From market-driven to social regulation of the energy system

Workshop A “Regulatory systems for renewables – from the EU level to the national level”

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Introduction

1. Regulation?
2. What are the main features of the current regulation of electricity and other networks industries?
3. From market-driven to social regulation
4. Can it work? Are there tools for it?
5. Application in Greece
6. Results and discussion

1. Regulation of network industries

- Regulation should not be perceived only as an abstract notion.
- Regulation authorities have been put in place in all EU member countries.
- Major change:
  - From direct state regulation of the electricity sector through public enterprises...
  - …to “independent” regulators of electricity markets.
- Major goal => introduction and development of competition in former state monopolies.
- Mandate of these authorities is primarily associated with the European Community Law of Competition and the Single Market.

Experience has proved until today that a pure market-driven regulation of these complex systems is producing various disparities

- Social disparities = problems concerning access of households to services such as energy, telecommunications and other services of general interest (e.g. PSIRU “Poor Energy”).
- Economic disparities = concentration through M&A at the European level (transnational oligopolies).
- Territorial disparities (polarisation of investment in profitable – urban centers).
- Temporal disparities (short term shareholder’s value > long term investment and goals).

- Regulation, theoretically speaking, should intend to reach a dynamic and evolutive balance for these unstable systems, which should not be left to self-regulation.
- Regulation should therefore be able to proceed to decisions which take into account and try to conciliate different goals and priorities expressed by a broad number of stakeholders of the energy industry.
- Liberalisation policies not only have increased the technical complexity of systems (unbundling, wholesale markets, etc.) but have in addition engendered the emergence of new actors with numerous, different and conflicting goals.
- Such a capacity would need in turn broader consultations in order to include not only internal but also external stakeholders through formal participative procedures.

  => In line with the necessity of social solutions for the energy crisis (emphasis on the demand-side).

2. Democratic deficit of current regulation policies

Evidence from the recent Greek experience

- Regulation authorities have been constantly accused for their lack of transparency, pluralism, true social consultation and representativeness (Bauby and al, 2007).
- In Greece, for example, the absence of external stakeholders in the official consultation of the Regulation Authority for Energy (RAE) for the reorganisation the electrical energy market (2012) does raise concerns regarding its outcome.
- Consultation with internal stakeholders only (energy providers).

- The debate focused on the repartition of costs resulting from today’s policies:
  - cost associated with the introduction of competition
  - cost arising from climate change policies and “RES financial bubble”.
- Attempt to hide the true purpose by mentioning possibilities of lowering the cost of electricity through the development of a healthy competition…

- The main goal of this process has not been to limit high revenues that new energy producers have been receiving (third producers).
- On the contrary, further and inconsiderate burdens have been considered for consumers and especially domestic consumers.
- Liberalisation is often perceived by some stakeholders as a way to guarantee conditions of high profitability for a limited number of private energy ‘players’.

3. From market-driven to social regulation

- This obvious democratic deficit urges a renewed regulatory policy, which will exceed the restrictive framework of the European Community Law of Competition and the Single Market:
  - A balanced relationship between the objectives of the *General Interest* and *Fair Competition.*
  - Putting in place financing mechanisms for ensuring the long-term investments necessary in view of the universality, the quality and the safety of electricity services.
  - **Last but not least, promoting a pluralistic and democratic evaluation mechanism which will assess the economic and social effectiveness of the system.**

General interest-based evaluation

- Priorities such as the establishment of a regulation by stakeholders and not ‘experts’ is of crucial importance.
- Regulation authorities should therefore take into account opinions of all institutions involved (households and consumers unions, industrial clients, environmental organisations, trade unions, local governments, universities, energy cooperatives, agricultural businesses, technical chambers, etc).
- The regulatory authority, from this point of view, should evolve from a market-driven to a social regulation.

Can it really work?

How to proceed?

How can this help?

Are they tools for it?

