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Overcoming the crisis and the energy tariff shield: what challenges for the future energy-climate programming law?

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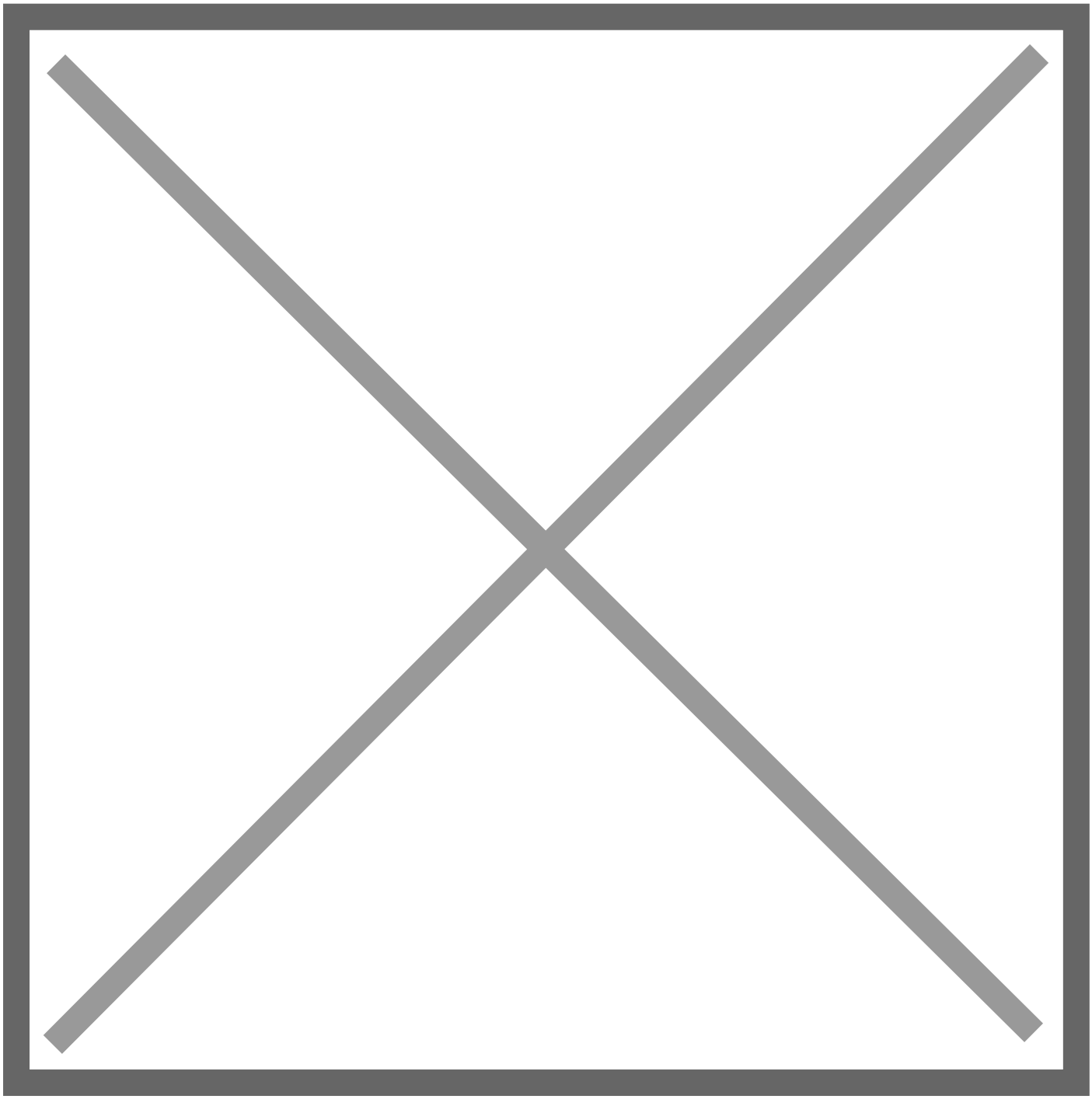
At the National Council for Ecological Transition on May 22, 2023, the French Prime Minister presented the method chosen for ecological planning and the drafting of the future programming law on energy and the climate. She set an ambitious new course: to reduce greenhouse gas emissions by 50% between 1990 and 2030, which would mean doubling the rate of reductions achieved to date. This process is all the more eagerly awaited as it takes place against the backdrop of the energy crisis that has shaken Europe as a whole. Over and above the need to speed up the low-carbon transition with a view to building resilience and emerging from the crisis, there is the thorny but necessary question of the evolution of the tariff shield that has been in place in France since the end of 2021.

