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**Changes in the Regulation of
the Hungarian Electrical Energy Market 2007-2010**

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CHANGES IN THE REGULATION OF THE HUNGARIAN ELECTRICAL ENERGY MARKET 2007-2010²

The objective of the present study is to reveal changes in the Hungarian electricity market regulation in the past three years based on our earlier study „Price regulation in Hungary in the electricity market” and within the framework of the project titled (...). Statements and recommendations of our earlier study shall serve as a starting point; the present study examines whether there has been any shift in the energy market towards liberalisation and whether the dysfunctions earlier diagnosed have been eliminated.

Changes having occurred in the past three years can however be evaluated only in light of a brief historical review of the energy market regulation and examining the efficacy of the regulation in question because legal regulation is an important and determining but not an exclusive means of influencing the operation of a sector – the energy market in our case. To set up an adequate regulation system, it is indispensable for the legislative authority to have a well defined and discernible objective, as well as an appropriate and effective system of means to be applied. This however is not enough because the activity of institutions operating in the sector, as well as worldwide and local economic and political developments also have a significant impact on how the regulation is able to prevail. The operation of institutions and the implementation of the regulation can therefore result in an effect contrary to the aim of the legislative authority – this is exactly what happened upon the introduction of the hybrid model in Hungary for instance. Following the brief historical review of the regulation, the study shall give an analysis of the problems of how the regulation is able to prevail and it shall highlight critical points and system specific dysfunctions that must be considered by the legislative authority in the future in order to ensure a more effective energy market liberalisation. This shall be followed by an analysis of the changes of the past three years together with their positive and negative effects, based on conclusions of our earlier study. Finally, recommendations shall be formulated as to what further legislative tasks the energy sector must face.

1. A brief historical review of energy market regulation

1.1. The effects of legal harmonization

The first and most important element of a regulation is the definition of the legislative authority’s objective. In the case of the electrical energy sector the objective of the

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² Reviewed by Zoltán Fleck

legislative authority was defined based upon an external effect, the energy policy of the European Union, which is not an unprecedented way of definition. The Hungarian legislation fundamentally changed the electrical energy regulation only when it was compelled to do so by European Union guidelines and directives. The first step towards liberalisation was initiated by Directive 96/1992/EC, in accordance with which the Hungarian electrical energy market was partially opened on 1st January 2003. The relation of the national and the European Union legislation therefore has a determining influence on the electrical energy market. Taking the all-time political situation and objectives into consideration, the national legislative authority has been making efforts to comply with the European Union requirements by effecting the least possible change in the national regulation in order to just remain in line with the energy policy of the European Union – which is by all probability not a specific Hungarian phenomenon. Similarly to other countries, the regulation was modified in Hungary in accordance with the EU guidelines and directives; however, the realisation of the objectives and the efficient operation of the regulation were not examined. This may be the reason why a situation evolved whereby, although the path of energy market liberalisation can be clearly drawn up by reviewing the history of regulation, the market share of MVM is still around 80% in reality even after the full market opening. It can therefore be concluded that the external stimulating effect – that of the European Union – is an adequate but not sufficient condition for the success and efficacy of the legislation necessary for the liberalisation of the energy sector. It is also important that the national legislation be committed to energy market liberalisation, placing it above the all-time political and social interests, as well as above the interests of the energy lobby.

1.2. The history of energy regulation

The regulation of the Hungarian energy sector underwent fundamental model changes on four occasions³ in the past two decades. In each case the aim of the concepts of regulation was to ensure the operation of a more liberal energy market and at the same time to comply with the requirements of a constitutional state. The regulation of 1994 established the independent and autonomous Hungarian Energy Office as the regulatory authority of the energy market. It was the 2001 regulation that actually started the liberalisation of the energy market by setting the direction for a gradual and slow market opening, establishing the so-called hybrid model which simultaneously included a public utility market and a competitive market. The partial opening of the electrical energy market took place on 1st January 2003. In 2005 the regulation was again modified due to a European Union guideline. It is interesting to note that although the Hungarian legislation followed the more liberal European Union regulation all along, i.e. the national laws were subsequently adjusted to the European Union regulation aiming at the liberalisation of the energy market, the regulation of 2005 was still a step back within national legislation. It was due to this regulation that the earlier independent MAVIR (the Transmission System Operator) became a member of the

³ Act XLVIII of 1994, Act CX of 2001, Act LXXIX of 2005 and Act LXXXVI of 2007

MVM group, which entailed the further reinforcement of the monopolistic position of the vertically integrated MVM group, having an effect contrary to the process of liberalisation.⁴

The act of 2007 brought about the full liberalisation of the electrical energy market: the hybrid model was replaced by a clearly competitive market model. In the new model the notions of public utility wholesale trader and electricity supplier ceased to be applied. Consumers and traders can now purchase and generators can sell electrical energy among free market circumstances. Administrative price control ceased to exist in the market of electrical energy for non-household consumers.

