ACCC Market review forum

Assessment of the market's performance 2002-03

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Synopsis

- The year in review
  - highlights
  - demand and energy
  - new generation
- Price outcomes
  - background
  - relationship to demand
  - volatility
- Investment drivers
  - generation
  - transmission
- Reliability outcomes

A snapshot

- prices fell for the second consecutive year in Victoria, South Australia and New South Wales
- annual prices in Qld increased by 10%
- national demand up 8% to around 28,550MW
- 1,400MW of capacity commissioned
- further 152MW of non-scheduled registered

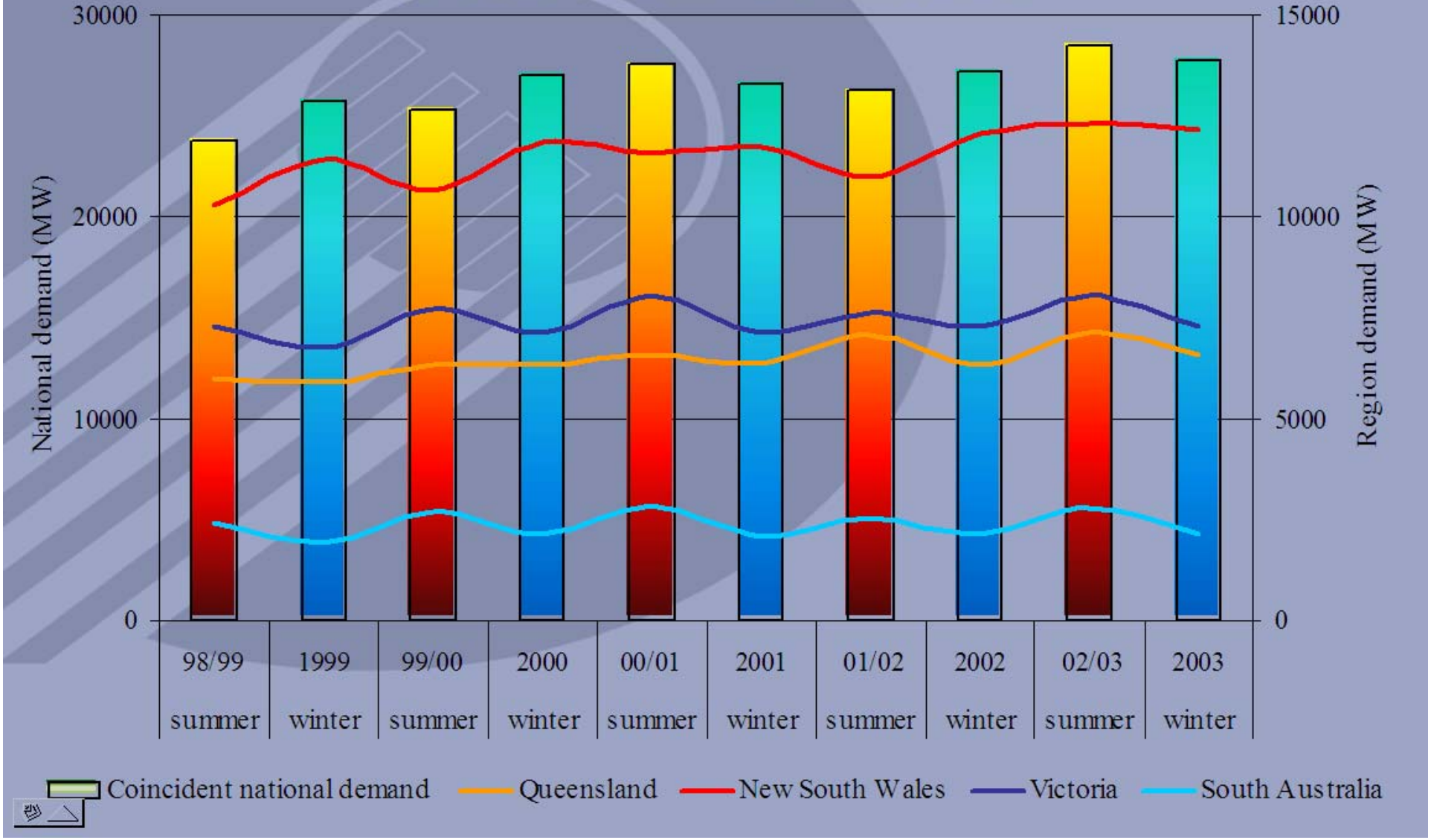
A snapshot

- Snowy to Victoria limit rose to 1,900MW
- Victoria to South Australia rose to 720MW
- reserve margins remained comfortable
- no involuntary loadshedding as a result of a supply shortfall

