Bord Gáis Energy Index

UNDERSTANDING ENERGY

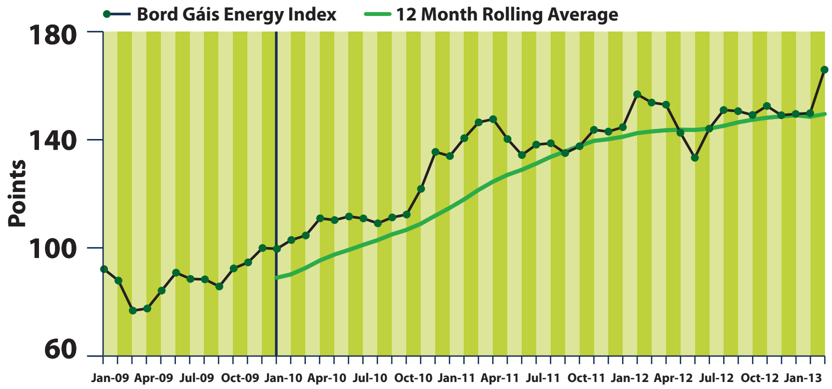
March 2013

think beyond

Bord Gáis Energy

THE BORD GÁIS ENERGY INDEX HITS A RECORD HIGH IN MARCH AS WHOLESALE GAS PRICES IN BRITAIN SPIKE DUE TO COLD WEATHER AND SUPPLY CONCERNS

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



1 Mth	11%	3 Mth	11%	12 Mth	8%

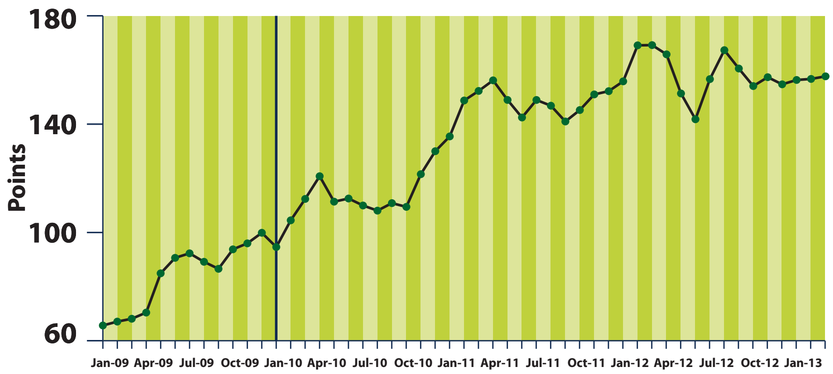
Summary:

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.

In March, dramatic wholesale price moves were seen in the UK gas market, where cold weather, high demand, eroding stocks and mechanical faults conspired to create a tight gas market in which prompt prices rose consistently and at times spiked to record levels. Severe spikes occurred in the price of prompt contracts but these did recede back to more acceptable levels, albeit still relatively high. The immediate impact on forward contracts, particularly those beyond summer 2013, was relatively benign. Since the start of the year, wholesale UK gas prices beyond summer 2013 have risen in sterling terms but a strengthening euro over the same period has offset these rises for euro-zone buyers of UK gas. High prompt gas prices in the UK fed through to daily Irish wholesale electricity prices as gas plants in Ireland purchase UK gas at the prevailing market price. Oil prices in US Dollar terms did ease back in March as investor confidence in Europe was impacted as Cyprus's bailout raised new concerns for creditors and depositors in weak European banks and highlighted the lack of progress towards a durable solution to the euro-zone's economic situation. An improving supply picture and a moderate outlook for oil demand growth this year also contributed to falling prices in US Dollar terms. Global oil supply received a number of boosts in March but most importantly the revival in US oil production has, according to industry experts, proven much stronger than expected and may well surprise further on the upside. However, multiple threats and warnings from North Korea have heightened tension in the Korean peninsula could support an increase in oil prices.

