Summary of Reports:

1. 'Liberalisation and its impact on Municipalities in the Participant Countries and the UK'
2. 'The Roles of Municipalities in the energy sphere in the participant Countries and the UK'

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IEA DSM Programme TaskIX:
Municipalities in a Liberalised System

Summary of Reports, October 2002

1) Liberalisation and its impact on Municipalities in the Participant Countries and the UK.

This first report is intended to provide a rapid overview of the context in each country. It analyses the general context of the organisation of the energy industries in the participant countries, concentrating on those energies supplied by distribution networks (electricity, gas and heat) which are of most concern to local authorities. The organisation of these energy networks reflects in many ways the culture of the countries concerned. The decentralised approach of Austria is typical of a country built on the Germanic federal model and with a history of the city-state. The centralised approach in France is built on the powerful republican ideals deriving from the revolution where central government's role is seen as a leader of public provision. Liberalisation is seen there in the eyes of "public service" rather than freedom to choose. The Netherlands, a trading nation *par excellence*, is trying to build up its companies into large units that can compete and market successfully on the international stage. In Spain the situation is a political dog's dinner which results from the pragmatic way the country has adapted from a centralised Francist state to a decentralised democracy. The nation is very regionalised with strong autonomous communities. These have their own energy policies, but the main energy enterprises are large national structures and local authorities have almost no part in delivery.

The report is presented in largely tabular format. An initial summary is given of the approach in each of the participant countries. The key organisations involved at each administrative level are outlined and those bodies responsible for key activities in the energy sector which relevant to local authorities are identified with an appraisal of the situation prior to the advent of the liberalisation process and the current state of play (December 2001). The key liberalisation events and its impact on key actors is investigated. The tabular format gives more scope for comparison between countries. Information is presented in parallel so that each country's reaction to a particular issue can be compared with that of the other participants.

The liberalisation of energy markets has had significant effects on the structure of the energy industries in the countries concerned. The market has been described accurately as a breaking up and reconstitution of the market players, but in the end the industry is reforming into a smaller number of larger players.

Conclusions
The role of municipalities is different between countries in Europe. This is primarily related to their involvement in energy supply. In those countries where district heating is widespread, this is usually implemented under municipal control – district heating is a local service par excellence. (In the former Soviet Union it tends to remain centralised – but this seems likely to change too in time). In those countries where there is little district heating there tends to be little municipal involvement in energy

supply. The municipal companies dealing with district heating also tend to get involved in electricity and gas distribution. Thus there is broadly a zone of high municipal influence in energy supply in The Netherlands, Germany, Austria, Northern Italy and Scandinavia, and a zone of little municipal influence in the West and South.

This seems likely to change. With liberalisation the large energy companies are buying up distributors to get contact with their market. In The Netherlands municipalities have been encouraged to sell their shares in the municipal companies with the intention of developing three or four major market players, so that now there is very little municipal ownership of the energy sector at all there. In Germany municipal companies are merging or entering into joint ventures with the private sector. So the result will be a tendency towards uniformity in municipal roles in which the public service role is not confounded with the service provider and profit maker role. This can be viewed as good and bad at the same time. It is bad in that it distances the municipality from the real problems of providing a public service such as energy, and places it in a relatively reactionary role of regulator, aligned to the general public interests, rather than supplier aware of all the technical and practical constraints of real life.

It is good in that the municipality has to think about the service that people are getting in the round – taking account all the public policy issues and this is easier if one is not constrained by a direct interest in the income generated by energy services. It makes it easier to ensure value for money and the application of real political priorities.

Decline of the small players

Municipalities have traditionally supported small local operators, and they risk being sidelined or bit by bit eliminated from the market. All the participant countries have been characterised by large national and/or international players who have tried to increase their hold on the market. In all the countries major players have been forging new alliances in a sector where size produces significant benefits. Even in those countries which have resisted imposed regulation (e.g. Germany), in practice public response has tended to require that one be introduced. In Germany regional gas regulators were being considered and it seems likely that in the end, regulated access will be introduced in place of the preferred negotiated access in order to maintain clarity of competition. The role of the local authority at local level is handicapped by the different legal positions of the local concession. In Britain the privatisation legislation accorded a territory to private companies. In France the legislation makes those local authorities that don't operate their own network themselves grant a concession over their own network to the national operator, and once granted, this concession cannot be relinquished.

In the UK, alone among the liberalised markets, action was taken in the late 90s to increase the number of generators. This has been successful in reducing prices and increasing competition, but has weakened UK utilities in the international market place, an effect which cannot have gone unnoticed in the corridors of power and which is unlikely to have been happily received. In other countries, in particular those that are protecting their home market from the competition that they wish to impose on others (e.g. France and Germany), reconcentration has been actively encouraged

as a natural process of survival of the fittest. In addition these large energy enterprises have gone on a buying spree abroad, so developing new large multinational companies.

Such a restructuring leaves municipalities by the wayside. But this is unfortunate since they still have an important role in other elements of the energy system and are likely to be the ones picking up the pieces left behind by the large players as unprofitable as the process gathers pace.

