



**AUGHINISH ALUMINA LIMITED**  
*(Registered in Ireland No.59982)*

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

## **Capacity Remuneration Mechanism Parameters for T-4 2022/23 Capacity Auction Consultation Paper**

### **Aughinish Alumina Ltd Response**

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**This response is non-confidential**

## **Introduction**

Aughinish Alumina Ltd (Aughinish) as a Large Energy User (LEUs) and the owner/operator of a High Efficient CHP (CHP) plant has been participating in the I-SEM capacity consultation from the start of the target market design. We have been strong supporters of capacity being rewarded based on reliable delivery and of the long-term security of the Irish grid. We recognise the importance to Ireland in retaining existing industry and attracting further foreign direct investment by having a world-class power supply system.

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. Aughinish welcomes this opportunity to contribute to the Capacity Action Consultation Paper.

## **Treatment of constraints in first T-4 capacity auction;**

1) Do you agree with the SEM Committee's proposal to reflect transmission constraints in the T-4 auction? Please explain your rationale.

The Auction should be run without any constraints. In-merit participants of the unconstrained auction should not be disadvantaged by system constraints. Long-term customer bills could be increased by the forced closure of efficient in-merit generator units due to grid constraints.

Locational Capacity Constraint should be addressed outside the CRM.

2) Do you have any comment on the possible inclusion of multi-year pay-as-bid Reliability Options to meet the minimum Locational Capacity Constraint requirement?

Locational Capacity Constraint requirements should be annual only. The price discovery in meeting these constraints should be used to promote locational signals and incentivise the TSO to remedy the infrastructure.

### **Auction format;**

1) Do you have any comments on the SEM Committee's proposal to move to an auction format based on Auction Format C for the CY2022/23 T-4 auction, following the State aid decision?

Aughinish welcomes the State aid decision, and are happy with Option C, moving to Option D as an enduring solution. Of the options proposed Aughinish prefer Option B (simply sealed bid with the capacity to meet contracts being additional) for the reasons mentioned already.

### **Capacity Requirement; Loss of Load Expectation (LOLE) Standard;**

What are your views on the potential changes proposed to the CR methodology i.e.:

- 1) Incorporate some measure of operating reserves in the CR? What MW value?
- 2) Whether the 8-hours LOLE standard should be tightened (reducing the LOLE target).

Aughinish recommends tightening the LOLE standard, to 3-hours LOLE, in line with our only interconnected market, GB.

### **Administered Scarcity Pricing (ASP);**

1) Which of the options for the value of Full ASP do you consider most appropriate for the first T-4 capacity auction, and why?

Aughinish would like to recommend option C, 100% VoLL. This is the most efficient method, and sharpen the incentives for generators to be available at times of scarcity. It strongly promotes system security while rewarding generators with higher energy prices for being available in times of need.

2) Should we move to setting VoLL on an October to September year, rather than the current Calendar Year basis, so that a single value of VoLL pertains within a Capacity Year?

Yes, Aughinish agrees with this proposal

## **Auction Volumes and Demand Curve;**

- 2) Should the minimum MW in each constrained area be adjusted for volumes withheld from the T-4 auction to the T-1 auction for CY2022/23? Which of Options 1, 2 and 3 do you prefer, and why?

Locational Capacity Constraint should be addressed outside the CRM.

- 3) Which of the demand curve options, Options A or B, in your view is the most appropriate for the first T-4 capacity auction, and why?

Blank on purpose

## **T-4 Auction Price Caps for capacity year 2022/23;**

- 1) Do you agree with the proposal to keep the Auction Price Cap (APC) at 1.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

Aughinish feels that the APC at 1.5 x Net CONE for T-4 auctions is sufficient, however, this view is contingent upon the final value of BNE for CY2022/23. AAL feel 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.

- 2) Do you agree with the proposal to keep ECPC at 0.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

No ECPC at 0.5 x Net CONE combined with energy market bidding controls will restrict existing participants from recovering their true cost of production. Forcing participants to consolidate sunk costs as stranded assets will result in short-term gains for consumers but ultimately will be adverse in the long term.

1.0 x Net CONE should be the cap for existing players. Best for consumers over the longer term.

- 3) USPC setting: Do you agree with the proposed approach for UFI submissions?

Yes

- 4) USPC setting: Do you agree with the proposal to apply 2% p.a. inflation projection for estimating costs for CY 2022/23?

Blank on purpose

### **Derating factors;**

- 1) Do you have any views on the proposal of EMDF value of 60% subject to review and update of the analysis for the decision paper?

Blank on purpose

- 2) Do you expect to be applying to qualify a new interconnector between the I-SEM and an external market other than GB?

No

- 3) Do you have any feedback on the issues around transitioning from the interim to the hybrid solution for cross-border trading of capacity?

No

### **New Capacity Investment Rate Threshold**

- 1) Do you agree with keeping NCIRT at €300/kW, in the light of new evidence on BNE gross investment costs? Does your view depend on the choice of BNE reference plant resulting from the Best New Entrant consultation (SEM-18-025)?

Blank on purpose

## Summary of T-4 proposed parameters.

- 1) Do you have any comments on any of the parameter summarised in Table 6, which are not already covered in your responses to other consultation questions?

Aughinish recognises that market power is a concern, as an independent generator of power we are concerned that the Regulators have not proposed a price floor. Without a floor, vertically integrated entities with inefficient units could ignore economic signals to exit the market by continuing to operate some of their portfolio at a loss. Ultimately independent generators could be forced to exit the market. In the long term, the environment and consumers of power would pay more for a less efficient fuel mix.

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

Best Regards,  
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