

EnergyAction

Energy Market Wrap

05 July 2021

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Electricity Market Overview

Electricity prices remain above 10-month highs for 2022 forward contracts and just below the 10-month high for 2023 contracts.

Prices re-traced slightly over the past week but remain in strong uptrend, this now includes 2024 forward contract prices which recently set new highs above the 10-month average, across all states.

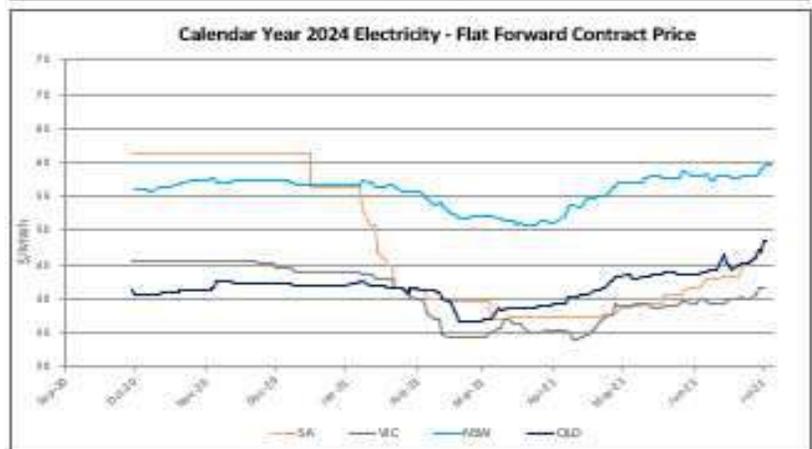
We continue to see a strong likelihood that prices will remain in uptrend for contract years out to 2025.

Our recent results from RPF's / Tenders show 2025 pricing remains in-line with 2024 levels and whilst they have risen over the past quarter, continue to represent good value when compared to prices over the past 5 years.

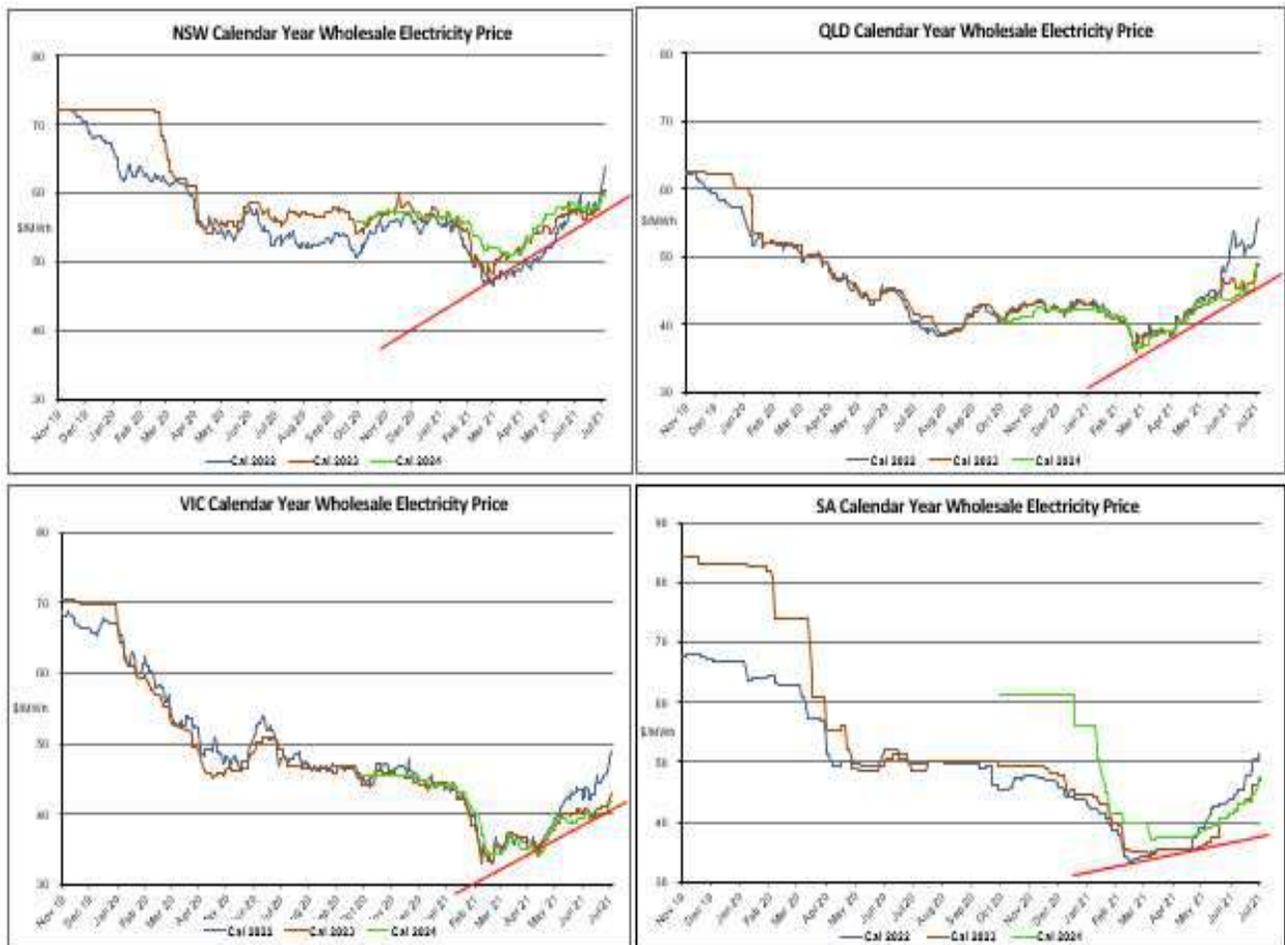
For corporate yet to contract, we continue to encourage consumers to seek pricing out to 2025.

