



## Policy options for tackling energy poverty in vulnerable households

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### 1 Introduction

The Netherlands Authority for Consumers and Markets (ACM) is committed to making sure that markets work well for all people and businesses. That is why ACM sees to it that there is fair competition on the energy market. Electricity and natural gas are basic essentials, but the energy-price crisis made it clear that energy is not always affordable for everyone. Fair competition is therefore no guarantee for affordable energy. This particularly affects vulnerable households. In this paper, ACM will flesh out this argument in greater detail. In that context, it will put forward several policy options for keeping energy affordable for vulnerable households, even in times of sharply rising energy prices. For the year 2023, the Dutch cabinet introduced a price cap to keep energy affordable. In the short term, that was a feasible measure. The target group was quite broad. That made the measure costly, and may have eliminated energy-saving incentives as well as pro-competitive incentives. In order to limit these drawbacks as much as possible, it is necessary to offer support only to vulnerable households that truly need this support.

The structure of this paper is as follows: In section 2, ACM fleshes out its argument that competition does not guarantee affordable energy to vulnerable households. In section 3, ACM discusses the ways in which energy can be kept affordable for vulnerable households, such as using general purchasing-power policies, introducing a social rate, and making homes more sustainable. In section 4, ACM, on the basis of models from neighboring countries, outlines the opportunities and points for attention associated with the introduction of a social rate. ACM works out the social rate because it touches on the functioning of the energy market, where ACM plays a regulatory role. Moreover, regulators in some European countries play an implementing role with regard to the social rate. ACM does not have a preference for how vulnerable households can be supported. The different ways to make energy more affordable for vulnerable households each have their own pros and cons.

This paper focuses mostly on electricity and natural gas, but also applies to the supply of heat. The bill for the Dutch Collective Heat Act (in Dutch: Wet collectieve warmte, WCW) stipulates that rates be based on actual costs incurred by energy suppliers.<sup>1</sup> A cost-based rate does not guarantee energy affordability. Heat supply costs can be high, for example, when heat production is dependent on natural gas or when a network is relatively new. ACM has made recommendations to the Dutch legislature that, with this cost-based system, appropriate measures must be taken in order to protect consumers against extremely high rates.<sup>2</sup>

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<sup>1</sup> On the basis of current legislation, ACM sets the heat rates on the basis of natural-gas rates based on the idea that households with heat connections do not pay more than they would have paid if they had had a natural-gas connection.

<sup>2</sup> See [ACM issues recommendations regarding the bill for the Dutch Collective Heat Act | ACM.nl](#).

## 2 Competition is no guarantee for affordable energy for vulnerable households

Since 2004, the market for the supply of electricity and natural gas to consumers has, in accordance with European guidelines, been liberalized. Since then, commercial suppliers have been competing for consumers. The current market organizational model is not one of perfect competition. Competition on the energy market is subject to sector-specific rules and oversight, such as a licensing requirement for suppliers with requirements regarding organization and financial management, information obligations, tariff regulation, and schemes that prevent consumers from being disconnected from electricity, for example, in the case of bankruptcy.<sup>3</sup>

Competition between suppliers helps keep energy affordable for vulnerable households, but it cannot guarantee it. Energy prices on the retail market reflect the prices that are formed on wholesale markets, where energy suppliers buy energy.<sup>4</sup> Purchasing costs make up the largest part of the base energy price (the price excluding taxes and transport costs). Over the past few years, wholesale prices for electricity and natural gas were much higher than before. Energy suppliers include these higher wholesale prices in consumer prices (with some delay). This means that, even with reasonable profit margins and efficient business operations, affordable energy becomes less obvious for some consumers, and energy poverty can thus emerge.<sup>5</sup> At the moment, wholesale prices are considerably lower than in August 2022, when the energy crisis was at its peak. However, wholesale prices are still higher than before the start of the crisis, see also figure 1.

### European gas prices

This graph shows the gas price development in seven European countries.

