

CONGRESS OF LOCAL AND REGIONAL AUTHORITIES OF EUROPE

Recommendation 106 (2002)¹ on sustainable development and the liberalisation of the energy market

The Congress,

Recalling that:

1. Energy is a key element of economic activity and social welfare, and the liberalisation of energy markets is a new and highly significant aspect of the European energy scene;
2. Local and regional authorities are directly involved in energy and environment policy, their responsibilities and their role directly affect the fields covered by the liberalisation process. In exercising their statutory duties they consume energy and, in many countries, play an important role in the distribution and production of energy;
3. In some countries municipalities have fewer statutory powers in the field of energy. Nevertheless they are also active in promoting energy efficiency, the use of renewable energy sources and in reducing pollution and emissions of greenhouse gases;

Having regard to:

4. A series of measures initiated by the European Union including:
 - a. the Electricity Directive and the Gas Directive which are already transposed into the national law of European Union member states and serve as guidelines to candidate countries for EU membership, and
 - b. the Commission proposal for amending these directives to speed up the liberalisation process;
5. The fact that the European Union has also adopted ambitious goals in the area of climate protection and the introduction of renewable energy sources (RES), including:
 - a. the resolution of the European Union Council on the application of the Kyoto agreement, namely the reduction by 8% of greenhouse-gas emissions by 2010;
 - b. the resolution of the European Union Council for the promotion of combined heat and power (CHP) which fixes the objective of increasing to 18% the contribution of cogeneration in the electricity production of the Community by 2010;
 - c. the Directive on electricity from renewable energy sources, which fixes as an objective the doubling of the share of renewable energy to 22% in the electricity production of the European Union by 2010;

d. the European Climate Change Programme, which develops all the necessary elements of a European strategy to implement the Kyoto Protocol;

Considering that:

6. The deregulation of energy markets has fundamentally changed the general conditions for energy policy in all European states. One of the major advantages of a liberalised energy market in terms of sustainability is that customers have the possibility to choose their supplier;
7. Although great progress has been made during the last few years with regard to competitiveness and security of supply, a couple of important issues are still pending. If energy market liberalisation is not complemented with additional policies and measures, the goal of sustainable development can hardly be met;
8. Focusing upon economic efficiency on the supply side highlights only a part of the problems facing the energy sector. A framework ensuring high environmental and safety standards, as well as a level playing field, is still lacking at the European level. In the next steps of the liberalisation process this fragmentation of European policy in the energy sector must be overcome as a matter of urgency;
9. Environmental considerations have so far played only a minor role in the process of deregulation. A number of policies, realised at local, regional and national levels with the objective of environmental protection and the safeguarding of jobs have come under the increasing pressure of competition;
10. In particular, the liberalisation of the electricity market – concurrent with a surplus generation capacity estimated at 40 000 MW in Europe – has led to a sharp decrease in wholesale electricity prices in several countries, that in most cases do not reflect the long-term marginal cost of electricity generation;
11. The major effects of liberalisation, namely lower electricity prices and higher uncertainties for investors in generation capacities have a negative impact on environmentally-sound technologies such as renewable energy sources and combined heat and power production. The establishment of energy prices that reflect the true costs of energy (internalising external costs) is crucial to efficient energy use;
12. The decrease in electricity prices has reduced economic incentives for efficiency measures. Electricity utilities which already played a significant role in electricity savings in some countries, partly on a voluntary basis and partly because of regulatory requirements, have largely withdrawn from this activity after market opening;
13. Deregulation limits the field of action of municipalities and their municipal companies simply to those activities which are sufficiently profitable and competitive and threatens to penalise the promotion of energy efficiency and renewable energy;

14. The current situation shows that initiatives taken so far are not promoting the spread of renewable energy sources and combined heat and power production to the desired extent. As a consequence, their overall development is very slow;

15. With the developing process of liberalisation of the energy market, environmental regulation is becoming more important. A main focus of European energy policy should now be directed at environmental aspects: market players need to be given rules to ensure that possible negative effects of deregulation on environment policy targets are avoided, and the benefits of competition enjoyed;

16. Due to the high level of greenhouse-gas emissions from energy production, the risk of nuclear accidents and the problem of radioactive waste from nuclear-power generation, the introduction of additional environmental incentives for the energy sector will be crucial for the realisation of sustainable development;

Convinced that:

17. Despite such inconsistencies, there should be no return to monopolised energy markets. Instead, all possibilities must be exhausted to utilise the dynamism of markets and their unique role of encouraging innovation and increasing efficiency for the achievement of environmental protection goals and to get rid of existing contradictions;

18. An integrated energy strategy is needed, that involves all levels of government and all sectors of the society, to meet the challenge of the rapid growth of energy demand and the growing threat of climate change. The strategy must consist of pursuing efficient production processes and reducing waste, using fuels more efficiently and relying more on renewable energies;

