

Press Release

Monopolies Commission publishes Special Report on the situation of competition on the energy markets

- Monopolies Commission criticizes negative effects on competition due to the inefficient implementation of the Energiewende. In the Monopolies Commission's view, the Energiewende is currently suffering from the disregard of competition principles.
- Monopolies Commission calls for a more pronounced recognition of competition principles in public energy policy. In the area of renewable energies, it particularly recommends the introduction of an aid system following the Swedish example.

The German Monopolies Commission (Monopolkommission) has submitted its 4th Special Report under Sec. 62 of the Law on the Energy Industry today, bearing the title: **“Energy 2013: Competition in times of the Energiewende”** (“Energie 2013: Wettbewerb in Zeiten der Energiewende”). This comprehensive analysis of the German electricity and gas market reveals competition and efficiency problems on various markets in the energy sector, making numerous recommendations for an efficient solution of existing problems. In a special section, the Monopolies Commission analyzes the **implementation of the Energiewende** (= Energy Turnaround). In this context, it notes substantial **efficiency deficits** – e.g., due to **excessive subsidies** – which give rise to unnecessary cost and price increases.

Cost increases are resulting not only from the current **subsidies for renewable energy sources**, but also from the indispensable **extension of energy grids** and additional balancing and compensation mechanisms. In response to the enormous structural changes brought about by the Energiewende, certain principles alien to competition policy were introduced which urgently should be revisited. Among others, the Monopolies Commission suggests putting the aid support for renewables on a new basis through the establishment of a **competitive and technologically neutral quota model** following the Swedish example; steering the geographical settlement of production facilities effectively through the introduction of a premium on the network charges; and desisting from the imposition of additional costs through the hasty introduction of **capacity markets**. “Only the consequent re-orientation on the principles of efficient competition will allow politics to keep control of the costs of the Energiewende”, says the chair of the Monopolies Commission, Prof. Daniel Zimmer. The discussed introduction of a Federal Ministry for Energy, in contrast, would have less advantages than disadvantages, and as such would not guarantee any substantial improvements.

The Monopolies Commission further assesses in detail progress in the evolution of the **internal market for electricity and gas energy**. Welcoming the trend towards further integration, it still does not see the definite emergence of an internal market for energy. Based on an analysis of competition in electricity wholesale, it discovers a **substantial decline in the large German producers' market power** in contrast to earlier market assessments.

The Monopolies Commission hereby presents a concept including numerous suggestions concerning these subject matters, security of supply and the regulation and extension of the energy grids.

Monopolkommission

Monopolies Commission concept for the facilitation of competition on the energy markets

The Monopolies Commission suggests the consequent implementation of the following measures of energy policy:

Aid systems for renewable energy

In the future, the aid system for renewable energies should be modeled in a way that:

- the national aid system for renewables and the European emission trade are adapted to one another, to ensure the achievement of emission targets;
- the aid for renewables is put on a new basis through the introduction of a competitive and technologically neutral quota model following the Swedish example;
- the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz), in the future, sets a long-term path for the annual additional construction of production plans; and
- producers receive no aid whenever exchange market prices are negative.

Security of supply during the Energiewende

Security of supply can be secured by means of the following:

- the reduction of network imbalances through the extension of grids and any available alternative mechanisms;
- the creation of a small-scale strategic capacity reserve, which secures continuous coverage of total capacity demand;
- the ongoing evaluation of the demand for capacity mechanisms through the Market Transparency Unit and the Federal Network Agency and, if necessary, the preparation of an introduction of capacity markets in cooperation with the other Member States in the long run.

Regulation and extension of energy supply grids

The regulation of electricity and gas networks should be improved by means of:

- an assessment of the balance between the costs and the benefits of regulation, especially prior to the period of incentive regulation starting in 2019;
- an assessment of the incentive regulation with regard to the appropriateness of investment remuneration, in particular for distribution network operators;
- an adjustment of network charges, raising the base charge in order to meet the problem of grid parity;
- the evaluation and support of an additional pooling of gas wholesale market regions in order to increase trade liquidity, the security of supply, and the variety of products;

- the comprehensive integration of all gas products in the joint trading platform “PEGAS” in order to avoid trade inefficiencies;
- a comprehensive design of network codes; and
- the submission of concessions for the operation of energy supply grids under the rules on formal tender procedures (Sec. 97 et seq. of the Act against Restraints on Competition). The award of the concession should be determined by the offered discount on grid usage fees. A provision to this effect should be added to Sec. 46 of the Law on the Energy Industry.

The network extension mandated by the Energiewende can be reduced by means of the following:

- existing alternatives to grid extension (e.g., demand side management) and options for transmission reductions are taken into account to a wider extent during extension planning;
- a cost-neutral and geographically differentiated network fee borne by energy producers (or: network premium) is introduced in order to set incentives that the locations of production and consumption gradually move closer.

Wholesale

In order to invigorate competition in the wholesale of electricity and gas, the following measures should be implemented:

- the Market Transparency Unit is used as a platform for cooperation and learning by the agencies responsible for the energy trade, and by external experts;
- the Market Transparency Unit's and ACER's data records are made available to researchers for study, with a time lag and on a competitively neutral basis;
- the systems for bottleneck management in the electricity and gas sector are expanded, and a European internal market is effectively established.

The Monopolies Commission is a permanent, independent expert committee, which advises the German government and legislature in the areas of competition policy-making, competition law and regulation. Its legal responsibilities encompass, among others, the preparation of a Special Report analyzing the development of competition in the electricity and gas markets. The Monopolies Commission has five Members appointed by the Federal President based on a proposal of the German government. Prof. Dr. Daniel Zimmer of Bonn University is the chair of the Monopolies Commission.