

Ten pc retail price rise, Qld, 13 pc, ACT, 14.25pc, p16
 Plan: State energy policies earn Kyoto credits, p13
 Elvis has left the building: Chatfield pops up at Aviva, p4

electricity week

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May pool-price rocket: May 2006, was \$24.46, May 2007, near triples to \$63.27/MWh

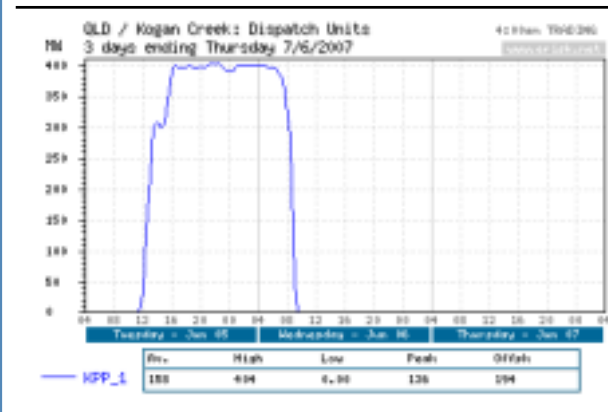
The May 2007 pool prices were 48 to 149 per cent up on May 2006 (*see more inside, p4*). The rise was very unusual. In the 89 full months since the National Electricity Market (NEM) began in the middle of December 1998, there were only five months when the average in all regions exceeded \$50: they were: January 2001, May 2002, July 2002, April 2005, and May 2005.

What's more: April 2007 was the first month since July 2002 with all averages over \$50.

April was the first month for average prices in all regions to exceed \$50 since July 2002. Market notice showed large number of generators not dispatching committed bids.

NSW, Qld, ACT retail tariff-spikes From 1 July, ACT retail prices would rise about 13 per cent, Queensland 10 per cent, and in NSW; 6 - 100 per cent, depending on cases.

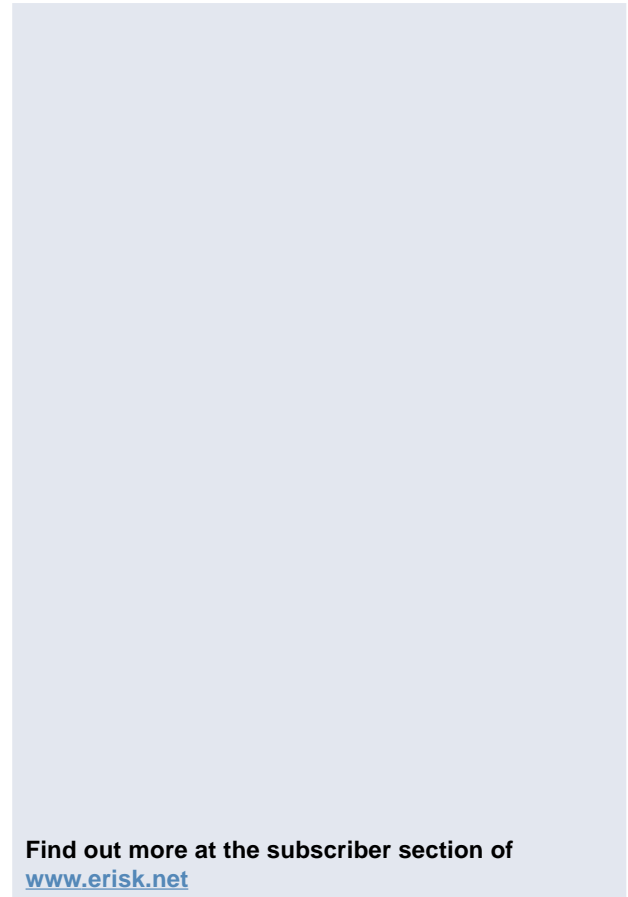
(May price details inside, and retail rates)



Kogan Creek at full capacity later in June: online, five months early, with 750 MW

The Kogan Creek CEO Mark Chatfield missed the party on Tuesday 5 June when State-owned CS Energy Kogan Creek unit was online five months early with a

contents



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test-burst of 400 MW of its promised 750 MW baseload capacity. CEO Chatfield - like Elvis - had left the building, after insider trading allegations in a CS Energy contractor, PearlStreet, riled the board.

Full 750 MW load planned for June: The Project Manager for CS Energy's Kogan Creek Power Station (750 MW) told *Electricity Week* CS Energy had supplied its commissioning program to NEMMCO. "We are planning to issue a media release about when the plant reaches full load, ...when that occurs later this month".

Market response to Kogan burst: The state-owned Callide, and Tarong units capacity fell, but pool price - now in a winter evening - spike pattern - showed no change. CS Energy told *Electricity Week* the burst was "non commercial commissioning" tests.

