Moffatt Associates' latest survey reveals that the majority of market participants believe fossil fuel prices have now peaked and that we can expect stable or falling wholesale electricity and gas prices in the next 12 months.

Expected Falls in Electricity and Gas Prices

Eu wholesale energy prices have risen sharply in the last 12 months prompting political concern over the impact on inflation and suspicions about the perverse role of speculation in wholesale markets.

However, it now looks as though fossil fuel prices have peaked and combined with the threat of a credit crunch prompted recession, the outlook is for stable or falling energy prices. Below are some of the responses expressed by our panel of market participants from across the EU to the question:

Do you expect power and gas prices to increase in the next 12 months?

"No, because the long-term trend in oil prices is slowly levelling off, unless something happens to disrupt Russian supplies."

"No, fossil fuel prices have peaked, but countering this, we see ever reducing reserve margins on power which may increase prices, especially in the UK and France."

"No, because the increase in prices was more psychological and did not reflect market fundamentals."

"No, because the price is driven by global oil and gas markets and because of credit crunch issues, the trend will be bearish."

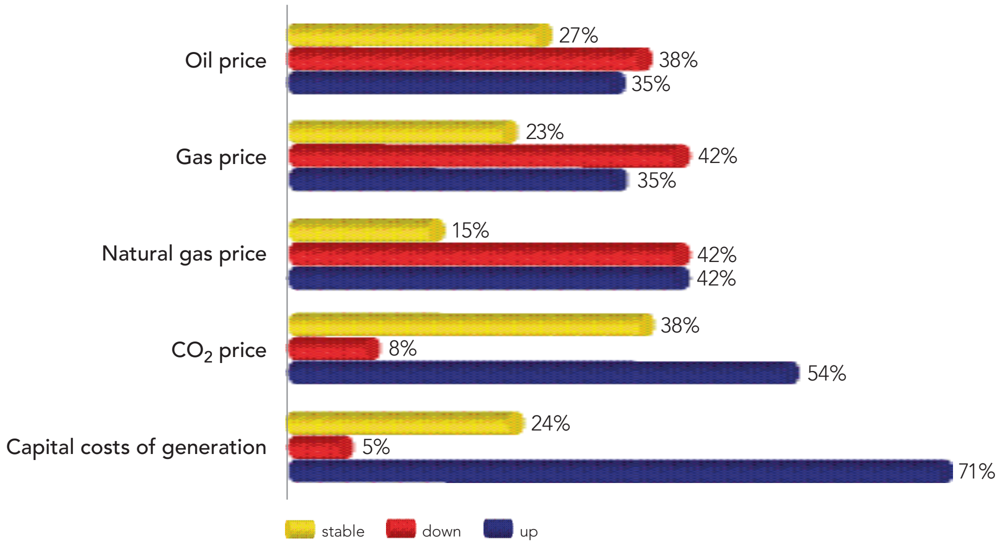
"No, because although gas prices may increase slightly, the coal price will fall so overall energy prices will tail off, leaving things broadly stable."

"No, because it's based on the oil price which will be bearish, and has not been fully factored into the electricity price."

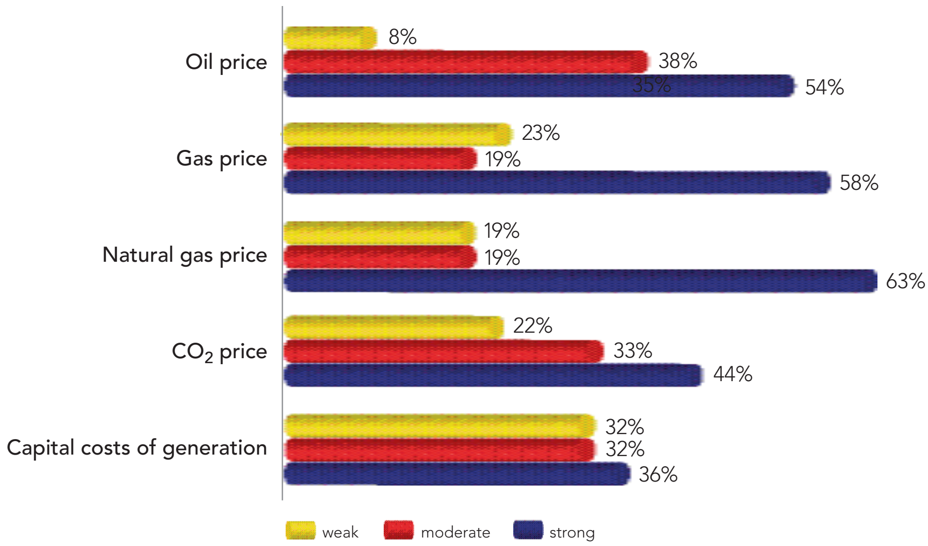
MARKET PRICE TRENDS

How do you expect the underlying trend in power and gas prices to move in the following markets over the coming 12 months?

