Monthly Review November 2014

- UK day ahead gas prices average 53.81p last month
- Crude oil prices slide to 4 year lows in November
- SEM wholesale power prices virtually unchanged
- EU carbon allowances average €6.83 per tonne
- Sterling and Dollar strengthen against the Euro

UK gas prices increase moderately in November

The UK day ahead gas price continued to increase moderately, moving from an average price of 50.19p in October to 53.81p for November. Temperatures remained marginally above the seasonal norm with relatively light heating and power generation demand as a result but with prices creeping higher, many buyers moved to close short positions in the final week, pushing day ahead to 59.00p on November 27 before prices eased slightly in the last couple of days. The conclusion of negotiations between Russia, Ukraine and the EU regarding supply to Ukraine for the winter months at the tail end of October exerted some downward pressure on prices in the first few days of November. Despite that, the front month December contract moved from a low of 54.73p at the start of the month to a high of 59.43p on November 26 and the contract expired at 58.64p. The November contract had expired at 52.95p.

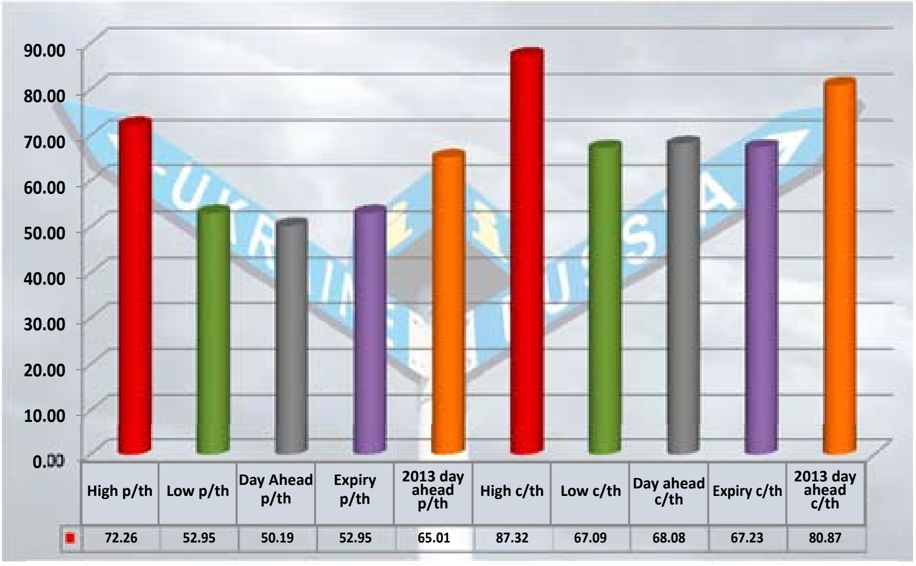
Summary price movement for November 2014

November 2014	1 year ago	12 Month High	12 Month Low	Contract expiry	Day Ahead at end Nov	Nov 2014 Day Ahead Avg
UK NBP gas, p/therm	68.53	70.83	52.95	52.95	57.75	53.81
UK NBP gas, c/therm	78.92	84.15	67.09	67.23	72.62	68.08
GB Baseload power, £/MWh	51.90	58.10	32.50	N/A	47.25	46.70
GB Baseload power, €/MWh	62.42	69.67	40.89	N/A	59.41	59.08
SEM baseload power, €/MWh	84.53	107.47	52.47	N/A	77.13	73.49
Brent crude, $/barrel	109.69	115.06	70.15	70.15	-	-
Brent crude, €/barrel	80.61	84.51	56.41	56.41	-	-
Nymex crude, $/barrel	92.72	100.91	68.22	68.22	-	-
Gasoil, $/tonne	877.00	946.00	733.00	741.74	-	-
Carbon EUA's €/tonne	4.37	7.17	4.34	7.02	-	-
FX USD/EUR	1.3607	1.2386	1.3930	1.2533	-	-
FX GBP/EUR	0.8314	0.7773	0.8460	0.7953	-	-

