

# Incorporating social considerations into energy efficiency obligations

Darryl Croft

Senior Researcher, ACE Research Team

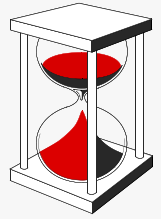
Policies for Energy Provider Delivery of Energy Efficiency

EU Regional Policy Dialogue

Brussels, January 19, 2012

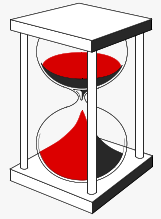
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*

[www.ukace.org](http://www.ukace.org)



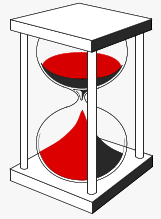
## Conclusions

- Energy Efficiency Obligations are not the ideal way of delivering upon social objectives
- However, without including social considerations the programmes become highly regressive
- Equity can be improved by
  - a) Minimising low income households contribution to the costs, and
  - b) Maximising low income households share of the support
- Requires regulations and incentives if Obligations are to delivered in this way



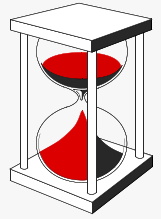
# Overview

1. Why are social considerations needed?
2. Are Energy Efficiency Obligations the best way to address social energy efficiency issues?
3. How to best include social considerations



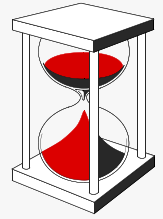
# 1. Why are social considerations needed?

- Fuel Poverty and energy affordability increasingly problematic across the EU
  - Rising energy prices
  - Costs of energy and climate change programmes
- Low income / vulnerable households less likely to afford energy efficiency improvements
  - Difficulty in finding upfront capital
  - Require support
- Left unchecked, energy efficiency obligations less likely to support these households
  - Less cost-effective carbon and energy savings



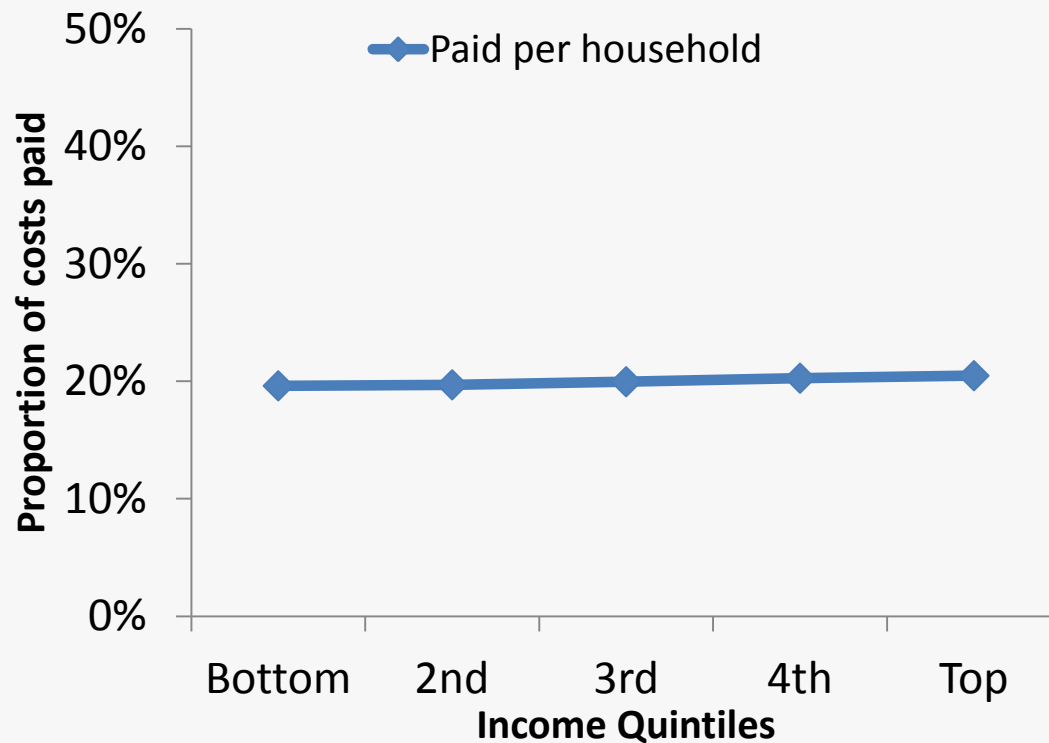
## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive

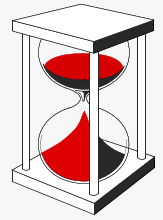


## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive

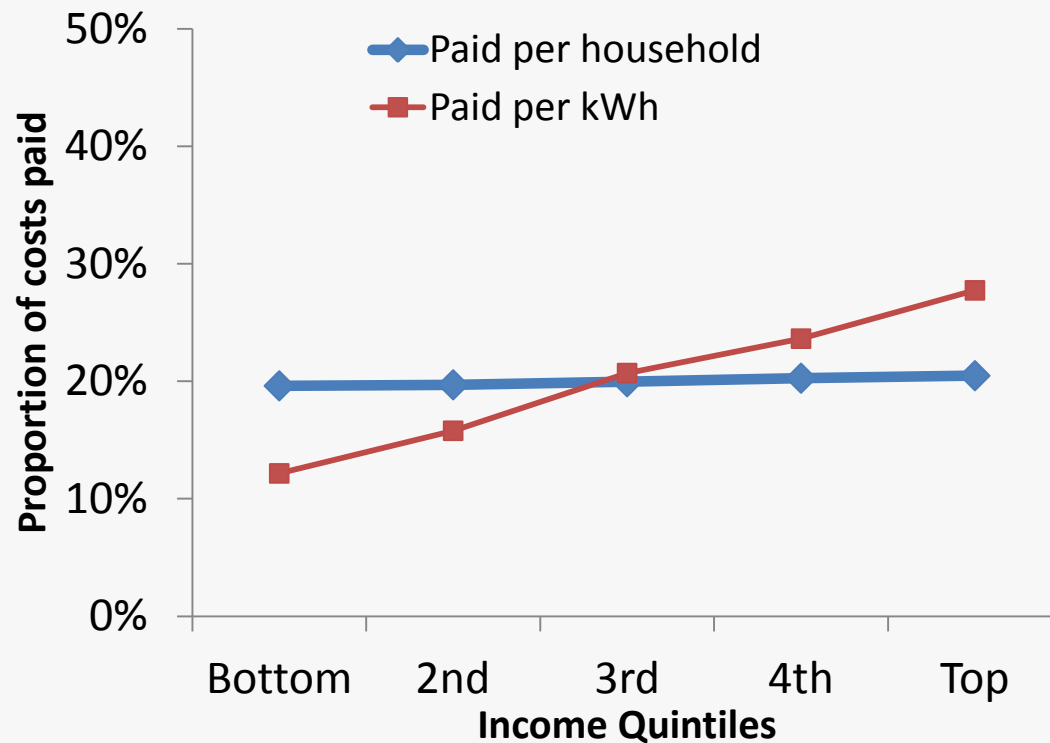


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*

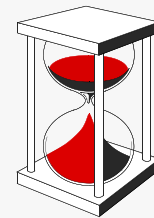


## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive

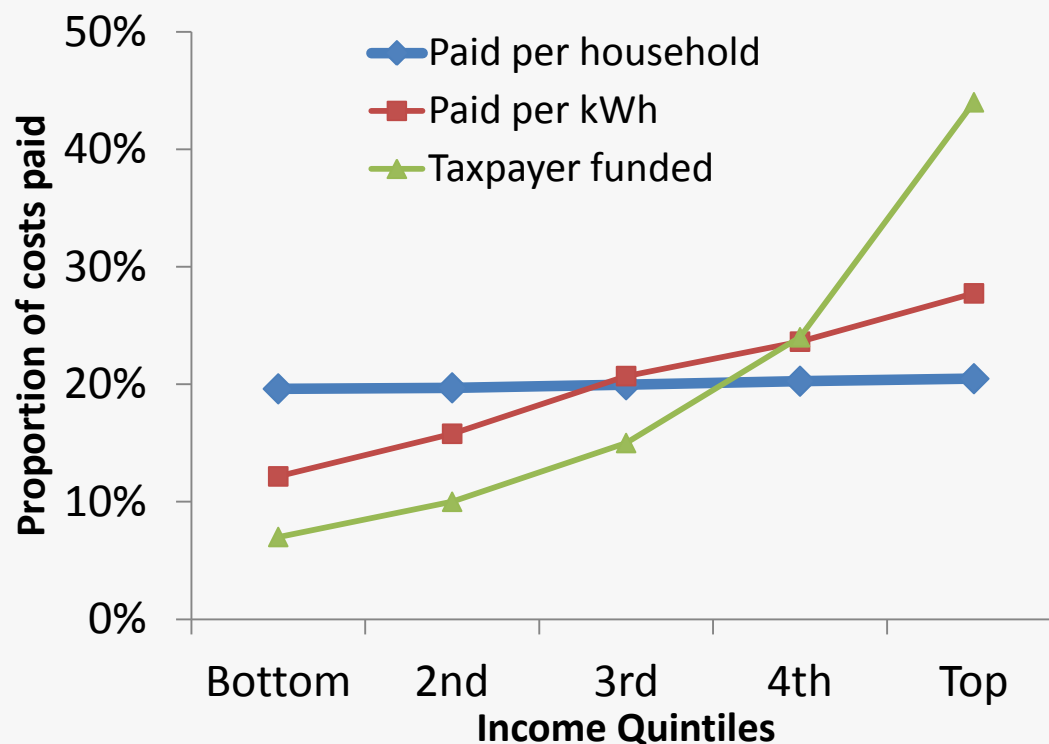


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



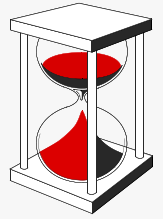
## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive