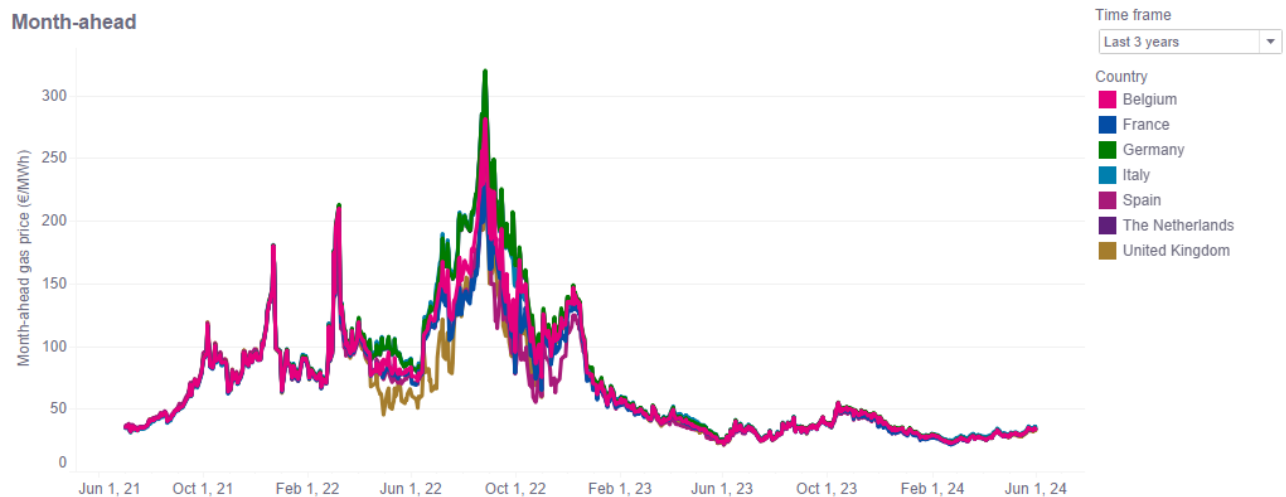


Figure 1 – Wholesale natural-gas prices, one month ahead, source: ICIS, ACM Monitor groothandelsprijzen en leveringszekerheid gas

<sup>3</sup> This paper takes this market organizational model as a given. The question of whether this particular model best serves the public interests of affordability, security of supply, and sustainability, falls outside of the scope of this study. Following a number of motions tabled by the Dutch House of Representatives, the Ministry of Economic Affairs and Climate Policy (EZK) commissioned Strategy& to carry out a study into the market organization of the energy market, focusing on the public interests in the Dutch energy supply. Strategy&'s study covers the entire energy chain and is therefore broader than the retail market. This ACM paper was drawn up independently from this study. See Strategy& (2023), "Onderzoek publieke belangen Nederlandse energievoorziening" [Study into the public interests in the Dutch energy supply]. Available in Dutch at: file ([overheid.nl](https://overheid.nl)).

<sup>4</sup> Some energy suppliers are part of a concern that also produces electricity. In those cases, too, energy suppliers buy energy on wholesale markets and not directly from the concern's production unit.

<sup>5</sup> In the spring of 2023, ACM established that the rates of the six largest Dutch energy suppliers were not unreasonable. For the investigation into Eneco, Essent, and Vattenfall, see: [ACM: the tariffs of the three largest energy suppliers are not unreasonable | ACM.nl](#). For the investigation into Budget Thuis, Greenchoice, and ENGIE, see: [ACM: the tariffs of energy suppliers Budget Thuis, Greenchoice and ENGIE are not unreasonable | ACM.nl](#). Additionally, ACM introduced the "Monitor Consumentenmarkt Energie" [Monitor on the consumer energy market] to follow market developments, available in Dutch at: [Monitor Consumentenmarkt Energie | Tableau Public](#).

The energy crisis has shown that energy affordability can suddenly and unexpectedly come under pressure. The natural-gas price greatly affects energy bills, both directly (because of gas-fired heating) and indirectly (because of the use of natural gas in the production of electricity). To keep energy affordable during the energy crisis, the Dutch cabinet took a number of measures, such as introducing a temporarily reduced VAT rate on energy in the second half of 2022, an extra energy allowance of 190 euros per household in November and December 2022, and a price cap in 2023. The target group of these measures was broad. These measures consequently took up a lot of government resources, and may have eliminated energy-saving incentives and pro-competitive incentives. By confining the target group to vulnerable households, which truly need the support, the drawbacks are mitigated as much as possible. It is desirable to define the target group of vulnerable or energy-poor households, which ACM will further discuss in section 4.<sup>6</sup>

