



EAPN Working Paper on Energy Poverty

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Introduction

Background

With the liberalization of energy markets and the rise of energy costs, Energy Poverty (or Fuel Poverty) is increasingly a growing concern for people experiencing poverty. Energy Poverty means not being able to heat your home to an acceptable standard at a reasonable cost. In essence this means not being able to afford to keep you and your family warm. Although figures are not available across the EU, it is thought that between 50 million and 125 million people are estimated to suffer from energy poverty. This is a fundamental attack on basic human rights to a decent life. It is not only the poorest countries in the EU which suffer from this problem.

A key concern for EAPN

Over the past 3 years, EAPN has been actively engaged in urging the EU institutions to tackle Energy Poverty through the following initiatives:

- EAPN Response to the Communication the European Commission towards a European Charter on the Rights of Energy Consumers (http://www.eapn.eu/images/docs/eapnresponsetoenergycharter_en.pdf) and joint campaign with EPSU (European Federation of Public Service Unions).
- In 2008, Third Energy Package : close cooperation with the rapporteur in the European Parliament to develop proposals on Energy Poverty and better consumer rights as part of the Report on the rules for the internal market in electricity
- In September 2008, lobby campaign with EPSU, CECODHAS and AGE, and FEANTSA in support of a Parliament Declaration on Energy Poverty (http://www.eapn.eu/images/docs/joint%20lobbying%20letter%20on%20energy%20declaration2008_en.pdf).
- Debate with the European Commission for a better acknowledgement of energy poverty as part of the social OMC.
- Energy poverty was a key theme in the 7th and 8th European Meeting of People Experiencing Poverty (2008 – 2009).

EU Context

Since 2007, the question of increasing the rights of vulnerable consumers in the energy sector and the **need to counterbalance the market and competition-oriented EU** approach have been raised at EU level with the development of the EU Charter on the Rights of Energy Consumers¹ and the amendments agreed on energy poverty in the Electricity Directive which was adopted by the Council last June 2009².

At present, Member States are now expected to **implement the third Energy Package and develop National Energy Action Plans containing actions on energy poverty** and ensuring a

¹ European Parliament Resolution of 19 June 2008 on *Towards a European Charter on the Rights of Energy Consumers* (2008/2006(INI)).

² Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009L0072:EN:NOT>).

better protection of vulnerable consumers³. But, it is still unclear how this will be implemented and still more needs to be done both at the EU and National level to tackle this problem.

The current EU wider environment debate also has implications for the issue of energy poverty. A growing number of Member States are joining Nordic countries (Sweden, Finland and Denmark) in introducing carbon taxes. The current Europe2020 Strategy proposal⁴ also states that “Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a greening of taxation systems” in order to achieve the EU environmental objectives proposed in the EU Climate and Energy Package of March 2007 (“the 20-20-20 targets”).

However, this ongoing discussion on reforming our tax systems and more particularly the current work on **the revision of the Energy Taxation Directive should be carefully screened for social impact** to ensure that these proposals do not lead to increasing the burden on the most vulnerable people.

In the framework of the 2010 European Year for combating poverty and social exclusion, EAPN aims to urge:

- The EU institutions to ensure a **real follow up of the third Energy Package** and strengthen the rights of vulnerable consumers.
- The Member States **to fully implement the national energy action plans** especially by coordinating effectively with the National Action Plans on Social Inclusion and taking measures protecting people suffering from energy poverty (prohibition of disconnection of electricity)
- The EU institutions and the Member States to **screen the environmental objectives of the EU2020 Strategy** to ensure that they do not impact adversely on people experiencing poverty and social exclusion, and thereby contribute to deliver on the proposed relative Poverty Target to reduce at risk poverty by 25% by 2020 by the European Commission.

³ In 18 Months (03/03/2011) the third Energy Package will come into force.

⁴ Communication from the European Commission of 3 March 2010, *Europe 2020, A strategy for smart, sustainable and inclusive growth*, COM (2010) 2020.

1. A growing problem at the EU level impacting on the lives of the most vulnerable people

1.1. *Deteriorating health*

People on low-incomes who cannot afford to heat their homes to adequate levels often see no option but to heat them less. The result of living in cold homes can lead directly or indirectly to illnesses like influenza, heart disease, strokes, asthma etc. These affects can be particularly serious for **vulnerable groups of people** such as:

- Older people
- Disabled people and those with long-term sickness
- Children

1.2. *Cycle of Debt*

The immediate impact of fuel poverty is **indebtedness**, as people on low-incomes are landed with bills that they have great difficulties in meeting. Current practices by many electricity companies can also exacerbate these problems with delayed issuing of bills based on real consumption and negative practices of requiring unrealistic re-payments over too short periods., This can often result in households spending a higher proportion of their income on fuel, neglecting other important expenditure e.g. on food, rent, or on social activities, transport or spending on children's needs and education.

