

Bord Gáis Energy Index

Understanding energy

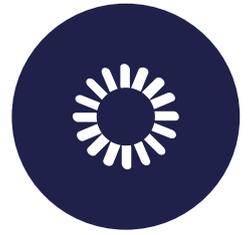
MARCH 2016

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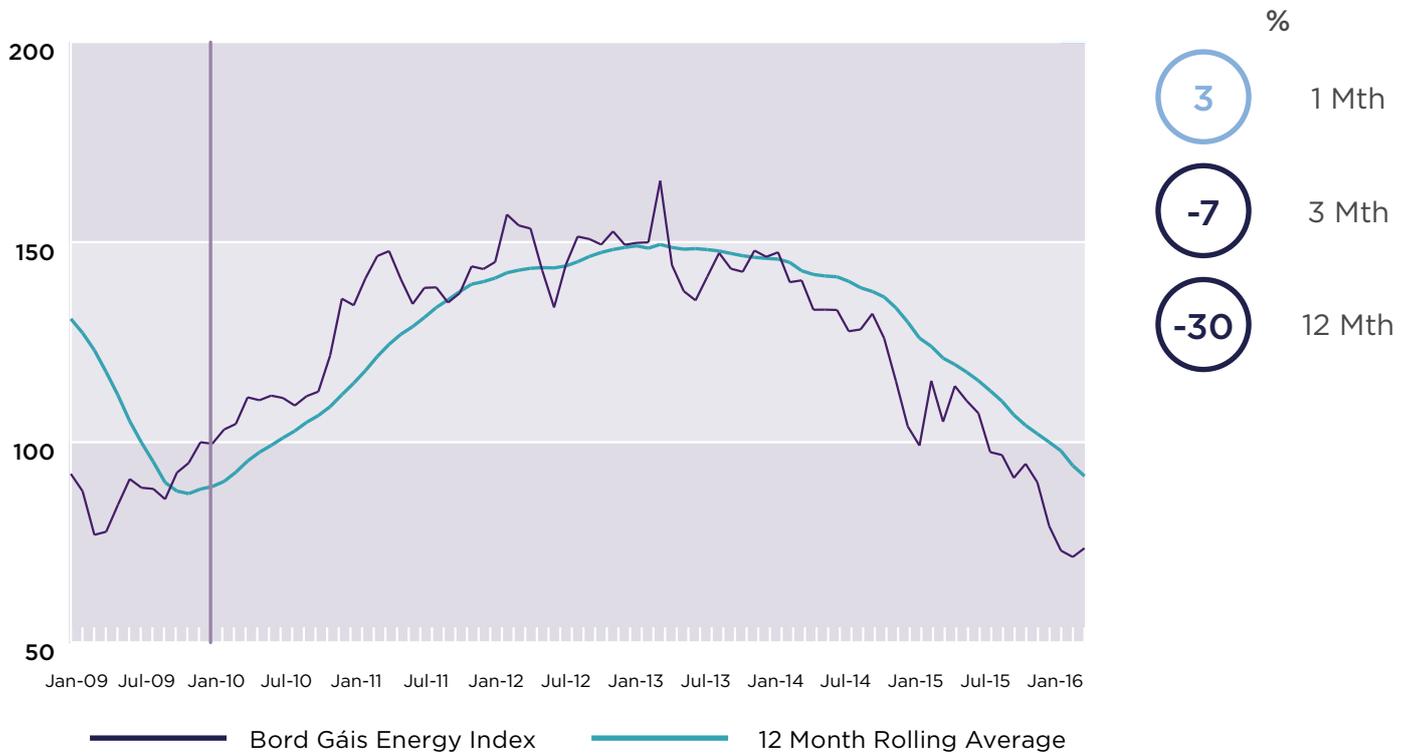


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Bord Gáis Energy Index (Dec 31st 2009 = 100)



Summary

In March 2016 the Bord Gáis Energy Index increased by 3% month-on-month as oil rallied over 5% on a currency adjusted basis. Performance among the remaining components of the energy index was mixed with UK prompt wholesale gas down 1%, European coal 3% lower and Irish wholesale electricity prices 1% higher.

In March 2016, the Index stood at 74.

