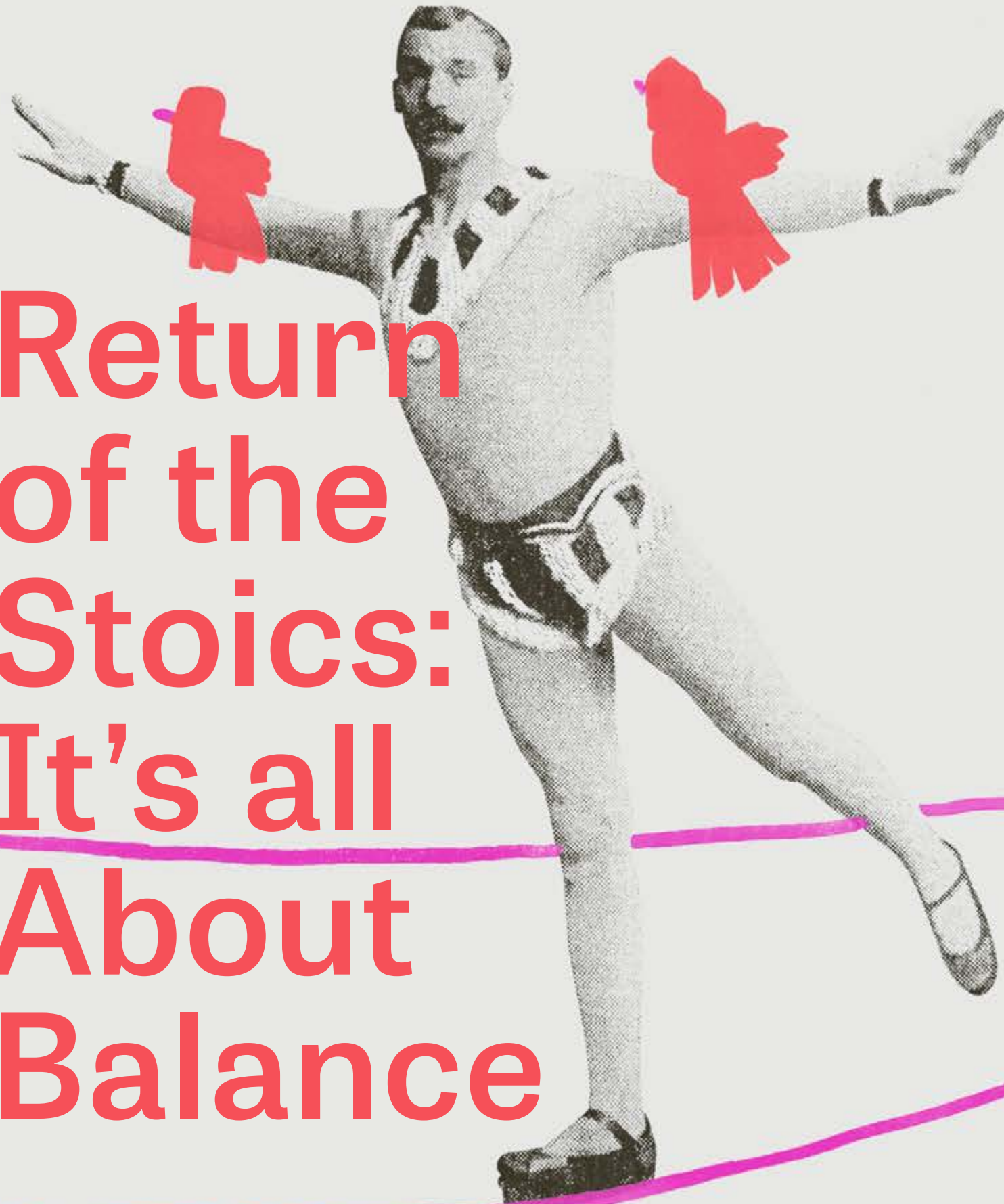


# Return of the Stoics: It's all About Balance



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We have faced multiple crises in recent times, more – and on a bigger scale – than in previous decades. The military invasion of Ukraine is undoubtedly the most dramatic.



