Bord Gáis Energy Index

UNDERSTANDING ENERGY

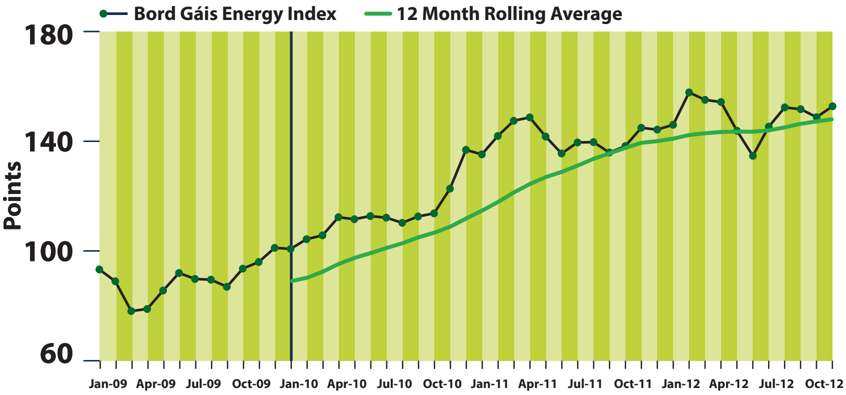
November 2012

think beyond

Bord Gáis Energy

A Slight Rise in Wholesale Energy Prices pushed the Energy Index up 2%

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



1 Mth 2% **3 Mth** 0% **12 Mth** 5%

Overall summary:

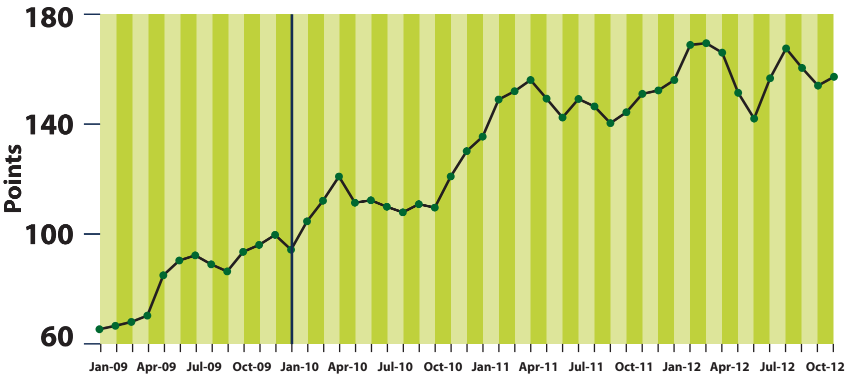
With the extensive unrest experienced in the MENA region during November and the possibility that tensions could escalate in 2013, oil prices rose 2% in November in euro terms.

Given these tensions, it is estimated that oil prices are now carrying a 'fear premium' of US$20.

A strengthening euro versus the US Dollar in November did moderately help suppress the US Dollar rise in Brent crude oil. These gains proved to be short lived as the ECB and the German Central Bank slashed their growth outlooks in December.

The Energy Index rose 2% in November primarily on the back of higher Brent crude oil prices. Continuing unrest in the MENA region supported oil prices on fear that oil supplies from this pivotal supply region would be disrupted. It is estimated that there is now a US$20 'fear premium' being priced into Brent crude oil in recent months given the conflicts that have escalated, are continuing to simmer and are brewing. Despite the many future uncertainties, stabilisation of the European financial crisis continued in November, given agreements reached on Greece's debt and Spanish bank recapitalisation. These developments supported trader sentiment which fed through to oil prices. With the threat of the so called 'fiscal cliff' hanging over the US economy and an increasing likelihood that the UK will revert back into recession in 2012, the euro received a boost which helped modestly suppress the rise in internationally traded fuel commodity prices for euro zone buyers. With a more accommodative policy agenda expected in the short-term under the new party head in China, oil received further support as the global economic picture in 2013 appeared a little less precarious. Colder weather is starting to impact prompt wholesale UK gas prices which are at this time of the year sensitive to even the most modest supply disruption.

