



# ENERGY FOCUS

FY Review - 2007/2008\_

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AUSTRALIAN ELECTRICITY

AN ALTERNATIVE  
INVESTMENT OPTION





**WELCOME TO THE 16<sup>TH</sup> EDITION OF ENERGY FOCUS**  
**FINANCIAL YEAR REVIEW 2007/2008**

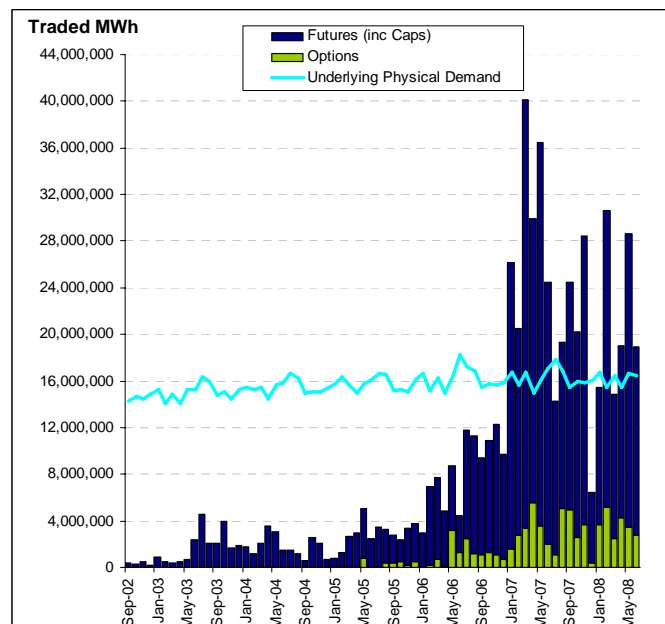
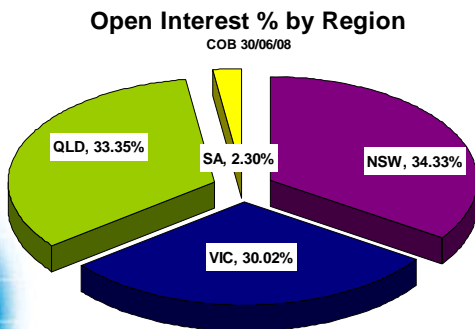
	2006/07	2007/08
Futures, Caps & Options contracts traded	115,189	112,599
Avg Daily Volume	454 contracts 956,695 MWh	445 contracts 951,746 MWh
% of underlying physical market demand	125 %	123 %
Total Traded MWh (Approx)	243 million	241 million
Face Value Traded (Approx)	\$11.9 billion	\$12.9 billion
Open interest (COB end June)	40,272 contracts	47,496 contracts
Face Value of Open Interest (COB end June)	\$7.76 billion	\$5.9 billion
Contract volume is quoted on a 1 MW calendar quarter equivalent basis		

Futures and options trading for Financial Year 2007/08 continued to show strong and robust liquidity. Traded volume for the year represented 123% of the underlying National Electricity Market (NEM) physical system demand which is consistent with the strong results from the previous Financial Year. This bodes particularly well for future liquidity considering the unprecedented poaching of key trading personnel which occurred, as new financial trading firms entered the electricity futures market en masse.

Highlights of the year include:

- > February 2008 set the yearly record for traded volume as a percentage of underlying NEM system demand at 197%. This equated to the equivalent of 30.6 million MWh trading in the month, 5.1 million of which was traded as options contracts.
- > A major growth in options trading occurred this Financial Year with 39.5 million MWh trading as options which is an increase of 48% on the previous Financial Year.
- > Growth in open interest extended to set a new record COB June 2008 of 47,496 contracts with a face value of \$5.9 billion. This number of open contracts represents a growth of 18% above the previous Financial Years numbers.
- > Options open interest grew by 28% on the year and now represents the equivalent of 30% of futures open interest. Interestingly for the Calendar 2009 products the breakdown of open interest shows a substantial leaning towards options. Cal 2009 options open interest represented as quarterly contracts equates to 56% of 2009 futures open interest.
- > Since the implementation of operational policy changes in December 2007 block trade volume (as a percentage of traded volume) has reduced to 38% (from 55% in FY 06/07). The operational policy changes have delivered improved on-screen market transparency and liquidity.
- > Since the introduction of the strip allocation algorithm in December 2007 the process of allocating strip leg prices has been formula based. This hassle free process enables traders and brokers to continue trading, following market activity rather than wasting time negotiating post trade price allocations.
- > This Financial Year has also seen an influx of financial traders to the Australian Electricity market. Financial traders focusing on electricity now include (but are not limited to): ANZ, Arcadia Energy Trading, Attunga Capital, BP Energy Asia, Commonwealth Bank, DE Shaw and Co, Electrade Derivatives, IMC Pacific, Liquid Capital, Optiver, Societe General, Tibra Capital and Westpac.