1.3. *Cut-off and Eviction*

In the worst cases, households can **lose their right to fuel**, as energy companies cut-off their supply for non-payment leading to untold hardship and increasing difficulties with their housing. In some EU Member States, the tenants who faced problems to pay their energy bills are blacklisted. So, when they want to move to a new flat, they simply **cannot get a new rental contract afterwards**.

2. The reality of energy poverty – quotes from people in poverty

Accessing energy (fuel to heat and light their homes) is a major issue which has been highlighted continuously during the Presidency's annual people experiencing poverty's meetings. Here are a few quotes which illustrate the importance and the wide range of implications of energy poverty for the everyday life of people facing this problem on the ground.

- **"Energy prices are still high. Energy is a need not an advantage"**
- **"We are having to choose between heating and eating"**
- **"Access to energy for all will be guaranteed when the public social welfare and energy authorities start working together"**
- **"There are lots of renewable energies available – solar power, water power, etc. – but they are very expensive and governments don't want to play their part."**
- **"The children have no heating in winter, they live in unhealthy conditions..."**

3. The need for an integrated approach

An integrated strategy would not only tackle setting affordable prices, but ensure adequate income to cover normal bills and help to reduce consumption through energy efficiency. Although energy poverty is often caused by a combination of factors, it is commonly agreed that the three most important are:

- 1) **Low Household income**
- 2) **High and rising costs of fuel**
- 3) **Lack of Energy efficiency**

3.1. Household Income

This is usually the most important factor, and arises when heating costs take too much of the weekly income. Heating costs form **a greater proportion of total income for those on low incomes** than on higher ones. Studies highlight the strong relationship between low-income and fuel poverty. So, as stated by Stephen Thomas in the Energywatch study entitled Poor Choices, “while a strong case to argue that energy efficiency measures are by far the most efficient solution to fuel poverty, the rapid rise of energy prices means that energy efficiency measures alone will not be sufficient to eradicate fuel poverty, at least in the short- to medium term. The process of upgrading the housing stock is inevitably a relatively slow one and measures are needed to protect consumers in the interim until improvements can be implemented⁵”. So, while agreeing that the immediate needs of people needs to be addressed in terms of household income and fuel costs it is essential that the issue of energy efficiency should be addressed in tandem.

3.2. Fuel costs

Higher prices reduce the affordability of fuel. Rising prices can mean that low-income families become less able to heat their homes to the same level. The costs of fuel for each household will also depend on the make-up of the family and their specific needs for fuel, but also according to types of fuels and tenancy. Often low-income families have limited choices over the types of fuel to heat their homes.

3.3. Energy efficiency

The thermal quality of the building and efficiency of the heating source will determine how much energy will be necessary to effectively heat your home to adequate levels.

Other factors can also be important:

- **Bad Housing conditions** e.g. damp will affect energy efficiency and can lead to bronchial illnesses.
- **Different household occupation and consumption patterns:** the situation of your household and its members will vitally affect needs in relation to heating your home.

⁵ “Poor Choices: The limits of competitive markets in the provision of essential services to low-income consumers”, September 2008.

Elderly or disabled people will often need constant higher temperatures for a larger proportion of the day, or families with small children who spend a longer period at home. Unemployed people are also likely to follow this pattern.

- **Regional/National Climatic Variation:** the variations in temperature between different regions and countries will impact strongly on fuel consumption – global climate change will also have an increasing impact on energy demands.

4. A weak EU framework relevant to tackle energy poverty

4.1. *The crucial lack of a common EU definition of energy poverty*

The first major weakness is the lack of a common definition at the EU level. Currently because UK is one of the few countries that has developed a Government policy on energy poverty their definition is used. The UK definition is drawn on the World Health Organization's analysis of adequacy. ***“A household is in fuel poverty, if in order to maintain a satisfactory heating regime, it would be required to spend more than 10% of its income (including housing benefit or income support) on all household fuel use.”***⁶

Indeed "energy poverty" is understood in different ways throughout different Member States. At the moment Member States deal differently with the phenomena of energy poverty. **Few have a definition or a defined strategy.**

For some countries, it is the group of customers already identified by State authorities as being aid-worthy because they are in difficult financial situations or because of any other causes (e.g. disabled persons). This group the Commission generally defines as vulnerable customers.

