Commissie voor de Regulering van de Elektriciteit en het Gas
Nijverheidsstraat 26-38
1040 Brussel
Tel.: 02/289.76.11
Fax: 02/289.76.09

COMMISSION FOR ELECTRICITY
AND GAS REGULATION

ANNUAL REPORT 2004

TO THE

EUROPEAN COMMISSION

SYNOPSIS

July 19th 2005

The electricity market

Production and wholesale trade

In 2004, a total of 87.6 TWh of electrical energy was called up, while total energy consumption in Belgium amounted to 83.8 TWh. This is an increase of 2.1% compared with the previous year. Actual energy exchanges with neighbouring countries stood at 21.4 TWh.

Proportionally, the market shares of the electricity generators hardly altered. Electrabel and SPE remain the only players with a market share in excess of 5%, while the three largest generators have a market share of 95%. Work has, however, started on expanding the generation park by 532 MW. This involves two new central generating units, one of which is not being built by Electrabel or SPE, while the other is being built in partnership between Belgium's largest generator and a foreign producer.

The wholesale market in Belgium is not strongly developed and bases its pricing mainly on the Dutch APX exchange. The largest volumes are traded through OTC contracts. Trade with other countries is limited owing to congestion at the interconnection with the southern border, towards France. It was therefore decided to remedy this situation by expanding the available capacity at the interconnection on the southern border by means of a second 380 kV transmission line.

Retail trade

The year 2004 marked another threshold for the electricity market in Belgium, with the opening up of the market to virtually all professional electricity consumers in the Brussels-Capital Region and the Walloon Region, while supply to end customers in the Flemish Region have been fully open to competition since July 2003.

However, this has not immediately led to any major changes in the competitive relations between the existing players and the new players on the electricity market. In the Flemish Region, three suppliers have a share in excess of 5% and these three players together account for a market share of 87.92% of the suppliers' market. In the Walloon Region, there are also three suppliers with a market share of over 5% and these three together have a share of almost 90% of the part of the suppliers' market that is open to competition in the Walloon Region. However, an increase in the number of suppliers may be discerned. In the Flemish and Walloon Regions together, eight new supply permits have been issued to electricity suppliers.

Transmission and distribution

The transmission and distribution network tariffs have to be approved annually by the CREG. Since 2003, the transmission and distribution network tariffs regulated in this way have fallen significantly. Transmission network tariffs for the supply of electricity to large-scale industrial customers have fallen by 19 to 27% between 2003 and 2005. Over the same period, distribution network tariffs for electricity have also fallen by an average of between 9 and 15%.

The transmission and distribution network operators are legally separate from production, supply (to the customers concerned) and resale. There is no legal requirement for separation of ownership, but there are regional restrictions that apply to the ownership structure for the distribution network operators.

Finally, the terms and conditions of the access responsible party contracts and the access contracts of the transmission network operators were approved and implemented in 2004.

The natural gas market

Importing and wholesale trade

The volume on the national natural gas market in 2004 amounted to 187.330 GWh or roughly 17 bcm. All this natural gas was imported. The main sources (in descending order) are Norway, the Netherlands and Algeria.

Sixty-three per cent of supplies are provided under long-term contracts with a foreign producer. Short-term contracts with a foreign producer account for 28%. In 2004, low calorific value gas, which comes exclusively from the Netherlands, accounted for 30.6% of the number of GWh of natural gas used in Belgium. The segmentation of the Belgian natural gas market into two separate markets that are difficult to bring together has a disruptive effect on competition.

The wholesale market in Belgium operates mainly via the Zeebrugge hub. During the course of 2004, an average of approximately 1,250 GWh (107 million m^3) per day was traded here. In 2004, the only category of products traded at Zeebrugge Hub was that of '*day-ahead*'-products.

Retail trade

The year 2004 marked another threshold in Belgium for the natural gas market, as well, with the opening up of the market to virtually all professional gas consumers in the Brussels-Capital Region and the Walloon Region, while supplies to end customer in the Flemish Region have been fully open to competition since July 2003.

