Why Germany needs different electricity prices

A commentary by Markus W. Voigt, CEO of the aream Group.

Düsseldorf, xx. October 2022 – The proposal was an election campaign: Germany should be divided into several electricity price regions. The aim of the campaigners, mainly from Lower Saxony, was that the north, where there is a lot of wind and sun for green electricity, would be better off if electricity prices were to fall. A nice relief for the people - and thus for the voters. The proposal quickly disappeared from the scene. Yet it would be well worth a sober consideration, because the charm of the idea does not lie in a few cents lower electricity prices for consumers in northern Germany. It lies in a steering effect that ensures lower electricity prices everywhere in Germany.

In other European countries, regionally different electricity prices are common: in the Scandinavian countries as well as in Italy. Even comparatively small Denmark is divided into two regions - for which very different prices are sometimes called on the Leipzig electricity exchange. Norway, too, often shows very different prices in its electricity regions. The reason is usually the lack of grid capacities. For example, it is hardly possible to deliver the surplus electricity from wind or hydroelectric power from the northern Norwegian coast to the south or abroad.

The situation is similar in Germany, although not quite as dramatic: the north has high capacities for green power generation; Schleswig-Holstein, for example, usually produces more than is needed in the state. The situation is similar in Mecklenburg-Western Pomerania or to some extent in Lower Saxony. So the idea is that electricity prices are lowest where electricity is produced cheaply. Bavaria would then have to hope that the lifetime of its nuclear power plants would be extended after all - or that the price of gas would drop significantly again.

Apart from a certain malice that the northern states are bringing into populist play against the Bavarians here, different electricity prices would actually be a good way to speed up and even out the expansion of renewables. For in principle, where electricity is produced cheaply, the price falls. This is where more energy-hungry companies settle, creating jobs and prosperity.

But the other side of the coin also has a positive effect: in regions with high electricity prices, the construction of new plants is even more worthwhile, so a lot would be invested here to take advantage of the higher prices. The expansion of renewable energies would be accelerated.

Together, these effects would lead to a much faster decentralisation of electricity generation, which would not only make many routes from north to south, which are difficult to approve, superfluous. Security of supply in the face of vulnerable cables would also be much better guaranteed. And in the long run, prices would equalise again: in the north through growing demand, in the south through an expansion of regional supply.

So a lot of good could be achieved. In this respect, it is a pity that politicians see the proposal only as an election campaign issue. It should be seriously examined.

More information: www.aream.de.

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The aream Group is a fully integrated investment and asset manager for institutional investors with a focus on sustainable infrastructure in the renewable energy sector, which includes wind and solar power, grids and storage technology. In this context, aream is represented along the entire value chain from project development to plant operation. With a transaction volume of more than EUR 1.5 billion, the company has been covering the entire spectrum of asset management services for over 15 years and ensures the commercial and technical optimization of the assets. In addition to classic project investments in clean energy, aream also offers investment opportunities in climate-tech companies: directly or via private equity solutions. aream combines investment expertise with technical and commercial know-how and ensures sustainable performance with stable distributions, returns and value growth through a structured investment and risk management process.

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