

# Valuing energy savings fairly

By [Evens Salies \[1\]](#)

Following the first meeting of the *Commission mixte paritaire* (a joint commission of the two houses of the French Parliament) on the proposed legislation to “make the transition to a sound energy system”, it is important to examine the reasons that led the Senate to adopt a motion on 30 October 2012 to dismiss this bill. This rejection is based on errors of judgment that reflect the difficulty of defining a residential energy pricing that is efficient and fair in light of the government’s objectives to control energy demand. It also seems appropriate to seek clarification of whether the proportional pricing in force needs to be corrected in order to reward energy savings.

The opposition of the parliamentarians focuses on the following point: the bonus-malus system breaches the principle of equal treatment of citizens regarding access to energy.[\[2\]](#) This argument is reminiscent of the annulment by the Constitutional Council in 2009 of the carbon tax.[\[3\]](#) It is nevertheless surprising, since the principle of equal treatment is not fully respected by the current system of tariffs. In practice, each household pays two local taxes on their final consumption of electricity. However, the taxes differ from one town or department to another, for reasons that are difficult to explain. The Senators also criticized the progressivity of the bonus-malus system that is to be superposed on the current rates, treating it as a hidden tax. There seems to be little grounds for this criticism in that the social tariffs already introduce some progressivity.[\[4\]](#)

The innovative element of the bill concerns the compatibility between the proportional pricing in force and the valuation of energy savings. Between households of similar composition who are subscribers at the same rate, there is already a reduction

for the household that controls its usage. But is this reduction sufficient to compensate for the effort? In other words, should we consider that a kilowatt-hour of savings that costs an effort has the same economic value, in absolute terms, as a kilowatt-hour that is simply consumed? Everything depends on whether the savings in question is considered a gain or a loss. For households in the latter situation, the savings is seen as a cost. So the savings is not made, which is why the bonus-malus system would be effective. The others do not need an added incentive.

The bonus-malus system does not simply offer a discount (bonus) that is to be funded by the overages. [5] It also aims to inform individual households about their behaviour, *i.e.* whether it is virtuous or not, which is consistent with several recent observations in the literature: a household does not base its energy consumption on tiny marginal pricings, which are counted in centimes per kilowatt / hour and which people understand only imperfectly. Changes in the amount of the energy bill and announcements of price fluctuations play a greater role. Bonuses and penalties thus matter less as absolute values than as signals sent to households by their relative values on the invoice.

The superposition of the bonus-malus system on the rates in effect will of course initially simply amplify the gaps in spending between users. But the bonus that would apply on the bill of households whose behaviour benefits everyone is no less legitimate than the discounts enjoyed by households who changed suppliers once the retail energy markets were opened to competition.

Unfortunately, the rejection of the Brottes bill has ended any educational discussion about the relationship between energy efficiency and residential energy pricing. The lack of enthusiasm for the topic in the public debate is easy to perceive from reading the recent, voluminous report of the Commission of Inquiry on the actual cost of electricity. This

is not so surprising in a sector where innovation is encouraged more on the supply side. The *effacement diffus* scheme is the latest example.<sup>[6]</sup> But without innovation in the structure of energy tariffs too, will France be able to achieve its goal of reducing energy consumption?

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<sup>[2]</sup> This principle is ensured by tariff equalization: the schedule of tariffs is the same regardless of the place of residence.

<sup>[3]</sup> On the grounds that this tax violates the equality of taxpayers with respect to the public tax burden.

<sup>[4]</sup> Crampes, C., Lozachmeur, J.-M., 10 Sept 2012, “Les tarifs progressifs de l’électricité, une solution inefficace”, *Le Monde*.

<sup>[5]</sup> In the case where the sum of the penalties is not enough to cover the bonuses, the State will finance the deficit. And even in the absence of a deficit, as the distribution of virtuous consumers is not necessarily the same from one provider to another, an equalization of the bonus-malus balances should be applied so that everyone ends up with a zero balance.

<sup>[6]</sup> This consists of interrupting the power to a radiator or boiler for 10 or 15 minutes.