



Experiences of the Hungarian water sector reform from the regulatory point of view

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I. Historical background and market integration:

1. The history of the establishment of the recent Hungarian regulatory framework
2. The Hungarian Energy and Public Utility Regulatory Authority
3. The main objectives of the Hungarian regulations
4. The process of market integration

II. The supervision and control of developments:

1. The basis of development control
2. The tasks of HEA regarding developments
3. The tools of HEA regarding developments
4. The experiences of HEA regarding developments



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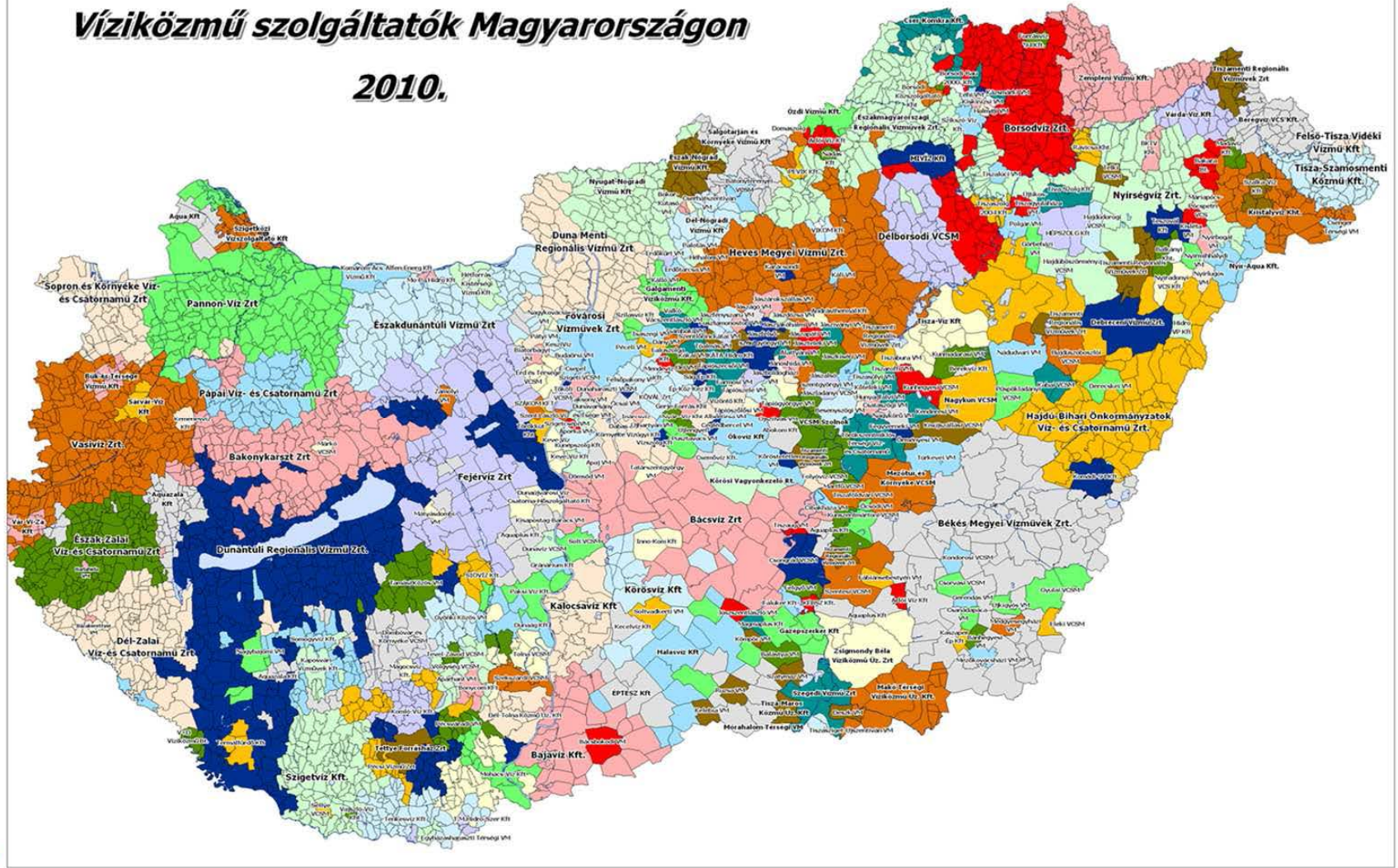
1. The history of the establishment of the recent Hungarian regulatory framework

- in 1989: 33 sub-regional and 5 regional operators
- wave of privatisation in the 90's
- more than 400 water utility supplier companies by 2010



Víziközmű szolgáltatók Magyarországon

2010.



