



SUMMARY

of the Audit on the Impacts of State and Local Governmental Measures Taken for Energy Management, with Special Regard to the Impacts of Investments Serving Energy Rationalization (1009)

Since the establishment of the energy policy objectives in the 21/1993. (IV. 9.) Decision of the National Assembly, fundamental changes have occurred in the energy sector. The energy demand of the economy has decreased and the energy consumption per gross domestic product unit has diminished. The energy sector has become multi-player and predominantly privately owned; the competitive market has developed. The share of the population and the communal consumers in the energy consumption has increased, while the share of the production sectors has decreased. Under these circumstances, the supply security of the country, the competitiveness, the fulfilment of the requirements of sustainable development, the energy supply in line with consumer requirements have become a priority of the energy policy objectives. On the part of the European Union such competition policy, market regulatory and environmental guidelines have been formulated, which were intended to influence and orientate the internal energy policy objectives of the Member States.

The audit objective was to evaluate whether the state and local governmental measures aimed at rationalising and reducing the energy consumption have effectively and efficiently contributed to the achievement of the Hungarian energy policy objectives and the fulfilment of the requirements set by the EU. On-site audit has been carried out at ministries and 38 local governments involved in energy management. The audit covered the period between 2004-2009, but the changes in 2010 have also been taken into consideration.

Central energy regulation and management

The state and local governmental measures taken for the rationalisation and reduction of energy consumption contributed only partly to the achievement of the Hungarian energy policy objectives and thus to the fulfilment of the requirements set by the EU. The expectations established in the EU directives were incorporated into the national energy objectives, but the established legal, organisational and support systems did not entirely ensure the efficient and scheduled implementation of the objectives.

The Decision of the National Assembly adopted in 1993 provided that the Government should draw up a framework act in accordance with EU law. It was not accomplished, because as a framework the conditions of activity of the

energy actors were not regulated in one act, but in different technical laws within the energy sector. Thus there is no single regulation, which in case of change of functions and competences raises the risk of incoherence.

The functions and competence of the Minister for Energy Affairs and those of the organisations assisting in the implementation of energy tasks were not duly defined. During the implementation of the energy affairs, ad-hoc liaison dominated between the organisations. Due to the deficiencies of the energy functions of governmental management, reporting and control, the national energy policy objectives and the means to fulfil the international obligations were not entirely provided. Its impact could be perceived in the slippage of the market opening, the deficiencies and delay of preparing the strategies and programmes meaning the basis of the implementation of the energy policy, the lack of consistency between the resources and the tasks, as well as the infringement procedures initiated by the EU.

The energy policy gave priority to supply safety as a risk factor because of the external energy dependence, especially from Russian natural gas. As a result of the investments launched for the security of natural gas supply, the storage capacities can provide domestic supply for two months also in a cold winter. Measures taken for the prevention and mitigation of the crises of natural gas supply and electricity, as well as the governmental measures necessary in the event of a major disruption were indicated by the Government in a decree and a decision.

The implementation of the energy policy objectives was guaranteed by the strategy for the period between 2000-2010 and by the National Energy Efficiency Action Plan (Action Plan) for 2008-2020. International commitments and national energy policy objectives were included in the requirements of the Action Plan and previously launched energy management programmes were also taken into consideration. The aims and operation of the individual constructions were partly aligned, and the aims were linked to concrete indicators.

The time-proportionate implementation of the energy policy objectives for the period 2008-2020 and that of international commitments is problematical because of the delay of the programming activities and the lack of resources. The different time horizon and system of the programmes constitute a risk in the coordinated realisation of the specified objectives and plans. The Action Plan was submitted for the EU Commission with a delay of eight months, therefore the EU launched an infringement procedure against Hungary. According to the opinion of the EU Commission, the draft document did not constitute a real strategy and it found it inadequate also regarding the example-setting of the public sector.

The strategy of energy saving and energy efficiency improvement, ending in 2010, and the Action Programme serving its implementation were not realizable

with the available means and resources, but they were not reviewed and modified. The conditions of the associated tenders of energy rationalisation have become looser, the energy saving objectives expected by the utilisation of the funds were not mediated towards the beneficiaries, and its measuring and monitoring were not provided. The objectives pursued, as well as the associated means and resources were not aligned, there were duplications and gaps in the tender system. The multi-player organisational system serving the implementation, the often changing rules of assignments and financing did not help the predictability and computability of the implementation, and there was no proper coordination either.