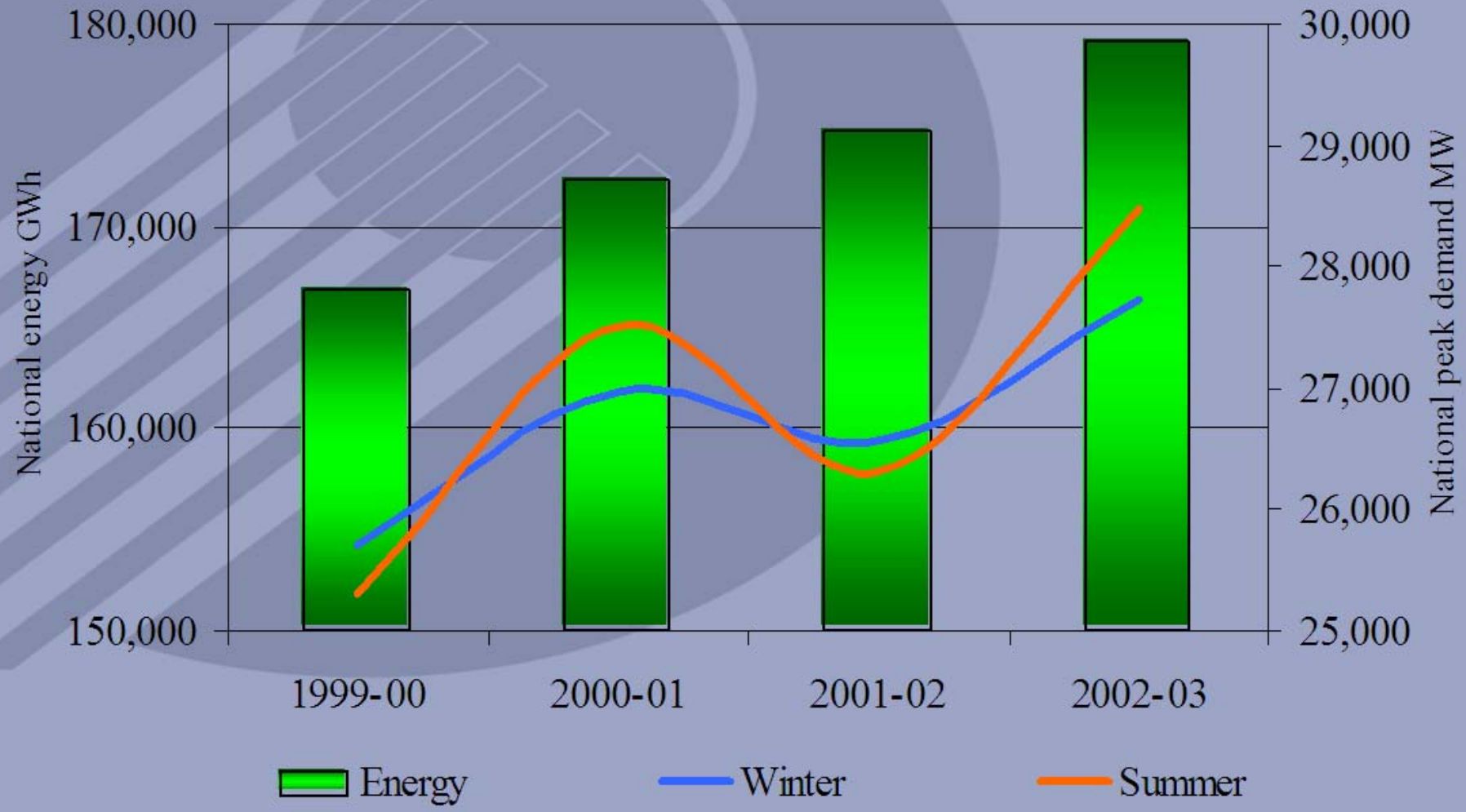
Demand and energy

- load continues to grow in all sectors
  - consumption has increased at 2.4% pa (compounding) since market start
- the demand in much of the market is peaky
- peak loads are becoming more coincident
  - winter peak has grown at 1.9% pa
  - summer demand at 4.6% pa

Seasonal demand



National energy



Increase in scheduled generation

	Since market start	2002-03
NSW	250 MW	0MW
Queensland	2,300 MW	1,250 MW
Victoria	600 MW	100 MW
South Australia	900 MW	75 MW

figures are net changes in scheduled plant – new investment is higher.

