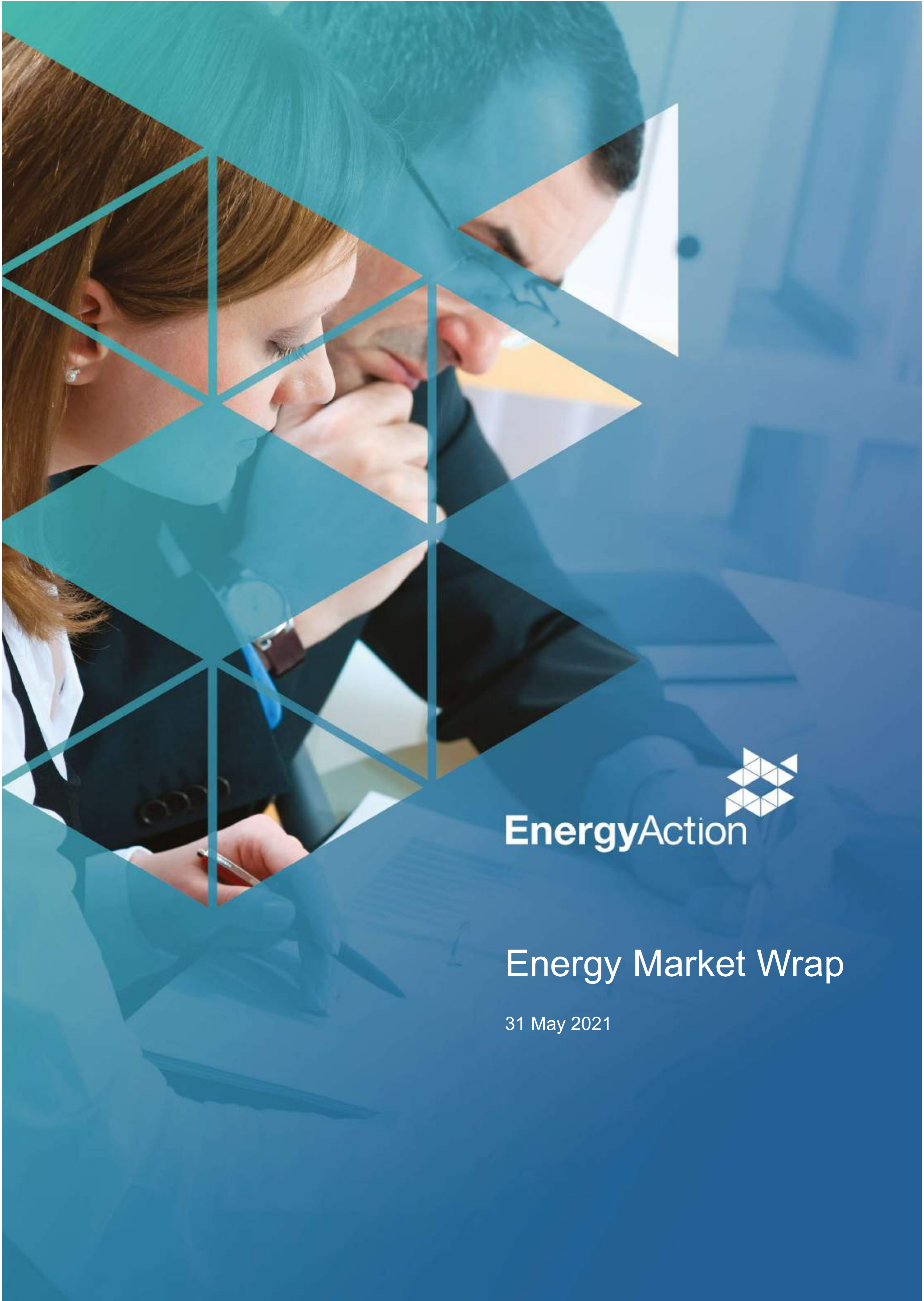

Energy Market Wrap

31 May 2021

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Electricity Market Overview

Last week saw supply disruptions in QLD force prices to the market cap of $15,000/MWh during the evening peak on 25 May. The disruption was caused by a fire at the Callide Power Station which impacted the transmission system and cause over 3,100 MW of capacity to trip, including supply from Gladstone and Stanwell.

