The new Hungarian renewable energy support scheme – what to expect?

In its National Renewable Energy Action Plan, Hungary undertook to fulfil EU Commission requirements by ensuring it has a 14.65% ratio of renewables within its gross final energy consumption by 2020, over the obligatory 13% prescribed for Hungary as national overall target in the RED (Renewable Energy Directive).

To provide a general picture of the latest developments, according to the latest available statistical analysis of the Hungarian Energy and Public Utility Regulatory Authority (“HEPURA”), the ratio of the renewables out of the gross final energy consumption was 9.6% in 2014. Finally, on 13 June, 2016, after several long years of discussions and delays, the Hungarian Parliament accepted the new renewable support scheme („METÁR”, „Megújuló Támogatási Rendszer” – “Renewable Support Scheme”) regarding electric energy, which may help to achieve the above ambitious aims. The new support scheme will only be effective if the European Commission accepts its text, which is expected by 1 January, 2017.

Notwithstanding the above implementation deadline, the currently applicable KÁT (Kötelező Átvételi rendszer – Obligatory Off-take) system did not urge the legislator to change the rules and provisions of the energy laws. The KÁT system worked well and ensured a balance in the electricity system, but times are changing, and the frequent overproduction of renewable energy and the rapid technological progress required the introduction of a more flexible legal framework. The introduction of the new legislation also means that the KÁT system is gradually changed to METÁR, with a transitional period, until the termination of the last effective agreement which includes KÁT, but not later than year 2045.

The key feature of the new support scheme, is that the producers of renewable energy receive the aid as a paid premium over the market reference price (e.g. the average price of the regulated market). The customers of this kind of energy will be those consumers of electricity who are not entitled to universal services (mainly business enterprises). The new system ensures that the producers will not be interested in the sale of the electricity at negative electricity market prices.

The producers of electric energy are classified into three different categories depending on the performance and the type of generation power plants.

Producers with a performance under 0.5 MW and with demonstration projects are exempt from the METÁR premium system, they remain under the scope of KÁT. The newly established terminology “demonstration projects” stands for such project using innovative technology which is not fully fledged where the investment and operational experiences and references helping to calculate the aid are lacking.

The most fundamental innovation compared to KÁT is that bigger energy producers, with over 1 MW capacity may only be entitled to state aid, the so-called premium support, if they participate and win a tender, announced and coordinated by HEPURA. The yearly quantities to be supported will be announced regularly and it is likely that the quantities will be distributed by technologies (eg wind, photovoltaic). This new system is in compliance with the internal market, but it is worth noting that if the targets are to be achieved by 2020, there is not much time to announce and close tender procedures. Furthermore, it would be more than desirable if the upcoming enforcement laws would ensure that the winners of the tenders actually build and operate the power plants.
Producers with between 0.5 – 1 MW performance are not obliged to participate in tender procedures, they are entitled to receive the so-called administrative premium over the market price.

Apart from the above green premium system, METÁR also introduces the so-called “brown premium" to promote the generation of electricity from biomass or biogas sources. In this special procedure carried out by HEPURA the producer should request the brown premium after the procedure, and if HEPURA accepts the request, eligibility is granted for 5 years.

To summarise the above information and market conditions, it should be noted that an investor would calculate 10-15 years of return in advance in the sector and the KÁT system was always criticised for not ensuring planning. The METÁR system ensures that renewable energy will be placed in the market, so an investment will result in a better return. In light of the above, it is obvious that the declared goals of the new support scheme are cost-effectiveness, and the development of new generation capacities apart from ensuring competitiveness.

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