



INSTITUT LUXEMBOURGEOIS DE RÉGULATION

National Report – English summary

2012

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1. Major developments in the electricity and gas markets

In 2012, the electricity market in Luxembourg counted 278.496 consumers who consumed 6.36 TWh of energy. These final consumers are spread across 11 different energy suppliers. The Institute has not been able to report significant movements in the market share of suppliers active in residential and small professional sector compared to the previous year. There have been significant movements in the segment of industrial consumers where the rate of supplier change has increased to 15.4 % in terms of volume supplied.

Concerning the quality of supply, the distribution system operators reported 115 interruptions lasting longer than three minutes, 62 of which had not been scheduled. As regards the quality of service, 26% of the requests for connection by residential customers could not be processed within the ten working days that are envisaged by the current legislation although; there has been an improvement of 27 % in comparison to 2011. 29% of connections were not made within a period of 30 working days from the moment of the customer's submission of all the required licences and authorisations which indicates an increase of 7 %, compared to 2011.

In the sector of natural gas, the national consumption was 13,6 TWh, which constitutes a slight increase of 0.2 TWh compared to 2011. The total capacity allocated on the transportation network was about 287.043 Nm³/h .At present, 8 suppliers are active on the national market, 3 in the residential customer market and 7 in the industrial market.

2. Competencies of the Institute

The Institute is an independent actor whose duties include overseeing and ensuring the full functioning of the energy market, as well as a basic universal service in the interest of consumers. Ensuring effective and sustainable competition by avoiding discrimination in access for new entrants, the Institute allows consumers to freely choose between a growing number of offers and products at fair and competitive prices.

2.1 UNBUNDLING OF TRANSMISSION AND DISTRIBUTION SYSTEMS

The Institute assures that non-discriminatory access to networks is provided through legal, functional and financial unbundling, particularly through the analysis of separate accounts for each activity, service delivery contracts and internal regulations within vertically integrated companies.

In 2012, the Law of August 7, 2012 introduced an additional criterion that aims to prevent that an energy company cannot take advantage of its vertical integration to distort competition. Now, the Institute has to monitor the practices of communication and branding of distribution system operators belonging to a vertically integrated undertaking. The distribution system operator must refrain from any confusion with the separate identity of the "supply" branch of the vertically integrated undertaking.

To avoid confusion among the general public on the tasks of system operators, the Institute has expanded its STROUMaGAS.lu website portal for information and communication activities to enhance exchanges with the consumer and competition.

2.2 DETERMINATION OF NETWORK USEAGE AND NETWORK CONNECTION TARIFFS

With the entry into force of the Law of 1 August 2007 on the organization of the electricity market and the law of 1 August 2007 on the organization of the natural gas market, the Institute is responsible for both establishing the method for determining tariffs for use of the networks and ancillary services.

In 2012, 1595 connection requests have been sent to various network operators. 1500 production facilities have been put in service. Among the connection requests not carried out are included wind power projects as well as photovoltaic projects that are in the study and authorization phase.

On tariff methodology regarding the use of networks, the E12/05/ILR Regulation of March 22, 2012 came into force. The Regulation lays down the principles applicable to all system operators for determining their network costs and transposing them into a tariff structure. The new method allows decoupling between actual costs and income concerning authorized controllable operating costs and introduces an efficiency factor and a more thorough evaluation of investment projects..

2.3 SUPERVISION AND MONITORING OF THE DEVELOPMENT OF COMPETITION

Wholesale market

On the electricity market, there is no specific transmission capacity allocation required. Due to the absence of congestion on the cross-border interconnection lines, Luxembourgish market participants are integrated into the German price zone and can therefore participate in the trade of electricity on the German exchange.

In the Grand Duchy, there is not really a wholesale market for natural gas, because supply comes mostly from foreign markets. Therefore, market prices are those of the neighboring countries.

Currently, the Institute monitors neither the transaction prices on the wholesale electricity market, nor those for natural gas.

