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Date 13th June 2014

Answer to ACER Public Consultation on “Energy Regulation A Bridge to 2025”

Dear Madam, Dear Sir,

Swissgrid, the Swiss national Transmission System Operator, is pleased to hereby provide a response to the public consultation on “Energy Regulation A Bridge to 2025” which raises a lot of pertinent questions and provides a consistent view of the main trends and challenges for the energy sector. Swissgrid fully endorses ENTSO-E answer to the public consultation and will therefore refrain from duplicating it. We would nevertheless like to emphasise two issues: 1) System flexibility and 2) Inclusion of non-EU NRAs in ACER work.

1) Ensuring sufficient flexibility of the system should remain a key priority

In ACER’s pre-consultation document, a much stronger focus was put on flexibility as one of the key challenges faced by the electricity system and as a decisive factor for the successful integration of renewable energy. This was warmly welcomed by ENTSO-E in its answer to this pre-consultation, which also offered some thoughts on how to improve the market design in this regard.

ENTSO-E and Swissgrid continued working on the topic and estimate that the future market design will have to be improved to deliver the right incentives for flexibility. ACER’s role in shaping the market design for the future is important. We would therefore like to detail some suggestions currently studied and assessed by ENTSO-E aiming at ensuring that flexibility is remunerated according to the value it represents for the system and the market actors.

A market model under study proposes that market products which reflect scarcity should be designed and traded on a forward market, thus supplementing the energy-only market. The models key elements can be described as follows:

- **Balancing prices should be reflective of full system costs:** By setting the right incentives for Balancing Responsible Parties (BRPs) to be balanced during real time operation, they will physically act more in line with system needs. BRPs can then use different tools to manage the risk of imbalances and reduce the associated costs: improve their monitoring and take actions in the day-ahead and intraday markets, outsource this task to third parties, or buy specific hedging products.

- **Hedging products for capability will be needed to ensure effective investment signals:** When balancing prices reflect the full system costs, hedging products will act as an insurance for market participants to manage their risk of not fulfilling the required capability (e.g. having contracted enough capacity to ensure a continuous supply for themselves or for their customers). This new demand for flexibility will give new incentives to invest in flexible capacities.
- **Cross border exchange of flexibility must be tackled:** The trade of flexibility should also follow the basic principle of market integration, meaning it must be tradable over the borders.

2) Further involvement of non-EU NRAs in ACER work

In the Consultation Paper (§4.14), ACER recognises that the European energy market no longer stops at EU borders. Many neighbouring countries of the EU are committed (or in negotiations) to adopt legislation compatible with the EU Internal Energy Market rules and regulations. As a full member of ENTSO-E the impact of EU regulation on Swissgrid is foreseeable.

Particularly with regard to the on-going negotiations on a bilateral agreement on electricity between the EU and Switzerland we support ACER's proposal to "consider the participation of NRAs of relevant countries outside the Union willing to develop regulatory arrangements compatible with those applicable in the EU". A stronger involvement of the Swiss regulator ElCom in ACER activities would facilitate adoption of the European target model in Switzerland and potentially accelerate the full – and mutually beneficial – integration of Switzerland in the European energy market.

We kindly ask you to take these points into consideration and stay at your full disposal for any further questions or clarifications.

Yours sincerely,

Swissgrid Ltd



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