Oil Index



*Index adjusted for currency movements.
Data Source: ICE

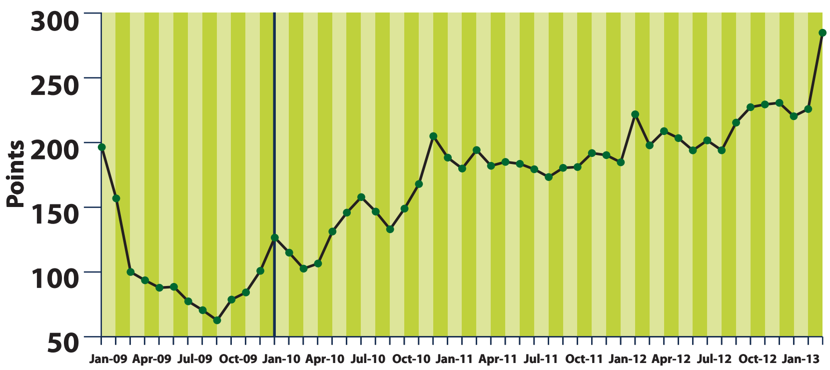
1 Mth	1%	3 Mth	2%	12 Mth	-7%

Oil

Month-on-month, in euro terms, the front month Brent crude oil price rose 1%, with the rise being due to a weaker euro. In US Dollar terms, the price fell moderately by over USD$1 as events in Cyprus seemed to have eroded investor confidence.

On top of the re-emergence of the euro-zone debt crisis (just eight months after the ECB appeared to have restored stability by promising to do whatever it takes to save the currency), a continuously improving oil supply picture also weighed on oil prices. During March, North Sea oil production was bolstered as the Buzzard and Elgin-Franklin fields ramped up production following time offline and it is becoming increasingly likely that oil will begin to flow out of South Sudan in the near future now that Sudan has reportedly instructed its companies to prepare themselves for the export of South Sudanese oil. Adding to a growing global oil supply picture, the Energy Information Agency (EIA) said during the month that US oil production will exceed the amount of crude the country imports for the first time since 1995 later this year following the boom in US shale or tight oil production 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. On the demand front, the IEA's assessment that global oil demand will be pressured by weak economic growth this year added further pressure on oil prices. A strengthening US Dollar versus the euro also weighed on prices as did comments from Saudi Arabia's oil minister that USD$100 a barrel 'is the right price for oil'. Brent crude oil closed at US$110 in March. Oil prices continue to receive support from the geopolitical concerns that rumble on. In particular, North Korea intensified its nuclear threat and warnings during the month. Additionally, equities and in turn oil prices continue to benefit from a cocktail of global monetary programmes, 'puny' cash yields, a low interest rate environment and hungry speculators.

Natural Gas Index



*Index adjusted for currency movements.
Data Source: Spectron Group

1 Mth	26%	3 Mth	24%	12 Mth	44%

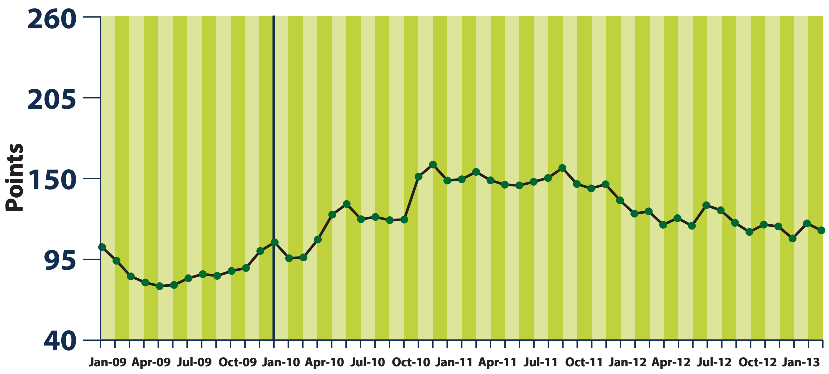
Natural gas

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. March is expected to be the coldest in the UK since 1962.

The wholesale Day-ahead price crept higher throughout March as storage levels were depleted by strong demand for gas due to the cold weather. By the end of the month, UK gas stocks were at less than 5% of capacity and the UK's main storage facility fell to record low levels. These tight conditions meant that the UK gas market was continuously exposed to any unexpected loss in supplies from Norway or the Continent in particular and trader anxiety fed through to prices.

