

Energy Affordability in the EU: Variations and the Risks of Metric Driven Policies

CCP Working Paper 16-9

Based on joint work with Catherine Waddams for the Centre for Regulation in Europe (CERRE)

Presentation Structure

- Introduction
- Fuel Poverty in a European Perspective
- European Energy Affordability Data
- Policy conclusions

Introduction: Main Conclusions

- Substantial variations in energy expenditure shares across member states mean a common EU fuel poverty metric is inappropriate
- However, a central repository of pan-EU affordability data and assessments of interventions' effectiveness would be valuable
- The relationship between energy expenditure shares and EU-SILC indicators is unclear and warrants further research
- Assessing policy effectiveness by movements in high-level fuel poverty metrics can distort policy
- Policymakers should focus on robust impact assessments of fuel poverty interventions and track total expenditure reductions/welfare improvements achieved

Four main Fuel Poverty metrics

1. Fixed thresholds

- E.g. >10% income/expenditure spent on energy

2. Relative metrics

- E.g. twice average (median) expenditure share

3. Residual Income

E.g. 'New' English Fuel Poverty Measure: Low Income – High Consumption (LIHC) Metric

- Above median expenditure on energy AND
- After deducting energy costs, income is below official poverty line (60% of median income)

4. Proxy Indicators

- E.g. Percentage reporting an inability to heat their home

Fuel Poverty Metrics (continued)

Additional refinements/choices for metrics 1-3:

- (i) actual vs required expenditure,
 - (ii) Before or after housing costs
 - (iii) adjustments for household size (equivalisation)
- Refinements alter rather than remove ‘biases’
 - Work continues to find ‘better’ fuel poverty metrics mirroring older developments re: general poverty
 - All fuel poverty metrics involve some assumptions/value judgements. Identifying a single ‘best’ metric is tough

A few EU15 States have extensive Fuel Poverty Policies

- UK/England:
 - 2001 UK Fuel Poverty Strategy aims to ‘eradicate’ fuel poverty
 - 2012 Big debate re: switching fuel poverty definition to Low Income – High Cost (LIHC) approach, fears fuel poverty now less important
 - Northern Ireland, Scotland and Wales retain alternative definitions and develop own policies
 - Warm Home Discount and Winter Fuel Payments heavily focussed on the elderly so many recipients are not fuel poor
- France:
 - Fuel poor definition: >10% income spent on energy
 - 1985 fund to cover energy debts created, social tariffs introduced in 2004 (electricity) and 2008 (gas)
 - 2015 ‘energy cheques’ covering all fuels to replace social tariffs

