

WEEKLY ELECTRICITY MARKET ANALYSIS



AUSTRALIAN ENERGY
REGULATOR

27 March - 2 April 2011

Summary

Weekly average spot prices ranged from \$24/MWh in Queensland to \$28/MWh in South Australia.

The volume weighted average spot prices for Q1 2011 in New South Wales and Queensland were significantly higher than Q1 2010 (New South Wales \$90/MWh versus \$52/MWh, and Queensland \$65/MWh versus \$46/MWh). These prices were much lower than their highest levels of \$146/MWh (Queensland) and \$119/MWh (New South Wales) in Q2 of 2007, during the drought.

Prices in Victoria and South Australia were lower on the same basis (Victoria \$41/MWh versus \$67/MWh and South Australia \$83/MWh versus \$134/MWh). In Tasmania the quarterly average price was unchanged at \$27/MWh.

Spot market prices

Figure 1 sets out the volume weighted average (VWA) prices for the week 27 March to 2 April and the 10/11 financial year to date (YTD) across the NEM. It compares these prices 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
Average price for 27 Mar - 2 Apr 2011	24	25	26	28	26
% change from previous week*	-35	-5	4	33	6
10/11 financial YTD	36	48	29	45	31
% change from 09/10 financial YTD**	-14	-19	-28	-54	13

*The percentage change between last week's average spot price and the average price for the previous week. Calculated on VWA prices prior to rounding.

**The percentage change between the average spot price for the current financial year and the average spot price for the previous financial year. Percentage changes are calculated on VWA prices prior to rounding.

Longer term market trends are attached in Appendix A¹.

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 -> Monitoring, reporting and enforcement -> Electricity market reports -> Long-term analysis.

Financial markets

Figures 2 to 9 show futures contract² prices traded on the Sydney Futures Exchange (SFE) as at close of trade on Monday 4 April 2011. 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.

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

	QLD		NSW		VIC		SA	
Calendar Year 2012	36*	-1%	43*	-2%	37	0%	41	0%
Calendar Year 2013	46	-1%	49	0%	45	0%	67	0%
Calendar Year 2014	56	0%	59	0%	60	0%	69	0%
Three year average	46	-1%	50	-1%	48	0%	59	0%

Source: d-cyphaTrade www.d-cyphatrade.com.au
Data for calendar year 2012 futures contracts was not available.
* denotes trades in the product.

Figure 3 shows the \$300 cap contract price for Q1 2011 and calendar year 2011 and the percentage change⁴ from the previous week.

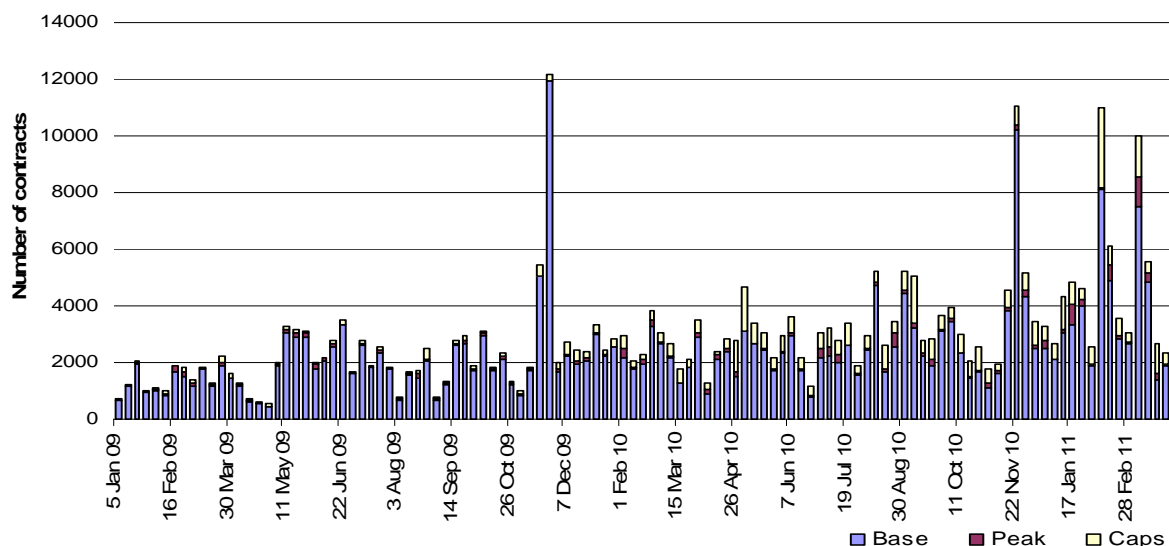
Figure 3: \$300 cap contract prices (\$/MWh)

