

**Integrated Single Electricity Market
(I-SEM)**

**Capacity Remuneration Mechanism
Parameters Consultation Paper
SEM-16-073**

**Aughinish Alumina Ltd
Response**

21 December 2016

Mary O’Kane
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Thomas Quinn
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

This response is non-confidential

Response to SEM-16-073: CRM Parameters Consultation

Aughinish Alumina Ltd (Aughinish) as a Large Energy User (LEU) and the owner/operator of a High Efficient CHP plant operating within a Trading Site in the SEM, welcomes this opportunity to comment on the Parameters Consultation Paper for the Capacity Remuneration Mechanism.

Aughinish has a high efficiency CHP plant operating within a Trading Site in the SEM. Our two generators SK3 & SK4 can produce 160MW of power, which is used to self-supply 45MW to the alumina plant and the remaining 115MW is exported continuously to the grid except for two days in May due to our annual alumina plant shutdown.

It is important that the Regulatory Authorities when setting the Parameters for the first transitional auction, recognise that the industry is going through a significant challenging period to meet the requirements of the I-SEM new market design, DS3 operational requirements and other regulatory and operational changes associated with the Third Package.

For this first transitional auction we would suggest that

- Administered Scarcity Pricing (ASP) Parameters (Section 2) – The two options are (i) A simple linear function and (ii) A LOLP x VOLL approximation. Aughinish agree that Option 2 reflects a true value of the probability of lost load and although the ASP rises immediately at the partial ASP function value (504MW) reserve (note other factors apply as well) we suggest this is the correct market signal that should apply. Aughinish propose Option 2 (or a hybrid of the two options biased towards Option 2) should apply.
- Supplier Charging Base (Section 3) – Aughinish supports a charging base that reflects the cost of providing capacity at times of peak demand and as a general principle the charging base should reflect the expected periods in which difference payments are likely to occur. The current SEM capacity allocation does not reflect the appropriate price signals for peak demand and therefore Option 3 should not be the preferred option. Ideally Option 1 should be the preferred option but this may be too large a transfer of charges from non-residential customers to residential customers hence Aughinish propose Option 2 as a reasonable compromise.
 - Base Interest Rate applied to the socialisation fund should be consistent with interest rate charges applied in the TSC hence Aughinish suggest a Libor reference rate should apply.

- Reliability Option Parameters (Section 4)
 - Aughinish supports the SEM Committee view that a floor price should be set for DSUs initially but over the longer term DSUs should be treated in the same manner as existing capacity providers. We note however from the analysis in Appendix B that all 320 MW had incremental bid price of less than €400/MWh and suggest that the SEM Committee considers this value as the floor price.
 - The carbon intensity factors should reflect the introduction of Corib gas.
 - Aughinish supports the approach to setting the transport adders
 - Billing Period Stop-Loss Limits – Aughinish request that the Billing Period multiple decision is not finalised until the settlement systems can demonstrate that they can implement the stop-loss limits (4.5.10) and that the focus must be to balance the net position between energy market receipts and difference payments.

- New Build, Termination Fees and Performance Bonds (Section 5)
 - Termination Fees should apply to all new capacity and not just New Build. Hence, any participant that qualifies for an auction must be responsible for delivering that capacity. The argument for “not proven” should not be addressed in a capacity auction and a separate mechanism should be implemented for non-proven technology. Existing generators if mandatory to participate in the auctions should not have a termination fee.

- Auction Parameters (Section 6)
 - Outage Rates – we should support the proposed changes to BNE calculation with outage rates at 5% and the Strike Price assumption of €500/MWh applying instead of the pool price cap. We would also support a re-calculation of the BNE using transparent and objective parameters.
 - The Auction Price Cap is set at lower end of the range (1.5 – 2.0)x NETCONE. The APC should reflect the maximum value of capacity and De-Rating the available capacity. Adjustment of the APC to reflect DeRating is wrong and we do not support this approach. Hence, based on the 2017 figures the ASP should be €107.18/kW and not €116.71 as proposed (6.2.23).
 - Uniform Price-taker Offer Cap – In SEM-16-039 the SEM Committee noted that the current level (1 x NETCONE) has been effective in delivering sufficient capacity, therefore why should there be a reduction for existing capacity and a higher rate for new build and DSUs? The proposed price cap on existing generators of 0.5 x NETCONE (€2.5/MWh) is an unnecessary restriction. The Auction Price Cap should apply to new build capacity, DSUs and existing capacity providers.

Aughinish believe that instead of having the Existing Capacity Price Cap set at 0.5 x NETCONE and have some existing plant possibly applying for a higher unit specific limit as their Net Going Forward Costs are higher than the cap, the cap should continue to be set at 1 x NETCONE with no right to apply for a higher bid limit except for Local Security of Supply reasons which has been consulted upon under SEM-16-052.

The auction should be designed to deliver capacity as needed and not have specific intervention by the RAs for plant that is uncompetitive. The proposed formula to define Net Going Forward Costs includes assumptions about the Administered Scarcity Price

(ASP) and projected difference payments and this is subjective. The retention of the Existing Capacity Price Cap at 1 x NETCONE would be a simpler and more objective solution than higher unit Bid Limits. This would strike the right balance between existing generators and new build/DSUs whilst ensuring local security of supply requirements are maintained and remove the need for the RAs to assess the estimated Net Going Forward Costs for applicants requesting a specific unit Bid Limit for non-security reasons. This risk of administrative burden is recognised in the Consultation document (6.3.34).

With regards to the estimation of Net Generator Fixed Costs – Again this is a complex and subjective analysis and Aughinish suggest that there are a number of legitimate reasons why Irish SEM generators’ costs are higher than relevant international benchmarks i.e. gas transportation and capacity costs, higher renewables penetration and subsequent DS3 costs operating in a limited connected island electricity network.

- Local Parameters for secondary trading - This document proposes a historically based approach to determining those parameters, with these parameters to be estimated by the TSOs, for approval by the SEM Committee. We agree with this position.
- Load Following for Secondary Trading (Section 7) –
Capacity providers should be permitted to trade against load following margin in subsequent years, this is a commercial decision which they can assess. However, we do not think scaling or amendments to the parameters should apply due to the uncertainty in the parameter matrix unless the RAs guarantee that these parameters will apply and in this case the full amount could be “released”.

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

Best Regards,
Thomas O’Sullivan
Sr Business Analyst | Rusal Aughinish Alumina Ltd.