By mid-month, the fragile nature of the UK gas market started to be aggressively reflected in wholesale prices as two consecutive days of unplanned outages at the Rough storage facility did little to help alleviate supply anxiety. As a result, the Day-ahead price closed at nearly STG£0.96 a therm (the average equivalent price for 2012 was approximately STG£0.60). Toward the end of the month and amid deteriorating weather conditions, trader tension escalated as a key pipeline that delivers gas to the UK from the Continent halted operations. With falling LNG supplies to Britain, the two interconnectors carrying gas from Europe to the UK have been key sources of supply. Middle Eastern LNG suppliers have been targeting higher prices in Asia instead of northwest Europe. The temporary loss of such a major supply source caused concern and the Day-ahead price spiked briefly to STG£1.50 before closing at STG£1.05 on the day. 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, or power plants can switch fuel, to ensure there is no disruption to households.

Coal Index



*Index adjusted for currency movements.
Data Source: ICE

1 Mth	-4%	3 Mth	-2%	12 Mth	-10%

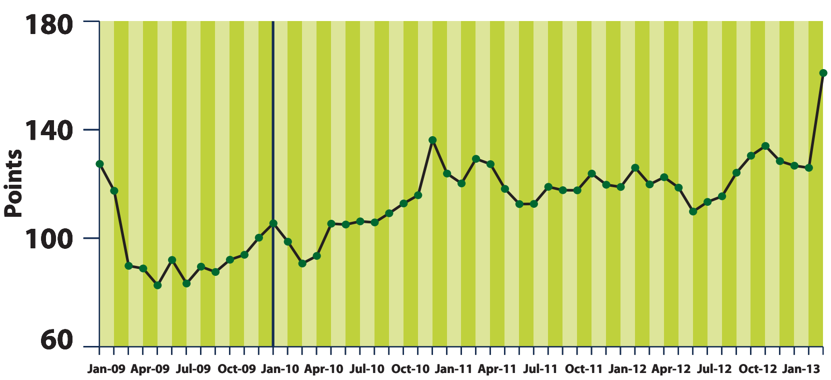
Coal

In March, 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 were supported as Colombian supplies were cut by around 80% after a barrage of disruptions which included a strike at the country's largest miner and night-time restriction on coal transportation. Colombia is the world's fourth largest thermal coal exporting country and one of the major suppliers of steam coal to Europe. The situation in Colombia was completely reversed in March as 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. With the resolution to Colombia's supply problems, a number of vessels made their way to the European market along with some shipments of US Central Appalachian coal. With European utilities reportedly having little appetite for these cargoes, European coal prices weakened. A weaker euro-dollar exchange rate also put downward pressure on prices as the cost to procure dollar-denominated coal rose for euro-zone buyers. Events in Cyprus and worries over European debt piled on top of the bearishness already present in the coal market.

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. China's demand for coal on international markets sets the tone for global prices.

Electricity Index



Data Source: SEMO

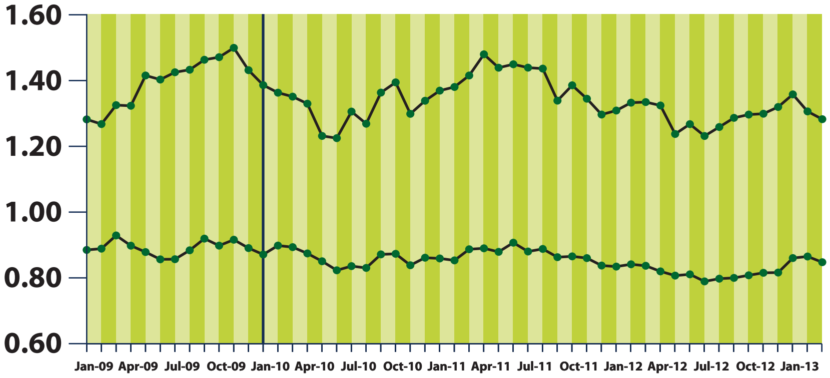
1 Mth	28%	3 Mth	25%	12 Mth	35%

Electricity

In March, wholesale Irish electricity prices rose 28% mainly as a result of the price spikes seen in the UK's prompt gas market. As Irish wholesale electricity prices are dominated by the prompt price of internationally traded commodities (particularly gas which determined the Irish wholesale electricity price approximately 70% of the time in March), the price increases seen during the month 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, and as over 90% of Ireland's gas needs are met by imports from Britain, events in the British gas market reverberated in Ireland.

