

Time for the "Clean Air" Programme to deliver safe heating for Polish buildings

Reform Institute
March 2022

"Clean Air" Programme must accelerate the decarbonisation of the Polish buildings

The ongoing energy crisis and Russian invasion of Ukraine require urgent action to reduce the Polish economy's dependence on fossil fuels imported from Russia. As reports from the International Energy Agency and the European Commission indicate, an effective package of measures should include both the diversification of fuel supplies and the acceleration of investments in energy efficiency and renewable energy sources. Such changes will increase energy security in the medium and long term.

Poland needs to urgently readjust existing public support programmes that aim to facilitate low-carbon transformation. The reforms need to **accelerate the investments that reduce fossil fuel demand and streamline the coal-to-green transition, minimising the dependence on natural gas as a transition fuel.**

"Clean Air" Programme which provides subsidies for energy renovations of single-family homes is currently one of the main instruments which determine the pace of energy transition in Poland. A lot depends now on the efficiency of its implementation. While the original focus of the Programme was reducing local air pollution through rapid replacement of old heating sources based on coal, the objectives of the Programme should be broadened. The design of this multi-billion instrument should also take into account the energy security dimension and the surging prices of imported gas and coal.

"Clean Air" Programme evolution: successful scale-up, but dependency on fossil fuels remains

So far, discussions about the "Clean Air" Programme have focused mainly on how to improve its accessibility and what kind of heat sources should it support. The importance of investments in energy efficiency has been mostly neglected. The possibility of using the Programme as a tool to make the heating of Polish buildings fully independent from fossil fuels has not been taken under the consideration. **The latest report of the Reform Institute "Investing in energy efficiency: an exception or a rule in the "Clean Air" Programme?" fills this gap. The report presents a comprehensive overview of how funds have been spent and what needs to change in order for the Programme to offer the solutions needed to overcome the energy crisis challenges.**

Collected data show that since its launch in 2018, the Programme has undergone several successful reforms that have increased its popularity by improving the attractiveness of the terms of support as well as by simplifying administrative procedures. The number of applications submitted in 2021 has more than doubled compared to previous years and

reached 185,000. **Thus, the stage of initial scaling up of the Programme can be considered completed. Now is the time to improve its efficiency.**

Based on data obtained from the Polish National Environmental Fund (NFOŚiGW), the Reform Institute identifies two key areas that require urgent adjustments, given that currently:

- there are not enough of investments in energy efficiency improvements:
 - **only half of the applications** submitted under the Programme include energy efficiency improvements,
 - when beneficiaries decide to invest in energy efficiency potential, on average they capture only **half of the full savings potential**.

- there are not enough of investments in zero-emission heat sources:
 - **more than half of the Programme's support for the heat source replacement has so far gone to sources using coal and gas**, increasing demand for imported fuels. Following the withdrawal of support for coal, gas remains the most popular fuel supported by the Programme.
 - only less than 20% of support for new heat sources has so far gone to fully zero-emission technologies.

In its current form, the "Clean Air" Programme mainly supports shallow renovation projects and the switch from coal to gas. Such investments may have been regarded as sufficient to eliminate the problem of old coal stoves which generate smog in Polish towns and cities. However, as natural gas prices increase and problems arise as more buildings need to rapidly connect to the gas network, **maintaining the scale of the Programme in subsequent years will require a move away from the business as usual approach.**

The "Clean Air" of tomorrow: a necessary evolution

The Reform Institute points out that the "Clean Air" Programme has a very high potential to become an instrument for the systemic transformation of Polish buildings. Previous years have shown that the Polish Fund for Environmental Protection is able to effectively adapt the Programme's terms to the needs of beneficiaries. Already today, about 60% of the "Clean Air" funding is dedicated to financing energy efficiency improvements, and the share of zero-emission heat sources among the supported technologies is gradually increasing.

Therefore, we are dealing with **a necessary evolution and not a sudden revolution** in the Programme. We recommend that such evolution should entail:

- introduction of higher intensity of support for investments aimed at improving energy efficiency and increasing the maximum amount of expenditure covered by the support,

- provision of higher support for investments that enable a building to become zero-emission by combining 1) electrification of heating with 2) far-reaching energy efficiency improvements,
- further promotion of engagement of banks and expansion of loan offer to supplement grants as solutions to help achieve the capital-intensive investments needed to break the sector's dependence on fossil fuels,
- immediate reduction of the intensity of support and rapid phase-out of subsidies for heating sources based on fossil fuels,
- provision of an appropriate scale of funding for the Programme, e.g. through an additional allocation of funds from the revenues from the EU ETS allowances.

