March sees 1% rise in Bord Gáis Energy Index as rising wholesale electricity prices offset falling oil and gas prices

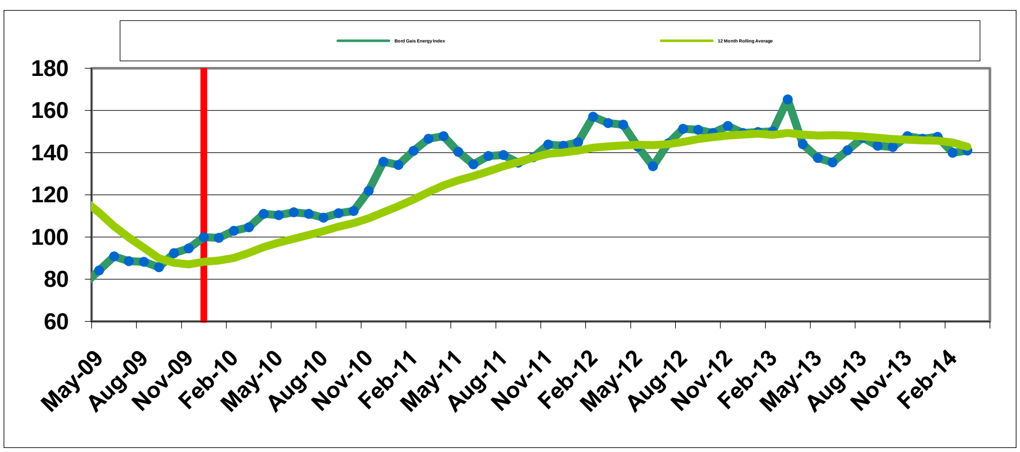
Monday, 7th of April 2014

The Bord Gáis Energy Index rose 1% in March as a 6% month-on-month rise in Irish wholesale electricity prices was offset by falling oil (down 1% month-on-month) and wholesale UK gas prices (down 5% month-on-month).

Low volumes of electricity from wind turbines on certain days in March, combined with the untimely forced outage of efficient gas powered plant and cheap coal powered plant on the same days, were the main factors behind the 6% increase in wholesale electricity prices.

To date, international events around Russia's annexation of the Crimean peninsula have had no long-term impact on gas or oil prices. However, there remains a concern that non-payment by Ukraine for its own gas imports could still trigger a crisis. Non-payments of debt accumulated from imported gas were the triggers for the gas disputes of January 2006 and January 2009. In 2009, shipments of Russian gas to European destinations were halted for two weeks. Ukraine's gas debt is being exacerbated by the inability to collect payment from customers amid the crisis and by a wider financial crisis that has engulfed Ukraine.

The Bord Gáis Energy Index currently stands at 141, which is 15% lower than March 2013.



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

"This month's Bord Gáis Energy Index saw a rise in the wholesale electricity price (6%) month-on-month due in part to very low wind volumes. This is in sharp contrast to last month when a significant volume of wind helped to drive down wholesale prices and it shows how volatile prices have become given the capacity of wind-powered generation installed on the Irish system. Brent crude oil prices are continuing to trade in a tight range as further reductions in supplies from Libya and some bullish expectations of oil demand growth in 2014 were offset by growing concerns over China's economic strength. Wholesale

gas prices continued to weaken in March as mild weather, weakening demand and a significant storage overhang continue to weigh on the market."

"Russia supplies 30% of Europe's gas, and half of that comes via Ukraine. With all eyes on the news coming from Ukraine, it remains to be seen what the exact effect of Gazprom's recent price hike and of Ukraine's fiscal health will have on the wider market. Gas supplies are more likely to be disrupted due to Ukraine's mounting gas debt rather than the threat of military engagement between Western powers and Russia. As of the 1st of April, Ukraine owes Russia US$1.711 billion in gas debt. The crisis has put Europe's energy dependency at the top of the political agenda and has strengthened the rationale for the development of indigenous sources. It has also sparked a debate in the US on the benefits of exporting abundant quantities of shale gas to Europe."

Oil (-1%)
Month-on-month, the front month Brent crude price fell 1% in euro terms. Despite an early-month spike to US$112.39 following initial Russian moves into the Crimea, as tensions eased crude prices were trading back at US$107.76 on the 31st of March. This softening was helped by the US announcement of the sale of up to 5 million barrels of oil from its Strategic Petroleum Reserves (SPR) and the move by the US was interpreted as a warning shot to Russia over tensions in Ukraine as Russia's oil revenue is dependent on high prices.

Natural Gas (-5%)
In euro terms, the average Day-ahead price for March was 5% lower month-on-month as above average temperatures, healthy supplies and a significant volume of gas in storage pushed prices lower for the third month running. The market seems to have completely discounted the possibility of an interruption to European gas supplies despite on-going tensions as a result of the crisis in Ukraine. It would appear that neither the Russian or Ukrainian authorities have any intention of disrupting supplies in pursuit of military or political objectives but there remains a concern that non-payment by Ukraine for its own imports could trigger a crisis in which European supplies are interrupted.

Coal (+1%)
In euro terms the ICE Rotterdam Monthly Coal Futures contract was 1% higher month-on-month. With the exception of the last trading day, over the month prices were relatively stable amid negligible buying appetite coupled with the oversupplied Atlantic basin which has reduced any price volatility. However, on the 31st of March, restrictions on US miner Drummond's coal loading in Colombia were lifted. The speed with which Drummond's coal arrives to Europe will be important as South African cargoes into Europe have reportedly eased and the market could be a little tighter in the weeks ahead. This tightness nudged prices to over US$77/mt on the 1st of April, having sunk to a four-year low earlier in the month.

Electricity (+6%)
The monthly average Irish wholesale electricity price rose by 6% despite falling gas prices (as gas-powered generation dominates the generation mix on the island of Ireland, the price of imported gas from the UK has a significant influence on Irish wholesale electricity prices). The average 'clean sparks' in March rose month-on-month by nearly €7/MWh to over €13/MWh - the key driver behind rising wholesale Irish electricity prices. In a reversal of the positive wind effect experienced in February, the lack of wind during this period, the unexpected outage of efficient gas and cheap coal plants and the starting-up of more inefficient and costly plants, ultimately drove the average monthly price higher.

FX Rates (no change)

Month-on-month the euro was unchanged against both the US Dollar and the British Pound. Record low interest rates in Europe, the UK and the US, and the likelihood of them remaining low for the foreseeable future has meant a lack of volatility in exchange rate movements. Indeed, in Europe, the ECB may even consider negative rates in an effort to stem the threat of deflation. This lack of volatility helped to stabilise commodity prices for euro zone buyers of British gas and US Dollar priced oil and coal.

ENDS

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