



IBEC Large Energy Users Forum

Energy cost trends in key European economies

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IFIEC ?

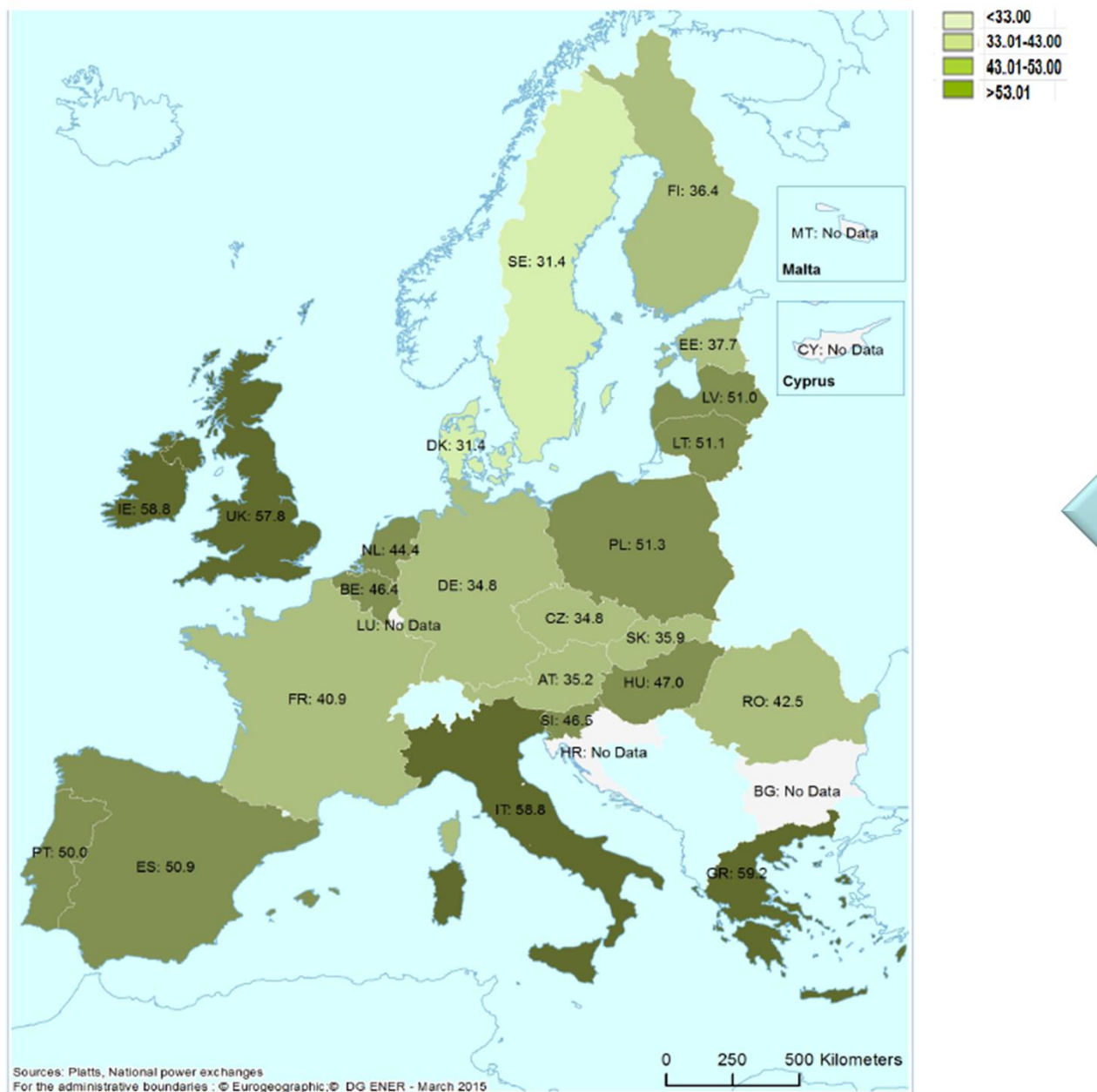
International Federation of Industrial Energy Consumers

- Brussels-based
- Umbrella organisation for national cross-sector Energy-Intensives
 - Eg VIK (Germany), EIUG (UK), IEF (Hungary)
- Work closely with sector bodies
 - CEFIC, EuroFer, based at CEPI
- Often the only user voice at discussions between Directorates, consumers, ENTSO and Eurelectric

Why is IFIEC needed ?

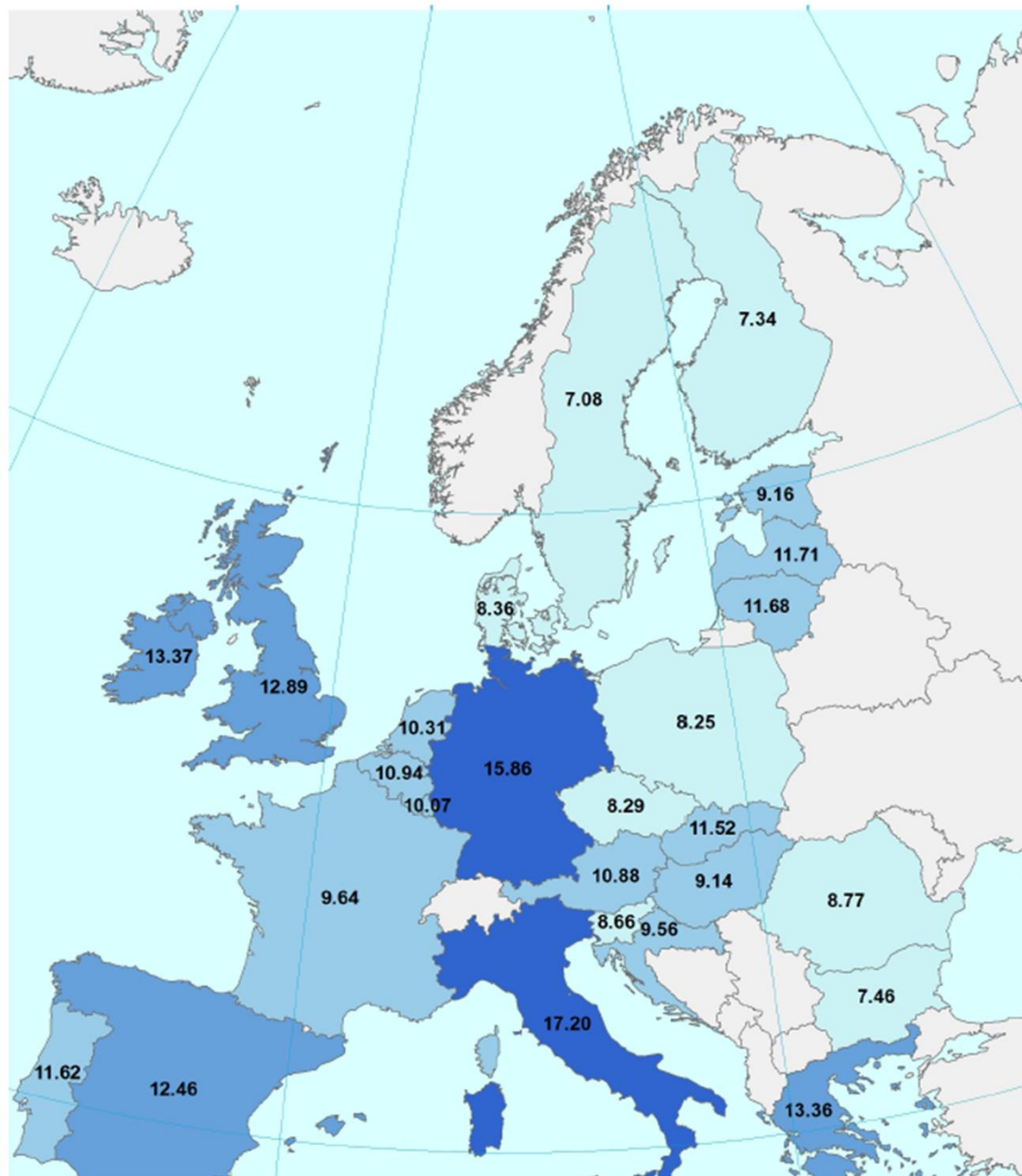
- Range of EU electricity (and gas) prices in Martin's presentation
- Comparability with pricing elsewhere in the world
 - Impact on investment decisions of global multinationals
 - And hence on employment, tax revenues....

