

THE BENELUX MARKET – CONTRASTING NATIONAL DEVELOPMENTS

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Summary

Although the basic regulatory rules seem to be the same, the development paths of the Belgian and Dutch markets are very different. In Belgium, the strong position of the incumbents has led to a less progressive development with an incumbent position that is only strengthening. In The Netherlands, the conscious breakdown of traditional structures and the larger number of active players leads to a more diverse picture. To be successful in these markets requires very different approaches.

Introduction

Comparing energy to football one can conclude that two things are needed for a good game (assuming we have a field):

- a set of rules,
- a referee and players that know the rules and want to play accordingly.

This paper analyses the energy markets of Belgium and The Netherlands on these two dimensions¹. Apart from these two dimensions, it is also important to understand which league one's team is playing in. Therefore, the context of the Dutch and Belgian market will be looked at as well.

The energy market, however, is not a single market but consists of a value chain that has different steps or stages. For the purpose of this paper the two key phases are:

- wholesale; the trading market including power and gas production
- retail; the delivery of energy to end users.

First, some basic facts and figures are presented. Then, we look at the wholesale markets for gas and power. Third, we look at the retail markets. Finally, the Benelux markets are placed in the European context and some conclusions are drawn.

¹ The Luxembourg market is assumed to be part of the Belgian market for the purpose of this article.

Basic facts and figures (2002)

	Netherlands		Belgium	
	Gas	Power	Gas	Power
Market volume	46.6 bcm	104.5 TWh	14.4 bcm	84 TWh
Number of customers	6.97 mln	7.69 mln	2.6 mln	5.1 mln
Number of players*	30	70	21	33
Market opening	63% at 1-7-2003 100% at 1-7-2004	60% at 1-7-2003 100% at 1-7-2004	59% at 1-7-2003 100% in 2003 (Flanders), 2006 (Wallonia)	52% at 1-7-2003 100% in 2003 (Flanders), 2007 (Wallonia)
TPA	Hybrid	Regulated	Regulated	Regulated
Export	approx. 40 bcm		-	
Transit	5 – 10 bcm		approx. 40 bcm	

* = supply to end-users, NL end 02, B end 01

With a total gas consumption of around 60 bcm, the Benelux markets combined are larger than France or Spain and around 60% of the size of markets like the UK and Germany. On the power side, a combined 200 TWh makes Benelux around 40% of the German market.

An important feature of the Benelux gas markets is their large role in export and transit. This is a consequence of the large production volumes in the Netherlands and the fact that the Belgian grid functions as a crossroads of Europe.

The basic market structures are comparable. For both gas and power there are large producers/aggregators, which traditionally ran the wholesale business. Regional or local distribution companies do retailing. The major difference is in the degree of control. The distribution companies in Belgium are largely controlled by the incumbent power producer/aggregator Electrabel. In The Netherlands these distribution companies are truly independent players. Furthermore, Electrabel and its gas equivalent Distrigas are controlled by the same shareholder.

Wholesale market analysis – the rules

Following the EU energy directives the basic regulatory structure is the same in both markets:

- **Regulator(s) in place**
 - In The Netherlands there is one regulator for gas and power (Dte). In Belgium there are four regulators, one on a federal level and one in each of the three regions.
- **Legal Unbundling/separation of accounts**
 - Both countries have implemented or are implementing legal unbundling for gas and power.
- **Regulated TPA to networks**

Despite these similarities there are huge differences in practice.

First, The Netherlands is a gas producing province which exports roughly as much as its indigenous consumption. The upstream sector is outside of the regulator's control. It is very dominant in the Dutch gas business due to:

- the huge importance for the State's coffers (annual state income some € 4 billion)
- the dominant position of some major players i.e. Shell and Exxon in NAM which control some 75% of Dutch production.
- the de facto monopoly on commodity and flexibility of midstream player Gasunie.

Second, building high-pressure pipelines in The Netherlands is free. This has helped to introduce real competition (ZeBra pipeline). In Belgium, one needs governmental approval. This is not normally granted. Most recently WINGAS tried to construct a pipeline in the Antwerp port area but this was refused.

Third, focus in the Netherlands is on facilitating the functioning of markets. The high voltage power network has been acquired by the State. Further concentration of power production is considered undesirable by the Dutch kartel authority. Even the 'national champion' Gasunie is to be unbundled and the State would like to see its supply arm being split up between Shell and Exxon. In Belgium there seems to be no concern about the shared ownership and possible merger of Distrigas and Electrabel.