Oil Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth 2% **3 Mth** -6% **12 Mth** 4%

Oil

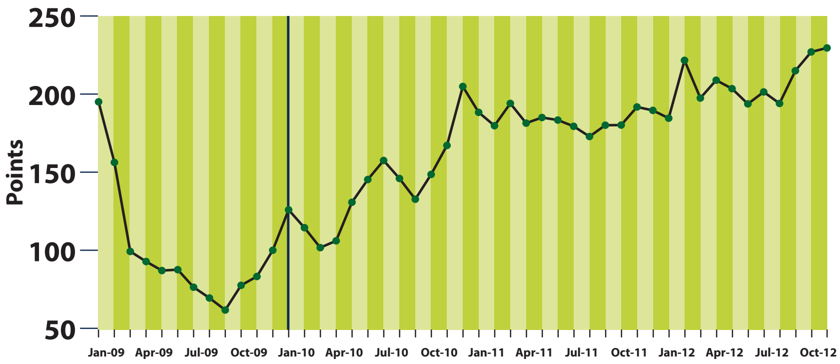
In euro terms, the front month Brent crude price rose in November by 2%. The price of Brent received a boost as developments in Europe helped assuage market concerns about the most severe sovereign risks. In addition, continued unrest in the MENA maintained concerns about the possible disruption of oil supplies from a region that accounts for roughly 35% of world crude production.

In November the agreement reached on Greece's debt sent a signal to the markets that every attempt will be made to keep Greece in the euro zone and the injection of €37 billion by the European Commission into four Spanish banks helped bolster sentiment. Geopolitical tensions continued to simmer between and within nations in the MENA.

In particular, the UN's nuclear watchdog said it has 'credible information indicating that Iran has carried out activities relevant to the development of a nuclear explosive device' and that Iran is also ready to double the output at its underground uranium enrichment facility. Geopolitical tensions were raised further following the announcement from North Korea that it is to test a rocket launch in December.

Some positive economic numbers from China (in industrial production, retail sales, manufacturing) and the US, underlined support to the price of oil. Under China's new party head, the short-term policy agenda for China next year is expected to be relatively more accommodative while maintaining consistency and continuity.

Natural Gas Index



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

1 Mth **1%** **3 Mth** **18%** **12 Mth** **20%**

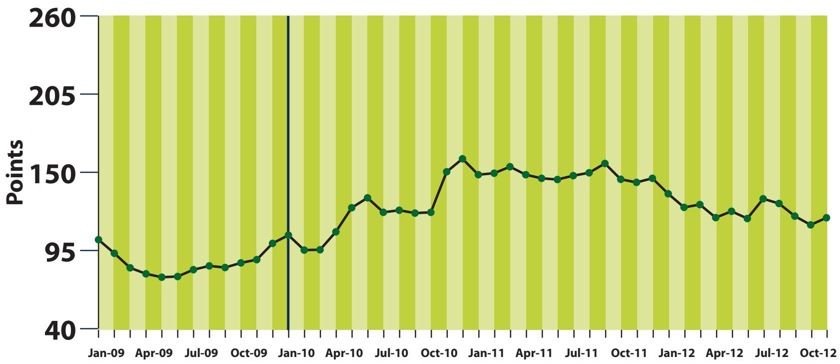
Natural gas

The average UK Day-ahead gas price rose for the third consecutive month but the increase was limited to 1%.

UK Day-ahead prices generally trended up during the month of November as cold weather led to strong rises in residential demand and this more than offset a recovery in LNG supplies to the UK with the return of Qatari liquefaction trains from maintenance. Prices were also supported by disruptions to Norwegian supplies and prompt prices trended between 64p and 67p throughout the month. Looking ahead, some forecasts for December have been updated to forecast colder than normal weather for December.

On the NBP curve market, summer 13 traded between 61p and 63p during the month of November, closing at 62.5p (up 1p month on month). Rises in the contract were attributable to a combination of continued firm spot prices on NBP and a rise in oil prices over the course of the month. The direction of the contract this side of Christmas will be heavily influenced by the amount of gas withdrawn from UK storage – UK storage facilities remain over 90% full, but if storage is withdrawn heavily to accommodate higher demand in cold conditions, this could put upward pressure on summer 13 as traders look to replenish stocks in the following summer period.