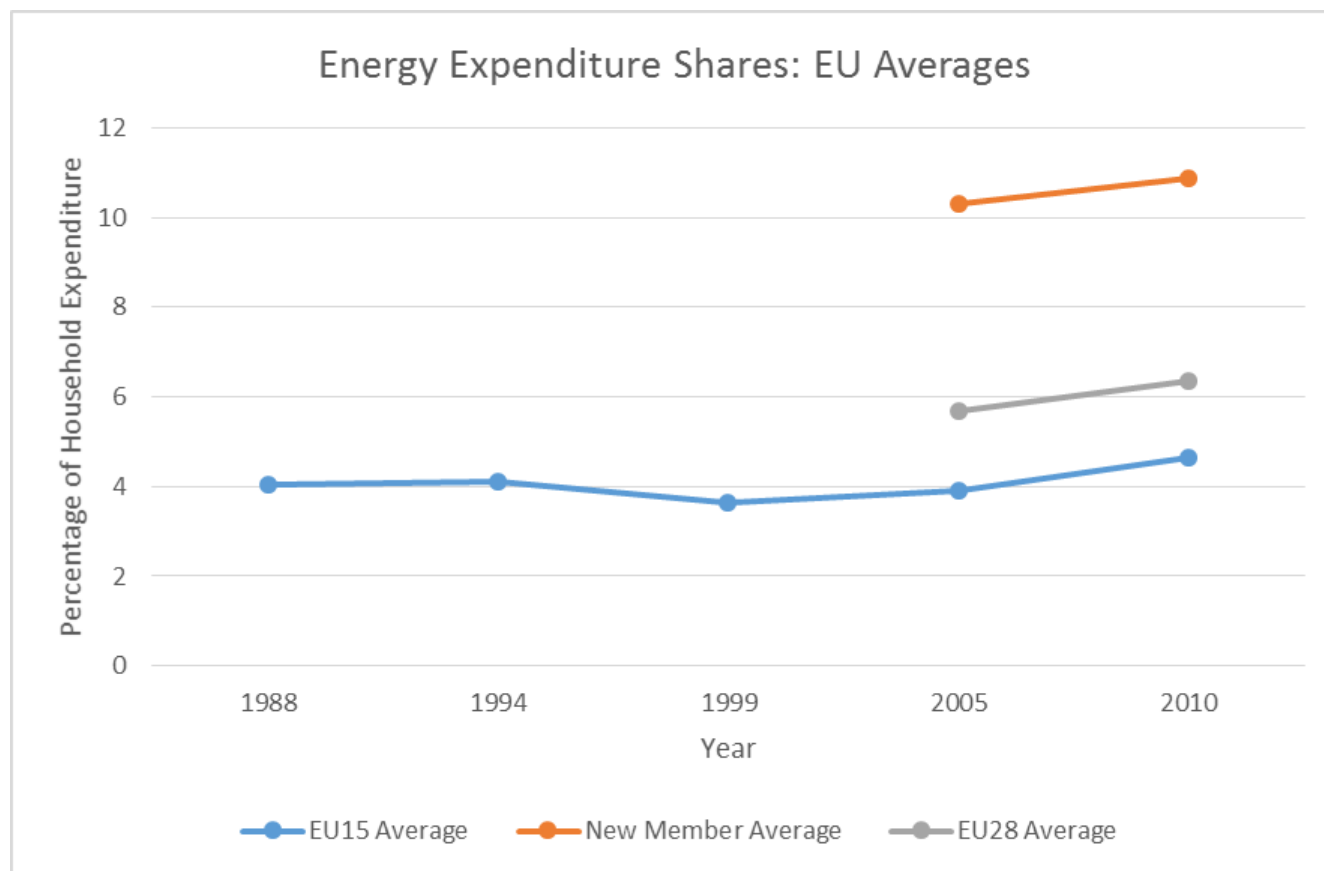
EU Attention on Fuel Poverty

- Comprehensive mapping of national fuel poverty policies very difficult as multitude of local actors and local policies
- EU possibly constrained as issue at boundary of energy/social policy
- 2009: Electricity and Gas directives require definition of ‘vulnerable consumers’ and national action plans to tackle ‘energy poverty’
- 2010: European Economic and Social Committee encourages harmonisation of statistics and creation of European Energy Poverty Monitoring Centre
- 2010: EC encourages switch from subsidies to energy efficiency schemes
- 2012: Council of European Energy Regulators has ‘Affordability’ as one of four guiding principles in its 2020 Vision
- As of 2013, only 3 MS had formal fuel poverty definition (Thomson and Snell, 2013)
- 2015-16: DG Ener’s Vulnerable Consumers Working Group re-examines pan-EU statistics and monitoring (see Trinomics 2016)

