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Where is the energy transition headed in 2015?

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Bonn, 23 January 2015. The downward trend in crude-oil, petrol and gas prices is continuing into the new year, with the price of a barrel (159 litres) of Brent crude falling to as low as just under USD 47. Those who believe that the drop in oil prices is solely due to the current oversupply and lack of demand are mistaken. The main reason is the strategic approach being adopted by the United States and its closest Arab ally, Saudi Arabia, both of whom are aiming to weaken unwelcome competitors; Russia in the case of the United States and Iran in the case of Saudi Arabia. The two countries' public budgets are heavily dependent on oil and gas revenues, which are decreasing dramatically as raw material prices fall. Russia is feeling the squeeze particularly acutely as it also has to contend with the economic sanctions imposed on Putin's regime by the West in response to the country's annexation of Ukraine's Crimean peninsula in violation of international law.

In the medium to long term, however, Saudi Arabia and the United States will also feel the economic repercussions. Saudi Arabia needs an average crude oil price of USD 85 a barrel in order to make a profit. The United States will be hit even harder, as the oil boom brought about by fracking is expensive, and extraction is only worthwhile if crude oil prices are high. As such, one of the fascinating questions in the energy industry in 2015 will be who will run out of steam first: Russia, which faces the risk of national bankruptcy, or the United States, whose fracking projects are non-cost effective? It will all depend on when oil prices start to rise again, which they most certainly will.

In the meantime, companies and consumers are delighted at the low cost of fossil-fuel energies. The same cannot be said for the environment, as the price drop is leading to higher levels of energy consumption and greenhouse gas emissions. Those warning against a reliance on energy imports from Russia in the wake of the Ukraine-Russia crisis have fallen silent since crude oil prices started to fall. But the situation still remains the same; Germany's main supplier of fossil-fuel energies is and will continue to be Russia. However, German policy-makers should not conclude from this situation that we should diversify our supplier portfolio for primary energy sources by instead becoming reliant on equally or more autocratic states such as Iran, Qatar, Oman and the United Arab Emirates, or on the Caucasus region. To date, Germany's energy transition (or in German: *Energiewende*) has centred on electricity and limiting its price, but this is a short-sighted approach. Heat-

ing alone accounts for half of Germany's total final energy consumption. While renewables became the primary source for gross energy production in the electricity sector for the first time in 2014, accounting for almost 26% of production, fossil-fuel energy sources continue to dominate in the heating, industrial-process-heat and transport sectors.

In addition to expanding the transmission networks, there are two other key energy-policy challenges in 2015. The *Energiewende* must extend its focus to the heating and transport sectors in order to leverage untapped potential for increasing energy efficiency and expanding the use of renewables, and the *Energiewende* as a whole must be accelerated. However, the German Government did the "electricity transition" a disservice in 2014 when it amended the Renewable Energy Act to include the expansion corridors, as past expansion of renewable-energy use in the electricity sector always exceeded expected target volumes.

Questions such as "Are energy prices too high?" (no, they are not) and "Can we afford the *Energiewende*?" (yes, we can), which dominated the heated public debate in 2014, will no longer play a prominent role in 2015. In any case, it was mainly opponents of the energy transition who raised them. And yet the business model of Germany's four major energy companies E.ON, RWE, EnBW and Vattenfall no longer works. E.ON CEO Johannes Teyssen also recognised this, surprising politicians and shareholders in November 2014 when he announced that the company would be focusing on renewables, energy networks and customer solutions in future. Consequently, it will be interesting to see in 2015 which of these four major energy utilities is the first to successfully gear its business model to the *Energiewende*.

The global energy transition will also play an important role on the international stage this year, both in terms of the design of a new UN climate agreement and with regard to the drafting of a post-2015 agenda with universally applicable Sustainable Development Goals (SDGs). In its final report, the UN's Open Working Group proposed the following goal specifically for the energy sector: Ensure access to affordable, reliable, sustainable and modern energy for all. Politicians and business leaders have yet to grasp that the SDGs will apply to all countries, not just developing nations and emerging economies. While Germany is already well positioned with its *Energiewende*, sustainability strategy and Charter for the Future, there is still more to be done.