Bord Gáis Energy Index

UNDERSTANDING ENERGY

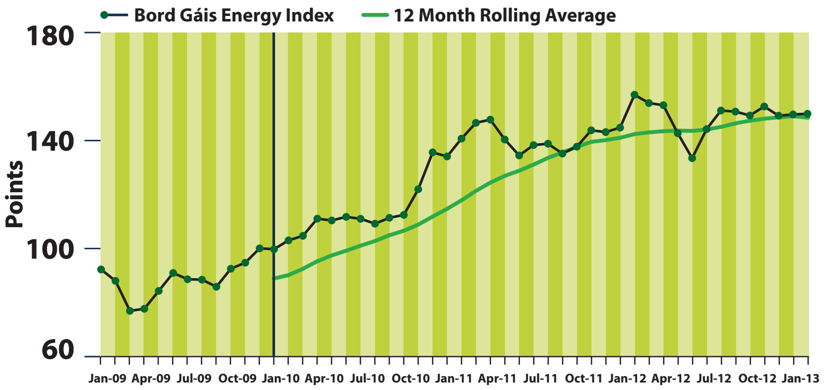
February 2013

think beyond

Bord Gáis Energy

A RENEWED AWARENESS OF ECONOMIC UNCERTAINTY AND FURTHER EVIDENCE OF BOOMING US OIL PRODUCTION IMPACTS WHOLESALE PRICES

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



1 Mth 0% **3 Mth** -2% **12 Mth** -4%

Summary:

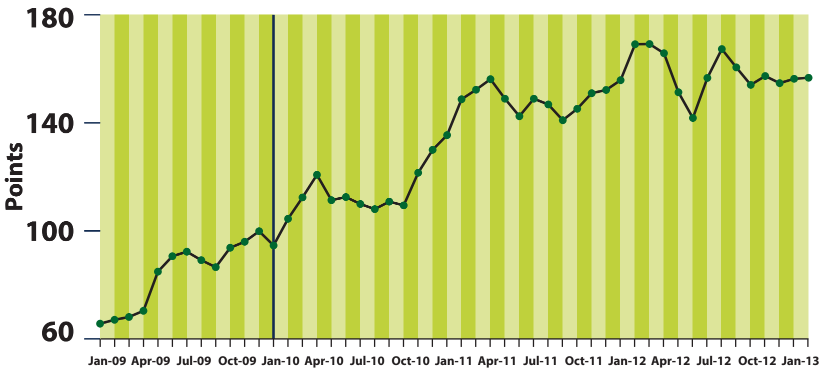
The Bord Gáis Energy Index was unchanged month-on-month as the gloss of the global economic recovery was tarnished by a swathe of negative economic releases. Italy's rejection of austerity also reminded the markets that the path to recovery will be difficult and is still not assured.

Ample oil supplies and diminished geopolitical concerns also helped to ease Brent crude oil prices in US Dollar terms. 12 months ago, as Iran threatened to close the Strait of Hormuz, oil traded at over US$125. In February it closed at US$111.

As the euro weakened versus the US Dollar, euro zone buyers did not benefit fully from the month-on-month fall in the price of Brent crude oil.

Oil prices in 2013 started the year under the influence of a potent mix of economic optimism and geopolitical concerns. However, during February, negative economic releases across the globe and the resurfacing of old sores reminded traders that the world economy is still in a fragile state and the path to recovery will be difficult to navigate. Shifting market sentiment was demonstrated by reaction to contrasting news from China. Early in the month, oil prices rallied to a high of the year as China released stronger than expected trade data, suggesting that oil demand for 2013 would be strong. By the end of the month, concerns about the Chinese economy were raised as a gauge measuring China's mighty manufacturing sector revealed that it was operating barely above contraction levels. January's bullish mood was further eroded by Italy's rejection of austerity which put into question the ability of European policy makers to steer a course out of the debt crisis in a manner that satisfies the markets and the people who are struggling under a wave of spending cuts and tax increases. Although talks between Iran and the West did not deliver a result, positive post meeting soundings and an agreement to meet again helped ease the tension that has pushed up oil prices over the last 12 months. These factors over the month resulted in a US$4 drop in the price of Brent crude oil and encouraged money managers to scale back their bets that oil prices would rise.

