Republicising the energy sector in the UK - why, where, how and for how much

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Why bring energy back into public ownership?

- Climate change and renewable energy
- Universal coverage
- Affordability: cost of capital
- Affordability: non-profit-maximising, efficiency
- Democratisation

Table: Annual savings from renationalisation of energy, water and rail sectors

Source: Corporate Watch [i]

Sector	**Energy**	**Water**	**Rail**	**Total**
Savings from reduced dividends and interest payments	£4.2bn.	£2bn.	£352m.	£6.5bn
Annual savings per UK household	£158	£75	£13	£248

[i] Corporate Watch 2014 Energy, rail and water privatisation costs UK households £250 a year https://corporatewatch.org/news/2014/dec/08/energy-rail-and-water-privatisation-costs-uk-households-%C2%A3250-year

Process of return UK energy to the public sector

Element of sytem		Current status	Process for	Cost of transition	New status
Transmission		National Grid plc	Nationalisation	Fair compensation	National govt transparent company
Distribution		Various plcs	Nationalisation	Fair compensation	Regional/local govt transparent network companies
Generation	Fossil and nuclear	various plcs	Selective nationalisation	Fair compensation	Regional/local govt transparent generating companies
	Renewables	plcs, coops	Encourage public/coop expansion	n/a	Regional/local govt transparent renewables companies
Supply		Various plcs, coops	Create public suppliers	n/a	Regional/local govt transparent supply companies
Regulation		OFGEM	Re-democratisation	n/a	Absorb into national and regional/local govt structures

Cost of renationalisation exaggerated by Jefferies report

- Jefferies: compensation would cost £124bn-£185bn
  - But errors eg assume purchase of Nat Grid USA subsidiaries
  - better estimate for cost of buying transmission/distribution/selected generation is £34bn share value
- But
  - rules governing nationalisations are different from stock market rules on takeovers, do not require that shareholder compensation should be based on full market value, or enterprise value
  - E.g. Court of Appeal 2009: “the court would only interfere if it were to conclude that the State's judgment as to what is in the public interest is manifestly without reasonable foundation……. if the assumptions indeed produce a nil value, that can only be because the business is shown to be worthless without the support put in by government” http://www.bailii.org/ew/cases/EWCA/Civ/2009/788.html
- So
  - Nationalisation law better than buying shares
  - better bases available for compensation rules

Better estimates of shares-based compensation.

Company	UK energy activities	Shareholder equity in UK energy companies (£bn.)
National Grid	ET;GT;GD	8.3
SSE	ESG; GS; ED;GD	5.5
50% of UK ops of Centrica	ESG;GS	1.5
Sub-total for UK-listed owners		**15.3**
50% of UK ops of EdF, E.on, RWE, Iberdrola	ESG; GS	13.2
other distribution companies (12 elec, 4 gas)	ED;GD	5.5
TOTAL (transmission, distribution, 50% of generation/supply)		**34.0**

Compensation and costs

- Compensation basis could include
  - Actual equity investment since priv (eg water negative, Bayliss)
  - Discounting initial underpricing, cumulative return in excess of FTSE/gilts
  - Using bank shares as medium of exchange

- Perverse UK rules on PSBR: include public corps debt as well as general govt debt
  - Cf EU rules: public corp books are separate from govt
  - Sale or purchase of assets does not affect govt debt – asset value offsets value of debt.

- Debt refinancing: desirable, lower CoC
  - on public company books, not govt

Role of public sector in EU

- EU law requires liberalised market but does not preclude public ownership

- Transmission systems remain mainly public

- There are seven major electricity companies in the EU
  - EON, RWE (Germany); EDF, Engie (France), ENEL (Italy), Iberdrola (Spain), Vattenfall (Sweden), with a combined yearly turnover of more than €384 billion Euro

