

EnergyAction

Energy Market Wrap

12 April 2021

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Electricity Market Overview

Retailers have recently advised they won't be offering validity extensions to existing RFP offers. This is a clear sign retailers are expecting wholesale prices to increase and don't want to be caught short with fixed pricing submitted on their retail offers. Recent price movements appear to confirm this view, with 2022 and 2023 wholesale contract pricing moving higher over the past month.

2023 contracts are moving in an almost identical upward movement.

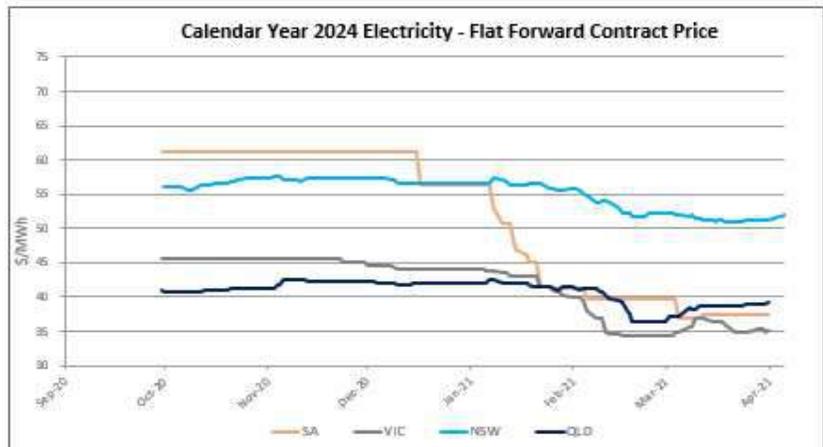
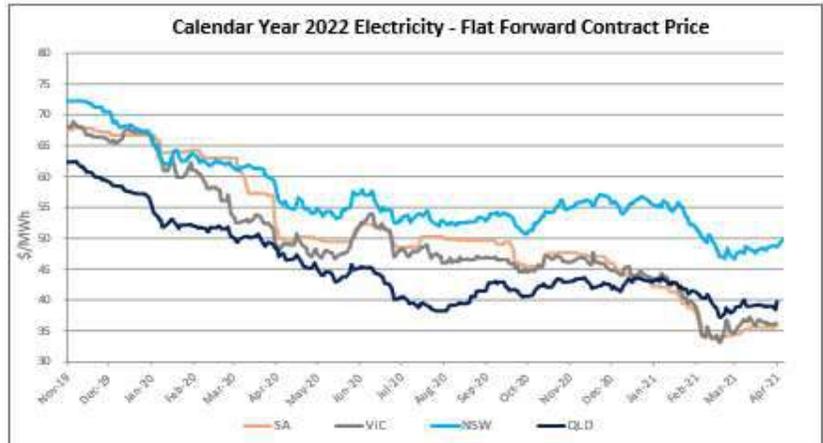
2024 contract pricing remains flat and trading sideways at 2023 price levels. All forward traded contracts across NEM states continue to show greater upward price pressure.

The outlook for the Australian economy remains strong with Australia's growth rates and vaccine roll-out (albeit delayed) fueling the prospect of emerging from the Covid pandemic well before the rest of the world.

We expect this growth and emergence of a 'new normal' to drive higher demand for electricity which in-turn will drive electricity prices higher.

Our message to customers remains the same – if you haven't already contracted out to 2024 or 2025, now is the time to act.

After the unexpected declines during February, current price trends suggest the electricity market has already bottomed-out.



Electricity Spot Market

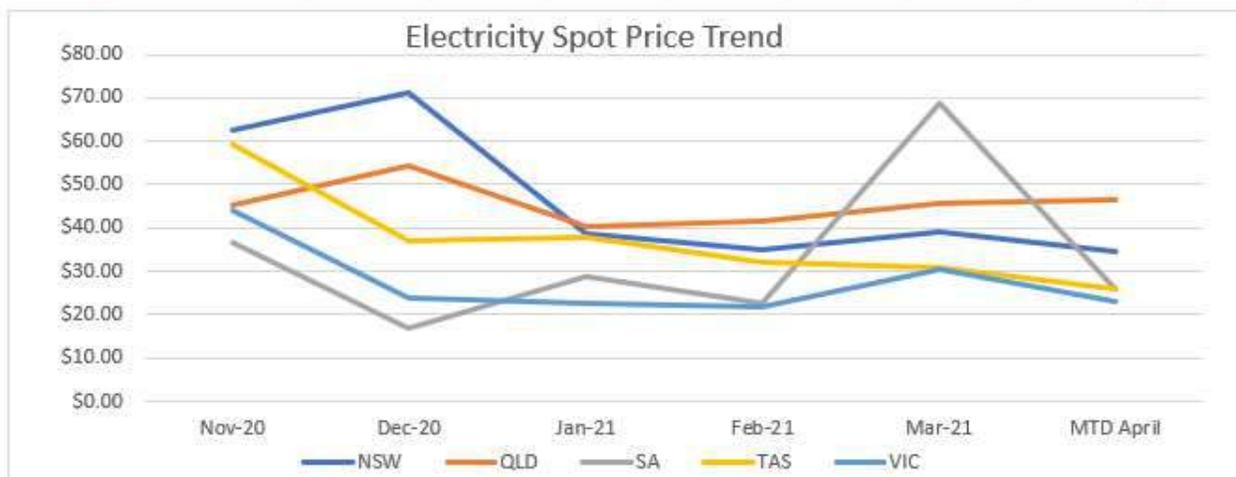
Month-to-date April spot prices continue to see-saw with SA showing a 62% decrease after last month's price spike. Spot prices have decreased across the board with the exception of QLD, where prices have increased by 2% during the MTD April period, compared to last month.