Price outcomes - setting the scene

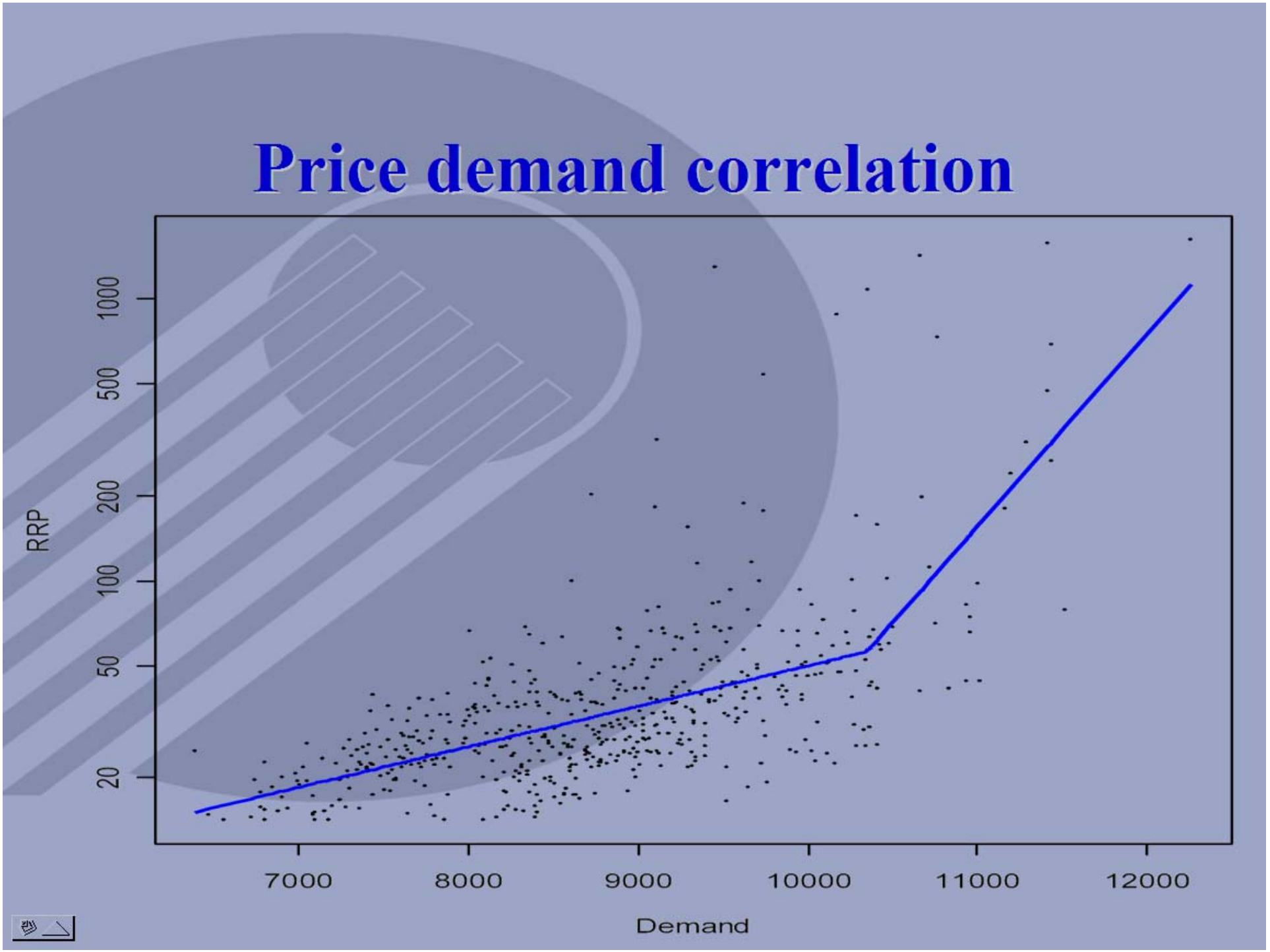
- bushfires in NSW, ACT and Victoria
- extremes in early December and late January
- separation on 12 December
- network constraints affecting all regions
- record or near record demands
