WT Client Alert

Winds of change:

Positive outlook for Hungary's wind energy regulations

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There has not been a new wind farm built for almost a decade in Hungary despite the country's undoubted need for more wind power. At the end of 2022, the European Commission announced the adoption of Hungary's Recovery and Resilience Plan, which, among other things, aims to facilitate onshore wind investments. Could this be the long-awaited turning point that will put wind in the sails of the Hungarian wind energy market?

Restrictive regulations followed by limited success

From the outset, the regulation of wind energy in Hungary has been restrictive compared to European standards, with significant limitations on the size of the areas suitable for investment and a strict, bureaucratic licensing procedure. From the beginning, **the construction of wind farms,** with the exception of small household-scale power plants (i.e. below 50kVA) and small power plants (i.e. below 50 MW) not connected to the electricity grid, **was only possible on the basis of a tender** (see KHEM Decree No. 33/2009 (VI. 30.) of Hungary).

As part of the tender procedure, the Hungarian Energy and Public Utility Regulatory Authority (the "**HEPURA**"), together with the network operators, conducted an analysis of the balance, controllability and secure operation of the expected medium-term performance of the electricity system. If the results of the analysis showed that there was potential for new wind generation capacity to be connected to the distribution or transmission grid, the HEPURA would issue a call for tender, to which investors could apply, and after a relatively lengthy evaluation phase, the HEPURA would announce the winner. The network operators then concluded a grid connection contract with the winning bidders, the content of which was in line with the technical documentation of the bid, the revised connection plan and the operational code of the network operator. After that, the winning bidder constructed the planned wind farm.

> Although the laws allowed for it, only one publicly- supported tender round took place, way back in 2006. After that, despite the recurring obstacles to the realisation of projects (the most common cases were the previously issued grid connection permit being suddenly deemed insufficient by the network operator), the installation of wind power plants increased steadily until 2010. However, on 15 July 2010, as a first sign of a change for the worse, the then ongoing tender was withdrawn, and a new tender has not been launched ever since.

De facto ban on new wind farms

In 2016, there was another negative turn of events. On the one hand, various legislative amendments have essentially prohibited the installation of wind farms in Hungary and imposed technical conditions that wind turbines built in accordance with the knowledge currently available can hardly meet. On the other hand, changes to the laws gave the government, instead of the HEPURA, the power to determine the number of official permits that can be issued for the construction and commissioning of wind farms and the capacity associated therewith.

Pursuant to the provisions introduced by Government Decree 277/2016 (IX. 15.) of Hungary, **wind power plants, with the exception of small household-scale power plants, may not be located on or within 12,000 meters of residential areas.** Considering the fact that Hungary, especially the Little Hungarian Plain (in Hungarian: *"Kisalföld"*) region where the natural circumstances would particularly justify the installation of wind farms, is densely populated, **this essentially means that there is no place in Hungary today that meets this requirement.**

In addition to the foregoing, potential wind power plants must also meet the following requirements:

- the height of the wind turbine must not exceed 100 meters;
- only electricity generating units of up to 2 MW can be installed in the wind turbine tower;
- the length of the wind turbine blade with a rated power of more than 50 kW must not be closer than 50 meters to the ground during operation;
- the peripheral (blade tip) speed of the wind turbine must not exceed 60 m/s; and
- noise pollution must be limited to 60 dB inside the safety zone and 40 dB outside the safety zone of the wind turbine.

Most of the technologies on the market do not meet these requirements or, if they do, *they significantly reduce the return on investment.*

According to an amendment to Act No. LXXXVI of 2007 of Hungary on electricity dated 22 December 2016, the government may, taking into account the balance of the expected power output of the electricity system, determine by decree the number of official permits for the construction and commissioning of wind power plants, as well as the output of wind power plants that may be licensed in a given calendar year, with the exception of small household-scale power plants and small power plants not connected to the electricity grid. The latest legislative act on this topic, i.e., Government Decree No. 454/2016 (XII. 19.) of Hungary set the capacity of wind farms that can be approved at 0 MW.

> The tangible result of the short wind energy boom is the current wind energy capacity of about 328.9 MW, which represents ca. 3.8% of the domestic electricity generation capacity in Hungary. No doubt that expansion is necessary: based on market surveys, most of the industry players would be willing to install wind turbines even without state subsidies, and the country has untapped natural potential for wind energy.

Potential positive changes in line with EU trends

The European Commission's Recovery and Resilience Instrument is designed to help mitigate the social and economic impact of the coronavirus pandemic and to make European economies more sustainable, resilient and ready for the green and digital transition. As part of this, each country has to prepare and submit a recovery and resilience plan to the Commission, outlining the reforms and investments they intend to make by the end of 2026. Hungary's *Recovery and Resilience Plan* outlines a total of HUF 2,300 billion (ca. EUR 6 billion) for strategic development projects with the energy sector being the centre, which may well attract the attention of wind energy supporters, as **facilitating onshore wind investments is one of the reforms listed in the plan**.

Reasons for optimism can be found in the explanatory memorandum to the plan, titled "Facilitating onshore wind investment, No. C6.R2", which states that "the reform aims to develop additional onshore wind generation capacity in Hungary by removing the current general restrictions on wind farm deployment and by creating designated target areas where wind investment is encouraged". **In essence, this means that the current regulatory framework would be amended in order to remove unnecessary limitations**, in particular with regard to the distance and height of wind turbines and their power generating capacity. It is also expected that through the creation of designated target areas in parts of the country where wind energy density and wind speeds are favourable, investors would be able to obtain a specific simplified authorisation procedure for the installation of wind farms, with shorter procedural deadlines. Apart from the foregoing, no information is available at this stage, but the government is expected to present concrete draft legislation soon, given that Hungary has been granted a grace period until 31 March 2023 to implement the changes.

Expected market impact

Most of the industry players agree unanimously that change is long overdue. Hungary is essentially an agricultural country, so it is crucial to optimise the amount of land used for renewable energy production. Wind turbines occupy on average less than half a hectare of land, compared to solar plants spreading over 3-4 hectares. Moreover, the Hungarian electricity system faces serious challenges due to the recent boom of weather-dependent power plants, because it has not been followed by proper grid developments.

> This lopsided approach has inevitably led to imbalances and balancing problems. However, in a well-designed system, wind and solar energy can effectively balance each other's ups and downs. This will also be a key issue for hydrogen developments in the future because only green hydrogen (i.e., hydrogen produced from renewable energy sources) will be economically viable in the long run.

In view of the above, the need to implement the announced changes and to create the right regulatory environment is now greater than ever. *A well-designed energy strategy, regulatory environment and support system, and the development of mutually supportive solar, wind and geothermal systems are essential to maintaining security of supply and reducing Hungary's energy imports.* It will therefore be worth monitoring what concrete measures are finally adopted to promote wind energy.

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