Coal Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth **4%** **3 Mth** **-8%** **12 Mth** **-17%**

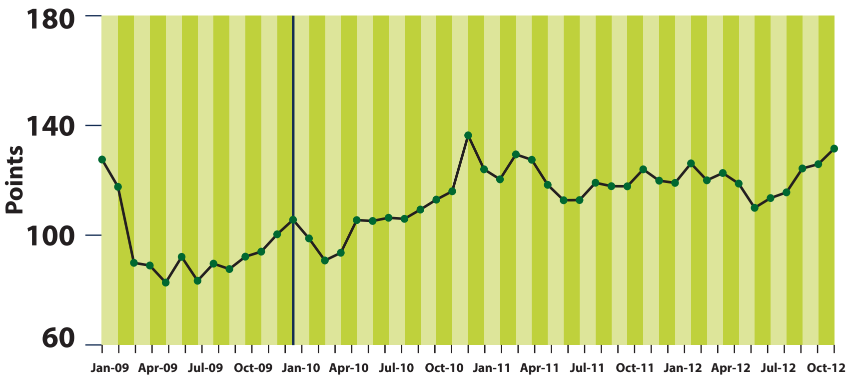
Coal

In November, European coal prices increased 4%. During the month Atlantic prices experienced their most prolonged bull-run since August when a rail strike in Colombia cut coal supplies. The fundamentals are less strong this time but a number of factors explain the movement.

Firstly, Colombian coal supplies to Europe remain steady but Colombian supplies are not able to supply Europe by itself. Russia is also an important source but it is having problems with shipments into Europe as a rail car shortage means that it is not able to transport enough coal to ports on the Baltic Sea. In the US, rising prompt monthly natural gas prices means that it is getting more attractive to burn coal to produce power. This means that the US has trimmed its exports to Europe and rising US demand may start to attract larger Colombian cargoes. As a consequence of these international developments, the European market is perceived as being a little tighter and wholesale prices rose. To attract future supplies of coal from the US and Russia, wholesale prices may increase further in the months ahead. This perceived tightness coupled with a lot of structural shortness as we approach year end, led to a bout of short-covering which triggered more buying and which in turn pushed prices higher.

Other factors that supported coal prices included the stronger euro-dollar exchange rate, stronger oil prices, colder weather forecasts, the onset of the peak winter season in the northern hemisphere, and widening clean-dark spreads which has stimulated strong coal burn which in turn will erode healthy coal stocks.

Electricity Index



Data Source: SEMO

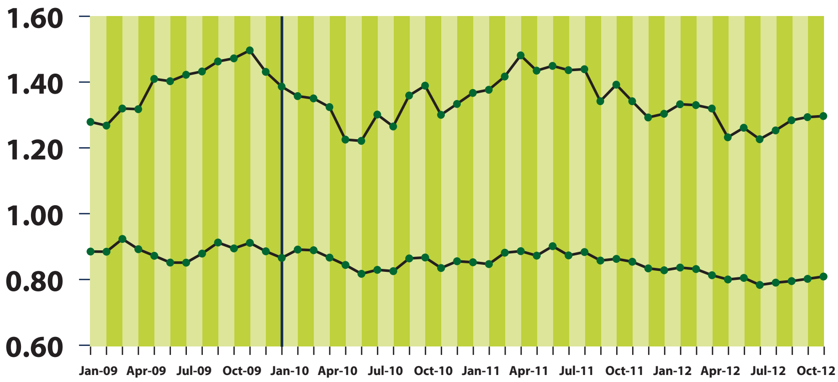
1 Mth **1%** **3 Mth** **14%** **12 Mth** **6%**

Electricity

In November, wholesale Irish electricity prices rose 1%. Higher European coal, up 4% month-on-month, and wholesale Day-ahead UK gas prices, up 1% month-on-month, put upward pressure on Irish electricity prices as these commodities are the primary fuel sources for the production of electricity. With colder weather, rising peak demand is becoming evident. This tends to apply greater upward pressure on wholesale electricity prices as more inefficient and costly plants are required to meet demand. These extra costs are reflected in the wholesale price of electricity.

