

VOUCHERS, GRANTS & LOANS: CAN THE SOCIAL CLIMATE FUND ACCELERATE THE FRENCH ENERGY POVERTY STRATEGY?

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- In France, supporting 200,000 households in energy poverty with grants instead of loans to retrofit dwellings accordingly will cost approximately €1 billion for 2024.
- By contrast, government zero-interest loans (such as the French Eco-PTZ) may constitute a barrier, because of the complex administrative procedures and increasing debt load that may prevent vulnerable households from receiving the loan.
- In this context, Europe has recently introduced a Social Climate Fund (SCF, which is mainly designed to be fed by the ETS2, i.e. the extension of the European carbon market to housing and road transport) in order to finance energy efficiency measures.
- The energy vouchers are the easiest measures to sustain vulnerable households, yet the SCP limits its potential by capping direct income support at 37.5% of the total allocated fund for a Member State.
- The costs of combining grants and vouchers to reach the French objective (i.e. retrofitting 200,000 houses with MaPrimeRenov) is more than the annually allocated fund for France through the SCF.



KEYWORDS:

SOCIAL CLIMATE FUND # ENERGY POVERTY CARBON PRICING # ETS2

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The need for a Social Climate Fund

On 22 April 2021, Ursula von der Leyen announced the expansion of the European Union Emissions Trading System (EU ETS) to the buildings and transport sector in 2027¹. This proposal sparked immediate concern, particularly from Poland and Romania. The expansion could have a disproportionate impact on heating and transport costs for these countries as they have higher levels of energy poverty and an ageing car fleet². This concern resonated widely across the EU. In 2021, 6.9% of the population was unable to adequately heat their homes and in the wake of war in Ukraine, there was further cause for concern in 2022 as this figure increased to 9.3%³. So, when the new ETS Directive (2023/959) was approved on 10 May 2023, the buildings and transport sector were established separately from the former ETS under the name ETS2. Moreover, the concerns regarding rising prices for vulnerable households became a part of Directive. In order to mitigate the effects of the rising prices on vulnerable households, it was decided to introduce a social compensation mechanism. A part of the revenue generated from the ETS2 will be recycled and redistributed through the Social Climate Fund (SCF). The aim of the fund is to prevent the most vulnerable people from being exposed to transport and energy poverty as a result of the pricing policy. The SCF's primary focus is on funding energy efficiency, but it also offers direct income support. This is the first time the EU has combined climate policy (lowering carbon emissions with carbon pricing) and social policy (supporting vulnerable people) in one directive. According to the European Commission (EC), this was necessary in order for the policy to be socially accepted and more importantly, to make the energy transition a just transition⁴. With an ambitious agenda, the SCF (Regulation (EU) 2023/955) allocates €86,7 billion (25% of ETS2 revenue) from 2026 to 2032. However, the Member states (MS) are responsible for defining the details of distribution with national Social Climate Plans (SCP), which have to be submitted by 30 June 2025. France qualifies for €7,28 billion (11.19%) for their SCP and the regulation requires all MSs to contribute an additional 25%, bringing the total to €9,10 billion for France. Divided equally over seven years, this translates to €1,30 billion annually.

The aim of this paper is to explore how the SCF can complement France's existing policies, which primarily emphasises direct income support and more notably, energy efficiency.

¹ 'EU Carbon Market Will Be Extended to Buildings and Transport, von Der Leyen Confirms – Euractiv', accessed 3 June 2024, <https://www.euractiv.com/section/energy/news/eu-carbon-market-will-be-extended-to-buildings-and-transport-von-der-leyen-confirms/>.

² Kira Taylor, 'EU Countries Slam New Carbon Market Plans as Energy Prices Soar', www.euractiv.com, 12 October 2021, <https://www.euractiv.com/section/energy/news/eu-countries-slam-new-carbon-market-plans-as-energy-prices-soar/>.

³ 'Energy Poverty', accessed 3 June 2024, https://energy.ec.europa.eu/topics/markets-and-consumers/energy-consumer-rights/energy-poverty_en.

⁴ 'Statement by Executive Vice-President Timmermans on Delivering the European Green Deal - EU Monitor', accessed 3 June 2024, <https://www.eumonitor.eu/9353000/1/j9vvik7m1c3gyxp/vlkiczgiw0yz?ctx=vg09llk9rzzp>.

