiaszolgáltató Kft. paid outstanding amounts to their consumers. The evaluation of the distribution licence holders' and universal service providers' performance in 2013 is available on the Authority's website.

Table 21: Consolidated figures of Guaranteed Standards

Licence holder	Number of cases related to GS, pce	Number of non-performed cases, pce	Total number of penalties paid auto-matically, pce	Total number of penalties paid, pce	Total amount penalties paid, HUF
ELMŰ Hálózati Kft.	2,256,705	2948	2948	2948	17,430,000
ÉMÁSZ Hálózati Kft.	1,857,255	382	382	382	2,620,000
EDF DÉMÁSZ Hálózati Elosztó Kft.	1,002,002	2668	3287	3288	22,696,520
E.ON Dél-dunántúli Áramhálózati Zrt.	1,568,598	3526	3547	3548	21,287,000
E.ON Észak-dunántúli Áramhálózati Zrt.	2,116,090	5748	5944	7182	41,424,000
E.ON Tiszántúli Áramhálózati Zrt.	2,095,360	3298	3361	3362	20,189,000
Distributors in total	***10,896,010***	**18,570**	***19,469***	***20,710***	***125,646,520***
EDF DÉMÁSZ Zrt.	57,132	1,051	1,051	1,051	6,485,000
ELMŰ Nyrt.	2,212,116	681	681	681	3,845,000
ÉMÁSZ Nyrt.	455,535	237	237	237	1,415,000
E.ON Energiaszolgáltató Kft.	425,239	8392	8369	8392	45,720,000
Universal service providers in total	***3,150,022***	***10,361***	***10,338***	***10,361***	***57,465,000***
Total:	***14,046,032***	***28,931***	***29,807***	***31,071***	***183,111,520***

Voltage quality

The implementation of measurements with 400 voltage quality meters at the distributor licence holders in a rotational arrangement initiated by the Authority adopted the uniform voltage quality monitoring culture in Hungary. Based on the experiences, the goal of 'Professional recommendations on the establishment of a uniform voltage quality monitoring system' published by the Authority on 7 April 2008 was the promotion and further development of the already established voltage quality metering culture. The aim of the data supply obligation of distribution licensees, and the evaluation of these is to facilitate the constant tracking of measurements and their development.

The voltage quality monitoring activity of electric power distribution licensees carried out in 2013 have been evaluated in October 2014. Based on the reports, the number of measuring devices applied in low voltage measurements have decreased to 1221 at the majority of distribution licensees. The average annual utilisation of low voltage instruments is 70 days. Of the 9,317 low voltage measurement points inspected in total in the country, 91, that is, 0.97% of all measurement points can be deemed to have out-of-specification voltage levels on the long term, which is a slight improvement compared to the 1.35% of 2012. Considering that many of the distributors carried out measurements at the locations deemed to be problematic, this value does not define the actual network quality but the efficient positioning of the metering equipment. In 2013, the voltage level exceeded the standard ±10% tolerance level in 0.11% of the measurements carried out, which is a 0.14% improvement from the 0.27% measured in 2012.

In 2013, 294 measuring instruments had been used for measurements in medium voltage networks, which is a 10% improvement in the number of instruments compared to the previous year. The high number of measurements is primarily due to the E.ON distributors that have constantly increased the number of their measuring instruments, and thus in 2013 they have carried out measurements in their medium voltage networks with 279 instruments. EDF DÉMÁSZ have begun the installation of medium voltage measuring devices in 2012, the number of which it further increased in 2013. There have been no initiatives taken by ELMŰ and ÉMÁSZ regarding medium voltage measurements however. The average utilisation of measuring instruments in the year is approximately equal to that of the last year, 10.6 months. Medium-

level voltage measurements account for nearly 52.1% of all measurement time nationally. The measurement duration of medium voltage measurements have increased by 7.3% nationally, and along with this, the time spent exceeding the ±10% tolerance level have increased to 338.9 hours from 243.5 hours, which is an almost 40% increase compared to 2012, but is still minimal (0.015%) compared to the total measurement duration.

Besides monitoring measurements, further information on the voltage supplied may be available from tracking the number of consumers permanently supplied with non-standard voltage levels. Beginning with the report of 2011, the Authority ordained for the data regarding the GS requirement of GS resolution '*Voltage at the connection point of low voltage service locations'* to be broken down by duration. As a result, the number and efficiency of resolving voltage-related consumer complaints filed during the reporting year and the previous years can also be assessed.

Pursuant to the Authority's GS resolution, distributor licence holders automatically pay penalty to consumers supplied with voltage of non-standard quality according to measurements. The frequency of penalty payment increases according to the duration of the unresolved voltage problem. Due to non-standard voltage supply, HUF 6.33 million was paid in total by distributor licence holders to consumers nationally in 2013, which represents a 77% decrease in comparison to the amount of penalties paid in 2012. The decrease may be due to the decrease of non-performed cases and the more efficient resolution of ongoing cases.

To reach a higher standard of service, increase consumer satisfaction and decrease the number of consumer complaints, the Authority aims to further increase the number of voltage quality monitoring measurements in cooperation with the distribution licensees.

7.1.2. Natural gas market

As to the natural gas industry, service quality regulation consists of three pillars according to the practice employed by the Authority. These three pillars vary considerably in terms of the specifics of the area regulated, the method of regulation, and the consequences of non-compliance. Consequently, separate regulation applies to customer relations, service continuity, and Guaranteed Standards.

Consumer satisfaction survey

In order to learn about the results achieved by controlling service quality, the Authority completed the satisfaction survey of distribution licensee and universal service provider licensee consumers for the eighteenth time in 2014. In collecting the data, 7,200 household consumers and 2,400 industrial consumers have been polled nationally. The survey methodology was identical to the procedure used in 2013, thus the results can be compared directly.

From among distribution activities, the survey focused on service quality, technical administration, information provision, measurement of consumption and evaluation of environmental impacts, and the consumers' feedback on the quality of natural gas supplied. Compared to 2013, satisfaction with the quality of gas, the reliability of consumption measurement, information and environmental protection, and the overall satisfaction index have increased. However, the quality of information disclosure regarding natural gas supply outages has been heavily criticised.

From among universal service-related activities, consumers evaluated the quality of invoicing, complaint management, customer service and information provision. As to universal services, it can be established both regarding supply of electricity and natural gas supply that the function of online customer service is becoming more and more significant, its popularity almost equal to that of personal customer service. Personal customer service has been heavily criticised due to lengthy waiting periods. Satisfaction with certain elements of phone customer services have clearly increased however, in regards to the

changeability of the partial invoice, means of information provision and certain elements of the administration.

Satisfaction with the visual appearance of billing in the past years shows variation, however in 2014 the positive opinion on the comprehensibility of universal service provider invoices have increased from 59 to 65 percent. Consumers unsatisfied with invoicing stated that they had difficulties interpreting the data indicated on the bill. Many respondents criticised the concise invoice format. The implementation of statutory provisions regarding the employment of a unified invoice format passed in 2014 resulted in a considerable improvement in terms of invoice comprehensibility.

Continuity and reliability of services, breakdowns

The natural gas distributor licensees have fulfilled the data supply obligation pertaining to the year 2013 imposed on them by the Authority decision dealing with the minimum quality requirements and required standard of natural gas distribution. The Authority prepared a new concept for the regulation of the reliability and operational security of natural gas distribution, in which it has taken into account the - mostly improving - changes of deliveries and maintenance data received in accordance with the regulations of the previous evaluation system.

The system, introduced for the purpose of recording serious breakdowns, facilitates the review and analysis of the data - also specified in a decree - of the breakdowns concerned. In 2014, 7 serious breakdowns were reported to the Authority in accordance with the regulations.

Customer relations service quality

The Authority issued resolutions concerning the expected service quality standards and minimum quality requirements of customer relations in 2009. No legal changes took place in 2014 which would have required the adoption of new resolutions. Negotiations necessary for clarifying and interpreting previously issued resolutions have been carried out between the Authority and the licence holders.

