

22 November 2016: Electricity

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The *Autorité de la concurrence*, whose opinion has been sought regarding a draft decree and regulation, has reservations concerning the suitability of implementing a subsidy for demand response operators

If the government still decides to retain the mechanism, the *Autorité* has several recommendations to avoid distorting competition on the market.

In Brief

Following a referral by the government regarding a draft decree and regulation on electrical load management, the *Autorité* has today made public an opinion, in which it expresses reservations regarding the methods adopted to subsidise load management operator activities, which could impact, beyond what is necessary, the electricity bills of French consumers.

If the government still wishes to implement subsidisation, the *Autorité* recommends that:

1. the European Commission be notified of the mechanism under State aid rules;
2. it is ensured that the mechanism does not distort competition between demand response operators;
3. the mechanism be simplified.

What is load management?

Load management can be defined as an action aimed at reducing over a short duration, in response to ad hoc requests from a “demand response operator¹”, the electricity consumption level of certain willing clients. This mechanism makes it possible to reduce demand during peak periods, thus reducing the substantial investment necessary to deal with such spikes in consumption.

Among the technical procedures at its disposal, a demand response operator may, for example, install a box in the consumer's premises linked both to an electricity meter and various energy-inefficient appliances (electrical convection heaters, electric water heaters). During demand response periods, the demand response operator will remotely suspend the consumption of these appliances.

Load management is likely to generate an energy saving or deferred consumption. The demand response operator can then sell these energy savings on certain markets, such as the wholesale electricity market, thus making a financial gain. Load management has shown particularly strong development within the framework of the “smart grids” growth and the management of electricity consumption using information and communication technology.

In order to foster the development of load management activities in the private electricity consumption sector, the draft decree and draft regulation, in compliance with relevant legislation, plan for a reduction in the financial payment that the demand response operator normally makes to the supplier when load management is activated by a consumer who receives power from this supplier. This reduction in demand response operator costs will be borne by electricity suppliers and ultimately by consumers.

The *Autorité* has reservations regarding the implementation of this “payment-exemption mechanism” which seems to be highly complex, leading to significant administrative costs for all parties involved, whereas this exemption is, according to the government, transitory and of limited cost. Furthermore, the *Autorité* notes that no impact assessment has been undertaken and that doubts remain over the level of energy savings actually produced by this load management.

If the government still wishes to implement this mechanism, the *Autorité* recommends that the European commission be notified under State aid rules.

Furthermore, the *Autorité* notes that the mechanism could prejudice certain demand response operators (those who operate on tertiary-sector consumption sites, which are excluded from the mechanism²). The *Autorité* would therefore like work to be pursued to analyse the energy savings which could be made by load management activated on this type of site, so that the mechanism can be extended to these tertiary-sector sites as necessary.

Finally, if the project is maintained, the *Autorité* would like to see the mechanism simplified:

- by setting a single significant average energy saving rate below which the payment-exemption mechanism cannot be applied (40%);
- by making a requirement for RTE to check the methods and (mean) average energy saving rates stated by (load management) demand response operators before subsidies are paid.

¹ *Voltatis and Energy Pool are among others demand response operators. The full list of licensed demand response operators is available on the RTE's website*
² *The mechanism only applies to industrial and residential sites whose consumption is below 36 kVA*

> For further details on this matter, please refer to the full text of Opinion 16-A-22 of 22 November 2016 regarding load management in the electricity sector

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