



# Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff 2025-26



Final report for the Essential Services Commission | 25 February 2025



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# Executive Summary

The Essential Services Commission (ESC) is required under the Electricity Industry Act 2000 (Vic) to determine one or more minimum rates to be paid by electricity retailers to customers who feed-in surplus renewable energy generation into the grid. The ESC is currently determining these rates for 2025/26.

As part of its determination of the FiT rates for 2025/26, the ESC has engaged Frontier Economics to project Victorian wholesale energy prices for 2025/26.

We have produced half-hourly forecasts for 2025/26 based on historical wholesale prices and ASXEnergy prices (which reflect future expectations of wholesale prices), and we present averages of these forecasts over:

- The entire annual forecast period
- Separately for day, early evening and overnight times during the forecast period, and for peak, shoulder and off-peak periods during the forecast period.

We also calculate solar export-weighted averages of our half hourly forecasts over the same periods.

These averages will be used to inform the ESC's 2025/26 determination of the minimum flat-rate and time-varying FiT rates.

## Summary of results

We have summarised the results of our wholesale electricity price forecasts below. The following results are presented:

- Projected *quarterly* average spot prices for 2025/26. These are based on ASXEnergy contract prices (adjusted to remove a 5 per cent contract premium)<sup>1</sup> using trade-weighted averaging over 12 months to 15 January 2025.
- Projected *annual* average spot prices for 2025/26, using the same ASXEnergy contract prices. These averages are presented both unweighted and weighted by solar PV exports.

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<sup>1</sup> The price of ASXEnergy contracts is the price at which the future price of electricity can be 'locked in' today. So, for instance, a price for a Q1 2026 swap contract of \$100/MWh would enable a market participant to 'lock in' that electricity price of \$100/MWh for Q1 2026. The price of ASXEnergy contracts is related to expectations of what spot electricity prices will be in Q1 2026: if the market expects higher spot electricity prices in Q1 2026 we would expect the price of a futures contract for Q1 2026 to increase; if the market expects lower spot electricity prices in Q1 2026 we would expect the price of a futures contract for Q1 2026 to decrease. However, because the futures contract provides certainty (that is, it enables the future price to be 'locked in') retailers are generally prepared to pay a premium for the futures contract. What this means is that the ASXEnergy contract price will trade at a premium to the expected spot price. While this contract premium cannot be directly observed, our econometric analysis suggests that the contract premium is 5 per cent. What this means is that if market participants expect that the spot price will be \$100/MWh for Q1 2025, market participants would be prepared to pay \$105/MWh for a swap contract to 'lock in' a price for Q1 2025 today. Therefore, to infer expectations of future spot prices from ASXEnergy contract prices we remove a 5 per cent contract premium from contract prices.



- Projected day, early evening and overnight average spot prices for 2025/26, using the same ASXEnergy contract prices. These averages are presented both unweighted and weighted by solar PV exports.
- Projected peak, shoulder and off-peak average spot prices for 2025/26, using the same ASXEnergy contract prices. These averages are presented both unweighted and weighted by solar PV exports.

### Projected quarterly average spot prices for 2025/26

To produce our forecasts, we first calculate the projected average price level for each quarter in the forecast period. As discussed above, these are based on the 12-month trade-weighted price of quarterly ASXEnergy base swap contracts (less a contract premium).

These projected quarterly average spot prices are presented in **Table 1**.

**Table 1:** Projected average prices for 2025/26, using **trade-weighted** ASXEnergy Victorian contract prices (after removing 5 per cent contract premium) (\$2025/26)

Calendar quarter	12-month average (\$/MWh)
Q3 2025	\$82.74
Q4 2025	\$46.54
Q1 2026	\$66.77
Q2 2026	\$79.00

### Average half-hourly prices in 2025/26

We use the projected quarterly average spot prices for 2025/26 presented in **Table 1**, and historical half-hourly prices for 2023/24, to develop forecasts of half-hourly spot prices for 2025/26.

The average of these half-hourly price forecasts for 2025/26 is presented in **Table 2** and **Table 3**, providing a flat annual average price, as well as prices for the various time periods for each of time-varying rate 1 and time-varying rate 2.

The results in **Table 2** and **Table 3** are both based on:

- trade-weighted ASXEnergy prices for 2025/26 (after removing the 5 per cent contract premium), as presented in **Table 1**
- a **12-month** trade-weighted average of ASXEnergy prices
- historical half-hourly prices for 2023/24.

**Table 2** provides average half-hourly prices that do not take into account solar export data (that is, the half-hourly prices are time-weighted averages, or simple averages).



**Table 2:** Summary of half-hourly spot prices for 2025/26 (based on historical quarters Q3 2023 to Q2 2024), unweighted by solar exports (\$2025/26)

Rate type	Average spot price (c/kWh)	
Flat rate	6.81	
Time-varying rate 1	Early evening	12.84
	Day	3.57
	Overnight	7.81
	Peak	13.41
Time-varying rate 2	Shoulder	6.68
	Off-peak	-0.97

In contrast, **Table 3** provides average half-hourly prices that are weighted by solar exports in each half hour interval. These solar export-weighted prices are based on solar export data for 2023/24 for each distribution network service provider (DNSP), which was provided by the ESC.<sup>2</sup>

**Table 3:** Summary of half-hourly spot prices for 2025/26 (based on historical quarters Q3 2023 to Q2 2024), solar export-weighted (\$2025/26)

Rate type	Export-weighted average spot price (c/kWh)	
Flat rate	-2.38	
Time-varying rate 1	Early evening	3.16
	Day	-3.08
	Overnight	4.71
	Peak	3.78
Time-varying rate 2	Shoulder	-1.08
	Off-peak	-3.94

<sup>2</sup> Solar-weighting adjusts the unweighted wholesale price forecast to reflect the average value of electricity at exporting times rather than the average value of electricity at all times. Given the minimum FIT applies to exported electricity (which is predominantly solar), in our view solar-weighted wholesale price forecasts are more appropriate for use in determining minimum FIT rates.



## Key factors responsible for negative solar export-weighted price forecasts

While our methodology has remained unchanged since we last advised the ESC on the FiT, we have updated our inputs to reflect more recent market data (including historical spot prices and historical exports for 2023/24) and the most recent market expectations with respect to wholesale electricity prices in 2025/26. These expectations are reflected in the latest ASXEnergy contract prices.<sup>3</sup>

As with the draft report for 2025/26, we find that the flat-rate, solar export-weighted price is negative. The solar export-weighted price for 2025/26 is negative 2.38 c/kWh, whereas the equivalent rate from our final report published in February for the 2024/25 FiT was 0.64 c/kWh.<sup>4</sup> There are two key factors that drive changes in this flat-rate, solar export-weighted price:

- Changes in the projected *average price* in each quarter (which is based on ASXEnergy base swap prices for 2025/26).
- Changes in the correlation between projected half-hourly prices and solar exports (which is based on the historical correlation between half-hourly prices and solar exports in 2023/24).

### Changes in projected *average prices*

The average ASXEnergy prices used in this report have changed relative to the February 2024 FiT Report for the 2024/25 FiT. Compared with the ASXEnergy prices used for our February 2024 FiT Report, ASXEnergy prices are slightly lower during Q3, Q4 and Q1.

The contract prices in the February 2024 FiT Report and this final report are compared in **Table 4**.

**Table 4:** Comparison of projected average prices based on ASXEnergy contract prices (after removing 5 per cent contract premium) (\$ nominal)

Period	Average projected price (\$/MWh) – 2024/2025	Average projected price (\$/MWh) – 2025/2026
Q3	\$85.31	\$82.74
Q4	\$50.06	\$46.54
Q1	\$67.16	\$66.77
Q2	\$78.36	\$79.00

The difference in contract prices shown in **Table 4** is one cause of the FiT for 2025/26 being lower than the FiT for 2024/25.

<sup>3</sup> Expectations of future spot prices, and hence contract prices, reflect market participants' understanding of future demand and supply conditions in the electricity market and how these will affect prices (e.g. information on generation investment, power plant closures, costs of different fuels etc.).

