

WEEKLY MARKET ANALYSIS



AUSTRALIAN ENERGY
REGULATOR

25 May – 31 May 2008

Summary

Average prices for the week on the mainland ranged from \$48/MWh in Queensland to \$55/MWh in Victoria. Prices in Tasmania averaged \$71/MWh. These prices represent an increase compared to the previous week in all regions due to reduced availability of low-priced generation.

In the financial markets, base futures prices were higher across all regions compared to the previous week, with the third highest weekly trading volumes for 2008. Cap contracts for the first quarter of 2009 in South Australia increased by 41 per cent to \$65/MW.

Spot market prices

Figure 1 sets out the volume weighted average price for this week and this financial year to date across the NEM regions and compares them with price outcomes from the previous week and year to date respectively.

Figure 1: Volume weighted average spot price by region (\$/MWh)

	Qld	NSW	Vic	SA	Tas
Ave price for 25 May – 31 May	48	53	55	53	71
Financial year to 31 May	59	45	51	107	56
% change from previous week*	19%	19%	4%	7%	6%
% change from year to date**	38%	-5%	0%	100%	18%

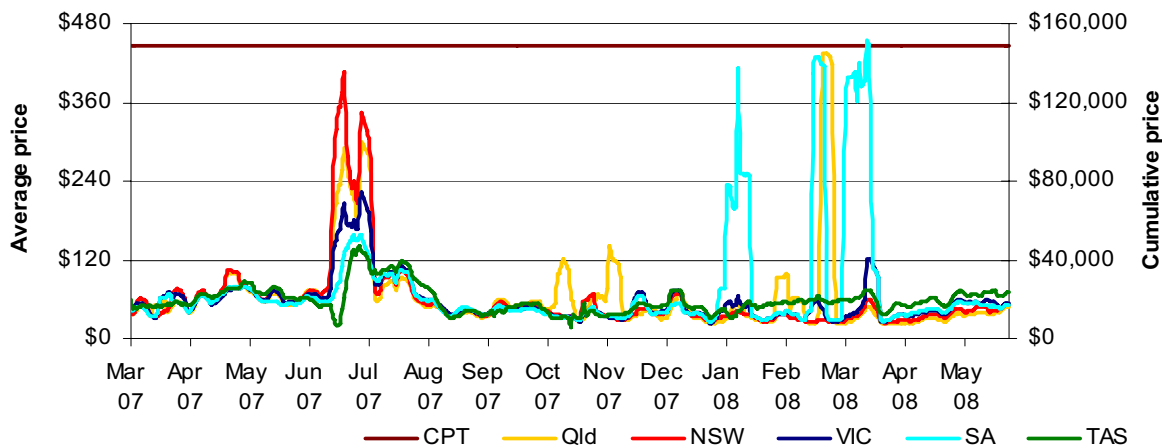
*The percentage change between last week's average spot price and the average price for the previous week.

**The percentage change between the average spot price for the current financial year to date and the average spot price over the similar period for the previous financial year

The AER provides further information if the spot price exceeds three times the weekly average. Queensland and New South Wales regions recorded prices greater than three times the weekly average. Details of these events are attached in Appendix A. Longer term market trends are attached in Appendix B.

Figure 2 shows the seven day rolling cumulative price for each region together with the CPT (and the equivalent seven day time-weighted average price) for the last 15 months.

Figure 2: Seven day rolling cumulative price and CPT



Financial markets

Figures 3 to 10 show futures contract¹ prices traded on the Sydney Futures Exchange as at close of trade on Monday 2 June. Figure 3 shows the financial year base futures contract prices for this year and the next two years, and the three year average. Also shown are percentage changes compared to a week earlier.

Figure 3: Base financial year futures contract prices (\$/MWh)

	QLD		NSW		VIC		SA	
Financial 2008-09	58	6%	54	6%	54	5%	67	4%
Financial 2009-10	54	7%	56	6%	54	3%	55	4%
Financial 2010-11	57	8%	54	2%	68	2%	47	0%
Three year average	56	7%	55	4%	59	3%	56	1%

Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 4 shows the \$300 cap contract price for the first quarter of 2009 and the 2009 calendar year and the change from the previous week.

