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COMMISSION FOR ELECTRICITY
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SYNOPSIS

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The electricity market

Demand

In 2008, the electrical energy demand, that is net consumption plus grid losses, amounted to 86.1 TWh. This represents a decrease of about 1% compared with the previous year. In sectorial terms, industry accounts for almost half of the total electricity consumption. Household consumption accounts for approximately 25%, while trade and public services together account for approximately a fifth of total electricity consumption.

Production, Net imports and wholesale trade

The total capacity of electricity production installed in Belgium amounts to approximately 16.670 MW for 2008.

Proportionally, the market shares of the electricity generators hardly altered in 2006. 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 97.5%.

The net generation of electrical energy by electricity companies in the Belgian market amounted to 77.1 TWh in 2008. Concerning the investment projects in electricity generation plants, a total amount of 1,573 MW generation capacity was being constructed at the end of 2008, whereas projects for a total amount of 1,057 MW were authorised and projects for another 3,775 MW were scheduled.

Net imports of electricity into Belgium amounted to 10.6 TWh in 2008, representing an increase of approximately 4 TWh compared with 2007. This development brings the net imports of electricity to the 2007 import levels.

The Day Ahead Market (DAM) between Belgium (Belpex DAM), The Netherlands (APX DAM) and France (Pownext DAM) met with success in 2008. In fact, the three markets have rarely operated in isolation: only about 0.8% of the time. The Belpex DAM posts the same prices as the Pownext DAM 84% of the time and as the APX DAM 84% of the time. Prices on the Belgian, French, and Dutch organised markets were, therefore, fairly similar in 2008 and experienced a significant increase (67%) to reach an average value of 70.6 €/MWh.

The traded volume on the Belpex DAM in 2008 was 11.1 TWh. This was approximately 12.6% of Belgian electricity consumption. The volume was 7.6 TWh in 2007, that is, 8.5% of total consumption.

Belpex launched a new market segment, the Belpex CIM, or “Continuous Intraday Market,” on 13 March 2008. Contrary to the Belpex DAM, this market is not coupled with Powernext or APX. SPE has been the *liquidity provider* for this market segment since 1 April 2008. Approximately 89 GWh were negotiated on the Belpex CIM between mid-March and the end of December. Energy is exchanged on the Belpex CIM about 20% of the time.

Congestion income was 82.7 M€ in 2008.

Retail trade

No changes occurred in the liberalisation calendar in 2008. Supplies to end customer in the Flemish Region have been fully open to competition since July 2003. Since July 2004, virtually all professional gas consumers are eligible in the Brussels-Capital Region and the Walloon Region. The gas market in the latter two Regions has been fully opened to competition since 1 July 2007.

As regards market shares, three suppliers in the Flemish region have a share in excess of 5%. Together, they account for a market share of 94.63% of the suppliers' market. In the Walloon Region, there are also three suppliers with a market share of over 5%, holding jointly a market share of 92,1% of the part of the suppliers' market. In the Brussels-Capital Region, only one supplier has market share superior to 5%.

As regards the switching rate, 5.602% of household customers chose to sign a contract with another supplier in the Flemish Region, mainly at the beginning of the year. In the Walloon Region, the switching rate of household customers amounted to 9.9%.

Transmission and distribution

Transmission rates increased by 15% to 24% in 2008 over 2007, depending on the voltage level clients were connected to. This significant increase resulted from the introduction of a multi-year pricing system in 2008 which was intended to ensure that consumers would benefit from constant price levels during the 2008-2011 regulatory period.

Changes in components reveal, however, that supplier price (energy price) was the main reason for increases in end-customer prices in 2008.

The three price components that determine primary pricing trends for clients directly connected to the distribution network are the following, in decreasing order of importance:

1. Supplier price (energy price)
2. Distribution network rates (as determined by jurisprudence)

3. Energy taxation and VAT (for residential customers¹)

Transmission network tariffs, public deductions, and renewable energies and co-generation contributions were relatively less important in determining the price charged to end-customers.

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.

The natural gas market

Importing and wholesale trade

Due to the increased consumption on the distribution network (+7.1% compared to 2007), the volume on the national natural gas market increased slightly in 2008, growing from 189.3 TWh in 2007 to 190,9 TWh in 2008. All this natural gas was imported. The main sources (in descending order) are the Netherlands, Norway and Qatar.

In 2008, low calorific value gas, which comes exclusively from the Netherlands, accounted for 28% 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.

Contrary to 2007 which experienced unusually mild average outdoor temperatures, 2008 was an average year from a weather standpoint. As a result, heating needs were about 13% higher in 2008 than in 2007. Drops in natural gas consumption by industry (-4.4 %) and in electricity production (-3.7 %) in 2008 should be noted. These decreases were due entirely to the sudden decline in industrial activity from November 2008 on. Corrected for differences in temperature, demand increased by 2.29%.

Natural gas trading exchanges in the Belgian wholesale market were carried out primarily via OTC type transactions at the Zeebrugge hub. This hub co-exists with the Belgian APX Gas ZEE natural gas exchange which began operations in 2005.

Trade at Zeebrugge was noteworthy because it increased by about 13% on an annual basis (a total of 505.6 TWh, or 2.5 times natural gas consumption in Belgium) while the number of members remained unchanged. However, this growth in business only occurred during the fourth quarter of 2008. Full development of the "Zee Platform Service," partially launched at the end of 2007, and the launch of a doubling of *throughput* capacity at the Zeebrugge LNG terminal are believed to have led to this increase.