Perceived value buying pushes winter gas prices higher

The front month December contract, which began the month of November at 54.73p and climbed to 59.43p by November 25, prompted strong buying activity on the Q1 2015 contract in the last week of the month. Despite the heavy buying activity, the Q1 contract gained only 3.85p over the course of November and the limited rise was mainly attributable to high storage stocks in the UK and indeed most of Western Europe. With no severe weather forecast for the month of December, the level of gas in storage is likely to remain high at the turn of the year. The opportunity to lock in winter gas at prices below 60.00p proved a reasonable bet for most market observers, given the prevailing prices of the previous two winters. Despite the ongoing slide in oil prices, recent disconnects between oil and gas prices has led those in the gas market to be more circumspect regarding bets on gas falling fully in line with oil.

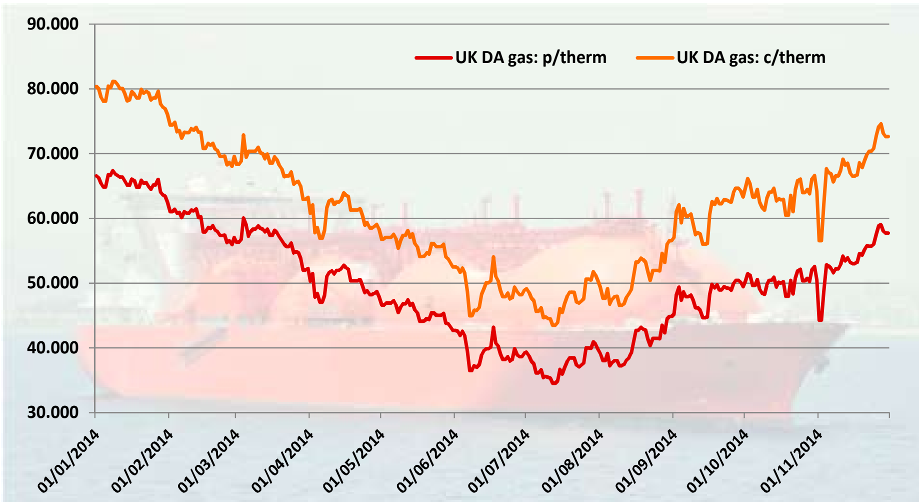
November 2014 NBP gas futures contract summary
(incl. comparison v 2013 and 2014 day ahead)



Winter gas supply outlook remains positive with high storage reserves

The UK and most Western European storage reserves were at record high levels coming into the current winter and the initial outlook for winter gas supply was positive. Indeed, with forecasts of above normal temperatures for the first half of the winter period at least, the possibility of a repeat of this year, when storage reserves were still at up to 40% capacity at the end of the season, seems not unrealistic. This, in turn, would ease demand for storage re-injection next summer and this possibility has kept the Summer 2015 contract price at a healthy discount to the Winter 2015 price. Long range storage for the UK at the Rough facility remained at 95% of maximum capacity at the end of November. As withdrawal rates on Rough are restricted to 60% of maximum capacity for at least the first half of December, the likelihood is that reserves will remain healthy at the start of the New Year, adding to the positive outlook for supply for the remaining winter months and limiting the upside for gas prices.

