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Over 57 million Europeans cannot afford to keep their homes warm in winter and over 104 million cannot keep them cool in summer.[1] With the Electricity Market Design Directive in the penultimate trilogue phase, EU legislators are deciding the future of the millions of Europeans affected by energy poverty. Energy poverty refers to the lack of access to energy and it is caused by high energy prices, inefficient housing and low incomes.

Addressing energy poverty and reducing it, should be a key concern of Member States. Regulated prices for domestic households play a key part. EU legislation should reflect that Member States are allowed to continue using them if they so decide. This paper sets out the arguments.

Regulated prices are at the heart of the current trilogue discussions.

The Commission and the European Parliament propose is remove of price regulation for domestic households in Member States. The argument is that markets will reduce people' energy bills and in this way tackle energy poverty. Over the past 20 years, the Commission has been pursuing energy market liberalisation, aiming to do away with monopolies and with regulated prices for larger users. This aims to create a Single Energy Market in the EU and countries in the Energy Community. The argument of the Commission and big corporations is that free markets would unleash competition which would drive down prices as companies would behave economically efficient, with profit maximisation becoming the new rational. It is that argued would provide incentives for investments in sustainable energy, create jobs and deliver secure and safe electricity for all.

EPSU has consistently exposed the fallacies of this liberalisation myth. Which has failed to deliver on its promises of leading to investments and delivering affordable and environmentally sustainable electricity. On the contrary, over the past two decades, electricity bills and energy poverty have been rising in the EU. Investments in clean energy are below the required levels for the necessary transition to a decarbonised economy. The market is not guaranteeing a secure and stable electricity provision.

Markets do not deliver public goods, public services and public infrastructure which are all dimensions of electricity. Without it our societies grind to a halt. It is important that the electricity markets in the EU have been created. Regulators and governments have had to step in various ways to ensure that the lights are kept on.

EPSU argues that the liberalisation theory has failed in practice. Maximisation of profits has become an end in itself. Despite the creation of electricity markets (called euphemistically liberalisation) with the first Electricity Directive in 1996, monopolies continued. The largest companies used the scope of the first Electricity Directive as an opportunity to move outside their home markets into other Member States. They sought to extend their hold over what could become an EU market. In the beginning of the 2000s there were around 10 companies dominating national and European markets. By 2009, there were only five large multinational utilities in Europe: EDF and ENGIE (France), RWE and E.ON (Germany) and ENEL (Italy), with noteworthy roles for Czech CEZ and Swedish Vattenfall. They paid exorbitant amounts in take-over battles. This money was not used for investments in sustainable energy, nor was the money returned to the people through lower prices.

Markets are clearly not the most efficient and effective way to deliver public services and achieve more affordable and clean energy. EPSU proposes a different model based on the public service principles of universality, access, equality, solidarity, affordability and cooperation in the European Union. The production, transmission and distribution of electricity are a public service. Our societies would fall apart without it. Because of the public service nature of electricity, the production, transmission and distribution of it can not be left to the market. A model that starts by recognising the public service nature of our electricity system based on public ownership and energy democracy will deliver on these key areas of safe, reliable, affordable and sustainable electricity for all citizens.

The increase in the electricity prices caused people problems with paying their bills and it contributed to energy poverty. Member States have sought to protect their citizens from the vagaries of the internal market and its fluctuating prices through regulated prices for domestic households. EPSU wants Member States to be allowed to continue regulating electricity prices for domestic households. This has worked. We are not convinced by the Commission's argument that regulated prices for domestic households is a distortion of the market. We are also not convinced that companies should be allowed to make high profits. This argument of profit maximisation does not deserve a higher priority than delivering protection to people. It can be argued that the protection of citizens from energy poverty could be achieved through social protection schemes. These are not developed everywhere and often lack funding. Doing away with regulated prices should be paired with developing social protection schemes in those cases. This is clearly not part of the Commission's proposals on phasing out regulated prices for domestic households. It should therefore remain a decision by Member States, if and how they want to do away with regulated prices for domestic households.

Liberalisation has failed to deliver more affordable electricity

Liberalisation has not lead to more affordable electricity for EU citizens. On the contrary, the EU average electricity prices have been rising over the past decade.[2] At the same time, energy poverty has been rising, reaching a peak in 2005, after which it stabilised and the EU failed to bring it down.[3] This effect contradicts what was promised by governments and the European Commission.

In Member States with more liberalised markets, prices tend to be higher, as highlighted in the case of the UK, whose market is the most liberalised in the EU, having the closest resemblance to what seems to be the standard to aim for in the EU. The British electricity market is an oligopoly shared between E.ON, RWE, Iberdrola, EDF, S&SE, and British Gas.

If the liberalisation myth were true, then the UK should have the most affordable electricity in the EU. However, over the past decade, British household electricity prices have been rising sharply, so that the government needed to introduce price caps in 2018.[4] The British Competition and Market Authority carried out an inquiry into the energy market and concluded that the big six had been overcharging customers by an average of £1.4 billion a year since 2012, rising to £2 billion a year by 2015.[5]

Linked is that energy poverty rose sharply until 2013, when it affected 10.3% of the UK's population.[6] Afterwards, the government changed the definition of fuel poverty, which artificially reduced the percentage of energy poor citizens by half.[7] Under the new definition households that spend up to 30% of their income on energy costs are no longer considered energy poor if they stay just above the poverty line. This leaves tens of thousands of people in hidden energy poverty and without possibilities for receiving any aid.

The general trends in the EU and the British example with rising costs of electricity and many people that ended up in energy poverty clearly show the need for a public service approach to electricity production and distribution, under which Member States have the possibility to regulate prices for domestic households. It could be argued that there is no role for the EU to interfere with how Member States set prices for domestic households and ensure a form of democratic control over the markets. This issue can be dealt with most effectively by Member States if wanted, as shown by the British case where a lack of regulation led to an uncontrollable rise in electricity prices and the need for the government to impose a price cap and exert a form of democratic control.

