

# RES<sup>1</sup> Support and Industry Support mixed up in EU

The result is lack of transparency and random distortion of markets

It is evident that Danish households face the highest electricity prices in the EU, but is it true that the levy for RES support on the electricity bill<sup>2</sup> hurts the competitiveness of Danish enterprises? The Danish government wants to ease the burden on Danish industry by moving the support from the electricity bill to the state budget.

The electricity prices *for households* in Germany and Denmark were compared in a post on <http://pfbach.dk/> from 23<sup>rd</sup> October 2015<sup>3</sup>. Unfortunately, comparable statistics on electricity prices *for industrial use* in Europe seem not to exist.

## Eurelectric: Incomparable Price Data Reported to EC

Eurelectric has compared EC data<sup>4</sup> with their own data in a report<sup>5</sup>. There are three main price components:

- Energy and supply
- Network
- Taxes and Levies

Eurelectric divides the last group into two:

- Taxes
- Policy Support Cost (PSC or levies)

PSC can be support for renewable energy sources (RES), island systems, combined heat and power (CHP), nuclear decommission, energy efficiency, vulnerable customers and other matters. In Denmark, PSC is known as PSO (Public Service Obligation).

The problem of the EC data is that PSC can be included in taxes and levies (e.g. Norway), in energy cost (e.g. Sweden), in network cost (e.g. Denmark) or in the state budget (e.g. Finland). Therefore, the EC data cannot be used for comparisons of PSC.

The first two Eurelectric key messages:

- *Transparency in the way electricity statistics are collected, validated and disseminated is missing. As a result, customers are not able to see what they pay for.*
- *Member states reporting to the European Commission can include policy support elements – for instance support given to specific generation technologies – in any of the three components (energy & supply; network; taxes & levies). These non-standardised reporting obligations lead to a lack of comparability.*

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<sup>1</sup> RES: Renewable Energy Sources

<sup>2</sup> In Denmark known as PSO (Public Service Obligation), elsewhere better known as PSC (Policy Support Cost)

<sup>3</sup> [http://pfbach.dk/firma\\_pfb/pfb\\_have\\_german\\_electricity\\_prices\\_stabilized\\_2015\\_10\\_22.pdf](http://pfbach.dk/firma_pfb/pfb_have_german_electricity_prices_stabilized_2015_10_22.pdf)

<sup>4</sup> <http://ec.europa.eu/energy/en/topics/energy-strategy/2030-energy-strategy>

<sup>5</sup> Eurelectric: Analysis of European Power Price Increase Drivers, May 2014

Eurelectric's overview of household prices confirms that Danish households have the highest electricity cost in Europe. The energy component in the Danish cost (about 50 €/MWh in 2012) was reasonable in comparison with other European countries. Most of the Danish PSO (about 21 €/MWh in 2012) is additional energy cost.

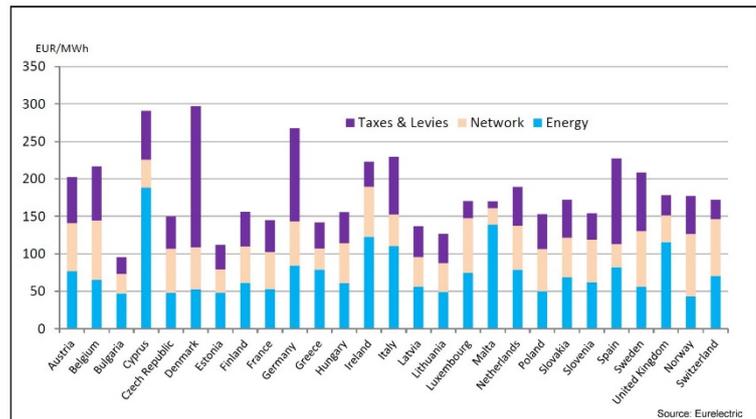


Fig. 1 - Household price components by country in 2012

Unfortunately, Eurelectric did not provide a similar chart for industrial customers. The Eurelectric report explains: *"In several countries taxes imposed on industrial consumers are recoverable. Furthermore a significant number of tax exemptions exist."*

## Industrial Prices from Eurostat

Eurostat has a table with electricity prices for industrial consumers.

Eurostat has this reservation: *"As industrial/business users are usually able to recover VAT and some other taxes, prices for enterprises are shown without VAT and other recoverable taxes/levies/fees in this article."*

Therefore, it is uncertain to which degree non-recoverable taxes/levies/fees are included in the chart. Danish PSO seems not to be included although it is non-recoverable.

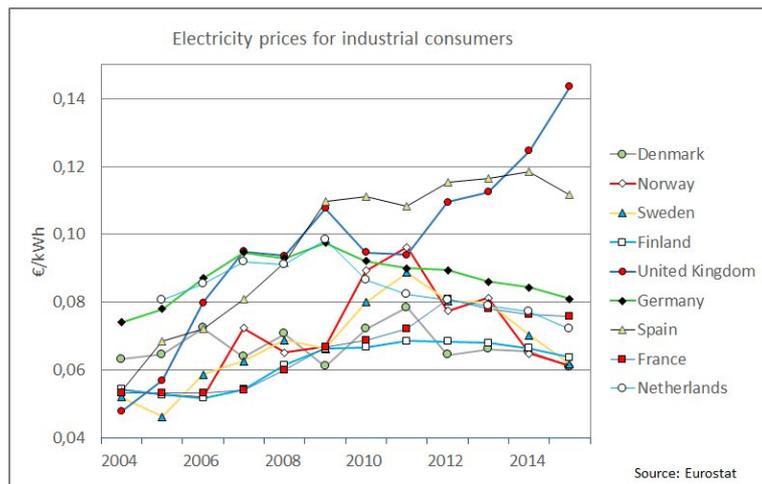


Fig. 2 - Industrial electricity prices for selected countries

Fig. 2 does not support the view that Danish industrial consumers are in an unfavourable competitive position, but it is uncertain if the chart presents a realistic comparison of the prices.

