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UK ENERGY PRICE BRIEFING

 25TH JULY 2005



WEEK 30

CONTENTS

Commodity Prices.....	1
Gas Buyer's Eye	2
Electricity Buyer's Eye	3
Purchasing Strategies.....	4
Energy Supply and Demand.....	5
Gas Storage and Spreads	6
Glossary	7

COMMODITY PRICES

SUMMARY

The energy markets saw a second week of falling prices, as crude oil led the way and winter gas and power prices plunged. Losses in the coal and emissions market completed the week's bearish picture.

- Crude oil prices fell once again as the threat of supply disruptions posed by hurricane Emily receded, and US inventory data showed an increase in distillate stocks which outweighed the influence of a slight dwindling of crude and gasoline in storage.
- Opec's July oil market report shows a reduction in 2005 growth forecasts for Asia Pacific countries. And it has revised downward figures for world oil demand growth in 2005 due to a slowdown in economic activity in some regions and lower Chinese consumption, raising Opec's estimate of its spare capacity for the second half of 2005.
- The primary market driver continues to be oil stocks but refining and distribution capacity is insufficient to meet expected demand, suggesting that oil prices will remain high despite the recent falls. Oil should therefore continue to support energy prices and maintain the upward pressure.
- Falling physical coal prices on the back of a relaxation in the European emissions market, together with a fall in implied freight rates saw coal fall. Coal prices should exert downward pressure on power.
- Emissions losses were extended as traders looked to unwind long positions built up during the bull run of recent months, with prices slipping below €20/t. Gas price falls contributed to the market's weakness, although traders believe prices are likely to consolidate following the recent losses. Even though we believe carbon prices are now fully taken account of in wholesale power prices the carbon market may influence spark spreads to some extent.

COMMODITY PRICE COMPARISON

	Brent Sep '05 \$/bl	Opec basket \$/bl	Coal '06 \$/t	EU ETS '05 €/t CO2e	Exchange rates		
					€ per £	\$ per £	\$ per €
Current	55.72	51.23	65.00	19.00	1.44	1.75	1.21
Last week	57.70	53.37	67.25	23.45	1.46	1.74	1.19
Wkly chg %	(3.4)	(4.0)	(3.3)	(19.0)	(1.2)	0.3	1.5
Wkly chg	(1.98)	(2.14)	(2.25)	(4.45)	(0.02)	0.00	0.02

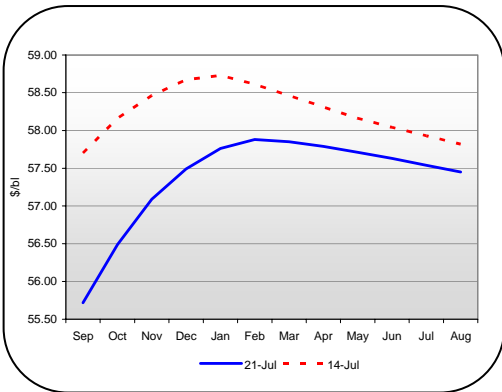
RECOMMENDATIONS

Annual Contract	Oct '05	Nov '05	Jan '06	Apr '06		
Gas		Settle		Settle		Prepare
Electricity		Settle		Settle		Prepare

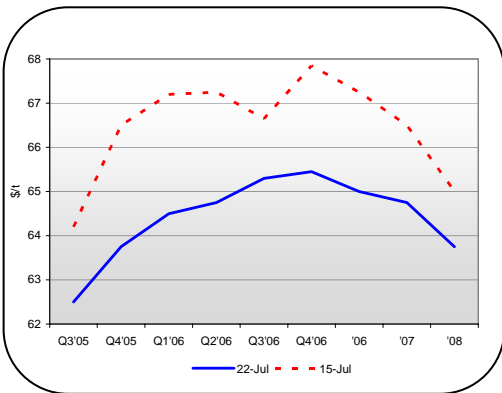
- Consider indexed arrangements if risk management strategy allows.
- Consider short term extension to avoid purchasing Q1 '06 now.

