

Algerian sector of electricity from monopoly to competition: which reality?

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Abstract :

This paper aims to highlight the changing role of the state in the sector of electricity represented by Sonelgaz because of the reforms adopted by the public authorities. The liberalization of the sector of electricity has resulted the launch of a new law related to the electricity and gas distribution through channels and prepare the ground for the application of it by providing the legislative framework; allowing competitive market to be developed such as the change in the legal form and cancel the monopoly practiced in the production activities by changing the organizational and structural structure of the sector. However, the monopoly is still exist after more than a decade.

Key words: natural monopoly, competition, reforms, sector of electricity, public service.

الملخص:

يهدف المقال إلى إبراز مدى تغير دور الدولة في قطاع الكهرباء الممثل في سونلغاز بسبب الإصلاحات التي تبنتها، لقد ترتب عن تحرير القطاع إصدار قانون جديد متعلق بالكهرباء و توزيع الغاز عبر القنوات وتهيئة المجال لتطبيقه من خلال توفير الإطار التشريعي يسمح لسوق متنافس بالتطوير بداية بالتغيير في الشكل القانوني و إلغاء الاحتكار الممارس في أنشطة الإنتاج و ما يترتب عنها من تغيير البنية التنظيمية والهيكلية للقطاع. إلا أنه بعد أكثر من عقد من الزمن سجلت الوضعية تأخر مع الأهداف؛ فلا يزال الاحتكار قائما من خلال وزن المؤسسة في القطاع.

الكلمات المفتاحية: الاحتكار الطبيعي، المنافسة، الإصلاحات، قطاع الكهرباء، المرفق العام.

Introduction :

Algeria is a country with an economy of rent that operates in a global environment ruled by economical, political and social changes. Those changes, with advantages and disadvantages, are reflected in the energy system, where they have a direct impact on the national economy. In addition to that, this sector is one of the essential pillars for development. Its achievements and its direct and indirect revenue support the national income and magnify the surplus in the balance of payments.

The sector of electricity should be auto-financed, yet for social and political considerations and because of the evolutionary role of the state in the economic activity, a phenomenon is to be dealt with: it's the case of a deficit that is usually covered by the general budget. The reason for that is the selling of public services at low prices through subsidies (for social purposes), and by referring to performance indicators that govern the extent to which the public institution could reach efficiency in allocating the available resources, to the persisting problem of power outage and the low quality of services that is resulting to the increase of illegal consumption of power and a deficiency in recovering the consumption bills on time. The government is unable to finance the required investments to meet with the growing demand, from covering the expenses of operating, maintenance, and expansion to offering the service, especially, when the prices do not even cover the cost of production. In addition to that, the sector is in need for hard currencies to finance the importation of equipment for electricity generating, which makes pressure on the hard currency. Therefore economic reforms were carried out and adopted in the early 80's. These amendments accompanied the reforms in public institutions, to develop and raise their efficiency and activate their role, in order to achieve a distinctive competitiveness, regionally and globally, through a focus on the advanced concepts of trade - that is governed by rules of competitiveness - and impose great challenges to the different administrations in the sector, which must be dealt with.

In the light of the latter developments in the world, the role of the state in the economic activity from neutral, back to the classic thought, to a positively active state in modern thought, which could participate side by side with the private sector in producing and offering goods and services, in addition to its social role.

The reforms of the public institution that were initiated at the beginning of the 90's, aimed at achieving the competitive advantage and so the economic efficiency, even though if the relationship between them is mutual. Economic efficiency depends upon the existence of an integrated competitive structure that optimizes the production of goods and services and minimizes the expenses.

Algeria has adopted the Law of Electricity and the gas distribution through channels in 2002 to open the sector towards competition in production activity and thus we have to ask the following question:

Has competition been included in the electricity sector after the issuance of the the Law concerning the electricity and gas distribution through channels?

Sonelgaz through Economic Reforms:

The National Company of Electricity and Gas "SONELGAZ" was established according to the Order No. 69-59^[1] dated the 28th of July 1969.

