

Trading & Settlement Code
I-SEM Operational Parameters
Credit Cover and Imbalance settlement

Consultation Paper

SEM-17-009

Aughinish Alumina Ltd

Response

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This Response is Not Confidential

Aughinish Alumina Ltd (Aughinish) as a Large Energy User (LEU) and the owner/operator of a High Efficient Combined Heat and Power (CHP) plant have been participating in the I-SEM market design working groups and consultations from the start of the Target Market design and we welcome this opportunity to comment on these proposals.

Aughinish is uniquely exposed to certain market rules due to it being the only large scale Autoproducer in the market. The two High Efficient CHP units generate 160MW of electrical power and satisfy the embedded 45MW electrical and 240MW steam demand of the alumina plant inside our 130MW MEC, the resultant 115MW is currently sold to the SEM. In our contributions to the various working groups, Aughinish has been consistent in seeking reassurances from the RAs that the net settlement of Trading Sites is retained in the I-SEM.

The Consultation presents parameters utilised in the calculation of required credit cover and Imbalance Settlement and the main point that Aughinish requests the SEM Committee and the RA's to note is that the cost of credit cover is not minimal and any such increase in credit security cover should be minimised wherever possible. Looking specifically at the Aughinish Trading Site configuration, we believe that our net position has not changed and for the Imbalance Market we would expect the same credit security to be posted as per the SEM.

Relevant to this consultation is our feedback to the BLG (sent 9th March 2017) expressing our difficulty in calculating Aughinish's credit requirement for the Balancing Market, appendix 1 and our request of the Market Rules Working Group in November 2016 to produce an excel model for this same purpose, appendix 2. To facilitate informed consultations we initially ask that worked examples of credit requirements of simple balance responsible participants be made available.

Looking at the consultation papers in more detail we have commented below on certain points:

1. Credit Cover Parameters

- a) We welcome a single collateral solution for the settlement of Trading Payments and Charges and Capacity Payments and Charges but seek assurances that the credit cover for a Trading Site Supplier Unit (TSSU) is not treated in the same manner as a Supplier Unit but retains the historic imbalance settlement analysis assessment as currently applied in the SEM.

Whist Aughinish have a Supplier Licence we have no customers.

The paper identifies the risk that the customers of a supplier in financial difficulties will continue to consume power from the Balancing Market. The proposed solution is that the Supplier Unit undefined exposure is based on forecast Metered Quantities and Imbalance Settlement Prices, rather than based on analysis of historic imbalance settlement. Hence, in the case of a Trading Site with net settlement the credit management must reflect the generation produced at the Trading Site when determining the credit security for the TSSU.

For Aughinish, this is important as there may be occasions when there is no ex-ante market position but the TSSU is consuming power supplied from its generation units. This is not an issue in the SEM as this would be addressed with the Netting Generator Unit but as this is not applicable in I-SEM. It is important to recognise that the TSSU will only be charged when power is not being supplied from the generating units.

- b) Fixed Credit Requirement (FCR) – Aughinish propose that a TSSU operating within an exporting Trading Site for the purpose of FCR be the same value as a Generator Unit i.e. €5000. Aughinish agree with the recommendation that the FCR value for Capacity Market Unit be set at zero for the first year of the I-SEM.
- c) Level of the Breach and Warning Limits: These values should be an aid to the market and participants. Adequate time must be allocated for a participant to remedy their capacity position.

2. Imbalance Settlement Parameters

Aughinish welcomes the recognition that MW Tolerance, Engineering Tolerance and the System per Unit Regulation Factor do not need to change for the transition to the I-SEM and supports this position.

However, with regard to the Aughinish Autoproducer set-up consisting of individual unit dispatch with net settlement, it will not always be the case that over generation outside the tolerance of our generating units will result in the need for the TSO to move another participant. The “net” export of the site may not change if the Aughinish on-site demand increased to match the increased generation. Similarly, under generation may not result in need for the TSO to move another participant because the on-site demand may also fall in line with the reduced output.