Some retailers responded by withdrawing existing contract offers or imposing a re-price. While it's hard to understand why a short-term supply disruption would impact contract prices in 3 years' time, market sentiment drove prices higher in NSW and QLD, for 2022 and 2023 contracts.

Our analysis shows 2022 prices have broken through a 10-month resistance level and are more likely to continue rising than re-test the lows set earlier this year.

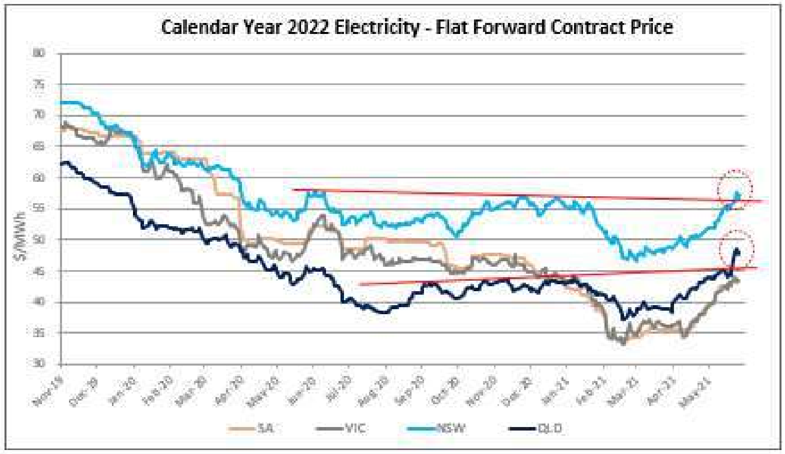
NSW 2023 contracts are yet to break through the 10-month resistance level but this now looks more likely.

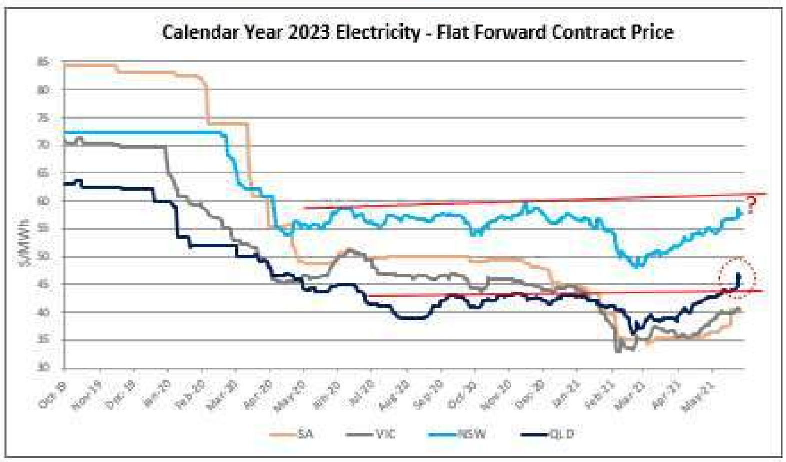
Spot prices in QLD have begun to settle, however, contract prices continue to increase.

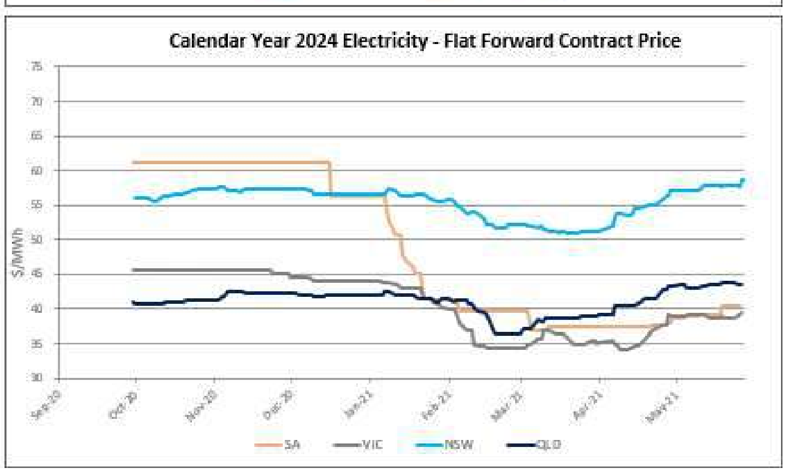
Corporates must now consider two opposing views regarding timing: (i) wait until the QLD supply disruption settles, or (ii) move now to avoid the general uptrend in pricing.