- The CEEP/CIRIEC evaluation system is the product of collaboration between two of the most important international institutions in the field of public utilities services and enterprises.
- This system proposes a broad number of performances and criteria in comparison with the conventional methods of economic performance (productivity, profitability, etc.)

Main field of performance

- Social accessibility of electricity services (domestic use).
- Use of electricity by small, medium and large enterprises.
- Contribution to the mitigation of climate change.
- Quality of the relations between energy providers and consumers.
- Safety of infrastructure for both human and natural environment, stability of the system (power cuts, black-outs, etc).
- Investment in new technologies, R & D.
- Contribution to energy safety and independence, to long-term investments, to the differentiation of the energy mix.
- Contribution to employment, both quantitatively and qualitatively.

Application in Greece

Year 2012

- Views and positions of a number of institutions were documented such as:
- Policy-making institutions, enterprises and trade unions, i.e. internal stakeholders of the electrical market.
- External stakeholders that are directly concerned with the electricity sector (research institutions, consumers' organisations, environmental NGOs, etc.)

Main conclusions of the 2012 evaluation & issues for discussion

- The documentation of the views expressed by a variety of energy stakeholders contributes to the definition of “**dead ends”** that hinder the development of the public debate on energy.
- Indeed, the energy sector has evolved into a field of disputes, revolving around the promotion of apparently (or actually) contradictory goals, where polemics tends to dominate to the detriment of constructive dialogue.

  => Dead end for social solutions => Dominance of market-driven consensus which are more easy to obtain.

- In sum, 5 major dead ends have been identified.
- These are expressed in the form of contradictions between different dimensions of energy (*economic, social, strategic, environmental, democratic*).

Social vs Economic dimension of energy

- Electricity is at the same time a ‘social’ good, necessary for citizens in order to have a proper way of life, and an ‘economic good’, which determines the cost of production of goods and services.
- With the development of competition, the danger of the economic dimension prevailing over the social one is obvious.
- The possibility of exceeding the conflictual relationship ‘economic-social’ through the implementation of large energy saving and efficiency programs does not seem to be widely recognized in the public debate yet.

The environmental dimension vs the social dimension

- ‘Cheap electricity’ advocates criticize the high production cost of RES and defend technological possibilities of a drastic reduction in emissions arising from fossil energy sources.
- RES advocates reject cheap electricity -based on fossil fuels- for socio-environmental reasons and do question the prospect of an environmentally friendly utilization of lignite.

  => In general, options capable of reconciling both of these dimensions (e.g. climate justice policies) have not been until now established to a satisfactory extent at the policy and public debate level.

The strategic vs the environmental dimension

- Greater importance is attached to the existence and exploitation of domestic fossil fuels than to the environmental dimension, due to geopolitical uncertainty and the expected rapid increase of energy prices in international markets.
- Disputes are also documented between advocates of imported energy sources (natural gas) and supporters of larger scale, centralised investments with a comparatively lower cost of production and a bigger contribution to the safety of energy procurement due to the utilisation of domestic energy sources (lignite).

Contradictions in the RES sector

- Between the speculative and the local dimensions.
- The choice to promote big RES investment plans clashes with local communities that do not participate in the determination of energy investments according to their needs.
- Contradictions are also documented regarding technical and other features of the RES equipment used (e.g. imports vs. domestic production).

Ownership of energy providers?

- Disputes can be discerned between:
  - advocates of traditional public ownership and intervention in the energy sector (reintroduction of monopoly and renationalisation of enterprises)
  - advocates of complete deregulation/privatisation.
- A third –minor- pole is formed around the perspective of small decentralised cooperative units, territorially embedded and with a complementary action in relation to the two other poles.

Epilogue: from evaluation to policy making

- Theses dead ends are not only present at the public debate level.
- They do correspond to substantial obstacles for policy making and the development of a true social regulation for the energy sector.
- Actions can be taken in order to reach consensual solutions and overcome contradictions.
- Social regulation is the only credible and realistic option able to provide optimal and sustainable solutions to the energy, environmental, social and economic crisis.