The process of energy market liberalisation was thus completed by the law of 2007. Nevertheless, the electrical energy market regulation is in need of corrections in several aspects due to the below detailed reasons.

2. Means of regulation within the energy sector; problems with the efficient operation of law

The historical review of the Hungarian regulation shows that regulatory dysfunctions can be traced back to various reasons. We can differentiate between unexpected, indirect dysfunctional effects of the regulation on the one hand and regulatory dysfunctions emerging directly, as a result of legislative malfunction on the other hand.

2.1. Direct regulatory dysfunctions

The lack of adequate preparatory work preceding the regulation is considered as a direct regulatory dysfunction. The primary concern of the legislative authority was to comply with the requirements of legal harmonisation and it did not lay the necessary emphasis on revealing the actual situation and condition of the Hungarian energy sector. Had a preliminary impact assessment been conducted before the introduction of the hybrid model, the characteristics of the structure of the energy sector that led to the inefficiency of the hybrid model could have been revealed, even if not entirely but at least partly. For it was the monopolistic position of the vertically integrated MVM group

⁴ Kopint-Tárki Research Institute: A villamosenergia-piac liberalizálásának néhány összefüggése, Budapest, 2007
„According to the Directive 2003/54/EC of the European Parliament and Council of 26th July 2003, the Transmission System Operator (TSO) is responsible for the operation, maintenance, development and connection to neighbouring systems, of the transmission network of the control block. The European regulation demands total competitive neutrality for the transmission system operators, the preservation of their independence from market participants and their full institutional unbundling from other operations with licenses. The new EU regulation also necessitated the modification of the Hungarian electrical energy system as based on the earlier regulation, the activities and competence prescribed for the TSO were shared by the directive between two participants, the system operator licensee, i.e. the Hungarian Transmission System Operator Company (MAVIR) and the transmission network licensee, i. e. the Hungarian Power Companies (MVM). The two options for the Hungarian regulation were to designate either MAVIR or MVM as the company in charge of TSO. The Government Decree No. 1070/2005 (VII. 8.) on the establishment of the electrical energy transmission system operator in Hungary finally designated MAVIR as the responsible host to the TSO organisation, but at the same time it transferred MAVIR into the MVM holding. This latter step however is an issue of concern from the point of view of the competitive market because the total market independence of MAVIR as a subsidiary of MVM, which performs a wholesale activity and also possesses power plant capacities, is questionable to say the least.”

within the sector that led to a competition between the market sector and the public utility sector of the hybrid model, while no actual competition developed within the market sector. Due to the fact that the regulation rendered permeability between the public utility and the competitive market possible, it provided the clearly monopolistic MVM group with an advantageous position because in possession of its dominance the public utility market could often ensure a lower price than the competitive side. This situation was further aggravated by the freezing of public utility market prices in 2006, which advanced the process of returning to the public utility market. Similarly, it was by all probability also the lack of adequate preparatory work preceding the regulation due to which the hybrid model was continuously characterised by a lack of competitive market liquidity because at the start of the liberalisation process 70-80% of the generators' capacities were contracted in PPAs.⁵ The concepts of regulation should have taken the number and nature of PPAs into consideration as they determine the structure of the Hungarian energy market.

In light of the above we must conclude that before changing the regulation, the legislative authority needs to lay special emphasis on mapping the institutional structure of the electrical energy market and the sector. A regulation can only bring about the change intended by the legislative authority if it is based on a carefully conducted preliminary impact assessment; in lack of that, further modification of the regulation may again be ineffectual and the legislative authority shall not achieve its objective.

It is also an important feature of the modification of the regulation that it should retain the achievement already accomplished, i.e. the liberalisation of the energy market. The regulation therefore cannot deviate from the direction it has been following.

For the efficacy of the regulation, it is of primary importance that the operation of the energy sector be transparent.

