

# Track Changes

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February 2021

## ENERGY TRADERS IN HUNGARY HAVE ALREADY FELT THE IMPACTS OF THE NEW EKR SYSTEM

### About the EKR in brief

Beginning in 2021, the **energy efficiency obligation system (EKR)** was introduced in Hungary initiated by the Ministry of Innovation and Technology.<sup>1</sup> The system aims to implement Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency.

The core changes include the following:

Entry into force	Subject
1 January 2021	<ol style="list-style-type: none"><li>1. The natural gas and power trading license holders, universal service providers and fuel distributors must ensure that a certain percentage of the increase in energy efficiency is achieved each year on the side of their end-users. The amount is 0.05% (2021), 0.1% (2022), 0.3% (2023), 0.5% (2024-2027), 0.35% (2028), 0.15% (2029) and 0.05% (2030) of the energy sold to their end-users in the second year before the reference period, respectively.</li><li>2. In order to achieve the above goal, the affected license holders are free to invest in any sector, not only those specifically related to their end-users, provided that economically sound energy efficiency investments are being implemented.</li><li>3. There are plenty of types of investments available: lightning modernisation, thermal insulation, modernisation of heating systems, the use of renewable energy sources, installation of solar panels, car sharing services, etc. The Hungarian Energy and Public Utility Regulatory Authority (HEPURA, in Hungarian: <i>Magyar</i></li></ol>

<sup>1</sup> Act No. CLX of 2020 in Official Gazette No. 283/2020 and Government Decree No. 715/2020 (XII. 30.) in Official Gazette No. 298/2020.

	<p><i>Energetikai és Közmű-szabályozási Hivatal</i> or <i>MEKH</i>) will publish a detailed list of such investments with the general method of calculating the level of energy efficiency they might lead to.</p> <p>4. The specific target values will be determined by the HEPURA in its resolution sent to the pertinent license holders. The authority will calculate such numbers on the basis of the quantities reported by the stakeholders in the prior years through the Energy Information Database (EID, in Hungarian: <i>Energiainformációs Adattár</i> or <i>EIA</i>).</p>
<p>1 February 2021</p>	<p>1. In each year, the license holders will have to report the level of energy efficiency they achieved during the reference period (that is the year prior to the year of reporting), with sufficient background information, in a separate data collection system that is to be established.</p> <p>2. The system gives an opportunity to pay a contribution of HUF 50,000/GJ (approx. EUR 140/GJ) instead of making any investments (energy efficiency contribution). If the license holders are not willing to make any investments, nor to pay the contribution, they will be charged with a penalty of HUF 70,000/GJ (approx. EUR 195/GJ).</p>

### The most important rules of the EKR

The affected license holders are those natural gas and power traders, universal service providers and fuel distributors that provide energy to end-users. Therefore, the wholesale energy traders, the suppliers of energy or district heating generation facilities, and the power or natural gas shippers do not fall under the regime. The HEPURA will determine the exact scope of obligors based on the reports submitted by the license holders in each year, by examining the scope of their customers' activities.

The targeted value of the increase in energy efficiency – that is a certain percentage of the energy sold to the end-users in the second year prior to the reference period (base period), which must be reached in the reference year – grows gradually between 2021 and 2030. Then, after reaching its climax (0.5%) between 2022 and 2025, it slowly decreases back to the starting figure (0.05%).

The exact value of the energy efficiency obligation (set forth in GJ) is defined by the HEPURA in the form of a resolution sent individually to each affected license holder no later than 30 November of the year prior to the reference period. It does not apply to 2021 because in this year the HEPURA will issue these resolutions by 31 March. In order to make it possible for the HEPURA to determine the exact figures, every license holder has to report, no later than 31 May of the year prior to the reference period, the quantities of energy sold to end-users in the base period by submitting this information in the EID

database (using the newly established V610b and G610b data sheets). In 2021, the license holders had to submit the data sheets by 21 January 2021.

The affected license holders can fulfil their obligations through different means: (i) they can implement energy efficiency investments at the level of the end-users; (ii) they can decide not to make any investments but to pay an energy efficiency contribution in the amount of 50,000 HUF/GJ (approx. EUR 140/GJ) of the energy sold to their end-users; or (iii) they can buy already implemented energy efficiency investments (white certificates) on the secondary market.

A standard catalogue of investments, with the precise calculation of energy efficiency they might lead to, will be published by the HEPURA twice a year. The first catalogue is anticipated to be published in March 2021 (but no later than 30 June 2021). The catalogue will not contain all the available investments; other investments may also be implemented but they will have a much higher administrative burden.

The legislation gives an opportunity to pay an energy efficiency contribution instead of making any investment, which is 50,000 HUF/GJ of the electricity sold to the end-users in the base period (buy-out). However, if an affected license holder is not willing to make an investment, nor to pay the contribution, it will be charged with a penalty in the amount of 70,000 HUF/GJ/year (approx. EUR 195/GJ/year) of the energy efficiency not reached in the reference period.

The amount of energy efficiency reached through investments or bought on the secondary market can be set-off against the obligations after having them audited by an official energy auditor listed in the registry of the HEPURA. By default, the achieved energy efficiency can be set-off against the obligation of the reference year. However, it is possible to set-off against the obligations of the previous and subsequent years as well, provided that certain requirements are met. The HEPURA will establish a separate platform for concluding the set-off (i.e. it will not happen in the EID database).

## Conclusion

The EKR will impose significant obligations and onerous sanctions on the affected license holders. Therefore, it is important to be familiar with the system, most importantly because it is already in force since the beginning of 2021 and it sets target values for this year as well.

However, important elements are missing from the regulation, e.g. the standard catalogue of investments is yet to be adopted and the basis of calculating the specific target values for each year is also vague. The legislator follows the principle of "learning by doing"; therefore, the experiences of the forthcoming months, and the involvement of informed professionals providing first-hand information and interpretation thereof, will have great significance.

This memorandum is a brief summary of the Energy Efficiency Obligation System (EKR). If you need more information – including the anticipated market effects and the most

important tasks and deadlines for the coming months and other relevant questions – please do not hesitate to contact us through the colleagues listed below.

## About WOLF THEISS

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