Despite falling prices, the crisis is not necessarily over

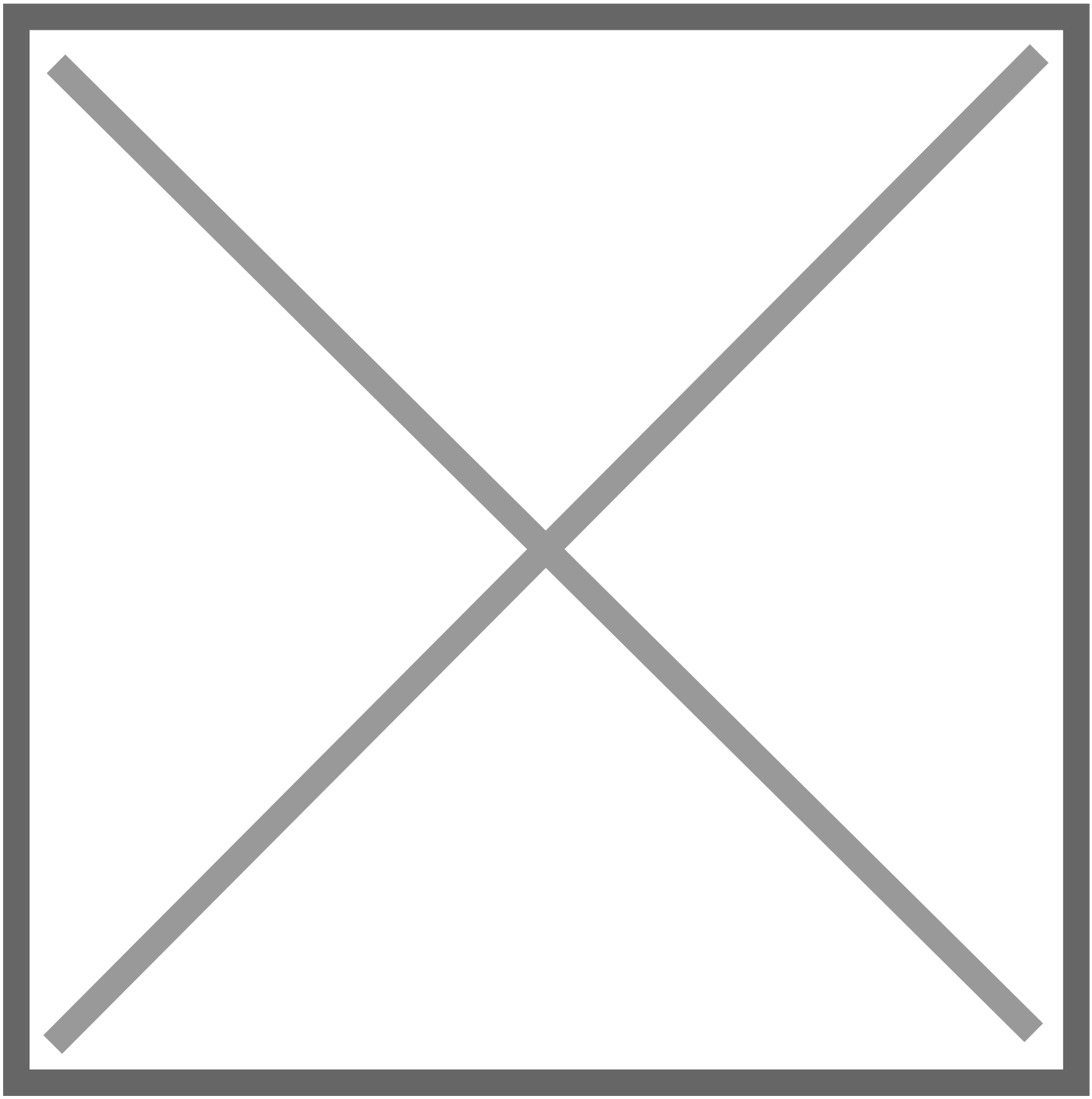
The first observation is that, with the sharp fall in prices on the wholesale electricity and natural gas markets since the end of 2022, the energy crisis seems to be much less present in the public debate than it was just a few months ago. But it seems too early to declare the crisis over.

Indeed, despite this considerable fall, prices on the wholesale markets remain similar to those seen at the end of 2021, i.e. twice the average level of recent years, with very noticeable effects on consumer tariffs. These price levels also represent a new equilibrium that could be maintained over time, given the tensions on the liquefied natural gas market (which is largely replacing the disappearance of imports from Russia), and their impact on electricity production costs for gas-fired power stations, not to mention the rise in the price of carbon quotas (EU ETS, around €80 per tonne of CO2).