FIGURE 8 – COMPARISON OF AVERAGE WHOLESALE BASELOAD ELECTRICITY PRICES, FOURTH QUARTER OF 2014



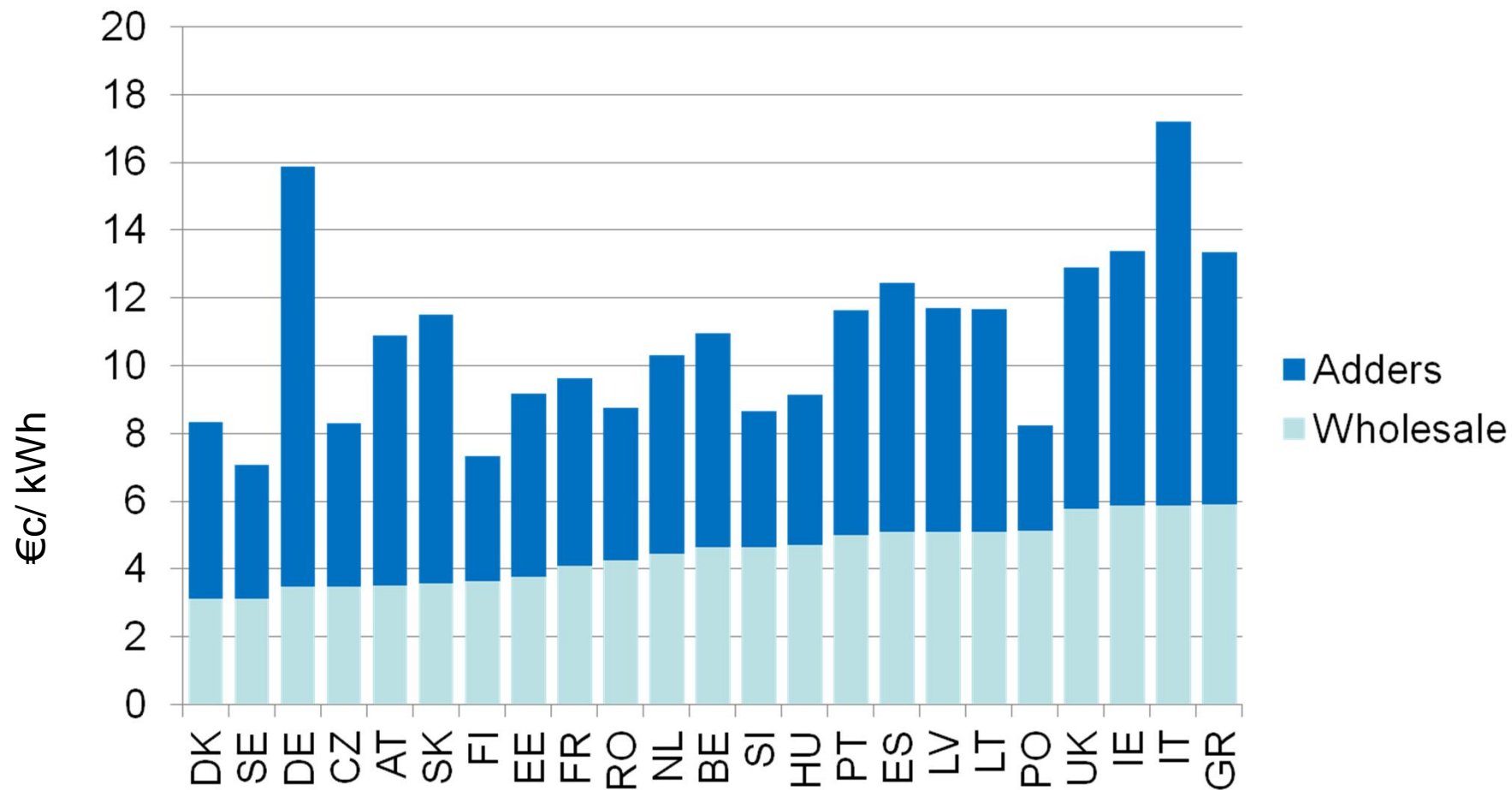
How do we
get from
these
wholesale
prices
in €/MWh

FIGURE 35 – ELECTRICITY PRICES (WITHOUT VAT AND NON-RECOVERABLE TAXES) – INDUSTRIAL CONSUMERS – ESTIMATED PRICES: 4TH QUARTER OF 2014



.... to these
industrial
ones ?
in €/ kWh

Add-on Costs



Contributory factors



Contributory factors

Fuel Mix

- Coal and Lignite
 - Cheap but dirty
 - Easy to stockpile
- Gas
 - Supply security from Russia
 - Still more expensive than Coal
 - But less emissions
- Solar – max half the time
- Nuclear – must run baseload
- Wind – great when windy
- Hydro – if you have mountains and rain
- Biomass – sourcing and scale issues

Contributory factors

Targets Agreed

- Renewables targets for “western” Member States rightly more ambitious than for “new” MSs
- Climate and Energy policies not linked to each other until 2014
 - Nor to industrial policy until “Energy Union”
 - National fuel mix a derogated decision
 - As is Tax
- EUETS uncertainty undermines investment decisions