19. Integrated energy planning must be promoted involving a participatory process in which all affected parties – including users, producers, workers, professionals, enterprises, and local, regional and national authorities – take part and make decisions;

Recommends that the governments of member states:

20. Establish a regulatory framework that:

a. compensates the additional burden on investors of environmentally-sound technologies that require considerable capital investment, or have to compete on the electricity and heat market;

b. extends incentives for energy efficiency in an economic environment characterised by strong competition in terms of energy prices;

c. strengthens the influence of customer choice both on the electricity-generation sector and on the energy-services business;

d. ensures a market structure with numerous players and thus creates equal opportunities;

21. Set up a national action plan, laying out policies and measures to be taken to achieve the targets. Progress made should be monitored very closely and additional action taken if necessary;

22. Establish a national regulatory authority, with local and regional authority representation, which has binding powers to ensure that it is not only the competition rules that are respected, but also the provisions relating to the environment and energy efficiency. Local and regional authorities should be allowed to set up municipal regulatory boards for energy distribution. These bodies should be open to consumers;

23. Create fair market conditions for all sources of electricity: electricity markets, as well as possibilities for market access, should be structured in such a way that different types of players can take part;

24. Make existing subsidies transparent for all market players and regulators, and check them against energy- and environment-policy objectives;

25. Implement a new approach to state-aid policy in the energy and environmental sector, in line with the commitments under the Kyoto Protocol and other agreements:

a. establish adequate, comprehensive and transparent guidelines for state aid in respect of environmental regulations in the energy sector;

b. operational state aid should be given primarily for clean electricity generation, in order to create incentives for avoiding external costs as much as possible;

c. tax exemptions for clean fuels and highly-efficient technologies should be accepted;

d. in the power generation sector two key technologies should be targeted for support: renewable energy sources and combined heat and power production, with the aim of making them competitive with conventional sources in the long term;

26. Set binding targets for the market share of electricity from renewable energy sources and from combined heat and power production. Incentives should be introduced to encourage the development of alternative energy sources such as wind, water and solar power, biomass and geothermal energy;

27. Introduce a mandatory certification system for electricity from renewable energy sources and from combined heat and power production, providing every consumer with information about the characteristics of alternative electricity products and giving “green power” the high esteem it deserves;

28. Consider the introduction of a “climate change levy” on non-renewable forms of energy, to make green electricity a more financially viable option;

29. Create equitable rules for conditions and prices for system access through the regulation of transmission and distribution-system operators;

30. Encourage local and regional authorities, in line with the principle of subsidiarity, to become more active in the energy and environment field, allowing them not only to choose who supplies their electricity, but also how that electricity is generated;

31. Allow municipalities and municipal companies who so wish to benefit from the provisions open to the large players on the energy scene, in particular "eligibility" for their consumption, for local production and for distribution;

32. Give priority in public infrastructure investments to local projects that reduce energy use, save money, create jobs, stimulate the economy locally and make communities more liveable;

33. Encourage partnerships to promote energy efficiency between national, regional, and local levels of government, private enterprises, financial institutions, associations, unions, networks and citizens groups;

34. Invite local and regional authorities to actively participate in monitoring the impact at local level of the process of opening-up the energy markets;

Recommends that the European Union:

35. Apply the principle of subsidiarity establishing those competencies not simply to national level, but also to the level of local and regional authorities where they are better placed to resolve problems;

36. Adopt a policy that should not only aim at dismantling impediments, such as vertical integration of the electricity industry, but should also foster environmental regulation of the electricity sector;

37. Lay down minimum standards for energy product taxes, or combined energy and carbon taxes, in view of the fact that some of the problems concerning state-aid policy on environmental protection result from an unsatisfactory tax regime;

38. Elaborate new guidelines on state aid for environmental protection that should take account of energy efficiency, renewable energy sources and combined heat and power production;

39. Evaluate the effects of market liberalisation and adopt a directive for a consistent combined heat and power production policy (similar to the Directive on electricity from renewable energy sources adopted in September 2001) as soon as possible;

40. Establish a legal framework for a European standard for disclosure of all electricity sources, setting out minimum standards for the certification of electricity generation as a formal basis for disclosure and for national disclosure systems;

41. Elaborate proposals to regulate third-party access to the internal market for gas and electricity, taking social and environmental standards into consideration;

42. Step up co-operation with the accession countries to help them implement new European Union standards on energy efficiency, cogeneration and renewable energy sources. A steady process of coherence, avoiding environmental dumping, should be a key issue for negotiations and appropriate agreements.

1. Debated and adopted by the Standing Committee of the Congress on 21 March 2002 (see Doc. CG (8) 27, draft recommendation presented by Mr P. Torkler, rapporteur).