Oil Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth 0% **3 Mth** 0% **12 Mth** -7%

Oil

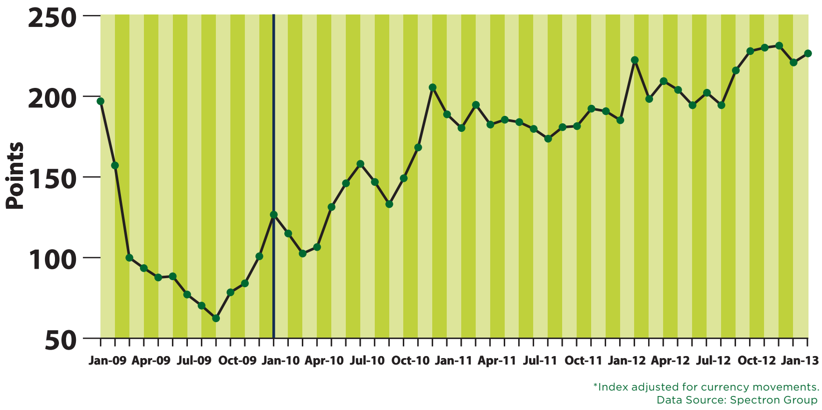
Month-on-month, in euro terms, the front month Brent crude price remained unchanged but in US Dollar terms, prices fell nearly 4% as the New Year's confidence proved somewhat fleeting and began to wane. As the euro fell 4% versus the US Dollar, euro zone buyers did not benefit from the US Dollar fall in Brent crude oil.

On the geopolitical front, despite not yielding a result, talks between Iran and world powers in Kazakhstan did not add to tensions which have supported the price of Brent crude oil over the last 12 months. Iran failed to secure a partial reprieve from sanctions that have crippled its oil-based economy but Iran claimed that the West demonstrated a more tolerant position to its right to enrich uranium. There was agreement that technical experts on both sides would meet in Istanbul this month and to meet at a political level in April. Despite the potential these talks offer, the UN's nuclear watchdog reported that Iran has installed advanced centrifuge machines at its facility in Natanz and Israel claim that this could cut by a third the time Iran needed to create a nuclear bomb.

On the supply front, further evidence of the US's domestic energy boom continued as it emerged that US oil output hit a 20 year high of 7.12 mb/d in the week ended 15 February and that its net petroleum imports fell below 6 mb/d in December for the first time in over 20 years. Domestic US oil output is now 22 percent higher than a year ago. With the US relying less on imports, particularly from Nigeria, the global oil market is becoming increasingly loose and prices are easing. It also emerged that exports from OPEC surged in February on the back of higher exports from Iraq and Saudi Arabia.

On the demand front, the prospects of oil demand took a dent in February. Optimism about the global economy faded in February on news that euro zone manufacturing and service sectors are contracting; that the German economy shrank in Quarter 4 2012; that China's manufacturing is expanding at its slowest pace in 4 months; that US spending cuts could damage the economy; and that Italians voted no to austerity and reform.

Natural Gas Index



1 Mth **3%** **3 Mth** **-2%** **12 Mth** **2%**

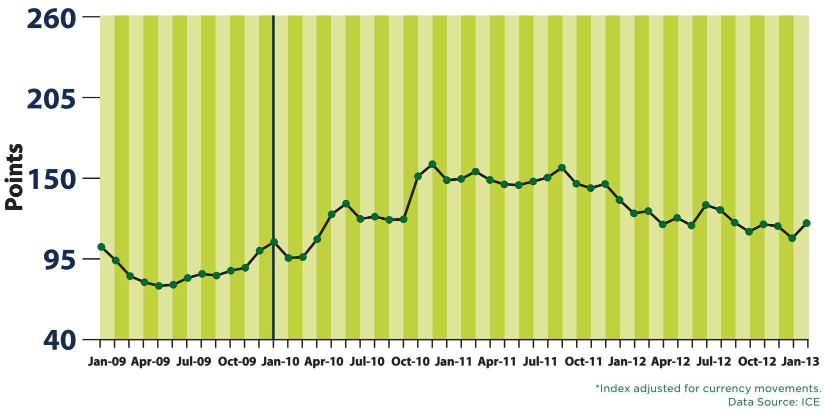
Natural gas

The average Day-ahead gas for the month of February rose 3% month-on-month.

In February, the weak underbelly of the UK gas system, being the lack of diversity in supply, was exposed by the cold weather which heavily depleted storage levels at the UK's main gas store, Rough. There is now growing concerns over the loss of globile LNG gas supplies to the UK over the last 12 months. In 2011, the UK received nearly 25billion cubic meters of gas in the form of LNG. In 2012, this was reduced to 13billion cubic meters (a fall of nearly 50%). In 2013 the volume is expected to fall further as LNG suppliers currently prefer to send their tankers to higher priced destinations in Asia where buyers are willing to pay over $18/MMBtu, which is much higher than the UK price of around $11/MMBtu. Towards the end of February Rough held 9,889GWh of gas. This was below the 5 year average and nearly 50% lower than the volume held 12 months earlier. As LNG supplies dry up, limited storage is being eroded quickly and piped gas from Norway and the Continent has to fill the gap left by LNG. If flows from Rough continue at the withdrawal rates seen toward the end of February, the strategically important facility will be empty by the middle of March. With traders concerned about restrictions in near term supply and increased demand this summer, forward gas contract prices also rose.

