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Article

"Direct marketing of renewable energy creates new risks for investors": Eight questions to Karsten Neuhoff

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Prof. Karsten Neuhoff, Ph.D., Head of the Climate Policy Department at DIW Berlin

EIGHT QUESTIONS TO KARSTEN NEUHOFF

»Direct marketing of renewable energy creates new risks for investors«

1. Mr. Neuhoff, the EEG originally guaranteed a fixed remuneration for the feed-in of electricity from wind energy. In 2012, the possibility of voluntary direct marketing was introduced. Why? Before 2012, EEG-related electricity was basically collected by the network operators and simply sold on the wholesale market. There were no incentives to make good forecasts or good sales. From that came the idea of convincing private actors to sell electricity and, with that, have incentives to place the electricity optimally in the market.
2. Since August 2014, the direct marketing is mandatory for new power plants exceeding a certain size. What was the legislature's thought process here? Because the additional costs of the direct marketing were difficult to predict, a management premium was paid to all direct marketers in order to make the direct marketing option more attractive—but it has proven to be too high and has created unnecessary additional costs for power consumers. If all actors are mandated to market directly, the management premium can be dropped.
3. Why didn't they lower the management premium? It was difficult to determine the precise level of the premium, but there is another reason as well: Many actors would like renewable power to be sold by private actors in the same way that conventional electricity is.
4. What changes did this create for the plant operators? With the introduction of mandatory direct marketing, the wind plant operators now must sell their electricity themselves. They also receive a floating market premium, which is determined on a monthly basis and covers the difference between the respective EEG tariff and the average revenues generated by wind power plants in Germany.
5. What kind of impact does this have on the project-based financing of new wind turbines? For investors, there are two new risks. They sell their electricity one day ahead, based on the wind forecast, and then receive updated wind forecasts during the actual day—so if they actually produce less or more electricity than expected, they must sell or buy electricity from other sources to compensate for their deviations. This means that costs arise to compensate for forecast deviations, and those are quite difficult to predict. Secondly, the floating market premium is calculated based on the average production of all wind plants in Germany, but the wind is not blowing with the same intensity at all sites at the same time. Now it may be the case that a wind turbine is situated in a place where the wind blows at the moment that prices are higher. But it can also be the other way around. This leads to a plant having higher or lower revenues than had actually been expected, which presents an element of uncertainty for investors because it is difficult for them to estimate how the electricity price profiles will be in the future.
6. How sharply will the financing costs increase for new plants? We have made calculations for different scenarios and found that the proportion of loans in project-based financing would have to be reduced due to these additional risks. Thus the financing will be more expensive overall. In our scenarios, support for renewables has to rise between three and twelve percent in order to obtain the same return on equity.
7. Who bears the additional costs? If the financing costs rise, the EEG tariffs would also have to rise accordingly. The consumer would eventually have to bear these costs.
8. How should the EEG be further developed? I think the focus initially has to be on the further refinement of power market design. In my assessment, it is far more efficient to improve the short-term market so that both private operators as well as regulated network operators can conduct sales in favorable market conditions. Thus it will not be necessary to create risks in order to achieve good marketing incentives.

Interview by Erich Wittenberg



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