

14 – 20 May 2017

Introduction

The AER is required to publish the reasons for significant variations between forecast and actual price and is responsible for monitoring activity and behaviour in the National Electricity Market. The Electricity Report forms an important part of this work. The report contains information on significant price variations, movements in the contract market, together with analysis of spot market outcomes and rebidding behaviour. By monitoring activity in these markets, the AER is able to keep up to date with market conditions and identify compliance issues.

Spot market prices

Figure 1 shows the spot prices that occurred in each region during the week 14 – 20 May 2017.

Figure 1: Spot price by region (\$/MWh)

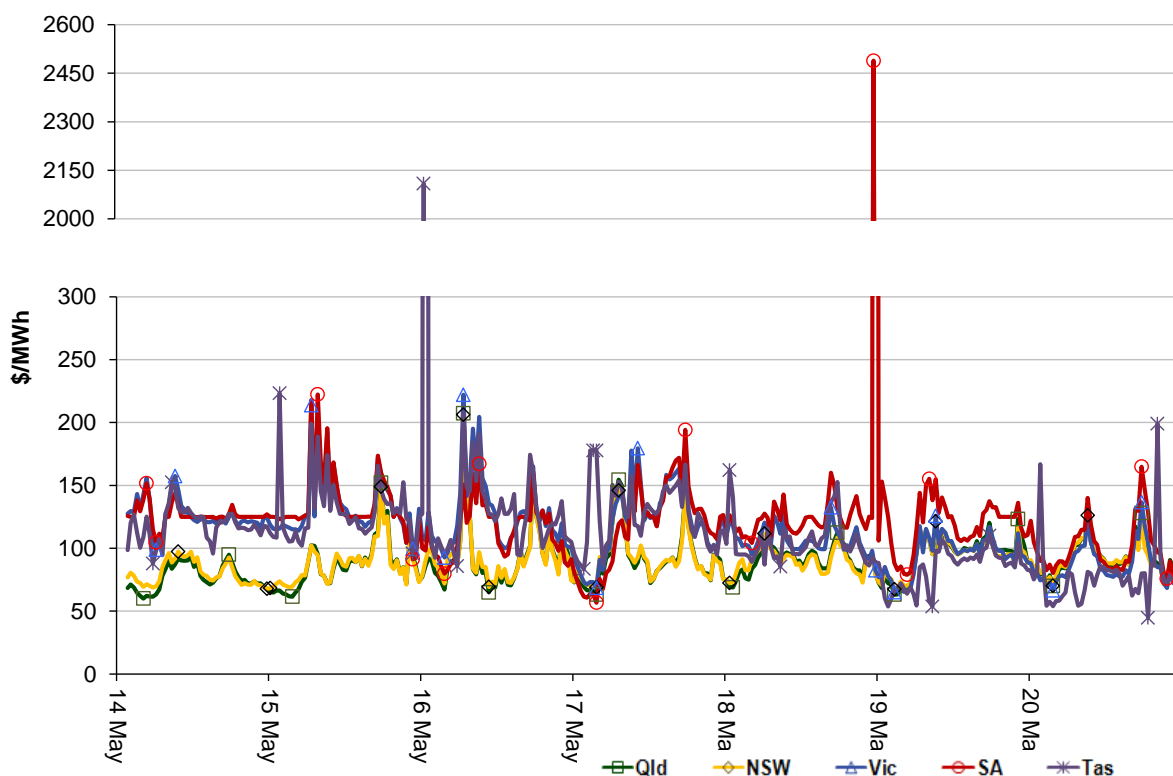


Figure 2 shows the volume weighted average (VWA) prices for the current week (with prices shown in Table 1) and the preceding 12 weeks, as well as the VWA price over the previous 3 financial years.

Figure 2: Volume weighted average spot price by region (\$/MWh)