In early March, the thin and fragile nature of the UK's current gas supply situation was exposed when an unplanned outage in the North Sea cut Norwegian gas supplies to the UK and prices spiked to over £1 a therm.

Coal Index



1 Mth **9%** **3 Mth** **1%** **12 Mth** **-5%**

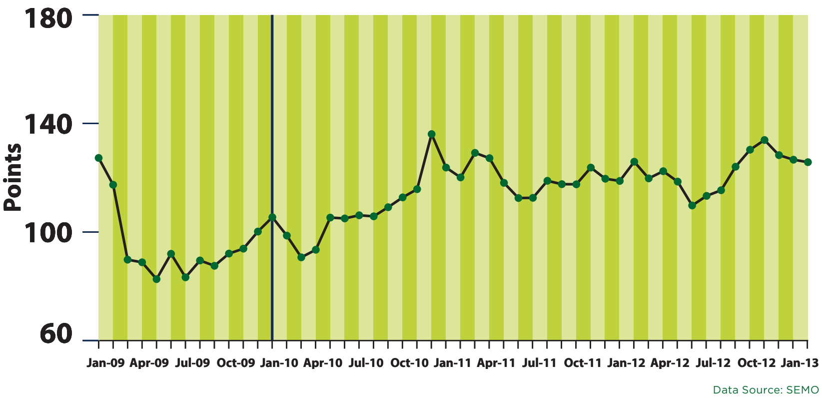
Coal

In February, European coal prices rose due to the loss of 3 million mt of Colombian coal imports which compromised supplies to Europe. Colombia is the leading steam coal exporter to Atlantic markets followed by Russia and the United States.

On the 7th February workers at Colombia's largest coal producer went on strike for the first time since 1990 and during the month negotiations to resolve the wage dispute broke down. This proved to be a major focus of instability to European markets. Towards the end of February the strike was still unresolved but discussions between Carrejon and its workers' union had got beyond agreeing the framework for further talks. Additional stress was applied to Colombian exports as a result of an export ban being placed on the country's second largest miner Drummond for allegedly tipping coal into the Caribbean Sea in a bid to avert a barge from sinking amid high sea levels. As a result of this loss, the European coal market's supply overhang has been eroded and the market has moved from being long to being balanced.

With China's coal production growing at the same time as infrastructural improvements and falling delivery costs, coal stocks are 'piling up close to capacity' and domestic prices have fallen to 4-year lows. With China being the dominant global coal buyer, its lack of appetite for internationally traded coal continues to act as a drag on global coal prices. Production targets for China's energy intensive steel, cement and infrastructural sectors will be released in March following the National People's Congress in Beijing and this could spur international coal demand.

Electricity Index



1 Mth **-1%** **3 Mth** **-6%** **12 Mth** **0%**

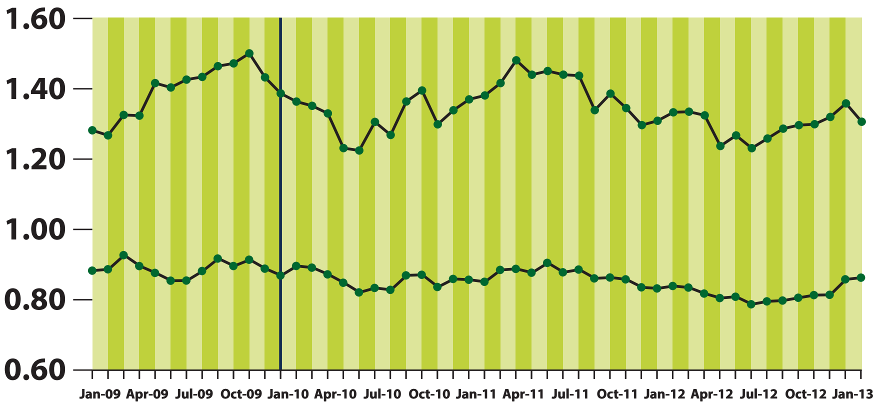
Electricity

Despite rising wholesale gas and coal prices, Irish wholesale electricity prices fell 1% in February month-on-month. Similar to January, over 65% of the electricity generated in Ireland to form the wholesale price came from burning gas and coal. In general, price movements in these international markets heavily influence wholesale electricity prices.