- gas supplies to South Australia
- separation of South Australia on 27 May

The summer

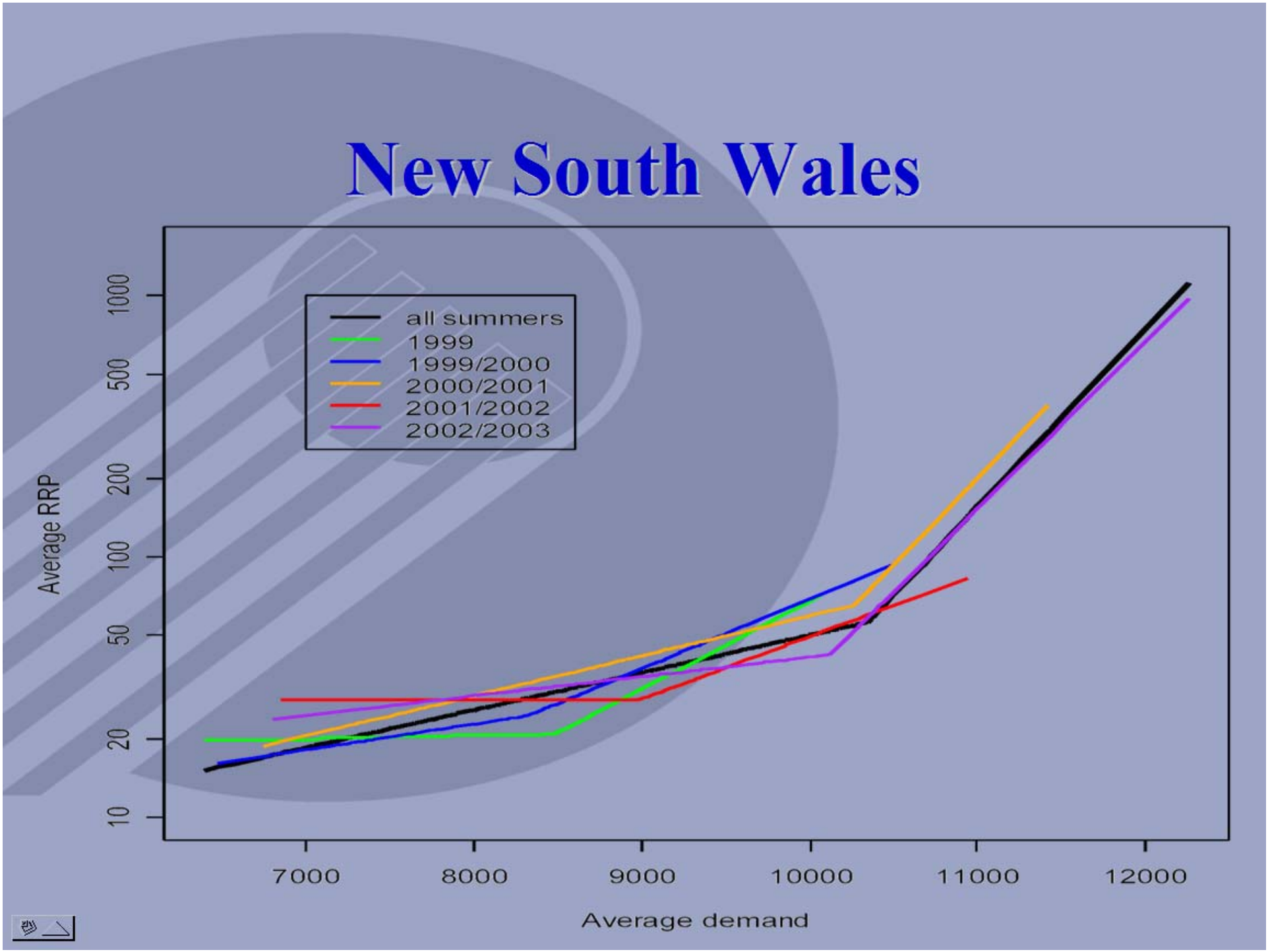
	NSW	QLD	VIC	SA
Price	$42	$56	$27	$34
Peak demand	12,350 *	7,100 *	8,050 *	2,800
Installed capacity	14,401	9,450	9,564	3,153

