

Alleviating energy poverty through Article 7 of the Energy Efficiency Directive

Recommendations

- › **The European Commission should revise Article 7 of the Energy Efficiency Directive (EED) to require Member States to assess the distributional equity of their policies. A minimum ringfence of energy savings delivered through energy efficiency obligation schemes (EEOs), and/or specifically designed alternative policy measures, should be introduced for addressing distributional inequities.** Who pays for, and who benefits from, the promoted energy savings must be assessed and measures to level inequities adopted.
- › **The European Commission should ensure that Member States, in implementing their Article 7 policies, implement in full the existing requirement to take into account the need to alleviate energy poverty.** For example, a ringfence of a proportion of the savings to be delivered in energy-poor households is more effective to guarantee benefits are delivered than administrative uplifts in savings values in cross cutting EEOs.
- › **The Commission should consider methods to align climate and social goals through Article 7 and the wider energy and climate package.** In particular, synergies between Article 7 and carbon pricing and minimum energy performance standards should be explored. Article 7 can deliver the multiple benefits of energy savings and EEOs can overcome market barriers specific to low-income or energy-poor households.¹ The redesign of Article 7 offers a key opportunity to offset the mounting burdens created by other policies like carbon pricing.
- › **The Commission must assess the impact of the entire European legislative portfolio on households of different income levels (distributional impact assessment) and take steps at European level to mitigate negative impacts.** Each element of the portfolio should be assessed individually and in combination. Measures must be taken within policies or through additional policies to mitigate burdens on low-income, vulnerable or energy-poor households. All opportunities to deliver guaranteed energy savings and associated multiple benefits for priority households must be prioritised and brought forward in time.²

Context

In its Recommendation on Energy Poverty released in October 2020, the European Commission reported that nearly 34 million Europeans are unable to afford to keep their

¹ Santini, M. and Thomas, S. (2020) *Article 7 of the Energy Efficiency Directive 3.0: How to maximise the energy efficiency opportunity for climate neutrality*. Regulatory Assistance Project. <https://www.raponline.org/knowledge-center/article-7-energy-efficiency-directive-3-0-how-maximise-energy-efficiency-opportunity-climate-neutrality>

² Sunderland, L., Jahn, A., Hogan, M., Rosenow, J. and Cowart, R. (2020a). *Equity in the energy transition: Who pays and who benefits?* Regulatory Assistance Project. <https://www.raponline.org/knowledge-center/equity-in-energy-transition-who-pays-who-benefits>

homes adequately warm.³ When other aspects of energy poverty are considered, most significantly the inability to keep the home adequately cool, the number of people at risk can be as high as 125 million – one in four European households.⁴ The Commission also recognises that the trend of rising energy costs as a proportion of income will continue in the next decade before the full benefits of the clean energy transition materialise.⁵

In response, the European Green Deal commits that the energy transition must be “fair and inclusive” and the Renovation Wave strategy names energy poverty and tackling the worst-performing buildings as one of three priority areas. The Commission’s ambition to address energy poverty and deliver a fair transition is clear. The task before us is to deliver on that ambition. Opportunities must be sought across the entire European framework, in particular making use of the legislative revisions in 2021.

The EED is one of the key pieces of existing legislation that provides an opportunity to deliver energy saving measures to alleviate energy poverty. Article 7 (2018) of the EED states:

In designing policy measures to fulfil their obligations to achieve energy savings, Member States shall take into account the need to alleviate energy poverty in accordance with criteria established by them, taking into consideration their available practices in the field, by requiring, to the extent appropriate, a share of energy efficiency measures under their national energy efficiency obligation schemes, alternative policy measures, or programmes or measures financed under an Energy Efficiency National Fund, to be implemented as a priority among vulnerable households, including those affected by energy poverty and, where appropriate, in social housing.⁶

Although this provision clearly identifies the role of Article 7 in alleviating energy poverty, the requirement to implement savings or measures in priority households is reliant on criteria that most Member States have not yet fully established. Member States are required to assess the number of households in energy poverty and take relevant action as part of their national energy and climate plans. However, the Commission’s analysis of the final plans found that just transition and energy poverty aspects were “largely addressed” by only six Member States and “partially addressed” by a further nine, leaving 12 countries that have not addressed these considerations.⁷

Energy poverty in Article 7 and EEOs: learning from the ENSMOV project

Despite the requirement in Article 7, a 2019 review by the ENSMOV project of the 16 EEOs implemented by Member States in full or partial delivery of their Article 7 obligations showed that only six and the UK make any provision for energy poverty.⁸ Provision is made by

³ European Commission. (2020a). *Recommendation on energy poverty* https://ec.europa.eu/energy/sites/ener/files/recommendation_on_energy_poverty_c2020_9600.pdf

⁴ Friends of the Earth Europe. (2018). Warm homes not the climate [infographic]. <http://www.foeeurope.org/Energy-poverty-time-now-100118>

⁵ European Commission. (2020b). *Staff working document: EU guidance on energy poverty*. https://ec.europa.eu/energy/sites/ener/files/swd_on_the_recommendation_on_energy_poverty_sw2020960.pdf

⁶ Directive (EU) 2018/2002 of the European Parliament and of the Council of 11 December 2018 amending Directive 2012/27/EU on energy efficiency. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L2002&from=EN>

⁷ European Commission, 2020b.

