

Quarterly Report on European Electricity Markets



● MARKET OBSERVATORY FOR ENERGY

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Dear readers,

After two eventful quarters which included the spreading and deepening of an unseen economic recession and a major gas transit dispute, both impacting European energy markets, the second quarter of 2009 could be considered a relatively stable period. In addition, the first signs of the recovery are emerging at the horizon. This coincided with a reversal in the trend of falling wholesale electricity prices across the EU. Still, there is little room for complacency, as suggested by the evolution of European electricity consumption which in June 2009 decreased to a historically low level.

At the end of this second quarter, the European Network of Transmission System Operators for Electricity (ENTSO-E) became operational. The new organisation was established in order to ensure optimal management of the electricity transmission network and to allow the trade and supply of electricity across borders in the EU. The Market Observatory for Energy looks forward to continuing the good collaboration it has had with ETSO, ENTSO-E's predecessor, thanks to which it has been possible to report on cross-border electricity flows and trade since the Quarterly Report on European Electricity Markets' inception.

Looking forward, the Market Observatory for Energy will be organising a workshop on the 20th of October 2009, with the intention to widen the scope of the reports it produces. More information can be found on the Observatory's website, which is regularly updated.

Matthias Ruete

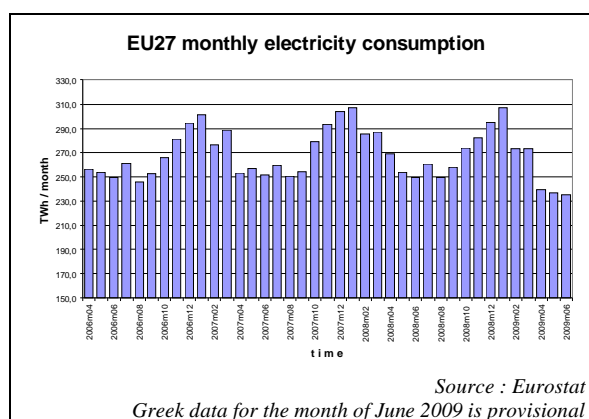
QUARTERLY REPORT ON EUROPEAN ELECTRICITY MARKETS

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A. Recent developments in the electricity markets across Europe

In the second quarter of 2009, European Union monthly electricity consumption recorded its lowest levels since 2003, the first complete year of common statistics for the 27 Member States.

Year-on-year, consumption fell by more than 10%, 6% and 5% in April, May and June respectively. As of June 2009 consumption was down by more than 23% with respect to the beginning of the year. However, Eurostat data seems to suggest that electricity demand in the EU started to stabilise as the fall in consumption in the second quarter of 2009 alone was less than 2%.



Disclaimer

This report prepared by the Market Observatory for Energy of the European Commission aims at enhancing public access to information about electricity prices within the Members States of the European Union. Our goal is to keep this information timely and accurate. If errors are brought to our attention, we will try to correct them. However the Commission accepts no responsibility or liability whatsoever with regard to the information contained in this publication.

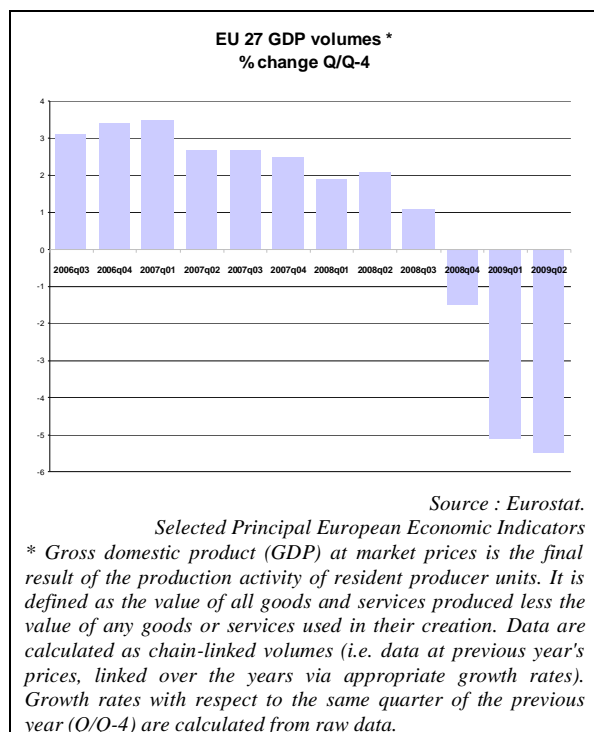
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The evolution of consumption was more or less homogeneous across regions. For example, in the Northern and Baltic regions demand fell by more than 9% during each of the three months of Q2 2009 with respect to the corresponding period in 2008.

The recession, which continued to spread to more and more sectors of the economies of the Member States, was probably one of the major factors that influenced electricity consumption. As indicated by the following graph, the GDP growth rate remained negative in Q2 2009.



Compared to the same quarter of 2008, the biggest falls in GDP volumes were recorded in the Baltic region¹. With the notable exception of Poland, all other

¹ The corresponding values for Lithuania, Latvia and Estonia were respectively -20,2%, -18,7% and -16,1%.

Member States experienced a reduction of GDP volumes². The corresponding fall in industrial production influenced directly the industrial demand for electricity.

The cold winter conditions at the beginning of 2009 contributed to partly mask the effect of the economic slowdown on electricity consumption. In Q2 2009 however, the average temperature was milder than the same period of the previous year³. As a result, the electricity consumption was further reduced with respect to the second quarter of 2008 as there was less need for heating.

EU 27 Heating Degree Days⁴ during Q2
Values for 2007, 2008, 2009 and the
1980 – 2004 average

	April	May	June
2007	223.92	131.11	41.79
2008	270.34	133.90	56.89
2009	238.64	123.95	67.55
LT avg.	289.25	154.04	66.55

Source : Eurostat / JRC

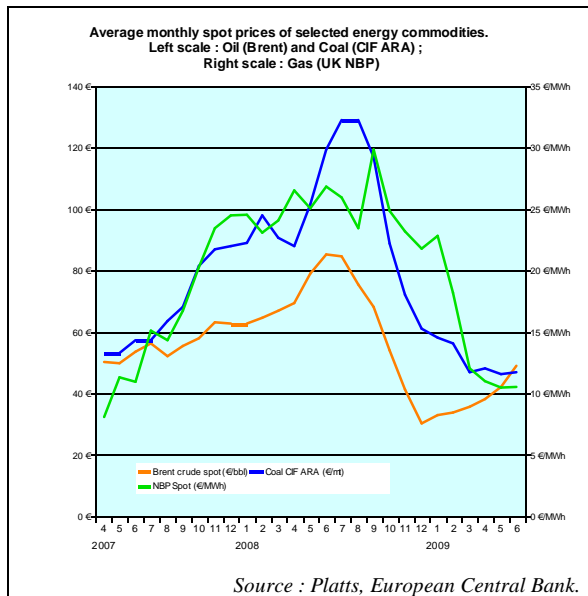
The second quarter of 2009 was a time for stabilisation of prices in the gas and coal markets after a long period of downward movement. Whereas gas and coal prices

² For example, with respect to Q2 2008 the changes in some countries were : Germany (-7,1 %), Italy (-6,2 %), the UK (-6 %), the Netherlands (-5,4 %) and France (-3,3 %).

³ It was also milder than the long term average.

⁴ Heating degree days (HDDs) express the severity of a meteorological condition for a given area and in a specific time period. HDDs are defined relative to the outdoor temperature and to what is considered as comfortable room temperature. The colder the weather, the higher the number of HDDs. HDDs are quantitative indices designed to reflect the demand for energy needed to heat a building. Cooling degree days (CDDs) are defined in a similar manner.

still registered a modest fall in the April – June 2009 period, it seems that the prospect of new price corrections was not seen as an imminent threat by market participants.

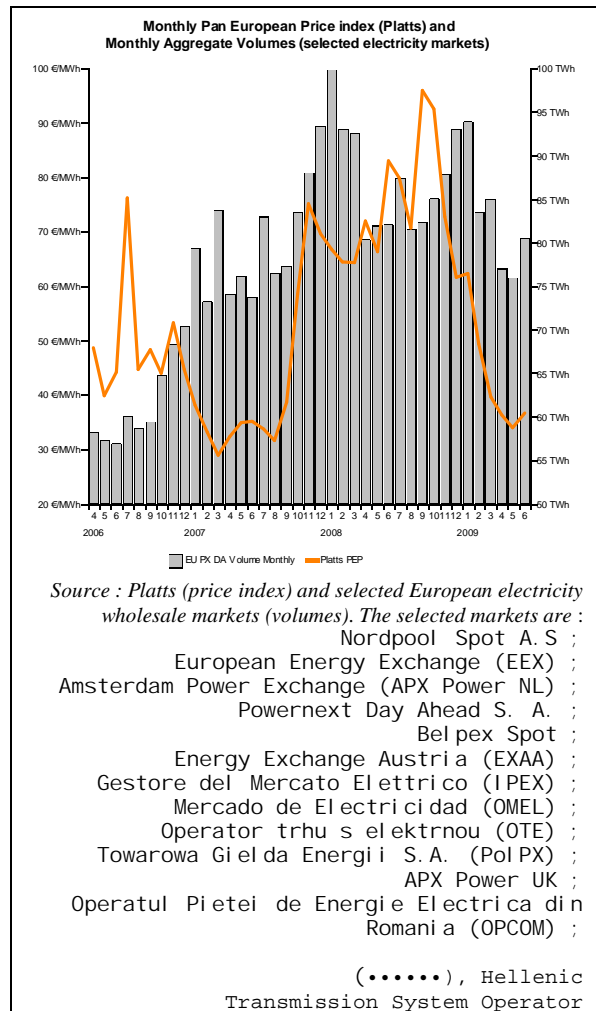


Global oil was among the first energy commodities to enter the bear market; it appears that it was also among the first to register a price increase, as indicated by the curve of the price of *Brent*. From its low point of December 2008 (average monthly value of € 30.13 / bbl), the spot price of Brent had increased by more than 60% by June 2009. In the second quarter of 2009 alone, the monthly average Brent price appreciated by 28%.

A.1 Wholesale markets

A.1.1 Day ahead

EU wholesale markets



During the second quarter of 2009 the majority of European wholesale electricity prices experienced a reversal of the downward trend which had started back in September 2008. The *Platts* monthly *Pan European Electricity Price Index* found a stable ground in the range of €33 - €37 / MWh. Between April and June 2009 the

index actually grew by 1.1%, similar to the evolution of coal and gas prices.

Monthly aggregated volumes on the day-ahead markets of the selected countries⁵ were in the range of 75 – 80 TWh in Q2 2009. One has to go back to 2007 to witness similar levels of transactions.

It is interesting to note that the reduction in traded volumes across Europe was smaller than the fall of total electricity consumption in the corresponding countries⁶. This may be considered as an indicator of a certain robustness of the power exchanges.

In periods of economic slowdown the industrial demand of electricity, which is an important element of the total turnover of the power exchanges, tends to recede. However, market participants still need a reliable pricing signal and the fact that aggregated traded volume was less volatile than total consumption may suggest that more and more market operators are considering the power exchanges as reliable price setters.