Current strategy of France

At present, France renovates 100,000 houses annually but has set the ambitious target of renovating 200,000 houses in 2024 and 900,000 houses in 2030⁵. In total there were seven million poorly insulated houses in 2019 and half of them belonged to people living in energy poverty⁶. This would indicate that many people living in energy poverty need retrofitting.

The policy to combat energy poverty was initiated in France by a law dating back to 2010, known as “Grenelle 2”. The law created the ONPE (Observatoire National de la Précarité Énergétique), which produces data on the phenomenon of energy poverty and on the measures and financial aid which aim to prevent it and limit its extent⁷. The main indicator of energy poverty, published by the Ministry for Energy Transition, is the energy effort rate (EER), i.e. the share of households in the first three equivalised income deciles whose energy bills amount to 8% or more of their income. On average, this rate, adjusted for temperature variations, amounts to 11.7% of households over the 2010-2021 period. Figure 1⁸ shows the evolution of the EER over time.



Figure 1, EER 2012-2021. Grey surface: gross EER & blue line: EER corrected by weather

France has a robust institutional framework for addressing energy poverty, with various laws and regulations using curative (energy vouchers), behavioural (Energy Sobriety Plan), and preventive measures (investing in energy efficiency). Governmental agencies like the ONPE monitor energy poverty itself and the impact of the implemented policies. Between 2010 and 2022, France implemented approximately fifty measures prioritising increasing energy efficiency⁹. With this institutional framework, France is to date one of the most active MS in the EU in alleviating energy poverty and with the goal of reducing energy consumption by 40% by 2050 it has also set a very ambitious target for energy efficiency for the future¹⁰.

⁵ ““Deep” Renovations Needed to Meet Climate Goals, French Industry Warns – Euractiv’, accessed 4 June 2024, <https://www.euractiv.com/section/energy-environment/news/entire-homes-need-renovating-to-meet-climate-goals-french-industry-warns/>.

⁶ ‘France 2021 Energy Policy Review’ (International Energy Agency, 30 November 2021), <https://www.ica.org/reports/france-2021>.

⁷ ‘Les Missions de l’ONPE | Observatoire National de La Précarité Énergétique’, accessed 4 June 2024, <https://onpe.org/missions-onpe>.

⁸ ONPE, ‘TABLEAU DE BORD DE LA PRÉCARITÉ ÉNERGÉTIQUE 2023’, November 2023, https://librairie.ademe.fr/ged/8354/ONPE-tableau-de-bord_vlb_4.pdf.

⁹ Edo Omic and Halb Jerome, ‘Energy Poverty in Europe: How Energy Efficiency and Renewables Can Help’ (Council of Europe Development Bank, March 2019), https://coebank.org/media/documents/CEB_Study_Energy_Poverty_in_Europe.pdf.

¹⁰ ‘Energy Pathways to 2050 Key Results’ (RTE France, 10/21), https://assets.rte-france.com/prod/public/2022-01/Energy%20pathways%202050_Key%20results.pdf.

Although energy poverty has shown a modest decline since these policies began in 2010, their impact remains limited. A key challenge for future targets is the upfront costs associated with energy efficiency improvements, even with the existing grant programmes. The strong emphasis of France's policy on energy efficiency suggests the SCF could be a valuable tool in meeting the set targets. For this reason, correctly allocating the SCF is paramount for maximising its potential in alleviating the consequences of the ETS2 for vulnerable households. Therefore, it should fill the gaps in the current policy, such as the out-of-pocket-costs.

Out-of-pocket-costs

One of the principal existing measures in France is MaPrimeRenov (MPR). MPR finances on average €3,841 per project and 67% of the projects are related to vulnerable households. Yet the average cost of the work for a deep renovation is €29,000 per dwelling. So, on average, the current projects are not enough to finance deep renovations and significantly drop the DPE level (energy performance label). Another concern is the rate at which the renovations are being executed. In 2023, 24% fewer files were funded than 2022. It is assumed that this is due to the increase in material and labour costs¹¹. The situation is further complicated by the lengthy processing times for applications. While the official target is a five-week assessment, the average waiting time in 2023 ballooned to three months¹². This delay is a particular cause of concern in light of the recent inflation spikes, as for many vulnerable households the difference between affording energy-efficient renovations and falling deeper into energy poverty hinges on receiving these funds promptly.

