

ENERGY POVERTY

A EURELECTRIC POSITION PAPER



EURELECTRIC IN BRIEF

The Union of the Electricity Industry - EURELECTRIC - is the sector association representing the common interests of the electricity industry at pan-European level. Our work covers all major issues affecting our sector, from electricity generation and markets, to distribution networks, customers, as well as environment and sustainability issues. Our current members represent the electricity industry in over 30 European countries, including all EU Member States. We also have affiliates and associates on several other continents.

Our structure of expertise ensures that input to our policy positions, statements and in-depth reports comes from several hundred active experts working for power generators, supply companies and distribution system operators.

We have a permanent Secretariat based in Brussels that is responsible for the overall organisation and coordination of EURELECTRIC's activities.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

ECONOMIC DEVELOPMENT

› GROWTH, ADDED-VALUE, EFFICIENCY

ENVIRONMENTAL LEADERSHIP

› COMMITMENT, INNOVATION, PRO-ACTIVENESS

SOCIAL RESPONSIBILITY

› TRANSPARENCY, ETHICS, ACCOUNTABILITY

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1. THE CONTEXT



MORE AND MORE CONSUMERS STRUGGLE TO PAY THEIR ENERGY BILLS. WHY?

A number of experts report that “energy poverty is an extensive and increasing problem”¹. They generally refer to people having difficulty paying their energy bills and/or adequately heating/cooling their home.

Quantifying “energy poverty” at EU level is however very complex as it is a multifaceted issue and data are not comparable from a country to another. The concept of “energy poverty” is not acknowledged by all Member states. Many different figures are therefore circulating:

- The EU Survey of Income and Living Conditions (EU-SILC) estimates that in 2011 across the EU nearly 10% of the population were unable to keep their homes adequately warm and around 9% were behind on payments for utility bills².
- Eurostat figures from 2013 show that 52 million people across the EU could not keep their home adequately warm, with 41 million having been in arrears on utility bills.
- According to a 2016 European Commission’s study, “at EU28 level, 8% of survey respondents answered that they regularly had to pay a fee for a late payment of their electricity bill and 3% reported that their electricity consumption had been restricted due to non-payment of their bills.”³

What is clear is that the extent of the problem differs substantially across European countries. According to the European Commission⁴:



Between **17%** and **20%** of customers report that they sometimes (or even often) cannot pay their electricity bills on time.



Less than **5%** of customers report that they sometimes (or even often) cannot pay their electricity bills on time.

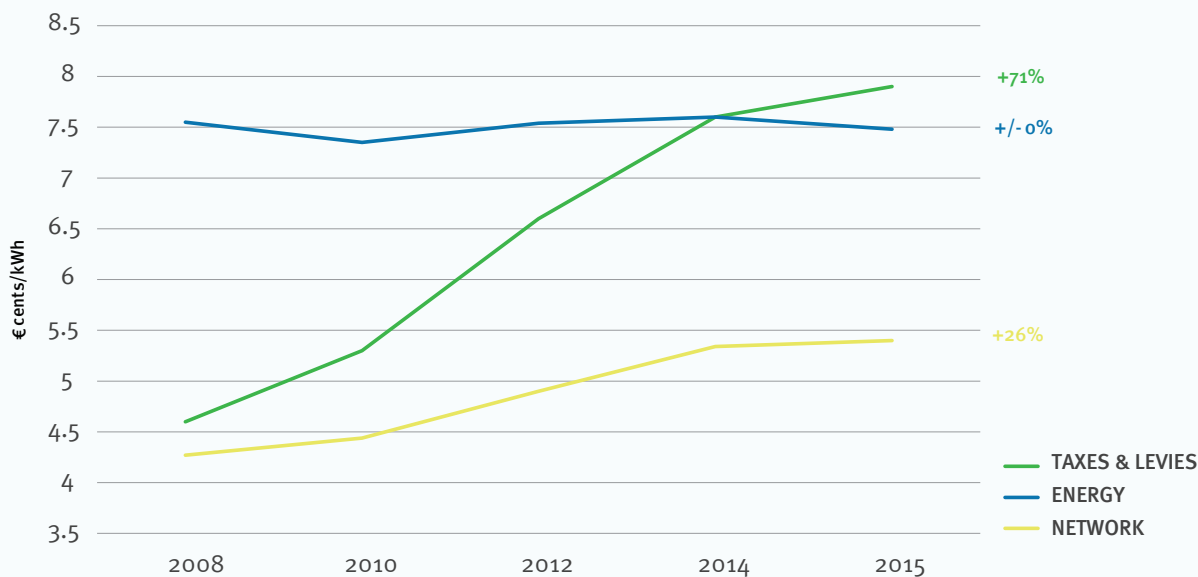
Rising electricity prices and “energy poverty” are top of the news in countries such as Greece and Spain where energy companies are often accused of being responsible for them.

