COUNTRY FACTSHEET

February 2023



CONNECTING

OBLIGATED PARTIES

TO ADOPT INNOVATIVE

SCHEMES TOWARDS

ENERGY POVERTY

ALLEVIATION

SPAIN

BACKGROUND

- The <u>National Strategy against Energy Poverty</u> (ENPE) approved by Spain's government in April 2019, includes an official **definition of energy poverty**: "Energy poverty is the situation in which a household cannot meet its basic energy needs, as a result of insufficient income, and which, if applicable, may be aggravated by having an energy-inefficient dwelling."
- The ENPE also defines vulnerable consumers as follows: "A vulnerable consumer is a consumer of electricity or thermal energy who is in a situation of energy poverty and who may benefit from support measures established by the administrations"
- The ENPE set the **target** to reduce each indicator by at least 25% by 2025, with the further ambition of a 50% reduction (both vs. 2017 levels). The ENPE is an integrated approach structured in **four axes**: (1) Improving the knowledge on energy poverty; (2) Improving the subsidy mechanisms; (3) Reducing energy poverty structurally thanks to energy efficiency; and (4) Protecting consumers and raising social awareness.
- Axis 1 of ENPE includes the yearly assessment of official energy poverty indicators defined from the four main indicators of EPOV (<u>European Energy Poverty Observatory</u>) (latest data in <u>MITECO 2022</u>):

EPOV indicator	2017	2018	2019	2020	2021
Disproportionate energy expenses (2M): % of the households with a share of energy expenditure in income higher than twice the national median	17,3	16,9	16,7	16,8	16,4
Hidden energy poverty (M/2): % of the households whose absolute energy expenditure is less than half the national median	10,7	11,0	10,6	10,3	9,3
% of the population unable to keep home adequately warm	8,0	9,1	7,6	10,9	14,3
% of the population with arrears on utility bills	7,4	7,2	6,6	9,6	9,5

The indicators are adjusted for variables such as climate, the size of the household, the income quintile per consumption unit, the activity situation and the type of household. The annual report provides detailed analyses (e.g. per climate zone).

A complementary study on measuring energy poverty has just been launched by IDAE (Spanish energy agency).

About axis 2, the main measure of protection for vulnerable consumers is the <u>Social Bonus for electricity</u>, was introduced in 2009 and revised several times. It is currently a 25% or 40% discount on the electricity rate for customers who meet certain requirements, based mainly on income level but also on personal circumstances. The latest change was through Royal Decree-Law 15/2018 (October 2018) that complemented it with a <u>Social Bonus for thermal energy</u>, that is a single annual































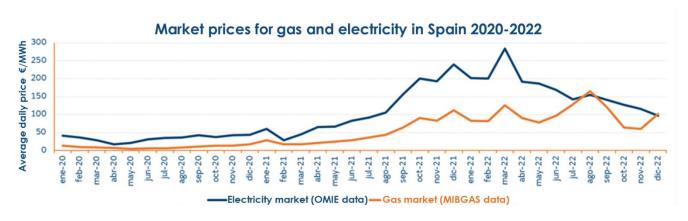






payment to those customers who already received the social electric bonus on 31 December 2018 (the bonus for thermal energy is about reducing costs for heating, cooking and domestic hot water).

- About axis 3, social criteria have been integrated in the **building renovation programmes**: the current main programme (<u>PREE</u>) offers a higher grant rate for renovations of condominiums for vulnerable households eligible to the social bonus. A new sub-programme (<u>PREE 5000</u>) is focused on municipalities facing a demographic challenge.
- About axis 4, initiatives to tackle energy poverty are also developed at **regional or local level**. Many **municipalities** have created energy poverty offices to provide tailored support to vulnerable households. The first one was set up in Barcelona with Energy Advisory Points (PAE Puntos de Asesoramiento Energético).
- NGOs are also very active, including the <u>Alliance against energy poverty</u>, <u>Red Cross</u>, <u>Cáritas</u>, <u>Ecodes</u>, <u>Ecoserveis</u>, <u>Energia Justa</u>, <u>Alliance for renovations with no one left behind</u>. An increasing number of initiatives cover from awareness-raising, information up to retrofitting. For example, the Naturgy Foundation has a <u>Vulnerability Energy Plan</u> that has undertaken 3600 low-cost retrofits and more than 276 training workshops on energy bills and habits having more than 200.000 beneficiaries since 2017.
- Compared to other European countries, the Spanish stock is relatively young (44% of the main residences built between 1981 and 2007). 67% of the dwellings are in multi-family buildings (high share of condominiums), and 77% of the dwellings are owner-occupied. However, according to the ENPE, the **highest rate of energy poverty** is in the **private-rented sector** and in **rural areas**.
- Energy needs vary greatly among regions according to the 6 climate zones: for ex. heating degree days range from <1000 (Balearic Islands, exclaves of Ceuta and Melilla) to almost 2500 (region of Castile and Leon) (Insight-E project). However, energy poverty can also be found in milder climate zones, due to poor housing insulation.</p>
- **Energy prices** are **higher in Spain** than in most other EU countries (20% above the EU average for electricity and gas prices for households in 2019, Eurostat). All energy prices have known a strong increase from mid-2021 in Spain, as shown in the figure below about wholesale prices.



