



JONES DAY COMMENTARY

NEW TENDER FOR BIOMASS ELECTRICITY PROJECTS LAUNCHED IN FRANCE

In 2009, France committed to an overall objective of 23 percent of renewable electricity production by 2020 in the context of the EU Climate Change Package. While the French incentives in terms of tax amortization and preferential electricity purchase rates have attracted great attention to the exponential development of solar and wind powered energy, biomass is increasingly perceived as a more reliable and efficient alternative source of energy.

France is targeting an overall capacity of biomass power plants of 2,300 MW by 2020, in order to increase its yearly biomass electricity production by a factor 5 compared to its 2006 level, so as to reach a yearly production of 1,200 ktons of oil equivalent by 2020. As for other alternative electricity sources, this policy is served essentially by preferential purchase rates for biomass electricity and tender processes for larger projects exceeding a capacity of 12 MW.

In this context, the French government launched its fourth tender for biomass projects for an overall capacity of 200 MW on July 28, 2010. The submission phase of the tender will end on February 28, 2011. This tender is open to projects having a capacity of at least 12 MW and an energy efficiency rate of at least 60 percent. The basic electricity purchase rate should range from €135 to €155/MWh, depending on the energy efficiency of the project, and it should be indexed on the hourly cost of work and the industry production prices in France, in order to take into account the inflation.

This tender targets medium to large projects with a high energy efficiency and reliability, in line with the French electricity investment guidelines for the 2009–2020 period (*Programmation pluriannuelle des investissements de production d'électricité*). Indeed, while the 12 MW threshold excludes small projects,

it is considered that the minimum requirement of a 60 percent energy efficiency rate limits the scope of the tender to combined power and heat systems, which are the only ones capable of reaching such ratio. Moreover, the benefit of the preferential purchase rate is subject to a yearly availability ranging from 3,000 to 7,500 hours, which requires a high reliability of the power plant.

The tender also targets integrated projects in priority, with a view to structuring and developing the upstream biomass supply chain and integrating biomass projects in larger industrial contexts, in particular through the direct use of the heat produced.

A growing number of industrial players are calling for a reform of the preferential purchase rates for renewable electricity in France, in order to reallocate them to more reliable sources of renewable electricity, such as biomass projects. In the current context of the undergoing reform of solar electricity purchase rates and mechanisms, one can only speculate on whether the government will decide to increase incentives for other sources of renewable energy.

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