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1. The history of the establishment of the recent Hungarian regulatory framework

- in 2012, the 33 largest water utility supplier companies were carrying out water and wastewater services to 85 % of the total Hungarian population
- recognising this trend, the Hungarian Parliament adopted **Act CCIX of 2011 on Water Utility Supply** on 30 of December 2011



2. The Hungarian Energy and Public Utility Regulatory Authority

- HEA (predecessor of HEO) was established by the Hungarian Parliament in 1994 - as **one of the first energy regulatory bodies in Europe**
- since 2012. HEA is entitled to supervise the water utility sector



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2. The Hungarian Energy and Public Utility Regulatory Authority

HEA is a strong and independent multi-sector regulator:

1. independent regulatory authority,
2. only subject to the law,
3. separate and independent budget,
4. the only responsibility towards legislation is to give an annual report to the Parliament on the activities of HEA,
5. regulated sectors: electricity, natural gas, district heating, drinking water, wastewater, solid waste, chimney sweeping.



2. The Hungarian Energy and Public Utility Regulatory Authority

- in 2013 a vice-president responsible for public utilities had been appointed
- two departments under the supervision of the vice-president:
 - a. Regulatory Department for Public Utilities : price regulation, (supporting) codification, and price regulation of solid waste management
 - b. Department of Water Utility Licensing and Supervision: licensing, monitoring, development
- number of employees: 73



2. The Hungarian Energy and Public Utility Regulatory Authority

The most significant administrative powers of HEA

- a. **Price supervision,**
- b. Submitting a proposal on **utility tariffs,**
- c. **Licensing powers,**
- d. Approving “**rolling development plans**”,
- e. Approving operational agreements,
- f. Designation of the operator of last resort,
- f. Approving changes governed by company law,
- g. Monitoring and controlling competencies,
- h. Management of the public registry of water utility systems, water utility suppliers, and responsible entities.



3. The main objectives of the Hungarian regulations

- a. To protect national property and settle the ownership structure,
- b. Price regulation / tariff setting,
- c. Market integration,
- d. Data gathering on public water utilities and the setting up of public registry,
- e. To supervise water utility developments and reconstructions,
- f. To establish the professional supervision and control.



4. The process of market integration

- to conduct WWS an **operational license granted by HEA is necessary**
- the primary task of HEA was to conduct the licensing process during 2013-2014



4. The process of market integration

A licence is granted for

- only **limited liability companies** and **private limited companies**,
- which has an **operational agreement** for the supply area,
- complies with all the criteria determined by law,
- and reaches the minimum unit of consumers and/or connections (residential and non-residential)

Condition: the minimum number of consumers and/or connections from 2017 is 150 000.



