

WEEKLY ELECTRICITY MARKET ANALYSIS



AUSTRALIAN ENERGY
REGULATOR

8 July – 14 July 2012

Spot market prices

As shown in Figure 1, prices in all regions were lower this week than the previous week, with the largest reductions being in South Australia, Victoria and Tasmania. As discussed in detail in the previous weekly report, average spot prices during the first week of the carbon price (which commenced operation on 1 July) were higher than anticipated, especially in Victoria, South Australia and Tasmania (although the AER noted that network issues led to extreme pricing events on 2 July). The previous report also discussed other factors that led to spot prices being higher than anticipated during that first week.

Figure 1 shows average prices for the week 1 to 7 July, and the averages after removal of the network-related price spikes that occurred on 2 July in South Australia, Victoria and Tasmania. The figure shows prices this week fell compared to the adjusted average prices for the previous week. This reduction was driven by lower demand and higher wind generation in South Australia.

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

	Qld	NSW	VIC	SA	Tas
Average price for 8 July – 14 July 2012	63	67	70	74	58
Average price for 1 July – 7 July 2012	68	75	108	116	74
Adjusted average price 1 July – 7 July 2012*	68	75	83	91	68
11/12 financial year	30	31	28	32	33

*price spikes in South Australia, Victoria and Tasmania on 2 July due to network problems have been removed.

Longer term market trends are attached in Appendix A¹.

Financial markets

Figures 2 to 9 show futures contract² prices traded on the Australian Securities Exchange (ASX) as at close of trade on Monday 16 July 2012. Figure 2 shows the base futures contract prices for the next three calendar years, and the average over these three years. Also shown are percentage changes³ from the previous week.

¹ Monitoring the performance of the wholesale market is a key part of the AER's role and an overview of the market's performance in the long term is provided on the AER website. Long-term statistics can be found there on, amongst other things, demand, spot prices, contract prices and frequency control ancillary services prices. To access this information go to www.aer.gov.au -> Australian energy industry -> Performance of the energy sector

² Futures contracts traded on the ASX 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.

³ Calculated on prices prior to rounding.

Figure 2: Base calendar year futures contract prices (\$/MWh)

	QLD		NSW		VIC		SA	
Calendar Year 2013	57*	-1%	61*	-2%	57*	-2%	60*	1%
Calendar Year 2014	52*	-1%	56*	0%	52*	-1%	55	0%
Calendar Year 2015	55	-4%	52	0%	52	-2%	69	0%
Three year average	55	-2%	56	-1%	54	-2%	62	0%

Source: d-cyphaTrade www.d-cyphatrade.com.au
 * denotes trades in the product.

Figure 3 shows the \$300 cap contract price for Q1 2013 and calendar year 2013 and the percentage change⁴ from the previous week.

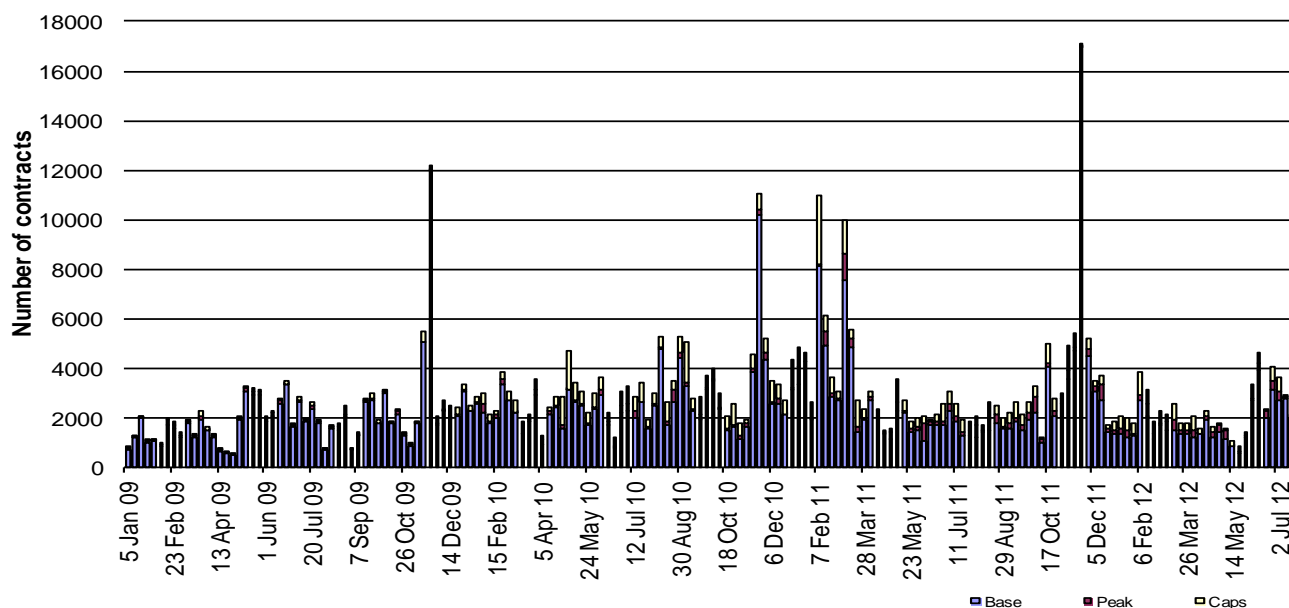
Figure 3: \$300 cap contract prices (\$/MWh)

