Governance Issues in the Energy Sector

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• Review of what has been driving issues of governance in the electricity sector
• What models have been used?
• What does governance involve?
• Role of third parties in the electricity sector (private; municipalities – Jordan; civil society organisations)
History of Electricity Provision

• At some point in the history of a state the provision of electricity is part of a ‘social compact’: providing broad public access; providing supply to stimulate economic growth

• Industrialised countries in late 80s/early 90s began to change – economic efficiency paradigm opened up by small scale technology, with electronic control systems & communication – competition through decentralisation
Developing countries

- The social contract wasn’t being delivered
- Financial management was poor
- Not everyone was connected
- Those who were connected are not connected 24/7
The solution: the market model

- Change in management practices (sometimes ownership)
- Restructure for competition (‘dergulation’ & ‘unbundling’)
- Many countries are not enthusiastic about privitisation but there are models combining state ownership & competition eg Norway which is still state-owned but different state entities eg municipalities are able to generate electricity.
Advantages & Disadvantages

- Competition provides incentives for cost savings & productivity enhancement
- Consumers will use energy more wisely – paying full cost

BUT

- Capital costs more because there’s a higher risk (not backed by the tax payer)
- Planning is difficult with multiple players and their commerical confidentiality; getting the least cost option mix
- Competition can be expensive to coordinate eg experience of the UK (other promises have also not been maintained – cheap electricity).
Does one size fit all?

• Small countries – might be difficult to apply – might not get economies of scale (cf Norway & Jordan)

• Inward investment needs transparent & regulated financial sector

• Private sector is not interested in the ‘social contract’

• Unregulated private sector isn’t perfect eg Enron
What has driven the model in developing countries?

• Late 1980s money for large infrastructure projects became more difficult to find

• World Bank (Washington Consensus) used this to push the model – conditionality – loan only on the basis of opening up the market

• Politics of 1980s/90s dominated by a paradigm of rolling back the state & allowing markets to provide goods & services
What happened?

• 1990s moves to privatise state utilities
• Poor state of sector made it difficult to sell – no profit & high risk
• IPPPs entered the sector as generators – very favourable terms (high prices; take-or-pay contracts; government guarantees for non-payment) or managers of the state utility
• Complaints – who was benefitting? Corruption! Skewing incentives to new generation & not necessarily renewables – energy efficiency was neglected.
Social & environmental equity

• Will not be delivered by the market voluntarily (despite CSR – electricity utilities have a bad reputation for this – energy efficiency programmes have been a casualty)
• Rural electrification in the USA was delivered through cooperatives
• There is still a role for the state
• There is still a need to fulfil the social contract
• There is a need to reduce the environmental footprint of electricity production
Hybrid models?

• Allowing third parties (private or community actors) to invest in generation
• Only based on renewables?
• Promoting end-use efficiency – win-win situation
• Both of these options qualify for CDM financing
• Needs fiscal capacity, administrative capacity (policies & enforcement of regulations)
The role of informal actors

• Budget & legal limitations
• Limited capacity
  [Seems to have been a general experience for most institutions in privitisation]
• Requires new institutional forms – governance structures

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Jordan

- Went down the electricity privatisation route end of 1990s – unbundled generation, transmission & distribution
- Seems to have been a lack of tenders – process was taking place against the financial crisis – companies expected high returns & low risks
- Prices had gone up – low-income households were having problems and the utilities were facing reducing in income
Jordan – the role of municipalities

- Local Government was reorganised in 2001 – play a role in service delivery (decentralisation) – would appear to allow for electricity generation
- Capacity has been built by World Bank projects
- Budgets are constrained – so not entering into generation
- They are not regarded as natural partners by agencies financing energy projects
- But municipalities also pay energy bills (e.g., street lighting) – and they have become very expensive
- So pilot schemes with EEL & solar are underway
Governance issues in a commercial electricity sector

• Many countries have struggled with utility reform
• Tariff rises haven’t matched service improvement
• Revenue sharing seems to have helped get poor consumers a fair deal.
  Profits benchmark & tariffs are set – if efficiency gains raise profits above benchmark tariffs are lowered.
• Regulators have struggled to keep control of the regulated – often when accounting & auditing standards are weak
Governance

• Governance is used synonymously with tackling corruption – but it is more than this
• Corruption of newspaper headlines (*grand* corruption) – kickbacks for contracts
• *Petty* corruption: illegal connections (paid & unpaid), payments to meter readers – at aggregate level more than *grand*
Governance

• Governance is about getting the system working that meets the social contract, is financially sound & has environmental benefits

• 3 factors identified as undermining sound utility financing: poor bill collection rates; excessive costs (inefficient operation & petty corruption); tariffs below cost recovery rates

• Generally privatisation has addressed these factors satisfactorily

• Other benefits require regulatory regime that delivers transparency, is accountable & promotes participation
Public participation:
a dimension of good governance

• Informing the public
  Their rights. How to make a complaint
  Why prices rise

• Involving the public
  Throws up surprises – customers want to pay on
  basis of good billing; end to illegal taping –
  customers provide solutions

• Serving the public
  Public as clients – training staff in customer
  relations
Public participation

• Not everyone wants to be involved
• Can be through civil society organisations eg Electricity Users Associations; cooperatives (Bangladesh)
• These also have to be transparent organisations – who do they represent?
• Well functioning CSOs can help with transparency issues
• Their capacity needs building – tools exist eg Electricity Governance Toolkit
Concluding remarks

• Focus has been on areas of governance which get less attention

• Ensuring the social contract in electricity delivery doesn’t have to mean complete privatisation

• Privatisation in small states (particularly in developing countries) hasn’t been successful

• There are models that allow for third party participation in electricity delivery – technical and ‘regulatory’ side