<sup>4</sup> Frontier Economics, *Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff*, Final Report for the Essential Services Commission, 5 February 2024 (**February 2024 FiT Report**).

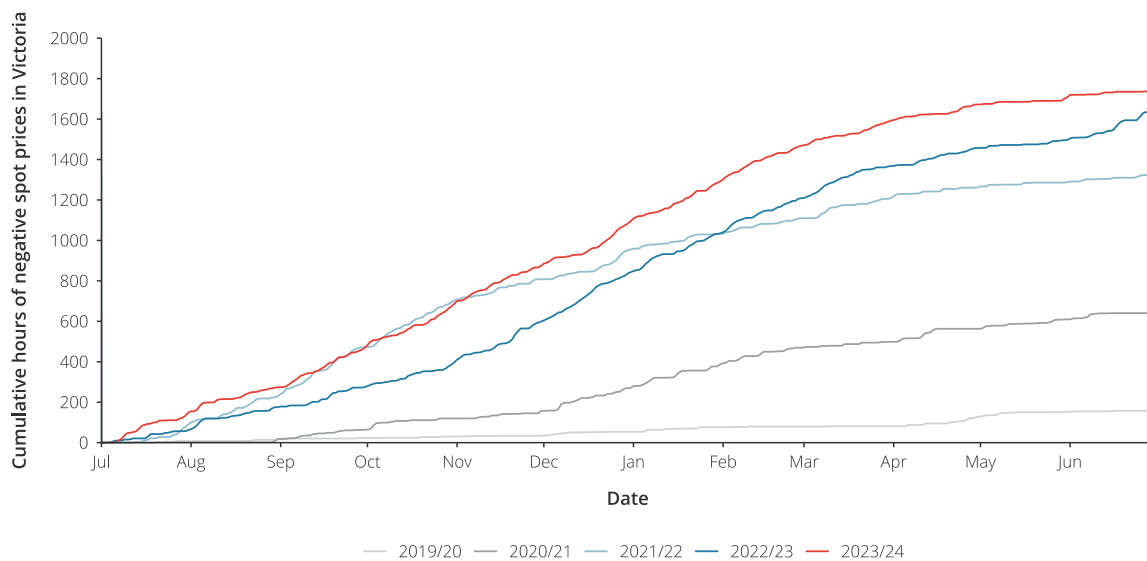




## Changes in the correlation between spot prices and solar exports

A key driver behind the decline in export-weighted solar prices is the increasing occurrence of negative daytime prices, coinciding with periods of solar energy exports. **Figure 1** illustrates the cumulative number of hours with negative spot prices in Victoria over the last five financial years. We can see that negative spot prices are becoming more frequent, with 2023/24 reaching a record high, where approximately 20%<sup>5</sup> of all intervals throughout the year had a negative spot price.

**Figure 1:** Cumulative hours of negative spot prices



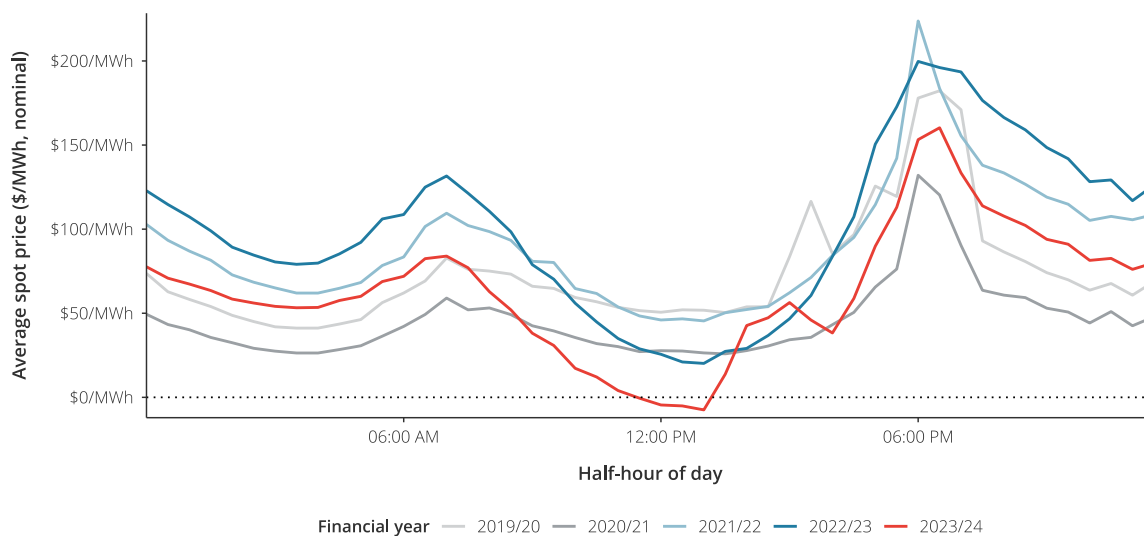
Source: Frontier Economics analysis of AEMO data

The daily price profile for the same period is depicted in **Figure 2** below. For the first time, spot prices in the hours between 11:00 and 13:00 were negative, on average, throughout 2023/24.

<sup>5</sup> 1,744 hours divided by 8,784 hours (366\*24) in 2023/24



**Figure 2:** Average daily spot price profile



Source: Frontier Economics analysis of AEMO data

As we have shown above, negative spot prices are increasingly occurring during the day. This is relevant to the calculation of the FiT as these negative prices are occurring at the same time that solar is usually exporting to the grid.

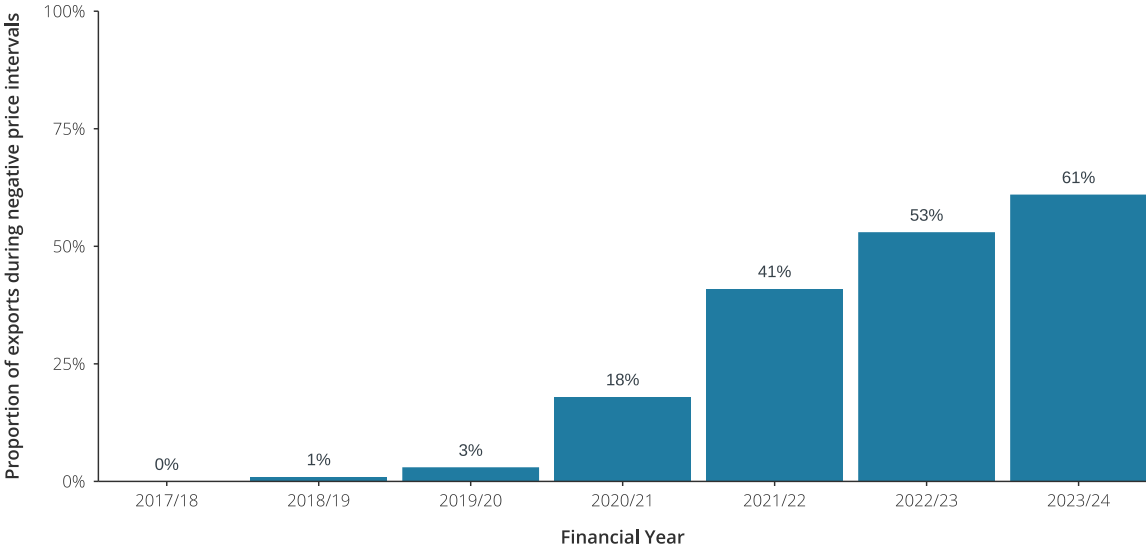
We have combined the solar export data from the ESC with spot prices to assess the correlation between exports and spot prices. Over recent years, this correlation has become much more pronounced, with spot prices tending to be much lower on average during the day (when solar exports are occurring), and negative spot prices also tending to occur much more often when solar exports are occurring.

We have plotted this relationship in **Figure 3**, which shows the proportion of total solar exports that have occurred at times when spot prices are negative. In 2017/18 and 2018/19 less than 1 percent of total solar exports occurred when spot prices were negative, but by 2022/23 – the historical year that was used for the 2024/25 FiT – that had increased to 53% of total solar exports occurring when spot prices were negative.

