

**2nd Central and South East Europe Energy Policy Forum:
Electricity Market Integration 2.0 in Central and South East Europe**

30th May 2017

Keynote speech

Ladies and Gentlemen, Dear Colleagues,

It is a great pleasure and honour to me to be in the position to welcome you all to the 2nd Central and South East Europe Energy Policy Forum. **Today's event provides a great opportunity to bring together relevant stakeholders and experts of the energy sector in order to discuss the electricity market integration that is currently quite high on the European policy agenda and very important topic for our region.**

The trends of the growing share of renewables have major implications from the point of view of the electricity system and infrastructure. For the appropriate integration of variable renewable energy into the energy system, **significant upgrades are needed in technical, regulatory and market design.**

We think that **the European Commission's new Clean Energy Package could be an important step towards the completion of the internal energy market.** However, it also **presents a huge challenge**, because of the comprehensiveness of the area and its complexity. We are convinced that **it is not the swift adoption of the proposals that is essential, but the elaboration of coherent and enforceable rules** which address the key challenges of the electricity market without creating new ones.

We are convinced that the principles of subsidiarity and proportionality, as well as the Member States' competences in determining their own energy mix and in guaranteeing security of supply should be kept in mind at all times. Only on this base should be handle the new challenges and structural changes more effectively in a European level.

Hungary's key principle is to enhance and improve the competitiveness of the internal energy market. While we support the concept of the Energy Union, **we also find it fundamental in this area that all EU measures should properly take into account the different economic and social characteristics of Member States.** That is why we would like to underline **the**

necessity of further negotiations concerning the new proposals in order **to have a well-thought-out legislation** at the end of the process.

Guaranteeing the secure energy supply of Hungary at all times while taking into account the country's economic competitiveness, environmental sustainability and burden-bearing capacity of the consumers is the cornerstone of the Hungarian energy policy. The security of energy supply is a top priority for us, and in this respect, the diversification of energy sources and routes remains highly important. Hungary has done a great deal of work to develop the necessary energy infrastructure in recent years which also contributes to completing the internal energy market. We also think that **security of electricity supply should not be prejudiced by the efforts of integrating a growing share of variable renewables into the electricity system.**

Please allow me to draw your attention on another prioritized issue beside the security of supply, which is the question of the regulated prices. It needs to be stressed that maintaining the regulated end-user electricity prices is of the utmost importance for Hungary, in order to provide affordable energy for citizens which it would not have guaranteed under market pricing.

We consider secure and affordable energy as a key element of providing proper living conditions and guarantee the continued operation of small local enterprises. In our view, **end-user price regulation is a necessary and important tool to provide consumers sustainable energy service at affordable prices,** especially in Member States where an average household spends one-third of its income on energy and heating. Based on our experiences so far, the liberalization in the energy sector, especially in case of the household price, and **the phase-out of regulated prices do not automatically lead to a decrease of prices.** In several countries these steps rather unfortunately resulted in the restraining of the competition and in a significant increase of prices. In view of the Hungarian household income levels and energy expenditure, **the reduction of utility costs and the preservation of the results achieved is not only an energy policy question, but also a significant social and economic policy question.** In Hungary, the **household expenditure on energy is twice the EU average.** This number **has decreased in the last few years, thanks to the price regulation policy of the Government.** The reduction of utility costs had a **favourable effect on arrears accumulated earlier.** In recent years, **both the amount of debts and the number of consumers with payment delays decreased.** Between 2012 and 2016 the sum of unpaid bills for gas,

electricity and district heating fell by 52%. In the same period, the number of households with payment delays fell by 40%, while the number of disconnected consumers decreased by 31%.

However, in order to be able to safely meet consumers' needs, adequate production capacities are necessary. Each country has different natural assets, diverse power generation portfolio and different available power generation capacities.