* new record demands

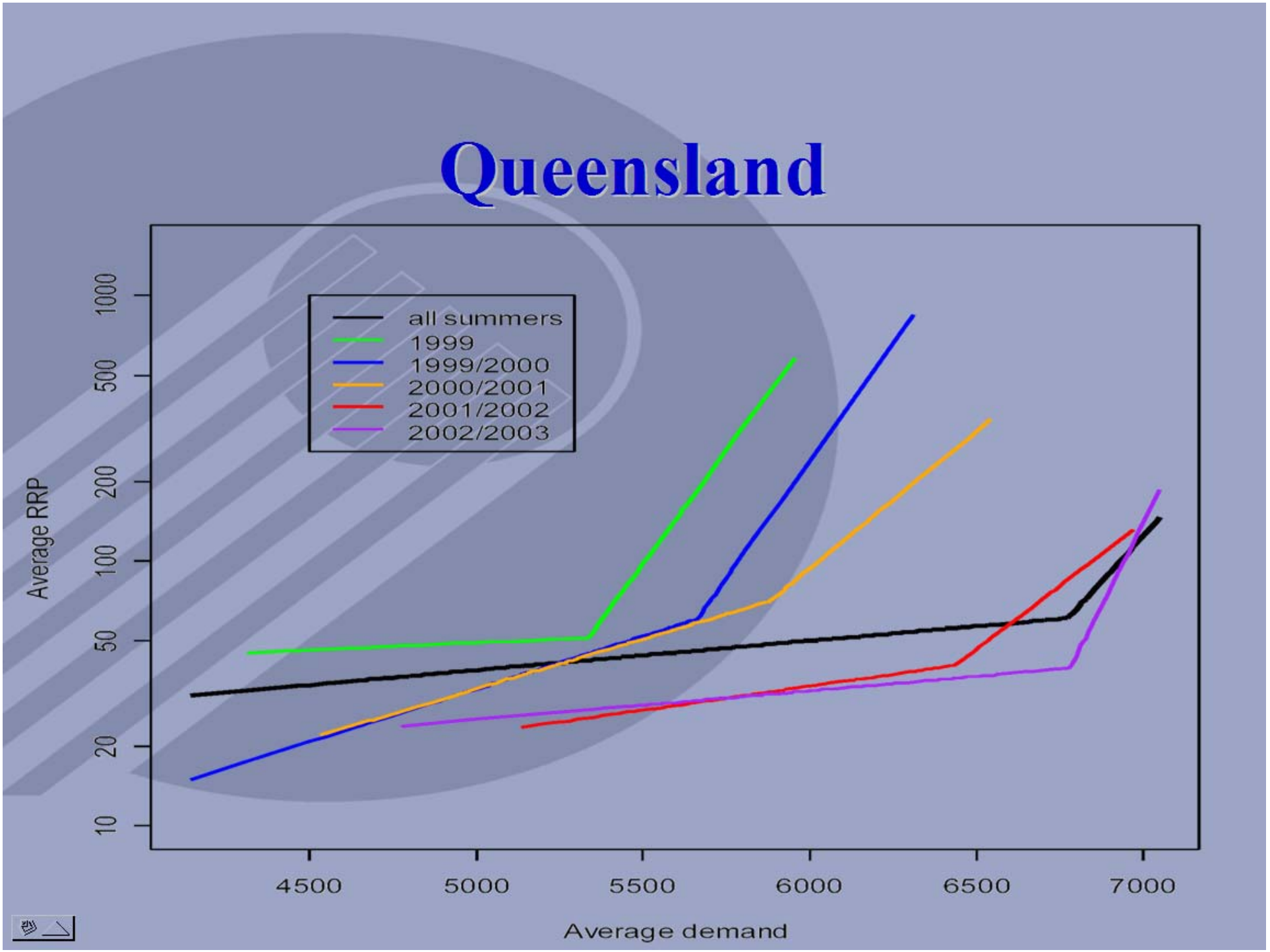
Price demand correlation



New South Wales



Queensland

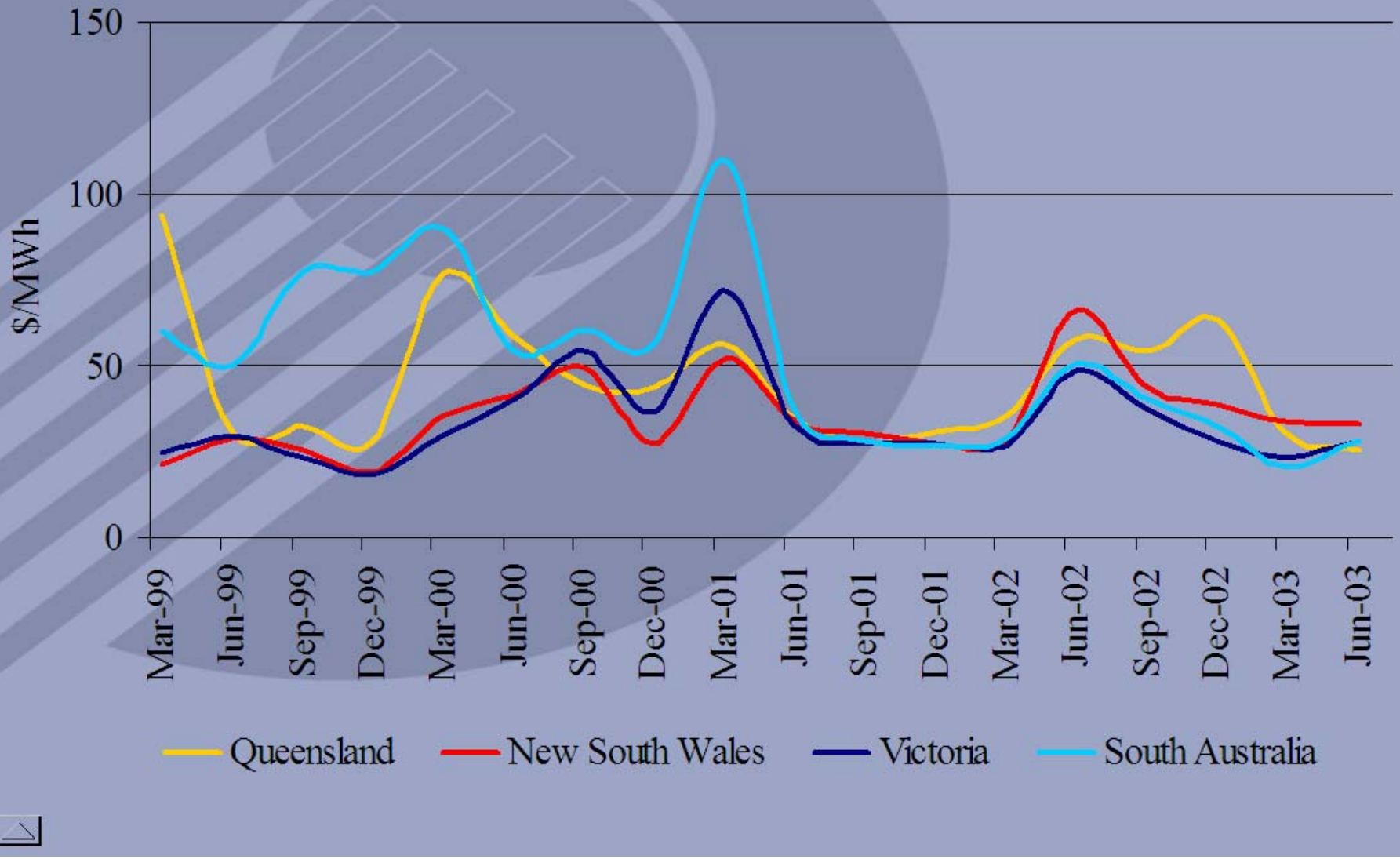

all summers
1999
1999/2000
2000/2001
2001/2002
2002/2003
Average RRP
10
20
50
100
200
500
1000
4500
5000
5500
6000
6500
7000
Average demand

