

Economist.com

Search

Economist.cc | Go

Requires subscription

Welcome

My account

Log out

Manage my newsletters

Get 12 issues for \$12 >>

Subscribe

Student offers

Monday July 13th 2009

Home

This week's print edition

Daily news analysis

Opinion

All opinion

Leaders

Letters to the Editor

Blogs

Columns

KAL's cartoons

Correspondent's diary

Economist debates

World politics

All world politics

Politics this week

International

United States

The Americas

Asia

Middle East and Africa

Europe

Britain

Special reports

Business and finance

About our new page

All business and finance

Business this week

Economics focus

Management

Business education

Economics A-Z

Markets and data

All markets and data

Daily chart

Weekly indicators

World markets

Currencies

Rankings

Big Mac index

Science and technology

About our new page

All science and technology

Technology Quarterly

Technology Monitor

Books and arts

All books and arts

Style guide

People

People

Obituaries

Diversions

Audio and video

Audio and video library

Audio edition

The World In

The World in 2009

The World in 2008

The World in 2007

The World in 2006

The World in 2005

The World in 2004

Research tools

All research tools

Articles by subject

Backgrounders

Economics A-Z

Welcome My account Log out Manage my newsletters

Subscribe

Student offers

Site feedback

The Economist Debate Series

Sustainable development

Can chemistry create truly sustainable development?

July 3rd-15th



IN ASSOCIATION WITH



JOIN THIS LIVE DEBATE >

Economist.com

Business

Germany's high electricity prices

Power to the people (at a price)

Apr 23rd 2009 | BERLIN

From *The Economist* print edition

Change is slowly coming to Germany's dysfunctional electricity market



Corbis

HEARTENING though it may have been to shareholders in RWE, the rosy earnings forecast released on April 22nd by Germany's second-largest electricity firm was unfortunately timed. RWE's prediction that profits would only go up over the next few years, recession be damned, comes just days after Germany's federal cartel office said it had started an investigation into electricity producers, including RWE, and the wholesale electricity market.

The competition regulator is trying to work out why energy prices in Europe's biggest economy are so stubbornly high, and in some cases still rising, even though oil and gas prices have fallen sharply. It suspects that generators may have been keeping prices artificially high by, for instance, shutting power stations in concert to limit supplies. Finding evidence of that sort of skulduggery may be difficult, and proving it even more so. But regulators need not look too hard to see that Germany's electricity market is broken and that a flawed liberalisation of the market over the past decade seems only to have entrenched many of its problems.

The first sign that the market is not working is in Germany's electricity prices, which are among the highest in Europe, even though it has access to abundant cheap coal. Moreover, Germany's electricity prices have remained persistently high even at times when they would have been expected to fall. Analysts at Credit Suisse, an investment bank, reckon the slowing economy will reduce electricity demand by about 5%. Coal prices have dropped by half from last year. Yet there is little sign that either falling demand or lower input costs are leading to cheaper electricity. Wulf Bernotat, the boss of E.ON, Germany's biggest electricity firm, said this month that he did not expect German consumer prices for electricity to fall this year.

The main reason Germany's electricity market is not working as it should is the lack of competition. The four biggest utilities in Germany generate more than 80% of its electricity; the top two, E.ON and RWE, more than 60%. Liberalisation has, if anything, exacerbated this. Germany had eight big electricity producers in 1997,



Comment (23)

Recommend (74)

E-mail

Share

Print

Reprints & permissions

Related Items

From *The Economist*

EDF v Greenpeace

Apr 23rd 2009

European energy

Mar 6th 2008

Country briefing

Germany

More articles about...

Electricity

Advertisement

Nokia N97

Online as it happens

Personalise
homescreenConnect with touch
and QWERTY5 MP camera with Carl
Zeiss lens

32 GB of memory

Games and widgets
from the Ovi store

Special reports
Style guide

Country briefings
All country briefings
China
India
Brazil
United States
Russia

My account home

Newsletters and alerts
Manage my newsletters
Manage my e-mail alerts
Manage my RSS feeds
Manage special-offer alerts
More »

Print subscriptions
Subscribe to *The Economist*
Renew my subscription
Change my print subscription delivery, billing or e-mail address
Pay my bill
Activate premium online access
Report a missing copy
Suspend my subscription
More »

Digital subscriptions
Subscribe to Economist.com
Manage my subscription
Mobile edition
Audio edition
Download screensaver
More »

Classifieds and jobs

The Economist Group
About the Economist Group
Economist Intelligence Unit
Economist Conferences
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance
Reprints and permissions

EIU online store

Economist shop

Advertisement

before the government liberalised the market, but the number has since fallen by half because of mergers and takeovers, says Uwe Leprich of the Hochschule für Technik und Wirtschaft in Saarbrücken.

A second problem is that Germany's biggest electricity generators also own the networks that distribute electricity. Critics argue that this gives them a huge advantage over independent producers, which may struggle to gain access to the networks fairly or, if they do, gain as much information on supply and demand across the grid. The European Commission has long criticised this "vertical integration" but it has had little success in getting its members to agree to force firms to "unbundle" generation and transmission.

Change is, however, coming on two fronts. The first is that antitrust regulators in Germany seem to have woken up to the fact that the country's electricity market is not competitive. And the European Commission is having some success in forcing firms to "unbundle" using antitrust powers. Late last year it closed an investigation into alleged price manipulation by E.ON after the utility agreed to sell its long-distance distribution network along with some of its generating stations.

And over the longer run, ambitious plans to increase the share of electricity from renewable sources may erode the dominance of the country's four biggest electricity generators. Germany hopes to get as much as 30% of its electricity from renewable sources by 2020, and although few in the industry think the target will be met, there is nevertheless likely to be a huge investment in new generating capacity over the coming decades. Judicious action by antitrust authorities now could ensure that it adds to competition in the electricity market rather than simply entrenching the incumbents' positions. But because of the high cost of renewable energy, even with more competition in the market, Germany's power prices are likely to keep on rising.

[Back to top ^^](#)

Readers' comments

Readers have commented on this article (the window for new comments is now closed).

[View all comments \(23\)](#)



Want more? Subscribe to [The Economist](#) and get the week's most relevant news and analysis.

Advertisement

Click Here for the *Industry Insider*, a timely resource from:

(The Industry Insider is produced in cooperation with the Economist Intelligence Unit.)

Lincoln
Financial Group®

Hello future.™



Classified ads

Maximise potential in international trade with RBS - [Read our FREE report](#)

Full-time faculty position

Top graduate school in Lima, Peru searches for Ph.D / DBA graduates from recognized universities.

For more information, [click here](#).

[Manufacturing Excellence Awards 2009](#)

On Thursday we will be celebrating the best that British business has to offer.

[Read more](#) about the UK's premier manufacturing benchmarking scheme and its top 20 firms that have reached the prestigious final.

FSA — PRUDENTIAL POLICY

Associates, Senior Associates & Technical Specialists — Wholesale and Prudential Policy Division

click [here](#) to apply

Amnesty International

[Secretary General](#)

Nottingham University Business School

[Director - Christel DeHaan Tourism & Travel Research Institute](#)

Sponsor's feature

[About sponsorship](#)