With the establishment of the monitoring system, it is possible to measure the results of the provisions, but the system did not provide an opportunity to summarise the data of the indicators. The statistical reporting system did not show the results of the energy rationalisation programmes. At the Energy Centre Non-profit Ltd. functioning as an energy statistical agency, not enough attention was paid to the implementation and summarising of the local governmental reports on energy consumption, as well as of the statistical data provision on public lighting. The statistical system of the tertiary sector including the central administration and local governments was not further developed.

The implementation of the Action Plan is risky due to the insufficiency of the necessary resources. The Action Plan estimated the total investment need of the implementation of energy efficiency measures for HUF 2295-2870 billion, the state aid for 9 years (taking into account an aid intensity of 10-30%) for HUF 230-860 billion. However, among the resources only the amount of HUF 38 billion coming from EU funds was quantified, the amount of the quota revenue and other resources was not presented.

The difference in scale of available funds is also shown by the fact that HUF 37.3 billion was spent for energy rationalisation tenders between 2000-2009. The various loan programmes established with national and international support enabled preferential credit allocation of HUF 30.7 billion. These forms of support helped the implementation of energy rationalisation investments of a total of HUF 175 billion.

The energy management of local governments

The local government expenditure on energy exceeded HUF 100 billion in 2009. The EU directive emphasises in particular the exemplary role of the public sector, thus of local governments in improving energy efficiency. Although the Act on Local Governments specifies the assistance in local energy supply among the functions of local governments, it leaves the decision for local governments concerning the measure and method of performing the functions. According to the Act on the general rules of environmental protection, the environmental

programmes of local governments should include the tasks and regulations concerning energy management. However, legislation did not provide for the method, areas and content of performing the functions, and their regulation was not initiated by the Minister of Energy Affairs. Thus, local governments did not pay sufficient attention in their local regulations to the determination of these areas and – in the absence of central guidance – they carried out their functions according to their own interpretation.

At local governments, the procurement, measurement and control, as well as the establishment of organisational and personal conditions of the energy used were differentiated. Local governments - except for some bigger municipalities - did not employ energeticists, tasks were mostly carried out within the municipal councils in joint employment. Only half of the audited local governments provided the monitoring of the consumption and measurement of the energy used.

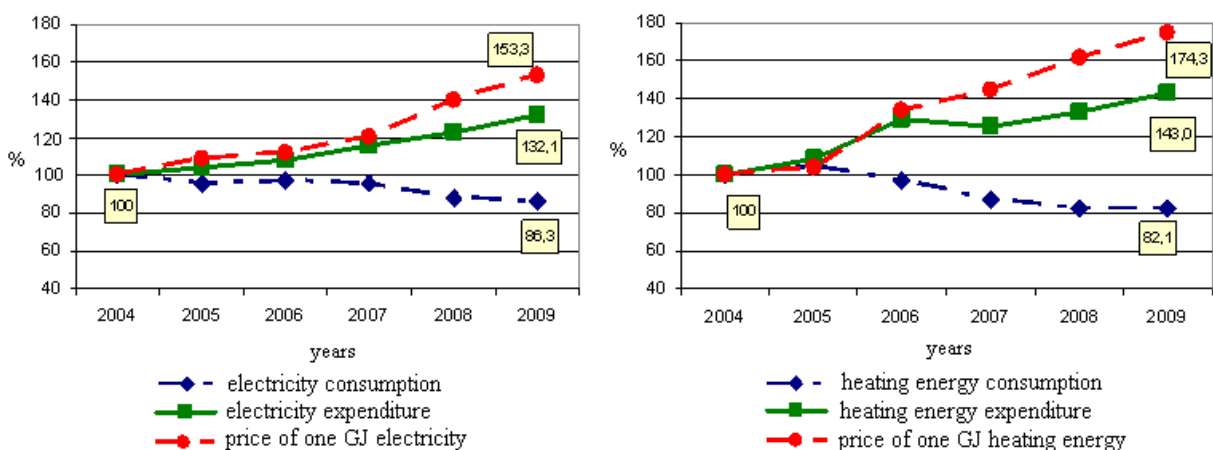
Public lighting falls within the obligatory public service functions of local governments, but the method and detailed rules regarding its performance have not been stipulated by law since 2009, and they have not been established up to now despite the authorisation of the Act on Electricity. This hindered the uniform establishment of the conditions of the contract concluded for the performance of tasks, as well as the definition and performance of local tasks. Local governments had little information about the opportunities provided by the market opening, for whose exploitation financial interest and the appropriate database were also missing besides professional knowledge. The commitments in the framework of public lighting modernisation, as well as the developed joint-ownership also hindered the conclusion of more favourable contracts of energy purchase and maintenance. More than two-thirds of the audited local governments accepted the bid of the service provider responsible for that geographical area without review, they did not justify the decisions by cost-effectiveness calculations, and at a quarter of them not even all the public lighting contracts were available for the audited period. At nearly two-thirds of them the electricity used for public lighting has not been measured, thus the service fee was paid according to the installed capacity of lamps and the public lighting calendar, thus not according to the actual consumption. The establishment of the measurement conditions would require investment resources. Local governments did not pay sufficient attention to the regulation of the receipt and examination order of consumer complaints.

