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A new market player on the French renewable energy sector: the aggregator

The end of the feed-in tariffs for renewable electricity requires producers of “green” electricity to sell their production on the market. To optimize sales and balancing costs, many use the services of an aggregator.

Under Law No. 2015-992 of 17 August 2015 on energy transition for green growth, feed-in tariffs have been phased out for installations of more than 500 kilowatts. Producers now sell their electricity on the market and receive from EDF a monthly premium, named the contract for difference (“CfD”). This premium compensates for the difference between the income from this sale and a reference remuneration level set by the public authorities by a tariff decree, depending on the type of power plant.

Two strategies are offered to the producers eligible for the CfD to sell their electricity. If they are EPEX spot members, they can sell the production by themselves on electricity markets¹. Otherwise, they can use a production aggregator that buys and aggregates the production of different renewable energy power plants. In this case, the credit rating of the aggregators becomes the producers' main issue.

The new players in the aggregation market are briefly mentioned in Article R. 314-1 of the French energy code, defining aggregators as the persons responsible for selling electricity produced on the markets “on behalf of the producer”. Despite this formulation, aggregation contracts define aggregators as exclusive purchasers of all the energy produced, therefore appearing as producer intermediaries rather than producer proxies.

¹ https://clients.rte-france.com/htm/fr/vie/telecharge/Solution_technique_NEMO_France_FR_M_finale.pdf

Business model

By consolidating assets with different production profiles into a single portfolio, the aggregator generates lower market access and balancing costs than a single producer.

The aggregator is remunerated mainly on the "management premium" paid by EDF to the producer. This premium is one of the two premiums making up the CfD. One, called the "energy premium", compensates for the difference between the revenue from the sale of electricity on the market and the rate of return set by decree. The other, the "management premium", is paid to offset market selling and administrative costs.

While the "management premium" depends partly on the production assets concerned, it also reflects endogenous constraints on the aggregator's business, which are directly linked to its activity as a market operator.

The price offered by an aggregator also includes the coverage of the cost of differences and the generation profile of the power plant. The profitability of aggregators is based on their ability to anticipate production and price curves and optimize their transactions accordingly.

A growing market

The aggregation market is still emerging in France for wind turbines and solar power plants. Many of the aggregators operating on the French market are indeed located in Germany or Switzerland, mainly because renewable energies were integrated into markets earlier in their country.

Several French companies have embarked on the aggregation of productions in France, such as Engie, Novawatt, Smart Grid Energy, Hydronext, Ernercoop and la Compagnie Nationale du Rhône.

Aggregators are, for some, "pure players" aggregators, whose core business is aggregation itself and, for others, producer aggregators, whose core businesses are production and distribution but who have developed market expertise from which they benefit third party producers.

As observed in Germany, aggregators do not just sell electricity production on the markets. They are diversifying their range of services by providing the valuation of capacity guarantees, taking over REMIT² reporting, or managing the CfD agreement with EDF.

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² Regulation (EU) N°1227/2011 of 25 October 2011 on wholesale energy market integrity and transparency