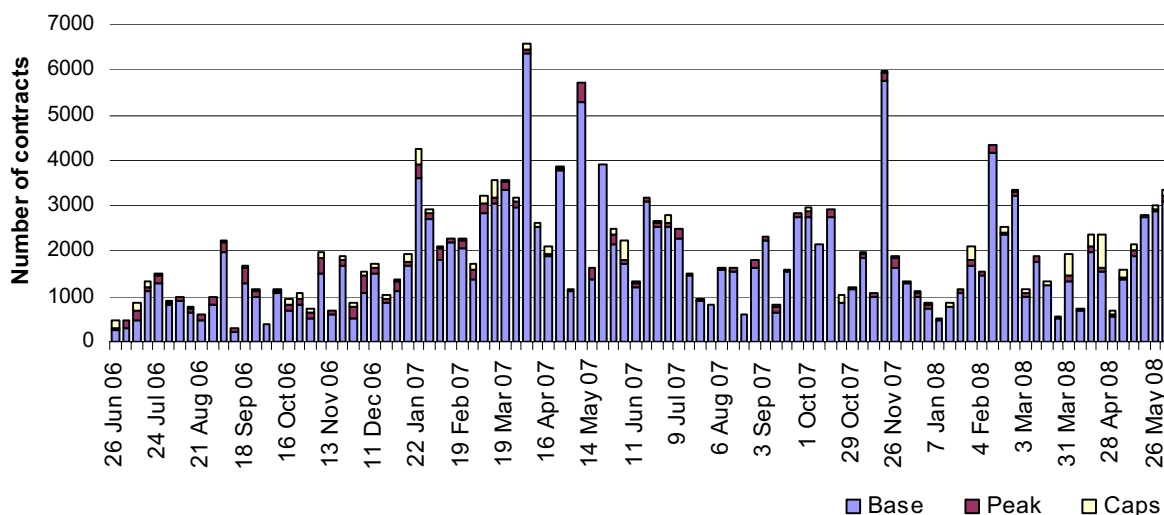
Figure 4: \$300 cap contract prices (\$/MWh)

	QLD		NSW		VIC		SA	
Q1 2009 price	41	2%	27	1%	29	10%	65	41%
Calendar 2009	17	10%	13	1%	13	5%	20	31%

Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 5 shows the weekly trading volumes for base, peak and cap contracts, the date is the end of that week.

Figure 5: Number of exchange traded contracts per week

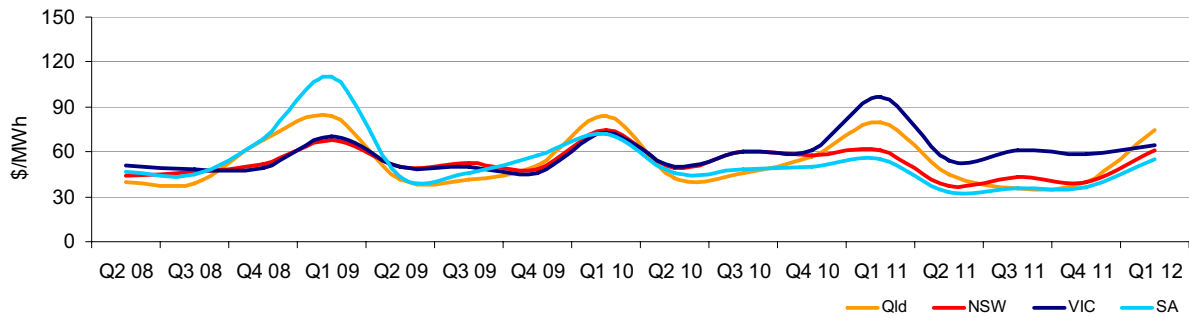


Source: d-cyphaTrade www.d-cyphatrade.com.au

¹ Futures contracts on the SFE are listed by d-cyphaTrade (www.d-cyphatrade.com.au). A futures contract is typically for one MW of electrical energy per hour based on a fixed load profile. A base load profile is defined as the base load period from midnight to midnight Monday to Sunday over the duration of the contract quarter. A peak load profile is defined as the peak-period from 7 am to 10 pm Monday to Friday (excluding Public holidays) over the duration of the contract quarter.