A fall in EUA carbon allowances and a strengthening euro versus the US Dollar and British Pound helped modestly to ease wholesale price rises.

FX Rates



1 Mth	0%	3 Mth	3%	12 Mth	-3%	EURUSD
1 Mth	1%	3 Mth	2%	12 Mth	-5%	EURGBP

FX rates

The euro continued to strengthen modestly versus the US Dollar and British Pound during November. Indeed, since July, the euro has gained value as market concern about severe near-term stresses in the euro area have reduced significantly. In part, this reflects further policy initiatives by the ECB, such as the Outright Monetary Transactions programme.

In November specifically, euro sentiment has brightened following agreement to release €34 billion in aid to Greece in December and to the announcement that the European Commission will inject funds to recapitalise four Spanish banks. The deal for Greece was seen as positive as it reduced the country's debt burden by €40bn, cut the interest rate, extended repayment deadlines and deferred interest payments. The President of the ECB bolstered sentiment in the euro by reiterating that it will do whatever it takes to keep the euro stable and confirmed that the euro is on track for a recovery. But in early December the euro's gains were reversed by a more downbeat forecast of euro zone growth from the ECB.

With few tangible signs of any material progress on the so called US 'fiscal cliff', this concern has eclipsed the euro zone crisis as the focal point for market uncertainty. The Fitch ratings agency recently called it the 'single biggest near-term threat to a global economic recovery'. This uncertainty weakened the US Dollar in November. With deteriorating growth prospects for the UK economy in 2013, the British Pound suffered.

Market Outlook

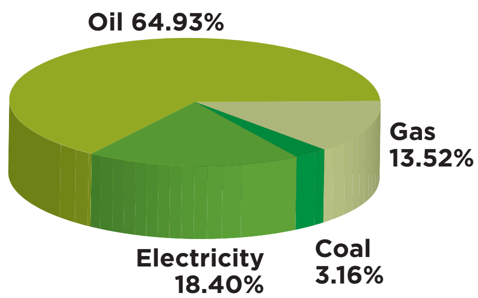
It is estimated that the Middle East turmoil and the conflict with Iran may be inflating oil prices with a 'fear premium' of as much as US$20 per barrel in recent months. With Iran estimated to be close to producing a nuclear bomb by spring 2013, a military conflict is an increasing possibility in the first half of 2013. The markets are also concerned that political unrest in Syria could spread to larger oil producers in the region. As tensions in the region multiply, the risk to vital oil supplies to the rest of the world increases. With the world losing 1.7 million barrels a day of oil production from the MENA region in 2012 (specifically from Iran but by a lesser extent from Yemen, Syria and South Sudan), the average annual price of oil in 2012 has reached a record high.

However, assuming an easing in tensions in the MENA region in 2013, oil prices are expected to decline as non-OPEC supply growth gathers pace. In 2013 and beyond, US 'tight' oil is expected to ease oil supply anxieties as the US becomes increasingly energy independent. To a lesser extent, oil from Canada, Brazil and Iraq is also expected to help ease supply concerns. As non-OPEC supply increases, pressure on OPEC's vital spare crude oil production will ease, which in turn could erode the current 'fear premium'. This erosion could see prices falling to between $95 – $90. Coupled with increasing oil supply, significant uncertainties surrounding the global economy will restrict global oil demand growth.

Over the coming months gas prices will be influenced by the weather and supplies. Weather Services International expects temperatures for the upcoming period (Dec – Feb) to average slightly lower than normal across the UK. If correct, pressure will be applied to wholesale gas prices if supplies of gas are interrupted. On this front, European supplies were made more secure following the commissioning of an extensive oil and gas field in Russia and the completion of the Nord Stream pipeline which enhances the European pipeline infrastructure. Strategically, this pipeline by-passes the sensitive Ukrainian transit point and potentially increases the volume of Russian gas that can be delivered to Europe.

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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