Energy Expenditure Share Data

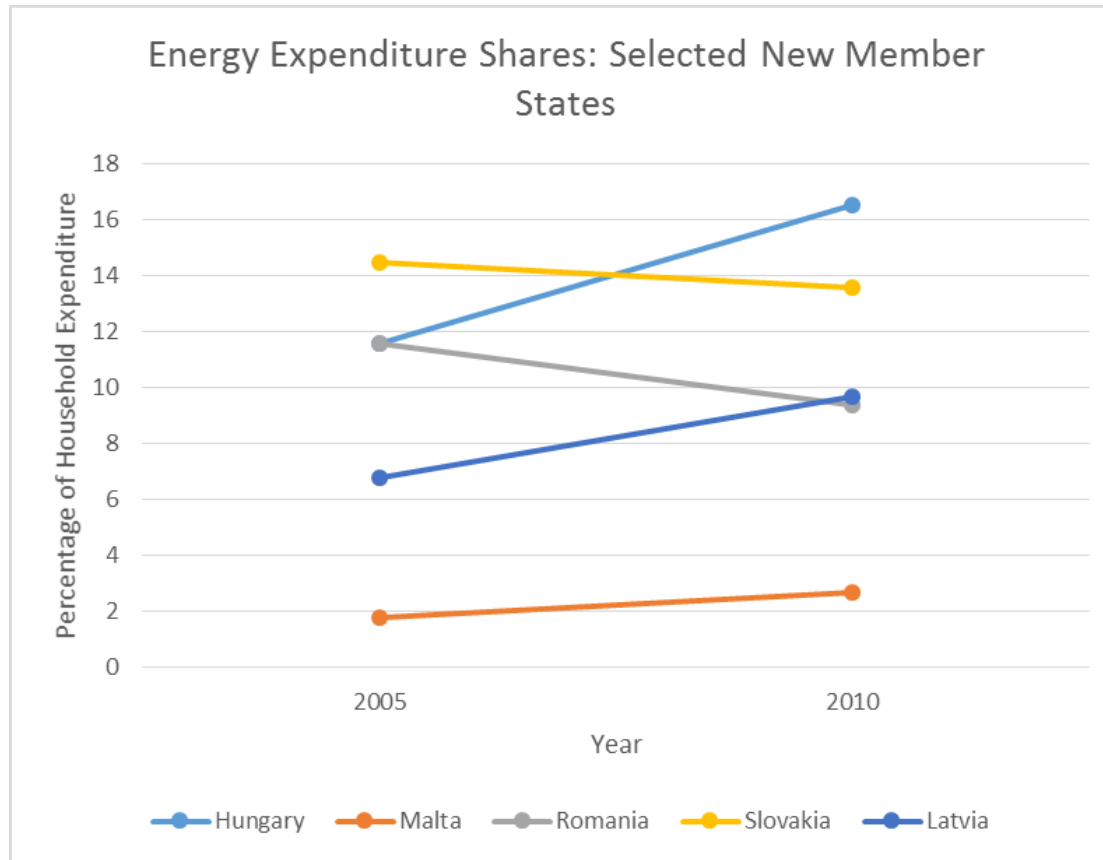
- Eurostat collates national household budget survey data
- Data available at 5 yearly intervals: 1988, 1994, 1999, 2005 and 2010
- Broken down by household type: (i) unemployed, (ii) retired, (iii) bottom income quintile, (iv) single parents, (v) all households with children
- BUT data for individual households not published

