

Speech VKU President Weil

Friday, 10 June 2011

The Bristol Hotel, Prince Street, Bristol

9.55 to 10.15, Speech duration 20 minutes

The Renaissance of local municipal structures in the German energy supply network / Model for Europe?

Ladies and Gentlemen,

Thank you very much for your invitation. I am delighted to be able to talk to you today about the very good experience we have had with re-municipalisation in the German energy supply sector.

Before I cast an eye back at the most recent history of the German energy supply landscape, and show you why re-municipalisation in Germany is currently undergoing a Renaissance and revitalising competition in the energy sector, I would first like to briefly introduce you to the Association of Municipal Companies.

The Association of Municipal Companies, or VKU for short, represents the energy policy interests of municipal companies operating in the energy supply sector, the water and sewage sectors, and the waste disposal and refuse collection sectors. The VKU is the only association with cross sectoral companies (with multi-utility-character) operating in the local authority sector in Germany, and is the largest of its kind in Europe. It currently represents around 1,400 municipal companies. With more than 220,000 employees, they generated a turnover of around Euro 72 billion in 2008.

Municipal companies are not primarily run on private sector lines.

Firstly, their main obligation is to serve the interests of the community as a whole, acting in the interests of “citizen value” in the German democratic system, to supply the needs of the local community.

Secondly they also form and safeguard community-oriented assets and therefore uphold a service sector structure that acts as a counterbalance to market concentration in a competition-oriented economic system.

And

thirdly, they are also an integral part of the social market economy in Germany – the economic system which Germany has to thank for its competitiveness and productivity since 1949.

The German energy landscape experienced a wave of liberalisation in the middle of the 1990s which affected many sectors. This also affected the German energy system because of the impact of wide-ranging European directives and their incorporation in German legislation.

The liberalisation of the energy landscape raised fears in many German cities that their municipal utility companies would not be able to survive in the face of the growing competition. As a consequence, many local

authorities allowed private sector companies to acquire trade investments in their municipal utility companies.

Many municipalities subsequently discovered – too late unfortunately – that they had not only sacrificed some of their influence in these infrastructure companies, but also had to forego some of the regular income the utilities had provided in the past. In those cases where municipal companies were completely privatised, the local inhabitants gained painful first-hand experience of what it was like to be supplied by a branch office located far away from company headquarters.

Until the onset of the global economic crisis in 2008, very little changed in the structure of the grid-based energy supply system. In other words, the four big German energy companies, E.ON, RWE, EnBW and Vattenfall, dominated with an 80 per cent share of the power generation capacity - as they still do today – and a 100 per cent share of the high voltage grid. And they also held stakes in the downstream municipal companies - either directly or indirectly via subsidiaries – if they were not already directly involved in supplying end users. The gas industry was characterised by just a few supra-regional and regional gas pipeline companies, and many regional and municipal gas companies supplying end users.

This oligopolic supply structure became the subject of increasing public criticism and attracted the scrutiny of German and European policy makers and supervisory bodies. The criticism was spurred by several aspects including the debate about price rises and price structures in the electricity and gas sectors. Moreover,

the behaviour of some company representatives in public debates on power generation technologies and renewable energy sources was also seen as inflammatory. The German Competition Authority for instance in its latest sector analysis established that the municipal companies play an important part in maintaining a competitive environment. And that this could be increased further if it was easier for these companies to enter the market.

In contrast, the principle of a decentralised, end-customer-focussed, climate and environment oriented, and sustainable energy supply gained more and more adherents – amongst the general public as well as politicians. Municipal energy providers, and especially those based on heat and power co-generation, and the decentralised use of renewable energy sources won increasing praise from people and institutions which had previously rated large scale industrial facilities as the optimum means of supplying power.

The municipalities became more self-confident and gained satisfaction from the fact that utilities and infrastructure facilities were publically owned. The wind was now blowing in the other direction with not the sale but the reacquisition of trade investments and the reestablishment of public utilities on the agenda – in other words, re-municipalisation was debated and successfully implemented in many city and local councils.

Since 2007, over 40 new public utilities have been founded, and numerous concession contracts have been acquired. These contracts seal a contractual

relationship based on private law that exists or has been closed between regional administrative bodies, such as town councils, and energy utilities. These are mainly concerned with local power-distribution grids. These expiring concession contracts are an important instrument to create more competition in the energy market in the interests of consumers.

Since 2007, Germany has witnessed the largest “re-municipalisation campaign” in its history. And it is by no means over, because its positive impact on the energy supply structure and competition are only now becoming fully appreciated – and has caught the eye of the rest of Europe.

But why do communities decide to operate or take over again, in whole or in part, the supply of power, gas or district heating?