The audited local governments carried out their public lighting tasks overall successfully, because public service was provided in the municipalities and the energy consumption and emissions per public lighting lamp post decreased by 3.5% as a result of investments carried out between 2004-2009. However, at the conclusion of contracts regarding the modernisation of public lighting, more

than half of the local governments did not take the opportunity of competition, and did not examine the grounds of the accepted offers either. Developments were connected with operational and task performance contracts for 4-15 years at three-quarters of the local governments. In the framework of these contracts modernisation implemented by the service providers were subsequently paid by 65% of local governments under different titles (fees of energy efficiency, rental, leasing, energy modernisation and territorial enlargement, loans, transfers of funds) to the service providers. This increased the costs of the operation of public lighting by 36.3% on average per year in the audited six years. The modernisation of public lighting did not result in enrichment at the local governments. At the handover of devices free of charge it was not taken into consideration that the marketability of the property is limited and it serves obligatory exercise of functions. The technical contents and energy savings were mostly realised with the investments, but the expenditure savings were 13.5% lower than the planned, which increased the payback period of investments by 26.1%.

The energy consumption of local governments was determined by the energy used for heating purposes (primarily natural gas) and electricity besides public lighting. Between 2004-2009 the energy used by local governments for lighting decreased by 13.7% in real terms (considering the prices of 2004), but electricity expenditures increased by 32.1% as a consequence of the growth of one and a half times of electricity prices. During this period the real value of heating energy decreased by 17.9%, but due to the 74.3% increase of the price of heating energy, expenditure for heating purposes increased by 43%. At 92.1% of the local governments, factors affecting energy expenditure have not been evaluated.

Change in quantity and value of electricity and heating energy consumption at the audited local governments



The opportunities of purchasing energy in the free market were examined by 36.8% of the local governments in the case of gas energy, while 28.9% of them

examined, but only a third of them concluded a contract on this basis. The entry into the free market was hindered by the skills shortage and the lack of knowledge about the comparability of different tariffs.

In the audited period nearly half of the local governments carried out lighting modernisation, two-thirds of them carried out also heating modernisation, partly in the framework of a financing construction involving a third party. Besides traditional energy resources, renewable ones were also used. The modernisations were, however, only partially effective, because the financial payback period and the average primary energy savings developed more unfavourably than planned. As a consequence, planned financial savings were not realized either, because the savings covering the financing were calculated for example not with the electricity consumption, but with the installed power. The average payback period of modernisations carried out on their own account is expected to change from 36 years to nearly one and a half times more for heating modernisations, while from 14 years to more than two times more for lighting modernisations.

Recommendations were formulated for the audited local governments to prepare and review the local environmental programme, to fulfil the reporting obligation, to ensure the local organisational, personal and monitoring conditions, to the increased application of the cost-effectiveness criteria, as well as to establish a regulation about handling consumer complaints in the case of public lighting.

We suggested to the Government to establish the missing strategies and programmes connected to energetics, climate and environmental protection, to complete the existing ones, to specify precisely the rules regarding responsibilities and competences, to regulate the operation and functions of the organisational background in a single framework, to improve the statistical information system, to accelerate the legislative process regarding public lighting tasks, to legislate on the involvement of local governments in the local energy supply and on their tasks regarding energy management, as well as to promote the establishment of an energetic network on municipal regional level.

We recommended to the Minister of Energy Affairs to bring in line the tasks and structure of organisational units dealing with energy affairs and to perform the required statistical data collection and elaboration tasks.