Regarding the development of competition, 2012 confirms the presence of alternative foreign suppliers at the level of national electricity supply. Although domestic production remains modest, Luxembourg suppliers are continuously diversifying their sources of supply in order to hedge against market risks and to take advantage of opportunities that arise. Because most suppliers obtain their supply on foreign markets, competition is essentially played out around importing from neighboring countries. In the Creos zone, for example, only 16.73% of supply came from local production in 2012. 42.9% of domestic consumption

came from domestic production which includes 7.1% of renewable energy, while 57.1% was covered by net imports.

In 2012, trade volumes on the national wholesale market amount to 6.93 TWh, which corresponds to a decrease of 16.6% compared to 2011.

The Institute did not detect any abuse of dominant position on the wholesale market. The HHI is 2.311 and close to its value in 2011 (2.382).

Retail market

Eleven electricity companies share the retail market in Luxembourg, 7 of which were active in the residential market. All 11 are active on the non-residential market. So, it is clear that the Luxembourg electricity market has a fairly large number of actors for its size. The problem is that too few of these actors have a significant market share to date.

The competition in the natural gas market is growing much more slowly than in the electricity market. Eight companies share the market in the Grand Duchy, four of which were active in the residential market and seven in the non-residential market. The market shows a small number of players and almost a monopoly position on the segments of industrial consumers and electricity producers.

In 2012, in the electricity sector, the rate of switching was 9,7 % in volume terms and 0.22% in terms of number of customers.. With a rate of 11.3% in volume terms, business customers have a higher rate of switching suppliers in comparison to residential customers (0.07 %). In the industrial sector, the rate in terms of volume is about 15.4 % in the year 2012.

In the natural gas sector, the rate remains below 0.1% with only 29 switches in all categories: 16 final customers belonging to the residential segment and 13 in the commercial and medium-industry segment.

2.4 MONITORING OF SUPPLY PRICES AND TARIFFS FOR USE OF THE NETWORK

The price of electricity, the distribution network tariffs approved by the Institute, as well as energy tax, VAT and contribution to public service obligations (PSOs), such as the compensation mechanism, are the tariff elements that determine pricing for consumers connected to the distribution network.

In 2012, a slight increase in prices for residential consumers was observed. While the price of electricity, taxes and the contribution mechanism remain stable, costs of using the network have increased slightly.

Finally, the prices of natural gas for two different categories of customers were published by Eurostat in the second half of 2012. For a residential customer consuming between 5.6-55.6 MWh/year, the price has increased in 2012 compared to the previous year (from 57.92

€/MWh to 59.36 €/MWh) while prices for an industrial customer consuming between 2.778 – 27.778 MWh/year have increased from 49.64 €/MWh to 51.16 €/MWh in the year 2012.

2.5 CONSUMER PROTECTION

In fact, the consumer becomes more and more important. The 3rd Energy Package requires the national regulators to provide more transparency, better communication and better consumer protection to be able to cope with consumer's vulnerability facing the suppliers and an increasingly complex liberalized market. During the year 2012, the Institute has updated and diversified its website, which is dedicated to final consumers (www.STROUMaGAS.lu). It seeks to support consumers by clarifying their rights, opportunities and responsibilities in the context of the liberalized energy market. It assumes the role of a single point of contact for residential customers, containing information about suppliers, products, procedures for switching, alternative dispute resolution, etc.

Besides, an automated price comparison tool will go live in September 2013 and will give a clearer situation about the price situation within the national energy market. It will substitute the Institute's manual tool that allows residential customers to compare rates. In addition, the Institute compares the information about the electricity labeling in order that consumers can compare tariffs and offers of the suppliers not only on price but also on energy sources from which the electricity is supplied.

Also, since 2011, the implementation of the alternative dispute resolution procedure has been offered to the residential consumers. In 2012, 2 dispute resolutions concerning the electricity market have been registered while there have been none within the gas market.

In addition, the Institute monitors compliance with recall procedures and disconnections made by energy suppliers. The Institute has noticed the need for harmonization of procedures concerning the treatment of vulnerable customers who have failed to make their payments.

A) EUROPEAN AND CROSS-BORDER COOPERATION

The Institute has contributed significantly to European projects in order to promote the creation of a single, more competitive, European market for products and services of the energy sector. The opening of the energy markets through the implementation of rules and common infrastructure ensures that energy can be sold to the final user by the most economical means.

