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Photovoltaic Energy in France: A Transitional Year Ahead

As France continues to develop its renewable energy industry and struggles to recover from the global economic crisis, we expect to see a number of trends in 2011 affecting both businesses and investments in this sector.

Since the 2007 “*Grenelle de l’environnement*” conference, France has adopted an ambitious strategy for developing renewable energies. The conference brought together representatives of the central government, local authorities, trade unions, businesses and nonprofit organizations for the purpose of developing a concrete action plan to tackle environmental issues. The conference participants recognized that renewable energies (such as wind and solar power) were underdeveloped in France and called for the French government to stimulate this sector.

Following the conference, the French government has established a common framework to encourage the generation of energy from renewable sources, with the objective that energy from renewable sources should represent 23 percent of total energy production in France by 2020. This is consistent with the target established by the European Union in Directive 2009/28/EC. France has implemented financial and tax incentives to encourage homeowners and businesses to achieve this target. Electricity from renewable sources is also being promoted through a feed-in tariff

system by which Electricité de France (the largest supplier of electricity in France) is guaranteeing to producers a fixed price for the purchase of power generated from renewable sources for a duration of 20 years.

France’s photovoltaic market is considered to be the fourth largest in Europe, and significant growth is anticipated. The French government’s plan calls for the installed capacity of photovoltaic power to increase more than 15 times, from 349 MW on March 31, 2010 to 5,400 MW by 2020. French photovoltaic capacity has already more than doubled over the course of this year, to approximately 850 MW.



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The government's target is likely to be achieved before 2020, primarily due to the attractiveness of the feed-in tariffs. Currently, feed-in tariffs for electricity produced by photovoltaic panels range between 0.352 €/KWh and 0.580 €/KWh (compared to an average of 0.110 €/KWh charged to energy consumers) depending on criteria such as the level of power generated by the panels, the geographic region in which the panels are located, whether they are located on the ground or on a building, and whether the panels are integrated into any such building. These tariffs are among the highest in Europe, and both investors and homeowners have taken advantage of this situation.

However, this explosion of capacity means that the subsidization of photovoltaic energy may become a significant burden. The French government is evaluating measures,

including the potential adjustment of feed-in tariffs, to reduce the risk of speculation and to prevent the development of a "solar bubble," although room to maneuver will be limited given the need to maintain a system sufficiently attractive for the market to reach the target of 5,400 MW installed by 2020.

The French government has set a deadline of March 2011 for determining a new, rebalanced approach on feed-in tariffs, and in the meantime is holding extensive consultations with the industry players. On December 9, 2010, a decree was enacted withholding until March 2011 the registration of new projects generating more than 3 KW.

In this context, we believe that the French government may attempt to slightly decrease the current feed-in tariffs for new generating capacity (former tariffs will continue to apply to installed equipment)

and/or to set a "soft" annual cap, limiting new installations up to 500 MW per year. Under such a soft cap, power would be purchased from photovoltaic installations at the feed-in tariffs currently in force until a 500 MW annual threshold is reached, and the feed-in tariffs would then decline significantly for additional installations.

If the feed-in tariffs are not decreased and/or if a soft cap solution is not implemented, the government may instead opt to amend the feed-in tariffs in a way that small installations (such as homeowners' installations) could continue to benefit from a favorable tariff compared to larger installations (those generating more than 250 KW for instance), with those tariffs to be based on a sliding scale.

Olivia Lê Horovitz (Paris)
olivia.lehorovitz@klgates.com

François Lan (Paris)
francois.lan@klgates.com

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