People's Power:

The case for nationalising the energy system

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FIGHTING FOR WORKERS & ECO-SOCIALISM

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Introduction

Energy price hikes have highlighted the problems with Ireland and the EU's "liberalised" energy systems. We have seen price hikes of historic proportions over the past year. While blamed by most commentators on the Ukraine war and gas supplies, the truth is that the market system itself is the reason for much of the price hikes.

In their insistence on creating a market and allowing competition in the generation and supply of electricity, the EU created an elaborate regime which ends up guaranteeing that the highest priced source of energy dictates the price paid for all other forms of energy supplied on a day-to-day basis.

The system ensures profiteering by private companies. Unlike the previous state companies, they have no mandate to supply the cheapest energy possible but will seek to boost their profits and shareholders' dividends.

Even more scandalous, given the urgency of the climate crisis, is the fact that the privatised market has acted as a barrier to renewable energy. Wind and solar have only grown in recent decades because private companies were subsidised and protected from the market that the EU created for other forms of energy. Had these subsidies instead gone into publicly-owned and controlled firms we would have greater levels of renewables across the EU.

Despite these subsidies, we remain extremely far away from the 100% renewable energy we need. Ireland still has only seven offshore wind turbines! And less than half of our electricity is generated from renewable energy.

When you look at total energy use, rather than electricity generation alone, 87% of it comes from fossil fuels and 70% from imported fossil fuels.

The capitalist market has failed to enable a just transition to renewable energy or to reduce energy use. Instead, the government continues to encourage the construction of energy-guzzling data centres, which have accounted for 70% of the increase in metered electricity usage since 2015 and swallow up 17% of total electricity demand, more than all homes in rural areas. This has worsened the energy crisis and brought us to the brink of blackouts.

People Before Profit was the first to call for price controls on energy. We welcome the fact that others have now also called for controls in the context of the cost of living crisis. However, introducing price controls while leaving the energy market in private hands will mean subsidising private companies to the tune of billions of euros.

You can't control what you don't own. An ecosocialist approach is necessary. Price controls must be matched by renationalisation of the energy sector. This can tackle the climate crisis by driving electrification of all aspects of the economy and a rapid shift to 100% renewable power, and tackle the cost of living crisis by guaranteeing affordable power to households.

History of a ‘market failure’

The liberalisation of the EU’s energy systems in the 1990s and 2000s was driven by neoliberal ideology and came on the back of large scale defeats of the workers’ movement in the era of Thatcher and Reagan. State-owned companies were privatised and public services were opened to private firms and competition in many sectors.

It was claimed at the time that “liberalising” previous state monopolies in energy, transport, telecoms etc. would ensure greater efficiency, cheaper services, more jobs and ensure much needed investment in these key sectors. In every area this proved false. Energy prices rose and private investment in transmission and vital infrastructure largely failed to materialise and remains the responsibility of the state.

But the policy, which varied from outright privatisations of previous state companies to creating “competitive markets” in energy generation and retail, achieved two central goals for the capitalist classes in Ireland and across Europe. It created massive profits for private companies and their shareholders and it put the workers’ movement and union rights on the back foot. Jobs were slashed and union rights were attacked across the board in the new companies that replaced the old state firms.

Creating the European electricity market

Even Europe’s elite understood that wholesale privatisation of electricity generation and supply could be a problem. The pivotal role of electricity and the obvious need for investment meant they could not gamble with handing over all aspects of the system to private for-profit companies. Instead, they devised a bizarre and elaborate system in order to create an artificial market, which aimed to ensure access for private energy companies to the generation and supply of power to both households and business. Previous state companies were broken up (so called “unbundling”) but the transmission systems were kept under some form of state control.

In Ireland, this meant Eirgrid became responsible for the transmission systems while private companies could now “compete” to generate power or supply it to final customers. The state also then set up a “regulator” to ensure competition in this new market. While these regulators initially had some control over prices, eventually prices came to be determined by “market” forces and private firms would largely decide what the price of power would be.