European level

The cooperation with the Agency and the European Commission, together with the regulatory authorities of other Member States, is also introduced as one of the new missions of the Institute. This cooperation, especially regarding cross-border issues, aims to promote an internal competitive electricity market, secure and environmentally sustainable,

an effective market opening for all customers and suppliers, and electricity networks that work effectively and reliably.

Moreover, the Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011 (REMIT), applicable since the 28th of December 2011, provides for closer cooperation at European level between ACER and the national regulatory authorities with the goal of strengthening the integrity and transparency of the wholesale energy market (electricity and gas) and to thus promote open competition in the interest of the end user. Different work-groups are being held in 2012 by the ACER and the CEER in order to improve and implement the regulation mentioned above.

Regional cooperation and integration of markets

The cooperation of the Institute with regulators in other Member States has the objective, especially at the regional level, to coordinate the development of all network codes for transmission system operators and other market actors, to coordinate the development of rules for congestion management and to promote the development of practical methods for optimal management of the network and an adequate level of interconnection capacity.

To cope with this challenge in the electricity sector, the Institute has been involved in the project of day-ahead market coupling in the Northwest region and in the flow-based capacity calculation project.

At a national level, projects to strengthen cross-border interconnections are being studied in collaboration with RTE, Elia and Amprion, the transmission system operators of the neighboring countries. The projects focus on technical specifications and operational principles of an interim solution on the one hand and a long term interconnection solution in on the other hand.

The gas market is highly dependent on the neighboring countries. Almost all natural gas consumed in Luxembourg is imported from Belgium (West) and Germany (East). Since 2011, the Institute has collaborated with the French regulator and the French and Luxembourg gas transmission system operators in the preparation of the Open Season, which aimed to develop firm transmission capacity from France to Luxembourg. However, no binding offer has been received which indicates that the interest of players is no longer valid. The Open Season France-Luxembourg is formally closed since 1 July 2013.

On the other hand, cooperation with the Belgian regulator is ongoing to encourage TSOs Creos and Fluxys to study the feasibility of integrating their respective market areas.

B) STRENGTHENING SECURITY OF SUPPLY

The Institute does not have specific competence in security of supply issues. The Government Commissioner for Energy is in charge of monitoring the balance between supply and demand, generation capacity and existing projects, as well as investments and

security network operations. Finally, they provide information on their activities in a biennial report.

In addition to the need for investment in additional interconnections, investments in additional generation capacity should be studied. The balance between production and consumption is usually assessed as a criterion for security of supply. The natural gas plants of the CCGT type seem most appropriate and most capable of responding to the rapid changes in needs which result from intermittent power generation of renewable energy sources. However, the Open Season for the construction of a new gas interconnector with France, did not testify, at the current market conditions, interest for new gas-fired generation potential.

In terms of electricity, the total generation capacity amounted to 689 MW in 2012, excluding the pump storage plant of Vianden which is directly connected to Amprion grid. The total generation capacity of the Creos zone is about 313 MW, which constitutes an increase compared to 2011 (264 MW). This increase is due to the increase in capacity of photovoltaic plants (+34 MW) and wind power plants (+ 13.8 MW)

Projects for a reinforcement of the interconnection of electricity transmission network with neighboring countries are currently ongoing in collaboration with TSOs RTE, Elia and Amprion. This approach facilitates the integration of electricity markets at the regional level on the one hand and contributes to security of supply on the other. The Institute monitors the significant cross-border investment projects to diversify national energy sources and meet new supply challenges that will arise in the future.

In terms of natural gas, the integration of the natural gas market is constrained by the limitations of firm capacity to the Luxembourg entry points. At the Belgian border, the firm capacities requested exceeds available firm capacity. As the firm entry capacities are not sufficient to cover the maximum demand, Creos covers the balance (the difference between peak demand and available firm capacity) with interruptible capacity and flexibility mechanisms. Given these limitations, Creos is analyzing options to increase the availability of firm capacity and to reduce the risk of the shippers attached to interruptions of the entry capacity.