

Bord Gáis Energy Index:

5% fall in Bord Gáis Energy Index in April due to falling wholesale gas and electricity prices

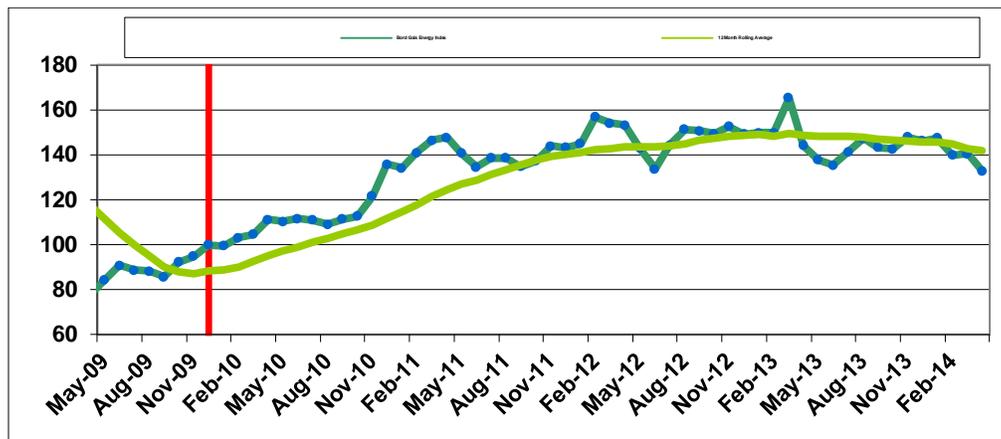
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The Bord Gáis Energy Index fell by 5% in April as a steady supply of gas to the UK, coupled with falling demand weighed on wholesale gas prices generally. However, tensions as a result of the Ukrainian crisis and the on-going potential threat to European gas supplies did push wholesale prices higher on occasion.

Falling wholesale gas, coal and carbon prices weighed on wholesale Irish electricity prices (down 14% month-on-month) which are highly sensitive to the cost of importing gas from the UK.

Given that Ukraine is the world's largest transit country for gas supplies, three questions are causing concerns for gas traders; If heavy weapons are deployed would the gas pipelines have to be shut down for safety?; Would tougher sanctions result in a retaliatory move by Russia?, and; If Ukraine does not settle its gas debt will Russia starve it of gas? On the gas debt issue, some assurance was achieved following a meeting in Warsaw in early May between Russia, Ukraine and the EU where it was agreed that there would be no disruption to supplies while negotiations are on-going this month. Russia claims that Ukraine owes it US\$3.5 billion for gas as Ukraine has not paid for supplies between February and April.

The Bord Gáis Energy Index currently stands at 133, an eight point drop month-on-month.



John Heffernan, Gas & Power trader at Bord Gáis Energy, said of the Bord Gáis Energy Index for April:

“The crisis in Ukraine dominated the energy agenda in April but the apparent threat to European gas supplies eased with a de-escalation in tensions. As a result, wholesale gas price movements in the UK were influenced by falling demand and a significant storage overhang as a result of the mild weather. However, traders will continue to watch the situation between Ukraine and Russia closely and the threat by Russia to insist that Ukraine prepays for its gas in advance of June deliveries at prices described by

Ukraine as “discriminatory” could still trigger a gas supply issue. Over half of Gazprom’s gas supplies to Europe went via Ukraine last year”.

“This month’s Bord Gáis Energy Index for April saw a fall in the wholesale electricity price (-14%) month-on-month due again, in part, to softer gas and carbon prices. Oil prices continued to trade in a narrow range of between US\$105 and US\$110 as numerous geopolitical events that supported prices were offset by steady global production”.

Oil (no change)

Month-on-month the front-month Brent crude price was unchanged in euro terms. The uncertainty around the ongoing Ukrainian crisis helped to support prices but this influence was offset by steady production from Saudi Arabia, Kuwait and the UAE, albeit at the expense of global spare capacity which is thin at just two million b/d. Brent crude prices did weaken early in the month when Libyan rebels occupying four eastern oil ports agreed to gradually end their eight-month blockade. However, the country is still having difficulty boosting its oil production despite now having five operational export terminals as protests at the oil fields that feed them continue. The impact of US shale oil continued to produce some extraordinary numbers with US proved reserves of US crude oil rising to 33.4 billion barrels, the highest since 1976. US crude production hit a 26 year high of 8.36 million b/d in April.

Natural Gas (-11%)

Despite the crisis in Ukraine, falling seasonal demand and healthy supplies pushed prompt prices lower for the fourth consecutive month. At 49.94p a therm, the average Day-ahead gas price for April recorded a three and a half year low. The mild winter left UK gas stocks at 63% full at the end of April compared to 17% at the same time last year and this exceptional storage overhang is weighing on prices. UK supplies received a boost during the month as numerous LNG cargoes arrived at its terminals and the average monthly flows at certain terminals increase 300% month-on-month.

Coal (-4%)

The ICE Rotterdam Monthly Coal Futures contract was 4% lower month-on-month. Coal prices were relatively stable during the month and traded in a tight range of between US\$77.50 and US\$75.05. Intra-month coal prices did receive a boost from rising gas prices and concerns around possible sanctions on Russian coal exports. However the underlying market is characterised by over-supply, healthy stock levels and soft demand. Coal stocks at major discharge terminals in the Amsterdam-Rotterdam-Antwerp region have firmed to their highest levels this year at around 6 million mt.

Electricity (-14%)

The monthly average Irish wholesale electricity price fell 14% month-on-month with softer gas, coal and carbon prices. The average 'clean spark' (*the theoretical gross margin of a gas-fired power plant from selling a unit of electricity, having bought the fuel required to produce it and the cost of abating the carbon emitted*) in April fell by approximately €2/MWh to over €12/MWh. In a European and Irish context, €12/MWh remains a strong 'clean spark'. This was supported by falling production from Ireland's wind turbines and the requirement to substitute some efficient gas-powered plant with more inefficient gas-powered plant due to outages. Wind turbines when running tend to displace gas fired generation which can feed through to lower wholesale prices. However, wind is unpredictable and lower wind output in April helped support prices.

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For further information contact:

James Dunny, FleishmanHillard 086 388 3903