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 definitively not be perceived as an abstract notion.
- Regulation authorities are 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.
- Key-objective => introduction and development of competition in former state monopolies.
- Mandate of these authorities is chiefly 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 due to the primacy of the profitability criteria

- **Social disparities** = problems concerning access of households to services such as energy, telecommunications and other services of general economic 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 in Europe 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 for the reorganisation of the electricity market (2012) **has risen serious concerns regarding its sustainability, both in social and economic terms.**

  => For some stakeholders, current liberalisation policies are fairly perceived as a way to guarantee conditions of high profitability for a very 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 very restrictive framework of the European Community Law of Competition and the Single Market.
- Reaffirming the concept of *general interest-based* regulation for SGEI (shared value of the EU/Article 14 TFEU):
  - 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’, as is the case today, 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 of the market.**

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 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 supply security, to long-term investments, to the differentiation of the energy mix.
- Contribution to employment, both quantitatively and qualitatively.

Evaluation of the Greek Electricity Sector (2012 report)

Observatory on Economic & Social Developments

Institute of Labour (INE-GSEE)

Application in Greece

- Views and positions of a wide 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 organisations, consumers' organisations, environmental NGOs, chambers, etc.)

Main conclusions of the 2012 evaluation & issues for discussion

- Documentation of the opinions expressed by a variety of energy stakeholders contributed to the identification of “**dead ends**” that hinder the development of the public debate on energy.
- Energy sector has evolved into a field of disputes concerning the promotion of contradictory objectives (apparently or actually).

  => Dead ends reinforce the prevalence of market-driven solutions which are more likely to be reached among purely profit-driven businesses evolving in an oligopolistic environment.

Dead ends - contradictions

Social vs Economic dimension of energy

- Electricity is both a ‘social good’, necessary for a proper way of living and an ‘economic good’, which affects the production cost of goods and services.
- With the development of competition, the danger of the economic dimension definitively prevailing over the social one is eminent.

  => Overall, the possibility of exceeding this conflictual relationship through the implementation of extended energy saving and efficiency plans does not seem to be widely acknowledged in the public debate yet.

Environmental vs the social dimension

- ‘Cheap electricity’ advocates criticize the high production cost of RES.
- RES advocates reject cheap electricity based on fossil fuels for socio-environmental reasons and question the technological feasibility of a future environmentally-friendly utilization of lignite.

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

The strategic vs the environmental dimension

- Some stakeholders do attach greater importance to the existence and exploitation of domestic fossil fuels comparing to the environmental priorities, due to geopolitical uncertainty and the expected future 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 energy security due to the utilisation of domestic energy sources (lignite).

Contradictions in the RES sector

- Between the profit-driven and the local dimension.
- 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 revealed regarding technical and other features of the RES equipment (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.

Epilogue: from evaluation to policy making

- Theses dead ends do represent substantial obstacles for policy making and the development of a true social regulation for the energy sector.
- Actions must and 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.