In assessing what we deem unbearable in terms of the issues directly affecting us here in Germany, we should consider for a moment what many people in Ukraine have been suffering for the past nine months and more. The intensified, targeted attacks on Ukraine's supply infrastructure are horrendous, especially amid the onset of winter. They are clearly aimed more at wreaking destruction than achieving military objectives, and the narrative of so-called "liberation" sounds cynical to say the least. As appalled as I am, I do at least take comfort from the great commitment shown by many people to assisting those in need. I observe this throughout our group as well, especially in the neighboring countries where we operate. Our local subsidiaries have launched support initiatives, and many employees are getting personally involved. It makes me proud to see how many are doing their bit without a second thought.

As much as we are all moved by these events, I do not wish to write about geopolitics – others are more qualified to do that. I want to focus on a very different crisis: energy. Many see this entirely as a consequence of the war, which is wrong, as I will explain later. The energy crisis is directly affecting people, households, and businesses, and the impact on energy supply is particularly severe in Europe. We are concerned about the economic consequences, about security of supply, but also about whether the crisis could undermine our efforts to tackle climate change.



## After the crisis is before the crisis?

This crisis caught us largely off guard. During the pandemic, we were focused on when lockdowns and restrictions would finally be over and looking forward to the time after the crisis. But no sooner had something resembling normality returned than we found ourselves in yet another crisis. And this one is different from the others we have experienced recently. At the World Energy Council, we survey the world's energy leaders each year about their priorities and uncertainties – essentially, what keeps them busy by day and awake at night. And right now, I am noticing that many European politicians and business leaders are working flat out on pressing short-term issues – and worrying about them at night too.

**“The energy crisis began back in autumn 2021, when the simultaneous global recovery after the lockdowns caused energy demand and therefore energy prices to rocket.”**

We tend to think that the Ukraine war triggered the energy crisis. This is not true and goes to show what short memories we have: the energy crisis began back in autumn 2021, when the simultaneous global recovery after the lockdowns caused energy demand and therefore energy prices to rocket. As a result, many electricity discounters went bankrupt. They didn't fail because their prices were so low, but because they had speculated that they would be able to buy at some future time volumes they had already sold – in the expectation that prices would be cheaper then. Their customers were unaware of this. This is not a serious way to do business, and that is why our state regulation is so important: after all, we are supplying a systemically vital commodity. Many well-run utilities stepped in to rescue tens of thousands of stranded and desperate customers. E.ON alone took on a million customers in multiple markets and gave them quick, effective assistance. Since we are no longer a producer ourselves, we had to buy the new volumes at much greater cost – like many established suppliers and municipal utilities, we are not in the business of speculation. So it is perhaps understandable that we were not best pleased recently when a municipal utility canceled the contracts of thousands of customers in the run-up to Christmas, expected us to take on their supply, while at the same time asking the very customers they had abandoned to sign up to an arrangement whereby they would be returned automatically to their original supplier as soon as it could offer them a better deal again. An isolated case, say other municipal utilities and consumer advocates disapprovingly. This is not how solidarity works.



## The perfect storm

So in fact this part of the energy crisis was actually a liquidity crisis, which generated a big stir at the time but then seems to have been quickly forgotten. When the war broke out in Ukraine, the markets' mounting (and justified) uncertainty about gas supply caused prices to explode. On top of this, there was reduced electricity supply in France owing to drought and maintenance work. This alone would have been enough to trigger an electricity crisis, but combined with shortages on the European gas market it led to a mutually-reinforcing double whammy – the perfect storm.

In any vessel on choppy seas, it is important that someone is at the helm, takes responsibility and steers the ship safely through the storm. That means navigating with foresight, being mindful of one's crew, drawing the right conclusions and showing leadership. Conversely, frantic and mindless maneuvers will cause the ship to capsize. Anyone in a position of responsibility, whether it be in politics, society, or business, has to chart a clear course that keeps the vessel steady. Instilling confidence is vital, all the more so in times of uncertainty and crisis when different developments can occur at any moment. It is my duty, and our duty, to look to the future, identify constructive solutions and implement them with vigor and determination.

