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Planned Rescue Package for the Swiss Electricity Sector

Introductory remarks

In mid-May 2022, the Swiss Federal Council referred the dispatch for an urgent federal law on subsidiary financial assistance for electricity companies to Parliament. According to its press release, the aim of this rescue package, which is limited until December 31, 2026, is to ensure that the electricity supply in Switzerland will continue to function even if further sharp price increases in international electricity trading lead to a chain reaction in the electricity industry that could result in a system collapse. System-critical Swiss electricity companies should be able to obtain loans from the federal government to bridge liquidity bottlenecks in the event of exceptional market developments.

As is well known, prices on the European energy markets have come to a head. Although the Swiss electricity companies are well positioned, the Federal Council believes that in the worst case scenario this situation could lead to an uncontrollable chain reaction that could endanger the liquidity of a system-critical electricity company and thus also the Swiss electricity supply. The reason for this is the rules of the electricity market, which require that electricity trading transactions be hedged. The need for hedging and thus liquidity is increasing rapidly as electricity prices rise. If there is a lack of the necessary and timely liquidity for these hedges, the conclusion of the trade transaction and thus the delivery or supply is jeopardized.

With the continuing uncertainties surrounding Russian gas supplies and the associated risk of further sharp price swings on the gas and electricity markets, significant risks have arisen in the provision of liquidity for trading respectively hedging transactions. The head of the Swiss Federal Department of the Environment, Transport, Energy and Communications (DETEC) therefore spoke in this context of a first global energy crisis.

Key figures of the rescue package

a) System-critical Swiss electricity companies are those that hold a significant share of the domestic production

fleet and the marketing of this electricity. According to the draft law, the basic principle is currently a power plant capacity in Switzerland of at least 1200 megawatts. These companies include Axpo Holding AG, Alpiq Holding AG and BKW AG. Depending on the situation, other electricity supply companies could also be designated.

The impetus for a bailout originally came from Alpiq Holding AG, which had submitted a request for liquidity assistance to the Federal Council in December 2021 due to the massive price increase - but was then able to withdraw it because the shareholders stepped in. It is also known that BKW AG is against such a federal law and Axpo Holding AG is in favor of voluntary subordination.

b) Financial assistance from the federal government is subsidiary. Primarily, the companies themselves, the owners (cantons, municipalities, private individuals) and the other providers of debt capital (banks, bondholders, etc.) must ensure liquidity.

c) Loans of up to 10 billion Swiss francs could be provided to support system-critical electricity companies. In return for the loans, the companies shall be subject to certain information obligations and transparency requirements.

d) Subordinated entities shall pay an annual commitment fee to cover, at least in part, the costs of providing temporary liquidity support by the federal government.

e) The loans must bear interest at market rates. In addition, the federal government shall levy a risk surcharge of between 4 and 10 percent, depending on the risk, to prevent misguided incentives.

f) The cantons shall reimburse the Swiss government for half of any losses on loans. In return, the cantons shall receive a 50 percent share of the revenue from the risk surcharge.

g) The bailout is not voluntary: system-critical electricity companies shall be subject to the law in order to prevent

chain reactions leading to system collapse. If such companies can count on cantonal liquidity support that is equivalent, they can be exempted from the scope of the law.

Consultation in Parliament

In the 2022 summer session, the Parliament's Council of States (*Ständerat*) was the first to approve the rescue package and the financial assistance, which is limited to a maximum of ten billion Swiss francs. The National Council (*Nationalrat*) is expected to discuss the package in the fall session of 2022.

GHR Energy and Natural Resources

Marc Grüninger (marcgrueninger@ghr.ch)

Patrizia Lorenzi (patrizialorenzi@ghr.ch)

GHR Rechtsanwälte AG

Seidengasse 13

P.O. Box

CH-8021 Zurich

T +41 58 356 50 00

F +41 58 356 50 50

www.ghr.ch

Tavelweg 2

P.O. Box

CH-3074 Bern Muri

T +41 58 356 50 50

F +41 58 356 50 09

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