4. The process of market integration

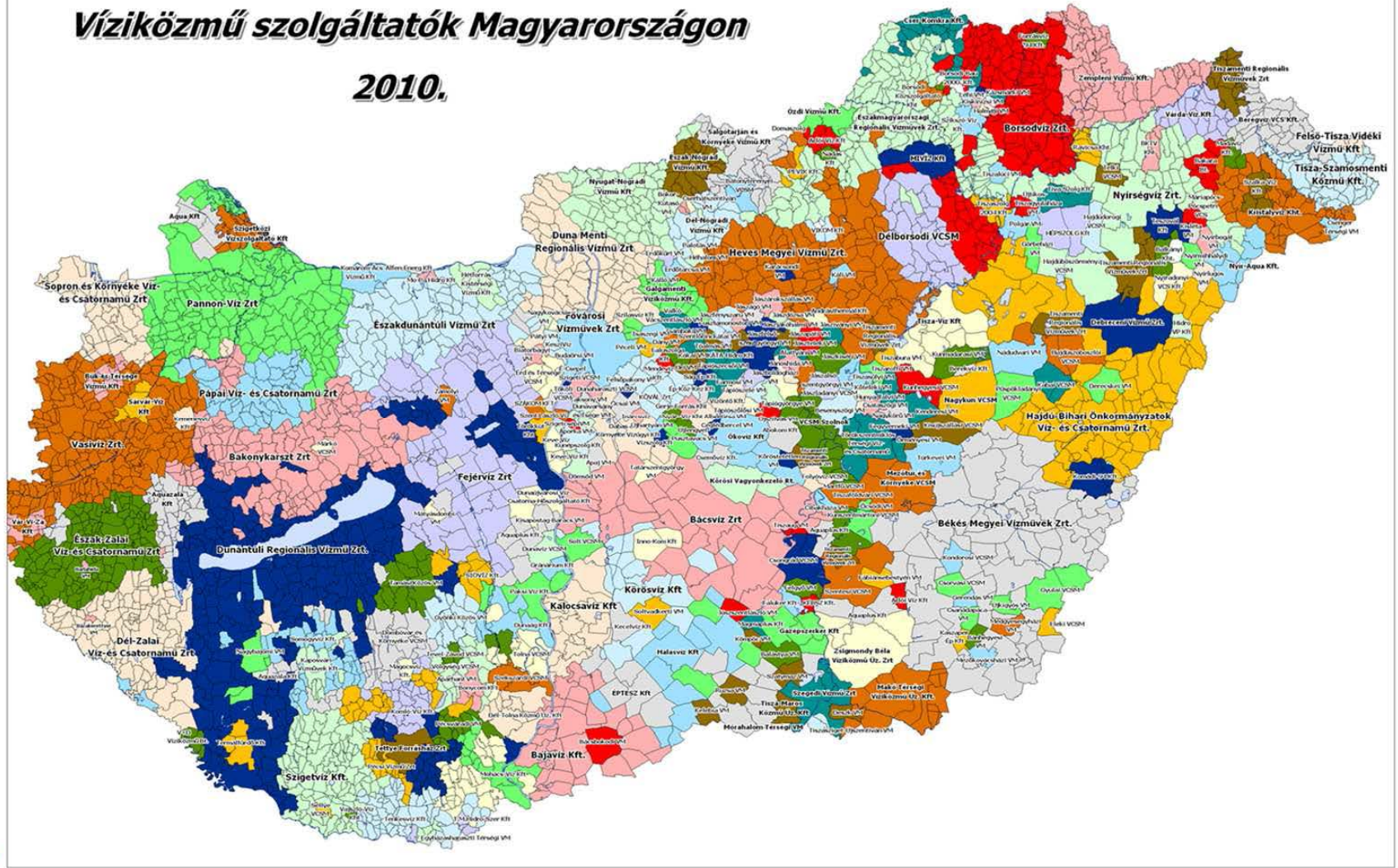
- 84 water utility suppliers submitted a request for operational licence
- HEA have granted license to 47 of them (45 multi-sector operators and 2 wastewater operators)

Due to mergers and termination of companies the total number of the water utility supplier companies in the country today is 42.



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1. The basis of development control

Some of the principles must always be ensured during developments:

- the principle of **protection of natural resources**
- the principle of **security of supply**
- the principle of **regionality**
- the principle of the **lowest cost**

HEA has tasks in the following aspects of developments:

1. setting up a development strategy
2. decision making
3. implementation



2. The tasks of HEA regarding developments

For setting up a development strategy, HEA provides

- a public registry,
- strategic capacity management.

To make decisions regarding development, HEA provides

- the professional technical and economic control of feasibility,
- operative capacity management,
- the representation of operational aspects.

During the implementation of development, HEA ensures

- the technical and economic control of planned implementation,
- the control of change management.



3. The tools of HEA regarding developments

The main tool of the supervision of developments is the competency of HEA to approve the „**rolling development plans**”

What is a rolling development plan?

A plan set up by the operator or the local government that provides a tool for creating a development strategy and making decisions regarding developments.

Long-term (15 years) development plans consisting of development, replacement and investment design plans.



3. The tools of HEA regarding developments

HEA approves the rolling development plans and controls the implementation of the approved plan.

The professional supervision of HEA ensures the enforcement of principles regarding the technical and economic decision making.



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4. The experiences of HEA regarding developments

- prior to recent regulation, the operator was not involved in developments
- technological developments gave rise to higher service prices
- no regulation relating to user charges and water utility development fees

Did the new law help to solve these problems?

In a way YES, but it also generated **new challenges**.



4. The experiences of HEA regarding developments

Negative experiences:

- No detailed rules of setting up the rolling development plans until December 2014 → the submitted plans were very diverse in content and quality
- In most cases the description of developments are very superficial
- it is hard to decide whether the distinction between maintenance and development is correct
- Lack of funds → development claims without any investment costs

The operators submitted better quality plans than the local governments, and set up the plans with appropriate content.



4. The experiences of HEA regarding developments

Positive experiences:

- finally we have a coherent regulation,
- the detailed rules of setting up rolling development plans came into effect,
- in many promising cases the development plans were highly correct and feasible,
- the professional control and supervision is established.

What would be needed in the future?

It would be desirable, if the operator and/or HEA would be involved in EU funded projects.



Thank you for your kind attention!



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