



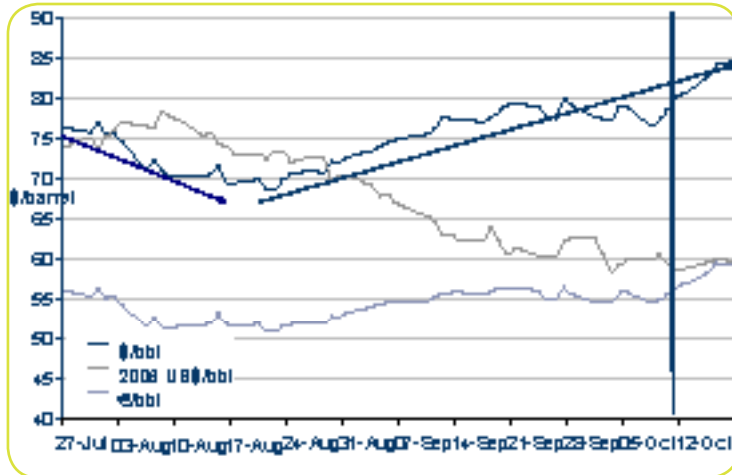
Belgium and Netherlands Weekly Energy Price Briefing

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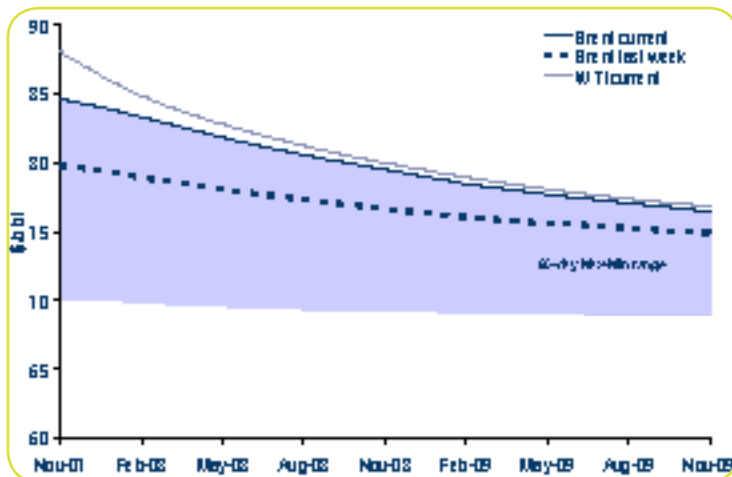
Oil - Brent Crude

The spot market: Brent Crude Oil. Source data: ICE







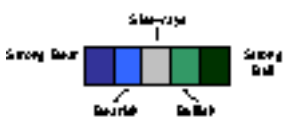
- Oil prices jumped again this week to near all time highs on the back of instability in the Kurdish region of Northern Iraq and, reportedly, a softening of the US\$.
- This new record high, with the WTI contract around 90 \$/bbl, is very near its inflation-adjusted peak reached in 1980.
- It seems that the issue is no longer whether oil will reach 100 \$/bbl but just when this threshold will be breached
- The latest bull-run dates back to the middle of August and contrasts with the softening of prices experienced last year in the same period.

The forward market: Brent Crude Oil. Source data: ICE, Nymex



- The Brent and WTI curves moved higher again following geopolitical tensions, a weak dollar and speculation by financial players.
- The WTI prompt still holds a considerable premium over Brent on the back of low US inventories. The premium now persists for a much longer period, with the WTI curve moving up further and faster than Brent across the curve.
- The curve remains in backwardation and at the very top of the 3 month levels. The curves have been parallel shifting – meaning that the whole curve has been following the direction of the prompt.

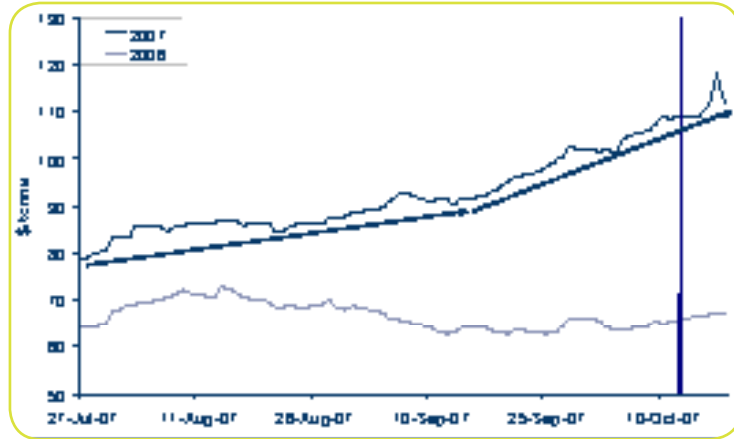
| Risk factors | Discussion | Bear or Bull |
|------------------------|--|---|
| Geopolitics | This week was all about the tension on Turkey's border with Iraq. By mid-week, the Turkish parliament gave the authorization for its troops to hunt down Kurdish rebels into Northern Iraq. Despite Turkish government saying that the move is not imminent, this brought further bullish sentiment to the market with traders fearing that such actions might disrupt supplies from Iraq. While exports of crude from the pipeline crossing this area have not been frequent since the U.S. invasion of Iraq in 2003, oil has been flowing for the past two months at a rate of about 500,000 bbl per day. |  |
| OPEC | Mixed reactions from OPEC to this week's price jump. Nigeria's energy minister raised the possibility of OPEC further increasing output very soon to cool a market it believes is behaving irrationally. Informal talks at an OPEC heads of state summit in Riyadh in mid-November could be turned into an official meeting to review output. In contrast, an Iranian official said that the high price of oil is due to international political tension only and not to any lack of supply. |  |
| Other drivers | The weekly report by US based Energy Information Administration (EIA) was relatively bearish and countered perceptions that the market is increasingly tight. This week's report indicated that crude inventories rose 1.8 million barrels, beating market expectations of around 1 million barrel. Distillates stocks also increased 1 million barrels against analysts' expectations of a 400,000 barrels fall. In contrast, a historical low US \$/€ exchange rate was cited as another factor that added to this weeks bull market. As the weakening of the US\$ is a somewhat controversial price driver for oil (takes a number of assumptions on why it should be), what is clear is that a number of market participants believe it should be a driver. As a result, increasing tensions in Northern Iraq and a weakening dollar had speculators jump in once again and reinforce the ongoing bull. |  |
| Summary outlook | Even with significant bearish news coming from the weekly EIA report on US inventories of crude and distillates, markets focused on supply worries due to geopolitical tensions in Turkey and a weakening dollar. With inventories on the low side, a strong global demand, and little spare capacity by OPEC, any geopolitical tensions will bring extra upside to the markets. A short term correction for profit-taking seems increasingly likely but difficult to tell when it will come giving current strength of markets. However, in the absence of OPEC supply increases and a calming of geopolitical tensions in the Middle East, prices are likely to stay generally strong. |  |