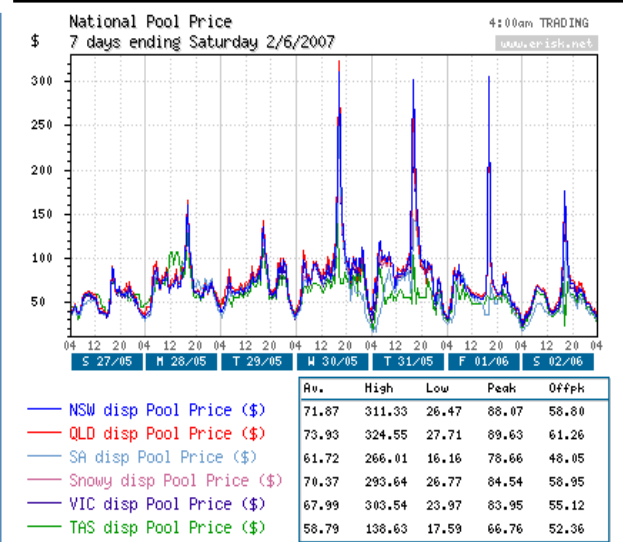
Kogan Creek coo-ee: On 5 June Kogan Creek was dispatching about 400 at peak; it had bid more - as NEMMCO's reprimands showed - it was 75MW short of its bid capacity; and was among 34 units reprimanded, that day, for not delivering the capacity, each had bid.

2 CS Energy red faces: CEO insider trading alleged maintenance contract IPO

The manager of the Kogan project was now the acting CEO of CS Energy after

the week in detail

- NSW:** Average price \$71.87/MWh, up 24 per cent on the spike-affected \$57.73/MWh the previous week, up 84 per cent on the spike-affected \$39.15/MWh of the comparable week last year; maximum price \$311.33/MWh for the 30-minute trading interval ended 1800EST Wednesday. Average demand 9022MW, up 1.7 per cent on the previous week, down 6.4 per cent on a year ago; maximum demand 11,617MW in the 1830EST Thursday interval, up 5.1 per cent on the 11,051MW the previous week.
- Victoria:** Average price \$67.99/MWh, up 17 per cent on the spike-affected \$58.34/MWh the previous week, up 80 per cent on the spike-affected \$37.73/MWh of the comparable week last year; maximum price \$303.54/MWh for the 30-minute trading interval ended 1800EST Friday. Average demand 5958MW, up 2.2 per cent on the previous week, down 3.9 per cent on a year ago; maximum demand 7574MW for the 1800EST Thursday interval, up 3.3 per cent on the 7332MW the previous week.
- South Australia:** Average price \$61.72/MWh, up 18 per cent on the spike-affected \$52.30/MWh the previous week, up 45 per cent on the spike-affected \$42.62/MWh the comparable week last year, maximum price \$266.01/MWh for the trading interval ended 1800EST Wednesday. Average demand 1451MW, up 7.0 per cent on the previous week, down 9.5 per cent on a year ago; maximum demand 2014MW in the 1830EST Thursday interval, up 10.4 per cent on the 1825MMW the previous week.
- Queensland:** Average price \$73.93/MWh, up 38 per cent on the spike-affected \$53.74/MWh the



previous week, up 102 per cent on the spike-affected \$36.51/MWh of the comparable week last year; maximum price \$324.55/MWh for the trading interval ended 1800EST Wednesday. Average demand 5678MW, down 0.4 per cent on the previous week, down 1.5 per cent on a year ago; maximum demand 6959MW for the 1800EST Monday interval, down 0.8 per cent on the 7016MW the previous week.

- Tasmania:** Average price \$58.79/MWh down 1 per cent on the spike-affected \$59.44/MWh the previous week, up 52 per cent on the spike-affected \$38.68/MWh of the comparable week last year; maximum price \$138.63/MWh for the trading interval ended 1730EST Wednesday. Average demand 1220MW, up 4.0 per cent on the previous week, down 6.6 per cent on a year ago; maximum demand 1571MW for the 0830EST Friday interval, up 2.5 per cent on the 1533MW the previous week.

March, Chatfield made a speedy exit last month. Within days he had taken up a new role as head of energy at the listed company, at Aviva in Western Australia, to manage a bid for capacity in that state.

CS Energy the Shrek of Queensland: While it not as green, its was big. State-owned CS Energy supplied about 15pc of the state's from its four power stations. The 750MW nominal capacity single unit coal-fired power station was constructed by a consortium of Siemens and Hitachi under and engineer, procure, construct contract. PearlStreet was a contractor to Kogan Creek

Sucks up lots of everything:

- A new 2.8 million tonne per annum coal mine, immediately adjacent to the power

May 2006, \$24.46



May 2007, in detail

Big increases on May 2006 prices: Average prices were up between \$18.37-\$38.02/MWh (48 to 149 per cent) on May 2006 when they ranged from \$23.18/MWh to \$37.75/MWh.

Demand down on May 2006, except for Qld: However, except for Queensland, average demand in May was down between 3.4 per cent and 6.8 per cent on May 2006. Queensland's average demand rose 1.4 per cent on May 2006.

