

COMPETITION AND REGULATION IN THE WATER SECTOR
HUNGARY
04-Feb-2004

General situation of the market

1. Water supply in Hungary could generally be described as a sector characterised by a large number of natural monopolies including certain elements of non-commercial services. However this situation is not applicable to the whole of the sector. In certain cases taking into account to the availability of alternative sources and the specific needs not appropriately satisfied by the existing infrastructure, water may be self-supplied. Rights and obligations relating to self-supply, including rules of the availability of licences are laid down by Acts and government or municipal regulations.

2. The present submission covers only water supply regulated as a natural monopoly (including sewage treatment) and does not analyse the rules for self-supply.

3. The supply of healthy drinking water and the treatment of sewage is an obligation of municipalities. This obligation is fulfilled mainly through the previously state owned public utilities transferred to the municipalities during the political changes at the beginning of the 1990's. The negotiability of these properties is restricted. Certain assets such as those which are necessary for supplying more than one municipality, e. g. regional utilities, remained in the property of the state and were declared non disposable.

4. State owned property (the regional public utilities and the assets which the municipalities were not willing to take over) is operated by five state owned property-managing undertakings. Their activity is supervised by the Ministry of Environment and Water. Municipal property is managed mainly by the legal successors of the previous incumbent firms while smaller villages set up jointly controlled undertakings to assume this responsibility.

5. Water supply and sewage treatment is often provided by one and the same undertaking. Around 32% and 15% of the competent undertakings deal solely with water and with sewage, respectively. Combined services are provided by 53% of the market actors. The share of the state of the overall assets used in the sector is 9.2% while municipalities have 74.7% of them. Other kind of ownership represents 16.1%. There is a variety in the form of the operation with 8% being operated by state owned and 61% by municipal firms. In 31% of the cases the activity of the service provider is based on a contract concluded with the municipality.

Supplier Selection and Incentives

How is the water supplier chosen?

6. The possible alternatives for the selection of a service provider are regulated by the Act on Water and the Act on Public Procurement. The state or the municipality may manage its own assets or may select a private firm to provide services. In the case of the latter solution a public tender is announced for the management or rent of the public utilities. If the municipality forms its own undertaking to provide the service than the undertaking is exempt from the obligatory tendering.

Is competition possible between different water suppliers in the same geographic area?

7. In general it can be established that there is no space for competition between the suppliers of water. However in marginal circumstances, certain users may have the possibility to apply for a licence for self-supply. Such a possibility might have influence on the behaviour of the incumbent. Otherwise competition is restricted to the tender.

How is an incentive provided to increase productive efficiency?

8. Yardstick competition is not applied, municipalities conclude their contracts independently or supply through their own undertakings. The only incentives for more efficient supply are firstly the tendering system, which is not applied by each of the municipalities and secondly the official price setting, which has a slight influence on the profit margin and through it on efficiency.

Consumer Pricing and Access

What is the general structure of retail water prices?

9. In the case of private suppliers prices are determined in the concession contracts. Other prices are established by legal acts of the municipalities. The price setting of certain services of minor importance is free.

10. As the Act on Prices establishes only a general framework of the rules for the pricesetting of water supply, a great variety of price schemes are applied in Hungary. A significant part of these schemes limits the calculation of the price to one factor, namely the actual consumption of the user. In the other cases the price consists of a fixed fee, which is designed to cover the maintenance of the infrastructure and another amount proportionate to the consumption is added. The fixed fee is often established in places where small users would not otherwise contribute to the maintenance of the infrastructure to an appropriate extent through the price of the small amount of water they consume.

11. Depending on the objectives followed by the municipality a differentiation can be made between the unitprice of water for households and that for industrial users in both price schemes.

12. The amount of the fix fees is 86 to 360 HUF per month for households and 86 to 3.120.000 HUF per month for industrial users, while the price of a cubic meter of water for these two groups varies between 22 to 316 HUF and 82 to 2018 HUF, respectively.

13. Peak hours and shortage periods are charged at unchanged prices. However a limitation on the amount of water available is possible. The relevant Act determines a sequence of priority for such restrictions.

Is water provided to the highest value users?

14. Access to water is regulated on the basis of social priorities. Competition and market principles are not taken into account at this level.

How can access to water be ensured for low-income consumers?

15. Prices may differ according to the price scheme applied by the municipality or the stipulations of the concession contract. In certain areas where the price of water exceeds a certain amount per cubic meter the state contributes to the costs of consumers. An additional contribution may also be provided for people with an income below a certain level. This latter contribution is defined as a fixed amount.

Quality and Environment

How can water quality be assured within a competitive framework?

16. The minimum quality of drinking water is specified by legal provisions regardless of the form of service providing. The issue of excess quality has never arisen.

How can water use be combined with environmental objectives?

17. Water supply is subject to official licences. The authorities may revoke such licences in the case of undue impact on the environment. While the issuance and revocation of licences might have an impact on competition the two objectives were not taken into account parallelly in the past.