Consultation response of the NSC-FoE Hungary (MTVSZ) on the 67-page draft Hungarian REPowerEU chapter

11 August 2023

I. General comments, process, public participation

We regret that professional organisations, NGOs and the public concerned could only comment on the draft in two weeks in the middle of summer as a "public consultation". We hope that our letter (https://mtvsz.hu/uploads/files/TFM_RepowerEU_konz_utemezes_level_2023jul17_6szervezet.pdf) will be heard and there will be opportunity for meaningful public consultation in September 2023. This draft, which fundamentally affects households, needs to be meaningfully consulted with Hungarian public, e.g. housing associations, energy (energy efficiency and renewable energy) professional organisations, municipal associations and other stakeholders, if it is to be successful. Difficulties of the residential solar RRF grant also show that views and comments of implementers and target groups should be taken into account (in time) in the planning process. https://mtvsz.hu/hirek/2023/07/hogyan-koltsunk-el-2585-milliard-forintot-ket-hete-van-a-magyar-lakossagnak-elmondani-errol-a-velemenyet-nyar-kozepen

II Comments on content

INTRODUCTION, OBJECTIVES

Our comments on the draft updated National Energy and Climate Plan (NECP) are also relevant to the REPowerEU draft, which largely finances the NECP implementation, as a policy critique: https://mtvsz.hu/hirek/2023/07/mtvsz-velemeny-a-felulvizsgalt-nemzeti-energia-es-klimaterv-tervezetrol (The draft makes reference in its objectives to the revised National Energy Strategy, which - or its draft - has not yet been published to our knowledge as of mid-Aug 2023.)

The targets lack reduction in dependence on fossil natural gas, while reducing exposure to electricity imports is overemphasised. The reduction in primary energy use (1.32 PJ/year), as summarised in the expected impacts, but especially the reduction in natural gas consumption of 6.5 million m^3/year (defined against a consumption level of 9,100 million m^3 in 2022) is very low, and the energy saving pillar of the draft is weak. These two weak targets also show that more and larger energy saving programmes – mainly at residential buildings - are needed in the draft to reduce natural gas consumption at a faster pace. Gas consumption in 2021 was 11000 million m^3, which means that consumer savings (together with mild weather) reduced national gas consumption by 1900 million m^3 in a single year.

Hungarian government seems to be more concerned about the increase in electricity imports than about the relative increase in fossil gas imports due to new gas blocks and REPowerEU investments, even if the latter poses a higher energy security risk and is more carbon intensive. (Note that 85 % of gas is imported currently, NECP plans to reduce this rate only to 80 %, while 2020 NECP targeted 70 %.) Significant reduction in greenhouse gas emissions and final gross energy consumption is expected from and imposed on residential and buildings sectors, while the EU and domestic funding foreseen in REPowerEU (including KEHOP Plus) is insufficient to meet this burden. The fact that electricity consumption is expected to increase by 48 % by 2030 (justified by electrification but unjustified by

forced re-industrialisation, e.g., battery factories) does not mean that gas consumption in electricity generation will have to increase as well. Two of REPowerEU's objectives (accelerating energy transition and saving energy) contra productive if these are undermined by the Hungarian reforms and investments planned for the third objective, diversification. Increasing (even if only temporarily) reliance on natural gas for domestic electricity generation will prolong and even increase fossil dependency and will also tend to jeopardise energy security.

Domestic gas reserves, which can be extracted economically and in an environmentally and socially responsible manner, are very finite and are not sustainable in the medium and long term. The extraction of domestic unconventional gas resources (shale gas) is extremely costly and expensive, and the technology is still banned in many European countries because of its environmentally destructive effects on local people and their livelihoods. Instead of increasing domestic fossil fuel extraction, more resources should be allocated in REPowerEU draft to investments and reforms in domestic (mainly building) energy saving and renewable energy. Targeted energy sovereignty and emission reduction is also enhanced by the electricity generation based on renewables (and imported electricity is also based on renewables on a growing rate).

REFORMS

Reform 8: Developing a strategy for biogas and biomethane

Strengthening domestic use of domestically produced biogas and biomethane may be right way forward, but only if sustainability criteria are taken into account throughout the life cycle. Furthermore, it should be specified in the description of the reform that the strategy should include: from what sources and how much biogas and biomethane would be produced each year (how much of what would be produced under the MOL Ltd waste concession and how much would be produced outside, from other biomass waste, etc.). The strategy should be subject to a Strategic Environmental Assessment (SEA) with appropriate public consultation. The associated investment, if appropriate, could, in addition to reducing our dependence on fossil gas imports, reduce the need for increased domestic gas extraction.