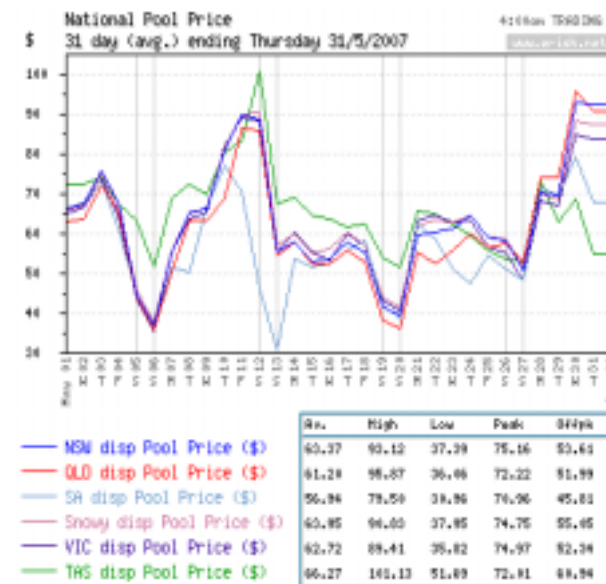
• **Tasmania: Average price \$66.27/MWh**, down \$6.84/MWh (9 per cent) on the average \$73.11/MWh in April, up \$28.52/MWh (76 per cent) on the average \$37.75/MWh of May 2006. Average demand 1152MW, up 37MW (3.3 per cent) on the 1115MW of April, down 79MW (6.4 per cent) on the 1231MW of May 2006. Average prices fell 7-19 per cent in May compared to April to a range of \$56.94-\$66.27/MWh, an analysis of monthly average prices and average demand shows.

Demand up in four regions: The analysis shows average demand in May rose between 0.4 per cent and 5.9 per cent in NSW, Victoria, Queensland and Tasmania, but fell 2.2 per cent in South Australia. Averages high, despite falls of between \$5.05-\$14.84/MWh: Despite falls of between \$5.05/MWh and \$14.84/MWh across the regions in May, average prices still exceeded \$50 in all of them.

April first month since July 2002 with all averages over \$50: April was the first month for average prices in all regions to exceed \$50 since July 2002.

Only five of 89 months with all average price above \$50: In the 89 full months since the National Electricity Market (NEM) began in the middle of December 1998, there have been only five months when the average in all regions exceeded \$50 - January 2001, May 2002, July 2002, April 2005 and

May 2006, \$63.37/MWh



May 2005.

Spikes tend to be smaller, but more frequent: However, a major difference in April and May 2007 has been that spikes tend to be more frequent and smaller. In May, the top prices of spikes in the regions on 26 of the 31 days were between \$100.34/MWh and \$324.55/MWh, while the 26 days of spikes in April had top daily prices in the regions between \$100.74/MWh and \$1425.75/MWh.

Reference: Analysis of average price and average demand for May 2007, April 2007 and May 2006 in Price/Demand section of Erisk Net - Realtime NEM Data. <http://>

station, delivering coal;

- via a 4km conveyor belt A 28 km, 275kV transmission line connecting the power station to the National Electricity Market at the Braemar switching station on the Qld-NSW Interconnector (QNI);
- Three groundwater bores and associated pipelines supplying approximately 1500 megalitres per year (ML/yr) of water to the power station and coalmine.

The project was located 20 km south of Chinchilla and will be the largest single generating unit in Australia. Kogan was a baseload plant and described which would “generate electricity 24 hours a day, 7 days a week, and will supply power to both Queensland and NSW”.

Replace lost old coal plant: CS Energy’s Swanbank Power Station was cut back when Qld Level 5 Water Restrictions reduced its water allocation from Wivenhoe Dam to 15 ML per day from 10 April. CS Energy had said these would have no impact on the 385 MW gas Swanbank E. Until recycled water was available, the 480MW Swanbank B Power Station would operate at reduced capacity. CS Energy was reported to have received \$10 million compensation from government.

Chess, Qld style: CS Energy CEO the third electricity CEO knocked out of play after matey corruption scandals

The CS Energy CEO was fired - or resigned - on 11 May and the leader of the Kogan project - CS Energy General Manager of Major Projects, Tony Andersen, was appointed Acting Chief Executive. Chair Stephen Lonie had announced 12 May the CS Energy Board had accepted the resignation of Chief Executive Mark Chatfield, effective immediately, as he had purchased shares in a company - PearlStreet - awarded a three-year maintenance contract with CS Energy. PearlStreet was an existing contractor. PearlStreet, was chaired by an ex-CEO of Western Power, where Chatfield was previously General Manager Generation. PearlStreet worked on the Kogan Creek project and also the shut downs at CS Energy’s Swanbank station.

PearlStreet IPO: On 9 January 2007 PearlStreet lodged a prospectus to raise \$8 million through an Initial Public Offering of 16 million ordinary shares at \$0.50 per share. It appeared Chatfield bought about 20,000 shares in PearlStreet before an extended CS Energy - PearlStreet contract was announced to the stock exchange. If that was the case, then Chatfield had engaged in insider trading.



May 2007 in detail

The following compilation compares average price and average demand in May 2007 with April 2007 and May 2006.

