
# Guide to Administered Pricing

**July 2020**

Briefing paper

# 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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## VERSION CONTROL

| Release date | Changes |
|---|---|
| 22/06/2020 | Update with FY 2020/21 information |

# Contents

# 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 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 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:

- A trading interval, where the sum of the spot prices for the previous 336 trading intervals (equivalent to seven days)[1] exceeds the cumulative price threshold (CPT).
- A dispatch interval, where the sum of the ancillary service prices for a market ancillary service in the previous 2,016 dispatch intervals (equivalent to seven days)[2] exceeds six times the CPT.

The sum of prices over the previous seven days is calculated as if any APP conditions did not apply.

The CPT is calculated according to the formula defined by clause 3.14.1(e)-(f) of the National Electricity Rules (NER) and published on the Australian Energy Market Commission (AEMC) website[3]. It is reviewed annually and takes effect on 1 July each year.

The CPT for the 2020-21 financial year is $224,600, which is equivalent to an average spot price of $668.46/MWh over the previous seven days.

Until 30 June 2021, the CPT is based on 30-minute trading intervals, and is extrapolated to apply to 5-minute dispatch intervals for ancillary service markets. From 1 July 2021, the CPT will be determined and applied based on 5-minute trading intervals for all markets.

[1] If any of the spot prices were subject to APP in the last seven days, use the prices calculated as if APP did not apply.

[2] If any of the ancillary service prices were subject to APP in the last seven days, use the prices calculated as if APP did not apply.

[3] http://www.aemc.gov.au/

# 3. Operation during an administered price period in a region

If an APP is triggered in relation to energy, 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, 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 trading interval immediately after that in which the CPT was exceeded. NEM prices and dispatch 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.
- 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

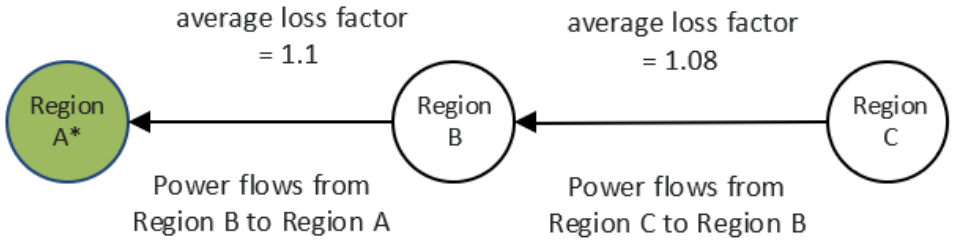
Administered price arrangements include provisions to transfer price caps and floors to interconnected regions.

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.[4]

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 APP 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 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.

[4] 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.