Issue 7: April 2006

DG Energy and Transport

QUARTERLY REVIEW OF EUROPEAN ELECTRICITY AND GAS PRICES

Electricity

The winter period of 2006, which was characterised by very cold and dry conditions in much of Europe, also saw electricity prices increasing to high levels. Markets are also increasingly looking forward to the need for future investment in generation plant and forward prices, for example for the year 2007 are approaching or even exceeding the long run marginal costs for new plant.

Retail prices are beginning to be affected across the board and most consumers will be paying higher prices during 2006. For some customers, prices may be restrained by regulatory action and this will mean the effects of higher wholesale prices will have to be absorbed by suppliers in the event that they do not have their own generation resources.

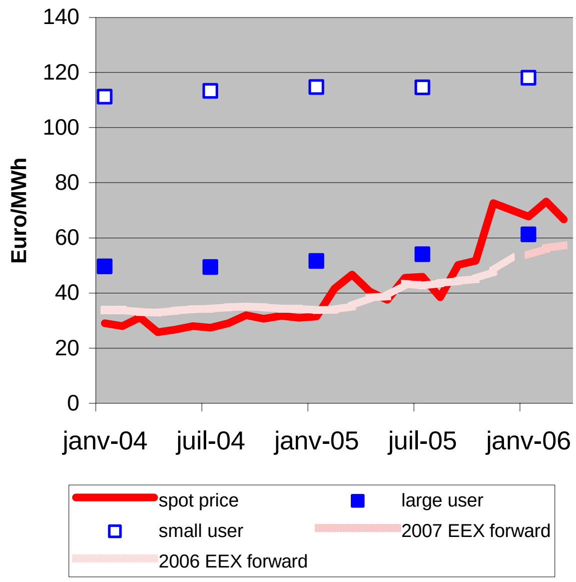
Western Europe

By the end of 2005 the forward price for a 2006 calendar year baseload contract on the French and German wholesale markets increased to €53/MWh. Prices for the calendar year 2007 are higher still at around €57/MWh.

Day ahead prices during the winter period have been in the range €65-75/MWh.

It remains the case that the price of primary fuels and CO2 emission certificates is being built into electricity prices. Higher prices should provide a strong incentive towards energy efficiency and lower carbon generation.

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



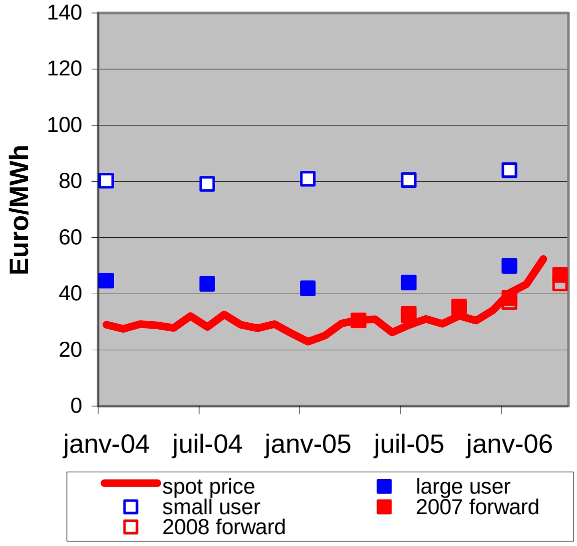
Prices for moderately large users (24GWh/year) have continued to increase and these, by January 2006 had reached a level in excess of €60/MWh in this region, and increase of around 20% on the price level one year earlier. Those for the very largest users have reportedly shown even greater increases. Data for smaller customers indicates an increase to just under €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 also increased sharply in the period January – March 2006. Rainfall has been low, and cold weather in February and March pushed up demand. Day ahead prices increased from €35/MWh in December 2005 to €52/MWh in March 2006. Forward prices for 2007 and 2008 have also reflected this upward trend, increasing from a range €37-38/MWh to €44-46/MWh.

