WEEKLY MARKET ANALYSIS

AUSTRALIAN ENERGY REGULATOR

13 July – 19 July 2008

Summary

Spot prices for the week on the mainland averaged between $23/MWh in Queensland and $34/MWh in South Australia. These prices represent a decrease in all regions compared to the previous week, consistent with a decrease in demand. The average spot price in Tasmania was $14/MWh, around half that of the previous week. Increases in the amount of capacity offered at low prices, following the outage of Basslink, and a spot price of -$495/MWh on Thursday as a result of lightning, contributed.

In the financial markets, base futures and cap prices were generally unchanged compared to the previous week.

Spot market prices

Figure 1 sets out the volume weighted average price for this week and the 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)

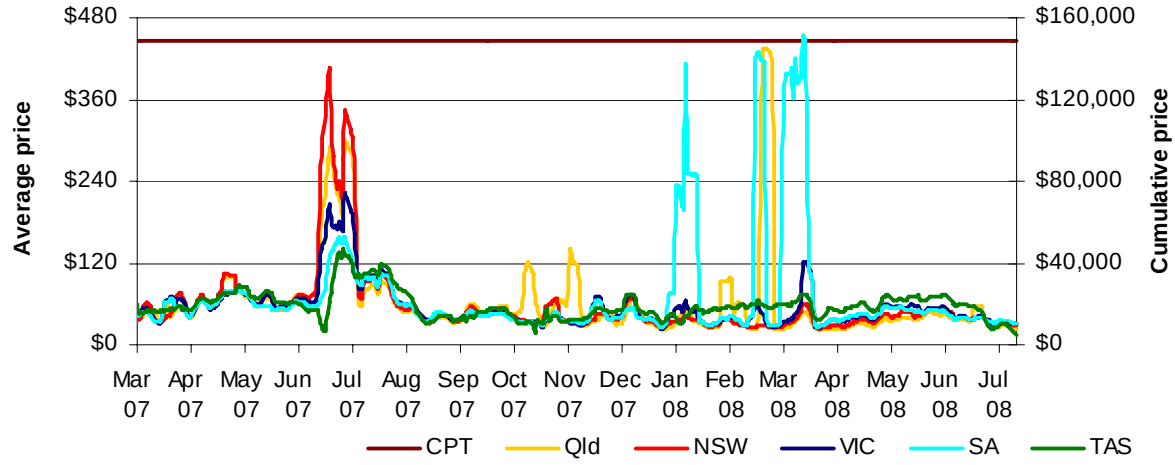
	Qld	NSW	Vic	SA	Tas
Ave price for 13 July – 19 July	23	29	32	34	14
Financial year to 19 July	27	31	33	35	23
% change from previous week*	-22%	-14%	-8%	-8%	-56%
% change from year to date**	-68%	-68%	-68%	-66%	-79%

*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

Longer term market trends are attached in Appendix A.

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 contract[1] prices traded on the Sydney Futures Exchange as at close of trade on Monday 21 July. Figure 3 shows the financial year base futures contract prices for the current year, the following 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	45	-5%	45	-3%	46	-3%	54	0%
Financial 2009-10	54	-1%	50	-2%	63	-3%	52	0%
Financial 2010-11	46	0%	45	0%	54	-2%	41	3%
Three year average	48	-2%	47	-2%	54	-3%	49	3%

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.

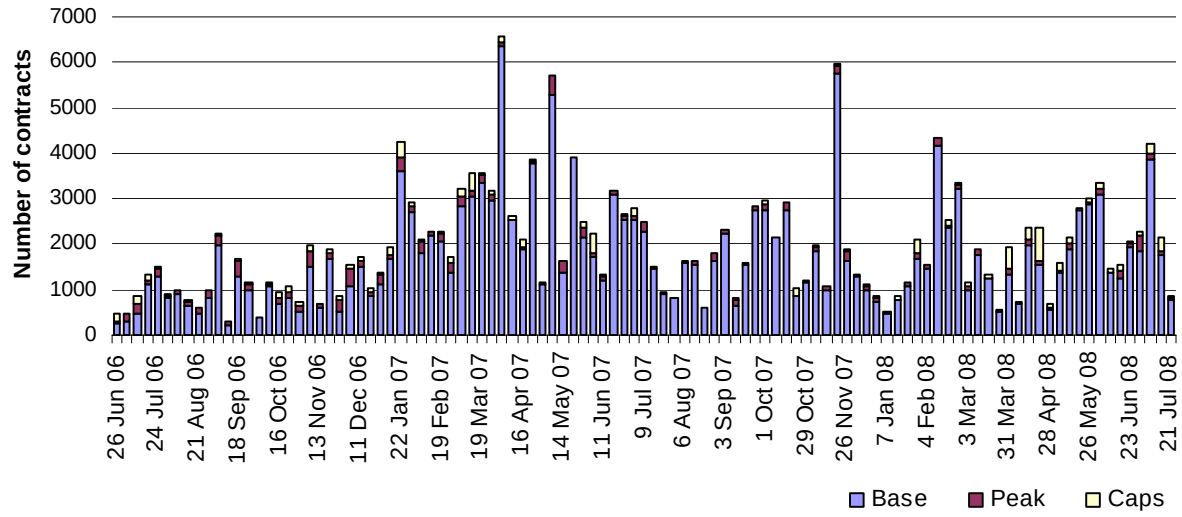
Figure 4: $300 cap contract prices ($/MWh)

