



Publishing date: 22/09/2014

Document title:

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ACER
Agency for the Cooperation
of the Energy Regulators
Trg republike 3
SLO-1000 Ljubljana
Slovenia

Berne, 13 June 2014

**swisselectric response to the public Consultation:
„European Energy Regulation: A Bridge to 2025“**

About swisselectric

swisselectric is the organisation of the three largest Swiss electricity utilities, Axpo Group, Alpiq and BKW. All are active in energy trading at European level. For this reason, swisselectric would like to affirm the importance of non-discriminatory access to the European gas and power markets for market participants domiciled out-side the European Union. This is particularly true for the Swiss based market participants, who operate in a market both physically and economically strongly intertwined with EU Member States and the EU Internal Energy Market. Through their assets and their trading activities the swisselectric members can contribute to both security of supply and the creation of the EU Internal Energy market.

General remarks

swisselectric welcomes the opportunity to comment on the public consultation paper “European Energy Regulation: A Bridge to 2025” of ACER.

The emphasis of swisselectric lies on the “electricity wholesale markets”, where the main business of the company takes place. Furthermore, the following comments are based on the following questions posed by ACER,

- which regulatory actions are most important and should be prioritised and
- if there are other areas ACER should focus on.

Action for Europe's regulators (3.1-3.8)

From a technical point of view the electricity generation capacity delivered by the market may not be sufficient to meet the demand all the time. Key driver of this highly possible scenario is the subsidised not programmable renewable energy (NP RES) which have prioritised feed-in or at least very low marginal costs for additional energy production. The so called merit order effect pushes the conventional generators out of business. As a consequence, the production cannot be linked to demand-side market signals, instead, the production is depending increasingly on volatile NP RES feed-in.

In light of the trend described above different countries are planning the introduction of capacity remuneration mechanisms (CRM). In Germany for example, the Netzreserve is already realised and helps to assure the security of supply due to the agreed nuclear phase-out. But the new mechanisms entail risks, such as the creation of further distortions, which could then again trigger the need for further interventions thereby destroying any achievements with a view to creating a liberalized wholesale market.

Thus, swisselectric strongly believes that the current capacity problems should be solved through market-oriented solutions based on an energy-only market. This approach is consistent with the actions for Europe's regulators mentioned in the consultation paper, such as implement a European-wide fully coordinated short-term trading, through liquid intraday and balancing markets and to refine the target model in the years 2025. But swisselectric considers the short-term actions to strengthen the energy-only market as more important, possible instruments for tackling existing or perceived capacity problems include:

- Market integration of subsidised NP RES (e.g. all parties are balance responsible)
- Elimination of grid bottlenecks through extending the interconnection capacities
- Removing of market interventions such as price caps on the electricity wholesale market
- Improvement of the market efficiency by coupled and harmonised processes in balancing, intraday, day-ahead and forward market (
- Strengthening the EU Emissions Trading System (EU ETS)

Where CRMs are considered necessary, at least they should be market compatible and as little as possible distort the market signals as well as the pricing at the energy-only market. A temporary strategic reserve should be preferred over extensive mechanism.

Implication for governance (4.14)

Additionally, swisselectric considers that the integration of energy markets beyond the EU's borders is of high importance to meet the identified issues and trends in the next years. swisselectric suggests extending the wording beyond EU Member States in order to include assets based in neighbouring, highly interlinked countries like Switzerland.

In particular, planned policy interventions like CRMs should be integrated beyond the EU Member States. Locational neutrality is of paramount importance in order for CRMs to fulfil their aim, since combined markets need less capacity in times of peak demand than two fragmented markets. By further developing electricity cross-border trade generation adequacy is reached at lower costs with less state intervention. swisselectric therefore recommends the possibility of cross-border participation in national CRMs, including non-EU Member States in order to include assets based in neighbouring, highly interlinked countries like Switzerland. There are EU Member States who have already fully applied the principle of Locational neutrality by including assets in neighbouring EU Member states and Switzerland, thereby recognising the unique position of Switzerland¹.

Contact

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Kind regards

swisselectric



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¹ See German Regulation on strategic reserve (Reservekraftverordnung): „A contract with an operator of an installation in the European energy market **and in Switzerland** can be completed when the plant in question ...“



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