Verband Schweizerischer Elektrizitätsunternehmen
Association des entreprises électriques suisses
Associazione delle aziende elettriche svizzere

VSE Eingabe EU Konsultation Markt Design

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Verband Schweizerischer Elektrizitätsunternehmen (VSE, Swiss Electricity Industry Association)

1. Making Electricity Bills Independent of Short-Term Markets

1.1 Power purchase agreements

Q1. Do you consider the use of PPAs as an efficient way to mitigate the impact of short- term markets on the price of electricity paid by the consumer, including industrial consumers?

X	Yes
	No

Q2. Please describe the barriers that currently prevent the conclusion of PPAs.
Stable regulatory conditions are particularly important for the conclusion of PPAs. Market interventions that also affect existing plants, such as the introduced revenue cap, must be avoided. The threat of future regulatory interventions targeting existing plants discourages potential investors from investing in new long-term energy infrastructures.

It is also important to enable cross-border PPAs, i.e. with neighbouring countries including very well interconnected third countries, by reducing the respective barriers. However, the implementation of the 70% rule threatens a reduction in border capacity to third countries which creates additional barriers to PPAs and will prevent the flexible capacities of these countries from being fully leveraged in the EU internal electricity market.

Q3. Do you consider that the following measures would be effective in strengthening the roll-out of PPAs:

a) Pooling demand in order to give access to smaller final customers
b) Providing insurance against risk(s) either market driven or through publicly supported guarantees schemes (please identify such risks)
c) Promoting State-supported schemes that can be combined with PPAs
d) Supporting the standardisation of contracts
e) Requiring suppliers to procure a predefined share of the consumers' energy through PPAs
f) Facilitating cross-border PPAs

Do you have additional comments?
VSE supports PPAs; stable regulatory framework conditions are particularly important for their conclusion.

The selected measures must be designed as follows:

a) Pooling of demand should take place via the market players. State-led pooling, on the other hand, should be viewed very critically and should not be considered.

b) and c) Support schemes can have a negative impact on PPA markets and should be designed such that adverse effects are minimized. For example green power PPAs (including the purchase of guarantees of origin) should be possible.

d) The standardization of contracts should be left to the market and the market players.

e) PPA obligations should be viewed critically due to the restriction of economic freedom.

f) Cross-border PPAs with neighbouring countries including very well interconnected third countries should be made possible.

1.2 Forward markets

Q4. In your view, would requiring electricity suppliers to hedge for a share of their supply be beneficial for consumers and for retail competition?

	Yes
X	No

VSE rejects long-term hedging obligations. Hedging obligations can make it more difficult for new market participants to enter the market, what reduces retail competition. In addition, fixed commitments leave companies little leeway to adapt their offers to customer needs and reduce flexibility in product design.

Mandatory hedging is also associated with a volume risk for the supplier, particularly if the consumption of end customers is not precisely known in advance.

1.3 Contracts for Difference

Q1. Do you consider the use of two-way contracts for difference or similar arrangements as an efficient way to mitigate the impact of short-term markets on the price of electricity and to support investments in new capacity (where investments are not forthcoming on a market basis)?

	Yes
X	No

CfDs are likely to mitigate the impact of short-term markets, however VSE considers that short-term price signals as important to incentivize the appropriate producer and consumer behaviour.

CfDs and other support schemes such as investment grants can be an instrument to push the expansion of some types of renewable energies (solar and wind). Two-way CfDs are not suitable for technologies that make a valuable contribution to the system with their flexibility, such as storage (e.g. pumped storage power plants, batteries) and other flexible technologies (e.g. hydropower plants with reservoir).

If at all, CfDs should only be concluded for selected technologies, and only for new plants and on a voluntary basis (all three conditions must be fulfilled together). The protection of existing installations must be guaranteed, and in particular existing installations should not be made subject to a CfD retroactively. If CfDs were introduced for investments in new capacities, the corresponding contracts would have to be structured as market based as possible. In the same context, the amount of the contributions should be determined via market instruments (auctions). Furthermore, CfDs must be designed in such a way that the incentives for market- and system-serving behaviour (increasing production in the event of high demand and/or low supply) are not affected as far as possible and flexibilities continue to be used in a way that serves the market and the system.

Q4. What technologies should be excluded and why?

It is imperative that hydropower plants with a reservoir, pumped storage power plants and other storage technologies are excluded from CfDs, as it is difficult to properly incentivise market- and system-serving behaviour by flexible power plants and storage facilities within the framework of CfDs.

Q10: Without prejudice to Article 6 of Directive (EU)2018/20016, should it be possible for Member States to impose two-way CfDs by regulatory means on existing generation capacity? If such possible use of regulated CfDs for existing generation is deemed appropriate, should the obligation apply to all types of existing inframarginal generation or be limited to certain types of generation (and if so, which types)?

	Yes
X	No

VSE considers CfDs not suitable for storage technologies and flexible technologies such as hydropower plants with a reservoir and pumped storage power plants. They should be excluded from CfDs, as it is difficult to properly set an incentive for market- and system-serving behaviour of flexible power plants and storage within the framework of CfDs.

