



Application and operation of Administered Price Periods

Draft Rule determination 21 July 2011

This proposed Rule clarifies the way that the Australian Energy Market Operator (AEMO) must administer prices in the National Electricity Market (NEM) for electricity and for ancillary services during Administered Price Periods. The Rule also corrects a number of related drafting errors for improved clarity

Administered Price Periods

Administered Price Periods can be triggered in the NEM following sustained periods of extreme prices. They act to constrain prices to fall between $-\$300/\text{MWh}$ and $+\$300/\text{MWh}$ until the adverse market conditions have abated, protecting consumers and participants from the possibility of ongoing or indefinite periods of extreme prices.

The AEMC's Draft Rule and Draft Rule Determination

The key determinations include:

- Removal of AEMO's discretionary power to extend an Administered Price Period into a subsequent trading day under consent of the Australian Energy Regulator (AER);
- Clarification that whenever an Administered Price Period is triggered by a Market Ancillary Service, that all eight Market Ancillary Service prices are to be capped and floored to the Administered Price Cap and Administered Floor Price respectively;
- Clarification that an Administered Price Period triggered by a Market Ancillary Service is to commence in the dispatch interval immediately following that interval in which the necessary threshold is breached;
- Correction of a drafting error in the Rules that applies to constrain prices in neighbouring regions during an Administered Price Period, and correction of a corresponding drafting error present in the application of the Market Floor Price.

Background

In January 2011 the AEMC received this Rule Change Request from AEMO seeking to amend the Rules regarding the application and operation of Administered Price Periods in the NEM. On 31 March the AEMC published its first round consultation paper. Three submissions were received in response, from the AER, the National Generators Forum (NGF), and TRUenergy. The AEMC decided to endorse all of the key aspects of the Rule Change Request in making its draft Rule determination.

In its submission the NGF drew attention to an apparent drafting error present in the clauses relating to the constraining of prices in regions adjacent to a region in which an Administered Pricing Period applies. AEMO subsequently identified a related error in the clause that describes the constraining of prices in neighbouring regions during the application of a Market Floor Price in a region.

The AEMC has decided to amend both of these errors.

Administered Price Periods in the NEM have been rare, and have typically only lasted for a few days when triggered.

Administered pricing in the NEM

The NEM has featured four distinct periods of administered pricing in its history. Most of these occurred following periods of system stress in which electricity demand was high. These events all featured administered pricing for energy prices, but not for market ancillary service prices.

AEMO did not exercise its discretion to extend any of these Administered Price Periods beyond the compulsory timeframe. Under the new rules, this discretion will not exist, improving certainty for participants and for AEMO with regard to market intervention.

This rule change clarifies in particular what AEMO should do when Market Ancillary Service prices cause an Administered Pricing Period to trigger, as the process under the current drafting of the Rules is not clear.

Next steps

The AEMC invites submissions to this draft determination by the closing date of 1 September 2011.

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