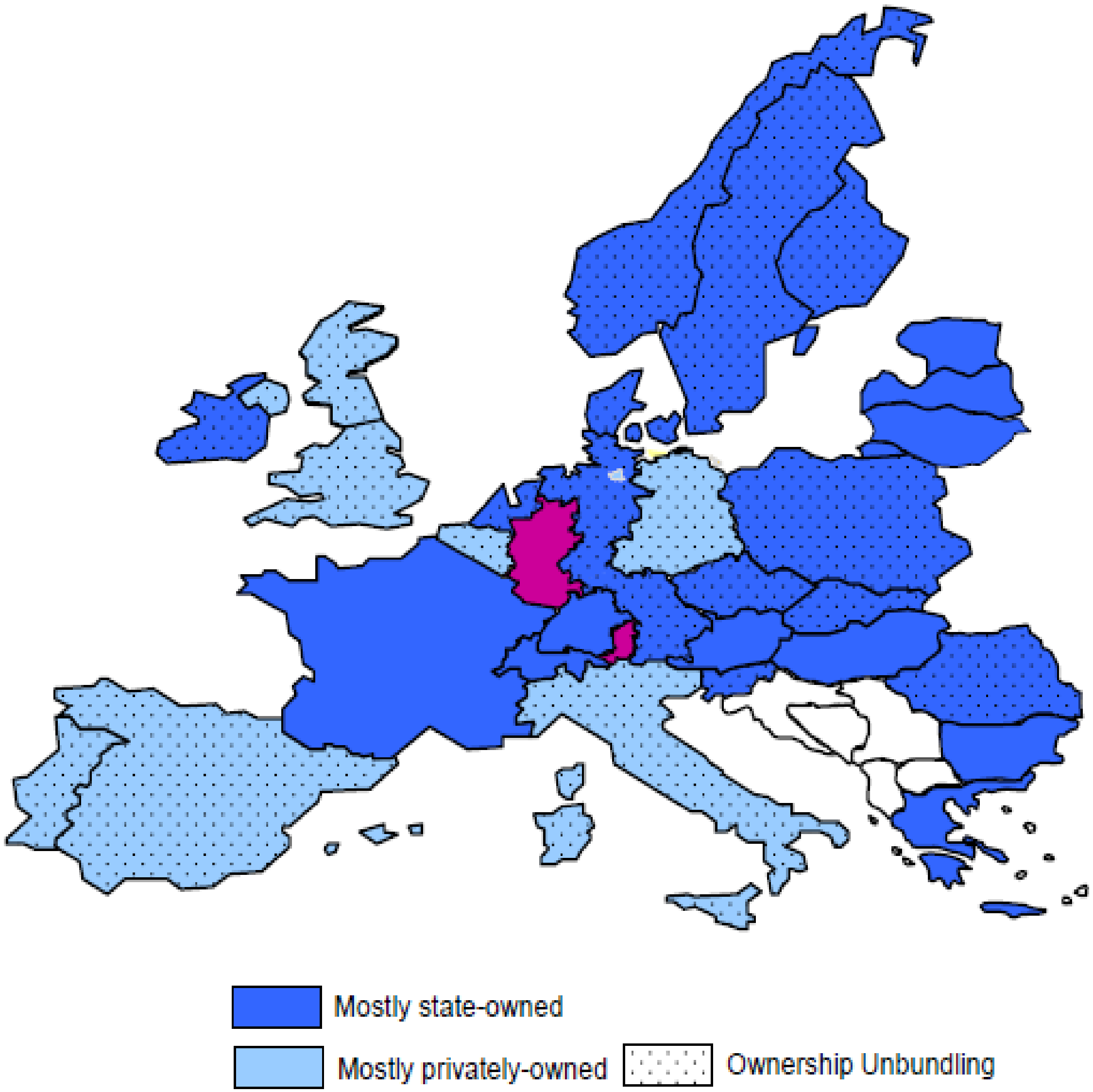
  - Four of these – EdF, Engie, Enel and Vattenfall -are controlled by governments (Thomas 2010).

- Austria, Denmark, France, Greece, Ireland, the Netherlands and Sweden: main electricity company is state owned.