Figure 6 shows the prices for base contracts for each quarter for the next four years.

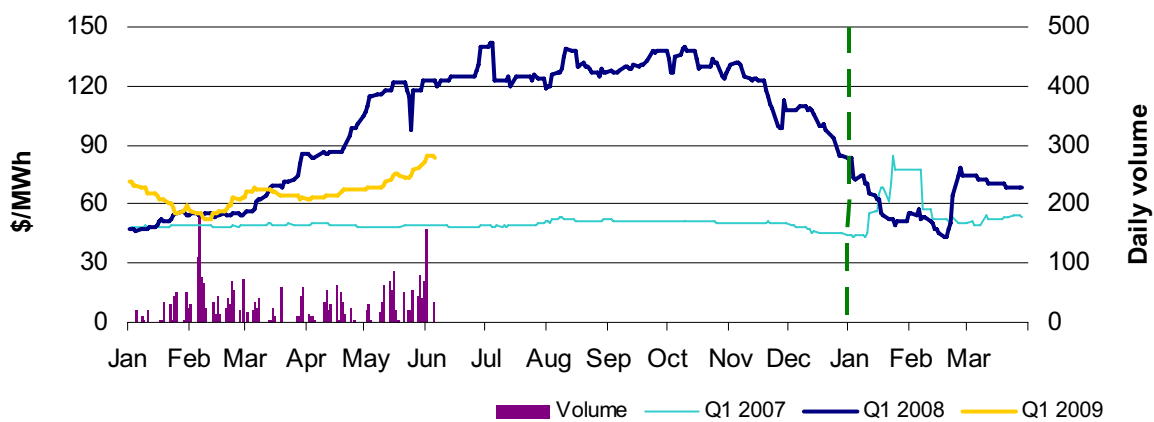
Figure 6: Quarterly base future prices 2008 - 2011



Source: d-cyphaTrade www.d-cyphatrade.com.au

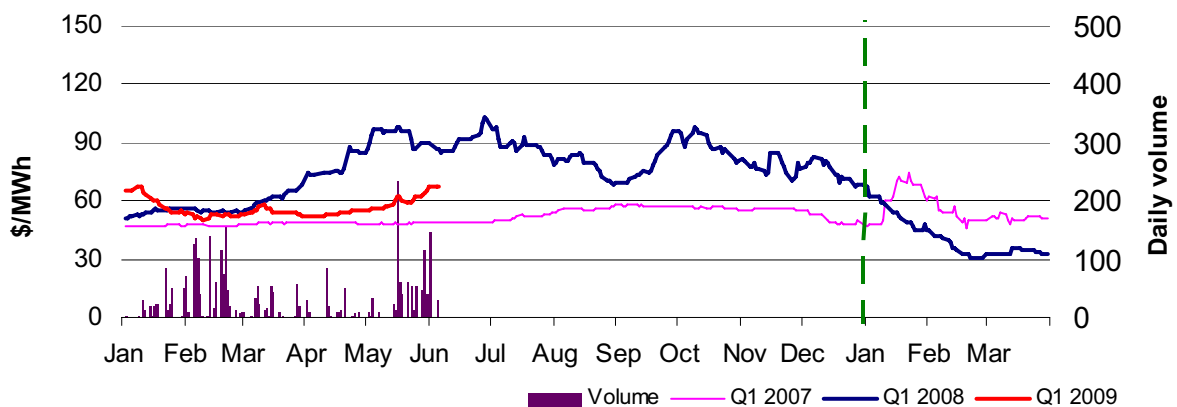
Figures 7-10 compares for each region the closing daily base contract price for the first quarter of 2007, 2008 and 2009. Also shown is the daily volume of Q1 09 base contracts traded. The vertical dashed line signifies the start of the Q1 period.