ARA Coal

The historical perspective: ARA coal. Source data: TFS

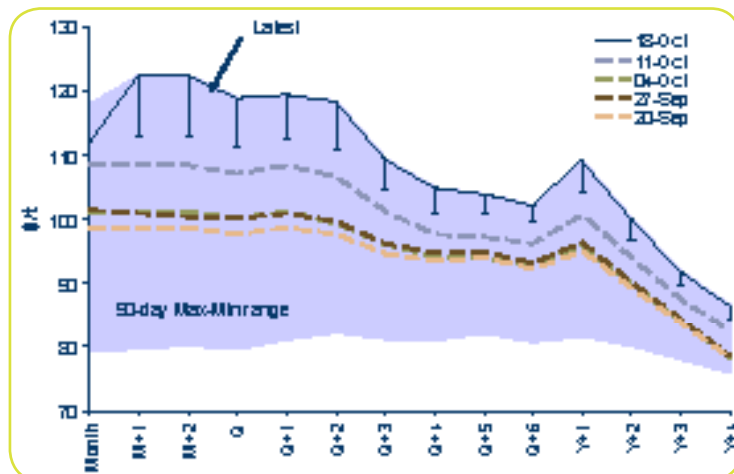
API2 CIF (cost+insurance+freight) delivered at either Antwerp, Rotterdam or (ARA).



- ARA prices began the week quietly, and then shot to an all-time high of 119 \$/t on Wednesday before returned to 112 \$/t on Thursday - owing to a softening of FOB prices.
- Prior to that, rapidly rising South African FOB prices were to blame for driving the CIF price into unmapped territory.
- With infrastructure bottlenecks and bad weather respectively buffering exports and production in Australia and Colombia, South Africa remained the main marginal supply source for strong demand for coal from both basins.

The forward market: Evolution of API2 Source data: TFS

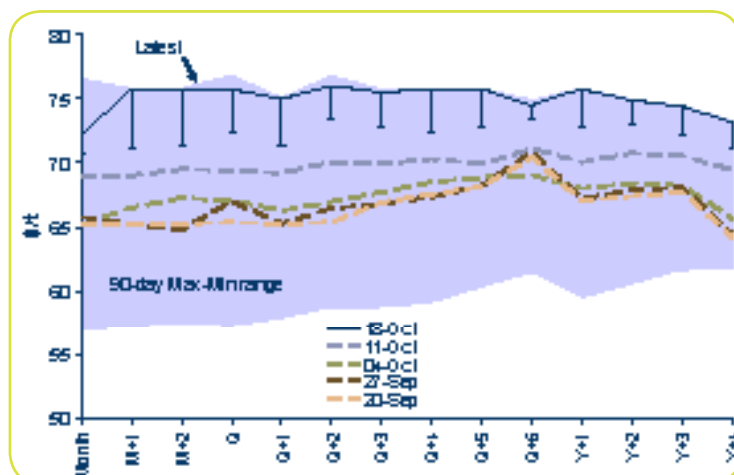
API2 CIF (cost+insurance+freight) delivered at either Antwerp, Rotterdam or (ARA).





- In the front months, forward CIF prices were in strong contango, reflecting the market's fears of growing scarcity for the coming winter period. This reflects some concerns that there remains pent up demand in a number of import markets from consumers holding off buying until a price correction.
- Further out across the curve, contract prices then went into backwardation on expectations of lower freight rates, following a long awaited improvement in shipping numbers.

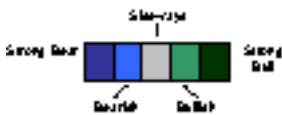
The forward market: Evolution of API4 (FOB RBCT) Source data: TFS

API4 FOB (free on board) at Richards Bay Coal Terminal in South Africa.



- Like the CIF market, the FOB curve was in steep contango for the month-ahead contract, reflective of fears over the supply-demand balance for the coming winter period.
- Apart from the month ahead, the FOB curve remained flat around 75 \$/t, a sign of the market's lack of direction as to where prices could go from current levels. This lack of direction probably reflects the balance of market risk, with strong demand and a lagging supply pattern expect to continue for the next couple of years but a broad feeling that current price levels are too high to be sustained.