Fourth, the regulators in both countries have clearly different roles vis-à-vis their respective governments. The Dte has functioned as a truly independent body. In the Belgian context the regulator's role seems to be more of an advisory nature.

Fifth, the APX is a functioning power exchange, Zeebrugge is functioning gas market but not an exchange. The ApX is now trying to establish itself as an exchange for the Benelux. Zeebrugge is the most liquid gas market on the continent and plays an important role for the Dutch market as well. Many contracts in the Netherlands refer to Zeebrugge prices.

Wholesale market analysis - the players - gas

Gasunie Trade & Supply (GUTS) is the supply arm of the incumbent aggregator Gasunie. According to a recent study it has a dominant position in the supply of indigenous gas. This is especially true for specific Dutch low calorific gas quality. For other players in The Netherlands, the potential for importing gas from other sources is limited due to limited cross-border capacity into The Netherlands. A remarkable phenomenon as The Netherlands exports so much!

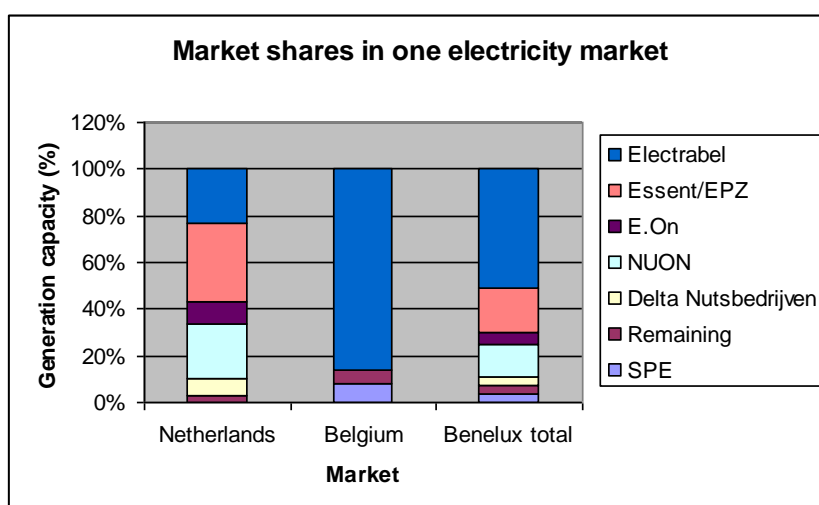
Rumours have it that the State wants to pick up the discussion on exiting GUTS again. Gastransportservices is the transport arm of the former integrated incumbent. Recently, it functions as a truly independent system operator and facilitates title transfer on its system (TTF). This has been the basis for a growing traded market for gas in the Dutch network.

The trend in Belgium seems to rather the opposite of that in The Netherlands. Here the debate seems to centre on when the gas and power incumbents (Electrabel and Distrigas) will merge. Distrigas' network has been split off into Fluxys which now operates not only the high-pressure grid but also the LNG terminal and which operates the hub at Zeebrugge. This is another continental trading platform with the specific function of trading gas at a point rather than on a system.

Both The Netherlands and Belgium have seen an influx of new wholesale players. After the exit of the US trading houses we still see some twenty plus active players on TTF and some forty at Zeebrugge. These are representatives of producers, suppliers/aggregators and financial players. The main difference between Zeebrugge and TTF is that the former seems more of a trading market whereas the latter has a clear physical balancing function for suppliers to end customers. The Dutch distribution companies are amongst the most active players. This is a stark contrast with their Belgian colleagues of which only a few play an active role.

Wholesale market analysis - the players – electricity

The graph below clearly illustrates Electrabel's dominant position both in its home market and in the combined Dutch/Belgian market.