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 prices.

We expect a continuation in average spot prices over the foreseeable future, with SA spot pricing now in-line with their longer-term trend and QLD continuing to be higher than expected.

Average Monthly Spot Prices (\$/MWh)

Ave. Monthly Spot Price	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	MTD April	Current Month % Change
NSW	\$62.49	\$71.38	\$38.84	\$35.13	\$38.97	\$34.61	-11%
QLD	\$45.35	\$54.46	\$40.35	\$41.69	\$45.81	\$46.69	2%
SA	\$36.72	\$16.78	\$28.70	\$22.49	\$68.77	\$25.89	-62%
TAS	\$59.37	\$36.86	\$37.81	\$31.99	\$30.78	\$25.89	-16%
VIC	\$44.07	\$23.79	\$22.82	\$21.85	\$30.36	\$22.94	-24%

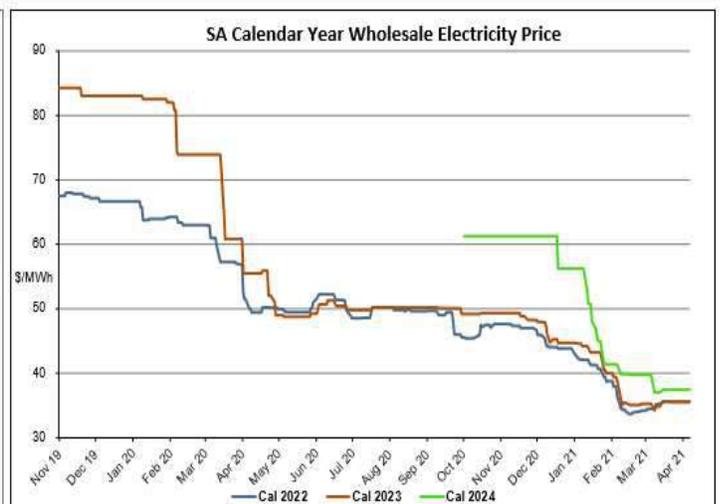
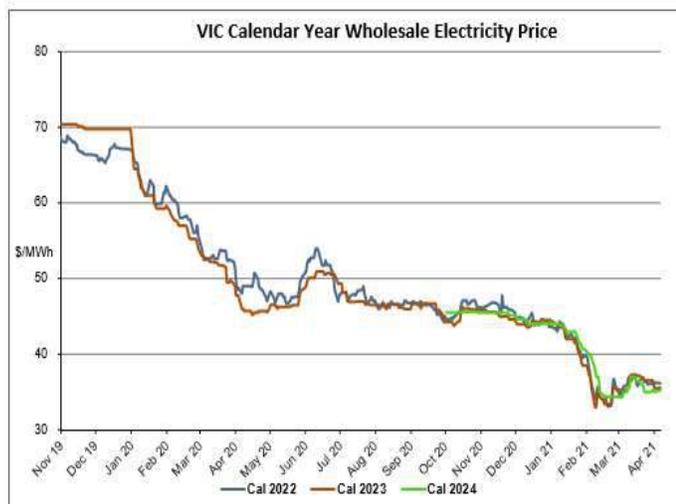
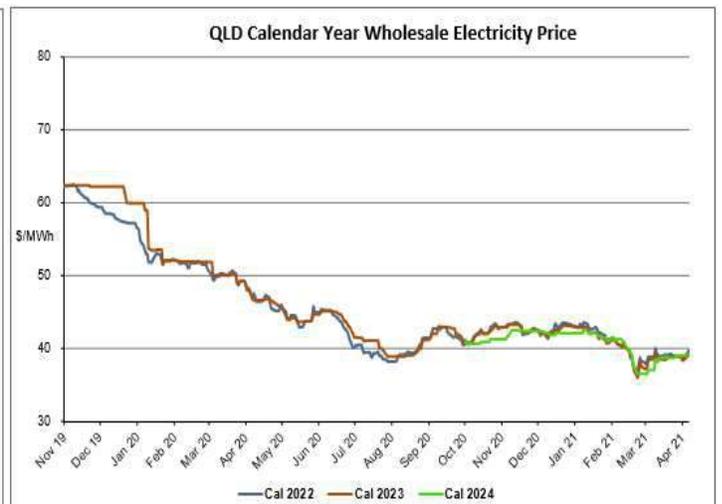
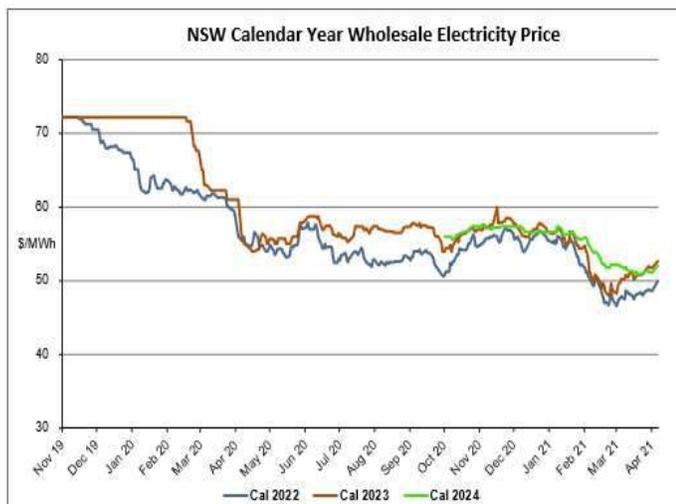


