Global oil price affects Bord Gáis Energy Index

16th January 2015: The December Bord Gáis Energy Index fell again this month due to the on-going softening in global oil prices and in December 2014 the Index stood at 103.

While wholesale natural gas prices nudged upward again on this month's index, the overall index has fallen due partly to the fact that North American oil production has trumped global political concerns that had been propping up oil prices over the past four years. Despite some market sentiment that US production now has to slow, this is not expected until the middle of 2015 at the earliest. However, as consumers start to benefit, governments will be concerned by the possible reaction and consequences for those countries and economies dependant on oil revenues to meet budgetary requirements.

Commenting on the Bord Gáis Energy Index for December, John Heffernan, Power Trading Manager at Bord Gáis Energy said:
"History proves that lower oil prices, in both good and bad times, boosts global growth. However the fall in oil is associated with weak demand in China, Japan and Europe. Furthermore, with the growing possibility of deflation, a question mark remains over consumer spending trends.

"While the cold snap prevails, at Bord Gáis Energy we constantly review our pricing to ensure we offer our customers competitive products in the Irish market. We have been closely monitoring the movements in wholesale energy markets, and we are actively reviewing our pricing at the moment. As always, if it emerges that it is possible to pass on a price reduction, we will communicate this directly to our customers."

Oil (-16% in the month)
Brent crude prices closed the month at US$57.13 per barrel. The decision by members of OPEC on 27 November not to cut production also reflects a shift in the world oil market. US production has risen by 80% since 2008 and the question that will be answered in 2015 is whether US production can continue to grow with the US benchmark crude price trading at US$53.27 on 31 December. The answer to this question will influence the on-going market volatility.

According to the IEA, the impact of lower prices will start to emerge by the second half of 2015. Despite lower prices, the IEA is forecasting 2015 non-OPEC liquids growth of 1.3 million barrels per day and for demand to rise by just 904,000 barrels per day. Another question that may be answered in 2015 is what the consequences of lower oil prices will be on oil producers that are vulnerable to lower prices. In Venezuela, 65% of government spending comes from oil revenue. In Iran the number is 50% and 40% in Russia. These drivers could lead to further price volatility in 2015.

Natural Gas (+2% in the month)
The average Day-ahead gas price outturn for December was 53.71p per therm (p/th), in line with the average price for the previous month of 53.75p/th. However, a weakening euro helped nudge the cost of gas higher for euro zone buyers of gas sourced in Britain.

The Day-ahead contract for 2014 averaged 49.91p/th, with UK demand averaging at 220mcm per day. The largest upside risk to gas prices, throughout the year, stemmed from the Russia-Ukraine crisis. Russia supplies about one third of all EU gas, much of it via pipelines that transit the Ukraine.

The summer 15 contract finished the year at 46.50p/th and winter 15/16 closed at 53.08p/th, with both prices being the lows of the year. Month-on-month, this is a drop of 6.76p/th for the summer 15 contract and 7.08p/th for winter 15/16.

Coal (-7% in the month)
At US$66.75/mt, the ICE Rotterdam Monthly Coal Futures contract closed the month at its lowest point since July 2009. At US$66.75/mt analysts are questioning whether suppliers will be forced to cut production or idle mines. However, it is being reported that the strong US dollar is helping to temper the impact of lower delivered prices, with weaker currencies in coal origin countries allowing producers to still make some profit.

Electricity (-5% in the month)
Month-on-month the Irish wholesale electricity price fell from an average of €59.48/MWh to €56.23/MWh. The average clean spark in December was over €3/MWh lower month on month, further reducing the incomes of those utilities owning or relying on power generated from natural gas.

An influential feature of the Irish power market in December was the volume of electricity produced by the island's fleet of wind turbines. Although not reaching the record levels seen in December 2013, wind met a sizeable 21% of demand throughout the month. High wind volumes typically force more expensive thermal plant off the system and this reduces the revenues to traditional plant which now have to spread fixed costs over a far lower volumetric output, placing further question on their commercial viability in the current market structure. During the month, relatively cheap coal plants had a greater influence on the wholesale cost of power due to these high wind levels. As it is still cheaper to produce a unit of electricity by burning coal compared to gas, so the greater the influence of coal plants on setting the wholesale price of electricity. These factors coupled with strong interconnector flows, the testing of new gas powered plants and no significant outages throughout the month result in significant commercial pressures on any Generator or Supplier with reduced access to coal, peat or wind power sources.

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