



# Bord Gáis Energy Index

DECEMBER 2010

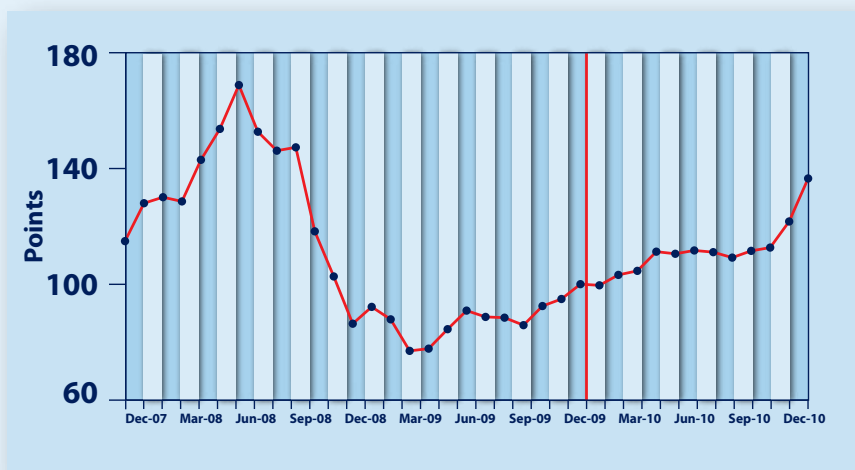
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## INDEX RISES TO A 27 MONTH HIGH AS EXTREME WEATHER AND GLOBAL ECONOMIC RECOVERY DRIVES DEMAND FOR ENERGY COMMODITIES HIGHER.

Bord Gáis Energy Index (Dec 31st 2009 = 100)



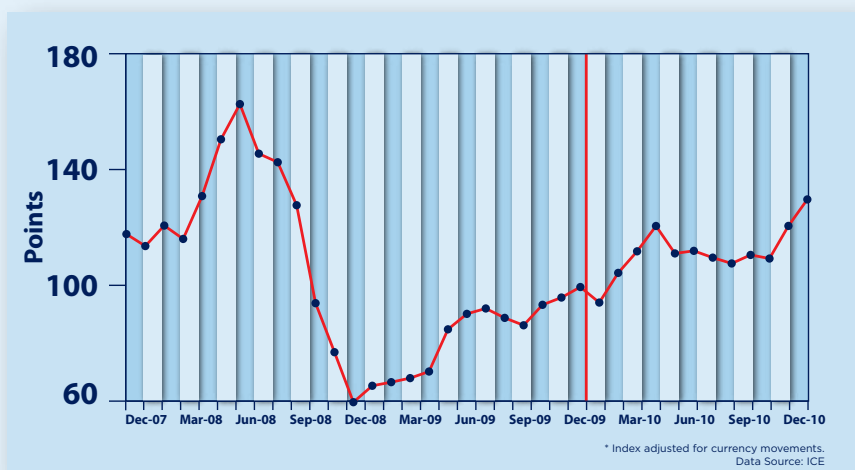
1 Mth **12%**    3 Mth **22%**    12 Mth **37%**

### OVERALL SUMMARY:

The Bord Gáis Energy Index rose 12% to 137 in December, its highest level since September 2008. This followed an 8% rise in November and brings the total increase for Q4 2010 to 22%. An increase in demand for oil, coal and natural gas due to combination of supply and demand issues drove prices for each commodity higher.

Oil prices surged higher on increased emerging market demand in Q4 as well as a recovery in US demand, as evidenced by large draws on crude oil stocks. UK natural gas prices were up 23% as the coldest December in over 100 years gripped the UK and Ireland lifting demand to new highs and depleting storage levels significantly below seasonal averages. Coal prices also moved higher on the back of an extended cold snap in Europe and flooding shutting mining operations in Australia and Indonesia.

