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Calculating the tariff component of energy supply in Switzerland – new developments

Review and starting point

In 2016, the Swiss Federal Supreme Court confirmed and decided (BGE 142 II 451 of 20/06/2016) that a distribution system operator's energy costs must be distributed to end users in basic supply and to free end users in accordance with the quantity delivered, irrespective of whether such costs are sourced from purchase or self-production. It is, therefore, not permissible to charge costs of own production entirely to end users in basic supply and the costs for energy purchase entirely to free customers because otherwise only the latter would profit from possible purchase price benefits. Such cost distribution based on Art. 6 para 5 Electricity Supply Act (StromVG) is also known as the average price method.

Swiss Electricity Grid Strategy

The average price method was spelled out in more detail and put into perspective in connection with the introduction of the Swiss Electricity Grid Strategy (see ELQ June 2018). Thus, price benefits must be included in tariff adjustments in each succeeding year, not however if they date back to more than five years (revised Art. 6 para 5 StromVG). By contrast and as an exemption from the average price method, possible price benefits arising from the sale of electricity obtained from renewable energy sources from domestic generating plants need not be included in the tariffs for fixed end users, but only for as long as the market premium scheme continues (new Art. 6 para 5^{bis} StromVG).

Market premium scheme

As a result of the financial constraints on Swiss domestic hydro-electric plants, a market premium

scheme (*Marktprämienmodell*) was introduced in connection with the Energy Strategy 2050. The scheme is limited to five years and ends on 31 December 2022. Operators of large hydro-electric plants with an output in excess of 10 MW are entitled to a market premium (max. CHF 0.01/kWh) for electricity if they must sell it below production costs. However, not only the producer is entitled to such premium but also certain third parties (e.g. power plant owners or electricity supply companies) if they bear the risk of price fluctuations.

The volume of electricity distributed by a distribution system operator to end users for basic supply is, however, not subject for a market premium and must be deducted. On the other hand, distribution system operators may take a loss from self-production from large hydro-electric plants into account at full production costs in the tariff for end users of basic supply.

Relationship between exemption of average price method and market premium scheme

The new regulation regarding the sale of electricity in basic supply at production costs without including a possible price benefit, as provided for in Art. 6 para 5^{bis} StromVG, exists in conjunction with and in addition to the market premium scheme. It can be assumed that the operator of a large hydro-electric plant who provides basic supply would primarily serve end users of basic supply and include the total production costs in the basic supply tariff. The supplier has the choice of selling the remaining electricity at production costs to a third party in charge of basic supply or on the market, in the expectation of a market premium.

Due to the above-mentioned scheduling, per energy delivery, these two instruments cannot be combined in time, since the market premium can only be determined retrospectively, whereas the basic supply tariff must be calculated in advance.

Substantiation of the new regulations in the Electricity Supply Ordinance (StromVV)

The provisions of Art. 6 para 5^{bis} StromVG are specified in more detail in Art. 4 to Art. 4c StromVV, which are however, only valid until 31 December 2022. These provisions shall initially apply with respect to the tariff year 2019 and for the last time in relation to the tariff year 2022 (Art. 31k StromVV as well as cipher II para 3). Although the new as well as the revised provisions of both the StromVG and the StromVV only came into force on 1 June 2019, ElCom announced on 9 April 2019 that the production costs (as specified in Art. 6 para 5^{bis} StromVG) may be included in the tariffs for end users for the whole of tariff year 2019.

The principle that production costs must be geared to an efficient production is specified in Art. 4 para 2 StromVV. Thus, distribution system operators may include power plant specific production costs of energy supply in the tariff component at most in proportion to the amount of domestic electricity produced from renewable energies according to Art. 6 para 5^{bis} StromVG included in the basic supply (i.e. without the deduction of any price advantages). Any subsidies obtained must, however, be deducted. In particular, for purchases of electricity from third party plants usually only one price is agreed. Therefore, Art. 4a StromVV specifies that, also with respect to purchases, subsidies (such as one-off payments or investment contributions) must be deducted when calculating the tariff component relating to energy supply. Art. 4a StromVV also specifies when and in which amount such deductions must be made.

The production cost approach does not apply with respect to purchases from small and micro power plants. Therefore, procurement costs, including the costs for proof of origin, may be included up to the respective applicable remuneration rate

(Art. 4 para 3 StromVV).

The costs of electricity from generating units that benefit from the system of cost-covering feed-in remuneration or additional cost financing or comparable cantonal or municipal subsidies may not be included in the basic supply tariff in accordance with Art. 6 para 5^{bis} StromVG (Art. 4 para 5 StromVV). This is because the production costs of generating units in the cost-covering feed-in remuneration system normally can be covered.

Art. 4b and 4c StromVV contain both existing and new verification and reporting obligations of the distribution system operators.

GHR Energy and Natural Resources

Marc Grüninger (marcgrueninger@ghr.ch)

Patrizia Lorenzi (patrizialorenzi@ghr.ch)

GHR Rechtsanwälte AG

Seidengasse 13

Postfach

CH-8021 Zürich

T +41 58 356 50 00

F +41 58 356 50 50

www.ghr.ch

Tavelweg 2

Postfach

CH-3074 Bern Muri

T +41 58 356 50 50

F +41 58 356 50 09

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