Policy Approaches in the UK

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IEA Fuel Poverty Workshop
28\textsuperscript{th} 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).

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

- **Statutory target**
  - 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

- **Cost and cost effectiveness**

- **Delivery**

- **Interaction with GHG targets**
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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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.
What are the key drivers for governments in implementing new and innovative fuel poverty policies?

- Statutory target
- Cost and cost effectiveness
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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.
“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 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.