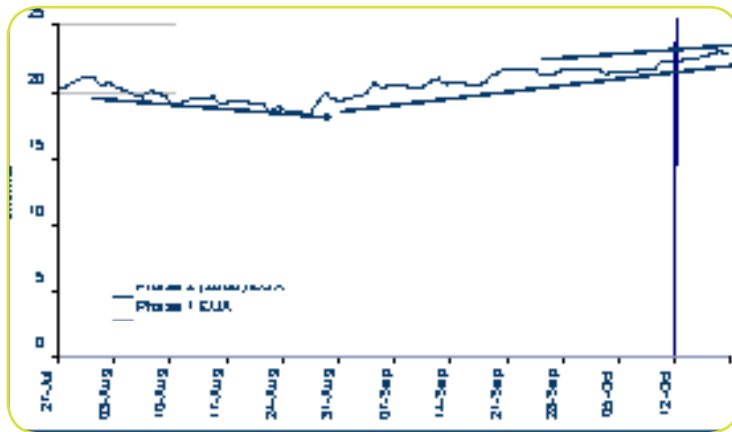
| Risk factors | Discussion | Bear or Bull |
|--|---|--|
| Supply - Demand: Atlantic Basin | <p>Buyers in the Atlantic market scrambled to secure winter supplies this week as CIF prices maintained their upwards race. Utilities were reported to have low stockpiles as many seem to have been waiting for prices to soften before replenishing supplies for the coming winter.</p> <p>At current FOB prices and freight rates, Russian and US coal are now comfortably pricing into the European market but export capacity constraints in the former and coal quality issues in the latter were meaning that marginal volumes still needed to be sourced out of South Africa. Heavy rains in Colombia, which have limited production from most mines, has increased the competition with Asian buyers for incremental volumes from South Africa will intensify. Current supply issues in the basin should begin to sort themselves out but the competition for South African tonnage should be a feature of the market in 2008.</p> |  |
| Supply - Demand: Pacific Basin | <p>Continued demand from Indian buyers for South African coal was reported this week, contributing to push FOB prices to their highest since a peak in 2004. The increasing demand came amid growing concerns over the availability of short term cargoes from Australia's Newcastle port and a softening in freight rates towards the end of the week. Asian demand for South African coal volumes is expected to increase, given the Pacific basin suppliers' low current flexibility to provide marginal cargoes into the market. How quickly Australia can improve rail and port infrastructure to meet the continued demand for Asian coal will be the story of the basin – but we expect a continued tight basin in 2008 that will continue to draw on South African tonnage.</p> |  |
| Summary outlook | <p>For a second consecutive week, all around bullish fundamentals and freight rates pushed CIF prices to record highs. With expect price thresholds being broken all the time, there seems to be a good willingness to pay for South Africa's marginal tonnage.</p> <p>With bullish fundamentals in Europe and Asia, we expect to see upside pressure on CIF prices for the coming week. With time, some current supply issues should start to work themselves out and the tightness in the market should ease. With reduction in freight already priced into 2008 contracts, we still feel there could be pressure on the 2008 contract through to the end of the year.</p> |  |



Carbon markets: EU ETS - EUAs

The historical perspective: EUA prices. Source data: Point Carbon

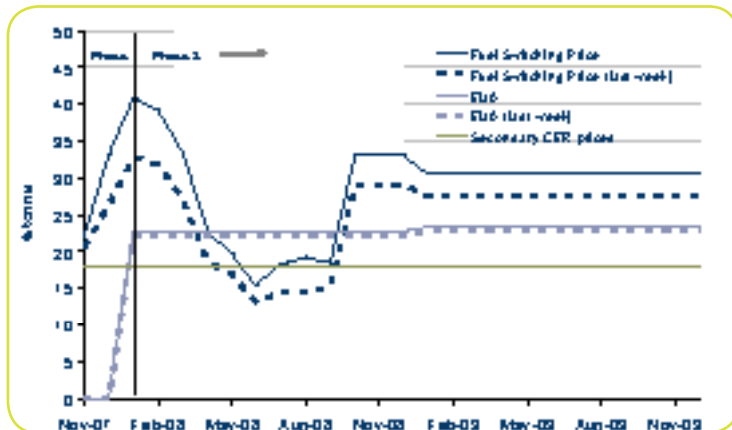
EUA = European Unit Allowance, standard trading unit under the EU ETS. Phase 1 and Phase 2 fully distinct with no banking allowed.








- The price of European carbon allowances rose to its highest level since 15 June 2007 but the increases remain gradual and limited – especially compared with the movements in the other energy markets this week.
- Profit-taking and strong increases in gas prices capped the gains late in the week – the later putting a limit on the increase in the required fuel switching price level.
- No significant price developments in the oversupplied Phase 1 market.

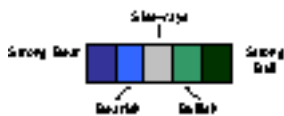
The forward market: EUA and CER prices Source data: Point Carbon

CER=Certified Emissions Reductions: Emissions credits under the Kyoto Protocol's Clean Development Mechanism (CDM).



- Bullish movements in the gas and coal complex saw the implied fuel switching prices close significantly above last week's levels throughout the curve. On the annual strip, the average fuel switching price rose from around 27 €/t to end the week at 30 €/t. This was driven by strong increases in market gas prices.
- The differential between the implied switching prices and the actual EUA (2008) prices for the fuel switching season during the summer of 2008 narrowed to its lowest in weeks. With winter gas prices seeing the most significant gains – the forward market remains a long way from seeing fuel switching gains in Q1 2008.