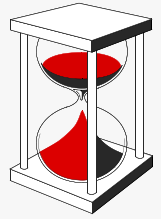
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*





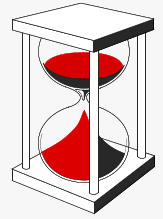
## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive



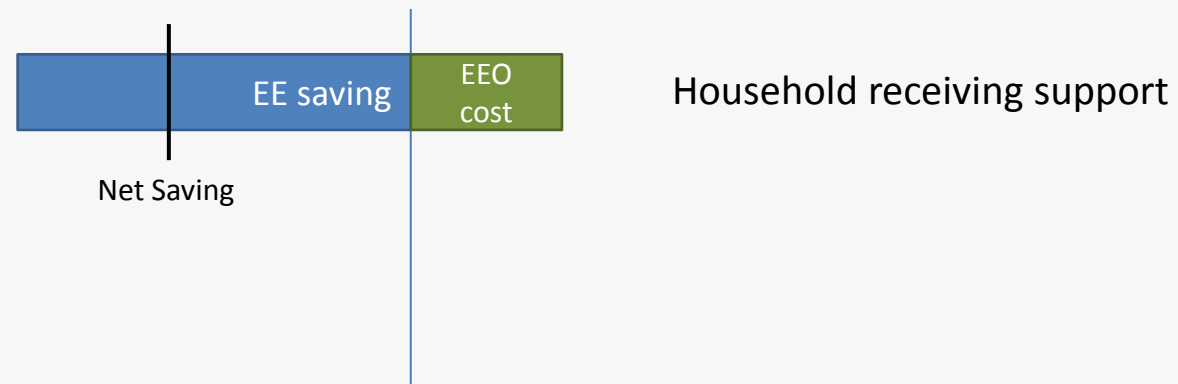
## 2. EE Obligations & social considerations

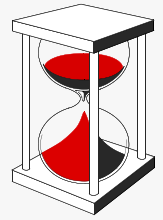
- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive
  - Focussed on achieving targets at lowest cost, not addressing specific household needs
  - Costs are passed back onto household bills: in the case of fuel poverty it undermines the problem it seeks to tackle



## 2. EE Obligations & social considerations

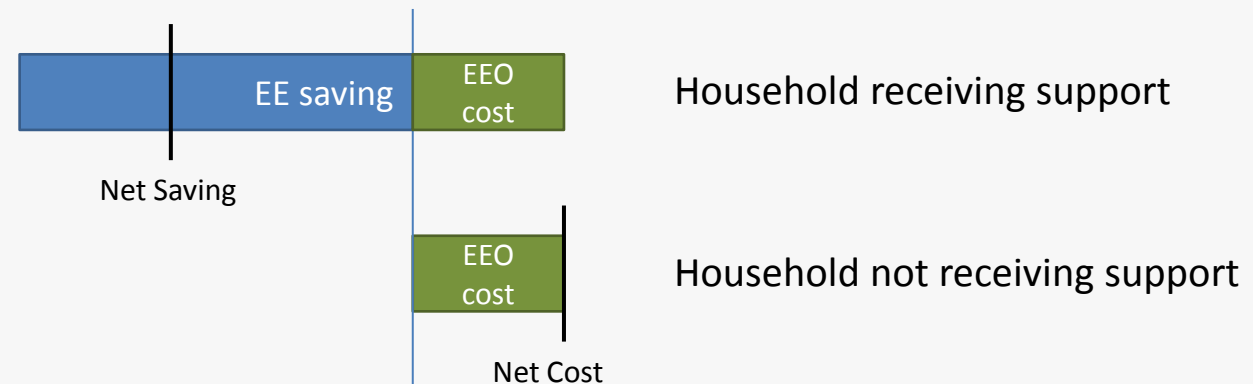
- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive
  - Focussed on achieving targets at lowest cost, not addressing specific household needs
  - Costs are passed back onto household bills: in the case of fuel poverty it undermines the problem it seeks to tackle

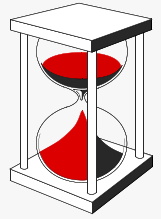




## 2. EE Obligations & social considerations

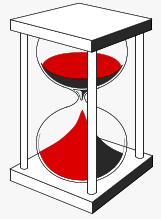
- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive
  - Focussed on achieving targets at lowest cost, not addressing specific household needs
  - Costs are passed back onto household bills: in the case of fuel poverty it undermines the problem it seeks to tackle





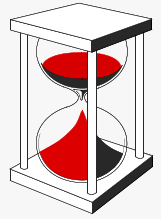
## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive
  - Focussed on achieving targets at lowest cost, not addressing specific household needs
  - Costs are passed back onto household bills: in the case of fuel poverty it undermines the problem it seeks to tackle



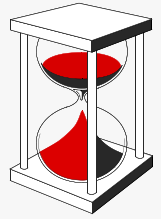
## 2. EE Obligations & social considerations

- Energy Efficiency Obligations aren't the ideal route for solving social energy efficiency issues
  - Programmes tend to be regressive
  - Focussed on achieving targets at lowest cost, not addressing specific household needs
  - Costs are passed back onto household bills: in the case of fuel poverty it undermines the problem it seeks to tackle
- However, in current environment, there are few Governments wishing to support programmes funded through taxation
  - In the UK, currently £800m of support for low income and vulnerable households via the EE Obligations, only £110m through tax-payer scheme.



## 2. EE Obligations & social considerations

- Social considerations within EE Obligations, whilst not the most effective route for social support, are there to improve equity within the programme
  - Low income households less likely to be supported without such considerations:
    - Less likely to be able to contribute to capital costs
    - Consume less energy on average, hence reduced carbon and energy saving opportunity
    - More likely to ration energy consumption, and take energy savings as comfort.
- *For reasons of equity, social considerations should be accounted for within an Energy Efficiency Obligation*

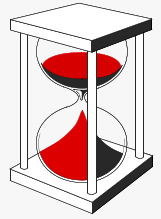


### 3. Including social considerations

*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*

[www.ukace.org](http://www.ukace.org)

