

# Information paper on AES Derogation Requests

9 November 2018

## 1. Summary of this paper

AES sought permission from the Utility Regulator (UR) to derogate from their legal obligation to give three years notice before they close some of their generating units. Following the receipt of expert advice from SONI, the Northern Ireland (NI) Transmission System Operator (TSO), the UR has published its decision on 9 November 2018 to grant the derogation to units B4 and B5 at AES Ballylumford. This decision allows for the closure of older, uncompetitive plant that are not required for system security, reliability or stability.

In addition to our derogation decision, this paper also provides some information in relation to a system services contract entered into between AES Kilroot and SONI.

## 2. Background

On 1 October 2018 the new all-island wholesale electricity market (I-SEM)<sup>1</sup> became operational, replacing the existing Single Electricity Market (SEM). In the new market arrangements there are three primary markets from which generator units can receive revenue:

- the energy market;
- the capacity market; and
- the system services arrangements.

The overall benefits of the I-SEM include a more competitive market environment that makes efficient use of existing infrastructure and promotes security of supply. The first capacity auction took place in December 2017 for the provision of capacity from 1 October 2018 to 30 September 2019<sup>2</sup>. The auction secured the necessary capacity volume of 7,774MW across the island of Ireland. The equivalent of 2300MW of capacity was secured for NI alone. The auction therefore secured enough capacity from generation in NI to meet NI's demand in 2018/2019.

This first I-SEM competitive capacity auction delivered an estimated saving of around £50 million per year for NI consumers. The auction resulted in a number of generating units, not sufficiently competitive and consequently unsuccessful in the auction, being given a market signal that their capacity was not required. The retirement of old, uncompetitive plant is an expected outcome of such initial capacity auctions. Subsequent long-term auctions will seek to encourage necessary new investment.

## 3. Grid Code

Before any licenced entity is permitted to exit the market it must comply with the Grid Code requirement to provide a three year notice period. This is designed to afford the TSO sufficient time to ensure an orderly exit of plant greater than 50MW.

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<sup>1</sup>Quick Guide to the I-SEM [https://www.semcommittee.com/sites/semc/files/media-files/ISEM%20quick%20guide\\_1.pdf](https://www.semcommittee.com/sites/semc/files/media-files/ISEM%20quick%20guide_1.pdf)

<sup>2</sup> Final Auction Results <http://lg.sem-o.com/ISEM/General/Capacity%20Market%20-%20Final%20Capacity%20Auction%20Results%20Report.pdf>

The UR, under the terms of the Grid Code and associated licence condition, may issue a direction, known as a derogation, relieving the generator of its three year notice period obligation. In order to grant a derogation, the UR must receive a formal request, detailing all the necessary information from the applicant.

#### **4. Derogation requests**

In April 2018, the UR received valid derogation requests from AES Ballylumford in relation to the units B4 and B5 (despite one of these units having secured a contract in the capacity auction). At this time, derogation requests from AES Kilroot Power Ltd, in relation to units K1 and K2, had already been received. The UR determined that the most appropriate way in which to deal with the four requests was in a holistic manner in order to best assess the potential impact on the NI electricity system.

The derogation process is a discharge of the UR's regulatory functions under statute.

#### **5. Overview of units applying for a derogation**

The Kilroot units K1 and K2 are around 37 years old and are dispatched to generate in the energy market on a frequent basis. However, these units are coal fired and subject to environmental emission restrictions. These units are not expected to be available after 2024.

The Ballylumford units B4 and B5 are around 44 years old. These units have high operational costs and would rarely be called to operate in the energy market. The closure of these units has been widely anticipated for some time and were expected to close at the end of 2015. However, their operation was extended as a result of a Local Reserve Services Agreement that was put in place in 2015 which is due to expire on 31 December 2018.

#### **6. Technical assessment and meeting system needs**

Having received confirmation from AES that they were content with our holistic consideration of the derogation requests, the UR, in accordance with condition 4(2)(a) of the licence of AES Ballylumford Ltd and AES Kilroot Power Ltd, consulted with both SONI and NIE Networks. The UR requested that SONI undertake a detailed system assessment to provide a comprehensive report as to whether or not the derogation requests separately and collectively should be granted on the basis of system operational and capacity requirements. In constructing their technical assessment, SONI considered the system security, reliability and stability implications of granting the derogations.