If at all, CfD should only be concluded for selected technologies, for new plants and on a voluntary basis (all three conditions must be fulfilled together). It is important that grandfathering is guaranteed (existing plants may not be subsequently subjected to a CfDs).

Q13: Would it be enough for existing generation to be subject only to a simple revenue ceiling instead of a revenue guarantee?

	Yes
X	No

VSE fundamentally rejects the introduction of revenue caps, as this would jeopardise investment security and interfere with the market. The market revenues serve to amortise the often very long-term and capital-intensive investments.

If maximum revenue caps were to be introduced, they should be accompanied by a minimum revenue floor. Not only should profits be skimmed off, but the system would also have to be designed in such a way that losses (as they were in the past) are minimised. Companies must have the means to cover their costs, otherwise they will no longer invest.

1.4 Accelerating the deployment of renewables

Q2. Do you see any other short-term measures to accelerate the deployment of renewables?

	Yes	No
At national regulatory or administrative level	x	o
In the implementation of the current EU legislation, including by developing network codes and guidelines	x	o
Via changes to the current electricity market design		x
Other	x	o

VSE supports the expansion of renewable energies. The framework conditions must be adapted in such a way that the expansion of renewable energies progresses quickly and existing hurdles are removed. One crucial part are faster and easier permitting procedures. To accelerate the expansion of renewable energies, not only the expansion of production capacity but also the expansion of grids is crucial. Increased investments in the expansion of renewable energies also requires a reliable approach when balancing the interests of environmental protection and energy production.

As the share of weather-dependent production will increase strongly in the future, flexible controllable generation technologies will play an increasingly important role. The existing flexibility should also be better integrated across EU borders. Very well interconnected third countries with a high share of flexible assets, such as Switzerland with its flexible and its low-carbon hydro storage power plants, should be leveraged as a supplement to intermittent production in the EU and Switzerland. However, this requires improved cross-border exchange with very well interconnected third countries which are part of the synchronous grid of Continental Europe.

1.5 Limiting revenues of inframarginal generators

Q1. Do you consider that some form of revenue limitation of inframarginal generators should be maintained?

All companies which have invested in production assets in the EU (including Swiss companies) are negatively affected by inframarginal revenue caps. VSE rejects an inframarginal revenue cap because it harms the long-term investment climate and delays the expansion of renewable energies. In addition, it can lead to possible distortions in the EU internal energy market and in neighbouring markets.

Q5. Should the modalities of such revenue limitation be open to Member States or be introduced in a uniform manner across the EU?

VSE rejects an inframarginal revenue cap because it harms the long-term investment climate and delays the expansion of renewable energies both at EU and at Member State level. In particular generation technologies that can react to shortages (price peaks) and thus finance themselves must be excluded from such interventions. It is particularly relevant to refrain from such market interventions in the above-mentioned generation technologies (e.g. hydropower plants and storage technologies), as it is precisely these that contribute to a high degree to security of supply.

2. Alternatives to gas to keep the electricity system in balance

Q2. Do you see alternatives to marginal pricing as regards the functioning of short-term markets in terms of ensuring efficient dispatch and as regards the determination of cross border flows?

	Yes
X	No

No, VSE does not see any alternatives for the spot market. The merit order principle should be retained. The VSE is in favour of market-based instruments and welcomes price signals of reflecting scarcity or oversupply.

Q4. Do you consider that the cross-border intraday gate closure time should be moved closer to real time (e.g. 15 minutes before real time)?

X	Yes
	No

Currently, power plants in Switzerland can only be traded with a lead time of 60 minutes at the borders with Germany, France and Austria. The border exchange with Italy can only be traded twice a day. Shortening this lead time would make sense in order to increase the liquidity in the European markets through the flexibility of Swiss and Austrian hydropower.

Q8. What further aspects of the market design could enhance the development of flexibility assets such as demand response and energy storage?

With its hydropower plants, Switzerland has many flexible power plants and storage options that can also be used across borders for ensuring security of supply and system stability. In order to utilise the advantages of flexible and low-carbon power plants and storage facilities in Switzerland. Switzerland should be better integrated into the EU capacity calculation and more generally into the EU internal electricity market.

It should be noted that Switzerland's flexible power plants can provide an alternative source of short-term flexibility, which is also not dependent on global fuel markets, such as the market for natural gas. Therefore, a stronger integration of very well interconnected third countries which are part of the synchronous grid of Continental Europe would be an efficient way to strengthen European short-term markets.

3. Better consumer empowerment and protection

3.1 Energy sharing and demand response > keine Eingabe

3.2 Offers and contracts > keine Eingabe

3.3 Prudential supplier obligations

Q8. Would you support the establishment of prudential obligations on suppliers to ensure they are adequately hedged?

	Yes
x	No

VSE rejects hedging obligations and any such regulatory obligations for suppliers. Hedging can lead to liquidity and credit risks for suppliers. In addition, hedging obligations would have to match the maturities of the provided energy products. The experience with the present crisis suggests that hedging activities will increase even without such prudential obligations, provided that long-term procurement strategies are not inhibited by further price interventions.

4. Enhance the integrity and transparency of the energy market > keine Eingabe