By 2023/24 – the historical year that is used for the 2025/26 FiT – this had increased again to 61% of total solar exports occurring when spot prices were negative.



**Figure 3:** Proportion of solar exports occurring when prices are negative



Source: Frontier Economics analysis of AEMO and ESC data

These changing patterns of prices – spot prices tending to be lower and negative during times of solar exports – is a second cause of the FiT for 2025/26 being lower than the FiT for 2024/25.



# 1 Introduction

Frontier Economics has been engaged to advise the Essential Services Commission (ESC) on wholesale price forecasts for the purpose of calculating a Feed-in Tariff (FiT).

## 1.1 Background

The ESC is required under the Electricity Industry Act 2000 (Vic) to determine one or more rates to be paid by electricity retailers to customers who feed-in renewable energy generation into the grid.

The ESC has engaged Frontier Economics to project Victorian wholesale electricity prices for 2025/26, to inform its determination of the FiT rates for 2025/26. This report details our approach, considerations, methodology and results.

Frontier Economics previously advised the ESC on Victorian wholesale electricity prices for 2019/20 through 2024/25 to inform the ESC's determination of FiT rates for those years.<sup>6</sup> The methodology that we have adopted for this final report is the same as we used previously.

## 1.2 Our approach

The value of small-scale renewable energy fed into the grid is a function of wholesale spot prices for energy at the times of those exports. Therefore, it is necessary to develop a forecast of half-hourly prices that are appropriately correlated to forecasts of half-hourly solar PV exports in the relevant period. We achieve this by using historical half-hourly prices as the starting point for forecasting prices, and ensuring we select half-hourly prices from the same time period as that for which we have solar export data.

Preferably, we select for our starting point historical half-hourly prices that are from the same period as the *most recent* solar export data. Our view is that, generally speaking, more recent prices would be expected to better reflect future demand and supply conditions. However, as a precautionary measure, we analyse historical half-hourly prices to assess whether the half-hourly prices coinciding with the most recent solar export data seem to reflect any 'abnormal' outcomes that would not be expected to recur.

We then scale the selected historical half-hourly Victorian spot prices to obtain an estimate of the average spot price for 2025/26. The price at which a quarterly base swap for Victoria trades on ASXEnergy is generally taken to reflect the market's expectation of the average electricity spot price for Victoria for the relevant quarter (after adjusting for the implied contract premium). In our analysis we make use of forward contract prices for the FiT period (2025/26) from ASXEnergy. This scaling shifts the average of the historical half-hourly spot prices to reflect the contract price, without altering the underlying pattern of half-hourly spot prices. In this way, the relationship between solar exports and prices is maintained.

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<sup>6</sup> See, for example: Frontier Economics, *Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff*, Final Report for the Essential Services Commission, 5 February 2024.



## 1.3 Best practice

The approach used in this report is consistent with what we consider to be best practice and reflects the approach that we have previously adopted in providing similar advice to other regulators. More specifically:

- The approach allows the correlation between half-hourly solar exports and half-hourly market prices to be maintained, so that the resulting FiT accurately reflects the relationship between the two.
- Price profiles have been scaled to meet future expectations of spot prices. Consistent with other work, we have inferred future price levels from ASXEnergy contract prices (adjusted for an assumed contract premium, and truncated at market price cap/floor).
- In our previous advice to IPART, we accounted for uncertainty in customer load and solar export quantities by using a Monte Carlo simulation of available data.<sup>7</sup> Given that we have several financial years of export data from all 5 Distribution Network Service Providers (DNSPs), and corresponding wholesale electricity price data, Monte Carlo simulation is possible. However, we do not recommend the approach in this case. In recent years, it is clear that solar premiums<sup>8</sup> have fallen significantly (which is likely to be driven in part by increased solar PV penetration). Since solar premiums are a key driver of solar-weighted FiT results we think that in these circumstances a Monte Carlo simulation may inappropriately preserve historical correlations between prices and exports.

Overall, we consider the approach outlined in this report to be consistent with regulatory best practice. We also consider that the approach outlined in this report has the benefit of being relatively simple and transparent: it relies largely on publicly available data and, in principle, could be replicated by interested stakeholders (subject to the availability of reasonable data on half-hourly solar exports).

## 1.4 About this report

Throughout this final report, we make references to the four quarters of a calendar year (i.e. Q1, Q2, Q3 and Q4). The months associated with these quarters are:

- January to March for Q1.
- April to June for Q2.
- July to September for Q3.
- October to December for Q4.

For the most part, references to quarters are coupled with a year e.g. 'Q1 2026'. However, in sections of the paper which deal with quarterly analysis over multiple years, we may refer to a

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<sup>7</sup> Other aspects of our approach are similar to our previous advice to IPART: using historical data for exports and spot prices as a starting point; scaling prices to a forecast of future spot prices; weighting the forecast spot prices by exports; calculating an annual average (or day, early evening and overnight) FiTs based on this.

<sup>8</sup> The solar premium is the solar-weighted wholesale price divided by the time-weighted wholesale price. A solar premium below one indicates that prices tend to be lower at times when solar exports occur. A solar premium above one indicates that prices tend to be higher at times when solar exports occur.



quarter in general (without specifying a year). In these cases, 'Q2' for example, refers to the months April to June across all years under analysis.

The remainder of this report is structured as follows:

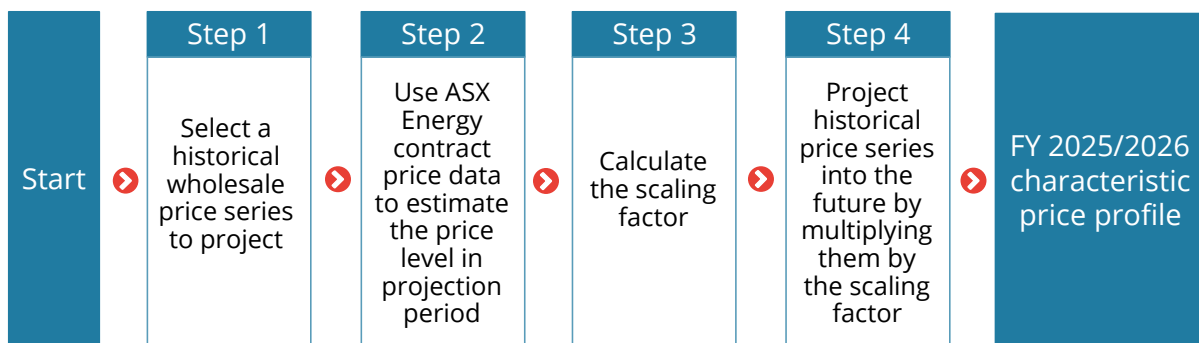
- Section 2 outlines the methodology used to produce a wholesale price profile for 2025/26.
- Section 3 discusses our analysis of historical prices in Victoria.
- Section 4 presents our results.
- Section 5 presents additional sensitivity analysis
- Section 6 compares the current report to results from our previous final report.



## 2 Methodology for projecting price

In this section, we set out our methodology for estimating the wholesale price profile for 2025/26, which is summarised in **Figure 4**:

**Figure 4:** Summary of methodology



Source: Frontier Economics

Our methodology consists of four steps:

- **Step 1: Select a historical wholesale price series to use as the basis for forecasts**

Preferably, we select for our starting point historical half-hourly prices that are from the same period as the *most recent* solar export data. Our view is that, generally speaking, more recent prices would be expected to better reflect future demand and supply conditions. In other words, since the ESC has access to solar export data up to the end of Q2 2024, we would generally recommend using historical price data for Q3 2023 to Q2 2024.

In some cases, there may be sufficient reason to believe this most recent wholesale price data series will not reflect future supply and demand conditions and another set of spot prices should be used as the basis for forecasts. This is why we assess historical price patterns to check whether recent prices exhibit abnormal 'shape' that is likely to be unreflective of future conditions.

