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UNIVERSAL SERVICE : STRUCTURE AND PRICE REGULATION IN THE HUNGARIAN ELECTRICITY INDUSTRY

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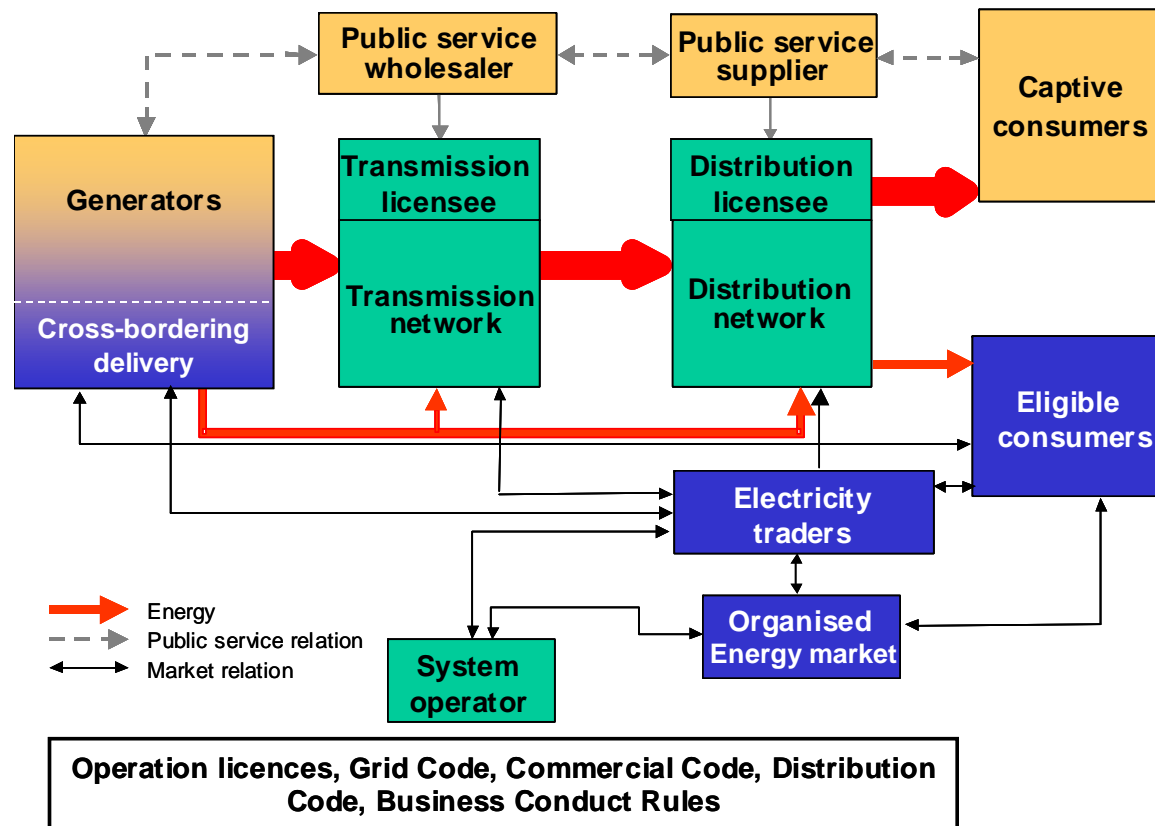
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REGULATED END CUSTOMER PRICES IN ALTERNATIVE MARKET MODELS

- **“Full market”**: 100% market opening overnight with the abolishment of regulated end-customer prices (Austria).
- **“Dual market”**: Regulated and open market segments coexist until 100% opening, but the option for eligible customers to purchase at regulated final prices is abolished (Czech Republic, Slovakia, Slovenia).
- **“Hybrid market”**: **the SEE market model**. Regulated and open market segments coexist temporarily. The option for eligible customers to purchase at regulated final prices - at some switching cost - is retained until 100% opening (or even further). (Croatia, Hungary until 2008, Romania).