⁵ The *Quarterly Report* intends to cover all Member States, Candidate countries and countries from the European Economic Area that have developed a functioning wholesale market for electricity. For the time being, the selected countries are: Austria (AT), Belgium (BE), the Czech Republic (CZ), Denmark (DK), Finland (FI), France (FR), Germany (DE), Greece (GR), Italy (IT), the Netherlands (NL), Poland (PL), Romania (RO), Spain (ES), Sweden (SE), the United Kingdom (UK) and Norway (NO).

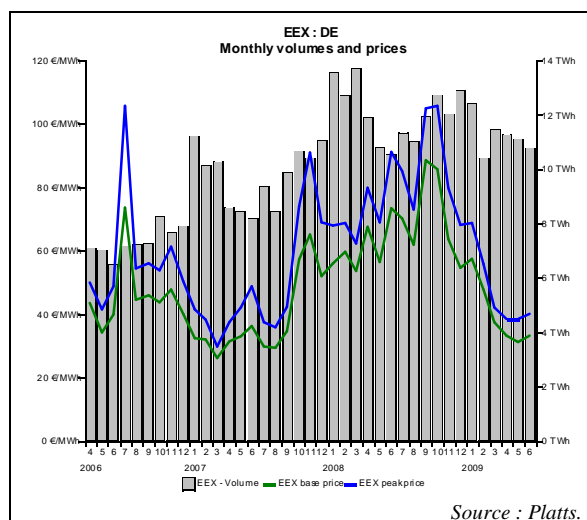
⁶ For the months of April, May and June 2009 the year-on-year reductions were in the range of 4% to 7%.

Regional markets

Central Western Europe

Germany

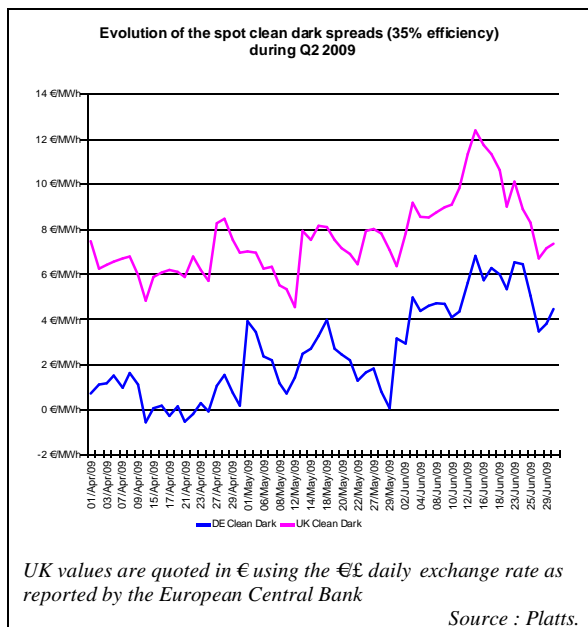
The Q2 2009 average monthly prices on the European Energy Exchange for the German area were in the range of €31 - €33 / MWh for the baseload and €38 - €40 / MWh for the peakload. This represents a drop of more than €55 / MWh with respect to the corresponding price in September 2008. Year-on-year the price decrease was less pronounced, but still around the 50% level.



On the other hand, the turnover on the day-ahead segment remained around 11 TWh / month. In May and June 2009 it actually increased with respect to the same month of the previous year. This development can be compared to the evolution of German industrial production, which in Q2 2009

was on average 20 % lower than the same period in 2008⁷.

Along with industrial demand for electricity, plant availability was also a factor that influenced the wholesale price. Grid margins were linked to the level of production of wind farms.



During the first half of the observed period the German clean dark spreads⁸ were close to negative. By the end of the quarter the spreads increased, indicating that coal fire plant operators were getting up on the merit order.

⁷ Eurostat Euroindicators, news release 129 / 2009.

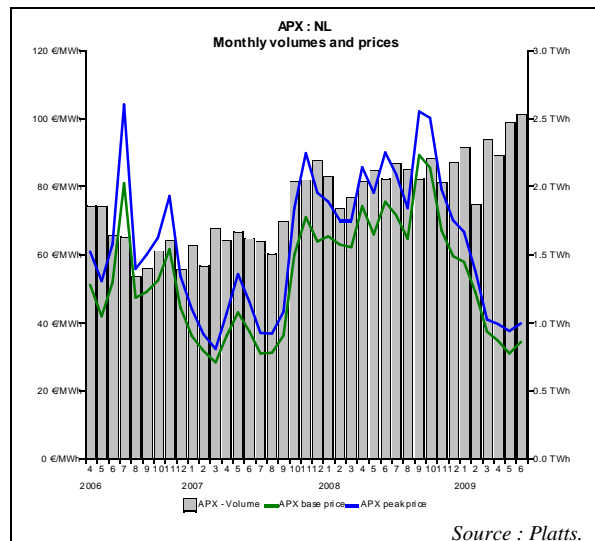
⁸ Dark spreads are reported as indicative prices giving the average difference between the cost of coal delivered ex-ship and the power price. As such, they do not include operation, maintenance or transport costs. Spreads are defined for a coal-fired plant with 35 % efficiency.

Dark spreads are given for UK and Germany, with the coal and power reference price as reported by Platts.

Clean dark spreads are defined as the average difference between the price of coal and carbon emission, and the equivalent price of electricity.

The Netherlands

The turnover on the day ahead segment of the Dutch exchange continued to show strong growth, reaching a record monthly value of 2.53 TWh in June 2009. The traded volume in Q2 was up 16% with respect to the same quarter in 2008.

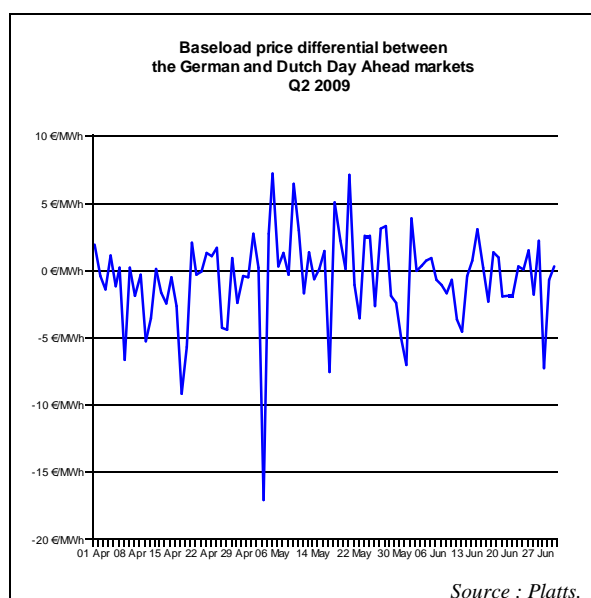


The monthly peak and base prices lost on average € 6 / MWh from February to March 2009. After that, market participants appeared to agree on negotiating the MWh in the range of €30 – 34 / MWh (baseload) and €37 – 40 / MWh (peakload) during the second quarter of 2009.

Once again, plant availability, wind and load conditions were among the factors influencing price developments. At the beginning of the period, wind output was relatively low but as weather conditions were very mild⁹ and residential electricity

⁹ Approximately 100 heating degree-days less in April 2009 than in the same month of the previous

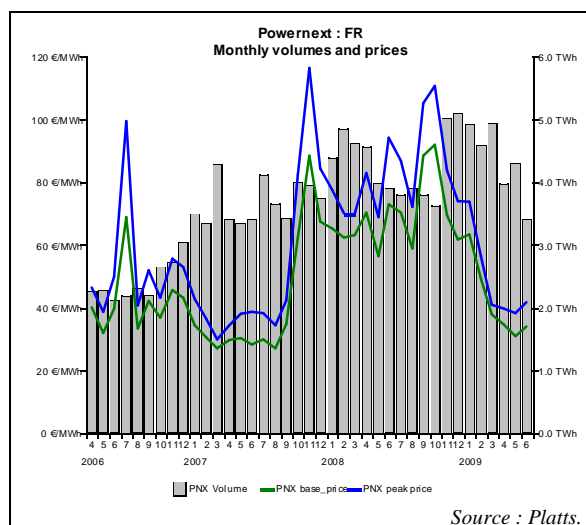
demand for heating was small, there was little pressure on the grid margins and the monthly peak and base prices remained stable. On a year-on-year basis however, prices were significantly lower – by more than 50 % for the months of April to June.



In the second quarter of 2009 the Dutch day-ahead baseload contract traded at a small premium to the corresponding German contract. In May the premium reversed for a number of days as the amount of electricity produced from the Dutch off shore wind parks increased.

France

In Q2 2009 the industrial production in France was following a similar path to the German production. Compared to the corresponding monthly figures of 2008, the falls were less pronounced but still significant¹⁰. As a result, industrial electricity demand as well as traded volumes on the Powernext exchange fell. For example, April volumes were 13% lower in 2009 than in 2008.



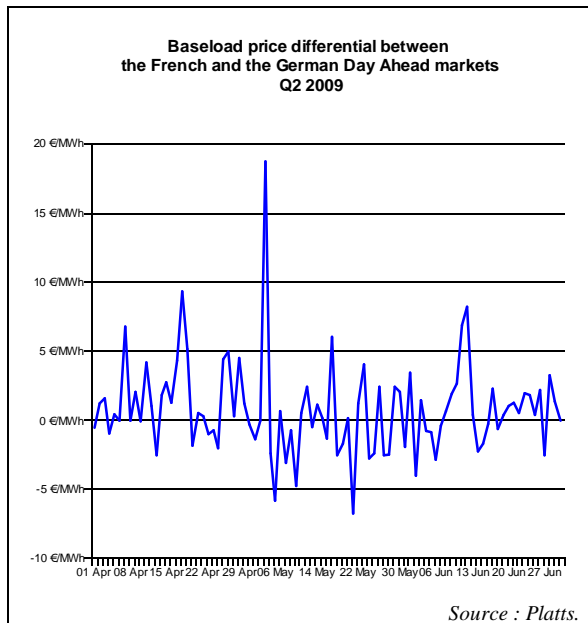
French wholesale electricity prices seemed to stabilise in Q2 2009 around €30 – 35 / MWh (base) and €38 – 42 / MWh (peak) at levels which were roughly half of those of the corresponding 2008 period. On average, the baseload decreased by 1% but the peak picked up by 4% in Q2 2009.

It seems that market participants became worried about strikes in the French energy

year; April 2008 was close to the long term average.

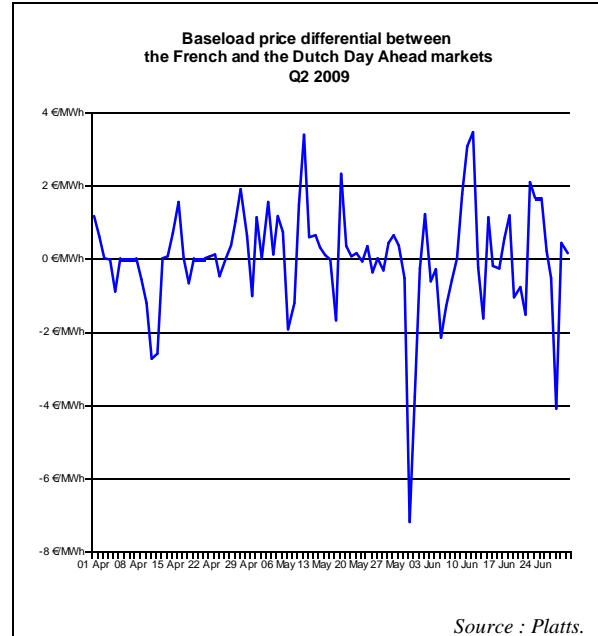
¹⁰ For April, May and June 2009 the reductions were 19,9%, 13,5% and 12,4% respectively. See footnote 7 on page 5

sector which may have influenced the quality of information on available capacity. The result of this perceived uncertainty was that power exchange prices diverged from OTC prices for a number of days.



