

Energy-efficiency and environmental policies & income supplements in the UK: Their evolution and distributional impact in relation to domestic energy bills

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Abstract

The paper examines the financial costs of energy-efficiency and environmental policies that directly affect domestic electricity and gas bills in the UK over time. It also attempts for the first time to work out the current distributional impacts of these policies and others that act as income supplements thereby presenting a consistent picture across time and income deciles. Figures suggest that during 2000-11, the percentage share of policy costs in typical domestic electricity and gas bills rose by 14% and 4%, respectively. This reflects a growing share of policy costs in bills which is relatively small for gas customers but significant for electricity customers. Moreover, distributional impacts of the energy-policy mix highlight the issue of imperfect targeting of low-income households during 2009-10. The study also indicates that during 2010-11, 76% of the funds for energy-efficiency schemes were handled by the private sector. Given that a long-term solution to fuel poverty lies in improving thermal efficiency of houses; this research draws attention towards the need for definitive evidence on the ways in which energy suppliers charge policy costs from their domestic customers. This would facilitate in making the future policies more empirically grounded. In time, a clearer understanding of official statistics on energy bills will go a long way in restoring consumers' trust in the pricing mechanism of the energy market.

Keywords

Energy-efficiency and environmental policy; income supplements; distributional impact; policy costs; targeting

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