

## 12 - 18 November 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 12 - 18 November 2017.

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

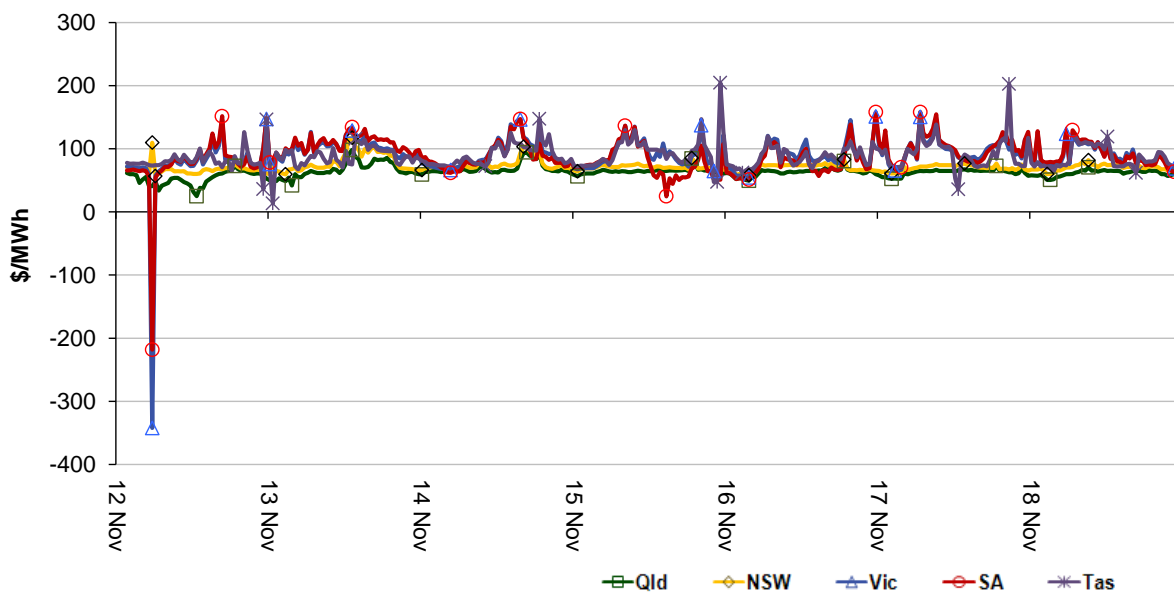
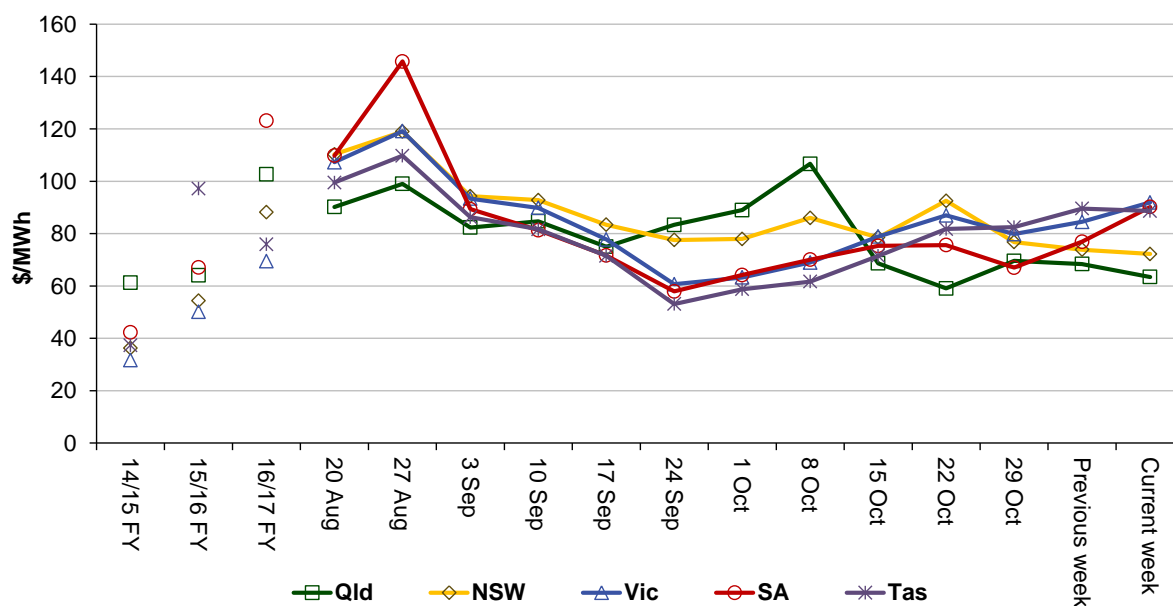


