Austria’s largest energy company given billions in state aid

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Austria’s largest energy company Wien Energie (WE) has run into massive payment difficulties due to high-risk speculative transactions. To prevent its collapse, the company was given 2 billion euros by the federal government within 72 hours. Before that, the owner, the city of Vienna, had already pumped €1.4 billion into WE. Altogether, the total need for financial support could run to six to eight billion euros, according to the company’s board of directors.

About two million households in Vienna and the surrounding area are supplied with natural gas and electricity by WE. However, the company barely produces its own electricity, but buys and sells it on futures and spot markets. Fantastic profits can be realised on these markets, but they are also subject to strong fluctuations and are therefore risky. It is this that has put WE in an extreme financial situation.

A year ago, a megawatt hour of electricity cost less than €90. In the meantime, the price has risen to around €1,000 euros. WE had speculated on falling prices and sold three times more energy than it could deliver. To be able to continue in business, securities running into billions of euros became necessary.

WE is not an isolated case internationally. German energy trader Uniper has so far received €9 billion from the state-owned KfW Bank and applied for about two-thirds of the €34 billion that will be levied on natural gas customers from October via the gas surcharge. The company ran into trouble because gas deliveries from Russia failed to materialise and Uniper was forced to buy gas on the spot markets—where prices exploded—in order to fulfil its supply contracts.

Wien Energie is a wholly owned subsidiary of Wiener Stadtwerke, the infrastructure provider for the city and province of Vienna, and employs around 15,400. The present situation it confronts had been foreseeable for many months. Wien Energie attained a turnover of three billion euros in 2021. However, its annual surplus fell by 61 percent to only €140 million in the same period. In spring this year, the company declared that the future forecast was not “very happy”.

The falling profits were apparently to be made up for by engaging in speculative business deals. “Business was not normal,” the *Süddeutsche Zeitung* quotes energy market expert Walter Boltz. “I do think that the Viennese took a risk,” according to the ex-head of energy regulator E-Control.

The social democratic mayor of Vienna, Michael Ludwig, had given WE €700 million in July and again in August, using his emergency powers, without informing the public.

Ludwig and Stadtwerke deputy head Peter Weinelt have so far denied that the company was involved in risky speculative transactions. But the findings that have now come to light and the fact that WE strictly refuses to disclose its previous stock market strategy only lead to the opposite conclusion. An external expert as well as the municipal audit office are now to shed more light on the business practices.

The billions injected into the company by the federal government and the state have enabled it to continue its previous business dealings. WE said it was suspending the sale of electricity on the futures market “for the time being”, but that trading on the spot market would, of course, continue. Purchases and sales on the spot market are always made at the current daily price. No collateral is required here, but the risk of price fluctuations is enormous.

Mayor Ludwig played down the consequences of the lifeline using public money. The “most important thing” to him was the security of supply for the Viennese. There have been no consequences so far either for the WE management, nor the supervisory board, nor the Viennese provincial government.

The other political parties are demanding “full clarification” of the case and the resignation of Ludwig. Energy Minister Leonore Gewessler (Greens) now wants to have all energy suppliers investigated to obtain a “detailed picture of the sector”. Until 2020, the Greens themselves were part of the Viennese provincial government and should have been well informed about what was going on at WE. The Austrian chancellor’s party, the conservative ÖVP, is trying to exploit the case for its own benefit and has requested an investigation together with the far-right Austrian Freedom Party.

At the federal level, on the initiative of the Greens, the introduction of a gas surcharge based on the German model is being discussed. The surcharge is passed on to energy suppliers, who are thus compensated for increased import prices. In this way, the money ends up in the coffers of the big energy companies, which profit from it and report record returns.

While the parties are arguing about the responsibility for the recent speculative losses, they all avoid the fundamental issue: namely, a basic social need, the supply of electric power, has become the subject of wild speculative transactions, with which, apart from occasional losses, gigantic profits are made at the expense of consumers.

Since the European Union forced the opening up of electricity markets in 1998, which were previously strictly regulated and mostly in the hands of municipal suppliers, electricity has become a commodity on which producers, traders and grid operators earn massively.

In Germany, large customers, i.e., industrial companies and municipal utilities, only buy about half of their electricity directly from the producers. The other half is bought on the European Energy Exchange in Leipzig. There, some of the electricity is traded in the form of “futures”, with the price fixed up to six years in advance. The rest is bought on the spot market at daily or hourly prices, where the price of electricity tripled last month.

The so-called merit-order principle applies throughout the EU, according to which the price of the most expensive power plant still needed applies to all others, which secures them high profits. Originally, this was intended to promote the producers of renewable energy. But with the explosion of the gas price because of the Ukraine war, electricity prices have also skyrocketed, as expensive gas-fired power plants now determine the price.

For the producers of renewable, nuclear, and coal-fired electricity, this means exorbitant profits. For traders like Wien Energie, who have agreed long-term supply contracts at low prices, it can result in losses of billions. In all cases, the ones who suffer are the consumers, especially private households, and small businesses.

WE customers have had to experience this in the past few days. On 1 September, WE’s prices rose sharply. According to *Vienna* magazine, customers were given the choice of switching to a new eco-electricity tariff, which is on average 25 percent more expensive, or remaining on the old tariff. However, this tariff will also become massively more expensive—even more than the new eco tariff. In the end, millions of households are faced with a 25 percent increase in their electricity costs.

According to the Austrian Energy Agency, this month’s energy price index is up 9.2 percent compared to the previous month and 256 percent higher than in September 2021. In addition, there are also enormous increases in rental costs in Austria. According to consulting firm Deloitte, rents, not including utilities, in Linz and Graz rose by around 10 percent to over €10 per square metre. Rents in Vienna have also risen sharply recently. In large parts of the city, the price per square metre is already over €14.

Experts assume that electricity prices in Europe will continue to rise in autumn and winter. Even the EU Commission’s promise to develop a new “electricity market design” will not change this. It will take months, if not years, for new regulations to come into force.