The system of indicators created to regulate customer relations service quality was set up in a pyramid structure of successive requirements. In this pyramid structure, the lowest level consists of monitoring-type indicators not associated with either a minimum quality requirement or any expected service levels. These parameters serve the survey and comparison of the licensees and their operations, or may constitute the basis for an eventual regulation in the future. The middle level of the regulatory pyramid consists of indicators for which the Authority determined an expected service level, partly based on legal provisions. Non-compliance with these requirements may result in the application of sanctions subsequently, after an official inspection. The top of the regulatory system includes indicators which are associated both with a minimum quality requirement and an expected service level determined by the Authority. Depending on its extent, non-compliance with the latter may result in imposing of a fine in two phases up to the amount of HUF 100 million per indicator. The comprehensive evaluation of the data of the past 3 years was done in Q1 2015.

In the case of the natural gas sector, service quality indicators have become identical to the presently applicable requirement level from 2011. The order of data supply of licensees had been in accordance with the electric power industry practice since 2012. As a result of this, the quality control and sanctioning of customer relation services have become unified in the natural gas and electricity sector.

Guaranteed Standards

The second pillar of service quality regulation was introduced in the natural gas industry in 2010. As the last phase of the regulatory process, 16 so called Guaranteed Standards (GS) resolutions specifying the minimum requirements regarding individual consumers have been issued for natural gas distribution licensees and universal service providers. Licence holders were required to supply data on their performance relating to Guaranteed Standards in 2011 for the first time. As a result of the introduction of the automatisation of compensation payments, as of 1 January 2013, each GS requirement not fulfilled will automatically result in the obligation to pay a compensation. In case of non-compliance distributor licence holders and universal service providers are obliged to pay a penalty to all consumers affected by non-compliance, if failing to fulfil 9 and 5 minimum requirements, respectively.

Based on the data provided in regards to 2013, the Authority prepared the evaluation of the activities of natural gas distributor licensees and universal service providers regarding Guaranteed Standards.

Based on the 2013 consolidated figures, the number of GS-related cases of distributor licensees shows a 6.5% decrease in comparison to the results of 2012, while the decrease in the number of non-fulfilled cases is even more impressive, amounting to 13.3%. The number of cases ending with compensation payment increased significantly compared to the 68% recorded in 2012, to 100%. 99.82% of compensation payments were done automatically.

Table 22: Consolidated figures of Guaranteed Standards

Licence holder	Number of cases related to GS, pce	Number of non-performed cases, pce	Total number of penalties paid auto-matically, pce	Total number of penalties paid, pce	Total amount penalties paid, HUF
E.ON Dél-dunántúli Gázhálózati Zrt.	51,368	402	402	402	2,070,000
ÉGÁZ-DÉGÁZ Földgázelosztó Zrt.	117,173	17	17	17	85,000
FŐGÁZ Földgázelosztási Kft.	49,822	2	0	2	10,000
E.ON Közép-dunántúli Gázhálózati Zrt.	56,357	295	295	295	1,560,000
Magyar Gázszolgáltató Kft.	18,299	0	0	0	0
TIGÁZ-DSO Földgázelosztó Kft.	147,699	392	392	392	1,960,000
Distributors in total	***440,718***	**1,108**	***1,106***	***1,108***	***5,685,000***
GDF SUEZ Energia Magyarország Zrt.	153,480	6677	47	163	815,000
Fővárosi Gázművek Zrt.	90,327	80	80	80	400,000
TIGÁZ Tiszántúli Gázszolgáltató Zrt.	389,430	312	130	312	1,560,000
E.ON Energiaszolgáltató Kft.	104,585	1900	1896	1900	9,560,000
Universal service providers in total	***737,822***	***8969***	***2153***	***2455***	***12,335,000***
Total:	***1,178,540***	***10,077***	***3259***	***3563***	***18,020,000***

Regarding universal service providers, the number of cases falling into the scope of GS increased by 8.47% compared to the previous year. There has been an increase in the case of all licensees with the exception of FŐGÁZ Zrt. Similarly to distribution licensees, the rate of compensation payments resulting from non-fulfilled cases have increased in the case of universal service providers, to 27.4% from the 3.34% registered in 2012. 87.7% of compensation payments were done automatically. The significant deviation from the theoretical payment rate of 100% is almost exclusively caused by GDF SUEZ Energia Magyarország Zrt. The reason behind the failure is being examined by the Authority in the course of administrative action.

In 2013 the highest number of non-performed cases of universal service providers and distribution licensees was in relation to the GS requirement '*Data supply on documented request'*, thus the development of their management systems remains an issue of high significance and priority.

7.2. Consumer complaints, information requests

Most of the time, the consumers turn to the Authority with complaints regarding breach of contract, change of service provider and invoicing. Due to the division of powers, a part of household consumer complaints related to invoicing, settlement and measurement was transferred under the competence of the Hungarian Authority for Consumer Protection (NFH) as of 1 January 2008, while complaints regarding non-household invoicing, settlement and measurement are still investigated by the Authority.

It can be seen that in 2014, similarly to the previous years, a significant portion of complaints were made due to unauthorised consumption identified by the licensees.

Similarly to the previous years, a good number of complaints is related to failure or continuance of changing service providers concerning more than one licensees and therefore requiring a more complex investigation, defaulted invoicing after changing traders, and complaints due to accounting debates with the former trader. It can be seen though that the quantity and ratio of these complains did not increase in proportion to all complaints compared to previous years. Still many complaints are received related to disconnecting of taking points taking up electricity without contracting and the invoicing of electricity and natural gas taken without contracting.

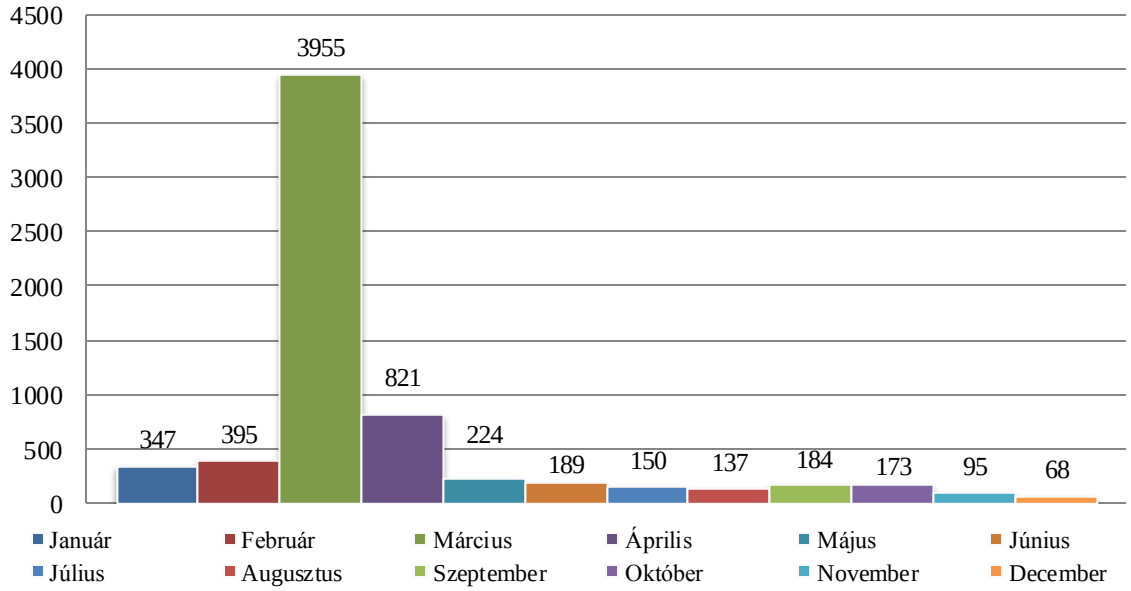
The Gov. Decree 118/2014 (IV.3.) on the assignment of the determining authority in cases regarding notifications about the technical-safety revision of gas connection pipelines and consumer appliances in effect as of 3 May 2014 assigns the disaster management branch competent at the location of the property as the determining authority in cases regarding notifications about the technical-safety revision of gas connection pipelines and consumer appliances, and thus in these cases the competence of the Authority has ceased.