Annual prices

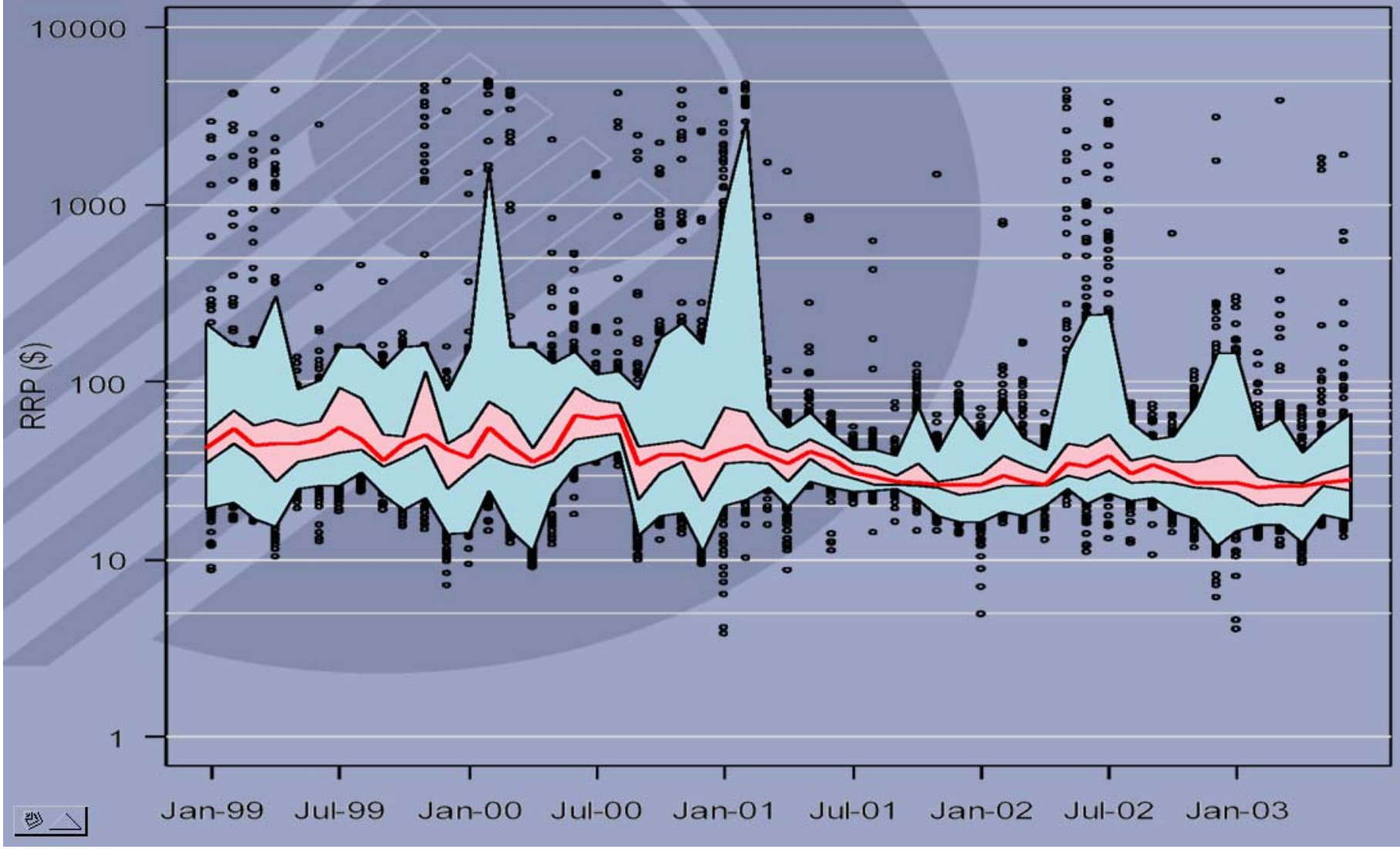
Queensland*	$41
New South Wales	$37
Victoria	$30
South Australia	$33

