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## The European Electricity Exchange in Switzerland

### EPEX SPOT SE

The transmission grid operator Swissgrid regulates the international power exchange in Switzerland. Ever more frequently energy is traded via special stock exchanges, such as the European Power Exchange EPEX SPOT SE („EPEX SPOT“). On average, every third kilowatt-hour of power used in Switzerland is purchased through EPEX SPOT. This exchange runs the electricity spot markets for Germany, France, Austria and Switzerland. These countries represent more than a third of the total European power consumption.

EPEX SPOT is a company under European Law with its head office in Paris and branches in Leipzig and Vienna. At EPEX SPOT, the 25 largest Swiss energy companies also trade in power. Up to now, these transactions were routed via the EPEX SPOT offices in Leipzig and Vienna. In order to be directly present in Switzerland, EPEX SPOT opened a branch office in Berne on April 1<sup>st</sup>, 2014.

### Energy Spot Market in Switzerland

At EPEX SPOT in Berne, physical power is traded Day-Ahead and Intraday. Thus capacities for the current and the next day only may be bought and sold. Both Swiss and foreign companies can take part in the trade.

By the presence of the European Power Exchange in Switzerland local energy trade has become more efficient and more transparent. Buyers and sellers send their orders to buy or sell electricity in determined delivery areas on the EPEX SPOT platform. EPEX SPOT matches these orders in a transparent manner according to public exchange rules. This produces legally binding agreements between buyer and seller to purchase or sell a specific quantity of electricity to a defined delivery area for the matched price.

The trades are then transferred to the European Commodity Clearing (ECC). ECC acts as a counterparty to the buyer and to the seller and performs the obligations of the seller (to deliver the electricity) vis-à-vis the buyer and of the buyer (to pay for the electricity) vis-à-vis the seller. It informs the relevant Transmission System Operators responsible for the delivery area of the exchange of energy between buyer and seller, requests payment from the buyer and transfers the money to the seller.

As a result, EPEX SPOT balances supply and demand, thus generating relevant and competitive prices for short term power. In addition, the electricity grid is better utilized and consequently the security of supply is increased. In the medium-term, it is likely that the European Power Exchange may have an influence on the price of electricity in Switzerland.

### Market Coupling

In the European context, so-called market coupling is an increasingly significant factor. Hereby energy supplies and cross-border transport capacities are no longer traded separately but together. Thanks to a coordinated price formation mechanism, market coupling allows for the optimization of the allocation process of cross-border capacities. The mechanism takes into account orders placed by the members of different exchanges. Thus, particularly, scant transport capacities and also the existing network infrastructure can be used much more efficiently. Moreover, market coupling allows for the reduction of price volatility and the alignment of the price of electricity in the participating markets and countries.

Since 2010, the Swiss Federal Electricity Commission **ElCom** has been demanding the introduction

of market coupling for reasons of efficiency. It has thus actively worked towards a solution for the coordination of power exchange.

### Co-operation with EPEX SPOT

The co-operation agreement between Swissgrid and EPEX SPOT has been the foundation of market coupling in Switzerland. This agreement was ratified by ElCom on October 30, 2013. It guarantees that energy and cross-border transport capacities can be traded jointly.

This co-operation was also intended to be a safeguard in respect of the EU which wants to introduce a new domestic electricity market with appropriate regulations, starting from the beginning of 2015. Thus, the currently largely private operations will be transferred to the EU's legal system. However, whether Switzerland may participate in the internal electricity market is questionable in view of current political events.

### Supervisory authority

In the area of electricity, Elcom is an independent regulating authority of the state. It consists of seven committee members independent of the electricity supply industry, who are elected by the Swiss Federal Council. Inter alia, ElCom is responsible for adherence to legal regulations relating to cross-border transport capacities.

The presence of EPEX SPOT in Switzerland is very important to Elcom as regulator. By this means it can exercise its supervisory activities and, if necessary, take action. If for instance power exchange transactions are not transparent or prices are being discussed, Elcom can take the necessary decisions and issue directives.

### Summing up and looking ahead

The EPEX SPOT branch office in Berne makes it possible for domestic and foreign companies to trade electricity in Switzerland. In view of the Federal Council's planned nuclear phase-out it is vital for Switzerland to be able to participate in the European electricity market. The import of electricity, such as is possible via the EPEX SPOT trading platform, has to be an important concern for

Switzerland. However, in order to profit from the European electricity market in the long-term, Switzerland will not be able to avoid coming to an electricity agreement with the EU. Since the negotiations for such an agreement have currently been put on ice, Switzerland will have to settle for the common electricity exchange until further notice.

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