- **NSW: Average price \$63.37/MWh**, down \$14.84/MWh (19 per cent) on the average \$78.21/MWh in April, up \$37.91/MWh (149 per cent) on the average \$25.46/MWh of May 2006. Average demand 8680MW, up 486MW (5.9 per cent) on the 8194MW of April, down 303MW (3.4 per cent) on the 8983 of May 2006.
- **Victoria: Average price \$62.72/MWh**, down \$5.05/MWh (7 per cent) on the average \$67.77/MWh in April, up \$34.45/MWh (122 per cent) on the average \$28.27/MWh of May 2006. Average demand 5782MW, up 291MW (5.3 per cent) on the 5491MW of April, down 273MW (4.5 per cent) on the 6055MW of May 2006.
- **South Australia: Average price \$56.94/MWh**, down \$12.84/MWh (18 per cent) on the average \$69.78/MWh in April, up \$18.37/MWh (48 per cent) on the average \$38.57/MWh of May 2006. Average demand 1395MW, down 32MW (2.2 per cent) on the 1427MW of April, down 102 MW (6.8 per cent) on the 1497MW of May 2006.
- **Queensland: Average price \$61.20/MWh**, down \$13.91/MWh (19 per cent) on the average \$75.11/MWh in April, up \$38.02/MWh (164 per cent) on the average \$23.18/MWh of May 2006. Average demand 5731MW, up 23MW (0.4 per cent) on the 5708MW of April, up 81MW (1.4 per cent) on the 5650MW of May 2006.

What Chatfield promised: In 2004, Chatfield published a *Code of Conduct* for CS Energy;

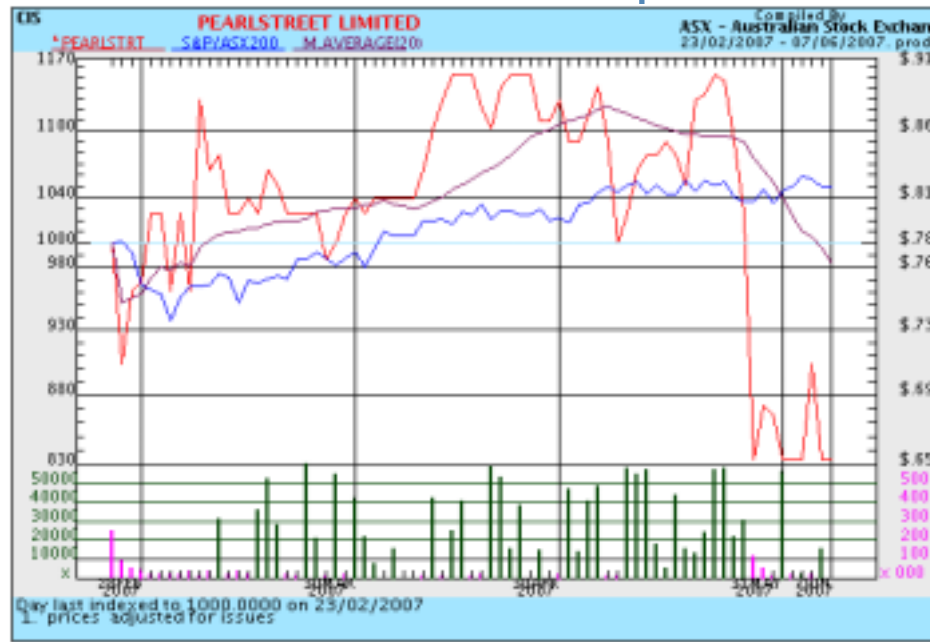
“Prohibiting the use of privileged information to secure personal gains or otherwise through dealing in shares, securities of commodities. Insider trading is considered unethical and illegal.”

Elvis has left the building: The Board had Chatfield’s trading investigated by Ernst and Young and sought legal advice. “Chatfield subsequently refuted the allegations” and then asked to leave the building. Just over a week after standing down, Chatfield returned to Western Australia to work with Aviva. Aviva had been in discussions with Chatfield for twelve months. Aviva planned a 400MW baseload power station in the Mid West.

Fingers burnt in CO2 dump pie

Mark Chatfield also had his finger in the CO2 dump pie, and had recently negotiated to get rid of a CS Energy CO2 dump project - after the Federal government declined to subsidise it. It was wholly handed back to government. The team was a Japanese consortium led by JCoal and Schlumberger, CS Energy and 10 other Japanese and Australian industry partners, which had signed a *Memorandum of Understanding* to develop an oxy-fuel technology that would “eliminate greenhouse emissions from electricity generation” - and make money from emissions trading - if CO2 dump trades were permitted

PearlStreet price-crash on loss of unspecified Qld contracts



reported new a five year alliance contract with CS Energy. Under the estimated \$3 million, five year alliance contract PearlStreet’s asset integrity division, PearlStreet ETRS (“PETRS”), “will work under a collaborative agreement with CS Energy and three other service providers, Clyde Babcock – Hitachi (Australia) Pty Ltd (CBH), Siemens Limited, and Varley Limited”. PearlStreet said its customers

PearlStreet loses contracts

On 28 May PearlStreet announced it had lost some Queensland energy business, and its returns would fall 15 - 20 per cent; a dramatic share-price fall followed. Electricity Week requested details of which contracts, but received no response by deadline. PearlStreet also supplies services to Santos, Esso, and Longford.

Mates rates at PearlStreet: The shares CEO Chatfield, bought were in PearlStreet Limited (“PearlStreet”) (ASX: PST). The company had

included Exxon, Verve Energy, BHP Billiton, Wesfarmers Energy, Tarong Energy, Stanwell Corporation, Rio Tinto and Anglo Coal.

High- pollution portfolio: CS Energy controls Coal fired Swanbank B and gas fired Swanbank E power stations near Ipswich; coal fired Callide Power Station near Biloela in Central Queensland; the gas fired Mica Creek Power Station near Mount Isa in North West Queensland, and the 750 megawatt Kogan Creek coal-fired power station near Chinchilla in South West Queensland.