⁸ Broc, J-S., Stańczyk, W. and Reidlinger, B. (2020). Snapshot of energy efficiency obligation schemes in Europe (as of end 2019). ENSMOV Horizon 2020 project. <https://ensmov.eu/snapshot-of-energy-efficiency-obligation-schemes-in-europe-as-of-end-2019>. It should be noted that most Member States use a combination of EEOs and alternative measures and it is possible that energy poverty is tackled through complementary measures.



ringfencing part of the energy savings target to be delivered in energy-poor or vulnerable households (France, Ireland, UK) or an administrative uplift to the value of the savings made in target households (Austria, Croatia, Cyprus, Greece).

The costs of EEOS are most often passed on to energy users through energy bills. Costs raised from energy bills are more regressive than those raised through income taxation. EEOS can also sometimes result in cross-subsidising between sectors. The additional costs on energy bills creates a higher burden for low-income households than those on higher incomes.⁹ It is therefore essential that a fair proportion of the benefits is delivered to energy-poor households. Otherwise, the EEOS can result in a higher risk of energy poverty and an increased need to support households to pay their energy bills.

ENSMOV gap analysis recognised energy poverty as an area for greater attention. Amongst public officials surveyed in 2019, the topic "ensuring equity/tackling distributive effects (e.g., reducing energy poverty)" did not rank in the top 10 priority issues for policy (re)design and implementation. Other issues dominated, related to cost-effectiveness and ensuring compliance with the technical requirements around additionality, materiality and monitoring, reporting and verification systems.¹⁰ As new policy measures mature, and the rules associated with the Article 7 energy savings obligation get established, attention should turn towards ensuring that policy measures, both EEOS and alternative measures, enable those in energy poverty to access support.

Qualitative responses to the ENSMOV survey also noted the relatively high cost of delivering energy savings to energy-poor households.¹¹ Programme costs (costs to utilities or public budgets) will almost always be higher for the delivery of measures to those in energy poverty, given their limited ability to invest their own funds in projects. Administrative costs are also likely to be higher owing to the need to identify households that qualify for targeted support. Energy-poor households often live in the least energy-efficient dwellings, which therefore require stronger interventions to reach high energy performance. In addition, the energy savings from projects targeted to energy-poor households are likely to be smaller for the same intervention if a metered rather than deemed savings approach is used. If energy poor households are underheating their energy-inefficient homes, a large proportion of the benefits of energy efficiency actions may be realised in the form of increased comfort. Actions in low-income households can, however, bring other benefits, for example in reduced health costs.

Utility perspectives on energy poverty support: learning from the SocialWatt project

The SocialWatt project has found that utility data, particularly data on actual energy consumption of their customers, can contribute to better understanding and targeting of energy poverty. Utilities can play a key role in delivering vital support to vulnerable and energy-poor households. Through a well-targeted EEOS or other utility support, energy efficiency measures can be introduced alongside existing social protection measures.

However, targeting energy savings in energy-poor households increases costs to utilities. The

⁹ Sunderland et al., 2020a.

¹⁰ Reidlinger, B, Pickl, N. and Praher, C. (2019). *Stakeholder needs assessments for the implementation of Article 7 Energy Efficiency Directive (EED)*. ENSMOV Horizon 2020 project. <https://ensmov.eu/report-on-article-7-implementation-needs-from-stakeholders-consultations>

¹¹ Reidlinger et al., 2019.



SocialWatt project has reconfirmed the ENSMOV survey findings that energy savings in the residential sector are usually more expensive than in commercial and industrial sectors. Programmes to deliver energy savings in low-income or energy-poor households are even less cost-effective, when taking a narrow scope of cost-benefit analysis. Without special provision, therefore, utilities find it difficult to prioritise savings programmes that deliver benefits to low-income households within the EEOS structure.¹²

Uplifts do not guarantee provision. Ringfences are more effective to target support. Where uplifts exist, there is mixed evidence on their effectiveness to address the cost imbalance.¹³ Uplifts need to be set at a level sufficient to redress the balance, but this level is highly dependent on the nature of the project, the local context and time. The uplift may need to change in response to the availability of projects and savings. A ringfence around a proportion of the savings target that must be delivered in energy-poor households can be more effective to guarantee support. The leading example of this approach in the UK EEOS which, since 2018, is 100% dedicated to energy savings in the homes of the energy poor. The French EEOS uses a combination of ringfence and uplift, dedicating 25% of the savings target to low-income households and including an uplift for provision to very low-income households.¹⁴



ENSMOV (Enhancing the implementation and Monitoring and Verification practices of Energy Saving Policies under Article 7 of the Energy Efficiency Directive) is a project designed to support public authorities and key stakeholders in EU Member States and accession countries to monitor, revise, improve and complement the design and implementation of their national energy efficiency policies by developing resources on practical and strategic issues arising from Article 7 of the EED.

Find out more at: <https://ensmov.eu/about-ensmov>



SOCIALWATT

SocialWatt aims to enable obligated parties under Article 7 of the Energy Efficiency Directive across Europe to develop, adopt, test and spread innovative schemes to alleviate energy poverty. The appropriate tools developed within the framework of SocialWatt aim to help utilities and energy suppliers effectively identify energy-poor households, as well as develop and monitor schemes that focus on increasing the energy efficiency of these houses.

Find out more at: <https://socialwatt.eu/en>

¹² Sunderland, L., et al. (2020b). *Evaluation of schemes to tackle energy poverty*. SocialWatt H2020 project. <https://socialwatt.eu/en/newsandevents/evaluation>

¹³ Sunderland et al, 2020b.

¹⁴ Sunderland, L., et al. (2019). *Report on the status quo of energy poverty and its mitigation in the EU*. SocialWatt H2020 project. <https://socialwatt.eu/library/publications>