We are starting to see a 'new normal' in the midst of living with Covid. While widespread lockdowns may continue, there appears to be less impact on electricity demand and less downward pressure on pricing as a result of Covid disruptions to the economy.

Since the Callide fire, there has been greater reliance on gas-fired generation (during peak periods) and greater spot price volatility. Both gas and electricity prices remain highly volatile with short-term factors driving current pricing and making the longer-term outlook more difficult to forecast.



We have updated the following charts which show 'flat' electricity pricing by State. Since our previous update, the gradient (or rate of price increase) in both QLD and NSW for 2023 electricity has increased. This suggests, both states now have greater likelihood that prices will continue to increase. VIC and SA prices remain in up-trend but to a lesser extent than QLD and NSW.



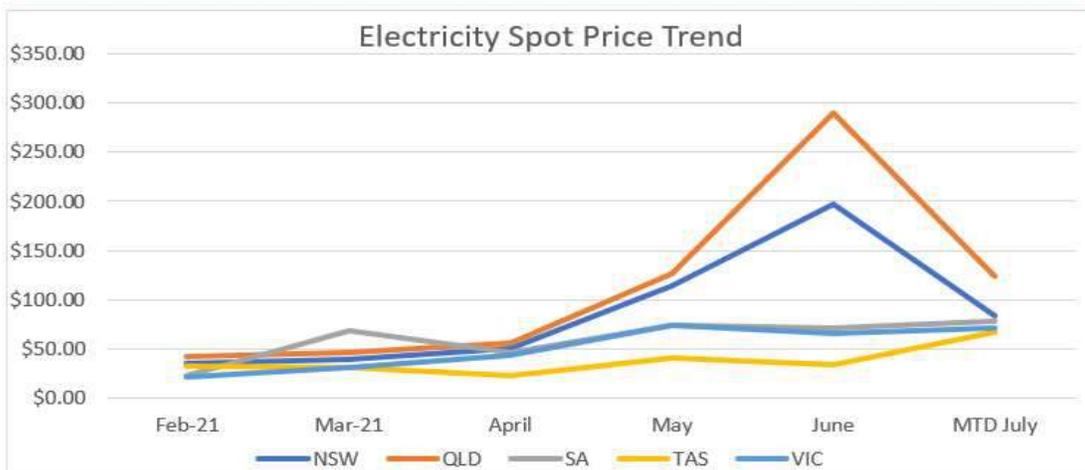
Electricity Spot Market

July month-to-date spot prices retraced in NSW and QLD which saw them drop by 58% and 57% respectively (compared to the prior month average). Tasmania is currently showing the largest increase of 97% (noting we are only 5 days into the MTD period). In SA, prices increased by 9%, as did average price levels in VIC. We are now seeing greater alignment between the northern states of NSW and QLD (both decreasing by similar rates) and a separate alignment of the southern mainland states with VIC and SA both increasing by 9%. The outlier is Tasmania with a 97% increase in average spot price, compared to last month. The fundamental factors driving this increase relate to the outage in QLD and increase output from higher cost generation.

Renewable generation remains the key to longer-term influence over spot prices and the continuing risk of further rationalisation in the baseload generation sector. Although renewables have very low short-run marginal costs, their impact is felt through the effect on merit order dispatch, particularly impacting baseload generation. At some stage in the future, renewable generation projects will need to recover their long-run marginal costs, associated with capital and returns to equity, placing greater upward pressure on electricity price levels.