Our view is any delay to wait for QLD sentiment will be outweighed by an increasing price trend.

Most retailers are now submitting offers on the condition that validity extensions will not be granting under any circumstances. A solid indication they expect prices to continue higher.







Since our previous edition, the Federal Government announced their plan to construct a $600m gas-fired power station to address the withdrawal of the Liddell coal-fired power station. The plant is slated for the Hunter Valley and is consistent with the establishment of a Renewables Zone.

Although the project has been described as a baseload plant, in our view, its quick start capability is ideal for ''firming'' the intermittency associated with renewable projects. If this project goes ahead and is successful in attracting new renewable energy projects to the Hunter Valley, this will place greater downward pressure on future electricity prices beyond 2024.

Regardless of whether it attracts more renewable projects, the plant will limit price-spikes from supply disruptions and provide greater supply reliability.

We estimate the marginal cost for this type of facility to be in the order of $80-$90/MWh which won't lend itself to base-load operation. The announcement has had virtually no impact on 2024 electricity contract prices and does not affect our view that customer should be seeking to secure fixed-price supply agreement out to 2024/2025.

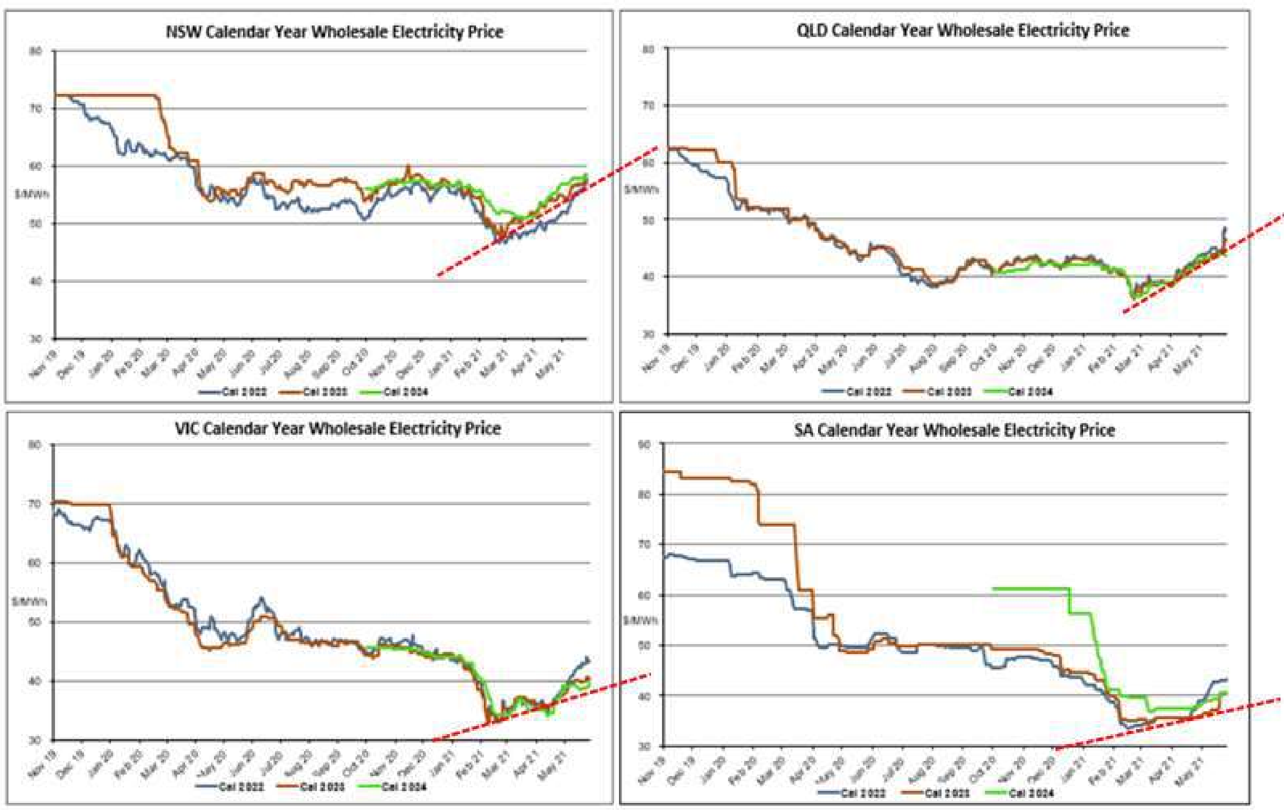
In our previous edition we associated organisation pondering whether now is the right time to forward contract with the saying "snooze and you lose". The events of the past fortnight serve as a reminder that price spikes can occur at any point in the price cycle. The market price for electricity is highly volatile and needs to be actively managed regardless of how low they may fall.