In my function as Lord Mayor of the City of Hannover I can say from my own experience that a town council or a local authority with its own supply and disposal companies can achieve important local government policy or local government economic objectives better and more efficiently and directly than is possible by private sector companies.

This allows us to make a significant contribution to the now indisputable objectives of resource, environmental and climate protection. Moreover, we can also have a direct influence on the construction of municipal infrastructure within the framework of overall municipal development planning.

Hannover for instance has been committed for many years to counteracting global climate change. Together with our energy utility energcity, the town council set up a local climate protection programme as far back as 1996. Many of the projects involved in this programme have acted in the past, and still act, as models for local government activities at home and abroad.

In agreement with EU directives and the climate protection objectives adopted by the German government, CO₂ emissions are to be reduced by 40 per cent by 2020 compared to the level in 1990.

This objective can only be achieved through the joint commitment of citizens, companies, and a wide range of organisations. Using natural resources responsibly can enhance the quality of life in Hannover and other cities. And the investment in climate protection, through measures such as building renovation, give a strong boost to the local job market.

Examples such as these bring climate protection alive for all to see, and can strengthen local and regional economies.

Different empirical surveys by the VKU reveal that citizens and businesses in local districts are far from acquiescent when it comes to who supplies them.

Additional decision making criteria for local councils speaking on behalf of re-municipalisation can also include the protection or creation of jobs, as well as the influence of local citizens on the decisions reached by

the utility companies in setting prices and rates, not to mention supply and delivery conditions.

Economic criteria are of major importance when deciding for or against re-municipalisation because such a move must of course make economic sense!

In addition, re-municipalisation has a major impact on the competition structures in the electricity market. German public utilities today supply more than half of all Germans with power, but they generate less than 10 per cent. To date, properly functioning competition in the energy market has been hindered by the generation oligopoly of the big players.

If the energy system is to be rapidly and decentrally restructured – a decision that Germany has made – it is essential to involve municipal units such as the public utilities. It is precisely these many decentralised generation plants which will be the hallmark of tomorrow's energy landscape. We are talking here about biomass power plants, highly-efficient and flexibly useable gas and steam power plants, and cogeneration, not to mention renewable energy sources.

Decentralisation is one of the outstanding strengths of the public utilities. Today for instance, more than three quarters of all renewable energy installations are connected to the distribution grids.

And the power plant capacity of around 5,000 megawatts currently being built by VKU members, or in

the ongoing process of authorisation, are sufficient to replace the capacities of eight old nuclear power plants in the short to medium term. We are talking here about an investment volume exceeding Euro 8 billion. Well over 50 per cent of this is being spent on renewable energy installations or efficient and highly flexible gas cogeneration plants, which furnish power as well as heat, and therefore protect the climate. And our companies can invest at least another Euro 6 billion in the near future to construct more power plants with improved efficiency levels. But this requires the proper political and economic framework.

There are numerous examples of successful re-municipalisation, such as the acquisition of Thüga AG by several municipal companies. Thüga was a subsidiary of E.ON AG and was mainly a trade investment holding with minority stakes in around 120 municipal companies. Its strong position in the municipal utility industry was due to its clever contractual policy which enabled it to provide the public utilities in which it was invested with important services – effectively giving it much more influence than was possible merely on the basis of formal majority shareholdings. The municipal companies do not see the acquisition of Thüga as a mere financial holding, but as an instrument for playing an active role in the reconfiguration of the German energy supply system – and a change of course to an environmentally friendly energy industry.

There are also municipalisation trends in the energy sector in other European countries.

In France for instance, it was only possible before 2010 to establish mixed-economy companies. The public sector had to hold a stake of at least 50 per cent in such companies, but was not allowed to hold more than 85 per cent. As a consequence, because the companies were tied to procurement legislation, they could not cooperate with one another in the form of intermunicipal cooperation, and could also not make use of European legislation. France adopted a new law in May 2010 that now makes it possible to set up 100 per cent public companies.

And Poland also appears to be considering whether decentralised structures would be more beneficial for the provision of services which are of general interest to the community. At a meeting held last year in Warsaw, which was also attended by the VKU, our presentation of the municipal service provision model attracted a good deal of positive feedback.

Ladies and Gentlemen,

Re-municipalisation is not a fad. It is urgently required to push forward the restructuring of the German energy system.

It creates more competition on the power generation side, and empowers local authorities to have a direct influence on the development of their infrastructures as part of overall municipal development planning.

Municipalisation or re-municipalisation can be a possible option for European countries as part of the future orientation of their national energy systems.

Ladies and Gentlemen, thank you very much for your attention.