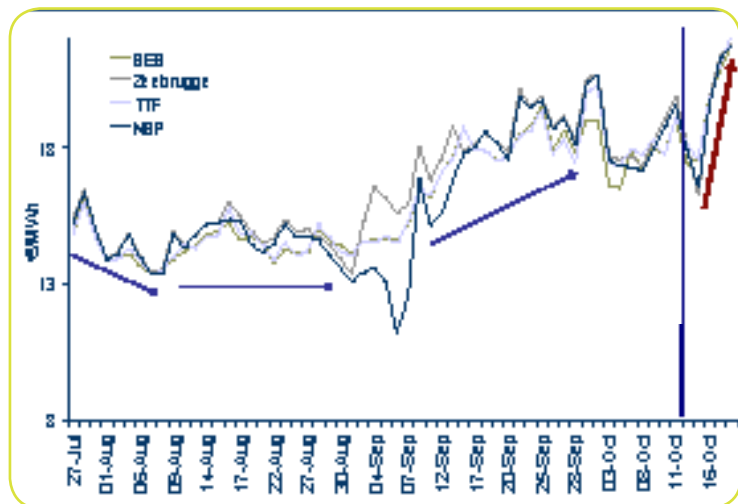
| Risk factors | Discussion | Bear or Bull |
|---|--|---|
| NAP levels / EC policy | <p>Norway announced it will issue 15 Mt of allowances per year to companies participating in the 2008-2012 period of its ETS, of which up to 9 Mt will be sold or auctioned.</p> <p>Norwegian companies covered by the emissions trading scheme are expected to emit around 22 Mt of CO₂ in 2010. The country's offshore oil and gas sector will not be allocated any free allowances.</p> <p>The Norwegian ETS will be linked to the EU's cap-and-trade scheme in 2008. This has implications for EUA prices in both directions: on the one hand, EU ETS companies can bid for the 8-9 million allowances that Norway intends to sell or auction; on the other, the expected short position of the Norwegian system will increase the demand for credits in the EU ETS. Given its small relative size, however, the impact on prices is expected to be marginal.</p> |  |
| Fuel switching price | Rising coal and gas forward prices resulted in higher implied fuel switching price levels across the full span of the curve. The winter 2008 switching price rose to an average of 37.9 €/t (up from 30.6 €/t), while the average for the summer months was also up from 14.8 €/t to 18.7 €/t. The implied annual average switching price for 2009 was up as well, rising to 30.5 €/t from 27.4 €/t. |  |
| Emissions levels | Reports indicated that soaring coal prices were reaching levels at which some coal plants could be mothballed in the hydro-rich Nordic region. A large German utility also reported that the combination of regulations under the Large Combustion Plant Directive and the current level of coal prices could also see it mothball one of its coal plants in Germany. Though marginal, this lower dispatch of coal-fired plants would produce reduced emissions and a lower demand for EUAs. |  |
| CER / ERU supply | Secondary CERs for 2008 delivery closed the week at 17.5 €/t, failing to follow the gains made in the EUA 2008 price and resulting in a widening of the EUA-CER spread. Declarations by Canadian politicians that the country is likely to not comply with its Kyoto commitments provided a bearish signal for non-ETS CER purchases. Under Kyoto rules, the country would nonetheless need to purchase credits to make up for its shortfall, although a possibility is that it does so using so-called "hot air" credits from, for instance, Russia. |  |
| Summary outlook | <p>An overall bullish energy complex pushed EUA prices to 4-month highs. For next week, we expect EUAs to move sideways, persisting in its very gradual pre-compliance trading phase.</p> <p>Over the longer term we maintain our view that Phase 2 is structurally short: allowance prices should continue this northbound trend. Our target price remains 25 €/t for the span of Phase 2.</p> |  |
| * EUA = EU allowance; CER = Certified Emissions Reduction. ERU = Emissions Reduction Unit; NAP = National Allocation Plan | | |



Gas markets: North Europe

The historical perspective: NBP, TTF Zeebrugge and EGT. Source data: Spectron, APX, EEX

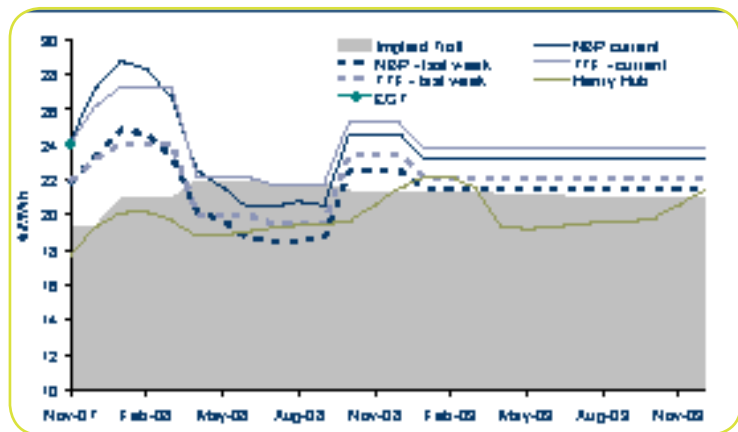
NBP = UK National Balancing Point; TTF = Netherlands Title Transfer Facility; EGT = Eon Gas Transport (Germany)



- Volatility in the prompt driven by competing forces. Early in the week, prices fell with the start of operation of the Tampen link plus the return to service of South Morecambe and Goldeneye.
- By mid-week, upward pressure on prices returned despite low demand for the season. This was from a shut down of production from J-block on the NBP and continued instability in Norwegian flows through Langeled. The later saw within day swings of between 40 – 70 mcm on some days.
- EGT and TTF took their lead from the NBP with traded volumes reasonably low.
- Market differentials (weekly average):
 - TTF to NBP = 0.33 €/MWh
 - TTF to Zeebrugge = 0.28 €/MWh
 - TTF to EGT = 0.26 €/MWh

The forward market Source data: Spectron, NYMEX, Point Carbon

NBP = UK National Balancing Point; TTF = Netherlands Title Transfer Facility; EGT = Eon Gas Transport, Implied troll is fore **forecast troll price** using forward gas-oil curves



- The curve moved up significantly this week on the back of strengthening in the oil price and additional pricing in of risk premium.
- The risk premium has been increased by a rocky start to the gas year – with a number of fields either failing to come back from maintenance on time or going into unplanned outage. This lack of reliability of North Sea production assets is driving up prices beyond what seems sustainable on the back of other fundamentals.
- Future years holding a 2-3 €/MWh premium on the implied Troll contract – which seems very high.