For other countries, their concern is more on the effect of energy prices on customers who spend a considerable amount of their household income on energy bills but are otherwise not (yet) dependent on social welfare benefits.

Consequences are also different with regard to both groups, but the logic applied appears to be the following: persons in or at risk of "energy poverty" may apply for the status of vulnerable customers, but not necessarily every national scheme for vulnerable customers covers persons in or at risk of "energy poverty". This is in particular the case where the vulnerable customer status derives solely from the fact that a person receives social welfare money (because of job loss, little pension payment, etc...).

4.2. *A social approach to EU energy policies still lacking*

Energy is a vital utility service, and is defined as a **Service of General Interest**. The EU through the Treaty vouches for the delivery of Universal Service Obligations for these services ensuring their accessibility, affordability, continuity. The Lisbon treaty, in protocol n°26 and Article 14 TFEU gives a new legal basis for ensuring such a delivery by adding safety, high level of quality, safety and equal treatment of users.

⁶ This is based on the levels recommended by the World Health Organization of at least 18°C for all living areas when occupied (At least 21 degrees in the living room and 18 degrees in other rooms, depending on room function and on the specific needs of the users). It also includes the ability to purchase other energy services in the home at a reasonable cost.

In reality, however, EU energy policies are still focused on liberalizing the energy (electricity and gas) markets but without ensuring an integrated and coordinated approach to fight against energy poverty. In many countries, **liberalization and privatization of energy services** are seen to be mainly responsible for the rise in energy costs. This was also recently pointed out by the Belgian Minister for Energy, Paul Maignette⁷. Expanding the internal market has been undertaken without due social impact assessment and without acknowledging the serious detrimental impact on people's lives and on poverty.

No link is being made **between energy and social inclusion policies**. The green revolution (as well as the Energy Efficiency Action Plan) which is promoting energy savings and the use of renewable energies, does not take-on board the social impact. This is largely responsible for preventing people suffering from energy poverty from benefitting from energy improvements.

Unfortunately, the European Commission currently has no intention of harmonizing the Member States' choice of instruments, by which they fight fuel poverty and subsidize vulnerable customers. Based on the Gas & Electricity Directives' obligations to put in place schemes to protect vulnerable customers, the Commission does however have the right and obligation to examine the presence and the efficiency of such schemes.

The current focus of the Commission's proposals is to get Member States to define "vulnerable customers" in order to create an objective and transparent approach to granting persons in need access to the scheme and give suppliers concrete guidelines on how to deal with customers not able to pay (vs. those who do not want to pay). The actual strategies for dealing with energy poverty as a whole are not currently seen to be within the remit of the current proposals.

Nonetheless, EAPN welcomes the step forward constituted by the third Energy Package and especially the following provisions:

Member States:

- **shall take appropriate measures to protect vulnerable consumers and ensure that rights and obligations linked to vulnerable consumers are applied (which includes prohibition of disconnection of electricity in critical times)⁸**
- **define the concept of vulnerable customers⁹**
- **formulate national energy action plans, providing benefits in social security systems to ensure the necessary electricity supply to vulnerable customers, or providing for support for energy efficiency improvements, to address energy poverty where identified, including in the broader context of poverty¹⁰**

⁷ Informal Council Energy/Environment in Sevilla (Spain), 15-17 January 2010.

⁸ Article 3.7 of Directive 2009/72/EC concerning rules for the internal market in electricity and repealing Directive 2003/54/EC, 13 July 2010.

⁹ Idem.

¹⁰ Article 3.8 of Article 2009/72/EC concerning rules for the internal market in electricity and repealing Directive 2003/54/EC, 13 July 2009.

5. EAPN Recommendations

EAPN generally calls on the European Commission to **develop integrated coherent guidelines and policies** which tackle all the three elements that cause energy poverty, not only related to promoting the internal market – i.e. the liberalization of energy services.

EAPN Recommendations are designed to make a decisive and positive impact on the eradication of energy poverty.