Aughinish acknowledges that the treatment of Over Generation Factor for each Generator Unit in each Imbalance Settlement Period (FDOG_U) and the Premium for Under Generation for each Generator Unit in each Imbalance Settlement Period (FPUG_U) may need to change under the I-SEM. Whilst we agree with the principle of “balance responsibility” we ask the SEM Committee and the RAs that the MW Tolerance and Engineering Tolerance allocated to an Autoproducer within a Trading Site be reviewed to recognise the CHP configuration of the Aughinish site. It cannot be right that in the event that the net imbalance position is zero for the Trading Site that Aughinish could be exposed to imbalance charges. An allowance in the MW and Engineering Tolerances that reflect the CHP configuration would be a reasonable solution whilst retaining the principle of “balance responsibility”.

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

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

Appendix 1

Extract from email dated 9th March 2017 from Thomas O'Sullivan to nemo.rules@sem-o.com

Credit Requirement in Balancing Market:

After considerable effort, I am unable to determine the credit requirement for my company in the Balancing market.

Our current credit requirement in the SEM is €26,000, as a fully balance responsible participant I have calculated the credit requirement for the I-SEM BM is ranging from €0 to €8,000,000 using different interpretations of the published rules.

There is a lack of clarity that the excel model I have commissioned is a correct interpretation of even a simple seller of power or of a simple taker of power from the wholesale market.

Additional complications around the fact that Aughinish have a supplier licence (but no customers) and that our onsite consumption is netted off our generation before it leaves the site make it impossible for me to establish even a ballpark credit exposure.

Without adequate information from the market design team, I cannot give meaningful contribution to the BLG discussion and will not be able to give a recommendation to my management team when it comes to signing licences and frameworks in the near future.

My reasonable request for an excel model was rejected in the Market Rules Working Group last December.

I now ask for:

1. Immediately: 4 worked examples of 100MW balance responsible units (buyer of power in DAM, seller of power in DAM, buyer of power in BM, seller of power in BM)
2. A worked example of Aughinish Alumina Ltd as a 115MW balance responsible participant selling in the DAM, and as a 115MW balance responsible participant selling in the BM (under our 4 units SK3, SK4, Demand and the virtual Trading Unit with 80MW, 80MW, -45MW & 0MW respectfully)
3. A detailed working model which would allow me to assess our likelihood of breach under various scenarios e.g.:
 - We are short of 5MW in the BM
 - For frequency control, we are long and short 1MW through the day but on average fully balance responsible.
 - All generation trips for 24hrs we are a 160MW buyer of power in the BM after selling 115MW in DAM
 - CHP generation is out of merit, operation as a peaker is not possible, CHP is mothballed, we are again a 45MW buyer of power in the DAM
4. A technical workshop/bilateral where participants and their laptops can work through the model

Appendix 2

Extract from Market Rules Working Group Comments and Feedback 2nd Nov 2016

Comments from PTs:

We share some of the concerns of the other participants and support the clarification requests submitted to the MRWG Comments and Feedback Circular in relation to calculating credit and methods to mitigate against excessive posting of credit. In particular we are concerned about the new credit which might be required above that already in place in the SEM. To be fully informed we would appreciate a practical breakdown of the TSC rules on this topic.

Suggested Solution/Action from PTs:

We would welcome clarification of the proposed credit requirements for generators in the form of an excel model incorporating the proposed rules.

Initially a simple high level working would aid discussion.

Response (Project Team):

The project team have developed the proposals for credit cover over a number of months with high level design papers published in January setting out high level principles and presentations at the RWG to further explain the design.

While there have been requests for the project team to develop an excel model submitted previously, the team has not been resourced to support this. We also note that the fundamentals of the design are the same as under the current SEM arrangements. We understand that the overall market design change itself does not imply any equivalency; however, any shadow systems currently employed by participants should mirror the proposed rules in the draft TSC.

We believe the drafting as developed over the last number of months sets out the requirements and is appropriate for inclusion in the TSC consultation due later this month. We are sympathetic to the concerns and will consider making use of the remaining RWG meetings to provide additional breakdown to help inform participant responses to the TSC consultation.