European storage levels *NW Europe = GB, Belgium and France. North Europe = Netherlands, Germany and Denmark. Source: GIS

| | Storage stock levels (mcm) = Last week | Storage stock levels (mcm) = Current | % full |
|----------------|--|--------------------------------------|--------|
| TTF | 991 | 1,021 | 90% |
| Germany | 10,995 | 13,147 | 89% |
| Austria | 10,415 | 10,383 | 99% |
| France | 8,451 | 8,551 | 98% |
| UK / Zeebrugge | 3,897 | 1,021 | 96% |

Weather forecast

Forecast for Summer 2007

| | |
|----------------------|--|
| Temperature | There continues to be a high probability that mean summer temperatures will be above the 1971-2000 long-term average over much of Europe including the UK. However, for the UK it is likely that very hot and sunny spells will be much fewer than experienced in the summers of 2003 or 2006. |
| Precipitation | Latest indications suggest drier than average over central and southern Europe and wetter than average over parts of northern Europe. This pattern suggests that UK, Belgium and Netherlands should see average or above average rainfall for the remainder of the summer. |

Source: UK Met Office. Last update = 26 June 2007

Curve commentary

| Driver | Commentary |
|------------------------------------|--|
| M+1 July | <p>The November contract rose by 2.4 €/MWh from last weeks already high level – again largely on the back of the supply issues at the prompt. With J-Block going out after the problems of last week, there seems to be risk premium concerning the reliability of production from both the UKCS and the Norwegian CS. With J-Block expected to be back by Monday, there must also be concerns over the stability of Norwegian flows being priced into this contract.</p> <p>With Langed flows fluctuating day-on-day and within-day, the market is pricing in this apparent lack of reliability. Against last years Q4 2006 average of 16.8 €/MWh, the current contract is looking high and we would expect to see softening if the prompt is dampened by a lack of supply incidents.</p> |
| Q+1 July - Sept | <p>With storage injection still occurring and levels between 90%-100% full, out-turn prices will continue to be driven by weather, Norwegian production and off-shore reliability. The supply shocks and strong oil markets seen this week have continued to add risk premium into this market. The rises in this contract price have helped keep the required carbon price for fuel-switching (from coal to gas) in this quarter, above current carbon market levels.</p> <p>With the long term weather outlook suggesting a Q1 milder than Q4 (but colder than Q1 07) plus additional supply infrastructure (Dragon LNG should be commissioned), we should see less price pressure in the market in this quarter.</p> <p>The upside risk remains: early cold spells would reduce storage levels and help keep pressure on both the prompt and contracts throughout the remainder of the winter.</p> |
| S+1 Oct 07 - Mar 08 | <p>With Q2 07 having traded at an average out-turn of 10.4 €/MWh – a forward price of 20.0 €/MWh seems hard to justify. Even taking into account the reasonably healthy storage levels that the summer season began with in 2007 (levels of 30%-40% full), the incremental demand from this source should be easily accommodated by the increments in pipe capacity into the region. We retain our view that this contract looks over-priced going forward.</p> |
| 2008 | <p>The outlook for the supply - demand balance in Northern Europe continues to look satisfactory with growth in demand likely to come from new gas-fired generating plant in these countries until the end of 2009 (see below) and supply being enhanced with LNG projects of 27.5 bcm/annum (Isle of Grain, South Hook, Fos Cavaou).</p> <p>With summer 2008 gas prices moving upwards again on the back of oil markets and now sitting around the 19.7 €/MWh, this contract looks very highly priced against expectations.</p> <p>If Norwegian flows are higher than expected in the summer in response – we would expect the out-turn prices for the markets would be at much lower levels. With the gap between the TTF and NBP in Q3 2008 far in excess of what looks justified by out-turn spots in 2007, there should also be correction there and some tightening of that spread. We think summer prices continue to look the most overvalued going forward and that out-turn spots should be lower.</p> |
| 2009 | <p>Same dynamics as on 2008, but expect a slightly tighter market given increasing demand for gas from new power stations helping to bite into the market. This part of the curve remains rooted to the implied oil-indexed contracts which is a poor indicator of future spot prices.</p> |

Additional demand

Additional supply: Planned new CCGT 2008 - 2009


| Country | Under construction (MW) | Announced (MW) |
|--------------|-------------------------|----------------|
| Austria | 400 | 800 |
| Germany | 2,275 | 2,660 |
| Belgium | 420 | |
| Netherlands | 400 | 2,540 |
| France | 2,050 | 800 |
| UK | 1,685 | 4,140 |
| Total | 7,230 | 10,940 |

* 2000 MW of new plant in Germany planned to be operational in 2007.

