15 October 2014: Regulated electricity tariffs

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The *Autorité* issues the opinion delivered to the Minister of the Economy concerning the draft decree amending the method of calculating regulated electricity tariffs (TRVs).

> Version française

Following a request from the Minister of the Economy, Industry and the Digital Economy on a draft decree establishing a new methodology for calculating regulated electricity tariffs (TRVs), the *Autorité de la concurrence* has issued its opinion. It is overall in favour of the new method decreed by the government.

The new calculation method planned for establishing TRVs

The draft decree is principally aimed at implementing the cost accumulation method, set out in Article L. 337-6 of the French Energy Code, with a view to ensuring the contestability of tariffs by alternative suppliers (allowing them to compete with the TRVs). This method differs from that used until now, which took EDF's accounting costs into account in the provision of TRVs. The new calculation method will add four cost components borne by EDF for the provision of these tariffs.

-the cost of access to incumbent nuclear electricity (*coût de l'accès à l'électricité nucléaire historique ARENH*)[1] ,

-the cost of the supplementary electricity supply – aside from nuclear – based on the wholesale forward market tariffs recorded,

-electricity transmission costs established on the basis of the use of public electricity networks (*coûts d'acheminement de l'électricité déterminés en fonction des tarifs d'utilisation des réseaux publics d'électricité TURPE*) and
-electricity marketing costs.

This new method of calculation should allow alternative suppliers to compete with TRVs, since they are fixed at a level compatible with the costs borne by EDF's competitors.

The Autorité's analysis

In general terms, the *Autorité de la concurrence* considers that the aim of enabling alternative suppliers to compete with TRVs (contestability principle) is not incompatible with the principle of coverage of the supply costs borne by EDF required by law and recommended by competition law. It will therefore be necessary to carry out periodic checks to ensure that the new method of calculating TRVs, while geared towards contestability, continues to ensure the costs coverage borne by EDF for the provision of these tariffs.

The *Autorité* also believes that price capping certain elements of the tariff - enabling a tighter control of the incumbent operator's costs wished by the Government - is not incompatible with the principle of cost coverage since EDF can implement the efficiency gains needed to adapt to this price capping.

Over and above this general assessment of the decree's objectives, the Autorité draws the Government's attention to some technical provisions of the draft decree.

- *Calculating the TRVs in relation to each tariff option*

The decree envisages that the TRV calculation method should apply to each major tariff category (blue tariffs for individuals, yellow and green for business customers; these two tariffs should disappear by the end of 2015) but given that EDF supply costs vary depending on the client consumption profile, the Autorité is favourable to the new method of TRV calculation being applied for each tariff option on offer, subject to its technical feasibility.

- *Taking into account wholesale tariffs on the free market when calculating is possible*

The new method of calculating TRVs takes into account the tariffs practised on the wholesale market (forward contracts) for the cost of the supplementary electricity supply. The Autorité is in favour of this, providing that it properly reflects the costs borne by EDF for the provision of TRVs, which it is not in a position to assess in advance.

- *Only the marketing costs borne by EDF should be taken into account*

The latest version of the decree stipulated that EDF's marketing costs should be taken into account as well as those "of an electricity supplier" without specifying how it was envisaged they would be combined. The Autorité advises returning to the initial, clearer version of the draft decree, which only took EDF's costs into account.

- *Establishing and revising the tariffs on an annual basis*

The decree envisages that TRVs can evolve on an annual basis. Since TRVs are based on different components including the price of ARENH and TURPE, the Autorité considers that a single date should be established for reviewing TRVs and their constituent parts.

[1] At the same time, the Autorité has been requested for opinion on a draft decree establishing means of access to electricity of nuclear origin. It will issue its opinion shortly.

> See the Autorité's opinion 14-A-14 of 26 September 2014 concerning a draft decree amending decree no. 2009-975 of 12 August 2009 in relation to the method of calculating regulated electricity tariffs on the Autorité de la concurrence's website

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