	QLD		NSW		VIC		SA	
Q1 2011 (% change)	21*	0%	31	0%	7	0%	25	0%
2011 (% change)	8	0%	13	-1%	4	-1%	9	0%

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

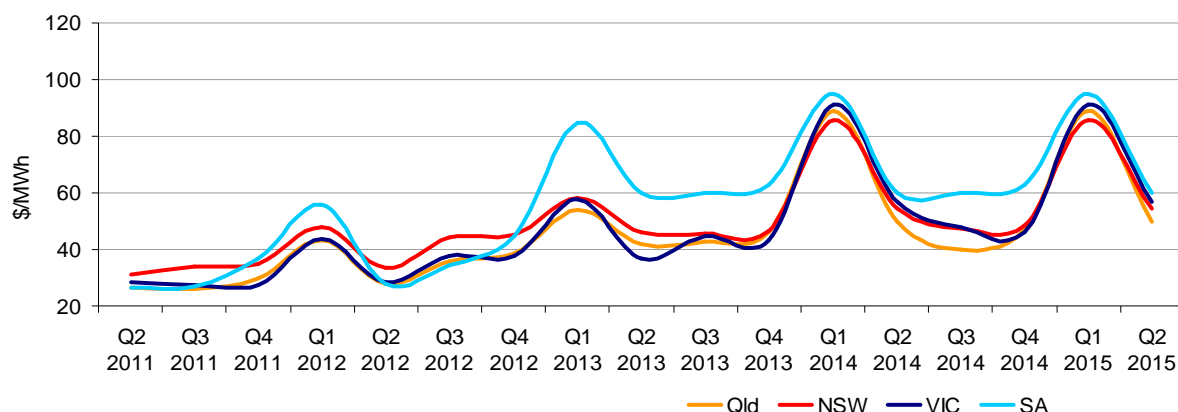
² Futures contracts traded on the SFE are listed by d-cyphaTrade (www.d-cyphatrade.com.au). A futures contract is typically for one MW of electrical energy per hour based on a fixed load profile. A base load profile is defined as the base load period from midnight to midnight Monday to Sunday over the 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.

³ Calculated on prices prior to rounding.

⁴ Calculated on prices prior to rounding.

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

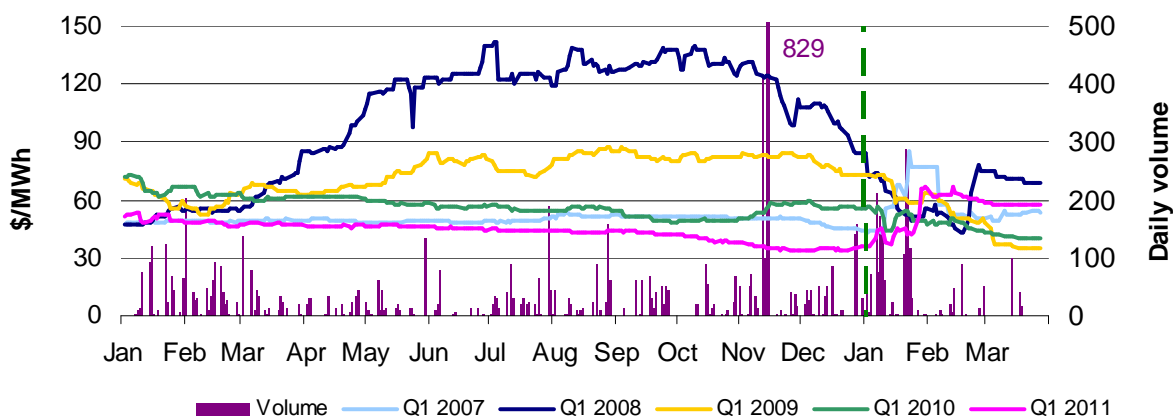
Figure 5: Quarterly base future prices Q2 2011 – Q2 2015



