Guide to Administered Pricing

July 2023

Briefing paper

Important notice

PURPOSE

The Australian Energy Market Operator (AEMO) has prepared this document to provide information about operation of the administered price provisions in the National Electricity Market (NEM), as at the date of publication.

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VERSION CONTROL

Release date	Changes
01/07/2023	Update with FY 2023/24 information
1/12/2022	Updates for the APC value change from $300/MWh to $600/MWh, take effect from 1 December 2022 until 30 June 2025 in line with the final rule change determination from AEMC
01/07/2022	Update with FY 2022/23 information

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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 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:

- the sum of the regional reference prices (spot prices) in the energy market for the previous 2,016 trading intervals (equivalent to seven days) exceeds the cumulative price threshold (CPT); or
- the sum of the ancillary service prices for a market ancillary service for the previous 2,016 trading intervals (equivalent to seven days) exceeds 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[1]. It is reviewed annually and takes effect on 1 July each year. The CPT was applied to 5-minute trading prices from the commencement of 5-minute settlement on 1 October 2021 in both the energy market and ancillary service markets. The CPT for the 2023-24 financial year is $1,490,200, which is equivalent to an average spot price of $739.19/MWh over the previous seven days.

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[1] 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 $600/MWh applied to energy and market ancillary services.
- The value of the AFP for each region is -$600/MWh applied to energy prices. The AFP does not apply to ancillary service prices as ancillary service prices are never negative.
- The APC has temporarily increased from $300/MWh to $600/MWh from 1 December 2022 until 30 June 2025, following which, any change to the longer-term setting of the APC would be made following the AEMC's consideration of the Reliability Panel's rule change request.

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

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

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.[2]

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
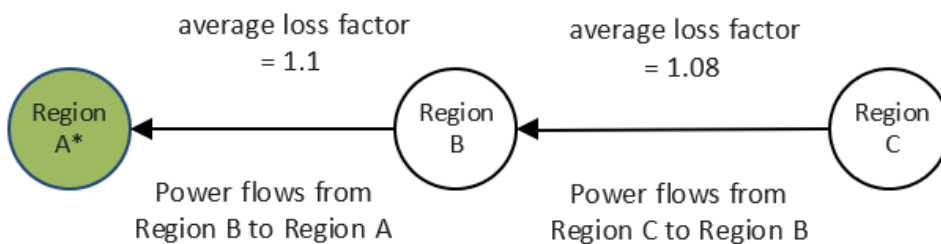
	Region A	Region B	Region C
Original Price	$1000/MWh	$900/MWh	$850/MWh
Capped Price	$600/MWh	600/1.1=$545.45/MWh	600/(1.1*1.08)=$505.05/MWh

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.

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[2] 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.

6. Compensation following the application of administered price cap or administered floor price

Eligible Participants can make a claim for compensation following the application of administered price cap or administered floor price. The process for making a claim is outlined in NER 3.14.6.

For more information regarding the compensation guideline, please refer to the AEMC website[3].

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[3] https://www.aemc.gov.au/news-centre/media-releases/how-lodge-claim-australian-energy-market-commission?utm_medium=email&utm_campaign=AEMC-update&utm_content=aemc.gov.au%2Fnews-centre%2Fmedia-releases%2Fhow-lodge-claim-australian-energy-market-commission&utm_source=cust49597.au.v6send.net