

DRAFT PRESS RELEASE

## **Bord Gáis Energy Index continues to rise in August - up 11% year-on-year**

**Driven by Gas and Electricity price increases of 14% and 9% respectively**

**XXth September 2017**

The Bord Gáis Energy Index for August 2017 saw continued significant increases across the energy spectrum, driven primarily by gas and electricity, where prices increased by 28% and 17% compared with the same month last year. Both markets saw significant rallies in August of 14% and 9% respectively.

Oil, which had rallied by over \$7 since the middle of June, stalled in August, while coal prices increased by 5%. The increases were mitigated somewhat, in euro terms, by continued rally in value of the euro against sterling and the dollar. The Index was 11% higher last month than in August 2016.

**In August, the Bord Gáis Energy Index stood at 87 (+3%).**

Commenting on the latest Index, **Darragh Crowley, Energy Trader with Bord Gáis Energy**, said; *“The strong rally in wholesale gas and electricity prices in August highlights the potential volatility of the international energy markets. Problems with pipeline infrastructure and lacklustre imports of LNG (Liquefied Natural Gas) were the main reasons behind the rally, causing traders to take a “buy now and ask questions later” attitude as we approach the colder winter period.”*

*“It remains to be seen if the recent bout of volatility in prices will persist, but with hurricane season in the United States in full flow and rising geopolitical tensions in North Korea, energy markets are sure to busy over the coming months.”*

**Natural Gas showed a significant rise of 14% in August...**

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 42.3p in August, a significant 28% increase in euro terms over the same month in 2016. Prices were up by over 14% on the July average of 36p.

A series of unplanned outages on Norwegian gas pipelines and processing facilities – and uncertainty over their return dates - was one of the primary drivers of the strong rally, causing traders to take a *“buy now and ask questions later”* attitude for most of the month.

Despite the rise in prompt gas prices, flows through the IUK pipeline between the UK and Belgium continued to flow at near maximum capacity, as gas was exported to storage sites in Europe for use during the colder winter months. The closure of the UK’s largest storage facility, Rough storage, means that gas which is intended for use in the UK and Ireland needs to be transported to continental Europe to be stored.

Imports of LNG (Liquefied Natural Gas) to the UK market continued to be lacklustre in August, as more shipments were sent to higher-priced Asian markets. Despite rapid increases in the level of LNG being produced globally, deliveries to the UK have disappointed as it has to compete on a global basis to attract production. Chinese imports of LNG have been increasing this year as more domestic homes switch to gas from oil for home heating. This has a knock-on effect on the Irish market, as our LNG supplies come via the UK.

In addition, the bullish sentiment from the oil market as a result of Hurricane Harvey fed through to increased forward prices. The benchmark Winter '17 contract averaged 47.5p over August, a 6% increase on the July average of 44.925p. Oil prices have an impact on gas prices, as long- term supply contracts have traditionally been tied to the price of oil.

**...with Electricity showing a 9% rise...**

The average wholesale price of electricity rose by 9% in August, continuing its 8% increase in July. Wholesale prices were 17% higher than the same period in 2016.

Excluding supplier capacity payments, the average wholesale price for August was €42.14/MWh, compared to €39.93/MWh in July -, an increase of €2.21/MWh on the average monthly wholesale price. An average monthly clean spark of approximately €7.90/MWh was recorded in August, which decreased 21% from the €10.05/MWh observed in July. The proportion of demand met by wind in August was 24%, up from July's 12.05%.

Irish wholesale electricity prices typically track the cost of imported gas, as it is the most significant cost in the production of electricity. Separately, the Commission for Energy Regulation (CER) announced combined transmission and distribution adjustments which it expects will result in an annual average residential customer bill rising by 0.95%. In addition, SEMO, the market operator, has announced a 148% increase in the cost of operating the grid, bringing it up to €5MWh.

#### **...while Oil prices stalled slightly in August, but stay at more than \$52 a barrel...**

The recent rally in oil in July stalled somewhat in August, as prices finished the month 27 cents lower at \$52.38 a barrel at the end of August, down from \$52.65 in July.

Brent crude prices are still up 11% in year-on-year in dollar terms, and 5% in euros, as the euro continues to strengthen against the dollar, and reflects efforts being made by OPEC to curb oil production and increase prices in the face of a resurgent US production.

Sentiment shifted sharply in July as reduced US production and lower US crude inventories helped reverse some of the bearish sentiment in the oil market. Energy Information Administration (EIA) data showed that US inventories, which had remained at historic highs despite OPEC production cuts, fell sharply over the month.

The oil price also found support from a weakening US dollar, which fell to a 14-month low against a basket of global currencies. As oil is traded in US dollars, a lower dollar can help stimulate oil demand as it reduces the cost of the commodity for users of other currencies.

#### **...and Coal repeated its 5% July rise again in August...**

Coal continued to increase during August, rising by 5% by the end of the month, to close at £87.65 a tonne - more than four dollars up on July's closing price of \$83.25. Coal has now increased by over 43% in dollar terms this year, but a stronger euro has off-set some of this increase and coal is therefore up 34% in euro terms.

The price rise has been helped by developments in China, the world's largest consumer and producer of coal, which imposed restrictions in 2016 on domestic coal production by shutting some unprofitable mines and restricting production. In addition, August also saw strikes in Australian coal mines, flooding in Indonesia and increased sanctions on North Korea following missile tests, all of which contributed to the coal price increases. North Korea exported 25 million tonnes of coal to China in 2016, so this potential shortfall may now need to be replaced by other producers.

#### **...all aided by the euro's strength over the pound and the dollar...**

The euro continued its recent upward trend during August, strengthening further against the dollar and the pound. It gained 3% against sterling, settling at £0.9214p, and 1% over the dollar to finish at \$1.1881.

ECB President Mario Draghi spoke at the annual Jackson Hole economists' and central bankers' gathering in August. However, he didn't focus on monetary policy and the strengthening euro as expected. The markets took this as a signal to buy the euro, which consequently traded as high as \$1.20 for the first time since early 2015.

In contrast to the euro, the pound continued to fall in August, reaching its lowest level against the euro since 2009. Sterling's weakness was driven by uncertainty over the outcome of the Brexit negotiations and fuelled by the possibility of a leadership challenge to Prime Minister, Theresa May. The Bank of England is subsequently expected to maintain its current low interest rate policy for the time being.



For more information, see the full Energy Index at <https://www.bordgaisenergy.ie/energyindex/>.

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**About Bord Gáis Energy**

- Bord Gáis Energy is a gas, electricity and energy services supplier in the Republic of Ireland. The company has been in operation since 1976 and currently supplies energy and services to over 690,000 business and residential customers. In 2014, Bord Gáis Energy became part of the global Centrica plc Group.

**Website:** [www.bordgaisenergy.ie](http://www.bordgaisenergy.ie)

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