

Bord Gáis Energy Index

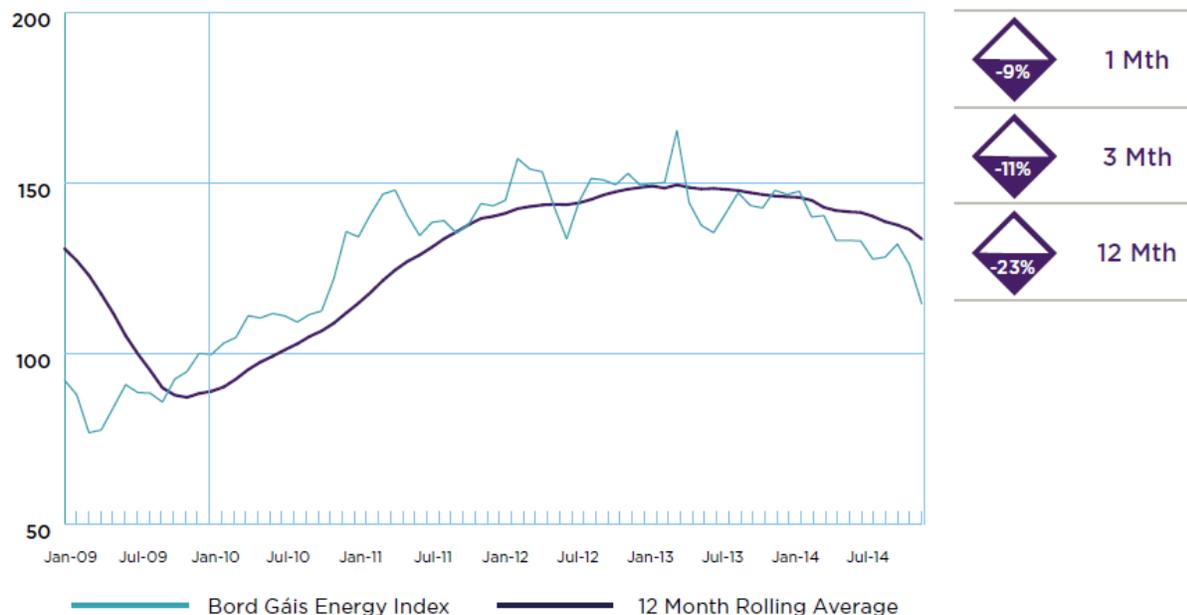
Bord Gáis Energy Index plummets to four year low as global oil prices continue to freefall

- ***Upward movements in the wholesale prices of Natural Gas, Electricity and Coal insufficient to offset global oil price decrease as the Bord Gáis Energy Index falls by 9%***

Monday, 8th December 2014: The Bord Gáis Energy Index hit a four year low as Brent Crude Oil fell by 18% in November and is now 30% lower than this time last year. Despite month-on-month increases in wholesale natural gas prices (+5%), coal prices (+2%) and electricity prices (+3%), the Bord Gáis Energy Index fell by 9% in November due to plunging global oil prices.

The price of a barrel of oil had been weak throughout November but news that OPEC decided not to cut its daily production target on November 27 resulted in prices plunging to post their steepest one day fall since 2011.

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



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

“The continued emergence of North America as a substantial producer of oil has had a significant impact on global crude oil prices. The reality is that the globe is now awash with oil and this, combined with the

diminishing demand for oil, has resulted in the front month Brent crude price dropping by nearly 40% since the high of 2014 – a low not seen in over four years.

On November 27 OPEC had the opportunity to intervene in the market to support oil price but the organisation failed to act. Their decision has been interpreted in many ways. One theory is that Saudi Arabia is attempting to halt the flow of North American light, tight oil or is protecting market share. Whatever the reason the markets provided one definitive reaction and that was to collapse the price of Brent.

Despite this plunge in global oil prices, month-on-month gains were recorded in the wholesale price of natural gas (+5%) due to rising demand, coal (+2%) due to a stronger US Dollar and electricity (+3%) due to rising production costs.”

Oil (-18%)

Brent crude prices closed the month at US\$70.15 a barrel. From the 2014 high of US\$115.06, the front month Brent crude price has fallen nearly 40%. The OPEC decision to maintain the existing production ceiling of 30 million barrels a day combined with increasing non-OPEC output means that the world is producing more barrels than can be consumed. Based on current trends, it is estimated that world liquids supply growth will exceed demand by 1.3 million barrels per day in 2015.

Natural Gas (+5%)

The average Day-ahead gas price for the month of November increased by 5% as a 3.7°C drop in the UK average monthly temperature in November compared to October saw demand increase by over 20% month-on-month. It appears that gas markets have discounted the risk that Russian gas supplies to Europe are in danger of being disrupted this winter following the successful conclusion of talks between Russia and Ukraine in October which has deescalated tensions and resulted in gas payments by Ukraine to Russia.

Coal (+2%)

Despite the modest gain month-on-month, European coal prices remain weak in a historic context. On November 6, wholesale coal prices recorded a four year low as macroeconomic factors including currency fluctuations impacted European prices. European coal prices are also weak on a fundamental basis given the fragile state of the European economy, mild weather, falling oil prices and the “bleak outlook” for Chinese imports of thermal coal. Despite a modest “bounce” in the price from US\$71.25/mt at the start of the month to a close of US\$73.90, prices are unlikely to recover unless winter demand is sparked by a bout of cold weather across Europe.

Electricity (+3%)

Month-on-month the Irish wholesale electricity price was 3% higher due to rising UK gas prompt prices and, in part, due to an increase in the cost of abating carbon emitted in the process of producing electricity when burning gas, coal or peat.

During the month, there was a rise in the availability of coal plants and this applied downward pressure on the clean spark. As we descend further into Winter 14/15 and with daylight hours being reduced, the market is starting to observe the typical spike in wholesale prices around the 17:30 time period as demand escalates and more expensive power plants are called upon to balance the system. Despite these spikes in clean spark, they were insufficient to push the average clean spark for the month higher.

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