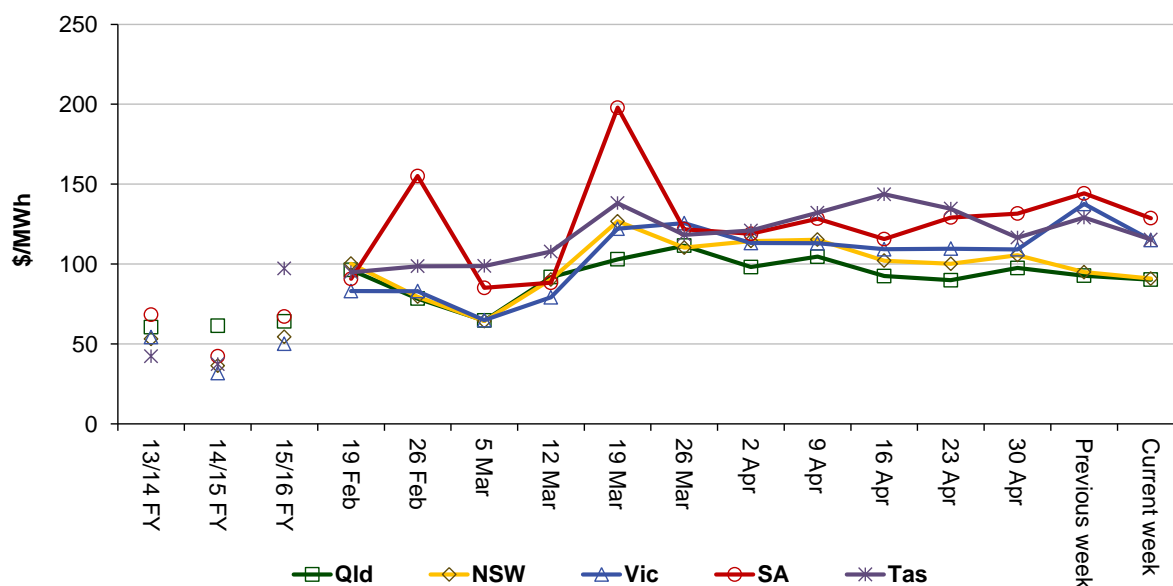


Table 1: Volume weighted average spot prices by region (\$/MWh)

Region	Qld	NSW	Vic	SA	Tas
Current week	90	91	115	129	115
15-16 financial YTD	61	48	45	61	101
16-17 financial YTD	106	89	66	125	72

Longer-term statistics tracking average spot market prices are available on the [AER website](#).

Spot market price forecast 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 participants react to changing market conditions. A key focus is whether the actual price differs significantly from the forecast price either four or 12 hours ahead. These timeframes have been chosen as indicative of the time frames within which different technology types may be able to commit (intermediate plant within four hours and slow start plant within 12 hours).

There were 125 trading intervals throughout the week where actual prices varied significantly from forecasts. This compares to the weekly average in 2016 of 273 counts and the average in 2015 of 133. Reasons for the variations for this week are summarised in Table 2. Based on AER analysis, 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.

Table 2: Reasons for variations between forecast and actual prices

	Availability	Demand	Network	Combination
% of total above forecast	7	31	0	4
% of total below forecast	54	3	0	1

Note: Due to rounding, the total may not be 100 per cent.

Generation and bidding patterns

The AER reviews generator bidding as part of its market monitoring to better understand the drivers behind price variations. Figure 3 to Figure 7 show the total generation dispatched and the amounts of capacity offered within certain price bands for each 30 minute trading interval in each region.