It replaced the Electricity and Gas of Algeria "EGA" updated by the Decree No. 47-1002 dated the 5th of July 1947 by the French colonial authorities, referring to the

nationalization of private companies, especially those who were franchised to produce and distribute electricity and gas in Algeria.

There are three features that enable us to define "SONELGAZ":

1-Sonelgaz, the public service: The electrical activity practiced by SONELGAZ is one of the historical activities of public utilities, which have a legal form and methods of organization, entail obligations, and have rights.

1-1 Definition of public service: we mean by public service any activity aims at achieving the public interest by satisfying the needs of the people¹ regulated by the public authorities and insured by the state and its agents² or by persons acting in the private law.

On the basis of this definition, it relies on three basic elements:

- An activity that aims at achieving the public interest;
- A legal system that it is subject to it;
- A public authority that assures the supervision (linked to the state and the public administration).

1-2 types of utilities: Utilities vary dependently according to the parameter adopted in the splitting process, either on a geographical scale or its accordance with the dependence or not to a central authority, or the activity done by the facility.

We limit our analysis to the latter one, which serves our research purpose. It is divided into:

- *Managerial facility* : its activity is administrative in nature and established to practice and control the traditional state, such as education, security, justice...etc
- *Social facility*: which provides social services for the users, this kind of facilities brought out during the socialist system and its applications, for example: the National Fund for Social Security, The facilities providing social services are subject to the general law as far as the fundamental principles, that govern their functioning, are concerned, and to the private law when their activity resembles the private's one.
- *Economic Facility*: it's the case of the Algerian facility of electricity, its activity is mainly commercial or industrial or a service. It emerged as a result of the state intervention in the economic field to satisfy the general economic needs and the fallen of the idea of «state of control". The duplicity of subordination to the public law and private as well, led to its liberation from the requirements of the common law and its means, especially in the conduct of the administrative facilities that are not suitable to the economic facilities because they [AFs] are slow and have complex procedures, which do not help the economic facilities to function properly and keep the duplicity. This system of mixed-law for industrial and commercial facilities is an inevitable result of the duplicity of the concept: the public service (commercial and industrial). The idea of public service requires the application of public law at an organizational level whereas the private law is applicable to commercial and industrial ones, at a managerial level.

1-3 Principles of public service:

Whatever the type of the facility, it is based on a set of common principles governing its management, which are:

- The principle of continuity: Since the public services should secure the basic needs of public citizens by providing a service or supplying a product,

it imposes that the process is continuous and sustained. Its importance was referred in:

The Classic definition: "... a facility is any institution that must provide the product in a systematic and continuous manner"³

The Constitution: it has a constitutional value stated in the paragraph 6 of the Article 85 of the constitution of 1996⁴

Because any pause in its activity affects the performance of both sectors: the public services and the economic ones, which is directly reflected on society that cannot find an alternative to its performance.

- The principle of equality between users: is an extension to the principle of equality between individuals before the law, and thus a constitutional right; the obligation states an equal treatment among the beneficiaries of a public utility service without preference to one upon another. It obliges the facility to be neutral in its relation with the beneficiary, since it was created with public funds for the purpose of serving the general interest. This principle is not incompatible with the authority of the facility to impose certain conditions dictated by laws and regulations, and those are related to the payment of fees or following certain procedures, or even provide certain documents. For that, it is not a violation of the principle in question when Sonelgaz requires documents from the beneficiary related to the property -subject to the service - to check the conformity of the technical conditions. Also, it is not a violation of the principle of equality when the administration of the university-services can impose for the students wanting to get a room at the dorm, to submit what proves that the family residence is far away according to a distance set by the institution, and it is not, as well, a violation of the principle that the administration imposes a certain amount of money for the service utilization.