A word of caution is needed here. The more urgent the problems affecting households, small businesses and many others, the more obvious it seems to help them out with ad-hoc measures. Of course, the affordability crisis requires political intervention. People have to be able to pay for the energy they need and keep their businesses running. But that does not mean that governments can simply offset the impacts by handing out money. We need a smart mix of instruments that strike a balance between affordability and incentives to reduce demand. On the other hand, some experts don't want to see any interference in price impacts, which is not a good solution either. Meanwhile, a whole other set of trade-off decisions need to be made, for example between the targeting of support in a way that is perceived as fair for all individuals concerned versus the speed and general feasibility of implementation. In the context of this crisis, and also more generally, our data protection rules are not always helpful.







## Careful intervention required

At a time when the state is shouldering huge burdens, it understandably wants to compensate for this by siphoning off profits from precisely those producers whose revenues have soared while their costs have barely changed. But caution is needed here too: if not done right, this will unsettle investors and hold back the urgently needed expansion of renewables. Another idea, perfectly understandable in theory, is that of wanting to curb rising prices at a time when there is limited flexibility in supply and demand and shortages are pushing prices ever higher. However, changing the merit order system without careful consideration to be able to better control producer prices is risky. Handled wrongly, interventions have the potential to wreck the markets, which is by no means the lesser evil. A look at countries that acted quickly to counter rising gas prices and shortages shows that good intentions do not always translate into good outcomes. In Spain, the cap on gas prices caused gas consumption for electricity generation to rise sharply, which was far from the intended effect.

The important thing is not to have easy answers ready for the next talk show featuring anxious billpayers but to manage the situation responsibly. That means being mindful of long-term affordability as well as security of supply and also environmental impact. Ultimately, this energy trilemma always comes down to balance. Energy policy has always been successful in the past when it has struck a balance between these three goals. Any policy that ignored the trade-offs between goals over an extended period in favor of a one-sided focus has had to suddenly and frantically change course as soon as a neglected goal got out of control.

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This is precisely the mistake we have made. For two decades, our public discourse focused solely on environmental and climate change issues because this was people’s primary concern. We took the other two goals for granted. Society demands we end nuclear so we phase out nuclear. The issue of coal is in the spotlight so we phase out coal. All quite understandable, but rather than moving away from these energies once we had created the alternatives, we chose to do it straight away, as if the two were somehow unrelated. And sometimes we don’t know ourselves what we want. In general, we want to expand wind energy and build more power lines to drive the energy transition, so we set high targets for this. But then we want to take account of all local opposition so we slam the brakes on.

## A lack of balance

It is often suggested that purchasing cheap Russian gas led to the energy crisis. But I can't see anything wrong with sourcing cheap energy; the markets determined the prices and Europe aligned itself with these and purchased accordingly. The mistake was obstructing and opposing alternatives. Gas storage facilities, LNG terminals, investment in infrastructure and alternatives... these were all politically undesirable until a year ago. Phase-outs were in vogue while security of supply was ignored, or dismissed as a private matter for companies. This is now coming back to bite us. Once again, the mistake was a lack of balance and forward planning.

The war in Ukraine is now forcing us to make radical U-turns, but what we need, at long last, is a balanced energy policy. The energy transition will work if we enable innovation and investment. Indeed, the current crisis offers growth opportunities, especially for a company like E.ON: we need to step up the pace to drive the energy transition forward. That requires full commitment from the company. Yet this perspective is worthless if we fail to navigate the business through the storm in the short term, and that cannot be done with frantic maneuvering at the helm. Desperate citizens and companies are not helped by hastily contrived solutions that will fall apart in no time. What is required is carefully considered action. We need optimism for the future during the crisis, without naively foundering on the challenge of our current predicament. We need an absolute commitment to doing whatever it takes – but also the ability to let go and sleep at night afterwards. And that brings us to the Stoics. The Stoic perspective can be helpful in many situations, namely that one should remain calm and composed in all circumstances and that happiness can be achieved through practice. I do not want to labor the image too much and I by no means wish to advocate sleepwalking; it is important to realize that there are two parts to this picture. No holding back, inaction, or obstruction, but rather listening carefully, understanding the complexity of the decisions in terms of society, climate change, and the economy, and then doing what is necessary, while always remaining mindful of balance. If we do this, we will chart a successful course into the future. ▀

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