Bernard Thibault, Secretary General of the French CGT (C) and trade union leaders march through the streets of Paris against plans to privatize French electricity and gas companies EDF and GDF. Photo: Horacio Villalobos/Corbis

Slow shake-up in the French energy market

The emergence of the combined group GDF-Suez means that EDF, the traditional supplier, will be faced with a direct competitor for the first time. And with the new EPR (European Pressurised Reactor) nuclear plant open for tender, the established order is facing a shake-up.

by Yves de Saint Jacob

France has been dominated for decades by a giant public sector company, EDF-GDF (Electricité de France-Gaz de France). EDF ruled the electricity market, with 80% of its energy coming from its 58 nuclear power stations. GDF held sway in the gas market. Together, EDF-GDF monopolised production, transport and distribution, and operated its own social system, commanded by powerful trade unions with a staff statute set in stone and considerable social benefits. Even though these two historic operators have been separated, their power is still evident in that they effectively monopolise their respective fields.

France is a "new" country as far as the free retail market is concerned. The residential market was opened to competition in July 2007. A year later, 221,000 homes out of a total of 30 million subscribers (less than 1%) have chosen to change their electricity supplier. As for gas, 4% of the 11 million subscribers have switched suppliers – a small proportion but growing. The non-residential market was opened up earlier, in July 2004. Some 18% of electricity subscribers and 16% of gas subscribers have switched to another supplier. This number has recently remained static.

The fledgling market features eleven suppliers, of which three can supply both gas and electricity (EDF, GDF and Poweo, the largest of the smaller groups), seven supply only electricity (Electrabel-Suez, Alterna, Enercoop, Proxella, Planete UI, DirectEnergie and GEG) and one supplies only gas (Altergaz, whose main shareholder is Italian ENI group, the other major European players largely deciding to keep a discreet distance).

The main reason why new suppliers have found the early going in the free market so tough is that the consumer prices charged by the 'historical' suppliers EDF and GDF are regulated by the government. The government sets prices based more on political than economic considerations. Newcomers find it hard to compete as the government-dictated prices barely cover the costs. In addition, EDF's nuclear power is very cheap since the plants have been written off. Although EDF has been forced to auction off some generation capacity to its competitors at very low prices, times are still hard for the newcomers.

Alliance

But this could change with the arrival of the new combined force of GDF-Suez. The alliance between the gas giant and Suez, which has major electricity interests in Belgium (Electrabel) as well as in the Netherlands and Italy, and is already involved in hydro-electric plants in France, was finalised at the end of July. Suez is also a player in the nuclear sector with seven plants in Belgium, some nuclear units in France and two major projects with Areva and Total in the Middle East.

With a workforce of 200,000 and an annual turnover of more than 70 billion, the new group, headed by Suez boss Gerard Mestrallet, is a serious rival to German Eon and EDF, well ahead of the other key European players RWE, Iberdrola and Enel. GDF-Suez is now the world leader in the sphere of liquefied natural gas and the European leader in the transport and distribution of gas.

The new alliance has what it takes to be a powerful competitor to EDF: a capacity for electricity production, nuclear know-how and a commercial database of 11 million customers offered to it on a plate. It aims to capture 20% of the French electricity market and has the means to do so, with 30 million in investment for the coming two years (2008-2010).

The state remains the principal shareholder with 35.6%. President Sarkozy's most nationalist adviser, Henri Guaino, has denied that the government plans to sell off its stake, insisting that 'it is better to control a big part of a large organisation than to have total control of a small one'.

New nuclear

The first indications will doubtless come fairly rapidly when the construction of a second EPR nuclear reactor is put out to tender. Sarkozy has announced that the launch date for the project will be 2009, with work due to begin in 2011 and the reactor going into service in 2017. The EPR (European Pressurised water Reactor), a joint Franco-German concept, constitutes the third generation of nuclear reactors. The first is already under construction in Flamanville, France, and is due to come online in 2012. Another plant is being built in Finland.

EDF has not pushed for the second French EPR, believing itself capable of increasing nuclear electricity production through its existing 58 plants. The company considers that France is in greater need of thermal plants ready to cope with peak demand. According to a source, 'EDF would much prefer to develop its international interests, through external growth, as it knows that any expansion of the nuclear industry in France will come about through opening up the field to new competitors.' Suez immediately put itself in the picture, even calling for a third EPR. Suez will make the decision at the start of 2009 and has already made it clear that if it does get involved, it will not do so alone but in partnership, no doubt with Areva, Total or other foreign partners.

Since 2007, the Italian company Enel has been involved with EDF in the development of the EPR and holds a 12% stake in the Flamanville reactor. It has already expressed an interest in working with EDF again on the second reactor. They are heading for what would be a rare occurrence in France: an open situation and in-depth discussions.

One final indicator of how the field has become more competitive is that the Italian company ENI continues to make inroads in the gas market by taking, through its subsidiary Altergaz, a one-third stake in the company Gaz de Bordeaux. This is the largest of the local distributors that exists in France, largely under the auspices of local authorities. In doing so, ENI now has a share in a company that sells more gas in the south-west of France than Altergaz does in the entire country. ■

Truly independent?

France has long resisted unbundling, but it has now taken the necessary steps to split the producers from the network companies. Network operator RTE (Réseau de Transport de l'Electricité) is still a subsidiary of EDF although it is now operationally independent. In addition, EDF and GdF have each set up a distribution company which is legally and financially separated from the mother company. One is called eRDF, the other GrDF. The logos of the companies, however, still look very much alike, which leads to a lot of confusion. To add to the confusion, EDF and GDF have retained a common management body called EDF Gaz de France Distribution, commonly abbreviated to EGD, to cover certain operations at the consumer level.