

# 10 December 2007: deregulation in the market for electricity supplies

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**A new wholesale offer proposed by EDF will allow alternative retail suppliers to effectively compete with the incumbent operator's retail sales on the free market**

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Following a complaint filed by Direct Energie on 22 February 2007, concerning practices implemented by Electricité de France (hereafter EDF) on the market for retail electricity supplies, the Conseil de la concurrence issues its decision today making EDF's commitments binding after obtaining improvements. The commitments concern wholesale electricity supplies for retail sale by EDF's competitors on the free market.

## **The margin squeeze denounced by Direct Energie**

In December 2005, Direct Energie signed a five year electricity supply contract with EDF with price conditions such that the company was unable to market viable commercial products to small professionals at levels competitive with the incumbent's "EDF Pro" price range.

Noting that this situation could create a margin squeeze effect and therefore constitute an abuse of dominant position on the part of EDF, the Conseil de la concurrence ordered interim measures in its Decision of 28 June 2007, ordering EDF to market base-load electricity in order to allow alternative suppliers to effectively compete with the incumbent operator's retail sales on the free market.

The Conseil had however given EDF the opportunity to respond to this order by

offering commitments within a short deadline. EDF offered commitments on 13 July 2007. These commitments were subject to a market test, which allowed the Conseil to collect observations from 21 companies and organisations.

The Conseil also consulted the CRE (Commission for Energy Regulation). The Conseil took into account the regulator's opinion and the market test's results to significantly improve and clarify EDF's initial proposal.

### **EDF's wholesale offer: a significant improvement of supply conditions for electricity suppliers on the free market**

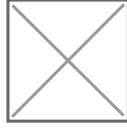
EDF offers alternative suppliers a five year contract with a ten year extension option for an annual volume of 10.5 TWh representing a total power of 1500 MW. This power will be made available in three calls for tender at different time periods, expected in 2008-2009 so as to give new entrants access to the new wholesale product.

The quantity of electricity thus offered exceeds the free market's current consumption and would allow alternative suppliers to multiply by four their electricity sales volumes on the retail market. Access to this offer will be made via a bidding system for the ten-years option price. The total 15 year contract would guarantee alternative operators long-term foresight regarding the conditions of their supply in base-load electricity. This foresight is currently lacking from products available on the wholesale market.

Moreover EDF committed to ensure that the price charged for supplies over the whole contract duration would not generate any margin squeeze with its own offers on the retail market. In this respect, the supply price is set at €36.8/MWh for the first year and will evolve according to market conditions.

This wholesale product will allow alternative suppliers to develop retail offers in conditions that will enable them to compete with those of EDF on the free market for small professionals and residential customers and to sell electricity at retail without incurring losses.

**> Decision 07-D-43 of 10 December 2007, relative to practices implemented in by EDF**



**> See decision of the Paris Court of Appeal dated 29th October 2008**