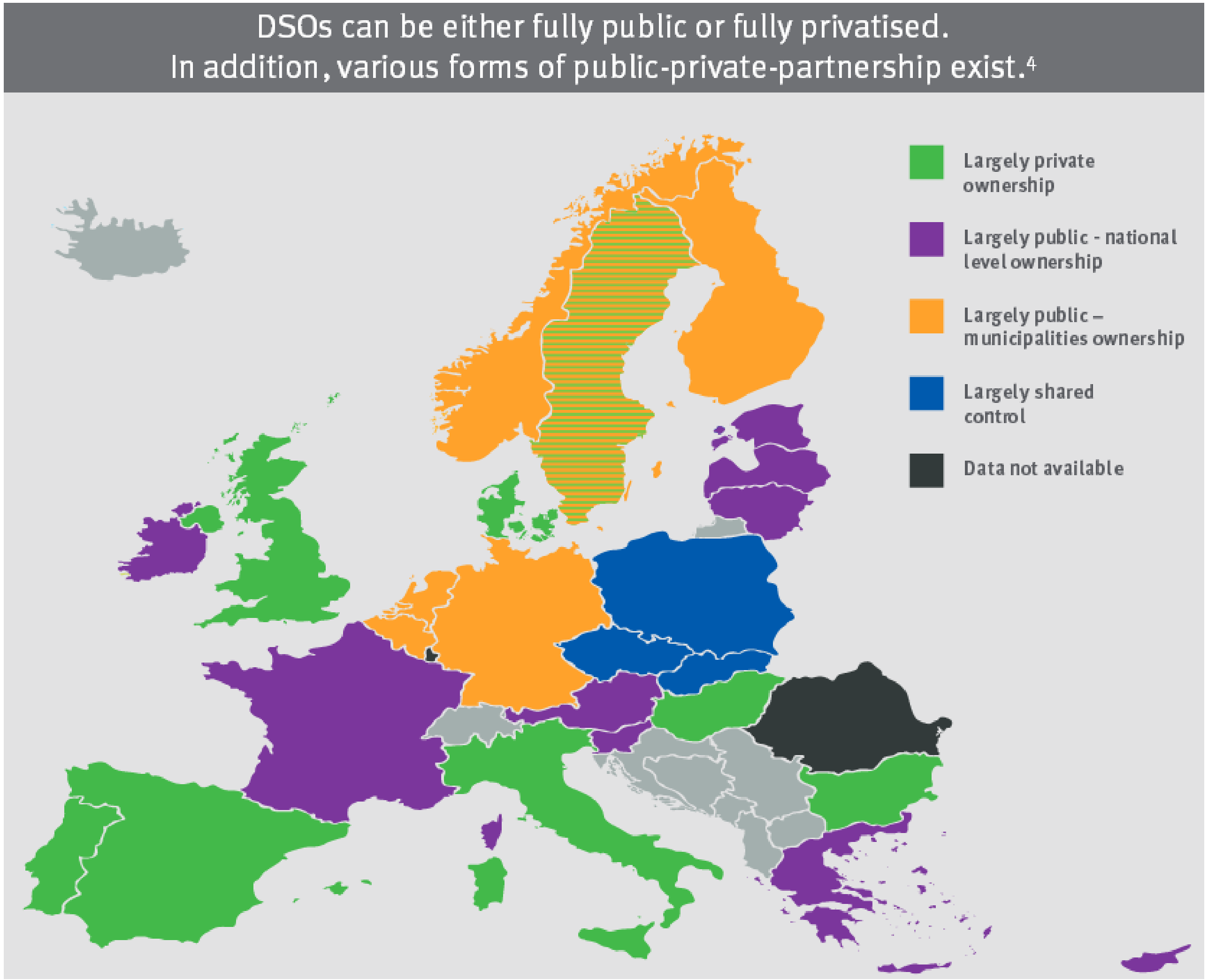
- Public sector companies perform well too
  - consumers pay lower electricity net-of-tax prices in countries where there are dominant companies owned by national governments
  - “the average SOE outperforms its private counterpart [in terms of profitability]”.
  - (Massimo Florio **The Return of Public Enterprise CSIL Working Paper 01/2014)**

- **Significant trend to remunicpalisation esp. in Germany**
  - Local and regional govts buy distribution companies
  - Local govts develop renewable generating capacity

Transmission in Europe: great majority public



Distribution in Europe:



Most DSOs own the network and are granted an operation licence by local or national public authorities.

In some countries, like Germany, DSOs are granted concession contracts to operate the network for a certain amount of time while the public authorities remain the owner in the long term. In these cases, DSOs are in charge of operation and maintenance as well as capital investment.

Even privatised distributors are owned by companies based in the home country, except for the UK, Hungary and Bulgaria which are owned by multinationals

Eurelectric 2013 Power Distribution in Europe http://www.eurelectric.org/media/113155/dso_report-web_final-2013-030-0764-01-e.pdf

For each country the percentage of each type of ownership was calculated by aggregating the kWh distributed by each type of company.

