

## HUNGARIAN GAS MARKET HIGHLIGHTS

### 1. Legal framework put in place for revocation of licence for universal service

Parliament has recently adopted an Act, which supplements the Gas Act with provisions on the revocation of licences for the provision of universal service. The amendment is a reaction to the fact that domestic universal service providers, essentially owned by foreign professional investors, wish to terminate their supply activities in the dominantly household segment. This is due to the increasingly burdensome energy policy measures implemented by the Government in the past years against competitive market conditions, such as the introduction of regulated supply prices and then their continuous decrease (the so-called "*cuts in utility bills*"). Due to the supply obligations and the absence of detailed provisions on licence withdrawal, prior to the amendment a termination of universal service was only possible theoretically in the event of a supplier's (threatening) insolvency, in which case the procedure for the appointment of a supplier of last resort ended in the transfer of the insolvent supplier's customer portfolio.

### 2. National utility company launched

The above legislative amendment appropriately accommodates the Government's ambition to strengthen their position in the sector and create non-profit utilities. To achieve this goal, the First National Utility Company ("*Első Nemzeti Közműszolgáltató Zrt*") has been set up, and its subsidiary, FŐGÁZ Zrt (in which the State acquired the shares of RWE at the end of last year), was granted a licence as of 1 April 2015 for the provision of universal service throughout the whole of Hungary, so as to facilitate their acquisition of the customer portfolio of the suppliers leaving the market.

### 3. Certification of Magyar Gáz Tranzit

The increasing presence of the State is also apparent in other segments of the gas market. Magyar Gáz Tranzit Zrt ("*MGT*"), which was formerly part of the state owned energy incumbent MVM group but which has been recently transferred to the control of the Ministry of Internal Affairs due to the ownership unbundling requirements, is working towards becoming a transmission system operator by implementing the Hungarian part of the Hungarian-Slovak interconnector, even though they have not yet obtained the necessary certification and licence. The European Commission requested further clarification on the certification resolution of the national regulator, the Hungarian Energy and Public Utility Authority ("*Authority*").

#### 4. Hungarian-Slovak interconnector open season

This may be part of the reason why the open season procedure announced jointly by MGT and Eustream in December 2014 was called off. Although the licensing of MGT as a transmission system operator is still pending, and thus commercial operation of the interconnector cannot start, the Authority has approved the rules of the open season procedure, based on which Eustream and MGT has announced the open season procedure for the capacity of the Hungarian-Slovak interconnector for the period between 1 July 2015 and 30 September 2016. The applicable contractual terms and conditions are questionable though. The Authority's approval expressly states that the draft capacity booking contract and the standard terms and conditions have not been approved by the Authority, and that as of the date of commercial operation (at present envisaged as of 1 July 2015), the general terms of business of MGT as approved by the Authority will apply. This means that interested bidders are required to commit themselves to contractual terms and conditions, which are unknown at present, and may remain unknown even until the deadline for filing binding bids.

It is also notable that although the statutory provisions state that the general rules of access to the system shall not apply in certain specific cases of open season procedures relating to new infrastructure development, the exemption granted to MGT in accordance with the relevant provisions of the EU laws only concerned certain requirements under the ownership unbundling and not the conditions of third party access.

#### 5. New rules of capacity contracting

In relation to third party access it is notable that in view of the relevant EU laws the rules of capacity contracting have undergone significant changes. The Gas Act and its implementation Decree have been amended, and the Authority has amended the Network Code ("*Üzemi és Kereskedelmi Szabályzat*") *ex officio* with effect as of 16 April 2015. FGSZ Zrt's capacity platform regulation and trading platform regulation have been approved by the Authority with the same effective date. The Gas Act provides that annual capacity requests submitted to the transmission system operator and distribution system operators before the entry into force of the recent amendment, and the outcome of procedures conducted on the basis of such requests shall be deemed void. Furthermore, the transmission system operator shall allocate products covering yearly capacity at all entry and exit points of the natural gas transmission system on the capacity platform on 11 May 2015 for the gas year beginning on 1 October 2015 and ending on 30 September 2016, with the proviso that the capacity products acquired by network users at this auction shall also cover the transitional period of July, August and September 2015. Otherwise monthly and daily capacity contracting in the transitional period shall be conducted in accordance with the rules effective prior to 15 April 2015.

We hope that this makes for interesting reading. If you have any questions or need further clarification, please do not hesitate to contact us.

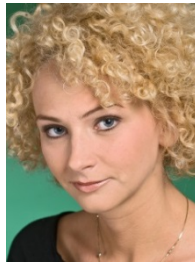
## CONTACTS



**László Kenyeres**  
**Partner**

[laszlo.kenyeres@wolftheiss.com](mailto:laszlo.kenyeres@wolftheiss.com)

Tel. + 36 1 48488 00



**Eszter Kuti**  
**Senior Associate**

[eszter.kuti@wolftheiss.com](mailto:eszter.kuti@wolftheiss.com)

Tel. + 36 1 48488 00

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If you would like to know more about the topics covered in this memorandum or our services in general, please get in touch with the contacts listed above, or with:

**Faludi Wolf Theiss Attorneys at Law**  
Kálvin tér 12-13.  
1085 Budapest  
Hungary  
Tel. +36 1 4848 800

[www.wolftheiss.com](http://www.wolftheiss.com)