There were 6000 open complaint cases in progress at the Authority on 1 January 2014. By the improvement of the organisation of the consumer protection department, and the reorganisation of work processes, in 2014 the Authority decreased the number of open complaints by 25%, to 4452. In 2014, the Authority received 1599 new complaints, and in total 2871 complaints have been closed.

For the purpose of the information of consumers and users, the Authority also carries out customer relations activity, the main function of which is to maintain of a free hotline regarding utility cost reduction, and to reply to and handle other inquiries on the phone, by writing or in person.

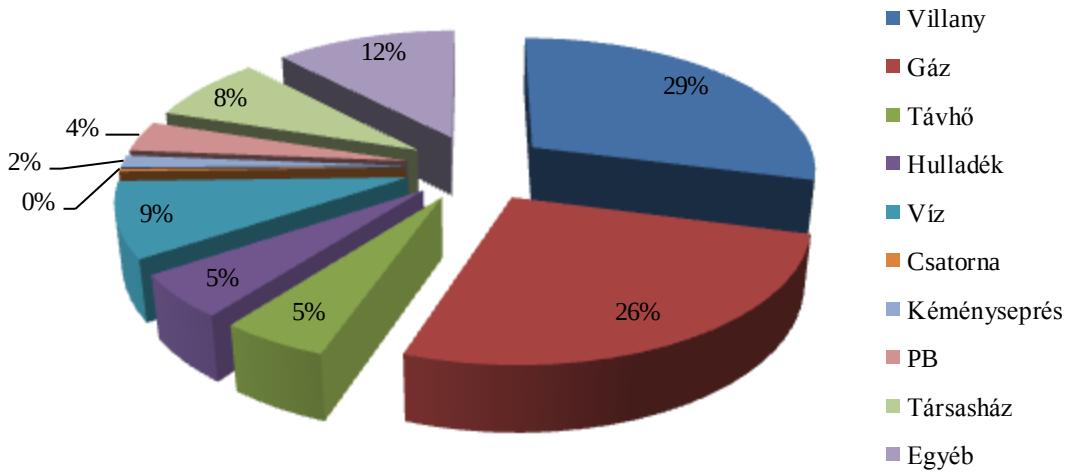
Most inquiries were regarding the exact extent, scheduling, and settlement of utility cost reduction. The consumers have requested information about the related laws, the special status of apartment blocks and the information provision obligation of residential community representatives. In 2014 there have been 6738 calls in connection with utility cost reduction.

Figure 32: Free hotline calls received in connection with utility cost reduction broken down by months (in 2014)



(January, February, March, April, May, June, July, August, September, October, November, December)

Figure 33: Free hotline calls received in connection with utility cost reduction broken down by public service branches (in 2014)



(Electricity, Gas, District heating, Waste, Water, Canalisation, Chimney-sweeping, PB gas, Condominiums, Other)

Besides the foregoing, in the course of the year, the customer service received 3342 calls requesting information in which the consumers requested information due to the procedure carried out by their service provider, and in almost 2000 further occasions, it informed the consumers by letter.

7.3. Approval of codes

The Operational Rules of universal service providers and distribution licensees are documents that fundamentally define the contractual relationships of consumers. It is required that they are in accordance with the legal environment and consequently when the laws change, the licensees are obligated to review

and adapt their Operational Rules, and submit it to the Authority for approval. General terms of business of universal service providers have in all cases been approved only after obtaining the opinion of the Hungarian Authority for Consumer Protection. In 2014, 3 resolutions have been issued concerning the Operational Rules of universal service providers, and 2 of distribution licensees. In the natural gas sector, the Authority issued resolutions to amend existing Operational Rules to 1 universal service provider and 3 distribution licence holders in 2014.

7.4. Inspections

In 2014, several electric power and natural gas distributors and universal service provider licensees were subject to inspection regarding invoicing activity, management of contracts, availability of the Operational Rules, operation of customer services, and fulfilment of service quality requirements. As part of these processes, where justified by the violations committed, the Authority imposed fines on the licensees.

Inspections concerning invoicing activity:

The Authority initiated administrative action against one universal service provider licensee for the inspection of the volume of natural gas accounted for in partial invoices, and two electric power universal service provider licensees for the inspection of the time limit for payment of partial invoices. In the course of the proceedings it was found that the licensees have violated their Operational Rules, and so the Authority obligated them to act in accordance with their Operational Rules, and - having regard to the significant effect of the licensee practices applied on the consumers - to pay fines of HUF 2, 3 and 4 million, respectively.

The practices of determining the average calorific value and the calculation of the correction factor applied on invoices have also been examined by the Authority in 2014. The inspection concerned 5 natural gas distribution licensees and 4 universal service providers. Based on the statements of the licensees the Authority found that the practices applied by the licensees under inspection are, while different, do not violate laws or policy regulations. The Authority did not find a violation of law at any of the licensees.

Inspections concerning the handling of contracts:

The Authority inspected the practices applied for the disconnection of household consumers and the termination of contracts with them in the case of 4 electric power universal service provider and distribution licensees. In the course of the procedure, the Authority found differences of opinions regarding the interpretation of law based on the statements and data supplies of the licensees which it have clarified in a resolution, however the imposition of obligations or fines was not necessary.

Inspections concerning the availability of the Operational Rules:

The Authority examined the availability of the Operational Rules on the website in the case of one electric power universal service provider licensee. Based on the statement of the licensee and the facts of the case it was found that the licensee did not fully comply with the rules regarding the electronic availability of its Operational Rules, thus limiting the consumers in their rights. The statements of the licensee in the course of the procedure did not provide a substantive explanation regarding the violations of rights. In its resolution closing the procedure the Authority determined the IT and web development requirements to be fulfilled by the licensee, on pain of the imposition of a penalty.

Inspections concerning customer services:

In 2014 the Authority carried out inspections at the customer services of different licensees without previous notice on several occasions.

The Authority carried out inspections concerning three electric power and three natural gas universal service provider licensees regarding whether the licensees complied with the regulations of the law and the Operational Rules regarding the operation of personal customer services. The audit of customer service offices was done in 2 steps: in addition to the on-site audits without prior announcement, the Authority has requested statements to be submitted by the licensees in each case. The subject of the audit included the service and information of customers, the availability of forms and the refilling of pre-paid gas meters. As a result of the audits, several obligations had been made mainly in relation to the availability of forms and customer information sheets, and as serious deficiencies had been revealed, penalties were imposed in three of the procedure ending decisions, with an amount of HUF 300,000 each, for a total of HUF 900,000.

In the course of the audit of the opening hours of the customer service office, and the availability of the call centre of one of the electric power universal service provider licensees, the Authority observed that the licensee have violated the prescriptions related to the obligatory opening hours of customer service offices, the operation of call centres and the providing of refilling of pre-payment gas meters set out in the law and in the Operational Rules. Since in its statements the licensee did not provide a substantive explanation for the violations in the course of the procedure, the Authority imposed a penalty of HUF 15,000,000 along with the obligation.

Audits in connection with the quality requirements of the service:

In 2014, the Authority instituted administration proceedings against all six electricity industry distributor licensees in order to ascertain that the data provided in connection with the reliability of supply and operational security are credible and realistic by examining the data submitted by the licensees and inspecting the data collection systems on the premises. The data provided by the licensees under examination were adequate and served as a credible base for the application of the rules related to the reduction of system charges. In the course of the audit, the Authority did not reveal any violations of law or data collection breaching the rules set out in the decision of the Authority.

In connection with the Guaranteed Standards, in 2014 the Authority initiated official audit against two electricity and two natural gas distribution and universal service provider licensees. In the course of the audits, the Authority ensured that the data provided in connection with the Guaranteed Standards are credible and that the penalties payable on the basis of the GS decision had been paid to all entitled consumers by examining the data submitted by the licensees, comparison of the itemised data supply requested for selected requirements and the consolidated data supply, the on-premises inspection of data collection systems and the itemised examination of the selected cases. The Authority did not find any violation of law or data collection method breaching the rules that would have been substantial enough to merit the imposing of a penalty. The Authority however obliged five of the licensees to correct the algorithm calculating the response deadline, to follow up on the deadlines related to the examination of voltage complaints, to pay the penalties in case of the breach of such deadlines, to ensure the consistency of consolidated and itemised data supply, and to realise the accurate allocation of consumers to planned dead intervals.

