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## COMMISSION FOR ELECTRICITY AND GAS REGULATION

# **ANNUAL REPORT 2010**

## **TO THE**

## **EUROPEAN COMMISSION**

## **SYNOPSIS**

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## The electricity market

### *Production, net imports and wholesale trade*

Total installed production capacity increased to 17,302 MW in 2009.

As regards investment projects, 1,460 MW (onshore) and 435 MW (offshore) were being constructed; 1,435 MW (onshore) and 1,029 MW (offshore) were authorised, and 3,510 MW (onshore) and 808 MW (offshore) were scheduled.

The structure of Belgian production capacity was directly affected by several events in 2009. First, the agreements signed by Electrabel and SPE in application of Pax Electrica II were implemented. As a result, SPE gained 350 MW of nuclear capacity to the detriment of Electrabel. Second, within the framework of the swap agreement announced at the end of 2008, Electrabel sold the Langerlo (556 MW) and Vilvorde (385 MW) nuclear plants and granted rights to the use of 770 MW of nuclear power to E.ON in November 2009. Lastly, EDF took over Centrica's share of the capital of Segebel/SPE. In addition, the composition of Belgian production capacity underwent a series of changes.

In 2009, the Belgian government signed an agreement protocol with GDF-SUEZ for a 10-year operational extension of the three oldest nuclear units. The law on the gradual withdrawal from nuclear energy had not yet been repealed at the end of 2009 and was, consequently, still in effect.

It is clear that Electrabel's dominant position weakened during 2009 although it continues to remain very strong. The production market's HHI is still above 6,000.

### *Transmission and distribution*

The most recent major change in the transmission system (end of 2008) was the start-up of three 380 kV transformer-dephasers at the Dutch border.

Contrary to previous years, Belgium exported electricity in 2009. This was the first time Belgium exported electricity on an annual basis since market liberalisation. Net physical exports were about 1.8 TWh in 2009, whereas net imports were still 10.6 TWh in 2008, that is, the maximum accounted for after liberalisation. Gross physical imports were about 9.5 TWh in 2009 compared to 17.1 in 2008 and gross physical exports were about 11.3 TWh compared with 6.6 TWh in 2008.

The overall volume of commercial capacity offered at the borders during 2009 did not change significantly compared with the previous year, thanks notably to the use of phase-shifters.

With respect to the calculation of commercial capacity, a significant portion of physical capacity was set aside as a safety margin for loop flows through Belgium given their size and unpredictability.

Cross-border capacity is allocated on an intra-day basis using a mechanism based on an improved pro-rata of intra-day capacity (since May 2009 at the Dutch border).

The Day Ahead market coupling between Belgium (Belpex), the Netherlands (APX) and France (Powernext) remained successful in 2009. Belpex and Powernext were coupled for 67% of the time and Belpex and APX for 87% of the time. Belgium was only isolated from the other two markets for 2% of the time.

Average prices fell strongly compared to 2008: the average price on Belpex was 70.6 €/MWh in 2008 compared to 39.4 €/MWh in 2009. The total volume negotiated on Belpex DAM in 2009 was 10.1 TWh for Belgian electricity consumption of 81.7 TWh. The volume negotiated on Belpex was about 12.4% of the Belgian market.

Multi-annual tariffs approved by CREG remained unchanged during the 2009 operating year. Congestion income reached a total of €37.3 M in 2009.

### *Regional market integration*

In 2009, work on CWE market integration carried out under the lead of CREG was primarily related to auction rules for trans-border transmission capacity, flow based market coupling, the implementation of a regional *intraday* exchange mechanism, and the calculation of interconnection capacity.

### *Retail trade (electricity and gas)*

In 2009, the electricity and natural gas markets in Flanders were characterised by stable switch activity and by substantially greener contracts. Yet, smaller professional customers were significantly more passive than other categories in which the number of clients having signed contracts now exceeds 90%. Analyses carried out by VREG nevertheless showed a much more advantageous price that these passive SMEs can obtain by adopting the lowest market price.

Globally, the market works in the Walloon market. The number of suppliers is increasing steadily (19 for electricity, 14 for gas) and, despite a certain amount of customer segmentation, they are clearly competing with each other. The dynamics as regards switching also continued in 2009.

Furthermore, a series of new measures were taken in the Walloon region to inform customers of price and gas developments and to help them choose a supplier. In 2009, CWaPE thus installed a tariff simulator, a price observatory and performance indicators.

