

## VULNERABLE CUSTOMER PROGRAMS

There are generally three types of mechanisms to assist vulnerable consumers:

- **Targeted subsidy:** vulnerable consumers are subsidized either through direct credits from their electricity company, cash transfers, vouchers, or discounts. The option of credits is most effective. Typically funded by the government budgets.
- **Time-of-Day Tariffs (ToD):** ToD tariffs are tariffs that are higher in the daytime and lower at night. Special ToD meters are required to implement such tariffs.
  - Cost of installing such meters may be a consideration.
  - Regulators need to be able to study load profiles of regulated utilities, design and uptake of existing ToD tariff options, and the incidence and cost of installing ToD meters in order to set proper time-of-day tariffs. We are uncertain as to BiH's capacity for required load research at this time.
- **Lifeline (“block”) tariffs:** a first block of consumption sufficient to cover basic needs provided to all consumers at a subsidized price. Lifeline tariffs are self financing, with a higher marginal tariff than would be otherwise required for consumption above the basic level.
  - The design of a good lifeline tariff is complex and easy to get wrong. Also, targeting vulnerable households so that benefits remain focused on those with need is an issue because all customers benefit.
  - Were lifeline tariffs to be implemented, designing the first block to increase during winter should be considered where power is used for heating (as in Herzegovina). Otherwise, a block that covers some or all of heating needed in winter will be over-generous through the rest of the year.

Whether block or targeted subsidy is more appropriate depends on the extent to which the poor can be identified. *If the poor are not well identified then block tariffs may be instituted until the poor can be better identified.*

- **Bosnia and Herzegovina. Ekonomski Institut, Banja Luka, April 2004, commissioned by the World Bank**
- No safety net currently exists.
- Recommends subsidizing 50% of cost of 200 kWh consumption (or 100% of 100 kWh).
- Target poverty lines rather than categories of customers: income to 62.25 KM per household member or household income below 300 KM. Socially vulnerable consumers would have to prove their right to subsidies, through submission of documents.

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- Three funding options were recommended: (i) surcharge on all electricity consumers, (ii) consumers on the 0.4 kV net; and (iii) the Government budget. Earmarking sources in the Entity budgets was recommended (and is most appropriate according to other sources).
  - The budget funds would be earmarked for subsidy of vulnerable customers and registered in the treasury and after monthly invoicing by the EPs to the treasury would be transferred to the EP accounts.
  - The social care ministries would define the subsidy criteria, publish them and submit them to the centers for social work, which would prepare lists of the qualified consumers. The lists would be published.
  - After the money transfer from the treasury to the EP accounts, qualified consumers would be identified in their databases and book the subsidy payments to such accounts.
  - The reports of payments would be submitted to the centers for social work to ensure the proper consumers were credited with a subsidy.

### **Albania**

Targeted subsidy implemented in 2006. The Government identified 270,000 customers who are vulnerable. In July 2006, when new tariffs were approved and the subsidy was available, the previous transition block tariffs were removed. The amount of subsidy is approximately 3.5 Euro.

### **Bulgaria**

Tariffs were arranged in 2 block tariffs during the transition as tariffs increased. Thereafter, a good social program was instituted; while the energy subsidy is not much, it is enough to heat one room (even if a person lives in a large apartment). The allowance is paid to whatever company provides heat to the vulnerable individual (district heat, gas or wood). There is a list of qualifying criteria; however, pensioners living alone receive the subsidy.

**Croatia** Croatia is currently developing a vulnerable customer program that will be proposed in the near future.

**Hungary** Has conducted short-term energy assistance initiatives to overcome the “rate shock” at times of substantial and rapid energy price increases.

- A fund of 1.4 billion HUF (\$9 million) capitalized with funds from both government and industry, was disbursed at the time of a planned “price shock” from 1997 through early 1998.
- This program was innovative because it predicted and dealt with a planned price shock and used financial contributions from private companies.
- The Associations of Municipalities and representatives of employers and consumers’ interests also contributed to the fund.
- Gas distribution companies later contributed to the fund.
- Cash payments are made either to households heating with natural gas or via direct payment to district heating companies, or as in-kind benefits for solid fuels (i.e., free

wood or free coal). Contributions from both government and industry totaled approximately 2.8 billion HUF (\$13 million.)<sup>1</sup>

**Romania** Lifeline tariffs until an assistance program was initiated.

- Household must qualify for general social assistance under the Minimum Income Guarantee Program to receive a Heat Assistance Payment (HAP).
- Heat assistance payments are either made directly to the district heating or natural gas utility or as cash payments to households heating with fuels such as wood, coal or bottled gas.
- Apartment building owners associations (OAs) collect information about low-income households in a building and provide this information to the municipal government.
- During the 2001-2002 heating system, the program reached 28% of Romania's households.<sup>2</sup>
- Romania fully financed HAP at the national level, but in 2002, responsibility for 45% of the funding was passed to local governments.<sup>3</sup>

**Recommendation:**

- Implementation of World Bank Study by Banja Luka Ekonomski Institut recommended: targeted energy assistance payments paid to the electricity companies for a credit on the customer's bill. Requires proper social centers' lists of vulnerable customers.
- Because of the limitations of block tariffs mentioned above, their use, *if at all*, should be limited to one year, during which time the governments would identify those who are needy.

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<sup>1</sup> Ibid, p. 17-18.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid, p. 17.