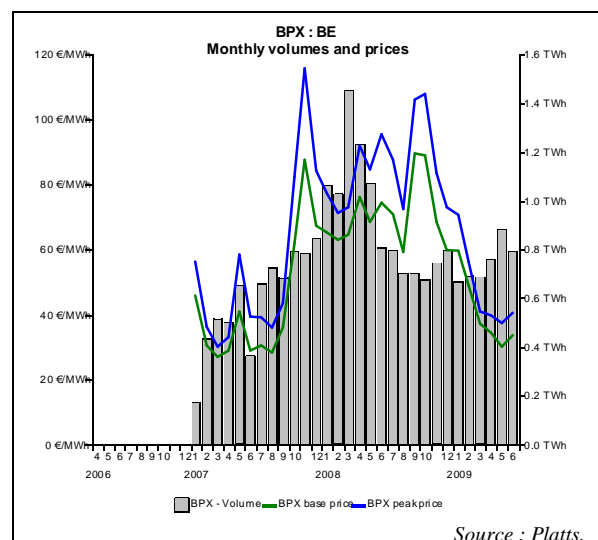
French prices also diverged significantly from German prices for a day (end of April) but on general stayed in a range of €/MWh. As the EPEX spot initiative¹¹ is becoming operational, it is expected that traded volumes and cross border energy exchange will increase significantly on both sides of the Rhine.

¹¹ EPEX Spot is a joint venture owned by Powernext (50%) and EEX (50%) offering spot trading in power by closed auction and continuous trading with expiries day ahead and intra-day. It combines the former spot power markets Powernext Day-Ahead and EEX Power Spot.



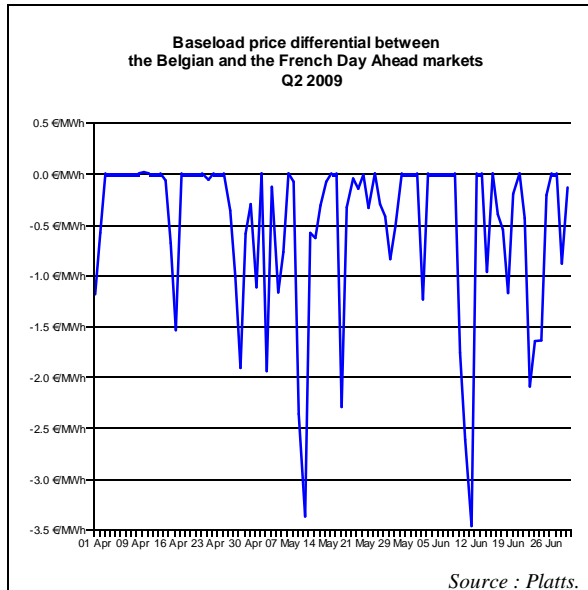
French and Dutch baseload contracts were also trading close to each other during Q2 2009 as there was enough capacity on the borders of the trilateral market to accommodate the commercial exchange of energy.

Belgium

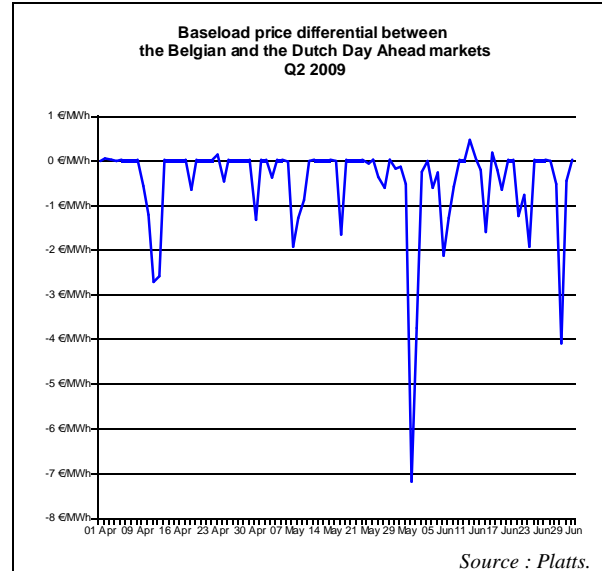


Wholesale prices on the Belgian exchange followed similar developments as the ones observed in the Central Western European area. Average monthly base and peak prices found a support level of €30 – 35 / MWh and €38 – 41 / MWh respectively.

As traded volumes remained in the 0.7 – 0.9 TWh / month range, it appears that market participants were not reproducing the record trading activity which marked the first months of 2008.

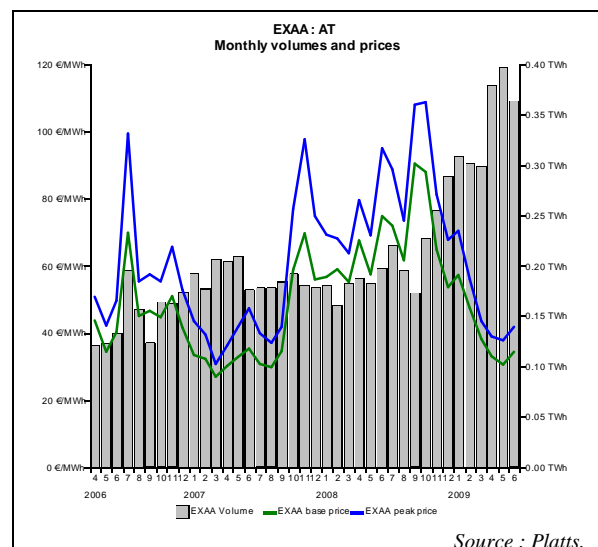


It is interesting to observe that Belgian prices were trading at a discount both with respect to France and the Netherlands, suggesting that Belgium was considered to be the cheapest price area of the trilateral market, exporting to France and to the Netherlands within the limits of available interconnection capacities.



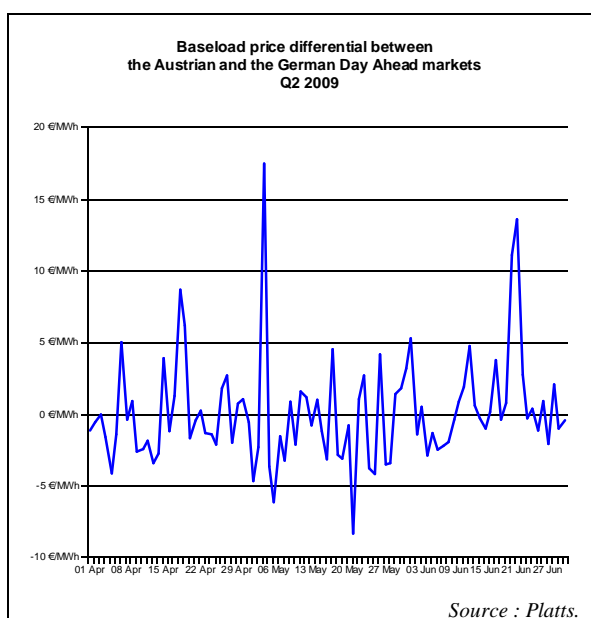
Austria

Transacted volumes on the day-ahead segment of EXAA, the Austrian power exchange, continued to increase in Q2 2009 with aggregated monthly values reaching almost 0.4 TWh in May. Compared to the same months of the previous year, volumes more than doubled in April to June.

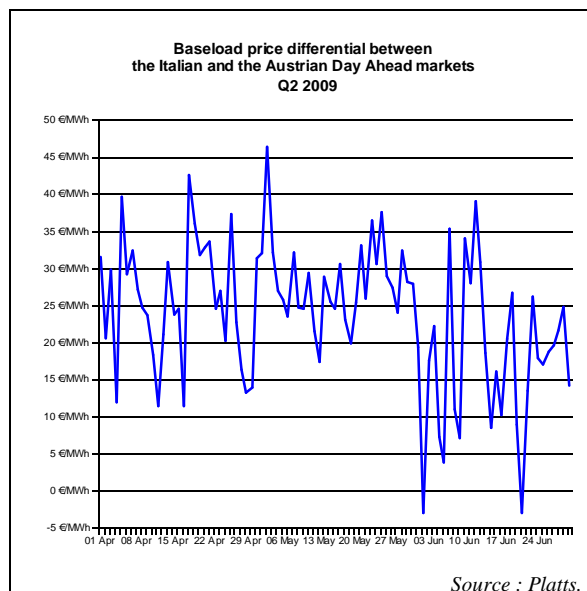


In absolute terms however, the turnover still remained modest, representing less than 1% of the electricity consumption in Austria.

Peak and base prices stabilised in Q2 2009 to roughly half of the observed levels in the corresponding period of 2008.



The Austrian day-ahead contract of EXAA traded in the range of € 5 / MWh with respect to its German counterpart. At the same time, the Italian baseload was traded on average at €20 – 25 / MWh premium to the Austrian price area.



Northern Europe

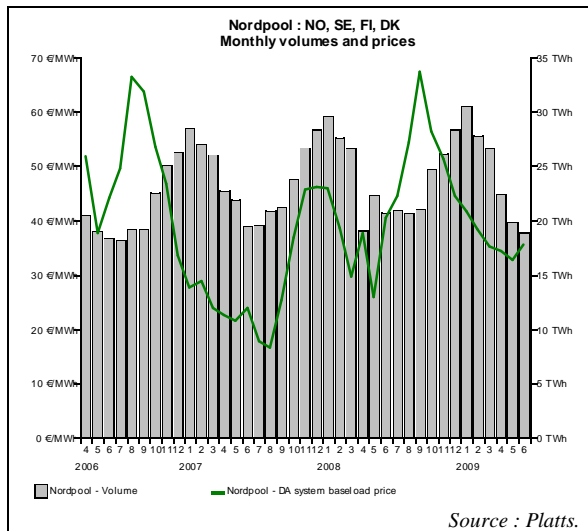
The monthly transacted volume on the day-ahead platform of Nordpool continued to follow the seasonal pattern of the final electricity consumption in the Nordic area. Whereas April 2009 volume was still higher than in 2008 (+18%), there was a dip in the turnover in May and June (11% and 9% respectively).

This development was probably related to the decreased industrial demand which resulted from the fall in industrial production in the area¹².

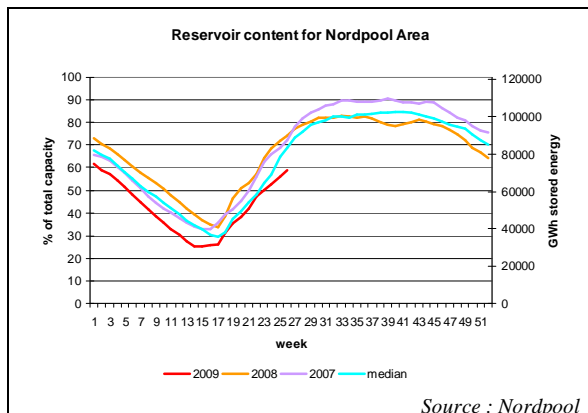
Contrary to other trading places in Europe, the system price in the Nordpool area in Q2 2009 was not that different from the second quarter of 2008. While the monthly average system price was lower in April

¹² Year-on-year reductions in industrial production varied from 15 % in Denmark (April 2009) to 26% in Sweden (May 2009).