	QLD		NSW		VIC		SA	
Q1 2013 (% change)	14	0%	14*	-2%	14	0%	21	-5%
2013 (% change)	6	0%	7	-1%	6	0%	9	-3%

Source: d-cyphaTrade www.d-cyphatrade.com.au
 * denotes trades in the product.

Figure 4 shows the weekly trading volumes for base, peak and cap contracts. The date represents the end of the trading week.

Figure 4: Number of exchange traded contracts per week

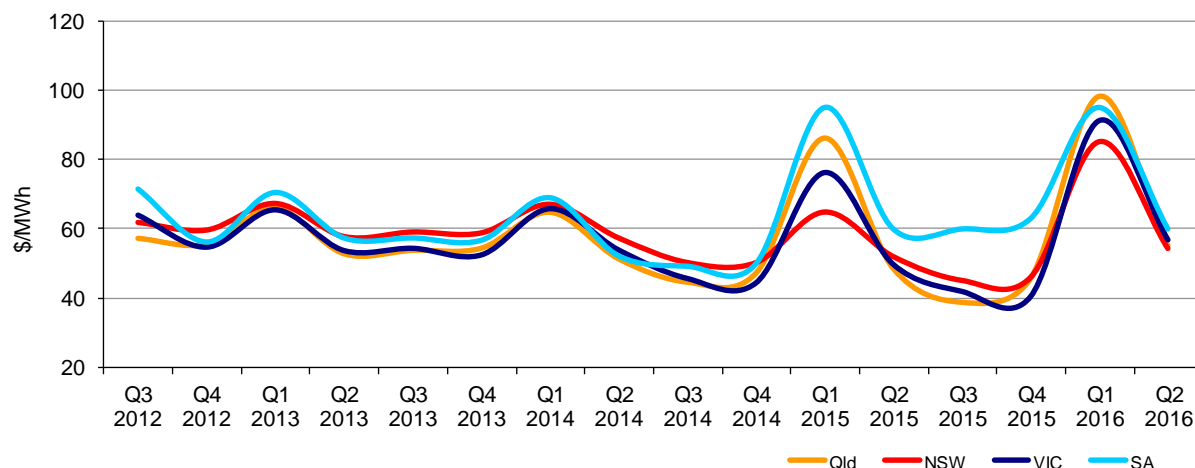


Source: d-cyphaTrade www.d-cyphatrade.com.au

⁴ Calculated on prices prior to rounding.

Figure 5 shows the prices for base contracts for each quarter for the next four financial years.