Average Monthly Spot Prices (\$/MWh)

Ave. Monthly Spot Price	Feb-21	Mar-21	April	May	June	MTD July	Current Month % Change
NSW	\$35.13	\$38.97	\$50.44	\$114.03	\$196.48	\$83.01	-58%
QLD	\$41.69	\$45.81	\$55.22	\$126.35	\$289.51	\$124.43	-57%
SA	\$22.49	\$68.77	\$46.24	\$73.69	\$71.20	\$77.53	9%
TAS	\$31.99	\$30.78	\$22.75	\$40.90	\$33.78	\$66.43	97%
VIC	\$21.85	\$30.36	\$43.61	\$73.82	\$65.60	\$71.30	9%



Source: AEMO

Wholesale Gas Market

We've been hearing lots of conversations about the weather – and for good reason! Gas hub prices hit a high of \$18.50/GJ earlier today (05 July 2021). We are seeing significant short-term demand and unseasonal cold weather, pushing prices to record levels. Sydney gas hub prices went through the roof to \$14.75/GJ, along with Adelaide at \$13.49/GJ and Brisbane recording a price of \$13.49/GJ.

In addition to Callide Power Station's outage and consequential increase in demand for gas-fired generation, there has been a significant increase in the demand for gas as a heating fuel.

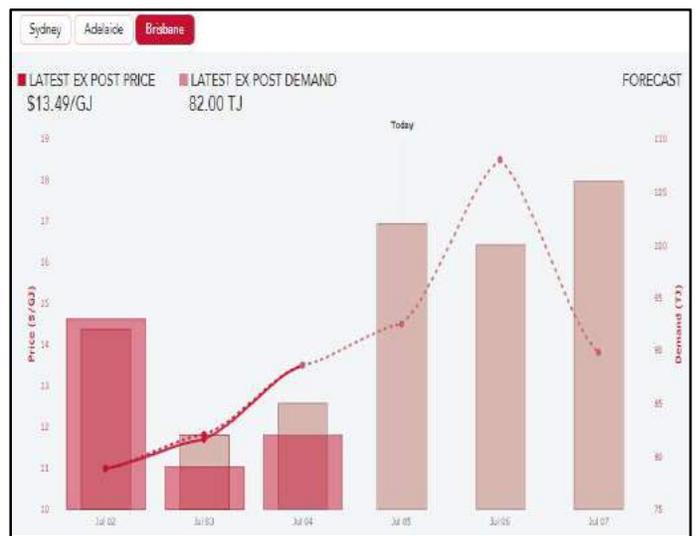
During early May, generation output from gas-fired sources amounted to 4% or 18 GWh. Approximately one month later, gas-fired power generation accounts for 82.9 GWh, or around 15% of NEM load. This huge increase in gas usage has led to hub prices going through the roof.

Gas usage is always greater during winter however the market adjusts for the increase by factoring winter demand into production. However, unexpected additional heating demand has emerged from one of the coldest winters in 5 years. The unexpected additional gas required for electricity generation and heating demand has caused a short-term spike across all gas hubs.

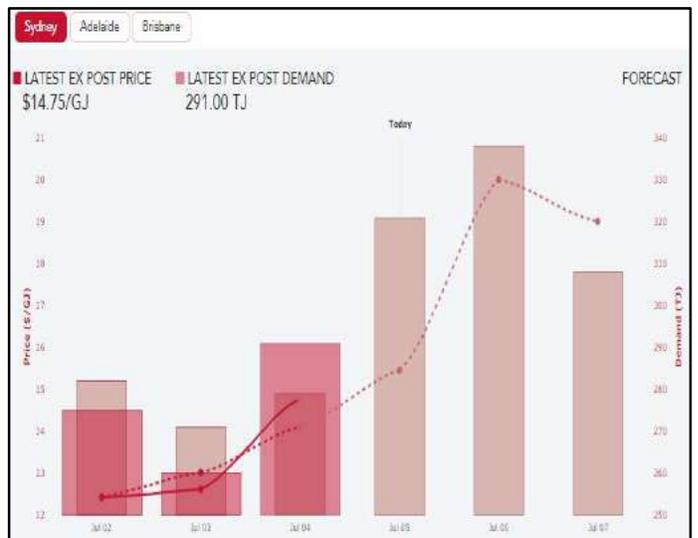
Demand is expected to reduce when the cold weather passes, and this is likely to translate into lower gas hub pricing. Future gas prices are still trading at an average of \$7.42/GJ for CY22 at Wallumbilla, and \$6.98/GJ for VIC CY22.

While the past week has produced server price impacts, wholesale gas customers are still averaging gas prices below the current retail market. The extent of the savings from a hub arrangement, compared to retail contract will be directly affected by how long the current cold snap lasts.

