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Electricity

Overview

Switzerland is closely integrated with the European electricity system, both physically and geographically, yet this arrangement lacks any legal foundation with the EU. Moreover, Switzerland is not part of the EU internal electricity market. This absence of legal certainty and market integration creates several disadvantages:

- The availability of cross-border transmission capacity cannot be guaranteed. This means that electricity imports into Switzerland could be restricted in certain circumstances in the event of a shortage, potentially compromising security of supply.
- Swissgrid, which operates Switzerland's electricity transmission network, has only limited integration with European processes for maintaining grid stability. This complicates grid operation, for example throuh unplanned electricity flows, thereby creating risks and additional costs.
- Swiss electricity companies cannot participate in the EU internal electricity market. As a result, Switzerland cannot make full use of its flexible hydropower resources and misses out on trading opportunities.

The electricity agreement strengthens security of supply and grid stability, while also simplifying electricity trading.

Key elements

The new agreement allows Swiss electricity companies to participate fully in the EU internal electricity market on equal terms and without barriers. It also gives them access to EU trading platforms, agencies and bodies that are essential for electricity trading, grid stability, security of supply and crisis preparedness. The transmission system operator, Swissgrid, will be fully integrated into European processes for operating the transmission system. Cooperation between Swiss authorities and institutions and their European counterparts will be secured.

Opening of the Swiss electricity market: Under the electricity agreement, Switzerland must guarantee that all electricity customers have the freedom to choose their supplier. Switzerland retains the option of accompanying the opening of the electricity market with regulated basic supply and controlled prices for households and businesses that use less than a certain amount of electricity. Customers will be able to switch to the open market or return to regulated supply, subject to deadlines and any switching costs that may apply during the year. Switzerland may also introduce accompanying measures to protect electricity customers or workers in the electricity industry. Swiss electricity suppliers and distribution network operators may remain under public ownership and control.

Security of supply: The EU places great importance on security of supply in the internal electricity market. Under the electricity agreement, neighbouring countries cannot restrict electricity flows to Switzerland (i.e. impose export restrictions), even during an energy crisis. The agreement explicitly states that cross-border transmission capacity must remain available, particularly during times of crisis. This strengthens Switzerland's security of supply and reduces the need for electricity reserves.

The electricity agreement also allows Switzerland to build up the domestic reserves needed for security of supply. The agreement guarantees Switzerland the right to take specific Swiss characteristics into account when analysing reserve requirements. This flexibility has been secured as an exemption to the requirement to automatically adopt new EU legislation.

To ease the transition, a six-year transition period has been negotiated for any Swiss reserves that do not comply with the electricity agreement. In the meantime, Switzerland can strengthen its cooperation with EU bodies on grid stability, security of supply and crisis preparedness.

Expansion of renewable energies: The electricity agreement explicitly stipulates cooperation on renewable energies and commits to increasing their share in the energy system. Similarly, a target value has been set for the share of renewable energy in Switzerland's final energy consumption by the end of 2030 of 48.4 per cent (as of 2024: 35.6 per cent). Under the agreement, the EU will again recognise Swiss certificates of origin for renewable electricity. By signing the electricity agreement, Switzerland also adopts rules on state aid. The most important Swiss support measures for renewable energies were safeguarded in the negotiations by declaring them compatible with EU law for a limited time. Under the electricity agreement Switzerland can also promote the expansion of renewable energies.

Swiss hydropower: The electricity agreement does not contain any rules or restrictions regarding the granting or content of concessions, water rates, reversion or public ownership of hydroelectric power plants. The procedure for granting concessions in Switzerland remains unaffected. The EU shares this view. The temporary reduction in the water rate as part of the promotion of renewable energies (investment contributions for hydropower) is explicitly safeguarded in the electricity agreement. The electricity agreement also stipulates that Switzerland can decide autonomously on the conditions for the use of its hydropower and that hydropower can be in public ownership. The legal acts relevant to the award of concessions in the EU (Directive 2014/23/EU on the award of concessions and Water Framework Directive 2000/60/EC) do not fall within the scope of the electricity agreement. As the dynamic adoption of legislation is limited to the scope of the agreement, Switzerland is not obliged to adopt future amendments to these legal acts.

