

November 1999

**CONSULTATION:  
ALCAN ALUMINIUM**

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Alcan Aluminium has requested that the Director General modifies its generation licence to extend the existing suspension of the 'central despatch' clause beyond its present expiry date of 31 December 1999. Unless its generation licence is modified before then, Alcan will become liable to central despatch as from 1 January 2000. Views are invited on whether the Director General should grant Alcan's request.

### *Background*

Alcan Aluminium is a major aluminium smelter located at Lynemouth in Northern Electric's PES area. On the same site as the aluminium smelter, it has a 390 MW power station (three coal-fired gensets of 130 MW each). The power station is connected to Northern Electric's distribution system, rather than to NGC's transmission system and is the primary source of electricity for Alcan's smelter. Alcan also operates two small power stations in Scotland, but they are not an issue in this consultation.

Alcan, as a generator already in operation at 31 March 1990, was transitionally exempt from the requirement to hold a generation licence until 31 March 1998. Exempt generators are not obliged to submit to central despatch. Alcan needed a generation licence from 1 April 1998. The General Authority<sup>1</sup> requires that a generation licence must include a central despatch obligation, which requires the generator to submit, for central despatch, the gensets within any power station which is capable of putting 100 MW or more onto the 'public' system. Lynemouth falls within that criterion. Alcan argued that it should be excluded from any central despatch obligation. The Minister gave the previous Director General consent to issue a generation licence in which the central despatch obligation was suspended until 31 December 1999.

Alcan now argues that the licence should be modified to extend that suspension further (to an unspecified date) on two main grounds. First, it argues that submitting the station to central despatch by NGC would jeopardise Alcan's smelting operation. Second, if subject to central despatch, Alcan would become liable to NGC's transmission network use of system charges for the first time, as central despatch is the criterion governing which power stations are liable to pay NGC's charges.

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<sup>1</sup> Under the Electricity Act, the Director General is required to grant licences in accordance with a General Authority given by the Secretary of State.

### ***Alcan's Operational Argument***

Alcan says that it needs to be certain that its gensets can run at a level sufficient to provide adequate back-up power. It says that, if it were subject to central despatch, NGC might instruct its gensets down to a production level insufficient to cover Alcan's requirements should one of the gensets fail. On the other hand, NGC's procedures are sufficiently sophisticated to ensure that the ability of an on-site generator to meet his requirements from his own generation is never jeopardised.

### ***NGC Charges***

Centrally despatched power stations pay NGC's charges; non-centrally despatched stations do not. Alcan says that, as it is an embedded generator, it should not be liable to NGC's charges and that it already pays distribution use of system charges to Northern Electric.

It should be noted that, as central despatch will cease to exist under the New Electricity Trading Arrangements (NETA), there will have to be a new criterion for deciding whether or not a particular power station should pay NGC's charges. In its October 1999 'Charging Letter' issued to users of its system to set out the basis for charges for the period April 2000 to March 2001, NGC said, "Generators with a post NETA equivalent to Genset Registered Capacity (GRC) greater than 100 MW will be liable for TNUoS charges." On this basis, Alcan will become liable to NGC's charges once NETA is implemented until the end of the next charging period.

The longer term basis for charging for use of NGC's system from April 2001 has not been determined. Ofgem will be consulting on this question later this month as part of the NETA consultation on NGC's incentives and new capacity arrangements. If the central despatch requirement in Alcan's licence were further suspended, that suspension would by no means be conclusive of the question as to whether Alcan should pay NGC's charges post-NETA.

### ***The 1998 Licence***

The Secretary of State was persuaded by Alcan in 1998 that the central despatch obligation should be suspended. The Secretary of State decided that the central despatch obligation should be suspended until 31 December 1999, apparently, on the grounds that, by that date, the future of central despatch would have become clear.

### ***Consultation on the Further Modification Request***

Given that central despatch will cease under NETA, there may be little point in imposing central despatch on Alcan at this stage. The Director General is therefore minded to accede to Alcan's request and to modify its licence so that the suspension of the central despatch obligation is extended to 31 October 2000. The Director General is canvassing views on this proposition. Should he decide to proceed with the licence modification he would advertise it formally and allow twenty-eight days for representations to be made, as required by Section 11 of the Electricity Act 1989.

Responses, by 22 November 1999, may be:

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