

HUNGARY

MINISTRY OF NATIONAL DEVELOPMENT

Hungarian Energy Office

Energy Centre Public Benefit Company

REPORT

on the implementation of Articles 6(3) and 10(2) of Directive 2004/8/EC of the European Parliament and of the Council on the promotion of cogeneration based on a useful heat demand in the internal energy market and amending Directive 92/42/EEC

1. Transposition/implementation of the legal text of Directive 2004/8/EC

Pursuant to Directive 2004/8/EC on the promotion of cogeneration based on a useful heat demand in the internal energy market, Hungary has set up a guarantee of origin system for electricity originating from high-efficiency combined heat and electricity production ('CHP') based on a useful heat demand. The introduction of guarantees of origin in Hungary is laid down in Section 12(1) of Electricity Act LXXXVI of 2007. Government Decree 389/2007 of 23 December 2007 lays down the conditions for issuing guarantees of origin.

Commission Decision 2008/952/EC of 19 November 2008 establishing detailed guidelines for the implementation and application of Annex II to Directive 2004/8/EC of the European Parliament and of the Council was introduced by the amendment to Decree 110/2007 of the Minister for Economic Affairs and Transport of 23 December 2007 on the calculation method for determining the amount of high-efficiency cogenerated electricity and useful heat. The amended Decree entered into force on 5 June 2011.

Hungary has fully transposed the Directive into national legislation.

2. National potential to increase the share of high-efficiency cogeneration

In 2000 high-efficiency cogenerated electricity accounted for 9% of total electricity generation. In 2004 the rate stood at 16%, in 2005 at 19% and in 2006 at 21%. After that, it hovered around the 20% mark. In 2009 the rate fell slightly, to 18%.

In 2000 high-efficiency cogenerated heat accounted for 29% of total heat production. In 2004 the rate stood at 44%, in 2005 at 55%, rising steadily to 66% in 2008. In 2009 it was down to 56%.

The sharp growth witnessed since 2000 was the result of the introduction of a support system. The reasons for the slowdown and eventual stalling of this growth may be the possible withdrawal of the support system in the future and the limited nature of the heat market. If we consider total cogenerated heat production, both high efficiency and non-high efficiency, we can see that more than 80% of total heat demand is met from cogeneration. The economic crisis that began in 2008 has also had a negative impact on both investment and production.

3. Barriers to high-efficiency cogeneration

The Hungarian Energy Office issues operating licences for the production of electricity and heat energy. Electricity producers must apply for a construction licence only where nominal capacity exceeds 50 MW.

District heating producers must apply for a construction permit if thermal capacity is 5 MW or more. The Hungarian Energy Office has harmonised procedures with its partner offices to ensure they are completed quickly and smoothly.

The procedure for small cogeneration plants (i.e. power plants with a nominal electrical capacity greater than 0.5 MW and lower than 50 MW) is much simpler, with the Hungarian Energy Office issuing licences for the construction of small power plants and electricity generation in a single procedure (simplified licensing procedure), in combined form, provided that these plants comply with the minimum energy efficiency requirements laid down in separate legislation.

The Government has also decided in favour of further simplification. It introduced major simplifications to small cogeneration plants in 2011 by having the Hungarian Energy Office issue a simplified, single licence for small power plants and an operating licence for district heat producers in a single procedure and a single licence.

The single licence for small power plants referred to above is not required for power plants with a capacity of less than 50 KVA (known as ‘micro power plants’), which can therefore be built really simply and quickly.

The fact that the Office refuses to issue licences only in the cases provided for in the legislation guarantees the non-discriminatory and objective operation of the licensing procedure.

4. Guarantees of origin and support schemes

The statutory rules on the mandatory off-take system are contained in **Electricity Act LXXXVI of 2007** (‘the Electricity Act’). In accordance with Section 8(1) of Government Decree 389/2007 of 23 December 2007, producers selling electricity had to certify after the reference year by means of the guarantee of origin that the amount of electricity produced and sold by them during the reference year was in line with the requirements of the Decree and, in the case of cogeneration, Decree 110/2007 of the Minister for Economic Affairs and Transport of 23 December 2007. The amount of electricity sold in the mandatory off-take system was not allowed to exceed the amount of electricity certified for the year in question by the guarantee of origin.

The authority entitled by law to issue guarantees of origin (the Hungarian Energy Office) is independent of market operators.

The legislation did not give preference to the production of more heat than meets the economically justifiable demand for useful heat, since if more heat is produced than meets the useful demand, a guarantee of origin cannot be issued for the electricity generated, or it does not fulfil the monthly or yearly average efficiency laid down in the Decree, and therefore no longer qualifies for mandatory off-take.

These provisions of the Electricity Act are governed by **Act XXIX of 2011 amending energy-related Acts, which provides that producers of CHP using fossil fuels are not**

authorised to sell in the mandatory off-take system in accordance with Section 171(5a), (5f) and (5h) of the Electricity Act.

Budapest, November 2011.

Annexes:

1. Second Progress Report Template 2011 (4)
2. Second Progress Report Spreadsheet real PES CHP 2000_2009
3. Comments_2nd report_CHP