

**Integrated Single Electricity Market
(I-SEM)
Capacity Remuneration Mechanism
Detailed Design
Consultation Paper
SEM-16-010**

**Aughinish Alumina Ltd
Response**

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This response is non-confidential

Aughinish Alumina Limited (“Aughinish”) welcomes the opportunity to respond to the third Consultation on the Capacity Remuneration Mechanism (SEM-16-010) and our comments are as follows:

1. Treatment of Trading Sites

Aughinish operates an Alumina Plant in West Limerick; the Alumina Plant is a transmission connected Large Energy User with a 45MW baseload demand. The two 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 satisfy the onsite power needs and substitute the 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.

Under the SEM arrangements the plant operates within a Trading Site in which settlement for both energy and capacity payments is performed on a net basis. Trading site treatment under the I-SEM has been raised in detail by Aughinish from the start of the European Target Market design and again in this consultation document there is no specific mention of how Trading Sites will be treated in the auction.

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 and we propose that this principle applies under the CRM auction i.e. 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 design of the auction must somehow reflect the net export position of the Trading Site for Reliability Option Contracted Capacity, Difference Payments and the Reference Price

with the final design of the CRM being consistent with the treatment of Trading Sites in the I-SEM energy markets i.e. net settlement for capacity payments.

2. Response to Consultation Questions

2.1. Auction Frequency and Volume

3.2 SUMMARY OF QUESTIONS

The SEM Committee welcomes views on all aspects of this section, including:

- 3.2.1 Do respondents agree with the proposed approach for transitional auctions, T-4 auctions and T-1 auctions? If not, please explain.
- 3.2.2 What is respondents view in relation to the flexibility around the timing of the T-1 and T-4 auctions?

Aughinish in principle has no problem with the proposed approach for the auctions with regards to frequency however we have a concern relating to the volume to be procured. The proposal that the majority of the capacity requirement shall be procured in the T-4 auction presumes that the forecast for capacity requirements 4 years into the future will be reasonably accurate and that capacity providers will be there when required.

Aughinish have experience of the CADA contracts in which specific long term capacity was secured through a dedicated auction. We do not see why a structure of one year and four year auctions is necessary when we suggest a one year structure is sufficient. This would remove the complexities and issues surrounding the different requirements from new entrant, existing participants and replacement plant. Surely it makes sense to have one annual auction (T-1) and a separate auction for new entry. Any participant successful in the new entry auction would not be eligible to participate in the T-1 auction. This would also remove the necessary obligations and additional requirements needed for Implementation Agreements being applied in the same auction in which existing players participate. We think the separation of long term capacity contracts and short term is the better approach with long term auctions only offered as and when necessary.

2.2. Market Power

4.8 SUMMARY OF QUESTIONS

- 4.8.1 The SEM Committee welcomes views on all aspects of this section, including:
- 4.8.2 Do respondents agree that market power is a material concern in the I-SEM CRM? If no, why not? Should the SEM committee be concerned with unilateral market power, the potential for collusion or both?
- 4.8.3 Do respondents think that the overall market power control framework and package of mitigation measures set out in this section is comprehensive and proportionate? Are there any additional market power concerns that the SEM Committee should be focussing on? Should the SEM Committee bar any existing firm transmission access intermittent generator which has opted out of an auction (on grounds of retiral) from bidding in subsequent auctions, if it subsequently does not retire and/or apply other sanctions?
- 4.8.4 Do you think that firm transmission access plant which has bid at a certain point within the tolerance band in the T-4 auction (below the maximum) should be allowed to bid more capacity (up to the top of the tolerance band) in the T-1 auction?
- 4.8.5 What metrics should be used to assess whether a capacity provider is dominant, for the purpose of either applying other Bid Limits and/or controls on aggregation (the approach to setting the level of bid controls is discussed in section 6)?
- 4.8.6 Do you agree that dominant /pivotal generators should be prohibited from acting as Capacity Aggregators? Should associated businesses of dominant / pivotal generators (e.g. their Supply arms) also be prohibited from acting as Capacity Aggregators too?
- 4.8.7 Should there be a prohibition on ESB and other dominant generators providing aggregation services?

Aughinish believe that market power is of concern in the I-SEM but predominantly in the energy market. Our suggesting that having the T-1 auction as the main capacity auction would mitigate many of the concerns raised in the questions for this section as the Auction Price Cap along with the sloping demand curve would act as mitigating measures. In addition as these are only one year auctions the RAs through the market monitor could easily determine if abuse of market power was being implemented and with existing anti-competitive behaviour laws this would act as a significant deterrent.

With regards to specific questions 4.8.3 to 4.8.7 we suggest the following:

- Q4.8.3: The control framework is adequate and we do not think “barring” plant is acceptable but other sanctions could be considered if gaming or anti-competitive behaviour is proven.
- Q4.8.4: Yes



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- Q4.8.5: Aughinish believe that there should be no restriction on aggregation. The mitigation measures provided should be adequate to control against anti-competitive behaviour
- Q4.8.6: No
- Q4.8.7: No



