

Social Safety Net Approaches



How to ease the impact
of electricity sector tariff reform
on vulnerable households

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Why Social Safety?

Achievement of cost reflective tariff is a major element of the energy reform



The energy reform must go in tandem with social safety needs



If you don't put social safety nets in place at the same time, there could be a backlash.

Why Energy Reform?

- Modern legal and regulatory framework
- Restructuring of utilities
- Commercialization
- Energy market development
- Involvement of the private sector
- Investment
- Advanced management and technology
- Reliable energy supplies

Approaches

➔ Three approaches to accompany reforms and address impact on vulnerable households

- ✓ Social assistance payments
- ✓ Tariff approaches
- ✓ Energy efficiency

Approaches

Social assistance payments

- Most common because of long histories of social welfare programs
- Heavily influenced by political priorities
- Categories of recipients are not based on their financial needs
- Significant demands on available resource
- The reform require:
 - Targeting assistance
 - An effective administrative mechanism to deliver this assistance

Tariff approaches

- Tariffs have no relationship to costs
- A tariff reform is one of the most difficult political decisions
- If there is a political will to start a tariff reform



Two choices

- To adopt a policy tariffs to reflect costs with mean or no social protection
- To use tariff system to address the needs of vulnerable households

Tariff approaches

Risks of using tariff approaches

- Pressure on the regulator or respective responsible institutions to extend the area of support
- Once started down this “slippery slope” it is difficult to stop

Approaches Energy efficiency

- Inefficient use of energy
- The reform often is addressed only to “supply” side not to “demand” side
- One time costs to implement – the benefits go on year after year
- The advantage of energy efficiency approach is obvious compared to the assistance payment mechanism end tariff approach, but...

Which approach to use?

- Each of three approaches has advantages and disadvantages
- Systematic approach considering all three approaches is needed to address adequately the needs of vulnerable households

Lessons Learned from Reviewing Energy Assistance Programs

- Political will is essential
- The needs are country specific and vary
- Communication and exchange of experience among the three communities:
 - social welfare payment officials,
 - regulatory authority,
 - energy efficiency organizations including non-governmental organizations (NGOs)

What is needed to address energy reform impact on vulnerable households?

Social assistance payments - problems

- They are best known because of the universality of this approach
- Budget constraints are significant problems at both national and regional or municipal levels
- The subsidies from national budget may not reach the households because of other municipal priorities
- Not targeted subsidies to energy companies benefit all consumers, not only vulnerable consumers
- Corruption is an issue for effective use of this mechanism

What is needed to address energy reform impact on vulnerable households?

Social assistance payments - measures

- New policy, separated from traditional welfare payment mechanism
- Clear determination of the responsibilities of different institutions involved in the process
- Targeting and simple administration
- Building and maintaining of data base

What is needed to address energy reform impact on vulnerable households?

Tariffs

- The mechanism is considered as a less desirable approach that should only be used if alternatives are not effective
- If use it should be transitional with a phase-out target
- It easy to get wrong tariff design with negative consequences for the energy sector and energy efficiency and benefits to higher income households
- The tariff mechanism, properly designed, can work with limited distortion of economic signals and incentives for energy efficiency
- Block tariffs, properly designed, can discourage the use of electricity for heating purposes when alternatives are available
- Use of capacity charge, including for heating, has advantages and disadvantages including weakening the incentive to use energy efficiently

What is needed to address energy reform impact on vulnerable households?

Energy efficiency

- The energy efficiency alternative has great importance for big cost / benefits over time
- Targeting is important issue - energy efficiency efforts are have to be targeted to vulnerable consumers
- Energy efficiency measures ease the impact of tariff reform
- Metering is critical, but insufficient, to achieve full savings
- Low-cost energy efficiency measures can make immediate and sustainable savings
- Energy efficiency approach is the last understood option to address the impact on vulnerable consumers

Bulgarian approach

Budget Subsidies

- The Council of Ministers approves the guaranteed minimum income as a basis for determining the monthly subsidy for heating
- The Ministry of Labor and Social Policy:
 - ☛ maintains a database of all vulnerable consumers
 - ☛ proposes each year a monthly subsidy to be provided from the State Budget for vulnerable customers
- The Ministry of Energy and Energy Resources determines the monthly assistance as the amount of energy used to heat one room (3.5 x 4 meters with standard ceiling height)

Bulgarian approach

- Criteria for receiving budget subsidies:
 - ☞ the level of family income
- The subsidies for heating are differentiated depending on the type of energy used – electricity, district heating, coal, briquettes, wood
- There are no targeted programs for the ethnic or other specific consumer groups

Bulgarian approach

Some figures

- 450 kWh/month of electricity:
 - 300 kWh during the on-peak hours,
 - 150 kWh off-peak
- Approximately 56 BGN (35 USD) per month for the heating season.

Bulgarian approach

Mechanisms

- In the past - vouchers
- Now:
 - District heating and electricity companies receive the monthly funds directly from the budget
 - The coal traders receive the annual funds after delivery the whole amount of fuel to the consumer

Bulgarian approach

Electricity Tariff – Actual two block tariff for domestic consumers

Type of metering device	Zones	Monthly consumptions	Price USc/kWh	Related to consumers
Two scales	Day-time	Up to 75 kWh	6.1	All
		Over 75 kWh	10.9	All
	Night-time	All consumption	5.8	- connected to the heat transmission system; - not connected to the heat transmission system for the period 1 April – 31 October;
		Up to 50 kWh	3.3	- not connected to the heat transmission system for the period 1 November – 31 March;
		Over 50 kWh	5.8	- not connected to the heat transmission system for the period 1 November – 31 March;
One scale		Up to 75 kWh	6.1	- connected to the heat transmission system; - not connected to the heat transmission system for the period 1 April – 31 October;
		Over 75 kWh	10.9	- connected to the heat transmission system; - not connected to the heat transmission system for the period 1 April – 31 October;
		Up to 125 kWh	6.1	- not connected to the heat transmission system for the period 1 November – 31 March;
		Over 125 kWh	10.9	- not connected to the heat transmission system for the period 1 November – 31 March;

