Power price forecasts surge to 2017 levels despite renewables


By **Angela Macdonald-Smith**
AFR, 30 Jan 2019 — 1:57 PM

Forward prices for electricity on the wholesale market have climbed back up to levels not seen since late 2017, challenging broad expectations that the flood of renewable energy that has come online since then would increase downward pressure on tariffs and heightening nervousness around energy costs.

The trend is keeping energy retailers, especially after last week's once-in-a-decade run of maximum prices in both Victoria and South Australia and as the federal government maintains pressure on retailers to cut tariffs to households and small businesses.

The volatility in prices threatens to return this week, with the market operator advising of shortages of reserve generating capacity on Wednesday and Thursday, this time in NSW. NSW and Victorian wholesale prices are forecast to shoot up close to the maximum of $14,500 a megawatt-hour for about than

four hours on Wednesday afternoon.

AGL's Liddell plant in NSW is one of the generators with an outage. **Janie Barrett**

A combination of climbing temperatures and outages at two coal-fired power stations in NSW, AGL Energy's Liddell and Origin Energy's Eraring, reduced levels of generating capacity expected to be available on Wednesday afternoon and briefly on Thursday afternoon to below required levels. Origin reported early Wednesday afternoon it had restarted the Eraring plant and was ramping production up.

Meanwhile, the widespread drought and continuing robust gas prices are seen as having contributed to the strengthening in the forward curve over the last six months, although forecast prices for 2020 still remain below what was envisaged in early 2017 when the market was dealing with the relatively short-notice closure of Engie's huge Hazelwood plant in Victoria.

The Victorian baseload futures price for 2020 on the Australian Securities Exchange has surged more than 40 per cent since June 2018 and is now at about $87 a megawatt-hour, though still down on this year's $117.01/MWh.

The NSW contract has jumped about 35 per cent since July to about $80/MWh while Queensland is up about 30 per cent.

Prices for 2019 remain higher, with both Victoria's and South Australia's base futures prices standing at more than $110/MWh.

"We were looking at the ASX electricity forward curve on electricity prices three or four months ago and it was showing a definite dip, but now that's gone," said Peter O'Connell, chief executive of Amaysim, which owns the Click Energy business.

Victoria's 2020 base power contract has surged in recent months. **ASX**

"Everybody in the trading industry was saying we should start to see a drop-off but we're not, we're seeing the reverse."

Longer-term, prices should still decline at least in 2021, with futures prices showing softer rates than for 2020, before they edge up again in 2022 when the next major baseload plant - Liddell - is due to close.

The Australian Energy Market Commission in December offered an outlook for falling electricity prices for the next two years, pointing to a "huge" pipeline of new renewable generation and "relatively flat" demand.

Still, the market is volatile, with the December 2018 quarter seeing instances of wholesale prices above $100 a megawatt-hour rising to a level last seen "when volatility was elevated with the closure of Hazelwood," Macquarie Wealth Management told clients in a report.

Spikes in prices to above $100/MWh have become increasingly frequent. **Macquarie Wealth Management**

It pointed to more than 800 hours in both of Victoria and South Australia when prices topped $100/MWh last quarter, more than double the number than in the same three-month period a year earlier. NSW and Queensland also saw an increase of 180 per cent and 226 per cent of $100-plus prices, respectively.

Josh Stabler at energy adviser EnergyEdge pointed to several factors likely fuelling more aggressive expectations for forward prices, including water levels at key hydropower plants and east coast gas tariffs.

"Snowy's Lake Eucumbene is at 26.6 per cent, which is only slightly higher than 2007-2009 lake levels range of 20-24 per cent," he said.

"Gas prices have remained robust throughout 2018 while the recent hot weather and prices will be weighing on sentiment as well."

Industry sources also point to delays in some wind and solar farms coming online, as well as to broad uncertainty over energy and climate policy after the collapse of the proposed National Energy Guarantee policy as contributing to firming expectations for prices.