Examples taken from Spanish media



However, if we take a closer look at retail electricity prices, it is obvious that the **main driver for households' electricity price increases over the past few years has been policy costs and levies**. Today, the weight of the taxes and levies component equates the energy and supply component of the bill for a residential customer. This is because **the electricity bill is increasingly used by national authorities to recover the cost of energy and climate policies**, including the financing of decarbonisation.

Graph 1: Evolution of components of average EU household retail electricity bill⁹





ENERGY SUPPLIERS ACTIVELY SUPPORT THEIR CUSTOMERS

Energy suppliers take their responsibilities towards their customers very seriously. Customers struggling to pay their electricity bills are of concern for companies too – beyond the fact that the cost of arrears borne by companies can amount to millions of euros¹⁰ - and it is in their interest to find effective solutions.

Suppliers generally assist customers who are struggling to manage their electricity usage and bills through **energy efficiency advice, payment arrangements, and appropriate debt management processes.**

Many suppliers have also signed agreements with local authorities and social services to support low income customers and help avoid supply interruptions due to unpaid bills. To mention a few examples:



AUSTRIA

Several energy companies (e.g. Verbund AG, Kelag) are involved in projects with social institutions (Caritas, Volkshilfe) with the aim to support low income customers through emergency financial aid, energy counselling, and replacement of inefficient and old electrical appliances for free.



BELGIUM

There are bilateral agreements between social services and suppliers in Brussels in case of unpaid bills for low income customers. The debt is directly paid by social services in exchange of partial debt write off by the supplier. There is also a mandatory information exchange between suppliers and social services during recovery processes so that they can find a global solution based on all elements (income, expenses, etc.) and not just energy debt. Finally, suppliers participate in the national platform on energy poverty coordinated by the King Baudouin Foundation.



FRANCE

There has been a long term and active involvement with local authorities and social services in the implementation of local support programs as well as preventive actions against energy poverty. EDF's financial contribution to the Social Fund for Housing (which to date has helped more than 175 000 families to pay for their energy bills) amounted to 105M€ over the past 5 years. EDF has also concluded local partnerships with 191 social mediation structures (such as the "Point Information Médiation Multi Services" (PIMMS) network) to assist low income customers in solving their problems linked to energy consumption and to provide advice on energy management. Last but not least, EDF concluded partnerships with NGOs such as Fondation Abbé Pierre to develop common actions to fight energy poverty: EDF has been a partner for the "2000 roofs for 2000 families" and later on "Toits d'abord" programmes since 2008 (EDF contribution is now in the range of 2 million euros per year).



GERMANY

In many regions, there are voluntary and regional cooperation agreements between energy suppliers, local administration, and welfare organisations to provide fast and non-bureaucratic solutions in case of payment problems. Due to this, supply interruptions / disconnections can often be avoided. Payment of the bill is then facilitated by means of credit or supported via social benefits. Other solutions have been developed by suppliers. For instance E.ON offers households the opportunity to make partial payments on their energy bills in cash at supermarkets such as REWE, Penny or Dm. In addition, job centers and welfare organizations have access to team of specialized E.ON consultants. If a customer registers with one of these organizations, E.ON staff can help them identify the reasons for their energy debts early and find solutions.



