



**Labour's
Policy
Review**

Learning from Germany's 'Energiewende'

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The UK can learn lessons from Germany's rapid growth in renewable energy, which has been the driving force behind radical changes to their energy market in the last decade.

The energy market in the UK is not working in the public interest. It is dominated by just six companies. Independent suppliers tell us they find it difficult to compete with incumbents, and individuals and communities play only a small role in energy generation. This lack of competition means energy prices are higher than they might otherwise be. A recent report by IPPR suggests that with more competition in the market, bills could be as much as £70 less per year .

To add to this, switching between energy suppliers reached its lowest ever level in the first quarter of 2012 - this is not because customers are all happy with their energy providers, but rather because there has been a loss of faith in the energy market. Five of the 'Big Six' energy companies are currently under investigation by Ofgem, while their profits continue to soar. The public will be getting a raw deal if they are forced to stomach even higher bills and bear the cost for investment in our energy infrastructure, while the big energy companies get away with making more profits and paying out more to their shareholders.

In Germany, a focus by the Government on renewable energy and a willingness to take on the vested interests of the big energy companies has been the driving force behind radical changes in the market. Feed-in tariffs coupled with grid priority access for renewables have brought forward investment from different kinds of investors, not just the big utilities, meaning the big utilities no longer control energy supply in the way they once did. In fact, E.On has built more renewable assets over the last decade in the UK than in Germany, whilst companies like Bosch and Siemens have led the way in Germany, along with a revival of cooperatives.

The Government has also supported individuals and communities who wish to generate energy, through financial products offered by the Kreditanstalt fur Wiederaufbau (KfW). Today, 65 per cent of renewable energy capacity in Germany is owned by individuals and communities, compared to 10 per cent in the UK.

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In contrast, the Tory-led Government's Draft Energy Bill has nothing in it to protect the consumer or to support the kind of community and individual led generation that has been seen in Germany. Labour will continue to push the Government on this, and we will be looking closely at how Germany has achieved such a transformation in an energy market that has traditionally been dominated by just four big energy companies.

Caroline Flint, Labour's Shadow Secretary of State for Energy and Climate Change:

"Reform of the energy market must work in the interests of the consumer, not the Big Six energy companies.

The Energy Bill is an opportunity to fundamentally reform the market, but as it stands the bill does nothing for consumers, and nothing to actually reform the way the market works.

We should be standing up to vested interests in the energy market, and finding ways to make it easier for small companies, communities and individuals to compete."

Why opening up the energy market matters

In the UK the energy market is dominated by the 'Big Six' energy companies, in fact 99 per cent of households and 94 per cent of businesses get their energy from one of the 'Big Six'. There are a number of smaller energy companies, but they find it difficult to compete because of the way the market is structured. The energy generation side is dominated by big companies too, with individuals and communities owning less than 10 per cent of generation capacity.

Independent suppliers in the energy market face significant barriers because of the way the market is structured and because of the dominance of the 'Big Six', who both generate and supply energy. These challenges are at risk of being exacerbated by the Government's energy market reforms. Independent suppliers are concerned that measures included in the Energy Bill will create significant new hedging and cash flow risks that impact disproportionately on small suppliers. And, with measures like Energy Company Obligation (ECO) kicking in when a company reaches 250,000 customers, they are faced with a disincentive to grow.

In addition to this, individuals and communities only play a relatively small role in energy generation in the UK. There are some good examples of community energy projects here in the UK, a few of which are described in the box below, but there is more to do. Private individuals play a large role in renewable energy generation in Germany, with 65 per cent of renewables owned by individuals or communities. In the UK individuals and communities own less than 10 per cent of renewable energy generation.

As a result of the lack of competition in the energy market, customers are not getting the best prices they could. IPPR have argued that up to £70 per year would be knocked off customers' bills if the energy market was truly competitive, but the way the market is operating at the moment means operating costs are not coming down, as would be expected in a competitive market .

Switching energy supplier can help customers to get a better deal, but knowing where to go to find the best deal can be difficult. Some of the big energy companies are making progress in terms of reducing the number of tariffs they offer, which should make switching easier, but there is still a way to go to ensure that everyone can access the best deals on offer.

Relying on customers switching will not be enough to drive competition in the market. Customer switching has dramatically reduced under the Tory-led Government, reaching its lowest ever level in the first quarter of 2012. We need to look more fundamentally at how we can open up the market to new suppliers, so that energy generation and supply is not concentrated in the hands of only a few big companies.

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- ⁱ Platt, R., 2012, 'The true cost of energy: How competition and efficiency in the energy supply market impact on consumers' bills.'

Case studies

Brixton Energy

Brixton Energy is a not-for-profit co-operative based in south London. They aim to create cooperatively owned renewable energy projects whose financial revenues stay within the local community. Their first project, completed in March, has installed several hundred square metres of solar panels on the roof of Elmore House in the Loughborough Estate in Brixton. Part of the income generated will be reinvested in The Community Energy Efficiency Fund for energy-saving improvements in the local area.