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

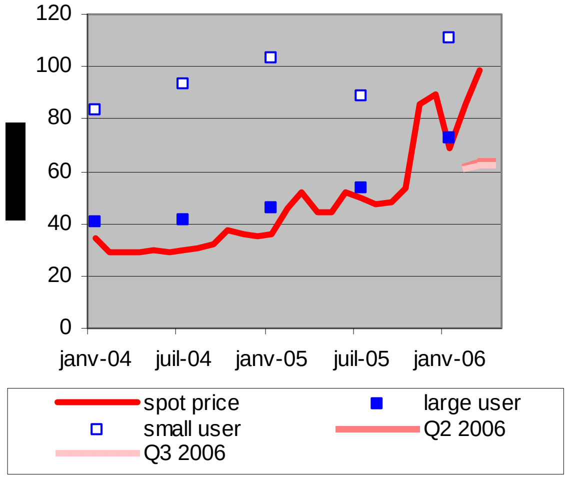


Prices for moderately large users in the Nordic region also appear to have increased to around the level of €50/MWh. This remains below the European average but less so than in previous periods. Households have also seen some increase in prices during 2006 since bills tend to be more closely linked to the wholesale price in the Nordic region.

UK

UK prices reached a peak in March 2006 with prices exceeding €100/MWh in day-ahead markets for part of the month. This was partly the result of the effect on gas prices of the fire at Rough storage facility. However, forward prices for Q2 and Q3 suggest a degree of reduction is expected and stabilisation at €60/MWh mark similar to continental price levels.

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



Retail prices appear to have increased by between one-third and one-half over the last year for industrial users in the UK. Current prices are now reported to be above the European average at around €70/MWh.

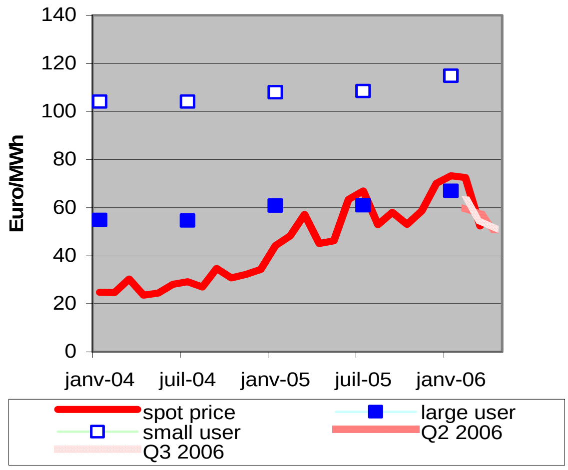
Domestic customers have seen price increases of roughly 20% announced by the main suppliers. This would bring household prices into the range €110-120/MWh which is within the normal range in continental Europe.

Spain

Dry conditions in Spain saw wholesale prices at very high levels during the second half of 2005. However the first three months of 2006 have seen some relaxation in prices levels which have fallen back towards €50/MWh by March 2006. Continued rapid demand growth has contributed to higher prices.

Forward prices for the spring and summer indicate further reductions below this level.

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

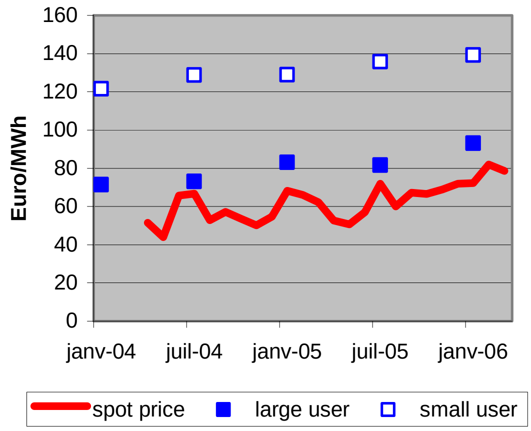


Retail prices have increased, although in some cases they still remain below the wholesale market price. Industrial prices are at around the level of €65/MWh similar to other Member States. This represents an increase of over 10% on the previous year.

Italy

Historically high prices have been seen in Italy during the January – March 2006 period. Wholesale day-ahead prices were in the range €70-80/MWh for most of the time and exceeded €80/MWh during the month of February. Prices were not, however, seriously misaligned to those in neighbouring areas.

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

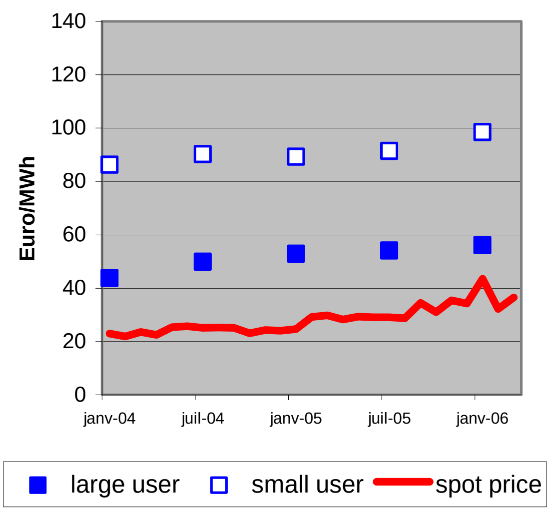


Large user prices have increased to the level of €93/MWh mark, the highest in the European Union and an increase of 12% on the previous year. Household price increases have been more restrained and the reported level for January 2006 was around €140/MWh.

