Issue 6: January 2006

DG Energy and Transport

QUARTERLY REVIEW OF EUROPEAN ELECTRICITY AND GAS PRICES

Electricity

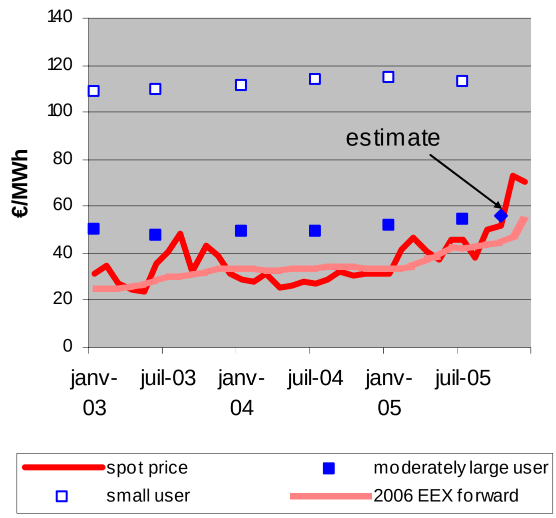
Wholesale electricity prices increased sharply during the last quarter of 2005 throughout almost all of the European Union. This is despite weather conditions not being significantly colder than average in this period.[1] Forward prices for the second half of 2006 and for 2007 indicate that this is expected to continue. In many cases wholesale prices are now above end-user prices. Suppliers which are dependent on wholesale markets are likely to be running at a loss.

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. This level is now reflected in the current contract prices for Q3 2006 and the calendar year 2007. Day-ahead prices in the last two months of 2005 were typically at or above €70/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 have also continued to increase. These are estimated at around €57/MWh by October 2005, an increase of 15% on the price level one year earlier. Those for the very largest users have reportedly shown even greater increases. Data for smaller customers is not yet available after July 2005, but a similar increase would leave the average price at €120-130/MWh before tax.

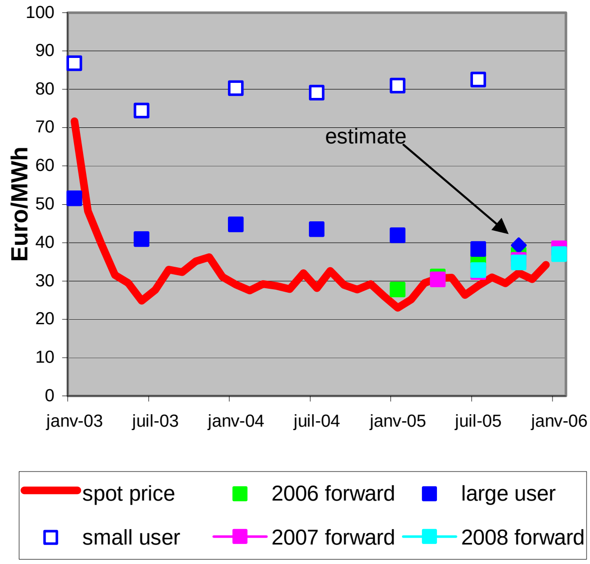
Source for prices:
EEX Terminmarkt
Nordpool Financial Market
Platts bilateral prices
Eurostat large user prices (Ig)
Eurostat small user prices (average Ib and Dc)

[1] The cold conditions in January 2006 will be covered in the next edition.

Nordic

In the Nordic market, day-ahead market prices have increased somewhat in the last three months and are now around €35/MWh. Forward prices for 2007 and 2008 are also showing an upward trend and are now in the range €37-38/MWh.

Graph 2 Summary of average wholesale and retail prices 2003-2005: ***Nordic region***

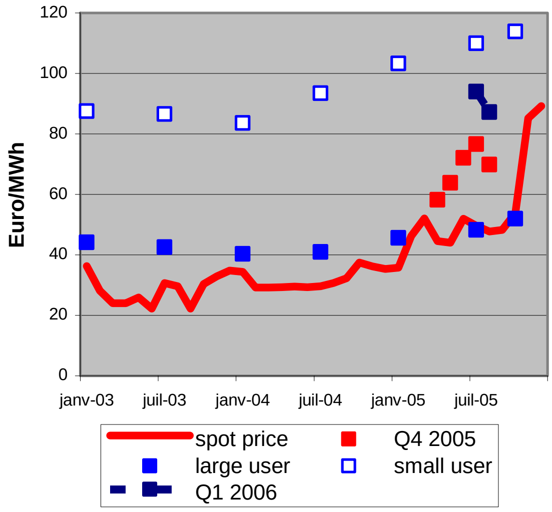


Prices for moderately large users in the Nordic region remain well below the European average at around €40/MWh

UK

In the UK, the apparent inconsistency between day-ahead market prices and forwards for the winter period has now been resolved in that day ahead prices have increased sharply to reflect the levels of €80-90/MWh anticipated earlier in the year. The main driver is gas prices since gas is considered the marginal fuel for new generation. Forward prices for later quarters of 2006 are not yet available.

