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PRESS RELEASE

Methodology or pricing: how can the greater volatility of consumer gas and electricity prices in Belgium be explained?

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Over the past three years it has gradually become clear that consumer gas and electricity prices in Belgium are much more volatile than elsewhere in the euro area or in the three main neighbouring countries. Initially it could not be established from recorded price trends whether this pointed simply to a more rapid (though not necessarily more intensive) transmission of the price movements for energetic raw materials on the international markets or to a greater total size of such transmission. Answering that question was further complicated by the change in the way gas and electricity price changes were recorded in the Belgian consumer price index from a registration on the basis of annual invoices to a registration based on monthly tariffs. After all, such a change incontestably accelerates the transmission of the recorded price movements and could also be a reason why Belgium's situation differs from that of the euro area and the three main neighbouring countries.

This article first of all examines whether this methodological change is an explanatory factor for the differing movements in gas and electricity prices. The analysis shows beyond question that this is not the case. On the contrary, as a result of the methodological change, Belgium now subscribes to a practice that has already been a common feature in the reference countries for a long time. This is significant because it means that both the price movements recorded in the consumer price index and their deviations from those in the reference zones may be attributed to the pricing itself.

The analysis also indicates an increase in volatility during the period 2007-2009 as a result of a number of changes in pricing since the full-scale liberalisation of the gas and electricity market for residential consumption on 1 January 2007 (changes that cannot necessarily be related directly to the liberalisation, however). The principal role in this was played by the change in a parameter of the charging formula introduced by the biggest gas supplier in October 2007 (a change followed by most other suppliers) and by the increase in the network charges in January 2008. The findings of this article further imply that even applying the charging formulas in force before the liberalisation would have led to more volatile gas and electricity prices in Belgium.

Moreover, an international comparison of gas and electricity prices excluding taxation – the most relevant measure when studying the consequences of pricing and market functioning – reveals that, contrary to what was previously the case, prices in Belgium began to move considerably ahead of those in the euro area in the course of 2008. As far as gas is concerned, this handicap was to disappear again in the third quarter of 2009, whereas the available indicators show that the gap remains substantial in the case of electricity, despite some narrowing. It may also be noted that gas and electricity prices may have bottomed out in the third quarter of 2009 and were not yet being affected by the fact that prices for the energetic raw materials have been on the rise again since spring 2009. The transmission (more substantial in Belgium) of the new upward momentum could lead to deterioration in the relative position in the near future which, if pricing remains unchanged, would be even more the case if the price movements in energetic raw materials progress structurally upwards again in the coming years.

This article has two important implications for containing price and cost movements in Belgium and, by extension, for safeguarding the country's competitive position. First of all, with respect to gas and electricity pricing, the extent to which the pricing formulas used accurately reflect actual cost movements must be established. After all, it is open to question which economic factor explains why price fluctuations for energetic raw materials in Belgium are having a greater impact on consumer gas and electricity prices than in the euro area or in the three main neighbouring countries. Further investigation into this subject is therefore advisable. In addition, the higher volatility of gas and electricity prices is also a factor that has to be taken into account when containing broader price and cost movements, especially in a situation where energy prices present a structural upward trend.