Issue 8: September 2006

DG Energy and Transport

QUARTERLY REVIEW OF EUROPEAN ELECTRICITY AND GAS PRICES

Electricity

The first six months of 2006 saw a stabilisation of electricity prices, particularly in the period April-June. However very hot and dry weather in July caused a number of operational problems for some plant and an associated increase in prices as higher cost units were bought into use.

There was also some easing in forward prices for both 2007 and future years which remain around €50-55/MWh. The reduced price of carbon certificates, which fell from around 30€/tonne to less than €20/tonne, may have contributed to this stabilisation.

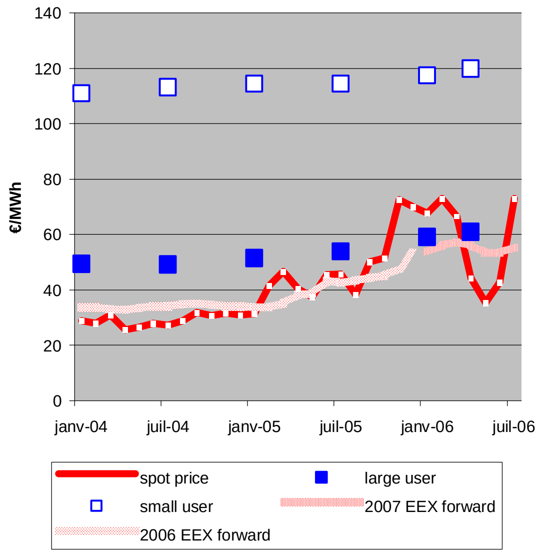
Retail prices continue to increase in the majority of Member States as previous wholesale price rises continue to feed through to end-user bills. Regulated tariffs have prevented this in some cases but this has led to difficulties for the affected suppliers culminating in the events in Spain in June 2006 when companies restricted their buy price in the wholesale market to reflect end user prices.

Western Europe

Forward prices for the calendar year 2007 fell slightly in the second quarter of 2006 to around €53/MWh however the majority of that reduction was reversed in July.

Day-ahead prices in the second quarter fell significantly from winter levels and were around €40/MWh in May and June.

Graph 1 Summary of average wholesale and retail prices 2004-2006: ***"western Europe" BE, NL, FR, DE, AT***



Latest estimates of prices for moderately large users (24GWh/year) continue to increase and, on average, now exceed of €60/MWh in this region. Data for smaller customers indicates an increase to the €120/MWh before tax.

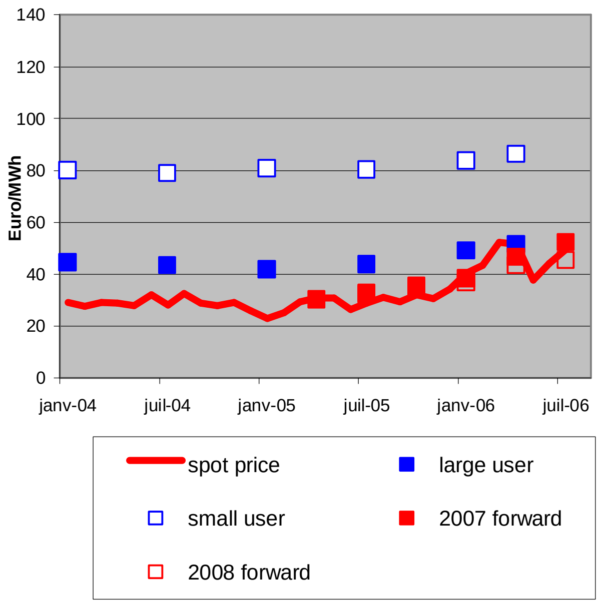
Source for prices:
EEX Terminmarkt
Nordpool Financial Market
Platts bilateral prices
Eurostat large user prices (Ig)
Eurostat small user prices (average Ib and Dc)

Nordic

In the Nordic market, day-ahead market prices have fluctuated between €40-€50/MWh during the first half of 2006. Reservoir levels have not recovered from the low levels left over from the dry cold winter period. Unavailability of nuclear plant in Sweden has also served to keep prices high.

By July, the average day ahead prices was again at the €50/MWh level after having fallen back in April and May. Forward prices for 2007 and 2008 have continued at historically high levels and lately exceeded €50/MWh for the calendar year 2007.

Graph 2 Summary of average wholesale and retail prices 2004-2006: ***Nordic region***



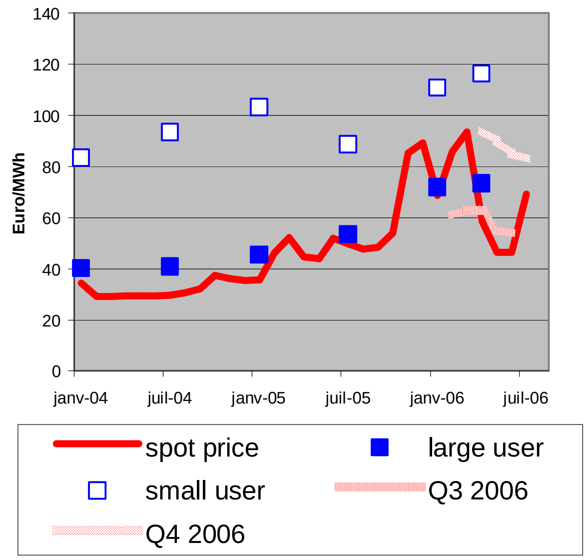
Prices for moderately large users in the Nordic region have maintained the increased level of €50-55/MWh. This remains below the European average but less so than in previous periods. Latest estimates suggest households have also seen some increase in prices during 2006 of around 5%.