Contributory factors

Political Will

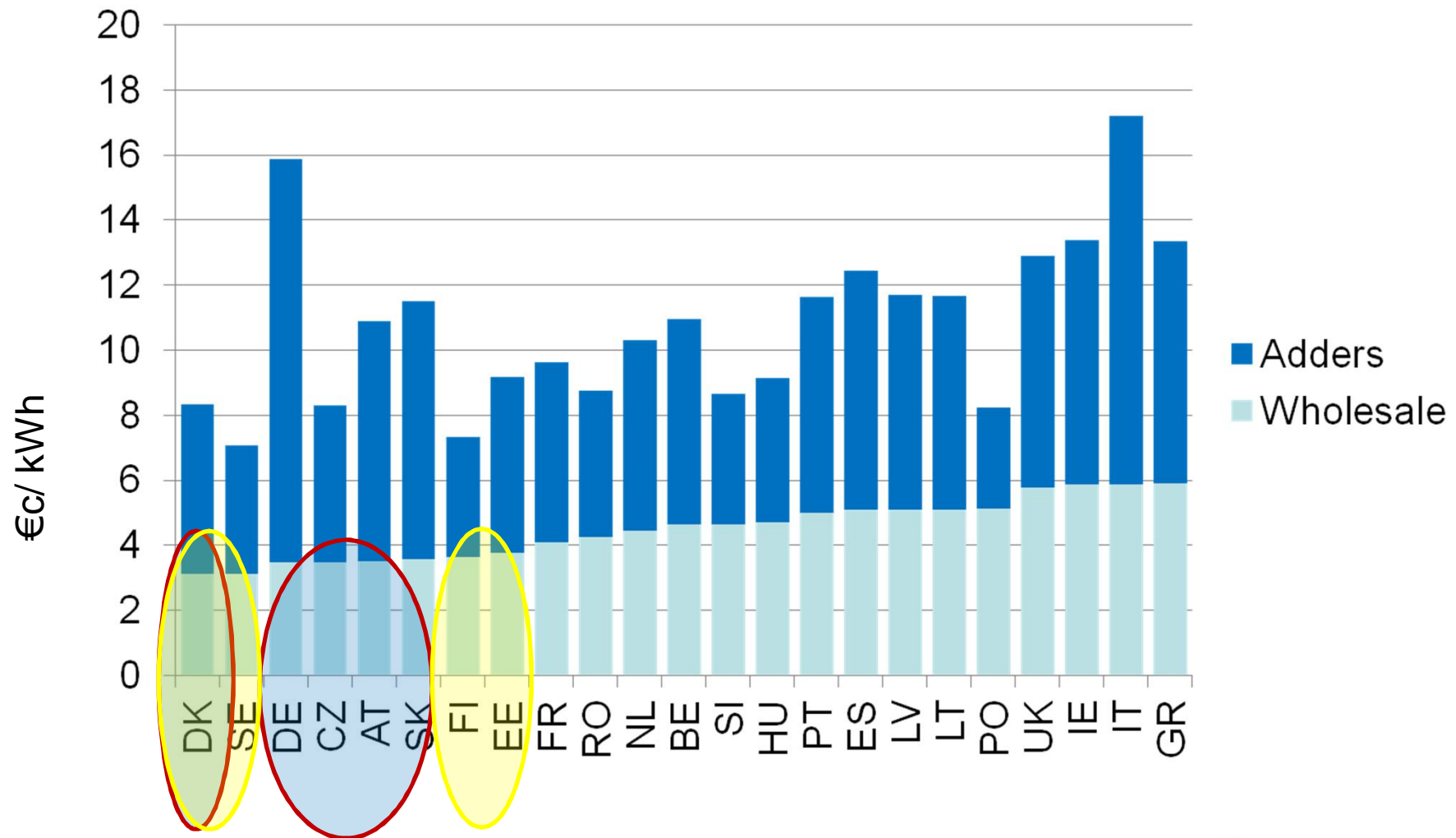
- No Security of Supply strategy
 - Russia
 - Gas storage / sourcing route / market dominance
- Imperfect / inconsistent decisions in Member States
 - “picking winners”
 - Renewables support schemes
 - Nuclear policy
 - Who pays for subsidies on power and networks
 - Interconnection
- R&D funding subject to horse-trading centrally

Contributory factors

Market

- Slow implementation of 3rd Energy Package
- Network Codes running late
- Insufficient interconnection incentive
- REMIT/ EMIR / MiFID
 - Slow definition of requirements
 - Undermining liquidity ?
- Good convergence on trading platforms and market coupling
- Complexity of market models
- Off-market deals (Nuclear etc)
- Fragile utility balance sheets
- Shale gas

Wholesale and Add-on Costs 2014



Interconnection – good to have !