¹ Business customers can deduct VAT.

On the other hand, the APX Gas ZEE exchange saw a slight decrease in volume in 2008 (279 GWh in all). Three new members joined bringing the total to 15.

On 22 July 2008, the merger between Suez and Gaz de France, that was previously approved by the European Commission on 14 November 2006, became effective. The merger could take place subject to several commitments of the notifying parties, that had a main impact on the functioning of the Belgian gas market. Thus, Suez had to sell its 57.24% participation in Distrigas to a third company. In autumn 2008, the Distrigas shares were sold by Suez to the Italian company Eni S.p.A. in an “asset swap” transaction with Italian assets. The transfer was closed on 30 October 2008, which implies that the consequences of this transactions will be noticeable from 2009 onwards.

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As regards market shares, three suppliers have a share in the Flemish Region in excess of 5%. Together, they account for a market share of 94.33% of the suppliers' market. In the Walloon Region, there are three suppliers with a market share of over 5%, holding jointly a share of 93.6% of the part of the suppliers' market..

As regards the switching rate, 6.43% of end customers chose to sign a contract with another supplier in the Flemish Region. In the Walloon Region, the switching rate amounted to 23.2%.

Transport, distribution and storage

The transport and distribution network tariffs have to be approved annually by the CREG.

The CREG decided to set a 17% decrease in transport prices in 2008, compared to 2007, and also decided to set transit pricing for the first time. These two decisions are currently being challenged in the courts which have not yet passed judgement on the litigation.

The method used to set distribution network prices remained unchanged in 2008.

The transport companies 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.

In March 2006, Fluxys NV was appointed by law as sole operator of the transport grid and the storage facilities for natural gas, whereas Fluxys LNG NV was appointed operator of the LNG installation. However, the definitive appointment procedure of these operators was not yet initiated in 2008.

Further, due to the remedies of the above mentioned GdF-Suez decision, Suez-Tractebel sold an important part of its shares in Fluxys in 2008 and early 2009, hereby ultimately losing control over the system operator. The end of the majority shareholding of Suez in Fluxys strengthens the independence of the system operator.

Security of supply

Electricity

The highest demand for electricity amounted to 13.147 MW in 2008 whereas the available capacity was 15.204 MW on December 31st 2008.

The main changes to the transmission network in 2008 were the start-up of a 380 kV transformer-dephaser at the Zandvliet high-voltage station in June and the start-up of two 380 kV transformer-dephasers at the Van Eyck high-voltage station in September. Thanks to these three 1,300 MVA transformer-dephasers, Elia is now able to ensure better control over, and better distribution of, electricity flows from neighbouring countries across the very high-voltage electricity network.

Coreso, the first regional technical coordination centre common to several transmission system operators started operations in early 2009 in Brussels and should contribute to improving electricity supply security in Europe.

Long-term reinforcement of an internal 380 kV line between Gramme and Massenhoven, and the implementation of a new link between the Ardennes (B) and Lorraine (F) are also under study to increase the potential for transactions between France and Belgium.

Concerning the investment projects in electricity generation plants, a total amount of 1,573 MW generation capacity was being constructed at the end of 2008, whereas projects for a total amount of 1,057 MW were authorised and projects for another 3,775 MW were scheduled.

Natural gas

In 2008 no imbalances occurred on Fluxys' transport grid that endangered the system integrity and hence the supply of natural gas.

The consumption of gas amounted to 190.9 TWh in 2008. According to CREG's latest outlook, natural gas demand is expected to rise by 1,74% per annum until 2020. This growth is mainly driven by the increasing use of natural gas for electricity generation.

The main projects commissioned in 2008 are as follows:

- The doubling of the throughput capacity of the LNG terminal at Zeebrugge: from 4,5 bcm to 9 bcm
- New compression station at Zelzate (increase of gas supplies to the Antwerp region and the Loenhout underground storage)
- the pipeline Brakel-Haaltert (increase of gas supplies to the region west of Brussels)

Public service obligation

The provisions for public service and consumer protection obligations found in Directives 2003/54/EC and 2003/55/EC were transposed by the decree of 12 April 2001 on the regional electricity market and the decree of 19 December 2002 on the organisation of the regional gas market. These decrees were substantially modified in 2008 (decrees of 17 July 2008).

The new *electricity and gas decrees of July 2008* are clearly intended to improve quality level requirements for the customer services provided by both suppliers and distribution system operators. Performance objectives will, therefore, be imposed for data exchanges, customer connection times, complaint handling, etc. Operators will also now be required to implement a department dedicated to complaint management. In addition, the new legislation defines a set of conditions under which aggrieved customers may receive compensation. As of 1 January 2009, and subsequent to the reforms implemented, a "Regional mediation service" was created within the CWaPE.

Measures to protect the socially vulnerable were also enacted in the Walloon government's decrees of 30 March 2006 on the obligations of the public service in the electricity and gas markets. The social support measures of the electricity and gas markets are based on the following principles:

- Acknowledgment of socially vulnerable customers called "protected clients"
- Placement of budget meter in the event of non-payment
- A ban against cutting off electricity and gas service during the winter months
- Intervention by the local Energy Commissions (CLE) prior to any decision to interrupt service
- Organisation of energy social guidances through the CPAS

As regards the public service obligations in Flanders and Brussels capital region, no significant changes in legislation took place in the year 2008.