

A large, stylized graphic in the background consisting of a semi-circle at the top with horizontal lines radiating downwards, resembling a sun or a series of waves. The lines are a darker shade of blue than the background.

**Has the policy of electricity privatisation failed?**

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# What were the promises for energy liberalisation?

- Private ownership would be more efficient than public
- Markets would be more efficient than monopolies
- Foreign private investors would bring better access to capital and new skills
- Arm's length independent regulation would prevent government interference and would ensure cost-reflective tariffs

# What does privatisation involve?

- Create wholesale markets and break up dominant generators
- Create retail competition and break up dominant retailers
- Privatised the companies. No evidence that privately owned electricity companies more efficient than publicly owned
- Set up a regulator. Independent regulation does not require liberalisation
- Unbundle into generation, transmission, distribution & retail. Unbundling only relevant if wholesale competition planned

# Has it worked? Generation

- Wholesale markets do not set wholesale electricity price or give investment signals.
- Is this desirable or feasible? Has it worked?
- UK Energy Minister 2010: Neta system in which electricity is traded, does not give sufficient guarantees to developers of wind turbines & nuclear plants. We are going to need a more interventionist energy policy to deliver the low-carbon investment we need
- UK regulator, Ofgem 2010: 'There is reasonable doubt whether the current energy arrangements will deliver secure and sustainable energy supplies. There is an increasing consensus that leaving the present system of market arrangements unchanged is not an option.'

# UK proposals

- Electricity Market Reforms (EMR) now being decided. Suspicions that EMR being used to allow nuclear to be built. Carbon price floor of €36/tonne
- New capacity allocated by competitive tender with winning bids given long term power purchase agreements - IPPs
- Over time, the wholesale market will become redundant because all power bought and sold under contract
- Retail competition is not feasible if there is no wholesale market

# Has it worked? Retail

- Retail markets are expensive and small consumers cannot use to advantage
- 50% of UK consumers who switch move to a worse deal
- Electricity prices have more than doubled in UK in past 8 years
- About 25% of UK households suffer from fuel poverty - more than 10% of income spent on electricity and fuel



# Privatisation: No international buyers

- US companies stopped buying after 2002, only AES still has significant holdings
- Only EDF, Iberdrola, Endesa and Tractebel bought much outside Europe
- EDF sold everything and Iberdrola & Endesa/ENEL not expanding. European companies too indebted to buy
- Pacific Rim companies, HKE, Singpower etc have very limited capacity

# Why no international buyers?

- Exchange rate risk. Verbund lost money in Turkey 2010/11
- Political risk. Governments cannot stand by if consumers cannot afford power
- Demand risk. Demand in industrialising countries growing rapidly but not consistently
- Irrational belief that markets would be created and they would compete successfully
- Little chance that international investors will return



# Turkish experience

- Independent regulator, EPDK set up
- Transmission co, TEIAS, trading co, TETAS, state-owned
- 11 out of 20 regional companies sold (\$5.5bn) but 9 large companies remain (\$10.8bn) to be sold
- Generation, about 50% EUAS, state-owned, about 35% Independent Power Producers. IPPs generally most expensive power on the system

# Privatisation of distribution (I)

- Bogazici. Highest bid MMEKA, \$2.99bn, withdrew. 2<sup>nd</sup> bidder, Aksa, failed. 3<sup>rd</sup> bidder Park invited.
- Toroslar. Highest bid Yildizlar Holding, \$2bn, failed to make down payment. 2<sup>nd</sup> bidder, Park, failed. 3<sup>rd</sup> bidder Turkeler invited
- Gediz. Highest bid Eti Gumus-Sogutsen, \$1.9bn, failed to make down payment. 2<sup>nd</sup> bidder Enerjisa failed. No 3<sup>rd</sup> bidder so abandoned
- Ayedas. Highest bid MMEKA, \$1.8bn, failed to make down payment. 2<sup>nd</sup> bidder Yildizlar Holding also failed. 3<sup>rd</sup> bidder, Enerjisa invited

# Privatisation of distribution (II)

- Akdeniz. Highest bid Park, \$1.2bn, failed to make down payment. 2<sup>nd</sup> highest, Enerjisa, also withdrew. 3<sup>rd</sup> bidder Emkat JV invited
- Trakya. Highest bid Aksa, \$622m, failed to pay collateral. 2<sup>nd</sup> bidder, ICTAS (\$575m) paid collateral
- Dicle. Highest bid Karavil-Ceylan, \$228m. Collateral submitted
- Only foreign investors, small European companies, eg Verbund and CEZ, as minority partners. Will they stay?

# Privatisation of generation

- Announced that all EUAS assets would be sold by 2014
- Plans in 2011 to privatise 16GW of EUAS plant
- Tender for Hamitabat (1200MW gas) delayed in June 2011 & abandoned September 2011 because only one bidder
- Bids for Durucasu, Bozkir, Ladik, Göksu and Kisik (hydro, 20MW) due July 2011 but extended

# Conclusions

- Electricity privatisation and liberalisation are failing everywhere, not just Turkey
- Electricity wholesale markets - main reason for liberalisation and privatisation - do not work
- Electricity retail markets are bad for small consumers
- International investors have withdrawn or are not looking for new acquisitions
- UK is moving to an IPP model. Will it work?