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Oil Index



*Index adjusted for currency movements.

Data Source: ICE

Oil

Brent prices rebounded in March, finishing the month over 10% higher (5% in euro terms) at \$39.6 a barrel as expectations of a production freeze encouraged buyers into the oil market. Leading oil producers plan to meet in Doha on April 17 to cement a preliminary deal reached between Russia, Venezuela, Qatar and Saudi Arabia in February. The preliminary deal to freeze oil output at January levels is an effort by some key producers to curb a global surplus in the oil market, which has driven prices to multi year lows.

Market expectations of an agreement at Doha deal has succeeded in supporting the oil price, which hit 12 year lows of \$27.88 a barrel in January 2016, and oil prices have rallied off lows to \$41.79 a barrel in mid-March. The International Energy Agency in a recent report said that oil prices may have passed their lowest point as shrinking supplies outside OPEC and disruptions inside the group erode the global surplus. Non-OPEC production is estimated to decline by 750,000 barrels a day this year.

However, even if Saudi Arabia and Russia are able to persuade other key producers to join their oil-output freeze, which appears unlikely, rebalancing the oil market may take time as the markets face a billion-barrel adversary in the form of a huge inventory stockpile. Inventory levels across the globe are at historic highs and will take time to clear.

We have seen prices rally aggressively on talk of a production freeze without a single barrel of oil disappearing from the market and adherence by the parties to any agreed production limits is by no means guaranteed.

Bord Gáis Energy Index

March 2016



Natural Gas Index



*Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract averaged 29.56p/th for March, a marginal increase of 0.01p on February's day-ahead average of 29.55p/th, down 1% in euro terms, and significantly below the March 2015 day-ahead average of 47.2p/th.

The average daily demand in March exceeded the seasonal norm by approximately 30mcm a day. Despite this, the system remained well supplied throughout the month which tempered any upward pressure on prompt prices.

The story on the forward curve for March was similar with little movement as curve prices traded in tight ranges. The Winter 16 contract fell approximately half a penny (1.5%) to close at 33.2p, while the Summer 16 contract fell 1% to settle at 27.84p. The Summer 16 contract is now in delivery. It is worth noting that it finished trading some 39% lower than the equivalent product a year previously.

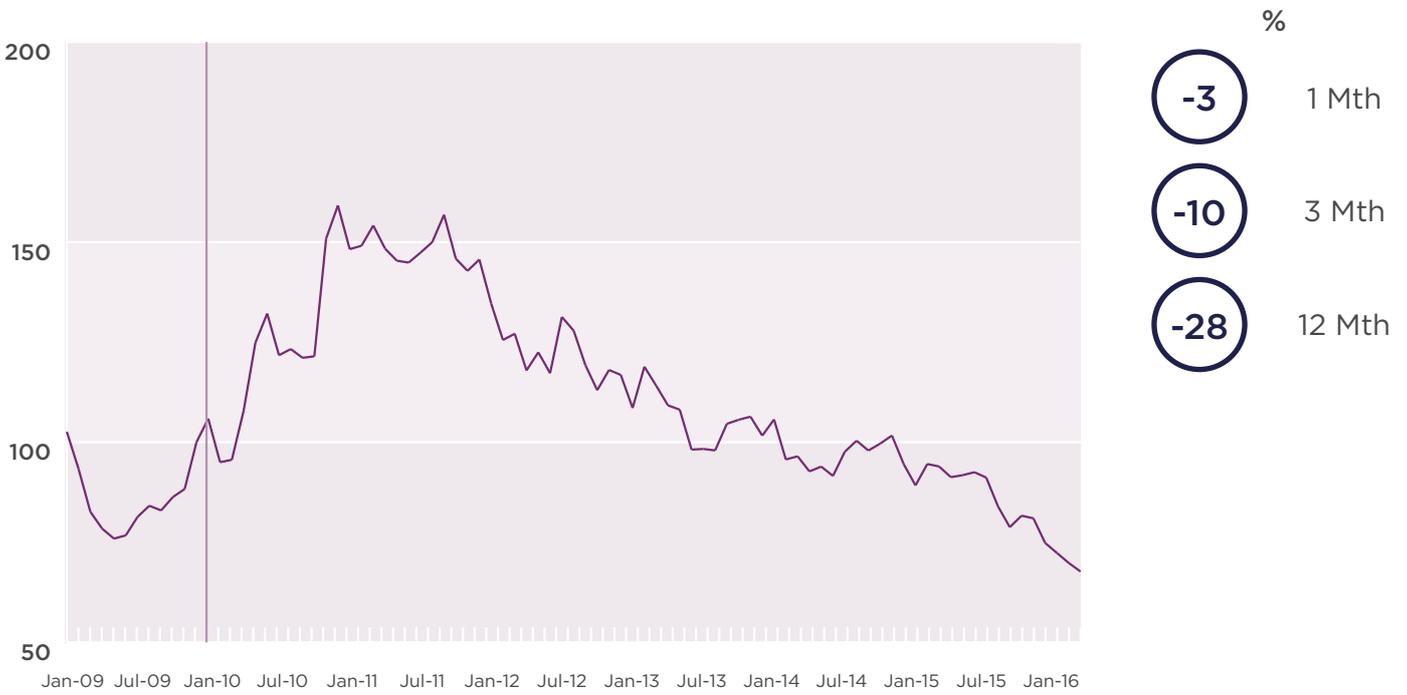
Forward prices were muted as weather forecasts remained relatively benign and supply remained ample with continued strong LNG send out and good Norwegian gas flows to the UK. An interesting point was the decoupling that occurred between oil prices and gas prices. Oil prices rallied 10% over the month while gas prices were stagnant. This may be due to gas market participants placing more weight to the strong supply outlook in gas rather than the forward gas price being driven primarily by the trend in oil.