The principle of adaptation: is the ability of public service to change and edit. It guarantees to the administrative authority the right to edit the legal system, governing public utilities, and to adapt with the developments affecting the facilities. It presents the management and the organization of the public facilities according to appropriate factors of reality, and the adaptation to the new circumstances, that change according to time and place, because what may be considered as a facility today may not be tomorrow, such as the "external trade" which is a public facility in the Constitution of 1976 and was managed as a private project, later on in the constitution of 1989⁵

1-4 Public service management⁶]: the state determines the way to manage the public utilities according to the nature of the activity performed. Thus there are several ways, especially after the state transition from being a guard to an intervener, and that allowed the establishment of several facilities. We distinguish between:

- **Direct management style**: which concerns administrative facilities and also called the "style of direct exploitation" i.e. the administration manages directly the public service by itself, by using its resources with the assistance of the public law that provides the public service with some advantages and authorities, whether it is central or local administration.

- **Method of public institutions**: the public facility is given to a public institution (a legal entity) established by the State; to manage public service, and the law gives it a financial and an administrative independence, which is a form of decentralization.

- franchise style: is established according to an administrative contract, whereby a company or any individual in charge of the facility is committed to offer a public service, and in return benefits from: the profits engaged in the process and the exploitation of the project for a certain period.

- mixed economy style: the State or a public person participates in the establishment of an economic company in partnership with individuals or legal entities; it's often the case of contribution, and is subject to administrative law, which is generated according to the law ruling the establishment and the creation of public facilities.

In this context, the electricity sector with its historic operator "Sonelgaz» went through three major stages in terms of management style:

First stage: it is the period after the independence and the nationalization of the hydrocarbons sector. It was administered according to an ownership perspective, and all the activities were managed by the public sector.

Second stage: it was the period from 1983 to 2002 and was managed by institutions and companies wholly owned by the state.

Third stage: after 2002, the liberation period, where a law was passed allowing the private companies to integrate all the economic activities and services within the hydrocarbons sector.

2- The position of Sonelgaz in the market:

Sonelgaz has known, in the light of the economic reforms that Algeria experienced, a shift from natural monopoly to competition:

2-1 The stage of natural monopoly:

This stage concerns the period from 1969 to 2002. The status of monopoly is given to an institution or a company who controls alone the offer of a good or a service that has no close alternatives or a substitution⁷ and this is what actually distinguishes Sonelgaz for being the only seller of electricity (with multi-demand aspect), towards different types of buyers, and therefore there is multiple categories of price⁸ and yet because it's a public facility, its monopoly is natural.

2-1-1 The definition of natural monopoly: natural monopoly is a monopoly that:

Results from a normal posture, and the fact that the size of the facility equals the markets⁹

Decreases the cost of the unit as long as the volume of production (of the commodity or the service) increases, and thereby benefiting from the economic abundance¹⁰

Based on that, the market will accommodate only one company operating at low cost which no other company could do the same¹¹

Thus we must distinguish between a monopoly practiced by Sonelgaz and the classic one:

2-1-2 The difference between classic and natural monopoly:

The main differences between a classic monopoly and a natural one as the case of Sonelgaz are in five factors of variation; the aim and the discrimination of the price, the terms of price setting, the determination of the production and the obligation. Which are all characterized by social character according to the characteristic of each criterion as shown in the table below:

Table (1): the difference between the classic and natural monopoly¹²

Factors of variation	classic monopoly	natural monopoly
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Aim	to achieve maximum profit	Social, seeks to provide the Algerian economy with electricity and gas in the best possible conditions.
Discrimination in the price	gets profit from consumers	Only to balance the budget (the average selling price agrees with the average cost).
Terms of price setting	Price is based on: the cost of production, taking into account the elasticity of demand	Price is based on: the cost of production in addition to the economic and social considerations (which affects the freedom of economic laws).
determination of the production	Determines the amount of production where the marginal cost equals the marginal revenue.	Sonelgaz, complied under certain conditions, to provide electricity for each one who requires it (the concession contract obliges it to satisfy the needs of consumers).
The obligation	free to set the prices at will	the prices are set according to the book of specifications.