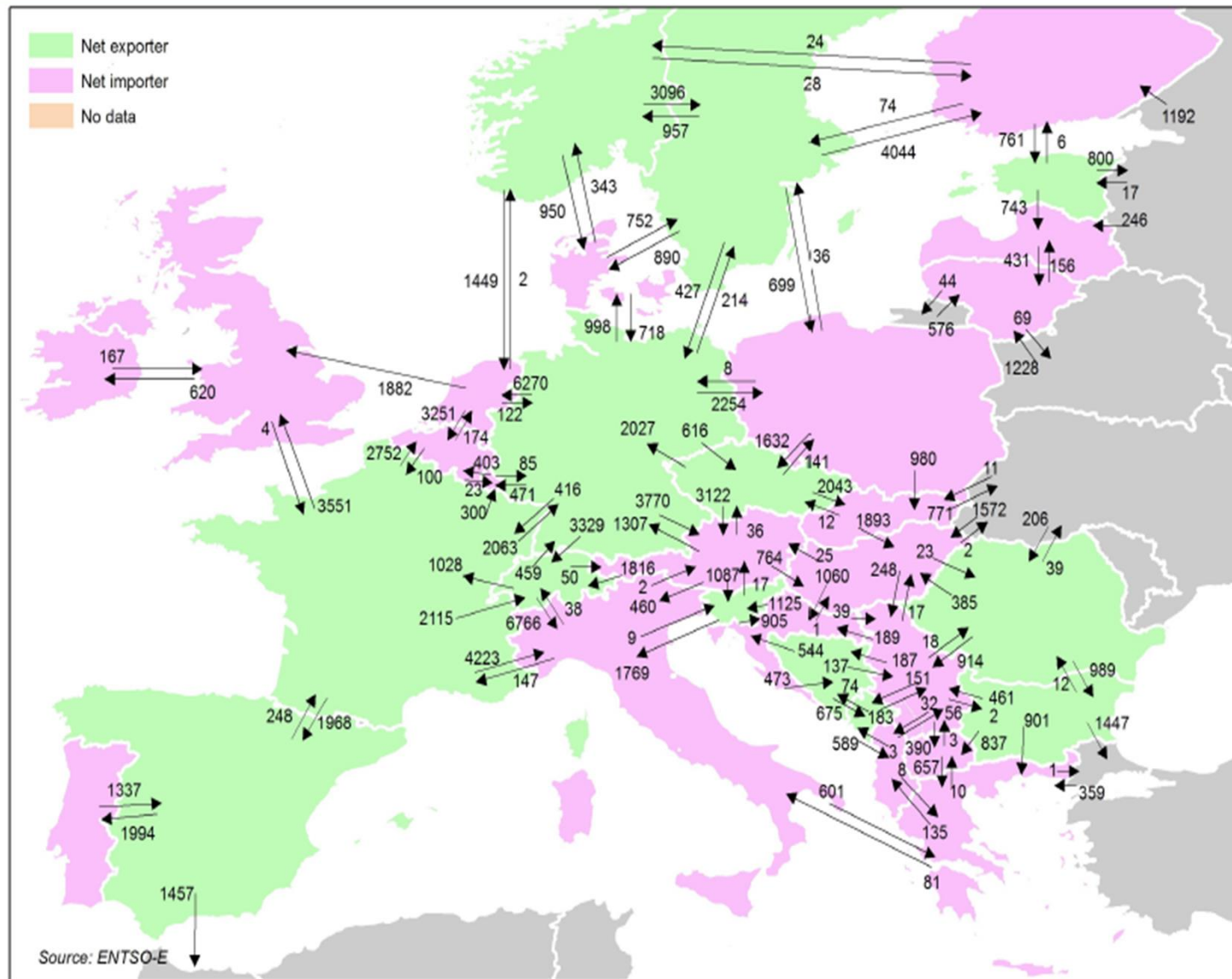
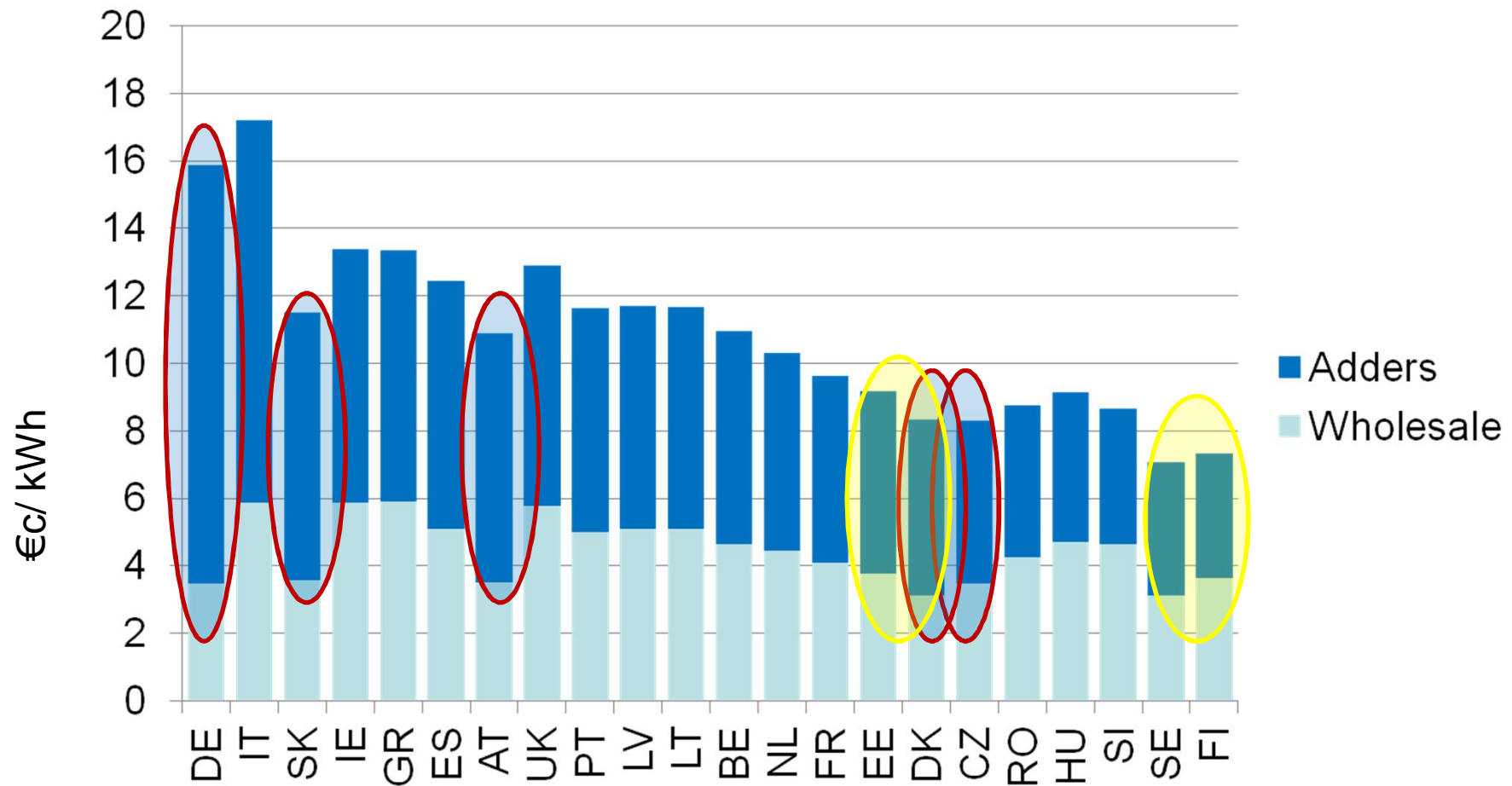
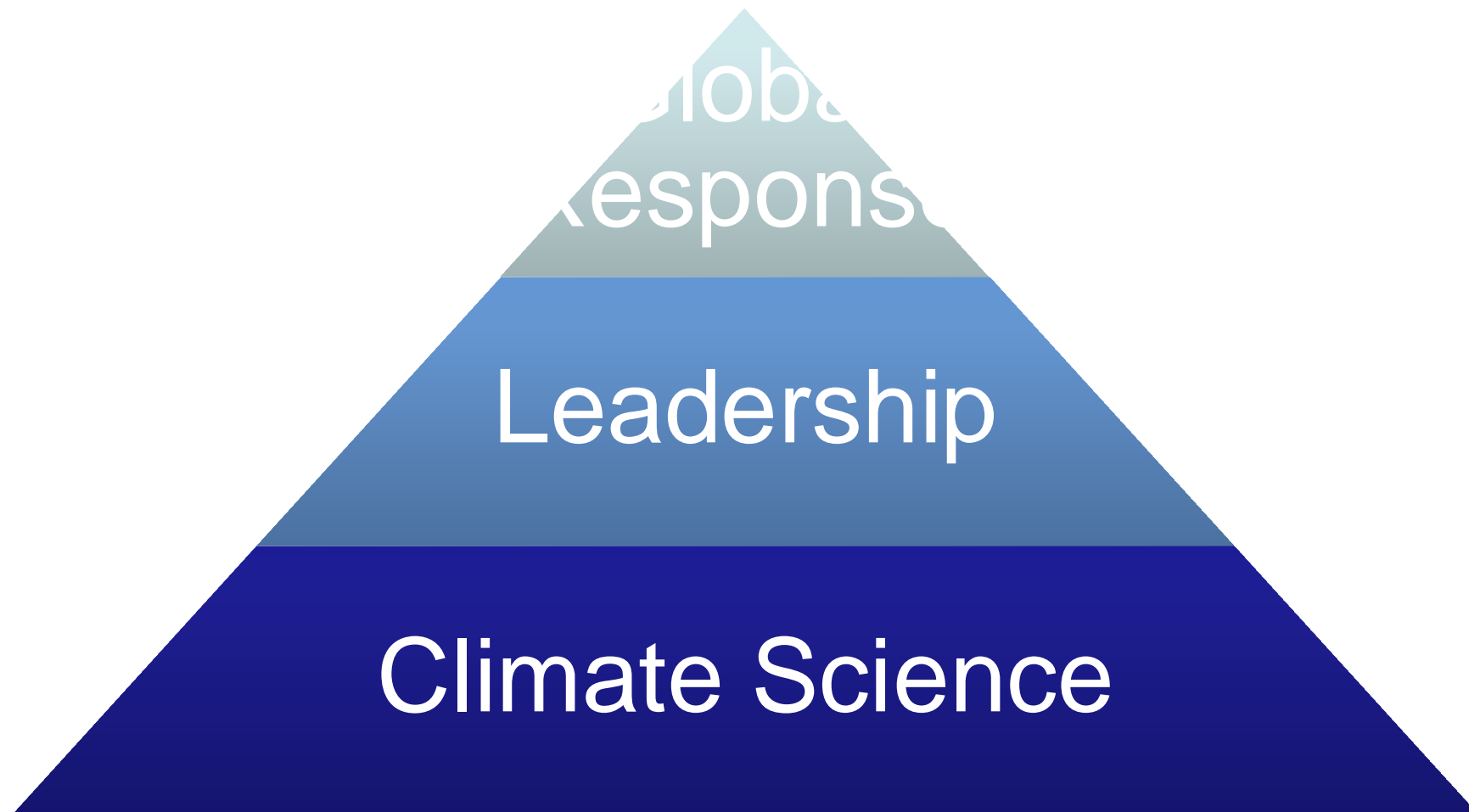


