

## Energy & Natural Resources - Hungary

### Ministry proposes new mandatory electricity takeover system

Contributed by **Nagy és Trócsányi**

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The shortcomings of the mandatory electricity takeover regime have not gone without comment (for further details please see "[Renewable targets require improved electricity takeover regime](#)"). In December 2010 the government attempted to address these shortcomings by adopting the National Renewable Energy Action Plan, which aims to increase the percentage of renewable energy in Hungary's gross energy consumption to 14.65% by 2020. Such ambitious aims require the replacement of the current regime with a more sufficient and secure feed-in tariff scheme.

As a result of the comprehensive revision of the current system, in September 2011 the Ministry of National Development introduced the concept of a new mandatory takeover system for heat and electricity produced from renewable and alternative resources (commonly referred to as the METAR concept).

The METAR concept states that the current regime is unsustainable and does not meet the environmental and economic requirements of the National Renewable Energy Action Plan or of the European Union. Strategic priorities of the proposed concept include:

- promoting small and medium-sized power plants;
- enhancing efficiency in energy production;
- ensuring long-term sustainability;
- diversifying energy supply channels;
- reducing the country's dependence on foreign energy sources; and
- creating jobs and supporting economic growth.

Taking Western European experiences into consideration, the government intends to maintain the current feed-in tariff structure, but also plans to implement the following substantial changes in connection with the regime:

- The METAR concept differentiates between mandatory takeover prices on the basis of the technologies applied by producers and the capacity of power plants. Prices would be determined by ministerial decree in order to stabilise the regime in the long term.
- In order to enhance predictability, investors would be granted a 15-year guaranteed takeover period.
- To enhance efficiency in production and ensure sustainability, the METAR concept prescribes minimum efficiency requirements for power plants, especially those producing energy and heat from biomass. Biomass power plants would also be obligated to produce energy and heat from wood of verified origin.
- The new concept is intended to facilitate the production of heat by implementing an additional premium system for heat producers. The reason for this is that one of the most heavily criticised features of the current regime is the lack of support for heat production.
- The new scheme would award additional premiums for investments in underdeveloped regions.
- The concept proposes to introduce subvention quotas to ensure efficient allocation of electricity and to avoid sudden price increases. Quotas would be determined by ministerial decree on a biannual basis with due consideration for:
  - the type of technology used;
  - the efficiency of power plants; and
  - the possible impact of the investment on employment.
- The scheme is intended to secure equal opportunities for all types of technology

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while also allocating more subsidies for investments that qualify as more reasonable under the concept.

- The need for strict supervision of the operation of the regime is well emphasised in order to guarantee transparency in the use of subventions and to safeguard against unjustified profits.

A new act regulating the METAR system was expected to enter into force on January 1 2012. However, due to significant delays, it is now likely that the reformed takeover system will become operational in mid-2013 at the earliest. Three main factors have caused the delay:

- The original schedule determined by the government was too tight;
- The ministry and the Hungarian Energy Office did not conduct the necessary calculations and evaluations in time; and
- Review of the concept by the European Commission is still in progress (the procedure usually takes six months).

Current uncertainties in the implementation procedure have raised concerns among investors interested in the Hungarian energy market. In order to achieve the aims of the National Renewable Energy Action Plan, around €10 billion would need to be invested in the renewable energy sector by 2020. Experts point out that Hungary risks missing the opportunity to receive the significant part of this amount by delaying the introduction of the new takeover system. Thus, it is doubtful that potential investors will persevere under such circumstances when they could instead invest in neighbouring countries.

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