Summary

The Federal ministers for the environment and for economic affairs’ suggestions for a renewables price brake must be seen in the light of upcoming elections. Any change of law would have to pass the Federal Council and, therefore, political opposition. So it is unlikely the effects of their proposed measures will be as great as some fear. However, the proposal has started a debate about possibilities to control and share the cost associated with expansion of renewable energy in Germany.

In this briefing we examine the ministers’ proposals.
Germany’s ‘energy turnaround’ – an overview

Since the Fukushima disaster, Germany’s energy turnaround goal – to increase electricity from renewable sources, cut CO2 emissions and shut nuclear power plants – dominates its energy policy.

To finance the energy turnaround, electricity consumers are obliged to pay a levy for renewable energy with their grid fees. The levy is passed on to grid operators, which pay renewable plant operators a fixed tariff for every kWh they feed into the grid. For grid operators, the levy makes up for the difference between the fixed tariffs they have to pay and the proceeds they get when they sell the electricity at the European Energy Exchange (EEX). The levy is revised annually and adapted, depending only on the amount needed under the described system.

As of 1 January, the levy increased by 50 per cent to 5.28 ct/kWh for 2013, totalling €16bn due to increasing numbers of renewable energy plants and, at the same time, decreasing electricity prices. Across political parties, these increasing costs raised concerns that the energy turnaround would lose public support and burden low-income households and German industry.

Ministers Altmaier and Rösler’s proposal

On 28 January, Peter Altmaier, the Federal Minister for the Environment, Nature Conservation and Nuclear Safety, proposed to freeze the levy at its current level (per kWh) for 2013 and 2014 and only allow an annual increase of 2.5 per cent thereafter. He proposed several measures to reach this goal. In case this limit was reached irrespective of the proposed measures, new plants were not to receive the fixed sum until the limit allowed for it.

After Philipp Rösler, the Federal Minister of Economics and Technology, commented on this proposal and suggested further measures, both ministers published a joint proposal on 14 February, containing the following measures potentially affecting offshore wind parks.

Postponement of remuneration according to the Federal Renewable Energies Act (EEG)

Proposal
The remuneration for new plants be reduced to their market value for the first five months as of commissioning.

Our comment
It is unclear if the reduction to market value means a remuneration according to average electricity price in the five months (eg as in the market premium model, see next point) or if the remuneration is supposed to be reduced to actual proceeds from the electricity if sold via the EEX. In any case, the postponement itself would have a significant impact on the financing of offshore windparks. It contradicts the current regime, which foresees an option to claim for higher tariffs in the first years of an offshore wind park’s operation at the expense of lower tariffs in the years to follow (so-called acceleration model). This regime was introduced due to the importance of early cash flows for project-financing and investment activity.

Reduction of feed-in tariffs according to EEG and mandatory direct marketing of electricity

Proposal
The fixed feed-in tariffs for new plants be reduced once by 4 per cent. For plants larger 150kW, direct marketing of electricity be mandatory and management premium eliminated.
Our comment

At first glance, reduced feed-in tariffs and mandatory direct marketing may seem contradictory. However, they address the market premium model under the EEG. Under this model, plant operators sell their electricity directly at the EEX or to a trader and receive from the grid operator (instead of a fixed feed-in tariff) the difference between the feed-in tariff, which would be reduced according to the proposal, and the value of the electricity.

The value of the electricity is calculated on the average spot-prices of electricity produced by offshore wind parks at the EEX. To compensate for the administration of selling the electricity, plant operators receive an additional management premium (for offshore plants, 0.65 ct/kWh in 2013, decreasing to 0.45 ct/kWh in 2014 and to 0.3 ct/kWh in 2015), which would be eliminated according to the proposal.

To date, plant operators may choose between receiving a feed-in tariff per kWh or selling their electricity directly using the market premium model. Other options are available, but they are not relevant to offshore plants at this time.

Under the market premium model, an offshore plant producing electricity at times of higher prices (more demand/less supply) than the average of offshore wind parks can achieve an overall remuneration exceeding the feed-in tariff, while plants producing at times of low prices might achieve less.

Furthermore, the direct sale of electricity may involve contractual risks, which do not exist when opting for remuneration based on feed-in tariffs. Therefore, mandatory direct marketing could after all impact mostly on offshore wind parks’ financing, depending on banks’ assessment of risks like the credit-worthiness of the electricity’s purchaser and the duration of the power purchase agreement.

Furthermore, a reduction of remuneration by 4 per cent would have a significant impact on revenues and lead to margins not sufficiently reflecting the yet remaining risks and challenges of the German offshore industry.

Implement a limit to the Levy Proposal

It be encoded that the levy must not exceed 5.277 ct/kWh until and including 2014 and must not increase by more then 2.5 per cent in the following years. The levy be monitored and, in case required, further measures be proposed in order to remain below the limits.

Our comment

This proposal leaves more flexibility than Altmaier’s previous proposal to implement an automatism, that remunerations would be postponed in case the limit was reached. It leaves uncertainty regarding the further measures to be implemented in case the levy reaches the limit. However, these measures will be flexible and can be directed to affect only or predominantly where viable.

As the levy is calculated as the difference between proceeds generated through the sale of the electricity and the fixed feed-in tariffs, it depends on the development of electricity prices. In case of decreases of the electricity prices, the proposed limit will be reached much faster, while it will possibly not be reached in case electricity prices increase.

In this context, you should note that to calculate the levy, grid operators used an estimate, according to which electricity prices increase from their current level of 4.5 ct/kWh to 5.1 ct/kWh by 2014. Consequently, the effect of changes of electricity prices on the limit to the levy must be measured against this estimate.
Prospects of implementation

The chances of all Ministers Altmaier and Rösler’s measures being put into action is low. A change of law would have to pass the Federal Council, which the social democrats and the green party dominate. The social democrats already criticised the proposal as not solving the problem of increasing electricity prices while distracting investment activities in the renewable energy sector. Yet during a first meeting on 15 February, the social democrats signalled that a compromise would be possible.

However, they suggested different measures from Ministers Altmaier and Rösler. They see larger savings potential, among other things, by returning to the system the value-added tax imposed on the grid fees and, therefore, on the levy. Also, they see more potential in further contributions from energy-intensive industry. However, they also see some potential in reducing feed-in tariffs for wind plants, while in their statements a differentiation is not made between onshore and offshore wind.

The proposals will now be discussed between state leaders and the Federal government’s representatives. A decision is expected in the second half of March. We will update you.