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

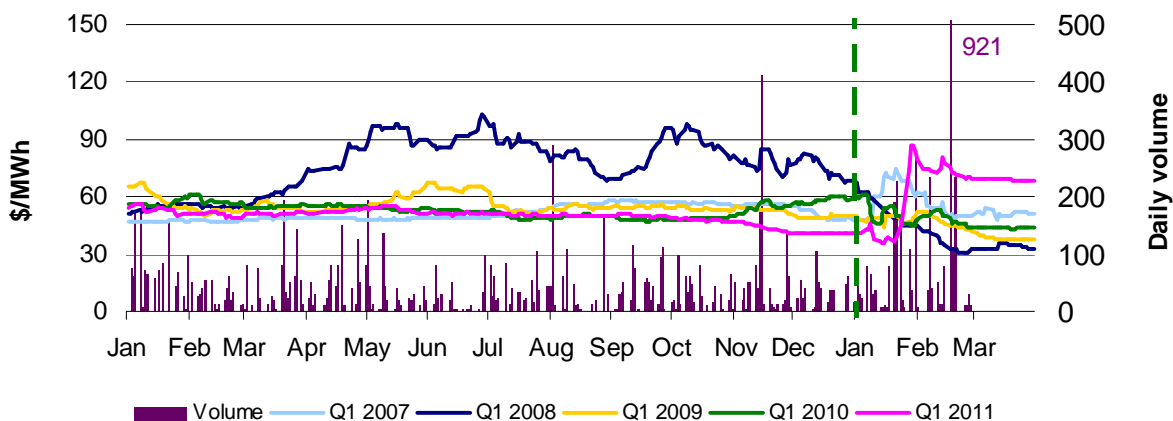
Figures 6-9 compare for each region the closing daily base contract prices for the first quarter of 2007, 2008, 2009, 2010 and 2011. Also shown is the daily volume of Q1 2011 base contracts traded. The vertical dashed line signifies the start of the Q1 period for which the contracts are being purchased. To understand the diagrams, the dark-blue line in figure 6 demonstrates that throughout the middle of 2007, the market had an expectation of very high spot prices in the first quarter of 2008.

Figure 6: Queensland Q1 2007, 2008, 2009, 2010 and 2011



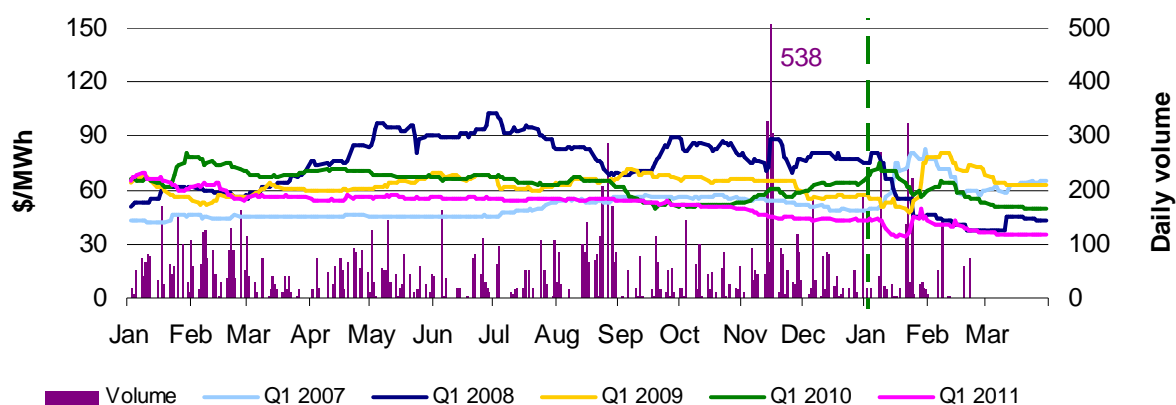
Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 7: New South Wales Q1 2007, 2008, 2009, 2010 and 2011



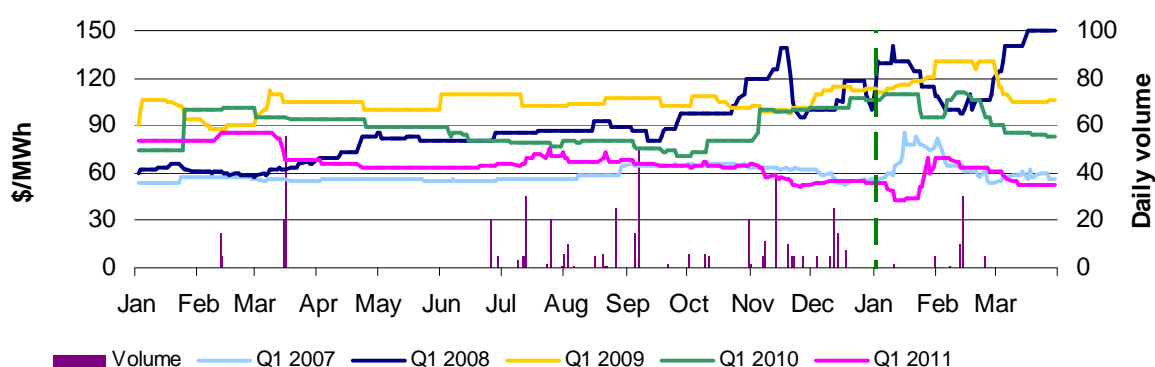
Source: d-cyphaTrade www.d-cyphatrade.com.au

