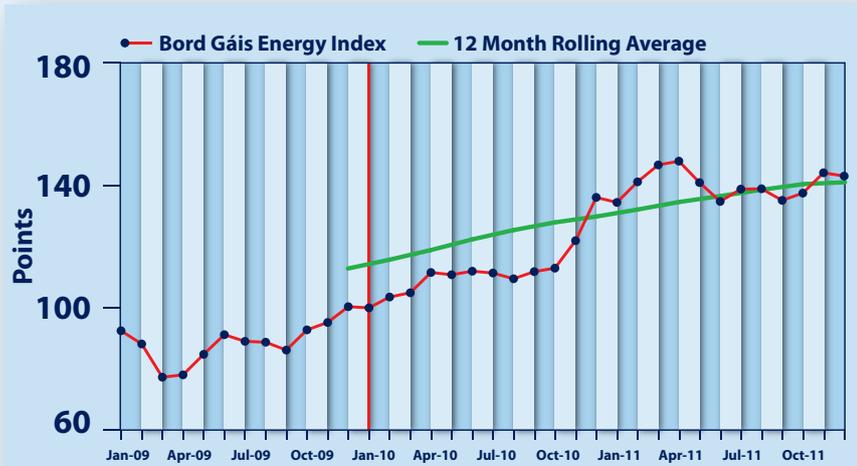


# **Bord Gáis Energy Index**

DECEMBER 2011

**THE BORD GÁIS ENERGY INDEX CLOSES 5% HIGHER IN 2011 AS AVERAGE OIL PRICE RECORDED A 150-YEAR HIGH - INDEX DROPS 1% IN DECEMBER REFLECTING GLOBAL ECONOMIC UNCERTAINTY**

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



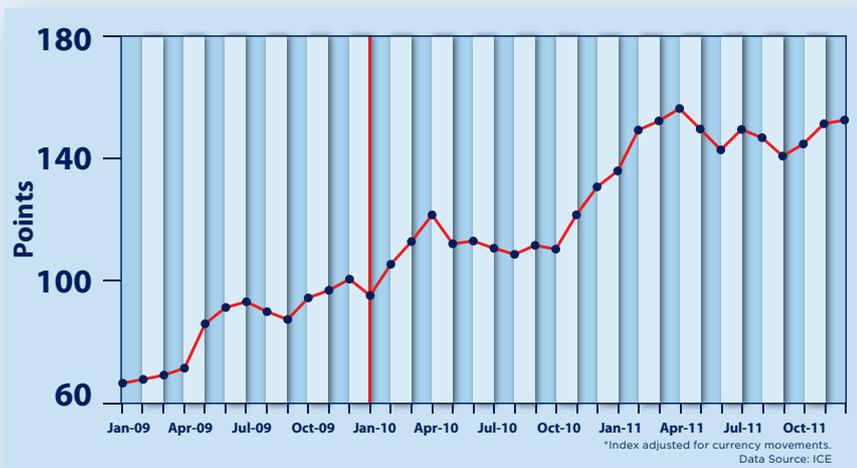
1 Mth **-1%**    3 Mth **6%**    12 Mth **5%**

**OVERALL SUMMARY:**

The average price of Brent crude oil posted a record high in 2011 as daily oil demand hit a new high of 89 million barrels per day, owing primarily to growth from emerging market countries. Prices were also supported by concerns about supply from the Middle East and North Africa. As a result, the Bord Gáis Energy Index closed the year 5% higher.

From month to month, the Index for December recorded a 1% drop due to the ongoing European sovereign debt concerns, fears about global economic growth in 2012 and a mild start to the winter across Ireland, Britain and Europe, all of which put downward pressure on gas and electricity prices. However, Ireland did not benefit fully from falls in fuel commodity prices as the euro weakened over the month. This meant that in euro terms, oil and coal prices in fact increased over the month. Ominously, tensions between the West and Iran raised the possibility of military engagement and oil supply disruptions as there is now a possibility that the Strait of Hormuz could be closed, a narrow passage through which 40% of global oil supplies pass through.

**Oil Index**



1 Mth **1%**    3 Mth **8%**    12 Mth **17%**

**OIL**

Due to the ongoing European sovereign debt concerns, the possibility of a European recession in 2012 and fears of further ratings downgrades, in US dollar terms, oil prices weakened in December. However, euro zone buyers of oil, such as Ireland, did not benefit fully from this fall as the euro weakened significantly versus the US dollar. Because of this, in euro terms, the cost of oil increased by 1%.

