Bord Gáis Energy Index

UNDERSTANDING ENERGY

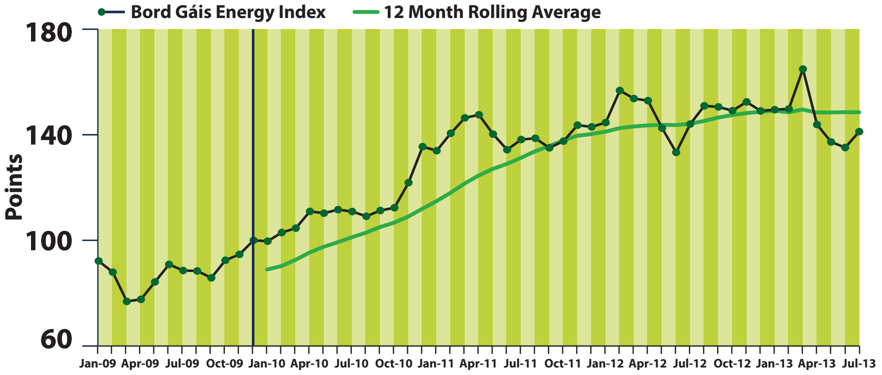
July 2013

think beyond

Bord Gáis Energy

RISE IN WHOLESALE PRICES PUSH BORD GÁIS ENERGY INDEX UP 4%

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



1 Mth	4%	3 Mth	-2%	12 Mth	-2%

Summary:

The Bord Gáis Energy Index rose 4% month-on-month with rising wholesale prices seen in all four of the commodities tracked in the Index.

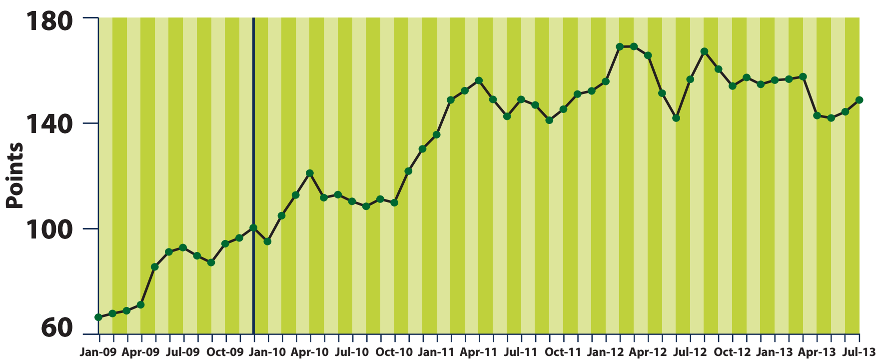
A stronger euro versus the US Dollar and British Pound helped to alleviate some of the rise in prices but these beneficial currency moves could not offset the full impact of the wholesale price increases.

A dramatic reduction in crude oil stocks in the US, maintenance of gas fields and terminals in the UK and Norway and a coal miners' strike in Colombia conspired to drive wholesale prices higher.

The July Index stands at 141 and recorded its first month-on-month increase since March.

July proved to be a dramatic month in the internationally traded fuel commodity markets with wholesale prices of oil, gas and coal all rising for different reasons. In the oil market, Brent crude prices rose nearly US$6 on short-term supply concerns, depleting US crude stocks, committed central bank monetary support and ongoing geopolitical tensions. Faced with these immediate factors, the market seems to have shrugged off concerns over economic growth in China and the ongoing growth of unconventional gas and oil for now. The monthly average Day-ahead gas price in the UK outturned at a historic high for July as gas supplies struggled to deal with unseasonably low demand. The market also appears to be bracing itself for a swath of scheduled maintenance outages in Norway and the UK in August. UK gas storage levels continue to climb in advance of the upcoming winter but at the end of July 2013 they were 28% lower than at the equivalent point last year. This seems to have added to the market tightness during the month. Despite the exceptionally warm weather experience in July, this year's protracted winter chill in the northern hemisphere seems to still be stoking trader anxiety. Falling LNG cargoes to UK shores in the month added further to the supply concerns.

