

13th October 2021

High Level Group for Energy Intensive Industries

Eurometaux intervention on electricity prices

Dear all,

As energy intensive industry, we have split the issue of energy prices into gas prices and electricity prices.

My name is Cillian O'Donoghue, am I am Director of Energy & Climate at Eurometaux. As a representative of a very electro intensive industry, I will present on the impact of high electricity prices. I will split my intervention into three separate sections:

- i. What has caused the energy price spike?
- ii. What has been the impact – closure, curtailments, and losses?
- iii. What can be done at EU and Member State level to address this?

In conclusion, I will also comment on what will likely happen if these high electricity prices are to remain for a sustained period.

1. What has caused the energy price spike?

Firstly, I will begin by saying that the increase is dramatic. While European electricity prices have steadily risen since the start of 2021, we have seen a dramatic surge across Member States the past months. Prices have reached 168 euros/MWh in the Netherlands and Germany, 188 euros/MWh in Spain, 169 euros/MWh in France, 175 euros/MWh in Greece, 231 euros/MWh in Romania, 171 euros/MWh in Bulgaria and 121 euros/MWh in the Nordics - almost a quadrupling since 2020, where prices fluctuated around 40 euros/ MWh. To put that into financial terms, for an aluminium producer electricity prices will have quadrupled from 580 euros/tonne last year to over 2,000 euros/tonne today.

The cause of the electricity spikes is multifaceted, this is clear. Indeed, we have all seen in the media how different stakeholders blame different things.

From our side, having looked into this in detail, we see three main causes:

- i) **Gas prices:** This seems to be the biggest cause.
- ii) **Carbon prices:** At over 60 euros a tonne, the ETS price is a major contributor to the increase in electricity prices. The average pass through in Europe is 0.61 so that equals a 36€/MWh impact (If indirect costs compensation is not given).
 - o On this, it should be noted that the marginal pricing system ensures that even when we buy renewable electricity, we will pay CO2 costs. Possibly the only silver lining of this energy price crises is that knowledge of electricity markets, marginal pricing and the fact that CO2 prices are automatically passed on to the customer has improved greatly.
- iii) **Seasonal factors/Wind:** Wind production has not delivered as anticipated. This is an inherent risk element that needs to be seriously taken into consideration, when discussing the EU's swift transition to a power system dominated by stochastic RES. Reserves and low or zero-carbon dispatchable capacity would appear to be required, to avoid compromising security of supply, also translated in affordable prices ...

2. So, what has happened?

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It has really hit industry. We have seen a combination of i) closures, ii) curtailments and iii) spreadsheet losses.

If I give the example of my industry, the non-ferrous metals sector, we have seen all three.

- i) **Closures:** Primary smelters (The most electro-intensive of the production process) have closed.
 - a. **Aldel:** As you may have seen in the media, Aldel, a primary aluminium smelter based in the Netherlands has halted its output until at least early 2022. This is no surprise given that according to media sources, the cost of electricity alone for a smelter based in the Netherlands being on the intra-day electricity market is around 4,500 euros per tonne of aluminium.
 - b. **KCM:** In addition, KCM zinc smelter in Bulgaria announced it was closing. In Bulgaria you cannot hedge nor have future or long time contracts, only spot purchase which makes them fully exposed. In Bulgaria, the average daily price yesterday was 169 €/MWh
- ii) **Curtailments:** We have also seen a large number of curtailments.
 - a. **Nyrstar** is curtailing production at its three European smelters, reducing production by up to 50%:
 - b. **Slovalco**, an aluminium smelter based in Slovakia has cut its production by 20% next year. In Slovenia, Aluminium producer Talum has idled 24 electrolysis cells and plans to reduce planned production for next year by 50%.
 - c. **In the ferro-alloys and silicon** sector, they are also suspending production in several countries, according to the energy price levels
- iii) **Losses:** Finally, it's important the emphasis that we have continuous production processes so cannot afford to stop production. The ramping up and down costs are simply too high. Instead, we continue to produce in the knowledge that our year end profitability is at stake.

3. What can be done?

So, what can be done at EU and Member State level to address this crisis?

We think quite a lot actually. We are pleased to see that today, the Commission will most likely come with a 'toolbox' on potential actions that can be undertaken. We call on the Commission and Member States to work closely together on this.

We think the toolbox should contain 5 things on the electricity side. We outline these in a [letter](#) we sent to Commissioner Simson recently. They are:

1. Monitor electricity and gas markets for 'outages' this winter
2. Ensure EU ETS prices do not rise too high. As part of this, indirects compensation should be given. It is no coincidence that the 3 aluminium smelters that closed/curtailed last weeks do not receive indirects compensation
3. Encourage schemes supporting corporate power purchase agreements for carbon free electricity, especially aimed at electro-intensive industries which can provide a medium to long term mitigation
4. Ensure sufficient access to carbon free electricity at globally competitive prices for industry and retaining sufficient backup capacity in the grid
5. Develop more flexible State Aid Guidelines to allow Member States to react accordingly during periods of dramatic market stress; governments need to have the possibility to react to unforeseen setbacks that may appear on the road to climate neutrality. As part of this, we hope that the Commission will come with a transition friendly CEEAG at the end of the year.



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Hopefully, many of these suggestions will be integrated into the Commission’s upcoming toolbox. Looking ahead, we are pleased that the Commission has said that this Communication is not a once off but may be followed by more Communications in the coming months should the situation continue.

4. And what if these high electricity prices continue?

And what if these high electricity prices continue. We Winter approaching, we have major concerns that this may be the case, possibly until April... We see two likely impacts:

- i) More closures, curtailments and losses with a major impact on the post pandemic recovery
- ii) The pathways towards EU’s climate neutrality objective being undermined.

On the former, it is important to bear in mind that most companies hedge their risks so as not to be fully exposed to the immediate short-term impact of prices rising – indeed, volatility is part and parcel of our business. However, if prices remain like this, companies that are currently hedged, will be the next to close and curtail. This is a major threat to the post pandemic recovery.

Moreover, high commodity prices observed at the moment, which follow their own trend not linked to power prices in the EU, partly mitigate the dramatic impacts of the price surge; if e.g. LME prices drop before the energy price crisis comes to an end, we should expect a domino of closures for our electro-intensive industry, directly impacting entire value chains.

Now to conclude on the broader, longer term climate neutrality objective. Continued high electricity prices will undermine the wider attractiveness of industrial electrification. The European Commission identified access to carbon free electricity at globally competitive prices as a key priority area for the climate transformation of energy-intensive industries in in the European Commission ‘Clean Planet for all’ 2050 Climate neutrality strategy. But if electrified industries like ours cannot stay competitive and survive this decade, it will be a major disincentive for other energy intensive sectors to follow the metals lead through electrifying their own production processes.

Many thanks for your attention and we look forward to the discussions.