We note that this process of selection is informed by our assessment of historical pricing patterns and the availability of relevant solar export data. It may be that different circumstances in the future would suggest an alternative approach. For instance, a more unpredictable trend in the correlation between solar exports and prices may warrant a Monte Carlo analysis to generate a profile for solar exports and prices that are made up of outcomes over a number of historical years, though we do not consider this appropriate in this case for reasons discussed in Section 1.3.

- **Step 2: Calculate price level for 2025/26**

The average price level for 2025/26 is represented by the average prices of 2025/26 quarterly base swaps (after adjusting for an assumed contract premium). In our calculations, we assume a contract premium of 5 per cent.



Quarterly base swaps trade for a number of years in advance of maturity, meaning there is a time series of prices for these contracts. We calculate the average prices of quarterly base contracts using a 12-month trade-weighted average of base swap prices.

Our view is that the 40-day average price provides the best indicator of the market's view of prices for 2025/26. Averaging prices over a longer period (such as 12 months) means giving weight to views of prices for 2025/26 that have since changed, likely as a result of updated information about market conditions in 2025/26.

In the context of retail tariff regulation, retailers have argued in the past, and some regulators have accepted, that average prices over a longer period should be used. The justification given for this is generally that retailers will actually buy contracts over a longer period when hedging a retail load. While we do not dispute that retailers will likely buy contracts over a number of years leading up to the commencement of 2025/26 to hedge their retail load, we would still view the current market price as the best reflection of the economic value of those contracts and consider that decisions should be made on the basis of that economic value. The rationale for taking a 40-day average price, rather than the current market price on a single day, is to avoid the possibility of gaming the regulatory arrangement. The 40-day average approach is consistent with the approach that a number of regulators take to setting cost of capital parameters.

However, there may be good reasons that a regulator will choose to base regulated prices on something other than 40-day average contract prices. For instance, a longer averaging period, such as 12 months or 24 months, would be expected to provide regulated prices that are more stable over time and would also likely result in regulated prices that are more reflective of incumbent retailers' actual costs (since most retailers will buy contracts over a number of years leading up to the year).

Regarding the type of average to use, our view is that a time-weighted approach would generally provide the best indicator of prices for 2025/26. A trade-weighted<sup>9</sup> approach will give greater weight to a daily price on a day with many trades than on a day with fewer trades; but, in our view, a larger number of trades occurring on a day does not necessarily mean that the closing price conveys more reliable information about the market's view of future electricity prices. However, one advantage of a trade-weighted approach is that it will naturally exclude prices on those days on which no trade occurred, and on those days the published price is a less reliable indicator of the market's view of prices.

In our results we have provided trade-weighted, 12-month average quarterly base swap prices, as requested by the ESC, and results based on these trade-weighted average quarterly prices. We have averaged prices for the relevant period up to and including 15 January 2025.

- **Step 3: Calculate the scaling factor**

For each historical quarter (from Q3 2023 to Q2 2024), we calculate the average price for that quarter by taking a time-weighted average across all half-hourly prices. We then calculate the scaling factor for that quarter by dividing the relevant ASX Energy price for the equivalent quarter by that time-weighted average price.

For example, we might find the following:

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<sup>9</sup> Trade-weighted contract prices are calculated by multiplying the number of trades by the closing price on each day over the averaging period (i.e. 40 days, 12-months or 24 months) then dividing by the total number of trades over the averaging period.





- if the average price for the historical quarter Q3 2023 was \$80/MWh, and the ASXEnergy price for Q3 2025 was \$100/MWh, the scaling factor for Q3 would be 1.25;
  - if the average price for the historical quarter Q4 2023 was \$100/MWh, and the ASXEnergy price for Q4 2025 was \$110/MWh, the scaling factor for Q4 would be 1.1;
  - and so on, for the other quarters.
- **Step 4: Apply scaling factor to starting point historical prices to develop a forecast of half-hourly prices**

For each half-hourly price in the historical quarter, we multiply the half-hourly price by the relevant scaling factor for that quarter. This provides the resulting half-hourly prices for 2025/26.<sup>10</sup> We also perform checks to confirm that these half-hourly prices do not exceed the NEM Market Price Cap<sup>11</sup> (MPC) or Market Floor Price<sup>12</sup> (MFP). We also check that the prices do not exceed the Cumulative Price Threshold<sup>13</sup> (CPT).

Once we have developed a forecast of half-hourly prices for 2025/26, we are able to calculate the *weighted average* of these prices by solar PV exports, and/or *average* these half-hourly prices in different ways in order to inform the ESC's determination of a FiT.

For instance, we can average the half-hourly prices over the whole year to inform the ESC's determination of a flat-rate FiT. Or, we can average the half-hourly prices for various periods of the day to inform the ESC's determination of a time-varying FiT.

We calculate a time-varying FiT using the definitions of day, early evening and overnight periods as shown in **Table 5** and definitions of peak, shoulder and off-peak periods shown in **Table 6**. These are the same time periods that we used for our February 2024 FiT Report.

Formulae used to take average and weighted-average half-hourly prices are provided in **Table 7**.

**Table 5:** Time of use classifications – time-varying rate 1

Period	Weekday	Weekend
Early evening	3pm – 9pm	N.A.
Day	7am – 3pm; 9pm – 10pm	7am – 10pm
Overnight	10pm – 7am	10pm – 7am

Source: Essential Services Commission

<sup>10</sup> The NEM adopted 5 minute settlement on 1 October 2021. In principle, from this date, for the purposes of determining the FiT, prices should be forecast for each 5 minute period, rather than for each 30 minute period. However, because the solar export data that we are provided is half-hourly data we continue with forecasting patterns of prices under 30 minute settlement.

<sup>11</sup> AEMC, *Schedule of reliability settings*, 22 February 2024. <https://www.aemc.gov.au/media/101764>.

<sup>12</sup> AEMC 2021, *National Electricity Rules Version 160*, Chapter 3, Section 9.6, pg. 160. Accessed 13 October 2021, <https://www.aemc.gov.au/sites/default/files/2021-03/NER%20Version%20160%20-%20full.pdf>

<sup>13</sup> AEMC, *Schedule of reliability settings*, 22 February 2024. <https://www.aemc.gov.au/media/101764>.

**Table 6:** Time of use classifications – time-varying rate 2

Period	Weekday	Weekend
Peak	4pm – 9pm	4pm – 9pm
Off-peak	10am – 2pm	10am – 2pm
Shoulder	All other times	All other times

Source: Essential Services Commission

**Table 7:** Simple (time-weighted) average and weighted average formulae

	Simple average	Weighted average formula
<b>Whole period</b>	$\frac{\sum \text{wholesale\_prices}}{\text{time\_periods}}$	$\frac{\sum \text{wholesale\_prices} * \text{solar\_weights}}{\sum \text{solar\_weights}}$
<b>Overnight</b>	$\frac{\sum \text{wholesale\_prices}_{\text{overnight}}}{\text{time\_periods}_{\text{overnight}}}$	$\frac{\sum \text{wholesale\_prices}_{\text{overnight}} * \text{solar\_weights}_{\text{overnight}}}{\sum \text{solar\_weights}_{\text{overnight}}}$
<b>Early evening</b>	$\frac{\sum \text{wholesale\_prices}_{\text{early evening}}}{\text{time\_periods}_{\text{early evening}}}$	$\frac{\sum \text{wholesale\_prices}_{\text{early evening}} * \text{solar\_weights}_{\text{early evening}}}{\sum \text{solar\_weights}_{\text{early evening}}}$
<b>Day</b>	$\frac{\sum \text{wholesale\_prices}_{\text{day}}}{\text{time\_periods}_{\text{day}}}$	$\frac{\sum \text{wholesale\_prices}_{\text{day}} * \text{solar\_weights}_{\text{day}}}{\sum \text{solar\_weights}_{\text{day}}}$

Source: Frontier Economics

Note that in **Table 7:**

- **wholesale\_prices** refer to half-hourly Victorian spot prices from 1/07/2023 to 30/06/2024
- **solar\_weights** refer to half-hourly exports
- products of **wholesale\_prices** and **solar\_weights** that are taken in the weighted average formula are between corresponding half-hours (i.e. prices and exports of the same date and half-hour are multiplied).



