AEMO

AUSTRALIAN ENERGY MARKET OPERATOR

Guide to Administered Pricing

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NER 3.14.1, 3.14.2

Important notice

PURPOSE

The Australian Energy Market Operator (AEMO) publishes the Guide to Administered Pricing to provide general information about the operation of the administered price provisions in the National Electricity Market (NEM) as at the date of publication.

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VERSION CONTROL

Version	Release date	Changes
2.0	12/07/2019	• Updated to new AEMO template • Modified for 5-minute settlement
2.1	31/12/2020	• Updated for delayed start date to 5-minute settlement

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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 maintain electricity trading in the National Electricity Market (NEM) during periods of sustained high prices. If market prices in a region rise to levels that 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 an Administered Price Period

Administered price conditions are independently assessed for each region and each market (energy and ancillary services) in the NEM. As outlined in NER 3.14.2(c), an administered price period (APP) is triggered for a given interval and market in a region when, over the seven days leading up to that time:

- for the energy market, the regional reference prices (spot prices); or
- for an ancillary services market, the relevant ancillary service prices,

add up to more than a limit defined by the 'cumulative price threshold' (CPT). The sum of prices over the previous seven days is calculated as if any APP conditions did not apply.

Until 30 September 2021, the CPT is based on 30-minute trading intervals in the energy market, and is extrapolated to apply to 5-minute dispatch intervals for ancillary service markets. From 1 October 2021, the CPT will be applied to 5-minute trading intervals for all markets.

The CPT is calculated annually by the AEMC according to the formula in clauses 3.14.1(e)-(f) of the NER. This figure is published by 28 February each year, and takes effect on 1 July. The CPT for the 2020-21 financial year is $224,600, which is equivalent to an average spot price of $668/MWh over seven days.

3. Operation during an Administered Price Period in a region

If an APP is triggered in relation to energy in a region, price capping and flooring is applied to the energy and all market ancillary service prices in the region. If an APP is triggered in relation to a market ancillary service in a region, price capping is applied to all market ancillary services in the region.

When an APP is triggered, AEMO publishes a market notice to advise the start of an APP from the beginning of the interval immediately after that in which the CPT was exceeded. NEM dispatch and prices continue to be calculated normally. However, the Administered Price Cap (APC) and Administered Floor Price (AFP), defined in NER clauses 3.14.1(a)-(b), are invoked to apply upper and lower limits on the published prices as per clauses 3.14.2(d1)-(d2) of the NER.

- The value of the APC for each region is $300/MWh, applied to energy and market ancillary services prices.
- The value of the AFP for each region is -$300/MWh applied to energy prices. The AFP does not apply to ancillary service prices as ancillary service prices are never negative.

Administered price caps are applied after all other price modifiers, including:

- Over-constrained dispatch
- Market suspension pricing
- Price scaling
- MPC override when load is about to be shed or has been shed and cannot be restored.

Once invoked, the APP continues to at least the end of the current trading day at 0400 hours.

4. Effect on connected regions

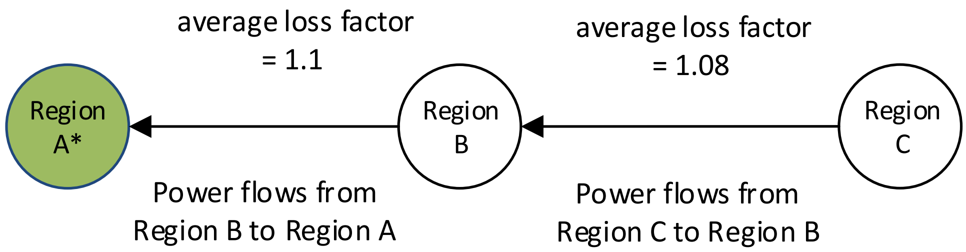
Administered price arrangements include provisions to transfer price caps and floors to interconnected regions.

When one or more regulated interconnectors carry power towards a region at the administered price cap, then the price of the exporting region or regions is capped at the price of the importing region divided by the average inter-regional loss factor between the two regions.[1]

Figure 1 shows how administered pricing can cause price scaling between connected regions. If the region A price is capped at the APC and power is flowing from region C to B to A, then:

- The price of region B is capped at the administered price in region A divided by the average loss factor between regions A and B
- The price of region C is capped at the administered price in region A divided by the average loss factor between regions A and C. The loss factor between A and C is the loss factor between A and B multiplied by the loss factor between B and C.

Figure 1 An example of how administered pricing is applied to connected regions



	Region A	Region B	Region C
Original Price	$1000/MWh	$900/MWh	$850/MWh
Capped Price	$300/MWh	300/1.1=$272.73/MWh	300/(1.1*1.08)=$252.53/MWh

An analogous price flooring occurs when one or more regulated interconnectors carry power from a region at the administered floor price. In this case the price in an importing region is floored at the price of the exporting region multiplied by the average inter-regional loss factor between the two regions.

5. End of an Administered Price Period

An administered price period ends at 0400 hours if, at that time, the cumulative price over the previous seven days (as calculated from spot prices or market ancillary service prices without capping or flooring) does not exceed the CPT.

[1] The average loss factor is determined from the published inter-regional loss factor equations published on the AEMO website, and differs from the marginal loss factor used to determine optimal dispatch.