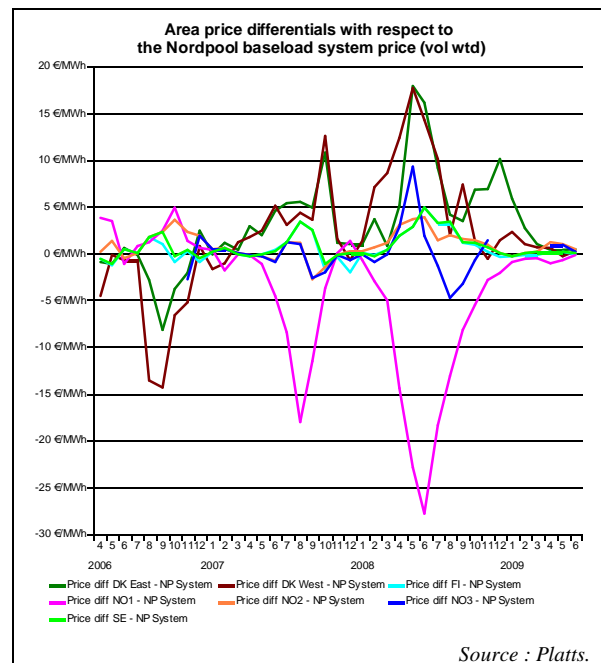
and June, it was actually 26% higher in May 2009 than the corresponding months of 2008.



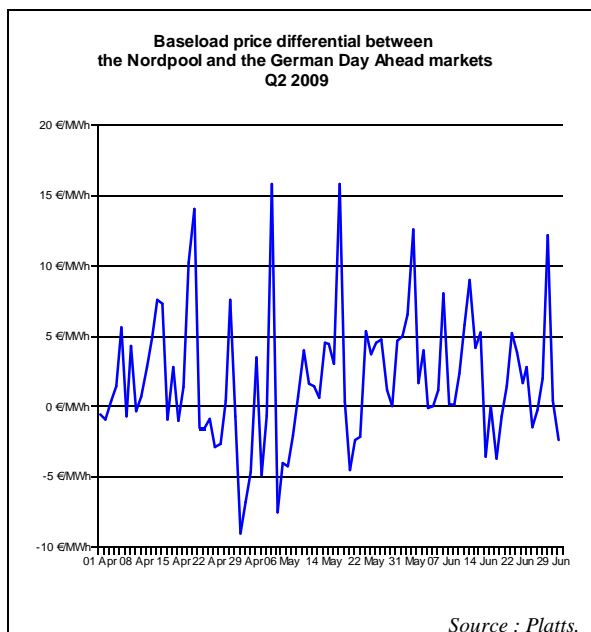
One of the factors that could have influenced this evolution is the stored energy in the dams of power plant operators in the Nordpool area. The hydro reserves were higher than the long term average value in Q2 2008, offering cheap energy to market participants. In Q2 2009 however, reserves dropped below the median value, effectively reducing the supply of electricity. This decrease seemed to coincide with a similar reduction on the demand side which resulted in prices staying closer to Q2 2008 levels.



Area prices remained very close to the Nordpool system price as the existing interconnectors were able to process all the necessary energy in this context of reduced supply and demand.



On average, Nordpool prices remained competitive with respect to their continental counterparts. Compared to previous quarters however, the discount was reduced significantly as the economic recession and acceptable levels of grid margins was exerting downward pressure on the wholesale prices of electricity in the Central West European region.



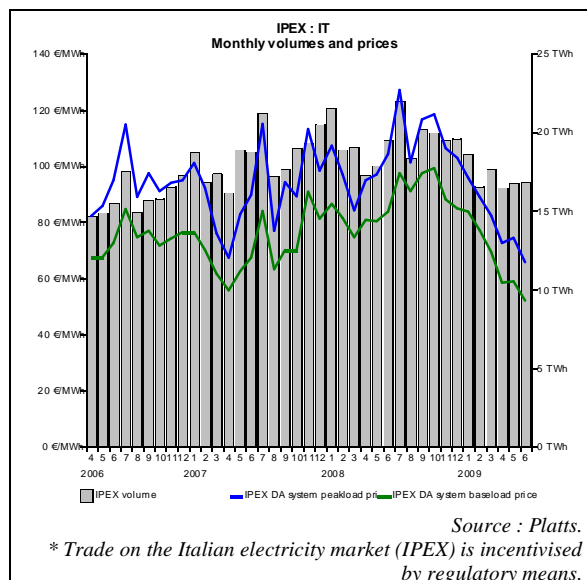
Apennine peninsula

Italy *

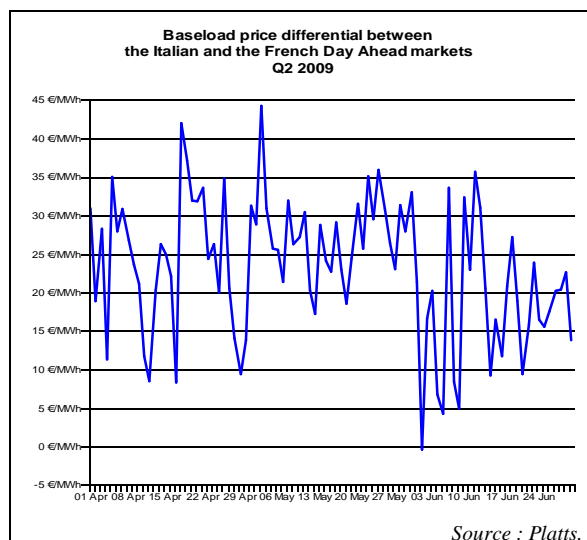
During the second quarter of 2009 the reduction in traded volumes on IPEX, the Italian electricity market (7%), was smaller than the decrease in industrial production (20%)¹³. It was also smaller than the fall registered in electricity consumption of around 8%. This development could be interpreted as an indication that market participants are relying on IPEX for the price setting of the Italian wholesale market.

Baseload and peakload prices continued to follow similar evolutions. Since October 2008 both lost around € 40 / MWh. Compared to the same months of the previous year, prices lost a quarter of their value in April 2009. The fall accelerated

during the observed period, reaching a drop of 35% in June 2009.



Italian prices remained nevertheless relatively expensive, offering interesting opportunities for electricity importers from the adjacent price areas. For example, the Italian day-ahead contract was traded on average at a €25 / MWh premium in the first half of Q2 2009. After that the premium was somewhat reduced, going down to €10 / MWh.

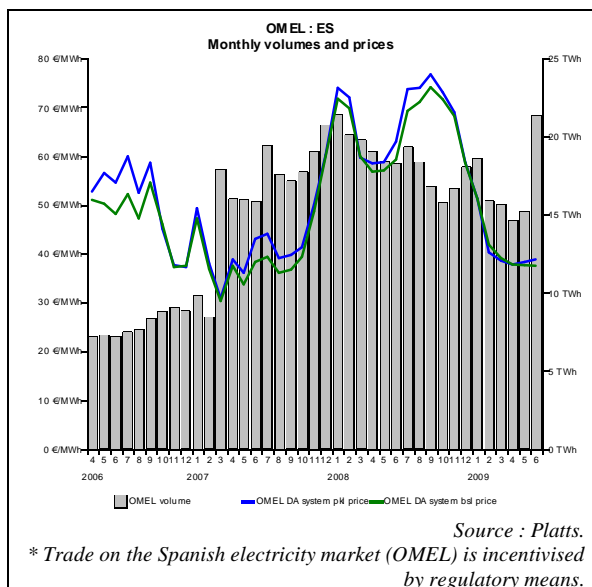


¹³ See footnote 7 on page 5

Iberian peninsula

Spain *

The wholesale prices on the Spanish electricity market followed developments which were similar to those observed in the Central Western European Region. While the average monthly prices lost about a third of their Q2 2008 value, it seems that they found a stable level at around €40 / MWh in the months from April to May 2009. Atmospheric conditions (wind levels and outdoor temperature) as well as the decrease of industrial demand¹⁴ for electricity were among the factors that shaped the supply and demand.

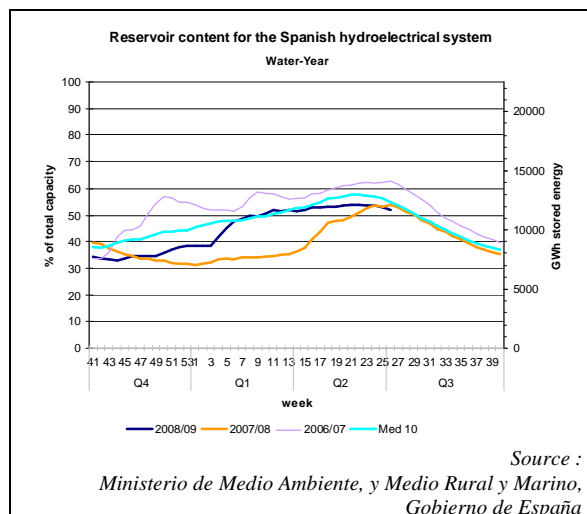


As Spain was experiencing unusually hot temperatures in June the residential demand for air conditioning was increasing. Average monthly prices

¹⁴ Year-on-year, the industrial production in Spain decreased by 19%, 20% and 16% in the three months of Q2 2009.

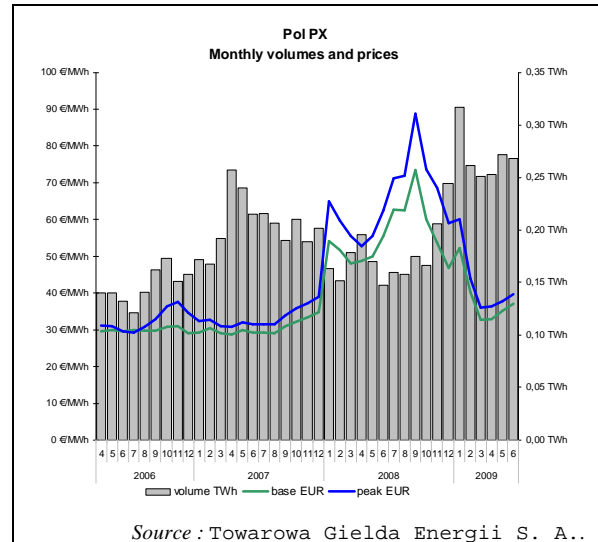
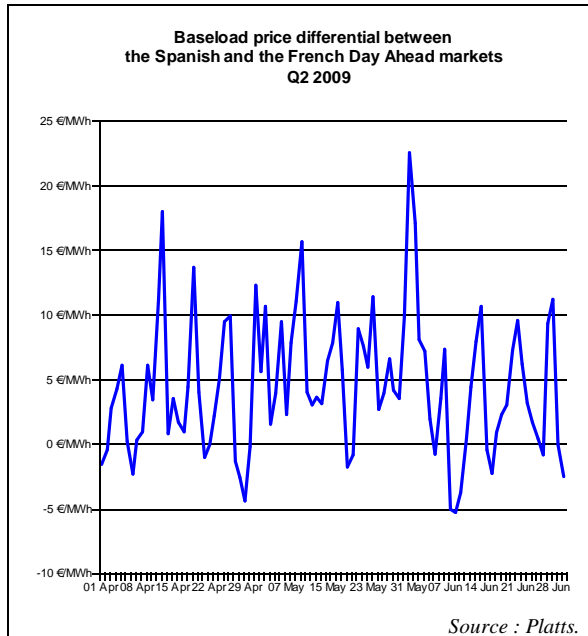
changed little since some coal plants returned online during that period. However, the result on the traded volume on OMEL was significant: in June 2009 the platform registered an aggregated record volume of 21.37 TWh. Similar levels were reached in the past only during winter months which were extremely cold.