Other consumer protection audits:

The Authority examined the classification of accommodations provided by the employer as household consumers in the case of two natural gas universal service provider licensees. The Authority explored the facts and examined the procedure, on the basis of which there was no reason to institute proceedings or impose sanctions or penalties.

Comprehensive inspections:

In 2014, the Authority instituted proceedings for the comprehensive audit of a natural gas universal service provider licensee from a consumer protection aspect. The subject of the audit extended to the compliance with service provision requirements related to call centres and personal customer service offices, the information of consumers through the website, the duration of reconnections after disconnections resulting from debts, the contracting procedure applied at indebted service locations and the location and opening hours of customer service offices. As the result of the procedure, the Authority obligated the licensee regarding several subjects, and examined its compliance with such obligations in a follow-up revision. Since the licensee fulfilled its obligation related to the opening of customer service branch offices in an inadequate manner, the Authority decided to impose a penalty of HUF 1 million.

8. Support systems

8.1. Feed-in tariff system

In order to promote environmental protection, supply of consumers, savings in primary energy resources and expanding the available energy resource portfolio, Hungary supports renewable energy production and the use of waste as an energy source.

One incentive of promoting electricity generation from renewable energy sources or from waste is the feed-in tariff (hereinafter referred to as: FiT) system, in which electricity may be sold at a price above the market price, determined by legal regulations.

8.1.1. Operational framework of the feed-in tariff system

The framework of the domestic application of the feed-in tariff system is shown in the summary below:

Act LXXXVI of 2007 on electricity (hereinafter referred to as: VET)
Gov. Decree 389/2007 (XII. 23.) on the feed-in obligation and feed-in tariff of electricity produced from renewable energy resources or from waste and electricity generated in cogeneration facilities (hereinafter referred to as FiT decree)
NFM Decree 63/2013 (X. 29.) on the distribution of electricity subject to the feed-in obligation by the transmission system operator and on the method of determining prices to be applied in the course of distribution (hereinafter referred to as Distribution decree)

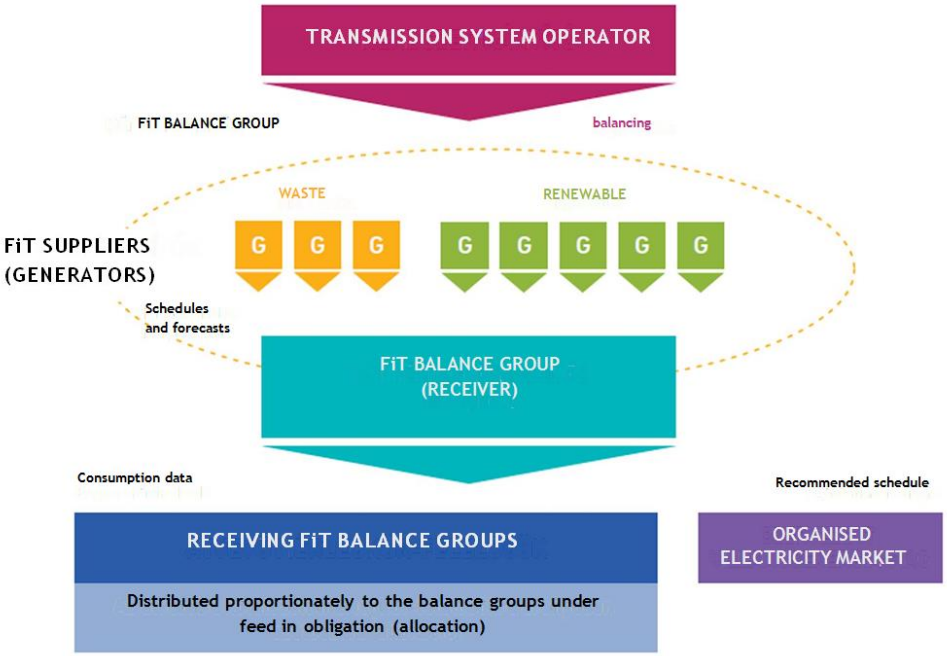
In line with the VET and upon the producer's request, the Authority determines the deliverable amount and delivery period of generated renewable or waste based electricity for the FiT scheme. The eligibility for selling within FiT scheme expires at the end of the determined period or when the licence holder used up the determined quota amount. By defining the eligible feed-in electricity amounts and the feed-in period, it is guaranteed that the producer only receives support until the investment costs are recovered. In case of biomass and biogas power plants, the benchmark takeover time is 15 years, while for power plants using landfill gas it is set at 5 years. If the power plant receives any other subsidies, the takeover period will be shortened proportionately. In case of the other technologies, the Authority determines the takeover time and volume for each power plant.

The supported feed-in tariff is different in the case of renewable and waste based electricity generation and the feed-in tariffs are differentiated based on the amount (nominal generation capacity), the date of eligibility (before or after 1 January 2008), the time zone (peak, off-peak, and night time) and partially also based on the technology (photovoltaic or wind power).

The basis of the operation of the FiT scheme is the FiT balance group, which has been in place in its current form since 2008. The VET stipulates that power plants selling into the FiT scheme constitute a separate balance group which is operated by MAVIR Zrt. as the recipient.

The task of transmission system operator (receiver) is the takeover of the obligatory feed-in electric power, the operation of the FiT balance group, including balancing any deviation from the schedules as well as the distribution, sale and accounting of the feed-in electricity within the FiT scheme. The operation of the system in the year 2014 is shown in figure 34.

Figure 34: Operation of the FiT balance group as of 1 January 2014



Source: MAVIR

The electricity generator (seller) subject to obligatory feed-in – provided it fulfils other requirements defined by legislation – has the right and is obliged to join the FiT balance group. MAVIR Zrt, as the FiT balance group manager, signs a balance group membership contract with the sellers. MAVIR Zrt., as the receiver pays the reception price to the seller for the electricity fed into the balance group.

The volume of electricity more or less constant over time, taken from FiT suppliers (the so-called "base load") is distributed over managers of receiving FiT balance groups under feed-in obligation (allocation) proportionately to the consumption in their balance group areas not eligible for universal services (allocation). The consumption eligible for universal services supplied by the electricity traders is only exempted from allocation if

- the electricity trading service is ensured bound to pricing according to the ministerial decree on the pricing of universal services
- at prices not exceeding the universal service fees corresponding to the given point of delivery, and at least for one of the fee item among these fees at lower and
- if the availability of services to be used by consumers supplied under universal service according to the government decree on the implementation of certain regulations of the act on electricity was ensured.

The remaining volume of electricity to be distributed (approximately 40% of the total amount) will be sold over the organised electricity market (HUPX), which is MAVIR's task.

The additional cost (subsidy content above market value) of electricity taken over under the feed-in tariff scheme is distributed over the managers of receiving FiT balance groups under the feed-in obligation (allocation) in relation to the electricity allocated to them. The additional costs allocated to managers of receiving FiT balance groups under feed-in obligation (allocation) may be passed on in the form of bilateral agreements, upon voluntary agreement by the parties.

8.1.2. Data of the FiT system in 2014

In 2014, in the course of FiT, the authorised electricity producers realised electric power amounting to 2,411.51 GWh (of which 2,392.2 GWh was renewable based and 6.69 GWh was waste based) showing a substantial increase of almost 30% compared to the previous year.

The most significant increase occurred in the case of the carbon-biomass co-firing power plants (increase of more than a sevenfold), since during the year 2013, co-firing power plants were reintroduced to the feed-in system due to legislative changes, thus the falling trend of the previous years have changed into an increase in 2014. On the other hand, in contrast with the increase observed in the previous year, pure biomass firing have stagnated in 2014 (the increase in 2013 can be explained by the starting of Pannon Hő Kft's straw firing power plant in Pécs).