Power – Variable Direction



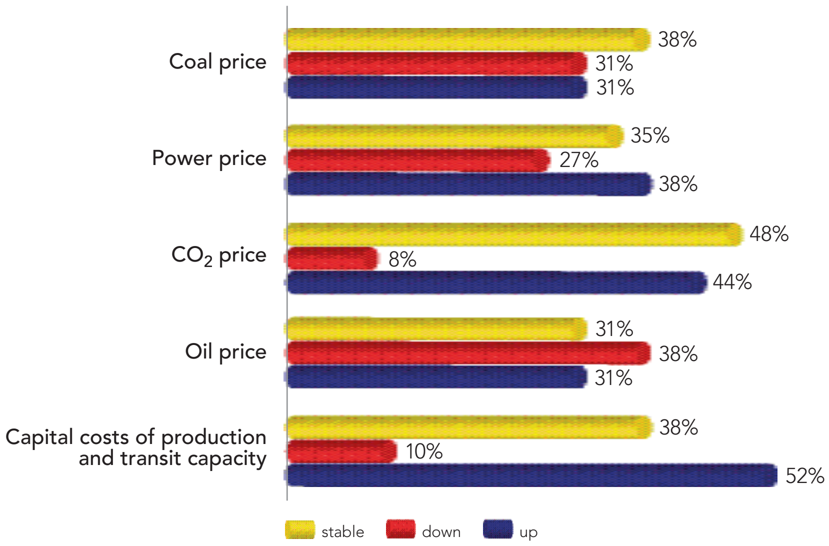
Power – Variable Impact



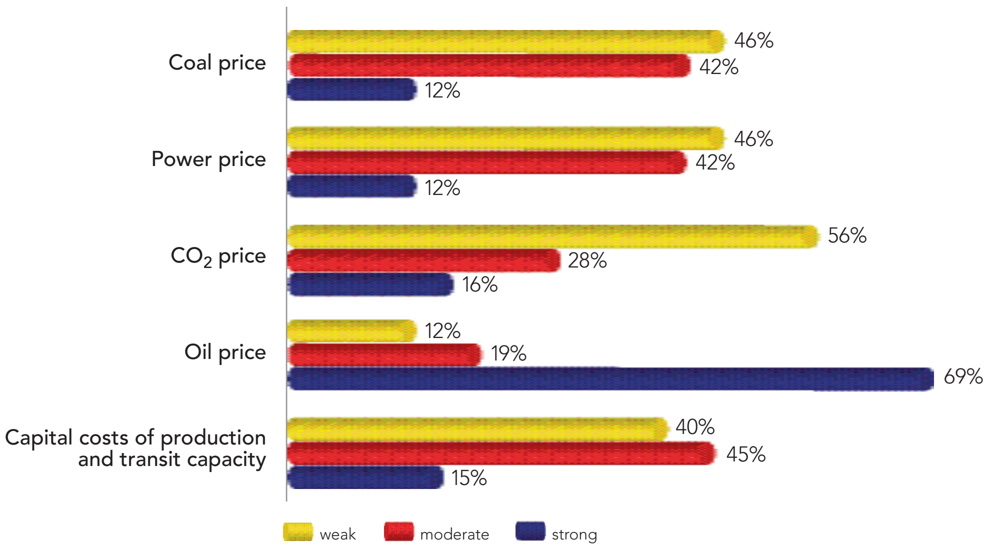
Expectations about oil and coal prices are bearish but views are split on what might happen to the gas price given concerns about security of supply. What is certain is that the capital costs of generation are expected to rise sharply, and the carbon price will be firmer in Phase II of the EU ETS.

The charts below indicate the expected direction and likely impact of key gas price determinants.