Figure 2 shows the volume weighted average (VWA) prices for the current week (with prices shown in Table 1) and the preceding 12 weeks, as well as the VWA price over the previous 3 financial years.

**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	63	72	92	90	89
16-17 financial YTD	57	63	47	111	48
17-18 financial YTD	79	90	96	94	90

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 179 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**

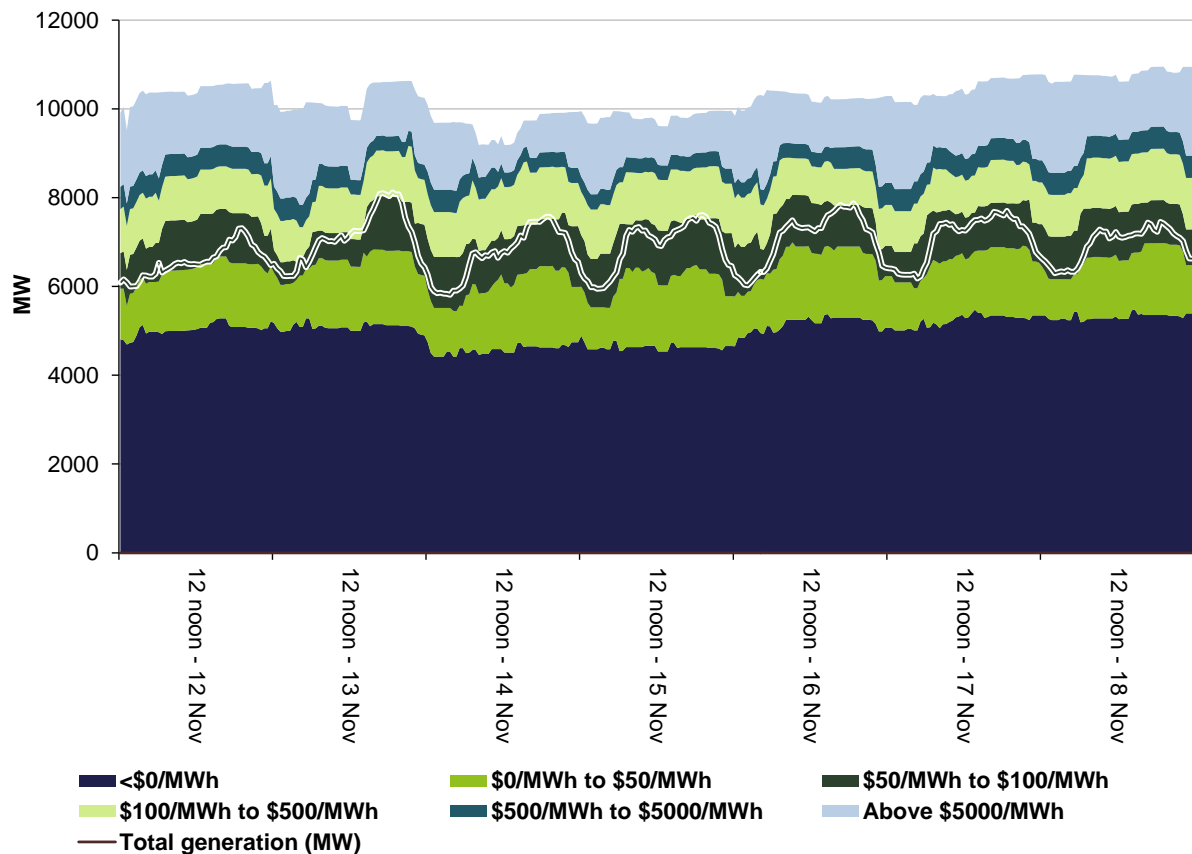
	Availability	Demand	Network	Combination
% of total above forecast	8	18	0	3
% of total below forecast	60	10	0	1