## 3 Selecting an historical price series

In this section we select an historical price series to use as the basis for forecasts. As discussed in the methodology section, we prefer to use the most recent series of prices for which we have solar export data (start of Q3 2023 to the end of Q2 2024) but may not if there is sufficient reason to believe this most recent wholesale price data series will not reflect future supply and demand conditions.

Importantly, we are primarily concerned with the shape of the historical half-hourly prices, not the absolute level of these prices since the average level of the prices is ultimately determined by ASXEnergy contract prices.

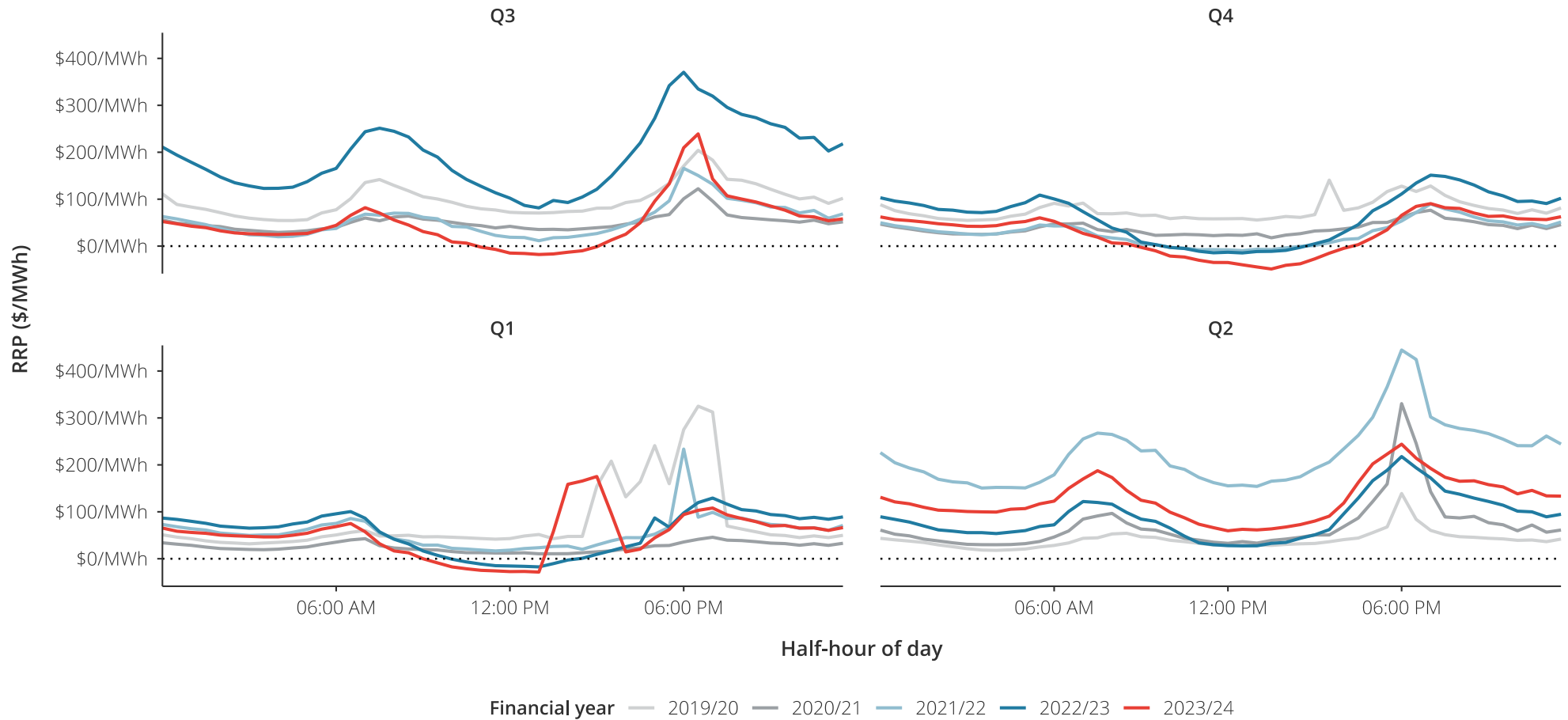
We analyse patterns of historical prices for Q3 2023 to Q2 2024 by comparing historical prices over a number of recent years. The analysis is conducted:

- On five years of historical half-hourly data on prices from Q3 2019 to Q2 2024.
- On a quarterly basis:
  - to understand seasonal differences in prices, and
  - to ensure analysis lines up with the quarterly contracts traded on ASXEnergy (which we use to determine average prices for 2025/26).

**Figure 5** presents the average daily pattern of Victorian spot prices, for each quarter, over the period Q3 2019 to Q2 2024 (i.e. the last 5 financial years).



**Figure 5:** Price profiles of Victorian wholesale electricity prices for the last 5 financial years by quarter (\$ nominal)



Source: Frontier Economics analysis of AEMO spot price data



Our analysis of these historical half-hourly prices highlighted several observations. We find that, for the most part:

- Across the years, the daily price profiles were similar within each quarter, except for Q2 2021/22 and Q3 in 2022/23, when prices were much higher on average than previous years. This reflects the substantial increases in prices across the NEM that occurred from around April 2022 and persisted until around October 2022. These increases in prices have been attributed to much higher prices for gas and coal (in turn driven by the war in Ukraine) as well as an earlier start to winter leading to higher demand and a higher than usual number of generator outages.
- Prices have tended to peak in similar trading intervals, or adjacent trading intervals. This is particularly the case in winter – Q2 and Q3 – where prices peak once in the morning (trading intervals 13 – 15 on working days and trading intervals 17 – 19 on non-working days) and once in the evening (between trading intervals 36 – 38). This is less apparent in summer – Q4 and Q1 – when outcomes are more volatile; but nevertheless, we see prices peaking in the late afternoon or early evening.
- Prices have tended to be at their lowest in similar trading intervals. Specifically, we tend to see prices at their lowest overnight and, increasingly with each passing year, during the middle of the day.

While, on the whole, we see similar pricing patterns over the years, suggesting that outcomes in 2023/24 were not ‘abnormal’, we do note that:

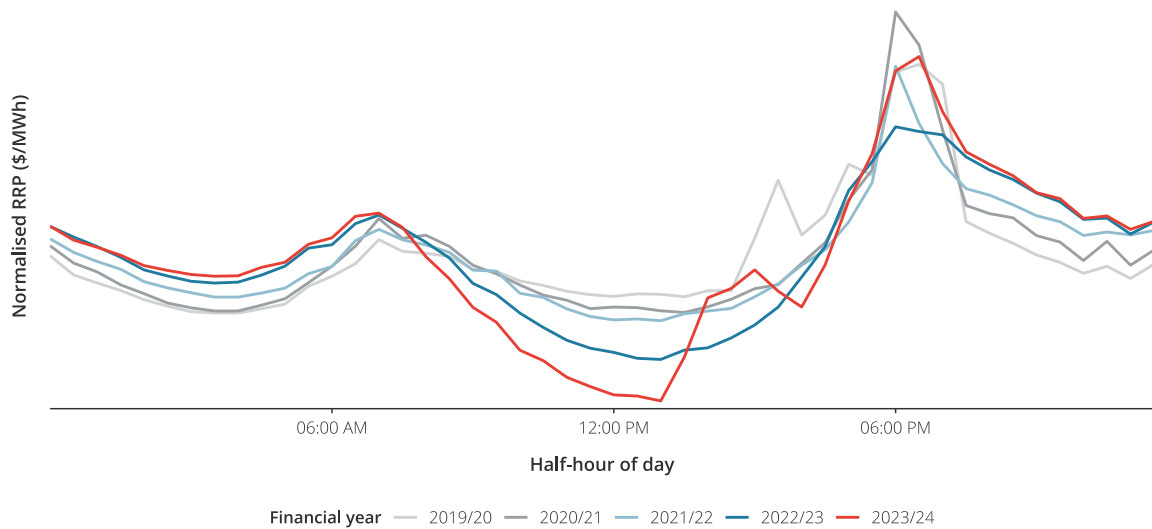
- Generally, half-hourly prices in 2023/24 have been lower in Q3, Q4, and Q1 than the previous four financial years, particularly during the day. A driving factor behind the decreased daytime prices likely reflects increasing amounts of solar generation, both from rooftop PV panels and from large solar farms.
- The increase in early afternoon prices in Q1 was due to a spot price spike on 13 February 2024, which saw spot prices rise to the market price cap of \$16,600 for 24 5-minute trading intervals between 1:15PM and 3:15PM<sup>14</sup>.
- The ratio of evening prices (intervals 35 to 41) to midday prices (intervals 21 to 31) has tended to increase over each financial year, especially over the last three financial years. We would expect this general result where there has been an increase in solar PV penetration over time without a corresponding increase in load or storage, as has been the case in Victoria and throughout the NEM. This means that more cheap electricity is produced in the middle of the day, depressing midday prices, followed by a spike in evening demand as the sun goes down and people require energy sourced from the grid.