New Members' energy expenditure shares are much higher



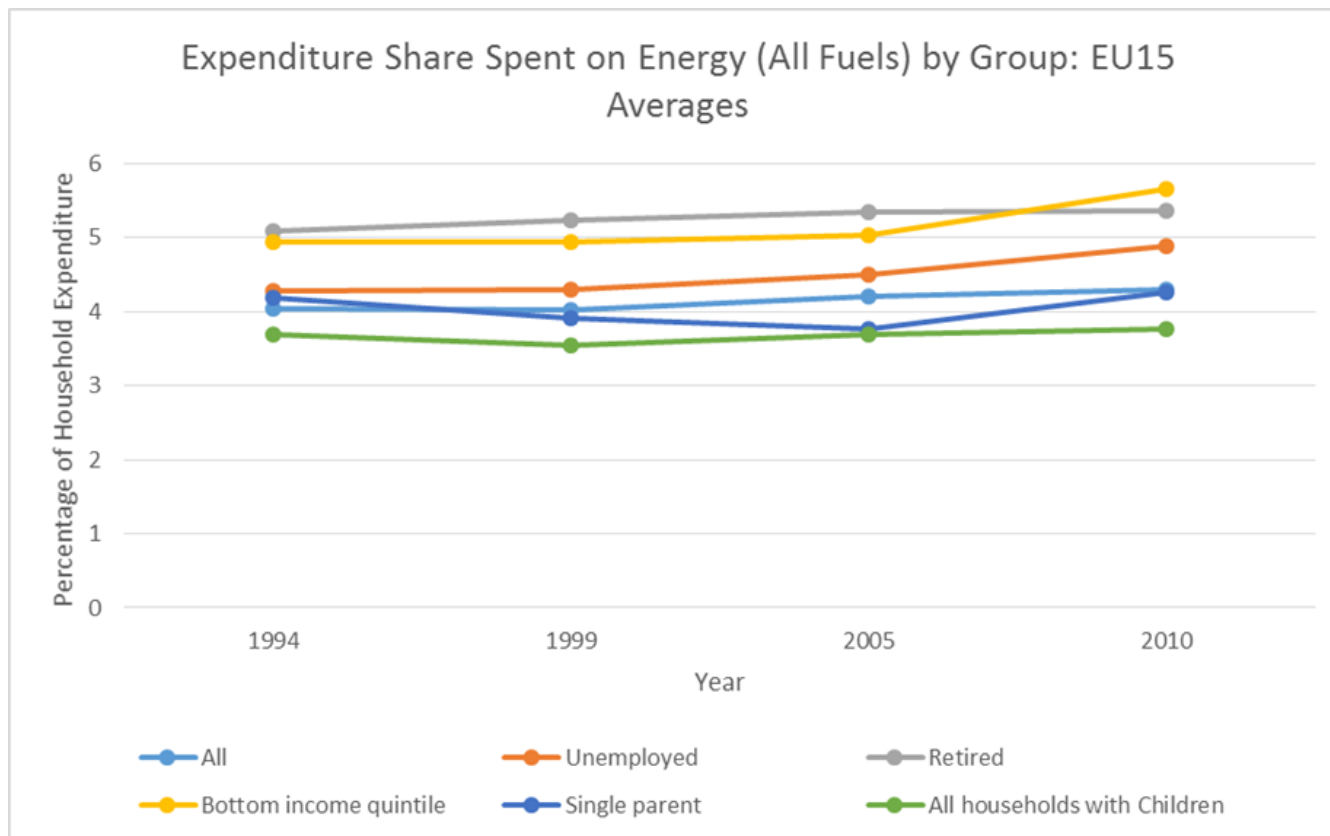
Source: Eurostat, collated household budget survey data