Figure 7: Queensland Q1 2007, 2008 and 2009



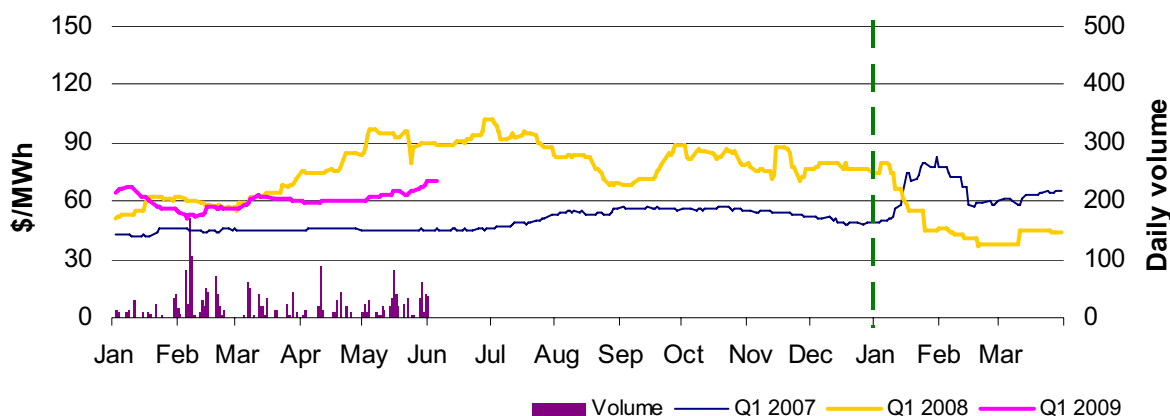
Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 8: New South Wales Q1 2007, 2008 and 2009



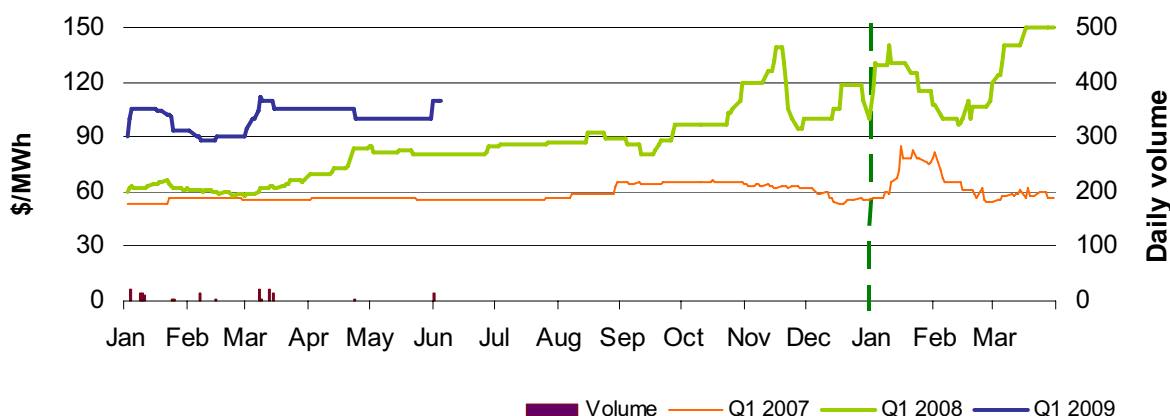
Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 9: Victoria Q1 2007, 2008 and 2009



Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 10: South Australia Q1 2007, 2008 and 2009



Source: d-cyphaTrade www.d-cyphatrade.com.au

Spot market forecasting variations

The AER is required by the National Electricity Rules to determine whether there is a significant variation between the forecast spot price published by NEMMCO and the actual spot price and state why the AER considers that the significant price variation occurred. It is not unusual for there to be significant variations as demand forecasts vary and as participants react to changing market conditions. For the week, there were 113 trading intervals where actual prices significantly varied from forecasts². This compares to the weekly average in 2007 of 125 counts. Reasons for these variances are summarised in Figure 11.³

Figure 11: Reasons for variations between forecast and actual prices

	Availability	Demand	Network	Combination
Price is higher than forecast	41%	39%	0%	6%
Price is lower than forecast	0%	11%	0%	3%

² A trading interval is counted as having a variation if the actual price differs significantly from the forecast price either four or twelve hours ahead.