UK NBP day ahead gas prices through 2014

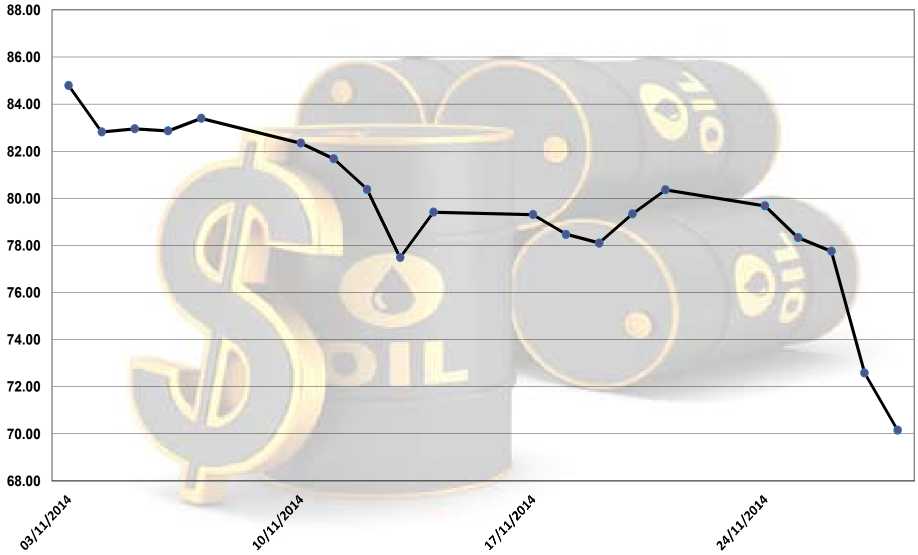


Currency issues continue to impact gas and oil prices

The dollar averaged 1.2667 to the euro for October and reached 4 year highs against the European single currency, averaging 1.2470 in November. The European Central Bank's announcement of measures to support Eurozone economies could see a further decline in the euro value in the short term. Sterling weakened marginally against the euro through the month, averaging 0.7908 compared to 0.7884 in October. The weaker pound lessened any downward pressure on UK gas prices but the fall in oil prices, partly attributable to the stronger dollar, has played a part in restricting the upside for UK gas prices, particularly during the month just passed.

Crude oil prices hit 4 year lows in November

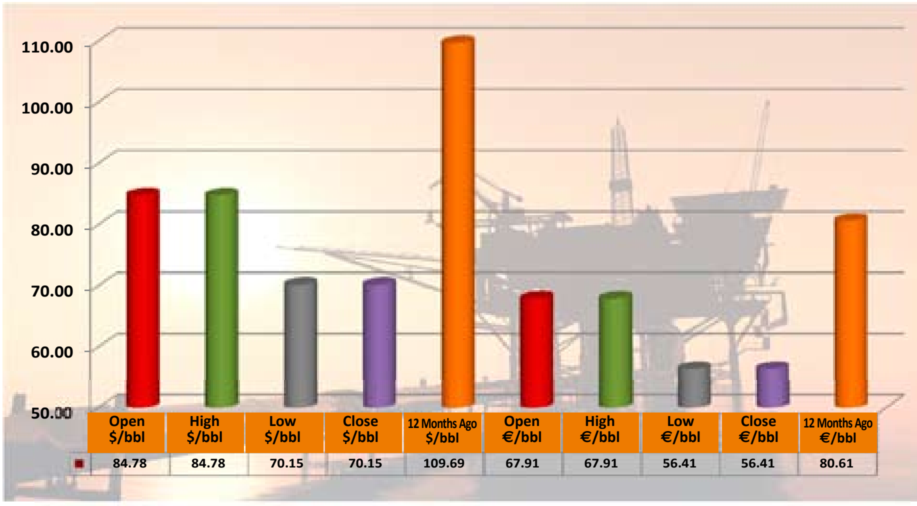
Front month Brent crude oil through November 2014: $/bbl



After falling by $8.81 a barrel through October, the decline in Brent crude oil prices accelerated in November, with a total decline of $15.71 by the end of the month when the front month price just failed to break below the $70 mark, settling at $70.15 a barrel The decline in oil prices continues by virtue of ongoing over-supply and, to a lesser extent, by a strengthening dollar. On the supply side, U.S. production continued to increase and OPEC signalled that it would not reduce production in response to the over-supply situation. The OPEC position was that the market should no longer expect OPEC to prop up prices by cutting production. Indeed OPEC stated that current price levels were acceptable in a stable market situation. Any hopes that major non-OPEC producers would cut production have gained no traction however. More than any time in the past 10 years, Russia needs to maintain its oil revenues and is already facing economic problems with a budget for 2015 based on oil at $100. For the U.S., cutting shale oil production would almost inevitably mean an increase in oil imports which would be a major set-back to their energy independence programme, as well as a likely increase in costs.