While 2025 contract pricing is beyond the observable forward curve, recent offers from our RFP results reveal pricing consistent with 2024 rates.

While prices have risen over the past few weeks, and appear more likely to continue this trend, we still consider current electricity rates as being unsustainably low and encourage corporate thinking about their future energy costs to consider procuring fixed price contracts out to 2024 / 2025, now!

The following chart show the trend line for 2023 calendar year electricity contract prices. The charts applies “flat pricing” which means they apply a standard load profile to average peak and off-peak rates to one create a single reference price.

The angle of each state’s trend line shows the rate of price increase since March this year. NSW has the greatest rate of increase in pricing followed by QLD and Victoria. SA prices show a lower rate of increase due to the amount of renewable generation and its reliance on Victorian / Tasmanian “firming”.



Electricity Spot Market

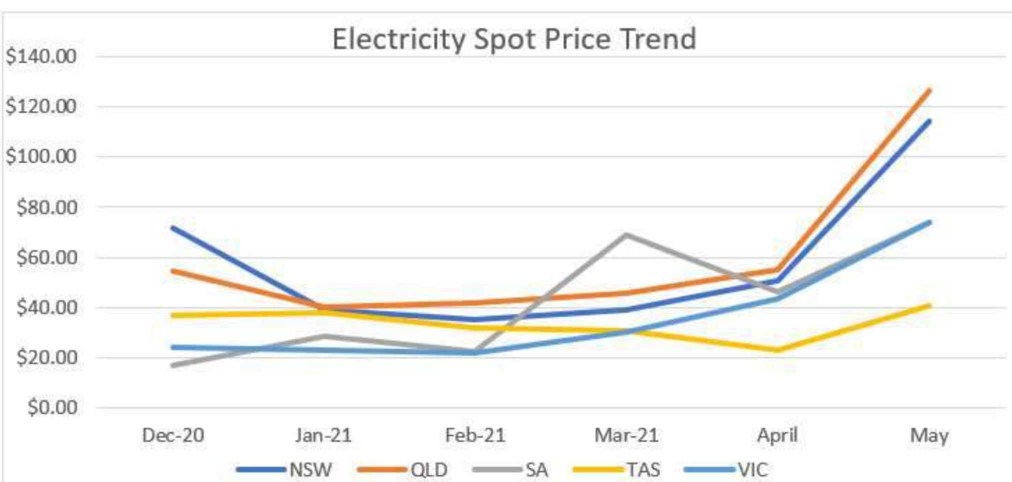
May's average spot prices increased dramatically as a result of the QLD supply disruption on 25 May. Prior to that date, average prices were in-line with the April result. Logically, when the disruption is behind us, we could expect prices to revert back to the historical average. However, financial markets do not always move rationally.

Both QLD and NSW spot prices increased by over 100%, limited only by gas-fired generation entering the supply side. While gas-fired generation is significantly more expensive than coal-fired generation, it limited the level of supply outages.

On cue, the disruption serves as a case study in what happens to market prices when there is a change in fuel mix. While short term changes in the spot price do not directly impact consumer costs (on a fixed-price contract), longer term changes to the industry fuel mix will…

Average Monthly Spot Prices ($/MWh)