In spite of the legal harmonisation the electrical energy sector has been characterised by a continuous lack of transparency in the past two decades. In spite of the free flow of information prevailing in the Hungarian national legal system, the contracts, resolutions and other documents of the state-owned companies of the energy sector have become and are gradually becoming accessible only very slowly and accompanied by reluctance. Contracts and data on the legal relations between members of the MVM group, i.e. between state-owned companies, were earlier not accessible under the excuse of business secret. Although the concepts of electrical energy regulation complied with the requirements of legal harmonisation as regards their content, they did not include regulations and sanctions ensuring the free flow of information of public interest among others, thus hindering the acceleration of the liberalisation process.

Due to the fact that before the introduction of the new regulation in 2007 the state had been able to directly influence the determination of electrical energy prices, the lack of

⁵ Kopint-Tárki Research Institute: A villamosenergia-piac liberalizálásának néhány összefüggése, Budapest, 2007

transparency in state decision making can also be considered a regulatory dysfunction. The different lobby groups had had a significant influence on the determination of administrative prices, while the Hungarian Energy Office as an autonomous organisation had not had the appropriate competence and thus influence to determine prices. The exclusive competence of the minister in determining administrative prices resulted in a situation where the decision maker became a hostage of the different lobby groups. The regulation must ensure a wider and more distinct legislative competence to the Hungarian Energy Office in the determination of price.

2.2. Indirect regulatory dysfunctions

Although reference was made to the inefficiency of the hybrid model among the direct dysfunctions, attention must also be paid to the impacts of the model's introduction besides the reasons for its inefficiency. The hybrid model preserved the market monopoly of the MVM group, preventing entry to the market of generators as opposed to the regulation's aim. Due to the fact that it was the public utility price that determined the movement of market price, there was no possibility for a real competitive market price to develop. The legislative authority was wrong to introduce the hybrid model because, although after a slow and gradual market opening the liberalisation of the energy sector had a justifiable direction, the hybrid model finally did not only fail to contribute to the strengthening of market processes but it also contributed to the development of a strange characteristic of the Hungarian energy market: a competition between the public utility and the competition market sector.⁶

The transfer of MAVIR to the MVM group and the simultaneous introduction of the TSO (Transmission System Operator) system also led to dysfunctions in the regulation, as through these steps the legislative authority further strengthened the already strong vertical structure of MVM. The aim of the regulation was to determine a new legal framework for system operation based on the Directive 2003/54/EC. Before the 2005 regulation MAVIR was a representative of the model of Independent System Operator (ISO), i.e. it was only an operator of the transmission system which was owned by a company belonging to MVM. In 2006 the system operator was reintegrated into the state-owned MVM, which also performs generating and trading activity, and thus Hungary shifted from the earlier ISO (Independent System Operator) model to the TSO (Transmission System Operator) model. However, in the new model of Transmission System Operator the system operator does not only operate the system but it is at the same time the owner of the transmission assets. A specific feature of the model introduced in Hungary was that it was applied within the organisation of MVM.⁷ The directive stipulated the unbundling of licensed system operation and transmission network activity from other areas of operation of MVM, from both accounting and legal

⁶ Kopint-Tárki Research Institute: A villamosenergia-piac liberalizálásának néhány összefüggése, Budapest, 2007

⁷ Vince, Peter: Átalakuló szabályozás a villamosenergia-szolgáltatásban, http://www.econ.core.hu/file/download/vesz/verseny_12_VinceP_villamosenergia.pdf

point of view. However, even the European Union itself stated in an analysis⁸ in 2007 that transmission system operators, when vertically integrated into a group like MVM, might fail to create conditions conducive to liquid competitive markets.

A further indirect regulatory dysfunction is the fact that although the 2007 regulation guaranteed the full liberalisation of the electrical energy market in two steps, it did not take the concentration of the supply side into consideration. In the view of Peter Kaderjak, former President of the Hungarian Energy Office, the supply side of the Hungarian electricity market was strongly concentrated at both wholesale and retail level, which ensured a dominant market position to players on the retail side, especially to MVM. The reason for the concentrated nature of the market was that through its contractual, ownership and regulatory functions, MVM was able to concentrate into its own portfolio a decisive part of the domestic generating and import capacities, and it also had a production control option over a determining part of domestic generation.⁹ Kaderjak argues that these factors led to a situation where, by the beginning of 2008, MVM controlled 80% of the wholesale market, thus reducing the generators' supply directly available on the free market to the minimum.