- Over the past decade, electricity prices and energy poverty have been rising in the EU.
- In the UK, where the electricity market is the most liberalised among Member States, the government had to introduce a price cap due to the uncontrollable rise in prices.
- EPSU that the principle of subsidiarity and democratic control needs to apply in the case of electricity price regulation, in order to protect people and reduce energy bills.

Liberalisation has not delivered environmentally sustainable electricity

According to the liberalisation myth, regulated prices hinder the energy transition. This is because regulated prices for domestic households would keep prices low artificially. This would prevent companies from making the necessary profit which could then be used for investing in the development of clean energy. Building on Trade Unions for Energy Democracy (TUED)'s valuable work,[8] EPSU highlights that over the past 20 years, EU liberalisation policies did not steered investments towards the development of clean energy. On the contrary, liberalisation led to a growing deficit in the investments in renewables needed for the low-carbon transition.[9] As mentioned above, companies used profits in take over battles and to increase payments to shareholders.

If there is a perception that liberalisation resulted in a clean energy transition this was the effect of the introduction of renewable energy policies following the 1996 Electricity Directive. The initial major increase in renewables coincided with liberalisation. It was due to specific public policy targets and obligations, underpinned by public funds; not the work of free markets.[10]

However, liberalisation is not the driver behind the clean energy transition. On the contrary, the initial growth in renewables is a result of (mostly now private) companies being protected from market competition and provided with guarantees on their investments allowing secure rates of returns.[11] The EU's renewables success story is not one of liberalisation enabling the clean energy transition, but one of political decisions and public funds being used to develop a mostly privately owned renewable sector.[12]

Nevertheless, the investment levels in renewables necessary to meet the targets of the Paris Agreement, are far from being reached.[13] What hinders these investments is the logic behind liberalisation that it is a good thing when companies delivering a public service can maximise their profits. *This prevents the transition, because fossil fuels continue to be more profitable.* The growth of renewables increases only when the returns on their investments have been made predictable by shifting the risk to public budgets of governments.[14] EPSU questions whether this model will lead to a clean energy transition on the scale we need to deliver on the goals of the Paris Climate Agreement.

The EU institutions recognise the investment deficit in renewables, but they fail to question the reasons behind it.[15] EPSU stresses the urgency to have a critical assessment of the past 20 years' experience of EU electricity liberalisation and if this is the way we can go to address energy poverty and a just transition to a decarbonised economy. It is high time that the EU considers a public service approach, which does not pursue profitability by all means.

EPSU proposes an alternative direction based on the public ownership of energy production, transmission and distribution, and on energy democracy. This approach implies a democratic decision-making process through the consultation of all relevant stakeholders, that would facilitate a steering of public investments not towards the profits of private companies, but towards a clean energy transition that benefits all. This first step is to ensure that during the current trilogues the fourth Electricity Directive gives Member States the freedom to regulate prices for domestic households.

- The false impression that liberalisation facilitated a clean energy transition is the result of the historical emergence of renewable energy policies at the same time as the introduction of the first Electricity Directive in 1996.
- The EU's renewables success story is that of public policies and the use of public funds to develop a largely private renewable sector.

· Liberalisation hinders the clean energy transition and expands the investment deficit in renewables.
· The experience with liberalisation needs to be reviewed as it does not deliver on investment in just transition and it does not reduce energy poverty.

Conclusion

Regulated prices for domestic households helped Member States in ensuring people can afford to pay their electricity bills. Phasing them out like the European Commission wants, with a lack of accompanying measures to strengthen social protection systems will increase energy poverty. The liberalisation of the electricity market is not the solution to this problem. Liberalisation has not assisted with ensuring the just transition to renewable energies and decarbonised economies. This is the result of public policy choice supported by public funds. It is high time to rethink our approach and recognise that markets in electricity will neither deliver a reduction of energy poverty, nor bring about the move towards sustainable development and social justice. Public policy, public funds and ownership and energy democracy can.

[1] https://www.energypoverty.eu/indicators-data

[2] https://www.energypoverty.eu/indicator?primaryId=1467&type=line&from=2004&to=2016&countries=EU&disaggregation=none

[3] https://www.energypoverty.eu/indicator?primaryId=1461&type=line&from=2004&to=2016&countries=EU&disaggregation=none

[4] https://www.energypoverty.eu/indicator?primaryId=1467&type=line&from=2004&to=2016&countries=UK&disaggregation=none; https://www.theguardian.com/commentisfree/2017/oct/06/labour-energy-price-caps-tories-big-six-theresa-may;

[5] https://www.theguardian.com/commentisfree/2017/oct/06/labour-energy-price-caps-tories-big-six-theresa-may

[6] https://www.energypoverty.eu/indicator?primaryId=1461&type=line&from=2004&to=2016&countries=UK&disaggregation=none

[7] https://www.carbonbrief.org/how-a-definition-change-lifts-households-out-of-fuel-poverty

[8] http://unionsforenergydemocracy.org/resources/tued-publications/tued-working-paper-10-preparing-a-public-pathway/

[9] Ibid. 6-8.

[10] Ibid., 12.

[11] Ibid., 17.

[12] bid., 17.

[13] IEA, World Energy Investment Outlook, 2016.

[14] Richard Baron, Renewable Energy: a Route to Decarbonisation in Peril? OECD Round Table on Sustainable Development, 2013.

[15] http://unionsforenergydemocracy.org/resources/tued-publications/tued-working-paper-10-preparing-a-public-pathway/, 10.

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