Major generators in Europe: public/private ownership

Country	Company	State owned	Private owned
Austria	Verbund/EVN	51%	49%
Bulgaria	BEH EAD	100%	0
Czech republic	CEZ	70%	30%
Denmark	Dong	76%	24%
Estonia	Eesti Energia	100%	0
Finland	Fortum	62%	38%
France	EDF	85%	15%
France	Engie (GdF-Suez)	36%	64%
Germany	E.ON	0	100%
Germany	RWE	15%	85%
Greece	PPC	51%	49%
Hungary	MVM	100%	0
Ireland	ESB	100%	0
Italy	Enel	25.5%	74.5%
Latvia	Latvenergo	100%	0
Lithuania	Lietuvos Energija	100%	0
Norway	Statkraft	100%	0
Poland	PGE	58%	42%
Portugal	EDP	0	100%
Romania	Nuclearelectrica	100%	0
Slovakia	SE	34%	66%
Spain	Gas Natural	34%	66%
Spain	Iberdrola	0	100%
Sweden	Vattenfall	100%	0
UK	Centrica	0	100%
UK	SSE	0	100%

Electricity re-municipalisation in Germany

- Germany has strong national commitment to transform system to use renewable energy: process is called ‘Energiewende’
  - All nuclear plants close by 2022
  - 33% of all electricity in Germany was renewable in first half of 2015, very little from big private companies RWE and E.on

- Local government municipalities have strong role in system, leased distribution networks to private companies under 25 year concessions

- Since 2005, municipalities have decided to bring much of the system back into public sector. Municipal companies (‘stadtwerke’) now have:
  - great majority of distribution networks
  - 46% of electricity retail sales
  - 12% of generation

- New ‘stadtwerke’ formed, usually to develop more renewables e.g. in Stuttgart

- Regions and municipalities buy private energy companies:
  - BW buys 45% of EnBW from EdF (€4.6bn.)
  - Hanover et al buy Thuga from E.on (€2.9bn)
  - referendum in Hamburg votes to remunicipalise energy, narrowly fails in Berlin

Munich and re-municipalisation

Dieter Reiter, Mayor of Munich City Council, Germany:

- In an alarming number of cases, the results of privatization were highly problematic and do not seem to indicate that privatization can be seen as a silver bullet….After years of privatizing formerly municipal services, the results are sobering.

- Energy supply was one of the key sectors affected by privatization of formerly public enterprises. Today, energy supply is characterized by oligopolies of private energy suppliers. There is practically no competition on price. The transition to renewable energies is made rather reluctantly

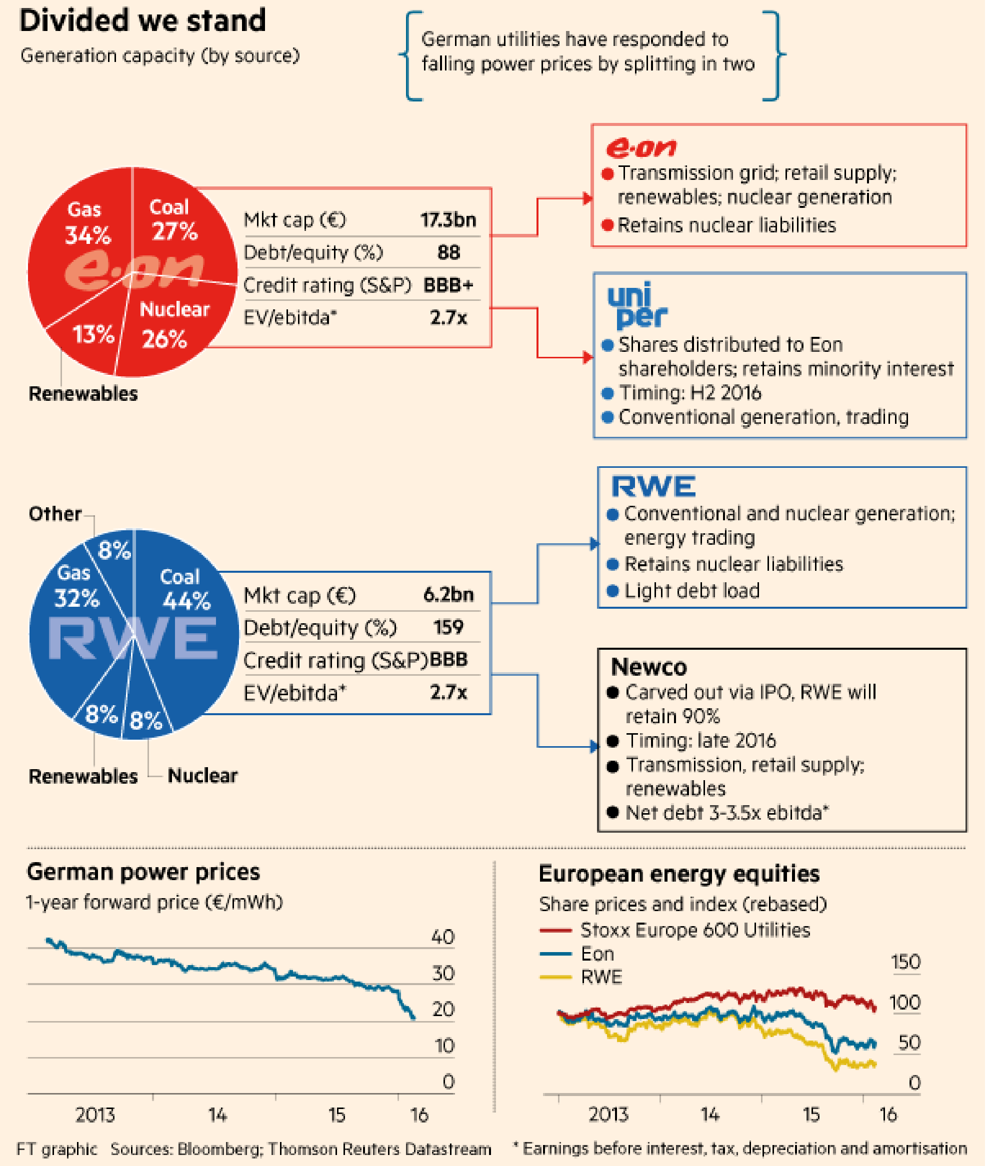
- By 2025, our utility company aims to produce so much green energy, that the entire demand of the city can be met. That requires enormous investments around 9 billion euros by 2025 and can only be successful if the long-term goal is sustainable economic success rather than short-term profit maximization ….

