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Policy Brief

Energy Affordability in the EU: The risks of metric driven policies[†]

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Energy Affordability
in the EU: The risks
of metric driven
policies

Energy Policy

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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 (energy) poverty varies across EU member states.
- Fuel (energy) poverty is gaining increased attention across the EU; for example, with the establishment of the EU Energy Poverty Observatory (EPOV).

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.

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- Between 2008 and 2014, the average percentage of households in new member states reporting an inability to afford household warmth decreased, while the percentage of households reporting utility bill arrears increased. More research is needed to understand the drivers of intertemporal variations in these indicators.
- Even 'large' policy interventions shift ENEX10 by only a relatively small amount.
- In terms of altering ENEX10, targeting resources at low-income households is the most 'effective' policy.
- 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 painted by high-level metrics depends on the distribution of energy expenditure shares and income among fuel poor households.

POLICY ISSUES

- The significant variation in energy expenditure shares across the EU means that a single EU-wide fuel poverty metric would likely be problematic.
- The connection between fuel poverty and social policy/distributional choices limits the legitimacy of EU policy in this arena.
- However, the EU has a legitimate role as a repository of energy affordability data and impact assessments of different fuel poverty/affordability policies. This should allow member states to share best practice where relevant.
- High-level fuel poverty metrics give alternative 'pictures' of fuel poverty; the selection of a particular metric by itself does not alter the actual experience of households.
- Assessing policies' effectiveness by movements in high-level fuel poverty metrics may distort policy making.
- Suggestions are made for possible improvements to 'lived experience' fuel poverty indicators.
- Cost-benefit analysis should be used to identify interventions that deliver the greatest energy expenditure savings/welfare improvements for a given cost.

ABOUT CCP

The Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

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