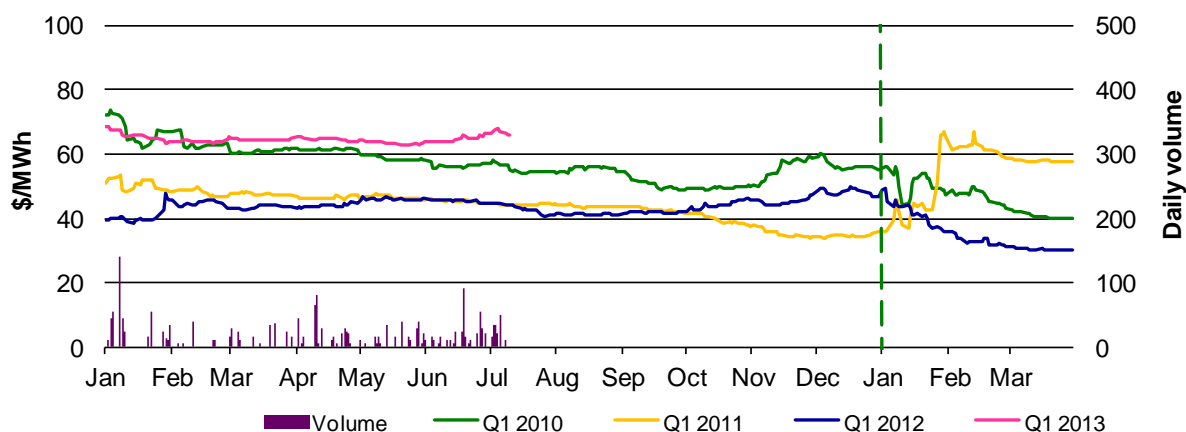
Figure 5: Quarterly base future prices Q3 2012 – Q2 2016



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

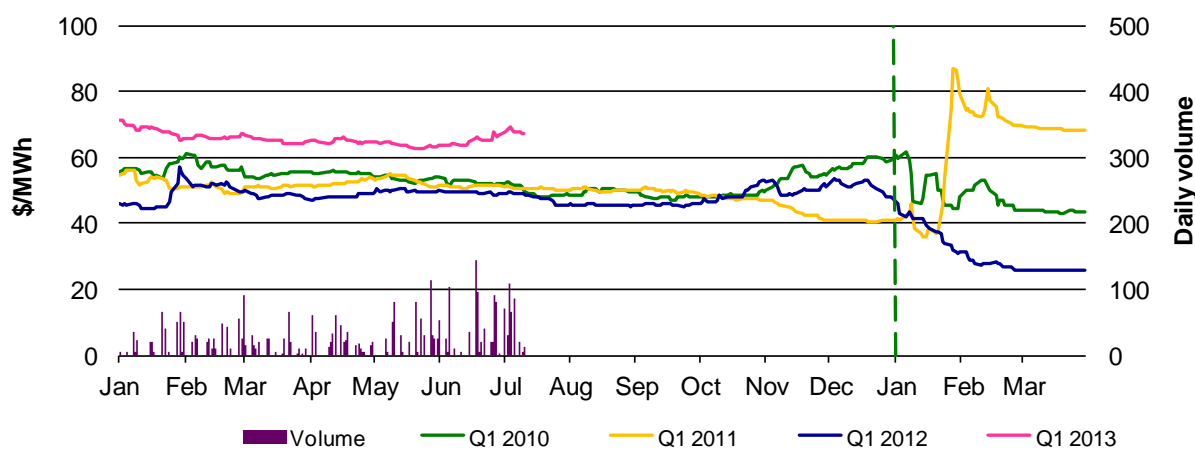
Figures 6-9 compare for each region the closing daily base contract prices for the first quarter of 2010, 2011, 2012 and 2013. Also shown is the daily volume of Q1 2013 base contracts traded. The vertical dashed line signifies the start of the Q1 period for which the contracts are being purchased.

Figure 6: Queensland Q1 2010, 2011, 2012 and 2013



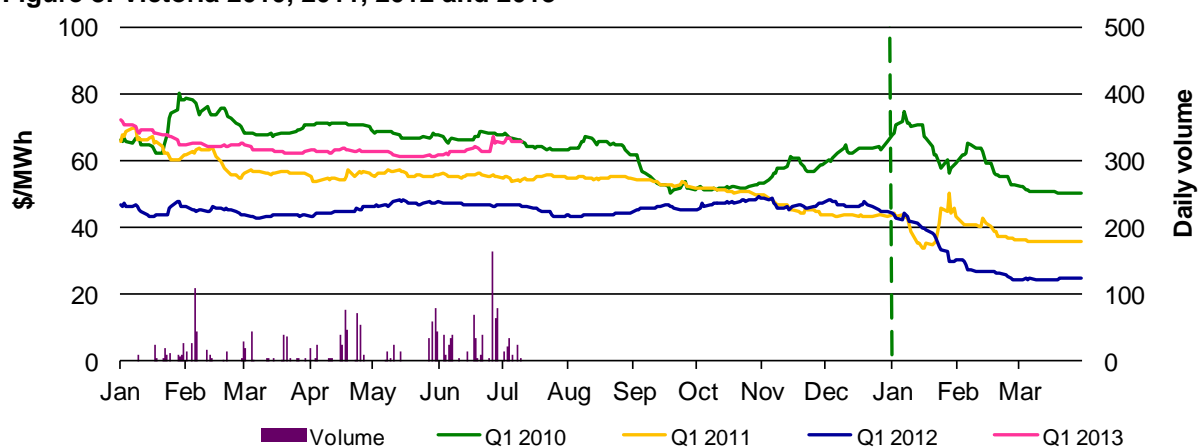
Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 7: New South Wales Q1 2010, 2011, 2012 and 2013