It is therefore not enough to appropriately determine the objectives when formulating the regulation, but the ownership and institutional structure of the sector must also be taken into consideration when selecting the appropriate means of regulation. Such means of regulation may include the determination of the scopes of authority of the Hungarian Energy Office, the establishment of a system of sanctions, as well as the assessment of the impact the vertically integrated MVM has on the market. For instance if the generators' supply available on the free market directly, without the involvement of MVM, is low, the regulation shall not achieve its aim because there is nothing to sell on the free market. For the regulation to be effective, i.e. for a liberalised electrical energy market to be achieved, all the above must be taken into consideration when selecting the means of regulation and when determining the points of emphasis among the means chosen.

3. An analysis of energy market changes in the past three years

3.1. The openness of the regulation – a critique of the hybrid model

One of the basic ideas of our earlier study, also shared by energy policy experts, was a critique of the hybrid model introduced in 2001. According to our critique, this model, which regulated the electrical energy market within the framework of a double model in the interest of a gradual process of liberalisation, thus compelling the public utility

⁸ European Committee: Communication from the Commission to the Council and the European Parliament on prospects for the internal gas and electricity market Brussels.

http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006_0841en01.pdf

⁹ Kaderjak, Peter: Enegiapolitika – a 2008. év fejleményei, Regional Centre for Energy Policy Research, 2009, <http://www.rekk.eu/images/stories/letoltheto/wp2009-5.pdf>

service market and the competitive market to operate simultaneously, kept the vertically integrated nature of the MVM group untouched and thus preserved a very low level of free market competition, instead of promoting the liberalisation of the sector.

As opposed to this, the concept of the 2007 regulation represented a change of model: It replaced the hybrid model by a clearly competitive market model. As a result of the new regulation, a considerable restructuring took place in the retail market; according to the 2008 annual report¹⁰ of the Hungarian Energy Office the change of the proportion of regulated consumption and the change of the proportion of free market consumption show a reverse tendency, the emphasis being shifted to free market consumption. Market opening in this segment can therefore be described as successful.

Table 1. The proportion of the regulated (public utility and universal supply) and the free market consumption within the total consumption (%)¹¹

	2003	2004	2005	2006	2007	2008
Free Market Consumption	10.3	20.0	32.8	36.7	21.9	64.4
Regulated Consumption	89.7	80.0	67.2	63.3	78.1	35.6

According to the Energy Office however, changes in the retail market had only a moderate influence on the operation of the wholesale market. Due to the PPAs concluded by MVM with the domestic power plants and its import contracts, the dominance of MVM on the wholesale market did not change. The majority (approximately 70%) of the electricity required to satisfy the domestic demand reached suppliers and the traders supplying the customers through the MVM group. The changes in regulation, however, introduced certain structural shifts among the different sales channels according to the statements of the Office. The share of sales to free market participants within the total sales of MVM tripled, while the share of those sales that fall under the authority of any kind of administrative price regulation decreased by the half – from 80% to 40%.

The above data indicate that the modification of the regulation, the change of model resulted in a more open market, but clear competition is still encumbered by the significant market dominance of the MVM group which is still existent due to several reasons. The aim and the direction of the change of regulation was therefore right and justified, but the effects clearly highlight the necessity of further regulatory correction and fine tuning in order to render the electricity market fully open.

3.2. The dominance of MVM within the sector

¹⁰ Annual report of the Hungarian Energy Office on its 2008 activity

The Annual report on the 2009 activity was not yet available at the conclusion of research.

¹¹ Ibid.

According to the Hungarian Energy Office the dominance of MVM was still existent in 2008 among universal suppliers applying administrative prices. However, the purchases by free market traders were not constrained by law contrary to those of public utility suppliers, therefore the market structure was much more heterogeneous in this segment and the dominance of MVM prevailed purely to a limited extent.

The change in regulation was thus unable to entirely break the dominance of MVM, for which there are several potential reasons. On the one hand, the vertically integrated character of the MVM group was not affected by the change of regulation to the appropriate extent, while on the other hand the 2007 law did not have an effect on the system of PPAs either. Although the political will to break the dominance of MVM was indeed formulated in 2008, it finally did not have any consequence apart from the fact that the Director General of MVM was removed by the Prime Minister.