Currently, MPR requires upfront payment from the users, which creates a barrier for people with limited resources. While the grant reimburses the money for the renovations, vulnerable households may need to obtain an additional loan to cover the out-of-pocket-costs.

As a solution for the out-of-pocket-costs, the French government set up the Zero-interest Eco-loan (Eco-PTZ). While the low interest rate in combination with the costs savings because of the increase in energy efficiency makes loan repayments achievable for many vulnerable households, obtaining the loan itself still presents barriers. A report by I4CE¹³ highlights the viability of combining Eco-PTZ loans with MPR subsidies for the least well-off and conclude that obtaining the loan is associated with numerous obstacles for households, including complex administrative procedures and increasing debt load (total sum of all the money owed) that can reach 70% for the lowest-income households. According to experts, this should be below 5%¹⁴. Addressing these obstacles, particularly reducing the debt load, is crucial for making the programme truly accessible and economically beneficial for the least well-off.

Grants instead of loans

Among the 67% vulnerable households served by projects subsidised by MPR, energy poverty is most prevalent (59%) in the lowest income bracket (first decile). The prevalence then

¹¹ Omic and Jerome, 'Energy Poverty in Europe: How Energy Efficiency and Renewables Can Help'.

¹² 'MaPrimeRénov' - Monogeste, Rénovation d'ampleur, DPE... À Quels Changements s'attendre Encore ? - Actualité - UFC-Que Choisir', accessed 4 June 2024, <https://www.quechoisir.org/actualite-maprimerenov-monogeste-renovation-d-ampleur-dpe-a-quels-changements-s-attendre-encore-n119518/>.

¹³ Charlotte Vailles and Louise Kessler, 'Is the Transition Accessible to All French Households? - I4CE', 19 October 2023, <https://www.i4ce.org/en/publication/is-transition-accessible-households-climate/>.

¹⁴ Vailles and Kessler.

declines to 24% and 17% for the second- and third-income deciles, respectively¹⁵. In total, the number of households in energy poverty served by MPR adds up to approximately 44,667 in 2024. Supporting these households with a grant to pay for the out-of-pocket costs instead of the Eco-PTZ will cost approximately €1 billion¹⁶, if the goal of renovating 200,000 households in 2024 is to be sustained. This is a rough estimate, but it gives an indication of the funding needed. However, this is only enough if the money is targeted correctly and allocated to people in energy poverty. To ensure a proper allocation of funds, evaluating the EER can be incorporated into the existing MPR funding assessment process. Since MPR already takes account of income levels, this addition would not require significant changes. Furthermore, this approach aligns with the SCF's focus on gender equality, as women are disproportionately affected by energy poverty. Thus, making energy poverty part of the assessment is likely to lead to increased female representation among MPR funding recipients. Additionally, verifying the usage of out-of-pocket funding is crucial. This can be achieved by requiring grantees to submit documentation such as invoices and bank transfers demonstrating the fund is spent on the intended projects. And finally, the SCF regulation underlines the importance of public consultation and support from local authorities. As MPR is supported by France Renov and ANAH (National Housing Agency) with advisors and bureaus throughout the country, investing in grants for out-of-pocket costs would likely be supported by these agencies and consequently local and regional authorities. This increases the probability of a positive assessment of France's SCP and ultimately a faster implementation of the plan.

Direct income support

Since not all renovations can be carried out immediately, direct income support is needed to mitigate the impact of the ETS2 for people living in energy poverty. Currently, France distributes energy vouchers to the lowest 20% of income households as a way of income support. In total 5,8 million households have benefited from these vouchers in 2023 of which 82,6% also used them. The amount given to the receiving households lies between €48 and €277 and depends on the number of people living in the dwelling¹⁷. The EER adjusted figure for weather change decreased from 11.7% to 10.2% as a consequence of the voucher measure according to France's national energy and climate plan (NECP)¹⁸. Currently, the voucher measure is financed by the CCE (Climate-energy contribution), a national carbon tax component in France. With the implementation of the ETS2, two scenarios can be outlined. The first scenario is if the ETS2 substitutes the CCE. In this scenario, the energy voucher can stay in place as it is, because the carbon pricing contribution is approximately the same for both

¹⁵ 'Qui sont les ménages en précarité énergétique dans les copropriétés du parc privé?' (ONPE, n.d.), <https://onpe.org/sites/default/files/2024-03/Qui%20sont%20les%20locataires%20en%20pr%C3%A9carit%C3%A9%20%C3%A9nerg%C3%A9tique%20dans%20le%20parc%20priv%C3%A9.pdf>.