* Prices have fallen to $24 in Queensland over the last 6 months

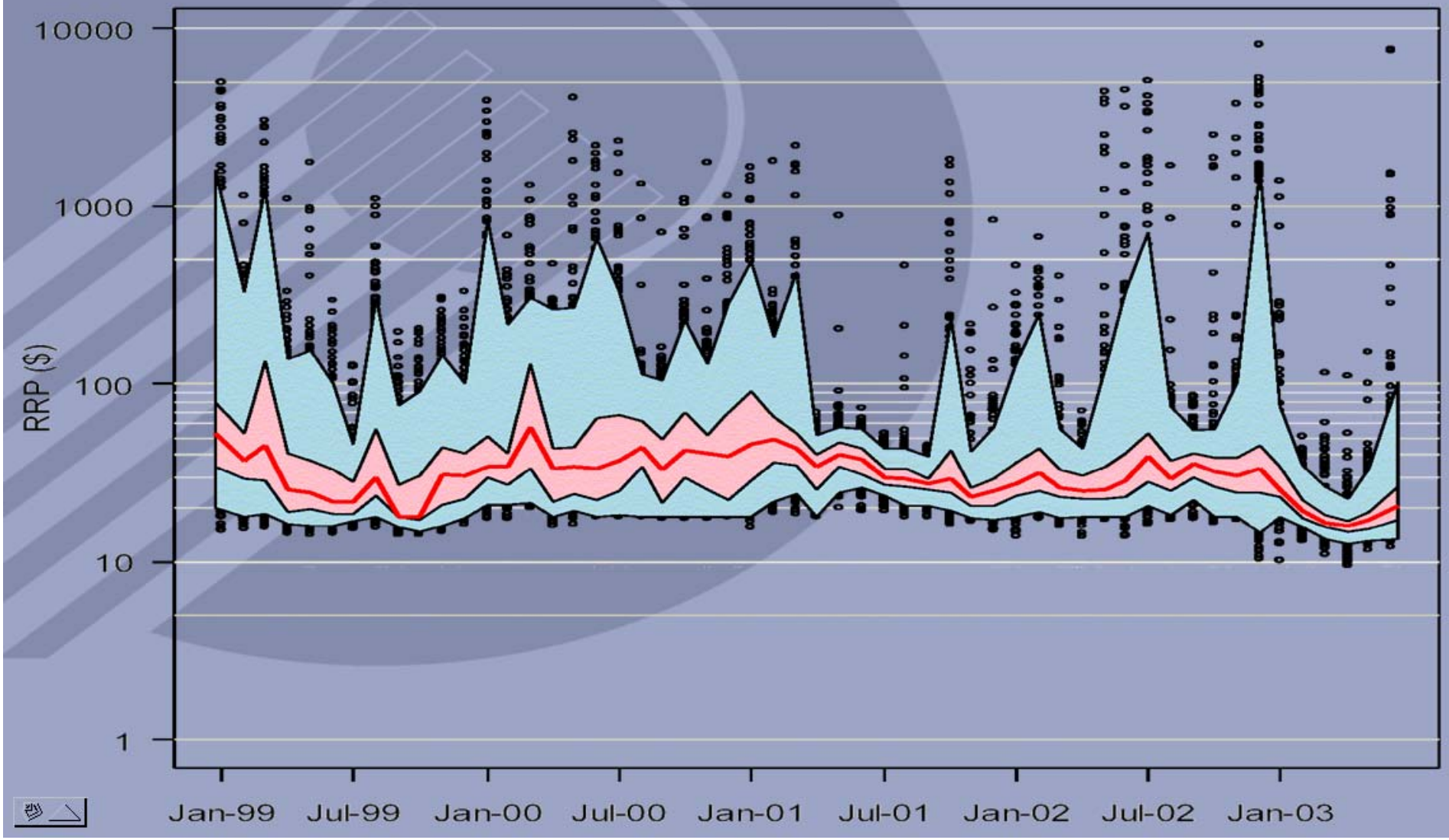
Converging prices – reduced volatility



Price volatility - SA peak periods



Price volatility - QLD peak periods

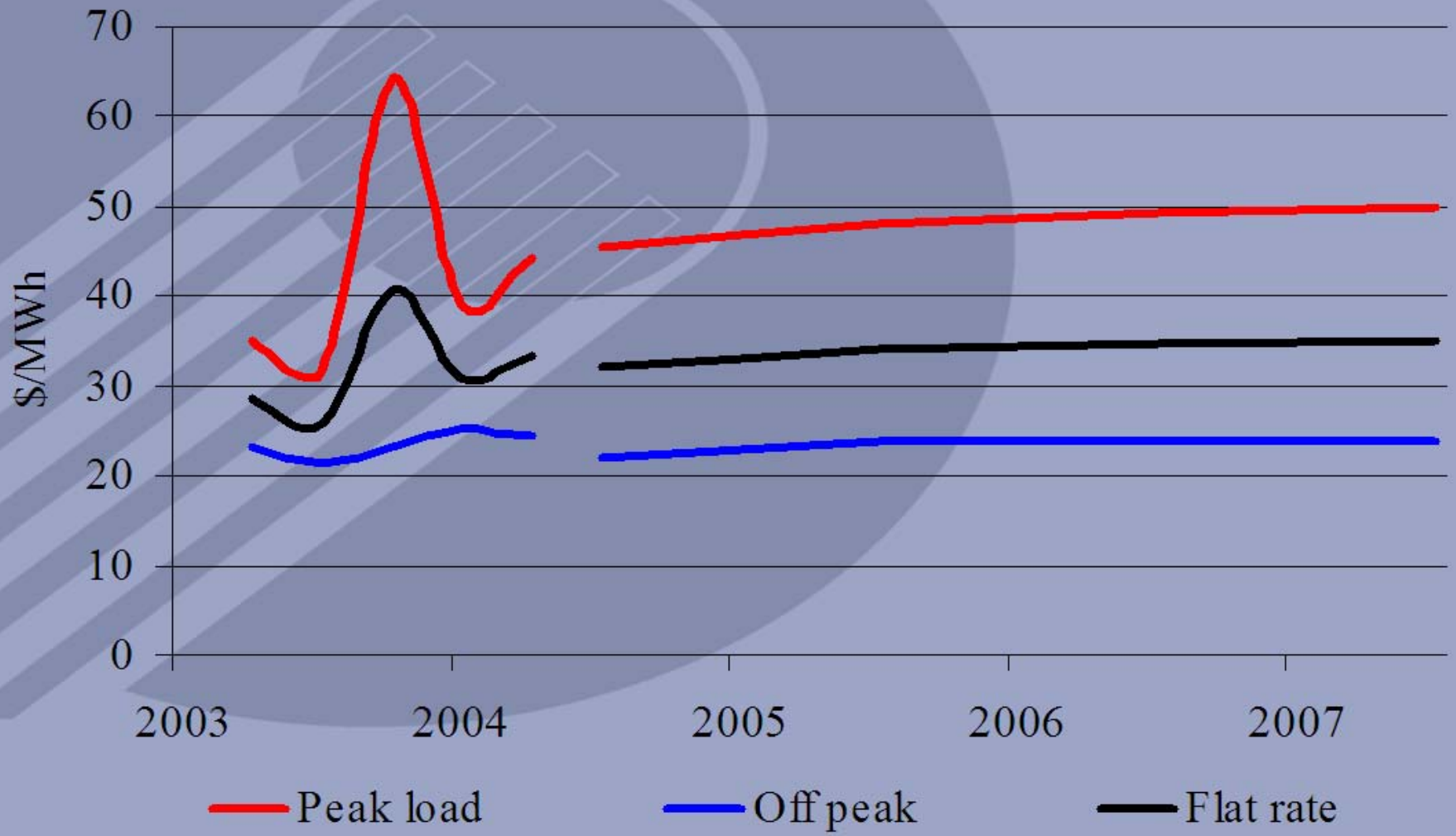


Price drivers for investment

	Annual premium at $25/MWh	Annual premium at $40/MWh
New South Wales	$108,000	$77,000
Queensland*	$157,000	$130,000
Victoria	$69,000	$43,000
South Australia	$76,000	$43,000