Note: Prices include VAT which is currently 20%

Bulgarian approach

Heat Tariff – Actual two block tariff for domestic consumers

- Monthly capacity payment - 3.75 USc/m³ heat space
- Energy payment:
 - Up to 250 kWh monthly consumption– 2.27 USc/kWh
 - Over 250 kWh monthly consumption– 2.99 USc/kWh

Note: Prices include VAT which is currently 20%

Bulgarian approach

Energy Efficiency

- The GoB created the Energy Efficiency Agency (EEA) to provide policy and technical support for development of cost-effective energy efficiency for the government.
- The EEA is a branch of the Ministry of Energy and Energy Resources.

Bulgarian approach

Consumer education

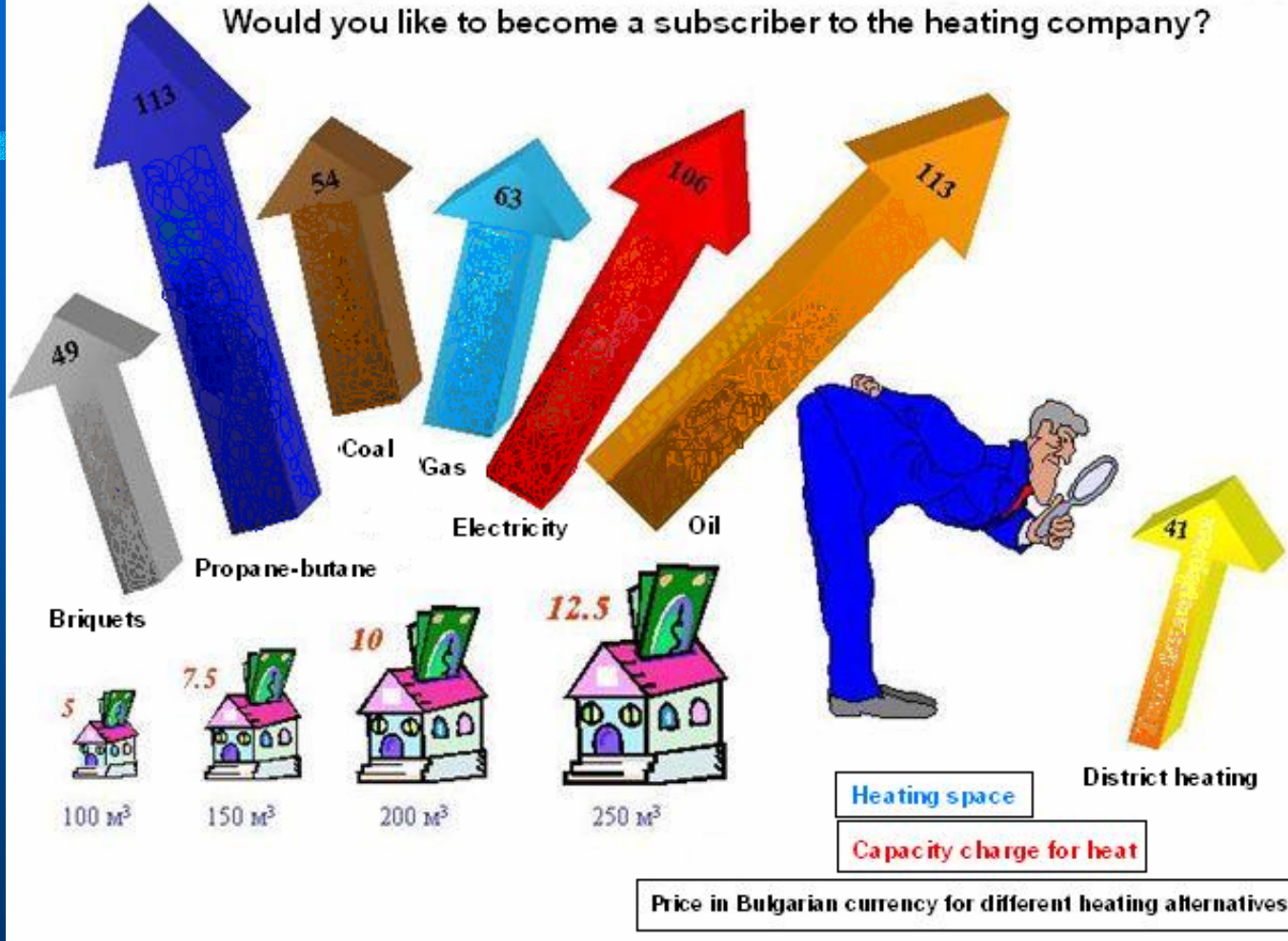
- Brochures for domestic consumers developed by the EEA:
 - ✓ Simple manners to save energy
 - ✓ The brochures are placed at all kiosks where domestic electricity consumers pay their bills.
- Short television programs that provide information on how consumers can save energy
- Individual programs targeted at energy savings within the homes of vulnerable consumers are envisaged by the EEA.

Bulgarian approach

Special programs

- The Ministry of Labor and Social Policy has a program to provide low-income families with high efficient light bulbs in order to reduce the energy consumption of the poor.
- Other targeted programs for the vulnerable consumers such as building insulation and window replacement and other more cost effective programs that will generally reduce retail tariffs for all consumers will be pursued.

Would you like to become a subscriber to the heating company?



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