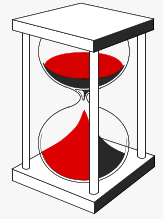




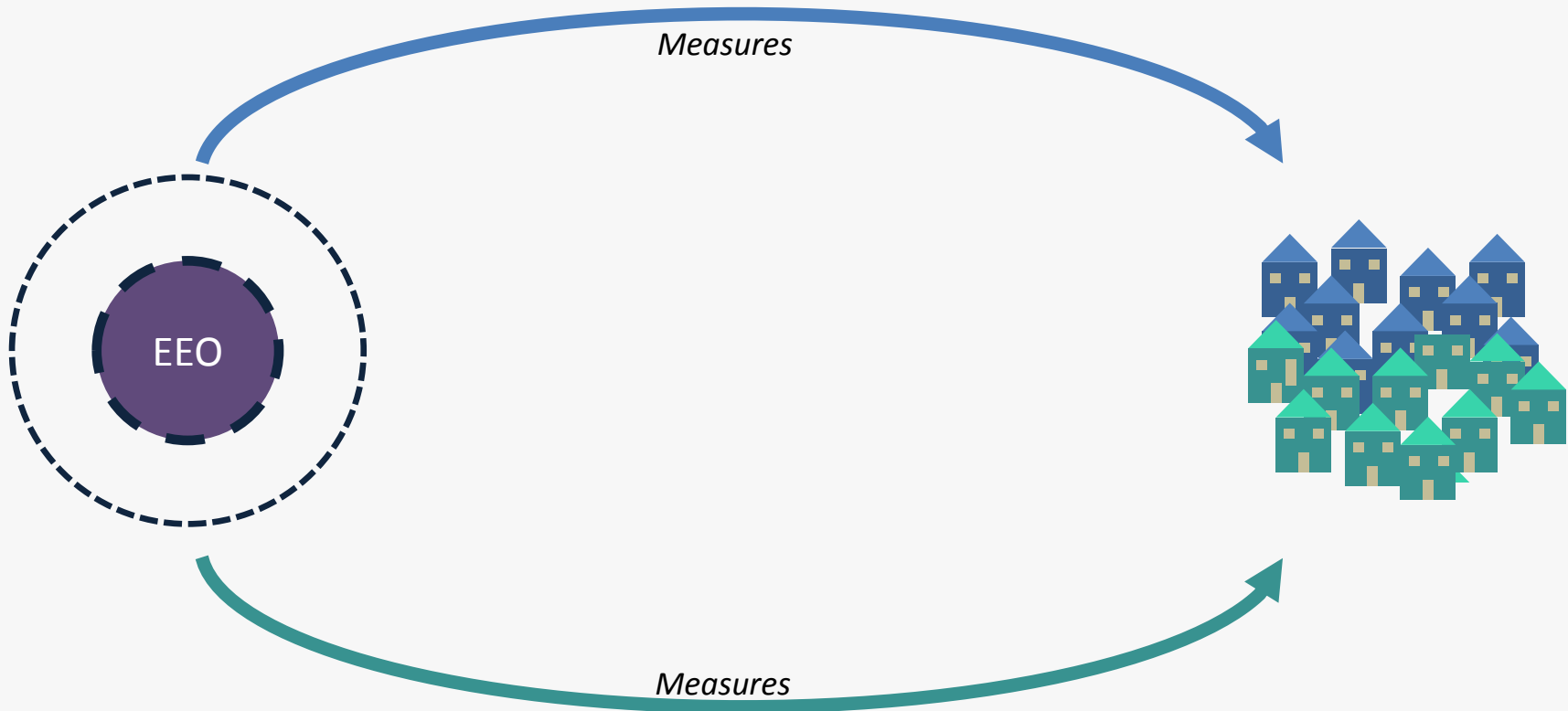
### 3. Including social considerations



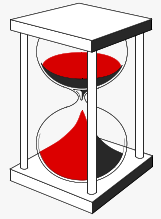
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



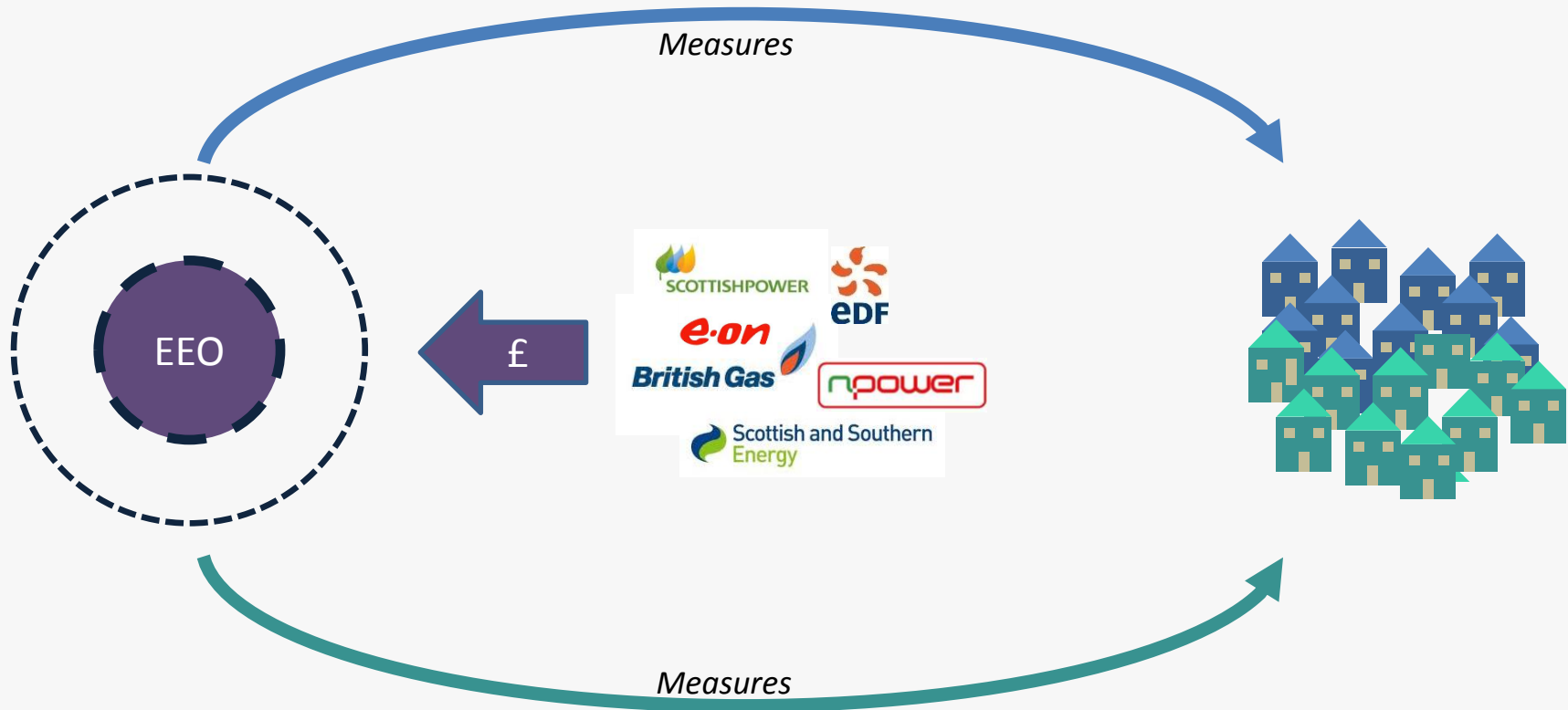
### 3. Including social considerations



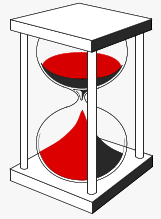
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



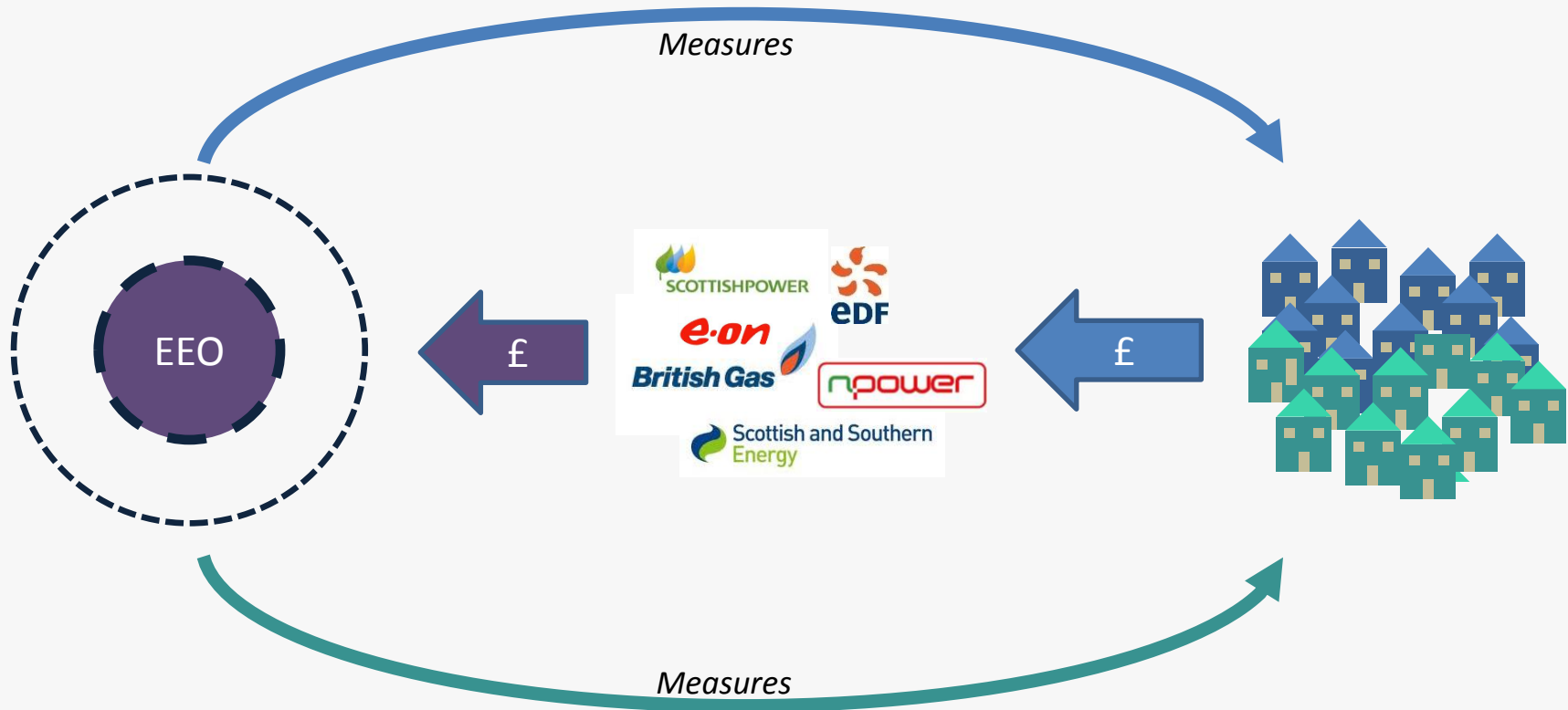
### 3. Including social considerations



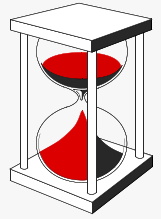
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