Besides co-firing power plants, the increase of the FiT realisation of hydroelectric power plants may be deemed as significant (+42%), especially the realisation of hydroelectric power plants on the Tisza operating with a high utilisation as a result of exceptionally good river conditions have increased substantially in the previous year (+47%), but the production of small hydroelectric power plants have also increased in 2014., in part resulting from the same (+31%). In 2014, several new solar power plants have started their realisation to the FiT system, and in consequence, solar energy based FiT electricity realisation have increased fivefold, to approximately 7 GWh. Waste based FiT realisation have also increased significantly (+27%), resultant to the restart of a power plant (civil rubber burning plant), and an increase in production. Related to the increase in co-firing, FiT realisation based on alternative (non-renewable and non-waste) firing have also increased.

Biogas and landfill gas based FiT realisation have also increased resultant to the implementation of new power plants. Wind power based FiT realisation showed a falling trend, resultant probably to the less favourable wind conditions (since the FiT implemented capacity have not changed).

Table 23: Electricity sold within the FiT scheme (GWh)

	2013	2014	Change (GWh)	Change (%)
Wind power	687.12	623.64	–63.48	–9.24%
Hydro power, of which:	204.15	289.93	85.78	42.02%
Hydroelectric power plants with capacities of 5 MW or below	58.62	76.68	18.06	30.82%
Hydroelectric power plants with capacities above 5 MW	145.53	213.24	67.71	46.53%
Biomass firing (pure)	728.09	727.27	–0.82	–0.11%
Coal-biomass combined firing	74.50	561.76	487.26	654.04%
Biogas	118.25	128.60	10.36	8.76%
Landfill gas	47.71	54.20	6.49	13.61%
Sewage gas	0.98	0.00005	–0.98	–99.99%
Solar energy	1.36	6.81	5.45	401.41%
Total renewable	1862.15	2392.20	530.05	28.46%
Waste	5.27	6.69	1.42	26.91%
Alternative fuel [14]	0.72	12.62	11.90	1650.68%
Total renewable alternative fuel	1868.14	2411.51	543.37	29.09%

[14]Non-renewable and non-waste energy resources in the power plants otherwise using renewable energy resources or waste products. If their share in the case of the given power plant does not exceed 10% of the total fuel consumption, then these will also fall under the feed-in tariff scheme (at lower prices).

By the end of 2014, the total installed capacity of the power plants – renewables, wastes and alternative fuels – within the FiT scheme reached 816.1 MW (with the renewable generation capacity within the FiT scheme being 797.39 MW)[15].

Following the decrease in the capacity of co-firing power plants selling under FiT in the previous years, it increased considerably by the end of 2014 resultant to their reimplementation into the FiT system. In consequence, the power plants of not just Mátra but also Bakony and Vértes have sold under the FiT system, with a total calculated FiT capacity of 219.72 MW.

An increase in capacity was observed due to newly entering power plants in cases of biogas, landfill gas and solar energy.

In case of wind-power plants the capacity of those supplying in the framework of the feed-in tariff scheme remained unchanged in 2014. The Authority issued permits for capacities adding to 330 MW in the previous years; these power plants have almost all been built. The erection of new wind turbines (except for units not connected to the grid as well as household-sized small power plants) is possible only through applications; growth therefore can only be expected in case such tenders are called for. The major capacity data for certain technologies are shown in table 25.

Table 24: Installed capacities of power plants under FiT at the end of the year concerned (MW)

	2013	2014	Changes	Change (%)
Wind power	324.45	324.45	0.00	0.00%
Hydro power, of which:	57.04	57.00	–0.04	–0.06%
Hydroelectric power plants with capacities of 5 MW or below	16.14	16.10	–0.04	–0.23%
Hydroelectric power plants with capacities above 5 MW	40.90	40.90	0.00	0.00%
Biomass firing (pure)[16]	137.25	137.59	0.34	0.24%
Coal-biomass combined firing[17]	13.08	219.72	206.64	1580.13%
Biogas	33.74	38.71	4.97	14.72%
Landfill gas	12.31	12.79	0.48	3.90%
Sewage gas	0.33	0.33	0.00	0.00%
Solar energy	2.09	6.81	4.71	224.92%
Total renewable	580.29	797.39	217.10	37.41%
Renewable part	1.06	8.52	7.46	706.34%
Alternative fuel	0.40	10.19	9.79	2441.97%
Total renewable and alternative fuel	581.75	816.10	234.35	40.28%

[15] In case of power plants using combined firing, installed capacity was taken into account in proportion to the electric power realised. In the case of purely biomass based production, installed capacity was taken into account in proportion to biomass consumption.
[16] In proportion of biomass used.
[17] As a proportion of the electricity sold under FiT.

In compliance with the legal requirements, the Authority increased the acceptance prices in 2014 (at a rate equal to retrospective inflation rate of 1.95% of 2013 as well as to its value reduced by one percentage point[18]) in case of electricity generated from renewable energy resources and wastes. At the end of 2014 the Authority repeated the correction described above.

Considering the average of the monthly consumer price indices gazetted for the months of January – October 2014 correlated to the same period of time of the preceding year the acceptance prices decreased by 0.09% and this value decreased by one percentage point, i.e. by 1.09% as of 1 January 2015.[19]

The following tables show the trend of amounts, average acceptance prices and "subsidies"[20] paid to the generators within the framework of FiT system with respect to 2013 and 2014. The amounts paid to renewable, waste and alternative fuel based generators increased resultant to the significant increase of FiT-realisation, and in a smaller part, to the indexing of tariffs following the inflation.

Table 25: Amounts paid within the framework of FiT (Billion HUF)

	2013	2014	Changes (Billion HUF)	Change (%)
Wind power	23.20	21.43	-1.77	-7.62%
Hydro power, of which:	4.54	6.39	1.86	40.95%
Hydroelectric power plants with capacities of 5 MW or below	1.90	2.51	0.61	32.13%
Hydroelectric power plants with capacities above 5 MW	2.64	3.89	1.25	47.29%
Biomass firing (pure)	24.30	24.88	0.58	2.38%
Coal-biomass combined firing	2.45	19.47	17.02	693.37%
Biogas	3.91	4.33	0.42	10.76%
Landfill gas	1.49	1.71	0.22	14.79%
Sewage gas	0.03	0.000002	-0.03	-99.99%
Solar energy	0.04	0.22	0.18	406.24%
Total renewable	59.95	78.42	18.47	30.81%
Renewable part	0.14	0.16	0.02	13.38%
Alternative fuel	0.01	0.23	0.22	1701.66%
Total renewable and alternative fuel	60.11	78.82	18.71	31.13%

[18]Change by the inflation rate took place in case of power plants that have acquired FiT eligibility before 1 January 2008 or submitted their complete FiT application latest by this date (except for hydroelectric power plants above 5 MW). In case of other power plants, the acceptance prices increased by inflation minus one percentage point.

[19] See the actual prices on the website http://www.mekh.hu/hatosagi-arak-2/villamos-energia/kotelezo-atvetel.html.

[20] The FiT "allowance" is the product of the difference between the feed-in obligation price and the day-ahead market average price on the organised electricity market (HUPX) and the volume of electricity sold.

Table 26: Average acceptance prices (HUF/kWh)

	2013	2014	Changes (HUF/kWh)	Change (%)
Wind power	33.76	34.36	0.60	1.78%
Hydro power, of which:	22.22	22.06	–0.17	–0.75%
Hydroelectric power plants with capacities of 5 MW or below	32.37	32.69	0.32	1.00%
Hydroelectric power plants with capacities above 5 MW	18.14	18.23	0.09	0.52%
Biomass firing (pure)	33.37	34.20	0.83	2.50%
Coal-biomass combined firing	32.94	34.66	1.72	5.22%
Biogas	33.04	33.65	0.61	1.84%
Landfill gas	31.14	31.46	0.32	1.04%
Sewage gas	33.99	36.30	2.31	6.79%
Solar energy	32.18	32.49	0.31	0.96%
Total renewable	32.20	32.78	0.59	1.82%
Renewable part	27.16	24.26	–2.89	–10.66%
Alternative fuel	18.09	18.62	0.53	2.91%
Total renewable and alternative fuel	32.18	32.69	0.51	1.58%

The "support" provided for the generators in the price of FiT electric power was calculated as the difference between the supported FiT price and the day-ahead market average price[21] on the organised electricity market (HUPX) - (12.63 HUF/kWh in 2013 and 12.26 HUF/kWh in 2014). The source of "support" is provided by managers of receiving FiT balance groups under feed-in obligation (allocation) to whom MAVIR Zrt. – in line with rules and regulations – reallocates costs of the support of FiT electric power.