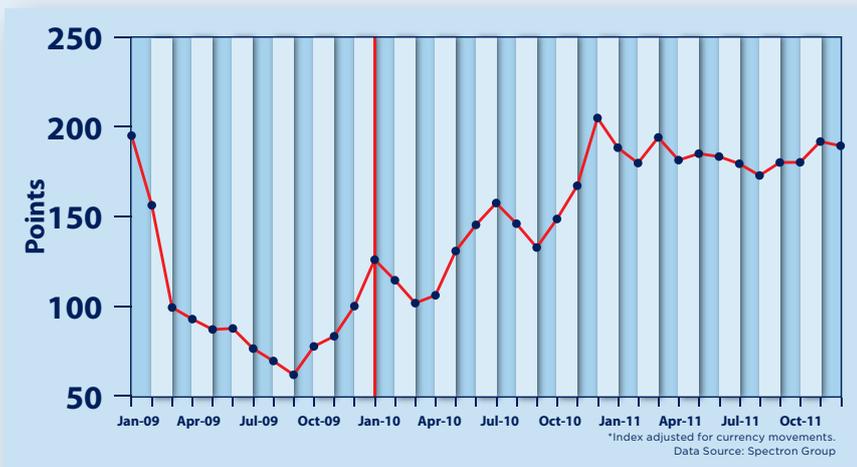
Prices were supported due to the escalation in tensions between the West and Iran over its nuclear programme. Military engagement and the possibility of oil supply disruptions supported oil prices somewhat. Furthermore, data from the US in December reconfirmed the view that the economy there is expanding moderately.

# Bord Gáis Energy Index

DECEMBER 2011

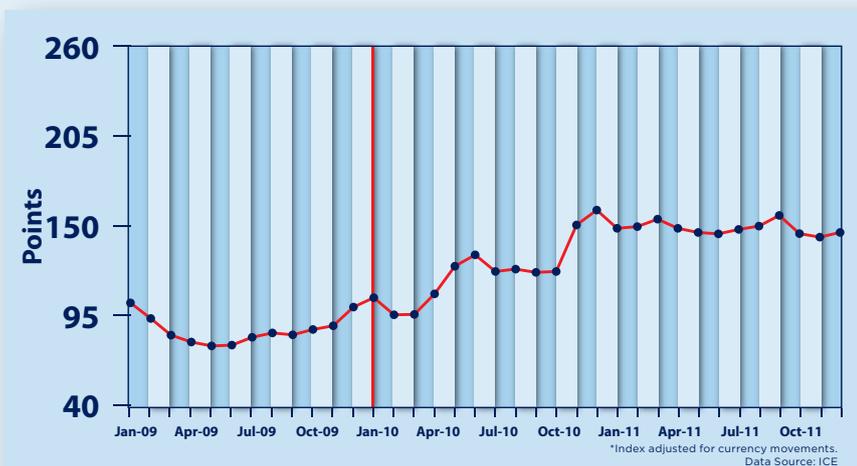


## Natural Gas Index



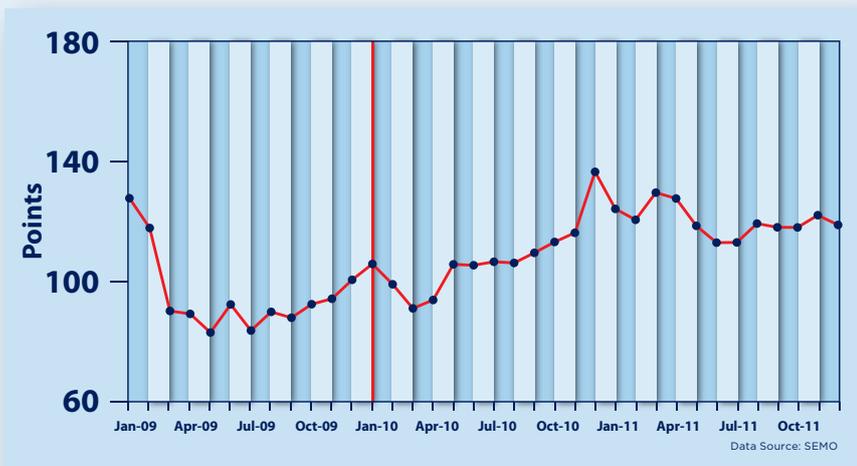
1 Mth **-1%**    3 Mth **5%**    12 Mth **-8%**

## Coal Index



1 Mth **2%**    3 Mth **-7%**    12 Mth **-9%**

## Electricity Index



1 Mth **-4%**    3 Mth **1%**    12 Mth **-13%**

## NATURAL GAS

The average December Day-ahead gas price was lower than its November equivalent by 1%. Despite a brief period where cold and stormy weather bore down on the UK and some disruptions to UK gas supplies from Norway, the December average Day-ahead gas price softened. A mild start to the winter across the British Isles and Europe, has resulted in very healthy stock levels which also applied downward pressure on prices.

