

# **Bord Gáis Energy Index falls 1% following a turbulent month of oil price movements**

The Bord Gáis Energy Index fell 1% in October despite a turbulent month which saw considerable fluctuations in the price of Brent Crude Oil. Wholesale UK natural gas prices reduced marginally as a result of stable supply and mild weather conditions during the month. An increase in the volume of electricity produced by wind turbines and lower wholesale UK gas prices applied downward pressure on wholesale electricity prices.

The Bord Gáis Energy Index for October was at 143 which is 1% higher than it was three months ago (July).

**Commenting on the Bord Gáis Energy Index for October, John Heffernan, power trader at Bord Gáis Energy said:**

*“Brent Crude Oil prices fluctuated throughout the month due to fresh disruptions to Libyan production. New economic data from China which suggested that the economy is improving combined with the US Federal Reserve’s decision not to slow its quantitative easing programme supported Brent Oil Prices during October. However, these upward forces were counteracted by improved OPEC and non-OPEC oil supplies, expanding oil stocks in the US and a significant increase in the value of the US dollar versus the euro late in the month. There is an expectation that oil prices will reduce should the OPEC countries avoid further supply disruption which have affected a number of OPEC nations in recent times.”*

After a prolonged cold spell last winter, the summer wholesale UK gas prices were influenced by the need to replenish UK storage levels. Record wholesale prices over the summer months reflected the market’s anxiety over gas supplies this winter. National Grid has estimated that output from the UK Continental Shelf will be considerably lower than last year and that LNG (liquid natural gas) imports will continue to decline. This would result in the UK being more reliant on piped gas from Norway and the Continent which could cause supply issues if there are multiple influencing events (e.g. prolonged cold weather and a disruption to supplies) during winter 13/14.

## **Oil (0%)**

The front month Brent crude price was unchanged from last month. However, this apparent stability conceals some significant fluctuations in Brent crude prices during October as prices responded to a series of bullish and bearish factors which ultimately cancelled each other out. In October, oil prices continued to be supported by events in Libya and the country's output has become a major near-term uncertainty hanging over the oil market. Easing geopolitical tensions and rising US crude inventories were some of the factors which counteracted upward price pressure and prices were unchanged month-on-month.

## **Natural Gas (-2%)**

In euro terms, the average Day-ahead gas price for September was 2% lower month-on-month and traded within a tight range of between 63p - 66p a therm. A stronger euro versus sterling in October had a strong influence on the month-on-month drop. Since July, the monthly average Day-ahead gas price has been stuck at approximately 65p and without any significant weather event or gas supply issue in October, wholesale gas prices remained stable. With long range UK stock levels 93% full and LNG stocks at 69% by the end of October, forward prices weakened slightly month-on-month as the pressure on replenishing stocks relaxed somewhat. Fears of a fresh natural gas dispute between Russia and the Ukraine also intensified after Kiev defaulted on its US\$882 million August payment for Russian gas supplies.

### **Coal (+1%)**

In euro terms the ICE Rotterdam Monthly Coal Futures contract was 1% higher month-on-month. Intra-month wholesale prices had been rising steadily (moving from a low of US\$81.60/mt to US\$86.40/mt) before the market reassessed how tight the situation was to ensure that prices only increased marginally. Despite the environmental implications, abundant European supplies and a crash in the cost of abating carbon emitted by power stations when producing electricity, has resulted in coal-fired power plants increasing their dominance in the European power generation mix in 2013.

### **Electricity (-1%)**

In October, the monthly average Irish wholesale electricity price fell 1% month-on-month with the combination of falling wholesale UK gas and carbon prices and lower 'clean sparks' (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). The October monthly average clean spark decreased due to increased wind and a reduction in the number of thermal plant starts in the month. In October, there was an increase in the volume of electricity being produced by wind turbines. These turbines displaced more expensive traditional thermal electricity generators from the system and as the wind blew on a sustained basis, traditional plants were required less often to start and fill supply gaps left when the wind stopped blowing.

**ENDS**