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**PRICE ACTION  
FINANCIAL YEAR – 2007/2008**

Influenced by the impending launch of a national carbon trading scheme, water storage levels and the potential multi billion dollar NSW electricity industry privatisation, prices across the eastern seaboard states all followed a similar price pattern over the financial year. Cal 2009 prices opened the year at the highs and fell sharply into the beginning of February (NSW -27%, QLD -23%, VIC -21%), stabilised and finally retraced moderately by the years end.

Implied Cal 09 price ranges included:

NSW – high \$71.68 (2/07/07), low \$44.51 (11/02/08), close \$49.71.

VIC – high \$62.65 (2/07/07), low \$41.85 (6/02/08), close \$49.92

QLD – high \$61.63 (2/07/07), low \$38.79 (11/02/08), close \$50.76.

Conversely, influenced by aggressive generation behaviour in the physical market, SA began the financial year at the lows and rallied strongly into a January high (a rise of 61% from the low) and remained near the highs for the rest of the year.

SA – low \$41.10 (13/08/07), high \$66.14 (7/01/08), close \$64.37.

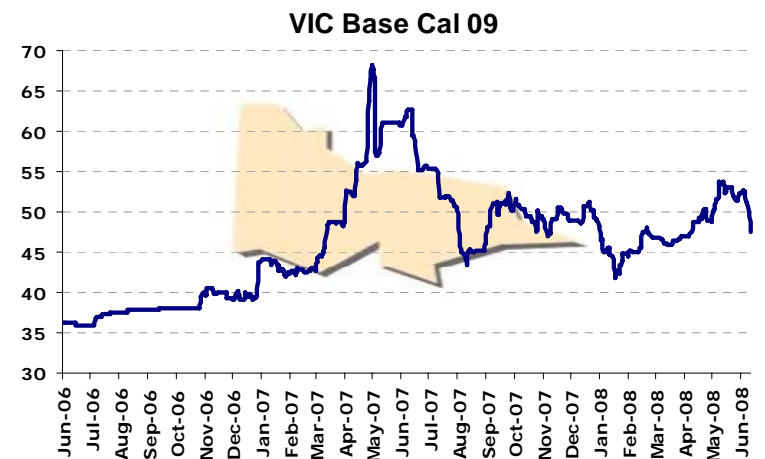
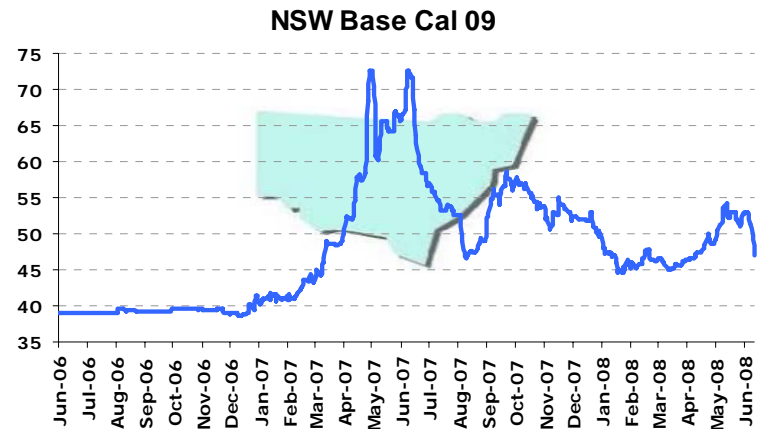
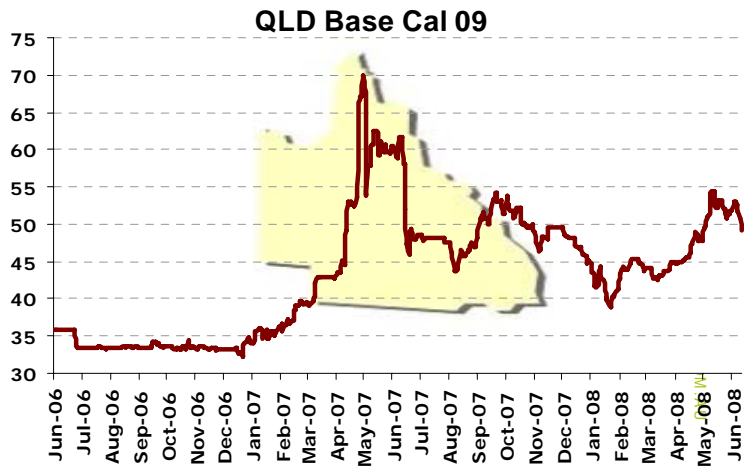
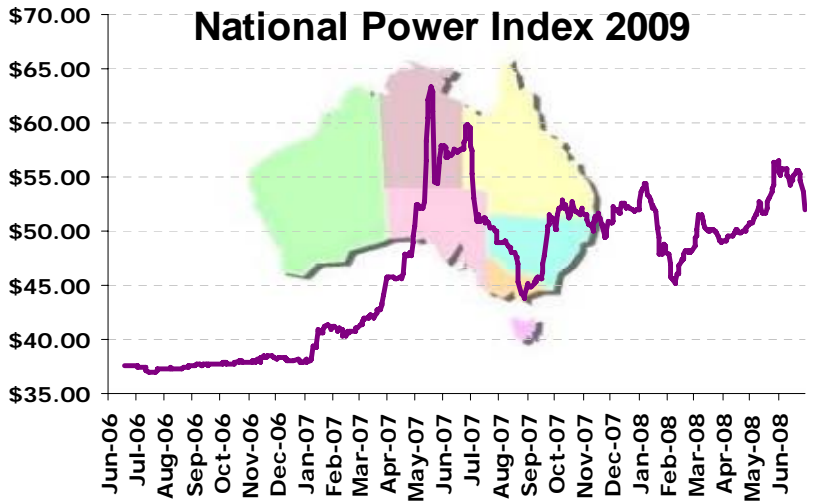
Options implied price volatility traded a wide range during the year. The headline 2009 base load options contracts settled at volatility levels between:

NSW – high 29.84%, low 16.4%

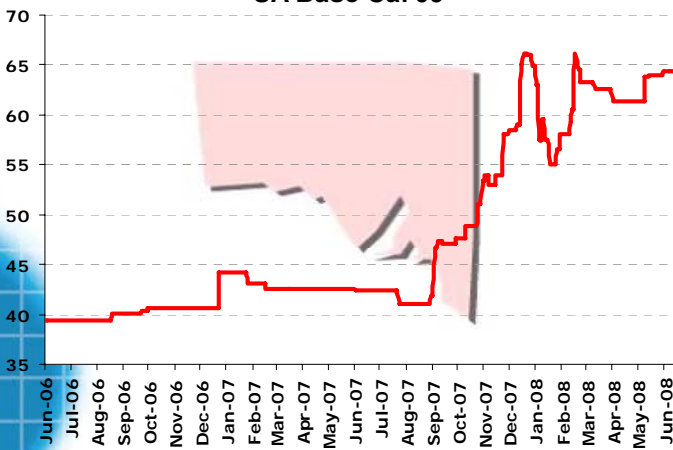
VIC – high 30.89%, low 16.7%

QLD – high 29.46%, low 15.46%

Option premium traded during FY 07/08 across all options ranged from a low of \$0.15/MWh to \$15/MWh with an average option premium value of \$2.89/MWh.



**SA Base Cal 09**





## THE D-CYPHATRADE AUSTRALIAN POWER INDICES

### AUSTRALIAN ELECTRICITY AS AN INVESTMENT ALTERNATIVE

Energy and commodities are growing in popularity as a separate investment asset class in their own right. Negative investment returns from mainstream asset classes such as domestic and international equity markets, fixed interest and property markets have emphasised the diversification benefits of energy price-linked investments.

The Australian electricity market is uniquely non-correlated to international oil and gas prices, or other factors that commonly affect fixed interest, equity and property markets. Wholesale investment professionals seeking portfolio diversification opportunities have a myriad of potential investment strategies to chose from, benchmarked to Australian electricity prices.

d-cypha SFE Electricity futures are cash settled without physical electricity delivery, providing professional funds managers with the ability to create electricity price-linked investments directly via their SFE Participant, avoiding many of the costs and risks associated with investing in physical power assets.

In response, d-cyphaTrade has launched 2 indices based on variations of a calendar year index comprising d-cypha SFE Australian Electricity contracts for a 1 year duration across either the Australian National (NSW, VIC, QLD and SA) or the Australian Eastern Seaboard (QLD, NSW, VIC) regions.

The methodology of selecting the component futures contracts for inclusion in both the National Power Index and the Eastern Power Index has been determined on the basis of contract liquidity and open interest.

#### 1. NATIONAL POWER INDEX (NPI)

The NPI is calculated as the national average price of d-cypha SFE Electricity Futures prices covering a calendar year and will be quoted for all available calendars listed including the prompt with a cascading expiry. It represents a single national basket of electricity futures listed across the NEM regions of NSW, VIC, SA and QLD.

#### 2. THE EASTERN POWER INDEX (EPI)

The EPI is calculated as the national average price of d-cypha SFE Electricity Futures prices covering a calendar year across the Australian Eastern Seaboard and will be quoted for all available calendars listed including the prompt, with a cascading expiry. It represents a single national basket of the most liquid electricity futures listed across the NEM Eastern Seaboard regions of NSW, VIC and QLD.

The indices are published daily by d-cyphaTrade using official SFE daily settlement prices.

See [www.d-cyphaTrade.com.au](http://www.d-cyphaTrade.com.au)

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