Source: Chahrazed LOUAFI, L'énergie électrique en Algérie : essai de prévision par modèles économétriques, mémoire de magister, université Constantine, 1999, P56.

The natural monopoly requires a regulatory approach. What is it?

The monopoly practiced by Sonelgaz is a constrained monopoly¹³ the aim of this intervention in the economic activity is to raise the living standards of individuals, which is the allocation of the available economic resources to the optimum, what leads us to recall the definition of JOHN RENARD in this regard, saying: "All direct intervention forced by public authorities in the activity of the economic operators in terms of resources allocation"¹⁴

The objectives of the reforms in the sector of electricity as a public facility:

We can distinguish the purpose of liberating the sector of energy as a commercial public facility according to two levels Macro and Micro, as follows:

At the macro level:

- Raise the hand of state control over economic activities is a positive point for achieving competitive advantage in terms of quality of service and the balance of the price policy.
- Strengthen the competition in the market. The transfer of the public service from the natural monopoly to full competition in search of a competitive advantage¹⁵ which is characterized by the complimentary relationship between the institution, the sector, and the state ; because we cannot reach

competitiveness in a sector or an industry without the presence of institutions with a competitive advantage capable to lead the sector, with the rising of other sectors gaining competitive advantages, the state can reach its own by providing an appropriate environment (politically, economically and socially) to support these sectors and resist against the international competition.

- Encourage private initiative in order to create small enterprises whose mission would be to help increasing national production in order to meet the growing domestic demand, and that results in absorbing the idle labor demobilized by the process of privatization ... etc.

At the micro level:

- Trend towards better efficiency and effectiveness in improving the best allocation of resources and reduce costs.
- Opportunities of discipline and seriousness in the exploitation of the institution by the decentralization and control imposed by the partners.
- Improve the cost-effectiveness of institutions.
- Improve the productivity of the production elements, especially the human one.

In the light of the reforms conducted in the energy sector as a commercial public facility, we notice a restructuring of the energy sector using modern methods in the field of management and operating that encouraged the private sector to invest in various activities such as production. The objective is to raise the income of individuals so it would meet higher levels.

2-2 Towards the competition:

the main rules necessary to introduce competition in electricity sector are the regulatory and structural¹⁶ conditions by incorporate gradually the competition into clear defined stages

Patterns of reform:

The first major step to create a competitive electric sector lies to Transforming the traditional monopoly structure into a vertically and horizontally-aligned structure for a competitive climate

2-2-1 dismantling the activity pack, called too restructuring: this step is intended to make transfers in the basic structure of the prior merged sector, which allows an access to a hierarchical structure of competitiveness and thus the restructuring process must embrace one of the two forms: vertical or horizontal¹⁷ **Dismantling the activity pack horizontally:** based on the division of the customer at different levels of production, the distribution of service to secondary units compete among them at the level of one post, which allows to establish a dynamic competitive works to raise the quality of service.

This type requires great care and is done through stages where the consumer is likely to default meeting his needs, which doesn't apply to the nature of the service.

Dismantling the activity pack vertically: working on the separation of the basic functions of the classic monopoly which makes editing easier and is a necessary stage for it allows the formation of a hierarchical structure vertically according to its functions, where transform the services of the upper element of the structure to reap the competitive excellence locally and internationally.

The new law opened the energy sector for competition, except the activities related to transmission that is characterized by the natural monopoly due to the nature of electricity sector which is technically and extendedly bonded because it involves

connected relationships, as its supply system consists of generating, transporting and distributing energy and those subject to the franchise system; and so it will be the right of the customers to choose their providers with energy and be free to negotiate the price and quantities with their suppliers who could be producers, distributors, or commercial agents.

The liberalization of the organization came up with the issuance of the Law No.02-195¹⁸ concerning the electricity and gas distribution through channels, which abolished the monopoly practiced by SONELGAZ by opening the energy sector to competition, except for transmission that is considered as a natural monopoly, and distribution subject to franchise system.