This "market" system has a number of serious flaws. Its twisted logic meant prices had to be increased to attract private companies into the market. The price paid to all generators on a given day is set by the price of the most expensive energy source produced, which further drives up electricity prices. That's why today the price of gas dictates what we pay for all other forms of energy; be that renewable, wind, solar or oil. On top of this, private companies receive "capacity payments" to avoid the risk of power outages. In other words, they are paid for their capacity to produce power, regardless of whether anyone actually buys it - which would seem to contradict the whole idea of a "free market". This is because otherwise they might only produce what they were sure to sell and we would all be continually subject to blackouts!

The way the market was set up also meant that renewables were at a serious disadvantage because they required a lot more initial investment to get going than fossil fuel generation, which had been entrenched for decades. Realising this, the EU effectively moved to take renewable investment and energy out of the "free" market it had created. In Ireland, this meant imposing a Public Service Obligation (PSO) levy on customers in order to subsidise private renewable energy providers, adding even more to household bills.

Finally, firms were incentivised into so-called customer "supply". A better term for this would be electricity retail because all it involved was buying power from electricity generators and selling it on. "Competition" was then based on differing tariffs and deals offered by the various companies, usually short term incentives for "switching" that rapidly expired, rather than any real difference in the product. One effect of this was duplication and waste that further added to electricity costs. Another was that across Europe a third of jobs in the technical and maintenance sector, which tended to have been well paid and unionised, have been lost. The only increase in jobs was in sales and marketing for electricity retailers.

The end result of market liberalisation was that between 1994 and 2014, average consumer electricity prices in the EU-15 increased by 40%, from 0.1020 €/kWh to 0.1429 €/kWh. In Ireland, they increased by an incredible 267%, from 0.0751 €/kWh to 0.2008 €/kWh. Irish electricity prices are currently 49% higher than in France, where over 90% of the market is dominated by state-owned or backed entities.

The current energy crisis has now piled profiteering on top of profiteering. As of July 2022, overall energy costs had increased annually by 54.8%, including a 40% increase in electricity prices, 57% increase in gas and a 92% increase in the cost of home heating oil.

A large portion of that profiteering is being carried out at the very top, by the big oil and gas companies whose profits have soared in the last year. Their Quarter 2 2022 profits are double, triple or quadruple what they were in 2021. BP made nearly £7bn in profit in the second quarter of the year - the second highest quarterly profit in its history. Shell also posted record profits of nearly £10bn between April and June. Oil and gas shareholders are raking it in, with BP, Shell and Total all handing out billions in dividends.

Irish-based energy companies have been no slouches when it comes to profiteering either. Bord Gáis Energy recorded a 74% rise in profits in the first half of the year, from €22.7 million to €39.5 million. Its parent company, Centrica, which also owns British Gas, made operating profits of £1.3bn in the second quarter, mostly from its oil and gas drilling division.

SSE Airtricity's parent company, SSE's pre-tax profits rose 44% in the year to March, to £3.5 billion. Even the ESB Group, which is state-owned but since the repeal of its non-profit mandate operates no differently from the private companies, saw its after-tax profits triple in the first half of the year, from €128 million in 2021 to a whopping €390 million.

At present, just three millionaires control the Irish prepay energy market. Ulric Kenny and Andrew Collins are on the Irish rich list and own PrepayPower, while Pinergy is owned by multibillionaire Peter Coates, who has wealth of over £8 billion. These are the people who will determine if over 300,000 households will have electricity and gas to light and heat their homes this winter.

This orgy of profiteering has consigned millions of people to energy poverty. A June 2022 ESRI report found that 29% of Irish households were spending more than 10% of their disposable income on energy costs. This was before the latest round of price increases, which the ESRI predicted could increase the energy poverty rate further to a massive 43%. Households have also reacted by cutting their energy use back to deprivation levels and deferring payment of energy bills. Even in the first part of 2021 before prices started escalating, 7% of people had gone without heating at some stage and 3% were unable to keep their home adequately warm. As of Spring 2022, a little under 15% of people in Ireland reported they were in arrears on their energy bills - more than double the figure in an EU survey the previous year. The story was the same across the EU's liberalised energy markets, with 15.9% of people overall reporting that had fallen into arrears.

