

25 February 2011: District heating networks

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The Autorité de la concurrence clears the proposed acquisition of the Ne Varietur Group's sole control by GDF Suez, subject to conditions

> *Version française* 

The Autorité de la concurrence has investigated the takeover by GDF Suez Group of the Ne Varietur Group¹, in which it already held a 34% interest.

After a careful assessment of the proposed transaction's effects on the competitive landscape in the market for the delegated management of district heating networks (heating and domestic hot water), the Autorité cleared the acquisition, subject to commitments offered by GDF Suez in order to maintain effective competition in the sector.

The transaction brings together two market players, in a sector which is already highly concentrated

Having regard to the number of district heating networks already managed by GDF Suez under public service delegation agreements with local authorities, the proposed transaction will result in a higher market concentration. Indeed, the aggregated market shares of two firms, GDF Suez and Dalkia, reach a very large share of the market, whereas other competitors, e.g. Coriance, Idex and NeoElectra, have much smaller shares of the market.

Despite the low competitive pressure currently exercised by Ne Varietur, the Autorité noted that, due to the long duration of public service delegation contracts (duration of 12 to 24 years) and to the existence of barriers to the entry in the regions where the group will hold strong positions after the merger

(Bourgogne and Pays-de-la-Loire), the transaction would contribute to impede effective competition.

Lastly, the acquisition by GDF Suez of Ne Varietur's sole control, a company that currently manages part of the district heating network in the city of Meaux on behalf of Coriance under a subcontracting agreement, would make it more difficult for Coriance to submit a credible tender offer when the public service delegation contract will be renewed (the contract's renewal being scheduled in four years), leading to further impediments to fringe rivals' ability to compete.

To resolve the Autorité's competition concerns, GDF Suez offered commitments with the aim of maintaining competition in the sector

- GDF Suez undertook to allow the local authorities of Montceau-les-Mines (Bourgogne) and Saint-Pierre-des-Corps (located in close vicinity of Tours and the Pays-de-la-Loire region) to unilaterally terminate their ongoing public service delegation contracts with Ne Varietur's subsidiaries, without compensation.

These commitments will result in allowing competition for public service delegation contracts long before they were due to expire, in two regions where competitors had difficulties penetrating.

- GDF Suez also undertook to allow Coriance to unilaterally terminate its subcontracting agreement with Ne Varietur for the management of the district heating network in the city of Meaux. Allowing Coriance to operate the city's district heating network, directly and on its own, this commitment will alleviate concerns that the main fringe rival's ongoing viability be threatened by the merger.

¹Ne Varietur is a holding company that leads 20 companies that are mainly active in the areas of district heating networks operation and thermal and multitechnical services. Until the present decision was issued, GDF Suez was 34% shareholder of Ne Varietur.

> The full text of the decision will soon be made public on the Autorité de la concurrence website

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