The means applied by the 2007 regulation to reduce dominance was the introduction of the notion of significant market power. With a view to ensuring the effectiveness of competition, the Hungarian Energy Office conducts market analyses on a regular basis, examining whether there is any market participant the dominance of which may impede competition. Should the Office detect significant market power, it can intervene and take various measures according to the new law. Among others it can oblige the participant to take measures ensuring transparent operation and equal treatment, as well as to apply price control or the principle of cost-orientation of prices; it can also impose auctioning obligation. Furthermore, the Office has the power to prohibit authorised operator from applying excessively high or unduly prices, from showing undue preference to specific consumers or from unreasonably bundling services.¹²

Electrical energy regulations on significant market power occupy a special position among competition rules as they confer ex ante and not ex post competition authority powers on the Hungarian Energy Office. Consequently, the actual occurrence of the abuse of market dominance is not a precondition for official intervention; it is enough to demonstrate that the dominant position of the company gives an opportunity for that. The regulation therefore vested the Hungarian Energy Office with a rather wide scope of authority, thus ensuring it the opportunity for a faster, but at the same time, more fundamental intervention. Although such an express manifestation of state control does not usually belong to the means of market liberalisation, it must be noted that in the present case the rate of intervention cannot be considered excessive due to the specific characteristics of the Hungarian energy market because attempts to break the dominance of MVM had earlier been unsuccessful.

¹² Act LXXXVI of 2007, Sections 110 and 111

Acting within its legislative competence, the Office conducted analyses on the wholesale market and the market of ancillary services and issued its resolutions on 30th June 2008 (739/2008 and 727/2008). In the course of the procedure conducted on the wholesale market, the Office designated MVM Trade Zrt. As an undertaking with significant market power and imposed on it the obligation of auctioning and a price limit.

3.3. Government control

The regulation of 2007 significantly reduced the influence of government control on the one hand, but on the other hand it also increased that influence by widening the legislative competence of the Hungarian Energy Office and introducing proceedings upon significant market power, as well as sanctions applicable based on findings of such proceedings. Government control was retained in respect of domestic consumer prices: within the framework of universal services, domestic consumers could have access to electrical energy at an administratively regulated price. However, the administrative tariff of energy as a „product” ceased to apply to consumers who were not entitled to universal services.

The regulation therefore became more open in respect of tariffs, but at the same time more closed in respect of administrative control. The widening of the legislative competence of the Hungarian Energy Office is a positive development in spite of the fact that the degree of control within the sector did not fundamentally change, but it was shifted from strong government control to control by the competent authority.

3.4. Lack of transparency

The observations of our earlier study on the lack of transparency and on the unpredictability of the legal background are regrettably still valid. A predictable and stable regulatory environment is an important and basic precondition for the proper operation of the energy sector. This however is currently not existent in Hungary due to the strong concentration of politics and economy, which affects the entire energy policy. Due to the huge revenues inherent in the energy sector, the political leadership in power has no interest in rendering either the regulation or the operation more transparent.

The energy sector is invariably characterised by a strong information asymmetry on the level on both the competition sector and the consumers.

3.5. The pricing system

Problems raised by our earlier study have partly been addressed by the new energy act. Although the setting of administrative prices remained in the competence of the minister of the sector, the application of administrative prices became rather limited in scope. Consequently, the extent of state intervention in price setting decreased. As for administrative prices still retained, the competence of the Hungarian Energy Office was

extended – as urged by us earlier –, as a result of which the Office can now influence prices set in the field of universal services after conducting a significant market power analysis. Such action was taken in 2008 after proceedings conducted against MVM; the Office set a price ceiling for MVM sales to universal suppliers and for the average price of all other sales of the company.

The 2007 regulation introduced the notion of universal service, applicable to household consumers and small scale non-household consumers; in the case of such consumers administrative price setting was retained. Tariffs applied in the field of universal services must be reasonable, easily and clearly comparable and transparent according to the law. Any electrical energy trader who complies with the special conditions for such activity can be issued a licence by the Hungarian Energy Office.

The administrative tariff of energy as a „product” ceased to apply to consumers who were not entitled to universal services. In the new system, these – larger scale, non-household – consumers can have access to electrical energy as a product exclusively through electrical energy traders of the competitive market, at a price being the result of their negotiations with such traders. For those not entitled to universal services, it is only the field of system and network use where price setting remained an administrative task according to the new regulation. Consequently, preliminary administrative price setting is ruled out for electricity supplied to large, medium and small scale (household) consumers in respect of free market prices.

Universal service tariffs introduced on 1st January 2008 and price increase in the field of system use resulted in a total of 9.8% increase in price for household consumers as compared to public utility prices in 2007 according to data of the Hungarian Energy Office. As a result of price growth at the beginning of 2008 a demand arose that government units and institutions operating in the public interest, as well as the largest part of non-household consumers be also allowed to satisfy their electrical energy needs at a price more favourable than the market price. The Parliament therefore extended the circle of non-household consumers entitled to universal service to central government units and institutions operating in the public interest, budgetary organs of municipalities, as well as legal entities of the church and their institutions. In accordance with the decision of the price regulator, the average rate of price increase for consumers supplied with electricity within the framework of universal service remained below 3% (2.9%) in January 2009, including the fee for system use. As a result, the price payable for energy as a product dropped by 1%.