Gas – Variable Direction



Gas – Variable Impact

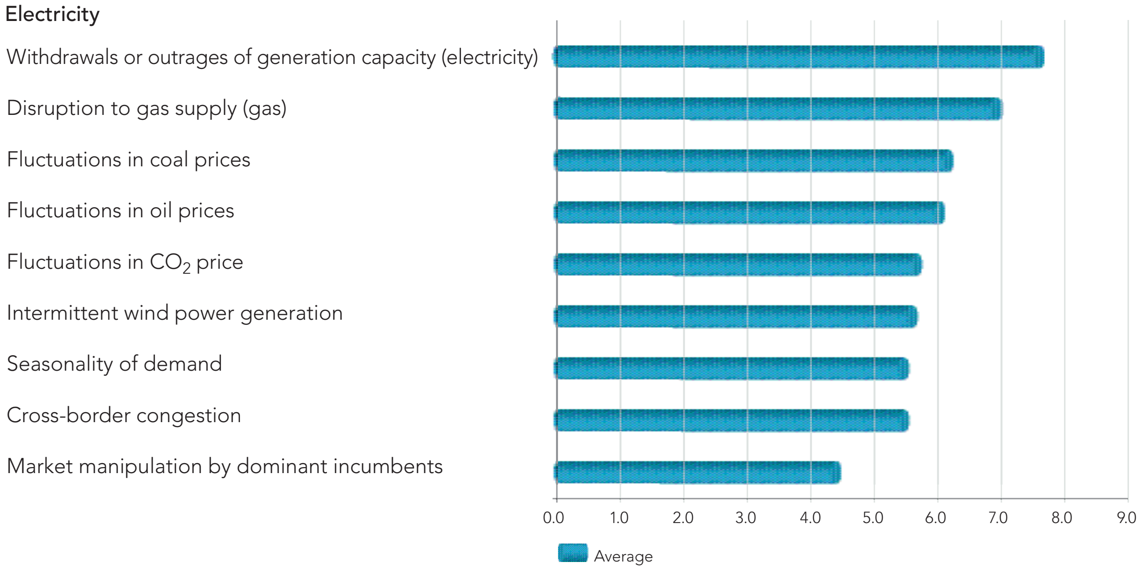


The oil price is the key driver of wholesale gas prices and expectations are that in the next 2 years the oil price will be stable or fall. The impact of a firmer carbon price is much less than in the case of electricity. As with power, the costs of new production and transit capacity are likely to rise sharply but its impact in gas prices will be muted.

MARKET PRICE VOLATILITY

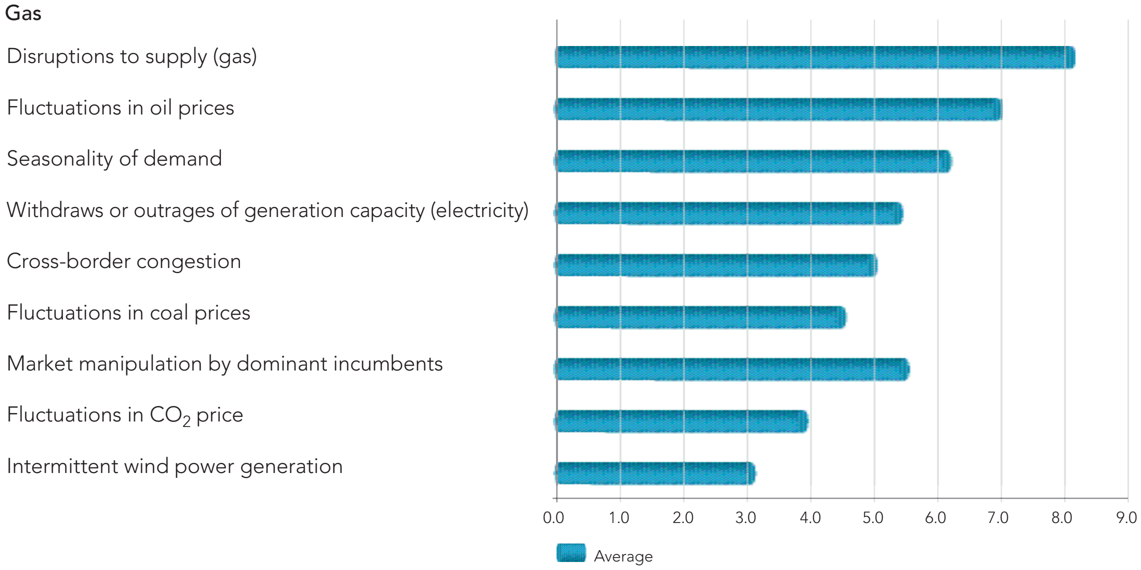
Our panel were asked to rate the relative impact of various factors on the short term power and gas prices. The results were as follows:

Electricity



Market participants believe that the **most significant factors influencing electricity prices** are; withdrawals or outages of generation capacity (7.7), disruption to the supply of gas (7.0) and fluctuations in the coal (6.2) and oil price (6.1).

Gas



The panel felt the **most significant factors that influence the short term price of gas** are; disruptions to supply (8.1), fluctuations in oil prices (7.0), seasonality of demand (6.1) and withdrawals and outages of generation capacity (5.4).

Finally, there are mixed views about the impact of the credit crunch crisis on energy markets. Many participants felt that the withdrawal of financial investors will reduce liquidity, but others feel the crisis could reduce speculation and mark a return to the markets reflecting fundamental demand and supply conditions.

Moffatt Associates
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