



OPERATION OF THE ADMINISTERED PRICE PROVISIONS IN THE NATIONAL ELECTRICITY MARKET

BRIEFING PAPER

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IMPORTANT NOTICE

Purpose

AEMO has prepared this document to provide information about operation of the administered price provisions in the National Electricity Market, as at the date of publication.

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1. INTRODUCTION

The administered price provisions of the National Electricity Rules form an important component of the market safety net which operates to protect and sustain electricity trading during periods of sustained high prices. If market prices in a region rise to levels which are likely to cause substantial financial stress, then those prices are capped until they return to lower levels. This paper describes the operation of such administered price periods.



2. TRIGGER FOR ADMINISTERED PRICE

An administered price period (APP) is triggered when the sum of the spot prices in a single region for the previous 336 trading intervals (seven days) reaches the cumulative price threshold (CPT).

The CPT is calculated according to the formula defined in sections 3.14.1(e)-(f) of the National Electricity Rules (NER), and published on the Australian Energy Market Commission (AEMC) website. It is reviewed annually and applies from 1 July each year. The CPT for the 2015-16 financial year is \$207,000, which is equivalent to an average spot price of \$616.07/MWh over the previous 7 days. 7.5 hours at the Market Price Cap (MPC) is typically sufficient to breach the CPT and trigger an APP.

An APP is also triggered if the sum of the prices for a market ancillary service for 2,016 dispatch intervals (equivalent to seven days) exceeds six times the CPT.

Administered price conditions are independently assessed and triggered for each region of the NEM.



3. OPERATION DURING AN ADMINISTERED PRICE PERIOD IN A REGION

The application and operation of an APP is specified by the AEMC at <http://www.aemc.gov.au/Rule-Changes/Application-and-operation-of-Administered-Price-Pe>.

When an APP is triggered, AEMO publishes a market notice to advise of the start of an APP from the beginning of the trading interval immediately after that in which the CPT was exceeded. Market prices and generation dispatch continue to be calculated normally. However, the Administered Price Cap (APC) and Administered Floor Price (AFP) are invoked to apply upper and lower limits on the published dispatch prices for energy and market ancillary services as per section 3.14.2 of the NER.

The value of the APC is currently \$300/MWh applied at all times. The AFP for energy is -\$300/MWh. Market ancillary service prices are never negative.

As the prices are capped for individual dispatch intervals, the spot price for a trading interval in an APP will reach the cap value only if each of the 6 dispatch interval prices in a trading interval is at least equal to the cap value.

Administered price caps are applied after all other price modifiers, such as over-constrained dispatch and non-physical loss re-runs, as well as market suspension pricing and the setting of MPC when load is about to be shed or has been shed and cannot be restored.

The published spot market prices are those resulting from the average of the dispatch prices subject to the application of the administered price caps. All market settlement amounts including distributions under the Settlement Residue Distribution Agreements are calculated using the published spot market prices.

The APP arrangements have no direct effect on the dispatch of scheduled generation. The regional dispatch prices prior to the application of the any capping are recorded so that the cumulative price of the last 336 consecutive trading intervals can be tracked continuously.

Once invoked, the APP continues at least to the end of the current trading day at 04:00 hours.



4. EFFECT ON CONNECTED REGIONS

Administered price arrangements include provisions to transfer price caps to interconnected regions. During an APP in a region, a price cap or floor is applied to a neighbouring region while power flows on one or more regulated interconnectors from the neighbouring region towards the administered priced region. Under these conditions, the Regional Reference Price (RRP) for that adjacent exporting region is capped or floored to a value determined by multiplying the importing region's capped dispatch price by the average loss factor of the interconnector between the two regions. The average loss factor is determined from the published inter-regional loss factor equations published on the AEMO website and is different to the marginal loss factor that is used to determine optimal dispatch.

If power is dispatched from one region to a second region that is exporting power to a third region which is capped or floored, then the dispatch price of the first region is capped or floored to a value determined by the product of the two average loss factors (for the two interconnectors) and the cap or floor applying to the third region.

If power is dispatched from a region subject to administered price to one that is not, then the RRP in the importing region is not affected and significant inter-regional settlement residues are likely to be generated.



5. END OF ADMINISTERED PRICE PERIOD

An administered price period ends at 04:00 hours if at that time the cumulative price (as calculated from dispatch prices without capping) is less than the CPT.