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

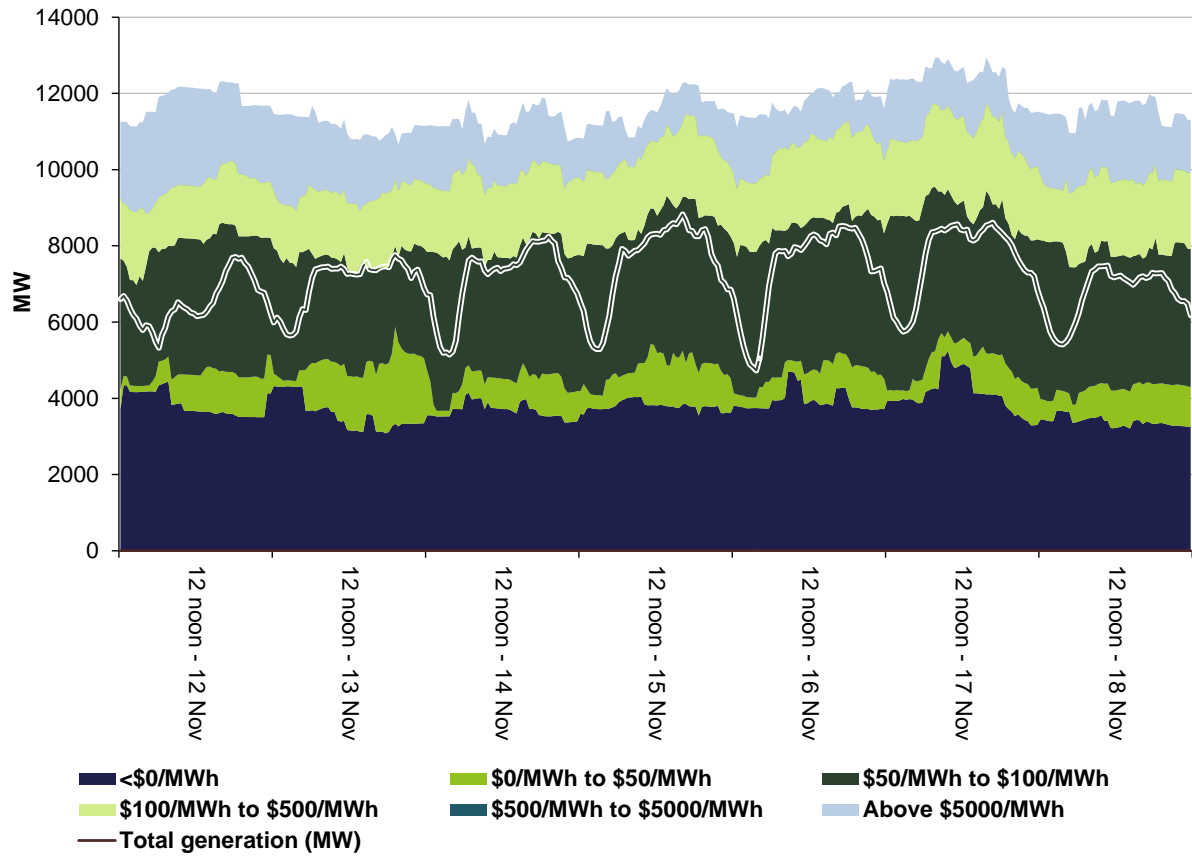
## Generation and bidding patterns

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.