Bord Gáis Energy Index

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Coal Index



*Index adjusted for currency movements.

Data Source: ICE

Coal

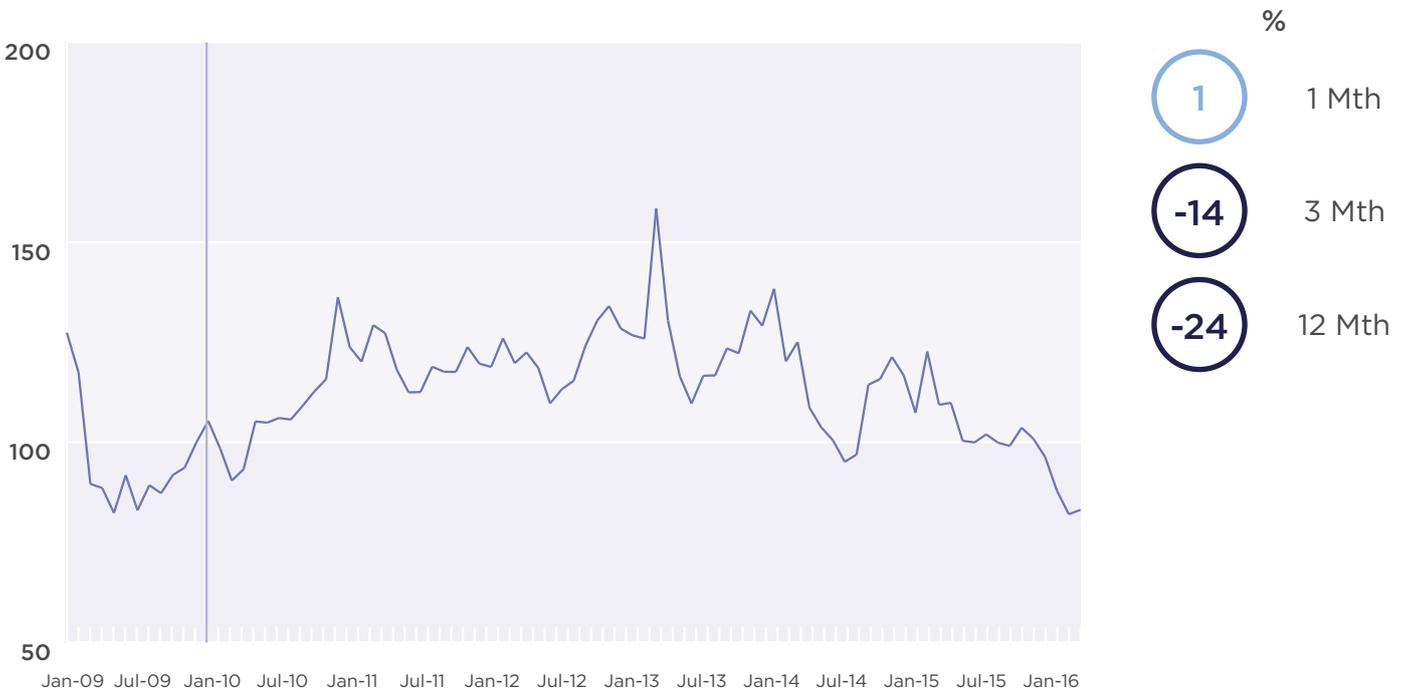
Coal prices closed the month at \$44.95 per m/t, an increase of 1.5% over the month in dollar terms. However, when we adjust for currency, coal was 3% lower in euro terms. Prices hit a fresh low of \$44.3 during the month but rallied toward the end of the month supported by an increased Indian demand ahead of the monsoon season, a sharp rally in oil prices and the threat of a strike at Colombia's major Cerrejon mine. The Cerrejon project is a joint venture between Anglo American, BHP Billiton and Glencore and produced 33.2 million mt in 2015.