FIGURE 28 – COMMERCIAL ELECTRICITY FLOWS IN GWH IN SEPTEMBER – NOVEMBER 2014 (FINAL SCHEME)

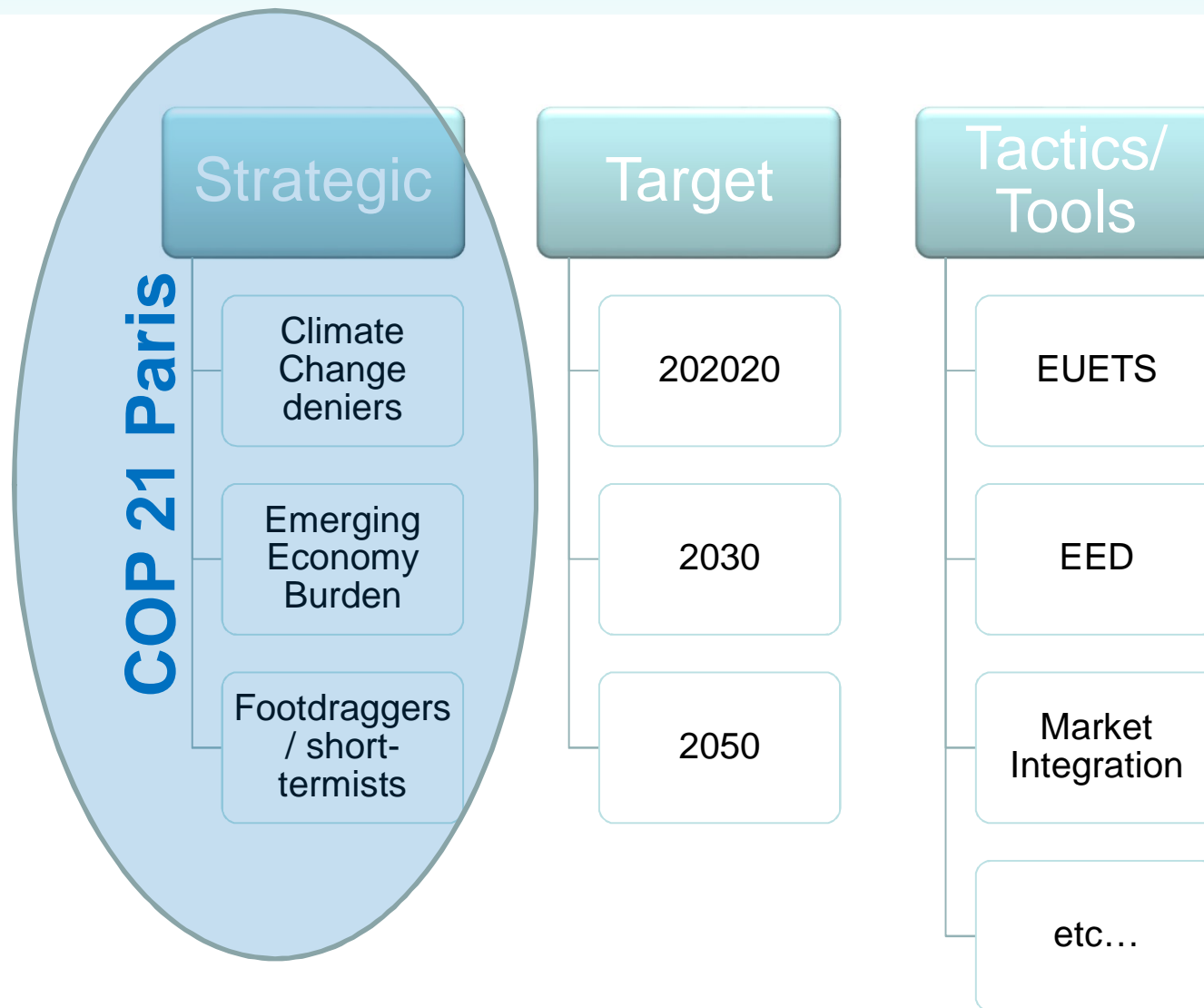
Add-on Costs



EU Climate Policy Intention

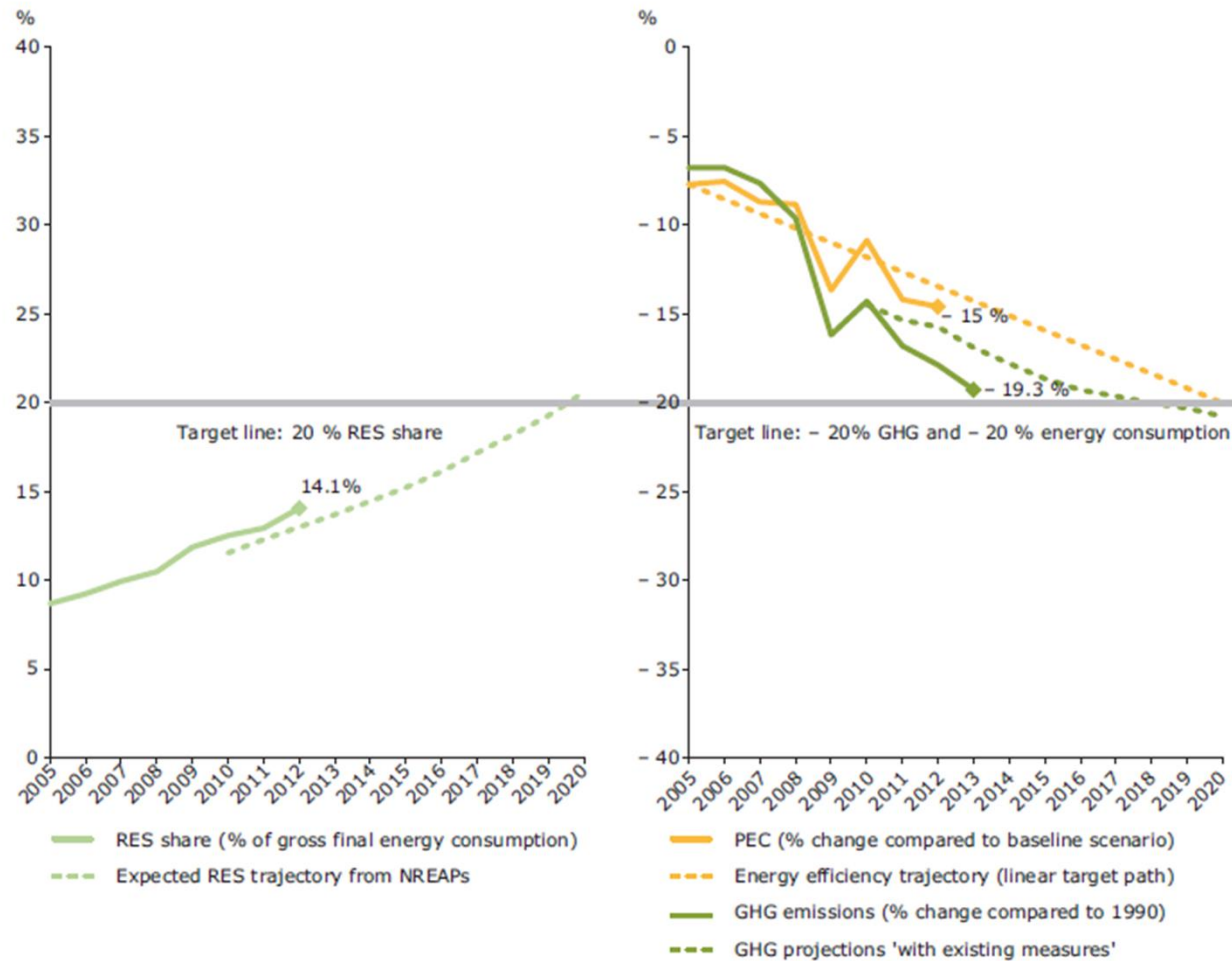


How to Deliver ?