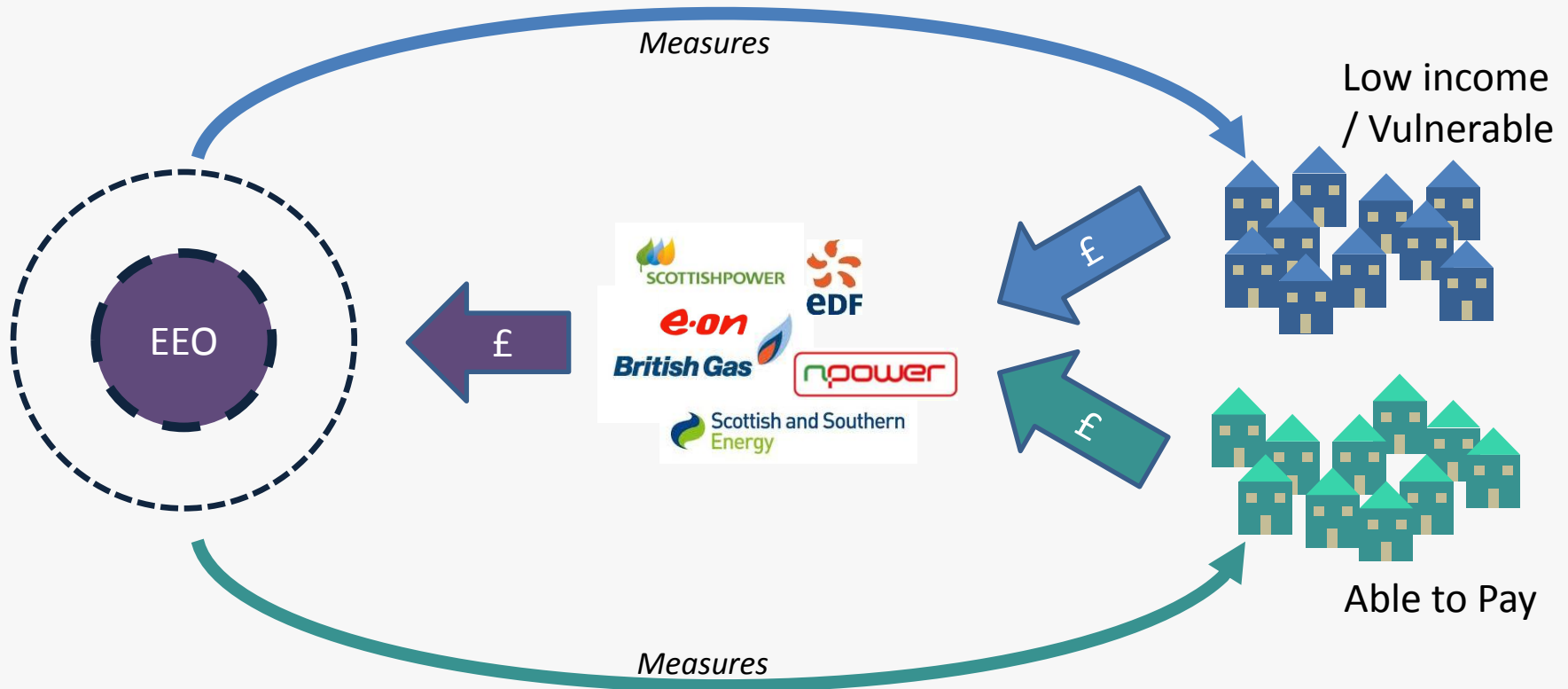
### 3. Including social considerations



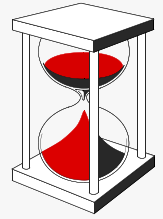
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



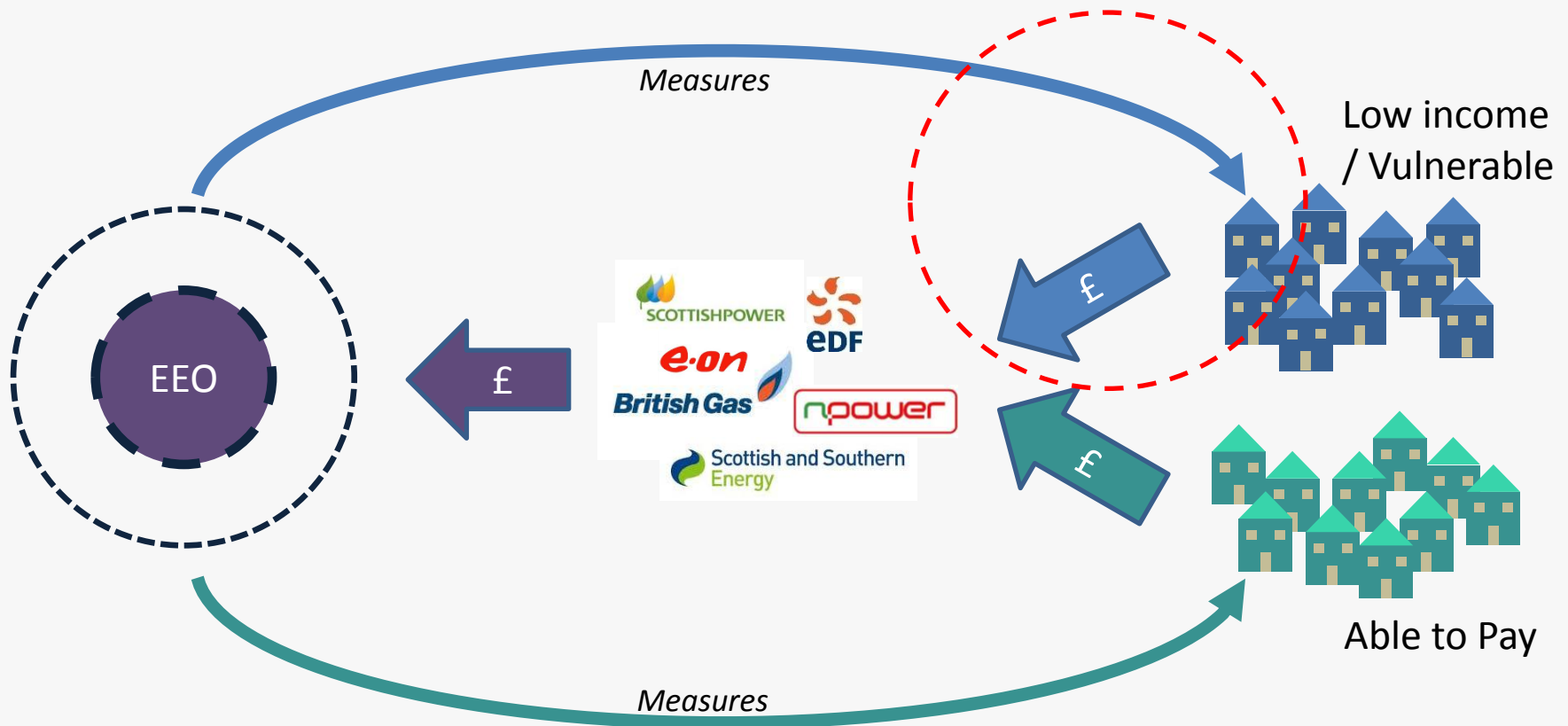
### 3. Including social considerations



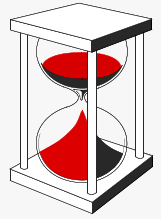
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