A common EU-wide definition of fuel poverty is inappropriate



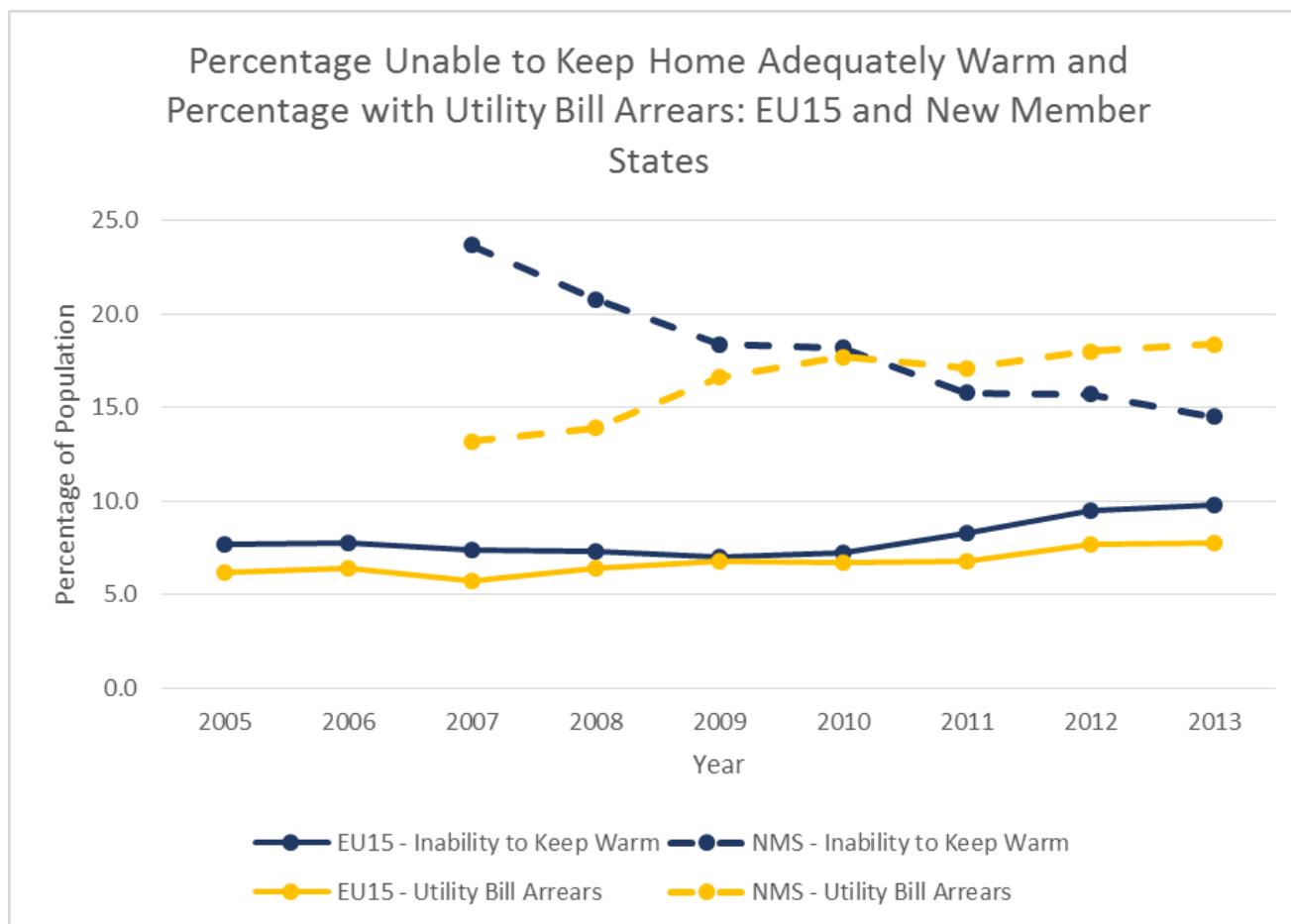
Source: Eurostat, collated household budget survey data