Graph 3 Summary of average wholesale and retail prices 2003-2005: ***UK***



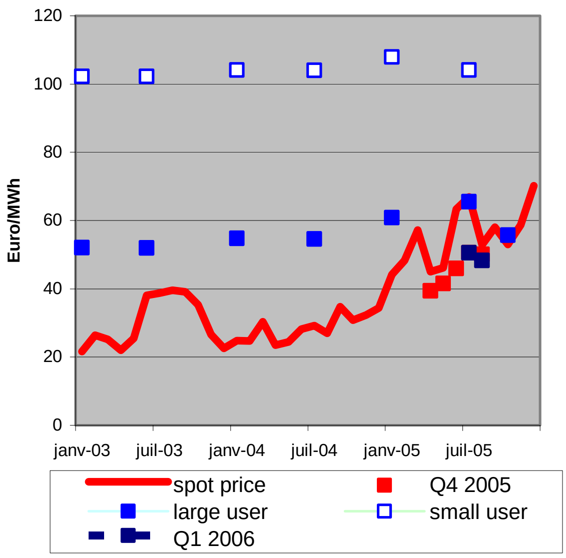
Retail prices users have remained restrained by comparison although increase are now being recorded for both industry and households. Prices to moderately large users has now increased towards €52/MWh. But this is still well below wholesale prices. Further increases in both domestic and commercial price levels are expected in 2006.

In the meantime, margins for suppliers have been severely eroded. The different impact on companies is striking. Those with a large supply portfolio such as Centrica have suffered while British Energy with mainly generation and few final customers is now thriving.

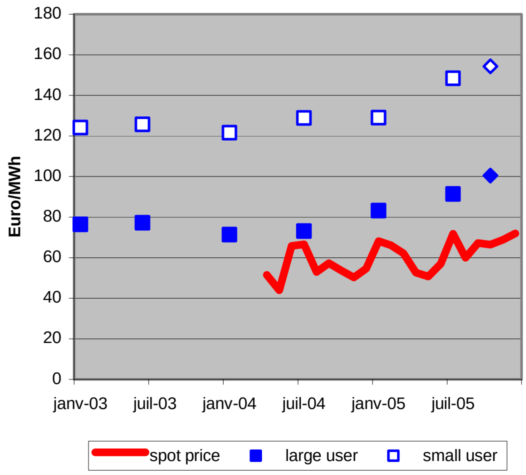
Spain

The Spanish market also saw some increase in wholesale market prices in recent months, although the level has been rather high throughout 2005. developments have mirrored those in other European regions and there is still reduced availability from hydro-electric sources. Electricity demand has continued to grow rapidly, up 4.3% during 2005 according to Red Electrica.

*Graph 4 Summary of average wholesale and retail prices 2002-2005: **Iberian region***



*Graph 5 Summary of average wholesale and retail prices 2003-2005: **Italy***



Retail prices appeared significantly higher in July 2005 than in previous years. However there are some indications that prices in the regulated part of the market are not keeping pace and creating distortions and imbalances.

Italy

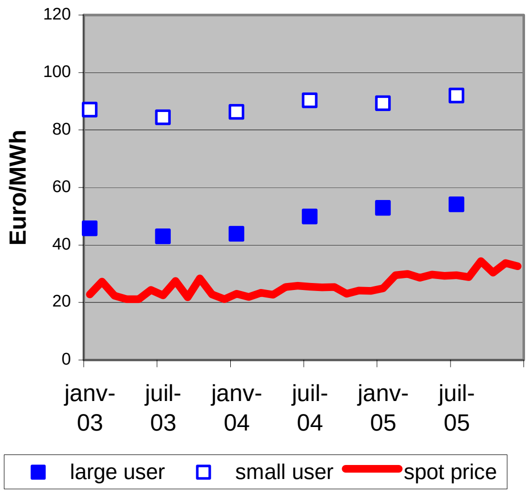
In Italy, wholesale day-ahead prices remain around €70/MWh which is not now out of line with neighbouring areas.