UK

UK day ahead prices have declined from the peak reached in March 2006. For the large part of the second quarter prices converged with those on the continent. This reflects similar condition sand also lower gas prices.

Forward prices show that a tight winter is again expected with prices for Q1 2007 recorded at between €80-90/MWh. However forward prices have reduced somewhat as the year has progressed.

Graph 3 Summary of average wholesale and retail prices 2004-2006: ***UK***



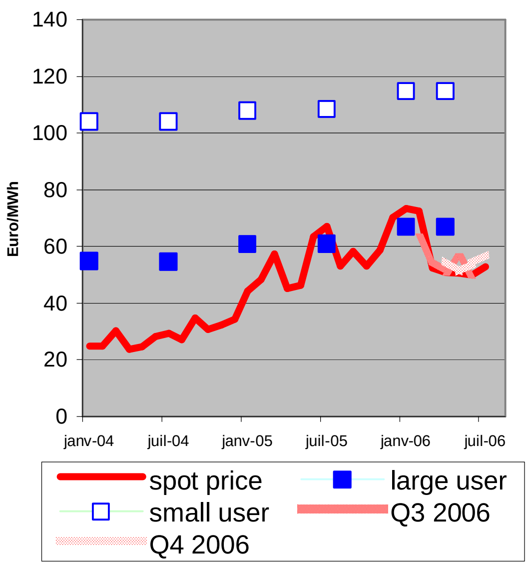
Retail prices have continued to increase. Prices for domestic users are now at similar levels to continental markets, that is to say €120/MWh. Meanwhile, prices for larger users remain above the European average at around €70/MWh.

Spain

Wholesale market prices stabilised in the second quarter of 2006 around the €50/MWh level after the reductions seen in the first quarter.

Forward prices for winter period show that this level is considered to be sustainable with perhaps some moderate increases expected.

Graph 4 Summary of average wholesale and retail prices 2004-2006: ***Iberian region***

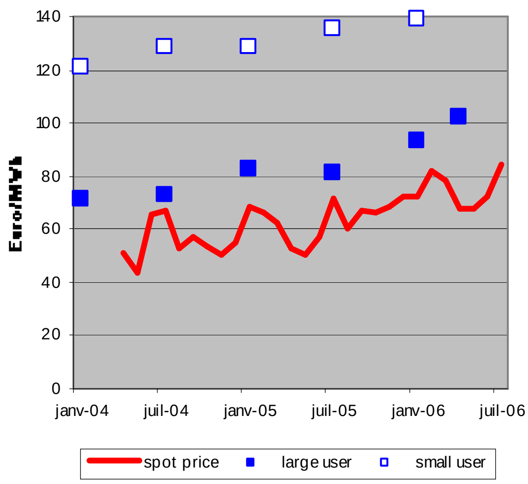


Retail prices are not changed from the levels reported in January with industrial prices are at around the level of €65/MWh similar to other Member States and household prices just under €120/MWh. These are similar to other Member States.

Italy

Prices have continued their upward trend in Italy After a modest reduction in Q2, July say a new record price level average for the month again above €80/MWh. Prices were not, however, seriously misaligned to those in neighbouring areas which also say similar increases in the month of July.

Graph 5 Summary of average wholesale and retail prices 2004-2006: ***Italy***

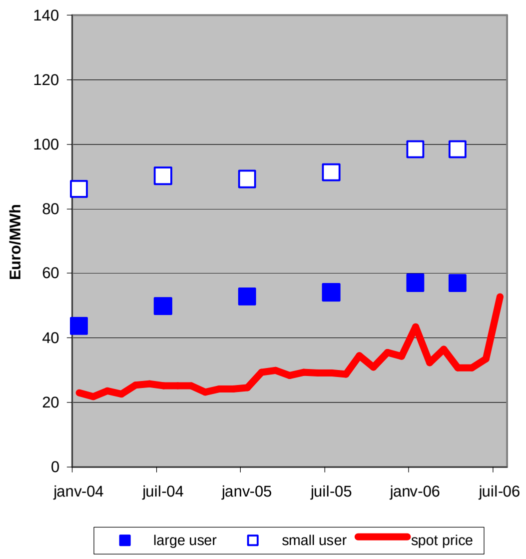


Recent estimates now put large user prices in Italy above the €100/MWh. These remain the highest in the European Union. Household price increases remain at around the level for January 2006 of €140/MWh.