Surprise: Queensland price now tops NEM pool prices

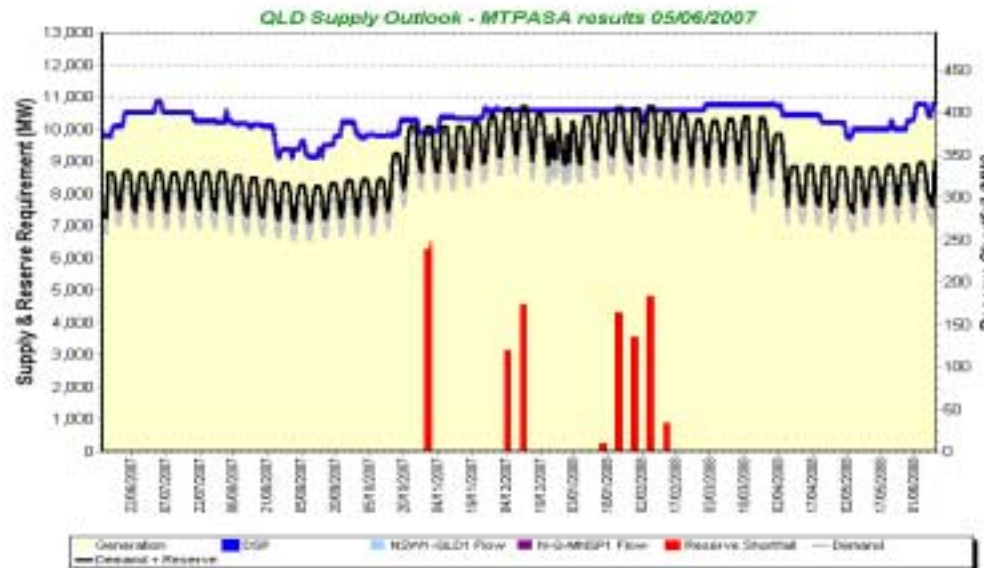
Average prices fell 7-19 per cent in May compared to April. For the week to Saturday, 2 June overall pool average prices were \$58.79-\$73.93/MWh range on stronger demand: the new trend, was the Qld price, was highest. Queensland had the highest average price and Tasmania the lowest. Minimums were under 10 degrees in four capitals

34 generators can't find the switch

NEMMCO issued 34 declarations of non-conformity during the week against scheduled generators over rebids not received - 12 in Victoria, eight in NSW, six in Tasmania, five in Queensland and three in South Australia.

- Automatic generation control (AGC) for Snowy generators was interrupted when Snowy supervisory control and data acquisitions (SCADA) was out for 46 minutes from 2351EST on Tuesday, 29 May to 0037EST on Wednesday, 30 May.
- On Thursday, NEMMCO reported dispatch issues for two hours from 1115EST to 1315EST.
- On Friday the Murraylink interconnector between Victoria and South Australia was beset with problems following an outage of the Kerang-Redcliffs 250kV transmission line in Victoria from 1400EST. Murraylink was constrained in both directions when

Christmas crucifixion for Queensland



the line returned to service at 1610EST due to a Redcliffs busbar issue. When this was settled, Murraylink's return was delayed until 1810EST over equipment problems.

- On Thursday, the Dederang No. 2 transformer was out for five hours 15 minutes from 1545EST to 2100EST.
- On Saturday NEMMCO advised that an unplanned outage in a cable forming part of the Directlink transmission asset at 2200EST would affect the transfer limit on the NSW-Queensland Terranora interconnector until 1700EST on Monday, 4 June.

More humour: timetable for energy market law moves to hide in Xmas holiday post-election period; 31 December

A Ministers' communique, released after a meeting of federal and state energy ministers, said the delay followed concerns raised during consultations, prompting "significant policy and drafting work". The Ministerial Council on Energy revealed details on 25 May of a revised

timetable for legislative changes for the energy market, saying some reforms had been pushed back by, in some cases, 2.5 years on an original timetable outlined in 2004, reported *The Australian financial Review* (28/5/07, p. 12).

Regime will not be in time: The delay would mean a revised national regime on regulating distribution businesses was unlikely to be in place for new regulatory rulings in NSW and the ACT that were due to take effect from 1 July, 2009. Transitional arrangements would now have to be organised because the Australian Energy Regulator would have insufficient time to issue the rulings to meet such a timetable.