The Dutch central government also offers specific support to vulnerable users. For example, households with incomes at or below the social minimum level received an energy allowance of 1,300 euros in 2022 and 800 euros in 2023.<sup>7</sup> In 2024, there is no energy allowance. In 2023, the Dutch cabinet made additional resources available for so-called energy-fix teams and the National Insulation Program.<sup>8</sup> The Temporary Energy Emergency Fund also offers support to vulnerable households.<sup>9</sup> In 2024, the Emergency Fund was open between 22 January and 20 March. This private initiative, which is financed by energy suppliers and the central government, pays (indirectly) the part of the energy bill exceeding a certain threshold. This threshold depends on income level and energy consumption. As a result, the supply price for energy above the threshold for the target group is zero. The Emergency Fund compensates the supplier for the discount that the target group receives. Households need to apply for this support themselves.

There is a real chance that, from time to time, natural gas will become considerably more expensive again. Several factors that affect the natural-gas price are the weather, capacity limitations at LNG installations, the cutback in the supply of Russian natural gas (which is already limited), China's increasing demand for LNG, damage to Europe's natural-gas infrastructure, and, more in general, geopolitical developments.<sup>10</sup>

The transition to sustainable production of electricity and heat consumption makes Europe and the Netherlands less dependent on natural gas in the long term. This does not mean that energy is more affordable for vulnerable households. The energy transition requires substantial investments in network capacity for electricity and heat.<sup>11</sup> Netbeheer Nederland, the Dutch trade association of system operators, has estimated that infrastructure costs in 2050 will approximately double compared with today, with some variation in different scenarios.<sup>12</sup> Higher costs for system operators do not

<sup>6</sup> The Protocol regarding the disconnection policy for small-scale users of electricity and natural gas (in Dutch: Regeling afsluitbeleid voor kleinverbruikers van elektriciteit en gas) defines vulnerable consumers as small-scale users or housemates of the small-scale users to whom (on the basis of a medical statement) the termination of transport or supply of electricity or natural gas would create very serious health risks. Additionally, a group of energy-poor or vulnerable households can be defined using indicators of energy poverty.

<sup>7</sup> See [How can I get the one-off energy allowance in 2023? | Energy crisis | Government.nl](#) and CBS's web page "Energietoeslag" [Energy allowance], available in Dutch at: [Energietoeslag | CBS](#)

<sup>8</sup> See the news article of the Dutch government "Extra inzet energiefixers en lokale aanpak isolatie in strijd tegen energiearmoede" [Additional deployment of energy fixers and dealing with insulation at the local level in fight against energy poverty], available in Dutch at: [Extra inzet energiefixers en lokale aanpak isolatie in strijd tegen energiearmoede | Nieuwsbericht | Rijksoverheid.nl](#)

<sup>9</sup> See the website of "Noodfonds Energie" [Temporary Energy Emergency Fund], available in Dutch at: [Noodfonds Energie](#). The Fund no longer accepts new applications.

<sup>10</sup> Emiliozzi, S., F. Ferriani en A. Gazzani (2023). "The European energy crisis and the consequences for the global natural gas market", Bank of Italy Occasional Paper, no. 824.

<sup>11</sup> These system operator costs, combined with the delivery costs and taxes, make up the energy bill. For electricity and natural gas, transmission costs make up approximately 19% of the energy bill, measured against current taxes and delivery rates. See ACM's "Monitor Consumentenmarkt Energie" [Monitor on the consumer energy market], available in Dutch at: [Monitor Consumentenmarkt Energie | Tableau Public](#).

<sup>12</sup> Netbeheer Nederland, "Integrale Infrastructuurverkenning 2030-2050" [Integral Infrastructure exploration 2030-2050], p. 161. Please pay particular attention to figure 71, and, in that figure, to the infrastructure costs.

automatically result in higher rates for households, because the costs may be spread out over more connections. However, system-operator costs are expected to rise considerably.<sup>13</sup>

A study of Dutch central bank DNB shows that, without support measures, approximately 200,000 households were vulnerable to energy-price fluctuations in 2020. With 2022 prices, this group increased to almost one million households, and this is not just households with poorly insulated homes.<sup>14</sup> Depending on the state of the home, family makeup, and household needs, the energy bill could be as high as 16.3% of the household's income in 2022. In 2021, households spent, on average, 4.5% of their incomes on energy.<sup>15</sup> Energy prices are expected to remain volatile in the future.<sup>16</sup> That is why ACM has established that competition on the energy market does not guarantee affordable energy for vulnerable households.