No new environmental law requirements: Under the electricity agreement, Switzerland does not commit to adopting EU environmental law but does guarantee a high level of environmental protection in the electricity sector equivalent to EU standards. Switzerland may also apply stricter environmental standards if it wishes.

The electricity agreement does not cover electricity consumption, other energy sources, or energy efficiency (in buildings). It does not affect cantonal competences or any promotional measures in these areas.

In addition, Swiss electricity suppliers will receive financial compensation for the removal of feed-in priority for long-term contracts in the cross-border electricity grid during a seven-year transition period. Hydroelectric power plants located near the border with existing minor feed-in priorities will retain these for a 15-year transition period.

Finally, the agreement contains a clause whereby Switzerland and the EU will examine further deepening of cooperation in the energy sector, particularly for hydrogen and renewable gases.

Implementation in Switzerland

The agreement will be implemented in Switzerland in two stages. The first stage covers elements that are essential for the functioning of the EU internal electricity market, including opening the market to all electricity customers (with standard regulated basic supply at controlled prices for households and small businesses).

The first stage of implementation will involve amendments to the Electricity Supply Act, the Energy Act, and the Federal Act on Oversight and Transparency in Wholesale Energy Markets. The most important amendments are summarised below:

Market regulation: Under the electricity agreement, Switzerland will open the market to all electricity customers, enabling everyone to choose their electricity supplier freely. This market liberalisation will be accompanied by a regulated basic supply with controlled prices for households and consumption sites with an annual consumption of less than 50 MWh, who can choose to remain with the basic supply or return to it. In addition, consumption sites with an electricity consumption of 50 MWh to 100 MWh per year may remain in or return to the basic supply for ten years after entry into force of the agreement, provided that they meet the EU definition of a micro-enterprise (fewer than ten employees and an annual turnover or balance sheet total of less than EUR 2 million) (so-called opt-in option). As in the current regulation of basic services, tariffs are based on production and procurement costs. However, in order to ensure that basic supply remains affordable for basic suppliers, the implementation of the electricity agreement will see the removal of other elements of current regulation, for example with regard to the minimum share of domestic renewable energies. Additionally, accompanying measures are planned to protect consumers and employees in the electricity industry. These include a comparison platform for market offers, a new ombudsman service with the ability to mediate in customer disputes, guidelines on contract terms in the free market, monitoring of the small customer market by the Federal Electricity Commission (ElCom), and countermeasures should there be any negative effects on electricity industry employees. 17 major distribution network operators will need to comply with enhanced legal and organisational unbundling provisions, separating grid operations from power generation and supply. However, they may remain in public ownership and integrated into public administration if desired. The rules governing supervision and transparency of wholesale energy markets will also be slightly adapted to align with EU standards.

Networks: Until now, the Electricity Supply Act (ESA) has granted physical feed-in priorities in the cross-border electricity grid for long-term contracts and hydroelectric power plants on the border (e.g. on the French border). The EU abolished its feed-in priorities in 2003 at short notice and without compensation, as they impede the EU internal electricity market. When the agreement is implemented, feed-in priorities under the ESA will be abolished. However, Switzerland will provide multi-year financial compensation for the affected electricity suppliers, as stipulated in the agreement.

Renewable energies: The threshold for the obligation to purchase and remunerate electricity from small production plants will be lowered from 3 MW to 200 kW. Plants above 200 kW will be subject to so-called balance responsibility, which will give them financial incentives to behave in a manner that is beneficial to the grid. These plants are operated professionally. Direct marketing is feasible for them, and the new rule strengthens the integration of renewable energies into the energy system. The level of remuneration is closer to market prices in order not to burden the basic suppliers with unreasonable costs.