UK WEATHER FORECAST

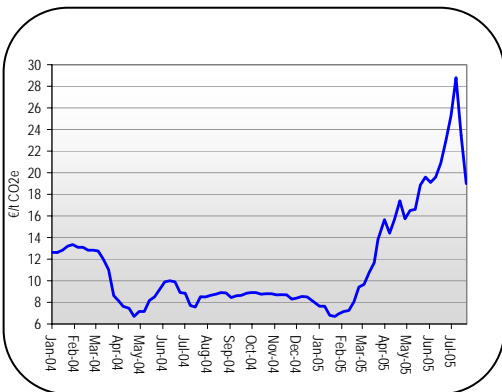
- Temperatures were only just above the seasonal average last week with the forecast for even cooler temperatures this week.
- London normal 22 deg C.
- Outlook to the end of summer: above average temperatures over much of western and southwestern Europe but a bias towards average or cool conditions over the UK. There are no persistent biases to either dry or wet conditions across the UK or northern Europe.



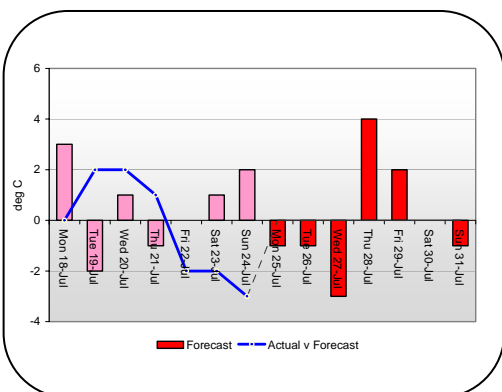
IPE Brent week on week curve comparison



Coal CIF ARA week on week curve comparison

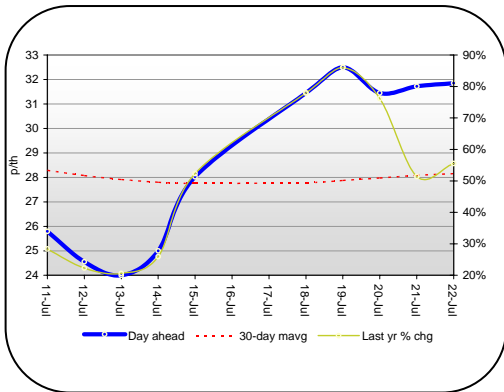


EU ETS '05 allowances

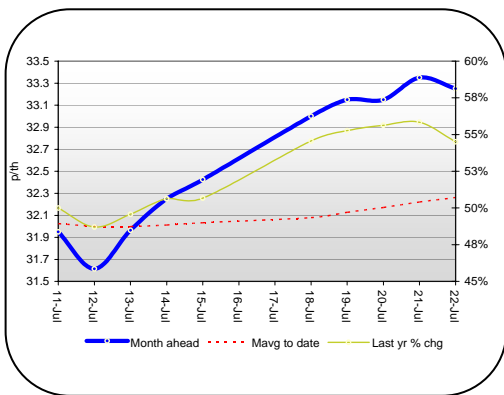


London temperature forecast deviation from normal

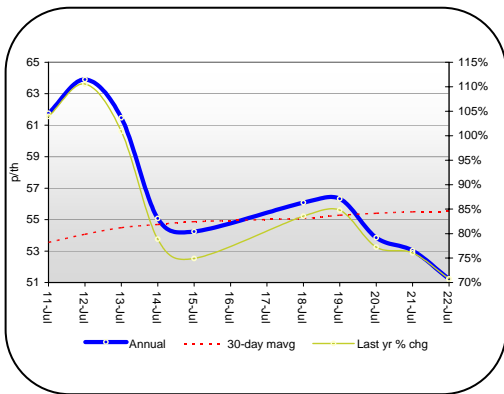
GAS BUYER'S EYE



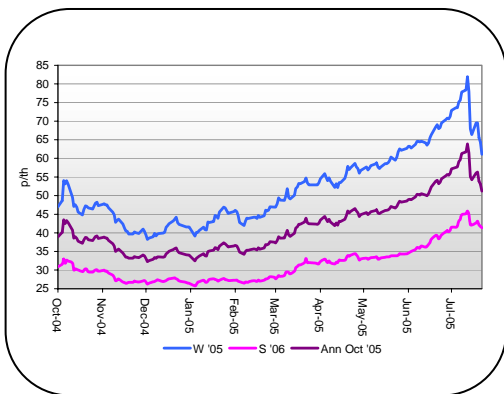
Day ahead



Month ahead



Annual October '05



Historic seasonal prices

MARKET OVERVIEW

- Short unscheduled outages on the Bruce platform and Elgin field together with the return from summer maintenance of the Interconnector and continued storage injections saw spot prices increase.
- Supplies were met by a combination of beach and storage gas.
- The front month increased but not by as much as the prompt leaving it at a narrower premium of 1.5p/th to spot prices.
- Speculators continued to unwind long positions which together with weaker oil and carbon markets saw forward prices fall to over 4p/th below the 30-day average.

