

Policy Approaches in the UK

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IEA Fuel Poverty Workshop

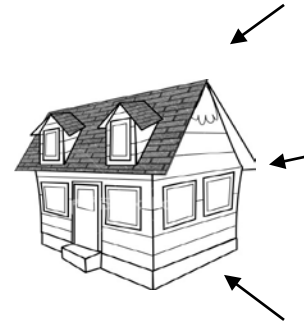
28th January 2011

- 1. Fuel poverty: the UK approach**
- 2. Policies to support low-income and vulnerable households with the cost of energy bills**
- 3. Key considerations for implementing new policies**
- 4. The role of evaluation in policy development**

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Fuel Poverty: the UK approach

- **Definition** - A household is in fuel poverty if it *would need to* spend >10% of its income on fuel to maintain an adequate level of warmth (21°C in main living area, 18°C in other occupied rooms).



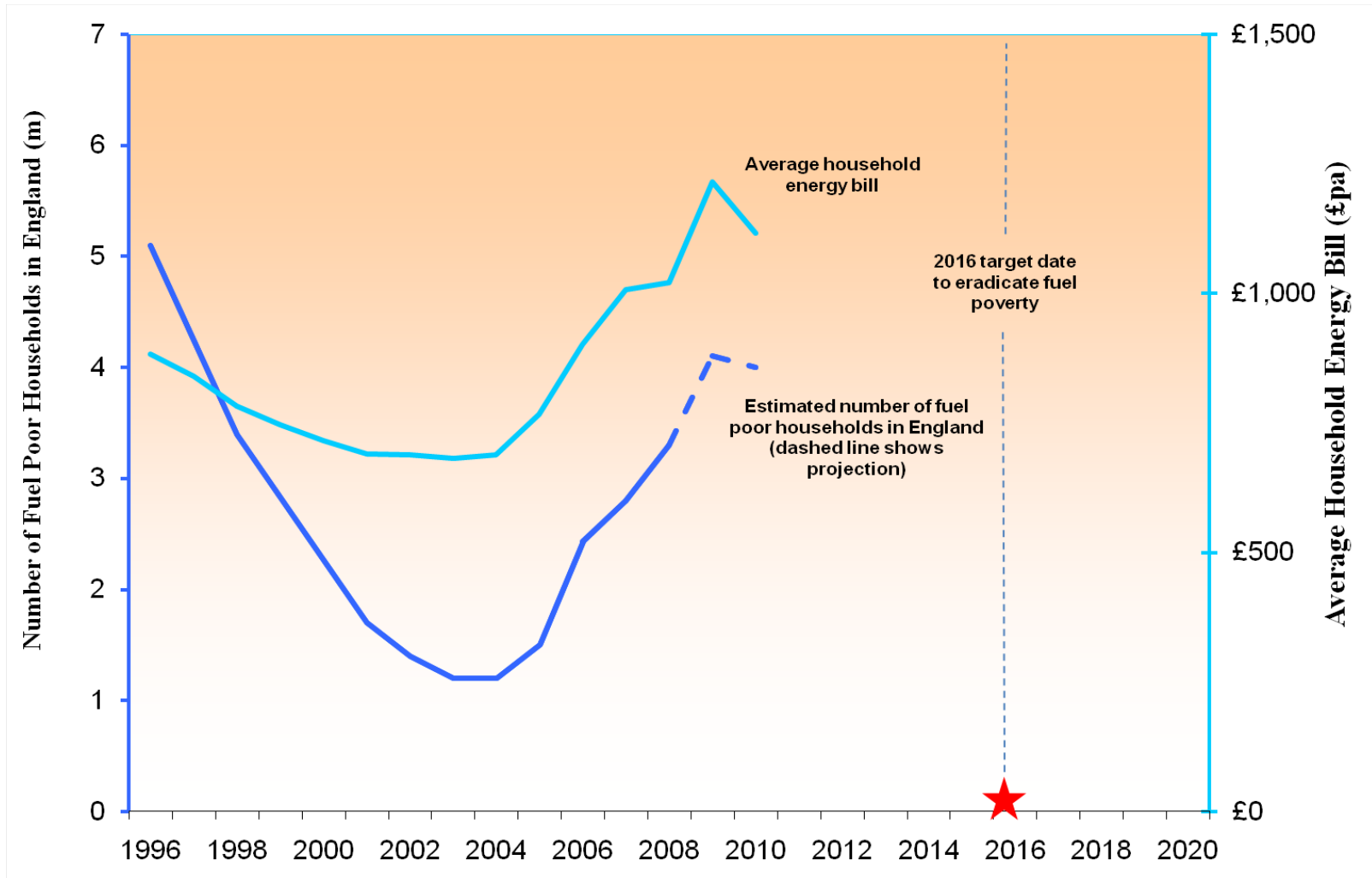
Income

Energy Efficiency

Fuel Prices

- **Statutory target:** eradicate fuel poverty in all households in England by 2016, as far as reasonably practicable. The Scottish Executive has a target to eliminate fuel poverty by 2016 while the Welsh Assembly has a target to eliminate fuel poverty by 2018.

The number of households in fuel poverty



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The UK approach touches each of the three drivers of fuel poverty



Thermal efficiency

- **Warm Front Scheme** (exchequer funded)
- **Carbon Emission Reduction Target** (energy supplier obligation)

Prices

- **Voluntary Agreement:** energy supplier commitment to provide support for activities to support fuel poor households (mainly social tariffs)

Incomes

- **Winter Fuel Payments**
- **Cold Weather Payments**

The recent Spending Review has implications for the way in which support will be delivered to vulnerable households



Thermal efficiency

- Smaller **Warm Front** programme for the next two years.
- From 2013, support for heating and insulation for the most vulnerable will be delivered through the **Green Deal**.

Prices

- From April 2011, energy suppliers will provide greater help with energy bills to more of the most vulnerable fuel poor households, through **Warm Home Discount**.

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What are the key drivers for governments in implementing new and innovative fuel poverty policies?