Source: Naturgy's figure using data from OMIE (Spanish and Portuguese electric market) and MIBGAS (Spanish and Portuguese gas market)



MAIN RECENT MEASURES TO HELP HOUSEHOLDS FACE THE ENERGY CRISIS

MEASURES FOCUSED ON VULNERABLE OR LOW-INCOME HOUSEHOLDS

) Increased Social Bonuses for electricity and thermal energy (October 2021 – December 2023): discount on energy bills for about 1.2 million eligible households in 2021 and now about 1.9 million

From October 2021 (Royal Decree Law 23/2021, MITECO 2021)

- o bonus for electricity: increase of discounts from 25% to 60% (vulnerable consumers) and from 40% to 70% (severely vulnerable).
- o bonus for thermal energy: budget doubled for 2021 (up to 202.5 million euros), equivalent to an aid of 90 euros per beneficiary on average (different according to the climate zone)

From April 2022 (MITECO 2022a)

- o bonus for electricity: further 600 000 households eligible (+50%), and further increase of discounts from 60% to 65% (vulnerable consumers) and 70% to 80% (severely vulnerable), and possibility for consumer eligible to the "minimum vital income" (social benefit for very low income people) to apply automatically for the Social Bonus (with automatic renewal of social Bonus after two years),
- o bonus for thermal energy: increased budget from 202.5 to 228 million euros (to help the households newly eligible).

From October 2022 (Plan for more energy security "Plan +SE", MITECO 2022b)

- o new category of temporary social bonus for energy justice (Bono social Justicia energética) to help further 1.5 million households (low-income households but not meeting the criteria for the social bonus for electricity), with discounts of 40% on their electricity bills until the end of 2023. This makes that altogether the four lowest income deciles can receive a direct aid.
- o increased limits of annual energy consumption eligible to the discounts of the social bonus
- o social bonus for thermal energy doubled for 2023 to an average of 375 euros per beneficiary (total budget of 453 million euros)
- Minimum Vital Supply (March 2020 on-going): in March 2020, cutting supply of gas and electricity of people with debt became prohibited for a new category for people affected economically speaking by Covid. This was then extended in October 2021 (and then again in April 2022) to households eligible to the social bonus, as part of the Minimum Vital Supply measure planned in the ENPE. At times of "normal" electricity prices, the Minimum Vital Supply is to ensure that households keep a minimum level of power (2 kW) at homes that are cut off for debts, enough to have a minimum quantity of energy for 6 months. In practice, this has not been used so far, because the government has extended the prohibition of cutting household with social tariffs.



