

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

David Deller[†]

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BACKGROUND

- Energy affordability has gained increasing prominence over the past decade, corresponding to a period of rising domestic energy prices.
- The importance placed on policies to alleviate fuel poverty varies across EU member states.
- The European Commission's DG Ener has recently shown a renewed interest in fuel poverty.

METHODOLOGY

- Descriptive statistics are presented on energy affordability across EU member states, including:
 - The share of total household expenditure devoted to energy.
 - The percentage of the population reporting (i) an inability to keep their home adequately warm and (ii) utility bill arrears.
- Individual household level data from the UK, France and Republic of Ireland is used to:
 - Calculate the percentage of households classified as 'fuel poor' according to alternative metrics.
 - Simulate the impact of policy interventions on the percentage of households with an energy expenditure share exceeding 10% (now referred to as ENEX10).

KEY FINDINGS

- There are substantial variations in energy expenditure shares across member states. Energy expenditure shares in 'new' member states are generally much higher than in the EU15.
- Low income and retired households consistently have the highest energy expenditure shares.
- Between 2007 and 2013 the average percentage of households in new member states reporting an inability to afford household warmth increased, while the percentage of households reporting utility bill arrears decreased. More research is needed to understand the drivers of intertemporal variations in these indicators.
- Even 'large' policy interventions shift ENEX10 by a relatively small amount.
- In terms of altering ENEX10, targeting resources at low income households is the most 'effective' policy.

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W: www.competitionpolicy.ac.uk

T: +44 (0)1603 593715

A: UEA, Norwich, NR4 7TJ

- Energy expenditure reductions move ENEX10 by a far greater amount than income increases. This illustrates how metrics can be misleading: theory indicates that an income increase should benefit households by at least as much as an expenditure reduction.
- The ability to influence the ‘picture’ of fuel poverty given by high-level metrics depends on the distribution of energy expenditure shares among fuel poor households.

POLICY ISSUES

- The significant variation in energy expenditure shares across the EU means that an EU-wide fuel poverty metric is inappropriate.
- The connection between fuel poverty and social policy/distributional choices limits the legitimacy of EU policy in this arena.
- However, a central EU repository of energy affordability data and impact assessments of different fuel poverty/affordability policies would be valuable. This would allow member states to share best practice.
- High-level fuel poverty metrics give alternative ‘pictures’ of fuel poverty, the selection of a particular metric by itself does not alter the actual experiences of households.
- Assessing policies’ effectiveness by movements in high-level fuel poverty metrics may distort policy making. It may encourage policymakers to target resources at households with relatively mild affordability difficulties.
- It is recommended that cost-benefit analysis is used to identify interventions which deliver the greatest energy expenditure savings/welfare improvements for a given cost.

SUGGESTED CITATION

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ABOUT THE AUTHOR

- David Deller holds a PhD in Economics and is a Senior Research Associate at the Centre for Competition Policy at the University of East Anglia.

W: www.competitionpolicy.ac.uk
T: +44 (0)1603 593715
A: UEA, Norwich, NR4 7TJ