Average spot prices on the wholesale market for natural gas in France (€ per MWh)



Average spot prices on the wholesale electricity market in France (€ per MWh)



Source : Iddri, données CNR et EnergyMarketPrice 2023

In addition, we must remain cautious about possible future tensions on the natural gas and electricity markets:

- For natural gas, the International Energy Agency warned in early 2023 that Europe could face a supply "gap" of up to 300 TWh over the year. To cope with this, efforts to control consumption will need to be made over the long

term, in line with the extension of the European objective of 15% gas savings by 2023-2024 (and ideally by making this objective binding).

- As for the French electricity system, tensions are also likely to persist over the next few years as consumption rises, driven by electrification and tensions over low-carbon electricity generation. For nuclear power, EDF is forecasting output of 300 to 330 TWh in 2023, which is still well below historical levels (407 TWh on average between 2000 and 2019). Furthermore, maintenance works related to the lifetime extensions of the existing reactor fleet are set to increase, reaching their peak around 2025 and 2026. In the medium term, RTE forecasts nuclear generation at around 350 TWh by 2035. These tensions further highlight the need to develop renewable electricity generation, given that new nuclear reactors will be online after 2035 at best.

The tariff shield in recent announcements: the missing element?

The future of the tariff shield has not been mentioned once in recent announcements on ecological planning. This may seem a strange approach, given that the scheme represents a considerable cost: according to the government's 2023-2027 stability programme, the gross cost of the measures is €43 billion for 20221 . For 2023, the actual cost should end up being significantly lower than the 45 billion initially budgeted, due to the fall in prices on the wholesale markets2 . This raises the question of whether the additional funds should not be reinvested in policies to accelerate the low-carbon transition.

This silence is also surprising given that in April 2023 the government suggested that the electricity shield might be extended until 2025 (without specifying at this stage under what conditions3), while the freeze on gas tariffs is due to end in 20234 .

Learning from the past to better prepare for the future: what assessment should be made of the tariff shield?

Another noteworthy point is that, despite the sums involved, the tariff shield, which was introduced in a hurry against a backdrop of economic and social crisis and urgency, has not been the subject of in-depth ex ante consultation or impact analysis, nor has it been the subject of an exhaustive ex post economic, social and environmental assessment.

Indeed, the studies published to date focus almost exclusively on the (macro-) economic impact of the scheme, and more specifically on its contribution to the effort to curb the inflationary spiral5 .

In contrast, few evaluations to date have looked at its effectiveness in terms of social justice, even though, according to a 2022 OFCE article, "the advantage of a tariff shield is that it is simple to implement, but it is far from resolving the issue of the effects of the energy crisis on inequalities between households". As INSEE noted in a study published in December 2022, the "egalitarian" nature of the shield (the same subsidized tariff for everyone, regardless of income or energy consumption) can even lead to surprising distributional effects: "measures aimed at containing the rise in energy prices distribute more to the wealthiest households, because the benefit derived from the measure is proportional to the amounts consumed". **In concrete terms, this study shows that the tariff shield and rebate for road fuels represented a subsidy almost twice as high for the wealthiest households (5th quintile) compared with the poorest (1st quintile) in absolute value6 .**

Finally, it is unfortunate that no studies have been carried out regarding the ecological effectiveness of France's response to the energy crisis, addressing in particular the question of the balance between emergency (help with

paying bills) and resilience measures (speeding up the low-carbon transition), as well as the potential impact of support measures on energy consumption (of fossil fuels in particular) and associated CO2 emissions[7] .

It therefore seems essential that an exhaustive assessment of French policies in response to the energy crisis and the tariff shield be carried out in conjunction with the next energy-climate programming law, in order to learn all the lessons about their effectiveness in economic, social and environmental terms, and to avoid the use of such untargeted policies for future crises[8] .

Exiting the crisis: towards a fairer and more resilient shield

At a time when France has just announced the reinforcement of its climate objectives for 2030, and as the recent report by Jean Pisani-Ferry and Selma Mahfouz on "the economic impact of climate action" indicates that up to €67 billion of additional climate investment per year is needed (including €34 billion from the public sector), can we still distribute tens of billions of euros energy consumption subsidies without taking into account actual revenues, needs and ecological impacts?

The answer to this question seems fairly obvious, and by looking at the policies implemented in France and its European partners, we can identify a number of guidelines for fairer and more resilient systems, which should be taken into account when drafting the future energy-climate programming law.