The rules that made the market

What got us to this place was a combination of EU Directives and the Irish laws that implemented them. The first EU electricity directive came in February 1996, kickstarting a wave of market liberalisation across the continent. The first directive on gas came in 1998. A slew of further directives to further liberalise electricity and gas markets followed in 2003 and 2009. The overall goal of these directives was to create an internal European market in energy. This was seen as a key component of the EU's overall purpose of creating a single European market for everything through the progressive removal of "barriers" to free trade and competition.

In Ireland, EU Directives were implemented through a series of laws passed by Fianna Fáil-led governments in 1999, 2001 and 2006. First came the Electricity Regulation Act 1999. This set up the Commission for Energy Regulation (CER, later renamed the Commission for Regulation of Utilities (CRU)) with the aim of regulating a new market where generators and "suppliers"/retailers of electricity would be licenced by the state to compete with the ESB. Initially, the CER was meant to safeguard customers by controlling prices but this remit no longer exists as the market is now the dominant decider of electricity prices.

Prior to that, the ESB had been doing an excellent job as the sole, publicly owned and non-profit, generator and supplier of electricity. The world's first publicly owned energy system when it was set up a century ago, it had succeeded in its aim of providing universal access to affordable electricity, right across the country through the groundbreaking Rural Electrification Scheme which became a model for electrification schemes in other countries. The state at the time had taken very radical measures to achieve all this, including investment equivalent to a massive 20% of the state's total income and a levy on wealthier urban areas. The ESB model was not broken, there was no need to fix it, however the neoliberal orthodoxy of the 1990s and 2000s meant that anything state-owned had to be broken up and privatised.

The next piece of legislation to do this was the Electricity (Supply) (Amendment) Act 2001, which radically changed the mandate and remit of the ESB. Since it was set up in 1927, the ESB had always had a "break even" or non-profit mandate but this was now removed. The official justification was to enable 5% of the company to be given in stocks to its workforce. The real reason was to turn the ESB into just another generator and retailer of electricity that would compete in the market alongside all the other private companies and potentially form the basis of a lucrative privatisation further down the line. The then Minister for Public Enterprise, Mary O'Rourke stated explicitly that the ESB's non-profit mandate was "no longer tenable in a liberalised market where the ESB becomes a player like other players in the market and must be allowed the same level playing field as commercial players, including the right to make a profit". The Minister responsible for Natural Resources at the time was Fianna Fáil property developer, Frank Fahey, the same Minister who approved the foreshore licence for the Corrib gas project and selling a large area of Irish national forestry at Bellanaboy to Shell for building a gas processing site.

Following this, a series of Energy Acts paved the way for further liberalisation. They included the Energy (Miscellaneous Provisions) Bill 2006, introduced by another Fianna Fail Minister for Natural Resources, Noel Dempsey. This expanded the roles of the CER and fully opened the gas market to competition, paving the way for the privatisation of Bord Gais in 2014.

The dominance of neoliberal ideology during the late 1990s and early 2000s in particular meant that there was very little political opposition in the Dáil to any of this. The overwhelming rhetoric was that this had to happen because of EU directives, but it was a great thing in any case because it would increase consumer choice and lead to lower prices.

Unpacking Ireland's Energy

"Energy" and "electricity" are often used interchangeably but energy usage is much broader, also including fuels for transport (petrol, diesel), heating (home heating oil, kerosene, natural gas, coal, peat/turf, wood etc.) and other industry and commercial needs.[1] Once these are included, Ireland's complete dependency on fossil fuels becomes even more stark. According to Sustainable Energy Authority of Ireland (SEAI) figures, in 2021 87.1% of our energy supply came from fossil fuels and only 13.6% from renewables - with 50.8% of this coming from wind.

The figures for electricity are better but not great. In 2021, 37.9% of electricity came from renewables compared to a target of 80% renewables by 2030 under the government's Climate Action Plan. The 2020 figures are similar: 36% wind, 51% gas and 5% coal and peat.

