Aughinish Alumina Limited

Reply to

Measures to promote liquidity in the I-SEM forward market

Consultation Paper

SEM-16-030

Non-Confidential

29th July 2016

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Utility Regulator
Queens House
14 Queen Street
Belfast
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Gonzalo Saenz
Commission for Energy Regulation
The Exchange
Belgard Square North
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Dear Sirs,

Measures to promote liquidity in the I-SEM forward market (SEM-16-030)
(This response is Non-Confidential)

Aughinish Alumina Ltd ("Aughinish") welcomes the publication and the opportunity to comment on the Consultation Paper "Measures to promote liquidity in the I-SEM forward market" and we concur with the Regulatory Authorities ("RAs") view that the lack of liquidity in the all-island Single Electricity Market ("SEM") today remains a major issue which must be addressed as part of the I-SEM market design.

Aughinish operates a large alumina manufacturing refinery in the west coast of Ireland which consumes 45MW of power 363 days of the year supplied from a 160MW high efficiency Combined Heat and Power ("CHP") plant which was commissioned in 2006. The surplus electricity from the CHP plant is sold to the market. Up until April 2016 this was sold under the CAP05 Capacity Auction contract, since then Aughinish has operated as a merchant plant in the SEM. The availability of this electricity "CADA" contract was vital in ensuring the CHP plant was built. It was essential for independent, non-integrated generators such as Aughinish in the SEM that such products were available to manage market risk.

This Consultation paper is solely focused on promoting liquidity to help suppliers in the market. Aughinish disagree with the papers comments that "a fundamental weakness of the current market, which is that generators have been unwilling to provide sufficient hedging products to meet the needs of suppliers." The RAs should also be cognisant of the difficulties independent generators have in the forwards market competing with the RA mandated regulated markets and transactional difficulties such as credit.

The Consultation paper discusses five options in which regulatory intervention measures could apply in the I-SEM forward market to promote liquidity and based on the discussion and the measures presented in the paper we think this is an opportunity for the RAs to simplify the regulatory measures applicable under the I-SEM.

Aughinish cannot support the principle of an obligation on generators in the I-SEM in which the RAs would mandate minimum volumes to be sold by generators in the forward market based on forecast market share of the DAM of each generator. Aughinish believe a Forward Contract Selling Obligation (FCSO)would create additional risks, increased costs to generators, be difficult to manage and be unnecessarily complex, ultimately resulting in increased charges to the consumer.

Also, specifically in relation to the Aughinish CHP plant, we have grave concerns about how the proposed FCSO volumes are derived and the methodology used by the RAs in determining the appropriate FCSO allocation (example based on 2015 data). Yet again, the Trading Site configuration has been ignored and the gross output of the CHP plant is assumed as being exported to the system and therefore available for third party sales or hedges. This is not the case and in every aspect of the I-SEM design process we have consistently explained that the alumina demand is supplied by the CHP generation on the site and only surplus electricity is exported to the SEM i.e. we are a Trading Site with a Maximum Export Capacity of 130MW.

The example presented for Option 2 and Option 3 in which Aughinish has 0.92TWh volume allocated is greater than what we currently export hence we would effectively sell our own consumption and then buy it back! We have raised this point with the RAs and hopefully the treatment of the Aughinish plant on a net basis will not be contested.

Considering the complexities of establishing an appropriate FCSO, Aughinish propose that the RA's apply a Market Maker Obligation ("MMO") based on Option 4 and simplify the process by stopping the allocation of DC contracts completely as the volumes would be covered by the MMO obligation through the auction process. This would provide a market mechanism exclusively focussed on the Central Services and the central trading platform. Additionally, it would greatly help liquidity in the single platform if it was not competing with other regulated forwards markets.

The SEM Committee presentation at the workshop using 2015 data (see table) showed the effect of implementing Option 4 with DCs/PSO which represents the highest volume across all options.

	MMO	%	Plus DCs/PSO
ESB	7.4	57%	13.8
SSE/Airtricity	2.6	20%	2.6
Energia	1.6	12%	1.6
BGE	1.4	11%	1.4
	13.2	100%	19.5

Under this combined structure Aughinish would suggest the ESB Ring Fencing could be removed subject to appropriate market monitoring with the provision that the RAs could enforce ring fencing if recommended by the Market Monitor.

Yours sincerely

Thomas O'Sullivan

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