

Press release***The increasing popularity of natural gas boosts security of supply concerns***

The CREG today presented its proposal for Indicative Natural Gas Supply Plan, which looks ahead to 2014. This proposal was submitted to Belgian Minister of Energy Mr Verwilghen on 18 October 2004. It is one of the statutory duties of the Commission for the Regulation of Electricity and Gas (CREG) to update the plan for guaranteeing security of supply of natural gas on the Belgian market every three years. The first Indicative Natural Gas Supply Plan dated from 18 October 2001. The three-yearly follow-up study examines the balance between supply and demand on the Belgian natural gas market, the evolution of expected future demand and available reserves, the necessary extra transportation capacity and measures to cover peak demand.

This centralised planning has proven its value thanks to the concrete results achieved in the field further to the CREG's first indicative plan. Projects which had been recommended for the first time in that plan have since been carried out (e.g. the construction of an additional supply route to the Antwerp region from the north) or are being carried out (e.g. the doubling of the capacity of the LNG terminal in Zeebrugge).

The new plan shows that natural gas remains a favourite fuel both among families and for industrial applications. Convenience and the low CO₂ emissions are the main reasons for this. The trend of producing electricity with natural gas after a maximum deployment of renewable energy is the most important growth factor. Therefore, guaranteeing electricity production is increasingly dependent on the supply of natural gas to the power stations. It is expected that Belgium's current natural gas consumption of 17 billion m³ will rise to 23 billion m³ in 2014. However, the increasingly dominant position of natural gas in Belgium's energy balance does call for special attention. The growing dependence on natural gas makes the guaranteeing of a continuous supply of natural gas in Belgium more and more important. The increasing number of suppliers on the Belgian market leads to a varied portfolio of natural gas sources, which include - for the first time - Russian gas, but these, too, depend on sufficient transportation capacity in order to supply their customers at a competitive price. In a competitive market, for that matter, the rule is that shippers must have sufficient flexibility as regards choice of supply routes in order thus to be able to remain commercially alert. This is in contrast to the past, when the supply route between natural gas producer and the Belgian border was known beforehand and fixed for a long time.

This steady growth inevitably calls for a strengthening of the existing network and the laying of extra pipelines not only in Belgium but also to the natural gas fields located increasingly further afield. However, the CREG is looking first and foremost for instruments leading to a more flexible management of the transportation system, for the sake of efficiency and to promote market functioning. Thus the possibility of signing interruptible transportation contracts, for example, should be extended and it should be possible for natural gas to be stored and borrowed on a temporary basis. Efficiency gains are achieved by taking advantage of possible synergies between domestic supply and onward transit, together with the expansion of the Zeebrugge natural gas exchange.

The timely strengthening of the pipeline system and the availability of natural gas on the international markets are therefore continuously monitored by the CREG. Due to the relatively long interval between planning, construction and commissioning of a natural gas pipeline, the security of supply depends wholly on an accurate estimate of future requirements. Free negotiation on the market does not detract from the fact that security rules have to be fixed for the planning of the infrastructure. The CREG strives to ensure that transportation capacity is provided such as to enable an exceptionally high peak demand in natural gas to be absorbed. Such peak moments are chiefly applicable in extremely cold weather conditions which statistically

occur once every twenty years. The rule which the CREG applies is in keeping with the European legislation and offers a reasonable balance between the investment costs for peak capacity and the risks of a temporary shortfall in capacity. For that matter, a temporary shortfall in capacity does not necessarily lead to uncontrolled cuts for natural gas customers, but to a manageable reduction in flow.

In its proposal the CREG states that the inflow junction at Zeebrugge remains vital for Belgium's supply, but stresses that initiatives should be taken to have more natural gas imported from the east of the country. More and more Russian natural gas will be contracted for the Belgian and British markets. A balanced east-west supply offers prospects for the Belgian market, but does imply additional investments, such as compression on the existing pipeline between Eynatten on the German border and Zeebrugge, and the laying of a 60-km-long pipeline between Lommel and the underground storage site at Loenhout. Following on from this, reinforcements are needed upstream in the Netherlands and Germany and also towards the Siberian natural gas fields. For Belgium alone, an initial estimate shows that capital investments to the tune of at least EUR 500 million are needed for extra capacity on the main pipelines in the period to 2014. This investment amount for pipelines in Belgium is still relatively small when one realises, for example, that this sum corresponds to the investment cost of one large power station running on natural gas and that this budget is in line with investment expenditures in the past. Since the investments lead to a more efficient use of the existing network and consumption increases at a faster rate than costs, the impact on Belgian transportation tariffs is expected to remain limited. Total transportation costs will increase, however, because natural gas will be transported over ever greater distances. Belgium's central location and its extensive natural gas system, which incidentally provides for transit to the tune of twice domestic consumption, offers a protective shield against any shortage of natural gas, although this flexibility can only be maintained if new pipelines are laid.

On top of this expansion, account will have to be taken of the closure of the nuclear power stations in Belgium from 2015 onwards. If these are replaced by power stations running on natural gas, an investment plan will have to be started in good time, enabling an extra 5 billion m³ of natural gas to be transported by 2026. This also means an annual increase of CO₂ emissions to the tune of 12 million tons, which corresponds to 11% of CO₂ emissions in 1990. The CREG is concerned that this development means that Belgium's energy economy will become dependent to the tune of more than 50% on natural gas of which 80% will be produced outside the EU by 2030. It is far from ideal that the abandonment of nuclear energy should lead to an accelerated and increased dependence on one dominant but incident-susceptible energy supply chain starting in the natural gas fields of Russia. Natural gas followed by electricity are vulnerable dominoes in energy supply. With one eye on the depletion of natural gas reserves (proven reserves for 60 years), the question should be asked for the energy economy as to whether it is expedient for natural gas to be used for electricity production in replacement of nuclear energy, at the expense of natural gas being used for household heating or as raw material in the chemical industry, for example.

As regards low-calorific natural gas from the Netherlands, the CREG proposes no longer investing in this separate transportation network, but systematically to absorb the growth in demand for natural gas by the predominant high-calorific natural gas, which is characterised by various sources and for which market forces operate. Moreover, the CREG is starting a study to analyse the expediency of a possible total discontinuation of the supply of low-calorific natural gas and its replacement by high-calorific natural gas. Low-calorific natural gas currently supplies 26% of the Belgian natural gas market and extends across Brussels and the provinces of Antwerp, Limburg, Flemish Brabant, Walloon Brabant and Hainaut. Because the current differences in quality result in three separate networks (low-calorific, high-calorific and the British-German transit gas), a factor which hampers market forces, the CREG is striving for the gradual creation of a single homogenous natural gas system with a single interchangeable quality of natural gas.

The proposal for Indicative Natural Gas Supply Plan, 2004-2014 can be consulted at www.creg.be.

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The CREG is the federal body for the regulation of the gas and electricity market in Belgium, established by the law of 29 April 1999 on the organisation of the electricity market and the law of 29 April 1999 on the organisation of the gas market and the tax status of electricity producers. The regulator has two main tasks: to act as an advisory body for the government in respect of the organisation and functioning of the electricity and gas market, and generally to supervise and monitor application of the relevant laws and regulations.