The dismantling activity pack vertically is in accordance with the nature of sector¹⁹, which Sonelgaz has adopted to the new context the jobs since 2004. The functions are set as follows:

The branches of basic professions: The electricity sector consists of several sections that are vertically integrated under an establishment, namely the production function, the transport function and the distribution function²⁰ business function

The Sonelgaz basic functions are:

Production: The Algerian Company of Electricity Production (SPE) is charged to produce electrical energy from heat and water sources in response to the requirements of reliability, safety, and preservation of the environment. It is charged as well of marketing the electricity produced, and each of the Electricity Companies of Skikda, Berouaguia, Tergha, and Draoush are partners of Sonelgaz.

Transmission: the Algerian Company of Managing the Electricity Transmission Network GRTE is a stock company, and its mission is to exploit, maintain and develop the transmission network of power in the most appropriate conditions, in order to ensure the quality of service at the lowest cost, and GRTG the Algerian Company of Managing Gas Transmission Network is a stock company, and its mission is to exploit, maintain, and develop gas transmission network.

Distribution: It consists of four companies charged of the distribution of both gas and electricity and each company geographically specific customers and can not depart from the scope of this geographic boundaries. As follows:

The Algerian Company for the Distribution of Electricity and Gas of Algeria (SDA);

the Algerian Company for the Distribution of Electricity and Gas of the Middle (SDC),

the Algerian Company for the Distribution of Electricity and Gas of the East (SDE),

the Algerian Company for the Distribution of Electricity and Gas of the West (SDO), these four companies are all under the responsibility of the Manager of Electricity System (OS) belongs to the traditional monopolist.

We note that the business function is integrated into distribution in the form of multiple commercial agencies cover a single state and subject to distribution group at its geographical boundaries, reflecting the concentration distribution of jobs at a company Sonelgaz

Peripheral branches:

The adaptation to the new environment requires to relocating according to the basic activities and restructuring auxiliary activities, and for that SONELGAZ has initiated to change its methods of managing and conducting the non-strategic activities. Resulted in the creation of 9 new branches (independent institutions) that

belong 100% to Sonelgaz but legally independent which take care of the auxiliary activities such as: maintenance of industrial equipment and repair transformers (TRANSFO) in the center, east and west , printing work (SAT-Info), and 4 additional branches in charge of vehicles maintenance (MPV) in Algiers, Constantine, Oran, and Ouargla. The company has the right to interfere in managerially and strategically. Each of the branches has been provided with: a General Assembly, an Administration Board, and a Director. So the goal is to externalize them without resorting to privatization

Branches of Works:

It concerns the Company of Electrification Works: the Company for Construction and Industrial Installation , the Company for Channels Achievements, the Company for Basic Construction Achievements, and the Company for Industrial Installation as independent facility, and in addition to that a branch of the Institute of Training in Electricity and Gas, and the Company for Electricity and Gas Engineering .

Branches of contribution:

There are six companies supported for previous functions: the Algerian Energy Company AEC, the Algerian Energy Company and Communications (AETC), the New Energy of Algeria (NEAL), the Company of Engineering Services of Algeria (ALGESCO), the Algerian-French Company of Engineering and Achievement (SAFIR), and the Company of Electricity Hadjer Ennousse SKH, without taking into account the indirect contributions of Electro-water and Rouiba lighting.

Figure(1) : Sonelgaz company: the macro leve²¹



Source: <http://www.sonelgaz.dz/?page=article&id=5>

2-2-2 Opening the activity of production: It requires a high degree of mechanization, homogeneous and qualified workforce. The law has allowed private companies to integrate the sector. We note in addition to the historical Algerian Company for the Production of Electricity, independent producers have entered the market and their contribution recorded a continuous increase in production, and yet it did not exceed 3.43 % in 2005, which represented a partial entry in 2005 of Electro-water-Arzew and Electricity of Skikda (SKS), and reached 58 % in 2014.

