Energy Index Hits Record High in March as Wholesale Gas Prices in Britain Spike due to Cold Weather and Supply Concerns

- BORD GÁIS ENERY INDEX INCREASES 11% IN MARCH –

The Bord Gáis Energy Index rose 11% in March as unseasonably high demand coupled with gas supply constraints pushed wholesale gas prices to record highs in the UK. Despite negative market reaction to Cyprus's bailout and weak economic numbers from Europe and China, Brent crude oil prices in euro terms rose by 1%.

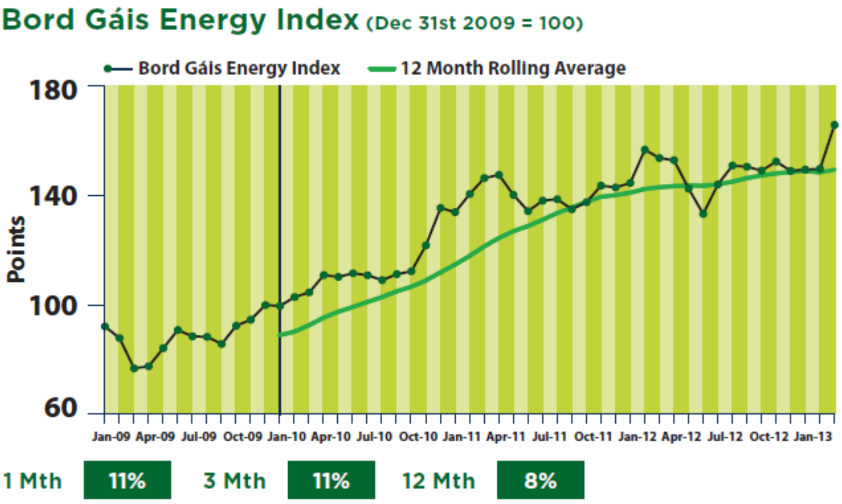
As a result, the Bord Gáis Energy Index now stands at 166, an increase of 8% on March 2012.

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

"March was a turbulent month in the UK gas market as cold weather, high demand, eroding stocks and mechanical faults combined to push wholesale UK gas prices to record levels. High prompt gas prices in the UK fed through to Irish wholesale electricity prices as gas plants in Ireland purchase UK gas at the prevailing market price. The production cost of a gas powered plant tends to determine Irish wholesale electricity prices. However, Irish domestic customers are protected from short term wholesale price fluctuations as the gas used today, for example by, Bord Gáis Energy customers has been bought over the last number of months thereby limiting the exposure to short term spikes in wholesale prices. In addition, Irish buyers of UK gas have benefited from a weakening sterling versus the euro. Since the start of the year, sterling has lost over 4% of its value versus the euro.

Oil prices in US Dollar terms eased back in March as investor confidence in Europe was impacted. Cyprus' bailout raised new concerns and highlighted the ongoing economic situation in Europe. An improving supply picture and a moderate outlook for oil-demand growth this year also contributed to falling prices in US Dollar terms. The revival in US oil production has, according to industry experts, proven much stronger than expected and has provided a boost to the global supply. However, multiple threats and warnings from North Korea have heightened tension in the Korean peninsula and could support an increase in Brent crude prices.

Euro-zone buyers of non-euro denominated commodities, such as oil and gas, will continue to see their buying power influenced by exchange rate movements. In March, this buying power was weakened as the market negatively assessed the consequences of Cyprus' bailout on bond and deposit holders in weak banks in at risk countries in the euro zone."



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

Oil: In euro terms, the Brent crude price rose 1% in March. In US Dollar terms, the price fell moderately by over USD$1 as events in Cyprus eroded investor confidence. In addition to the ongoing euro zone debt crisis, an improving oil supply picture also weighed on oil prices. In March, the Energy Information Agency (EIA) said that in 2013 US oil production will exceed the country's crude oil imports for the first time since 1995 as a result of advances in horizontal drilling and hydraulic fracturing. In addition, OPEC boosted its crude production to the highest in three months in February, led by increased output from Saudi Arabia and Iraq. However, oil prices continue to be supported by the geopolitical concerns. In March the focus switched from the Middle East to North Korea and Saudi Arabia signalling a price floor of USD$100, there is limited scope for Brent crude oil prices to fall before OPEC intervenes by restricting supply.