SPAIN

Electricity suppliers have signed cooperation agreements with local and regional Administration (over 400 agreements all over the country) to help low income customers to avoid supply interruptions due to unpaid bills. In case of payment failure, supply is not interrupted and bill payments are facilitated using funds that public administrations set aside for this purpose. Suppliers have also launched several initiatives to improve the protection of vulnerable customers. A successful initiative is the creation of volunteer teams, who – in close cooperation with social organizations - advise low income customers with regard to efficient consumption and help them to apply for the Social Voucher.



2. EURELECTRIC PROPOSED SOLUTIONS





TAKE THE FOLLOWING ACTIONS AT EU LEVEL

1. Support the framework proposed in the Electricity directive



Some stakeholders believe that defining ‘energy poverty’ and remedial measures at EU level is necessary to alleviate the problem. EURELECTRIC does not share this view. **We are pleased that the European Commission leaves it up to Member States to define criteria and policies to alleviate “energy poverty” whilst strengthening their reporting obligations.**

Indeed **Member States’ situations differ greatly** as far as employment, social security systems, climatic conditions, electricity consumption, home insulation, or energy retail prices are concerned. For instance, the energy efficiency of the home may be a real issue in some Member States, but not in others¹¹. In line with that, there is a disparity of policies between - and sometimes within – Member States as to how best tackle the issue.

- In some countries (e.g. Denmark, Germany, Norway), governments think it makes little sense to define separate “poverty areas” and to consider energy in isolation, i.e. without referring to the wider financial situation of customers affected by energy debt. Often, customers who have energy debts are likely to have other debts (for instance water, rent, insurance). For those countries, there is no need to define “energy poverty” as such. Poverty is tackled holistically, primarily through social policy.
- Other countries have a specific approach to “energy poverty”. In France, for instance, the concept of energy vulnerability has been described in the law since 2010 and dedicated measures exist to assist low income households. In the UK, the government has recently changed its definition of “energy poverty” following a review; further devolved administrations have their own definition.

The proposed EU framework – whereby Member States decide their national policies - is therefore appropriate. **Tackling the issue should be done at the level where it is most efficient to do so, in line with the subsidiarity and better regulation principles.**

2. Better assess the impact of new EU policy initiatives on customers



Any new policy initiative at EU level should be subject to a **distributional impact assessment** to make sure that energy customers – especially the most vulnerable ones – will not bear disproportionate risks and unintended consequences.

3. Improve monitoring of energy poverty and exchange of best practices



Collecting data on “energy poverty” at EU level and exchanging best practices - as done in the Citizens’ Energy Forum and European Commission’s Working Group on Vulnerable Consumers - is useful and should be continued. In this respect we welcome the creation of a European observatory on energy poverty.



