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Large financial losses incurred by German energy companies

Konrad Mazur, Konrad Popławski

On 14 March the four largest companies operating on the German energy market: E.ON, RWE, EnBW, Vattenfall (accounting for 89% of electricity produced in Germany) published their financial results for 2011. Vattenfall incurred losses of 2.6 billion euros, for E.ON the losses amounted to 2.2 billion euros. RWE and EnBW also ended 2011 with losses: respectively 1.5 billion euros and 0.9 billion euros. For all the companies these have been the worst results since the end of 1990s and they constitute a substantial change in comparison to 2010, when they recorded profits. The main factor which affected the financial results of these companies in 2011 was the German government's decision to abandon nuclear energy. This move has forced each of the companies to disconnection a considerable number of nuclear energy power plants. Other causes of the losses were: high gas prices in long-term contracts, the fall in profits achieved on the electroenergetic market (lower electricity prices) and misguided investments.

Commentary

- German energy companies are still unable to balance the losses resulting from the deactivation of half of their nuclear power plants within several months. The outcomes of this decision will also lead to financial burdens with regard to the costs to deactivating other nuclear power plants, their extinction, dismantling and neutralisation. Until now the companies expected that they would be exempted from the necessity of paying the tax on nuclear fuel used in the operating plants. However, last week the Federal Finance Court of Germany decided to maintain this tax for companies.

- The companies are expecting to improve their financial results in the coming years. For E.ON and RWE the means to this end are to be: restructuring (lay-offs, selling off assets, including foreign assets), negotiating lower gas prices with suppliers (e.g. E.ON reached an agreement with Statoil, which accounts for approximately 30% of gas supplies to Germany, over the purchase of gas at lower prices on the spot market), investments in the sector of renewable energy sources and the struggle for contracts for the construction of power plants in emerging markets (E.ON. is planning to set up a joint venture in Brazil; RWE and E.ON have signed preliminary agreements for the construction of conventional power plants in Turkey). EnBW and Vattenfall, which have smaller capacities for expansion into other markets, are intending to focus on investments in renewable energy sources (mainly in wind and water energy).

- The federal government has forced the energy companies to considerably change their strategies and to become more involved in renewable energy sources. As they are aware of how determined the ruling coalition is to operate the energy transformation in Germany, they will not try to block this initiative; this is proven by their investment plans for the coming years. In 2011 approximately 20% of all investment plans focused on renewable energy sources. Within the next five years EnBW is planning to focus over 50% of all its energy investments on hydroelectric and wind-powered plants, while both E.ON and RWE plan to allocate 25% of their investments to this. The companies can nevertheless push for greater financial support from the government and more effective implementation of investments in transmission networks, as completion of the plan for a complete withdrawal from nuclear energy by 2022 will depend on the pace of the extension of these networks.