



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

**Attention: Ms Aoife Crowe**

1 October 2009

**Aughinish Alumina Limited: Proposal for CHP Priority Dispatch Status**

Dear Aoife,

As a consequence of the increasing penetration of intermittent generation, notable wind generation, the SEM Committee recommended that a variety of matters need to be addressed and the recent consultation “SEM-09-073: Principles of Dispatch and the Design of the Market Schedule in the Trading & Settlement Code” considered what changes may be appropriate to dispatch and the unconstrained or market schedule and associated aspects of the Trading & Settlement Code (“T&SC”).

Aughinish Alumina Limited (“Aughinish”) responded to the Consultation by letter on 18<sup>th</sup> September 2009 proposing that large CHP plant such as the Aughinish plant, become Priority Dispatch status.

Aughinish is responding in more detail as to how a large CHP plant if afforded Priority Dispatch should be treated relative to others already afforded Priority Dispatch. This paper outlines Aughinish’s proposal for the treatment of its CHP plant in the SEM under the TSC.

### Principles Governing Priority Dispatch

The SEM adopts these two basic principles to ensure the efficient operation of the energy market:

- (i) Real-time dispatch should have the objective of minimising production cost (taking into account system security considerations); and
- (ii) Infra-marginal rents, required to give investment incentives for generators to construct an efficient generator mix, should be allocated to generating plant that is useful in meeting customer demand, in order that an efficient mix of usable plant is delivered.

The consultation noted that the impact of increasing levels of non-firm and intermittent generation under the current SEM arrangements makes it more likely that there will be increasing divergence between the dispatch schedule and the market schedule thus increasing the production costs and sending the wrong investment signals from the market.

Aughinish acknowledges the need for consideration of changes in the T&SC to address these issues, however as part of this discussion we strongly believe that CHP plant should be eligible for Priority Dispatch status.

### Priority Dispatch for CHP Plant

The legislative support for awarding CHP this status is already established:

- (i) The EU Cogeneration Directive (2004/8/EC) which promotes CHP as part of a package of measures to reduce greenhouse gas emissions; and
- (ii) Directive 2003/54/EC – Article 11 (3) legislation for the provision of priority dispatch to generating installations using renewable energy sources.. or... CHP.

In fact, Priority Dispatch was proposed for CHP under the MAE market structure (CER/04/214) and SI 217 of the 2002 Act. The Priority given to peat and others at the discretion of the Minister demonstrates the authority given to the Minister to award CHP priority. Aughinish therefore does not foresee any legal reason why CHP plant cannot be awarded Priority Dispatch status.

### CHP Priority Dispatch Operation under the T&SC

The consultation paper rightly identifies the desirability of objective rules that can be applied to enable dispatch decisions to be made. Transparency would suggest that these rules should be applied consistently over both at planning and real time horizons. These objective rules,

subject to RA's policy decisions, could be designed to include technology specific factors that favour one generation type over another, e.g. CHP over peat etc. The consultation discussions are ongoing and no final decision has yet been made. However, awarding CHP Priority Dispatch would not conflict with any such decisions and this discussion focuses on priority dispatch plants from a commercial perspective, with the aim of minimising production costs.

The consultation paper states that Priority Dispatch plant must register as Price Takers under the T&SC<sup>1</sup>, whereas version 5.0 of the T&SC permits non-autonomous Priority Dispatch plants to register as Price Makers<sup>2</sup>. The discussion below assumes that the Predictable and Variable Priority Dispatch plants may register as Price Makers.

Predictable and Variable Priority Dispatch plants may directly offer prices under the T&SC, reflective of their production costs. This existing principle of the T&SC means that there is already the basis of a mechanism for creating dispatch schedules where there are multiple Priority Dispatch plants. The issue of establishing "effective prices" for the remaining Priority Dispatch plants is addressed in the consultation.

#### Aughinish Proposal for CHP Priority Dispatch

As a general principle, Aughinish supports Absolute Priority Dispatch. However, if the RAs decision is that Absolute Priority does not apply to any participant then Aughinish suggest that a CHP with Priority Dispatch would continue to submit bids as per the current system and proposes that the RAs consider the following:

- (i) the system operators to have defined objective rules that their systems (e.g. RCUC) can apply automatically so that the dispatch engineer is not required to make complex value judgements in real time which might be disputed later. The decision made under the consultation would apply to all Priority Dispatch plant.
- (ii) Due to the integrated nature of CHP plants, there should be a recognised 'lower operational thresh-hold' for individual CHP plants below which they would be 'constrained on' by the system operator unless it is unsafe or system security is at risk. Effectively the plant would be dispatched as per the market schedule down to this threshold i.e. the plant would be a Predictable Priority Dispatch Price Maker.

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<sup>1</sup> Par 4.8, p46

<sup>2</sup> T&SC Par 2.54

Aughinish propose that this level is site specific for every CHP plant and for the Aughinish CHP plant this level be set at 60MW per each generating unit.

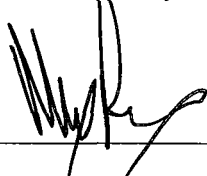
- (iii) At or below this level the plant is a Predictable Priority Price Taker and would only be switched off due to system safety or security reasons.

This “lower operational threshold” concept is not unknown to the market e.g. the T&SC has a Trading Site definition where net trading is facilitated by netting of site demand from generated electricity. Both volume and capacity are treated on a net basis.

Aughinish believes that adopting this approach to the treatment of Priority Dispatch CHP is a reasonable and fair compromise when considering curtailment issues under the T&SC. Effectively, the capacity allocated for Price Maker status treats the flexible operational capacity of CHP plant as like any other generating non-priority dispatch plant. However, the Price Taker capacity takes priority over other Priority Dispatch generation plant e.g. wind. This would also treat dispatched CHP plant on an equitable basis to other (autonomous) CHP plant in Ireland which is operating outside the SEM market.

Aughinish asks that the RAs adopt this treatment for CHP plant. It is supported by EU legislation as part of a package of measures to reduce greenhouse gas emissions and conserve energy.

Yours faithfully,



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Mike Ronan

Copy : Mr Eugene Coughlan