Large user prices continue to increase and may well be above the €100/MWh mark. Prices for households now exceed €150/MWh which represents an increase of 20% during the year 2005.

Central Europe

In the new Member States in central Europe, wholesale prices also have risen, although less markedly. The average day-ahead price for September in the Czech Republic and Poland continue to average over €30/MWh. No new data is available for large user prices but these are expected to have remained at similar levels since they are still largely regulated.

*Graph 6 Summary of average wholesale (PolPX) and retail prices 2003-2005: **Centrel (PL, CZ, SL, HU)***



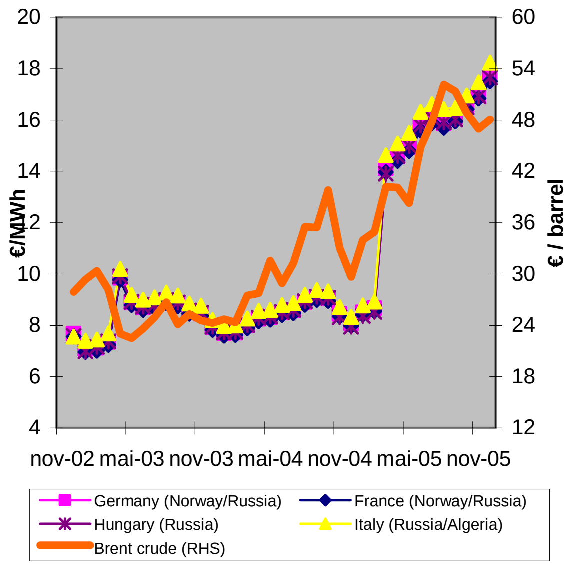
Gas

Wholesale markets

Border prices

Border prices for gas are still at historically high levels. The recent appreciation of the US$ against the Euro, combined with market developments has effectively seen oil prices increase by over 50% since the start of the year. As a result, the average gas import price is now around €18/MWh. This is likely to remain the case while oil prices remain at current levels.

Graph 7 Summary of border prices 2003-2005



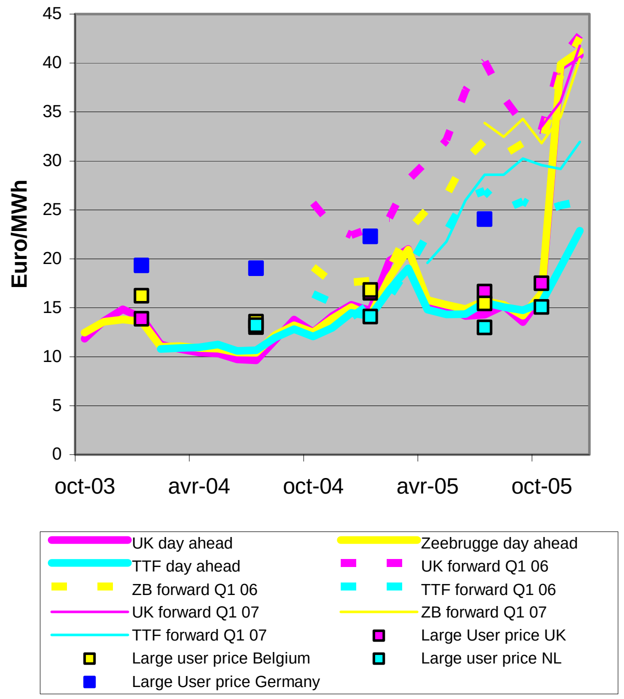
Market prices

Likewise, spot prices in developed wholesale markets have increased very sharply especially in the UK and Belgium, with the increases less pronounced in the Netherlands in the winter period. There is clear evidence of an infrastructure bottleneck between the Netherlands and Belgium at present with the price spread approaching €20/MWh.

Unlike the 2004 experience, the increases in the day ahead market has closely reflected the expectations of forward markets earlier in the year. Prices have now settled above €40/MWh in the UK and Zeebrugge with similar expectations for next winter. This is twice the level of border prices elsewhere in Europe.

In the Dutch market, prices are more of the order of €25/MWh. This lower price is indicative of some lack in transport capacity to Zeebrugge.

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



Currently, it does not appear that these price levels are being passed directly to end-users, Large user prices[2] continue to be rather similar in the UK and Belgian markets around the level of €16/MWh. The price in Netherlands has also converged around this level. Prices in Germany are higher and now exceed €24/MWh.

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

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