Figure 3: Queensland generation and bidding patterns

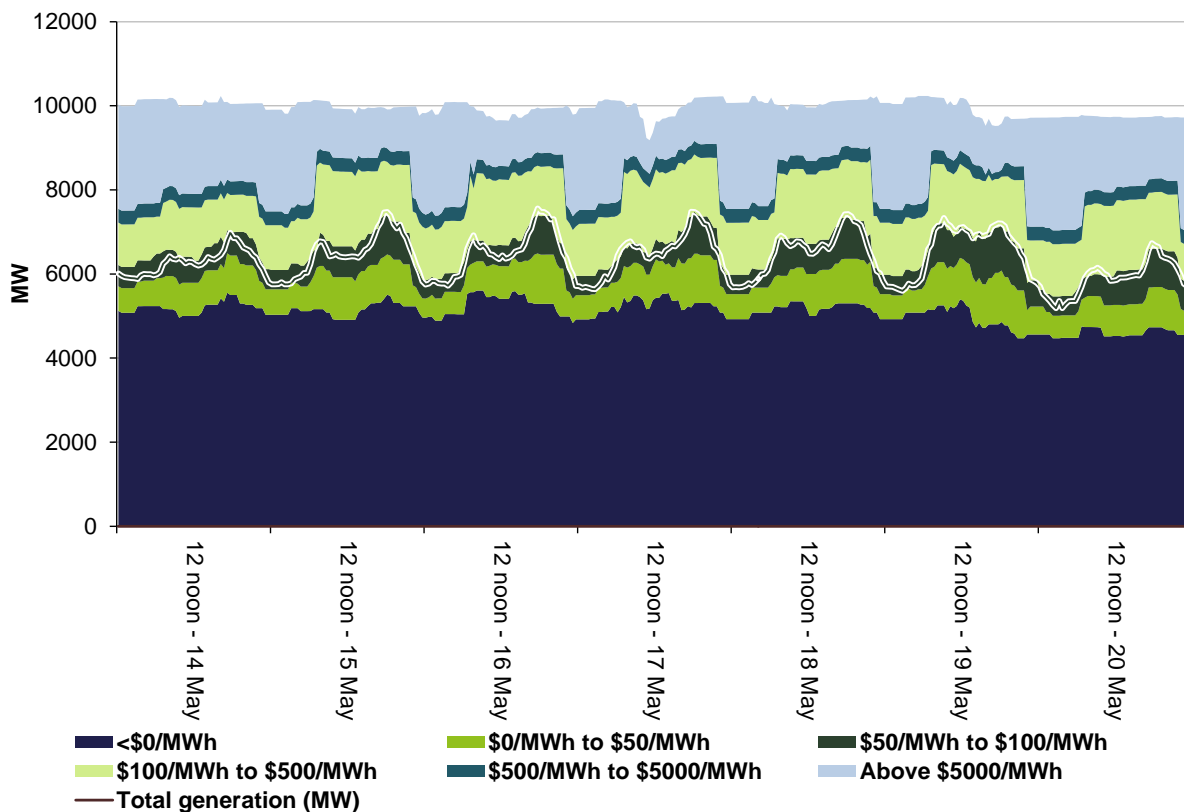


Figure 4: New South Wales generation and bidding patterns

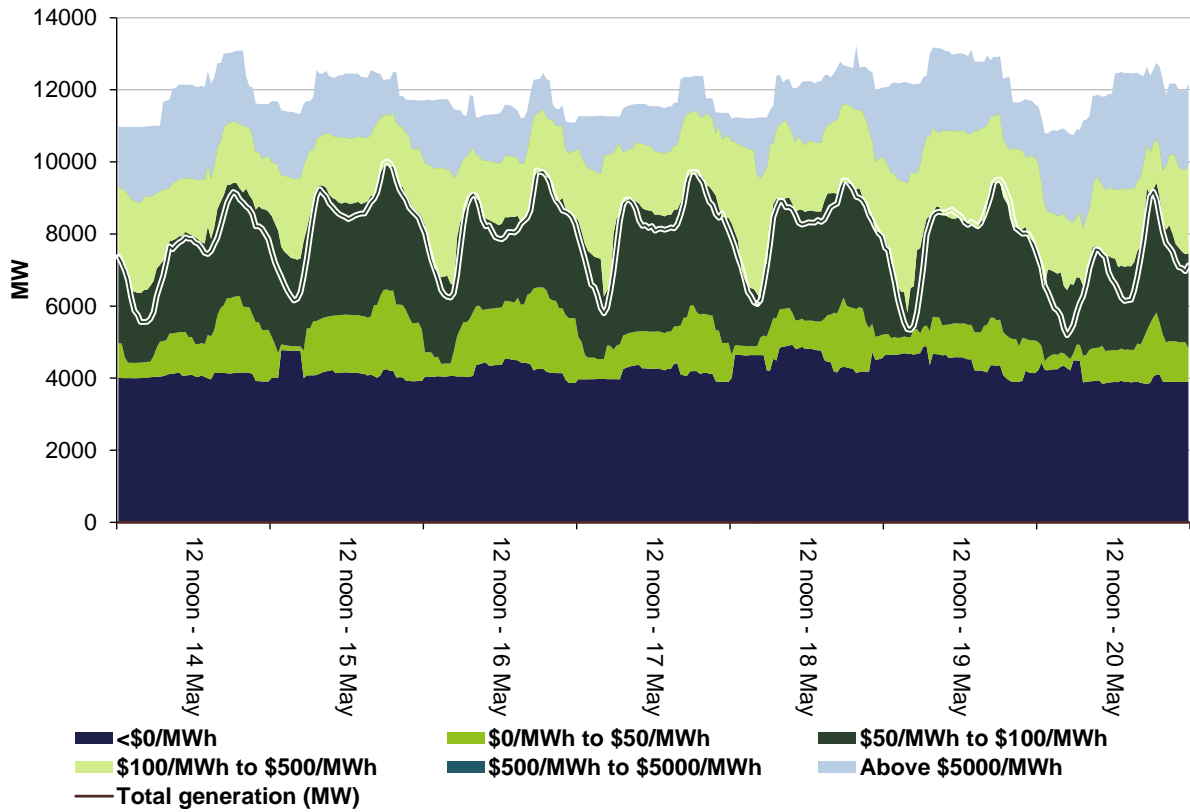


Figure 5: Victoria generation and bidding patterns

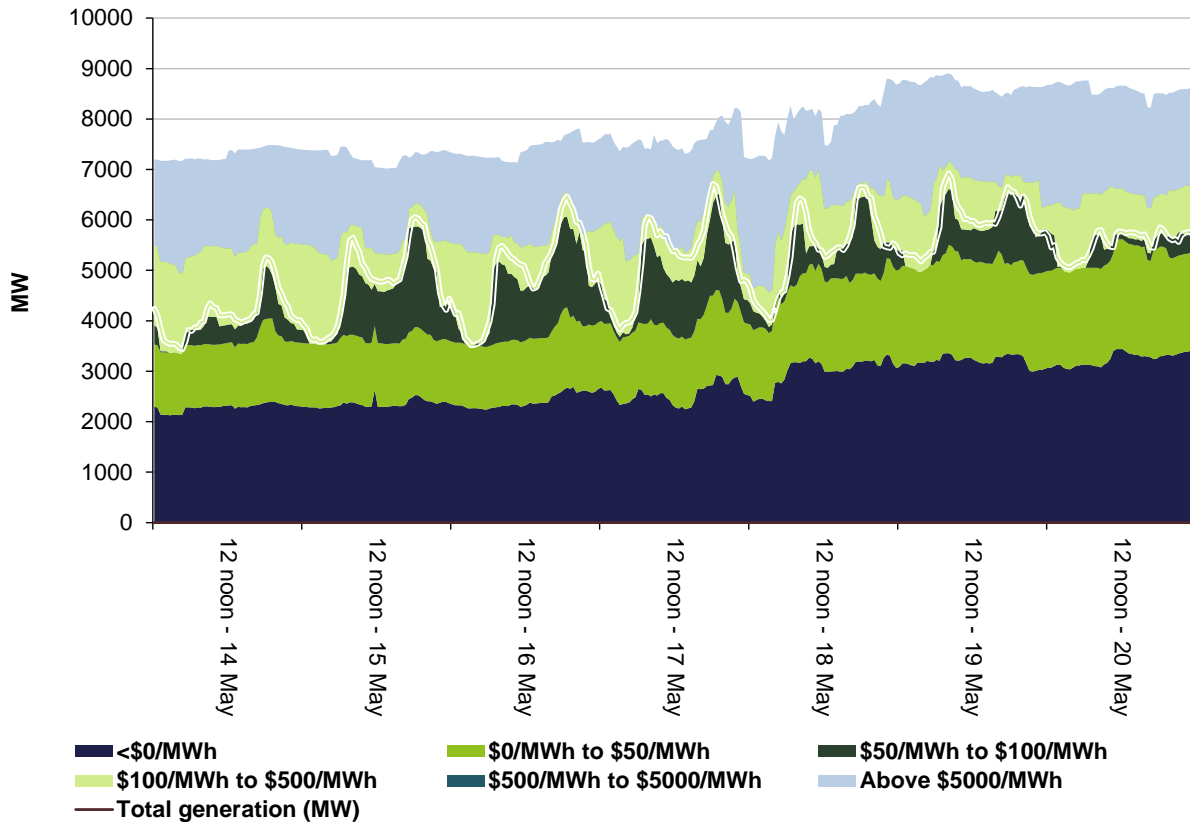


Figure 6: South Australia generation and bidding patterns

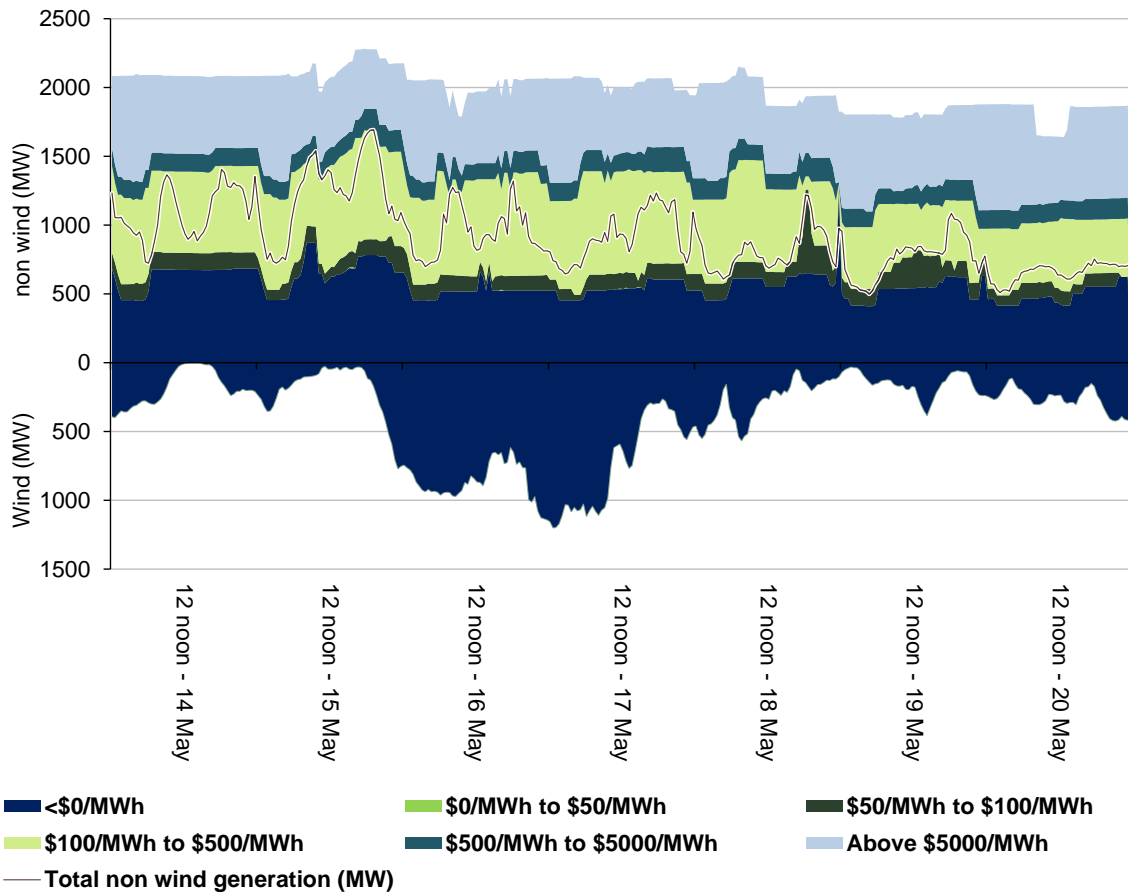
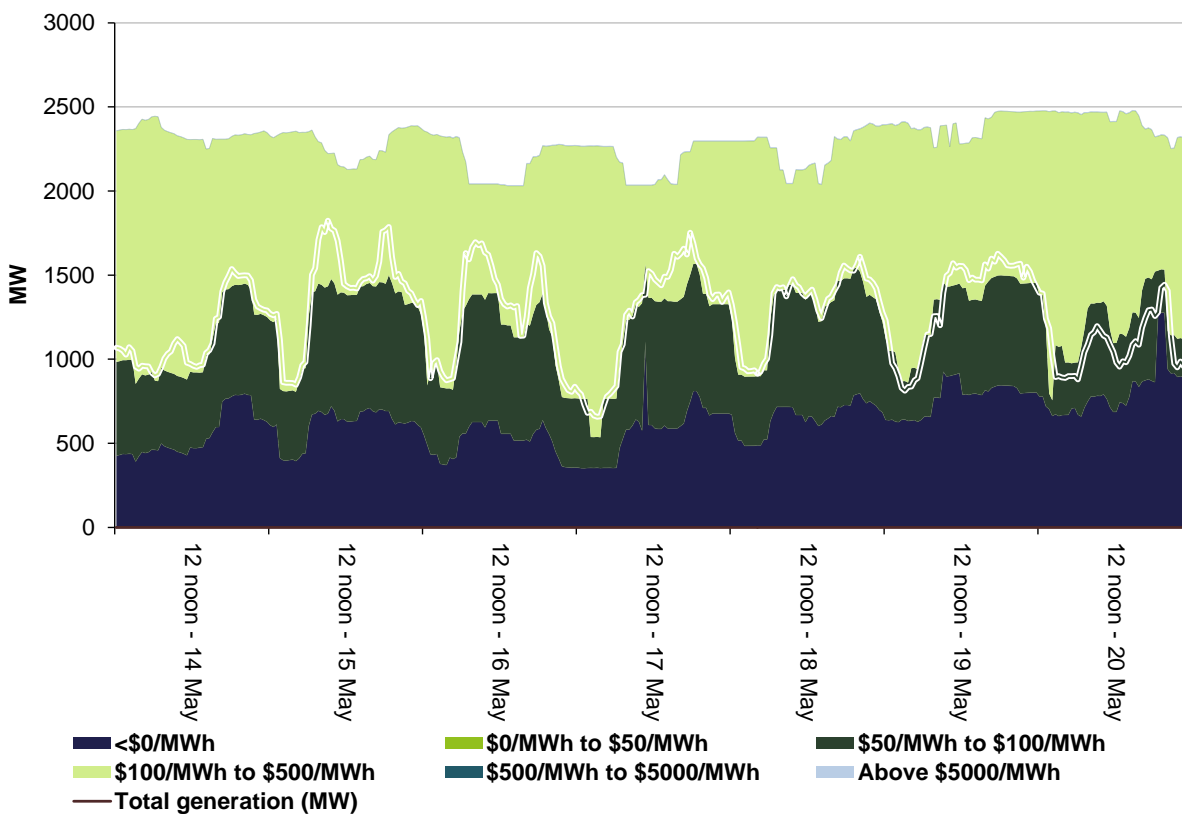


Figure 7: Tasmania generation and bidding patterns



Frequency control ancillary services markets

Frequency control ancillary services (FCAS) are required to maintain the frequency of the power system within the frequency operating standards. Raise and lower regulation services are used to address small fluctuations in frequency, while raise and lower contingency services are used to address larger frequency deviations. There are six contingency services:

- fast services, which arrest a frequency deviation within the first 6 seconds of a contingent event (raise and lower 6 second)
- slow services, which stabilise frequency deviations within 60 seconds of the event (raise and lower 60 second)
- delayed services, which return the frequency to the normal operating band within 5 minutes (raise and lower 5 minute) at which time the five minute dispatch process will take effect.