Persistent variations in energy expenditure shares exist across household types



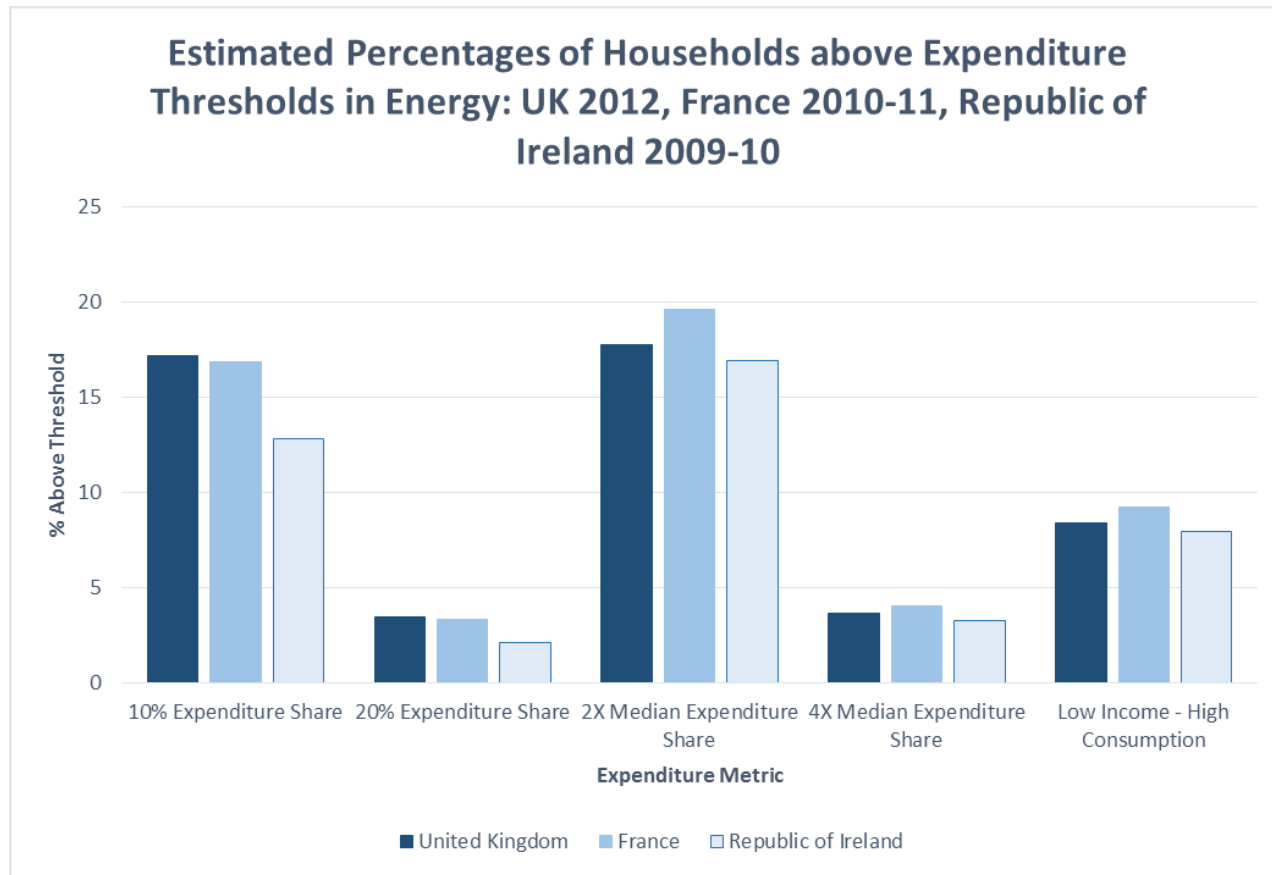
Source: Eurostat, collated household budget survey data

