FALLING OIL PRICES PUSH ENERGY INDEX DOWN 2%

In December the Bord Gáis Energy Index fell 2% as euro zone buyers of oil benefited from a combination of a weaker US dollar and marginally lower Brent crude oil prices. Lower wholesale Irish electricity prices in December also contributed to a fall in the index.

As a result, the Bord Gáis Energy Index now stands at 149, an increase of 4% on December 2011.

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

"*In 2012, Brent crude recorded its highest ever annual average price at US$111.68 a barrel as sanctions against Iran and conflict in the MENA region resulted in the loss of 1.7 million barrels per day of crude production. However, as we move into 2013, increases in US oil production due to hydraulic fracturing has the potential to ease the oil supply anxieties experienced in 2012. Growing US oil production has been described as a potential 'game changer' that could reduce the world's reliance on oil from the MENA region.*

"*Concerns about the global economy also weighed on Brent crude prices towards the end of the year as the 'fiscal cliff' loomed and euro zone growth forecasts for the year ahead were pared back significantly by the ECB and German Central Bank.*

"In 2013 oil prices will continue to be dominated by developments in both demand and supply. With oil demand being largely a function of Gross Domestic Product growth, developments in the global macro-economy will play an important role in determining the price of a barrel of oil. With the US, China and Europe accounting for over 55% of global GDP, and nearly half of the world's oil demand, what happens in these three economies in 2013 will be of vital importance.

"Record oil prices in 2012 were heavily influenced by fears of global supply disruptions and the loss of Iranian oil due to EU and US sanctions. In 2013 we could see the subsiding of these fears, and potentially prices, if US oil production results in the expansion of OPEC's spare capacity. However, the ongoing impasse with Iran and civil war in Syria remains a cause of concern and until these are resolved, oil prices may continue to carry the US$20 'fear premium'."

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

Oil: The oil element of the index was down 2%.

During the month, the Energy Information Administration (EIA) released a report which emphasised the growing strength of the US as a major energy producer. In 2012, the US reached oil production levels not seen in 15 years, mainly due to the increased use of hydraulic fracturing. This extra oil supply has the potential to ease the current pressure on Brent crude prices which is being caused in part by growing global oil demand and limited spare capacity available from OPEC producers. Additional factors that are easing the pressures on global oil supply include: the potential restart of oil exports from South Sudan;

the extension of US waivers on Iran sanctions; forecast record oil production in Iraq and weak oil demand in 2013 due to the many economic uncertainties globally.

Natural Gas: The natural gas element of the index was up slightly by 1%. UK wholesale gas prices increased as a result of cold weather in the first half of the month. Prices rose to attract sufficient pipeline gas from the Continent and withdrawals from storage as well as LNG terminals. UK gas demand received an additional boost early in the month as gas fired power generators started to produce more power due to increased electricity demand, in response to below average temperatures.

As the UK and Europe looses more Qatari gas in the form of LNG to Asian markets, the UK has become increasingly reliant on imports from the Continent to meet demand this winter. In recent months, the UK has been importing record volumes of gas which has been putting upward pressure on prices. However, with Russia's gas exports to Europe reaching record highs in December, the availability of gas in the UK has not been an issue so far this winter. Other sources of supply include the UK's own domestic resources, piped gas from Norway, storage and LNG supplies at terminals.

Coal: The coal element of the index was down 1%. However, in US Dollar terms, coal prices were marginally higher as traders became concerned about coal supply disruptions from Colombia in the months ahead due a number of factors including: production problems; the banning of the transportation of coal by night; potential flooding of mines due with the start of the rainy season in January; and a potential strike between the country’s largest coal miner and unions.

Factors that put downward pressure on European coal prices in December include: an improved weather outlook for Europe in the short-term; speculation that Europe will receive six cargoes of coal from South Africa in January and weaker global coal prices (this has been led by China where high stockpiles and falling domestic prices due to muted domestic demand are weighing on prices).

Electricity: The electricity element of the Index was down 5%. Despite rising wholesale gas prices in the UK and rising electricity demand in Ireland in early December, Irish wholesale electricity prices fell month on month.

In December, despite rising wholesale gas prices, carbon and spark components of the wholesale price fell significantly which ultimately applied downward pressure on Irish wholesale electricity prices.

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