## Policy Support Cost in 2012

The Eurelectric report shows industrial PSC levels for 2012 (fig. 3). The general impression is that the PSC rules vary a lot among the EU countries. The differences must influence the electricity markets.

The Danish PSC (= PSO) is far from the top (Italy and Germany), but higher than for some important competitors:

- Denmark: 21 €/MWh
- UK: 16 €/MWh
- Sweden: 4 €/MWh
- Norway: 2 €/MWh
- Finland: 0 €/MWh
- Netherlands: 0 €/MWh

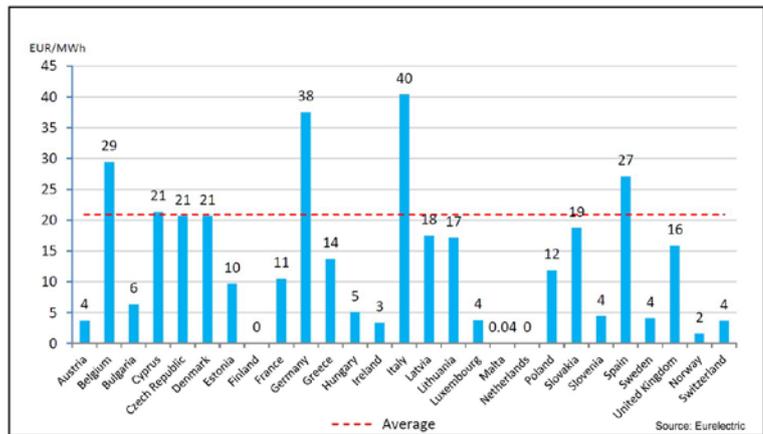


Fig. 3 - Industrial PSC in 2012 by country. Harmonized PSC levels in electricity bills might contribute to level playing fields in the markets.

Fig. 2 suggests that all four Nordic countries had the same price level in 2015. If we assume unchanged PSC levels since 2012, industrial consumers in Denmark must pay 17-21 €/MWh (or 1.7 to 2.1 ct/kWh) more than comparable consumers in the other Nordic countries<sup>6</sup>.

## Industrial Prices in Denmark and Germany

This section compares industrial electricity prices in Denmark and Germany.

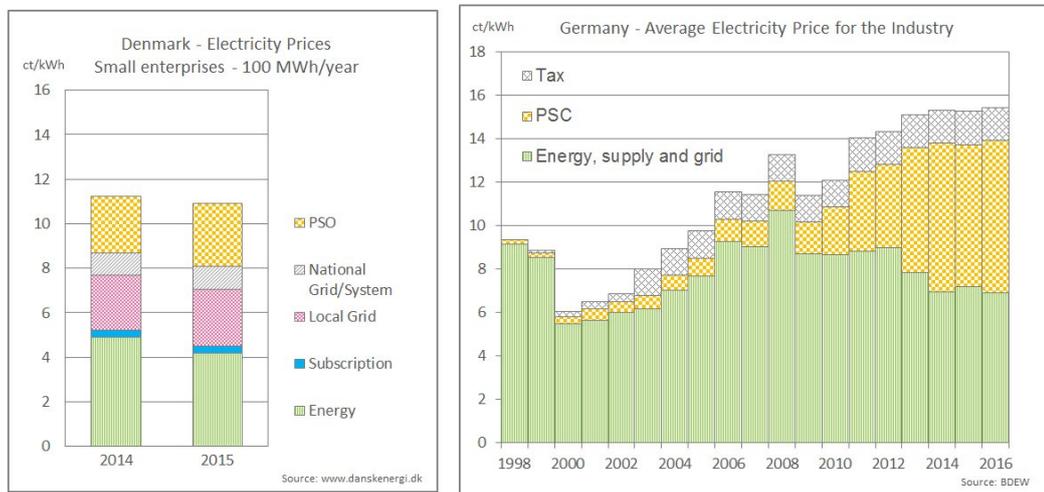


Fig. 4 - Average electricity prices for industries in Denmark and Germany

It is not a new state of things that electricity prices in Denmark are somewhere between lower Nordic prices and higher German prices. It has been the case for decades.

The Danish cost of transmission and distribution seems to be remarkably high.

<sup>6</sup> Danish PSC (or PSO) is the same amount per kWh for all types of consumption.

The electricity prices give Danish enterprises a clear competitive advantage in comparison with German competitors.

The German prices in fig. 2 for 2014 and 2015 (8.44 and 8.09 ct/kWh) could approximately match fig. 4 (Grid, supply and energy plus Tax: 8.73 and 8.43 ct/kWh).

The Danish prices for the two years in fig. 2 are 6.54 and 6.09 ct/kWh. It is hard to find a meaningful combination with these prices in fig. 4. A possible explanation could be that the Eurostat prices are based on larger consumers (GWh scale instead of MWh scale).

## **Conclusion**

It is understandable that Danish enterprises would like to be able to compete with not only German suppliers, but also with the other Nordic countries. From an EU perspective, the PSC variations from country to country must distort competition. The European markets are supposed to be level playing fields. This note demonstrates that there is still a long way to go. A harmonisation of PSC could be a useful first step.

Even if the available price statistics were reliable and comparable, local industries could be supported in many other ways. It would take a much more comprehensive investigation to estimate if Danish PSO support is a real competitive disadvantage to Danish enterprises.

Of course, the enterprises would like to avoid PSC. In the absence of objective evidence, the Danish scene is open for political arm wrestling about the money.