To further our understanding of the overall trend in the ratio of evening to midday prices we can examine yearly price profiles. **Figure 6** plots wholesale prices on average through the day, for each year for the last 5 financial years, normalised so that the average price in each year is \$60/MWh to highlight changes in the *shape* of wholesale electricity prices.

<sup>14</sup> <https://www.aer.gov.au/system/files/2024-04/AER%20-%20Prices%20above%20%245%2C000%20MWh%20-%2013%2C%2021%20and%2027%20February%202024%20%28Victoria%2C%20Tasmania%20and%20South%20Australia%29.pdf>



**Figure 6:** Normalised profiles of Victorian wholesale electricity prices for the last 5 financial years



Source: Frontier Economics analysis of AEMO spot price data

Note: Price in each year normalised such that the average price is \$60/MWh

From inspection of the yearly price profiles, it is clear that the ratio of prices in the middle of the day to evening peak prices has increased over time, including in 2023/24. However, this effect is somewhat mitigated in 2023/24 by the Q1 price spike discussed above.

In our view, there is no reason to expect that this trend of lower average prices in the middle of the day would not continue into the medium term as solar entry persists, at least until large scale adoption of batteries, or the introduction of some other day-time load, increases demand for electricity during the middle of the day. As such, the 2023/24 financial year is likely to be the best starting point for projecting prices.

Based on this, we recommend using the historical prices for the most recent four quarters for which both historical prices and solar export data are available (the preferred series). These prices will be used to project prices for 2025/26.



## 4 Results on wholesale price projections

In this section we present the results of wholesale price projections for 2025/26 based on the methodology described in Section 2. These modelling results are used by the ESC for the determination of the minimum FiT rates and are presented as follows:

- Projected **quarterly** average spot prices for 2025/26 (based on ASXEnergy contract prices adjusted to remove a 5 per cent contract premium) using trade-weighted averaging over 12 months. These prices are presented in Section 4.1.
- Projected **annual** average spot prices, and average spot prices for time-varying FiTs, for 2025/26. These averages are presented both unweighted and weighted by solar PV exports. These prices are presented in Section 4.2.

### 4.1 Projected quarterly average spot prices for 2025/26

**Table 8** presents trade-weighted quarterly average spot prices for 2025/26. These are the results of Step 2 of our analysis, and are used to determine scaling factors and, ultimately, to forecast half-hourly prices for 2025/26.

**Table 8:** Projected average prices for 2025/26, using **trade-weighted** ASXEnergy contract prices (after removing 5 per cent contract premium) (\$2025/26)

Calendar quarter	12-month average (\$/MWh)
Q3 2025	\$82.74
Q4 2025	\$46.54
Q1 2026	\$66.77
Q2 2026	\$79.00

Source: Base swap price data from ASXEnergy and Analysis from Frontier Economics

### 4.2 Average half-hourly prices in 2025/26

Using the projected quarterly average spot prices for 2025/26 presented in Section 4.1, and historical half-hourly prices for 2023/24, we developed forecasts of half-hourly spot prices for 2025/26. These half-hourly spot prices are the results of Step 4 of our analysis.

This section summarises the average of these half-hourly price forecasts for 2025/26, providing a flat annual average price, as well as prices for the various time periods for each of time-varying rate 1 and time-varying rate 2.



The results in **Table 9** and **Table 10** are both based on:

- trade-weighted ASXEnergy prices for 2025/26 (as presented in **Table 8**)
- a **12-month** trade-weighted average of ASXEnergy prices
- historical half-hourly prices for 2023/24.

**Table 9** provides average half-hourly prices that do not take into account solar export data (that is, the half-hourly prices are time-weighted averages, or simple averages), while **Table 10** provides average half-hourly prices that are weighted by solar exports in each half hour interval. These solar export-weighted prices are based on solar export data for 2023/24 from each DNSP, which was provided by the ESC.

**Table 9:** Summary of half-hourly spot prices for 2025/26 (based on historical quarters Q3 2023 to Q2 2024), unweighted by solar exports (\$2025/26)

Rate type		Average spot price (c/kWh)
Flat rate		6.81
Time-varying rate 1	Early evening	12.84
	Day	3.57
	Overnight	7.81
Time-varying rate 2	Peak	13.41
	Shoulder	6.68
	Off-peak	-0.97





**Table 10:** Summary of half-hourly spot prices for 2025/26 (based on historical quarters Q3 2023 to Q2 2024), solar export-weighted (\$2025/26)

Rate type	Export-weighted average spot price (c/kWh)	
Flat rate	-2.38	
Time-varying rate 1	Early evening	3.16
	Day	-3.08
	Overnight	4.71
Time-varying rate 2	Peak	3.78
	Shoulder	-1.08
	Off-peak	-3.94

It is important to note that since **Table 10** presents prices that are based on solar export-weighted average prices, the relationship between these prices in different periods (day, early evening and overnight) does not necessarily correspond with the relationship between unweighted wholesale electricity prices during those same periods.

For example, looking at time-varying rate 1, average wholesale electricity prices in day periods and overnight periods differ only by approximately 4.2 c/kWh, as we can see in **Table 9**. However, once we weight these wholesale electricity prices by solar exports, we see in **Table 10** that prices in day periods are actually negative and far lower than prices in overnight periods. One reason for this is that day periods occur daily from 7 AM to 10 PM (excluding 3pm to 9pm on weekdays). This period captures the higher prices that tend to occur during the morning peak and evening peak, as well as the generally lower prices during the middle of the day (as we can see in **Figure 5**). However, when we take a solar-weighted average of prices in day periods (as in **Table 10**) the prices that receive most weight are the lower prices during the middle of the day, when most solar exports occur.



## 5 Sensitivities

For this final report, the ESC has asked us to investigate the impact of two methodological decisions on the estimate of the wholesale prices used to determine the FiT. Specifically, the ESC has asked us to investigate:

- The impact of excluding from the historical prices used in our analysis the high spot price event that occurred on 13 February 2024.
- The impact of using a longer period of historical prices and exports – 3 years of data rather than only a single year of data – in our analysis.

This section presents the results of these sensitivities.

### 5.1 Excluding high prices that occurred on 13 February 2024

When discussing the historical spot prices and export data that we used as a basis for forecasting solar export-weighted prices, we observed that the patterns of historical spot prices were influenced by high prices that occurred on 13 February 2024. Specifically, when we examined quarterly and annual average pricing patterns (as shown in **Figure 5** and **Figure 6**), we noted that the higher prices observed in the early afternoon were largely due to a high price event on 13 February 2024, which saw spot prices rise to the market price cap of \$16,600 for 24 5-minute trading intervals between 1:15PM and 3:15PM<sup>15</sup>.

Because these high prices occurred during a time of high solar exports, the presence of this high price event in the historical data that we use influences the solar export-weighted forecast prices.