Figure 8: Victoria Q1 2007, 2008, 2009, 2010 and 2011



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

Figure 9: South Australia Q1 2007, 2008, 2009, 2010 and 2011



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 13 trading intervals throughout the week where actual prices varied significantly from forecasts⁵. This compares to the weekly average in 2010 of 57 counts and the average in 2009 of 103. 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	0	8	0	0
% of total below forecast	66	13	0	13

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 323 MW more 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	323	54	562	-617
NSW	257	45	68	-384
VIC	-448	-30	-756	-99
SA	-78	141	-2	72
TAS	151	-233	-18	116
TOTAL	205	-23	-146	-912

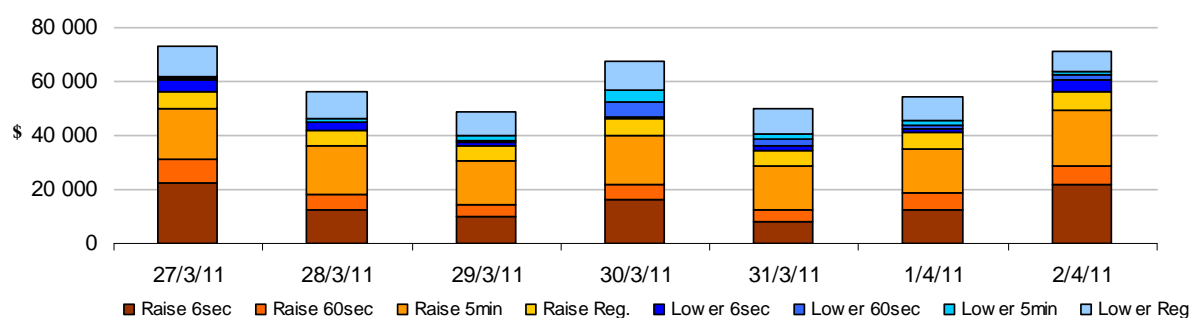
Ancillary services market

The total cost of frequency control ancillary services (FCAS) on the mainland for the week was \$327 000 or less than one per cent of energy turnover on the mainland.

The total cost of FCAS in Tasmania for the week was \$94 000 or two 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



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
27 March - 2 April 2011



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

Financial year	QLD	NSW	VIC	SA	TAS
2010-11 (\$/MWh) YTD	36	48	29	45	31
2009-10 (\$/MWh) YTD	42	59	40	98	27
Change*	-14%	-19%	-28%	-54%	13%
2009-10 (\$/MWh)	37	52	42	82	30

Table 2: NEM turnover

Financial year	NEM Turnover** (\$, billion)	Energy (TWh)
2010-11 (YTD)	\$6.019	154
2009-10	\$9.643	206
2008-09	\$9.413	208

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)
Nov-10	18	23	19	26	29	0.346
Dec-10	23	23	17	19	17	0.315
Jan-11	48	58	50	183	26	0.959
Feb-11	123	190	48	33	29	1.794
Mar-11	28	27	26	23	26	0.414
Q4 2010	21	23	19	23	21	1.050
Q4 2009	53	100	29	134	31	3.555
Change*	-61%	-77%	-35%	-83%	-30%	-70.47%

Table 4: ASX energy futures contract prices at end of 4 April

	QLD		NSW		VIC		SA	
	Base	Peak	Base	Peak	Base	Peak	Base	Peak
Q1 2011								
Price on 28 Mar (\$/MW)	58	97	69	118	36	52	53	93
Price on 04 Apr (\$/MW)	58	97	69	118	36	52	53	93
Open interest on 04 Apr	1143	68	1266	160	1229	76	87	0
Traded in the last week (MW)	91	0	110	0	35	0	0	0
Traded since 1 Jan 10 (MW)	10218	293	13382	757	13426	414	533	9
Settled price for Q1 10(\$/MW)	40	65	44	68	50	89	83	160

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

Comparison:	QLD	NSW	VIC	SA	TAS	NEM
January 11 with January 10						
MW Priced <\$20/MWh	-500	-928	-218	404	383	-859
MW Priced \$20 to \$50/MWh	-10	-204	24	168	-318	-339
February 11 with February 10						
MW Priced <\$20/MWh	-391	-468	-446	363	33	-909
MW Priced \$20 to \$50/MWh	-45	-671	550	160	225	219
March 11 with March 10						
MW Priced <\$20/MWh	-287	-85	-360	227	201	-304
MW Priced \$20 to \$50/MWh	2	76	42	278	273	670

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

** Estimated value