The increased domestic consumption also affected the exporting profile of the Iberian region as can be seen in part B of the present report (see page 23 of the current report).



Available hydroelectric capacity during the second quarter was slightly below the 10 year average but still well above the corresponding 2008 levels.

On average, the Spanish day-ahead contract was traded at a €5 – 10 / MWh premium with respect to the French baseload. There were however big daily variations and it was not unusual to see the Spanish contract trading at a discount during Q2 2009.



Polish wholesale prices continued to approach the levels of the German market. In most of the second quarter they were traded even at premium.

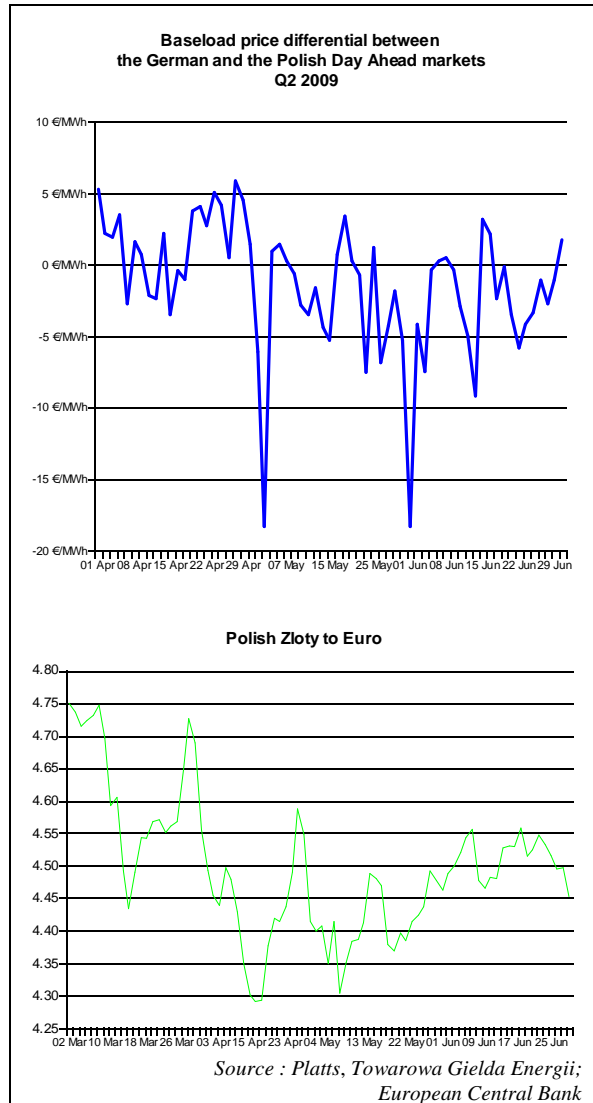
At least two factors combined to allow this development. First, the supply and demand conditions were such in Germany that prices were still sliding down in the first half of Q2 2009. Then, the appreciation of the Zloty with respect to the Euro was making the Polish MWh relatively more expensive.

Central Eastern Europe

Poland

After reaching a low level point in March 2009, the Polish wholesale price of electricity grew in Q2 2009 by 12% for the baseload and by 9% for the peakload. This movement was somewhat similar to the developments in the global coal market. As the upward movement of electricity prices was steeper than that of coal, Polish dark spreads were rising.

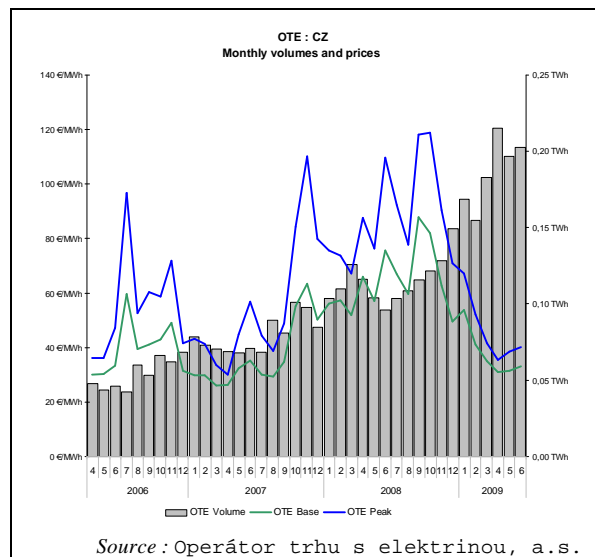
The price increase aligns well with the fact that Poland was the only Member State of the EU that was experiencing a growth in GDP volumes (see the figure on page 2). Compared to the same period of the previous year however, Polish electricity prices were still lower by about a third of their Q2 2008 value.



The traded volume increased significantly on the *Towarowa Gielda Energii*, the Polish wholesale market. Year on year, the monthly turnover was up by 30%, 60% and 82% in April, May and June 2009 when it reached almost 0.27 TWh. As this volume represents about 2% of the electricity consumption in Poland, there is still room for big increases.

Czech Republic

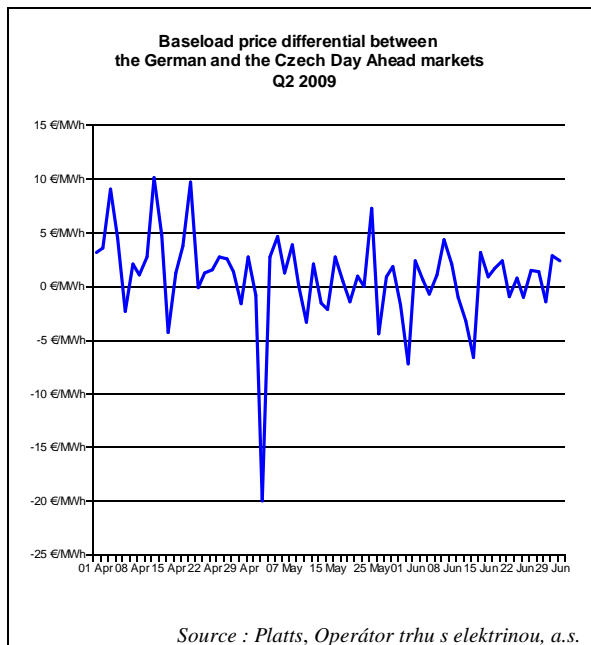
Despite the difficult economic situation, the traded volume of OTE, the Czech wholesale market, continued to grow strongly. In April it reached more than 4.2% of the Czech electricity consumption at 0.22 TWh. The increase was also impressive compared to the same month of the previous year. The corresponding figures for April, May and June 2009 were 85%, 90% and 111% respectively.



Market participants continued to price the Czech day-ahead contract close to the baseload of the Central West European region. As a result, Czech wholesale prices found a stable level of €31 / MWh in April 2009 and then registered a slight increase of 6.3% throughout the second quarter of 2009.

Price differences with the German baseload remained for the most of Q2 2009 within the € 5 / MWh range with a tendency to price the Czech contract at a

premium as there was enough spare capacity in Germany.



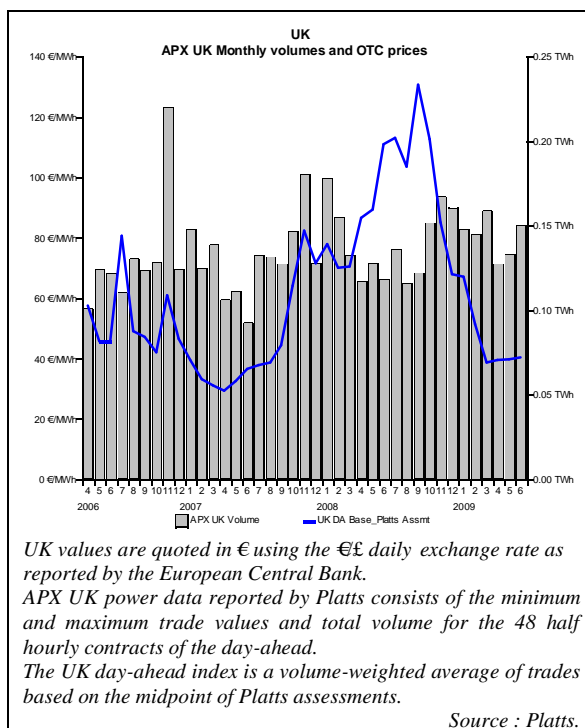
British Isles

UK

As of the beginning of Q2 2009, the average price on the APX UK electricity exchange lost more than 70% from its high value recorded back in September 2008. The new monthly average price level of € 54 – 56 / MWh seemed to correctly reflect the supply and demand conditions and the level of grid margins.

During the second quarter of 2009 industrial production in the UK was decreasing (compared to the same period of 2008) but less than most of the bigger economies in the EU. As a result, the electricity demand from industrial users weakened.

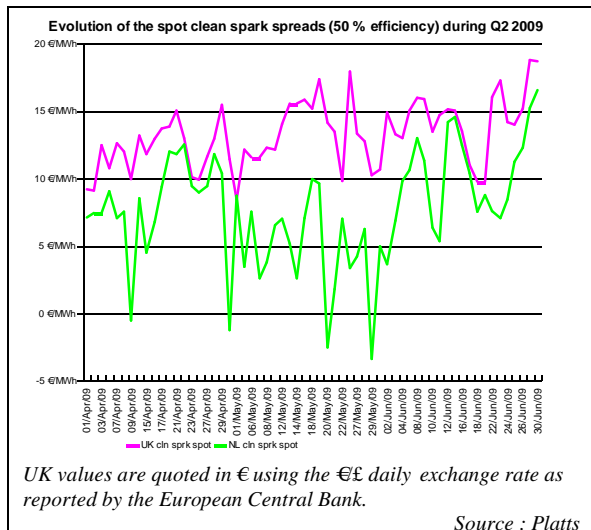
In addition, as there were few outages and plant availability was at normal levels, grid margins remained stable.



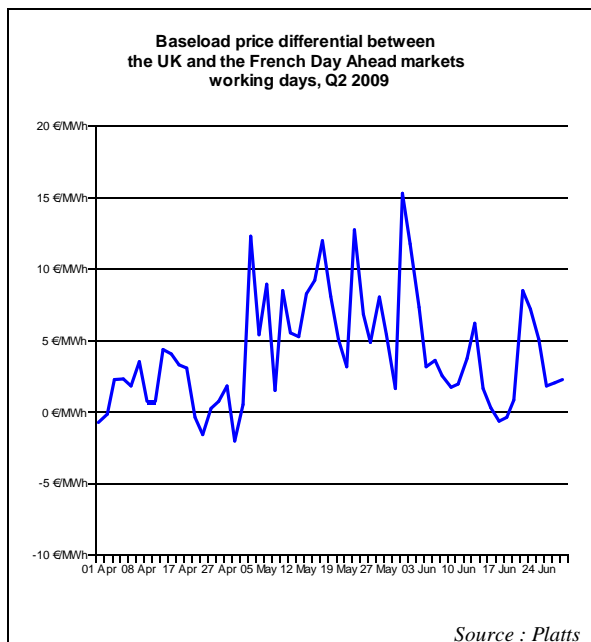
In Q2 2009 operators of gas fired power plants were enjoying clean spark spreads¹⁵ in the range of € 10 – 15 / MWh with a tendency toward further increases at the end of the observed period as gas prices had still to pick up.