2.3. Auction Design

5.9 SUMMARY OF QUESTIONS

- 5.9.1 The SEM Committee welcomes views on all aspects of this section, including:
- 5.9.2 Which auction format (simple sealed bid, multiple round descending clock, combinatorial format, i.e. Option 1 to 3 in Section 5.2) do you think is most appropriate for the **transitional auctions, T-4 and T-1 auctions**, and why?
- 5.9.3 Do you have any preference for the structure of bids for the auctions? Explain your rationale.
- 5.9.4 Do stakeholders agree with the proposed approach of adopting Option 3b to deal with the lumpiness/discrete bid problem? If not, please explain why not, and your preferred alternative approach.
- 5.9.5 Do stakeholders agree with the approach of setting the clearing price based on the highest accepted in-merit winner, and paying any out-of-merit winners based on a pay-as-bid basis? If not, please explain why not, and your preferred alternative approach.
- 5.9.6 Should the SEM Committee introduce a sloped demand curve, either as a market power control, or for other reasons?
- 5.9.7 Winner determination. Do you agree with winners being determined purely on price offered for each Capacity Delivery Year?
- 5.9.8 Winner determination. Do you agree that the auctioneer should be able to accept "out-of-merit" bids to manage the lumpiness problem or should only in-merit bid be accepted? What rules should be used to determine whether the marginal bidder is accepted (if only in-merit bids can be accepted) or to determine which out-of-merit bid should be accepted?
- 5.9.9 Price determination. Do you agree that it appropriate to pay auction winners on a "pay-as-clear" basis, with this uniform clearing price being based on the highest accepted in-merit bid price? Should any out-of-merit winners be paid a different price to in-merit winners?
- 5.9.10 How do you think the lumpiness / discrete bid issue should be dealt with?
- 5.9.11 Do you have any comments on the treatment of tied bids?
- 5.9.12 What is the appropriate level of information to be provided: before qualification; between qualification and the auction start; between rounds in the case of a multiple round auction; and after the end of auction?
- 5.9.13 Are any additional restrictions on bidder communications (over and above existing competition law) required?

Again, if the T-1 auction was the main auction for capacity requirements (short-term) with discrete as required auctions for longer term capacity as described in our response above, then many of the issues raised in the questions are removed.

We are not experts on auction design and hence rely on the RAs to ensure an appropriate balance is achieved between capacity providers getting a fair return for providing this service and value for customers. If the capacity auction is mandatory then a sealed bid, multi-unit auction on a pay as clear uniform clearing price basis (Option 1) would be appropriate, it would be simpler and at lower cost.

2.4. Auction Parameters

6.5 SUMMARY OF QUESTIONS

- 6.5.1 The SEM Committee welcomes views on all aspects of this section, including:
- 6.5.2 Do you have any comments on the overall scope / process of auction parameter setting outlined above?
- 6.5.3 If a sloped demand curve is introduced, what principles should be used to determine the slope of the demand curve, and the range within which the demand curve is sloped?
- 6.5.4 If introduced, should the sloped demand curve be different for the transitional period?
- 6.5.5 What impact do you think the sloped demand curve will have on competition?
- 6.5.6 Do you agree with the requirement for an Auction Price Cap? What principles should be used to determine the level for the Auction Price Cap/what level should it be set at?
- 6.5.7 Do you agree with the requirement for other Bid Limits?
- 6.5.8 Should the other Bid Limits be applied at the same level to all existing non-intermittent firm transmission access generators, or should the limits be technology specific?
- 6.5.9 Should the other Bid Limits be applicable to all bidders, or just dominant/ pivotal generators?
- 6.5.10 What principles should be used to determine the level for the other Bid Limits/what level should they be set at?

As we stated in the previous section, we are not experts on capacity auctions and rely on the RAs to ensure that appropriate parameters are applied. We have no immediate concerns with the proposed work-in progress “thinking” and support Option 1 as our preferred solution with the auction price cap and other measures as necessary. The price cap level should continue to be BNE based taking into account the different market structure of the I-SEM and the DS3 requirements.

Aughinish however does have concerns that our specific situation of operating within an exporting Trading Site has not been addressed and we would seek assurances from the RAs

that the de-rating parameters applied for our CHP plant recognise the net export position in which we operate.

We also believe that the Strike Price should reflect the markets in which the participants are trading. For instance, if we traded 95% of our export in the DAM then only if the DAM exceeds the Strike Price should a Difference Payment be triggered and this would be for 95% of the capacity provided. We think further clarity around the Strike Price and how it triggers Difference payments is required and the Auction parameters consultation paper should be explicit about how Difference Payments would apply to plant operating in different markets.

2.5. Auction Governance, Roles and Responsibilities

7.9 SUMMARY OF QUESTIONS

The SEM Committee welcomes views on all aspects of this section, including:

- A) Do you agree on the proposed role of the TSOs with respect to the auctions?
- B) Do you agree on the requirement for an Independent Auction Monitor and its proposed roles and responsibilities? If not, please specify what changes you would make? Should this role be combined with the role of SEM/I-SEM Market Auditor?
- C) Do you agree with the SEM Committee's proposed approach to managing conflicts of interests in the Capacity Market Code? Are any other steps appropriate to ensure that any actual or perceived conflicts of interest are managed?
- D) Do you have any comments on the proposed auction governance arrangements?
- E) Do you have any views on the model and process for making modifications to the Capacity Market Code?
- F) Do you think that disputes in respect of the Capacity Market Code should be resolved by a similar process to TSC disputes? Should there be a separate panel for Capacity Market Code dispute resolution?

Aughinish have no issue with the TSO operating the auctions subject to appropriate terms of reference and it being auditable with the TSO's responsible for their actions. Our suggestion of a single T-1 auction would make the process simpler.

We support an Independent Auction Monitor role.



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

Best Regards,
Thomas O'Sullivan
Aughinish Alumina Ltd.