MEASURES BENEFITTING TO ALL HOUSEHOLDS

- Reduced taxes on electricity (June 2021 on-going): from June 2021, reduced VAT from 21% to 10% for small consumers, suspension on the 7% IVPEE (levy on the sale of electricity production) on the wholesale energy sales (equivalent to a 12% discount on bills for domestic consumers) (Royal Decree-Law 12/2021), complemented with further fiscal measures from October 2021 (Royal Decree-Law 17/2021): Special Tax on Electricity reduced from 5.1% to 0.5% (minimum allowed by EU regulations), and the funds obtained from CO2 auctions increased to 2 billion euros to reduce electricity bills (MITECO 2021). Overall the fiscal measures were equivalent to a 60% tax reduction, estimated to amount to 10 to 12 billion euros per year (MITECO 2022a). The VAT was then further reduced to 5% from October 2022.
-) Cap on the increase in the regulated natural gas tariff (TUR) (October 2021 on-going): increase limited to 4.4% in the last quarter 2021, for families and SMEs with individual boilers (vs. 35% increase without this cap). The cap has been maintained since then. In practice, this means that the regulated price is about half the market prices. Cap measures on gas prices are progressively extended to cover all gas consumers. The price of a butane bottles (LPG) has been capped at 19.55 euros since June 2022. Then the cap on TUR will be extended to collective boilers at the end of 2023, with up to 1.7 million households who could benefit for a reduction up to 50% on a reference consumption (average of the past 5 years), if the condominiums install individual meters or cost allocators before October 2023, unless they are exempted due to technical unfeasibility. Otherwise, a surcharge of 25% will be applied to the variable term on gas consumption when the condominium subscribe to the TUR. Overall the cost of the cap on TUR for the State budget is estimated to 3 billion euros in 2023 (MITECO 2022b).
- Reduced VAT on gas and biomass prices (October 2022 on-going): VAT of gas and biomass was reduced from 21% to 5% (MITECO 2022c)
-) **Discount on fuels for transport** (April 2022 June 2022): discount of 20 eurocents per liter of fuel from April to 30 June 2022 (15 cents from State budget, 5 cents from the oil companies)
-) Information on electricity and gas bills for households and SMEs: information on average consumption in the district and advice on how to make savings (announced in October 2022)



MAIN NATIONAL ENERGY EFFICIENCY MEASURES TACKLING ENERGY POVERTY

Programme for Energy Renovation of Buildings (<u>PREE</u>) (since 2020; revision of previous renovation programmes, PAREER, in place since 2013)

- Coordinated by IDAE and implemented by the Regions (Autonomous Communities)
- Eligible actions: insulation, space and water heating systems (including RES), lighting
- Grants with base rate of 15% to 35% (depending on the type of action and dwelling) for achieving at least 20% energy savings, with bonus rates of 5 to 20% for higher energy efficiency ambition, 10 to 20% in case of combined actions on building envelope and heating system, and 15% for households eligible to social bonus.
- First budget of 300 million euros in 2020, plus 102.5 million euros in 2021.
- As part of its Recovery & Resilience Plan, Spain has developed from August 2021 a new programme (PREE 5000) focused on municipalities facing a demographic challenge (less than 5000 inhabitants). It includes a **bonus grant rate for households eligible to social bonus**. Budget for August 2021-December 2023 is 50 million euros.

Neighbourhood retrofitting programme (2021-2026)

- Part of the 'Building renovation and urban regeneration plan' included in Spain's Recovery & Resilience Plan adopted in 2021 (with NextGenerationEU funds), and more specifically, part of the 3.42 billion plan for renovating dwellings
- A share of the budget will be allocated to energy rehabilitation actions that prioritise an integrated approach in **neighbourhoods with poor energy performance or very low purchasing power**. In those deprived areas, the **public contribution could be 100%** (vs. 40 to 80% otherwise, depending on the savings achieved), with grant amount of 8100 to 21400 euros per dwelling (depending on the savings achieved), to achieve **average energy savings of more than 30%**.
-) The submission of applications for grants will be closed by the end of 2024, and the works have to be completed by mid-2026.

Programme for energy-efficient social housing buildings

(2022-2024)

- Part of the 'Building renovation and urban regeneration plan' included in Spain's Recovery and Resilience Plan adopted in 2021 (with NextGenerationEU funds)
- Promotion of the construction or rehabilitation of **20 000 dwellings** not currently used for social housing, and to be delivered by mid-2026 with **high energy efficiency standards** (primary energy consumption at least 20% lower than the current building regulation) (aim of increasing the stock of social or affordable housing)
-) Dwellings meant for households meeting certain social criteria, for at least 50 years
- 1 billion euros in total (500 million allocated in 2022 and 500 million in 2023, both to the Autonomous Communities). Maximum grant amount: 50 000 euros per dwelling.

The table above is focused on the national EE policy measures tackling energy poverty. More initiatives exist at regional or local level, or led by stakeholders such as energy companies. As illustrated by the <u>schemes developed</u> as part of SocialWatt.