¹⁵ Spark spreads are indicative prices showing the average difference between the cost of gas delivered on the gas transmission system and the power price. As such, they do not include operation, maintenance or transport costs. The spark spreads are calculated for gas-fired plants with standard efficiencies of 50% and 60%. This report uses the 50% efficiency. Spreads are quoted for the UK, German and Benelux markets.

Clean spark spreads are defined as the average difference between the cost of gas and emissions, and the equivalent price of electricity.



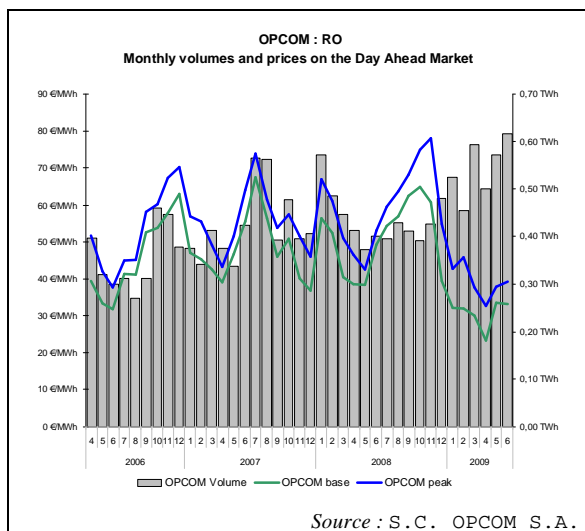
The UK day-ahead contract was traded at a € 5 / MWh premium on average with respect to the French baseload. The price differential between France and UK varied marginally during the second quarter, from a €15 /MWh premium to a small discount.



South Eastern Europe

Romania

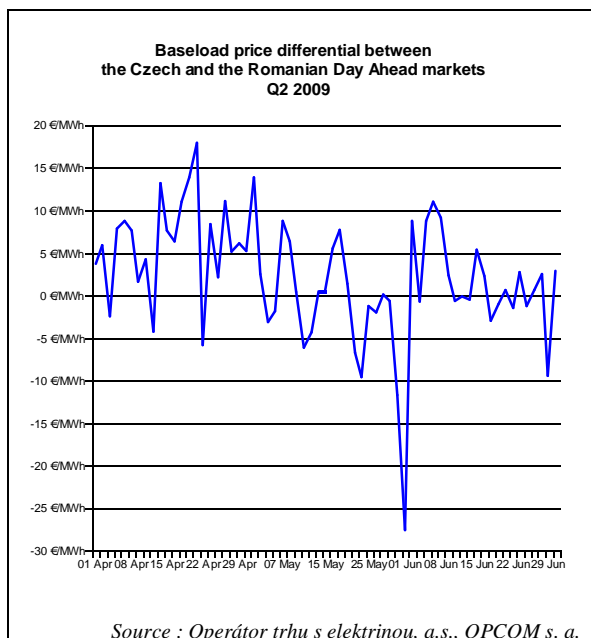
Turnover on OPCOM, the Romanian power exchange, continued to grow vigorously, reaching an aggregated monthly level of 0.62 TWh in June 2009. This represents almost 15 % of the electricity consumption in Romania, making OPCOM one of the most liquid platforms in Central and Eastern Europe.



Compared to the same quarter of the previous year the industrial demand for electricity was decreasing as a result of the reduction in industrial production which averaged 7.6% in Q2 2009. This development could explain the evolution of the base and peak prices which lost about a third of their value from 2008 for the period from April to June.

On the other hand, since March 2009, the monthly variation of industrial production turned positive in Romania which also led to increased demand for electricity. The

appreciation of the Leu with respect to the Euro was also contributing to the increased price of the Romanian MWh¹⁶. As a result, the baseload contract gained approximately € 10 in the second quarter, reaching a monthly value of €33.04 / MWh in June 2009.

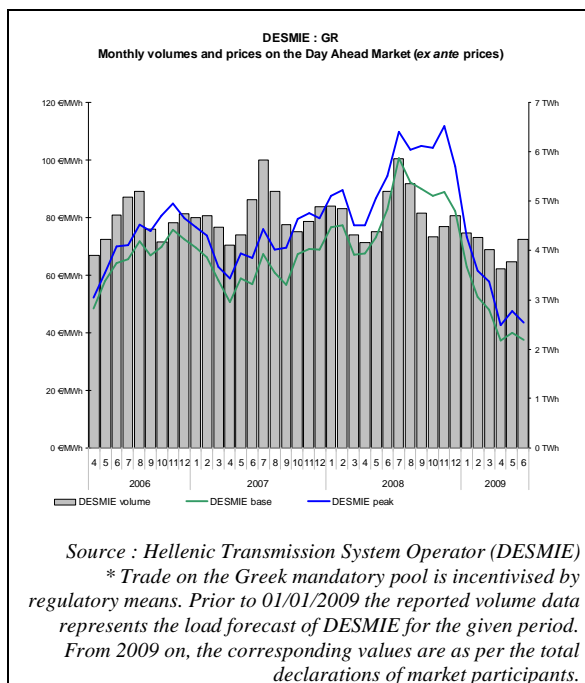


On average, Romanian and Czech contracts were trading at similar levels. However, on a daily basis the contracts were frequently diverging which caused big variations of the price differential.

Greece *

In the second quarter of 2009 the traded volume on DESMIE, the Greek wholesale electricity market, was following an evolution which was similar to the industrial production.

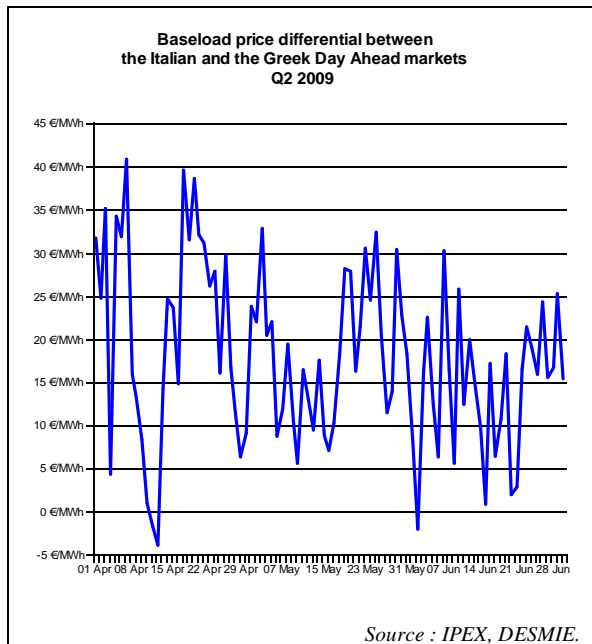
Year-on-year the turnover on DESMIE fell by 13%, 14% and 19% in April, May and June 2009. The corresponding values for the production were 13%, 8% and 12%.



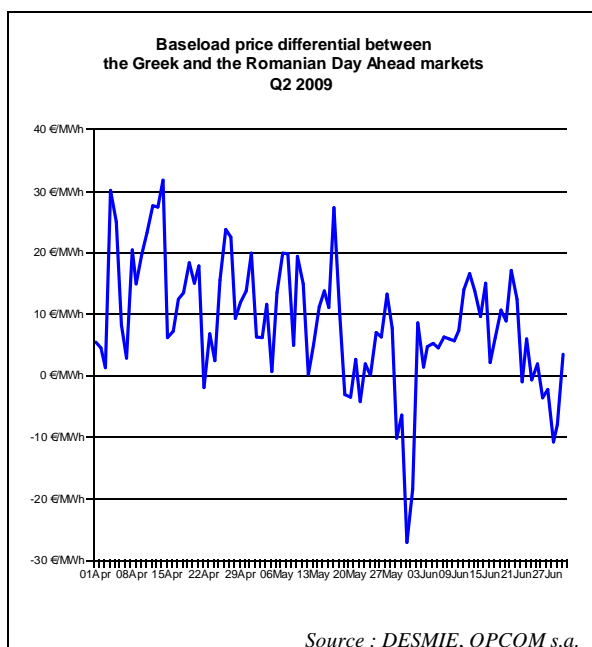
As a result of the economic slowdown, Greek wholesale prices lost about half of their value from the previous year in Q2 2009, reaching € 37 – 40 / MWh for the baseload. One has to go back to June 2005 to observe similar levels of the baseload.

Greek day-ahead contracts were traded at a discount of € 15 – 20 /MWh with respect to their Italian counterparts.

¹⁶ From February to June 2009 the Leu went from 4,29 per Euro to 4,21 per Euro.



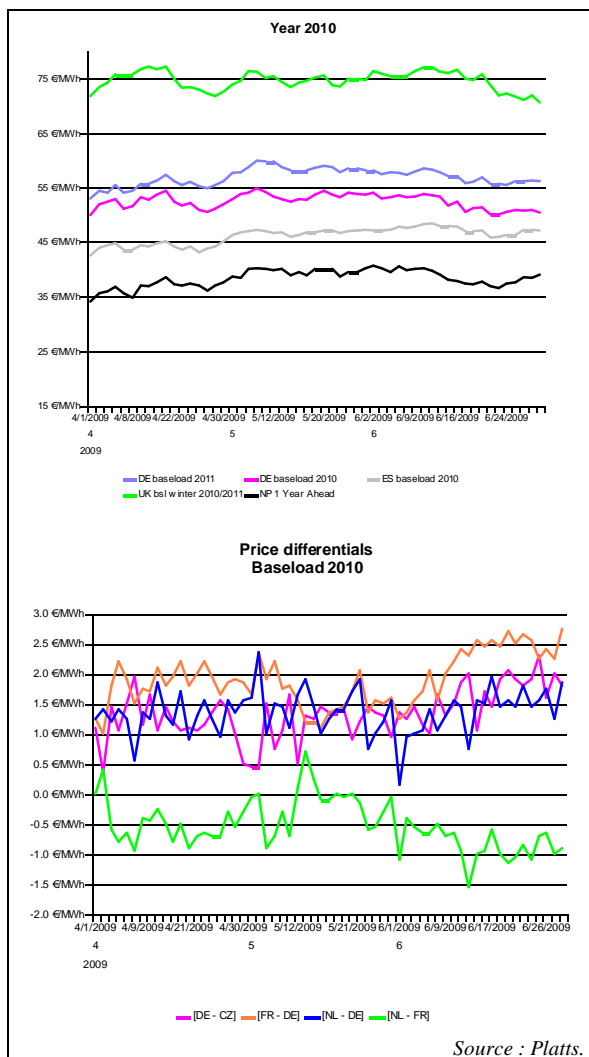
Compared to the Romanian contract, the Greek day ahead was traded at a €10 / MWh premium in the beginning of Q2 but as the observed period was coming to an end, the price differential was closing and there were days when the Greek day-ahead was actually cheaper.



