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Money distribution through scattergun approach does not buy real locational advantages

Alfons Weichenrieder: The bridge electricity price planned by the Ministry of Economics to ease the burden on German industry manages the shortage instead of investing in energy infrastructure

Over the past 24 months, two developments have significantly pushed up the price of electricity in Germany:

First, there was a rapid increase in the price of natural gas in the second half of 2021. This increased the cost of natural gas-fired power plants and made the overall wholesale price of electricity more expensive since it is mostly natural gas-fired power plants as marginal producers that set the price. This reason has largely disappeared. More recently, however, the European wholesale price of natural gas has fallen back to the level of September 2019. Cost disadvantages remain, when compared to the US, which, unlike Germany, have invested in domestic gas production, but not when compared to Asia.

On the other hand, the CO2 price in European emission trading has risen since the end of 2020 from around 24 euros to around 90 euros at the current margin. This price increase has a lasting effect on the wholesale price in the electricity market and means additional marginal costs of 4 ct/kWh and more for gas-fired power plants. Compared to the years before the energy crisis, this alone roughly doubles the wholesale price on the electricity market. Ultimately, this price increase is politically motivated, even though such costs resulting from a rising CO2 price do not exist in most other parts of the world - at least not at this level.

Subsidies for energy-intensive sectors

While the draft paper of the German Federal Ministry of Economics and Climate Protection (BMWK) and its proposal for a “bridge electricity price” for the industry, thus temporarily cheaper electricity for more competitiveness, is currently being discussed, Germany has already provided almost three billion euros in subsidies to energy-intensive companies this year, without even mentioning it in the paper. These three billion are funds for the so-called electricity price compensation, which is intended to compensate certain, especially electricity-intensive, companies for the fact that European emissions trading is now significantly increasing the price of electricity, as just explained. Since the price of CO2 has already risen, it is foreseeable that the funds would have to grow to almost five billion by 2024 to cushion the price increase. The Cabinet earmarked 2.6 billion for this in a resolution on August 9.

The design of the electricity price compensation, a European aid for indirectly induced CO2 costs, which, unlike the new BMWK proposals, has already been agreed upon at the European level, may not be perfect. However, in contrast to the scattergun approach of the "Special Compensation Scheme" proposed by the BMWK, it still defines the relevant sectors more precisely. Moreover, it addresses a drawback of political pricing. The measure does not attempt to subsidize real cost disadvantages.

The mammoth task of climate-neutral power supply

Despite the enormous challenges, Germany has decided to shut down functioning baseload power plants which certainly did not strengthen the confidence of energy-intensive companies in the country. The carbon-free stabilization of the power supply is a mammoth task and requires an expensive and technologically undeveloped entry into the hydrogen economy, which will certainly not be completed by 2030, as the infrastructure for this is not even rudimentary. Germany, which does not have a lot of wind, sun, or

significant reservoirs, would be better off investing its resources instead of handing out new, debt-financed subsidies that do not reduce the real cost disadvantages, but only temporarily cover them up.

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