	QLD		NSW		VIC		SA	
Q1 2009 price	38	-5%	22	0%	23	-5%	65	0%
Calendar 2009	15	-3%	11	0%	11	-3%	21	0%

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

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

Figure 5: Number of exchange traded contracts per week

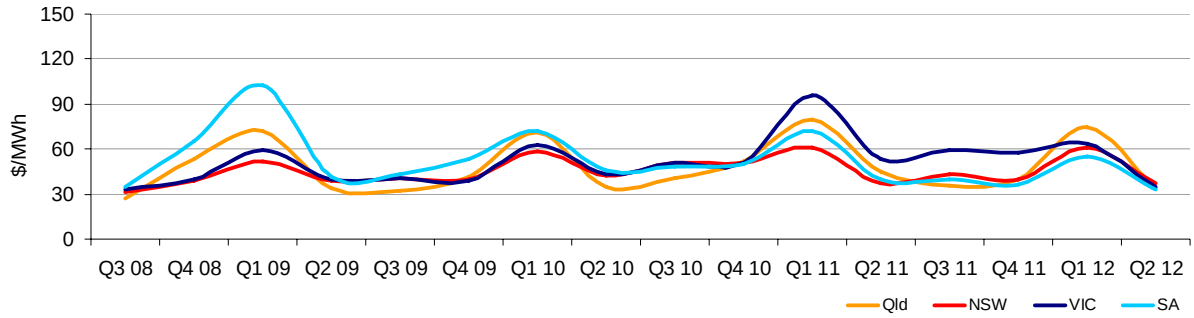


Source: d-cyphaTrade www.d-cyphatrade.com.au

[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.

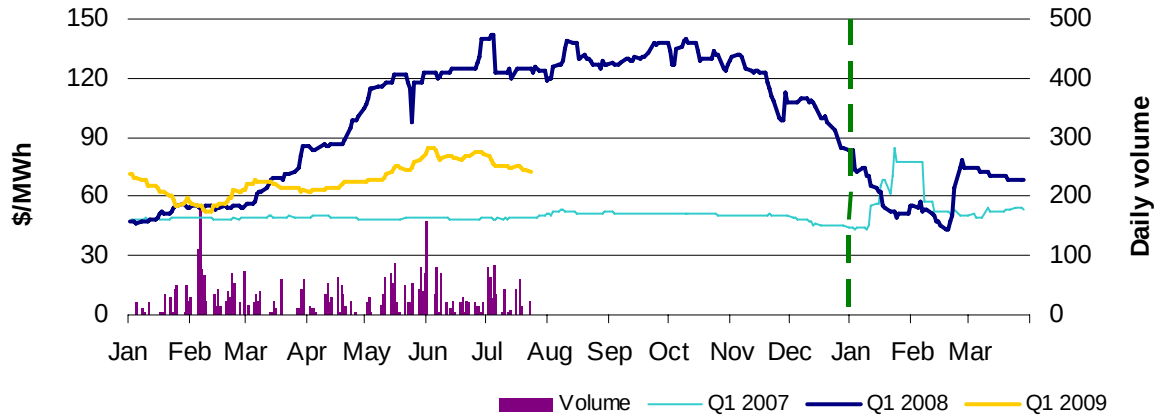
Figure 6: Quarterly base future prices 2008 - 2012