Other factors that added to the rising wholesale prices in March included the use of expensive power plants (particularly 'peaker' gas and oil plants to produce small quantities of power as required) which added to the system's cost and the unavailability of efficient gas powered plants at certain times. The partial loss of imported power via the interconnector between Ireland and the UK due to maintenance was also a factor as the lost imports were substituted by burning more gas in Ireland.

FX Rates



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

FX rates

In March, the euro lost value against the US Dollar and the British Pound. This resulted in less buying power for European purchasers of dollar-denominated coal and oil, and sterling-denominated gas. The euro's weakness was driven mainly by the bailout of Cyprus that again raised the possibility of a member state exiting the euro and increased fears of deposit runs on weak banks in weak countries and the chances of losses being imposed on some bondholders in the future. The bailout also revealed that more work has to be done to achieve a durable solution to the euro's troubles. The ECB again helped to stabilise the situation as it reiterated that the ECB will do everything it can to preserve the currency and that Cyprus' bailout wasn't a model that would be replicated for the rest of the region in the future. Evidence of continued weakness in euro-area services and manufacturing output, including a decline in German manufacturing in March, and news of falling inflation and rising euro-zone unemployment added to the regions difficulties and the euro's weakness. Events in Europe were in contrast with those in the US, where the economic recovery continues to show signs of improvement as reflected in increasing job creation, rising retail sales and manufacturing output, an improving housing sector and better than expected growth.

Despite the Office for Budget Responsibility downgrading its forecasts for UK growth for 2013 from 1.2% to 0.6%, the British Pound gained versus the euro. Positive news on the jobs front and an expanding service sector helped to lift the mood in the UK. Challenges for the UK economy remain as evidenced by falling industrial output, weak manufacturing, rising credit-default swaps, a rising current account deficit and fears of a triple dip recession.

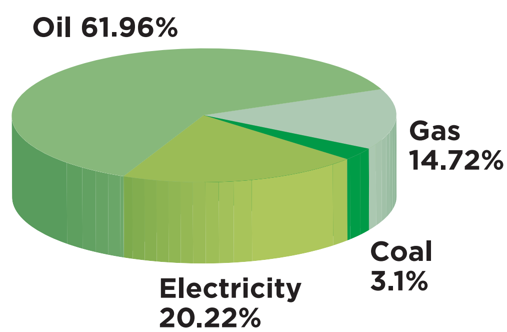
Market Outlook

Wholesale UK gas prices were put under severe pressure in March as the UK's diverse gas supplies were strained to meet unseasonably high demand. The arrival of additional LNG cargoes and an increase from Total's Elgin-Franklin fields, could help alleviate supply concerns but field maintenance is scheduled for 20 days from the start of April which will cut Norwegian capacity by 40 mcm. Industry experts also predict that the recent increase in LNG cargoes is likely to be a blip rather than the start of a sustained upturn. Despite impacting prompt prices most significantly, events in March could have repercussions for traders' assessment of forward markets (for example summer 2013 & winter 2013/14) and how much risk to include in assessing forward contracts. With UK stocks being depleted to record low levels (the UK's main storage facility is below 5% and LNG inventories are at 27 month lows), there will be additional demand for gas in the months ahead to replenish stocks for winter 13/14.

In US Dollar terms, oil prices have retreated from overheated territory in March but monetary policies from the world's main Central Banks will continue to provide some support as will the nuclear threats and warnings from North Korea. However, with question marks being raised about stock market levels, the cerberus of recession in Europe, China's fledging economic rebound and strong non-OPEC oil supply growth, downward pressure on oil prices could emerge. 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.

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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