### 3. Including social considerations

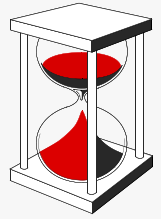


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



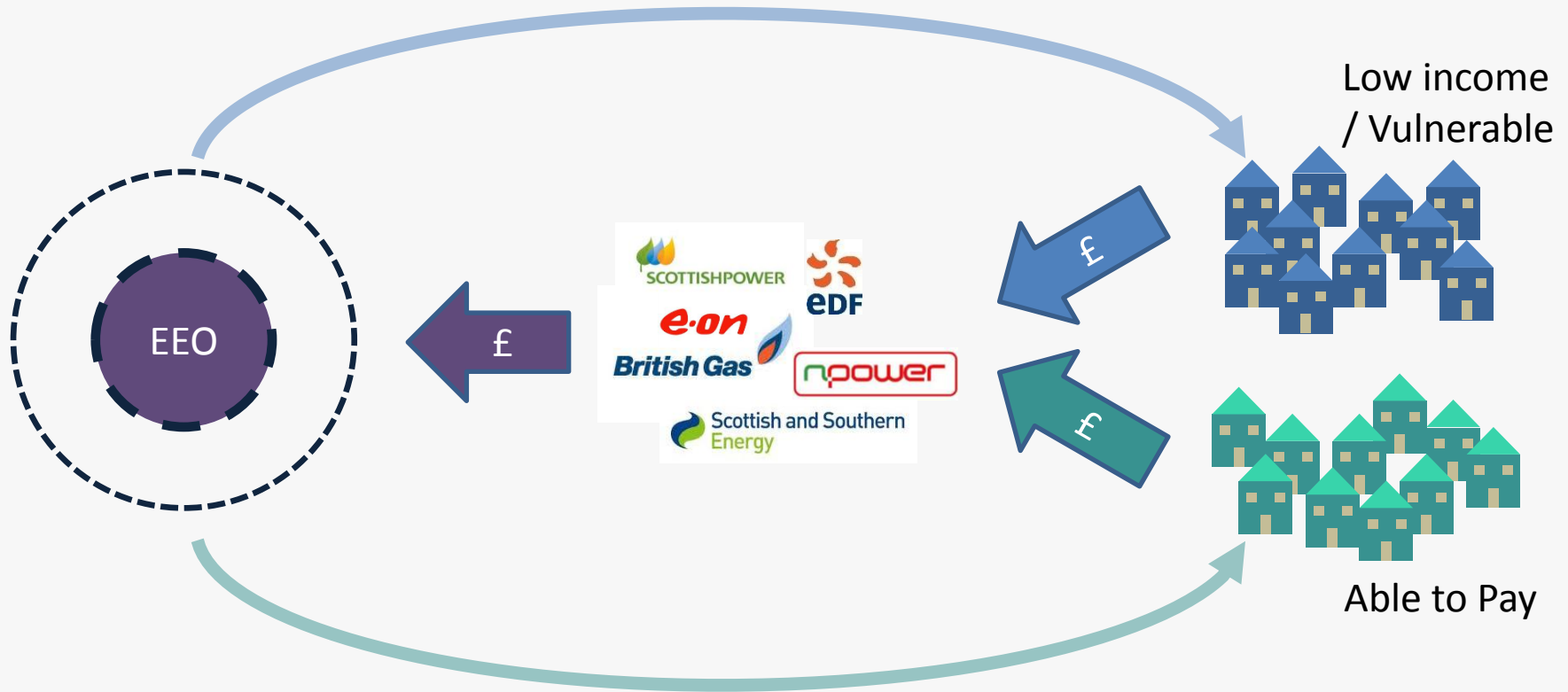
### 3. Including social considerations

- Require the design of the EEO to deliver two things:
  1. Ensure low-income households pay only a **fair proportion of the costs**
  2. Ensure low-income households receive a **fair proportion of the benefits**



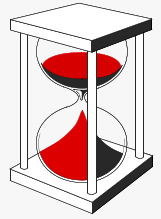
### 3. Including social considerations

“fair proportion of the costs”



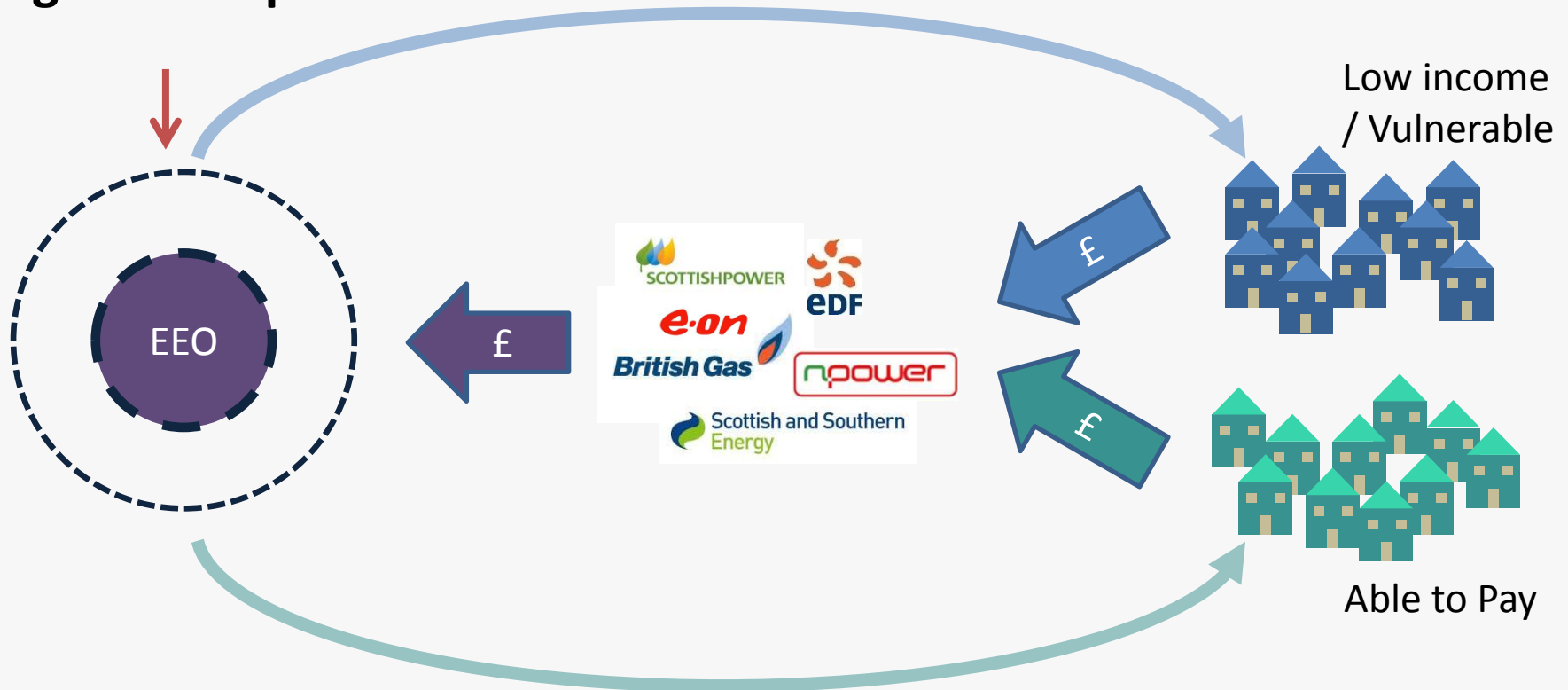
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



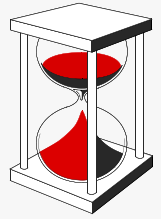


### 3. Including social considerations

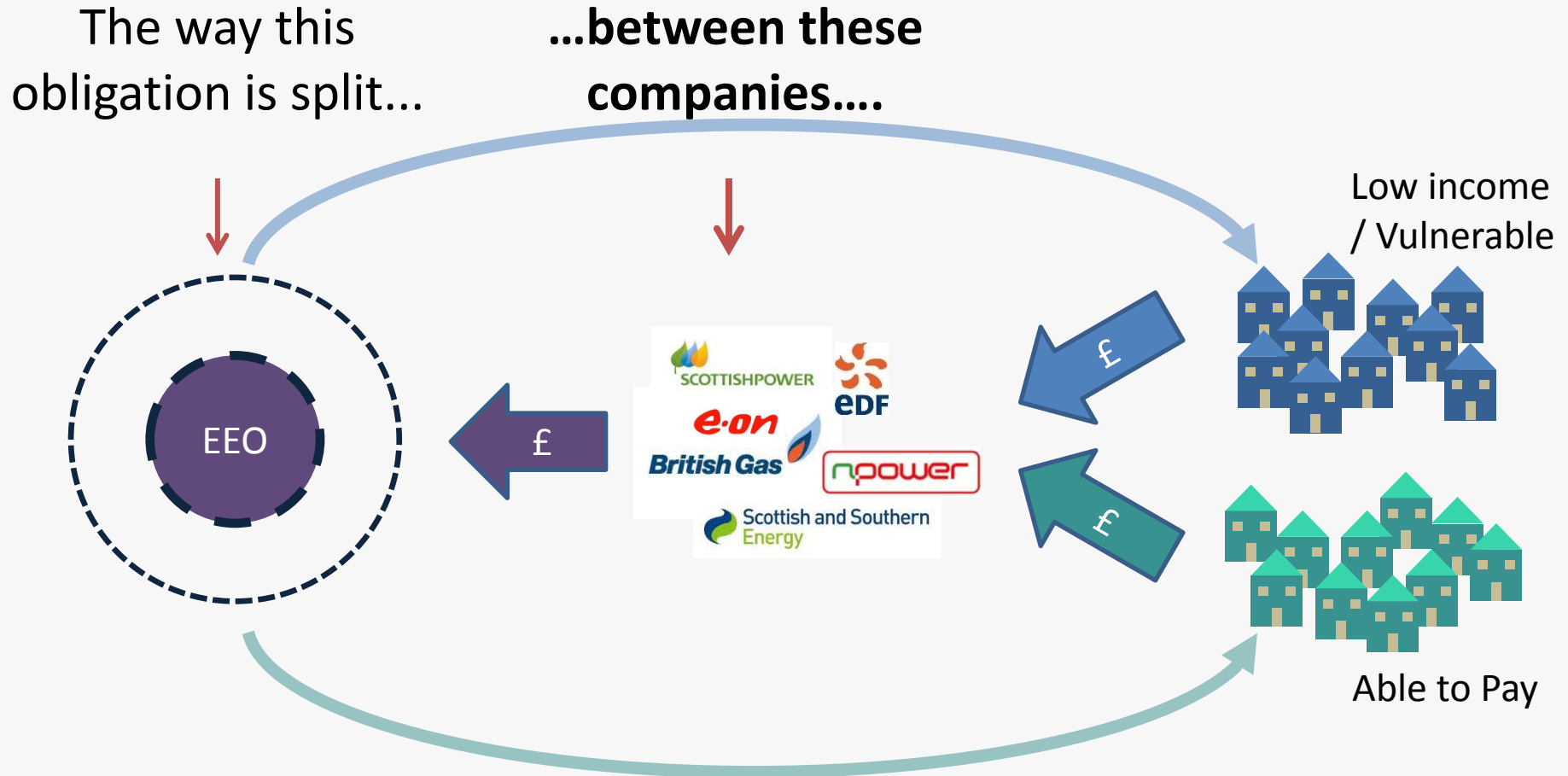
The way this obligation is split...