The ESC has asked us to investigate the impact of excluding these prices (and accompanying solar export data) from the historical prices used in our analysis. The results can be seen in **Table 11**, which presents the export-weighted average spot price *including 13 February* in the historical data (as previously presented in **Table 10**) and the export-weighted average spot price *excluding 13 February* from the historical data. The impact is seen most clearly for the flat rate FiT and for the daily rate for the time-varying rate 1, both of which are materially lower if 13 February 2024 is excluded from the historical data that we use. This is because excluding this high price event results in a re-weighting of prices away from times of high solar exports towards times with low solar exports.

In our view, the logic for excluding particular events from the historical data that we use would be that these events are considered outliers, unlikely to be repeated. However, it is not clear to us that the pricing outcomes of 13 February 2024 should be thought of in that way. Certainly, those specific price outcomes will not recur, but the nature of the NEM is such that high price events could certainly recur in future at times of high solar output.

<sup>15</sup> <https://www.aer.gov.au/system/files/2024-04/AER%20-%20Prices%20above%20%245%2C000%20MWh%20-%2013%2C%2021%20and%2027%20February%202024%20%28Victoria%2C%20Tasmania%20and%20South%20Australia%29.pdf>



**Table 11:** Summary of half-hourly spot prices for 2025/26, solar export-weighted (\$2025/26) – impact of 13 February 2024

Rate type		Export-weighted average spot price (c/kWh) – including 13 February	Export-weighted average spot price (c/kWh) – excluding 13 February
Flat rate		-2.38	-3.64
Time-varying rate 1	Early evening	3.16	2.72
	Day	-3.08	-4.45
	Overnight	4.71	5.27
	Peak	3.78	4.52
Time-varying rate 2	Shoulder	-1.08	-2.22
	Off-peak	-3.94	-5.50

## 5.2 Using 3 years of historical spot prices

When discussing the historical spot prices that we used as a basis for forecasting prices, we recommended using the historical prices for the most recent four quarters for which both historical prices and solar export data are available. The reason is that we prefer to use the most recent series of prices for which we have solar export data (start of Q3 2023 to the end of Q2 2024) unless there is sufficient reason to believe this most recent wholesale price data series will not reflect future supply and demand conditions.

The ESC has asked us to investigate the impact on our analysis of using the three most recent years of historical price and export data, rather than just the single most recent year. The results can be seen in **Table 12**, which presents the export-weighted average spot price *using a single year of historical data* (as previously presented in **Table 10**) and the export-weighted average spot price *using three years of historical data*. Again, the impact is seen most clearly for the flat rate FiT and for the daily rate for the time-varying rate 1, both of which are materially higher if three years of historical data are used. This is because using a longer time-series of data results in a re-weighting of prices towards times of high solar exports and away from times with low solar exports, reflecting the fact that prices have tended to be lower when solar exports occur in the most recent year than in prior years.



**Table 12:** Summary of half-hourly spot prices for 2025/26, solar export-weighted (\$2025/26) – impact of number of years of historical data

Rate type		Export-weighted average spot price (c/kWh) – <i>single year of historical data</i>	Export-weighted average spot price (c/kWh) – <i>three years of historical data</i>
Flat rate		-2.38	-0.01
Time-varying rate 1	Early evening	3.16	4.00
	Day	-3.08	-0.51
	Overnight	4.71	5.02
	Peak	3.78	4.93
Time-varying rate 2	Shoulder	-1.08	0.80
	Off-peak	-3.94	-1.11

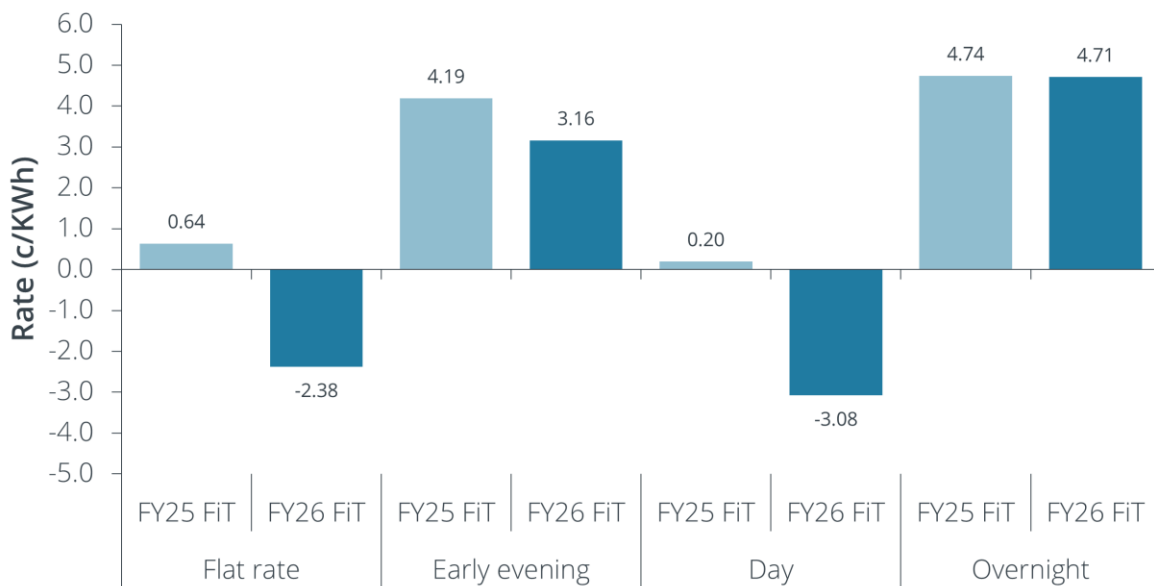


## 6 Comparison with 2024/25 FiT

This section briefly compares the results of our FiT results for 2025/26 with the equivalent result for 2024/25.

Frontier Economics previously advised the ESC on the forecast of wholesale electricity prices for the purpose of calculating minimum FiT rates for 2024/25.<sup>16</sup> As discussed, we used the same methodology for this final report that we previously used for the 2024/25 minimum FiT. In this section we explore what is driving the differences in results between the two reports. **Figure 7** below sets out solar-export weighted spot price projections for the flat-rate and time varying 1 classification for the current and previous FiT reports.

**Figure 7:** FiT comparison to 2024/25 (c/kWh, nominal)



Source: Frontier Economics

Comparing the flat-rate, solar export-weighted half-hourly spot prices we see the following:

- The flat-rate, solar export-weighted price for 2024/25, from our February 2024 FiT Report, was 0.64 c/kWh.
- The flat-rate, solar export-weighted price for 2025/26, from this report, is negative 2.38 c/kWh.

The value of the FiT depends on both the projected average price in each quarter (based on ASXEnergy base swap prices and the historical year from which the prices are scaled) and the

<sup>16</sup> Frontier Economics, *Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff*, Final Report for the Essential Services Commission, 5 February 2024 (**February 2024 FiT Report**).



correlation between projected half-hourly prices and solar export data. It is the combination of these factors that accounts for the decline in the FiT relative to 2023/24.

### Changes in projected *average prices*

The average ASXEnergy prices used in this report have changed relative to the February 2024 FiT Report for the 2024/25 FiT. Compared with the ASXEnergy prices used for our February 2024 FiT Report, ASXEnergy prices are slightly lower during Q3, Q4 and Q1.

The contract prices in the February 2024 FiT Report and this final report are compared in **Table 13**.

**Table 13:** Comparison of projected average prices based on ASXEnergy contract prices (after removing 5 per cent contract premium) (\$ nominal)

Period	Average projected price (\$/MWh) – 2024/2025	Average projected price (\$/MWh) – 2025/2026
Q3	\$85.31	\$82.74
Q4	\$50.06	\$46.54
Q1	\$67.16	\$66.77
Q2	\$78.36	\$79.00

The difference in contract prices shown in **Table 13** is one cause of the FiT for 2025/26 being lower than the FiT for 2024/25.