**The full version of the report
in Polish is available for download
on our website:**

<https://ireform.eu/nasze-projekty/>

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RAPORT
**Termomodernizacja
w „Czystym Powietrzu”:
wyjątek czy reguła?**

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Marzec 2022

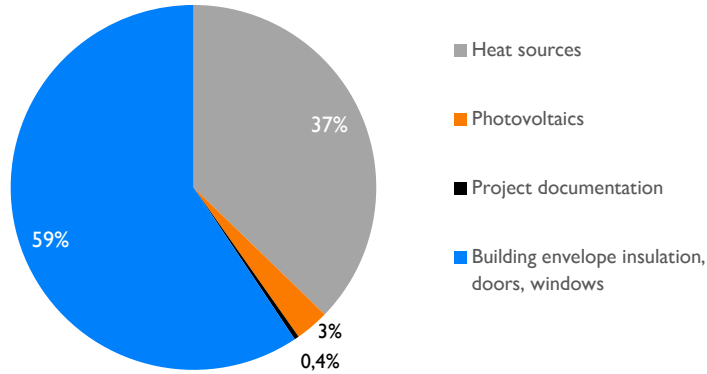


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Annex 1: key graphs from the report

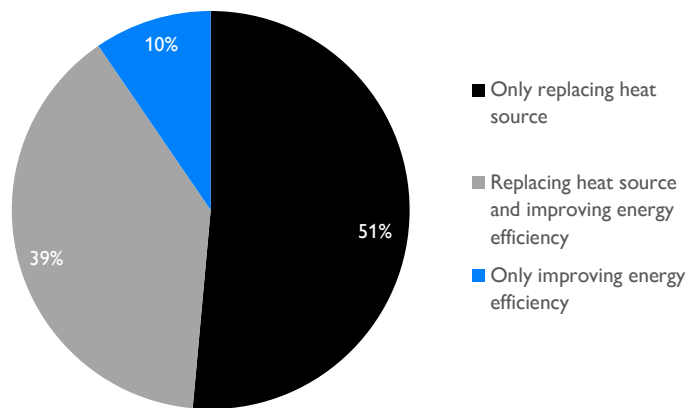
Types of supported investments (based on subsidy values) in the "Clean Air" Programme, 2018-2021

Around 60% of support from the "Clean Air" programme finances energy efficiency investments



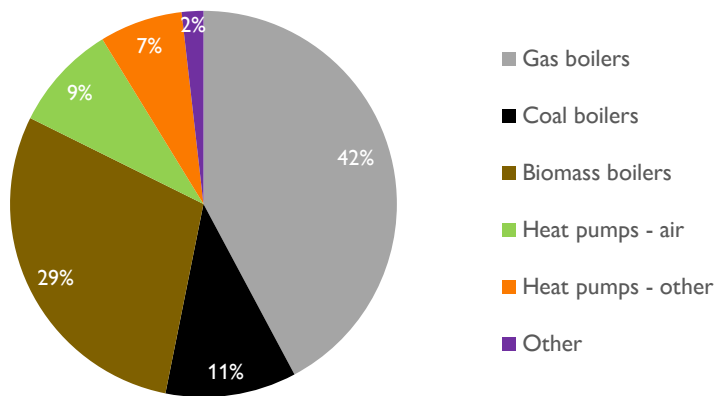
Scope of projects (by number of applications) supported under the "Clean Air" Programme in 2018-2021

However, only half of the applications under the Programme include investments that reduce energy demand in buildings



Estimated structure of subsidy values for the replacement of heat sources in the "Clean Air" Programme until January 2022

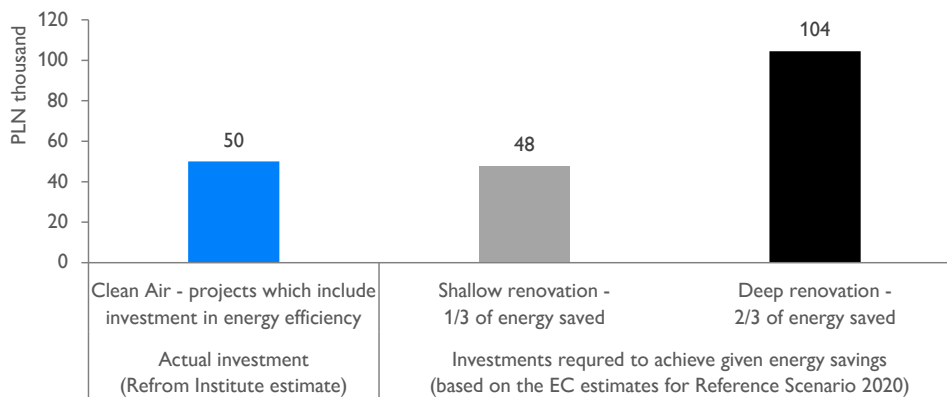
Heat sources based on fossil fuels received more than half of the support, while zero-emission sources accounted for less than 20% of the subsidies.



