

Record wind levels contribute to a fall in wholesale electricity price for December as Bord Gáis Energy Index falls 1%

Falling Irish wholesale electricity prices were the principal driver of the 1% month-on-month fall in the Bord Gáis Energy Index during December. Increased wind energy, which met a record 24% of the total electricity demand in December, combined with a reduction in electricity demand due to the mild weather, resulted in wholesale electricity prices dropping by 5% month-on-month. Wholesale coal prices dropped by 4% as fears of a disruption to coal supply from Colombia receded. The monthly UK average Day-ahead gas price increased 2% month-on-month.

The Bord Gáis Energy Index currently stands at 146 which is 2% lower than December 2012.

Commenting on the Bord Gáis Energy Index for December, John Heffernan, Gas & Power trader at Bord Gáis Energy said:

“The topline decrease of 1% in the Index masks some substantial changes during the month – especially in wholesale electricity prices. The substantial contribution of wind energy helped reduce the monthly average wholesale electricity price by 5%. Brent Crude oil prices remained steady however the outlook for 2014 remains uncertain as growing non-OPEC supplies compete with geopolitical uncertainty to be the key price driver. OPEC will once again attempt to stabilise supplies and prices as they have done for the last couple of years. The monthly average UK Day-ahead gas price continued to rise in December but a continuation of mild weather, strong Norwegian supplies and a storage overhang could apply some downward pressure in the months ahead.”

Oil (no change)

Month-on-month the front month Brent crude price was unchanged as events in Libya, Iraq and South Sudan continued to threaten global oil supplies which propped up Brent crude prices during December. However, these immediate supply fears could ease during 2014 if Iranian production and export volumes were to increase and we see continued expansion in non-OPEC supplies. Signs of this expansion were again evident in December with reports that US oil production reached its highest level in 25 years in November, hitting an average of 8 million barrels a day and it is expected that this will reach 8.5 million barrels a day later this year.

Natural Gas (+2%)

In euro terms, the average UK Day-ahead gas price for November rose 2% month-on-month with a short period of cold weather in early December pushing the monthly average price higher. The average Day-ahead gas price for December was 69.26p a therm which is high given the relatively normal and stable conditions experienced in the month (there were no significant issues with supply, and temperatures over the entire month of December were not extreme). The December 2013 price was the third highest

monthly price recorded by the Bord Gáis Energy Index. Looking ahead, weather will be the key determinant for wholesale gas prices over the remaining three months of winter 13/14.

Coal (-4%)

In euro terms the ICE Rotterdam Monthly Coal Futures contract was 4% lower month-on-month. European prices were steady at around \$85/mt for most of December due to fears that exports from Colombia would be disrupted in the first quarter of 2014 due to regulatory requirements that would have prevented Colombia's second largest coal producer from exporting to Europe and beyond. These fears receded at the end of the month as it became clear that the Colombian environmental ministry would allow the producer to continue exporting coal and prices softened and closed at \$81.55/mt.

Electricity (-5%)

In December the monthly average Irish wholesale electricity price fell by 5% month-on-month despite a 2% increase in the wholesale cost of Day-ahead gas. The reason for the fall was attributed to lower 'clean sparks' in December (the 'clean spark' is the theoretical gross margin of a gas-fired power plant from selling a unit of electricity, having bought the fuel required to produce this unit of electricity and the cost of abating the carbon emitted). Month-on-month the average 'clean spark' fell dramatically by 50% or €5/MWh. The sustained wind volumes forced expensive gas powered plants off the system and this provided downward pressure on wholesale prices. In December electricity produced by wind turbines met 24% of demand which was the highest monthly figure on record.

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For further information contact:

James Dunny, FleishmanHillard 086 388 3903