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UBA says recent electricity price hikes excessive

Energy suppliers hiding behind Renewable Energy Act (EEG) levy

A Federal Environment Agency analysis asserts that some 85 percent of the electricity price hikes between 2000 and 2010 are founded on factors other than the EEG levy. The surcharges currently added to electricity rates cannot be justified by the EEG levy for the increase is matched by considerable cost cuts in power procurement, thanks in part to the development of renewable energies which resulted in a price decline on the electricity exchange. "The EEG is not only crucial and necessary for climate protection, it also makes economic sense. If microeconomic costs only are considered in the promotion of the use of renewable energies, other important factors are ignored: on a macroeconomic scale, renewable energies reduce billions' worth in damage done to the environment and health. Due to the rising prices of fossil fuels, the cost of producing energy with renewable energies will even prove to be more favourable on the market in the medium term", said UBA President Jochen Flasbarth.

Whereas the EEG levy remained relatively steady up until 2009, it rose sharply over the past two years. This spike is in large part due to lower procurement costs for conventional electricity on the electricity exchange. As procurement costs for electricity on the electricity exchange decrease, the difference between procurement costs and established feed-in tariffs increases, which immediately raises the EEG levy. Paradoxically, renewable energies also account for lower prices on the electricity exchange and thus to the rise in the EEG levy. This is because renewables edge the most expensive electricity suppliers out of the market. As a result, the exchange price drops, and therefore the actual additional costs incurred by the expansion of renewable energies are lower than the EEG levy.

Another reason for the rise of the EEG levy lies in the surprising slump in prices on the photovoltaics market: wholesale prices for photovoltaic modules fell by up to 34.5 percent from early 2009 to the beginning of 2010 alone. This development had not been forecast and led to excessive promotion of photovoltaics and vigorous growth in capacity of installed modules. The early cut in feed-in tariffs for photovoltaics which was already scheduled is therefore deemed appropriate.

The EEG levy increase has been taken as a premise by many electric utility companies to raise their prices at the beginning of this year. In light of the steep decline in prices on the electricity

exchange, the argument does not stand up since the levy on co-generated electricity dropped slightly. Many utility companies did not pass these cost savings on to electricity consumers, proof again that competition on the electricity market is imbalanced and calls for measures to be taken to boost competitiveness.

Consumers can respond to these unfair price hikes by switching utility company to apply the necessary competition pressure. At present, a switch can mean consumer savings of up to 200 euros per year. Green electricity suppliers can also make for considerable cost cuts.

All in all, the promotion of renewable energies by means of EEG has been very successful. It has helped to protect the climate since the development of renewable energies has made it possible to introduce more ambitious emission ceilings in emissions trading. Compared to other European and international situations, Germany's EEG comes off very well.

Unlike other means of electricity generation, there is transparency for the public as concerns the promotion of renewable energies. Nuclear energy is only cost-efficient, microeconomically speaking, because billions are spent to channel it both direct and indirect subsidies. Besides, conventional electricity production is favoured by the failure to assess charges for the environmental costs it incurs. Without these distortions of competition many of the technologies used in renewable energies would already be competitive and thereby considerably reduce the need to support renewable energies.

An extensive analysis of the EEG levy and its influence on electricity prices is available in a new Federal Environment Agency background paper at: <http://www.uba.de/uba-info-medien-e/4067.html>

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