Source: Reform Institute based on NFOŚiGW data

Average expenditure on energy efficiency improvements in the "Clean Air" Programme (only contracts including investments in energy efficiency improvement) vs the expenditure necessary to achieve the deep renovation

When beneficiaries of the Programme opt for energy efficiency investments, they tend to be too low to fully exploit the potential savings.



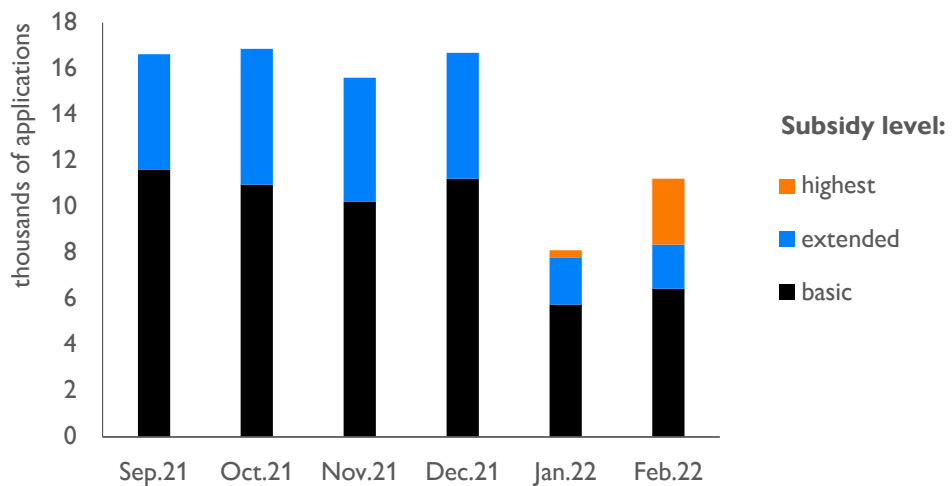
Source: Reform Institute based on NFOŚiGW and EC data

Annex 2: an update based on data on February 2022 applications

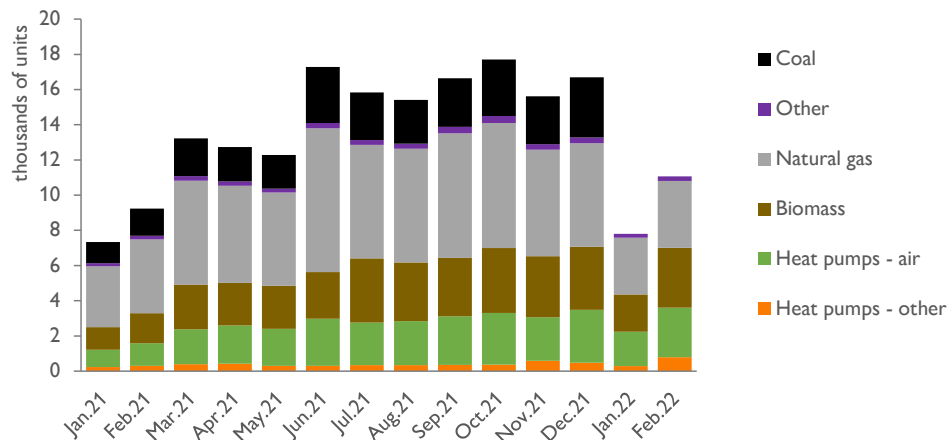
The data update covering the "Clean Air" Programme applications from February 2022 was released after the publication of the report. It confirms the conclusions of the report: further evolution of the "Clean Air" Programme is necessary.

Recent changes in the Programme were effective in extending its scope to the new groups of beneficiaries: after the introduction of the highest level of co-financing, the number of applications has increased. At the same time, the energy price spikes at the end of 2021 have resulted in a sharp drop in applications, in particular for gas boilers. The simple replacement of old coal sources with new gas boilers has lost its attractiveness, and a new approach based on energy efficiency improvements and zero-emission sources is needed to regain the momentum of the Programme.

Number of applications for the replacement of a heat source in the "Clean Air" Programme



Applications for subsidies in the "Clean Air" Programme, by type of new heat source



Source: Reform Institute based on NFOŚiGW data