The table below shows that a clear majority (c. 58%) of our electricity generation capacity still comes from fossil fuels. The remainder comes from renewables, overwhelmingly wind.
Around half of the mainly older non-renewable generation capacity is still in state hands, whereas less than a fifth of the newer renewable generation is state-owned.

Table: *Electricity Generation Capacity*

Type of Electricity	Generation Capacity	Estimated State-ownership [2]
Non-Renewables:	**5,864 MV (58%)**	**c. 50%**
Renewables:	**4,234 MW (42%)**	**<20%**
Total:	*10,098 MW*	*c. 35-40%*

[1] *According to the SEAI, "industry and commercial sectors accounted for 30.4% of Ireland's energy demand in 2021. Within the industry sector, the top sub-sectors are food and beverages (22.2%), metals and metal products (21.0%) and other non-metallic mineral products (20.0%). The ICT sub-sector, which includes datacentres, accounted for 3.9% of Ireland's total energy demand."*

[2] *Includes part-ownership*

The biggest private operators now include:

- British-based SSE: controls more than 10% of total electricity generation capacity, including 19% of non-renewables (most of which previously belonged to the ESB) and over 13% of renewables.
- Enerco: a subsidiary of an international investment fund that owns 15% of our wind energy capacity
- Energia: owns more than 7% of total generation capacity, including 13% of all non-renewable generation capacity and some renewables.
- British multinational Centrica, which bought Bord Gais Energy when it was privatised and also owns wind farms.
- Other big private renewable energy companies include multinationals like Brookfield Renewable Power and Greencoat Renewables, and Invis Energy, an Irish company,

This proliferation of private for-profit companies illustrates how right wing governments have allowed private companies to take control of our energy system, enabling them to drive up prices and rip off consumers. It's also made transitioning to renewable energy far more difficult as capitalists motivated by short-term profits are reluctant to make the type of long term investments that are needed to move swiftly to a zero carbon economy based on 100% renewables. Energy conservation is also not in their interests as the more energy that's used, the more profits they make.

Would nationalisation break EU rules?

As mentioned above, the liberalisation of energy markets across Europe since the 1990s has been driven by a series of EU directives that sought to introduce competition into the generation, supply and retail of electricity and gas. Of course, the Irish government was a willing participant in all this and introduced more privatisation and marketisation than it legally had to. Nonetheless, the government will now use EU law as an excuse not to meaningfully intervene in a market it artificially created and take the energy system into public ownership.

This is misleading for two main reasons. Firstly, the Irish government has always been very selective about which bits of EU law it chooses to abide by and which bits it chooses to ignore. Ireland is a serial bender and breaker of EU rules pertaining to corporation tax as the Apple tax case and its well known status as a corporate tax haven demonstrate. It also has a long history of completely ignoring EU environmental directives despite numerous EU fines being imposed on us as a result. Yet when it comes to breaking neoliberal, pro-market EU rules in any way that could damage the interests of big multinational or domestic capital based in Ireland, any deviation from the letter of the law is suddenly out of the question.

Secondly, other EU countries also have a history of breaking EU directives when it suits them - and sometimes for better reasons than Ireland. For example, big states like France, Germany and Spain have all broken the EU fiscal rules in the past when to adhere to them would have caused even more suffering from austerity measures than was already the case. During the initial phases of the Covid pandemic, they also acted first and asked questions later when it was necessary to break EU rules in order to control the spread of the disease, for instance seizing shipments of personal protection equipment and introducing price controls on PPE.

We find ourselves in an even greater crisis now in relation to energy supplies, accelerating climate change and the rising cost of living as we ever did during the Covid pandemic or the financial crisis. Radical measures are therefore essential. A left government would act to nationalise the energy system and seek public support across Europe for re-nationalisation and public ownership of energy. Anything less cannot hope to resolve the triple crisis of energy, climate and cost of living that now faces the European working class.