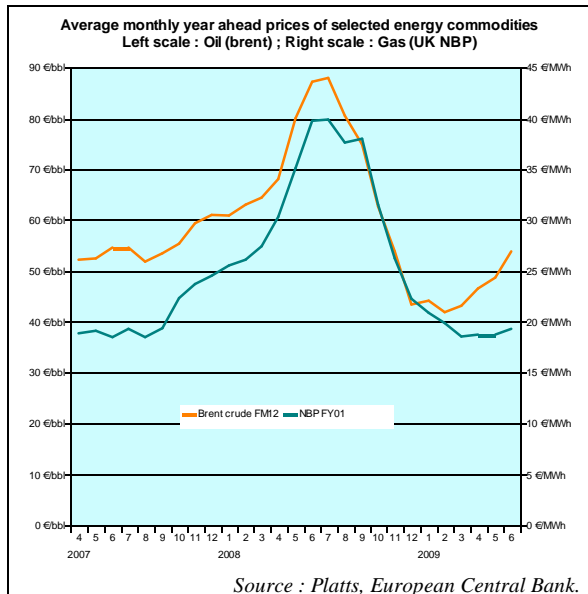
A.1.2 Forward markets

In the second quarter of 2009 market operators were exchanging forward contracts for delivery of electricity at various control areas in Europe on relatively calm trading sessions.

Throughout the quarter the prices were more or less stable, trading in the range of about €5 / MWh. The usual 4 stage pattern was observed where Nordic contracts were cheapest, followed by the Iberian, Central European and British calendar contracts.



In the CWE area, French and Dutch contracts were traded at a premium to the German contract, which in turn was traded at a premium to the Czech forward.

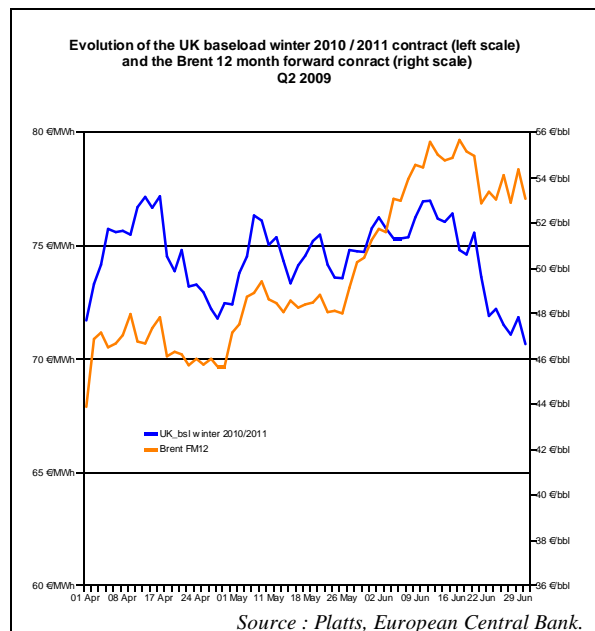


The Brent contract for the 12 month ahead delivery reached €41.73 / bbl in February 2009, losing more than half of its July 2008 levels. After a February low point, the price started to increase again and in the second quarter of 2009 it gained an additional 15.8% in value.

It seems that while market participants were bullish on the crude oil, they remained uncertain about the prospects of future gas, as suggested by the NBP year ahead contract in the figure above.

The second quarter was a period of significant divergence of oil and gas prices, which put an additional pressure on large consumers of natural gas (such as gas fired power plants) which were using oil indexed formula for pricing their supplies.

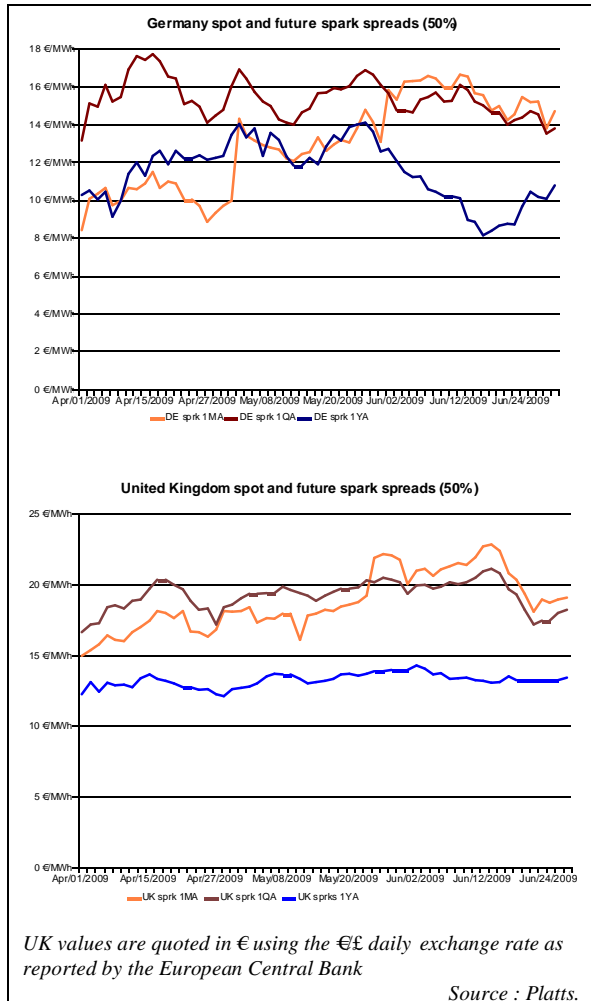
The impact of the forward price of gas on the UK electricity 2010 / 2011 winter season contract was stronger than the general marker for energy commodity markets.



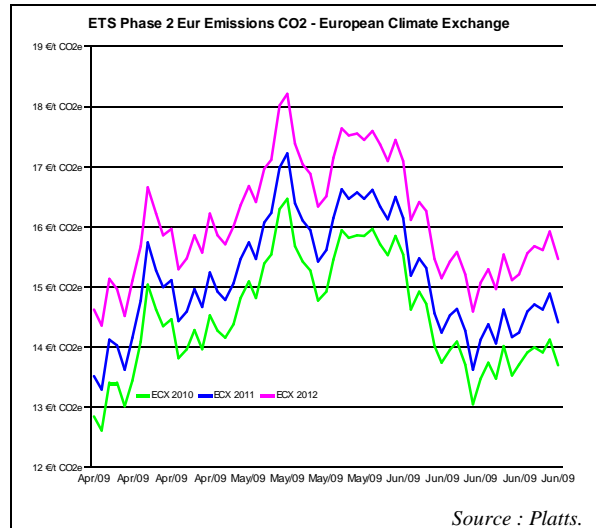
The UK year ahead spark spreads remained stable in the range of €12 – 14 / MWh while the corresponding German spark spread fluctuated around €8 – 14 / MWh.

In Q2 2009, the mid to far forward curve remained in contango¹⁷, but the near side of the curve was much more unstable switching frequently from backwardation to contango as market participants were uncertain of the short term price direction of gas, emissions and electricity.

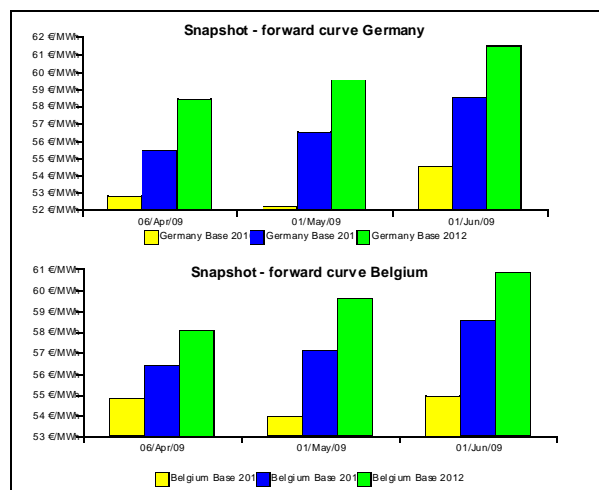
¹⁷ A situation of contango arises when the closer-to-maturity contract has a lower price than the contract which is longer to maturity on the forward curve. In contango, the forward curve is upward sloping. Backwardation occurs when the closer-to-maturity contract is priced higher than the contract which is longer to maturity.

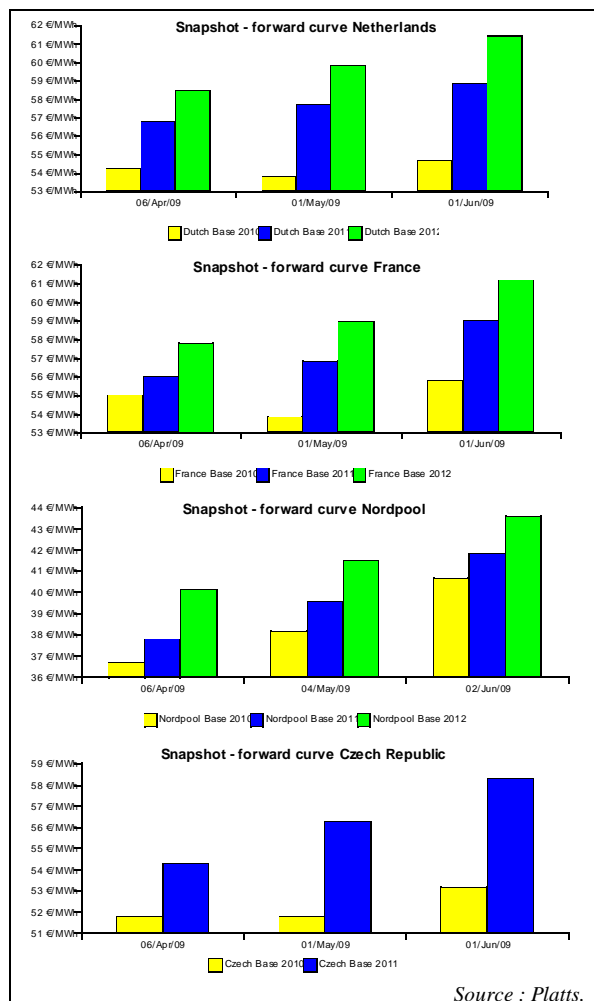


On the European climate exchange the yearly contracts for emission allowances remained in contango as market players were expecting an early exit from the recession and an increase of demand for allowances during the phase of economic recovery.



Similar considerations have led market participants to price the European forward contracts for electricity in contango all along the second quarter of 2009. From one calendar period to the next, the contango ranged from € 1.5 / MWh in Belgium (beginning of April 2009) to more than €5 / MWh in the Netherlands and the Czech Republic (beginning of June 2009).

