



Hungary calls for closer integration of regional electricity markets

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BUDAPEST. DECEMBER 4. INTERFAX CENTRAL EUROPE – Hungarian policymakers believe that electricity market opening can only work effectively if electricity markets are more closely integrated on a regional or EU-wide basis, Balazs Felsmann, state secretary at Hungary's Economy Ministry, said at a Tuesday conference.

"As long as local markets are dominated by incumbent companies and regulators, it is an illusion to think that small, open economies like Hungary can benefit from domestic market liberalization," Felsmann said at a Budapest power industry conference organized by the *Institute for International Research* (IIR). "Real competitive advantages can only be gained from liberalization when national boundaries come down."

Hungary is scheduled to fully liberalize its electricity market at the beginning of next year, following partial liberalization involving non-residential consumers that started in 2003.

While conceived in theory to facilitate lower prices, power market liberalization in Hungary has been heavily criticized by many participants, who argued that long-term contracts between power plants and incumbent wholesaler MVM, and especially a shortage of available import capacities due to similar long-term contracts, are driving prices up, especially for industrial electricity consumers.

In one recent example, a government decree – which press reports said was issued despite the objection of the liberal-led Economy Ministry – upheld two long-term Slovakian power import contracts, which power traders earlier hoped would be opened up for public auctions, boosting supply on the liberalized market. Instead, these capacities will serve Hungarian public institutions, ensuring a less steep price increase for them in 2008 than the 30–40% likely faced by industrial users.

Felsmann said that bottlenecks impeding competition on nominally liberalized electricity markets can only be eased through increased integration of regional markets.

"No alternative exists to tearing down individual markets and regionalizing them," Felsmann said. "Maybe the Germans and the French can go it alone, but not smaller countries."

However, Felsmann also acknowledged practical obstacles to regional integration, including likely resistance from national incumbent companies, as well as supply security concerns, arising when national electricity market authorities are asked to relinquish some of their regulatory power.

On the other hand, Felsmann also questioned industry logic that there is a direct correlation between low electricity prices and the competitiveness of Hungary's economy.

"Competitiveness is not equal to low [electricity] prices, because Hungary doesn't necessarily have to gear its economy toward energy-intensive industries," Felsmann said. "In fact, in some sectors – most obviously in the household sector – low energy prices can be counterproductive, to the extent that they discourage investments in energy efficiency."

Felsmann also urged Hungarian power plant operators to improve the efficiency of their power plants.