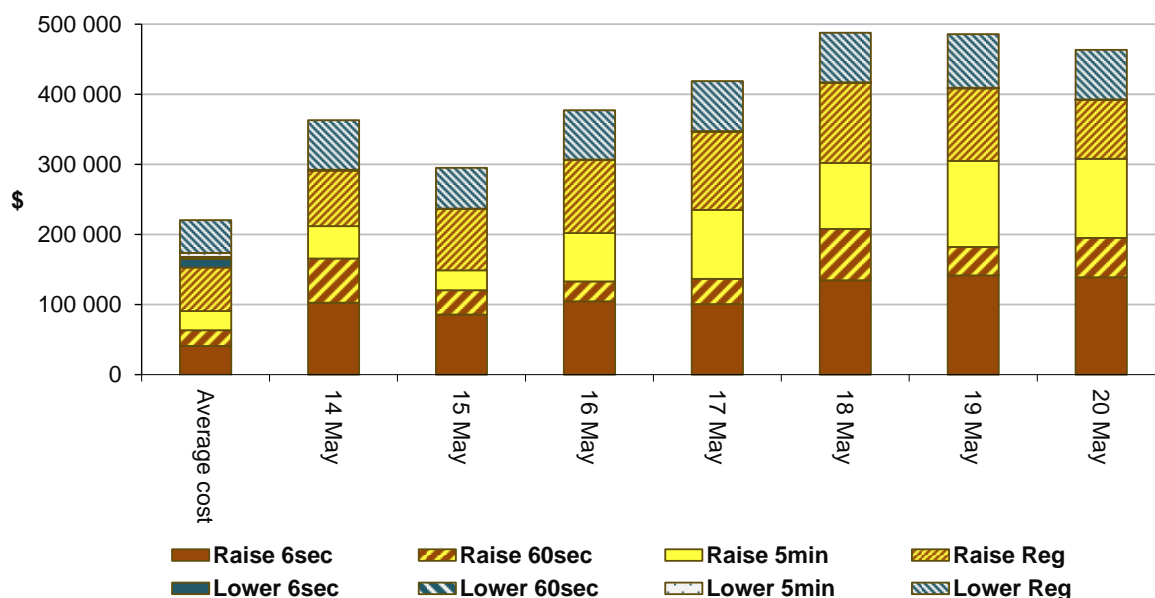
The Electricity Rules stipulate that generators pay for raise contingency services and customers pay for lower contingency services. Regulation services are paid for on a “causer pays” basis determined every four weeks by AEMO.

The total cost of FCAS on the mainland for the week was \$2 290 000 or around one per cent of energy turnover on the mainland.

The total cost of FCAS in Tasmania for the week was \$601 000 or around three per cent of energy turnover in Tasmania.

Figure 8 shows the daily breakdown of cost for each FCAS for the NEM, as well as the average cost since the beginning of the previous financial year.

Figure 8: Daily frequency control ancillary service cost



Since 5 May, AEMO limited the contribution of regulation services from Tasmania to the mainland to 50 MW. This has seen prices rise in the mainland and has led to the daily cost being higher than the previous financial year’s average.

Detailed market analysis of significant price events

South Australia

There was one occasion where the spot price in South Australia was greater than three times the South Australia weekly average price of \$129/MWh and above \$250/MWh.

Friday, 19 May

Table 3: Price, Demand and Availability

Time	Price (\$/MWh)			Demand (MW)			Availability (MW)		
	Actual	4 hr forecast	12 hr forecast	Actual	4 hr forecast	12 hr forecast	Actual	4 hr forecast	12 hr forecast
Midnight	2488.54	159.99	159.99	1647	1621	1597	1927	2084	2072

Conditions at the time saw demand close to what was forecast while availability was around 160 MW less than forecast four hours ahead.

Demand increased by 209 MW at 11.35 pm due to hot water load. With all available generation either fully dispatched, ramp rate limited and with wind generation at around 130 MW the MurrayLink interconnector exceeded its limits to meet local demand. This resulted in the dispatch price increasing from \$125/MWh at 11.30 pm to the price cap at 11.35 pm.

Tasmania

There was one occasion where the spot price in Tasmania was greater than three times the Tasmania weekly average price of \$115/MWh and above \$250/MWh.