Oil Index



1 Mth	3%	3 Mth	4%	12 Mth	-5%

*Index adjusted for currency movements.
Data Source: ICE

Oil

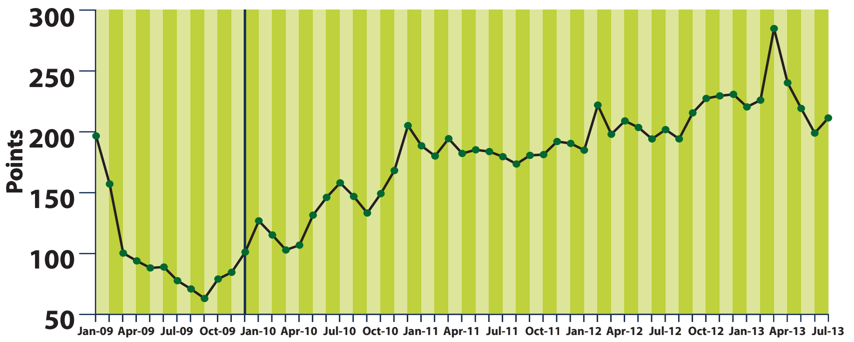
Month-on-month the front month Brent crude price rose 3% in euro terms.

In July a number of bullish factors emerged to push Brent crude oil prices higher. The strongest of these factors appeared to be the dramatic fall in US crude stocks as US refiners increased crude runs and an expansion in pipeline capacity helped ease the glut of oil that had built up at Cushing, Oklahoma (Cushing is a major trading hub for crude oil and the price settlement point for the benchmark oil price in the US). US refiners ramped up crude runs in response to strong profit margins and rising demand. In response, the benchmark US oil price hit a monthly high of US$109.32 and reached levels not seen since the height of tensions between the West and Iran back in February 2012. As benchmark US oil prices rose in response to domestic factors in the US, upward pressure was applied to the world's major benchmark oil price, Brent crude oil, as it has traded at a premium to the US benchmark price since 2010.

Supply disruptions continued to support Brent crude prices in July, particularly in Libya where the oil sector has been hit by strikes and other protests by workers and local people demanding better conditions and more employment in the post-Qadhafi era. The strikes have forced the closure of two of Libya's key crude export terminals towards the end of the month. Libya has also been hit by unrest at oil fields across the country which has severely curtailed crude production and exports which move mainly to Europe. It has been estimated that Libyan output sank to 1.2 million b/d in June having reached 1.6 million b/d last year. In addition to the issues in Libya, in July the market also digested the news that falling output from Iraq and Nigeria meant that OPEC's output for June declined month-on-month as these three countries produced 420,000 b/d less. The influence of falling OPEC supply was exacerbated by unrest in Egypt and the potential supply disruption of an estimated 3 million b/d (from both the Suez Canal and the Sumed pipeline). Additional supply constraints emerged on news of falling Norwegian production in June to 1.32 million b/d. This highlighted the decline of the once prolific Norwegian Continental Shelf which a decade ago produced over 3 million b/d. In addition to these supply concerns, better than expected job creation in the US and manufacturing in the euro zone helped boost trader sentiment which also fed through to oil prices. Rising global equity indices also contributed to higher oil prices as markets responded favourably to news from the US Federal Reserve that tapering of its Quantitative Easing programme would occur over a phased period and that it will continue to support US growth.

Despite rising oil prices over the month, evidence of booming US oil production and a slowdown in the growth of the world's leading emerging economies provided some counterbalance to rising prices. As emerging economies are driving global oil demand growth, this slowdown will feed through to prices. In the month, the slowdown was evident following another month of disappointing economic news from China (in manufacturing, exports, imports & growth) which suggests that the economy is struggling to shift from an investment led growth model to a more balanced consumer-based model.