Bord Gáis Energy Index

March 2016



Electricity Index



Data Source: SEMO

Electricity

Irish wholesale prices remained static month-on-month with the average wholesale price of electricity remaining flat with a fall of just 0.2% in March. Excluding supplier capacity payments the average wholesale price for March was €36.88/MWh compared to €36.95/MWh in February, a fall of €0.07/MWh on the average monthly wholesale price. When we include capacity payments, electricity prices increased 1.3% from €52.32/MWh to €53.02/MWh.

In general the wholesale price of electricity can be assessed by examining three components:

- The UK wholesale cost of gas
- The European-wide price of emitting one tonne of carbon
- The clean spark, which is what in general terms a gas powered generator receives in energy payments from the market once the cost of producing a unit of electricity is deducted

The wholesale cost of imported gas from the UK also remained static month-on-month. Irish wholesale power prices typically trend with the cost of imported gas as it is the most significant cost in the production of electricity. Month-on-month the cost of emitting one tonne of carbon fell over 6%.

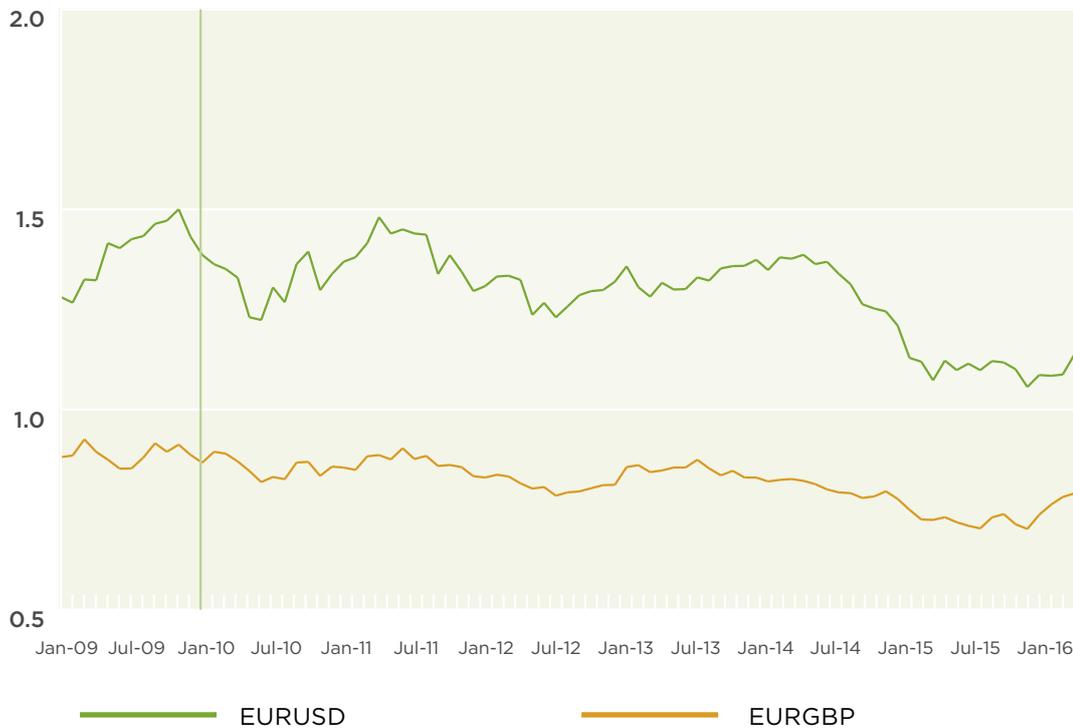
A monthly clean spark of approximately €8.72/MWh was recorded in the month, which is up from the €8.46/MWh observed in February (an increase of almost 3.1%). The average spark year-to-date is approximately €8.25/MWh. The increasing spark can be linked to the reduction in wind levels. Demand levels remained steady month-on-month, however, wind levels fell. In March, 17.2% of the island of Ireland's demand was met by wind (down over 5% month-on-month). Less wind on the system results in increased running for coal and gas fired power plants, putting upward pressure on spark levels.