* Queensland premia have fallen by two thirds in the last 6 months

NSW forward contract prices

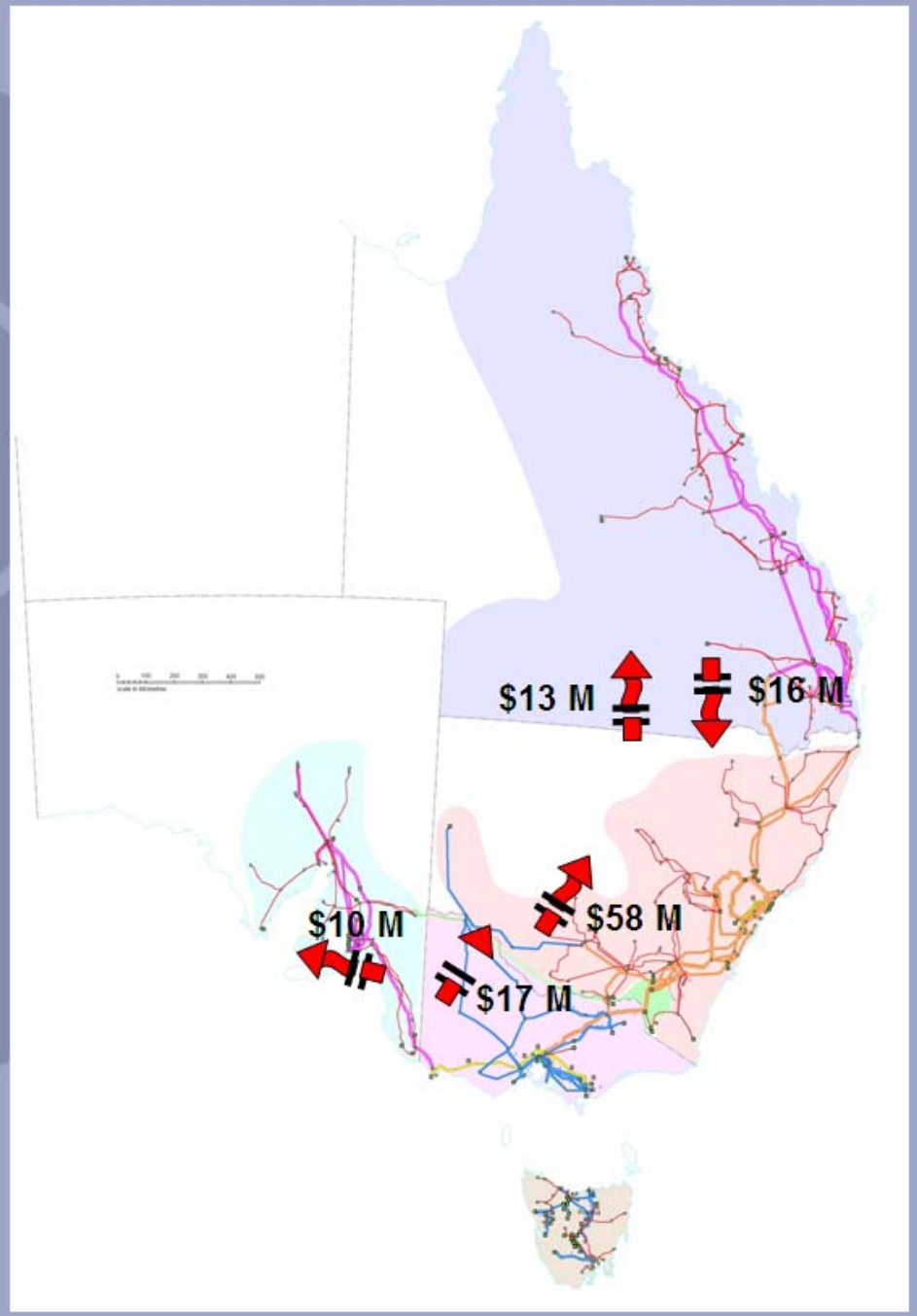


Sources: NGeS, ASX and AFMA

Price investment signals

- based on spot prices prevailing during 2002-03, market prices in QLD and NSW could drive new entry
- new capacity in QLD during the year, removed signals for immediate new entry
- NSW forward contract prices appear to be too low to attract new entry

Cost of interconnector constraints over 2002-03



Reliability

- reliability standard in the national market sets 0.002% USE as the target
- national market very reliable
- there was no unserved energy resulting from a shortfall of supply in 2002-03
- nationally we had a 28% reserve plant margin over the summer peak

Reserve and intervention

- 7 directions since December
  - 6 in Queensland and 1 in Victoria
- reserve margins comfortably above thresholds
  - 217MW (48 per cent) in Queensland
  - 191MW (29 per cent) in New South Wales
  - 342MW (63 per cent) in Victoria and
  - 103MW (40 per cent) in South Australia

Generation reserves

2002-03	NSW	QLD	VIC	SA
10% forecast	12,430	7,414	9,278	3,188
Peak demand	12,350 *	7,100 *	8,050 *	2,800
Installed capacity	14,401	9,450	9,564	3,153

* new record demands

Is there a need for new investment on reliability grounds?

- based on actual performance over 2002-03, sufficient capability to meet needs
- summer of 2002/03 was average or above average temperature
- margins over predicted 10% POE demand would have been narrower