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

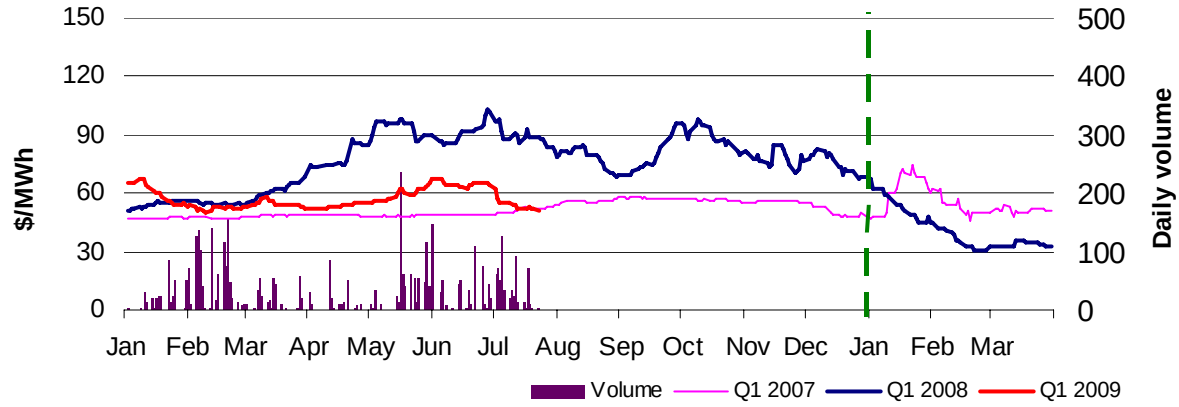
Figures 7-10 compares for each region the closing daily base contract price for the first quarter of 2007, 2008 and 2009. Also shown is the daily volume of Q1 09 base contracts traded. The vertical dashed line signifies the start of the Q1 period.

Figure 7: Queensland Q1 2007, 2008 and 2009



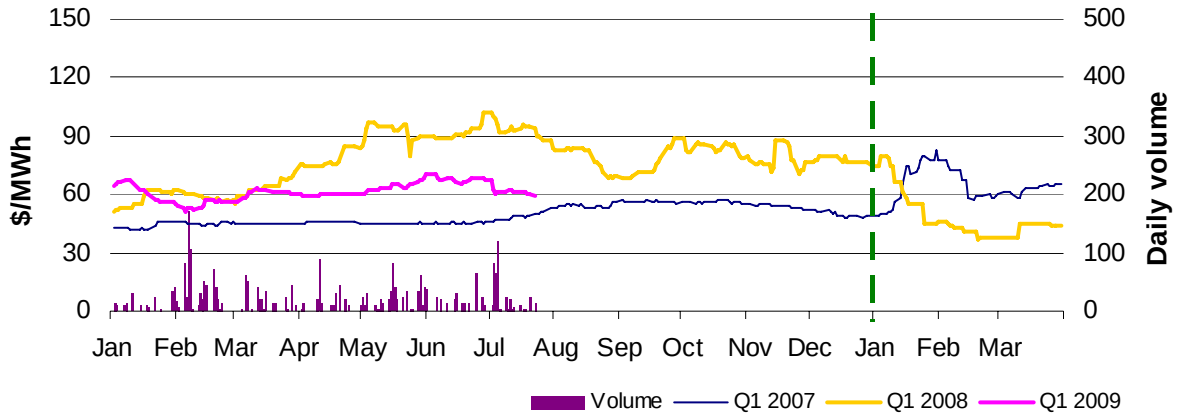
Source: d-cyphaTrade www.d-cyphatrade.com.au

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



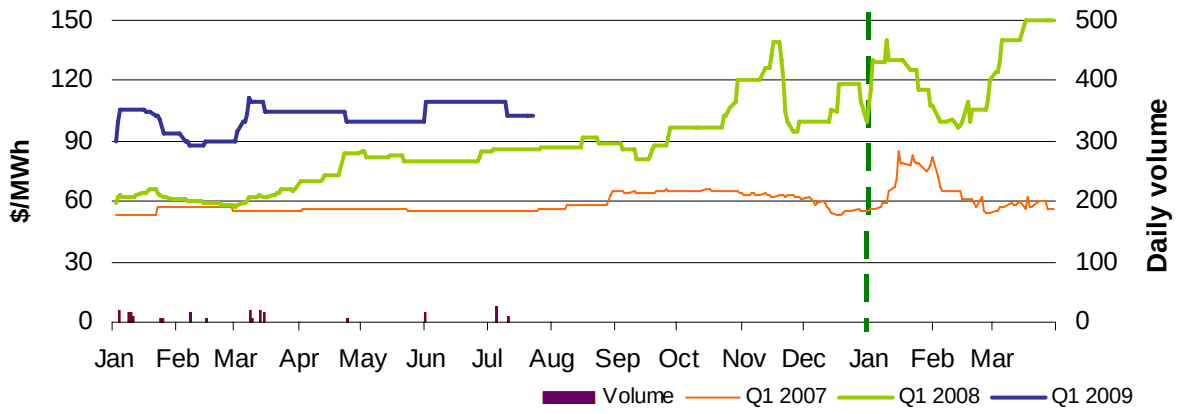
Source: d-cyphaTrade www.d-cyphatrade.com.au