The following charts show prices during the past week have increased significantly. Victorian prices increased the most, setting a record price of \$18.50/GJ.

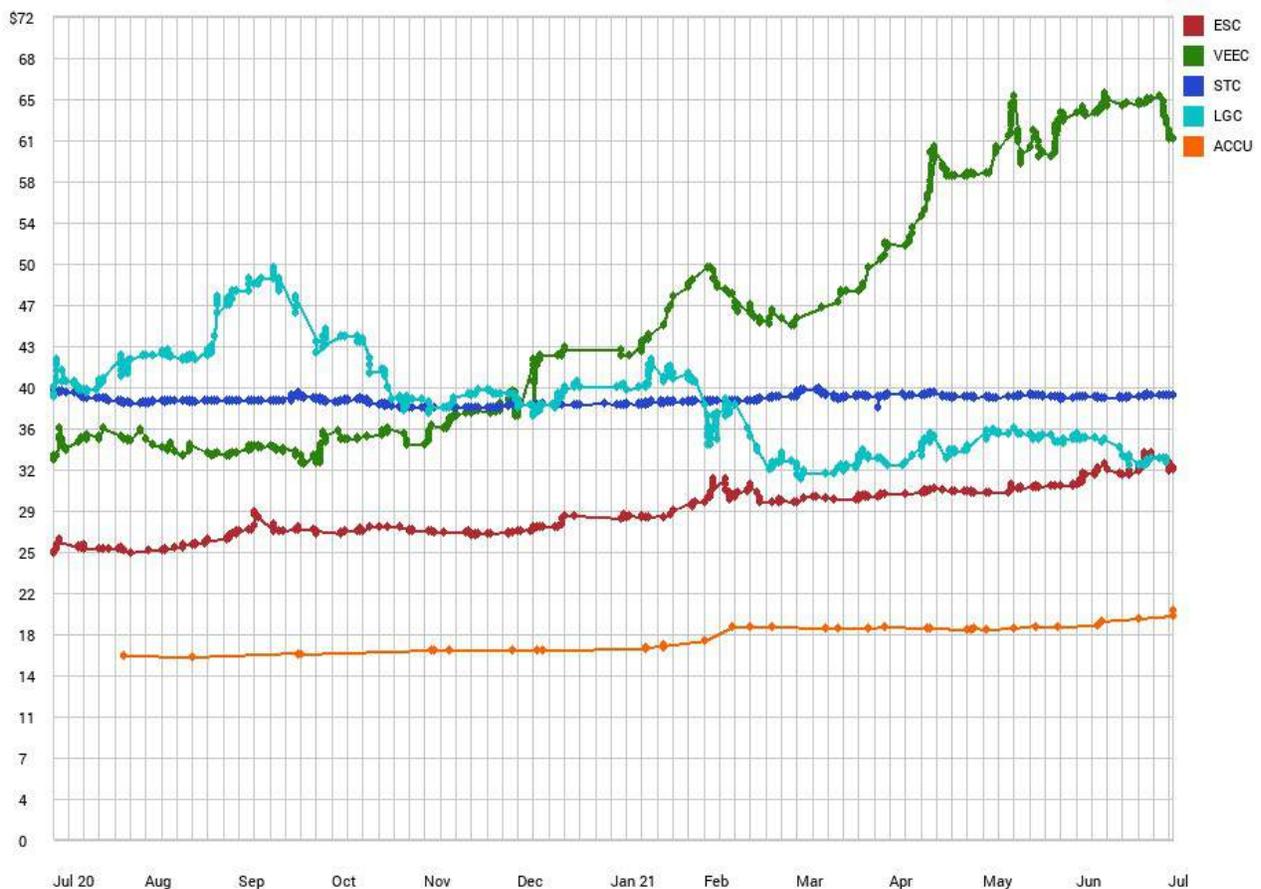


Charts courtesy of AEMO: <https://www.aemo.com.au/energy-systems/gas/short-term-trading-market-sttm/data-sttm/data-dashboard-sttm>



Environmental Certificate Prices

- LGC's traded slightly lower this week to \$33.25/certificate.
- VEEC's traded lower in response to certificate supply disruptions associated with Covid at \$61.25/certificate
- ESC's continue to trend higher, currently trading at \$32.50/ certificate.
- STC's remain relatively stable just below the retail price cap at \$38.85/certificate.
- ACCU's (Australian Carbon Credits) are currently trading higher at \$20.00 /certificate.



Source: Demand Manager: <https://www.demandmanager.com.au/certificate-prices/>

The LGC forward curve continues to show significant price backwardation with the cost of 2025 LGCs currently trading at \$8.70/ certificate.



Chart Courtesy of Mercari: <http://lgc.mercari.com.au/>