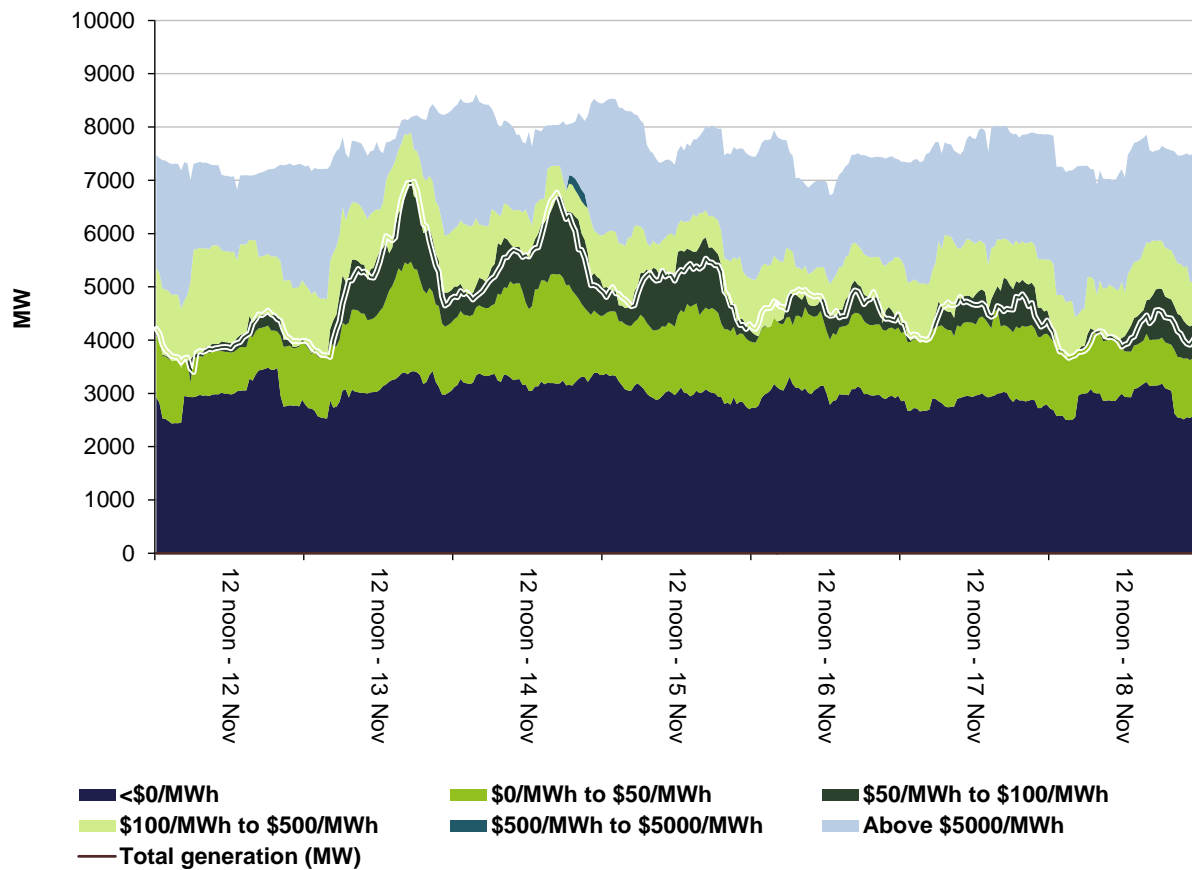
**Figure 3: Queensland generation and bidding patterns**