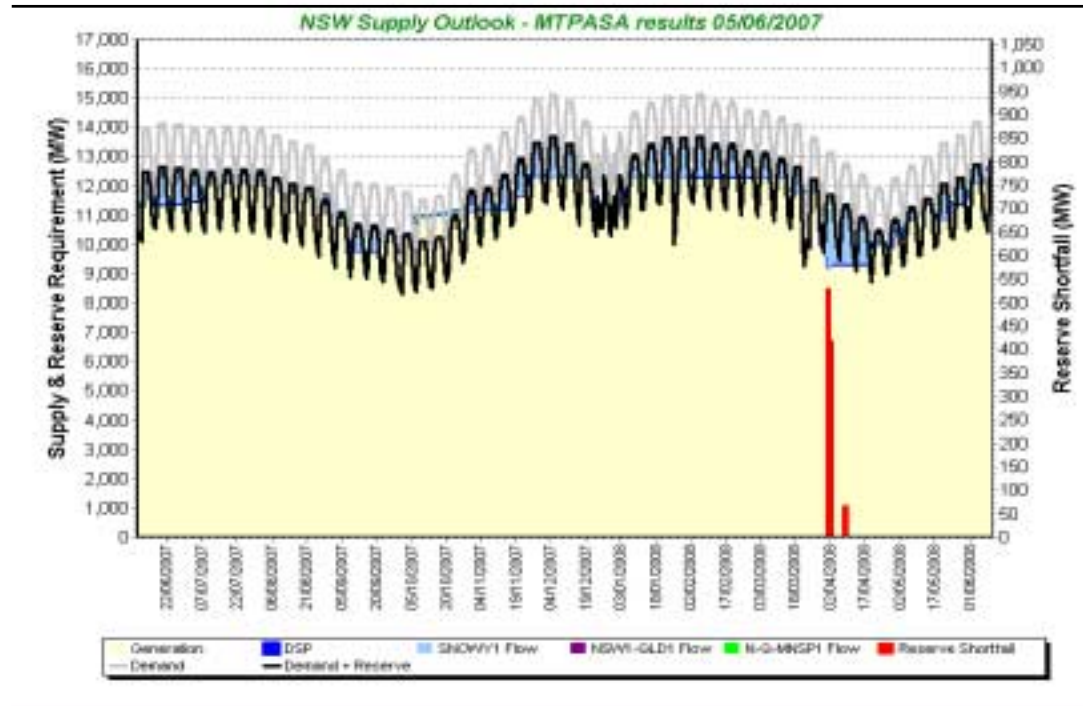
Delayed twice: This, in turn, was because a package to transfer the economic regulation of electricity and gas transmission and distribution to new national governance arrangements would now not happen until 31 December. This move was due to take place by 30 June, 2005, but twice last year was pushed back

Carbon policy risk: Coal generators in Victoria to act like “wounded bulls”

7

Australia faced real risks of soaring electricity prices if it did not get its own carbon trading policy right, Babcock & Brown Power chief executive Paul Simshauser

Snowy Spring melt key to 2008 NSW Xmas



said. The danger was that the brown coal generators in Victoria could act like “wounded bulls” if they became uneconomic, and act to boost power prices so they could recover their investments quickly before closing. Unless they received some sort of emissions permits to remain economic, they could push prices as high as \$ 100 a megawatt hour by shutting some of their capacity, he said.

Water restrictions: NSW retailers now pay pay around \$100 a megawatt hour

At the Independent Pricing and Regulatory Tribunal public hearing into electricity retail review, Phil Moody of EnergyAustralia noted that, “the recent movements in the contract market highlight the level of volatility that you can see in our market and that has also

extended now beyond the contract market and is evidenced in the spot market as well, and there are a number of reasons, I believe, for this”.

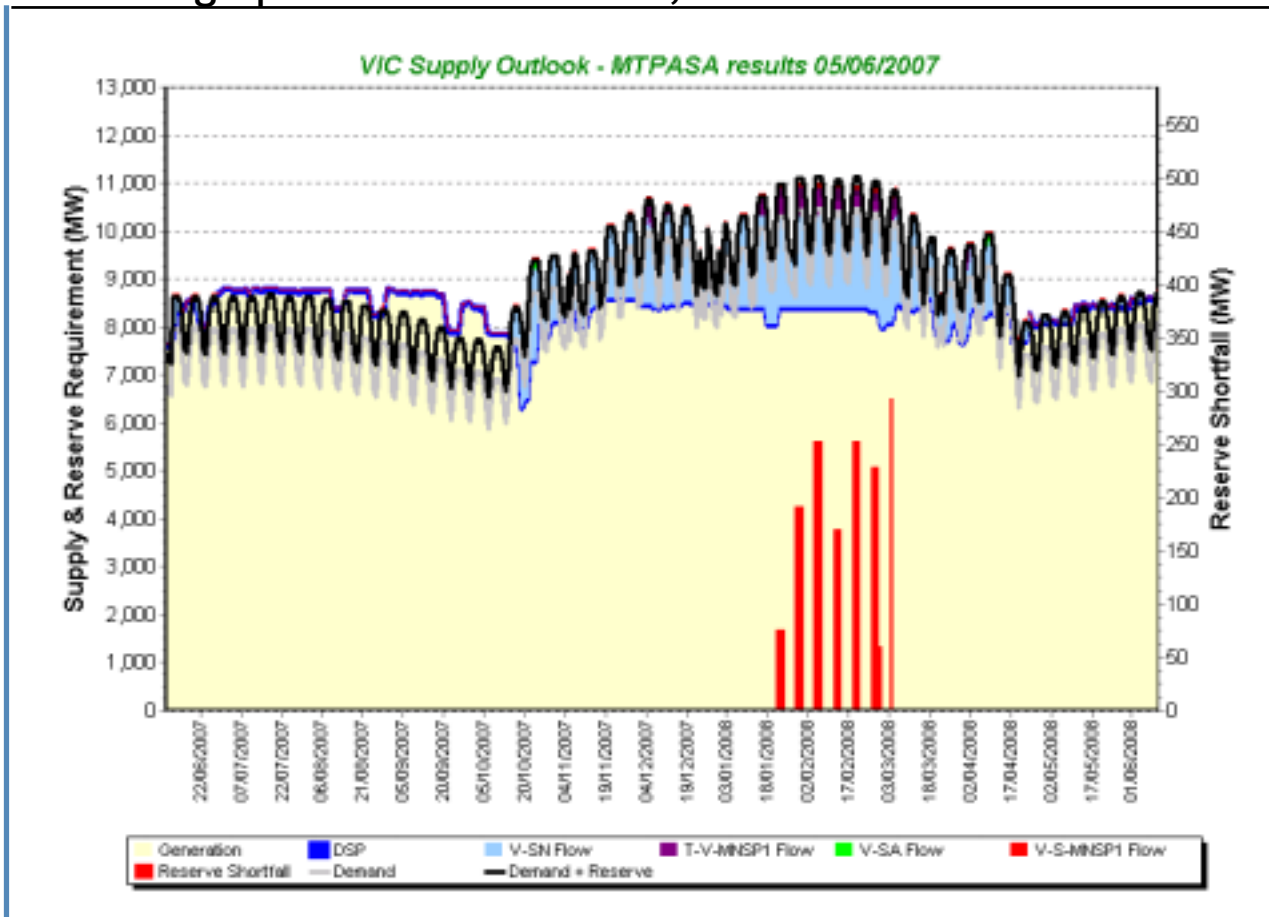
Water restrictions: “It is essentially a supply/ demand related issue and certainly the first movement, which was around about \$5 a megawatt hour, was probably reflective of organic supply/demand supply matters. However this has since been exacerbated by water restrictions, where;