The increasing importance of awareness raising

Local authorities have a significant role in energy awareness raising. If they are not doing any awareness raising among the small consumer, then it is likely that little, if any, is being done anywhere. Without local authority action, little impact will be made on this section of the market – those for whom the transaction cost of promoting energy efficiency action is the most prohibitive.

However the means of getting resources to municipalities to fulfil this function are, at best, not transparent. Levies on energy and the resources available for energy efficiency and renewables are separated (as is usually the case in taxation based systems). Therefore the incentives for action on energy efficiency are generally more likely to come from political action than trading. Thus there is a real risk that action on energy efficiency will become more centralised at a time when purchasing and price decisions are moving downstream.

Similarly it is apparent that there is an increasing trend to see local authorities as vital players in local regulation. There seems to be a change from local authorities being active players in the supply side to being local regulators and the creators of incentives. Direct involvement in practical projects is more limited, being primarily linked to action in their own stock and action in non-liberalised sectors such as heat distribution (although even here the Dutch experience suggests the withdrawal of municipalities from the sector).

The speed of liberalisation is different in different countries and so the impact on municipalities varies considerably too. British municipalities are faced with active and very competitive liberalisation and local authorities have been presented with stark choices, even without any municipal supply sector to lose. By contrast in France little has changed directly with a very limited opening of the market, but the pressure to resist liberalisation has however put a new emphasis on the public service role of the utility, perhaps somewhat forgotten in recent years. This has started to push new responsibilities down to the local level such as awareness raising via the "*guichets de l'énergie*" and energy planning via regional coordination plans. In the more organised Austrian system, the very recent complete opening is still making its impact felt, but there are suggestions of the separation of the utility business sector from the municipal public service role.

Further opening of the market

The current proposals of the European Commission for opening energy markets originally implied an opening to all clients by 2005. Following French resistance, the

proposal has been limited to enterprises but this would nevertheless include all municipalities. This will have profound implications for municipalities in their role of client, and they will be faced with the need to put all their consumption out to competitive tender according to normal public procurement rules. British experience suggests that this is quite a challenge.

Partial opening of the market to enterprises would also suggest that in the long term the market will necessarily open completely. It will be extremely difficult, whatever the regulatory framework, to prevent cross-subsidisation and the transfer of costs from the liberalised sector to the remaining monopoly elements. It is felt by many that this happened in the UK for instance. Rising costs for householders are then almost certain to produce pressure for full opening to the remaining captive clients to create a level playing field.

So the structure of the energy sector is having direct impacts on municipalities that can clearly be seen in the liberalising economies. These have very large implications for energy efficiency policy and it is vital that they are considered by the governments of those countries undergoing liberalisation.

2) The roles of municipalities in the energy sphere in the participant countries and the UK.

Summary of the information on the responsibilities of municipalities.

	Austria	France	Spain	Sweden	The Netherlands	United Kingdom
General context and role in utility services	Regionalised energy distribution companies with municipal companies in main towns. Large role of local and regional authorities in ownership. .	One national player (also active in international sphere) with municipal enterprises covering 5% of supply. Municipal role of concession granter very constrained, but in theory owns all local electricity distribution plant.	Large regional/national private companies. Regional role in energy policy. Municipal role very limited	Two major national companies, with many municipal companies (a number recently sold to the major players). Market fully open, and municipalities choose supplier	Four main suppliers. Originally owned by local and regional authorities, now private. Local authority role in granting concessions being used to influence energy supply policy.	Denationalised monopoly split into three main competitors, but they have been forced to sell off part of their capacity to promote competition. Municipalities have no role in supply or distribution but are active in awareness raising. Conditions for municipal participation in companies were very restrictive until 2000.
Distribution concessions	None – there is a local monopoly.	Yes for electricity, heat and gas. Fee generally very low.	None , but there is a local tax on the use of public land – now withdrawn due to liberalisation.	There are 270 concession areas of which about 100 are operated by municipal companies.	Municipalities grant concessions for networks in new development. New trials are being held to put this out to competitive tender under the BAE procedure. Ownership of the distribution pipelines has been split into the legal ownership (municipalities) and economic ownership (utilities).	No concession arrangement. Utilities have the right by law to lay equipment in the public highway.