FOCUS ON ARTICLE 7 EED AND THE ROLE OF ENERGY COMPANIES

Spain reports to Article 7 EED a combination of an Energy Efficiency Obligation Scheme (EEOS) and alternative measures. The EEOS was created in 2014 when transposing the EED (Ley 18/2014). Up to now, the EEOS has required energy suppliers to pay to the National Energy Efficiency Fund (FNEE) a financial contribution whose amount is set every year. In January 2023, the Spanish government approved the addition of a white certificates scheme to the EEOS, allowing obligated parties to meet part of their obligation by doing or contracting energy efficiency programmes, or buying white certificates to other obligated parties (Real Decreto 36/2023). No specific provision related to energy poverty has been announced yet. Spain's implementation of Article 7 EED has thus not yet involved energy companies in the development of energy efficiency measures to alleviate energy poverty.

The Institute for Diversification and Energy Saving (IDAE), attached to the Ministry for Ecological Transition (MITECO), operates the FNEE. IDAE designs and coordinates energy efficiency programmes financed from the FNEE and other funds such as the European Regional Development Fund (ERDF). This includes the renovation programmes such as PREE (see above), that have been reported to Article 7 EED. However, for the period 2014-2020, Spain did not mention a share of energy savings that would be achieved with measures aimed at alleviating energy poverty or with other social aims.

<u>Spain's NECP</u> presented a set of about 30 policy measures grouped in 10 policy packages, including one focused on energy efficiency in the residential sector, making a link with the ENPE. Measures related to the ENPE could include support for the replacement of appliances, as well as higher grant rates for building renovation.



INTERVIEW WITH ESTER SEVILLA (Director of Social Programs, Naturgy Foundation)

Do you expect an increase in the number of households at risk of energy poverty due to the current energy crisis?

Naturay Foundation has regular contact, through the initiatives of its Energy Vulnerability Plan, with vulnerable groups and a worsening of their situation has been observed. With the current energy crisis and the rise in prices together with an unemployment rate above 13% in Spain, an increase in energy vulnerability is expected. It is also observed that people either reduce their energy consumption to maintain spending or consume the same but spend much more (even sacrificing other essential goods). In the latest energy poverty indicators published by MITECO December 2022 that show the situation for 2021, the indicator of "inadequate temperature at home" has suffered an increase of almost 4 points compared to 2020. This indicator reflects the perception of how you feel at home from an energy point of view.

Have there been recent changes in the policy measures to tackle energy poverty?

Recently, the measures carried out by the Administration have been related to short-term and emergency measures, aimed to mitigating the impact of the energy crisis on the group of vulnerable people, basically increasing the discount percentage of the social tariffs and expanding the categories eligible. It can be said that these mechanisms have contributed somewhat

to retaining the impact of the pandemic and the current price crisis.

In recent years, energy rehabilitation programs promoted by the IDAE (Agency within the Ministry of Ecological Transition) and the rehabilitation aid granted by the city councils do provide for an increase rate in subsidies for vulnerable groups (i.e. those who have the social bonus). There is a growing awareness that these groups should be helped. However, this help is still insufficient. Given that energy poverty is one face of poverty in general, it must be considered that these families cannot afford an investment in rehabilitation or an advance payment even if they later receive a subsidy. One solution would be for the Ministry to consider the possibility of financial aid for these people coming through some intermediate body, such as social entities, which can act as a bridge, helping to identify the people who need it, as well as accompanying the procedures to ensure that the help actually arrives.

In relation to the prices of energy supply, more long-term measures should also be adopted such as establishing regulated social tariffs exclusively for truly vulnerable customers and charged to State's general budgets, within the framework of social policy said in the Directive on common rules for the internal market for electricity.

What is or should be the role of energy companies in the schemes to tackle energy poverty?

Energy companies have an important



position to alleviate energy poverty and develop specific schemes. However, it is necessary that the schemes that are proposed and the regulation that develops them generate incentives for energy companies to dedicate special attention to these groups, without imposing obligations in a discriminatory manner. Energy companies can contribute very effectively to building capacity and awareness about energy poverty and its relationship with energy efficiency. On the other hand, it is essential to establish strong alliances and collaborations with key stakeholders (for example, social services) to be able to effectively target energy-poor households and design customized schemes.

The current recast of the Energy Efficiency Directive will likely introduce an "energy poverty" ringfence or subtarget as part of the national energy savings obligation. Do you expect changes in the policy measures to meet this sub-target?