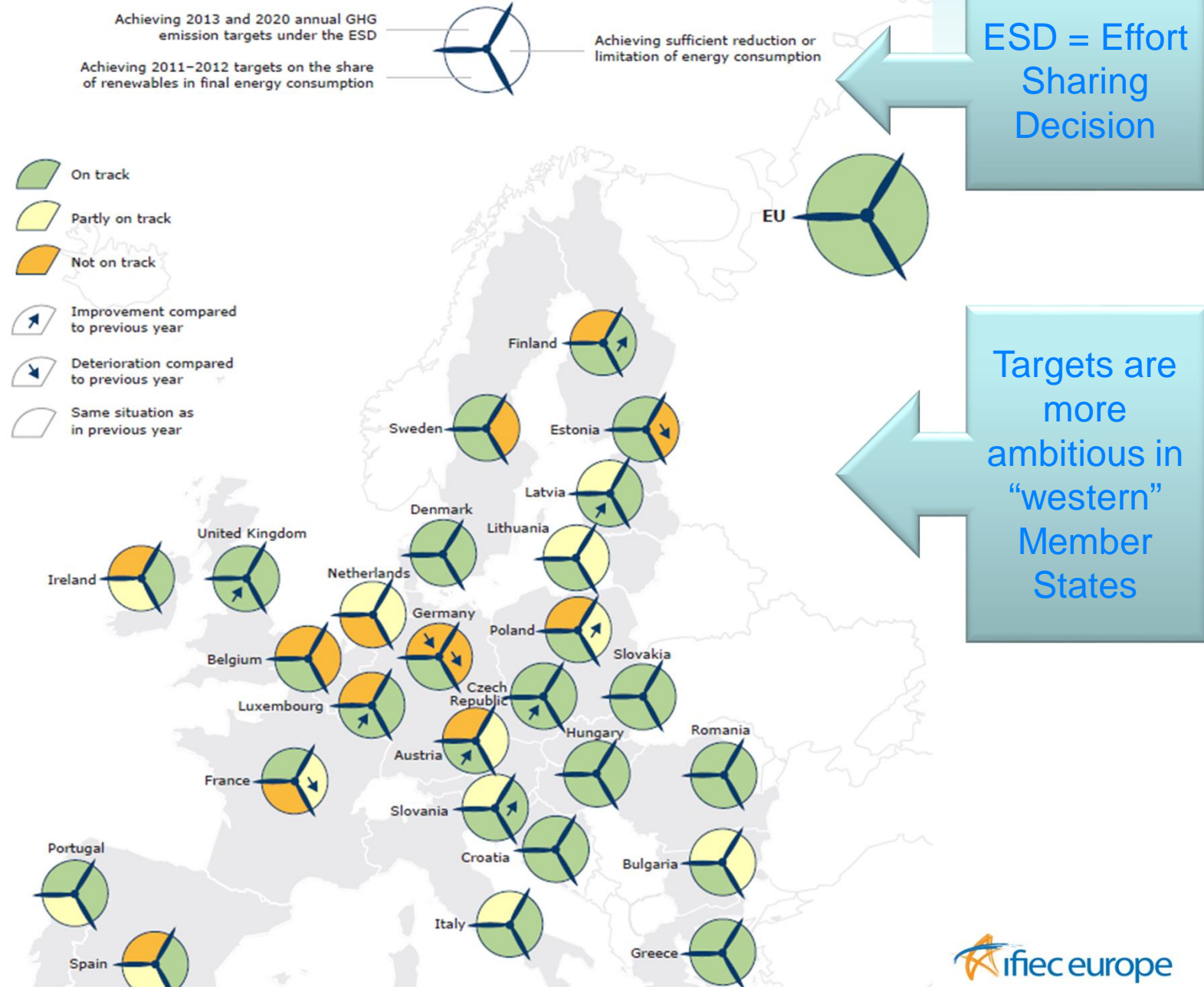
Progress – overall EU28

Figure 7.1 Current and projected progress of the EU-28 towards 20/20/20 targets



But
consumption
is depressed
due to
recession

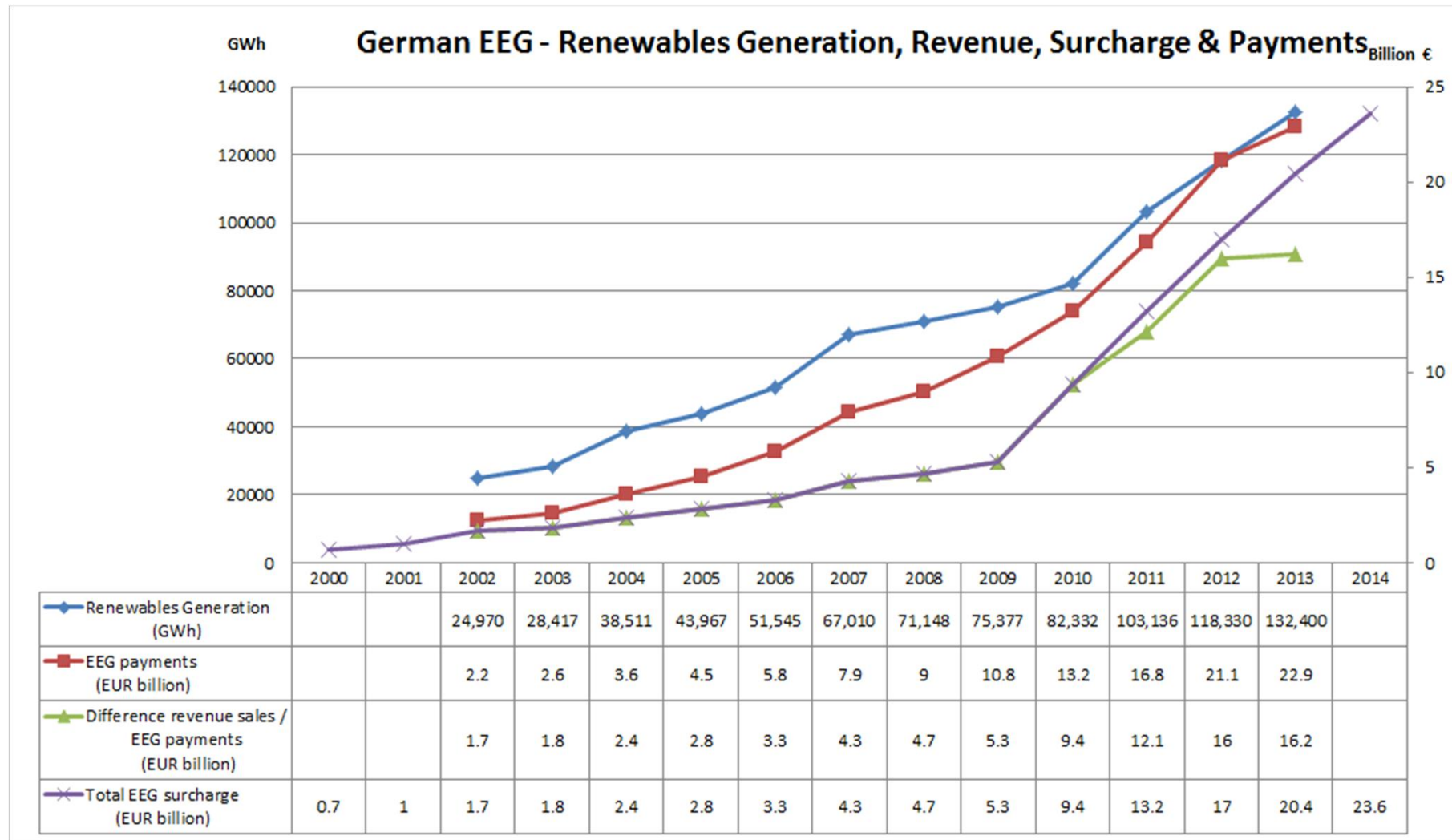
Figure 0.1 Progress of Member States towards 2020 climate and energy targets



Germany (and Britain)

- Aggressive targets for Renewables
 - GB closing Coal (age and LCPD) and some Nuclear
 - DE closing Nuclear faster
- What technology to support ?
 - Few options for Hydro
 - Scarce biomass
 - Limited sunshine
 - Tidal and SPV not well developed
 - Wind generation the most feasible short term
- Both introduced generous support regimes for wind