Statutory target

Cost and cost effectiveness

Delivery

Interaction with GHG targets

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Interaction with GHG targets

Eradicate fuel poverty in all households in England by 2016, as far as reasonably practicable.

“A greater burden of any increase in bills falls on lower income households with respect to the share of income spent on energy bills.” DECC Annual Energy Statement 2010

What are the key drivers for governments in implementing new and innovative fuel poverty policies?

Statutory target

Cost and cost effectiveness

Delivery

Interaction with GHG targets

Economic impact of delivering measures to low-income and vulnerable households tends to be low due to:

- the tendency of the target group of households to under-heat
- many of the benefits are difficult to monetise (e.g., health)

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Interaction with GHG targets

Important to target measures at the households that are most in need of support:

- **difficult to know whether a household is fuel poor.**
- **issue is compounded for policies delivered through energy suppliers.**

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Interaction with GHG targets

Energy efficiency measures can help to make progress against both fuel poverty and GHG objectives.

Other measures that can have a big impact on household thermal efficiency (e.g., new gas-fired central heating systems) can increase GHG emissions.

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What role can evaluation play in illuminating and expanding the dialogue on low-income energy efficiency policies and programmes?



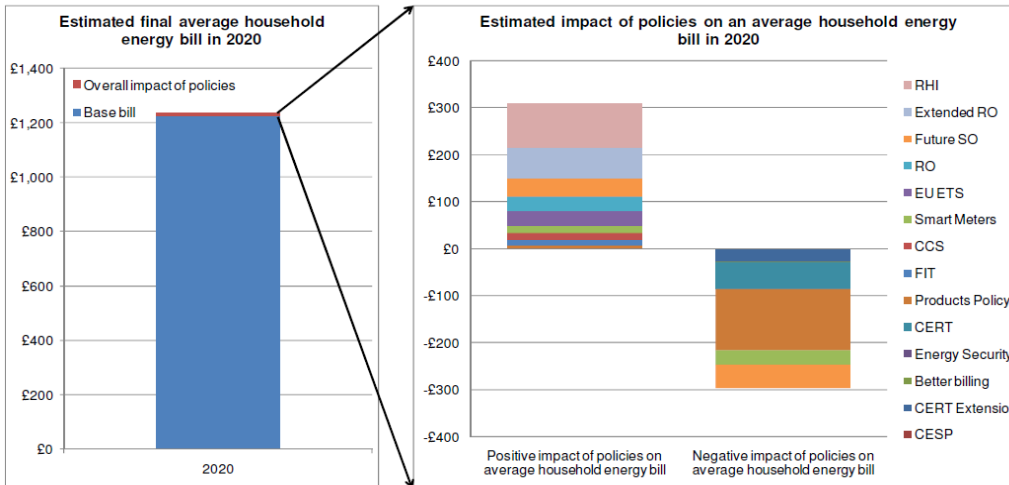
- **Important to strengthen the evidence base in a number of areas:**
 - **Valuation:** research to allow us to capture more of the benefits of programmes in policy appraisal.
 - **Behaviours:** how do low-income and vulnerable households behave when they receive insulation and heating measures?
 - **Delivery:** which types of households receive support through policies that are delivered by energy suppliers?