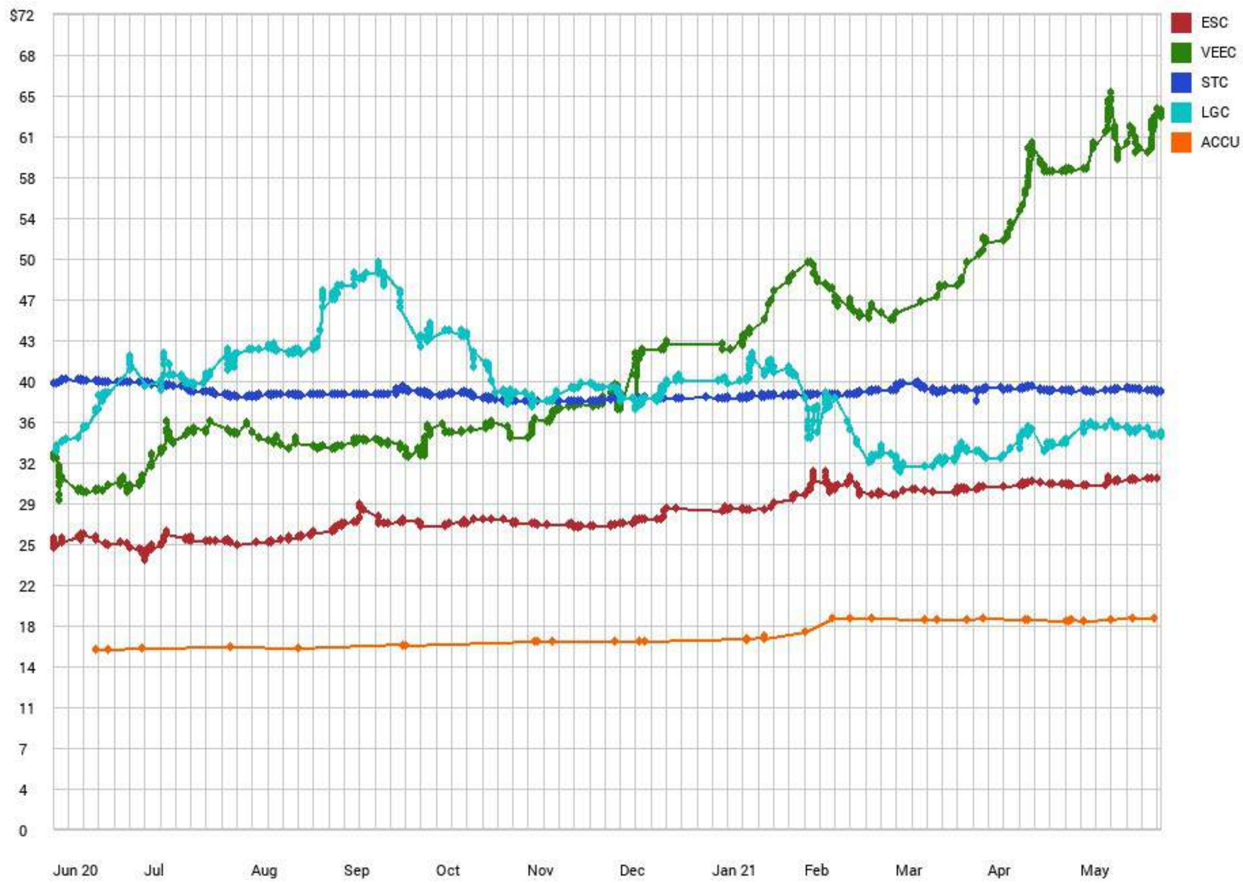
Ave. Monthly Spot Price	Dec-20	Jan-21	Feb-21	Mar-21	April	May	Current Month % Change
NSW	$71.38	$38.84	$35.13	$38.97	$50.44	$114.03	126%
QLD	$54.46	$40.35	$41.69	$45.81	$55.22	$126.35	129%
SA	$16.78	$28.70	$22.49	$68.77	$46.24	$73.69	59%
TAS	$36.86	$37.81	$31.99	$30.78	$22.75	$40.90	80%
VIC	$23.79	$22.82	$21.85	$30.36	$43.61	$73.82	69%



Source: AEMO

Environmental Certificate Prices

- LGC's traded slightly higher this week to $35/certificate.
- VEEC's continue to trend lower at $63.30 after recent highs associated with restricted supply.
- ESC's continue a slow rising trend to $30.90/ certificate.
- STC's remain relatively stable just below the retail price cap at $38.60/certificate.
- ACCU's (Australian Carbon Credits) are currently trading flat at $18.30 /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 $7.20/ certificate.

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