New Members' EU-SILC indicators move in different directions through time



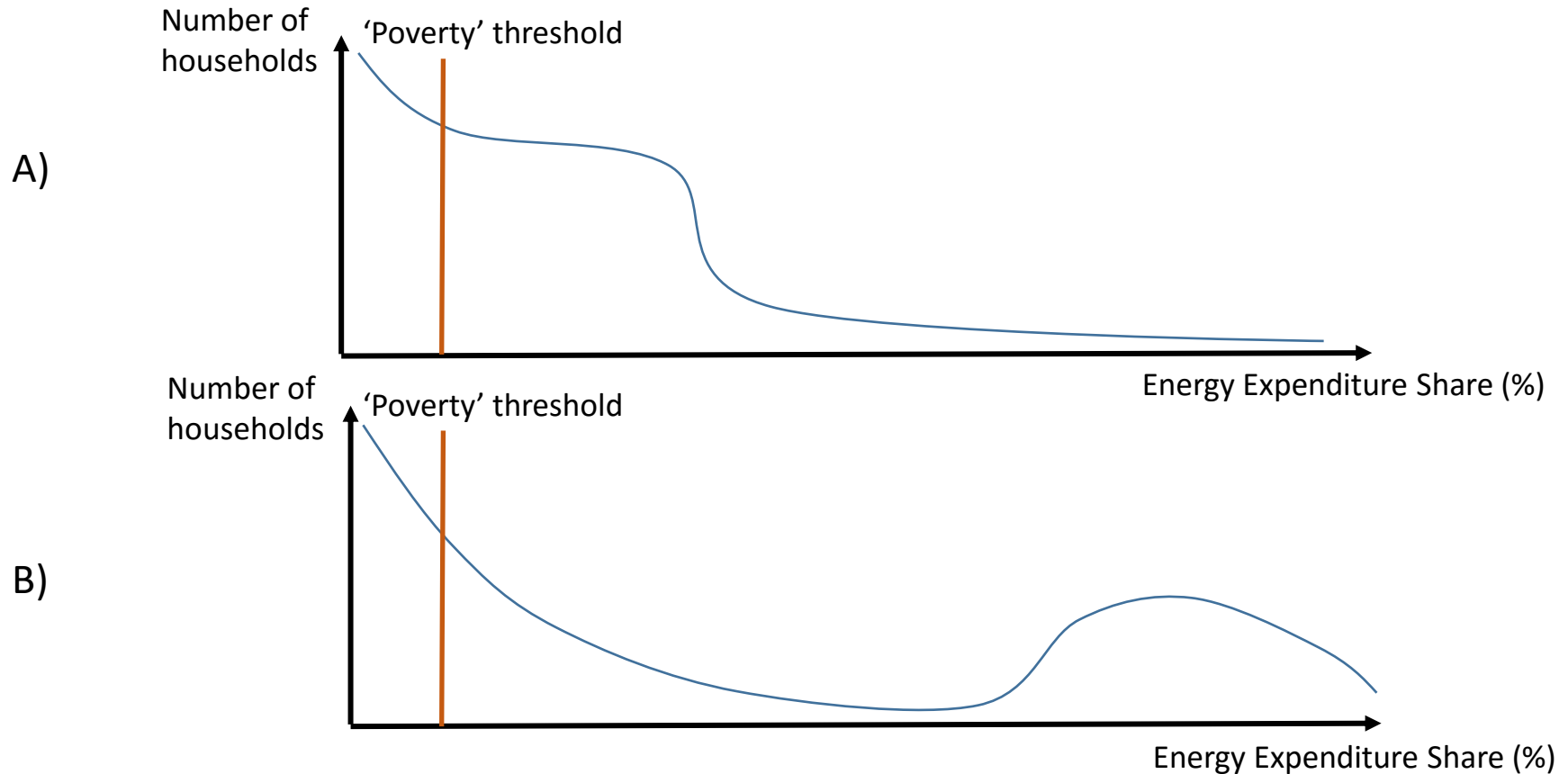
Source: Eurostat, EU Statistics of Income and Living Conditions (EU-SILC)

A common underlying reality exists regardless of the metric used



Sources: UK – Living Costs and Food Survey 2012, France - Enquête Budget de famille 2011, Republic of Ireland – The Irish Household Budget Survey 2009-10

Affordability Policies: High-level metrics may encourage cynical policy making



Policy Conclusion: Focus on total expenditure reductions/welfare gains

- All fuel poverty/affordability metrics are imperfect embodying various value judgements/assumptions
- Ideally:
 - Elected representatives use a range of evidence to determine total resources for fuel poverty alleviation
 - Cost benefit analysis/impact assessments determine which interventions are funded
- BUT: (i) political/media debates may be simplistic, and (ii) any choice of interventions has distributional implications
- The EU should focus on improving data for tracking energy affordability and improving/collating impact assessments