

Increased wholesale electricity prices results in a 1% increase in Bord Gáis Energy Index

Rising Irish wholesale electricity and coal prices offset decreasing oil and wholesale natural gas prices resulting in a 1% month-on-month increase in the Bord Gáis Energy Index in January.

The reduced availability of relatively cheap and efficient power plants in January due to maintenance issues, put upward pressure on wholesale electricity prices despite falling wholesale gas prices* and near record volumes of electricity produced from wind turbines. European coal prices rose by 4% due to supply concerns following a surprise export ban by the Colombian government on one of the country's biggest exporter of coal due to breaches of environmental regulations. Wholesale natural gas prices dropped by 5% as the extended spell of unseasonably mild weather continued to erode UK demand amid ample gas supplies. The Brent Crude Oil price was 2% lower due to concerns about emerging market economies.

The Bord Gáis Energy Index currently stands at 147 which is 2% lower than January 2013.

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

"January was a month of contrasting fortunes for fuel prices with no one theme dominating price moves. The primary driver for the month-on-month increase was the reduced availability of cheap and efficient power plants due to maintenance, which resulted in a substantial increase in wholesale electricity prices. Above normal seasonal temperatures and growth concerns with emerging economies drove the UK natural gas and the Brent crude oil price lower. It is expected that oil prices in 2014 will be influenced by whether the potential supply growth from Iran, Libya and North American shale oil materialises and if so this will put some downward pressure on prices rather than simply limiting rising prices as it has done in 2013. OPEC will continue to attempt to orchestrate prices if supplies expand to a point where it threatens the US\$100 level. With only two months left in winter 13/14 we are unlikely to see a repeat of escalating wholesale gas prices as we did in March and April of last year. However, extreme weather events still pose a risk."

"In January, one of the biggest themes at the World Economic forum at Davos was competitiveness arising from access to low cost energy. Given the ongoing shale gas revolution in the US, the US has been judged the clear winner with its abundance of low-cost natural gas and cheap industrial electricity prices. Coinciding with the first day of Davos, the European Commission released a new policy paper on energy and climate seeking a binding target to reduce carbon emissions by 40% from 1990 levels by 2030 and targeting renewables to provide 27% of EU energy by 2030. Of note however was the heavy emphasis on the price of such policies and the Commission has called for a more cost-efficient approach to renewables. In the Commission's new policy statement it observed that the availability of shale gas in the USA has substantially lowered natural gas prices there as well as electricity generated from natural gas."

Oil (-2%)

Month-on-month the Brent crude price was 2% lower in euro terms due to growing concerns about emerging economies towards the month end. These concerns along with further evidence that China's

economy is not expanding as aggressively as in the past, are weighing on oil prices as emerging economies are responsible for rising global oil demand. Progress on Iran's disputed nuclear programme continued in January as both sides edge toward a definitive agreement. The market is now starting to consider the impact of an extra supply of one million barrels of Iranian oil a day on prices in 2014.

Natural Gas (-5%)

In euro terms, the average Day-ahead gas price for January was 5% lower month-on-month as above average temperatures in the UK and healthy supplies combined to push prices lower. In January the Day-ahead price tumbled to a monthly low of 62.64p a therm with early February prices trading below 60p a therm. UK gas prices for summer 14, next winter and beyond also fell in January as falling prompt prices and the reduced need to replenish stocks over the coming summer period combined to push prices lower.

Coal (+4%)

In euro terms, the ICE Rotterdam Monthly Coal Futures contract was 4% higher month-on-month. European prices received a boost in January as the US-miner Drummond was banned by the Colombian government from exporting coal after the company did not have a required direct loading system at its ports ready in time to comply with a January 1 deadline as stated by local environmental regulations. After rallying to US\$84.50 on January 16, prices eventually started to ease back as the market reassessed the supply concern amid reports that Drummond's Colombian port operations could come online sooner rather than later.

Electricity (+7%)

In January the monthly average Irish wholesale electricity price rose by 7% month-on-month despite a 4% fall in the wholesale Day-ahead gas prices, near record wind volumes and steady carbon prices. The reason for the rise was attributed to higher 'clean sparks' in January (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) due to the loss of relatively cheap and efficient power plants due to maintenance. Month-on-month the average 'clean spark' rose from €5/MWh to €14/MWh.

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For further information contact:

James Dunny, FleishmanHillard 086 388 3903

* (UK wholesale gas prices form a significant cost component of Irish electricity prices)