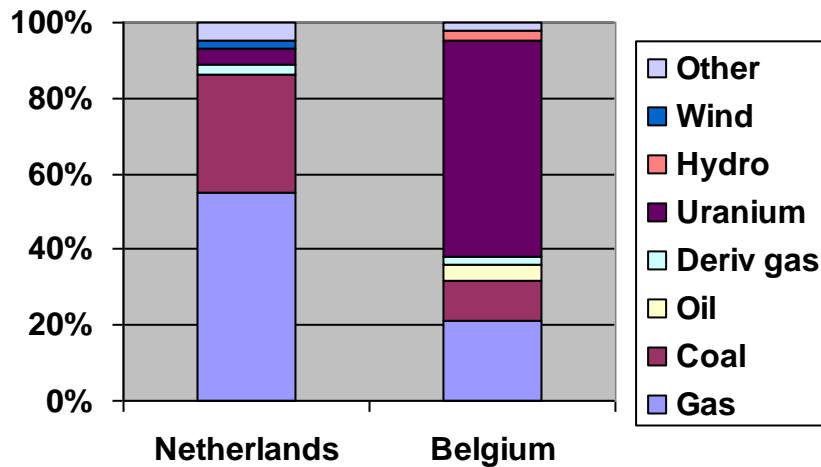


Despite the fact that the power markets developed ahead of the gas markets one can argue that liquidity is now better in gas than in power. In Belgium there is no wholesale power market except for the buying and selling of Electrabel. Some efforts are being made to reduce this dominance, in the form of an auction of virtual capacity. Given the size (1200 MW) and the type of products this cannot be expected to be effective.

In The Netherlands, the ApX and the OTC market are trading a range of products but liquidity is limited certainly at times that it really matters. The ApX has seen some extreme price peaks which left some players without a physical basis 'in the dark'. The number of active players on the ApX is some 10 to 15. Further concentration seems the trend. NUON has bought Reliant. Eneco seems to try to buy E.On's assets. Again, one of the big differences is the role of the regional/local utilities vs. the generators. In Belgium the utilities are de facto part of the incumbent generator. In the Netherlands the utilities are active independent players.

	Netherlands	Belgium
Generation capacity	21,000 MW	16,200 MW
Top 3 players % installed capacity	59%	96% (2 players)

Fuel mix power generation



The fuel mix in both countries (see above) explains to some extent the characteristics of the two markets. Belgium is dominated by nuclear power which provides for a potentially low off-peak. In The Netherlands, there is a strong power-gas convergence via power production.

Retail market analysis - the rules

As stated above, RTPA is effectively in place in both markets. However, for retail competition it is essential that newcomers can buy all the necessary products (such as profiles and balancing) competitively. Regulation on these issues is only developing. In The Netherlands, at least several suppliers of these products are in the market. In Belgium, this is virtually non-existent. The numbers on customer switching tell the rest of the story (see below).

Also on the retail level there is a remarkable difference in approach re unbundling. In The Netherlands, the government has proposed ownership unbundling for the retail networks. In Belgium there is virtually no difference between the incumbent generator and the local/regional utilities. Given the role of the utilities in creating a market in The Netherlands, this is difficult to understand.

Retail market analysis - the players

In the Belgian electricity market by December 1, 2003 a total of 13.36% had changed supplier. This number was 0.53% on July 1 2003. However, due to the set-up of the Belgian system the figure of 13.36% contains both switches to newcomers as well as the signing of contracts with the traditional supplier. Of the total only 2.31% had switched to newcomers and 11.05% had signed a new contract with their standard supplier! The picture is the same for gas where of a total of 1.94% only 0.84% switched to a new supplier (only one player) and 1.10% to their standard supplier.

If we look at the same numbers for the Netherlands (end Dec '03) we see a totally different picture. In the consumer market for power some 15% of the customers switched 1 or more times and to new suppliers (all for 'Groene Stroom'). By end 2002 in the industrial market some 37% had changed supplier by end 2002 and by end 2003 this number must be over 40% although no precise figures are available. The new players are both foreign incumbents (RWE, E.On, EnBW) as well as an endless list of upstarts.

The gas market has not been opened for competition yet. In the industrial and commercial market 24% had changed supplier by end 2002 and the end 2003 figure must be over 25% easily. The main newcomers here are the regional/local distributors (Essent, NUON, Eneco) followed by producers (Norsk Hydro, BP).

Some conclusions

Looking at these two markets we can see that the basic game is the same but the style of playing differs strongly.

In Belgium we see a 'cattenacio' style which leans on central planning and a strong defence. The defensive position is only left for pointed counterattacks, which use 'weaknesses' of the opponent. A good example is the Zeebrugge hub, which has supplied Belgium with cheap flexible gas but without any opponent scoring a goal in the Belgian market. This Belgian model is typical for southern and eastern Europe: protection of incumbents/ national champion.

In The Netherlands we see 'totaalvoetbal' which relies heavily on creativity of individual players and has little to no recognisable central plan. A good example is the rigorous unbundling plans which leave the players unprotected and purely to the mercy of their own competitive creativity. Dutch model is typical for NW Europe: open system and no specific support for traditional players.

How can one be successful in these markets? In the 'cattenacio' system your best hope is to score a goal and then to defend one's position securing the monopoly rent. In the 'totaalvoetbal' one can only advise to be creative (or to buy the best players).

Sources

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