

At a Glance

In the summer of 2011 the German Federal Government started to implement its policy directed at the “Energiewende”. This endeavour is nothing less than a complete transformation of the energy system, destined to alter the structure of energy supply during the course of the next decades. This policy will have a strong impact on the German electricity market: At least over the next few years supply security and profitability will suffer, without guaranteeing a notable increase in eco-friendliness. One year after the start of the transformation the first effects of this transformation can already be quantified: The decrease in nuclear power generation has been offset by growth in power generation using renewables and lignite, and by greater electricity imports. Nonetheless, the number of critical incidents in individual elements of the grid in the winter half-year 2011-2 was significantly higher than in the same period one year earlier.

During the decade before this decision to bring the exit from nuclear energy forward, power generation using renewables had already been subsidised, leading to considerable costs being shouldered. These past strategic choices are reflected today in the ever increasing fees and surcharges that eventually are causing the price of electricity to rise in particular for the end consumer. This trend has persisted of late, however mainly owing to the fact that, while implementing its “transformation policy”, the German government has failed to abandon the Renewable Energies Act (EEG) despite its exceptionally evident inefficiency.

Going forward, the transformation policy involves three main challenges: firstly, the grid needs to be expanded, secondly new non-intermittent power plant capacity needs to be put in place especially in the South of Germany, and the costs of subsidizing renewable energies have to be minimized. In particular, these three major tasks need to be interlinked in one over-arching concept, where the sequencing of the reform steps and subsidy measures are calibrated. Such a concept is not yet in sight. Specifically, no vision has been suggested as to how the rapidly rising generating capacity using renewables will be integrated into a grid that was never meant to deal with substantial intermittent supply.

Concerning the acceleration of the grid expansion, the German Federal Government has however already done advance work by enacting a series of amendments to the law and it now remains to be seen whether this will suffice. In terms of building new flexibly utilizable power plants in South Germany that do not feed into the grid 24/7, there is currently a debate on the need to change the power station market model to a “capacity market”. However, in this respect all the relevant alternatives should be explored before introducing supplementary compensation systems for power station operators.

With regard to the expansion of power station capacity using renewable energy sources – which naturally feed power into the grid as they produce it – the Council of Economic Experts believes that a competition-oriented volume-based mechanism remains the preferential policy model. However, if the technology-specific compensation rate were to be harmonized on a modest level this would already take the sting out of many of the current problems the realization of the transformation policy is facing. This could for a time interrupt the rapid expansion of renewable energy-based power generation capacity, which has dominated things to date, and grant the energy policymakers some breathing space.