Central Europe

In the new Member States in central Europe, wholesale prices have also risen, although less markedly. The main market affected is the Czech Republic, while wholesale prices for Poland have remained more stable. The average price in these two exchanges is now roughly €40/MWh with a peak of €43/MWh seen in January 2006. Many commentators expect to see further convergence with prices in Germany, especially once nuclear units in Slovakia are closed.

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 €56/MWh, some 5% higher than the previous year. 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.

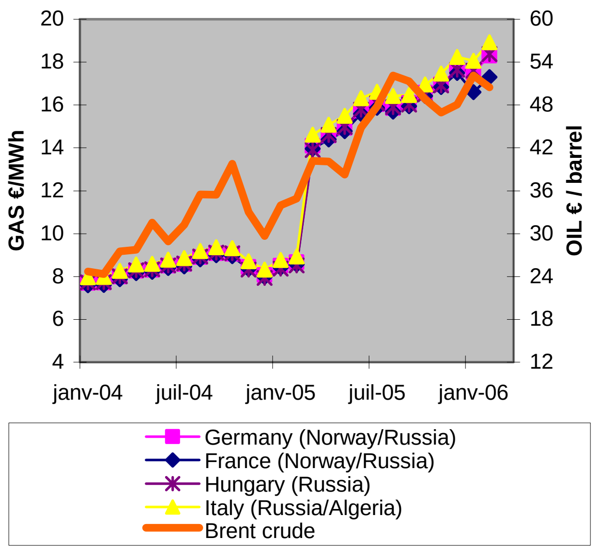
Gas

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

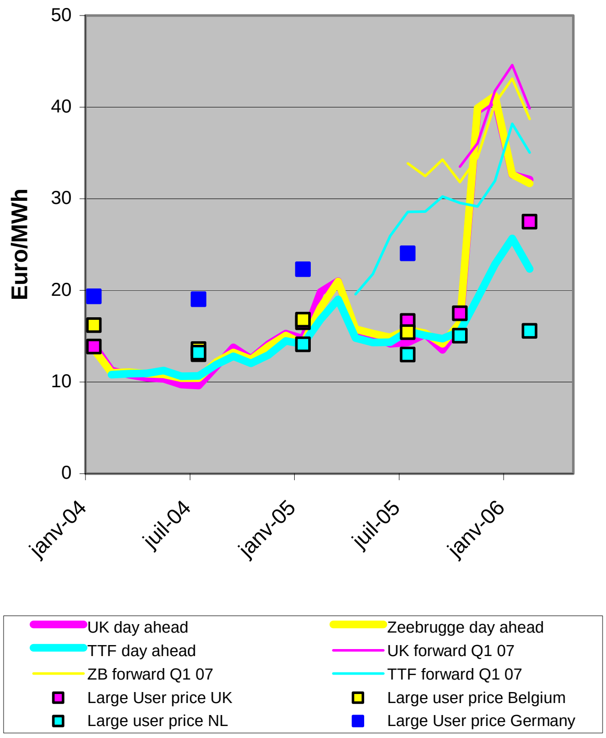


Market prices

Market prices were very high in the UK and Belgium during winter 2005-06 with a peak over €40/MWh released in December 2005. Wholesale prices have since reduced somewhat to a level more like €30/MWh. Price increases have been less pronounced in the Netherlands in the winter period and it would appear these are more aligned with border prices in Germany, remaining closer to €20/MWh. There is clear evidence of infrastructure bottlenecks between the Netherlands and Belgium.

Forward prices for winter 2006-07 suggest a repeat of the experience, even for 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 now appear to have increased sharply to reflect the market situation and are estimated to have increased by 50% over the past year to a level above €25/MWh. In the Netherlands, it does not appear that these price levels are being passed directly to end-users, Large user prices[1] continue around the level of €16/MWh. The price in Netherlands has also converged around this level.

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

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