

Energy Index Down as Wholesale Prices Fall from Record Highs in Previous Months

-Bord Gáis Energy Index drops 5% in May-

The Bord Gáis Energy Index fell 5% in May and recorded its lowest reading in 2013 following record highs earlier this year. As a result the index now stands at 138, a decrease of 4% compared to May 2012.

Irish wholesale electricity prices recorded an 11% decline in May as wholesale UK gas prices continued to soften from the record highs seen in previous months. In addition, the full availability of Ireland's new sub-sea power cable, which connects the Irish and British power grids, suppressed Irish wholesale electricity prices as Ireland benefited from increased power imports from the UK. Brent crude prices fell as traders continued to digest the potential impact of North American shale oil production on the global oil market coupled with weaker Asian demand as China's economy slows.

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

"Falls in all four of the wholesale fuel commodities that make up the Bord Gáis Energy Index resulted in a 5% month-on-month drop in the May Index. Irish wholesale electricity prices fell 11% and the UK Day-ahead wholesale price also softened. Despite this, at 66p a therm, the UK average monthly Day-ahead wholesale gas price was at an all-time high for the month of May. The reasons for this were, planned and unplanned Norwegian field maintenance, unseasonably cold weather and an aggressive push to refill storage stocks.*

"Oil traders' price assessment may have been influenced by the release of the International Energy Agency's (IEA) Medium-Term Oil Market Report which emphasised that a 'supply shock from North American oil is rippling through global markets'. Evidence of the impact of North American oil production was clear at the end of the month as US crude oil inventories hit an all-time high. News that China's manufacturing sector contracted in May and the OECD pared back its forecast for China's growth also weighed on prices. However, in the short-term OPEC's influence will continue to attempt to steer prices toward USD\$100. With Brent oil closing the month at USD\$100.39, it is difficult to see prices trading below this level in the short-term."

The following are the key trends for the month of May:

Oil:

Month-on-month Brent crude prices fell USD\$2 to USD\$100 and it is likely to remain at the USD\$100 level unless a significant event occurs. OPEC's decision to keep the 30 million barrels per day production ceiling in place demonstrates the group's satisfaction with the current state of the globe's oil market. However, in euro terms oil prices only fell marginally as the euro weakened versus the US Dollar.

The International Energy Agency's (IEA) Medium-Term Oil Market Report said that the advances in North American oil production will be as transformative to the market over the next five years as was

the rise of Chinese demand over the last 15 years. Other factors that weighed on prices included: a stronger US dollar as speculation grows that the Federal Reserve Bank may start to taper its aggressive stimulus programmes, the ongoing economic weakness in the euro zone, healthy North Sea crude availability, and high levels of regional refinery maintenance.

Natural Gas

The average monthly demand for gas month-on-month fell 18% while the UK average Day-ahead wholesale gas price fell 9%. However, despite a softening in the price, at 66p atherm the gas price in the UK was at an all-time high for the month of May.

Norwegian field maintenance is usual at this time of the year and traders are generally comfortable with reduced gas flows to the UK during the summer period as falling demand accommodates reduced supplies. However conditions in May 2013 were not typical given the colder-than-normal conditions in Britain that lifted demand for gas. Demand was further elevated by the aggressive purchasing of gas to replenish stocks which were run to all-time lows following the coldest March in more than 50 years. Despite the increase, stock levels are still 20% lower than they were 12 months ago. 'Shaky' Norwegian supplies added to market tightness and at one point supplies to the UK hit their lowest levels in 12 months.

Coal:

During May the Atlantic coal market appeared to stabilise but a bearish tone prevailed during the month. At USD\$90.50/mt*, the benchmark European contract price is unlikely to fall further as it may trigger cuts to more expensive supply which could not sustain production at prices below USD\$90/mt.

Along with further evidence of economic weakness in the euro zone, prices also suffered with the advent of warmer summer weather, shrinking power demand and increased European hydro power capacity. In Asia, China created uncertainty around the seaborne market in May by proposing to ban low quality imported thermal coal, and coal with a sulphur and ash content of more than 1% and 25% respectively. Anything that China does or does not buy has a significant bearing on coal prices so the proposed ban has a potential to place a premium of high-quality coal globally.

Electricity:

In May Irish wholesale electricity prices fell 11% as the main components that make up the price of electricity (UK wholesale gas prices, coal, carbon and 'spark') all lost value for the second month running.

As thermal generation dominates the wholesale price of electricity (approximately 60% of Ireland's wholesale price was determined by either a gas or coal powered plant during the month), falls in UK gas and European coal prices in May affected wholesale electricity prices in Ireland.

The 'spark' component of the electricity price also fell in May as the 500MW East-West Interconnector connecting the Irish power grid directly to Britain was fully operational. Power produced by gas plants in

Ireland were substituted by cheaper UK imports and this displacement and consistent flow of power meant that only the most efficient plants in Ireland were required to produce power and 'sparks' fell.

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Notes to Editor:

*mt is a Metric Tonne

*a therm is a unit of gas