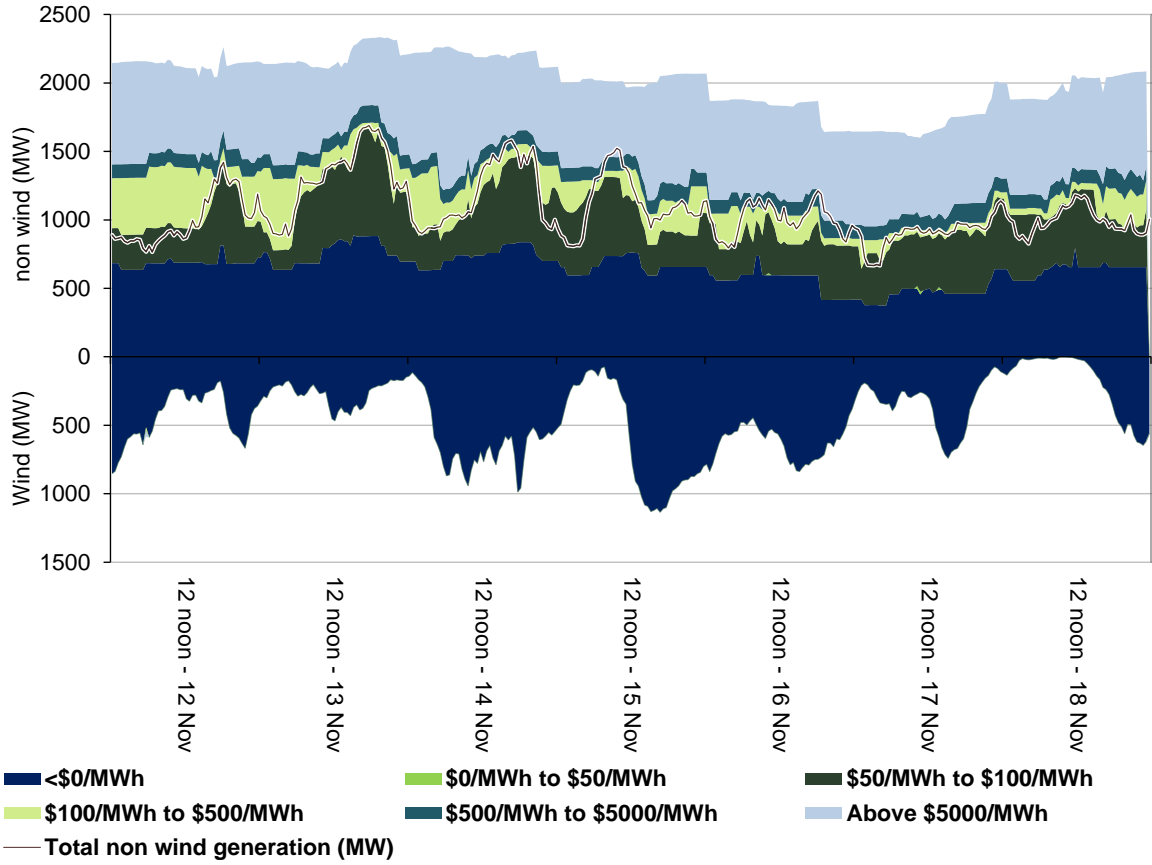
**Figure 4: New South Wales generation and bidding patterns**



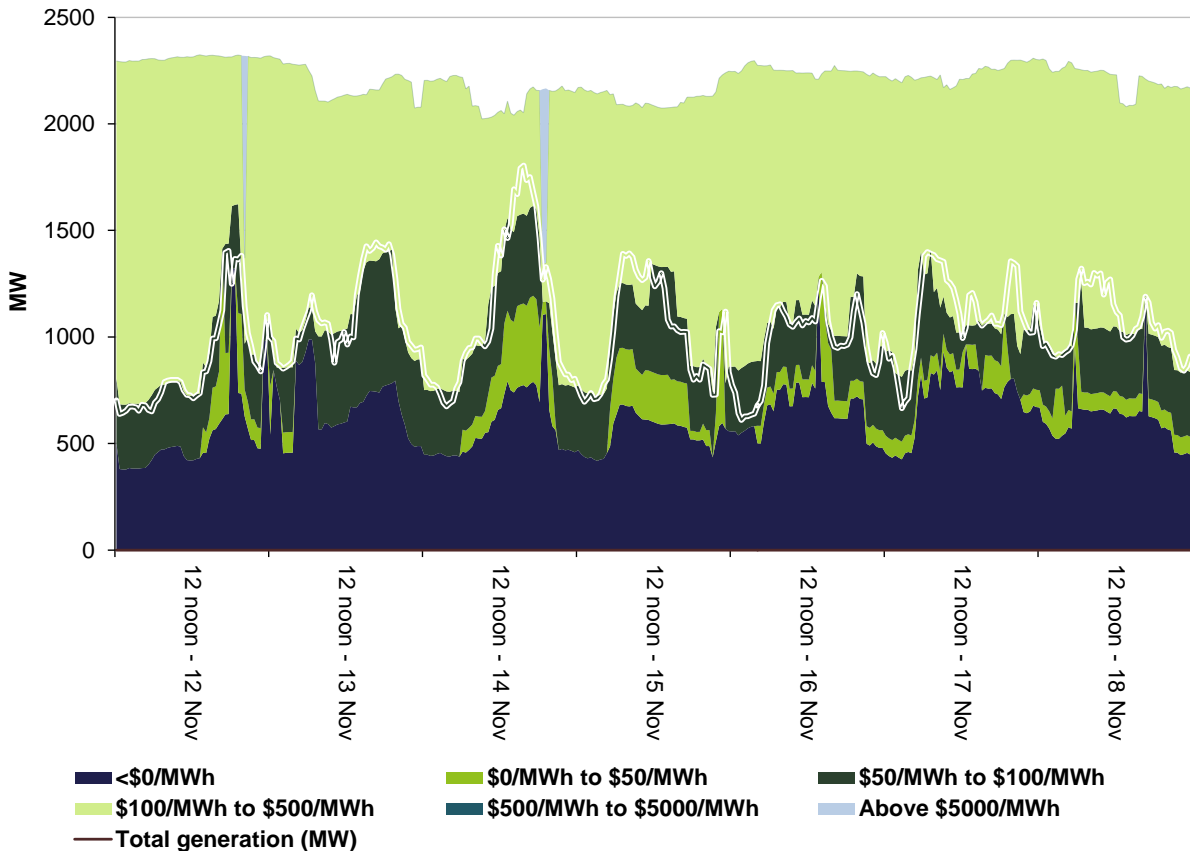
**Figure 5: Victoria generation and bidding patterns**