- **As part of a just transition approach, limit consumer aid to the most vulnerable** or, at the very least, index it to household income, in particular by increasing the value of energy cheques targeted at the poorest households.
- In the future, **ensure that a balance is struck between emergency measures** (help with paying bills) and **resilience measures** (investment in the transition), in line with the "€1 = €1" principle proposed by IDDRI, which would have made it possible to increase public aid for the transition by up to €20 billion, in order to massively increase investment in energy renovation, low-carbon mobility and renewable energies, and thus strengthen resilience at all levels, thereby limiting the need for emergency aid for future crises.
- **Make the drive for energy sufficiency a long-term one,** going beyond individual behaviour to focus on the collective dimension and the infrastructures that will make it a more "structural" component of the transition, along the lines of the ongoing discussions on the buildings sector led by the Plan Bâtiment Durable.
- **Restrict aid to a limited volume of consumption,** in order to maintain a marginal incentive for energy savings, along the lines of the system put in place in Germany, with a tariff shield applied to 80% of historical consumption (70% for businesses).
- **In the longer term, prepare for the introduction of progressive energy pricing, to validate its status as a "basic necessity", while encouraging efforts to reduce energy consumption over the long term:** progressive pricing will always be "imperfect" in view of the many specific cases and criteria to be considered. But the real question is: will it be more 'imperfect' than linear pricing, which provides no specific incentive to meet the challenges of the low-carbon transition?
- Finally, **this crisis also represents an opportunity to clarify the future of the public service for energy in terms of energy pricing:** This is a particularly pressing issue today, with the announced end (June 2023) of regulated gas tariffs, recurring calls for regulated electricity tariffs to be extended to SMEs and local authorities, preparations for the successor to the regulated access to historical nuclear electricity (ARENH) scheme after 2025, and the thorny question of how the "rent" from existing nuclear power should be distributed between the incumbent operator, the State, industrial companies seeking to become more competitive (and encouraged to electrify) and households. These are all issues that should be included in the debate on the future reform of the electricity market.

1 Excluding additional revenue for the budget linked to revenue from the recovery of inframarginal rents from the production of renewable electricity under support mechanisms.

2 As CRE points out (https://www.cre.fr/Actualites/publication-des-baremes-applicables-pour-les-tarifs-reglementes-de-vente-de-gaz-naturel-d-engie-avril-2023#:~:text=Le%20montant%20unitaire%20applicable%20au%20titre%20du%20mois%20d%27avril,1%2C5%20%E2%82%AC%2FMWh .), since April 2023, the level of the regulated tariff for the sale of natural gas with the application of the tariff freeze has been higher than that calculated on a conventional basis (without the tariff freeze), due to the fall in the price of natural gas on the wholesale market.

3 Regarding for example the possibility of a further gradual increase in the regulated tariff, as was the case in February 2023; or the measures currently in place (https://www.economie.gouv.fr/hausse-prix-energie-dispositifs-aide-entreprises) for SMEs, local authorities and electricity-intensive businesses.

4 Article 181 of the Finance Bill for 2023 stipulates that the price freeze will end when the regulated tariff for gas expires, on June 30, 2023; in addition, a decree could require suppliers to "reduce their supply prices" until December 31, 2023 under the same compensation conditions as those provided for by the tariff shield until then. The decision to extend the tariff shield for electricity (and not for natural gas) may also be justified by the fact that gas prices incorporate changes on the wholesale market very quickly (monthly adjustments), whereas the "supply on the wholesale market excluding ARENH" component of the regulated electricity tariff is calculated on the basis of an average price smoothed over 24 months.

5 See in particular studies by INSEE (2022: https://tinyurl.com/2d2t25jk), the French Treasury (2022: https://tinyurl.com/2p83ne3f), CEPREMAP (2022: https://tinyurl.com/y7n7zctt), OFCE (2022: https://www.ofce.sciences-po.fr/blog/budget-2023-et-bouclier-tarifaire-une-evolution-artistique/) and Plane & Vermersch (2022: https://www.imk-boeckler.de/de/faust-detail.htm?sync_id=HBS-008480). For a comprehensive assessment of the economic, social and environmental dimensions, see Rüdinger (2022: https://tinyurl.com/yc4328ez).

6 According to the INSEE study (https://www.insee.fr/fr/statistiques/6655850#figure4_radio2), the aid provided by the tariff shield and the discount at the pump represents an average of €205 for households in the top income quintile, compared with €375 for those in the bottom income quintile. In relative terms, the effect is more gradual because of the large differences in income between modest and well-off households.

7 It is also worth noting that the report on the environmental impact of the 2023 government budget (https://www.ecologie.gouv.fr/sites/default/files/rapport%20impact%20env%20budget%20etat.pdf) effectively sidesteps this issue by reducing the "net" expenditure considered for 2023 to €8.9 billion (instead of €45 billion), by offsetting it with the exceptional revenue from renewable energies between 2021 and 2023, due to very high market prices.

8 This process could, for example, be the subject of a parliamentary commission of enquiry or information mission, or could be entrusted to a joint mission between France Stratégie and the High Council for the Climate.