### 3 Possible ways to keep energy affordable for vulnerable consumers

Electricity and natural gas are basic essentials that must be available to and affordable for everyone. The question is how vulnerable households can be protected against high prices in order to prevent energy poverty. Targeted protection is important because broad measures take up a lot of government resources, may reduce incentives to act sustainably, and may disrupt competition. The more specific the support is, the smaller these drawbacks are.<sup>17</sup> During the energy crisis, almost all European countries implemented both purchasing-power policies and price policies. An average of 22% of the spent budgets was used on measures targeting specific consumers. Of that amount, an average of 34% was spent on price interventions and 66% on purchasing-power policies.<sup>18</sup>

#### 3.1 Models for support to vulnerable households

The Electricity Directive and the Natural-gas Directive require member states to take appropriate measures to protect vulnerable and energy-poor users.<sup>19</sup> There are three ways to make energy affordable for vulnerable consumers<sup>20</sup>:

<sup>13</sup> Netbeheer Nederland expects that, by 2030, system-operator costs per household for electricity and natural gas will have increased by 70% and 12% respectively, compared with 2023. See "De energietransitie en de financiële impact voor netbeheerders" [The energy transition and the financial impact for system operators], available in Dutch at: [netbeheernederland.nl](https://www.netbeheernederland.nl). In a report commissioned by energy supplier Essent, consultancy firm Berenschot also concludes that energy bills are expected to remain high in 2035, partly because of higher system-operation costs. See "Betaalbaarheid energierekening 2035" [Affordability of energy bills in 2035], available in Dutch at: [berenschot.nl](https://www.berenschot.nl).

<sup>14</sup> DNB (2023), "Isoleren en compenseren: reactie van huishoudens op de energiecrisis" [Insulating and compensating: households' reactions to the energy crisis].

In this study, a household is considered financially vulnerable if it meets three criteria: (1) an income of up to 120% of the poverty threshold, (2) assets worth less than 12,450 euros (3) an energy quota of more than 8%.

<sup>15</sup> "TNO energiearmoedemonitor" [TNO Energy Poverty Monitor] (2023) p. 20 and "CBS Monitor Energiearmoede" [CBS Energy Poverty Monitor] (2021), available in Dutch at: [Monitor Energiearmoede 2021 | CBS](https://www.cbs.nl/monitors/energiearmoede).

<sup>16</sup> See, inter alia, the article of Dutch financial newspaper Het Financieele Dagblad "Gasprizen zakken verder weg, 'de energiecrisis is voorbij'" [Natural-gas prices decrease further, 'the energy crisis is over'], available in Dutch at [Gasprizen zakken verder weg, 'de energiecrisis is voorbij' \(fd.nl\)](https://www.fdb.nl/gasprizen-zakken-verder-weg-de-energiecrisis-is-voorbij).

<sup>17</sup> See also the recently published "Keuzewijzer Klimaat en Energie" [Selection Guide for Climate and Energy], particularly the section of the Selection Guide that concerns the affordability of energy bills. See Final Report "Keuzewijzer Klimaat en Energie" [Selection Guide for Climate and Energy] of the independent working group Klimaat en Energie [Climate and Energy], at the request of the Ministry of Economic Affairs and Climate Policy, 4 December 2023 (in particular section 3.4.3). Available in Dutch at: [Keuzewijzer Klimaat en Energie | Rapport | Rijksoverheid.nl](https://www.klimaat-en-energie.nl/rapport).

<sup>18</sup> Bruegel (2023), "National fiscal policy responses to the energy crisis". See: National fiscal policy responses to the energy crisis ([www.bruegel.org](https://www.bruegel.org)).

