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Ref: Integrated Single Electricity Market (I-SEM) Capacity Remuneration Mechanism Detailed Design Consultation Paper SEM-15-014

This response is not confidential

1. Background

Aughinish Alumina Ltd (Aughinish) owns and operates an Alumina Plant in West Limerick; the Alumina Plant is a transmission connected Large Energy User with a 45MW baseload demand. Both generating units Sealrock 3 (SK3) and Sealrock 4 (SK4) were built following deregulation of the electricity market in Ireland; they operate within a trading site to meet the onsite power needs and satisfy the useful process steam needs of the onsite Alumina plant. They produce 80% efficient power and are certified as High Efficiency Combined Heat and Power (CHP) plants. The site can generate 160MW and consumes 45MW of power; excess power generation is exported to the grid by way of the 130MW Maximum Export Capacity.

2. Primary Comment relation to I-SEM Capacity

Reliable Grid

The Irish economy relies on maintaining strong inward investment particularly from a broad range of multinational manufacturing and hi technology industries. A key criteria for such investment is reliable and secure electricity infrastructure and power generation. Strategic decisions in relation to future Capacity signals can have significant long term effects on Ireland as a secure location in which to do business. We must not jeopardise future industrial economic and job security due to short term decision making. More than ever reliable providers of power to the All-Island market must be retained up to an appropriate security standard. Penalties for non-delivery should be appropriate to ensure auction participants are incentivised to deliver. Any reduction in the security standards needs to be made with caution and only after full consultation with all the stakeholders.

Treatment of Trading Sites

Trading site treatment has been consulted upon in detail by Aughinish from the start of the European Target Market design. From the outset the Regulators have held to the principle that participants should not be disadvantaged in the move from SEM to I-SEM. Today the SEM nets generation volume and demand volume from trading sites. We would suggest that single site Trading Sites or Trading Units (TU) can participate in the CRM auction up to the volume of power provided to the grid and not beyond. Similarly the in-house self-supplied power would not be

subject to new charges not already levied in the SEM. The CRM difference payment might need to be settled against the TU position against the DAM reference and also settle the individual units against the BM price.

Below please find our detailed response to this consultation. This response is without prejudice to our position that Aughinish as a single Trading Site will not be disadvantaged in the I-SEM CRM design and the final design of the CRM should be consistent with the treatment of Trading Sites under the existing capacity mechanism i.e. net capacity payments.

3. Interconnector and cross-border capacity:

The options for cross border capacity should be informed by the assessment criteria. Security of Supply must be paramount when considering what technology will be supporting Irish demand during a stress event. Aughinish support a Provider Led mechanism on utilising a Performance Based model. The argument of complexity should not deter the principle that interconnectors and cross-border participants should not be treated differently than I-SEM participants.

We believe de-rating of interconnectors should be based on historic performance unless there has been a significant upgrade/capital investment to demonstrate improved performance. This would be consistent with the approach taken for I-SEM participants.

4. Secondary Trading:

Secondary Trading should be allowed from a year before delivery and we cannot see any reason why this would not be the case as long as the obligation to perform is not mitigated or avoided. An Optional Centralised Market should be the benchmark choice. All capacity providers should be restricted to their de-rated capacity as this ensures the liability to perform remains reasonably shared between the participants and not borne by a possible significantly reduced number of providers.

These are complex issues especially as the market design has yet to be finalised and hence why Aughinish believes that for the initial operation of the market no mandatory Centralised Market should be implemented and further consultation should be enacted once the market is operating to determine the best option

5. Reliability Option length:

Annual contracts are appropriate for existing units which do not need refurbishment. Longer contracts should be considered for new builds and refurbished units. Aughinish would suggest that the annual auctions run October to September would be more efficient in that they would allow gas generators to back their obligations with firm gas capacity.

6. Transitional issues

Aughinish would not support option 3, not to have any CRM for the initial 4 years of the I-SEM.

Option 1 to hold annual auctions from June 2017 would appear to be the closest fit to the intended enduring CRM design for existing plant.

7. Stop Loss:

Stop losses are necessary to limit the financial threat of participating in the CRM auction. Subject to a secondary market (or other risk management tool) being in place an appropriate annual stop loss is likely to be a multiple of the annual fee in the range of 120% to 200%. The annual stop loss should be further split into monthly limits which would incentivise units meet their obligations throughout the year.

As always Aughinish is at your disposal if further clarification is needed.

Best Regards,
Thomas O'Sullivan
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