Two-day power bill hits $1bn for states

exclusive

Ben Packham, Political Reporter, Perry Williams, Senior Business Writer, 12:00AM January 30, 2019

Victoria and South Australia copped a combined $1.1 billion energy cost hit in less than 48 hours last week as extreme weather conditions delivered windfall gains to energy generators and drove upward pressure on power prices for households and businesses.

An analysis of energy demand and spot-market prices reveals the effective power bill last Thursday for South Australia and Victoria hit $944 million, with high prices into Friday adding a further $178m to the cost of the event.

Energy experts told The Australian that 20-year high average spot prices of more than $3300/MWh, which shot to $14,500/MWh for about five hours, would ultimately be passed onto energy users as generators and retailers negotiated new contracts and hedging arrangements.

Resources Minister Matt Canavan said the massive price spike in the southern states, caused by soaring heat and windless conditions, bolstered the case for government support for new “firm” power sources, under its new underwriting scheme. “The underlying tightness of the market in these southern states risks more of these pure price-setting days,” Senator Canavan told The Australian. “The high price of power on these days alone justifies investment in reliable sources of power, such as coal-fired power.”

As energy buyers count the costs of the event, which plunged 200,000 Victorian homes into darkness, Victorian Energy Policy Centre director Bruce Mountain warned consumers “will pay in the longer term” for the power price spike. “When retailers need to contract, the generators know they will be petrified, and they are more likely to achieve higher prices than they otherwise would,” he said. Dr Mountain said some generators would have “made a motza” from the event, but many would have been unable to cash-in as their capacity would have been fully contracted at lower prices.

The secrecy and complexity of energy contracts, which were hedged to guard against the impact of extreme events, made it almost impossible to identify the winners and losers, Grattan Institute energy program director Tony Wood

said. “The generators, some of them will have made a lot of money out of this,” he said.
“But a lot of those hedged contracts are not visible to the market.” Energy consultancy WattClarity said there was “large amounts of money changing hands in the spot market” on Thursday and Friday as retailers scrambled for capacity and generators sought to cash in.

“At the end of the day, however, no matter which generators pocket the cash, it will be the energy user collectively who ends up footing the bill,” WattClarity analyst Paul McArdle said.

Energy users will also foot the bill for the buyback of power from industrial users, after the market operator AEMO invoked its Reliability and Emergency Reserve Trader powers.

Last year, the bill hit $50m as a result of two RERT events. “The RERT mechanism invoked by AEMO will have incurred significant costs which electricity users are likely to see on their bills in coming months, as happened in early 2018,” Australian Industry Group chief executive Innes Willox said.

Brisbane-based trader EnergyEdge said the combined spot electricity bill for South Australia and Victoria accounted for 15.6 per cent of the states’ annual costs.
“These types of market signals drive new capacity investment in dispatchable technologies such as batteries, Snowy 2.0 and fast-start gas generators,” it said. Extreme heat and the failure of three coal-fired units with a combined 1800-megawatt capacity prompted the market operator to order load-shedding blackouts to prevent the grid from shutting down at 12pm on Friday.

AEMO spokesman Stuart Allott said the market operator had warned of the possibility of an event such as Friday’s load shedding in its summer readiness plan, published in November.

On Friday, Victoria’s Energy Minister Lily D’Ambrosio claimed blackouts were not even “a possibility” just 90 minutes before the load shedding began.
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