³ The table summarises (as a percentage) the number of times when the actual price differs significantly from the forecast price four or twelve hours ahead and the major reason for that variation. The reasons are classified as availability (which means that there is a change in the total quantity or price offered for generation), demand forecast inaccuracy, changes to network capability or as a combination of factors (when there is not one dominant reason). An instance where both twelve and four hour ahead forecasts differ significantly from the actual price will be counted as two variations.

Demand and bidding patterns

The AER reviews demand, network limitations and generator bidding as part of our market monitoring to better understand the drivers behind price variations. Figure 12 shows changes to the offer price and available capacity of generation in each region for the on-peak periods only⁴. For example, in Queensland 196 MW less was offered at prices less than \$20/MWh this week compared to the previous week. Also included is the change in average demand during peak periods for comparison.

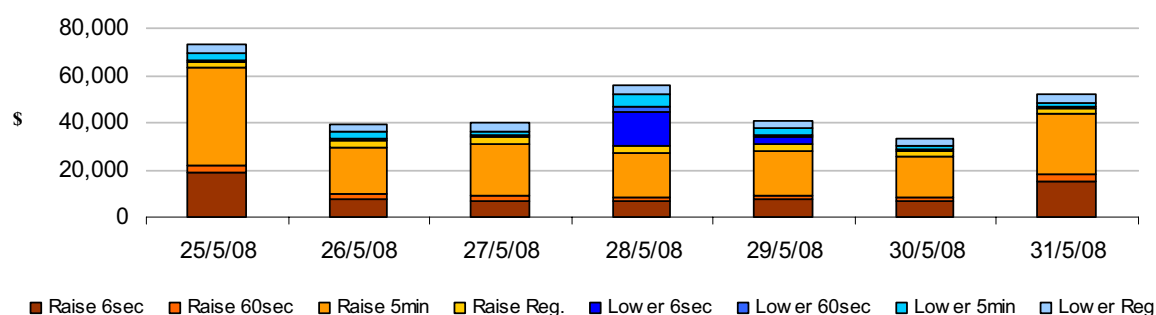
Figure 12: Changes in available generation compared to the previous week during peak times

\$/MWh	<20	Between 20 and 50	Total availability	Change in average demand
Queensland	-196	134	-125	163
New South Wales	-511	108	-709	-97
Victoria	166	-41	231	-62
South Australia	-52	-62	-83	29
Tasmania	82	23	63	-24
Snowy	0	52	8	2
Total	-510	214	-616	13

Ancillary services market

The total cost of ancillary services on the mainland for the week was \$261 000 or 0.1 per cent of turnover in the energy market. The total cost of ancillary services in Tasmania for the week was \$74 000 or 0.5 per cent of the turnover in the Tasmanian energy market. Figure 13 shows the daily breakdown of cost for each frequency control ancillary service.

Figure 13: Daily frequency control ancillary service cost



Australian Energy Regulator June 2008

⁴ Peak periods is defined as between 7 am and 10 pm on weekdays, which aligns with the SFE contract definition.

APPENDIX A:

Detailed Market Analysis



25 May – 31 May 2008

National: Spot prices within the national market are regularly aligned with conditions in one region reflected across all others. There were two occasions where the spot price aligned across the regions and the New South Wales and Queensland prices were greater than three times the weekly average price. In the following table the New South Wales spot price has been used as a proxy national price under these conditions as New South Wales is located in the centre of the NEM.