Natural Gas: The natural gas element of the index rose 26% in March as supply concerns coupled with high demand caused by unseasonably cold weather increased trader anxiety. With March being the coldest in the UK since 1962, UK gas stocks were at less than 5% of capacity and the UK's main storage facility fell to record low levels by the end of the month. Depleting stock levels created a nervous market environment as the UK became over reliant on piped gas from Norway and the Continent. This dependency was eventually tested toward the end of the month as Continental imports partially failed temporarily and prompt wholesale prices spiked to record levels.

With falling Liquefied Natural Gas (LNG) supplies to Britain, the two interconnectors carrying gas from Europe to the UK have been key sources of supply. The UK government stressed that the UK could cope and in the event of a long-lasting gas shortage, suppliers can cut off flows to major users such as factories, and power plants can switch fuel, to ensure there is no disruption to households.

Coal: The coal element of the index was down 4%. European coal prices hit lows not seen since October 2012 as oversupply in the Atlantic basin and limited demand weighed on prices. In February, European coal prices increased as Colombian supplies were cut by around 80% after a variety of disruptions. This situation in Colombia was reversed in March as an agreement was reached between the country's largest thermal coal producer, Carrejon, and its mine workers' union. Supplies to Europe were further bolstered by the lifting of a temporary export suspension that had been imposed on US miner Drummond's Colombian port facilities and the night-time restriction on rail transportation. Demand from China for international coal remained muted in March amid heavy stockpiles at ports and power companies and sustained declines in China's domestic thermal coal prices.

Electricity: The electricity element of the Index was up 28%. As Irish wholesale electricity prices are dominated by the prompt price of internationally traded commodities, in particular gas from the UK, record wholesale UK prompt prices inevitably fed through to the average wholesale electricity price in Ireland. During the month approximately 75% of the Irish wholesale electricity demand was met by gas or coal powered plants, an increase on the previous month. Other factors that added to the rising wholesale prices in March included the use of expensive power plants which added to the system's cost and the unavailability of efficient gas powered plants at certain times.

ENDS

<u>For further information please contact:</u>

Aidan McLaughlin, Fleishman-Hillard: 085 749 0484

<u>Notes to Editors:</u>

Prompt gas price - These are gas prices ranging from today's price (known as the Within-day price), tomorrow's price (known as Day-ahead and this is reflected in the BGE Index), next week's price (Week Ahead) and Balance of Month (so the price of gas from now out to the end of the month).

Day ahead price -This is the price of gas for tomorrow.

Forward price - these are the gas prices for next month (May 2013) etc, the next Quarter (Q3 2013), next season winter 13/14 (Oct 2013 – March 2014), next summer (summer 2014 April 2014 – Sept 2014) and beyond. Forward prices tend to trade out for 3 years.

Implications of Supply Constraints –During the UK's recent cold snap, UK demand increased to about 390 mcm (million cubic meters). Ireland's demand at the same time was about 40 mcm. Gas usage in ROI is dominated by power generators with c. 63% of gas usage in ROI consumed by gas fired power stations. Ireland currently has four entry points for the supply of gas:

1. Inch – where the production from the Kinsale area lands, and storage withdrawals. The existing facilities off-shore at Inch include South West Kinsale, a depleted gas field facility that typically injects in the summer period and withdraws in the Winter period.
2. Interconnector 1: Gas is imported from the UK (via Moffat in Scotland) through this pipeline. This was constructed in 1993.
3. Interconnector 2: The second interconnector, IC 2 was completed in 2002 and includes a tie-off into the Isle of Man.
4. SNIP line: this brings gas from Moffat in Scotland through to the NI distribution lines

The recent events in the UK did not result in any import disruptions from the UK to Ireland and the National Grid in the UK did not have to direct large gas users to reduce usage in order to conserve supplies for domestic users. Although the UK market was tight at times during March, gas supplies sufficiently met demand. The tightness did however raise concern which was reflected in prompt gas prices in particular.