Natural Gas Index



1 Mth	6%	3 Mth	-12%	12 Mth	5%

*Index adjusted for currency movements.
Data Source: Spectron Group

Natural gas

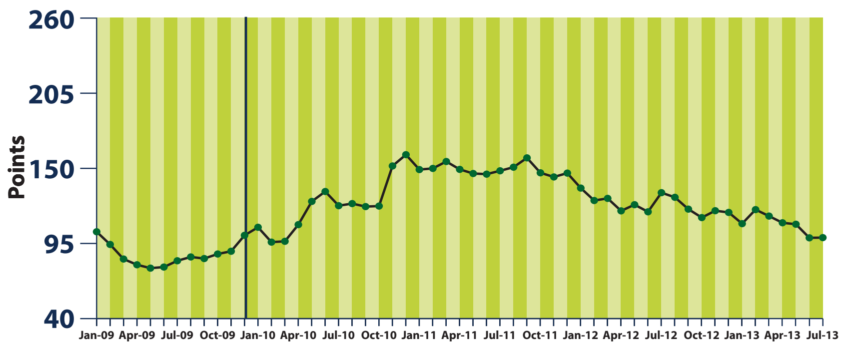
The average Day-ahead price for July was 6% higher month-on-month despite the low demand levels. At 64.94p a therm, prices are much higher than previous years. In July 2012 the average Day-ahead price was 55.61p a therm. For previous years it was in 2011 at 55.19p a therm, in 2010 at 46.03p a therm, and in 2009 at 22.90p a therm. According to Bank of America Merrill Lynch, the UK gas "market is clearly still feeling the aftermath of a protracted winter chill in the northern hemisphere" which saw prices hit record highs as gas supplies struggled to meet demand.

This heightened sensitivity to UK gas supplies was stoked in July as planned and unplanned maintenance of fields and terminals created a general tightness in the market throughout the month that supported prices. Reduced LNG supplies added further tightness as the lack of cargoes arriving to the UK suggests that suppliers are favouring other buyers in Asia and South America who are willing to pay more for cargoes of gas. A lack of fresh LNG supplies to the UK meant that flows of gas from the UK's LNG terminals reduced significantly month-on-month. LNG demand from the Far East was underpinned by hot weather, with major Japanese utilities reportedly needing spot LNG cargoes to secure electricity production. Furthermore, a slight scarcity in global LNG supplies due to a port blockade affecting Nigerian shipments bolstered global buying interest and the appeal of locations other than the UK.

The tight situation experienced in July is expected to continue into August with Norwegian supplies expected to be reduced by 55 million cu m/day from August 1 to August 10. This is followed by the yearly maintenance of the Kollsnes terminal which will reduce supplies by a further 145 million cu m/day. This maintenance will coincide with work at the Easington Gas Terminal which will have an additional impact of 71 million cu m/day.

The upward pressure on Day-ahead and other prompt contracts seen in July coupled with trader anxieties over supplies and gas stocks impacted the forward winter 13/14 and summer 14 gas prices. The average monthly prices for both rose month-on-month. Rising Brent crude oil prices also contributed to the upward price movement.

Coal Index



1 Mth	0%	3 Mth	-10%	12 Mth	-25%

*Index adjusted for currency movements.
Data Source: ICE

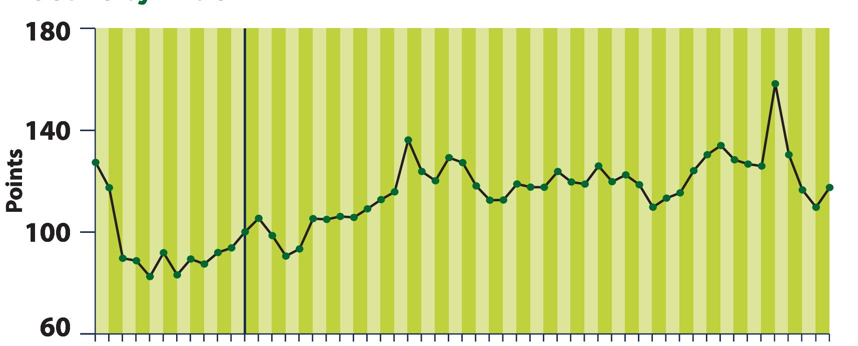
Coal

In US Dollar terms the ICE Rotterdam Monthly Coal Futures contract rose nearly US$2 but in euro terms these gains were eroded due to a weakening Dollar versus the euro.

The ICE Rotterdam Monthly Coal Futures contract traded in a very tight range for the majority of the month and the historically low price reflected an oversupplied European coal market and falling demand. However, towards the end of the month coal prices received a boost as mine and port workers at the Colombian operations of US-based thermal coal miner Drummond started an indefinite strike after failing to reach an agreement over a three-year wage and benefits collective labour package. Drummond produced about one-third of the country's total output in 2012. It was reported that the Atlantic market would be losing around 500,000/mt of export tonnage a week. However, in the short term this is not expected to have a significant impact considering that the European coal market is oversupplied. However, if the strike extends over a number of weeks, prices have the potential to react more aggressively as buyers look to acquire coal stocks ahead of the winter. Traders are generally of the opinion that the strike would have to last a very long time for the loss of this 500,000/mt to have any impact on spot European-delivered coal prices. This is the second coal miners' strike this year in Colombia (which is the world's fourth largest thermal coal exporter) after 32 days of industrial action in February and March. The workers' union Sintramienergetica said it is open for further talks but that the strike would only be resolved "when the company understands the pressing needs of worker and makes fair proposals to settle the labour dispute".