However, this has not immediately led to any major changes in the competitive relations between the existing players and the new players on the natural gas market. In the Flemish Region, three suppliers have a share in excess of 5% and these three players together account for a market share of 93.77% of the suppliers' market. In the Walloon Region, there are four suppliers with a market share of over 5% and the largest three together have a share of 63% of the part of the suppliers' market that is open to competition in the Walloon Region. However, an increase in the number of suppliers may be discerned. In the Flemish and Walloon Regions together, nine supply permits have been issued to gas suppliers.

Transport, distribution and storage

The transport and distribution network tariffs have to be approved annually by the CREG. We note that the regulated transport and distribution network tariffs have fallen significantly since 2003. For instance, the tariffs for natural gas transport have fallen by 10% since 2002, while distribution network tariffs fell 7% and 4% respectively for household customers and professional customers between 2003 and 2005. Only industrial customers saw their tariffs on the natural gas distribution network rise over the same period, by 4%.

The transport companies and distribution network operators are legally separate from production, supply (to the customers concerned) and resale. This legal separation is required by law for the distribution network operators, but at the moment this is not the case for the transport companies. There is no legal requirement for separation of ownership, but there are regional restrictions that apply to the ownership structure for the distribution network operators.

The terms and conditions of Fluxys LNG and of Fluxys' transfer and storage activities on the gas market were approved by the CREG in 2004.

As regards storage, the capacities of the storage facility in Loenhout are reserved first and foremost for suppliers of the gas consumers connected to the distribution network.

<u>Security of supply</u>

Electricity

The highest demand for electricity amounted to 13,708 MW. However, the available capacity currently stands at 15,700 MW.

There are capacity mechanisms designed to stimulate investments in production capacity that uses renewable fuels or production capacity consisting of cogeneration. These take the form of a requirement for a certificate, whereby each supplier has to supply a minimum quantity of renewable energy and energy from cogeneration in terms of their total portfolio of energy supplied. The regulated network tariffs contain further incentives, in that they involve compensation for all useful investments made by the network operators.

Continuity of supply is regulated at regional level. Both in the Flemish Region and in the Walloon Region, the distribution network operators have to report to the regional regulators annually on the quality of supply and if these regulators consider that the quality is unsatisfactory, they can intervene.

The regulations on the supplier of the last resort are also determined at regional level. If a supplier is no longer willing to meet the requirements in supply to the customer, then the distribution network operator has to appoint an emergency supplier who can provide temporary supplies for the end customer.

Natural gas

For high calorific value gas, it is estimated that the maximum annual contractual volume as a proportion of the annual domestic consumption is as follows: 78% in 2004, 50% in 2010, 39% in 2014. For low calorific value gas, the ratios are 132% in 2004, 119% in 2010, 111% in 2014.

As capacity mechanisms, the regulated network tariffs can be seen as incentives because they involve compensation for all useful investments made by transport companies and network operators.

Continuity of supply on the transport network is optimal. From the start of liberalisation until the end of 2004, no interruptions in supply were reported by Belgian customers, apart from those interruptions provided for in the contracts. Continuity of supply on the distribution network is regulated at regional level and has the same level of compliance as in the electricity sector.

The regulations on the supplier of the last resort are also determined at regional level. In the Flemish Region, a temporary emergency procedure similar to that in the electricity sector has been applied until now. In the Walloon Region, no situation has yet occurred in which an emergency procedure has had to be implemented.

Public service obligation

Each supplier has an obligation to validate the fuel mix stated on their invoices for the electricity supplied on an annual basis. With a view to protecting end customers on both the electricity and the natural gas markets, legal measures are also provided on the transparency of the contractual terms and conditions and the general provision of information, as referred to in Appendix A of the electricity and gas directive.

The protection of vulnerable customers is implemented in the legislation of the various regions. In addition to protecting vulnerable customers from having their power supply cut off too quickly, vulnerable customers can, under certain conditions, also benefit from a social maximum price for their power at federal level.