Ecoisland

The Ecoisland Partnership, a Community Interest Company, aims to make the Isle of Wight the first energy self-sufficient place in Britain. There are plans for a wide range of renewable technologies installed with the resulting generated energy integrating with a smart electrical grid, enabling the Isle of Wight to become energy independent from mainland Britain and, eventually, an energy exporter. Money made from energy generation will be used to fund into a number of community initiatives.

Learning from Germany

While the UK has slumped from third in the world to seventh for clean energy investment under this Tory-led Government, Germany has risen from seventh to third. Last year, investment in clean energy in Germany was \$30.6bn - more than three times the investment in the UK . In 2000, Germany produced 6.4 per cent of its power from renewables, but by 2011, this was 20.1 per cent . And the German Government intends to generate 35 per cent of its power from renewable energy by 2020. At the same time, Germany's economy saw growth of 3.7 per cent and 3 per cent in 2010 and 2011 and is still growing. In the UK, on the other hand, we saw weak growth during 2010 and 2011, and are now in a double dip recession. This isn't to say that investment in renewable energy is all we need to do to get out of the recession, but it can play an important part.

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- ⁱⁱ HoC Hansard, Written Answers, 11 June 2012 and 16 June 2012: <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120611/text/120611w0007.htm#12061226001273> and <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120716/text/120716w0003.htm#12071634001409>

The German Chancellor, Angela Merkel, sees low carbon energy as an opportunity, saying:

"We believe we as a country can be a trailblazer for a new age of renewable energy sources. ...We can be the first major industrialised country that achieves the transition to renewable energy with all the opportunities - for exports, development, technology, jobs - it carries with it."

But this Government does not see this opportunity. At last year's Conservative Party conference, George Osborne said:

"We're not going to save the planet by putting our country out of business ... so let's, at the very least, resolve that we're going to cut our carbon emissions no slower, but also no faster, than our fellow countries in Europe."

One of the ways Germany has achieved such growth in renewable energy investment is by opening up the energy generation market to new investors. Like the UK, Germany's energy market has traditionally been dominated by a small number of energy companies - in the UK we have the 'Big Six', in Germany there have historically been just four large energy companies dominating the market. But with renewable energy, a significant amount of growth has come from other investors - in fact, less than 15 per cent of renewable generation is owned by the big utilities.

There has been a revival of cooperatives in Germany. In 2011 alone, more than 150 energy cooperatives were founded, and the German Cooperative and Raiffeisen Confederation (DGRV) expects the figure to be higher for 2012. One such cooperative is the Starkenberg eG energy cooperative, who just last year started generation using a wind turbine in southern Hesse. There had originally been opposition to the windSTARK 1 project from local residents, but once they were given opportunity to invest, acceptance began to increase, and 230 people from the region invested in the turbine. As Micha Jost, board chairman of Starkenburg eG says, "If you've got to look at it, you might as well get the benefit."

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- ⁱⁱⁱ PEW Environment Group, 2012, 'Who's winning the clean energy race?'
 - ^{iv} Bundesamt
 - ^v <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>
 - ^{vi} BBC, May 30, 2011
 - ^{vii} George Osborne, Speech at The Conservative Party Conference, 2011

So what has enabled new kinds of investors to lead the way in renewable energy generation?

Germany's economy is built around designing and producing products which require significant energy inputs for both manufacturing and distribution. This, coupled with a deep-rooted environmental movement there, has been the driving force behind Germany's 'Energiewende', or energy transformation.

The German Government has not been afraid to take on the big utilities. Feed-in tariffs have provided the incentives to attract a new class of investors to promote the growth of renewable energy. On top of this, giving grid priority access for renewables has meant that German solar and wind energy are the first sources fed into the energy system, leaving the 'big four' incumbent power providers to alter their output to balance the system. This means that they no longer control the energy supply in the way they once did. Companies and organisations whose mainstream activities lie outside of the energy industry can play a major role as renewable investors. In Germany, companies like Bosch, Siemens, VW and BMW have led the way in Germany's 'Energiewende', not the big utilities.

The German Government has also got behind small companies and community groups, through the Kreditanstalt für Wiederaufbau (KfW). The KfW is a second tier bank, and provides commercial banks with liquidity loans at low rates and long maturities. It is funded principally through bonds guaranteed by the Federal Government and is exempt from corporate tax, enabling it to provide loans at a lower rate than commercial banks. The KfW offers a variety of products including products for private individuals and not-for-profit organisations who wish to generate renewable energy as well as for companies working on deep geothermal and offshore wind development.

Developing this agenda

Labour is looking at how we would do things differently if we were in Government. As part of our policy review work we will explore what we can do to improve liquidity and transparency in the energy market, to support new entrants and drive down costs for consumers, as well as how we can encourage community involvement in generating renewable energy. In addition to this we are also thinking about how we can develop an active industrial strategy for low carbon jobs and growth in the UK.

You can find out more about our policy review work at:

shadowdecc.org.uk/policy-review