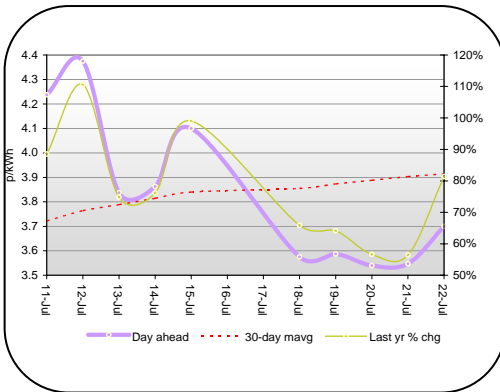
OUTLOOK

- We expect prompt prices to remain supported as temperatures are forecast to be slightly cooler than last week together with higher Interconnector exports keeping demand strong.
- We expect summer prices to be supported due to the rapid depletion of storage levels late last winter as injections will need to be made during this time for next winter, although further injections at current rates could see storage full by the end of August.
- Extended offshore field maintenance is also likely to provide support to the summer due to extended winter usage.
- We do not expect seasonal UK gas prices to fall much further for the present given oil prices are likely to remain strong and volatile as the markets react to stock movements and refining bottlenecks together with supply disruptions during the hurricane season.
- Price movements are likely to remain erratic as participants close out positions ahead of the holiday season with liquidity remaining thin.
- We recommend that customers come to market immediately for a fixed price annual contract that starts before April '06. This reflects our view that the wholesale gas market is being driven by a combination of perceived fears of a winter supply shortfall and extremely high oil prices, we do not expect either of these factors to weaken in the short term.
- Customers should consider an indexed arrangement to take advantage of prices that may fall closer to delivery as supply fears are not realised.
- Customers may wish to consider taking a short term extension to avoid purchasing Q1 '06 now which currently includes an inflated risk premium, in the hope that prices fall as winter '05 progresses.

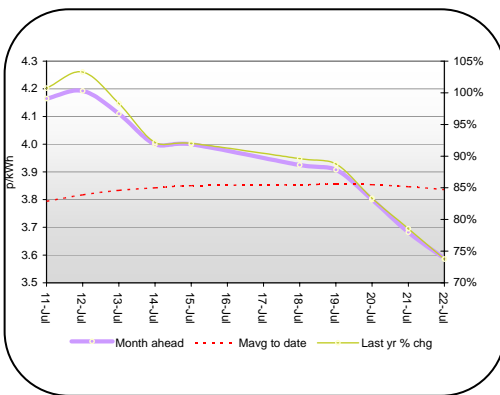
CONTRACT PRICE COMPARISON

p/th	Day ahead	Month ahead	Annual Oct '05	Annual Apr '06	Annual Oct '06	2yr Oct '05	2yr differential
Current	31.85	33.25	51.23	51.68	51.25	51.24	0.0
Last week	28.03	32.43	54.24	54.30	53.75	54.00	(0.5)
Wkly chg %	13.6	2.5	(5.6)	(4.8)	(4.7)	(5.1)	
Wkly chg p/th	3.83	0.83	(3.02)	(2.63)	(2.50)	(2.76)	