Wednesday, 28 May

6:00 pm	Actual	4 hr forecast	12 hr forecast
Price (\$/MWh)	204.43	100.40	95.39
Demand (MW)	29 296	28 809	28 900
Available capacity (MW)	34 090	35 059	35 630
6:30 pm	Actual	4 hr forecast	12 hr forecast
Price (\$/MWh)	173.77	114.69	94.73
Demand (MW)	29 228	28 970	28 958
Available capacity (MW)	33 823	35 152	35 638

Conditions at the time saw demand close to that forecast four and 12 hours ahead. Available capacity was up to 1330 MW lower than forecast four hours ahead. Most this capacity was in New South Wales.

Over two rebids at 12.37 pm and 4.31 pm Delta Electricity reduced the capacity of Vales Point unit six by 660 MW to zero. All of this capacity was priced below zero. The reasons given were “Gen TX::capacity limit change” and “ Taken out of service::capacity limit change”.

Over a number of rebids starting from 11.30 am Macquarie Generation delayed the return to service of Liddell unit three reducing availability by as much as 410 MW for the evening peak. All of this capacity was priced below \$30/MWh. The unit was synchronised at around 5.30 pm.

There were no other significant rebids.

Appendix B: Detailed NEM Price and Demand Trends



Table 1: Financial year to date spot market volume weighted average price

Financial year	QLD	NSW	SNOWY	VIC	SA	TAS
2007-08 (\$/MWh) YTD	59	45	32	51	107	56
2006-07 (\$/MWh) YTD	43	47	32	51	53	48
Change (YTD)	38%	-5%	-1%	0%	100%	18%
2006-07 (\$/MWh)	57	67	38	61	59	51

Table 2: NEM turnover

Financial year	NEM Turnover* (\$, billion)	Energy (TWh)
2007-08 YTD	\$10.4	191
2006-07	\$12.7	206
2005-06	\$7.9	201
Change (2005-06 to 2006-07)	61%	2.7%

* estimated value

Table 3: Recent monthly and quarterly spot market volume weighted average price and turnover

Volume weighted average (\$/MWh)	QLD	NSW	SNOWY	VIC	SA	TAS	Turnover (\$, billion)
Jan-08	52	36	28	45	186	48	0.94
Feb-08	161	28	24	41	207	58	1.30
Mar-08	31	37	29	65	325	57	1.12
Apr-08	29	34	28	41	44	56	0.60
May-08	41	47	36	56	53	68	0.87
Q1 2007	60	57	29	75	69	50	3.26
Q1 2008	80	34	27	50	243	54	3.36
Change	34%	-40%	-8%	-33%	252%	9%	

Table 4: ASX energy futures contract prices at 2 June

	QLD		NSW		VIC		SA	
	Base	Peak	Base	Peak	Base	Peak	Base	Peak
Q1 2009								
Price on 26 May (\$/MW)	80	134	64	104	68	114	100	160
Price on 02 Jun (\$/MW)	84	149	68	104	70	120	110	160
Open interest on 02 Jun	1975	144	1841	66	1345	359	145	0
Traded in the last week (MW)	304	26	255	0	86	50	15	0
Traded since 1 Jan 08	2955	287	3200	68	2128	410	170	0
Settled price for Q1 08(\$/MW)	68	97	32	42	43	65	152	322

Table 5: Changes to availability of low priced generation capacity offered to the market

Comparison:	QLD	NSW	SNOWY	VIC	SA	TAS	NEM
March 08 with March 07							
MW Priced <\$20	134	-130	27	-59	46	-19	-1
MW Priced \$20 to \$50	7	1,087	463	-100	-51	27	1434
April 08 with April 07							
MW Priced <\$20	1,048	1,029	0	-201	-139	41	1777
MW Priced \$20 to \$50	-45	827	527	-97	150	60	1422
May 08 with May 07							
MW Priced <\$20	526	570	-74	-84	0	-71	866
MW Priced \$20 to \$50	89	277	419	-62	-42	25	707