Table (2): The distribution of electricity production by producers Unit: %

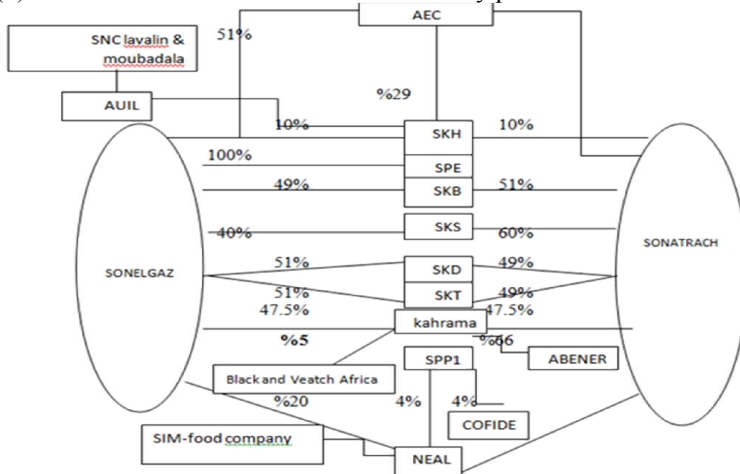
The statement	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SPE	96,9	82,7	75	72,4	62	54	54,9	53,5	41	42
Independent producers :	3.1	17.3	25	27.6	38	46	45.1	46.5	59	58
Electro-water <u>Arziew</u>			8		6	6	5.5	4.7	5	4
SKS			14		15	13	11.9	10	11	11
SKB			3		7	6	6.2	5.2	3	4
SKH					10	21	20	16	18	14
SPP1							1.2	2.1	2	2
SKT							1.6	8.3	12	11
SKD								0.2	8	11
<u>Cevital</u> group							0.000 01	0.000 05		
SKTM									1	1

Source: prepared by the researcher based on the data contained in:

CREG, different reports http://www.ose.dz/publications/Chifres_cles.pdf
 OSE, El Monsif bulletin, n°16, December 2014, p10.

By referring to the partnership structure of electricity production directly or through the Algerian Energy Company (AEC), as shown in the figure below, we note that most of the producers belong to Sonelgaz or Sonatrach or both in the form of a partnership. It can be deduced that the activity of electricity production is still concentrated primarily in the Algerian Company of Electricity (SPE), which constitutes for the group a share of 85%^[22] in 2014 versus 79%²³ in 2008.

Figure(2): The nature of the contribution of electricity producers²⁴



Source: <http://portail.cder.dz/spip.php?article1960> (Consulted 27/9/2013)

<http://skh-dz.com/> (consulted in 27/9/2013)

<http://www.creg.gov.dz/images/stories/PDF/rapportdactivite2007Fr.pdf>

2.2.3 Subdue the distribution activity to franchise system: four branches have been established to ensure the distribution of electricity and gas.

2.2.4 To keep transmission monopolized: transmission is assured by the Algerian Company for Managing Gas Transmission Network GRTG and the Algerian Company for Managing Electricity transmission Network

2-2-5 Pricing for efficiency: The orientation of pricing through market mechanisms, where the competition is possible as a way to decrease the draining of the state treasury, the state usually avoids this procedure because it is a critical element for reforms²⁵

Despite the importance of the program of investment and the high costs of production of the Algerian Company of Electricity, that belongs to the group, and for financial purposes, it proposed to increase the price by 15 %, but the committee of controlling electricity and gas (CREG) has studied the file and suggested to revalue the rise under the 15% which was then presented to the government, who did nothing regarding the sensitivity of the matter. Therefore, it seeks to find other areas to reduce costs in order to improve revenue collection, and resorts to a more simple method of pricing, rather than relying on the studies that cost money and time. The state covers a part of these investments as a compensation, for the decision to reject the liberalization of prices through the actions taken recently such as the freezing of the bank statement estimated at 8 billion dinars and the exempt from paying bank interest for 10 years (for investments); a procedure which was deemed insufficient and did not provide additional resources for the company as much as the subsidies did. The General director, president of the group has confirmed that the company will not raise the price of electricity and gas till the year 2017, and that the increase of the price of electricity is inevitable during the next ten years, because of the disability of the group to finance its investments if the price rising is no longer considered, and that the pricing policy applied in Algeria is less than 50 times comparing to other countries such as Tunisia and Morocco, which the price of electricity reached 8 dinars per kilowatt in Tunisia and 11 dinars per kilowatt in Morocco whereas it does not exceed, in Algeria, 4 dinars per kilowatt.