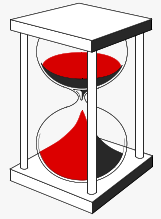
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



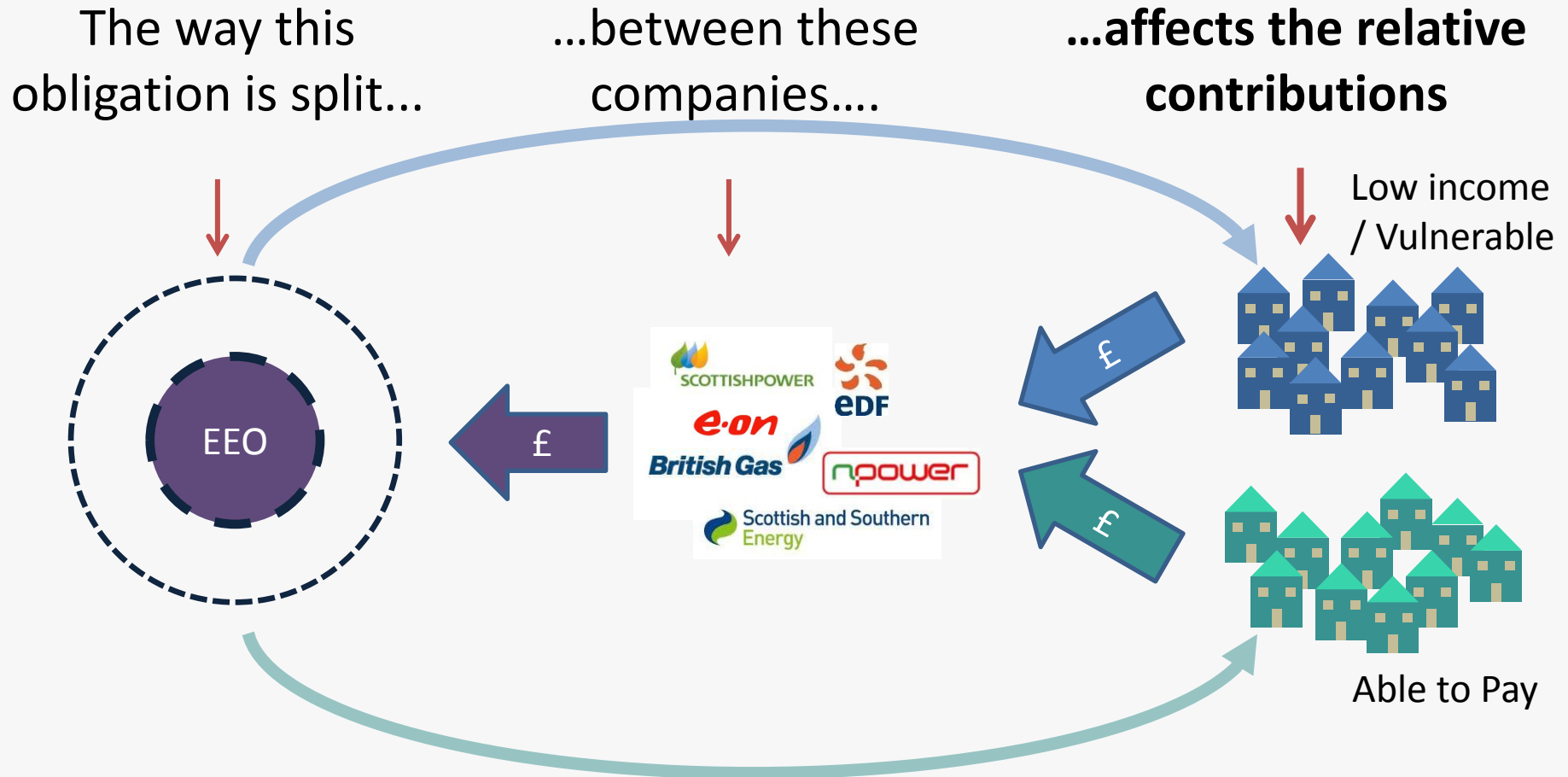
### 3. Including social considerations



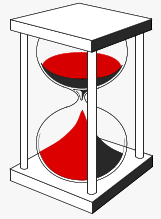
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



### 3. Including social considerations

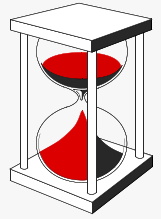


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*

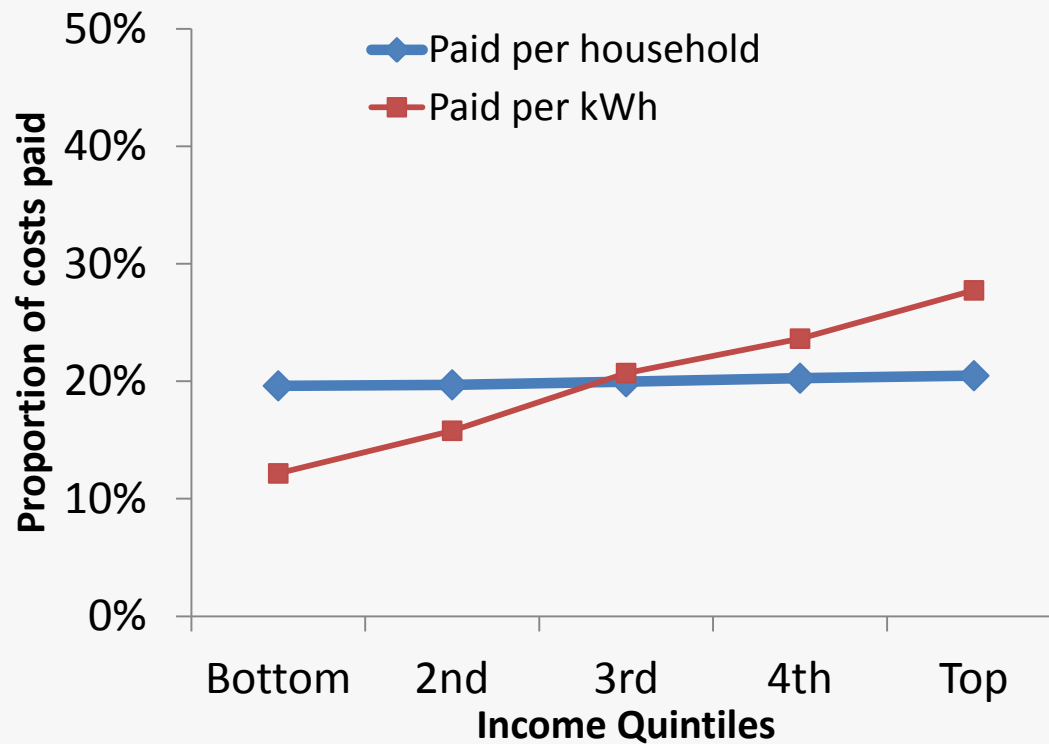


### 3. Including social considerations

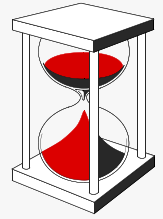
- Obligation targets are often split between parties according to the number of customers each has
- i.e. a fixed cost for each customer: Expectation that obligated suppliers pass these costs on as a fixed cost to all households
- It is broadly regressive:
  - **low-income households consume less energy on average**, but pay the same policy cost
  - Costs represent **a far higher proportion of income** for low income households
- Since every household pays the same regardless of consumption, it goes against the 'polluter pays' principle
- It reduces the incentive to save energy - doing so would not reduce the cost of the policy contribution