MTD period pricing up to 9 April 2021.

Wholesale Electricity Pricing

We have identified over the past few editions of the Market Wrap how current market pricing represent a key risk to the generation sector, along with the impact that renewables are having on longer-term contract pricing. We understand that renewables rely on ‘firming’ provided by large base-load power stations to provide consumers and industry with reliability of supply. We also expect the introduction of 5-minute dispatch to place upward price pressure on spot prices and expect this will translate into higher contract pricing.

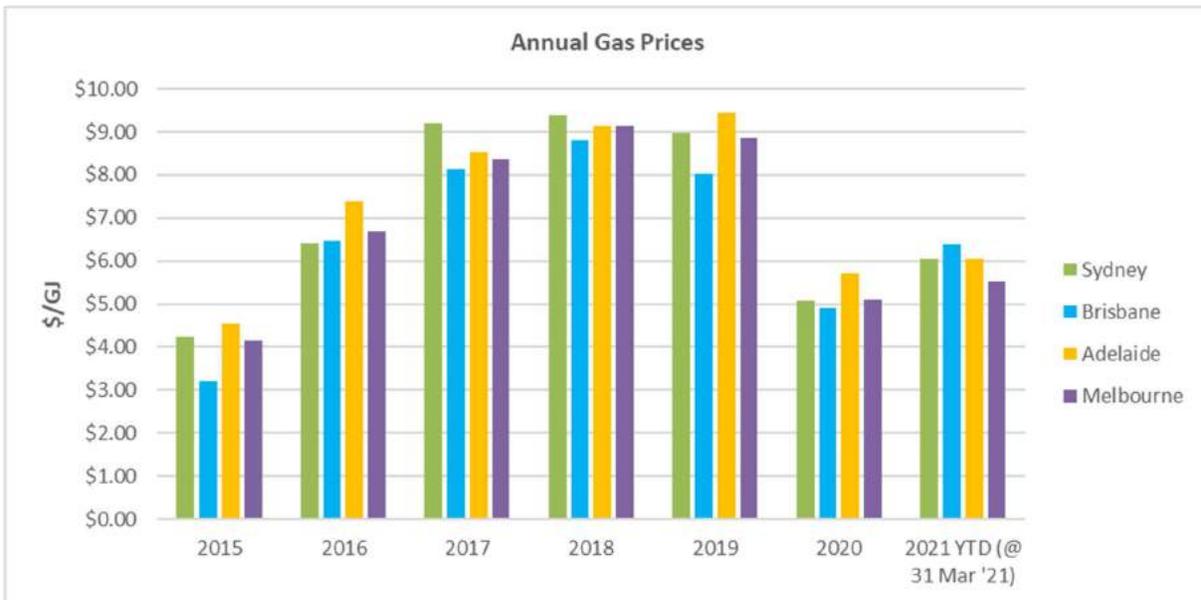
It remains to be seen whether the current price conditions are a short-term response to Covid-related decreases in system demand or a longer-term response to structural changes in the Australian Energy Market.