- Queensland now has level five and that has taken 100 megawatt of capacity out;and
- the Snowy has the lowest inflows in 100 years and it is also starting to pump overnight to dams.

“The nature of the spot prices have changed significantly as well. Even in our submission we made earlier this year, we made the comment that prices have historically been characterised by a lot of low prices, \$20 to \$30 a megawatt hour, with a handful of \$10,000 prices, typically 50 of them or so a year”.

Consistent high prices now: “That has led the market to invest, where it has invested, in peak generation, also hedging for the folios that carry quite considerable cap components, and that was also evidenced in Frontier’s efficiency portfolio. One of the attributes of the way the market has changed since the water restrictions have taken effect is that the instance of low prices has disappeared and

High prices and blackouts, summer 2008 in Vic?



Paying around \$100 a megawatt hour: That implies a few things;

- It means that gas-fired turbines are not as attractive as they used to be because you are not really getting the energy any cheaper;
- In the past they would knock \$10,000 off

...we are basically paying around \$100 a megawatt hour anyway, so I think it certainly is our opinion that these are significant and in my view, once there are generation changes, that needs to be factored in.”

Reference: Independent Pricing and Regulatory Tribunal public hearing into electricity retail review. Tribunal Members, Dr Michael Keating AC -

Chairman, Mr James Cox, Ms Sibylle Krieger. Held at The Mint Auditorium, Macquarie Street, Sydney On Monday, 23 April 2007, at 9.30am 23/4/07, transcript produced by ComputerReporters.

Face value of trades between January and May reaches \$7.55 billion: 191pc of physical

The face value of trades between January and May 2007 was \$7.55 billion, or about 153 million megawatt hours (MWh), the d-cypha Trade/Sydney Futures Exchange (SFE) said in a release.

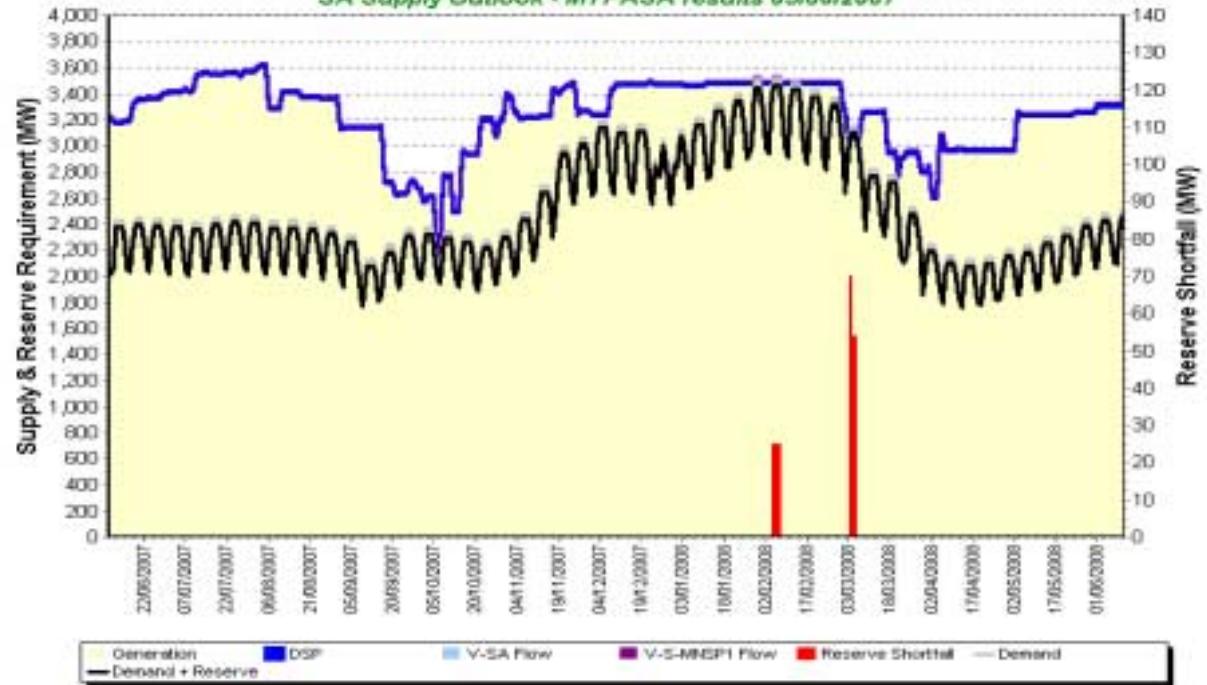
Equivalent to 191 per cent of physical market: The release said the volume of energy traded on the SFE during this period was equivalent to 191 per cent of the underlying physical electricity market (NSW, Victoria, South Australia and Queensland).