Central Europe

In the new Member States in central Europe, wholesale prices were relatively stable in the second quarter but also rose sharply in July. Again the market is the Czech Republic was most affected. Price in Poland remained subdued due to congestion for the main exporters. Exports from Poland were restricted for some of the hottest days.

Graph 6 Summary of average wholesale (PolPX, OTE) and retail prices 2004-2006: ***Centrel (PL, CZ, SL, HU)***



Retail prices have also risen somewhat and industrial prices are now at approximately €60/MWh, similar to those in western Europe. Household and small commercial prices have also been increasing rapidly and are now almost at €100/MWh, very similar to other parts of the European Union.

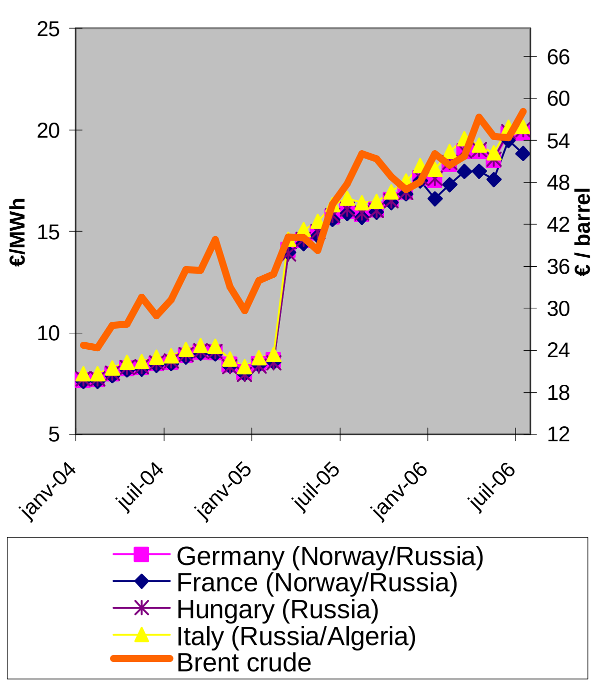
Gas

Wholesale markets

Border prices

Border prices continue to reflect movements in the oil price. Gas prices for imports from Russia and Algeria are now at the level of roughly €20/MWh. This is likely to remain the case while oil prices remain at current levels.

Graph 7 Summary of border prices 2004-2006

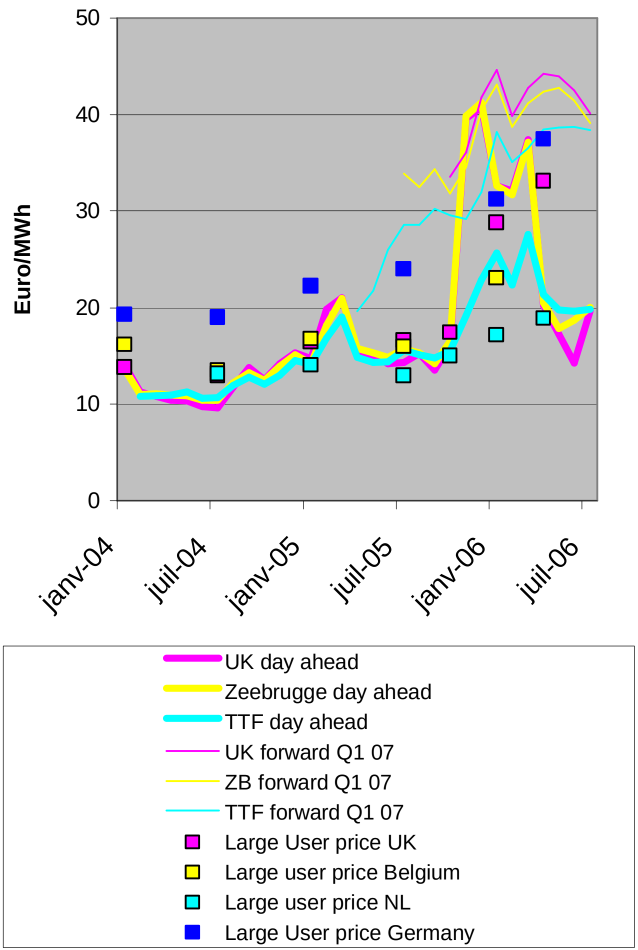


Market prices

Market prices have fallen sharply following the winter period in the UK and Belgium and have also converged to the €20/MWh level. This is also the case in the Netherlands and there is a high level of convergence throughout the EU.

However, forward prices for winter 2006-07 suggest that prices will rise in wholesale energy markets, including the Netherlands. Price levels of €35-40/MWh are expected next winter.

Graph 8 Summary of wholesale and retail market prices for UK, Netherlands, Belgium and Germany



Retail prices for large users in the UK continue to increase and these are now significantly higher than in both Belgium and Netherlands. Prices in Germany remain the highest of the group examined.

Price levels in the Netherlands,although having increased, remain relatively low by comparison.[1]

source for gas price information:
Energy Argus,
Heren Report.

[1] This refers to a customer using 10million m^3 per year.