Wholesale Gas Market

YTD 2021 wholesale gas prices remain higher than the 2020 average price. Depending on the state, prices are between 0.50 - \$1.00/GJ above where they were last calendar year. In our previous wholesale gas update, we identified the short-term nature of a change to supply conditions and the likelihood that prices should revert towards historical averages, based on the current market's supply and demand balance.

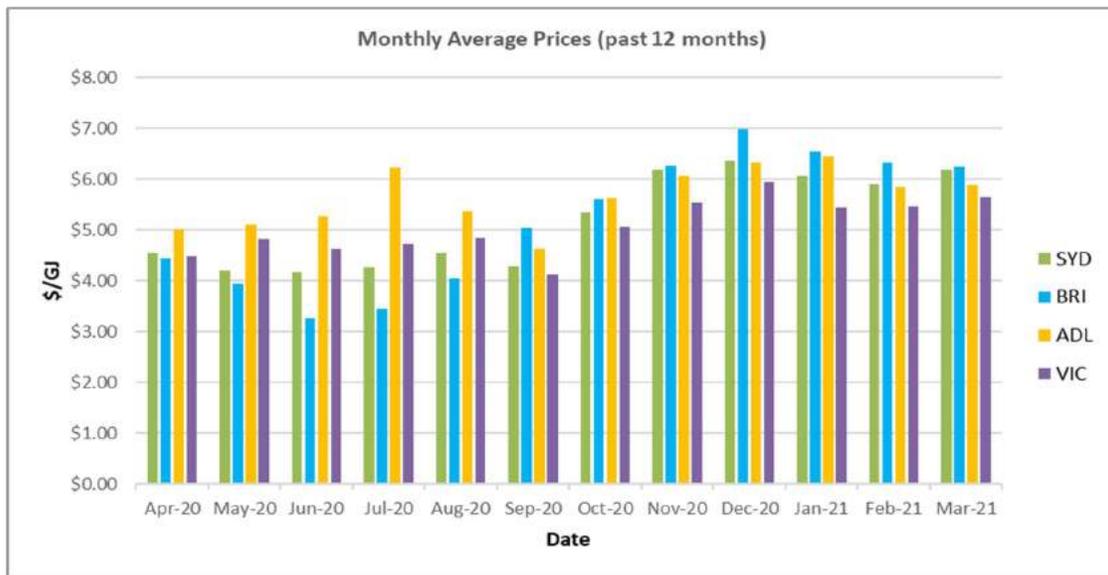
The chart below shows YTD 2021 pricing above Cal 2020 prices by approx \$0.50-1.00 /GJ (depending on the state).



The table below shows how YTD 2021 average prices have moved, with Brisbane, Sydney and Adelaide the most affected by short term demand for LNG exports earlier this year. Prices for Brisbane, Sydney and Adelaide remain well above the 12-month rolling average.

Average Price	Sydney	Brisbane	Adelaide	Melbourne
Rolling 12 Month Average Price	\$5.17	\$5.18	\$5.65	\$5.06
2021 YTD Average Price	\$6.05	\$6.37	\$6.06	\$5.52

Average monthly prices during March remain in-line with February levels (depending on the state). We consider there is greater likelihood that retail prices will trend lower for contract years 2023 and 2024, as retailer commence selling their forward book. This is likely to occur towards the end of 2021 and suggests customers should contract to the end of 2022.



The monthly average state hub prices below show March's gas pricing is in-line with the February result.



Environmental Certificate Prices

- LGC prices have flattened over the past few weeks and are currently trading around \$33.25 /certificate. We continue to see the demand for LGC's influenced by corporate Net Zero strategies.
- VEEC prices remain in strong uptrend as demand for VEECs outstrips supply. Current pricing of \$54.00/ certificate represents a new price high and the highest cost certificate for any Australian energy compliance program. With VEEC supply severely impacted by Victoria's contractionary response to Covid, the VEEC price just keeps climbing!
- ESC prices remain reasonably stable at \$30.15 /certificate.
- STC prices are flat, just below the price cap, at \$38.85 /certificate.
- ACCU's (Australian Carbon Credits) are currently trading slightly higher at \$18.22 /certificate.



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

The forward price for LGCs remains relatively unchanged with 2024 LGC's trading just below \$10 /certificate.

Calendar year 2025 LGC's remain stable at \$6.75 / certificate.

