+ Tekst Marga Edens + Fotografie Chris de Bode

The words that still remain
always stay the same.
Is grief the price we pay,
the price we pay?

The price we pay, King Crimson

Is the price we pay for energy the right price? The level of the electricity tariffs varies hugely in the different countries of Europe. Also the taxes for households and industrial electricity differ. This competition occurs also between Europe and the United States, where electricity prices are 50% lower. The best advice? Energy prices must be reduced, argues Marga Edens, Vice President Corporate Responsibility of RWE AG.

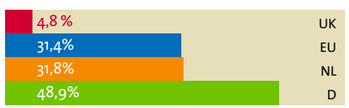
The price is right. Or is it?

"That's virtually free of charge", I said to my brother when he told me how much I had to pay the utility. "Are you sure the price is right, or have they forgotten a zero?" That was the one and only time I have ever wondered whether my energy bill was too low. But the context explains a lot. I was 10 years old and my brother, two years my junior, was the triumphant owner of the Electric Company, one of the properties on the Monopoly board. Now, I tend to wonder the opposite – like many other energy consumers along with me: am I not paying too much? Isn't the price of energy too high? In order to be able to answer this question, we first need to know how an energy tariff is put together. All European energy companies actually use a similar structure. If we look closely at their electricity tariffs, from households right through to bulk industrial consumers, we find the following components: commodity and production costs, transport costs, supplier costs and taxes and levies. But that's where the similarities stop. The level of the electricity tariffs varies hugely in the different countries. The difference in the proportion of the tariff made up by taxes and levies is even more extreme. Eurostat figures for the first semester of 2013 demonstrate this at a glance (see statistics 1 - 4). The situation in Germany stands out immediately. There, taxes and levies now make up more than 50% of the household electricity tariff. This is because the shift to renewable energy, known as the Energy Transition, has so far progressed more rapidly in Germany than in other European countries. The cost of this is recovered from consumers through a range of taxes and levies. But in most other European countries the government also accounts for a substantial portion of the energy tariff – and its increase. If we compare the first semester of 2013 with the same period in 2012, the increase was quite significant. (see statistics 5 - 6).

Household electricity prices-including taxes and levies

Annual electricity consumption
2,500 kWh - 5,000 Kwh (Eurostat Band DC)

Proportion of taxes and levies in electricity price



Annual electricity consumption 2,500 kWh - 5,000 Kwh (Eurostat Band DC)

Industrial electricity prices (bulk consumers)-including taxes and levies

Annual electricity consumption
70,000 MWh - 150,000 Mwh (Eurostat Band IF)

Proportion of taxes and levies in electricity price - without recoverable taxes, including levies -

Annual electricity consumption 70,000 MWh - 150,000 Mwh (Eurostat Band IF)

Source: Eurostat Situation as at: 1st semester 2013 (average)

These increasing prices present a problem both for industry and households. For industry, because energy costs are a key factor in determining competitiveness, especially if energy makes up a significant proportion of the total production costs and the end products are destined for export. In most European countries, the manufacturing industry is still an important economic factor that makes a substantial contribution to the national economy (in Germany 24%, in the Netherlands 18.6% and in the UK 15.5% – Eurostat 2010). This industry creates jobs, both directly and indirectly in the service sector. The interaction between industry and industry-related service providers is essential for ensuring innovation, growth and employment. The (energy-intensive) industry in countries with high energy prices is at a competitive disadvantage. This competition occurs between European countries, but also between Europe and the United States, for example, where electricity prices are 50% lower. If these differences become even greater, businesses will reconsider their investment decisions and conclude that it makes more economic sense to invest elsewhere. The effect of this investment leakage could be de-industrialization in some countries. That would obviously have multiple negative consequences in terms of innovation, growth and employment.

Domestic households, on the other hand, will not opt to move to another country for this reason. The price elasticity of their energy demand is also low. Despite continually increasing prices, households do not engage in major cost-cutting when it comes to energy expenditure since energy is a primary necessity of life. As a result, they need to spend an increasingly larger portion of their net income on energy. If 10% or more of the household budget is used on the energy bill, this is classified as energy poverty. According to a British survey from 2013, 8.1% of households in the Netherlands suffer from energy poverty; in Germany that figure is 12.6% and in the UK it is as high as 19.2%. (However, the high UK figures are in part caused by the often poorly-insulated housing). If policy remains unchanged, the percentage of households burdened by high energy costs will increase rapidly in the years ahead.

High energy prices therefore have far from pleasant consequences. As a society, we might be prepared to accept this for a certain period, if we had the certainty that these high prices would help us progress towards a more sustainable energy supply. But that is not happening: the proportion of renewable energy is growing disappointingly slow. At a European level, we have to do our very best to achieve 20% by 2020. For the decade after that, our ambitions appear to stagnate at around 27%.

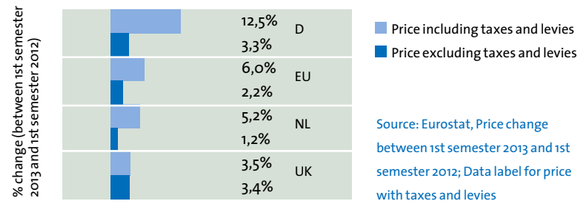
The main reason why energy prices are so high is because the government imposes all kinds of taxes and levies on top of the directly accountable costs. Anyone who expects these levies to benefit the energy sector and increase sustainability will be disappointed. Most of the money becomes part of the general resources that the government uses to finance all kinds of policy areas.

We also need to realize that much of the cost to society of today's predominantly conventional energy supply (the environmental impact, for example) is not accounted for in the energy prices. If we also included these so-called external costs, energy prices would rise still further. This is why it is time that we took a renewed look at the price of energy. It is not a question of adapting one or two components of the price, but rather asking ourselves whether the price we pay covers all of the costs associated with energy *and* whether (temporary) additional levies will bring a sustainable energy supply a step closer. We need to break the current vicious circle. Energy prices must be reduced. And this can happen if governments stop levying too much tax on energy without using the revenue for increased sustainability and if energy companies open their eyes to the costs they cause for society. Governments and energy companies must jointly take responsibility for a gradual transition towards a sustainable energy supply and for pricing energy in a way that achieves that sustainability. This would result in a different breakdown in the tariff and – in the long term – in a lower price.

If that happens, I will happily take out my game of Monopoly again, in the hope that this time it will be me who becomes the owner of the Electric Company. ■

In June 2012, Marga Edens took over as Head of Corporate Responsibility, incl. Environmental Protection, Diversity and RWE Stiftung (RWE Foundation) in the Group Center of the RWE Group.

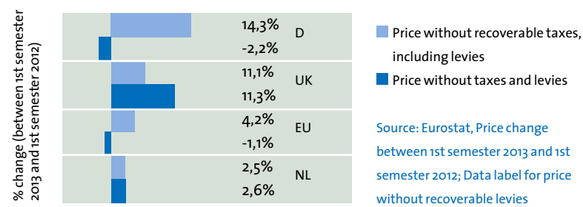
Price changes in household electricity



Source: Eurostat, Price change between 1st semester 2013 and 1st semester 2012; Data label for price with taxes and levies

Annual electricity consumption 70,000 MWh - 150,000 Mwh (Eurostat Band DC)

Price changes in industrial electricity(bulk consumers)



Source: Eurostat, Price change between 1st semester 2013 and 1st semester 2012; Data label for price without recoverable levies

Annual electricity consumption 70,000 MWh - 150,000 Mwh (Eurostat Band IF)