THE HUNGARIAN ELECTRICITY MARKET MODEL, 2003-2008

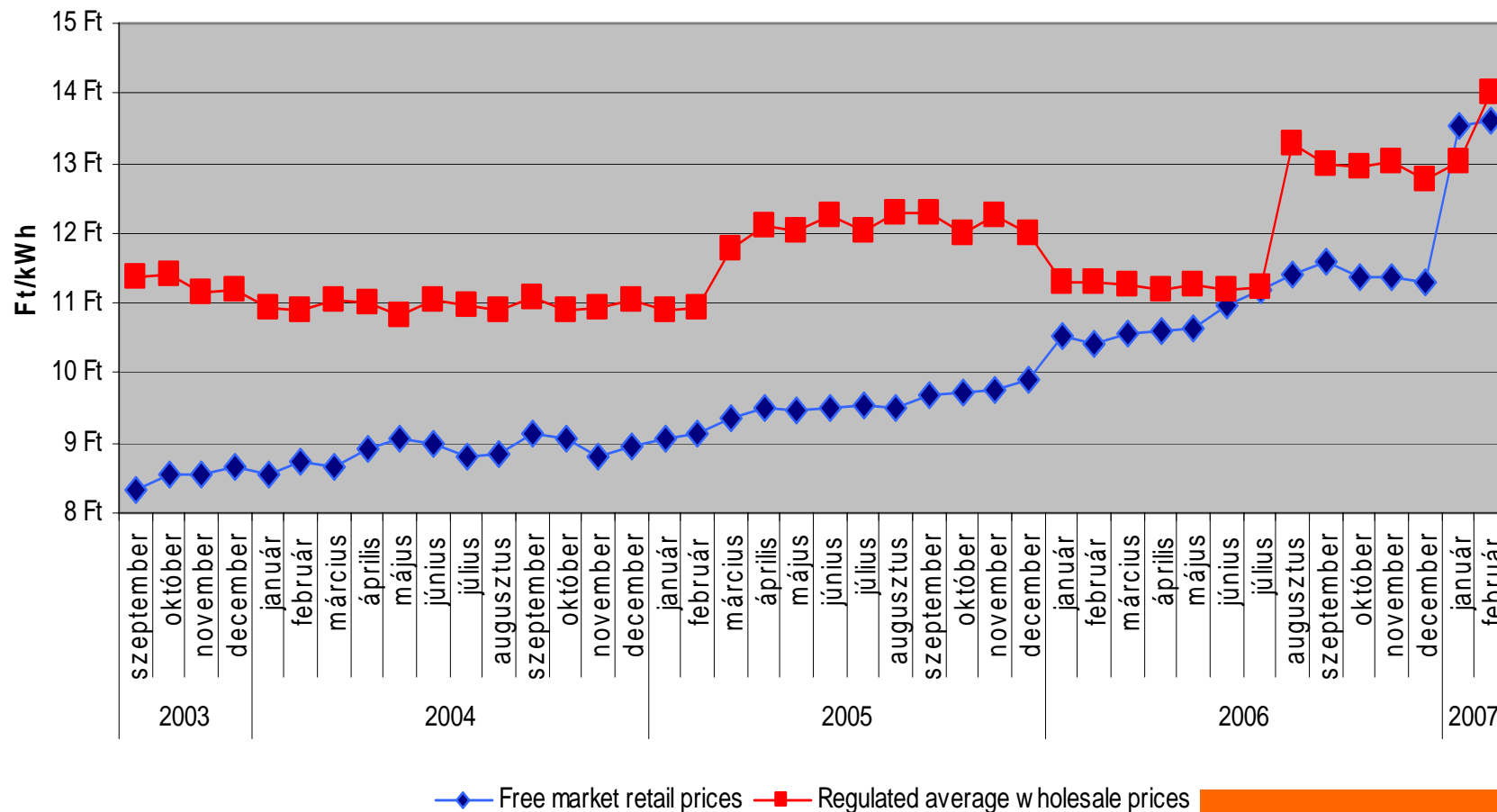
Operational model of electricity market from 1st January 2003



- Until 2004: regulated generation prices
- Regulated public service wholesale prices set on the basis of estimated costs of generation portfolio – annual adjustment
- Regulated public service supply prices – annual adjustment
 - Dependent on regulated wholesale prices, system charges and political influence
- Hybrid model: all customers are eligible to purchase at regulated prices!
- After market opening
 - Cheaper electricity prices for large industrial customers
 - Lively cross-border trading
 - New traders entered the market

PRICE REGULATION (2)

Free market retail prices and regulated average wholesale prices (September 2003 - February 2007)



- Full eligibility for all customers to choose supplier (including households) - demand side libero
- Removal of end-customer regulated prices (price libero), but...
- Some customers are eligible to receive universal service (UNS) at regulated rates:
 - Eligibility for UNS: households and low voltage customers with less than 3*25A connection
 - Customers are eligible to leave US within 30 days after notice
 - Customers are also allowed to return into UNS if they wish
 - UNS licence is granted by the Hungarian Energy Office; can be applied for the whole territory of Hungary (potential competition)
 - After a few years the UNS license is to be auctioned off

- Proposed UNS price regulation:
 - Wholesale price + **system charges** + network losses + taxes + **regulated UNS margin** = regulated UNS tariff
- UNS tariffs are proposed by the suppliers and controlled by the regulator *ex post*
- UNS tariff can change quarterly
- Incentives?
- Chance for a uniform country-wise UNS tariff?

- What happened?
- Dramatic wholesale price increase (cc. 50%)
 - Oil price, increased regional prices, concentrated wholesale market
- Political intervention:
 - UNS price increase 9,8%
 - Institutions: 18%
 - Other industry and services: 40-60%!

- UNS: shelter of regulated prices for households
- Political influence is still strong
- Sustainability?? (cross-subsidisation)
- Longer run solution: real competition