



19th June 2015

Mr James Curtain
Commission of Energy Regulation
The Exchange
Tallaght
Dublin 24

Joe Craig
Utility Regulator
Queens House
14 Queen Street
Belfast BT1 6ED

Non Confidential

Re: Aughinish Alumina Ltd. response to Discussion Paper (SEM/15/031)

Dear John,

Aughinish Alumina Limited (“Aughinish”) welcomes the opportunity to discuss Market Power in relation to the I-SEM market development. This response is not confidential.

Introduction

Aughinish have operated a large scale 160MW High Efficiency Combined Heat and Power (CHP) plant at its site in Askeaton, County Limerick since 2006 under the CAP05 Capacity contract. Since commercial operation the plant has played a major role in contributing to Ireland’s energy efficiency targets and reduction in CO2 emissions accounting for an average saving of around 330,000 tonnes per annum. The €110,000,000 investment has significantly decarbonised its production process.

The alumina manufacturing facility, which operates on a continuous 24-hour, 364 days-a-year basis, employing circa.460 full time highly skilled workers on site, has a constant demand for high quality steam. The CHP plant provides that steam and is therefore an integral and indispensable component of the facility and its continued operation. Prior to installing the CHP plant, steam for the alumina facility was exclusively generated by heavy fuel oil boilers.

In the event that the CHP plant was not running the ability of the alumina plant to operate would be fundamentally restricted. Turning off the CHP would also have an immediate impact on the national CO2 emission levels as a significant amount of CO2 would be produced from other less efficient sources.

The ability therefore of the CHP plant to recover a true market price for power is critical not alone to the operational running of the alumina manufacturing facility but also to Ireland achieving it’s emission targets.

The SEM market

Aughinish, as it approaches the end of the 10 year CAP05 contract, is aware of the needs of small players in the electricity market to be able to minimise exposure to volatile markets. Under the existing market mitigation measures in the SEM there is a level of reassurance of the market price clearing a true fuel based price. As identified in the discussion paper participants have the option to forward trade fuel swaps in place of a forward market to ensure a level of price security.

The directed contracts have gone a way to supporting suppliers who want to have a more secure position. However it is clear that even under the current SEM there is concerns with market liquidity.

I-SEM market power discussion

There is concern that the lack of liquidity in the SEM will continue into the I-SEM, for Aughinish, as an independent generator with no vertical integration and with no out of market supports, the primary concern is not being able to recover a true market price. Price suppression is a real threat from two sources:

- Market power abuse
- Market distortion from out of market supports

The latter is a fundamental question for the Irish government, European energy policy and the overall I-SEM design therefore will not form part of this discussion response, however the impact cannot be ignored.

It is the view of Aughinish that the best method of mitigating market power abuse is to ensure a liquid forwards market. This would allow smaller participants to grow a business with a level of foresight and thereby security. In an effort to minimise regulatory involvement, opportunity should initially be offered to dominant participants to propose a system where they could act as market makers without the need for intervention.

In any market solution a market monitoring function will be required to act ex-post and determine if market power was being used to affect market outcomes. Similar to other markets if the market does not solve an abuse the Market Monitoring should be able to implement changes.

Vertical ring fencing seems appropriate but perhaps with the removal of portfolio bids for standard participates in the HLD it could be argued that this is no longer necessary. Indeed it might prove to be impossible to implement if there is financial balancing in the background.

Transparent real market price: it is important that generations have a view of the true market price of power. It would appear from the I-SEM discussion to-date that the DAM will be the main pooling of power and should serve as an indicator of the market price. There might be merit in ensuring that the majority of trading is offered to the DAM and not held back to spill into the BM or IDM. Or indeed the



DAM should be protected from large dumping of in-merit load (which might or might not materialise) due to it acting as a reference market for out of market supports.

Critically, credit is a barrier to entry for small participants and can be abused by those in a position of strength. Credit requirements for participation in all the I-SEM markets should be managed centrally to minimise the over or even double securing of a market position before real time. Credit requirements should be appropriate to the liability and the methodology should be the same for all participants. As suggestion by other participants in the Forwards and Liquidity discussions consideration should be given to the operation of a clearing house in the I-SEM.

We would welcome further discussions or the opportunity to clarify our position.

Yours sincerely

Thomas O'Sullivan
Sr. Business Analyst
061 604473