**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.

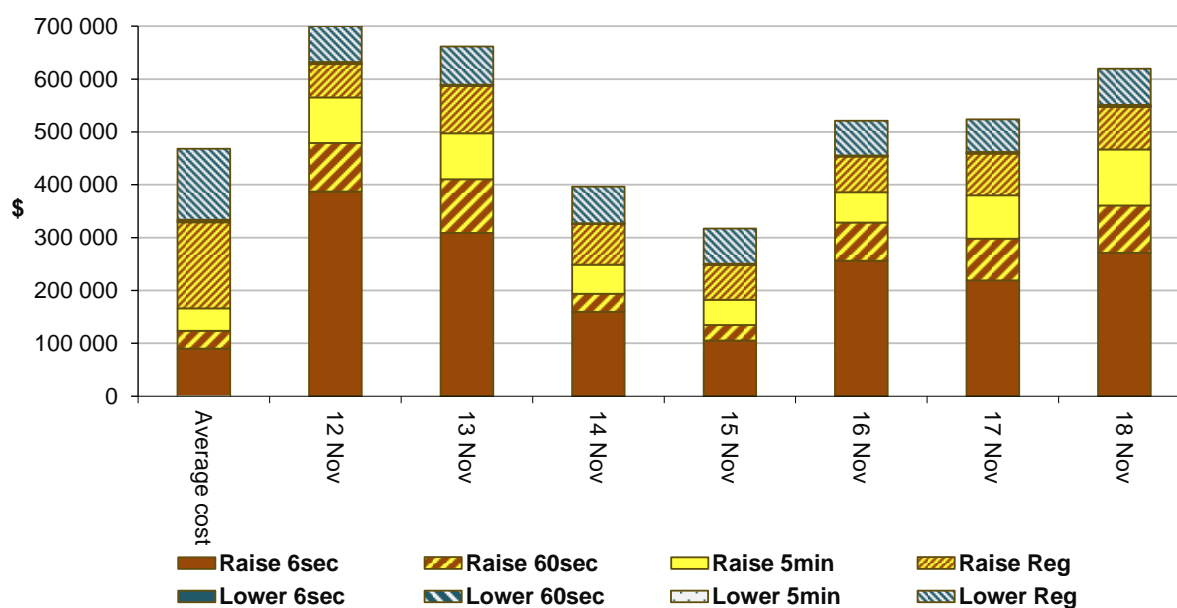
The Electricity Rules stipulate that generators pay for raise contingency services and customers pay for lower contingency services. Regulation services are paid for on a “causer pays” basis determined every four weeks by AEMO.

The total cost of FCAS on the mainland for the week was \$2 676 000 or around one per cent of energy turnover on the mainland.

The total cost of FCAS in Tasmania for the week was \$1 062 000 or around seven 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**



## Detailed market analysis of significant price events

### Victoria

There was one occasion where the spot price in Victoria was below -\$100/MWh.

#### Sunday, 12 November

**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
6 am	-342.22	71.65	69.75	3112	3724	3722	7214	7352	7335

Conditions at the time saw demand around 610 MW lower than forecast and availability was around 140 MW lower than forecast four hours ahead.

Between 5.10 am and 5.30 am, demand in Victoria fell by around 435 MW.

