



Extract from the report to the
Public Accounts Committee on
the prices charged by DONG Energy A/S

March
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I. Introduction and conclusion

1. This report is about the electricity prices charged by DONG Energy A/S (DONG Energy) and some of the factors that affect the price of electricity. Rigsrevisionen launched the study in April 2012 at the request of the Danish Public Accounts Committee. The Committee asked for a report on the activities of DONG Energy including the electricity prices charged by DONG Energy compared to the prices charged by other national and international electricity suppliers. Rigsrevisionen reported on the activities of DONG Energy in its report no. 4/2012 on DONG Energy A/S, and will in this report answer the Committee's question in relation to the electricity rates charged by DONG Energy.

2. The liberalisation of the Danish electricity market was started in 1999 with the purpose of ensuring that electricity production and trade could take place on market conditions. The liberalisation was initiated by the European Union with the adoption of EU Directive no 96/92/EC of 19 December 1996. According to this Directive on common rules for the internal market for electricity, transparency and non-discriminatory practices should be established in the market to benefit competition and the consumers. An authorisation procedure, which is managed by the Danish Energy Agency, was introduced for companies with an obligation to supply electricity. The Danish Energy Agency is also, according to the Danish Electricity Supply Act, responsible for securing the Danish consumers access to inexpensive electricity, for instance through open competition on the market for electricity. Since 2003, all consumers (households) have had access to free choice of electricity supplier. In 1999, public service obligations were imposed on the electricity suppliers and the consumers were charged contributions to various energy schemes like, for instance renewable energy (RE-energy), on their electricity bills.

3. The objective of the study is to compare the prices charged by DONG Energy for supply-obligation electricity and electricity produced from renewable energy sources with the prices charged by other Danish electricity suppliers, and to compare the electricity prices charged by DONG Energy with the level of international electricity prices. The report will also assess the Danish Energy Agency's allocation of licences to supply-obligation companies; a practice that was introduced in connection with the liberalisation of the electricity market in 1999. Finally, the purpose of the study is to look at the control and transparency of Public Service Obligations (PSOs) including in particular support provided to owners of renewable energy plants like, for instance, wind turbines. The report answers the following questions:

- Do the prices charged by DONG Energy for supply-obligation electricity deviate from the electricity market in Denmark and abroad, and do the prices charged by DONG Energy for RE-energy deviate from the electricity market in Denmark?
- Are obligation-to-supply licences allocated in open competition?
- Are the PSO tariffs verified and are they transparent?

The study covers the years 2007 through 2012. On a few occasions also data from 2013 has been used.

Supply-obligation electricity is the electricity supplied to the consumers who have not chosen to get their electricity from suppliers in the liberalised market.

Public Service Obligations (PSOs) – The consumers are - on their electricity bill – charged a PSO tariff that covers expenditure related primarily to environmentally friendly generation of energy.

RE-energy is electricity produced from renewable energy sources like, for instance, wind power and bio mass.

MAIN CONCLUSION

The prices charged by DONG Energy for supply-obligation electricity were in the years 2007 through 2012 overall on level with the average prices charged for the same product in Eastern Denmark. DONG Energy's prices for RE-energy were in 2012 generally lower than those charged by other suppliers in Denmark. The prices charged by DONG Energy for supply-obligation electricity were among the highest in the Nordic countries, Germany and Great Britain in the period 2008 to 2012. However, if taxes and fees are excluded, the prices charged by DONG Energy for supply-obligation electricity were among the lowest in the years 2010, 2011 and 2012.

Up to January 2013, the Ministry of Climate, Energy and Building did not ensure that supply-obligation licences were allocated in open competition. In 2012, the Ministry recognized that the practice applied by the Danish Energy Agency for the allocation of the licences was in conflict with the EU law on transparency and non-discriminatory practices. The Danish Energy Agency has through the years applied a transition provision in connection with the renewal of licences, and did not publish information on the expiry of existing licences, which would have allowed other electricity suppliers to apply for a licence. Rigsrevisionen finds it unsatisfactory that the Danish Energy Agency did not till March 2012 realize that the regulatory basis prevented open competition in the area. Rigsrevisionen finds that, the Danish Energy Agency should have followed up on the licence allocation practice earlier.