[21]FiT realisation based on distribution by standard times.

Table 27: FiT „allowance" (Billion HUF)

	2013	2014	Change (Billion HUF)	Change (%)
Wind power	14.68	14.01	–0.67	–4.55%
Hydro power, of which:	1.97	2.89	0.93	47.22%
Hydroelectric power plants with capacities of 5 MW or below	1.16	1.58	0.42	36.59%
Hydroelectric power plants with capacities above 5 MW	0.81	1.31	0.51	62.40%
Biomass firing (pure)	14.99	15.83	0.85	5.64%
Coal-biomass combined firing	1.51	12.50	10.99	728.93%
Biogas	2.35	2.68	0.33	13.84%
Landfill gas	0.89	1.05	0.16	18.14%
Sewage gas	0.02	0.000001	–0.02	–99.99%
Solar energy	0.02	0.13	0.10	416.15%
Total renewable	36.43	49.10	12.67	34.78%
Renewable part	0.08	0.08	0.01	7.56%
Alternative fuel	0.00	0.08	0.07	1822.36%
Total renewable and alternative fuel	36.51	49.26	12.75	34.92%

In 2014, the renewable and waste based generators received a "support" of HUF 49.26 billion, showing a significant increase (35%) in comparison to the "support amount" in 2013. This increase can be explained mainly by the increase in FiT realisations (+29%). The increase was to a lesser degree due to the increase of FiT acceptance prices (+2%) and the decrease of the day-ahead HUPX average price (-3%) taken into account as benchmark. From this amount the support due to electricity generated from renewable energy resources amounts to HUF 49.1 billion and that due to electricity generated from waste amounts to HUF 0.08 billion (HUF 80 million). A further support of HUF 0.08 billion is allocated for the support of the feed-in obligation of electric power generated from fossil sources related to co-firing.

8.2. Subsidisation of transition costs

On 9 November 2005, the European Commission (hereinafter referred to as: Commission) started an investigation based on Paragraph (2) of Article 88 of EC Treaty in relation to the Hungarian long term electricity generation and capacity booking agreements (hereinafter referred to as: HTM) to determine whether these constitute prohibited state aid. On 4 June 2008, the Commission adopted a decision, ordering the cancellation of all HTMs and ordering the repayment of prohibited state aid by the power plants concerned.

In 2008, the National Assembly passed the Act LXX of 2008 on certain issues related to electricity (hereinafter referred to as: the HTM Act), which provided for the termination of all HTM-s up to 31 December 2008 and the method of determination how reimbursement of illegal state aids should be completed. Based on this, the amount of state support due back will reduced by the amount of the cost of transition, but the remaining transition cost will not be paid after consideration. The transition cost refers to the initially estimated (and continuously corrected) amount of investments not returning in relation to HTMs during the market operation after termination of HTMs.

The Government Decree 149/2010. (IV. 29.) on the calculation of the amount needed to be reimbursed in accordance with the HTM Act (hereinafter referred to as: HTM decree) defined the methodology for calculating the actual amounts of prohibited state aids that needed to be reimbursed, and the stranded costs compensation scheme due to the termination of the HTMs.

The methodology for calculating compensation amounts for stranded costs in accordance with the provisions of the HTM Decree and the relevant figures were approved by the European Commission in its decision 'State Aid N 691/2009 – Hungarian stranded costs compensation scheme', dated 27 April 2010. On 7 May 2010, the Authority issued a decision regarding the affected power plants with the subject 'Establishment of the recoverable amounts of state aid provided under the Agreement'.

The Authority shall monitor the rate of return of the power plants concerned up to the date when the HTM was to be terminated and shall prepare afterwards a consolidated account for each of the generators. Provided the investments related to the HTMs pay off or a transition cost is incurred which was offset without eligibility pursuant to the HTM Act, the Authority shall establish an obligation of reimbursement of the government subsidies for the power generator.

According to the HTM Decree, the Authority shall, until the end of the compensation period, inform the NFM once a year, not later than 30 April after the year concerned, on the trends observed in the payback of the affected power generators (Budapesti Power Plant, Dunamenti Power Plant and Pannon Thermal Power Plant). It is still the compensation period of the Budapest Power Plant and the Dunamenti Power Plant (until 2024 and 2015, respectively)

The Authority submitted the 2013 report to the NFM by the given deadline. According to the calculations of the Authority, no repayable state support has formed.

8.3. Supporting discounted electricity price for employees or former employees of the electricity sector, based on the relevant legislation (the so called C-tariff)

From 2008 onwards, the discount in the purchase price of electricity for employees of the electricity sector has to be covered by universal contribution from all consumers (hereinafter referred to as: pensioner penny). The pensioner penny in 2010 was 0.09 HUF/kWh, reduced to 0.07 HUF/kWh as of 1 January 2011 and was not changed until 31 October 2013. As of 1 November 2013, household consumers have been exempted from the payment of the pensioner penny, this latter being paid only by the non-household consumers. It has then increased to 0.2 HUF/KWh, and as of 1 January 2015, decreased to 0.13 HUF/KWh. The income from the pensioner penny payments is accounted in a separate account; this income is redistributed by MAVIR Zrt. to universal service providers.

8.4. Subsidising the restructuring process of the coal industry

The restructuring process of the coal industry (coal penny) is related to the Márkushegy coal mine supplying the necessary volume of coal to the Oroszlány Power Plant owned by Vértesi Erőmű Zrt. This is Hungary's last underground coal mine.

Gov. Decree No 278/2007 (X. 20.) laying down the detailed rules for determining and managing coal industry restructuring support (hereinafter referred to as: coal and decree) defines two subsidy types to restructure coal industry in Art. 3(1):

– The exceptional support that is based on Article 4 of the 2010/787/EU Council Decision (hereinafter CD) calculated based on the difference between income and the costs incurred by closing the coal producing units, not relating to the ongoing production, and

– the closure aid as defined by Article 3 of the CD, calculated based on the current production losses legitimately incurred at the coal producing units.

The exceptional support provides coverage for the costs of closing the mine (including severance payment costs). According to Art. 3(2) of the coal penny decree, it is necessary to monitor whether the revenue and the expenditure of the shutdown are reasonable. The monitoring is conducted by the Authority, which then provides a disbursement recommendation to the Minister of National Development.

For the years 2011-2013, Vértesi Erőmű Zrt. received the following subsidies based on the resolutions of the minister:

Table 28: Subsidy for the restructuring process of the coal industry, million HUF

	Plant closure subsidy	**Extraordinary subsidy**
2011	6284	0
2012	5846	280
2013	4713	611
Total	16,844	891

The size of funds available to finance the restructuring process of the coal industry is defined by Art. 148(2) of the VET. The fund is paid by non-household electricity consumers only. The amount of the fund in 2014 was 0.17 HUF/kWh, which was increased to 0.21 HUF/kWh as of 1 January 2015.

8.5. Subsidising combined generation restructuring

The fund indicated on electricity bills is a 'combined generation restructuring support' (hereinafter referred to as: district heating penny) that contributes to the district heating budget established for supporting district heating suppliers. The amount of district heating penny did not change in 2014 compared to its state at the end of 2013, and remains 1.71 HUF/KWh paid by non-household electricity consumers.

At the same time, not only electricity consumers have contributed to the funds of district heating.