TAKE THE FOLLOWING ACTIONS AT EU AND NATIONAL LEVEL

1. Rethink retail pricing

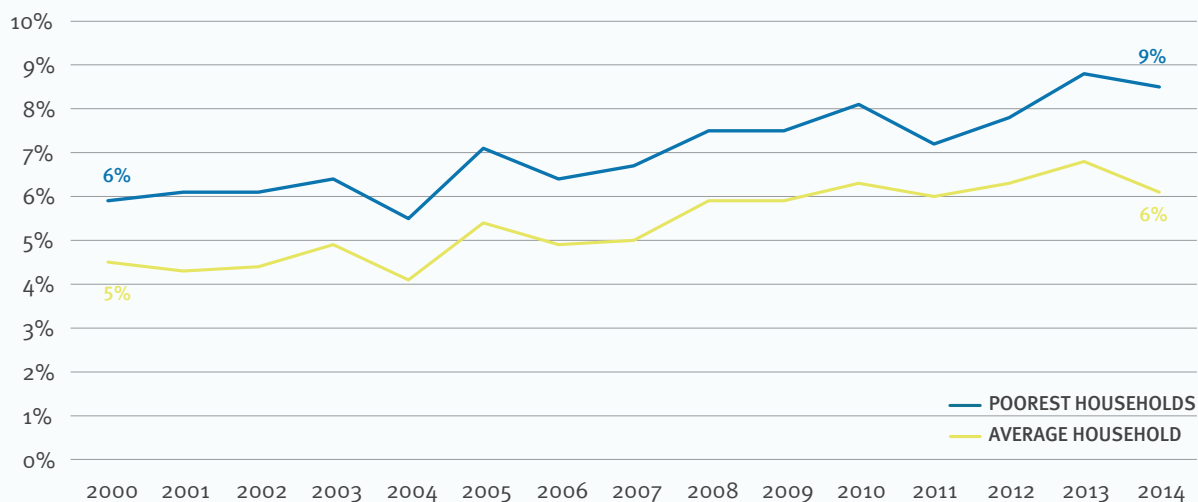


The electricity bill is increasingly used to recover the cost of energy and climate policies, including the financing of decarbonisation. **Taxes and levies have been the main driver for recent price increases.** With the 2030 EU targets and the need to upgrade and smarten electricity networks, this trend is poised to continue¹².

In this context, **the way regulated costs (network charges and levies) are charged to customers is problematic.** Most of these charges are volumetric: they are linked to the amount of energy consumed. As a result, **the less electricity consumed, the fewer taxes and levies will have to be paid.** With technological developments like distributed generation, storage, electro-mobility, or micro-grids, some customers are now consuming less electricity from the grid and thereby contributing less to system costs through tariff payments. **Those costs then have to be charged across a smaller consumer base** – those customers not willing or not able to invest in such technologies, including many low income customers – meaning an effective increase to their tariff payments.

If no action is taken to alleviate the problem, this trend is likely to increase further. As recently shown by a Commission's study, whilst European households share of income spent on energy went from 5% to 6% between 2000 and 2014, it rose from 6% to 9% over the same period for the poorest households.

Graph 2: EU average - share of households' budget spent on domestic energy services¹³



Governments should be aware that **rising taxes and levies on energy increase “energy poverty”**. As far as possible, **customers’ bills should reflect the market-based cost of energy** and should not be a vehicle for financing other – sometimes totally unrelated - policies.

A **progressive method of funding policy measures (environmental, social etc.) is through general taxation**: this ensures that those on low incomes and below the tax threshold are not required to contribute, but can still access and benefit from these policies. Policies could also be financed through other means such as **tax credits**. Another alternative would be to **spread the costs across other fuels**.

As for the remaining ‘regulated charges’, i.e. the policy costs that may still be left in the bill and network charges, they should account for customers’ contracted capacity. These regulated charges may be conveyed with flat, time of use, peak pricing or dynamic options, depending on consumers’ choice. This would not hinder the use of network tariffs as a complementary instrument for energy efficiency and demand response and would reinforce the incentive for rational behaviour¹⁴.

2. Target energy efficiency measures on low income customers and rethink their financing



Energy efficiency measures are an effective long term solution to tackling “energy poverty”. Given the constraints on resources across Member States, we agree that available assistance for energy efficiency should be focused on those most in need. This may have to be done on a case-by-case basis. Indeed a given customer may have a low income but not be in, or at risk of, “energy poverty” as he may have highly energy efficient accommodation and lower energy requirements.

The **current Energy Efficiency Directive (EED) sets the right framework**. It states that Member States should be allowed “to include requirements in their national scheme that pursue a social aim, in particular in order to ensure that vulnerable customers have access to the benefits of higher energy efficiency”. **Leaving sufficient flexibility for Member States is crucial, as national circumstances are diverse**. Therefore such requirements should not become compulsory as proposed in the revised EED.