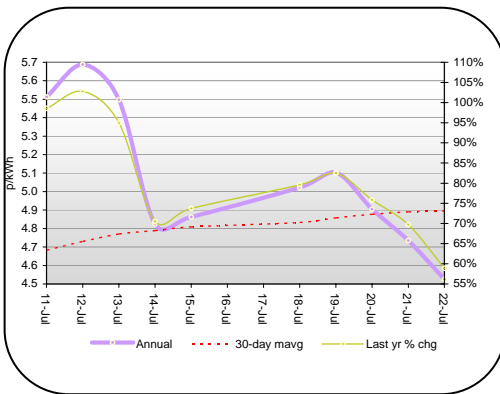
ELECTRICITY BUYER'S EYE



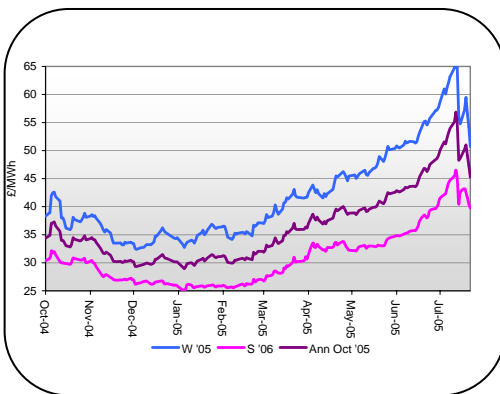
Day ahead baseload



Month ahead baseload



Annual October '05 baseload



Historic baseload seasonal prices

MARKET OVERVIEW

- Reduced air-conditioning demand as a result of the cooler temperatures and more imports from France kept grid-margins wide and saw spot prices fall early in the week and then remain relatively stable as the week progressed.
- The front month fell as fears over a hot spell in continental Europe receded and is now at a £1/MWh discount to the spot level.
- The curve saw further falls due to weaker gas and emissions markets and profit-taking to nearly £4/MWh below the 30-day average.

OUTLOOK

- We expect prompt prices to remain relatively stable as temperatures are forecast to be below the seasonal average, summer maintenance continues keeping grid margins narrow but lower continental European spot prices will also see the upward pressure ease.
- Maximum capacity on the interconnector with France could keep grid margins tight by increasing exports if continental European spot prices increase.
- The forward curve continues to follow the feedstock markets of gas, oil, coal and carbon with electricity losses outweighing those in gas, due to falling carbon, leaving spark spreads lower. It is difficult to see how electricity could decrease any further unless the gas markets fall as gas remains the main electricity price driver.
- Electricity prices will remain susceptible to carbon volatility as the market finds its level and carbon prices are influenced by a few large players.
- Support will also be kept on the annual contract round as speculators take advantage of the lack of liquidity as the October contracting round becomes the main I&C buying focus.
- Price movements are likely to remain erratic as participants close out positions ahead of the holiday season with liquidity remaining thin.
- We recommend that customers come to market immediately for a fixed price annual contract that starts before April '06. This reflects our view that the main price drivers are gas and carbon which we do not believe will weaken significantly in the short term.
- Customers should consider an indexed arrangement to take advantage of prices that may fall closer to delivery.
- Customers may wish to consider taking a short term extension to avoid purchasing Q1 '06 now which currently includes an inflated risk premium, in the hope that prices fall as winter '05 progresses.
- Support may be provided to prices during the period 11-16 September when maintenance on the interconnector will reduce import capacity.

CONTRACT PRICE COMPARISON

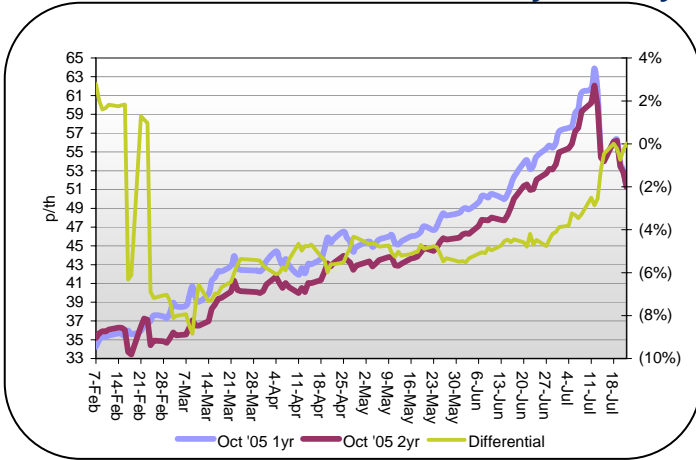
p/kWh	Day ahead	Month ahead	Annual Oct '05	Annual Apr '06	Annual Oct '06	2yr Oct '05	2yr differential
Current	3.70	3.59	4.53	4.53	4.56	4.54	0.3
Last week	4.10	4.00	4.86	4.93	5.00	4.93	1.4
wkly chg pc	(9.8)	(10.3)	(6.9)	(8.1)	(8.8)	(7.9)	
wkly chg p/kWh	(0.40)	(0.41)	(0.34)	(0.40)	(0.44)	(0.39)	