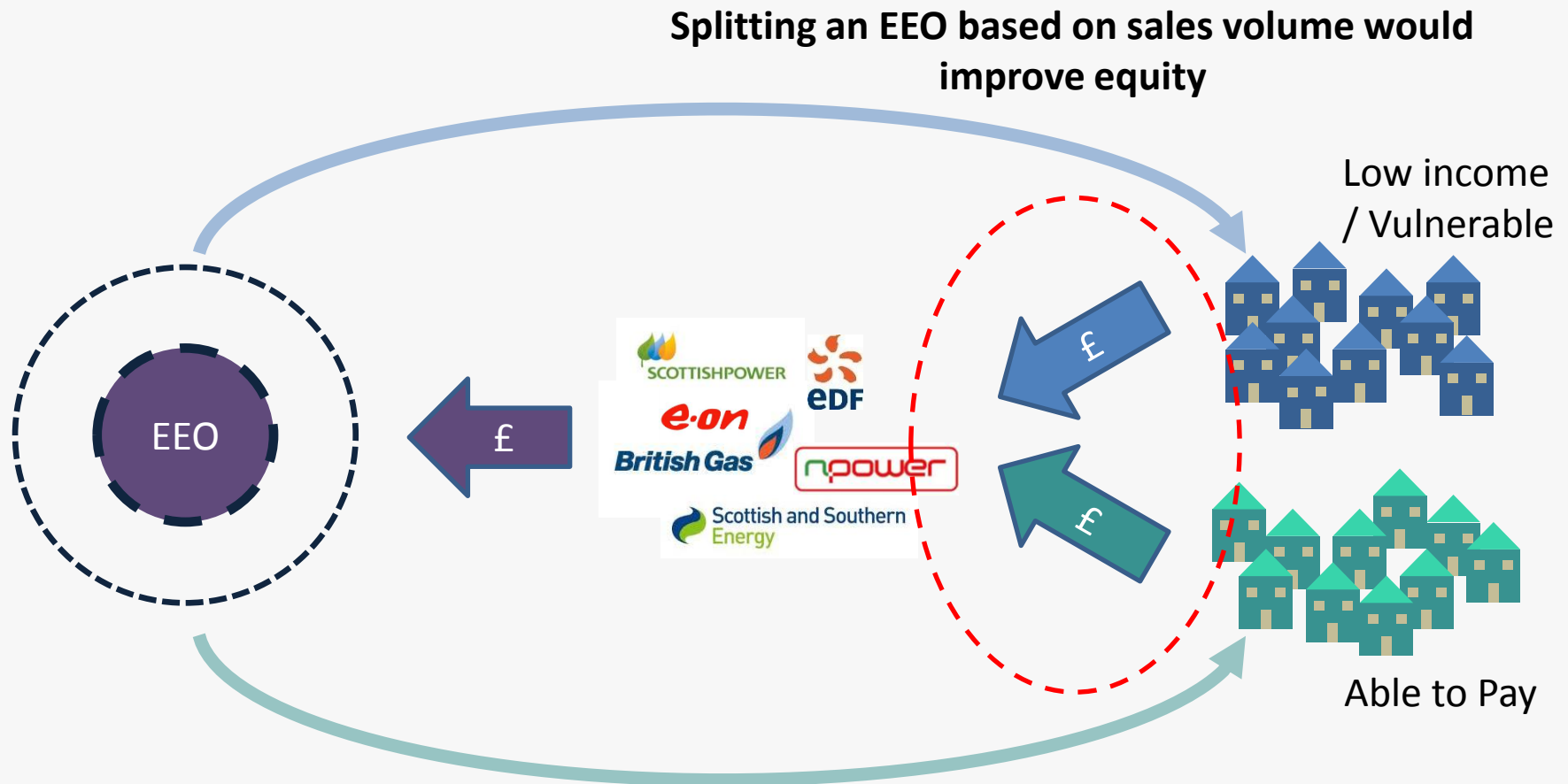
### 3. Including social considerations



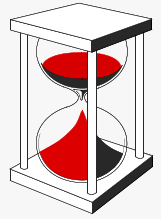
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



### 3. Including social considerations

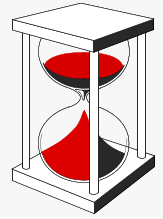


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



### 3. Including social considerations

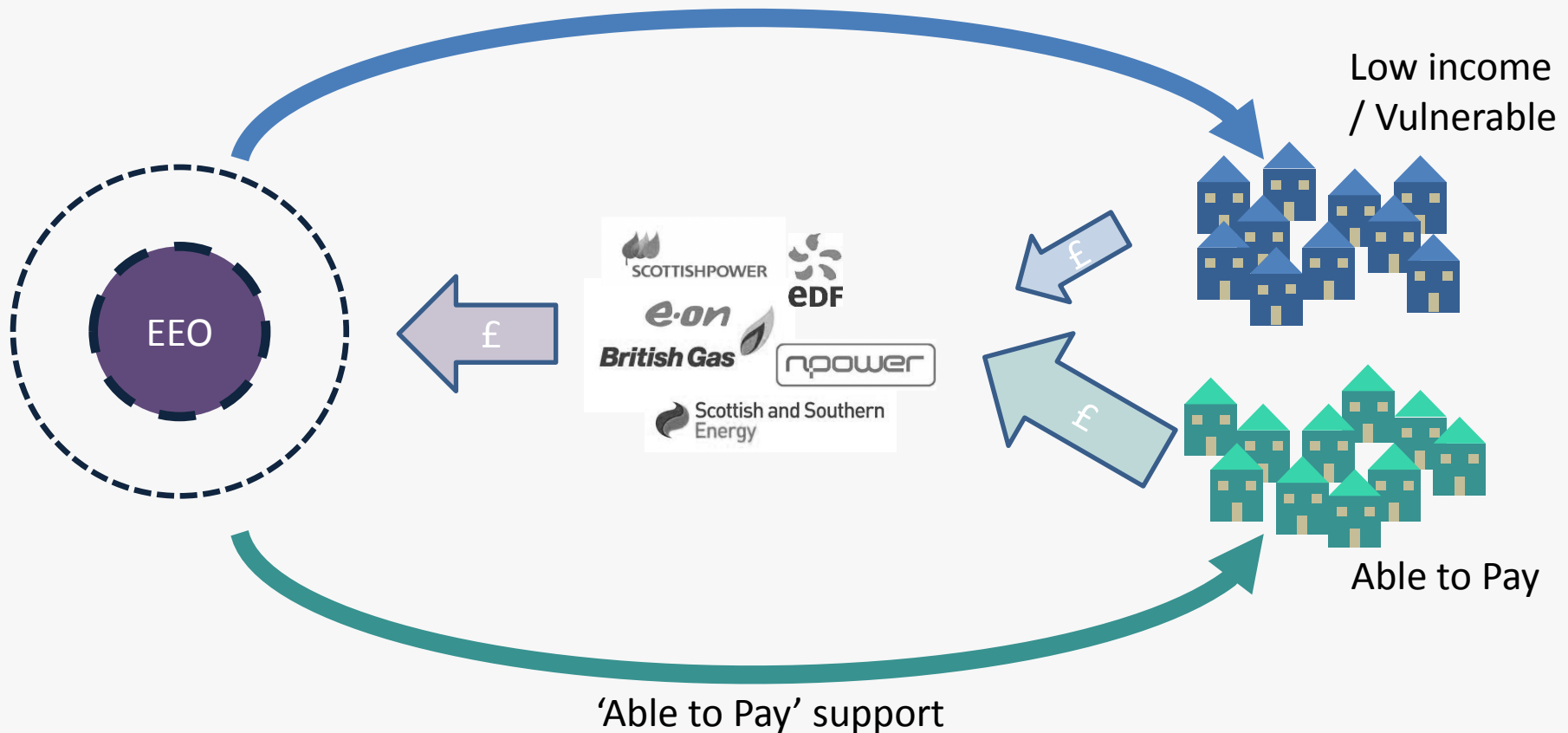
“fair proportion of the benefits”



### 3. Including social considerations

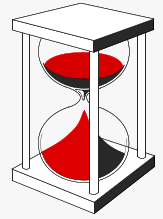
“fair proportion of the benefits”

