

Price collapse on the electricity market: lower electricity bill?

Introduction

During the lockdown because of the corona virus pandemic, the price of electricity on the stock exchanges fell drastically, sometimes below zero. Negative electricity prices do occur repeatedly, but usually only in the short term and when various factors coincide. The focus is always on grid stability: Consumption and production or feed-in and feed-out must be balanced. Since Switzerland imports and exports a relatively large amount of electricity, prices in neighbouring countries and the CHF/€ exchange rate also play a significant role in wholesale prices.

During the lockdown, consumption in Switzerland fell by around 10 % on working days, and even more sharply in neighbouring countries, partly because of the more rigorous measures taken. At the same time, the large wind farms at the North and Baltic Seas as well as the solar plants produced a lot of electricity on sunny days. If such wind and solar power is fed into the grid with priority due to a lack of storage facilities and demand is low on windy and sunny weekends and public holidays (as was the case at Easter), such negative prices can occur. However, due to the weak demand during the crisis, the price of coal as well as oil and gas prices and the price of CO₂ also fell. Mild winters, less coal used to generate electricity, increased electricity production by gas-fired power stations and renewable energies are other factors that influence prices and generate pressure.

With this newsletter we are looking into the question why customers as tied end consumers do not automatically benefit from this price decline and what this depends on. The grid usage tariff, i.e. the charge for the use and transmission of electrical energy on Switzerland's distribution and transmission grids, as well as taxes and charges to local authorities, which are also included in the electricity bill, are not discussed.

Electricity prices in Switzerland

Who pays what price for electricity in Switzerland depends primarily on whether you are a fixed or free end consumer, i.e. whether you consume less than 100 MWh per year, or whether you are free to buy electricity on the market and conclude supply contracts as a large-scale consumer. Whether these large-scale customers were able to benefit from the recent price collapse therefore depends on the contractual conditions of their supplier, e.g. whether fixed or variable prices are agreed.

For the fixed end consumers as well as for large-scale consumers who forego free grid access (together referred to as end consumers with basic supply), the locally responsible distribution grid operator procures the required quantity of electricity, be it on the electricity markets, through purchase contracts and participation in generation plants or own production. The price that it charges to end consumers in basic supply is regulated. Legal requirements apply to the design of this electricity tariff, which are defined in the Swiss Federal Electricity Act and compliance with which is monitored by the Swiss Federal Electricity Commission (ElCom).

Electricity tariffs in general

When setting the electricity tariff, the distribution grid operator shall be guided by the prime costs of efficient production and long-term supply contracts. In addition, limits have been set for taking such costs into account in the supply of domestic renewable energy, with the aim of supporting domestic production while keeping cost overruns in check. The electricity tariff is **set once a year** according to these measures. If there are any indications of changes compared to the previous year, i.e. both increases and reductions, the end consumers with basic supply must be informed and the changes justified, and ElCom must be notified by 31st August at the latest.



Even for end consumers with basic supply, the electricity tariff is not the same for all over Switzerland and depends on the respective distribution grid operator. Differences can result from a differentiated ecological product mix. A distribution grid operator can offer different products to end consumers at different tariffs. The standard product is usually a more expensive product with ecological added value. However, tariff differences can also result from a different share of own production and different conditions in long-term supply contracts. Distribution grid operators who receive advantageous purchase prices can offer the energy more cheaply than, for example, those who have a high proportion of more expensive in-house production. There may also be certain differences in distribution margins.

Electricity tariffs 2020

Every distribution grid operator with basic supply had to notify ElCom of the electricity tariffs for 2020 by 31st August 2019. This notification was preceded by the publication of the tariffs, which were used to inform end consumers with basic supply. In other words, the electricity tariffs for 2020 were already fixed in the first half of 2019 and the latest price developments can no longer have any influence on them. As a counter-example, however, the tariff reduction of Services industriels de Genève (SIG) should be mentioned here (<https://ww2.sig.ch/covid19>): As a support measure in the context of the coronavirus pandemic, SIG grants a tariff reduction of 20 % for four months from 1st May to 31st August 2020.

In its press release of 7th April 2020, ElCom made a general statement on such tariff reductions due to the tense economic situation caused by the crisis. It exceptionally allows reductions in electricity tariffs during the year 2020, although these are in principle fixed for one year. However, according to ElCom, this should not result in any shortfalls for the distribution grid operators. And in the financing of such a reduction from surplus cover from previous years, which are paid for by the end consumers, all categories of end consumers must be relieved equally. It was also permissible not to use the full legally permissible WACC of 4.89 % for the calculated interest on the assets necessary for production. It is important, however,

that the financing of such a tariff reduction is communicated transparently and that, for example, in the case of financing through surplus cover from previous years, there is no mention of a discount or a gift.

Conclusion

If the electricity bill received by the end consumer with basic supply is not lower in the crisis situation, this is thus primarily due to the fact that the electricity tariff 2020 was already fixed in 2019 and is generally fixed for one year.

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