PURCHASING STRATEGIES

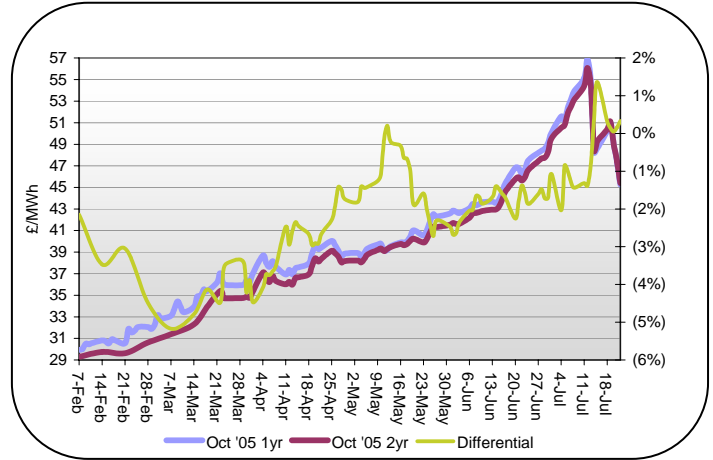
GAS

ELECTRICITY

1 year v 2 year differential



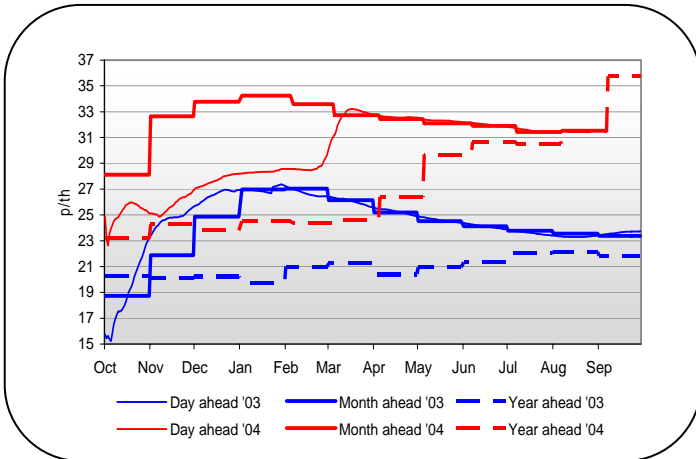
October '05 start



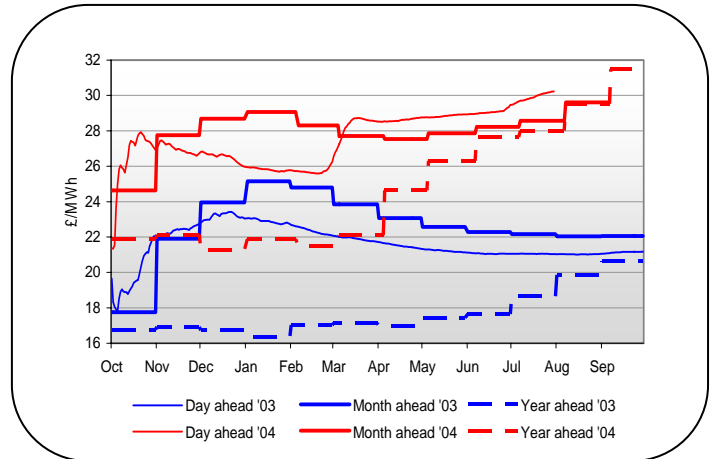
October '05 start baseload

⚙ The gas discount narrowed while the electricity premium reduced on a 2 year compared to a 1 year contract.