5.1. *Recognizing access to energy as a fundamental right*

That implies:

- An **EU commitment** to make sure that Member States implement the **prohibition of disconnection** of electricity and heating especially in winter time
- A **recognition of the causes of energy poverty** (the 3 key elements – income, price and consumption)
- A **commitment to monitor energy poverty** – the extent, the causes, the impact on different target groups
- An **effective social impact assessment of EU policies related to energy** to ensure that they do not have a detrimental impact on people in poverty and benefit them
- A **progress towards an EU definition on energy poverty** based on a financial definition of a percentage of disposal on home heating to heat home to an acceptable standard
- **The involvement of stakeholders** including low-income users in the design, delivery and evaluation of policy solutions

5.2. *Mainstreaming energy in social inclusion policies*

- Ensuring **adequate incomes to cover fuel costs as part of promoting an EU framework Directive on Minimum Income**, as a follow up to the Active Inclusion Recommendation (October 2008)¹¹. Minimum Income standards must be calculated on the basis of realistic assessments of how much it costs to heat a home related to the specific household needs – e.g. family with children, older people, disabled etc...
- **Strengthening the link between energy poverty and health** by giving common guidelines to Member States on how to protect the health of vulnerable consumers from the consequences of fuel poverty.
- The development of **National Action Plans** to fight energy poverty taking account of factors including, in particular, the provision of an adequate household income for a dignified life, affordable, transparently calculated energy prices and energy efficiency, **with delivery and implementation monitored through the OMC on social protection and social inclusion** on the basis of a common set of indicators (inability to pay energy bills, cold damp living conditions, disconnection from energy supply, self-disconnection (in some countries), debts owed to the energy supplier, health impacts associated with poor living conditions, disease, homes with low energy performance...) and targets to eradicate energy poverty in the EU.

11. Commission Recommendation on the active inclusion of people excluded from the labour market, C(2008) 5737, 3 October 2008.

5.3. Ensuring a socially friendly approach to the fight against climate change

- Ensuring that any **national and EU carbon tax system take due consideration of the social impact** on people experiencing poverty by introducing social compensation provisions. This means that these tax systems should be established in a fair way by setting up exemptions, reductions, green checks for the benefit of poor households so as to not increase the amount of their energy costs.
- Developing **guidelines at the EU level on how to use the energy efficiency** certificates as a driving force to combat energy poverty by adopting criteria linked to energy poverty and linked it to the recast of the EPBD (Energy Performance of Buildings Directive) by targeting the upgrading of the energy efficiency standards of the most consuming buildings and the ones of new houses and apartments.
- Using the new energy efficiency action plan starting from 2010 to ensure:
 - **Increased investment in energy saving housing** and appliances
 - **Specific measures and programmes to target low-income households** to reduce bills and increase energy efficiency through insulation programmes for existing housing with low energy efficiency/ insulation standards especially social housing and supports for low income families
- **A better coordination with EU funding.** EU Cohesion policy should be used in an innovative way as a powerful means to ensure that the green revolution will benefit the poorest people and have a decisive impact on decreasing their energy bills by setting up detailed targets for energy efficiency improvements.

5.4. Promoting an ambitious step forward for the rights of vulnerable consumers

- The adoption of **the EU Charter on the Rights of Energy Consumers as a binding instrument** and the reinforcement of its adequacy for defending the fundamental right to energy.
- Helping people who consume fuel to foresee their energy costs by promoting the **accurate and transparent measurement of consumption as a basic right.**
- Setting up **European Standards for consumer-friendly energy bills** based on transparency, understandability principles and which should explain how to cope with payment difficulties, presenting a standardized approach.
- Ensuring an **improvement of energy services information** by providing a proximity service which is accessible and free of charge. Systems such as a free pre-paid phone services and face-to-face advice counters within existing community-based advice centers should be promoted.
- The EU should require each Member State to organize **an independent ombudsman service for energy** (independent from the energy sector) to mediate conflicts between the consumer and supplier.

5.5. Increase the knowledge of the extent of the problem at the EU level

- Improve the quality of European data by developing a **common set of indicators** to measure energy poverty, taking into account national specificities.

- Set up a **European Observatory on fuel poverty** to deepen knowledge of the causes, processes and impacts of energy poverty across the EU, involving civil society organizations as key stakeholders to report on energy tariffs and the social impact of energy poverty on target groups.

5.6. Get energy prices and costs right

- Implement the European Parliament's request to carry out an **independent social impact assessment of the Directives liberalizing the electricity and gas markets** especially on the evolution of prices, pricing regimes by suppliers and the impact on real household consumption in relation to the Universal Services Obligations to ensure the enforcement of the affordability, accessibility, continuity and quality principles.
- Promote **specific tariffs for low income households**, free energy packages which provide a decent standard of living taking into account the composition and needs of a family. This free energy package should be based on the universality principle
- **Lower pre-payment meter prices and smart meters** which enable people to manage their consumption better **should be encouraged**. In that regard, the EU Commission is encouraged to disseminate good practices of Member States.