

Hungarian Energy Market

Energy authority warns on gas contracts for next year as options narrow and tighten

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"On 1 October, the contracts of free market gas purchasers expire, so it is advisable to ensure that new contracts are concluded now" – the Hungarian Energy and Public Utility Regulatory Authority (HEPURA) said in a recent statement. According to the HEPURA, gas traders will try to reduce their risks by strict rules due to prices that are four to five times higher than before. It does not help the situation of gas customers that the government is at the same time tightening the rules on the public utility cuts available to the corporate sector.

1 The deadline for next year's gas contracts is approaching

"Free market gas trading contracts are usually aligned with the gas year starting on 1 October. In order to ensure uninterrupted and continuous supply, it is necessary for customers to pay particular attention to this date and to ensure that new contracts are concluded in time. It is advisable to examine the individual gas supply contracts with due care and as soon as possible and to ensure that they are concluded or renewed as soon as possible" – warns the HEPURA.

The geopolitical and macroeconomic events of recent months have brought significant changes to energy supply contracts and the terms and conditions of offers. The volatility of prices makes it much more risky and costly to issue and accept fixed-price contract offers, as was the case previously. This is expected to result in significant changes in the risk management practices of gas traders, including the tightening of payment terms, reduction of flexibility discounts, introduction or tightening of take-or-pay obligations in contract terms, and a significant reduction in the validity of offers. It is still unlikely that traders will expect their customers to pay in advance, but it is possible that they will impose a much shorter payment period than at present, e.g., 2-3 days instead of 8, and send invoices weekly instead of monthly. It is also conceivable that customers will be asked to provide a bank guarantee for a certain amount, e.g., the equivalent of one month's gas consumption. Those who agree to this may get better prices, those who do not may get worse or even, after weighing up the risks, none at all, i.e., no contract. All in all, particular attention must be paid to the commercial and legal terms and conditions, and care must be taken to represent and defend one's own commercial and legal interests properly at all times when inviting tenders and negotiating contracts.

It will be particularly important for customers to evaluate the offers and choose the best one for their situation. As gas traders operating in the free market are not subject to any supply obligations, it is in the best interest of non-

residential customers to contact suppliers in good time and ask for a quote. For the new gas year starting on 1 October, given the legally guaranteed deadlines for changing suppliers, they realistically have until 6 September to complete their gas purchases safely.

As a result, the HEPURA has recently published a statement calling on free market gas customers to examine their gas procurement contracts with due diligence and to initiate their conclusion or renewal as soon as possible.

2 Reduced possibilities to buy energy while using public utility cuts

A further complicating factor for the affected gas customers is that according to the recently published Government Decree No. 217/2022 (VI.17.), a number of companies will soon be excluded from the scope of universal service customers, who currently receive electricity and natural gas at a price reduced by the public utility cuts. As a general rule, any company with a gas metering capacity of less than 20 m³/h can still rely on the market advantage of the public utility cuts. However, under the new provisions, only companies with less than 10 employees and an annual net turnover or balance sheet totaling less than the equivalent of EUR 2 million denominated in HUF will be able to remain in the universal service as of 1 August.

Everyone else will be excluded from the universal service, but the situation will also change for those who remain, as they will only be able to receive gas at a reduced price for up to a consumption of 1489 m³/year, above which they will have to pay the free market price set by the universal service provider in its statement. The same applies to electricity, where the consumption limit to make use of the public utility cuts is 4606 kWh.

It is also important to note that it is up to customers to decide whether or not they will be entitled to the universal service after 1 August. If they decide to opt out, they must notify the supplier themselves in the prescribed manner. The deadline for this is 1 July, so they should make every effort.

Stakeholders should also be aware that incorrect notification or failure to notify can lead to severe sanctions. Where the universal service provider establishes, on the basis of the documentary evidence of eligibility, that the customer is not entitled to universal service, it will bill the customer for the natural gas or electricity consumed during the period between 1 August 2022 and the end of the period of supply by the universal service provider at a unit price equal to twice the average exchange price for the month in question, but not less than five times the applicable universal service tariff. In addition, if the customer does not make a declaration or if its declaration is received after 1 July 2022, the universal service provider shall not be liable if the customer is not supplied. In other words, the defaulting consumer will be forced out onto the free market, where it is unlikely to be able to conclude a contract immediately, let alone at a good price, as free market traders do not have a supply obligation similar to that of the universal service providers.

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For more information about our services, please contact us:



Laszlo Kenyeres
Partner

E laszlo.kenyeres@wolftheiss.com
T +36 1 484 8800



Adam Lukonits
Associate

E adam.lukonits@wolftheiss.com
T +36 1 484 8800