Low Income / Vulnerable Support

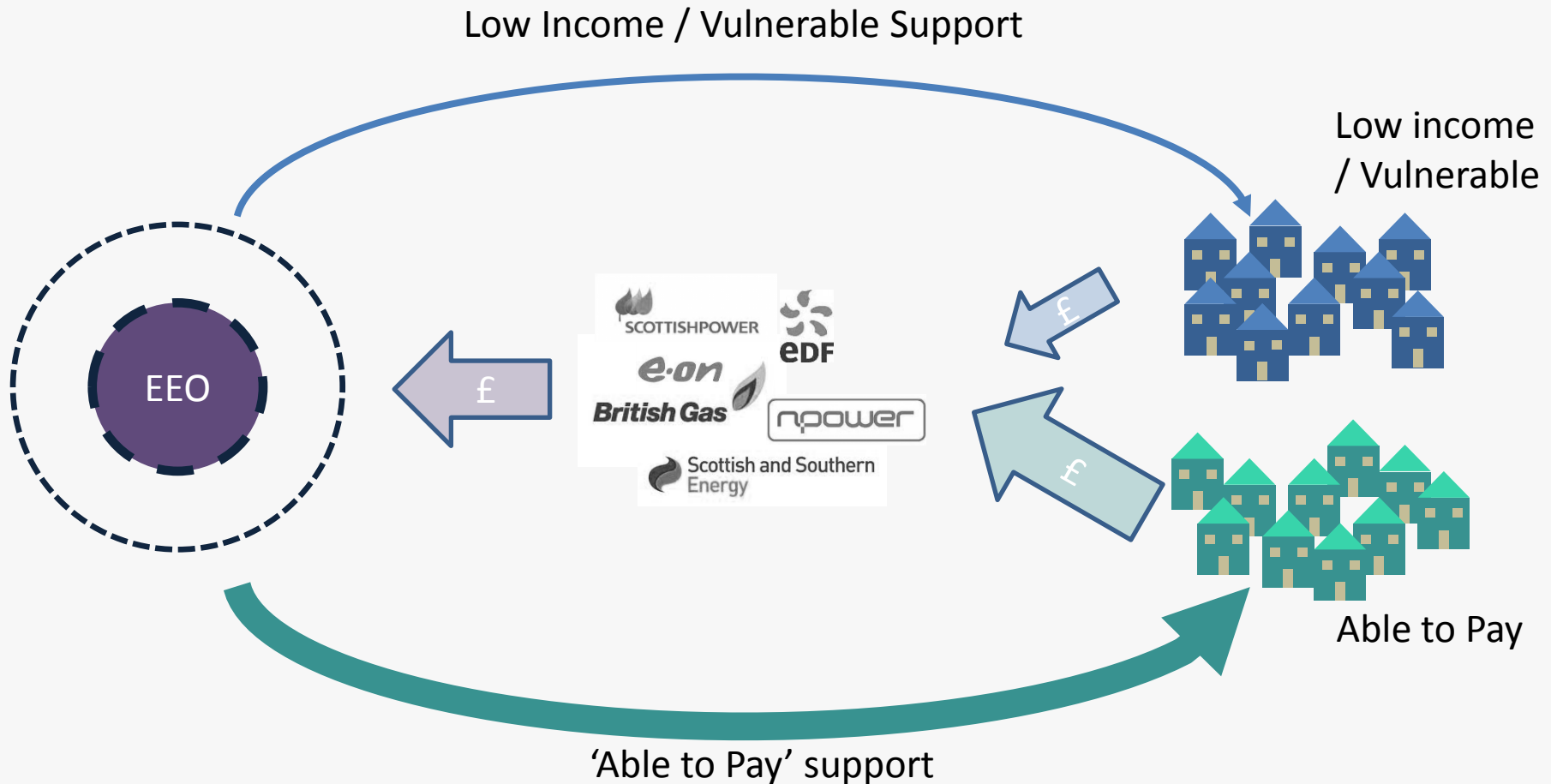


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*

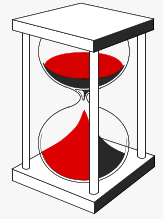




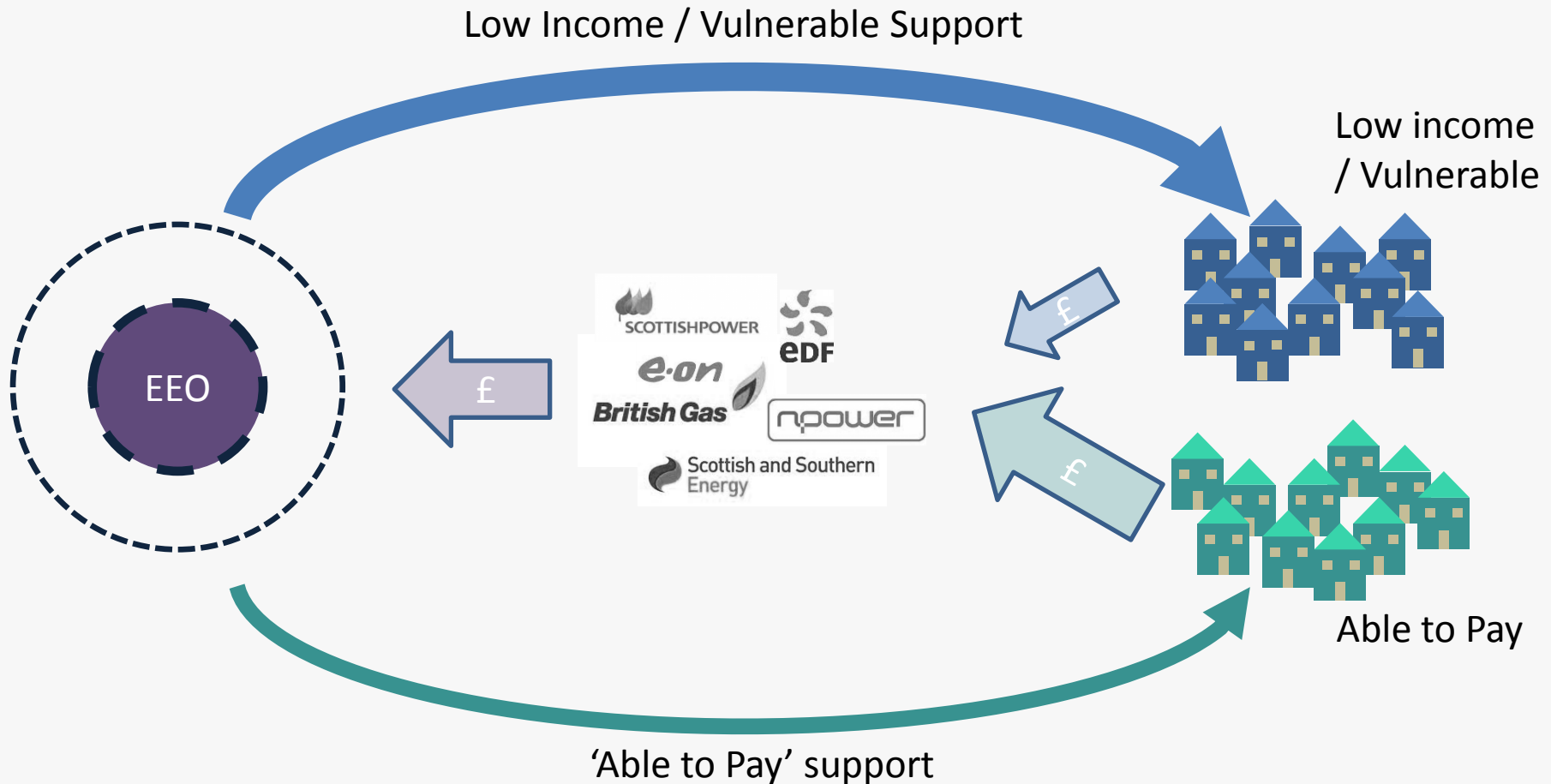
### 3. Including social considerations



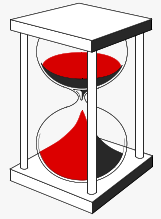
*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



### 3. Including social considerations

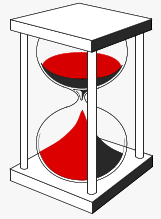


*ACE aims to reduce overall energy demand to ensure a secure and sustainable energy future*



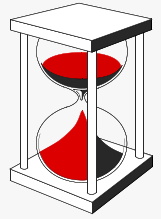
### 3. Including social considerations

- Different mechanisms can be employed in order to see the **objectives** (generally support for a group or measure that would otherwise not be supported) **met**
  - Minimum target within a certain ‘eligible group’
  - Regulation over the households that can receive support
  - ‘Uplifts’ and bonus scores based on the nature, content, or location of delivery
- In addition, the provision of finance opportunities for ‘Able-to-pay’ households can help relieve pressure on the EEO
  - Allows a greater proportion of the EEO to target those most in need of support.



## Conclusions

- Energy Efficiency Obligations are not the ideal way of delivering upon social objectives
- However, without including social considerations the programmes become highly regressive
- Equity can be improved by
  - a) Minimising low income households contribution to the costs, and
  - b) Maximising low income households share of the support
- Requires regulations and incentives if Obligations are to delivered in this way



Thank you

Darryl Croft

Senior Researcher, ACE Research Team

[darryl@ukace.org](mailto:darryl@ukace.org)