RUSAL
AUGHINISH

19th June 2015

Kevin Baron
Utility Regulator
Queens House
14 Queen Street
Belfast BT1 6ED

Non Confidential

Re: Aughinish Alumina Ltd. response to consultation paper (SEM/15/032) on 'Fixed Cost of a Best New Entrant Peaking Plant, Capacity Requirement & Annual Capacity Payment Sum for the Trading Year 2016'

Dear Kevin,

Aughinish Alumina Limited ("Aughinish") welcomes the opportunity to give our views on this consultation.

Aughinish 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 of Sealrock3 and Sealrock 4, 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.

Capacity on this trading site is paid as a generator on the net exported power from the site after deducting the onsite load of 45MW.

Consultation response over view

Aughinish were surprised to see the proposed market value applied to capacity reduce so dramatically whist the constraints of the BCoP remain unchanged and considering the SEM Committee have used the same method as that used in 2007 to 2013. This proposal appears to erode the financial certainty to generators which was the purpose in setting up a CRM in the first place. This principle was reaffirmed in the CPM Medium Term Review[1] where the SEM Committee ("SEMC") stated that it considers the CPM as a key feature of the SEM design and in particular it is "mindful that the CPM provides signals for new entry/investment".

The SEM/14/111[2] Generator Financial Performance in the Single Electricity Market (SEM) clearly demonstrates that the market returns for generators is not consistent with the CPM objective. The document shows that the Irish system is hugely reliant on gas generation, it also goes on to show that gas generators are returning the lowest net profits of all in the Irish generation mix. After excluding impairment charges the average gas generator net profits stood at 5% in 2013. By the regulator further degrading the revenue for all generators there is a risk that the gas generators will be operating at a loss and be forced to mothball plant.

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[1] SEM-12-016
[2] SEM-14-111

The gravitas of this situation should be considered by the SEM Committee with respect to an open market and the resultant consequence for existing independent generators and the likely hood of future investment. The conceivable exiting of in-merit units ahead of our-of-merit units could in the long term adversely affect security of supply, market competition and therefore increase the price of power in the All-island market.

Specific consultation concerns:

- The RAs for the period 2013-2015 "Component Horizon Period" offered stability and certainty to the volatility of the annual capacity pot by the BNE preceding year value (€/kW/year value) being indexed to reflect inflation. With the uncertainty around the CPM and the I-SEM design and subsequent delays in the start date to 2017, it is more important than ever for the RAs to maintain BNE stability and therefore Aughinish would suggest a continuation of the indexation of the preceding BNE value (i.e. the 2015 value of €81.60€/kW/yr) applies until the I-SEM commences.
- The WACC selection by the SEM Committees nomination consultant CEPA does not seem appropriate considering the risk in building a generator in the SEM and I-SEM. It is unlikely that investment grate WACC would be available to this project.
- The use of a spot market WACC does not give financial security to generators, at the time of compiling the CEPA report rates were at historic lows. It might be more appropriate to use a longer term average. Fixing the 2017 capacity on a low spot market WACC does not seem appropriate
- The analysis does not appear to recognise the possible impact on a BNE plant complying with the revised grid code e.g. RoCoF, and how this could impact on plant reliability and long term maintenance costs.
- The infra-marginal rent which is used to offset the fixed costs of the BNE appears to be unrealistic. It is assumed that the BNE would receive market revenue of €1.6M per year for running for 8 hours at a price cap of €1,000/MWh. In the 8years of the SEM the PCAP has only been reached once.
- Based on historic observation the 7,070MW capacity requirement is too low. The 8 hours loss of load per year will never be allowed happen in the SEM.

Concluding remarks

Considering there is only two years left in the SEM, Aughinish would ask the SEM Committee to take a holistic view of the implications of this proposed decision on participants view of regulatory risk and the consequences on independent generators who must comply with the BCoP.

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

Yours sincerely

Thomas O'Sullivan
Sr. Business Analyst