Tuesday, 16 May

Table 4: Price, Demand and Availability

Time	Price (\$/MWh)			Demand (MW)			Availability (MW)		
	Actual	4 hr forecast	12 hr forecast	Actual	4 hr forecast	12 hr forecast	Actual	4 hr forecast	12 hr forecast
1 am	2108.62	116.40	111.85	1022	1051	1065	2350	2351	2340

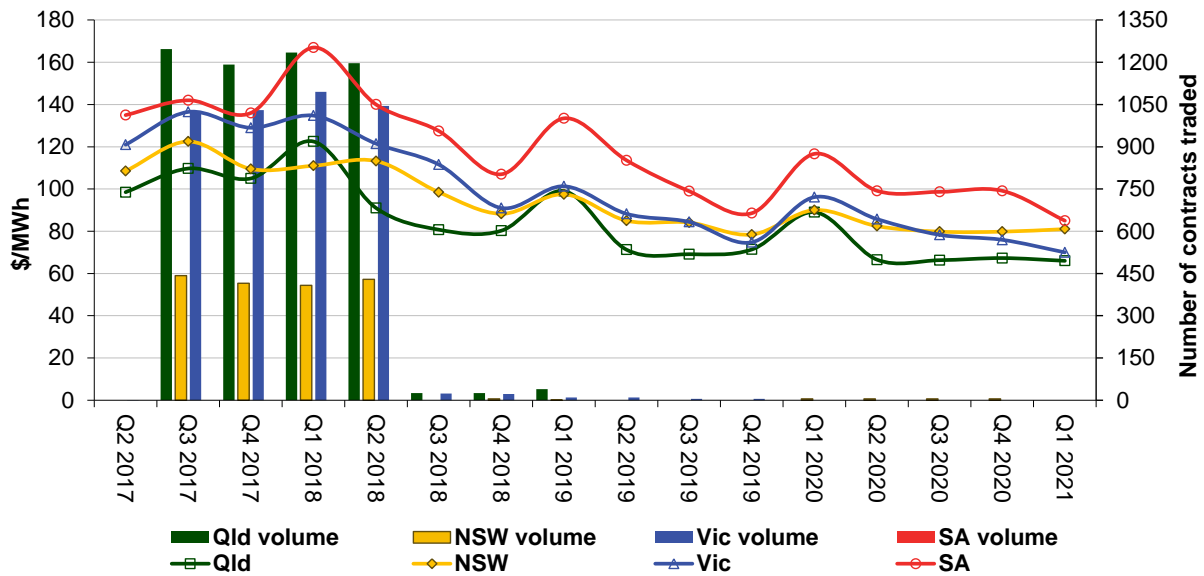
Conditions at the time saw demand and available capacity close to forecast.

At 12.19 am, effective from 12.35 am, Hydro Tasmania rebid 971 MW of capacity across its portfolio in Tasmania from prices below \$350/MWh to above \$12 100/MWh. The reason given was "0018A unforecast energy/fcas cooptimisation occurring in P5: Tas energy vs mainland Lreg". As a result the dispatch price increased from \$127/MWh at 12.30 am to \$12 114/MWh at 12.35 am. At 12.29 am, effective 12.40 am, Hydro Tasmania reversed the earlier rebid and the dispatch price fell to previous levels.

Financial markets

Figure 9 shows for all mainland regions the prices for base contracts (and total traded quantities for the week) for each quarter for the next four financial years. The high volumes for Q3 2017 to Q2 2018 were a result of the conversion of 2017/18 financial year base load options to base future contracts.