According to Art. 141/B(15)–(16) of the GET, the resolutions empower the Minister of National Development to determine a cogeneration restructuring contribution for the licensees conducting gas production in Hungary, although in 2014 he did not determine a payment obligation based on this. On the other hand, he has acted upon his authorisation in regards to the natural gas trader[22] specified in Art. 141/B(15) of the GET, and specified the amount of support to be paid as 7.6 billion HUF as of 1 February 2014, in Annex 7 of NFM Decree No 19/2010 (XII.3.) quantity and price of natural gas sources offered for purchase to universal service providers, and the parties eligible and obliged. In a subsequent amendment, it modified the payment obligation thus prescribed as follows (as of 1 April 2014).

[22]Which – in order to ensure the security of supply of district heating consumers, for the purpose of sales offers to district heating and thermal cogeneration companies – have been supplied from the security natural gas reserves as determined in the ministerial decree on the size, sales and replace injection of the natural gas security reserves.

Table 29: Contribution payable in 2014

	May 2014	**June 2014**	**July 2014**	**August 2014**
Cogeneration restructuring contribution (billion HUF)	-2	-2	-2	-1.6

The particular district heating suppliers are eligible for support unless their legitimate income covers their legitimate expenditure. In this case, this support will compensate for the annual difference between the income and the justifiable expenditure. The district heating suppliers may claim this support after the heat volume provided to the household sector. The EU legislation does not permit support for non-household district heating.

8.6. Allowance for large families

The allowance for large families targeting household consumers with a <20 m^3/h gas-meter who are not community consumers and have at least three children entitles the target consumers to an annual allowance of 6,840 MJ (200 m^3) per child and an additional 10,250 MJ (300 m^3) natural gas allowance at price category I. rates (above the volume of 41,040 MJ [1200 m^3]). For community consumers, the allowance is calculated on a HUF/year/child basis that can be accessed through the residential community representative.

Since 1 January 2013, it is no longer necessary to apply annually for the allowance, the eligibility for the allowance is obtained with the family allowance, with the restriction that if there are any changes in the eligibility for this allowance, the person eligible for the benefits is required to report the changes to the Hungarian State Treasury within 15 days.

The allowance for large families has not changed in 2014.

ANNEX

List of Abbreviations

ACER: Agency for the Cooperation of Energy Regulators
CAO: Central Allocation Office GmbH
CEE region: Central and Eastern European region
CEER: Council of European Energy Regulators
ERRA: Energy Regulators Regional Association
Offer price decree: NFM Decree no. 19/2010. (XII. 3.) on the volumes and prices of natural gas sources offered for sale to universal service providers and of nationally produces natural gas, as well as on the scope of parties entitled and obliged to use it
FGSZ: Magyar Földgázszállító Zrt.
EÉT: Council of Energy Interest Representation
*ENTSO-E:*European Network of Transmission System Operators for Electricity
CE: Consumer equivalent – an indicator that uniformly represents the number of consumers having resort to water utility supply (by water utility sectors taking into account also the capacity demand of consumers).
GET, Gas Supply Act: Act XL of 2008 on natural gas supply
GET implementation decree: Government Decree No 19/2009. (I. 30.) on the implementation of the provisions laid down in Act XL of 2008
GVH: Hungarian Competition Authority
IEA: International Energy Agency
Authority: Magyar Energetikai és Közmű-szabályozási Hivatal (Hungarian Energy and Public Utility Regulatory Authority)
HTM: long term electric power generation and generator capacity booking agreements in Hungary
HTM Act: Act LXX of 2008 on certain issues related to electric power
HTM Decree: Government Decree No 149/2010. (IV. 29.)
Minister: Minister of National Development
FiT: feed-in tariff system
FiT-quota: quantity of electricity subject to feed-in tariff system
NFM: Ministry of National Development
OSAP: National Statistic Data Collection Programme
Tszt: Act XVIII of 2005 on district heating services
Tszt. Implementation decree: Governmental decree No. 157/2005 (VIII.15.) on the implementation of Act XVIII of 2005 on district heating services
TVT: Act LXVII of 2008 on boosting the competitiveness of district heating services
Competition Act: Act LVII of 1996 on prohibiting unfair market conduct and the limitation of competition
VET: Act LXXXVI of 2007 on electricity
VET Vhr: Government Decree No. 273/2007. (X. 19.) on the implementation of certain provisions laid down in and of Act LXXXVI 2007 on electricity

Key legal regulations related to the activities of the Authority

Act LXXXVII of 1990	on price setting
Act III of 1993	on social administration and social benefits
Act XLVI of 1993	on statistics
Act XLVIII of 1993	on mining
Act CLV of 1997	on the protection of customers
Act LXXXVIII of 2003	on energy tax
Act CXXVII of 2003	on excise tax and laying down special rules for the marketing of excise products
Act CXL of 2004	on the general rules of administrative proceedings and services
Act XVIII of 2005	on district heating services
Act XXVI of 2006	on strategic stockpiling of natural gas
Act LXXXVI of 2007	on electricity
Act XL of 2008	on natural gas supply
Act XLVII of 2008	on prohibiting unfair commercial practices against customers
Act LXVII of 2008	on boosting the competitiveness of district heating services
Act LXX of 2008	on certain issues related to electricity
Act CLV of 2009	on the protection of classified information
Act XLIII of 2010	on the central state administration bodies and the legal status of members of Government and Secretaries of State
Act CXXX of 2010	on legislation
Act CXII of 2011	on informational self-determination and freedom of information
Act CXCV of 2011	on public finances
Act CXCIX of 2011	on public officials
Act CCIX of 2011	on Water Utility Supply
Act I of 2012	on the labour code
Act CLXVIII of 2012	on public utility tax
Act CLXXXV of 2012	on waste
Act CCXVII of 2012	on the participation in the community trade system of greenhouse gases and in the implementation of the effort sharing decision
Act XXII of 2013	on the Hungarian Energy and Public Utility Regulatory Authority
Act XXIII of 2013	on minimum stocks of imported crude oil and petroleum products
Act LIV of 2013	on the application of utility price cuts
Act CXXV of 2013	on the qualification of public waste management service providing activity
Act CXXXIV of 2013	on the provision of certain public utility services and the related legislative amendments
Act CLXV of 2013	on complaints and public interest disclosures
Act CLXXXVIII of 2013	on a standard image of utility invoices
Act CCXXXI of 2013	on the amendments of the respective laws in relation to the execution of utility price cuts

Gov. Decree No 170/1993. (XII. 3.)	on the implementation of Act XLVI of 1993 on statistics
Gov. Decree No 157/2005. (VIII. 15.)	on the implementation of Act XVIII of 2005 on district heating services
Gov. Decree No 225/2007. (VIII. 31.)	on the National Customer Protection Authority
Gov. Decree No 273/2007. (X. 19.)	on the implementation of certain provisions laid down in Act LXXXVI of 2007 on electricity
Gov. Decree No 278/2007. (X. 20.)	on laying down the detailed rules for determining and managing coal industry restructuring support
Gov. Decree No 285/2007. (X. 29.)	on the measures to be taken in case of severe disturbances in the electricity system and in emergency situations of electricity supply
Gov. Decree No 289/2007. (X. 31.)	on social subsidies of household piped gas consumption and use of district heating services
Gov. Decree No 382/2007. (XII. 23.)	on building construction licensing in the electricity sector
Gov. Decree No 389/2007. (XII. 23.)	on the feed-in obligation and feed-in tariff of electricity produced from renewable energy resources or from waste and electricity generated in cogeneration facilities
Gov. Decree No 64/2008. (III. 28.)	on the detailed professional rules of setting the fee of municipal waste management public services
Gov. Decree No 19/2009. (I. 30.)	on the implementation of the provisions of Act XL of 2008 on natural gas supply
Gov. Decree No 76/2009. (IV. 8.)	on the procedures of the spatial planning authority
Gov. Decree No 288/2009. (XII. 15.)	on data collection and transfer by the National Statistical Data Collection Programme
Gov. Decree No 48/2010. (II. 26.)	on the procedure to be applied due to the existence of a situation threatening natural gas supply of users in case the operation of the natural gas trader becomes impossible
Gov. Decree No 368/2011. (XII. 31.)	on the execution of the public finances act
Gov. Decree No 370/2011. (XII. 31.)	on the public budgetary organisations internal control system and internal audit
Gov. Decree No 313/2012. (XI. 8.)	on the Documentation Centre for Buildings and Construction, and the National Register of Buildings
Gov. Decree No 58/2013. (II. 27.)	on the implementation of certain provisions of Act CCIX of 2011 on Water Utility Supply
Gov. Decree No 292/2013. (VII. 26.)	on the rules of non-regular transport of waste and appointing the organs of the state acting in this regard
Gov. Decree No 309/2013. (VIII. 16.)	on the guarantee of origin of electricity produced from renewable energy sources or from cogeneration with high efficiency
Gov. Decree No 317/2013. (VIII. 28.)	on the selection of municipal waste management service providers and the contract on the municipal waste management service
Gov. Decree No 324/2013. (VIII. 29.)	on the uniform electronic public utility registry
Gov. Decree No 341/2013. (IX. 25.)	on the executive measures of free allocation of emission allowances for power plants on the basis of Act CCXVII of 2012 on the participation in the scheme for greenhouse gas emission allowance trading within the Community and in the implementation of the Effort Sharing Decision