<sup>19</sup> See Article 28 of the Electricity Directive and section 3.3 of the Natural-gas Directive. See also Lavrijssen and Mulder, "Wetenschapstoets Energiewet (positie consument)" [Scientific assessment of the Energy Act (position of the consumer)], 13 September 2023; Dutch Council of State, "Energiewet" [Energy Act], W18.22.0119/IV, 1 February 2023. Available in Dutch at: [Wetenschapstoets Energiewet | Tweede Kamer der Staten-Generaal](https://www.wetenschapstoetsenergiewet.nl).

<sup>20</sup> The European Commission has proposed to give member states the opportunity to intervene in the rates in case of an emergency in which prices are much higher than they normally are. That will only be possible if the European Commission announces an electricity-price crisis. For this reason, and the fact that high energy prices can also result in affordability

1. **General purchasing-power policy:** This type of policy supports households' financial resources. Purchasing-power policy can be generic, such as minimum wage and social welfare, or targeted at consumers who run into problems because of high energy prices, for example, with a specific energy allowance.
2. **Introducing a social rate:** This type of policy is aimed at affordability by intervening in the energy rates specifically for vulnerable households. All or several energy suppliers will be required to supply energy to a specific group of consumers at a fixed maximum price. The difference with the market price will be compensated by the government.
3. **Making homes more sustainable:** This solution consists of making homes more sustainable in order to lower the vulnerable households' dependency on energy in structural manner.

Making homes more sustainable will help in a structural manner in reducing energy consumption. By introducing the National Insulation Program, the Dutch cabinet focused on making homes more sustainable. One element of this policy is a ban on renting out homes with an E, F, or G energy label from 2030. Since vulnerable households often rent their homes, this measure will also help reduce energy poverty.<sup>21</sup>

### 3.2 Making homes more sustainable alone does not offer vulnerable households sufficient protection against price fluctuations

Making homes more sustainable is not a perfect substitute for general purchasing-power policies or introducing a social rate. First, lessees cannot unilaterally decide to make their homes more sustainable, and it will take some time before homes actually *have* become more sustainable. Furthermore, in the Netherlands, income levels and insulation values of homes are hardly related.<sup>22</sup> This means it is possible that households living in well-insulated homes yet with low incomes still need support. In addition, some households consume a lot of energy because of medical conditions within the household.

### 3.3 Purchasing-power policy and a social rate each have their own benefits and drawbacks

Some of the advantages of purchasing-power policies, such as social benefits, are support to the groups of potentially vulnerable consumers, prevention of disruptions to prices and competition, and keeping in place energy-saving incentives. After all, vulnerable households still need to take out energy contracts, and pay the market price for each unit of energy. In addition, they can spend their benefits as they like, something that they may prefer over a discount on the energy bill.

A social rate can result in disruptions to the market to a certain extent by reducing competition (for users in the target group), and by creating fewer incentives to make homes more sustainable. Purchasing-power policies and a social rate both carry the risk of a poverty trap: households that fail to qualify for support by just a hair will see their disposable incomes drop (sometimes even considerably). Possible

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issues for vulnerable households even without a crisis, ACM does not consider this route to be expedient. For the proposal see COM (2023) 148: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2019/943 and (EU) 2019/944 as well as Directives (EU) 2018/2001 and (EU) 2019/944 to improve the Union's electricity market design. Available at: [EUR-Lex - 52023PC0148 - EN - EUR-Lex \(europa.eu\)](#).

<sup>21</sup> See TNO (2021), "De feiten over energiearmoede in Nederland" [The facts about energy poverty in the Netherlands], TNO 2021.

<sup>22</sup> See TNO (2023), "De energiekosten van verschillende typen consumenten in Nederland" [Energy costs of different types of consumers in the Netherlands], TNO 2023 P10493; Batenburg, A., F. Dalla Longa en P. Mulder (2023). "Zowel verduurzaming als inkomenssteun nodig om energiekosten te drukken" [Both making homes more sustainable and providing income support are needed to push down energy costs], 108(4827), 23 November 2023.

solutions to a poverty trap come at the expense of simplicity, for example, by offering support on a sliding scale using a tier-based system.