Fixed v Indexed

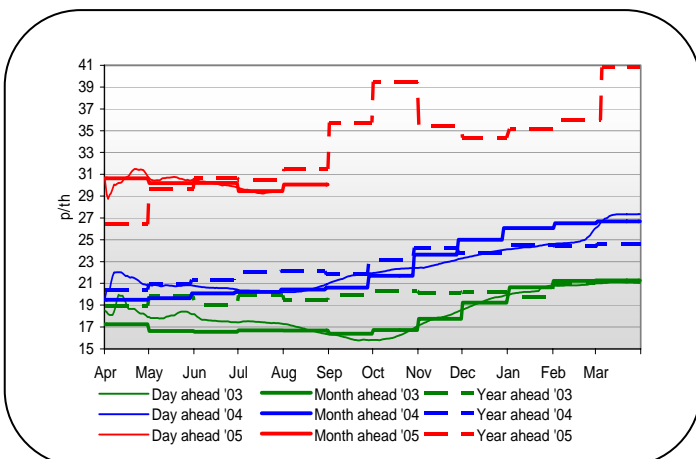


Annual October

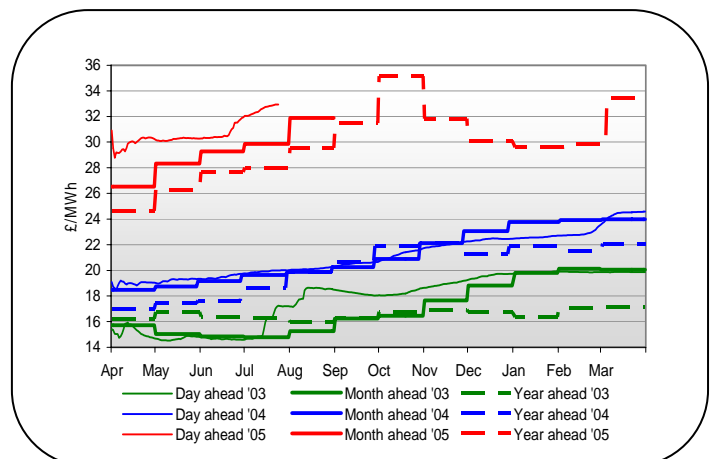


Annual October baseload

⚙ The gas day-ahead and month-ahead index are the same as an annual October '04 fixed price contract struck in August. The electricity day-ahead and month-ahead are both more.



Annual April

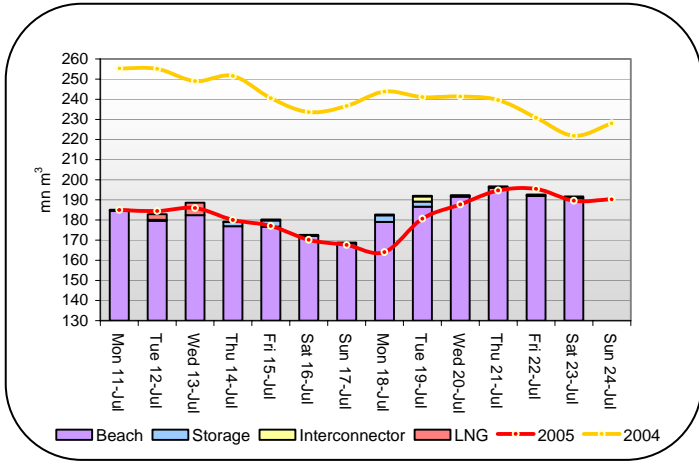


Annual April baseload

⚙ The gas day-ahead and month-ahead index are the same, and both less than an annual April '05 fixed price contract struck in February. The electricity day-ahead and month-ahead are both more.