Despite rising commodity prices, wholesale electricity prices in Ireland fell as more efficient gas plants were running (this put downward pressure on prices as efficient plants burn less gas which reduces cost on the system) and from having to rely less on expensive 'peaker' units to generate over short periods of time to meet demand (peak plants are expensive to run and put upward pressure on prices).

Weak carbon prices (European carbon prices for 2013 closed at an all time low on 31 January 2013) also help to apply downward pressure on wholesale electricity prices. Gas and coal plants are required to pay for the carbon they emit and weaker carbon prices reduce the cost of producing electricity from thermal sources which ultimately feeds through to the wholesale price.

FX Rates



1 Mth	-4%	3 Mth	1%	12 Mth	-2%	EURUSD
1 Mth	1%	3 Mth	6%	12 Mth	3%	EURGBP

FX rates

In February the euro tumbled against the US Dollar as Italy's parliamentary elections failed to deliver a clear winner and reawakened market concern of further economic distress in Europe. Markets now fear that the euro zone is in danger of stagnating as voters reject austerity and this could lead to economic paralysis and political decline. Poor economic releases also helped to speed the pace of the euro's decline as it was shown that the German economy contracted 0.6% in Quarter 4 2012; that the unemployment rate in the euro zone rose to fresh highs; and the Purchasing Managers Index revealed that the manufacturing and services sectors in the economic region contracted again in February.

Despite the euro's weakness, the British Pound is the world's worst-performing major currency this year and Moody's first ever credit rating downgrade of the UK's sovereign credit rating by one notch from AAA to AA1 added to this weakness. The Bank of England's Monetary Policy Committee and its members also supported the Pound's decline as it was revealed that a growing number of members are in support of additional quantitative easing (QE) and that the committee is discussing alternative stimulus measures.

Despite steep spending cuts which could damage the US economy and a GDP growth rate of just 0.1% in Quarter 4 2012, the US Dollar gained in value. The markets were comforted by the US Federal Reserve Chairman recommitting the Fed to its QE programme and data showed that US consumers are confident as the housing sector recovers and equities markets head to all time highs.

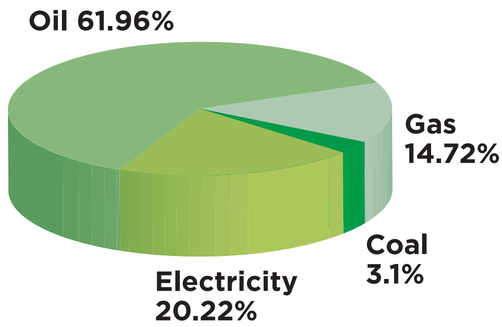
Market Outlook

Since November, investor mood has been bullish and equities have rallied to all time highs. As financial investors now exert a considerable influence on oil prices, Brent crude oil has over a similar period got caught in the tide of optimism and rose from US$110 in November to US$118 by mid February. This optimism focuses less on the performance of the corporate sector but more on the monetary policies of the rich-world's central banks and a subtle move toward a dovish stance that would tolerate higher inflation in the short term in pursuit of higher output. As long as the bulls run in the equity markets, the belief is that oil prices will receive support. However, in February, the relationship between oil and equities appeared to have weakened as talks between world powers and Iran helped ease the geopolitical tensions that have been simmering for 12 months. Another key factor that could erode oil prices in the months ahead is the growing shale oil revolution in the US. Further evidence of its evolution appeared during the month as it emerged that US oil output hit a 20 year high and its net petroleum imports fell below 6 mb/d for the first time in over 20 years. Domestic US oil output is now 22 percent higher than a year ago. With the US relying less on imports, particularly from Nigeria, the global oil market is becoming increasingly loose and prices are easing. Coupled with rising supplies, demand by the world's number 1 consumer of oil hit the lowest level in 2012 since 1996. Adding to the current picture of booming supplies, it also emerged that exports from OPEC countries surged in February on the back of higher exports from Iraq and Saudi Arabia. The death of Venezuela's president will cast a spotlight on its oil exports and future relationship with the US as the country is the second largest oil exporter to the US behind Canada.

UK gas prices will continue to be exposed to a limited range of supply in the face of rising demand, which will be influenced in the short term by the weather. On a bullish note, a raft of upcoming coal plant closures in the UK will increases demand for gas in the UK as electricity plants that produce by burning gas will have to fill the gap.

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.



For more information please contact:
Fleishman-Hillard — Aidan McLaughlin — 085 749 0484
Bord Gáis Energy — Christine Heffernan — 087 050 5555