ANY QUESTIONS?

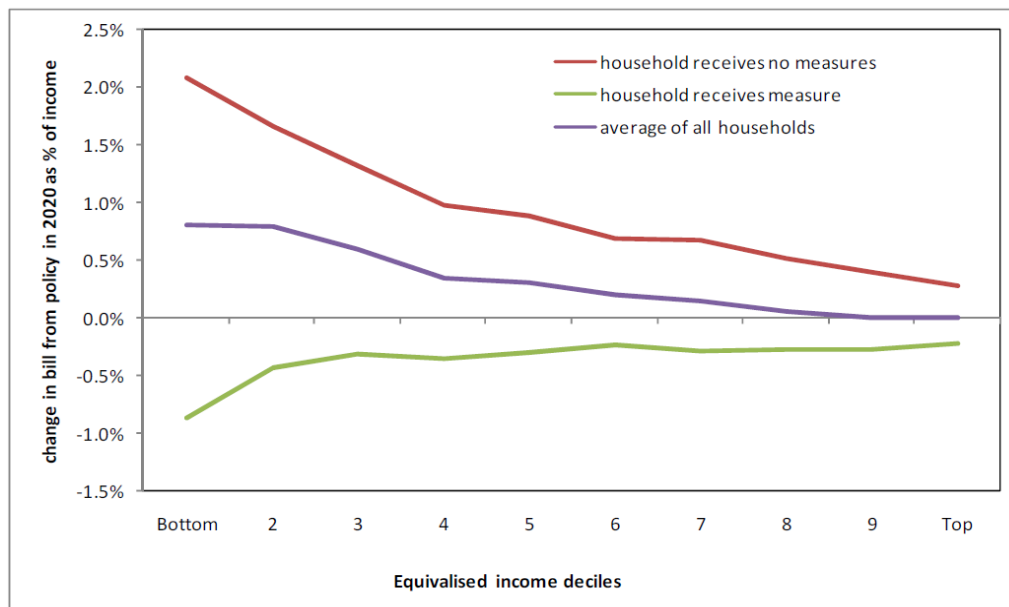
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BACKGROUND SLIDES

Future challenges: trends in energy prices



Domestic energy bills projected to increase to 2020. Climate and energy policies projected to increase by average energy bills by 1% in 2020.....



.....however, impacts vary across households, with a greater burden falling on low-income households.

Equity weighting in economic analysis

“Any distributional effects identified should be explicitly stated and quantified as far as possible. The impact of a proposal on an individual’s well-being will vary according to income; as income grows, the satisfaction derived from an additional unit of consumption declines. Analysis can then be undertaken, using distributional weights, to recognise the identified impacts within the cost-benefit analysis. A benefit or cost accruing to a relatively low income family would be weighted more heavily than one accruing to a high income family”.

The Green Book: Appraisal and Evaluation in Central Government.
HM Treasury

The approach uses *distribution weights* to value the costs and benefits to different types of household. Weightings are based on a utility function of the form:

$$U = \log C$$

Where C is consumption and the marginal utility of consumption is given by $\delta U / \delta C$ (i.e., $1/C$).

This implies that if consumption doubles, the marginal utility of consumption falls to one half of the previous value.