### The natural gas market

#### *Production, net imports and wholesale trade*

The position of the new GDF Suez entity and the implementation of the remedies of the 2008 EC merger decision *GdF-Suez* (for example, the partial sale of Distrigas to the Italian group ENI) had an impact on the Belgian gas market.

Distrigas SA nevertheless remained dominant in the transmission system. Market share in the overall market in 2009 showed two groups at the same level (see table below). In 2009, the HHI only decreased from 3088 to 2921.

| <b>Belgium</b> | <b>HHI</b>  |             |
|----------------|-------------|-------------|
|                | <b>2008</b> | <b>2009</b> |
| ENI Distrigas  | 1555        | 1606        |
| GDF SUEZ       | 1355        | 1115        |
| SPE            | 127         | 154         |
| Wingas         | 43          | 36          |
| Others (<2%)   | 8           | 11          |
| <b>Total</b>   | <b>3088</b> | <b>2921</b> |

Liquidity on the Zeebrugge hub increased by 50% in 2009 (physical volumes and volumes traded), with a churn factor ratio of 6.0 in August 2009.

#### *Transmission and distribution*

A few interconnection points are congested due to the lack of entry capacity (e.g. interconnection with the Dutch network at 's Gravenvoeren and the German/Belgian interconnection at Eynatten). This will be resolved when new investments become operational (early 2011-2013). From this time on, the Belgian natural gas network will have its single national balancing point. Planned investments will increase interconnection capacity by 55.21% compared to the level of 1 January 2009 (up to 7,700 k.m<sup>3</sup>(n)/h).

CREG and Fluxys agreed to new multi-annual tariffs for the transport, transit and storage of natural gas in December 2009. These new tariffs will be in effect from January 2010 to December 2011.

#### *Regional market integration*

The North/Northeast gas region (of which Belgium is a member) focused its activities in three domains in 2009: transparency, investment policy and capacity (short-term market and secondary market).

#### Public service obligations and consumer protection

VREG received fewer complaints concerning energy suppliers and the DSOs in 2009 than in 2008 (677 v. 729). With respect to the DSOs, 10,895 complaints were noted for the supply of services related to the topics listed in the report model.

In the Walloon region, the *Service régional de médiation pour l'énergie* (SRME) dealt with 3,868 requests, of which 2,887 questions.

At the federal level, the Flemish-language energy mediator was nominated on 1 September 2009. The nomination procedure for the French-language mediator is still in progress.

### Security of supply

The creation of Coreso, the first regional technical coordination centre shared by several transmission networks, began operating in Brussels in early 2009 and will contribute to strengthening electricity security in Europe.

### Regulation

On federal level, the Act of 6 May 2009 re-established the Chamber of Disputes within CREG and restored the powers of the Conciliation and Arbitration Service. In 2009, CREG also received further confirmation of its policing competencies through the adoption of the Royal Decree of 13 December 2009 which set the procedures for the exercise of its "inspectors" activities.

### Unbundling

In the gas market, several events occurred in 2009 with a main impact on the unbundling of the natural gas transmission system operator. First, Publigaz acquired in May 2009 sole control over Fluxys, whilst Suez retained a minority shareholding. Further, a new law was approved which, among other things, compelled the GDF Suez group to reduce its shareholding in Fluxys to a maximum of 24.99% by 31 December 2009 (at the latest). Following this change to the law, and in line with the rules governing the separation of ownership in the third legislative package, the group decided meanwhile to completely withdraw from Fluxys by selling the rest of its shares in May 2010.

There were no significant changes in 2009 in terms of the unbundling of the electricity transmission system operator Elia. In early 2010, however, Electrabel's share in Elia decreased from 24.35% to 11.85%. In addition, Electrabel announced that it wanted to withdraw from Elia entirely.

VREG noted that in the previous years, drastic measures had already been taken in Flanders to separate the system operators and that all system operators currently satisfy these measures. As a result, no further action is required for the moment. A complete separation will be implemented by 2018.

In the Walloon region, the legislation passed in 2008 made it possible for system operators to create a subsidiary responsible for operating network management activities. In 2009, this resulted in the creation of ORES, an operator responsible for managing the electricity and natural gas distribution networks of about 200 communes in the Walloon region.

In 2009, CWaPE initiated a campaign to monitor the response time of suppliers to respond to written requests from their customers. Following notification, fines were given out periodically to suppliers after they had been given an opportunity to respond. The amount of the fines was not very high but had the benefit of dissuading suppliers from letting situations deteriorate.