### Oil Index



1 Mth **8%**    3 Mth **17%**    12 Mth **30%**

### OIL

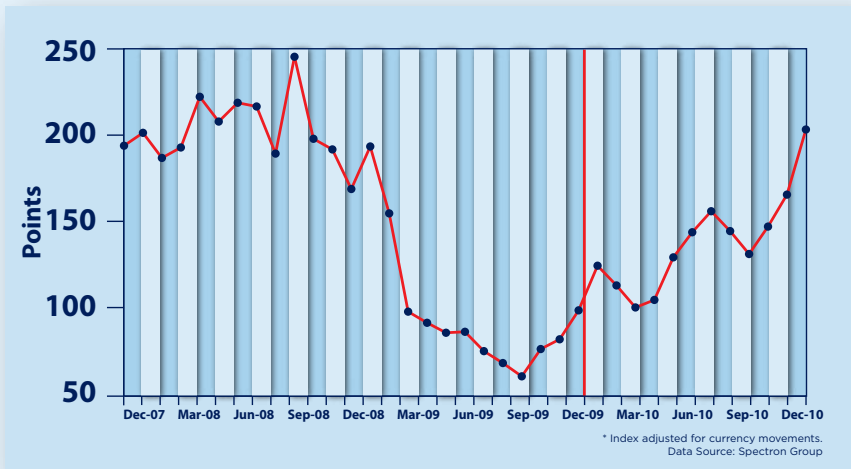
Oil prices settled at \$94.75, \$8.83 higher for the month of December. This was the largest monthly increase in crude oil prices since May 2009. Expectations of continued strong Chinese demand following on from November's all time record high of 9.3m barrels/day supported higher prices. Also, US oil demand in December posted a year-on-year increase above 1m barrels/day and averaged above 20m barrels/day for December, the strongest demand of 2010. Brent crude oil closed out 2010 averaging just over \$80 per barrel, only 2008 had a higher average price of \$98.50 per barrel.

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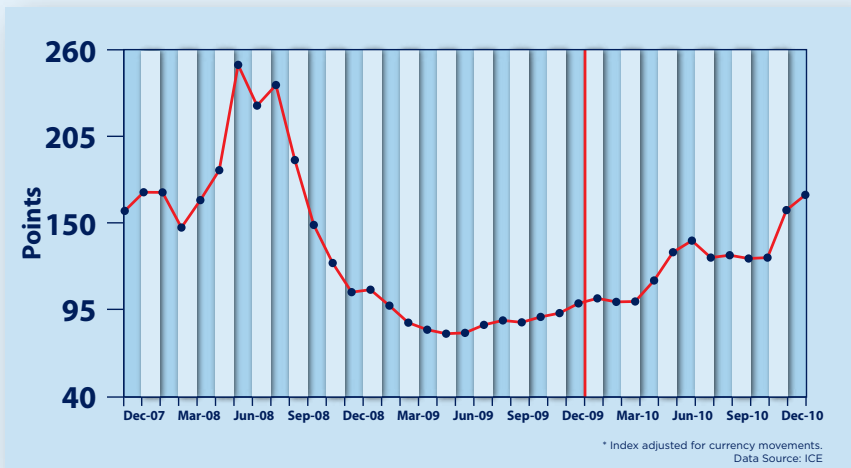


## Natural Gas Index



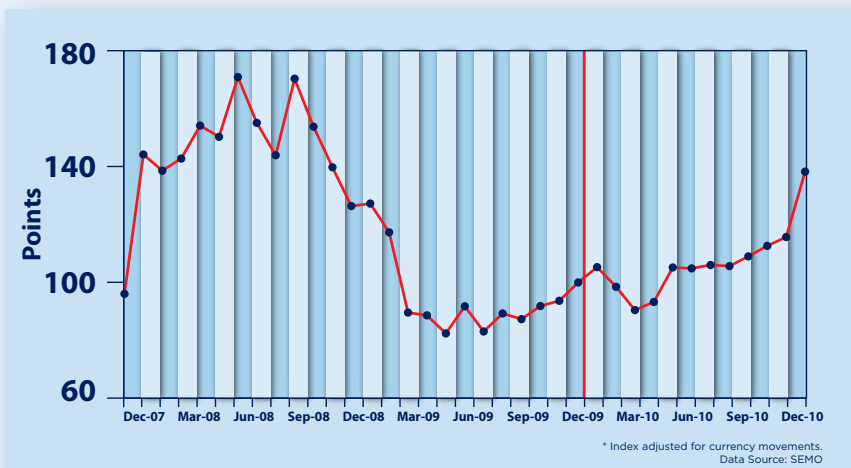
1 Mth **23%**    3 Mth **54%**    12 Mth **105%**

## Coal Index



1 Mth **6%**    3 Mth **31%**    12 Mth **69%**

## Electricity Index



1 Mth **20%**    3 Mth **27%**    12 Mth **38%**

## NATURAL GAS

Natural gas broke above the 60 p/therm level on December 2nd for the first time since February 2009. The average price for the commodity for the month was 61.76 p/therm on the back of the prolonged spell of cold weather. Prices rose in order to attract gas out of long range storage facilities, additional liquefied natural gas cargos and increased gas deliveries from continental Europe via the Interconnector pipeline. Long range storage stocks fell to almost 30% below the 5-year average.

