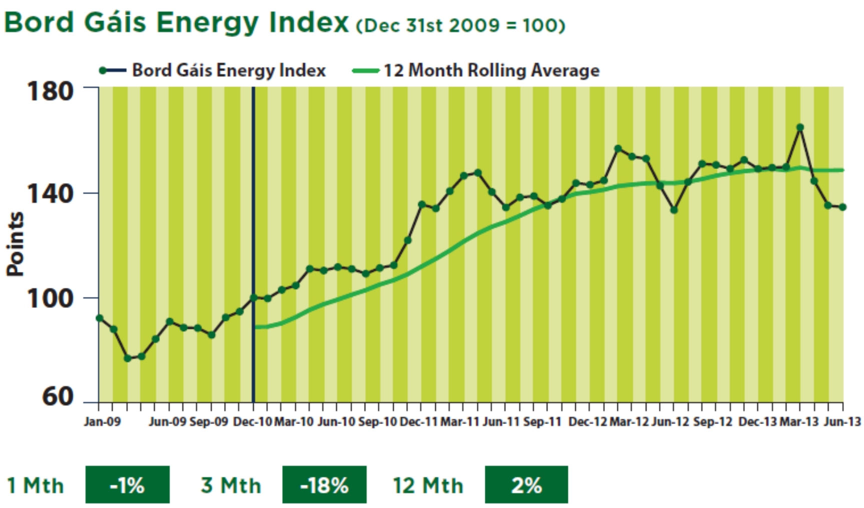
Bord Gáis Energy Index Stable despite Rising Oil Prices

The Bord Gáis Energy Index was stable (-1%) in June as falls in the Irish wholesale electricity, UK Day-ahead gas and European coal prices were counteracted by a rising front month Brent crude oil price. Overall wholesale gas and electricity prices have started to trade at more normal levels as they continue to recede from the record highs that were recorded earlier in the year. The Index now stands at 136 which is 2% higher than June 2012.

With the absence of any significant short-term supply concerns, the month-on-month fall in the index was expected given that energy commodities such as gas and coal tend to soften as we enter a period of reduced demand in the summer months. As the wholesale Day-ahead UK gas market continues to recede from the record highs seen in March of this year, downward pressure is being applied to the Index. However, gas prices for winter 13/14 did receive some support during the month as concerns about future gas supplies were again raised following the unexpected announcement in June of extended Norwegian maintenance over the coming winter period.



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

"Oil prices continued to be pushed and pulled by conflicting forces that have dominated the market in recent months. Commodity prices are being driven lower as the markets consider the impact of reduced US Central Bank support for the world's economy, slower economic growth in China and the continuing expansion of the US shale oil revolution. On the other side, prices are being supported as traders continue to fear the on-going instability in the Middle East and North Africa and the potential it has to disrupt supplies. Oil-field outages in the North Sea and an expected increase in refining capacity this summer also supported prices. As a consequence of these influences, the front month Brent crude oil price appears to be hovering around the US$100 – US$105 a barrel range as the market lacks the

confidence to move decisively in any direction. Planned maintenance and potentially lower Norwegian gas supplies to the UK this winter, plus the need to replenish historically low stocks over the coming weeks and months are expected to support gas prices.

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

Oil:

Month-on-month the front month Brent crude oil price rose 2% in euro terms. Despite the tepid month-on-month change in the price of oil, price movements intra-month were more dramatic as they responded to a series of events that drove prices as high as US$107 and as low as US$99. Geopolitical developments, initially in Syria and subsequently Egypt, were the key upward influencers on the price of oil. Dramatic price dips during the month occurred as the market reacted to news of the US Federal Reserve's proposed future exit from its programme of quantitative easing.

Natural Gas:

In June the monthly UK average Day-ahead wholesale gas price continued to recede from the record levels recorded over the last few months. In March of this year the Day-ahead gas price hit record levels due to a prolonged cold snap and supply concerns. Warmer summer weather and reduced demand for gas are now starting to apply downward pressure on Day-ahead prices and at 60p a therm, the monthly average Day-ahead wholesale gas price has falling back to within a normal price range of between 55p - 65p a therm.

Looking ahead, a number of negative maintenance announcements did create some anxiety about future supplies in the coming winter. In particular, Gassco (the Norwegian state owned company that operates the natural gas pipes) announced that it will be taking 34 million cu m/day of gas out of the system over the coming winter. As UK gas supplies last winter were at times uncomfortably tight, any reduction over this sensitive season is a concern. Following this announcement, the winter 13/14 price spiked over 2p a therm.

Coal:

European coal prices continued to slide in June (-9%) and at US$74.55 the ICE Rotterdam Monthly Coal Futures contract closed at a 44 month low. Weak European coal prices were attributed to warm weather across the Continent, a lack of demand and healthy supplies.

Europe continues to benefit from ample Colombian supplies which are still attracted to the European market despite the historically low prices. Ample supplies and reduced demand means that the European coal market is saturated and prices are falling. Internationally, global coal prices are suffering from a similar supply glut which has seen Indonesia, Australia and Russia all increase exports in recent years. China dominates the demand side of the equation as it now consumes over half of the world's coal. With China's demand for internationally traded coal waning recently, global prices have suffered and international coal prices are weak. China's reduced appetite is as a result of sizeable stock piles at power stations, overproduction by Chinese producers resulting in cheap domestic supplies, reduced access to credit, peak hydro-electricity generation and a slowdown in economic growth. With Asia-Pacific now consuming nearly 70 per cent of the world's coal, future economic and social developments in that region will drive global coal prices.

Electricity:

In June Irish wholesale electricity prices fell 4% as the UK average Day-ahead wholesale gas price fell 9% month-on-month. As the wholesale Irish electricity price tends to be determined by the cost of producing power at a gas powered plant, falling Day-ahead UK gas prices had a significant impact and pushed Irish electricity prices lower.

Despite falling gas prices, the rising cost of carbon emission allowances and 'sparks' applied some upward pressure on prices, but their impact was overshadowed by lower gas prices. Some additional upward price pressure was applied as the volume of electricity produced by wind fell month-on-month. This meant that expensive fossil fuel plants were called upon to produce power and the system had to incur these extra costs which fed through to prices.

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