Temperatures rose to above seasonal norms in the second half of the month, which reduced demand for gas-fired central heating and depressed prices. The holiday season also resulted in reduced demand from businesses and industry. The ongoing European sovereign debt crisis is also weighing on prices as it is now likely that Europe will burn less gas in 2012 as activity and production slows.

## COAL

In US dollar terms, coal prices fell in December as the world experiences an oversupply of coal. Economic uncertainties and a comparatively mild winter is restricting European demand. Chinese Southern ports are reportedly very well supplied with significant quantities of Australian and South African coal, and Chinese power companies are finding it increasingly difficult to access credit to purchase additional quantities. Indian buyers are also absent from the market as industrial production slows and a weakening Indian rupee makes US dollar priced oil more expensive.

However, euro zone buyers of coal, such as Ireland, did not benefit fully from this fall as the euro weakened significantly versus the US dollar. Because of this, in euro terms, the cost of coal increased by 2% over the month.

## ELECTRICITY

The average wholesale Irish electricity price for December closed 4% lower than its November equivalent as unseasonably mild weather and reduced demand for electricity put downward pressure on prices.

In addition, as the cost of gas and carbon became cheaper in the month, the cost of producing electricity fell. The availability of cheap hydro and wind power put additional downward pressure on prices.

Wholesale prices could have fallen further but for a number of outages of efficient generators and an increased use of expensive peaker units to supply short bursts of electricity.

# Bord Gáis Energy Index

DECEMBER 2011



## FX Rates



|       |     |       |     |        |     |        |
|-------|-----|-------|-----|--------|-----|--------|
| 1 Mth | -4% | 3 Mth | -4% | 12 Mth | -3% | EURUSD |
| 1 Mth | -2% | 3 Mth | -3% | 12 Mth | -3% | EURGBP |

## FX RATES

In December, the euro hit a 15 month low versus the US Dollar. Despite hopes of a solution to the euro zone crisis emerging from the latest crunch EU summit, the mood quickly soured and concerns again mounted about the economic prospects of European region and the future of its currency.

Investors in turn favoured the safe haven of the US Dollar and the currency appreciated versus the euro in the month. These concerns also lead to a weakening of the euro versus the Pound sterling. Some fuel commodities are priced in US Dollars (oil and coal) and in the Pound sterling (gas).

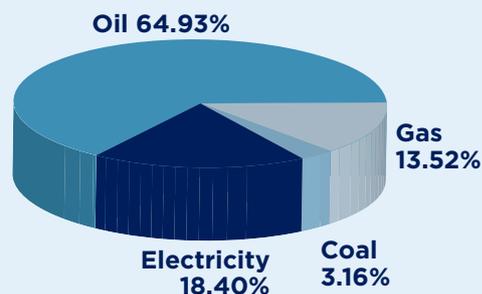
## MARKET OUTLOOK:

There are a number of strong influences that are putting downward pressure on fuel commodities such as the apparent inability of European leaders to offer a solution to the crisis that convinces the markets, fears of a slowing global economy in 2012 and mild weather (which is reducing the need for heating). Should the euro continue to weaken versus the US dollar, euro zone buyers will not benefit fully from any price falls and would have to pay even more should prices increase. Given the economic weakness within the region, a softening euro has the potential to inflate European energy costs.

These downward pressures are being counteracted somewhat however by the escalation of international tensions due to Iran's nuclear programme which may apply upward pressure to oil and consequently all fuel commodity prices should the situation get more treating in 2012.

## RE-WEIGHTING OF BORD GÁIS ENERGY INDEX:

Following the SEAI's 2009 review of energy consumption in Ireland, released in Q4 2010, there was a 9.3% drop in overall energy consumption. The most notable drop of 1.39% was in oil consumption in the form of gasoline and diesel. This reflects the economic downturn experienced at the time. The share of natural gas and electricity increased by 0.63% and 0.57% respectively. An increase in the use of renewables and peat, at the expense of coal in electricity generation was also observed. As a result the Bord Gáis Energy Index has been reweighted to reflect the latest consumption data. This has had a minimal effect on the overall shape of the Index, but may indicate future trends.



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