To manage voltage in Victoria, from around 1 am, AEMO de-energised the Hazelwood to South Morang no.2 500kV line in the Victorian region. For the 5.35 am dispatch interval AEMO invoked a constraint which caused the Vic – NSW and the Vic – SA interconnectors to change direction.

For the 5.35 am and 5.40 am dispatch intervals, net exports out of Victoria dropped by around 20 MW and 235 MW respectively. Demand also dropped by 45 MW and 30 MW for each dispatch interval. As a result of the swing in the interconnectors and drops in demand, the price hit the price floor for the first two dispatch intervals.

### South Australia

There was one occasion where the spot price in South Australia was below -\$100/MWh.

#### Sunday, 12 November

**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
6 am	-218.18	69.24	63.19	1039	1053	1005	2742	2594	2886

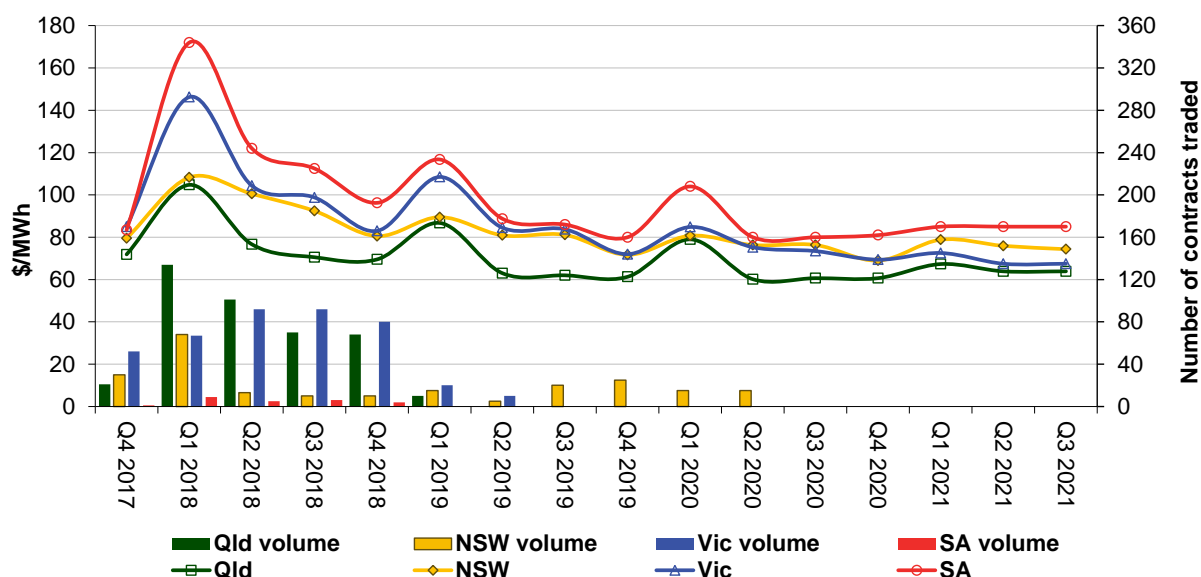
Conditions at the time saw demand close to forecast and availability was around 150 MW higher than forecast four hours ahead.

Due to the constraint invoked to manage an outage in Victoria, outlined above, flow on the Vic – SA interconnector changed directions for the 5.35 am dispatch interval. The South Australian region went from exporting 270 MW at 5.30 am to importing 140 MW at 5.35 am. This extra 410 MW led to higher priced generation being ramp down constrained and unable to set price. The dispatch price hit the floor for the first dispatch interval and led to a negatively priced trading interval.