¹⁶ See thesis 'Beyond Trade-Offs: Combining Social and Climate Policy in France' for calculation, https://www.ie-ei.eu/fr/5/2023-2024_177-1

¹⁷ 'Comment Bénéficier Du Chèque Énergie ? | Economie.Gouv.Fr', accessed 4 June 2024, <https://www.economie.gouv.fr/particuliers/tout-savoir-cheque-energie>.

¹⁸ 'France - Draft Updated NECP 2021-2030', 21 November 2023, https://commission.europa.eu/publications/france-draft-updated-necp-2021-2030_en.

methods (CCE: €44.60/tCO₂¹⁹ & ETS2: €45/tCO₂²⁰). The CCE has been the same since 2019 while it should have increased annually as planned in 2015 and 2018. The French government had set targets for the CCE in their 2015 Energy Transition law, of respectively €56/tCO₂ in 2022 and €100/tCO₂ in 2030²¹. Additionally, in 2018 the draft finance bill planned a more advanced trajectory as displayed as the blue bars in Figure 2. However, the proposed CCE price trajectory was cancelled in 2019 in response to the "yellow vest" movement and remains abandoned to date. Figure 2²² gives an overview of the three different pricing trends. The orange bars are the actual prices, the grey bars represent the prices as defined in the Energy Transition Law from 2015 and the blue bars are prices from the trajectory in the 2018 draft finance law.

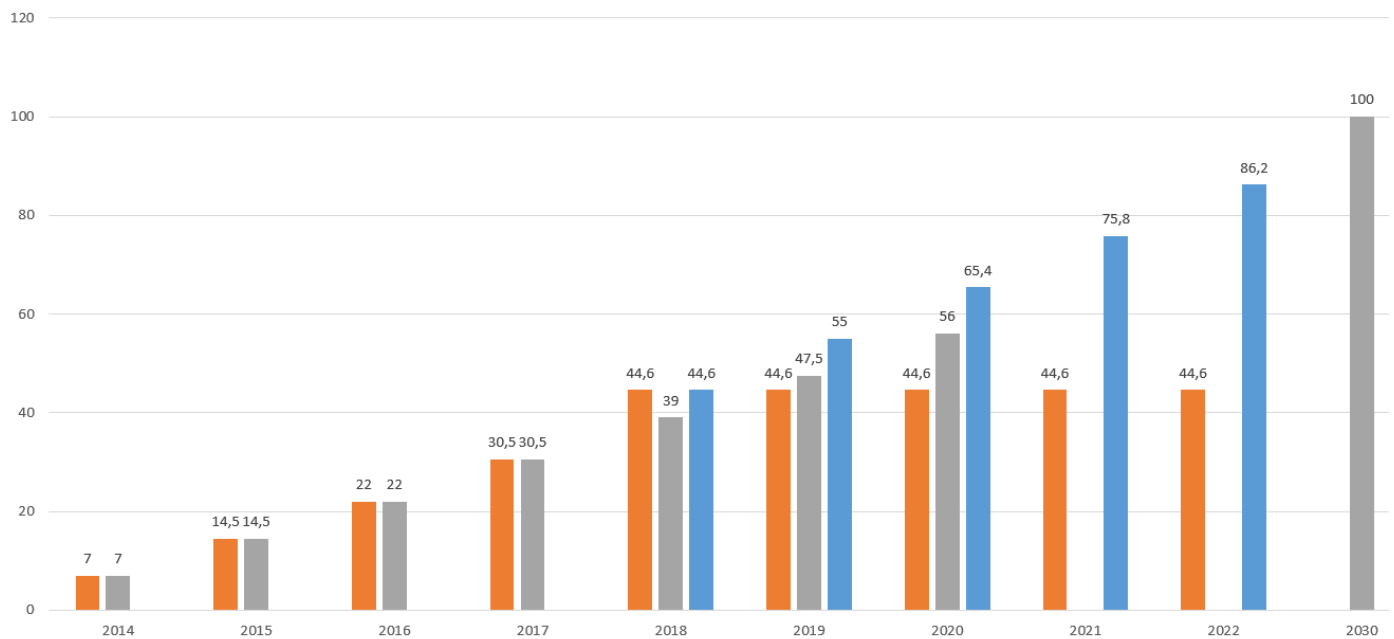


Figure 2, Evolution of the CCE (in €/tCO₂). **Orange bar**: real price, **Grey bar**: Energy Transition law 2015 and the **Blue bar**: Draft finance bill 2018.