The expenditure for PSOs has increased over the years and amounted to just under DKK 4.7 billion in 2012. In the years to come, the expenditure for PSOs will increase in line with the expansion of RE-energy sources. The government-owned non-profit enterprise *Energinet.dk* ensures that the PSO tariffs are correctly calculated. The PSOs are, however, not part of the annual Danish Finance Act. Taking into consideration the amount involved and the future growth in expenditure, Rigsrevisionen finds that the transparency of the PSOs should be increased, and best so through inclusion in the annual Finance Act. Rigsrevisionen finds that the Ministry of Climate, Energy and Building in collaboration with the Ministry of Finance should examine how to include PSOs in the annual Finance Act to ensure that the transparency of PSOs is increased.

The main conclusion is based on the following sub-conclusions:

Do the prices charged by DONG Energy for supply-obligation electricity deviate from the electricity market in Denmark and abroad, and do the prices charged by DONG Energy for RE-energy deviate from the electricity market in Denmark?

The prices charged by DONG Energy for supply-obligation electricity were in the period 2007 to 2013 overall on level with the average prices charged for the same product in Eastern Denmark. The electricity prices are generally lower in Western Denmark than in Eastern Denmark, which is the area covered by DONG Energy's obligation-to-supply licence, and DONG Energy's prices are thus marginally higher than the average prices for the whole of Denmark in the period 2007 to 2013. Yet, the prices charged for supply-obligation electricity deviate only marginally among the suppliers due to the regulation of this product. In 2012, DONG Energy's prices charged for RE-energy were generally lower than the prices charged by other suppliers in Denmark. The prices charged by DONG Energy for supply-obligation electricity were among the highest in the Nordic countries, Germany and Great Britain in the period 2008 to 2012. Yet, the prices charged by DONG Energy were in the years 2010, 2011 and 2012 among the lowest, if system and transmission costs, taxes, fees and PSOs are excluded.

Are obligation-to-supply licences allocated in open competition?

Up to January 2013, the Ministry of Climate, Energy and Building did not ensure that obligation-to-supply licences were allocated in open competition. In 2012, the Ministry recognized that the practice applied by the Danish Energy Agency for the allocation of obligation-to-supply licences was in conflict with EU law on transparency and non-discriminatory practices. The allocation of the licences was delegated to the Danish Energy Agency, which partly extended licences on the basis of a transition provision and partly failed to publish information on the expiry of existing licences, which would have allowed other electricity suppliers to apply for licences. As a consequence of this practice, the electricity suppliers who were originally awarded a licence were not competing with other potential electricity suppliers for the obligation-to-supply licences in the period leading up to 2013. Rigsrevisionen finds that the Danish Energy Agency should have followed up on whether the provisions of the Danish Electricity Supply Act concerning allocation of licences were fulfilling the intentions of the liberalisation of the Danish electricity market.

Are the PSO tariffs verified and are they transparent?

The expenditure for PSOs increases in line with the expansion of RE-energy. In 2012, the consumers contributed just under DKK 4.7 billion to the PSOs, of which 94 per cent (just under DKK 4.4 billion) was used to support owners of renewable energy plants.

Energinet.dk has implemented control measures to ensure that the PSO tariffs are correctly calculated.

PSOs are not part of the annual Finance Act. The Ministry of Climate, Energy and Building and the Ministry of Finance are not of the opinion that the PSOs should appear from the annual Finance Act. At the same time the ministries establish that, in principle, there is nothing to prevent including the PSOs in the annual Finance Act. Taking into consideration the amount involved, the future growth in expenditure and the fact that the PSOs – according to the Ministry of Business and Growth – are considered subsidy schemes, the transparency of these public service obligations should be increased, and best so through inclusion in the annual Finance Act. The Ministry of Climate, Energy and Building should therefore in collaboration with the Ministry of Finance examine how to include PSOs in the annual Finance Act.