

PRESS RELEASE

GROUNDBREAKING CHANGES IN THE NATIONAL GREEN ENERGY REGULATION

PARLIAMENT MAY SOON PASS NEW LAWS FOR SUPPORTING RENEWABLE ENERGY

The Government has published a draft legislative package aimed at transforming the present renewable energy support scheme of electricity generation from renewable sources. On the basis of the proposal, most of the electricity generation facilities using renewable energy sources will no longer be eligible to participate in the so-called mandatory off-take system of "green" electricity and to them a new premium based supporting scheme will apply. The main point of the proposal is that "green electricity" produced by generation facilities of a production capacity exceeding 0.5 MW, a limit determined at a rather low level, must be sold in the free market in the future, and generators may receive a supplement of a predetermined amount, i.e. a premium, in addition to the purchase price. According to Dr. Máté Tóth LL.M., senior lawyer of the energy group of Faludi Wolf Theiss Attorneys at Law, the new regulatory approach is expected to bring about a substantial transformation of the renewable electricity market as a result of its peculiar features: existing and potential market players must take into account considerations different from the current ones in connection with the return on their investment. However, if a prudent implementation of the new concept is followed, the new approach may be suitable for increasing the utilization rate of renewable energy by supporting certain technologies through incentives, while maintaining a low level of long-term residential energy prices.

Pursuant to the published proposal, the mandatory off-take system in its current form will only be available for generation facilities with a capacity of less than 0.5 MW and for demonstration (i.e. experimental) projects. Generation facilities with a capacity higher than 0.5 MW using renewable energy sources will be obliged to sell the electricity generated individually, on a free-market basis. The "expected" sales prices will be determined by the TSO MAVIR as a so called "reference market price" based on the prices of the Hungarian Power Exchange (HUPX). Parallel to this, the Hungarian Energy and Public Utility Regulatory Authority (HEA) will set the "support prices" for "green electricity" by taking into consideration the production costs and the concept of the fair return of the project. The margin between the support price and reference market price will be the "green premium", which will be paid to the generators by MAVIR. This will secure the profitability of electricity generation from renewable sources and at the same time it will decrease the distance between market prices and the present mechanisms which disregard the economic cycles of the green energy support scheme.

In accordance with EU expectations, generation facilities with an output of more

FALUDI WOLF THEISS
Attorneys at law
Kálvin tér 12-13.
Kálvin Square, 4th floor
1085 Budapest
Magyarország
T +36 1 484 8800
F +36 1 484 8825
budapest@wolftheiss.com
www.wolftheiss.com

than 1 MW will only be eligible to participate in the new financial support scheme if they are selected through proper tender proceedings aiming at the selection of the most competitive projects. In the case of generation facilities with a capacity of less than 1 MW, the HEA will decide on the amount of the supported electricity as well as the term of support upon individual request and through administrative procedures.

The new regulation will be applicable to already operating generation facilities using biomass or biogas: such generation facilities will be subsidised with the newly introduced "brown premium". The aim of the brown premium of an amount determined by the HEA is to persuade biogas/biomass generators capable of using such cheaper fossil energy sources to maintain electricity generation from biogas/biomass. In addition to the already published draft legislation, it is expected that the new regulation will establish further specific regimes for electricity generation facilities based on photovoltaic and wind power. As is known, the regulation of wind power had a life of vicissitudes, which was partly due to the fact that the lawmaker failed to deal with the volatility of such energy sources (the issue of their supplementation and balancing) in an appropriate manner. Moreover, the later statutory amendments bringing about the necessary adjustments did not have the desired effect, and created a high degree of uncertainty similarly to the case of cogeneration technologies. In these areas, the market has been waiting for a long time; the adoption of the new concept of support may be an opportunity for the lawmaker to settle these specific areas, which may reduce the market uncertainty and country risk created as a result of the regulatory changes.

Hungary has undertaken to cover 14.65% of its gross energy consumption from renewable energy sources as from 2020 at the latest. *"The new concept of support may offer a better opportunity to achieve or surpass this goal, since the proposal is of a European scale and it is market-friendly, while also paying attention to such unfortunate previous regulatory deficits as the possibility of outsourcing, mentioned above, or the problem of the security of supply and the low level of the predictability of regulation and country risk. However, much will depend on the actual premium prices or the adequate settlement of previously neglected areas"* – **says Dr. Máté Tóth.**

Increasing the utilization rate of renewable energy sources and, in essence, the encouragement of the establishment of new capacities will not be an extra burden on residential consumers since the source of the support system will continue to consist of payments by users (e.g. industrial users) supplied through non-universal service. On the contrary, prudent premium price setting may result in a lower cost burden as compared to the maintenance or "historical" costs of the previous subsidized prices mostly disregarding economic prosperity, which may substantially contribute to keeping energy prices at low levels.

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For further information please contact:

Mag. Barbara Fürchtegott

PR & Communications Manager

Wolf Theiss Rechtsanwälte / Attorneys-at-Law
Schubertring 6, A-1010 Wien

Tel.: +43 1 51510 / 3808

E-Mail: barbara.fuerchtegott@wolftheiss.com

www.wolftheiss.com