2-2-6 The changes in the regulatory and legal framework:

These amendments will not come unless establishing a change in the regulatory and legal framework, and thus as the following:

Change the legal form:

The adoption of public service reforms leads usually to restructure the institutions of the public sector, and the success in achieving higher efficiency which depends on fundamental changes in the legal environment, in order to help creating a competitive climate and greater ability of inquiry in both public and private sectors. The public facility has been subject to the commercial law governing the private sector, and therefore be subject to a more efficient set of rules, and to emphasize on the need to act as if it was private .

The legal form of the institution knew some changes according to the undergoing stages that the reform of public sector in Algeria went through, as shown in the table below. The legal form of Sonelgaz as a public facility has allowed-after the liberation- the private sector to participate in the activities of production and distribution, with a competitive nature, and take a part in the company's shares after it was a public establishment with industrial and commercial nature²⁶

The foregoing reforms that have occurred in Sonelgaz sited above can be summarized in the following table:

Table (3): the Algerian Electricity Company before and during reforms

<i>Nature of the period</i>	<i>The period</i>	<i>The naming</i>	<i>the legal status</i>	<i>The nature of management</i>	<i>Nature of the market</i>
<i>Before the Reforms</i>	1962-1969	Electricity and Gas of Algeria		Self management	natural monopoly
	1969-1975	Sonelgaz		Socialist Management	natural monopoly
	1975-1982	Sonelgaz		Socialist Management	natural monopoly
<i>During the Reforms</i>	1982-1988	Sonelgaz		Structural and financial restructuring	natural monopoly
	1988-1991	Sonelgaz	EPE	Independency	natural monopoly
	1991-2002	Sonelgaz	EPIC	Independency	natural monopoly
	2002 to now	Sonelgaz	SPA	Liberalization	Towards competition

Source: Prepared by the researchers

The change of organizational methods: Sonelgaz is considered as a public body that is featured by a moral character and duplicity which dictate:

The rules of the common law : in its relationship with the state and its internal organization: the conflicts are subject to the administrative court, the designation of officials are submitted to administrative decisions , and the delegation of authority should be in accordance with the decision of the minister of energy. It also describes the relationship with the state to develop a contractual framework called ‘Contract Plan’ that identifies the responsibilities of both.

The rules of private law: it concerns the commercial public facilities, as is considered as trader in its relationship with the others, and so is featured by a legal character, which gives it autonomy of administration and decentralization from the central organs.

It also follows the standard rules applied in similar institutions, such as keeping the accounting standards in accordance with the new system of accounting and finance.

Conclusion:

Sonelgaz knew several reforms defined by the government, and dictated by the prevailing economic conditions, which were mostly characterized by the inability of the state to cope with the rapid progress of technology, and became necessary to liberalize it into a commercial public facility and convert it into a commercial institution of services that is engaged in the activities of private sector in order to reorganize the sector of services. However the state still owns the facility as an independent economic unit, and authorizes the private sector to create and operate the superstructure in order to provide electricity and gas with efficiency and less expense.

