

# European Energy Price Trends

According to **Moffatt Associates** the majority of EU market participants believe energy prices have now peaked and that we can expect stable or falling wholesale electricity and gas prices in the next 12 months.

**EU WHOLESALE ENERGY** prices rose sharply until recently 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 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.”

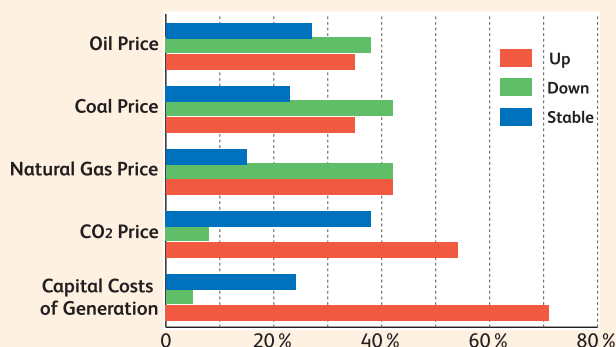
## **Market Price Trends**

Figure 1 indicates the expected direction and impact of key power price determinants. 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.

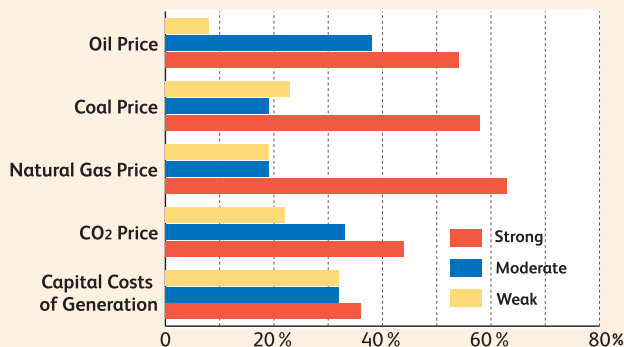
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Figure 2 indicates the expected direction and likely impact of key gas price determinants. The oil price is the key driver of wholesale gas prices and expectations are that in the next 2 years the oil price will be stable or fall. The impact of a firmer carbon price is much less than in the case of electricity. As with power, the costs of new pro-

**Figure 1: Power: Variable Direction**

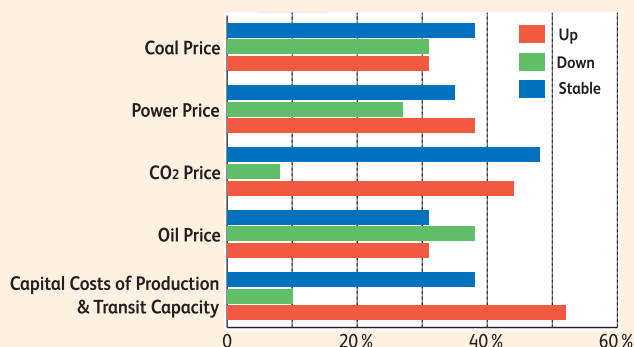


**Power: Variable Impact**

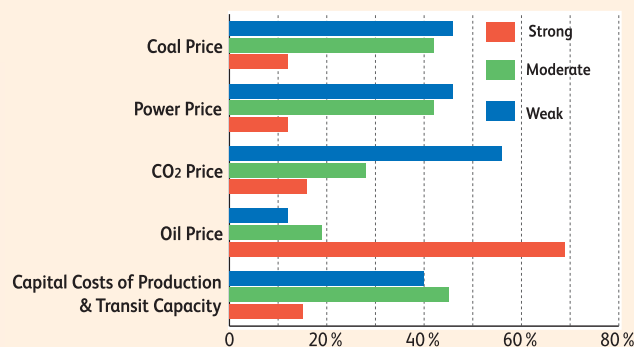


Source: Moffatt Associates

**Figure 2: Gas: Variable Direction**



**Gas: Variable Impact**



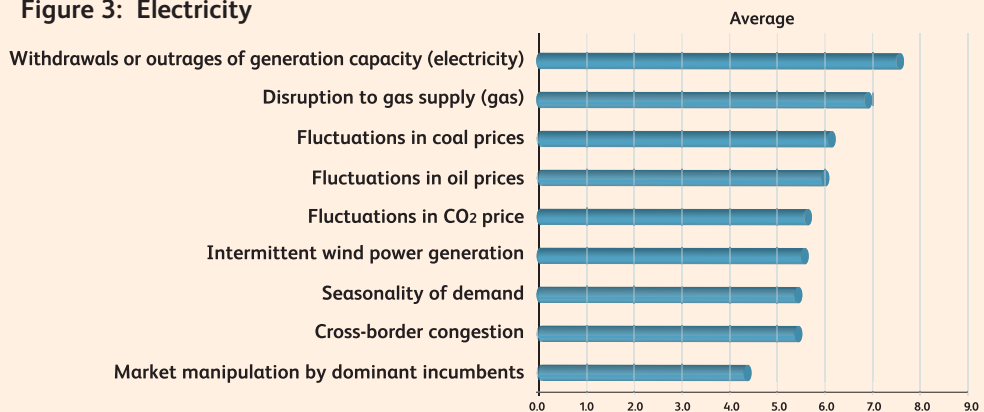
Source: Moffatt Associates

duction and transit capacity are likely to rise sharply but the impact on gas prices will be muted.

### Market Price Volatility

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

**Figure 3: Electricity**

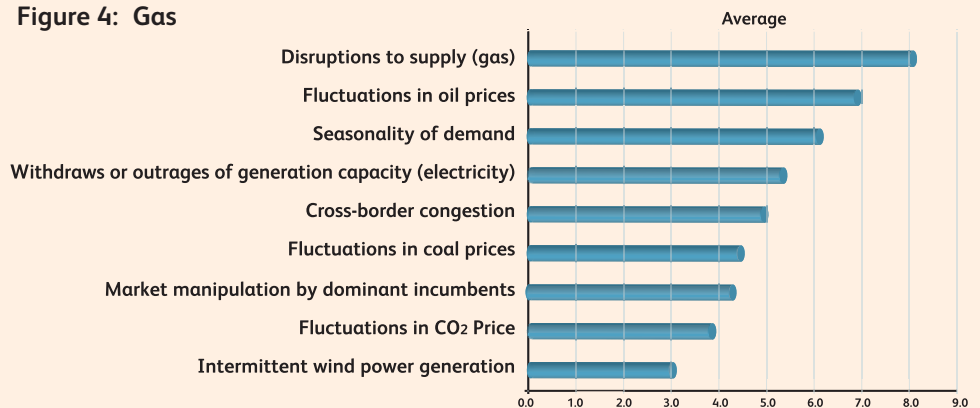


Source: Moffatt Associates

### 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).

**Figure 4: Gas**



Source: Moffatt Associates

### 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 European 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 •

The survey was sponsored by APX in association with EFET and conducted by Moffatt Associates, an independent energy market research and business strategy consultancy based in London. A version of this article first appeared in APX's Quarterly *Energy Viewpoints* bulletin – Autumn 2008.

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