ENERGY SUPPLY & DEMAND

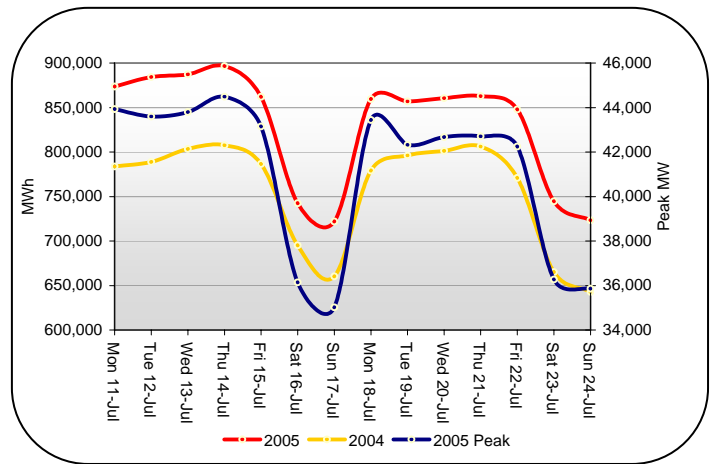
DEMAND



Gas demand

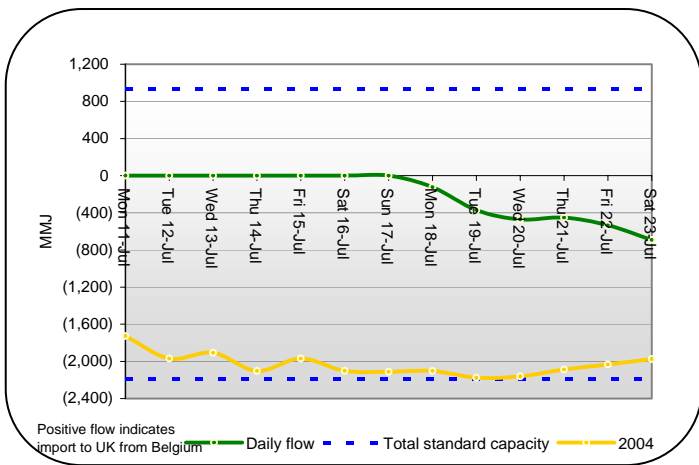
- Electricity demand was lower than last week as the cooler temperatures have reduced air-conditioning demand with the peak reaching 43,400MW on Monday.

- Gas demand was higher than the previous week at on average 190mn m³ due to cooler temperatures and Interconnector exports.
- Gas was supplied mainly from the beach with some storage used.



Electricity demand

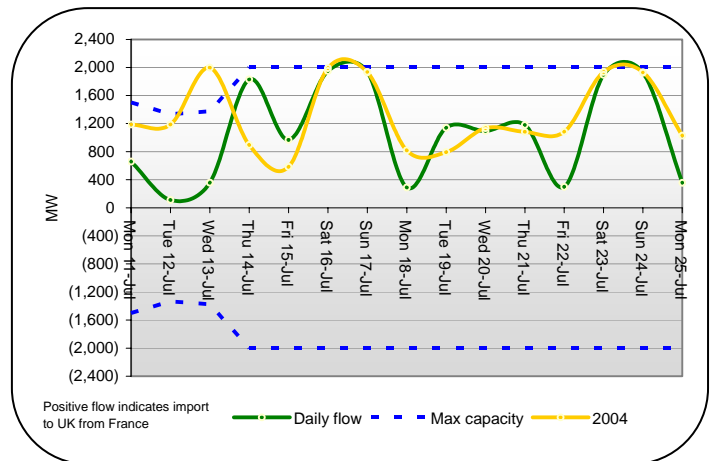
INTERCONNECTOR FLOWS



Gas - Belgium to UK

- Power imports to the UK were higher mid week due to reduced continental European demand but increased late in the week as a result of French plant outages.
- Maintenance is due from 11-13 September reducing capacity to 1,500MW and 14-16 September to 1,000MW.

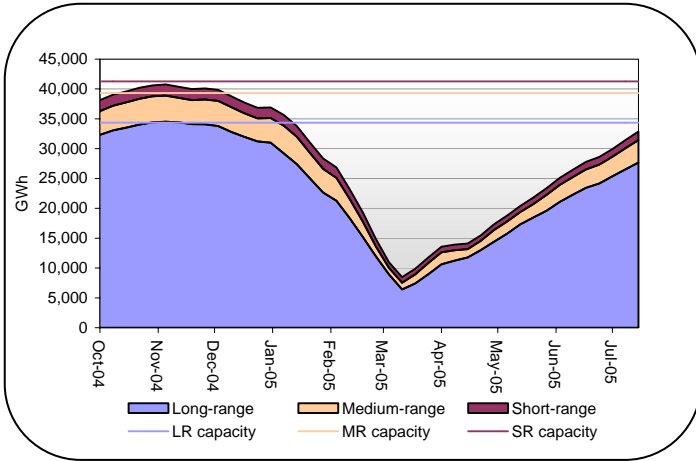
- Gas exports started on Monday as the interconnector returned from scheduled maintenance.



Electricity - France to UK

GAS STORAGE AND SPREADS

GAS STORAGE



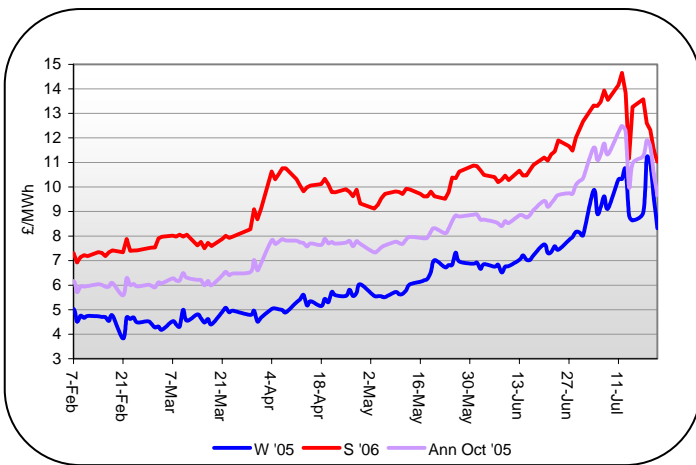
Historic volumes

- All storage volumes increased to the 18 July and by slightly more than of late due to relatively healthy offshore supplies minimising the need for withdrawals and no Interconnector exports.
- Injections are expected again during this week if offshore supply problems are minimal and prices and demand remain low.
- Current injection rates could see storage full by the end of August.