The Ballylumford B4 unit was successful in the 2018/2019 capacity auction and therefore SONI's assessment for the 2018/2019<sup>3</sup> capacity year included this unit as being operational<sup>4</sup>. In assessing the closure of the remaining three units over the 2018/2019 period the SONI technical assessment identified two areas of concern:

- The Ballylumford C station has a planned outage scheduled for summer 2019.

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<sup>3</sup> The 2018/19 capacity year runs from 1 October 2018 to 30 September 2019

<sup>4</sup> The AES derogation request for ABL unit B4 was to close from the end of the 2018/19 capacity year on 30 September 2019.

This means that a number of the high inertia units required for system stability will not be available. With the closure of the AES units the system could not offer reliable and sufficient inertia under outage conditions. Therefore one of the AES units is required to remain operational to provide system support services in the form of inertia services.

- The SONI power system restoration plan sets out the approach for the restoration of the system in the event of shutdown of the transmission system. The current plan is dependent on the availability of a Kilroot unit, to provide system support services in the form of blackstart services in the event of a shutdown.

The SONI technical report concluded that of the units requesting derogations to close during the 2018/2019 year, one unit must remain operational in order to provide system support services, and that unit should be a Kilroot unit which could offer specific blackstart services. This is in addition to the unit that was successful in winning a capacity contract.

To address the technical need identified in their report, SONI entered into negotiations with Kilroot Power Ltd, under condition 7 of the KPL licence<sup>5</sup>. A contract between Kilroot Power Ltd and SONI has now been agreed for the procurement of system support services by Kilroot Power Ltd unit K1. This contract is for a one year period, for the 2018/2019 ISEM market year. The new contract is for system services only – no additional capacity was paid for or procured under this contract.

The cost of this contract will be recovered through the System Support Services element of the tariff and is anticipated to add around £6 to the average domestic consumer's bill and around 1.5% to an average business consumer's bill.

In parallel with SONI securing the necessary system services at the K1 unit, AES sought and subsequently secured consent from both the Regulatory Authorities (UR and the Commission for Regulation of Utilities) to transfer the capacity contract at the Ballylumford B4 unit to the Kilroot K2 unit.

Subsequent to the above, AES withdrew derogation requests in respect of the Kilroot units K1 and K2.

## **7. The UR's decision on the derogation request**

Throughout this process, the UR's role was to ensure that the short and long-term interests of electricity consumers are protected while ensuring the lights stay on.

The UR has considered carefully:

- (a) all of the submissions that have been made to it, in writing and orally, by AES Ballylumford Ltd in relation to the derogation request;
- (b) the responses received from its consultation with NIE Networks and SONI, and in particular the final SONI technical assessment; and

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<sup>5</sup> Kilroot Power Ltd licence <https://www.uregni.gov.uk/sites/uregni/files/media-files/Kilroot%20Power%20Ltd%20%28AES%20Kilroot%20Ltd%29%20-%20Generation%20Licence%20-%20FINAL%20%28Final%2010%20November%202017LMA%20%26%20EED%29.pdf>

- (c) the factual circumstances now prevailing, as briefly summarised in this information note, including in particular:
  - (i) the transfer of the I-SEM capacity award from unit B4 to unit K2; and
  - (ii) the withdrawal of Kilroot Power Ltd's request for a derogation in respect of units K1 and K2, in light of the transfer of the capacity award to unit K2 and the system support services contract entered into between SONI and Kilroot Power Ltd.

The UR has also considered carefully its principal objective and statutory duties under Article 12 of the Energy Order. In particular, but not exclusively, it has considered the importance of the network security duty and the financing duty in the context of the derogation request.

Applying its principal objective and statutory duties to the factual situation now presented to it, the UR has determined that derogations should be granted to AES Ballylumford Ltd from the SONI Grid Code requirement in respect of both units B4 and B5.