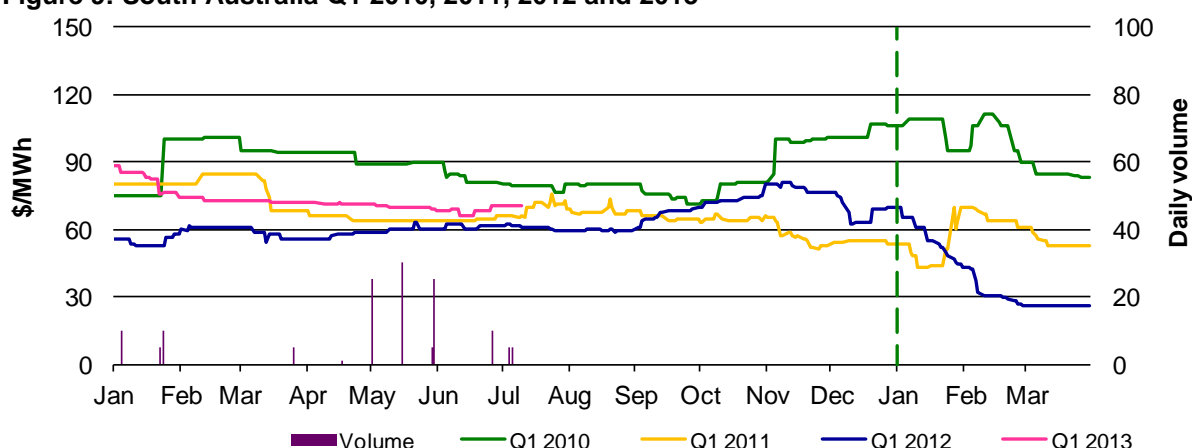
Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 8: Victoria 2010, 2011, 2012 and 2013



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

Figure 9: South Australia Q1 2010, 2011, 2012 and 2013



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

*The daily volume scale for South Australia is smaller than for other regions to reflect the lower liquidity in the market in South Australia.

Spot market forecasting variations

The AER is required under the National Electricity Rules to determine whether there is a significant variation between the forecast spot price published by the Australian Energy Market Operator (AEMO) and the actual spot price and, if there is a variation, state why the AER considers 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. There were 54 trading intervals throughout the week where actual prices varied significantly from forecasts⁵. This compares to the weekly average in 2011 of 78 counts and the average in 2010 of 57. Reasons for these variances are summarised in Figure 10⁶.

Figure 10: Reasons for variations between forecast and actual prices

	Availability	Demand	Network	Combination
% of total above forecast	1	31	0	2
% of total below forecast	6	54	0	6

⁵ A trading interval is counted as having a variation if the actual price differs significantly from the forecast price either four or 12 hours ahead.

⁶ The table summarises (as a percentage) the number of times when the actual price differs significantly from the forecast price four or 12 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 four and 12 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 its market monitoring to better understand the drivers behind price variations. Figure 11 shows the weekly change in total available capacity at various price levels during peak periods⁷. For example, in Queensland 489 MW less capacity was offered at prices under \$20/MWh this week compared to the previous week. Also included is the change in average demand during peak periods, for comparison.