The issue of **resource adequacy assessments** as well as the application of **capacity mechanisms** is also at the forefront of current discussions. **The introduction of capacity mechanisms can be justified in order to ensure security of supply and the safe operation of the system.** Guaranteeing security of supply is still the responsibility of the Member States, and the necessary tools for this should be provided for them. **It is important to take into account national specificities** when laying the groundwork for decisions on capacity mechanisms. According to the proposed Regulation, **European resource adequacy assessments** will play a key role, and where the European resource adequacy assessment has not identified a resource adequacy concern, Member States shall not apply capacity mechanisms. We have **concerns about the idea to use exclusively the European-level resource adequacy assessment methodology to assess the need for capacity mechanisms.** **We think that in line with present guidelines, besides the Union level resource adequacy assessment, national and regional resource adequacy assessments should be carried out, which take into account national and regional specificities.**

Increasing the share of renewable energy is considered by Hungary as a tool to achieve the goals of the National Energy Strategy as well as the EU targets. The Renewable Energy Directive has set a binding target of 13% of renewable energy in gross final energy consumption for Hungary, but we have raised this target to 14.65%. In 2015 this ratio was 14.5%; it means we have almost achieved our goal. The share of renewable energy in electricity generation was 11.3% in 2015, with biofuels representing the biggest part (7.6%).

As the role of renewable energy becomes more and more important globally, its cross-border effects are also becoming more pronounced. The effective management of this can be best achieved through strengthened regional cooperation. This leads us to another important aspect of today's discussion, which is **regional market integration**. Electricity market integration results significant benefits by contributing to a convergence of prices and a more efficient use of interconnectors between Member States. **Hungary already has positive experiences in this regard and we are working on further developing regional market integration.**

Concerning the **electricity infrastructure**, the Hungarian electricity transmission grid is a relatively well-developed network, connecting main generation and consumption centres and providing external connections. The transmission network is interconnected via cross-border lines, with transmission networks of neighbouring countries thus enabling a synchronous operation with the interconnected power systems of the rest of continental Europe. We have already surpassed the 10 per cent electricity interconnection target for 2020 set by the European Commission. **Further cross-border infrastructure projects** with Slovakia and Slovenia aim at improving the system and supply security, to increase cross-border capacities in order to mitigate structural congestions.

In connection with **market coupling**, Hungary has successfully coupled its day-ahead electricity market with markets in Slovak Republic and the Czech Republic in 2012. This trilateral coupling was extended to Romania in November 2014 establishing a new formation, the so-called 4MMC and has led to a gradual convergence of market prices in the region and more effective use of interconnector capacities. We are seeking to further increase electricity exchanges with neighbouring countries and other European partners. There is an on-going market integration project in which Hungary also involved, the so called Core Capacity Calculation Region (CCR). The project started in March 2016 and aiming to develop of a common day-ahead flow-based capacity calculation methodology in the Core CCR. Participants of the Core region design and implement common capacity calculation methodologies for intraday and long-term time frames. These methods will allow for an optimization of the transmission capacity of the grid by maintaining high level of security of supply.

I would like to point out another important part of the proposal: the creation of **Regional Operational Centres**. **Firstly it is necessary to state, that delegating the functions of national TSOs to a regional level and giving decision-making competences to these operational centres should be carefully considered** as these could raise concerns about national sovereignty as well as system security. Secondly it should also be mentioned in this context that **we already have good experiences concerning voluntary cooperation between TSOs in the area of system security, such as TSC or CORESO and we think that these forms of cooperation can successfully cope with their functions**, such as harmonized system security analysis, joint network modelling, coordinated capacity calculation, bypass planning coordination, and short and mid-term compliance assessment). **Accordingly the**

enhanced cooperation among the national transmission system operators is welcomed in general, because it will contribute to the more coordinated and secure operation of the system. However, we do not see necessary the establishment of an entirely new cooperation framework for the system operators. In our opinion the progressing of this process determined by the involved parties requires no direct external intervention, but only a supportive and encouraging, unregulated environment.

Ladies and Gentleman, Dear Colleagues,

As a conclusion, I would like to underline that **Hungary supports the concept of building an Energy Union that can provide consumers with secure, sustainable and affordable energy. In our view, the new Clean Energy Package has to lead a good direction on the path of improving energy security, developing internal energy market and decarbonising Europe's economy. I would like to emphasise that a careful approach should be applied when elaborating the new legislation in this areas, with a full respect of national competences and taking into account the different characteristics of the individual Member States.** We need a more effective cooperation at EU level which can find good solutions to the challenges that we face today, without generating new ones.

At the end of my speech I would like to thank the Regional Centre for Energy Policy Research for putting together an excellent agenda for the discussions. **I wish you all a successful forum! Thank you for your attention!**