Higher for first week in June: For the week ending 4 May, d-cypha Trade said the May futures and options volume was about 226 per cent of the physical demand for NSW, Victoria, South Australia and Queensland.

Third successive weekly record: The open interest of 38,121 contracts for the week was the third successive weekly record and equated to about 93.2 million MWh. The increase was 865 (2.3 per cent) on the 37,256 contracts in the week to 28 May, which equated to 90.8 million MWh. Drop in futures contracts trading: Trading in futures contracts

South Australia- plenty of electricity

SA Supply Outlook - MTPASA results 05/06/2007



(including caps futures) fell 247 (10 per cent) to 2228, compared to 2475 the previous week.

Composition of futures contracts: The summary showed the futures contracts traded during the week comprised 1703 base futures, 105 peak futures and 420 caps.

Big rise in calendar options: Calendar options traded for the week totalled 440, up 370 on the 70 the previous week. As with the previous week no quarterly options were traded and there were no exchange for

physicals (EFP).

Block trades up 950: The volume of block trades rose by 950 (83.7 per cent) to 2085 on the 1135 the previous week. However, the total MWh traded fell 131,720 (2.2 per cent) to 5,727,235 from the 5,858,955 the previous week.

D-cypha Trade. Phone: (02) 8211 0615. Fax: (02) 8211 0640. <http://www.d-cypha.com.au>

Energy Users seek advocacy panel funds to look into 2007 - 2008 contract price-rises

The Energy Users Association, wanted the Australian Energy Market Commission's advocacy panel to provide funding for an independent inquiry into the rising electricity prices. The five-member panel grants funds for representatives of business and domestic electricity customers affected by the operation of the national electricity market.

Long-term forecasts get choppy: NEMMCO makes 10 changes. in latest look-ahead

Operator, NEMMCO made 10 changes in the medium term projected assessment of system adequacy (MT PASA) issued at 1004EST on Tuesday, 5 June to that issued on Tuesday, 29 May. The changes involve five omissions and five additions of forecast low reserve conditions (LRC).

What the changes are: There are four changes for 2007 - three omissions and one addition.

- The 2007 addition is November for Queensland;

Bad location of Vic thermometer, crashed Basslink, 2 smelters tripping.



Temp recorded as 5 degrees too high: The tripping of Basslink in December would not probably have occurred if the temperature probe at the Basslink converter station at Loy Yang was located out of direct sunlight. On 10 December 2006 around 12:32 hrs Basslink tripped while transferring 75 MW from Tasmania to the mainland.

45C closes Basslink: From about 43.0C Basslink capability reduces, so that at 45.0C Basslink capacity is 0 MW. At the time of the system incident, the temperature probe for ambient conditions was placed in the Basslink converter yard and exposed to direct sunlight. Therefore, on the 10 December 2006, as the temperature rapidly rose, the capacity of Basslink reduced, until around 12:32 hrs, the recorded temperature resulted in Basslink

tripping.

Max temp recorded over 45.0C: At the time there were high temperatures in the La Trobe valley of Victoria. A temperature probe located at the Basslink converter station at Loy Yang was located in an open location and recorded temperatures exceeding 45.0C. Basslink tripped due to the recording of this high ambient temperature.

Triggers second problem in Tasmania: Several loads and generators in Tasmania were also tripped due to the incorrect arming of the System Protection System (SPS). The problems with the SPS were known to Transend prior to this event and had been placed on a register of known issues to be resolved. A temporary fix was arranged to prevent this problem occurring in the future until it can be finalised with the supplier of the SPS.

Lessons learned: NEMMCO proposed National Grid Australia move the temperature probe at both Loy Yang Converter station and George Town Converter station in the shade; and Transend fix the SPS software issues as soon as possible. National Grid Australia has moved the temperature probe.

05C too high: La Trobe Valley ambient temperature was lower by several degrees,; several weather stations in the area, did not exceed 40 degrees Celsius.

10 December 2006 Basslink Trip. Power System Incident Report Prepared by: NEMMCO System Operations Planning and Performance Version No: V1.0.