Minimum remuneration: The minimum remuneration for renewable electricity production plants <150 kW will be abolished when the Electricity Agreement comes into force. Plants (<150 kW) commissioned after 19 February 2025 but before the Electricity Agreement comes into force will continue to receive a minimum remuneration for a transitional period of three years in order to protect investments. The minimum remuneration is not per se inadmissible under EU law. The reason for its abolition is that the financing of the minimum remuneration will no longer be guaranteed once the Electricity Agreement comes into force. Today, financing is provided through the monopoly on basic services, with costs being passed on to captive customers. However, with market liberalisation, end consumers can switch to the free market, which raises questions about affordability for basic providers who are obliged to purchase electricity. Alternative financing of the minimum remuneration via the grid surcharge fund would be at the expense of the further expansion of renewable energies. Instead of being used to build *new* plants, the funds from the grid surcharge fund would be used to pay the minimum remuneration for *existing* plants. This would hamper the expansion of renewable energies. In view of the market situation, the sharp drop in the cost of battery storage and the political decision to promote the local use of decentralised electricity generation (e.g. via local energy communities or self-consumption communities), compensation for the loss of the minimum remuneration is not

necessary. In addition to the cost savings from self-consumption and the remuneration for feeding electricity into the grid, the one-off remuneration for investments made by solar plant operators and the remuneration for guarantees of origin.

Security of supply: Implementing EU rules to ensure security of supply and an adequate electricity system will mean assigning new roles and responsibilities to Swiss institutions (such as the SFOE or ElCom) or adapting existing ones.

State aid: The electricity agreement declares the most important existing Swiss support measures compatible with the agreement and secures them for several years. Future support measures must be designed to avoid conflict with the agreement. Furthermore, the future Swiss state aid monitoring authority must be involved at the design stage.

The second stage of the agreement's implementation, covering further aspects of market and network regulation, will follow no later than three years after the first stage. Responsibility for network regulation will be transferred to the independent Federal Electricity Commission (ElCom) no later than five years after the agreement enters into force.

Importance for Switzerland

Switzerland is closely integrated with the European electricity system but remains outside the EU internal electricity market, meaning EU rules do not currently apply. This limits Switzerland's cooperation with the EU and neighbouring countries.

At the same time electricity supply across Europe faces major challenges from decarbonisation and the associated electrification of the energy system, as well as nuclear phaseouts in some countries. Cross-border electricity flows will increase significantly, intensifying the challenges Switzerland faces through its exclusion from the internal electricity market.

Integrating Switzerland into the EU internal electricity market will streamline electricity trading. The agreement will strengthen security of supply and ensure grid stability. It allows Switzerland to make full use of its flexible hydropower on European markets, safeguards electricity imports, fosters competitive pricing, cuts electricity supply costs, and accelerates the transition to climate-neutral energy. Securing marginal electricity capacities for electricity exchange and trading could enable the Swiss electricity industry to generate additional trading profits of up to CHF 1 billion per year by 2050.

From an economic perspective, the exchange and trade of electricity lead to efficiency gains and increased prosperity. Higher and more reliable border capacities also have positive welfare effects. Switzerland's public service obligations in electricity will remain completely intact under the electricity agreement.

Specifically

- **Free choice of electricity provider:** Today, households and SMEs with low electricity consumption cannot choose which electricity supplier they purchase their electricity from. They are supplied by a specific basic provider based on their location. Electricity tariffs in one commune can be significantly higher than in neighbouring areas. Perhaps they would also like a supplier that offers a higher proportion of electricity from domestic hydropower or a flexible tariff for heat pumps or electric cars.

  Large consumers, such as businesses with high electricity usage, can already participate in Switzerland's electricity market. Under the electricity agreement, small consumers such as households and SMEs will also be able to switch providers and choose from a wide range of offers covering price, electricity origin and environmental quality, plus tariff flexibility. Small consumers who do not wish to choose their own electricity provider will automatically remain with their local electricity provider under the regulated basic supply with controlled prices. In addition, consumption sites with an electricity consumption of up to 100 MWh per year may remain in the basic supply system, provided that they meet the EU definition of micro-enterprises. Households and SMEs entitled to basic service who have

opted for a supply contract on the free market can, in principle, also return to basic service if they so wish.