Possibly in anticipation of fewer Colombian supplies, at the end of the month a South African-origin cargo was sold into Rotterdam which may be a sign that traders are somewhat concerned that the market for coal could become tight and alternative supplies will be required.

Electricity Index



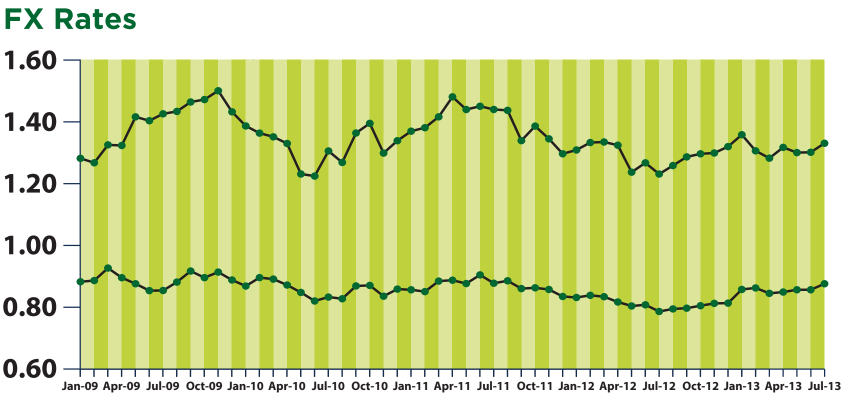
1 Mth	7%	3 Mth	-10%	12 Mth	4%

Data Source: SEMO

Electricity

In July the monthly average Irish wholesale electricity price rose 7% month-on-month mainly as a result of the 6% rise in the UK average Day-ahead wholesale gas price. As the wholesale Irish electricity price tends to be determined by the cost of producing power at a gas powered plant, rising Day-ahead UK gas prices had a significant impact and pushed Irish electricity prices higher.

Some additional upward price pressure was applied as the volume of electricity produced by wind fell with the exceptionally warm and stable climatic conditions experienced in July. In the month, wind generated electricity met 5% of Ireland's electrical needs and this was the lowest monthly level in 2013 and a reduction from the 10% recorded in June. Lower wind levels are expected during the summer months. As a consequence of these low wind levels, more expensive fossil fuel plants were called upon to produce power and the system had to incur these extra costs which fed through to the wholesale electricity price. In July, the percentage of electricity demand met by coal and gas plants increased.



1 Mth	2%	3 Mth	1%	12 Mth	8%	EURUSD
1 Mth	2%	3 Mth	3%	12 Mth	11%	EURGBP

FX rates

Month-on-month the euro gained versus the US Dollar and British Pound.

For the majority of July the Pound was relatively stable versus the euro but it started to weaken toward the end of the month in anticipation of the Bank of England's policy decision on 1 August. Seven days of consecutive weakness versus the euro meant that the Pound experienced its longest losing streak versus the common currency since January. With the appointment of a new Governor of the Bank of England, coupled with some weak economic numbers, the market started to price in assertive action from Mr. Carney to help support fragile growth. The market positioned itself for the release of news in early August from the Bank of England of supportive monetary-policy guidance and the continuation of its accommodative policies. This anticipation weighed on the value of the Pound versus the euro in late July.

In early July the euro weakened versus the US Dollar as the president of the European Central Bank took the unprecedented step of pledging to keep borrowing costs at the current record low, or even lower, for an "extended period". Analysts commented that Mario Draghi had "left the door open for cuts" and the euro subsequently weakened. Towards the end of the month this trend was reversed as the latest survey-based indicators added signs that the euro zone region may be tentatively on the mend. In July, manufacturing PMI indicated that the sector edged back into growth territory for the first time since 2011 supported by higher export orders. The gauge for services showed further stabilisation after the sharp declines posted earlier in the year. In contrast, the US Dollar appears to have reacted negatively to the Fed's July meeting as there was no announcement on the start of the taper. Rather the Fed took the opportunity to stress that any reduction in Quantitative Easing is dependent on the economy continuing to improve. With a number of mixed economic releases from the US during the month, the timing of the Fed's announcement is unclear. The further this decision is pushed into the future, the more it will disappoint the market and this disappointment will weigh on the US Dollar. Following a remark in May by the Chairman of the Fed that its bond buying programme might soon tail off, the market has been pricing in a stronger Dollar in anticipation of an official announcement from the Fed.