Social rates for energy also have advantages over purchasing-power policies. First, the level of support changes with consumption, which is more difficult to accomplish with purchasing-power policies. This is advantageous because vulnerable households are not always able to reduce their level of consumption immediately, for example because it is too expensive to insulate their homes or because they live in rented homes. Second, prices for vulnerable households can be fixed with a social rate, which leads to simplicity for consumers in the target group. This is useful because energy prices can fluctuate significantly. A social rate thus also provides more certainty that energy bills will continue to be affordable. Third, a social rate implies that vulnerable consumers do not pay too much due to complexity of contracts. Consumers who often switch suppliers pay, on average, lower prices, for example, because they benefit from sign-up rebates and other promotional deals. Since vulnerable consumers do not switch suppliers as often, they do not encounter these benefits as often either.<sup>23</sup> ACM expects the complexity of the retail markets for electricity and natural gas to increase with the energy transition: the bill for the Energy Act, for example, enables consumers to take out separate contracts for electricity consumption and feed-in. Fourth, a social rate prevents new social benefits from emerging. The benefits system is complex at the moment, also in terms of execution.<sup>24</sup>

## 4 Opportunities and points for attention with a social rate for vulnerable households

In this section, ACM works out the social rate in greater detail. Of the three models discussed so far (purchasing-power policy, a social rate, and making homes more sustainable), ACM will only elaborate on the social rate. A social rate directly touches on the functioning of the energy market, where ACM is charged with regulatory duties. Furthermore, the regulators in some European countries play implementing roles with regard to the social rate. ACM does not state any preference for how vulnerable households can be supported.

Implementation of a social rate requires the organization of information flows between consumers, suppliers, and government agencies. A preliminary study of the outgoing Dutch cabinet (Fourth Rutte Cabinet) into the various options for supporting vulnerable households in a targeted manner after the lifting of the price cap shows that many targeted measures are difficult to execute in the short term.<sup>25</sup> This means that this model can only become effective in the medium term. The Temporary Energy Emergency Fund, which is closed for 2024, is aimed at vulnerable households. This measure may also provide solace in the near future. In the rest of this section, ACM abstracts from specific measures, and works out a number of design choices. This exercise shows that a social rate can be interpreted in different ways.

<sup>23</sup> Research from the US, for example, concludes about the energy market: “We find that ... inertia [is] larger in neighborhoods with lower income, lower education levels, and more senior citizens. These findings suggest that retail choice policy can have important distribution implications.”, Hortacsu, A., S. A. Madanizadeh, and S. L. Puller (2017). “Power to choose? An analysis of consumer inertia in the residential electricity market”. *American Economic Journal: Economic Policy*. 9(4): 192-226. See also Heidhues, P. and B. Köszegi (2017). “Naïveté-based discrimination”. *The Quarterly Journal of Economics*. pp. 1019-1054; CMA (2018), “Tackling the loyalty penalty – Response to a super-complaint made by Citizens Advice on 28 September 2018”; Handel, B., J. Kolstad, T. Minten and J. Spinnewijn (2020). “Slechte eigenrisicokeuzes maken de zorgverzekering duurder voor laagopgeleiden” [Making bad choices regarding deductibles makes health insurance more expensive for people without college degrees]. *ESB*, 106(4797), 14 May 2021.

<sup>24</sup> See, for example, Van Dijk, J. and Y. van de Ven (2023), “Het einde van de toeslagen: een robuust belastingstelsel voor inkomen uit werk” [The end of social benefits: a robust tax system for income from work]. Instituut voor Publieke Economie.

<sup>25</sup> See the “Kamerbrief uitkomsten verkenning instrumenten voor gerichte compensatie huishoudens kwetsbaar voor hoge energieprijzen na 2023” [Letter to the Dutch House of Representatives on the results of a preliminary study into the tools for targeted compensation of households that are vulnerable to high energy prices after 2023], available in Dutch at: [Kamerbrief uitkomsten verkenning instrumenten voor gerichte compensatie huishoudens kwetsbaar voor hoge energieprijzen na 2023 | Kamerstuk | Rijksoverheid.nl](https://www.rijksoverheid.nl/onderwerpen/energie/kamerbrief-uitkomsten-verkenning-instrumenten-voor-gerichte-compensatie-huishoudens-kwetsbaar-voor-hoge-energieprijzen-na-2023).