GWh	Long-range	Medium-range	Short-range
18 Jul '05	27,674	3,758	1,453
11 Jul '05	26,539	3,526	1,372
Current level %	81	76	74
Wkly chg %	3	5	4
Wkly chg GWh	1,135	232	81

Weekly change

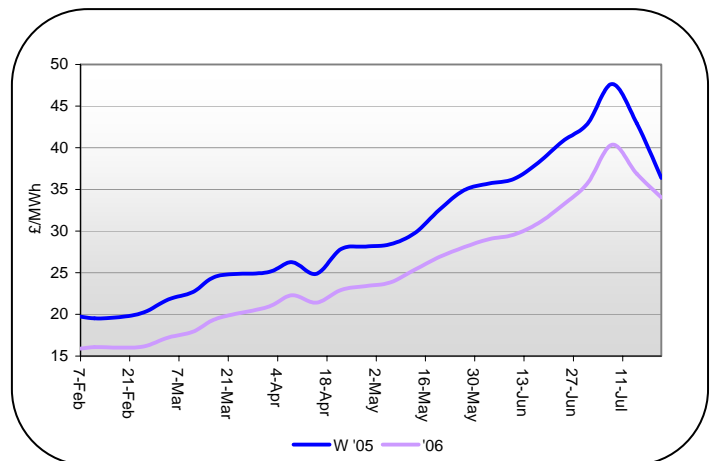
SPREADS



Historic spark spread

- The winter '05 and summer '06 spark spreads reduced respectively resulting in the annual spark spread falling back to just above £9/MWh.
- Power losses outweighed decreases in gas.

- The winter '05 and '06 dark spreads fell as a result of losses in power outweighing those in coal.
- The winter '05 dark spread is just over the £36/MWh level.



Historic dark spread

GLOSSARY

GLOSSARY:

The following is a glossary of useful terms.

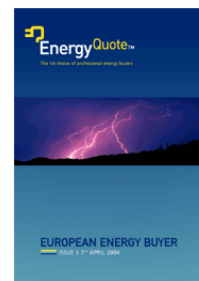
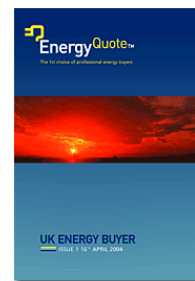
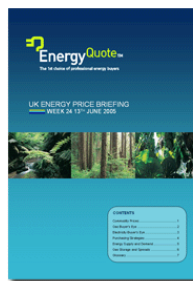
Backwardation	market situation where prices for nearer delivery are higher than for forward delivery.
Baseload	the amount of electric power delivered or required over a given period of time at a steady rates.
Bearish	used to express market sentiment when it is thought that prices will decrease.
Bullish	used to express market sentiment when it is thought that prices will increase.
CIF ARA	the price of coal inclusive of freight and insurance delivered to the large North West European ports e.g. Amsterdam, Rotterdam or Antwerp.
Contango	market situation where prices are higher for forward delivery than for nearer delivery.
EU ETS	EU Emissions Trading Scheme is one of the policies being introduced across Europe to reduce emissions of carbon dioxide and combat the serious threat of climate change. Phase I of the Scheme began on 1 January 2005 and will run until 31 December 2007. Phase II will run from 2008-2012 to coincide with the first Kyoto Protocol commitment period.
Gas Storage	facilities used to store natural gas which has been transferred from its original location. Usually consists of natural geological reservoirs like depleted oil or gas fields.
IPE Brent	the most commonly traded North Sea crude oil on the International Petroleum Exchange.
Spread	is the difference between the price of electricity and that of the cost of the quantity of fuel required to produce the electricity. Spark spread refers to gas while dark spread refers to coal.
Volatility	the degree to which a particular price has fluctuated in the past.

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