Conclusion

All of this means that re-nationalisation is the only way to address the climate and cost of living crisis and make the essential changes we need to our energy system. We need to develop a plan to reduce energy use, generate 100% of electricity from renewables and electrify everything.[1] In order to do this, it is essential that the energy sector is renationalised, and operated as a non-profit, public utility run as a public service under the democratic control of workers and communities. It should be used to rapidly drive electrification of all aspects of the economy, a rapid and just transition to 100% renewable energy, and reductions in energy usage.

There are five key aspects to doing so:

1. **Re-integrate ESB Group and operate it on a not-for profit mandate**

   The state, through ESB Group, already controls around half of non-renewable electricity generation and up to 20% of renewable electricity generation, as well as 50% of the consumer market for electricity. The not-for-profit mandate which was removed in 2001, should be reinstated with a mandate to deliver a rapid programme of electrification of all possible sectors of the economy, a rapid and just transition to renewable energy, and low cost electricity for households.

   By Electric Ireland offering affordable electricity on a not-for-profit basis, customers would rapidly leave the private electricity supply companies. All workers in those private companies should be guaranteed a quality job within the ESB Group.

2. **Transform the Commission for Regulation of Utilities to a People's Power Agency**

   The Commission for Regulation of Utilities should be transformed into a People's Power Agency with a mandate not to promote competition but to ensure the delivery of affordable electricity for households, a reduction in energy usage across the economy and a transition to 100% renewable energy. It should be empowered to control prices by setting maximum prices for electricity usage. It should include representatives of workers in the industry, householders and climate scientists.

[1] *Renewable energy includes wind, solar, thermal and hydro power but also people power e.g. active travel by bike or on foot.*

3. Reduce energy usage throughout the economy based on prioritising people's needs over corporate profits

To achieve a rapid shift to renewable energy while simultaneously electrifying parts of the economy that are not currently electrified, it will be necessary to reduce energy usage where possible. An ambitious plan to significantly reduce energy usage across electricity, heating and transport is necessary, including by:

- **a)** Banning the construction of any additional data centres, banning connection of any more data centres to gas networks or the national grid, and winding down existing centres.
- **b)** Establishing a state construction company to directly retrofit all housing in the state that needs it, install energy and cost efficient heat pumps in all suitable housing, turn vacant properties into homes and roll out the construction of at least 20,000 zero emissions public homes a year.
- **c)** Investing in free, green, frequent and fast public transport and in active travel to dramatically reduce household transport costs and car dependency, tackle air pollution and cut carbon emissions. (Electric cars are not the answer, both because of the high financial and environmental costs involved in switching to EVs and the massive additional strain this would place on an already overloaded electricity system.)

4. Recognise renewable power as a natural resource - to be developed publicly

Legislate that all future major renewable power projects must be developed by the ESB Group in the public interest. Wind, solar, tidal and all other sources of renewable energy are natural resources which should be developed in the public interest, not subject to private profiteering.

5. Nationalise the major private electricity generators

As a consequence of the disastrous experience of privatisation, there are growing movements worldwide for renationalisation. In Germany for example, there has been a wave of re-municipalisation driven by the experience of the poor performance of the private companies and the need for an increase in renewable energy. In 2009, Hamburg established Hamburg Energie as a fully public utility, which serves around 7% of the local population. A successful referendum for the re-municipalisation of the energy grid was held in 2013.

Electricity generation is just too important to be left in private hands. Major generators of renewable and non-renewable power should be nationalised and integrated into the ESB group, including the Corrib gas field. The government already has the power to do all this under the Fuel (Control of Supplies) Acts 1971 and 1982. There must be no question of compensating the private energy companies who have engaged in rampant profiteering and destruction of the environment.

Taking electricity generation into public ownership like this will enable a plan for massively expanding renewable energy and phasing out fossil fuels to be developed democratically by energy workers, communities and consumers. Non-renewable generation must be closed down as soon as possible on the basis of energy reductions and the development of renewables. Renewable generation capacity should be expanded rapidly. Nothing less has to happen if we are to tackle the triple crisis of energy security, cost of living and climate.