



## Hungary, the Eminent Member State

### - facts behind a “success story”

Within the framework of the new Electricity Act accepted in 2001 and valid from 2003, a feed-in tariff system has been introduced for supporting the electricity production with renewable energy sources. This has created the basic conditions for a higher RES penetration right before the country's accession to the European Union in 2004. Energia Klub was the main initiator and co-ordinator of this process.

The most important lack of this legislation which has been modified several times, however, is the fact that the feed-in tariffs are not differentiated according to different RE-technologies. The fix price proved favourable for wind energy, solid biomass combustion and the widely questioned co-firing. Consequently other technologies like solar, geothermal or biogas could spread only on a small scale so far.

**The early success** – Besides the price system also the joint implementation (JI) opportunities were beneficial for biomass projects. This applies basically to old coal power plants, which could only become acceptable by the Hungarian Energy Office – and economically viable as well – through a fuel switch from coal to biomass. This resulted in several partly biomass-fired units. By the end of 2005 the biomass capacity peaked at 105 MW, producing 1585 GWh energy. Thereby the share of biomass and co-firing alone exceeded 3.6 per cent of the total electricity production, which was the target set for Hungary to be reached by 2010.

Even though it seems a great success, we have to be careful with the celebration and conscious about the consequences. Firstly, Hungary set the lowest target among the EU member states with its 3.6 per cent share for renewable electricity. Secondly, this type of investments was criticised by biomass and forest management experts due to the very low efficiency of these plants (25-33%), which means that the produced heat is wasted. The present support scheme only favours RES electricity without further incentives for RES heat production. The fuel is mainly provided by the so far accumulated increment of the forests which cannot be sustainable on the long run, but there is no consensus on what type of crops should be grown on Hungarian fields. The question is still open because as government is planning to reach the 2020 target (13%) also mainly from biomass sources as it was stated in the RES strategy for Hungary 2007-2020, published by the Ministry of Economy and Transport.

**Lack of state commitment** - The state commitment to renewables still only exists on papers. The goal of the governments of the last 6-8 years was to negotiate for the lowest possible but by the EU accepted targets for Hungary. Renewable energy couldn't become a real strategic point in the Hungarian energy policy so far, while the import dependency is very high. Most of the decision-makers do not believe that renewables could be the solution for the present and future climate and energy supply challenges. Thus the government was not interested to help the penetration of other technologies as well after Hungary had fulfilled the target for 2010 in 2004.

**The forgotten public and household sectors** - The EU has criticised Hungary many times for not giving enough attention to renewable energy investments within the scope of the Structural Funds and within the national development plan. Although the Environmental and Infrastructure Operative Program financed a few middle-size projects, renewables for households are basically out of the scope of the governmental support schemes even though the demand seems to be high as the assessment of the earlier programmes has shown.

However households can apply for governmental support for implementing RES technologies every year, usually the allocated state budget is very low, the system is not user friendly and the conditions are not attractive enough to the wide public. As the turnover of SMEs specialised in providing RE-technologies for households also indirectly depends on these sources, the every year changing conditions create an unpredictable market for them.

Theoretically households can also connect to the grid and sell their green electricity according to the present legislation. Nevertheless in practice the DSO has the right to set own requirements, which are different by the different areas of DSOs and in some areas these are impossible to fulfil, as the same terms are required for households than for big producers or as expensive equipment has to be implemented. These are scaring off the interested but very price sensitive households.

**Conclusions** - In order to create a more secure environment for new investments that are needed for reaching the 13% (or higher) RES share till 2020 a predictable legislation and guarantees are much more essential than subsidies. Therefore it is necessary to have a special Renewable Energy Act and related legislation, which provide the framework for not only RES electricity production, but for RES heat as well. For an ideal situation a clear and long-sighted energy policy and a governmental renewable energy strategy would be a must. The Hungarian Parliament has recently accepted the new energy policy which doesn't even mention the prepared, but not yet approved, renewable energy strategy.