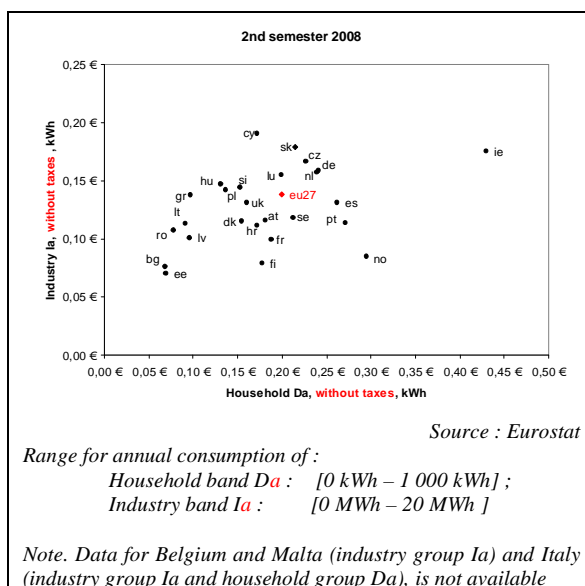




A.2 Retail markets

A.2.1 Prices by Member state

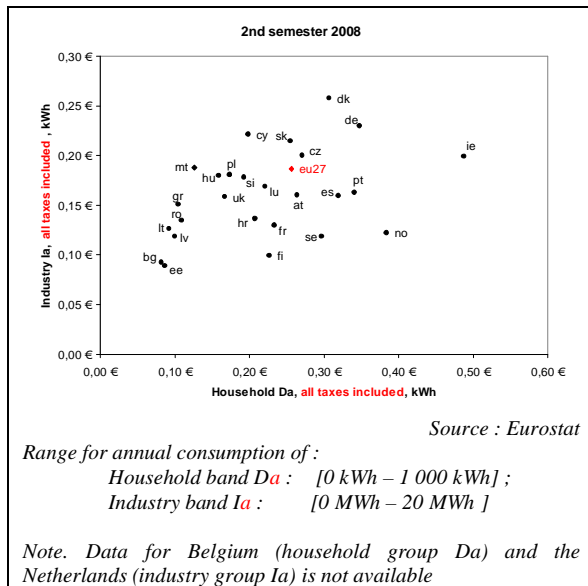
The following plot represents the prices paid by the most modest group of domestic and industrial consumers of electricity in EU. Some of the notable changes with respect to the first half of 2008 occurred in Latvia and Bulgaria, where household prices without taxes increased by 18% and 11% respectively. Ireland, Slovakia, Denmark and Spain also experienced price rises above the average increase in the EU which was at 6.8%. On the other side of the spectrum were Portugal and Greece where the price for group this group fell by 15% and 14 % respectively.



There has been a modification of price assessment methodology employed by Malta. The change was prompted by the removal of the rebate on the first 600 kWh of electricity consumed by households which occurred on October 1st 2008. As a result, the electricity price for band Da, net of taxes, increased more than three fold

from 4.4 c€/ kWh in the first half of 2008 to 12.07 c€/ kWh in the second half of 2008.

On the industry side, Ireland, Cyprus, Latvia, Bulgaria, Denmark and France experienced a more than 10% price rise with respect to the first half of 2008, while the average EU increase was 5%.

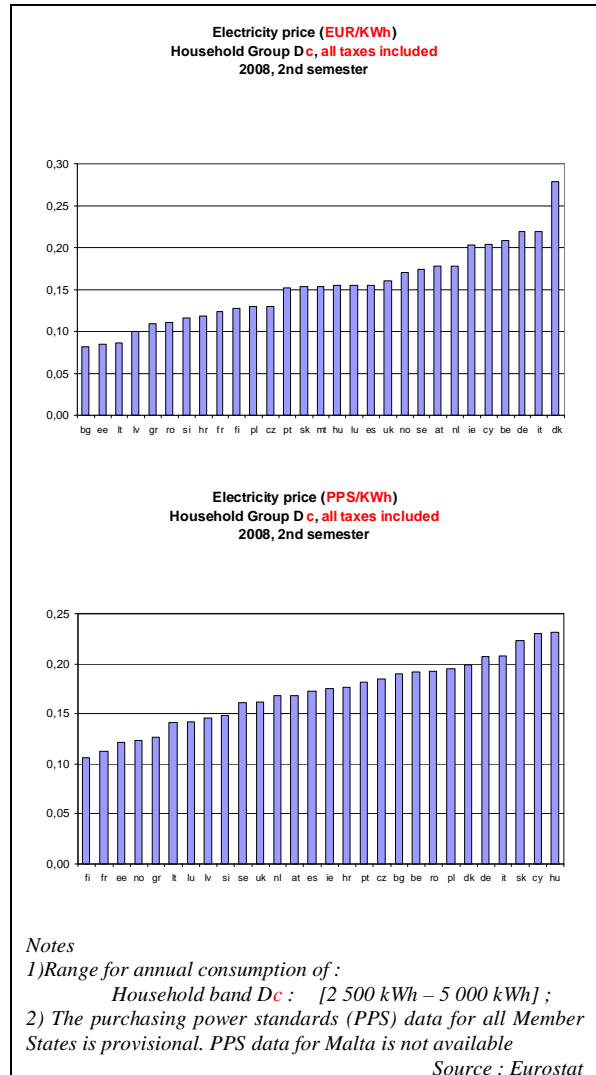


When all taxes are added to the end consumer prices, Member States move up and to the right on the plots. The spreading around the EU average value changes as some Member States, like Denmark, Germany, Austria and Sweden, are taxing final consumers relatively more than other States, like Greece, Latvia, Malta or the UK.

A.2.2 Cross-panel data on household electricity consumption

Using the latest available Eurostat data, one may observe the characteristic change in the ranking of domestic consumers

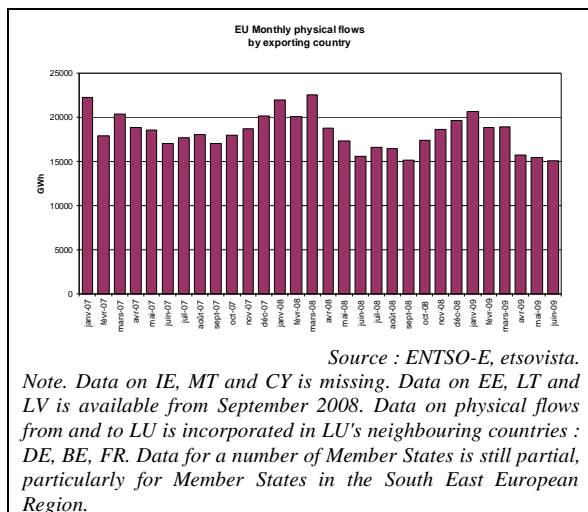
across EU with respect to the monetary unit used.



Compared to the first half of 2008, the ranking order changed little, with new Member States on the left of the ranking in terms of Euro but on the right in terms of purchasing power standards. It seems however that Dc prices in Member States tend to come closer to the EU average value since, in general, countries with lower prices expressed in Euro experienced bigger increase of prices.

B. Building the internal market for electricity: cross border flows and trade

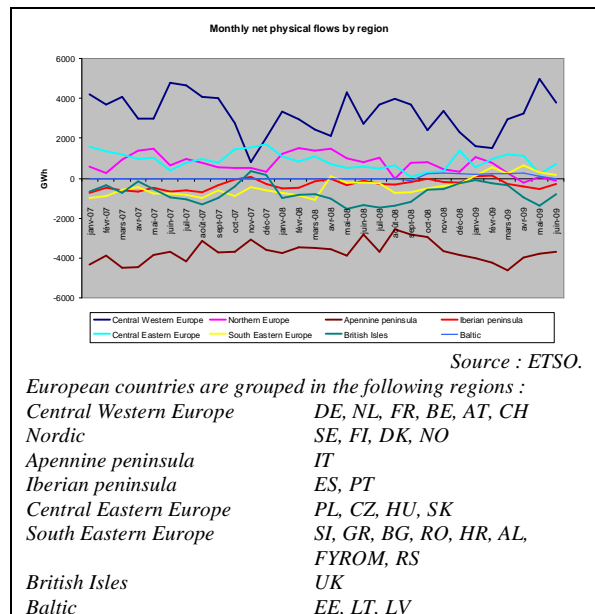
Similar to EU electricity consumption, the total volume of monthly physical flows recorded one of its lowest values in Q2 2009. For example, the amount of electrical energy crossing EU borders was just above 15 TWh in June 2009, the lowest point since ENTSO-E started reporting on physical flows.



Year-on-year and on a EU level, the monthly volume fell by 16%, 11% and 4% in April, May and June 2009. With the exception of the Central Eastern European region in June, all other regions registered a reduction in cross border energy outflows, with the Nordic and Iberian regions being one of the more seriously affected¹⁸.

¹⁸ For example, in the Nordic region the outflows were reduced by almost 900 GWh while in the Iberian peninsula it fell by almost 200 GWh in June (respectively a 26% and 21% fall). See footnote 7 on page 5.

For the EU as a whole, the overall balance of outgoing and incoming electricity flows remained negative in Q2 2009 with an average value of 1.5 - 1.8 TWh / month. While in April 2008 the balance was slightly positive, in June 2008 it was almost 2.2 TWh / month on the negative side. So, one can argue that the economic recession has made the overall position of the EU less variable.



On the regional level, a notable change occurred in the balance of the Nordic region which turned negative for the months of April and June 2008. The Central East European region was able to export less quantities of electrical energy than in previous quarters, while exports from the Central Western European region remained at high levels.

C. "Focus on Transmission System Operators"

On the 1st of July 2009, the European Network of Transmission System Operators for Electricity (ENTSO-E) became fully operational. Proposed by the Commission in the Regulation on cross-border exchanges of electricity as part of the EU 3rd Energy Package, ENTSO-E was established in order to ensure optimal management of the electricity transmission network and to allow the trade and supply of electricity across borders in the EU.

The creation of this new entity will increase cooperation and coordination among transmission system operators (TSOs)¹⁹. Some of the major tasks of ENTSO-E include the creation of network codes so as to effectively and transparently provide and manage access to the transmission networks across borders, as well as the promotion of optimal management and sound technical evolution of the transmission system in EU, including the creation of interconnection capacities, with due regard to the environment.

ENTSO-E speaks for all electric TSOs in the EU and others connected to their networks, with one voice for all regions, and for all their technical and market issues. It has 42 Member TSOs from 34 countries.

Since the 1st of July 2009, ENTSO-E took over all operational tasks of the six existing TSO associations in Europe, which have effectively been wound up since that date. These included ETSO, formerly the association of European TSO's, and the five synchronous regional TSO representations, namely UKTSOA (UK), ATSOI (Ireland), BALTSO (Estonia, Latvia, Lithuania), NORDEL (Denmark, Finland, Norway and Sweden) and UCTE, the Union for the Co-ordination of Transmission of Electricity, which operated the European synchronous grid and was the association of electricity distribution network operators in Continental Europe.

The Market Observatory for Energy looks forward to continuing the good collaboration it had with the former entities that it replaces, thanks to which it has been possible to report on cross-border electricity flows and trade since the Quarterly Report on European Electricity Markets' inception. It is currently working with ENTSO-E on a biannual scheme to obtain a better overview of future electricity infrastructure in the context of ENTSO-E's role in establishing a ten year investment plan and the Commission's proposal on notification of investment projects in energy infrastructure which are planned, under construction or about to be

¹⁹ TSOs are responsible for the bulk transmission of electric power on the main high voltage electric networks. They provide grid access to the electricity market players and they also guarantee the safe operation and maintenance of the system. In many countries, TSOs are also in charge of the development of the grid infrastructure.

decommissioned.

Such information is vital if it is to effectively aid the Commission to monitor and analyse energy markets and cross cutting issues, and to identify potential threats to the functioning and integration of European electricity markets. Going forward, it is hoped that the input of information on European electricity markets is broadened to include data from other relevant parties.

D. Corrigendum

For the following adjacent price areas we have noted incorrect data in the reported premiums of the baseload differentials (QREEM Q1 2009).

The editing team regrets this processing error.

