

Cold snap overheats electricity market

Duncan Hughes

Soaring demand for power caused by cold weather has pushed electricity costs to near-record highs in Queensland on successive days, highlighting industry fears of strains in the national electricity market.

Spot prices, which are set half-hourly, topped \$9000 a megawatt hour (MWh), on Sunday and Monday, despite remaining at its typical rate of well below \$100 in other states plugged into the National Electricity Market (NEM).

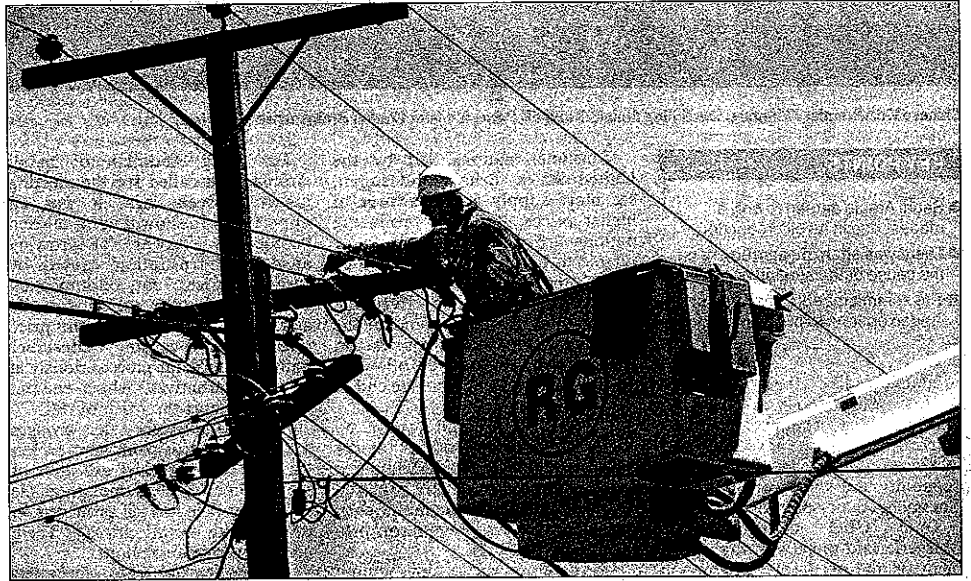
More sharp price rises could occur in coming weeks as demand for electricity surges during cold snaps.

The high prices come amid growing concern that some of the nation's biggest companies are delaying investing in major projects because power prices are skyrocketing by as much as 100 per cent.

According to Paul McArdle, managing director of global-rom, which monitors national energy prices, Monday's price rocketed in the five minutes after 7.05am from about \$76/MWh to about \$9500.

"We cannot say for sure why this happened, but it is noted that demand was growing at \$1000/MWh every five minutes, which is a pretty rapid rate of growth and may have necessitated the National Electricity Market Management Company (NEMMCO) to schedule more expensive (peaking) generation as a temporary measure to meet high anticipated growth rate in demand," Mr McArdle said.

By 7.15 am the price had again dropped to about \$55/MWh as major users tried to avoid the higher



High wire act . . . spot prices for electricity soared dramatically on Sunday and Monday.

Photo: ROBERT ROUGH

costs by cutting back on demand, despite there being a big local surplus of available capacity, according to Mr McArdle.

"We know that one of our clients in Queensland, an unnamed large industrial user, contributed \$1000/MWh or so this morning to the demand reduction, but can't be certain where the rest of the demand reduction came from. This is a perfect illustration of where power prices are putting business on the back foot."

Price spikes contribute to higher annual prices in the NEM and are ultimately passed on in bills because wholesale energy costs comprise a proportion of the price that industrial users pay.

According to the regulators, the number of events where wholesale spot prices have skyrocketed to a half-hourly \$5000/MWh or more, compared with an average of \$45/MWh to \$50/MWh, had already reached 72 between the start of this

financial year and early March. This compares with 55 events for all 2006-07 and 46 the year before that.

"There was high demand for a short period during the evening peak on Sunday and morning peak on Monday, which drove two short price increases of five minutes each. Whether there is a repeat depends on underlying demand. The weather is getting cooler and demand is getting higher," said a NEMMCO spokesman.

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