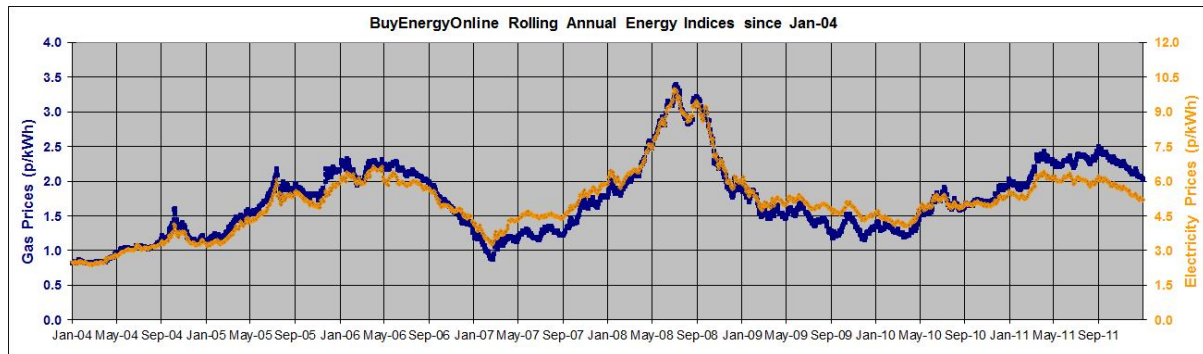


Energy prices fell during December for a third successive month. Gas prices fell a further 4.2% to 2.02p/kWh and electricity prices fell 3.7% to 5.18p/kWh. Oil prices fell 3.3% to \$107/barrel, coal prices fell 2.3% to \$110/tonne and carbon permits fell 18% to €6.85/tonne.

Forward Price Graph



Key Price Drivers and Risks

Energy prices continued sliding for a third month due to uncertainty over the global economy and expectations of ongoing mild winter weather conditions.

Uncertain global economy depressing demand

Global demand for energy remains depressed, but with reductions in western economies offset by increases from China and other emerging economies. Uncertainty over Eurozone resolution is sapping confidence globally with investment and spending decisions being delayed. European economy could already be in recession and China growth is slowing. On the positive, indications from US suggest their economy may be starting to stabilise.

New gas sources

New gas supplies continue to come on stream mainly from new LNG capacities. Also, US are aiming to commence exporting their abundant shale gas supplies this year by converting to LNG. Other shale gas reserves scattered around the world could create abundant gas supplies over the next several years.

Costs of combatting climate change

Subsidies for renewable energy technologies are being passed onto electricity consumers with next year's subsidies for Renewable Obligation and the new Feed-in-Tariff subsidy expecting to increase to about 0.7p/kWh up from about 0.4p/kWh this year. These subsidies are added on top of the wholesale price, along with Climate Change Levy and Carbon Reduction Certificate costs. However the cost of carbon emission permits, which are included in the wholesale price, continue to fall as Europe's electricity output falls.

Views

We believe energy prices will ease further as the global economy struggles and as new gas supplies come to market. Watch out for US economy which could become a stabilising force. Assuming during 2012 the world slows down and Europe enters recession but US emerges as a stabilising influence then the global economy could be on the recovery path by 2014.

Electricity prices have fallen further than gas prices, which is surprising given the prospect of new gas supplies later in 2012 and that electricity is usually less volatile than gas.

Recommendations

For gas, we recommend waiting as long as possible before locking away fixed gas price contracts or taking a flexible purchase contract to access spot prices. Flexible contracts are now available for medium sized energy buyers willing to take on some risk to reduce their costs.

Electricity prices for 2012 delivery are at reasonable levels but we expect some further falls for 2013 which are trading 10% higher. If you have large gas spends, it would be worth locking 2012 electricity prices away now as a hedge.

Our auction based tendering process can secure the best fixed prices through liquidity, transparency and speed. Our flexible purchasing contract utilises our fixed price auction to determine a benchmark price, and allows buyers to buy cheaper energy by taking on and managing some risk and to reduce annual price volatility.

Note that these views and recommendations are offered for your consideration, but may be wrong as the market is highly uncertain. The energy markets hold additional risks which are unknown until they arise.

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