In terms of financing, **supplier obligations are not the best way of funding and delivering energy efficiency measures**. Indeed, such obligations have held back the market. The supply chain has come to rely on subsidies rather than developing market based ways to sell energy efficiency measures. Supplier obligations are also financially regressive. **Costs are distributed among customers regardless of their ability to pay** which inevitably creates winners (those who receive measures) and losers (those who cannot or do not receive measures)¹⁵.

We must transition to using more progressive sources of funding (other than levies on energy bills), which takes account of the customer’s ability to pay:

- More focus should be given to **removing existing barriers to energy efficiency policies**. Measures such as **regulatory tools in the housing sector** or **financial incentives** including **tax exemptions** should be considered.
- **EU funding programmes** such as Structural Funds or the European Fund for Strategic Investments could also be used by Member States more systematically to improve energy efficiency in the housing sector, in particular for low-income families.
- **Financing tools which leverage private investment** and do not require refinancing via surcharges on the energy bill should be developed - including tools such as **Energy Performance contracts (EPC)**, **Energy Saving Agreement (ESA)** or **on-bill repayment**¹⁶.

3. Improve retail market functioning



The European Commission should step up its measures against those Member States which still fail to comply with existing EU legislation, in particular the 3rd energy package's requirement to define the concept of vulnerable customers.

Robust competition is the primary means to safeguard the interests of all energy customers and incentivise responsible market behaviour by market participants.

Regulated prices are sometimes perceived as a shield against the market. They are claimed to protect customers from market prices, which are thought to be inevitably increasing. Even though regulated prices may protect customers from increases in energy costs in the short term, they **will not take people out of poverty**. Besides, this is often at the expense of non-household customers, electricity companies and public finances where electricity tariff deficits are incurred. In the medium to long run, regulated prices (especially when set below market costs) are not sustainable and harm the interests of all consumers. **The protection of vulnerable customers requires a targeted approach rather than broad public interventions in the price-setting for the supply of electricity.**



TAKE THE FOLLOWING ACTION AT NATIONAL LEVEL

1. Use social policy to protect customers and ensure access to essential services



In most cases where customers have energy debts, they are likely to struggle paying for other essential services too (e.g. housing, food, etc.). **Wider social policy is the best mechanism to help customers tackle the root causes of debt, including energy debts.**

Support granted to people suffering from poverty should come from general income of the state, i.e. through general taxation. Considering the progressive nature of taxation, **this would allow for a fair burden-sharing** without causing those on lower incomes to bear a disproportionately higher burden.

As electricity is considered an essential service, **responsibility for identifying vulnerable or low income customers should lie with those having access to the necessary information, experience, and skills**, i.e. social services. Energy companies can provide some information on their customers, where prior consent has been given, but they should not take primary responsibility for dealing with individual customer debt matters.



EURELECTRIC'S VIEWS ON THE CLEAN ENERGY PACKAGE PROPOSALS

In line with the above, EURELECTRIC calls on members of the European Parliament and on the Council to support the European Commission's proposals from the Recast Electricity Directive, the Energy Performance of Buildings Directive and the Governance Regulation, but to reject the amendment proposed to the existing Energy Efficiency Directive.