Geo-political mind games and over-supply push oil prices lower

Brent crude oil price variation through November 2014



Open $/bbl	High $/bbl	Low $/bbl	Close $/bbl	12 Months Ago $/bbl	Open €/bbl	High €/bbl	Low €/bbl	Close €/bbl	12 Months Ago €/bbl
84.78	84.78	70.15	70.15	109.69	67.91	67.91	56.41	56.41	80.61

There is no doubting the reality of crude oil over-supply at present and it is a situation which may get worse in the short term. Increased production of U.S. shale oil brought U.S. crude production to a thirty year high in November and the recovery in production from Iraq and Libya has continued in recent months despite ongoing military conflict in both countries. While the markets have traditionally looked to OPEC, and in particular Saudi Arabia, to cut production in times of over-supply, that option cannot now be taken for granted. Following October's sharp decline, oil prices fell a further 10% in the first two weeks of November before finding some stability at just under $80 a barrel. At this stage, the markets were awaiting the possible announcement of a production cut from OPEC at its meeting of November 27. This was not forthcoming however and OPEC decided to maintain current production quotas. Brent crude recorded its biggest daily downturn since 2008, losing $5.17 on that day and dipping below $70 a barrel before settling at $70.15 on the last trading day of the month.

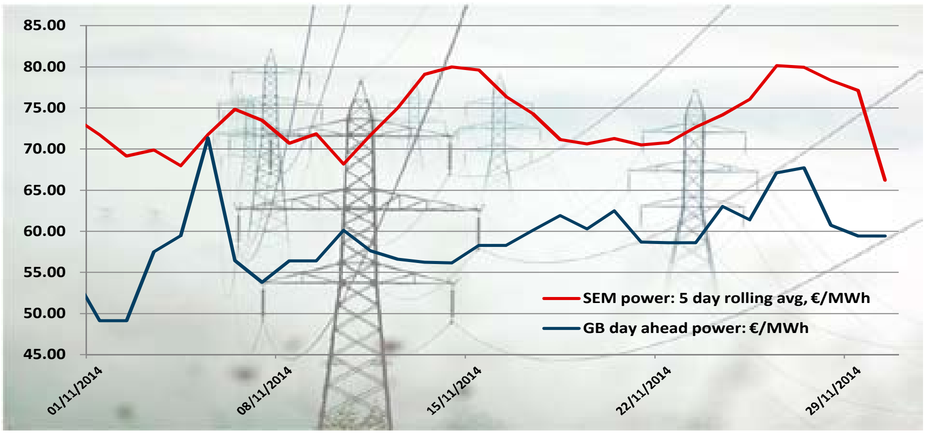
Oil demand shows no sign of any significant pick-up

Following months of less-than-forecast growth in the Chinese economy, the Chinese Central Bank announced a stimulus package for the economy which may lead to increased oil demand. The demand situation in Europe remains depressed as most economies, including Germany, continue to perform poorly and the ECB has introduced its own economic stimulus measures. The introduction of these measures, just as the U.S. emerges from its own recent economic stimulus programme, has already resulted in further pressure on the euro versus the dollar, making oil a more expensive commodity in non-dollar currency. Whether these measures will produce a lift in economic activity and consequent increase in oil demand remains to be seen and bankers disagree as to the effectiveness of these programmes. Even in the U.S., despite increasing numbers of people employed, there has been only a very modest growth in oil demand. What all major banking and non-banking analysts agree is that average crude oil prices will be lower for the coming year.