Energy stock exchange invariably does not exist in Hungary, therefore trade in electrical energy is primarily done within the framework of bilateral agreements. The setting up of an energy stock exchange is however hindered by several factors, such as the system of obligatory takeover, the prices of which in respect of renewable and CHP generation are also administratively restricted and may therefore have a market distorting effect.

3.6. The system of PPAs¹³

In the second half of 2008 there were several market and regulatory events taking place that had a significant influence on the future operation of the wholesale market.

The Decision 2008/C 223 of the European Commission, which closed the investigation initiated against Hungary in the subject of state aids was issued on 4 June 2008. The Decision concluded – in accordance with Article 87 (1) of the EC Treaty – that power plants received illegal state aids through the PPAs, which is incompatible with the common market, and it requested the Hungarian authorities to end these state aids.

In order to execute the Commission's Decision, the Parliament passed Act LXX of 2008 on certain issues in association with electricity on 10th November 2008, which provide for the ending of PPAs and oblige the affected power plants to pay back the illegal subsidies decreased by the sum of investments not returned or not expected to return under free market conditions. On the effect of the actions of public administration following the Decision of the Commission, MVM Trade Zrt. started renegotiating the PPAs regarded as the source of state aids.

After the termination of PPAs several power plants turned to international courts with the complaint that the returns from their earlier investments are not ensured due to the termination of agreements. Hungary worked out a compensation programme, also approved by the European Union, to compensate for stranded costs of earlier investments (implemented by power plants in the framework of PPAs). Earlier Union examinations also concluded that the concerned power plants had received illegal state aids through the PPAs, therefore state claims also arose against power plants.

According to the programme approved, the debts of several tens of billions of Forints owed by the state and the power plants shall be considered when the two parties settle claims against each other. Lawsuits launched by the Dunamenti, the Budapesti and the AES-Tisza Power Plants against the Hungarian State because of the termination of PPAs are still ongoing.

Due to the termination of PPAs it is assumed that the market dominance of MVM shall invariably be existent; at the same time, the degree of market concentration shall decrease as a result of the reducing purchase opportunities.

4. Regulatory recommendations

4.1. Preliminary impact assessment before regulatory modification

¹³ Kaderjak, Peter – Paizs, Laszlo: Nagykereskedelmi villamosenergia-ár prognózis 2009, Regional Centre for Energy Policy Research, 2008

We deem it important that before the regulatory modifications recommended by us are effected, a preliminary impact assessment be conducted on the operation of the sector, with special regard to the market dominance of MVM. This would help prevent the further deepening of chaos characterising the regulation of the sector and would ensure that the regulatory modification causes the slightest possible disturbance in the operation of the market. In our view deregulation is also of great necessity for the energy sector to operate in a stable and predictable regulatory environment.

4.2. Commitment to market liberalisation

To ensure the efficacy of the regulation, the political leadership must be committed to the liberalisation of the energy market in spite of the prospective political gains, as in lack of this, measures taken will only serve the purpose of keeping up appearances.

4.3. Increasing transparency

The increase of transparency within the sector is inescapable both in the field of decision making processes and in respect of the operation of the state-owned MVM group. To this end, either sectoral regulations or regulations related to the freedom of information must be modified.

4.4. The effective use of the means of regulation

It is highly recommended that within the framework of regulatory modification the appropriate means of regulation be selected in light of the sectoral picture drawn up based on the findings of the preliminary impact assessment and in accordance with the aim of liberalisation. Such means of regulation include the modification of the legislative competence of the Hungarian Energy Office, the selection of the system of sanctions available, as well as the ensuring of a wider range of professional participation in setting administrative prices among others. The task of the legislative authority is to select from the means of regulation those that best suit the objectives and the given situation.

4.5. The division of the vertically integrated MVM group and the unbundling of MAVIR

According to our recommendation MAVIR should return from the present TSO system to the ISO system and it should be unbundled from the MVM group. Through these steps the market dominance resulting from the vertically integrated system of MVM could be reduced.

4.6. Setting up an energy stock exchange

We recommend that an energy stock exchange be set up within the shortest possible period of time.