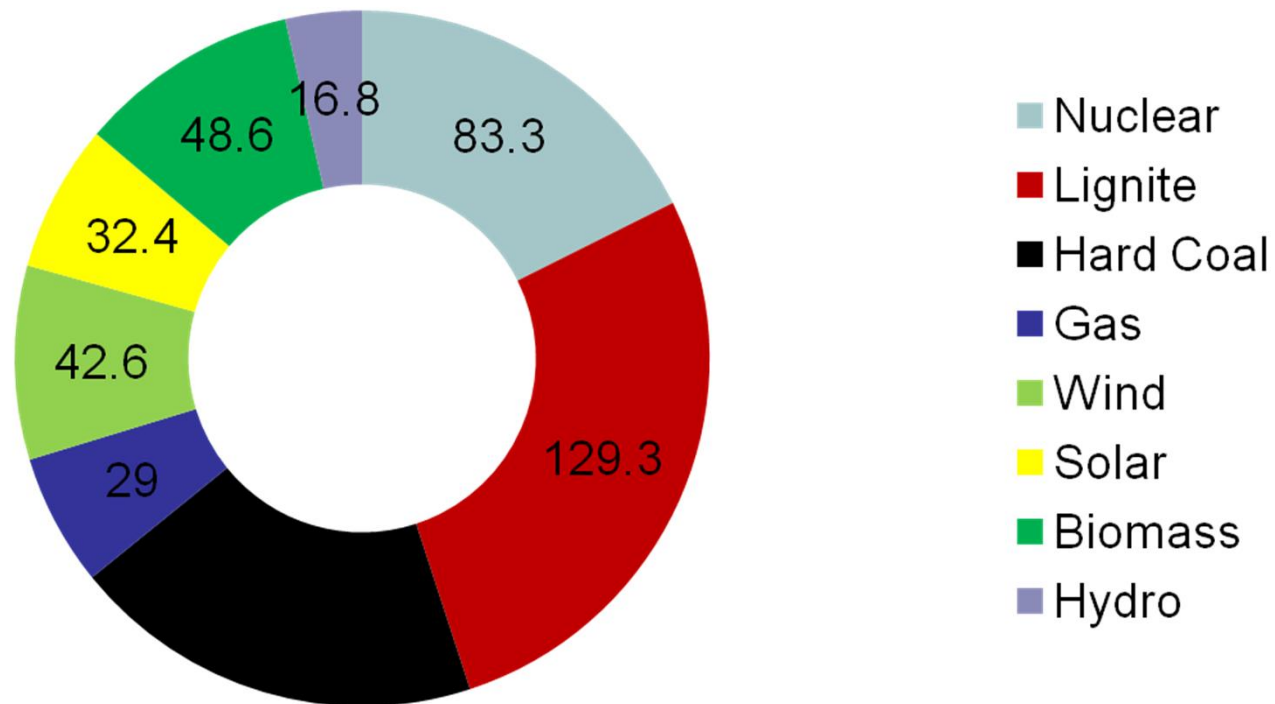
Renewables Subsidy cost in DE



~140 TWh = € 23,600 Million in 2014

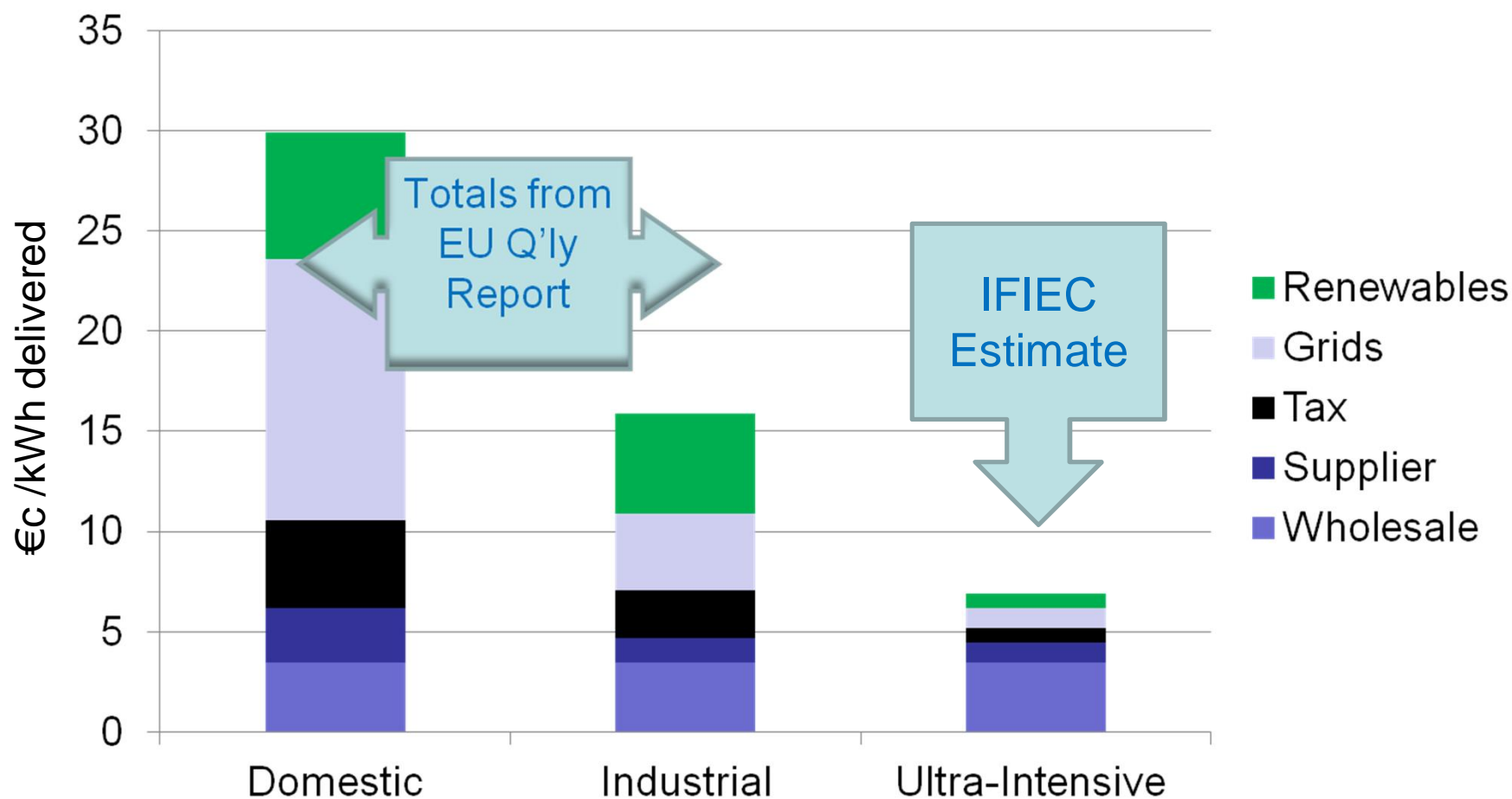
German Electricity Mix TWh

Output Jan-Nov2014



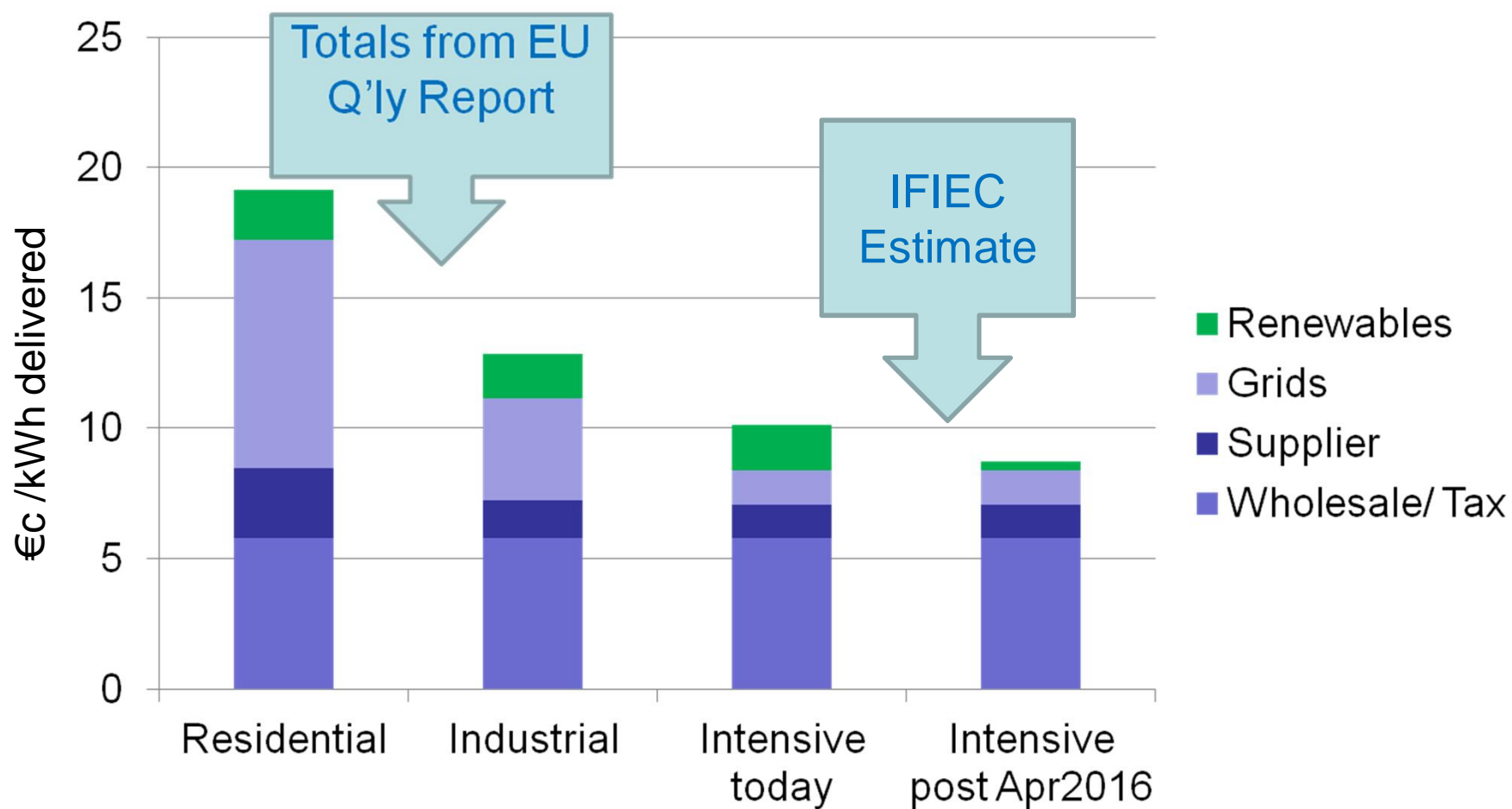
In Germany - who pays ?

Domestic consumers, retailers and SMEs



In Britain - who pays ?

All consumers



Conclusions

Vitally important to have global ETS by around 2020. In absence of effective global agreement by 2020, the principle of the EU cap must be revisited to build an ETS free of political meddling, that is more robust, predictable, effective and recession-proof.

EU energy and climate policy landscape is very confused, with too many influencers and too much at stake. Security of Supply strategy has been overlooked for too long. Different national markets need to be more integrated and more consistent. Capacity Mechanisms should be a last resort. Demand – Side should be encouraged.

IFIEC shares the goal but wants to find a cost-effective, straightforward route to a greener economy which doesn't simply leak Carbon emissions and jobs to less regulated, more polluting competitors. EEAG is a key step towards this if finance is available. Over-regulation of trading is a burden on the end-user and should be re-appraised.

Q&A

