

## **INTERNATIONAL ENERGY UPDATE - (TaRTAM – France)**

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13 April 2010 – The French Government is currently considering the extension of the TaRTAM tariff through the remainder of 2010. This extension would cost Électricité de France (“EDF”) billions of Euros and continue pricing support/subsidisation to large industrial and commercial French consumers.

By way of background, the French electricity market presently provides consumers the choice of purchasing electricity on tariff or the liberalised market. One of the unique characteristics of deregulation in France is that once a consumer chooses to move from tariff to the liberalised market the decision is irrevocable – there is no option to return to the regulated market. Since tariffs have been effectively regulated by the French government (via EDF), tariff prices have remained low despite significant increases in the overall global price of energy. As a result, consumers who made the decision to leave tariff and purchase on the market have been paying significantly more than those who remained on tariff and that gap widened with each passing year.

As one could imagine, this growing price differential created a good deal of distress amongst industrial and commercial consumers. To address this situation, on 7 December 2006 the French government enacted a law establishing a transitory regulated tariff for market adjustment – TaRTAM. Pursuant to this law consumers who opted to purchase energy in the liberalised market could request to have TaRTAM pricing applied to their contracts. TaRTAM pricing is established by the government and set at the standard regulated tariff rates (green, yellow and blue) plus an additional percentage.

The original law creating TaRTAM was modified on 4 August 2008 extending its availability to 30 June 2010. At present, TaRTAM rates are equal to the regulated tariff, exclusive of taxes, increased by 23 percent for green tariffs, 20 percent for yellow tariffs, and 10 percent for blue tariffs.

The extension of TaRTAM program is to be debated by the French Parliament next month. The extension of TaRTAM through 2010 would be part of a massive overhaul of the French electricity market wherein the so-called Nome Law would commence 2011 and gradually do away with regulated tariffs by forcing commercial and industrial customers into the liberalized market.

A draft of the Nome Law calls for EDF competitors to make investments in generation rather than simply purchasing all of their requirements through EDF and reselling it back to the public. The Nome Law would also force all commercial and industrial customers to transfer from regulated tariffs to the open market no later than the end of 2015. By having all of its domestic commercial/industrial base purchasing electricity in the liberalized market, France would then be in compliance with EU directives calling for a competitive electricity market throughout the Union. French households, however, will still be able to purchase their electricity through regulated EDF tariff offerings past 2015.

While EDF has benefitted over the years from its dominance in the French electricity market, it certainly has no desire to extend the TaRTAM tariff. Through the first six months of this year alone, EDF budgeted 2 billion Euros for TaRTAM. Any extension of the program this year will certainly have the effect of costing EDF a similar amount of money thereby impairing its position among investors.

French consumers currently enjoy some of the lowest electricity rates on the entire Continent. According to NUS Consulting's 2009 Electricity Survey, industrial customers in France paid approximately 8.1 cents /kWh (USD) while similar industrial customers in Italy paid well over 16 cents/kWh. Prices in neighboring Germany and Spain were 13.5 cents/kWh and 12.5 cents/kWh, respectively. The only surveyed European countries with lower electricity prices than France were Nordic countries Finland and Sweden who benefit from low cost hydro-based generation facilities.