

Energy prices surge in Germany

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The record-high prices of electricity and natural gas observed since mid-2021 on European exchanges have led to major rises in energy prices for consumers. The information released on 10 January by the Check24 price comparison website often quoted by the German media shows that 692 electricity suppliers in Germany have increased their base tariffs for consumers by an average of 65%. This means that a household which annually consumes 5,000 kWh will have to pay EUR 1,068 more per year. The increases have affected 4.3 million households.

Check24 has also reported on 1,055 cases of natural gas tariff suppliers increasing prices by an average of 71%. The increases will affect 3.6 million households. An annual consumption of 20,000 kWh of gas (in such cases mainly for heating purposes) means an additional EUR 1,034.

According to Check24, in December 2021 the average electricity price for consumers in Germany was 33.9 cents/kWh, and in the case of natural gas it was 9.7 cents/kWh. According to data published by the Federal Statistical Office, in the second half of 2020, Germans paid an average of 31.16 cents/kWh for electricity, and 6.12 cents/kWh for natural gas.

The record-high energy prices are having an impact on companies operating in the German energy sector. At the end of the year, the media published information about bankruptcies of electricity and natural gas suppliers whose business model was based on short-term purchases on the spot market (for example, Stromio, Otimia Energie, Lition Energie, Fulminant Energie, Smiling Green Energy, Kehag, Immergrün and Gas.de). According to information provided by the Federal Network Agency, a total of 39 suppliers declared bankruptcy in 2021. The problems are also affecting energy producers. Uniper announced on 4 January that it had taken measures to secure its finances by launching additional credit lines for a total of EUR 11.8 billion (the loans were provided by both the parent company Fortum, private banks and the state-owned KfW). In addition, the German exchange THE (Trading Hub Europe) had to apply through KfW to the Federal Ministry for Economic Affairs and Climate Action for additional funds for the purchase of balancing gas on the market in December, as the current wholesale prices far exceeded THE's financial capacity.

Commentary

- High energy prices are a growing problem in Germany. Customers whose energy suppliers went bankrupt due to the record-high prices on the stock exchange or whose supply contracts were terminated due to the market situation are in a particularly difficult

situation. These are tens of thousands of individual and industrial clients (for example Fulminant Energie had approximately 10,000 clients and Lition had as many as 20,000). In such cases, the supply of electricity or natural gas is not interrupted, but the customers of bankrupt companies are passed onto the default supplier in a given area, but the supply terms are much worse for them. Given the very high costs of purchasing additional energy on the power exchange, many suppliers have withdrawn their offers for new customers altogether, focusing on fulfilling existing contracts. In turn those companies that have such offers propose rates that are, on average, 107% higher than for existing customers in the case of electricity and 174% higher for natural gas. The problem of abandoned customers affects both households and industrial customers.

- The record-high electricity and natural gas prices are also a growing problem for German industry. Last year, many companies waited a long time for a change in the trend and speculated, counting on a fall in prices, missing the time to hedge with long-term contracts at prices acceptable to them. Some companies from energy-intensive industries (such as the chemical, glass, ceramics and paper industries, which depend on the use of natural gas) had to partially or completely suspend production due to the rapid increase in energy costs (including the widely publicised examples of the Freital glassworks or the fertiliser manufacturer SKW Piesteritz). Representatives of business circles are concerned that supply chains might break down due to this. In addition, representatives of small and medium-sized enterprises in particular warn that with such high energy costs it is becoming impossible to compete on international markets, and running a business in Germany is unprofitable. Taken together, this may result in plants closing down or production being moved abroad. The German Association for Small and Medium-sized Businesses (BVMW) has called on the government to urgently convene a special crisis summit and prepare protective solutions for business.
- The significant increases in energy prices are also a growing political problem for the Olaf Scholz government. Initially, the new SPD-Greens-FDP coalition refused to implement additional protective measures, arguing, for example, that the RES fee has been reduced significantly (by 40%) in 2022, resulting in a lower final price of electricity. However, there is increasing pressure from the opposition and consumer organisations on the government to counteract the negative consequences of the price rises, at least for people with the lowest incomes. According to media reports, the ministry in charge of construction is preparing regulations under which a one-time subsidy to heating costs will be granted to people receiving the housing allowance (*Wohngeld*). This would partially compensate for the increase in the price of natural gas used for heating. A relevant bill is to be adopted by the government at the end of January. According to consumer organisations (including VZBV and GdW), a one-off benefit offered to a narrow group of people with the lowest income is insufficient. The proposed solutions include the payment of an immediate allowance for the poorest families, as well as a periodic reduction in energy taxes: VAT from 19% to 7% and excise duty on electricity from 2.05 to 0.05 cents/kWh.
- If energy and gas prices remain high, this may make the German public less willing to support decarbonisation in the long run. One of the main instruments is to additionally increase the costs of using fossil fuels (compared to RES-based solutions), e.g. through

the German ETS-bis system for the transport and building utility sectors. Starting from 1 January 2022, the price per ton of emissions increased from EUR 25 to 30 (it will be gradually increased to EUR 55 in 2025). The fee translates into an increase in the prices of petrol, diesel oil, heating oil and natural gas.

- As German households and businesses have to face the surge in energy and natural gas prices, public support for the launch of the Nord Stream 2 (NS2) gas pipeline has additionally strengthened in Germany, despite the long-standing discussion in the country on the negative geopolitical consequences of the project and Russia's confrontational policy. In the latest DeutschlandTrend poll for ARD TV, 60% of those polled wanted Berlin to support the completion of the project, while only 28% were of the opposite opinion. One exception are supporters of the Green Party: a slight majority (55%) of them are opposed to the launch of the new gas pipeline. This is a change compared to a poll conducted in September 2020 for the weekly Der Spiegel, according to which 55% of respondents supported NS2 and 31% were opposed to it. Representatives of both Gazprom and the Russian government have for months been addressing a message to Germans via the media that they are ready to immediately increase transmission after the launch of NS2 (e.g. on the occasion of announcements about the completion of work on individual lines, filling it with gas, the will to start transmission quickly) and that gas prices are expected to fall on European markets after the launch of NS2. This is an element of Russia's deliberate strategy aimed at increasing public pressure on the German government in order to maintain support for the project. The public sentiment linked to the high prices of natural gas and electricity (electricity prices have increased primarily due to the rise in gas prices), which have severely affected households and industry, will have a major impact on the further actions the new coalition will take with regard to NS2.