

Significant Decrease in Global Wholesale Oil Prices (-9%) as Bord Gáis Energy Index Falls by 5%

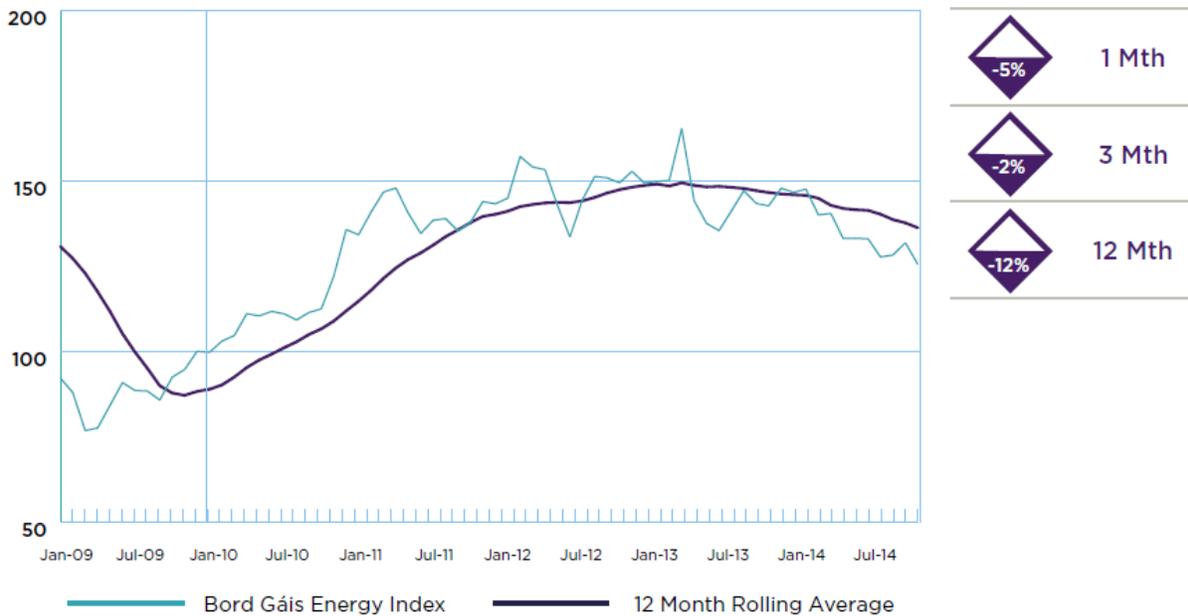
- *Increases in the wholesale prices of natural gas (+4%), coal (+2%) and electricity (+1%) insufficient to offset a fall in global oil prices (-9%)*

Monday, 10th November: Despite month-on-month increases in wholesale natural gas prices (+4%), coal prices (+2%) and electricity prices (+1%) the Bord Gáis Energy Index fell by 5% in October due to plunging global oil prices (-9%).

Downward momentum in oil prices continued in October with Saudi Aramco (the Saudi Arabian national petroleum and natural gas company) reducing its prices across all regions. In early November Saudi Aramco continued to reduce prices when it lowered the premium for Arab Light relative to US Gulf Coast. The move was interpreted by some analysts as an attempt by Saudi Arabia to challenge the growing threat of the US tight, light oil revolution. Iran also reportedly cut its official selling prices in Asia. As OPEC suppliers fight to retain market share in an increasingly competitive global market, reports of a 'price war' have circulated. More moderate reports suggest that steep price drops are part of the company's normal business of keeping its crude cost competitive.

In October 2014 the Index stood at 125.

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



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

“For years the simultaneously unfolding trends of turmoil in the Middle East and the light, tight oil ‘revolution’ in the US have largely offset each other and global oil prices have been stable. However, despite serious ongoing geopolitical concerns, the stalemate has been broken by a flood of non-OPEC supply gains. Having traded at over US\$115 per barrel in June of this year, oil prices have fallen by over 25% to the month of October. The fall reflects the reality of a new era in world oil with global oil supply growth outstripping demand. In response to surplus supplies and a shrinking market, key producers such as Saudi Arabia and Iran reportedly slashed prices to defend market share.”

“Given the current bout of weakness in Brent crude oil prices, the big question is whether OPEC responds or not. The organisation’s next ministerial meeting is set for November 27. The choice it faces is whether to implement production cuts to support prices or maintain volumes and accept lower price in an attempt to curtail non-OPEC production (including US tight-oil) and retain market share”.

“Prices across a wide range of commodities are falling. The Bloomberg commodity index, which acts as a benchmark for commodity investment, fell to its lowest level in five years towards the end of October. As with oil, commodity prices are being pushed down by an increasing supply and a weakening global economy, including a slowing China, the world’s largest consumer for many of these raw materials.”

Oil (-9%)

In October Brent crude oil prices plunged to a low of US\$83.78 per barrel. The fall in oil prices was initially triggered in September by an International Energy Agency report that projected lower 2014 and 2015 global oil demand. Despite the overall weakness in prices month-on-month, Brent crude prices did bounce modestly from a low of US\$83.78 per barrel mid-month to close at US\$85.86 per barrel. This rally can be in part attributed in part to China building its Crude stocks by 14 million barrels a day in September. The timing of this crude purchase acceleration brought a pillar of price support. Libyan oil production growth, despite being positive, also appeared to stall somewhat at around 0.8-0.9million barrels a day and expectations that it would reach 1.5million barrels a day by November fizzled out.

Natural Gas (+4%)

The average Day-ahead gas price for October was 50.24p/th, a 4.3% increase on the September average of 48.15p/th. A seasonal reduction in temperatures of 2.5°C in October pushed demand up from an average of 164mcm per day in September to 201mcm, a 23% increase in demand which nudged prices higher. Minor supply issues also contributed to higher prices. UK gas supplies were impacted by a combination of minor North Sea outages and a continued reduction in LNG supply flows. The average price of 50.24p remained the lowest average October Day ahead price since 2010 when the outturn was 45.5p.

Coal (+2%)

In euro terms the front month European wholesale coal futures contract rose 2% month-on-month with the rise attributed to a stronger US Dollar. However, in Dollar terms prices were more-or-less unchanged and closed at US\$72.85/mt compared to the September close of US\$72.20. On October 16 the price closed at a monthly low of US\$71.95/mt which was also close to a five year low. The European coal market continues to be described as “oversupplied”. Russian producers, as well as miners in other countries, are reportedly receiving “good margins” when selling thermal coal to Europe, due to the weak

Ruble and other local currencies and a strong dollar. Weaker European gas prices, falling Brent crude prices and concerns about future euro zone and global economic growth also weighed on sentiment.

Electricity (+1%)

Month-on-month there was a marginal increase in the wholesale cost of electricity due to the seasonal rise in capacity payments. However, if these capacity payments are excluded, the average Irish wholesale electricity price for the month of October fell month-on-month. A key factor in falling underlying wholesale electricity prices was a significant increase in the volume of electricity produced by wind turbines month-on-month. In September wind met just over 6% of the Island's power demand but this increased to over 20% in October and on one particular day, the figure was over 50% of the Island's demand. Higher wind produced electricity forced more expensive terminal plants off the system leaving cheap coal and the most economical gas powered plants to set the wholesale price of power.

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