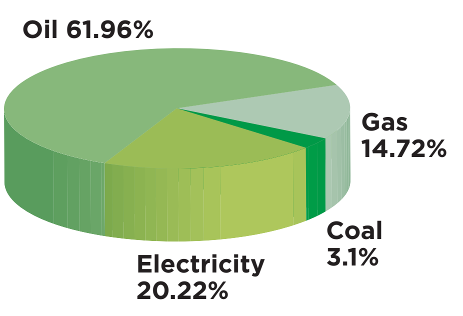
Market Outlook

The dramatic rally seen in the benchmark US oil price in July helped nudge the Brent crude oil price higher as Brent tends to trade at a premium to the US benchmark price. This rally has been linked to substantial falls in US crude stockpiles which hit six-month lows at the end of July. However, having hit its highest price this year, traders are starting to question whether the US benchmark crude price can push any higher. In this context, traders will continue to monitor US crude stocks to gauge whether the US benchmark oil price is under or over valued at current levels. This assessment will impact Brent crude oil prices. As always, geopolitical concerns will continue to linger in the background with the most immediate danger currently coming from Egypt and the potential supply disruption of an estimated 3 million b/d (from both the Suez Canal and the Sumed pipeline). On a more conciliatory note, Iran's new president Hassan Rouhani has called for 'serious and substantial' negotiations with the international community about its nuclear programme. However, in July Israel's Prime Minister warned that Iran had made progress in its nuclear enrichment activities and is getting closer to the 'red line' he set for its nuclear programme.

Currently, the US Fed is committed to its bond buying programme which has supported equity indices and oil prices. However, with every modest improvement in the US economy, markets are starting to speculate as to when the Fed will start to trim back on its stimulus activities. As investors have grown to rely on the central bank's monthly bond purchases, any tapering has the potential to weaken investor confidence and oil prices. Despite this month's rally in oil prices, the shadow of shale oil continues to hang over the market. During the month, US oil production hit a 22 year high and Saudi Arabia's Prince Alwaleed bin Talal warned that demand for his country's oil is falling given the surge in shale production in the US. Furthermore, according to the International Energy Agency (IEA), surging supplies of oil from the US and other non-OPEC producers are set to outpace an expected acceleration in world oil demand growth in 2014, laying the ground for softer prices. According to the IEA, North American supply alone is expected to grow by nearly 1 million b/d in 2014, with other countries including Brazil and Kazakhstan also set to contribute to growth. The Economist magazine added further weight to the bearish assessment of future oil prices in the medium term as it questioned whether oil demand has peaked. The Economist questioned whether supplies of unconventional gas would displace petrol and diesel in cars and if the efficiency of the modern internal-combustion engine would seriously erode petrol and diesel demand. With the current deceleration in the economic growth of emerging market economies, an additional bearish factor has emerged as non-OECD oil demand leads global oil demand growth.

Re-weighting of Bord Gáis Energy index

Following the SEAI's 2011 review of energy consumption in Ireland, there was a 6.4% drop in overall energy consumption. Oil continues to be the dominant energy source with most of the oil used in transport and the remainder being used for thermal energy. For the purposes of the Bord Gáis Energy Index, the total final energy consumption in Ireland fell 1,089 ktoe (toe: a tonne of oil equivalent is a unit of energy, roughly equivalent to the energy content of one tonne of crude oil) between 2009 and 2011. This fall was made up of a 1,022 ktoe drop in oil consumption (down 13.5%), a 20 ktoe drop in natural gas (down 12.6%), a 7 ktoe drop in electricity (down 0.3%) and a 40 ktoe drop in coal (down 10.98%). The Bord Gáis Energy Index has been re-weighted in January 2013 to reflect the latest consumption data. The impact has been minimal and has resulted in slight reductions in the share of oil and gas and a slight increase in the weighting of electricity in the overall Index.



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