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The electricity market of Canton Ticino between Switzerland and Lombardy

THE PRICE OF ELECTRICITY FOR HOUSEHOLDS AND FIRMS

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Executive summary

In May 2017 the Swiss citizens approved the referendum on the Swiss Energy Strategy 2050, and kick-started the country's energy transition. The practical implementation of this ambitious plan has started in 2018: sizeable investments in generation and transmission infrastructures are expected in the next years, with substantial impacts on the retail market.

The 2018 edition of the O-FPE report "The price of electricity for households and firms" maps the dynamics of retail electricity prices in Canton Ticino, the rest of Switzerland and the Italian region Lombardy in the years 2016-2018. Wherever possible, these three regions are also compared to the European Union member states. The first chapter provides an overview on the final price levels, the second chapter describes the components of retail prices and investigates their drivers, and the third chapter outlines the expectations for the upcoming 12 months, with a conclusive remark on the challenges stemming from the completion of the liberalization process in Switzerland.

The table below collects information on average yearly prices of electricity in Ticino, the rest of Switzerland, and Lombardy for households and small and medium-sized industrial consumers. 2017 recorded a 2%-3% decline with respect to 2016 in all regions and consumption segments, with the only exception of Lombardy, where a regulatory reform led to a 25% price drop in the residential segment. 2018 opened instead with an average price recovery around 2.5% in Ticino and Switzerland. Preliminary data for Lombardy suggest an even larger rebound in Lombardy in the residential segment.

The average retail prices are higher in Ticino than in the rest of Switzerland, although significant differences exist among individual suppliers. On the other hand, electricity consumers in Ticino enjoy a significant advantage on their counterparts in Lombardy, particularly since the beginning of the Swiss franc devaluation in the second half of 2017. Final prices in Ticino are roughly in line with the EU-28 average in the residential segment, and slightly higher in the two industrial segments.

Final price of electricity in cent CHF/kWh (simple average by region)			
	Ticino	Switzerland (w/o Ticino)	Lombardy
Residential consumers*			
2016	22.40	20.46	30.86
2017	21.72	20.00	22.92
2018	22.21	20.48	25.96
Small industrial consumers**			
2016	21.65	17.85	21.53
2017	21.12	17.39	20.73
2018	21.56	17.89	
Medium industrial consumers**			
2016	18.51	14.64	19.67
2017	18.18	14.40	18.94
2018	18.25	15.01	

* Lombardy: until Q2 2018; ** Lombardy: until Q3 2017

In 2016 the cost of the electricity commodity accounted for 31%-34% of the final price of electricity in Ticino, roughly in line with Lombardy and Switzerland. Network costs were particularly high in Ticino and Switzerland, where they absorbed more than 40% of the final price. Italian consumers were instead charged very high costs for incentivizing renewable generation, as well as very high taxes and regulatory fees, summing up to 43%-59% of end-user prices, depending on the consumption segment. In the broader European picture, Ticino and Switzerland are among the regions with lowest regulatory and fiscal burdens, but higher network costs.

A closer look at the dynamics of final price components reveals that, despite the slow recovery of wholesale electricity prices in Switzerland, the average cost of the electricity commodity experienced a slight decline in the region in the years 2016-2018, falling from 6.4-7.3 cent CHF/kWh to 5.8-6.5 cent CHF/kWh in Ticino, from 5.9-7.4 cent CHF/kWh to 5.4-6.1 cent CHF/kWh in the rest of Switzerland. The cost of electricity in Lombardy followed instead a dynamics closer to that of the Italian wholesale price, hitting its low between 6.0 and 7.7 cent CHF/kWh in 2016 and bouncing back afterwards, with a spike up to 11.2 cent CHF/kWh in the residential sector in the first quarter of 2018.

As for the regulated components of the final price of electricity:

- Network costs remained relatively stable in Ticino, with values around 9.5 cent CHF/kWh, slightly below the Swiss average, in the residential segment, and around 7-9 cent CHF/kWh, 1 cent CHF/kWh higher than the Swiss average, in the two industrial segments. Electricity consumers in Lombardy enjoyed instead remarkably lower network costs, particularly in the industrial segments: the latest figures amount to 5.5 cent CHF/kWh for households and 2 cent CHF/kWh for small and medium-sized firms;
- The costs connected to incentives for renewable generation increased from 1.5 cent CHF/kWh to 2.3 cent CHF/kWh between 2017 and 2018 in Ticino and in Switzerland, following the kick-start of the Energy Strategy. Despite this increase, this component of final retail prices remained remarkably lower than the corresponding value in Lombardy, that skyrocketed up to 5 cent CHF/kWh for households in 2018 and 5-6 cent CHF/kWh for small and medium enterprises in 2017;
- Taxes and other fees also remained relatively stable in Ticino and in the rest of Switzerland. End consumers in Ticino suffered a disadvantage around 2 cent CHF/kWh with respect to their Swiss counterparts, but paid on average 1-2 cent CHF/kWh less than their counterparts in Lombardy.

The upcoming months will probably see a slow recovery of commodity costs in Ticino and in Switzerland, following the trends observed on the Swiss wholesale market. The main uncertainties lie in the dynamics of the exchange rate, as well as in the impact of weather trends on wholesale markets and thereby in the commodity costs passed on to the consumers.

In the longer term, retail electricity prices will probably be affected by the increased competition if the completion of the retail market liberalization currently under discussion in the Federal Parliament will be approved. The adoption of measures and policies favouring the empowerment of small consumers will probably be very important to avoid or limit market distortions, and protect small and vulnerable consumers. Some interesting suggestions can be drawn looking at the wider European setting: the European Commission's package "Clean Energy For All Europeans", under discussion since November 2016, proposes a set of measures to empower end consumers, and let them reap the benefits of liberalized energy markets by facilitating their choice among alternative supply offers. A similar set of measures is being introduced in Italy, where the energy regulator is working towards the abolition of all regulated end-user prices, and pushing for the introduction of effective and accessible price comparison tools.