Additional supply: Planned new pipelines and LNG and storage by end 2009

| Country | Type | Projects under construction / planned | Status |
|--------------|------|---------------------------------------|--|
| UK | LNG | 23.5 bcm / y | <p>Dragon LNG (3 bcm/y) under construction and expected to be operational in Q4 2007 (end of October).</p> <p>Isle of Grain (2) (8.8 bcm/y) under construction with expected completion date Q4 2008.</p> <p>South Hook LNG (10.5 bcm) under construction with first cargoes expected in Q2 2008 – fatality at site could lead to some delays.</p> <p>More entry capacity announced for Excelerate LNG should mean that it will see greater utilisation in winter 2008 than it had in winter 2007.</p> |
| France | LNG | 8.25 bcm / y | Fos Cavaou operational date has been pushed back “a few weeks” from 1 April 2008. |
| Belgium | LNG | 4.5bcm / y | Expected to be on-line in 2007 |
| Total | | 36.25bcm / y | |

Key risks to future prices

| Driver / Summary | Comment |
|--|--|
| <p>Demand</p> <p>Demand in Q4 looks a key risk to insure against.</p> <p>Expect that demand side pressure could be greater over time due to emissions pricing from 2008.</p>  | <p>Winter ahead, the key drivers are:</p> <ol style="list-style-type: none"> 1. Weather. Updated forecast suggests that Q4 07 could be colder than we have seen over the last few years with temperature more in line with long-term averages. Suggests continued pressure on the prompt from the demand side which should reduce as we go into Q1 08. 2. Demand levels - significant demand growth will come predominantly from new gas-fired plant in Northern Europe. North Europe has CCGT projects in various levels of progression above 18 GW – although we are now assessing that 7.2 GW will be commissioned by the end of 2009. <p>CO₂ forward prices (and the relative price of gas and coal) are not at levels to keep gas as baseload in the winter.</p> |

| | |
|---|---|
| <p>Supply</p> <p>Supply should be comfortable this winter. Ormen Lange flows should keep prices down – but are likely to be managed.</p> <p>Risks biggest from 2009 onwards.</p>  | <p>Storage levels in North West Europe look full and the positive premium to Henry Hub means Europe is well placed to attract Atlantic Basin cargoes (including any available Trinidad cargoes). With Dragon expected to come on-line before Christmas, there should be some spare regas capacity as the Petronas–Centrica long-term deal collapsed earlier this year. In the absence of a replacement long-term contract being found, this suggests that at least 50% of the capacity could come to the market for spot cargoes.</p> <p>Gas price formation is now very sensitive to Norwegian production. Provided existing supply infrastructure operates at greater levels than what we saw last week, the impact of the new infrastructure will be to help keep spots from being sustained at very high prices throughout the winter.</p> <p>StatoilHydro announced that it is likely to abandon the plan to boost natural-gas output at the North Sea Troll field and the related Gas Network Expansion project, which would have built a new pipeline from Norway to Europe (likely to the TTF). As this would not have commissioned by the end of 2009, it is not an immediate risk. The longer term impact will be that the post-2011 market in Europe is likely to be tighter and more dependent on LNG as a result.</p> <p>LNG into Northern Europe will continue to increase with more global liquefaction and European regasification capacity. However, pricing risks should be limited to the winter – with Europe well supplied by pipelines throughout the summer.</p> |
| <p>Liberalisation</p> <p>Forward prices to date trading up to oil indexed prices on the annual strip.</p> <p>Liberalisation holds some price risks – but more on spots than on forwards. Also, more downside than upside – as underlying production costs far below current price levels.</p>  | <p>German market liberalisation is continuing to take some important steps forward. Since the expansion of the EGT price zone to cover all of its H-zones, we have seen an increase in trading in that market – with liquidity dropping of at BEB. Given the difference in sizes (EGT covers 45% of H-gas consumption, BEB 15%), it seems reasonable that EGT will be the pricing point to watch.</p> <p>This is promising but liquidity is likely to remain on the low side for the next few years as the German market still remains too fragmented and lacking in transparency.</p> <p>We also watch EC decision to tackle market dominance and believe it is having some impact – with the positioning of firms like Eon being much better in terms of fostering gas market development than a few years back.</p> |
| <p>Oil and US prices</p> <p>A key risk to prices – especially annual average contracts.</p> | <p>Oil markets are looking in need of a correction, having been bid up in recent weeks. A softening in oil would help bring down the curve from current levels.</p> |
| <p>Summary</p> <p>Near term, Q4 07 looks like it will have more demand pressure and less incremental supply than Q1 08.</p> <p>Weather and Norwegian production patterns will be the story of the winter – barring any unforeseen supply outages. The later is a key cause of recent price movements upwards.</p>  | <p>With supply uncertainty dominating the front part of the curve as we move into winter, prices will only soften if weather holds at milder levels and North Sea supply infrastructure starts performing more reliably. The long-term weather forecast suggests possibly more demand pressure on the market in Q4 than in Q1. With Q1 supply is to be bolstered by Dragon LNG – most of the spot price upside risk looks to be in Q4 for the coming winter. This prompt pressure could keep forward prices at higher levels than the underlying fundamentals suggest.</p> <p>Forward prices rooted around the oil curves, given the healthy supply-demand picture for gas in North Europe in the next few years, does make the summer markets look somewhat over-priced.</p> |

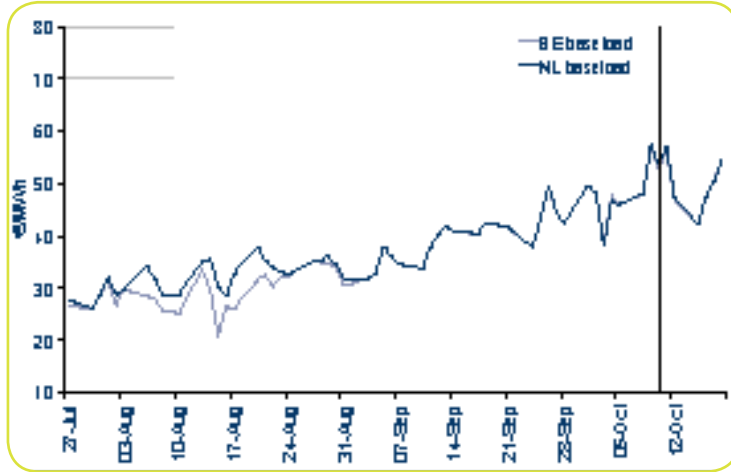
Forecasts: A probabilistic view of the TTF