The Electricity Directive offers the ability to introduce a social rate. The basic principle of the Directive is that suppliers are free to set their prices, but that member states are allowed to intervene in order to protect vulnerable or energy-poor users.<sup>26</sup> European countries interpret social rates for vulnerable households in different ways.<sup>27</sup>

#### 4.1 Target group

The Electricity Directive offers the ability to use a definition of vulnerable consumers in national regulations that refer to energy poverty.<sup>28</sup> Several European countries use the definition of vulnerable users in this way to define the target group for the social rate.<sup>29,30</sup> The starting point of the more detailed definitions is a combination of factors, such as low incomes, high energy expenditures, low energetic value of the home, and a high energy consumption because of illness or old age.

Statistics Netherlands (CBS), the Netherlands Institute for Social Research (SCP), and the National Institute for Family Finance Information (Nibud) are working on a uniform definition of the poverty threshold for the Dutch context, taking as their starting point a new 'basic poverty definition' and an 'additional poverty definition'.<sup>31</sup> In the basic poverty definition, an overview is made of what households fall under the poverty threshold on the basis of minimum budgets, disposable incomes, and price trends. In the additional poverty definition, details can be added by 'peeling off' the actual energy expenditures. With this approach, a household is also considered poor if, after correcting for the actual energy expenditures, it has too low an income to make other essential expenditures. In the context of a social rate, it is still useful to sharpen the definition further, for example, if individual circumstances occur that are not included (or cannot be included) in the abovementioned additional poverty definition. Think of high energy consumption because of health conditions or poorly insulated homes. A more precise definition makes support more targeted, yet will require more information.

#### 4.2 The level of support

The level of support (and the certainty thereof) is a crucial design choice. Belgium, for example, has a social rate equal to the lowest commercial rate of the previous three months.<sup>32</sup> Other countries offer a fixed discount in euros on the price of the energy supplier, such as Greece<sup>33</sup>, or as a percentage of a market price chosen by the government, such as Spain<sup>34</sup>. In this way, vulnerable consumers get

<sup>26</sup> See Article 5, paragraph 3, of the Electricity Directive. Some conditions do apply, including that the intervention cannot go beyond what is necessary for achieving the goal, and that it is non-discriminatory and verifiable. For all conditions, see paragraphs 4 and 5 of Article 5 of the Energy Directive. For the supply of natural gas, European legislation also offers latitude for intervening in order to protect vulnerable households, see Lavrijssen, S. and F. de Vries (2022), "Onderzoek naar interpretatie, toereikendheid en toepassing wettelijk kader voor toezicht op energieleveranciers" [Study into interpretation, adequacy, and application of the statutory framework for oversight over energy suppliers], rapport Tilburg University en samhoud | consultancy.

<sup>27</sup> See the Electricity Directive, Article 28, paragraph 1.

<sup>28</sup> See the Electricity Directive, Article 28, paragraph 1.

<sup>29</sup> For a recent overview of the definitions of energy poverty used in Europe, see "[Energy Retail and Consumer Protection 2023 Market Monitoring Report](#)", ACER-CEER, September 2023, p. 75.

<sup>30</sup> The Dutch Council of State similarly advises to include a definition of vulnerable users in the Dutch Energy Act, and to allow for a social rate. See Dutch Council of State, "Energiewet" [Energy Act], W18.22.0119/IV, 1 February 2023.

<sup>31</sup> According to the current definitions of Statistics Netherlands (CBS) and the Netherlands Institute for Social Research (SCP), this concerns approximately 8% of households (in 2021). See the interim report of CBS, Nibud, and SCP, "Naar een nieuwe armoedegrens" [Towards a new poverty threshold], p. 10. Available in Dutch at: [Op weg naar een nieuwe armoedegrens | Publicatie | Rijksoverheid.nl](#). The three government agencies have offered their interim report to the Commission social minimum and are working on a uniform definition of poverty. The three government agencies will publish a final report in the second quarter of 2024.

<sup>32</sup> For a description of the Belgian system, see the web page of the Belgian economic government service FOD Economie "Sociaal tarief voor energie voor personen met een verhoogde tegemoetkoming" [Social rate for energy for people with a heightened subsidy], available in Dutch at: [Sociaal tarief voor energie voor personen met een verhoogde tegemoetkoming | FOD Economie \(fgov.be\)](#), and the web page by the Belgian Federal Commission for Electricity and Gas Regulation (CREG) "Sociaal tarief" [Social rate], available in Dutch at: [Sociaal tarief | CREG : Commissie voor de Regulering van de Elektriciteit en het Gas](#).