The liberalization of the sector of electricity, as a mechanism for effective economic development, has resulted into the creation of a new law related to the distribution of electricity and gas through channels. The law was issued to:

- provide the legislative framework legal and regulatory to allow competitive markets develop.
- change the legal form of organization in Sonelgaz, after its liberation, allowing the private sector to participate in the activities of production and distribution, with competitive nature, and take part in the company's shares after it was an industrial and a commercial public institution.
- abolish the monopoly of Sonelgaz in the activities of production that are subject to the market mechanisms which allowed the Company of Gas - belongs to Sonatrach - to produce electricity; a sort of partnership between the two companies, beginning with the Algerian Company of Energy of the, followed by Skikda Electricity Company, Barwaguia Electricity Company, Tergha Electricity Company, and Koudia-Draosh Electricity Company, where they belong, directly and indirectly, to Sonelgaz or Sonatrach. Despite the expansion of the production of electricity that is assured by 6 independent companies along with Sonelgaz in order to meet the growing demand, in medium term, the structure of distribution is still based, heavily, on the contribution of the historical company due to its experience gained over half of a century. Despite the fact that the law provides foreign companies with the possibility to invest in production of electricity, from tax exemption for 5 years to granting loans at a discounted rate, the government has failed to attract foreign investment, except for *Nous-Stone Electric Company*, possibly due to the investment climate in Algeria, where the companies seek guarantees and insurance. Therefore we need provide favorable conditions to attract foreign investors.
- maintain the natural monopoly in transmission due to the density of the capital needed and the magnitude of the structure and the fixed costs. The electricity transmission network will be exploited and developed, and maintained by a company named the *Manager of Electricity Transmission Network*; a subsidiary of Sonelgaz, that keeps it the owner and the guardian of transmission monopoly.
- subject the activity of distribution to franchise system.
- restructure the interests of Sonelgaz in order to adapt to the new context. It has become today an industrial complex which comprises 39 subsidiaries and employs 70,000 workers. This provides the managers of the company (including its subsidiaries) with appropriate managerial tools and a present culture that focus on the importance of setting the right goals and highlight the possibility to prepare for the future with an institutional set with a liberal or open perspective, while maintaining the powerful effects of the state, as long as the market forces do not play fully their role.

Sonelgaz participation in various mixed companies is the key element in the diversification and the application of its enhanced objectives, in order to acquire the technology, the skill, and the experience to best govern and manage the company. Therefore, what can be noticed on the light of what have been said is The necessary conditions for the establishment of competition in Algeria are not yet combined (tax collection, bank, insurance, related services etc ...) and not available, and that the private investment in the superstructure requires heavy capitals and a long period for investment recovery.

It is for the purpose of gaining competitive advantage in the market - the goal behind the liberalization of the sector - that the market should provide an abundant offer and many buyers, yet the Commission for Control of Electricity and Gas in charge of ensuring competitiveness and transparency, and the interests of consumers and providers, equally, gives the right of purchasing electricity, from the producers, to distributors, and not to consumers, except if special laws would be issued.

The policy of Pricing for efficiency is not applied. The decision belongs to the state who has been avoiding it, as it is considered a sensitive matter in order to preserve the stability. It should be noticed that pricing has been frozen for nearly a decade, and this emphasizes on the role of the state-observer to reach the social, political and economic equilibrium. According to the law, the state would give up on the work of managing the company, to undertake other responsibilities conferred to her as the guardian of the public interest and the trigger of development. The independency of public institutions is guaranteed by the legal and transparent framework,

The main questions remain:

What is the possibility of creating a competitive position partially or totally for the activity of production and distribution? Especially when the market is insufficient in many countries, but with the subordination of these regional markets in African, African countries can benefit from this competition and increase significantly their efficiency.

Can Sonelgaz confront foreign investors, with high level of efficiency and experience, in case foreign investment is attracted?

The Algerian experience shows that preparing for the future takes a long time, which we must give, if we want to insert an active membership and adapt the regulations and the advantages of effective competition that we rarely and unfairly talk about.

At the end, and with an optimistic outlook, the liberalization of the activity of production is certainly promising for the economy, because it will allow the establishment of a transparent effective local market for electricity in both medium and long terms. In addition to satisfying local needs, there is a possibility for exportation of electricity towards European markets. It is very important to provide a regular supply of electricity, and avoid programmed cuts in order to satisfy the increasing demand in the market, as the reserves do not suffice.

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