

# ENERGY AID TO THE POOR OR BURNING MONEY AND HEALTH

THE BEST SOLUTION TO THE ENERGY POVERTY PROBLEM IS ENERGY EFFICIENCY

## EXECUTIVE SUMMARY



# ENERGY AID TO THE POOR OR BURNING MONEY AND HEALTH

## THE BEST SOLUTION TO THE ENERGY POVERTY PROBLEM IS ENERGY EFFICIENCY

### SUMMARY

An examination of the state of energy poverty in the EU in 2015 shows that more than 54 million people (11% of total EU population) can be defined as 'fuel poor'. This includes households that are unable to adequately heat their homes at an affordable price. According to Eurostat (2014) 32.9% of the population in Bulgaria has a problem maintaining adequate thermal comfort in their homes. This rate amounts to over three times more than the EU average and puts Bulgaria in the first place in the EU-28, as indicated by the number of fuel-poor people. The results of the 2011 census show that nearly 54% of occupied housing in the country is heated using wood and coal as a primary energy source, while this percentage is 95.2% in rural areas. Compared to the EU average, Bulgarian households use disproportionately large amounts of wood and coal for cooking and heating.

According to the Partnership Agreement for the new EU Programming period 2014-2020, about 40% of the buildings in Bulgaria are heated using electricity, while the average share of electric heating for Europe is 11 percent. Using electricity for heating is a huge waste of resources and energy. The pricing policy of maintaining artificially low electricity prices has made urban households too dependent on electricity for heating. Hence, changes in the price of electricity bear a far greater negative impact on the energy poverty of households. We face a choice between cheap electricity for all, or market-price electricity, combined with protection for the poor.

At present nearly 276 000 individuals and families benefit from state assistance for heating, according to the Social Assistance Act. Energy security and energy poverty are inextricably linked to national security. Quite appropriately, the National Security Strategy adopted in 2011 lists energy poverty as one of the main threats to national security.

Each year, 85 million BGN from the state budget are spent to support those who are 'fuel-poor'. However, there is no action plan or programme to reduce the number of people in need of energy support. This creates a vicious circle, in which the same individuals and families receive energy aid, year after year, without getting any real support to actually improve their quality of life and stop being dependent on the fuel aid program.

A negative aspect of the existing scheme for 'targeted energy assistance' is that a significant part of the funds are allocated for direct purchase and use of low-grade coal and briquettes with high moisture content, which are then burned in low-efficiency heaters. Beyond all doubt, the negative consequences of the current support mechanism include excessive air pollution with fine particulate matter from domestic heating, which in turn threatens and affects the health of all citizens.

Although aimed at providing aid to the needy consumers, these subsidies encourage excessive energy consumption, artificially support energy-intensive industries that are harmful to human health and accelerate the depletion of natural resources. It is no coincidence that 4 out of the top five cities in the EU with worst air pollution are located in Bulgaria. In addition, Bulgaria was ranked second in the world by the World Health Organization in terms of deaths per capita due to air pollution. It turns out that by allocating state budget funds to energy aid, Bulgarian governments have sustained Bulgaria's leading position in such negative rankings.

In May 2016 the government embarked on an expansion of social protection for the energy poor for a period of five years, until the complete liberalization of the electricity market in Bulgaria is realized. The idea is to broaden the range of vulnerable individuals and families covered by the new support program. To that end a Mechanism for protection of vulnerable customers in the context of full liberalization of the electricity market was elaborated. According to government experts, about 2.2 million Bulgarians, or slightly more than 30 percent of the population, would be hard pressed to pay their electricity bills after the Bulgarian energy market is liberalized. The measures to protect vulnerable customers in Bulgaria are divided into financial, non-financial and long-term measures. It is expected that the group of vulnerable customers would include approximately 1.1 million people, or about 14% of the population. For the sake of comparison, this rate in Romania is around 12 percent. According to the mechanism for determining social assistance rates, the state support will cover approximately 70% of the price of electricity, which represents about 33% of the final bill of vulnerable customers. The assistance program will cover up to 100 kWh per month of energy consumption for households using the services of central heating or natural gas, and up to 150 kWh per individual / household using electrical boilers to heat domestic water beyond the need for household heating.

The low income and low energy efficiency of buildings in the country, coupled with steadily rising energy prices, are the main factors for the existence of such a large proportion of energy-poor households in the country. Far from providing a permanent resolution to this undesirable situation, direct energy subsidies do not even allow the disadvantaged citizens themselves to participate in solving the problem. Providing direct coal for heating represents overt state aid for the loss-making and outdated coal industry, including for the environmental and health damages it inflicts.

**Our recommendations with respect to the new regulation:**

- » The *Ordinance on the conditions for supply of targeted benefits for heating (as of 16 May 2008)* stipulates how targeted assistance is provided for heating, but does not envision the possibility of granting targeted assistance for better insulation of the beneficiaries' homes, or at least the insulation of one room in the apartments of aid beneficiaries. In addition, the Ordinance does not differentiate between support for citizens using solid fuel, which is a source of pollution and causes diseases, on the one hand, and on the other, support for citizens using environmentally friendly fuels, such as electricity and natural gas. Thus, the regulation for social assistance lacks any measures aiming to reduce the amount of energy used for heating or to reduce pollution from solid-fuel heating without reducing the level of comfort for the beneficiaries.
- » We recommend the exclusive use of certified heating fuels to vulnerable households that receive energy aid. Another necessary change is to enable energy-poor beneficiaries to choose to receive support for energy efficiency measures through insulation for their homes, or for the purchase of modern, highly efficient stoves, produced by Bulgarian companies, that will reduce air pollution and other negative effects. We also recommend providing financial incentives for the construction of local and district-scale boilers for heating of residential areas, as well as support for the creation of local energy cooperatives.
- » Another measure with expected good results is, when granting targeted assistance for heating to explicitly provide the option to pay for the insulation of at least one room in the house of the energy aid beneficiary. This measure would reduce in real terms both the energy consumption and the related costs for those in need.
- » Combining more efficient heaters with renovation of housing for vulnerable groups will allow more efficient use of funds for supporting the energy-poor segment of society. This strategy could form the foundation of a 10-year program, aiming for the realistic goal of reducing the number of energy-poor individuals and families by 10% annually, due to reduced consumption and more efficient heating. In this way, at the end of the 10-year period the problem of energy poverty would be practically solved.
- » The design of such a programme will target roughly 27 000 households per year; The new heating solutions require 2000 BGN (1000 EUR) or less per year; This is maximum 27 m EUR per year to feed the actual measures in the programme excluding the management of the scheme; Currently there are 60 m EUR till 2020 in OP Environment envisaged for public transport refurbishment or for new stoves; In any case this funds should be invested predominantly into the more clean and efficient heating of houses and should not fund investments in filters in households which is the current focus – an expensive and controversial solution; Even if not all but 55 m of these funds are used for such a programme this is 16 m for the remaining years till 2020 or more than half of the required annual funding; If 27 000 households are detached annually from the poor inefficient heating event if they would continue to require some financial assistance for fuel this will be less; If the further financial aid is not fully cut but let's say cut by 50% (new heating is up to 3 times more efficient than the basic stoves used to burn coal and wood) this will lead to additional 4.5 m BGN or 2.3 m EUR economies from the current subsidy or 23 m of economies by the 10 year of the programme – nearly the entire amount of annual investment needed; After 2020 there should be additional EU funds available to compensate for the gaps and to assist the funding for management of the scheme as well.