GB and SEM power prices little changed month-on-month

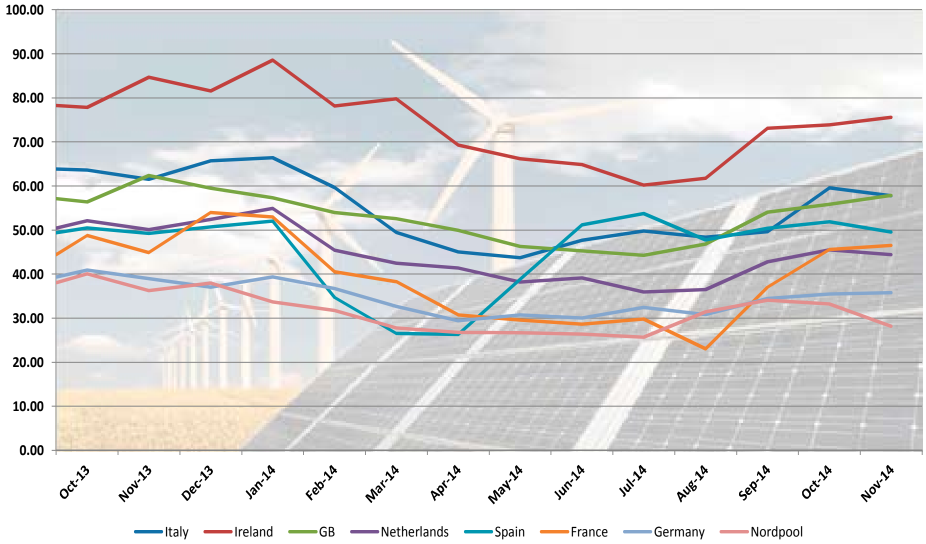
The increase in gas prices from October to November was largely responsible for increased power prices in Britain and Ireland in November, although increased availability of nuclear plant in Britain had some modifying effect there. GB day ahead market prices moved from an average of €55.89/MWh in October to €59.09/MWh in November. Despite lower wind availability, the SEM daily price actually eased slightly, moving from an average of €73.66/MWh in October to €73.43 in November. What is also notable in the case of the SEM is the relatively flat profile of price movement over the month with prices generally within a range of €68 to €80/MWh. This compares favourably with the profile for the previous month when SEM 5 day rolling average prices varied between €60 and €88/MWh, largely due to very high levels of wind generation at some times and very little at other times.

GB day ahead and SEM 5 day rolling average power prices through November 2014



Thanks to a more moderate wind regime in November, SEM price volatility decreased and the average price was down fractionally month-on-month. Thanks to increases in pass through charges for the year commencing 1 October 2014 the delivered cost of power in Ireland is still well out of line with prices, not only in the UK, but elsewhere in Western Europe. The 85% increase in the PSO levy and a 27% increase in Imperfections Charges leaves the overall impact of the CER approved changes for 2014/2015 over 2013/2014 at around 0.50 cent per kWh regardless of what impact fuel prices or wind availability may have on the SEM price.

European wholesale baseload power price summary, €/MWh



Carbon emissions costs move above €7.00 per tonne

EU carbon allowances (EUAs) moved higher again in November to average €6.83 per tonne compared with €6.08 for October. The gradual increase in the price of EUA's over the past six months will be seen as a measure of success for the support measures for the EU Emissions Trading Scheme which came into effect in Q1 of this year. The February highs of over €7.00 per tonne when the scheme first became operative were rapidly retraced as prices plummeted to €4.34 per tonne in March but since then, the recovery has been steady with prices hitting €7.00 consistently in the last week of November. In short, the market has found stability on a gradually strengthening curve. The resurgence of coal for power generation in Europe has provided a basis for higher carbon prices but this may be short-lived as EU member states look to means of achieving their emissions targets for 2020 and beyond.

EU ETS carbon price movement through November 2014: €/tonne