Figure 11: Changes in available generation and average demand compared to the previous week during peak periods

MW	<\$20/MWh	Between \$20 and \$50/MWh	Total availability	Change in average demand
QLD	-489	314	-269	44
NSW	-263	460	-437	-588
VIC	-284	146	-497	-149
SA	-103	-20	-171	-98
TAS	336	-315	-4	-21
TOTAL	-803	585	-1378	-812

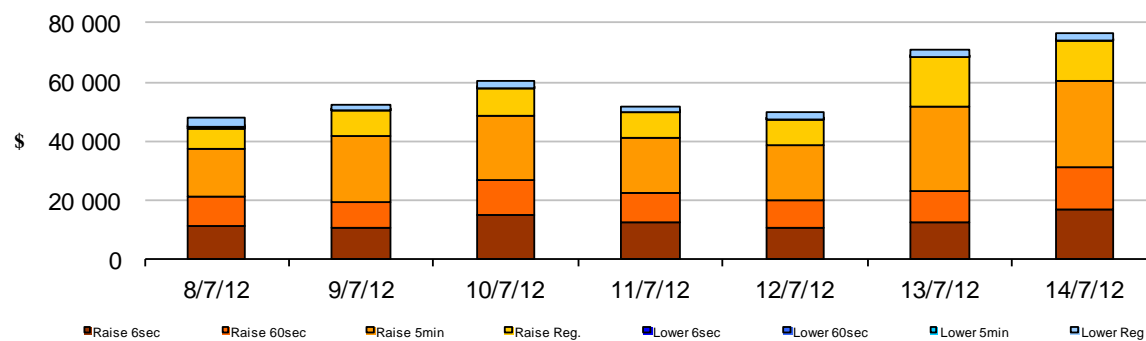
Ancillary services market

The total cost of frequency control ancillary services (FCAS) on the mainland for the week was \$393 000 or less than one per cent of energy turnover on the mainland.

The total cost of FCAS in Tasmania for the week was \$16 000 or less than one per cent of energy turnover in Tasmania.

Figure 12 shows the daily breakdown of cost for each FCAS for the NEM.

Figure 12: Daily frequency control ancillary service cost



Australian Energy Regulator July 2012

⁷ A peak period is defined as between 7 am and 10 pm on weekdays.

Detailed NEM Price and Demand Trends

for Weekly Market Analysis
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Table 1: Financial year to date spot market volume weighted average price

Financial year	QLD	NSW	VIC	SA	TAS
2012-13 (\$/MWh) YTD	65	71	89	95	66
2011-12 (\$/MWh) YTD	27	31	32	38	31
Change*	147%	127%	183%	150%	112%
2011-12 (\$/MWh)	30	31	28	32	33

Table 2: NEM turnover

Financial year	NEM Turnover** (\$, billion)	Energy (TWh)
2012-13 (YTD)	\$0.606	8
2011-12	\$5.987	199
2010-11	\$7.445	204

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

Volume weighted average (\$/MWh)	QLD	NSW	VIC	SA	TAS	Turnover (\$, billion)
Mar-12	28	26	24	26	36	0.396
Apr-12	30	34	33	30	36	0.457
May-12	26	29	27	30	33	0.434
June-12	35	37	38	31	35	0.619
July-12 (MTD)	65	71	89	95	66	0.606
Q3 2012 (QTD)	65	71	89	95	66	0.606
Q3 2011 (QTD)	27	31	32	38	31	0.249
Change*	147%	127%	183%	150%	112%	143.03%

Table 4: ASX energy futures contract prices at end of 10 July 2012

	QLD		NSW		VIC		SA	
	Base	Peak	Base	Peak	Base	Peak	Base	Peak
Q1 2013								
Price on 09 Jul (\$/MWh)	67	88	69	88	67	87	70	108
Price on 16 Jul (\$/MWh)	66	91	67	90	65	89	71	108
Open interest on 16 Jul	867	88	1251	235	1169	78	104	0
Traded in the last week (MW)	79	0	188	15	75	0	10	0
Traded since 1 Jan 12 (MW)	1940	162	3296	228	2078	134	136	0
Settled price for Q1 12(\$/MWh)	30	37	26	28	25	29	26	30

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

Comparison:	QLD	NSW	VIC	SA	TAS	NEM
May 12 with May 11						
MW Priced <\$20/MWh	26	-1367	593	-94	34	-809
MW Priced \$20 to \$50/MWh	38	217	98	177	182	712
June 12 with June 11						
MW Priced <\$20/MWh	-685	-2047	-480	66	13	-3133
MW Priced \$20 to \$50/MWh	238	1100	269	40	168	1814
July 12 with July 11 (MTD)						
MW Priced <\$20/MWh	-3683	-1906	-1633	10	-277	-7488
MW Priced \$20 to \$50/MWh	2,247	-1542	339	-452	60	652

*Note: These percentage changes are calculated on VWA prices prior to rounding

** Estimated value