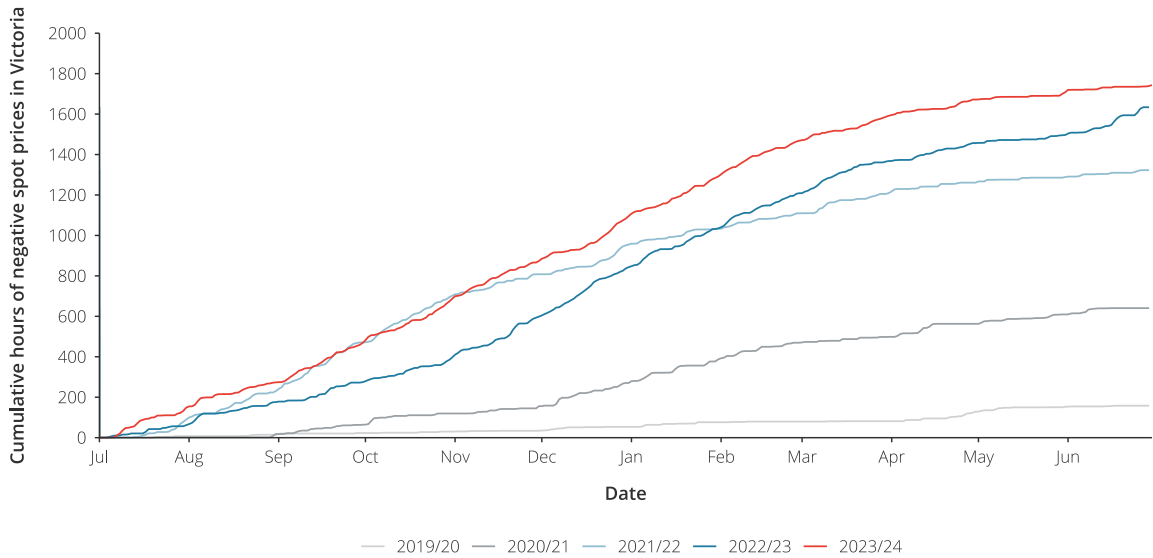
### Changes in the correlation between spot prices and solar exports

A key driver behind the decline in export-weighted solar prices is the increasing occurrence of negative daytime prices, coinciding with periods of solar energy exports. **Figure 8** illustrates the cumulative number of hours with negative spot prices in Victoria over the last five financial years. We can see that negative spot prices are becoming more frequent, with 2023/24 reaching a record high, where approximately 20%<sup>17</sup> of all intervals throughout the year had a negative spot price.

<sup>17</sup> 1744 hours divided by 8,784 hours (366\*24) in 2023/24



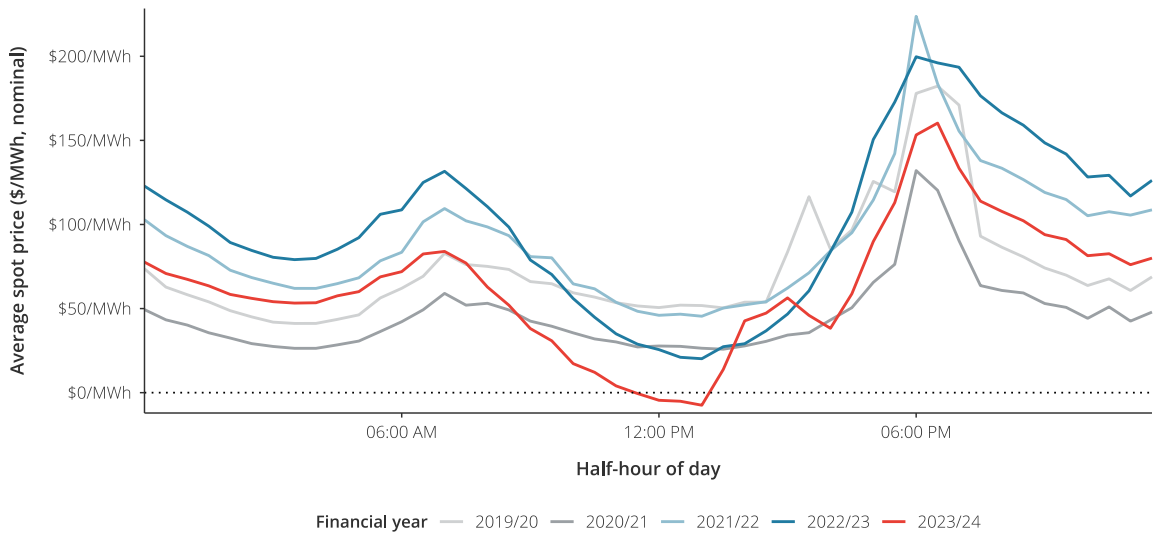
**Figure 8:** Cumulative hours of negative spot prices



Source: Frontier Economics analysis of AEMO data

The daily price profile for the same period is depicted in **Figure 9**. For the first time, spot prices in the hours between 11:00 and 13:00 were negative, on average, throughout 2023/24.

**Figure 9:** Average daily spot price profile



Source: Frontier Economics analysis of AEMO data

As we have shown above, negative spot prices are increasingly occurring during the day. This is relevant to the calculation of the FiT as these negative prices are occurring at the same time that solar is usually exporting to the grid. We have combined the solar export data from the ESC with spot prices to assess the correlation between exports and spot prices. Over recent years, this

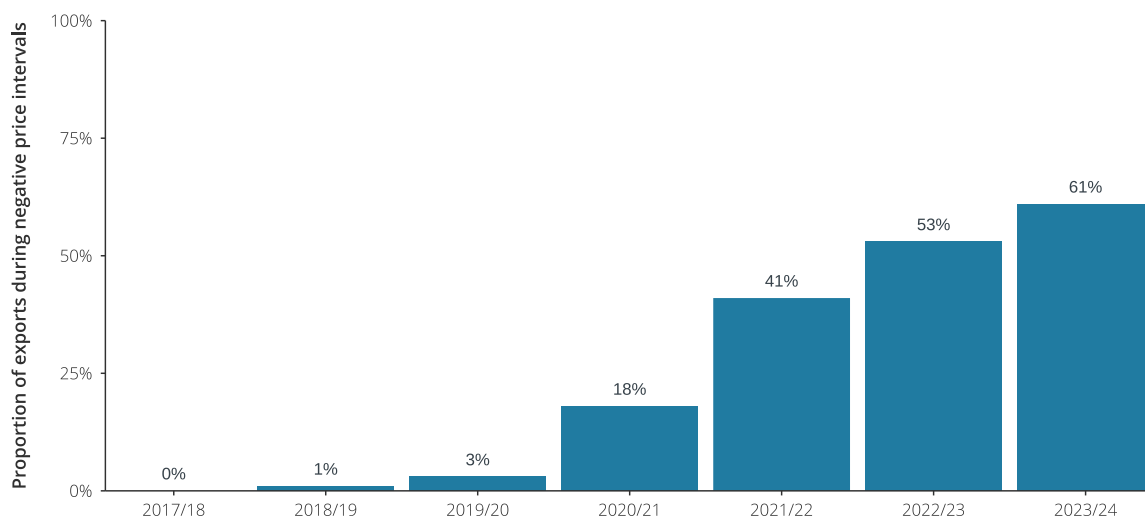


correlation has become much more pronounced, with spot prices tending to be much lower on average during the day (when solar exports are occurring), and negative spot prices also tending to occur much more often when solar exports are occurring.

We have plotted this relationship in **Figure 10**, which shows the proportion of total solar exports that have occurred at times when spot prices are negative. In 2017/18 and 2018/19 less than 1 percent of total solar exports occurred when spot prices were negative, but by 2022/23 – the historical year that was used for the 2024/25 FiT – that had increased to 53% of total solar exports occurring when spot prices were negative.

By 2023/24 – the historical year that is used for the 2025/26 FiT – this had increased again to 61% of total solar exports occurring when spot prices were negative.

**Figure 10:** Proportion of solar exports occurring when prices are negative



Source: Frontier Economics analysis of AEMO and ESC data

These changing patterns of prices – spot prices tending to be lower and negative during times of solar exports – is a second cause of the FiT for 2025/26 being lower than the FiT for 2024/25.



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