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THE BORD GÁIS ENERGY INDEX RISES 8% IN JULY AS OIL PRICES RECOVER

- OIL, GAS, COAL AND ELECTRICITY PRICES ALL INCREASE IN JULY -

The Bord Gáis Energy Index rose 8% in July, the biggest monthly increase since February 2012, as wholesale oil prices rose on supply concerns and expectations of additional economic stimulus measures to battle global weaknesses. Along with rising fuel commodity prices, the ongoing weakness of the euro played a significant role in the monthly rise in the Index.

As a result, the Bord Gáis Energy Index now stands at 144, an increase of 4% on July 2011.

Commenting on the Bord Gáis Energy Index for July, John Heffernan, power trader at Bord Gáis Energy, said:

"Despite the global economic backdrop, wholesale energy prices increased in July, with gains recorded in the wholesale price of oil, gas, coal and electricity. In July we saw the vulnerability of fuel commodity prices to threats in global supplies or supply failures. A combination of industrial action in Norway and Columbia, together with escalating tensions in the Middle East pushed prices higher. The euro performed poorly against its rivals during the month and lost more ground to the US Dollar and British Pound, which impacted negatively on euro zone commodity buyers.

As an importer of fuels, Ireland remains very exposed to market shocks and price movements. We did see a fall in natural gas spot prices in Asia over the last month which could mark the end of the very aggressive Japanese buying following the Fukushima disaster and perhaps the start of higher LNG gas supplies to Europe which have been declining. However, Japanese LNG imports are expected to remain high as its nuclear reactors are only expected to return gradually during 2012 and beyond, so the competition for limited LNG deliveries will remain intense. Forward gas prices had been supported in the recent past by the uncertainty of vital LNG supplies to the UK this coming winter. With the ongoing weakness of the euro, any potential future oil or gas price falls may not be fully realised by euro zone countries and any rises could be amplified."

The following are the key trends recorded for the month of July:

Oil: The oil element of the Index was up 10% to 157. Despite the negative economic backdrop, the price of a barrel of oil rose 10% in euro terms month-on-month in July due to heightened geopolitical tensions and increased expectations that the governing authorities in the US, Europe and China and the world's main Central Banks will act to stimulate global economic growth.

In addition, during the month there appeared to be an escalation in tensions between the West and Iran as evidenced by the ordering of new economic sanctions against Iran by the US, and the possibility of military engagement or an attempt by Iran to close the Strait of Hormuz. The markets fear is that Iran's response to declining oil exports could result in disruption to the West's vital oil supplies. Tensions in the oil rich region are not limited to Iran, and there is increasing concern that the situation in Syria could ultimately involve neighbouring countries, which could destabilise the region and oil supplies.

Natural Gas: The natural gas element of the Index was up 4% to 201. The majority of the month-on-month increase was due to the ongoing weakness of the euro versus the British Pound. Ireland purchases its gas on the wholesale markets in the UK and a weakening euro makes those purchases more expensive.

Month-on-month, the average Day-ahead UK gas price rose in sterling terms due to a pensions dispute at the start of the month which raised the possibility that Norwegian oil companies would lockout workers on the Norwegian Continental Shelf and potentially shut down Norway's entire offshore oil and gas output. As Norway accounts for 20% of all gas deliveries to Europe, concerns over gas supplies put upward pressure on prices earlier in the month. Government intervention to prevent the lockout meant prices eased back to trade within the now familiar 54-55p per therm range.

Coal: The coal element of the Index was up 12% to 131. European coal prices rose dramatically in July due to a rail strike in Columbia. The majority of Colombia's coal exports are shipped to European markets and Ireland currently imports most of its coal from there. Industrial action at certain coal mines and maintenance at Columbia's main coal exporting terminal has added to the impact of the strike.

Workers from the Columbian private railway company Fenco, which transports coal from Drummond, Prodeco and Colombian Natural Resources to coal ports in northern Colombia, went on strike over disagreements with management over pay and work conditions. With some vessels being unable to load coal at certain ports for export, there is a fear over future European coal supplies. However, despite worries over future physical supplies and rising prices, there is no desperation yet and the current price increase could prove temporary in nature should the issue be resolved.

Electricity: The electricity element of the Index was up 3% to 113. As the majority of power produced on the island of Ireland is generated by burning gas, a 4% rise in the average monthly wholesale Day-ahead UK gas price in euro terms put upward pressure on the cost of producing electricity . Higher coal prices also contributed to the rising cost of wholesale power. A slightly higher average carbon price over the month also put upward pressure on wholesale power prices.

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