EXISTING FRAMEWORK	CLEAN ENERGY PACKAGE PROPOSALS	EURELECTRIC VIEW
Directive 2009/72/EC on common rules for the internal market in electricity requires Member States to <i>"define the concept of vulnerable customers which may refer to energy poverty and, inter alia, to the prohibition of disconnection of electricity to such customers in critical times"</i> (Art. 3(7)).	In the draft Electricity Directive (Recast), this provision is kept (Art 28)	✓
	In the draft Electricity Directive (Recast), the European Commission requires Member States to ensure the protection of energy poor or vulnerable customers in a targeted manner by other means than public interventions in the price-setting for the supply of electricity (Art 5(2)).	✓
	In the draft Electricity Directive (Recast), the European Commission proposes to require Member States to define a set of criteria to measure energy poverty. Member States would be obligated to monitor the number of households in energy poverty and to report on both the evolution of energy poverty and abatement measures to the Commission every two years as part of their Integrated National Energy and Climate Progress (Art 28).	✓
Directive 2012/27/EU on energy efficiency states that Member States may include requirements with a social objective in the saving obligations they impose, for example by requiring a share of energy efficiency measures to be implemented as a priority in households affected by energy poverty or in social housing (Art 7(7a)).	In the draft Energy Efficiency Directive (Recast), this provision is kept but <i>"may"</i> is replaced by <i>"shall"</i> (Art 7(a)(5a))	✗
	In the draft Energy Efficiency Directive (Recast), a new provision is introduced whereby "In designing alternative policy measures to achieve energy savings, Member States shall take into account the effect on households affected by energy poverty." (Art 7b(2))	✓
	In the draft Energy Performance of Buildings Directive, the European Commission requires Member States to contribute to the alleviation of energy poverty through their long term renovation strategy (Art 1(2b))	✓
	In the draft Governance regulation, the European Commission requires Member States to include in the integrated national energy and climate progress reports information on the implementation of national objectives with regards to energy poverty, including the number of households in energy poverty (Art 21(e))	✓

ENDNOTES

¹ “Social causes and consequences of energy poverty”, Sian Jones in “Energy poverty handbook”, edited by Katalin Csiba, 2016.

² Pye, May 2015; cited in “Social causes and consequences of energy poverty”, Sian Jones in “Energy poverty handbook”, edited by Katalin Csiba, 2016.

³ “Second consumer market study on the functioning of the retail electricity markets for consumers in the EU”, European Commission, September 2016

⁴ Ibid.

⁵ <http://ctxt.es/es/20161116/Firmas/9562/Rosa-Reus-Gas-Natural-pobreza.htm>

⁶ <http://www.nexer.es/blog/bajara-la-luz-por-fin-a-partir-del-1-de-abril-de-2013/>

⁷ http://renovablesinlimites.blogspot.be/2013_05_01_archive.html

⁸ <http://www.jrmora.com/blog/2014/09/25/electricidad/>

⁹ “Energy prices and costs in Europe”, European Commission, November 2016

¹⁰ In Italy, the cost of arrears borne by electricity retailers has been estimated to be higher than € 370 million per year (source: AEEGSI). In Belgium, unrecoverable network charges amounted to no less than € 37.2 million in 2013 (source: FEBEG). For further detail please refer to “Mitigating credit risk in the interest of electricity consumers”, EURELECTRIC, January 2016.

¹¹ Finland may well be the coldest EU Member State but as homes have traditionally been very well insulated, energy poverty there is not a problem per se. Winter mortality is much more correlated to accidents such as slipping rather than cold homes.

¹² IHS CERA estimates that total system costs – including generation, networks and policy costs – recovered annually from end consumers will rise by 24% from today by 2030, reaching €340 billion per year for the EU28 as a whole. See Squaring the Circle, Europe’s misaligned retail pricing policy. IHS Energy Market Briefing, 2015.

¹³ “Vulnerable Consumer Working Group, Working Paper on Energy Poverty”, European Commission

¹⁴ More capacity-based network tariffs (especially for low voltage consumers) reflect the higher network costs associated with peak demand and provide customers with incentives to reduce their peak load, resulting in a more efficient use of the network. They provide better incentives for a more efficient use of energy overall.


¹⁵ In the UK, according to the Department of Energy and Climate Change (DECC)’s own statistics, only 4.7% of those households who have contributed towards the cost of ECO, including those in or at risk of energy poverty, are estimated to have benefitted directly from the installation of measures.

¹⁶ See “Triggering energy efficiency investments”, EURELECTRIC policy paper, September 2015



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