| | M+1 (July) | Q+1 (Q3= July - Sept) | S+1 (winter) | Y+1 (2008) | Y+2 (2009) |
|--|---|-----------------------|--------------|------------|------------|
| Forward price | 10.3 | 10.6 | 20.8 | 19.4 | 20.6 |
| Forecast price | 11.6 | 11.6 | 21.1 | 19.0 | 20.1 |
| Valued | Under | Under | Under | Over | Over |
| % probability price < forward* | 27% | 31% | 46% | 55% | 57% |
| Changes in forecasts | Our forecasts showed some change from last week – mostly on the winter 08 which sees a reduction in the LNG arbitrage premium that we factor in to the market. We treat the TTF both as the Dutch pricing point and as a proxy for the North Germany gas market as we see the BEB trading point trading very close to the TTF. The BEB is the virtual trading point on the North German BEB transportation network. | | | | |

* Probability reflects historical volatility around the mean.

Belgium and Netherlands power markets

Wholesale prices. Source data: Belpex, APX

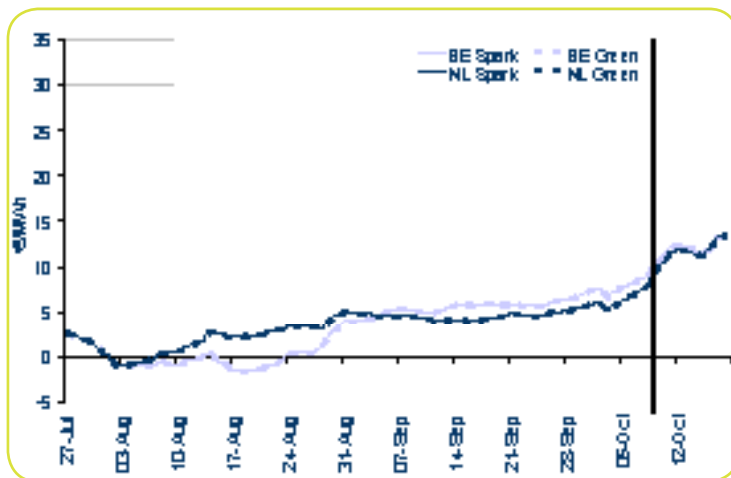


- Dutch and Belgian spot prices remained volatile this week with prices moving by up to 10 €/MWh – this volatility was rooted around a 50 €/MWh mean.
- The levels and volatility were driven by increasing power demand and by tight German and French markets that reduced available exports at the tail ends of the week.
- With temperatures expected to be lower next week in Central Western Europe, pressure should remain on prompt prices.

Spread analysis: Netherlands and Belgium (10 day rolling average).

Source data: Endex, Spectron, Point Carbon

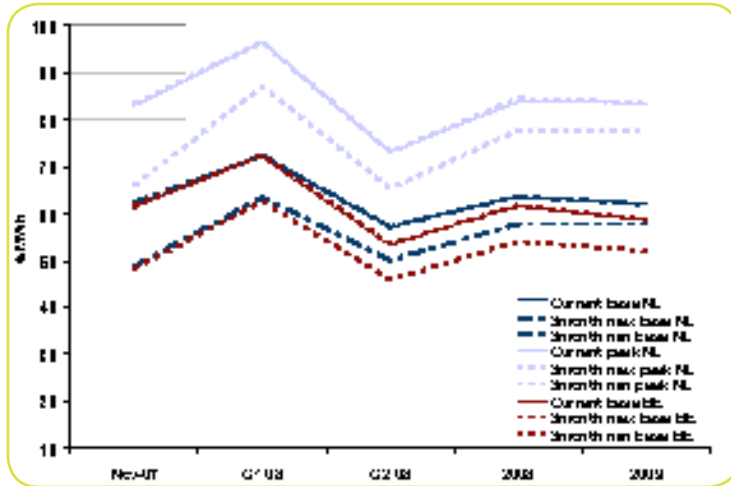
Notes on the spreads: Assumes an average 50% efficiency for gas plant. Spark spread calculated as power price less the cost of gas adjusted for efficiency. Green spread calculated as spark spread less the full opportunity cost of CO₂.



- Dutch and Belgian green spark spreads continued to progressively move up this week.
- The increase in spreads has been driven by the increasing power demand levels and the issues across the region with lower marginal cost generation (in particular, problems with the availability of German nuclear plant). In such circumstances, power prices tend to increase more than fuel prices.
- Currently, for both countries, the 10 day rolling average moved to around 13 €/MWh, whereas the 3 month average is around 5 €/MWh.

The Netherlands and Belgium: Forward curve movements. Source data: Endex

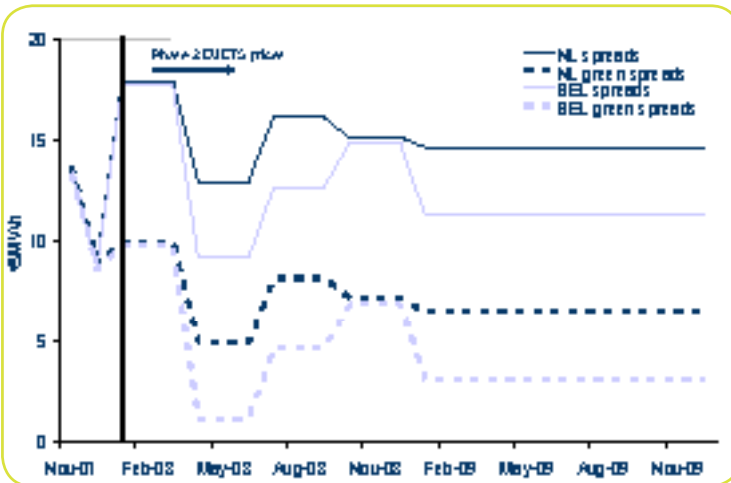
Baseload contract is for 24 hours of generation. Peak contract is for power delivered between 07:00 and 23:00



- All of the baseload and peak contracts we follow, for both countries, are now at levels equal to the three months high.
- Recent increases in forward prices across the curve have been driven by a very strong energy complex and supply concerns affecting the front end of the curve.
- Belgium prices from Q2 2008 remain at a discount to the Dutch contracts. This is due to Belgium likely to have fewer transmission constraints than the Dutch market and therefore more constant access to lower priced imports of French power during these periods.