Reform 13: A framework for energy efficiency improvements in residential buildings (page 21)

MTVSZ has been advocating for decades for the support of energy efficiency improvements in residential buildings (from European and national sources, with multi-annual, differentiated and deeper incentives for retrofits), also as a real and lasting reduction of overheads, to reduce dependence on fossil natural gas and thereby reduce greenhouse gas emissions. https://mtvsz.hu/uploads/files/MTVSZ-Energiaatmenet-EUforrasok-Hatteranyag-2022jun-szept.pdf and https://mtvsz.hu/energiafordulat This reform, long awaited by public and professional organisations, should be more prominent in the draft.

INVESTMENTS

Key for all, but especially for the 13th investment, is a proper and meaningful consultation with the Hungarian RRF Monitoring Committee, (professional) stakeholders, prospective target

group/beneficiaries, on the draft of the related calls for proposals ("professional and online consultation with professional organisations and with the energy authority MEKH. The online consultation is open to all") and their meaningful and early involvement into the monitoring and evaluation of the implementation.

Investment 2: High pressure gas pipeline network capacity expansion (page 27)

There is a need to diversify gas supply (sourcing gas demand more within the EU and at lower prices, taking advantage of EU joint procurement cooperation), in particular to mitigate geopolitical risks. It is also important to reduce the country's overall gas demand and gas consumption at a fast pace, reducing gas imports from 80 % to at least 70 % by 2030, based on the current NECP. Neither imports nor domestically produced fossil gas should not serve (grey) hydrogen production.

Investment 3: Energy efficiency and supply-security investments of gas storage (page 31)

Facilitating the substitution of pipeline natural gas currently used for technological applications will immediately strengthen Hungary's energy security by reducing our exposure to dependence on imported gas.

Investment 9: Hydrogen investments (page 46)

The production of grey hydrogen (based on fossil fuels) is an inherently flawed practice. Only green (renewable energy based) hydrogen and only in sectors that are difficult to decarbonise should be produced and used, with full life-cycle sustainability criteria.

Investment 10: Strengthening human capacity of green economy

Training, retraining and consumer awareness training (13.72 billion HUF) has been identified as a priority project, and IKK (IKK Innovatív Képzéstámogató Központ Zrt.) and its consortium has been named as potential beneficiary. Questions: Will the National Office for Vocational and Adult Education and Training (Nemzeti Szakképzési és Felnőttképzési Hivatal, NSZFH) be obliged to be involved in the consortium? How will quality of the content be ensured? How will it be ensured that organizational and technical problems of state IT training (launched in 2020, run by IKK-NSZFH) will be avoided?

Investment 12: Energy efficiency investments in public buildings (page 55)

MTVSZ considers energy efficiency improvements in public buildings as an important task to reduce the amount of fossil natural gas used and thus greenhouse gas emissions.

Investment 13: Residential energy efficiency investments (page 57)

It is considered to be an expected and reasonable direction that the investment “should not support any equipment using fossil fuel”.

Energy efficiency obligations and commitments, e.g. the 3 % annual renovation rate; the 2030 emission reduction and energy consumption reduction targets, which are largely imposed on the population; the permanent reduction of overhead costs; the energy sovereignty, the goals of REPowerEU (acceleration of the energy transition, energy saving and diversification, independence from fossil energy imported from Russia); and the fact that the population is the largest energy consumer in Hungary; they all urge that 3.7 million households, but at least the 2.6 million most energy-wasting households with poor energy performance, be thoroughly renewed energetically as soon as possible, and that the largest proportion of EU funds be allocated to this. For this, an average of 130,000-140,000 households should been renovated per year, as confirmed by numerous recent professional studies (MEHI, Habitat for Humanity Hungary, Green Policy Center, etc.).

In light of this, the renovation of the 20,000 households planned to be supported by HUF 224 billion from the RRF loan until 2026 is very little. (Even together with the KEHOP Plusz, approx. 140-150 billion HUF, intended for the renovation of 37,666 households.)

In 2023, the government plans to spend 2,580 billion HUF of Hungarian taxpayers' money on utility reduction, and 1,340 billion HUF in 2024, but even in its current form, this does not sufficiently target the ones in need. It causes the population to maintain gas consumption, thus hinders energy transition, while those heating with firewood are left out of it completely.

We urge the government to call down the other half of the RRF credit line; increase the investment program for the energy renovation of residential buildings with the approximately HUF 1,800 billion (but at least the difference between the informal RRF loan plan of April 2,500 billion HUF and the HUF 1,800 billion included in this plan, HUF 700 billion) by allocating proportionally more state resources. This is what real overhead cost reduction means: from HUF 700 billion an additional min. 62,500 households, while of the HUF 1,800 billion at least an additional 160,700 households could be renewed, thereby benefiting from a permanent reduction in overhead costs.

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