Energy efficiency objectives in actions carried out on the group of vulnerable people is good for promoting housing rehabilitation measures; however, special incentives are necessary to promote actions for these groups, since it must be taken into account that, on occasions, these people use less energy than necessary. There must be specific schemes of energy efficiency as they can emanate from the EED, and also specific lines to help alleviate energy poverty. Cost to the consumer remains a barrier, so the schemes must cover the entire costs or facilitate blending financing.

Would you like to add a comment on the topic of energy efficiency measures to tackle energy poverty?

Undoubtedly, improving energy efficiency at homes of vulnerable families is one of the basic lines to alleviate energy poverty. Perhaps the financing of such measures is the most important barrier to their implementation. For this, incentives must be proposed to companies so that they promote measures for these groups and also their design must have characteristics that are somewhat different from other groups, such as: financing must reach 100% because these people in general do not have accumulated savings to invest; the aid should go through the NGOs that accompany these families since the direct granting of monetary aid for these lines of efficiency can make them lose other management of the subsidies: the implementation and verifications must be reduced in bureaucracy; the measurement of the impact as well as the management process should not cost more than the measure itself; should be encouraged as a the medium-term measure rehabilitation" when it is not possible to carry out an integral rehabilitation of the dwelling; it should be sought solutions and mediations for housing rental cases so that vulnerable people can remain long time in the house with a reasonable rental cost after improving energy efficiency of the dwelling.



INTERVIEW WITH ROBERTO BARRELLA, JOSÉ CARLOS ROMERO AND EFRAIM CENTENO (Chair of Energy and Poverty – Comillas Pontifical University)

Do you expect an increase in the number of households at risk of energy poverty due to the current energy crisis?

According to indicators assessed from the latest data available from the Spanish National Institute of Statistics (INE). published in 2022 and corresponding to 2021, and analysed by the Chair of Energy and Poverty, several million people meet some of the indicators that point to energy poverty. For example, arrears on utility bills (4.5 million) or inadequate housing temperature (6.7 million). The former is consolidating its value compared to 2020, but the latter is worsening very significantly. If the disproportionate expenditure is taken into account (2M and MIS indicators; when what is paid for energy is a very important part of income) energy poverty affects around three million households, while two million households are severely underspending, i.e. consuming much less than they need, according to the Hidden Energy Poverty indicator proposed by the Chair.

It is therefore clear that 2021, from an energy poverty perspective, was a year of some light and a lot of shade. Compared to 2020, fewer households spent a disproportionate share of their income on energy costs, but, in contrast, many more households entered the dark abyss of severe hidden energy poverty.

There are no official statistics yet to be able to talk about the impact of energy prices on Spanish households during the last winter (2022/2023). The price increases have been slowing down since November 2022 and the winter has been mild, which has led to a decrease in heating needs. These

conditions, together with the measures implemented by the Government could have mitigated energy poverty.

From a theoretical perspective, the Chair has simulated the bills of an average family in the regulated market over the course of 2022 and these have risen by 21% compared to the previous year.

Have there been recent changes in the policy measures to tackle energy poverty?

Multiple mitigating policies have been introduced by the National Government to tackle the impact of the energy crisis on households, especially vulnerable ones.

The main measures can be summarised as follows [see the first pages of this factsheet]:

Social Tariffs:

Electricity social tariff: Increase of the discounts and new categories of consumers benefitting from them.

Thermal social allowance: increase of the aid amount.

• Electricity bill:

Reduction of VAT from 21% to 10%, then 5%; Reduction of electricity tax from 5.11% to 0.5%;

Reduction of demand charges;

Reduction of price in the regulated market tariff for the Iberian exception.

Natural gas bill:

Cap on the regulated price of natural gas (TUR) for 2021, 2022 and 2023;

Reduction of VAT from 21% to 5%.

The Chair of Energy and Poverty report points out that without measures such as the reduction of VAT, electricity tax or charges, the hidden energy poverty indicator would have increased by 200,000





households in 2021. In the following year, the increase in the discounts for the electricity social tariff was probably the real lifeline for vulnerable consumers benefitting from it (around 1,3 million at end of 2022), as their bills in 2022 were even lower than in 2021.

Are energy efficiency schemes an important part of the national strategy or approach to tackle energy poverty?