- German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past. There are many examples of newly established or revived municipal utility companies, especially for energy and water supply, or of the repurchase of municipal transport services. Even private housing stock formerly owned by the city is sometimes bought back.

Welcome address to Munich Economic Summit May 2011. http://www.cesifo-group.de/DocDL/Forum-3-2011.pdf

Crisis of private companies

- Engie (GdF-Suez) selling thermal plants, Electrabel
- RWE scraps dividends, EDF maintains dividends, shares of both halve in value in last year
- RWE: divided we stand FT 17 Feb 2016 https://next.ft.com/content/c6d29344-d586-11e5-8887-98e7feb46f27



Electricity – other moves to public

- In Europe
  - Finland takes state majority ownership of transmission grid
  - Swedish parliament rejects privatisation of Vattenfall
  - Hungary: state buys shares in MOL
  - Latvia: new law makes privatisation of Latvenergo illegal
  - Lithuania: re-integrated state energy company
  - UK re-creates state as central power purchaser
  - UK: New Labour party leader Jeremy Corbyn says he wants to renationalise energy companies
- Elsewhere:
  - Latin America: renationalisation of energy companies eg Argentina and YPF, Bolivia various, Dominican republic
  - Asia: Japan nationalises Tepco, Malaysia state fund buys Powertek
- Privatisation of energy made illegal or unconstitutional
  - in Latvia, Indonesia, Thailand

Re-municipalisation in other sectors in Europe

Sector	Process	Countries	Factors
Water	Municipalisation of services	France, Hungary, Germany, Italy	Private failure, cost, control, contract expiry
Electricity	New stadtwerke, purchase of private companies (>€9bn); nationalisation	Germany, Hungary, Lithuania	Private failure, cost, control, contract expiry
Public transport	Municipalisation of contracts and concessions	UK, France	Cost, private failure, public objectives, control
Waste management	Contracts brought inhouse, inter-municipal incinerators	Germany, UK, France, etc	Cost, control, contract expiry
Cleaning	Contracts brought inhouse	UK, Finland	Cost, employment, contract expiry
Housing	Contracts brought inhouse	UK, Germany	Cost, effectiveness
	Source: Re-municipalisation in Europe Nov 2012		
Healthcare	Slovakia plans to renationalise health insurance Reuters Oct 2012		

Factors driving trend to public

- Greater trust in public sector
- Greater public policy objectives
  - ‘Energiewende’ > renewables, post-nuclear
- Public finance crucial especially for renewables,
  - Multinationals slow to invest in renewables,
- Private sector can borrow more cheaply
- Expiry of private concessions for distribution networks
- Other: extra revenues, nationalism