## COAL

Cold weather in Europe has been a major driving force behind the move higher in coal prices from \$114 to \$124 per tonne during December. Flooding in Australia and Indonesia has greatly reduced the export capacity of these countries. This resulted in European and Asian buyers competing for coal at South Africa's Richards Bay terminal. Another cold snap could lead to a further destocking of coal stocks in Europe which have already fallen steadily over the past few months.

## ELECTRICITY

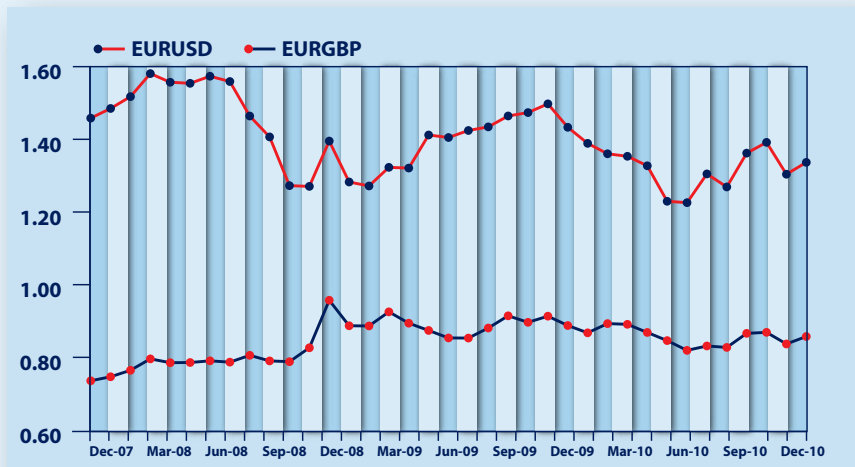
The average system marginal price in December was €71/MWh an increase of €14/MWh on November. This was driven by two main factors. Firstly, the cost of the two dominant price setting fuels, gas and coal, increased month-on-month. Secondly, the average price was also driven by unusually high prices during the period of 20th-24th December. This was largely due to plant availability issues with three large CCGT units on the island. This drove the need to run expensive peaker plants. This period accounted for €6 of the €14 increase in SMP.

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## FX Rates



1 Mth	<b>3%</b>	3 Mth	<b>-2%</b>	12 Mth	<b>-7%</b>	EURUSD
1 Mth	<b>2%</b>	3 Mth	<b>-1%</b>	12 Mth	<b>-3%</b>	EURGBP

## FX RATES

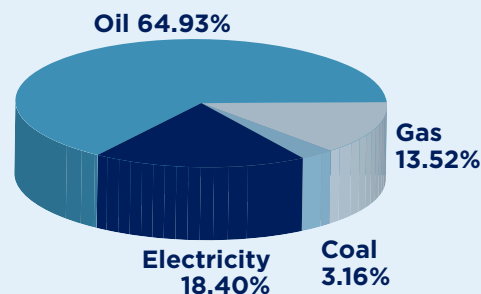
The Euro made modest gains versus both the US Dollar and Sterling in December. A combination of muted economic data and a lack of direction in the market resulted in a decrease in volatility levels from those seen earlier in the year. After a number of large swings in the FX markets the Euro finished the year 7% weaker versus the US Dollar and 3% weaker versus Sterling making oil, coal and natural gas relatively more expensive for Irish based consumers.

## MARKET OUTLOOK:

Oil demand is expected to remain strong in 2011 and could post record levels in developing economies. This could result in short term spikes towards and beyond the \$100 per barrel level, however OPEC appears to be committed to keeping long run average prices around \$90 and has over 4 million of spare capacity to manage this. In the shorter term weather will have major effect on natural gas prices. Further out on the time horizon, increasing oil prices could move the long run average price of gas higher. Coal prices may have found long term support as mine closures due to flooding in the Asia Pacific region. The damage caused by La Nina could take months to repair preventing millions of tonnes of Australian and Indonesian exports. Electricity prices remain closely linked to gas and coal prices and the amount of wind on the system.

## RE-WEIGHTING OF BORD GÁIS ENERGY INDEX:

Following the SEAI's 2009 review of energy consumption in Ireland, released in Q4 2010, there was a 9.3% drop in overall energy consumption. The most notable drop of 1.39% was in oil consumption in the form of gasoline and diesel. This reflects the economic downturn experienced at the time. The share of natural gas and electricity increased by 0.63% and 0.57% respectively. An increase in the use of renewables and peat, at the expense of coal in electricity generation was also observed. As a result the Bord Gáis Energy Index has been reweighted to reflect the latest consumption data. This has had a minimal effect on the overall shape of the Index, but may indicate future trends.



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