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. There were 10 trading intervals where actual prices significantly varied from forecasts[2] throughout the week. 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	16%	50%	0%	2%
Price is lower than forecast	32%	0%	0%	0%

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 its 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 only[4]. For example, in Queensland 122 MW more capacity 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

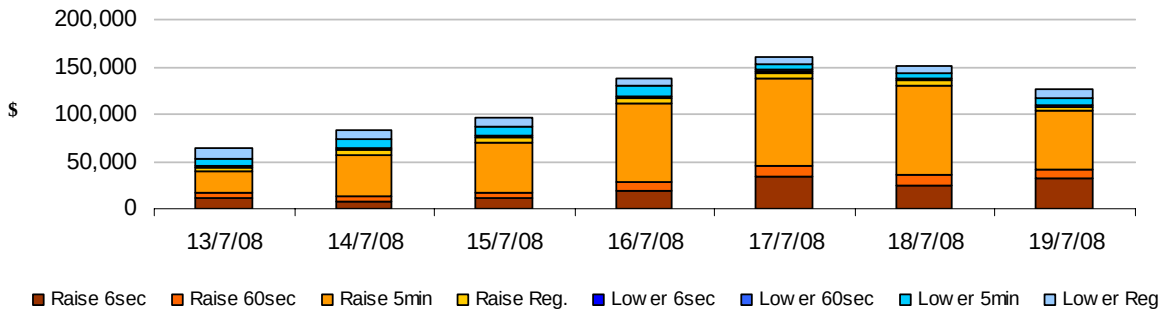
$/MWh	<20	Between 20 and 50	Total availability	Change in average demand
Queensland	122	4	458	-187
New South Wales	-230	183	-243	-448
Victoria	-331	-50	-522	-165
South Australia	0	-15	-40	-46
Tasmania	190	45	69	14
Total	-248	166	-278	-832

Ancillary services market

The total cost of ancillary services on the mainland for the week was $736 000 or 0.6 per cent of turnover in the energy market. The total cost of ancillary services in Tasmania for the week was $87 000 or 2.8 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



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

Appendix A: Detailed NEM Price and Demand Trends

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

Financial year	QLD	NSW	VIC	SA	TAS
2008-09 ($/MWh) YTD	27	31	33	35	23
2007-08 ($/MWh) YTD	85	97	103	106	112
Change	-69%	-68%	-68%	-67%	-79%
2007-08 ($/MWh)	58	44	51	101	57

Table 2: NEM turnover

Financial year	NEM Turnover* ($, billion)	Energy (TWh)
2008-09 YTD	$0.4	12
2007-08	$11.1	208
2006-07	$12.7	206
Change (2006-07 to 2007-08)	-12%	0.8%

* 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)
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
Jun-08	43	44	28	44	42	57	0.77
Jul-08	27	31	-	33	35	23	0.35
Q2 2007	119	146	-	99	83	74	3.26
Q2 2008	38	42	-	47	46	61	3.36
Change	-68%	-71%	-	-52%	-44%	-18%	

Table 4: ASX energy futures contract prices at 21 July

	QLD		NSW		VIC		SA	
Q1 2009	Base	Peak	Base	Peak	Base	Peak	Base	Peak
Price on 14 Jul ($/MW)	34	45	40	57	40	56	42	62
Price on 21 Jul ($/MW)	34	45	39	57	40	56	42	62
Open interest on 21 Jul	2093	144	2007	76	1528	444	145	0
Traded in the last week (MW)	101	5	95	0	50	10	0	0
Traded since 1 Jan 08	3846	312	4306	83	2788	625	205	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
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
June 08 with June 07							
MW Priced <$20	307	376	-25	-58	-70	-405	125
MW Priced $20 to $50	302	438	299	104	44	95	1284
July 08 with July 07							
MW Priced <$20	506	817	-	100	5	611	2040
MW Priced $20 to $50	332	-742	-	295	169	103	156

*For comparative purposes Snowy generation for July 2007 and 2008 has been incorporated into New South Wales and Victoria