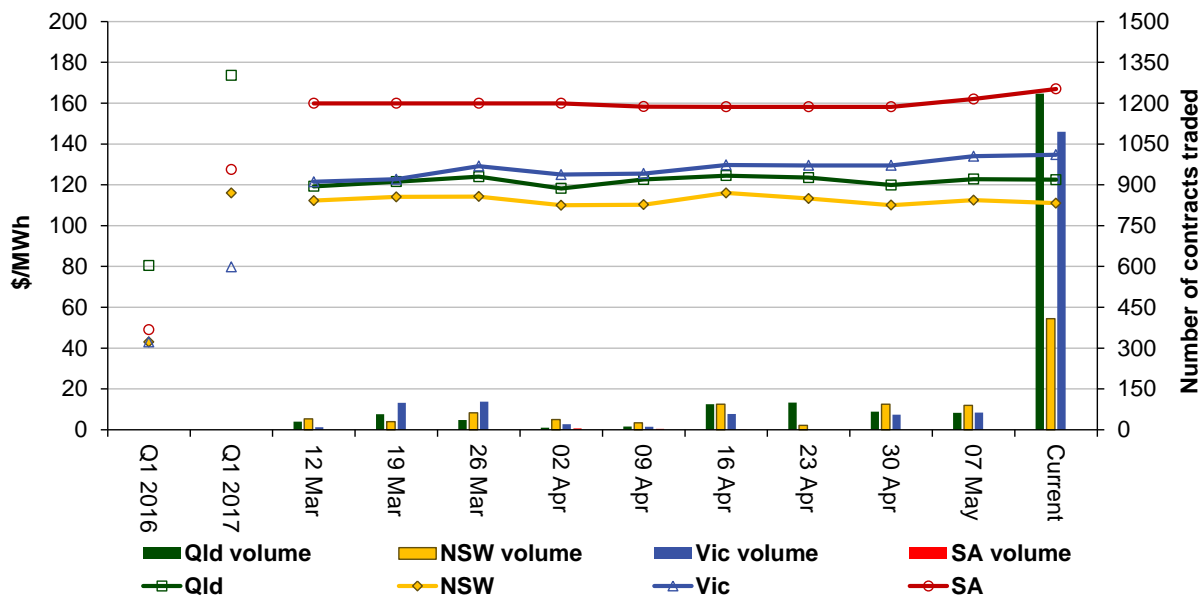
Figure 9: Quarterly base future prices Q2 2017 – Q1 2021



Source: ASXEnergy.com.au

Figure 10 shows how the price for each regional quarter 1 2018 base contract has changed over the last 10 weeks (as well as the total number of trades each week). The closing quarter 1 2016 and quarter 1 2017 prices are also shown. The AER notes that data for South Australia is less reliable due to very low numbers of trades.

Figure 10: Price of Q1 2018 base contracts over the past 10 weeks (and the past 2 years)



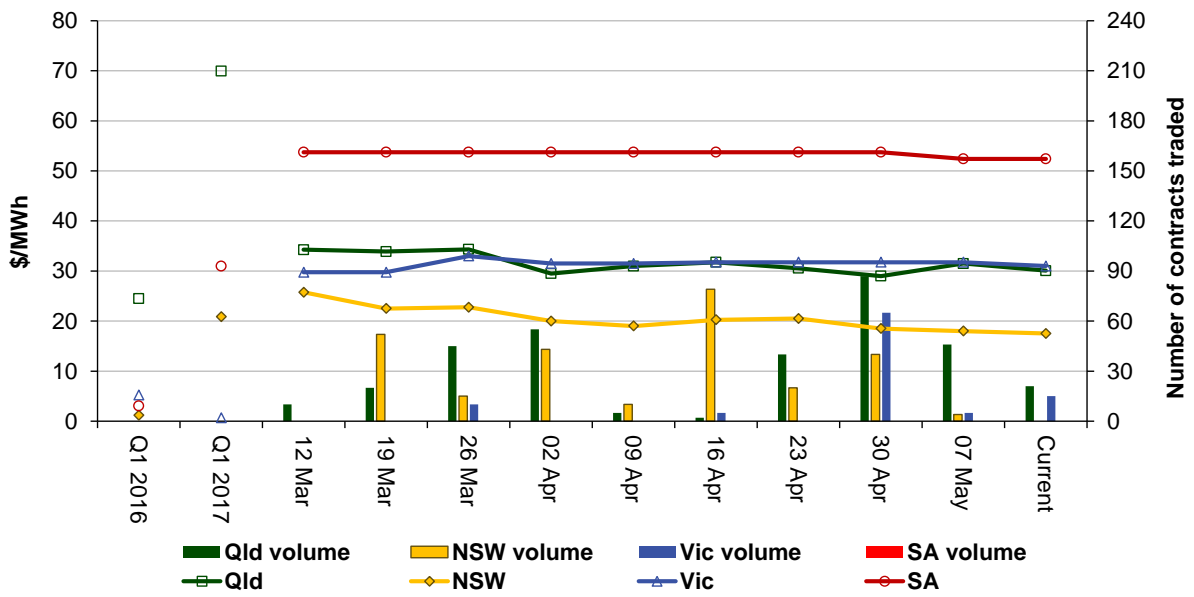
Note. Base contract prices are shown for each of the current week and the previous 9 weeks, with average prices shown for periods 1 and 2 years prior to the current year.

Source: ASXEnergy.com.au

Prices of other financial products (including longer-term price trends) are available in the [Industry Statistics](#) section of our website.

Figure 11 shows how the price for each regional quarter 1 2018 cap contract has changed over the last 10 weeks (as well as the total number of trades each week). The closing quarter 1 2016 and quarter 1 2017 prices are also shown.

Figure 11: Price of Q1 2018 cap contracts over the past 10 weeks (and the past 2 years)



Source: ASXEnergy.com.au

Australian Energy Regulator
May 2017