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March 2016



FX Rates



EURUSD %

- 5** 1 Mth
- 5** 3 Mth
- 6** 12 Mth

EURGBP %

- 1** 1 Mth
- 7** 3 Mth
- 9** 12 Mth

FX Rates

In March, the Euro strengthened further versus both the Pound and the Dollar.

Markets in March were dominated by central banks globally reaffirming their easy monetary policy stance. The tone was set by the European Central Bank as it announced further monetary stimulus. The US Federal Reserve followed suit with a dovish statement issued after their monetary policy meeting, on the 18 March, which prompted an equity markets recovery.

The Euro gained about 4.7% against the dollar in March, following the downward revision to US interest rate expectations. The on-going concerns surrounding the forthcoming “Brexit” referendum also led to a further decline in the value of the pound against the euro in March. The dovish rhetoric continued in the statement issued after the Bank of England policy meeting in which it stated that any interest rate hikes will be more gradual than in recent cycles. The Euro was stronger versus the pound by 1.16% over the month.

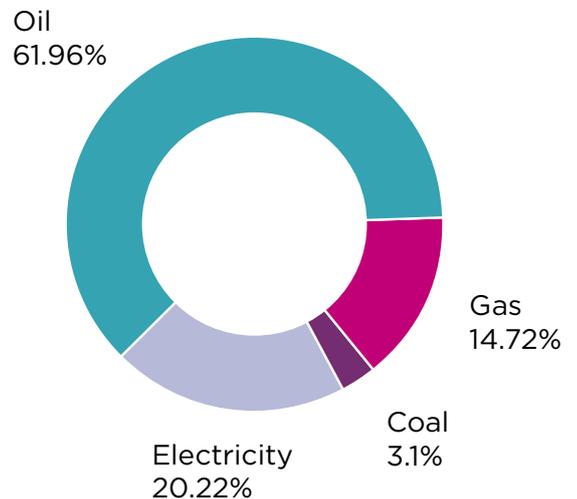
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March 2016



Re-weighting of Bord Gáis Energy Index

Following the SEAI's 2011 review of energy consumption in Ireland, there was a 6.4% drop in overall energy consumption. Oil continues to be the dominant energy source with most of the oil used in transport and the remainder being used for thermal energy. For the purposes of the Bord Gáis Energy Index, the total final energy consumption in Ireland fell 1,089 ktoe (toe: a tonne of oil equivalent is a unit of energy, roughly equivalent to the energy content of one tonne of crude oil) between 2009 and 2011. This fall was made up of a 1,022 ktoe drop in oil consumption (down 13.5%), a 20 ktoe drop in natural gas (down 12.6%), a 7 ktoe drop in electricity (down 0.3%) and a 40 ktoe drop in coal (down 10.98%). The Bord Gáis Energy Index has been re-weighted in January 2013 to reflect the latest consumption data. The impact has been minimal and has resulted in slight reductions in the share of oil and gas and a slight increase in the weighting of electricity in the overall Index.



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