In the second scenario, the CCE stays in place alongside the ETS2. The ETS2 could then expand the energy voucher and double the possible allocation of the voucher to alleviate the direct impact of the ETS2 pricing aspect. The second scenario is less likely because the CCE was introduced to tax non-EU-ETS sectors (mainly transport and building sector). With the expansion of the ETS towards these sectors, the CCE component will most likely be revoked. The CCE was designed as a component of existing domestic taxes on energy consumption (TIC) for end users, which became implemented following the EU Energy Tax Directive from 2003. ETS2 differs slightly in its implementation by regulating emissions at the point of fuel

¹⁹ 'Contribution Climat Energie : La Fiscalité Au Service de La Transition Énergétique - Sélia Entreprises', accessed 4 June 2024, <https://www.selia-energies.fr/entreprises/contribution-climat-energie-la-fiscalite-au-service-de-la-transition-energetique/>.

²⁰ THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION, 'DIRECTIVE (EU) 2023/959 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL', *Official Journal of the European Union* 130, no. 134 (16 May 2023): 69.

²¹ 'Qu'est-Ce Que La Taxe Carbone et Pourquoi Est-Elle Indispensable?', accessed 4 June 2024, <https://www.hellocarbo.com/blog/compenser/taxe-carbone/>.

²² 'Contribution Climat Energie : La Fiscalité Au Service de La Transition Énergétique - Sélia Entreprises'.

release, rather than at the individual consumption level, to reduce administrative complexity²³. Nevertheless, it's anticipated that these upstream suppliers will pass on the increased costs to end users. So, in the case that the price per ton of CO2 emitted is the same, substituting the CCE by the ETS2 pricing mechanism would have no additional effect on the prices for end users.

Maintaining the energy voucher would be advantageous for several reasons. Firstly, it is an easy solution to implement as the bureaucratic changes are minimal. Second, people are currently used to it, and it has a reasonably high utilisation rate. And third, with the pricing being approximately the same, vulnerable households will not become worse off due to the mechanism change from CCE to ETS2. On the downside, energy vouchers would use up almost the complete budget of the SCF with €900 million. This is far above the maximum allocation of 37.5% (€487,251,156.75/y) for direct income support as defined in the SCF regulation and thus complicates any possible implementation.

Combining the grant & voucher

The SCF regulation requires MSs to define measures in their SCPs which alleviate the burden of the ETS2 for people living in energy poverty. In the long term, MSs should invest in increasing energy efficiency for dwellings and in the short term their income should be supported to reduce the impact of rising costs as a consequence of the carbon pricing. This paper proposes a solution for each of these issues in the specific French context. With the French objective of retrofitting 200,000 houses using MPR, supplying a grant to people living in energy poverty to pay for the upfront costs would require around €1 billion. Simultaneously sustaining the EER of the same people would require €900 million if the usage of energy vouchers is maintained or expanded depending on the CCE. Combining these two measures the total (approximately €2 billion), leaving out the planned increase of retrofitting 900.000 houses in 2030, is more than the annual French allocation of the SCF (€1,299,336,418). Moreover, the maximum allocation defined in the SCF regulation prohibits direct income support to sustain the energy vouchers as is. These regulatory and financial requirements limit the potential of the SCF in meeting its ambitious targets as stated by the European Commission. Despite this, the SCF can still play a valuable role. Effective utilisation can still be of importance for many vulnerable households. By allocating the surplus revenue from ETS2 (remaining 75%) towards energy efficiency, France can accelerate its renovation plans and ultimately reduce energy poverty.

²³ 'Guidance Document The Monitoring and Reporting Regulation – General Guidance for ETS2 Regulated Entities', accessed 15 September 2024, https://climate.ec.europa.eu/document/download/b5ccad58-6909-4a32-8a72-c73ab8d2a165_en?filename=policy_ets_ets2_gd_regulated_entities_en.pdf.



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