District heating	District heating widespread -mainly municipal	District heating significant, but not general, and mainly municipal..	Virtually no district heating.	District heating very widespread, usually municipal.	District heating widespread and now privatised.	Minimal district heating
Client role	Market fully open but competitive purchase new.	Market only open to very large customers.	Market not yet open at municipal level, but imminent.	Energy purchase mainly delegated to private broker.	Limited opening of market, but competitive purchase by municipalities starting.	Municipalities have wide experience in choosing supplier, with much use of consortia
Own stock	Many public buildings – schools, recreation., water and sewage and administrative Incentives to promote energy performance contracting.	Schools, sports, cultural, recreational, water and sewage, administrative,	Administrative, schools and some hospitals, old people's homes, sports and cultural buildings, water and sewage.	Administrative, schools, old people's homes, sports and cultural buildings, water and sewage.	Administrative, schools, sports and cultural buildings, sewage.	Administrative buildings, schools (unitary authorities), sports and cultural buildings, social homes, social housing (20% housing stock). Not water and sewage.
Municipal energy units for own stock	These exist in the larger cities	In the largest municipalities, sometimes in house, more usually contracted out.	Just starting to be introduced by groups of municipalities.	None. Municipalities have worked to promote a general awareness of energy issues in municipal services and continuous monitoring of energy use is standard practice in many municipalities in Sweden.	Sometime an energy coordinator is informally designated by municipalities. Currently the idea of bringing together the purchasing and management operations is being investigated.	Many but not all local authorities have an energy manager, and some have an energy team. Energy purchase and management are usually separated but Milton Keynes and Leicester run units responsible for overseeing both energy management and purchase.
Public Lighting	Municipal responsibility	Municipal responsibility	Municipal responsibility	Some by municipalities, some by utilities.	Mostly run by utilities,	Municipal responsibility
CHP	General in District heating and supported by a levy. Significant small CHP.	No tradition – a few municipal plant linked to DH. Very few small CHP	Industrial generation significant	Many large and medium sized cities use CHP.	CHP very important but now mainly own use.	Widespread in industry – limited in DH. Small scale CHP widespread.

Spatial Planning and construction regulations	Decided at provincial level. However local authorities have an important role in spatial planning.	Administered nationally, but no real *in situ* control in housing. However local authorities have major powers in Local Development Plans and delivering construction permits. A recent review has introduced two basic units for spatial planning – the „pays" and the „conurbation", which will enable improved spatial planning. Ademe is proposing regional Contracts on renewables and energy efficiency, and pluri annual contracts to enable them to implement a local energy policy.	Municipalities deliver permits according to the legislation. Barcelona introduced an ordinance in 2000 imposing solar heating systems on new buildings, now spreading elsewhere. Planning takes land use and disposition into account, but energy is not a mandatory consideration.	Building regulations are decided at national level. Land use planning however is a local responsibility. This deals with planning and zoning, however energy efficiency is related simply to the building regulations.	Local authorities apply building regulations, and standard of buildings measured as Energy Performance Ratio (EPR) Local authorities are responsible for land use planning and granting environmental permits. Mobility Performance on Location is used to analyse the impacts of plans on traffic flow, with the object of increasing energy efficiency by 30%.	Local authorities responsible for administering and enforcing building regulations decided at national level (Scottish Assembly in Scotland).. Local authorities have a major role in planning and granting planning permits. While energy is not specified in the legis-lation, it is referred to in special government circulars. Local author-ities have a particular role in granting permits to energy generation plant. Recent trends have emphasised reducing the need to travel since PPG13 was issued in 1996. A strong restrictive policy on development, including green belts, has been followed since World War II It is now proposed to require that 60% of housing is on „brownfield" land and local authorities will be given powers to impose workplace travel plans and road charging.

Awareness raising and DSM	Some municipalities have programmes to promote the rational use of energy.	The utility is limited in powers and duties although there are relaxed provisions in a new law. Some municipalities were active as pilot towns in the early 80s. More recently some have set up energy agencies. Very recently a network of 200 energy info-points have been set up.	In early 80s the energy companies were obliged to invest in DSM. They have stopped now and muni-cipalities don't invest either. A number of energy agencies have been set up with EU funding.	About 280 out of 289 municipalities offer energy saving guidance, partly funded by government, currently agreed for a further five years. A Local Investment Programme (LIP) supported (2600M SEK) ran from 1998-2002. This is being replaced by the Climate Investment Programme (KLIMP) Very tied in to Agenda 21. Government promoting integrated Local Centres for Sustainable Development, in collaboration with LAs.	Mainly via the environmental planning role. Novem, the national agency, also has an important role at local level. Novem's Municipal Energy Saving Approach, was promoted from 1988-96 and encouraged local authorities to prepare a local energy policy plan. Difficult to enforce compliance. To be replaced by Climate Covenants – voluntary programme with thre levels of objective.	For many years local authorities provided grants for loft insulation and some other energy saving investments can also be grant aided via home improvement or other grant schemes. Local authorities run energy advice centres covering the whole UK with funding from the Energy Saving Trust. Many authorities have extended the work of their energy advice centres to set up energy agencies using EU funding. Local authorities are obliged by law to prepare plans to reduce energy consumption in the residential sector by 30% by 2015 but no special resources are provided to implement this.

ESCOs	Widespread and supported by government. The liberalisation legislation imposes this the provision of energy services on utilities.	Many energy management companies, but performance contracting rare in local government	Third Party Financing provided by IDAE and regional energy agencies. More recently the utilities have entered the field.	Provided by utilities – no detailed information	ESCO activities are being developed by the utility companies. Eligible customers are „programme responsible" to predict demand – it is likely that this service will be contracted out to service companies.	ESCOs exist and one or two target local authorities – e.g. Waltham Forest Energy Services, a local authority company that was privatised. Many local authorities are setting up ESCOs targeted at local authority housing tenants and other householders to meet commitments to reduce energy consumption in the residential sector. The utilities have concentrated on the industrial cogeneration sector.