Gov. Decree No 360/2013. (X. 11.)	on the identification, designation and protection of the critical energetic systems and facilities
Gov. Decree No 511/2013. (XII. 29.)	on the rules regarding the non-regular chimney sweeping utility service and the appointment of the government bodies acting in this regard
Gov. Decree No 541/2013. (XII. 30.)	on the identification, designation and protection of critical water management system components and water facilities
Gov. Decree No 278/2014. (XI. 14.)	on the content and the method of preparation of the report related to greenhouse gas emissions, as well as to climate change, on the rules of data reporting and the fine payable in case of infringement of the data reporting obligation
Gov. Decree No 385/2014. (XII. 31.)	on the requirements of providing waste management public service
Decree No 86/2003. (XII. 16.) GKM	on the rules of data supply by the respective natural gas companies
Decree No 110/2007. (XII. 23.) GKM	on the method of calculation to determine the amount of electricity and useful heat cogenerated by high efficiency effective thermal energy
Decree No 116/2007. (XII. 29.) GKM	on the electricity purchase discounts to be used in relation to present or past employment in the electricity sector
Decree No 19/2010. (XII. 3.) NFM	on the volumes and prices of natural gas sources offered for sale to universal service providers and of domestically produced natural gas, as well as on the scope of parties entitled and obliged to use it
Decree No 4/2011. (I. 31.) NFM	on the pricing of universal provision of electricity
Decree No 50/2011. (IX. 30.) NFM	on determining the prices of district heat sold to district heating suppliers, the prices of district heating supply provided to residential customers and specially treated institutions
Decree No 51/2011. (IX. 30.) NFM	on district heating subsidies
Decree No 1/2012. (I. 20.) NFM	on the calculation methodology of the ratio of energy produced of renewable energy sources
Decree No 36/2012. (VI. 8.) NFM	on the detailed rules governing the use of funds allocated to the priorities of the Environment and Energy Operational Programme and on certain titles of support
Decree No 4/2013. (II. 4.) NFM	on the visual appearance of billing documents applied by the universal service provider of electricity and natural gas
Decree No 24/2013. (V. 29.) NFM	on the rules of asset evaluation of communal water system and the data to be submitted for public interest by public water utility service providers
Decree No 52/2013. (IX. 13.) NFM	on the services to be provided by the electricity distributor and the universal service provider for a special fee and free of charge
Decree No 63/2013. (X. 29.) NFM	on the distribution of electricity subject to feed-in obligation to the transmission system operator and on the method of determining prices to be applied in the course of distribution
Decree No 39/2014. (IX. 30.) NFM	on the amendment of certain ministerial decrees in the field of energy
Decree No 61/2009. (XII. 14.) IRM	on drawing up the rules of law

Decree No 6/2008. (VI. 18.) KHEM	on certain data to be supplied in relation to the control, operation and use of the electricity system
Decree No 27/2009. (VI. 25.) KHEM	on the detailed rules for reimbursement of deficiencies in revenue incurred by the wholesale trading licensee pursuant to Act XLII of 2003 on natural gas supply
Decree No 28/2009. (VI. 25.) KHEM	on determining the tariff rates related to universal service provision on the natural gas market
Decree No 29/2009. (VI. 25.) KHEM	on pricing with respect to universal service provision on the natural gas market
Decree No 33/2009. (VI. 30.) KHEM	on the conditions for the announcement of tender to establish wind power capacities and minimum requirements of contents in such tenders as well as on the rules of procedure in tendering
Decree No 36/2009. (VII. 22.) KHEM	on the considerations to be taken into account in the course of setting the prices for the connection to district heating services, district heating charges for households and the prices applied in the contract between the district heating generator and district heating service provider; and on the scope of data to be submitted on a mandatory basis for the purposes of proceedings conducted by the Hungarian Energy Office
MEKH Directive No 1/2013. (VII. 25.)	on the bylaws of the Hungarian Energy and Public Utility Regulatory Authority
MEKH Decree No 1/2013. (VII. 11.)	on gas system charges, the regulations for the incentives of increasing the quality of supply provided by the system operator through system charges, the system charges applicable depending on the quality of supply provided, and the conditions for the application of system charges
MEKH Decree No 2/2013. (VII. 25.)	on the gas connection fees and the regulations of their application
MEKH Decree No 3/2013. (VIII. 7.)	on the replacement of the Hungarian Energy and Public Utility Regulatory Authority's president with respect to issuing the Decree
MEKH Decree No 4/2013. (X. 16.)	on the electricity system charges and the rules regarding the application thereof
MEKH Decree No 5/2013. (X. 16.)	on the amendment of MEKH Decree No 1/2013 (VII.11.) on gas system charges, the regulations for the incentives of increasing the quality of supply provided by the system operator through system charges, the system charges applicable depending on the quality of supply provided, and the conditions for the application of system charges
MEKH Decree No 6/2013. (XII. 16.)	on the amendment of MEKH Decree No 1/2013 (VII.11.) on gas system charges, the regulations for the incentives of increasing the quality of supply provided by the system operator through system charges, the system charges applicable depending on the quality of supply provided, and the conditions for the application of system charges
MEKH Decree No 1/2014. (III. 4.)	on the rate of administration service fees of the Hungarian Energy and Public Utility Regulatory Authority and on the

	regulations of the collection, management, registry and reimbursement of administration service, supervision and other fees
MEKH Decree No 4/2014. (VI. 26.)	on the amendment of MEKH Decree No 6/2013 (XII. 16.) on the amendment of MEKH Decree No 1/2013 (VII.11.) on gas system charges, the regulations for the incentives of increasing the quality of supply provided by the system operator through system charges, the system charges applicable depending on the quality of supply provided, and the conditions for the application of system charges
MEKH Decree No 7/2014. (IX. 12.)	on the criteria of determining electric power grid connection fees, the elements and rates thereof as well as the rules regarding the application thereof
MEKH Decree No 9/2014. (IX. 29.)	on the criteria of determining natural gas connection fees, the elements of such connection fees, the connection fees as well as the rules regarding the application thereof, and the amendment of MEKH Decree No 7/2014 (IX. 12.) on the criteria of determining electric power grid connection fees, the elements and rates thereof as well as the rules regarding the application thereof
MEKH Decree No 1/2015. (II. 13.)	on the balancing payments related to the sharing of the revenues from the system operation fee
MEKH Directive No 1/2015. (II. 9.)	on the bylaws of the Hungarian Energy and Public Utility Regulatory Authority

EU Directives and Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Commission Decision 2008/952/EC of 19 November 2008 establishing detailed guidelines for the implementation and application of Annex II to Directive 2004/8/EC of the European Parliament and of the Council

Decision No 406/2009/EC of the European Parliament and of the Council on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020

Decision No 994/2012/EU of the European Parliament and of the Council of 25 October 2012 establishing an information exchange mechanism with regard to intergovernmental agreements between Member States and third countries in the field of energy

COMMISSION IMPLEMENTING REGULATION (EU) No 1348/2014 of 17 December 2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency

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