## 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.

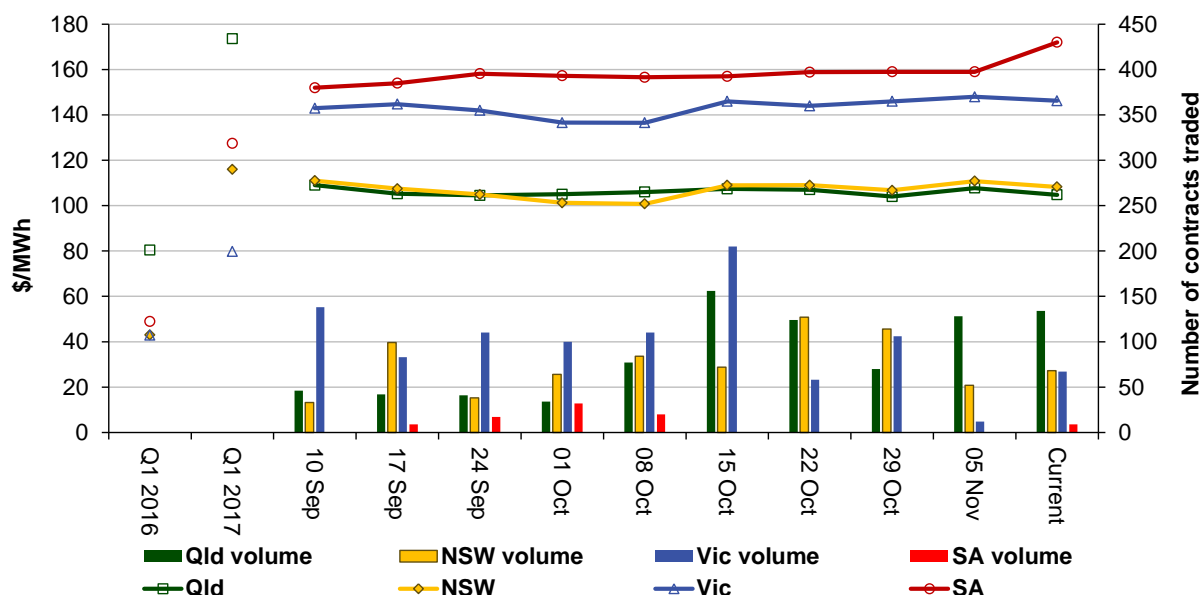
**Figure 9: Quarterly base future prices Q4 2017 – Q3 2021**



Source: ASXEnergy.com.au

Figure 10 shows how the price for each regional Q1 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.

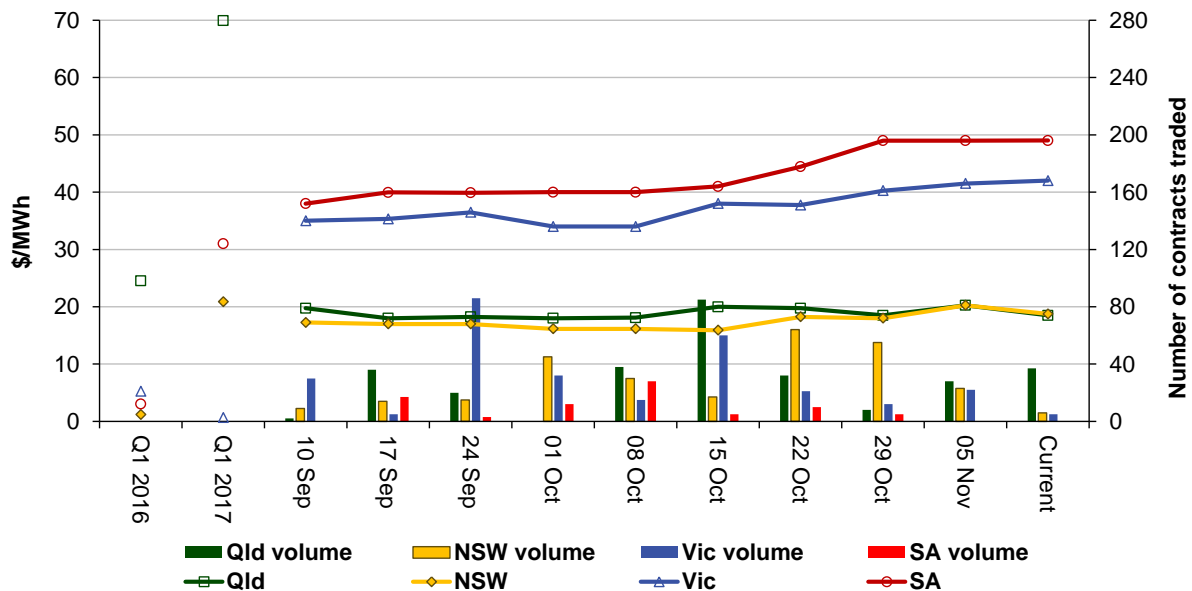
Source: ASXEnergy.com.au

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**  
December 2017