Concerning structural measures, Action III – Line 6 of the National Strategy against Energy Poverty (SNSEP) proposes energy efficiency interventions for three timeframes, as follows:

- Short-term measures: it suggests low-cost 'express' energy retrofitting of housing.
- Medium-term measures: these include a broader replacement of household equipment (both thermal systems and electrical appliances) with more efficient ones and the promotion of public housing stock for social renting.
- Long-term measures: it proposes 'Integrated Building Retrofitting' – deep energy retrofitting.

Moreover, all the suggested energy efficiency measures would require the design of ad-hoc financing schemes for vulnerable households.

These interventions would have to be implemented in line with the Spanish Long-Term Strategy for Energy Renovation in the Building Sector (SLTRS), which is the national roadmap for advancing towards the objective of decarbonisation and improving the efficiency of buildings.

Moreover, this strategy aims to contribute to the Spanish National Energy and Climate Plan 2021-2030 (SNECP), which, among many other strategic objectives, is committed to the energy retrofitting of the existing building stock. Both roadmaps include a special mention of households in energy poverty which, in the case of the SLTRS, translates into a specific action plan for them.

What is or should be the role of energy companies in the schemes to tackle energy poverty?

Companies play a crucial role in the fight against energy poverty. First of all, they share with the rest of society the responsibility of finding ways of minimizing energy poverty. Besides they have access to information about vulnerable consumers so its cooperation with administration and also, with third-sector organizations is important in order to share the information (for example consumption patterns or arrears on payments) that may help to locate and characterize vulnerable households. The coordination of this kind of initiative lies with the public administration, at the national, regional and municipal levels, but energy companies may also be proactive through internal actions. In this context is especially interesting proposal of creating a special position in the companies (social intrapreneurship) specifically devoted to these tasks.

Finally, companies can also leverage energy retrofitting funds to improve the energy efficiency of vulnerable households, such as the one promoted by Naturgy Foundation in Spain.

The current recast of the Energy Efficiency Directive will likely introduce an "energy poverty" ringfence or subtarget as part of the national energy savings obligation. Do you expect



changes in the policy measures to meet this sub-target?

The Spanish government already introduced special conditions for vulnerable households in energy efficiency subsidy programs, such as the PREE one. However, this new obligation might further boost this practice by, for example, introducing programs only for low-income households to narrow the funds to the ones that more need them.

Would you like to add a comment on the topic of energy efficiency measures to tackle energy poverty?

These efficiency measures are crucial, as pointed out in the SNSEP. If energy poverty is to be tackled at its structural causes, it is necessary to address the source of the problem: the energy demand. The lower the demand, the less vulnerable households are.

That said, there are multiple strategies to improve energy efficiency in the residential sector. They could be divided into three main blocks:

- 1) Micro-efficiency measures: These are very low-cost actions that can be carried out by households themselves. These include the installation of weather stripping on doors and windows, changing incandescent bulbs for LEDs, etc.
- 2) <u>Express-retrofitting measures</u>: These include all those actions that can be carried out from inside the home. The main ones would be: changing windows and installing insulating panels.
- 3) Deep renovation measures: These involve acting on the building envelope.

Researchers from the Institute for Research in Technology of Comillas Pontifical University <u>quantified the savings</u> related to the first two kinds of measures in Spanish households. However, it is necessary to use a wise combination of all these measures to improve the building stock in our country, always giving priority via public subsidies to the most vulnerable households.



CONNECTING

OBLIGATED PARTIES

TO ADOPT INNOVATIVE SCHEMES TOWARDS **ENERGY POVERTY**

ALLEVIATION

SocialWatt is a Horizon 2020 project that develops and provides utilities and energy suppliers with appropriate tools for effectively engaging with their customers and working together towards alleviating energy poverty.

SocialWatt also enables obligated parties under Article 7 of the Energy Efficiency Directive across Europe to develop, adopt, test and spread innovative energy poverty schemes.

SocialWatt contribute to the following three main pillars:

- Supporting utilities and energy suppliers contribute to the fight against energy poverty through the use of decision support tools.
- 2 Bridging the gap between energy companies and social services by promoting collaboration and implementing knowledge transfer and capacity building activities that focus on the development of schemes that invest in Renewable Energy Sources / Energy Efficiency and alleviate energy poverty.
- Implementing and replicating innovative schemes to alleviate energy poverty.



