<sup>33</sup> For a description of the Greek system, see [Social Domestic Tariff \(www.gov.gr\)](#).

<sup>34</sup> For a description of the Spanish system, see [What is social rate and how do I apply for it? | Endesa](#).

competitive prices compared with market prices, but these may still be too high for some individuals. Instead of linking them to market prices, the government can also set a specific level, like with the price caps in the Netherlands and Germany, for example. In that way, energy continues to be affordable even if market prices go up considerably.

Any volume limits keep in place energy-saving incentives. Greece and Spain, among other countries, only offer the social rate up to a certain level of consumption. However, volume limits do result in more complexity. Furthermore, not all consumers are able to or can insulate their homes, for example, because they rent their homes. This drawback can be addressed (in the long term) by targeted support for making homes more sustainable.

### 4.3 Other points for attention

**Temporary or permanent.** A social rate in the form of a discount on the market price offers permanent support. The price caps such as in the Netherlands and Germany were temporary support measures. A combination of these types of support is a permanent price cap. By setting the cap price, the government is able to set the level of support and decide when support is given. A high cap price only offers support in crisis situations, while a low cap price does so continuously.

**Automatic award.** A social rate can be awarded automatically, like in Belgium. Award of the support thus does not depend on an application filed with the supplier. That provides more certainty that vulnerable consumers benefit from the support, and relieves their administrative burden.

**Privacy.** It is not necessary to provide suppliers access to users' income data. If a customer qualifies for a social rate, authorization by a thereto-authorized body will suffice. Therefore, the data transfer can be limited to simply checking a box.<sup>35</sup>

**Compensation for energy suppliers.** As it is not possible to force suppliers to serve loss-making customers, compensation is needed if a rate is below the cost price. Otherwise they would want to exclude vulnerable customers. Ideally, energy suppliers have no influence over the compensation, so that they do not increase their prices further.<sup>36</sup> One possibility to prevent this is compensations based on the difference between a reference rate and the social rate, like in Belgium.

**A selection of suppliers.** In some European member states, all suppliers are required to offer a social rate, for example in Belgium, while in other countries, the social rate is only available with some suppliers, such as in Spain. The benefit of designating a select number of suppliers lies in its simplified execution, the reduction of necessary cost information, and the concentration of the compensation. In addition, only a limited number of suppliers needs to request authorization from the authorized body to check whether a customer qualifies for the lower rate. If this route is chosen, objective, transparent, and non-discriminatory criteria must be established on the basis of which energy suppliers will be designated to supply a social rate.

**The role of the regulator.** If the government decides to introduce a social rate, the regulator can help implement one by, for example<sup>37</sup>:

<sup>35</sup> The government and suppliers obviously need to comply with the General Data Protection Regulation (GDPR), even when suppliers do not receive income data of users. One possible form of implementation can lie in a public, open-source 'data exchange layer' for information systems, such as X-Road in Estonia. This requires interoperability between public and private organizations and information systems that, in order to work together, only need to request information from citizens or the authorized government body once (see [X-Road - e-Estonia](#)).

<sup>36</sup> See, among others, Schinkel, M. P., Haan, M., van Tartwijk, S., Tieben, B., & Tuinstra, J. (2023). "Energieplafondsysteem heeft prijsopdrijvend effect" [Energy-cap system has an upward effect on prices]. *Economisch-Statistische Berichten*, 108(4817), 16-19.

<sup>37</sup> See also the "Advies raad van State inzake regels over energiemarkten en energiesystemen (Energiewet)" [Recommendations of the Dutch Council of State regarding rules about energy markets and energy systems (Energy Act)],



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1. Setting the social rate on the basis of statutory provisions.
  2. Calculating a reference rate, on the basis of statutory provisions, for the purpose of compensating energy suppliers.
  3. Keeping a close watch on the implementation of the social rate by the designated energy supplier(s).
  4. Conducting oversight over the designated supplier(s), for example by assessing the return, cost allocation, efficiency, and compliance with the ban on cross-subsidization.
  5. Keeping a close watch on the social rate's impact on competition.