The Netherlands and Belgium: Forward spreads. Source data: Endex, Spectron, Point Carbon

Notes on the spreads: Assumes an average 50% efficiency for gas plant. Spark spread calculated as power price less the cost of gas adjusted for efficiency. Green spread calculated as spark spread less the full opportunity cost of CO2.



- Dutch green spark spreads generally trade at higher levels than the Belgian ones, reflecting the fact that the Dutch market can experience transmission constraints that result in price spikes. However we note that throughout most of this year, the Dutch market has traded in line with the Belgian market. We do note that this year has to date been one of very mild temperatures and that demand levels have not put stress on most North European power systems.
- At current levels, spark and green spreads for both countries both seem too low to support new entry from 2008 onwards.

Curve commentary

| Driver | Commentary |
|------------------------------|---|
| M+1 Nov | Both Dutch and Belgian month-ahead contracts jumped considerably this week. The main drivers were a very strong energy complex, forecasts for a colder than previously expected November and considerable price increases in German and French power. We believe that markets (particularly the gas market) over-reacted to the news concerning weather and supply concerns. Unless markets continue to expect a clearly colder than average November, we expect prices to soften in the coming week. |
| Q+1 Jan - Mar | The Dutch and Belgian Q1 08 contracts mirrored again what was seen this week in the influential neighbouring markets and prices moved higher around 4 €/MWh. This movement was again driven by a strong energy complex and ongoing supply concerns in Germany and France during the winter period. Also, recent forecasts for very cold weather for the coming weeks raised concerns that winter might not be as mild as expected previously. Both Dutch and Belgian markets rely on imports from Germany and France, especially during winter. With these markets tighter than expected, markets are considering that Dutch and Belgian markets might have less access to imports, which will add pressure to prices. At current levels, we believe that these contracts become fairly priced. |
| Q+2 Apr - Jun | Also some gains in the Q2 2008 contracts on the back of strengthening of gas, coal and CO ₂ prices. But here again, the Dutch and Belgian contracts seem to be mirroring the German and French markets. |
| 2008 | Calendar 08 contracts also chased movements in the neighbouring markets to keep differential between them at pretty much the same levels as last week. At current trading levels, we are now moderately bullish on both contracts given our outlook on CO ₂ prices. Also, we believe that the Dutch market should carry a slightly bigger premium to Belgian prices given our view that the Netherland will continue to suffer from interconnection constraints during periods of high demand. |
| 2009 | Little change to the market fundamentals between 2008 and 2009 leaves us with identical conclusions for this contract. |

The forecast view: Belgium Power

| Contract | M+1 November | Q+1 (Q1 2008) | Q+2 (Q2 2008) | Y+1 (2008) | Y+2 (2009) |
|------------------------------|--------------|---------------|---------------|------------|------------|
| Forward price | 61.3 | 72.0 | 53.4 | 61.8 | 58.7 |
| Forecast price | 53.1 | 71.2 | 54.1 | 62.8 | 61.3 |
| Valued | Over | Over | Under | Under | Under |
| % probability price<forward* | 87% | 55% | 47% | 44% | 37% |
| 15 day volatility | 2.3% | 0.7% | 1.0% | 0.7% | 0.5% |
| Summary outlook | Bearish | Bearish | Bullish | Bullish | Bullish |

* Probability reflects historical volatility around the mean.

The forecast view: Netherlands Power

| Contract | M+1 November | Q+1 (Q1 2008) | Q+2 (Q2 2008) | Y+1 (2008) | Y+2 (2009) |
|------------------------------|--------------|---------------|---------------|------------|------------|
| Forward price | 61.6 | 72.4 | 57.2 | 63.7 | 62.1 |
| Forecast price | 55.5 | 72.9 | 58.2 | 66.2 | 65.5 |
| Valued | Over | Under | Under | Under | Under |
| % probability price<forward* | 80% | 47% | 47% | 38% | 34% |
| 15 day volatility | 2.4% | 0.7% | 0.6% | 0.5% | 0.4% |
| Summary outlook | Bearish | Bullish | Bullish | Bullish | Bullish |

* Probability reflects historical volatility around the mean.

Notes:

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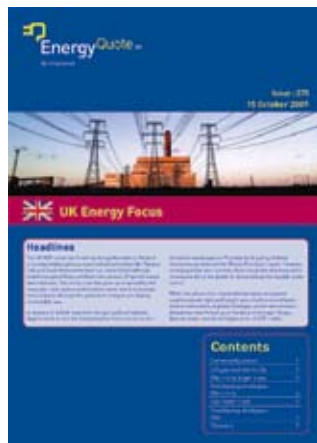
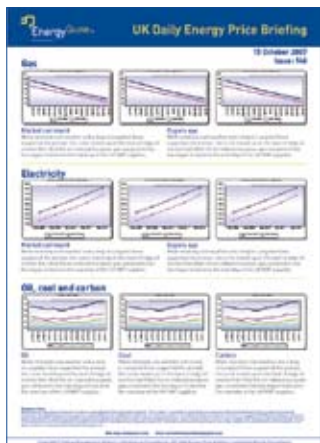
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