

Trouble on the home front

Despite a successful 2009 in international markets, EDF is facing several problems at home. Sian Crampsie considers the difficulties that the French utility's incoming chairman and CEO Henri Proglio will have to deal with over the coming years

ALL EYES were on the embattled head of French state-owned utility EDF last week as the group posted its annual results for 2009.

Although the utility exceeded the market's expectations with strong growth in a difficult economic environment, observers were more interested in hearing news about the strategy with which Henri Proglio, EDF's new chairman and CEO, will take the company forward.

Proglio reported a 22.7 per cent rise in earnings (Ebitda) to €17.4 billion and a 12.1 per cent rise in net income to €3.9 billion for 2009. This growth, however, is largely attributable to EDF's international businesses, and masks several serious issues on the home front.

Nuclear output down

At the heart of EDF's business in France is its fleet of nuclear plants, output from which fell by 6.7 per cent in 2009 to 390TWh, the lowest level since 1999. It ran its reactors at an availability rate of 78 per cent over the year, compared with 79.2 per cent in 2008 and 80.2 per cent in 2007.

The poor availability was the result of industrial action at the group's nuclear operations and maintenance problems with its ageing fleet of 58 nuclear reactors.

According to NUS Consulting, between 15 and 18 nuclear reactors were shut down at various times in late 2009 because of industrial action during refuelling operations. The strikes cost 17TWh of production, says EDF.

On the maintenance front, extensions to planned outages, and several unplanned outages, resulted in a 6TWh drop in output in 2009. Unions say EDF now outsources about 80 per cent of its maintenance work.

The poor availability of EDF's generating fleet made France a net importer of electricity throughout October 2009, according to data from grid operator RTE. France relied on imported power for almost ten times more days in 2009 than it did in 2008.

Improving plant performance



Delays: completion of Flamenville is vital to EDF's international ambitions

will therefore be crucial if Proglio is to prove his worth. He is reported to have targeted an availability of 85 per cent in the nuclear fleet by 2011, and London analyst Citi has indicated in its research that a 6 per cent year-on-year increase in operations and maintenance spending will be necessary if EDF is to overcome problems with availability.

Proglio is facing a PR mountain: EDF is struggling to digest the group's recent acquisitions, and he needs to keep both the government and the unions happy

years, possibly the result of the recent focus on acquisitions and asset growth," notes Datamonitor analyst Kash Burchett. "Proglio is facing a PR mountain: he is struggling to digest the group's recent acquisitions, and he needs to keep both the government and the unions happy."

The company is also likely to face a growing wage bill and will need to spend more on training and skills.

"EDF will have to spend more money [on maintenance] because of underinvestment in previous

On the political front, Proglio not only continues to face pressure because of his continuing role at Veolia, but is also opposed to the government's plans to reform the electricity market. Ironically, the reforms could be good news for EDF's cash flow, but will erode its market share in France.

End of regulated tariffs

The French government has drawn up a draft bill on electricity market reform, proposing an end to regulated tariffs for industrial electricity consumers by 2015 and giving EDF's competitors access to about 30 per cent (or 120TWh) of the utility's nuclear baseload at a price that reflects the economic cost of generation and maintenance. EDF will have to negotiate the sale price with each supplier, and the Commission de Regulation de l'Energie will intervene only if negotiations fail.

The draft law is not only designed to promote competition in the French electricity market, but also to allow EDF to sell electricity at a price that will allow it to invest in its existing fleet and to build new plant. The proposed reform plans were launched after the European Commission started

an investigation into France's system of regulated electricity tariffs.

What is not clear is how quickly the reform plans will advance. The government originally wanted the reforms to be in place by mid-2010 to coincide with the end of the "Tartam" industrial electricity tariff – but this is unlikely. The strength of the bill may also be diluted as it passes through parliament.

Cold feet

"The presidential elections in 2012 are a possible political obstacle to the reforms," says Burchett. "There is every chance that the government may get cold feet because it does not want to risk antagonising the unions."

Another potential answer to Proglio's woes would be the sale of assets to reduce the company's debt, which at the end of 2009 stood at €42.5 billion, compared with €24.5 billion a year before. EDF has proposed the sale of its UK grid business with a view to raising £3.5 billion, but has not had enough interest at that price, says Burchett. "The sale is not looking likely, partly due to the economic conditions and partly because Proglio probably won't want to let the business go. There is also some regulatory uncertainty in the UK after Ofgem suspended its mergers and acquisitions policy."

Proglio is keen to maintain EDF's international presence, particularly in the nuclear field. The company's failure to win a major new nuclear build contract in the UAE was a major blow and sparked a row with the head of state-owned nuclear engineering firm Areva.

Proglio and his counterpart at Areva, Anne Lauvergeon, seem to have patched up their differences and also settled a dispute over a nuclear fuel service contract in France. However the EDF head – who has made no secret of the fact that he believes that EDF, rather than Areva, should be France's international nuclear champion – will have to maintain harmony on the domestic front if the firm is to add to its raft of proposed international nuclear projects.

Success – and an end to delays – at the Flamenville nuclear site will also be crucial.