

**Integrated Single Electricity Market  
(I-SEM)  
Capacity Remuneration Mechanism  
Locational Issues  
Consultation Paper  
SEM-16-052**

**Aughinish Alumina Ltd  
Response**

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## **This response is non-confidential**

Aughinish Alumina Limited (“Aughinish”) welcomes the opportunity to respond to the CRM Location Issues consultation paper (SEM-16-052) and our comments are as follows:

Locational constraints exist with or without a capacity market. The CACM and other system support mechanisms i.e. Reserves, Balancing Services, DS3, TLAFs etc should be used to address system issues, not the Capacity Market. The CRM should only address capacity on an unconstrained basis. The CRM 1 decision has already noted that provisions for locational signals exist and has decided that “should other significant and consistent constraints emerge, they would be considered under the bidding zone review process under the Capacity Allocation and Congestion Management (CACM) Regulation.”

In relation to the process we recognise the tight timelines required to progress the CRM design. The topic of incorporating locational constraints into the capacity market has the potential to alter the merit order of participants in the capacity auction and in the energy markets. We would suggest that because of the gravity of these decisions a detailed assessment of any minded to decision should be presented upon by the Regulators in the form of a separate workshop in order to give participants the opportunity to offer informed observations.

### SUMMARY OF QUESTIONS

2.6.1 Do you agree with the assessment of the potential for exit and lack of new entry during the transition period set out in this section, and do you think that the potential for exit creates a security of supply issue given locational constraints?

Aughinish believes there is a security of supply concern in local constraint areas due to disorderly unit exit but this is a TSO issue not a CRM issue. As pointed out in the consultation the TSO ultimately will have failsafe system’s in place to maintain security of supply.

2.6.2 Do you agree that locational constraints should be incorporated in the CRM? Please elaborate your rationale in your response.

No.

Aughinish do not support the proposed framework, within the CRM, aimed at avoiding exit of units within system constraints. It is our view that this could lead to adverse results; possibly the exit of otherwise in-merit units or undermining the competitive nature of the market design (both capacity and energy).

We do recognise the need to ensure that capacity-constrained areas have generation adequacy and that there are substantial costs in providing this service, however we would suggest the CRM auction should be unconstrained. If there are concerns of disorderly exit post auction there would be good justification for the authorities to contract bilaterally with relevant parties as part of a Strategic Reserve, whilst ensuring appropriate measure are put in place to avoid distortion of the energy market and to incentivise investment in removing the system constraints.

2.6.3 Feedback in relation to the specific Grid Code requirements are sought in respect of the following:

- The extent to which the Grid Code requirements can be relied upon to manage exit of plant which does not obtain a Reliability Option;
- Whether it is appropriate to provide assurances that generators which do not obtain a Reliability Option in the transitional auctions (which happen on a T-1 basis) be released from their obligations to give 3 years notice in accordance with the Grid Code;
- Whether the Grid Code requirement should be extended from 3 years notice, to say 3 years 6 months to align with T-4 auction timings.

Aughinish do not believe the grid code is the appropriate mechanism to manage exit of plant who do not receive a reliability option. Other mechanisms exist to deal with locational constraints and we suggest that these mechanisms i.e. DS3, bilateral arrangements and other services would be better alternatives.

2.6.4 Do you agree with the key principles proposed for any locational capacity framework within the CRM?

No Aughinish does not agree with a locational framework within the CRM

2.6.5 Do stakeholders agree that clear and large existing capacity delivery constraints should be reflected within the CRM auction, for example limiting this to the North-South constraint and the Dublin area constraint?

Aughinish does not agree with a locational framework within the CRM. However, if a locational framework is adopted, we agree only clear and large constraints should be incorporated.

2.6.6 Do stakeholders agree with the high level proposed solution for dealing with locational capacity issues?

No

2.6.7 If you do not agree with or have further view any of the proposals or assessment set out in this section, please outline why and where relevant suggest alternatives.

The authorities should contract bilaterally with relevant parties as part of a Strategic Reserve if there are concerns about locational constraints after the unconstrained CRM auction clears.

CRM should be as simple and as transparent as possible. Introduction of the proposed solution makes the CRM more complex thus reducing market participant confidence in the mechanism, adds another level of complexity and uncertainty for the State Aid approval process. The CRM is meant to signal appropriate economic market entry/exit which this proposal would distort. This proposal could also incentivise some level of gaming which could distort the outcome for other market participants and distort market signals.

TAFs are a locational signal applied to generators, unfortunately they are volatile and have given poor locational signals to generation units in the past. See response to 4.4.3 below.

### **Auction Design Framework**

The design complexity and the issues around implementation, IT systems, transparency etc could be removed if locational issues are dealt with specifically in another mechanism. There are many conflicting options proposed and by adding these constraints to the auction design it will be necessary to come to a compromise and not optimal solution. Notwithstanding Aughinish's view that the locational constraints should not be addressed in the CRM, below are is our response to the specific questions on design:

3.6.1 Which option do you prefer for the Auction Design Framework and why?

Security of supply is key.

Option B appears to be practical, to provide security of supply and should provide longer term efficiency benefits (based on constraints being resolved in the short term as planned for).

The detriment to consumer bills is due to constraints not the CRM mechanism and this can only be resolved once the constraints have been removed.

Ultimately the TSO must ensure SoS and will have a failsafe no matter which option is selected.

3.6.2 Should the capacity price be set equal to: a) the highest-priced bid accepted in the unconstrained merit order; or b) the highest-priced bid which is both: accepted in the unconstrained merit order; and selected as a winning bid after lumpiness and locational considerations have been resolved?

Option 1 the price set in the unconstrained merit order as it reflects a more efficient investment price signal. Concerns around market manipulation are already addressed under anti-competitive legislation and market power abuse.

3.6.3 Should a bidder that would have been accepted in an unconstrained auction but which is not awarded an RO receive a “constrained-off” payment in the CRM? If yes, how should the “constrained-off” payment be determined, and why?

Compensation for “lost profit” as per SEM energy market should apply

3.6.4 How should local capacity deliverability constraints be defined?

Capacity should be delivered on a per unit basis to give the flexibility and security required by the TSO to maintain system security.

### Longer Term Considerations

4.4.1 Should the inclusion of locational capacity delivery constraints in the CRM occur in T-1 auctions, T-4 auctions, or both? –

Subject to Aughinish’s view that constraints should not apply if they are adopted in the design with the associated implementation costs then there is no reason why the T-4 auctions should not be included (i.e. option 1 ),

4.4.2 What circumstances or criteria should be considered in relation to the T-4 auctions being conducted without explicit consideration of locational capacity delivery constraints?

Not applicable because option 1 is the preferred

4.4.3 Are there any further considerations that should be taken account of regarding the longer term management of locational capacity delivery constraints? If so please detail your rationale for these.

The TSO has the responsibility to ensure security of supply and the capability of the system to meet consumer demand. The CACM and the ten-year transmission and generation adequacy plans should be capable of identifying system constraints and highlighting contingency plans to account for such constraints as they approach the T-4 auction windows.

TLaFs are a locational signal applied to generators, unfortunately they are volatile and have given poor locational signals to generation units in the past e.g. the Aughinish TLaF were positive and after building the plant quickly turned to the most penal TLaF on the system. Demand is much more liquid, less blocky and would be more responsive to locational price signals. Aughinish agrees with the SEM Committee that further development is needed on locational signals.

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

Best Regards,  
Thomas O’Sullivan  
Aughinish Alumina Ltd.