May Article

The opportunity to close up with the legacy

To currently be the CEO of one of the four largest German utilities must be a highly demanding role that brings about many sleepless nights. The "Big Four" utility companies E.ON, RWE, EnBW and Vattenfall that have dominated the German electricity market for decades – Europe's largest – are now seeing a decline in their earnings from the production and supply of fossil fuels and nuclear power. RWE was the biggest loser last year according to Germany's main index, the DAX, with a 54% drop. E.ON and EnBW slid 37% and 20% respectively. However, all companies already faced severe plunging stock movements over the past five years with one major trigger dating back to March 2011, when the German government vowed to move away from nuclear power by 2022.

The anti-nuclear power movement in Germany has been strong since the 80´s and has been led by the Green party. However, the decision to phase out nuclear power was ultimately made by conservative chancellor Merkel after the incident in Fukushima. This triggered the need to rely more heavily on the provisions of electrical and renewable energies. All companies in the sector had to adapt, the "Big Four" were hit particularly hard due to their large exposure to nuclear power. They also have a strong reliance on fossil fuels seeing as most of their residual energy emanated from lignite and hard coal.

In retrospect, they did a worse job during Germany's ambitious transition process to green technology. The energy market is in turmoil as it attempts to switch away from a centralized production and distribution of power of fossil fuels and nuclear energy to a low-carbon economy based on a much more decentralized power generation from renewables, a sector in which the "big four" continue to lag behind.

Their usual business model is called into question also with regard to the collapse in wholesale electricity prices below their break-even level. This means that even the newest lignite power plant would be condemned to unprofitability. These have been the mainstay forms of German power generation for almost a century, accounting for 24% in the nation's energy last year. The increase in German wind generation by 47% last year and the associated low prices proved to be additional forces to ramp down utilities when the wind blows hard to prevent excess capacity. This gnaws on the longevity of fossil fuel power plants that were originally built to run continuously.

On April 27, 2016 a German government-appointed panel announced a proposal that obliged the big utilities to pay EUR 23 bn towards the cost of storing nuclear waste into a state-controlled fund. The companies are liable for the nuclear clean-up once they closed their reactors and therefore put aside provisions of about EUR 17 bn, which has been part of the group´s balance sheet for quite some time. The 35% risk premium is intended to compensate tax-payers for bearing any future costs. While their stocks jumped up immediately, the power groups rejected the idea as they argued it was too much of a strain on their economic capacity. However, the proposal is a starting point for negotiations and an opportunity to close out their "old times business model" legacy. Experts see new business opportunities for utilities arising, but the question is whether the "Big Four" can seize them in time. With fast approval the companies could secure the favor of politicians since they are dependent on state grants for the transition from fossil plants to green energies. E.ON, that just split during the beginning of the year after a radical restructuring, sold its conventional power to focus on renewables. This could be an example to follow. Nevertheless, the vision of the future is all about renewables. For now, natural gas still has its place. European gas price drops have helped margins from cleaner burning natural gas to improve making gas plants (also subject to meeting climate targets) almost profitable again. This is an opportunity for the distressed utility firms.

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