



# DS3 System Services Project Plan

## Quarterly Update

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23<sup>rd</sup> December 2015

# 1. Introduction

## 1.1 Background

The System Services work stream within the DS3 Programme relates to the procurement of services from generators, other market participants and connected entities to support the realisation of 75% System Non-Synchronous Penetration (SNSP) on the island of Ireland by 2020. It is a significant component of the broader Programme and comprises a number of complexities and inter-related issues, and important policy interactions with the I-SEM Programme being undertaken concurrently.

In December 2014, the SEM Committee published a decision paper on the high-level design for the procurement of DS3 System Services (SEM-14-108) (“the Decision Paper”). The Decision Paper also set out the SEM Committee’s emerging thinking on many aspects of the detailed design and implementation of the new arrangements.

Following on from this, EirGrid and SONI (“the TSOs”) worked together with the Commission for Energy Regulation and Utility Regulator to develop an initial project plan<sup>1</sup> for delivery of the market arrangements in line with the key milestones set out in the Decision Paper:

- 1<sup>st</sup> October 2016: Go-live of Interim Arrangements; and
- 1<sup>st</sup> October 2017: Go-live of Enduring Arrangements.

On 19<sup>th</sup> October 2015, the TSOs and Regulatory Authorities published the first in a series of Quarterly Updates aimed at informing stakeholders on how the project is progressing. The October 2015 Quarterly Update<sup>2</sup> included a revised project plan covering the period through to March 2016 and outlined the next steps to be undertaken by the TSOs and Regulatory Authorities.

## 1.2 Purpose of this paper

This is the second in a series of quarterly project updates; the next will be published in March 2016. The paper presents a new separate project plan for delivery of the Interim Arrangements and a revised project plan (through to June 2016) for the Enduring Arrangements, which contains some changes from the previously published version. Overall, DS3 System Services is still on track for go-live of the Interim Tariff arrangements on 1<sup>st</sup> October 2016 and go-live of the enduring arrangements on 1<sup>st</sup> October 2017.

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<sup>1</sup> DS3 System Services Project Plan (Detailed Design and Implementation Phase):  
[http://www.allislandproject.org/en/transmission\\_decision\\_documents.aspx?article=332ac31a-1224-44c7-97b6-00a7b6c8a8b9](http://www.allislandproject.org/en/transmission_decision_documents.aspx?article=332ac31a-1224-44c7-97b6-00a7b6c8a8b9)

<sup>2</sup> DS3 System Services Project Plan Quarterly Update – October 2015:  
<http://www.eirgridgroup.com/site-files/library/EirGrid/DS3-System-Services-Quarterly-Update-FINAL.pdf>

## 2. Key update

### 2.1 TSO Update

In the period since October 2015, the TSOs have continued to work, with external professional assistance, on the development of the principles and methodologies for how various technical aspects of the market arrangements will work. The TSOs have also been working on other aspects of the arrangements. The following provides a brief summary of the key focus areas:

- DS3 System Services Volumes: The consultation on the Volume Calculation Methodology closed on 4<sup>th</sup> December. A large number of stakeholder responses were received. The TSOs are currently working through the responses and will soon begin work on the decision paper.
- Regulated Tariffs: The consultation on the Regulated Tariffs Calculation Methodology closed on 18<sup>th</sup> December. As with the Volume Calculation Methodology consultation, a large number of stakeholder responses were received. The TSOs are currently working through the responses and will soon begin work on the decision paper.
- Detailed Auction Design: The TSOs have worked with auction experts DotEcon to develop proposals for how the DS3 System Services auction might work. The final report from DotEcon has been shared with the Regulatory Authorities.
- Payment Scalars: The TSOs have been working with TNEI and Pöyry to develop proposals for how the product, volume and scarcity scalars might operate for each system service. The TSOs have also been developing proposals for how the performance scalar might be applied. A consultation paper will issue in January 2016 on the proposed scalar design.
- Procurement Strategy: The TSOs, with the assistance of external legal experts, have been working to develop an appropriate procurement strategy to lawfully and successfully deliver the required DS3 Systems Services contracts.
- Operational Readiness: The TSOs have been working to progress internal operational readiness activities relating to settlement, performance monitoring and control centre tools.
- Interim Tariffs and Contracts: The TSOs have recently started working on development of the proposed tariff rates that might be applied for the interim arrangements. Similarly, work has started on developing the template contracts. Separate consultations will be held on these two key aspects of the Interim Arrangements in February 2016.

In addition to the above activities, the TSOs have co-ordinated a series of stakeholder engagement activities including hosting of a public workshop in Dundalk as well as multiple trilateral meetings attended by the TSOs, the Regulatory Authorities and individual stakeholders.

### 2.2 Regulatory Authorities Update

Since the last DS3 System Service Quarterly Update, the Regulatory Authorities have been working on the following key areas:

### Competition Metrics:

The Regulatory Authorities received 17 responses to this paper and a review of these responses has been presented to the SEM Committee. It is currently proposed that the decision paper for this area will be issued in May/June 2016 which will align with the market power considerations underway in the development of I-SEM.

### Qualification Process and Contract Design:

The Regulatory Authorities issued a consultation paper on the 3<sup>rd</sup> Nov 2015 on proposed qualification criteria and contractual requirements that could be used in the procurement of DS3 System Services. This consultation closed on the 16<sup>th</sup> Dec 2015, 24 responses were received, which are currently being reviewed. The Decision paper will be drafted in early 2016, with a proposed publication date of the 3<sup>rd</sup> March 2016.

### System Services Auction Design:

The Regulatory Authorities have reviewed the DotEcon report on Auction Design and have worked across the DS3 and I-SEM teams to develop a comprehensive Consultation Paper that highlights key considerations in the detailed Auction Design. This paper, published on 22<sup>nd</sup> Dec 2015, will close for consultation on 12<sup>th</sup> Feb 2016.

### Interactions with I-SEM and CRM:

The Regulatory Authorities are engaged in regular coordination between the DS3 and I-SEM teams to ensure that coordinated consultations are developed and that coordinated considerations are undertaken when making decisions that will impact on future capacity, energy, balancing and DS3 System Service markets. This work will continue throughout the development of DS3 System Services and I-SEM.

The Regulatory Authorities are keen to ensure that open discussion with industry participants is facilitated throughout the DS3 System Services programme, and so have engaged in the DS3 System Services Stakeholder Workshop and trilateral meetings, and will commit to future further engagement and workshops. Recognising the scale of development work underway and the number of consultation papers issued recently, and the number of key decisions that will be made in the coming months the Regulatory Authorities are closely monitoring progress to ensure timely delivery of the Interim and Enduring DS3 System Services arrangements. The next Quarterly Update to be issued in Q1 2016 will detail the full project plan and key milestones required to achieve go-live of the enduring arrangements in October 2017.

## **2.3 Project update**

As outlined in the October 2015 Quarterly Update, the timelines associated with consultations for the Enduring Arrangements, procurement of the system services under an Interim Tariff, and delivery of IT systems means that it is necessary to separate delivery of the Interim Arrangements from the Enduring Arrangements. In the following sections, separate project plans for the Interim Arrangements (through to go-live) and the Enduring Arrangements (through to June 2016) are presented.

Overall, DS3 System Services is still on track for go-live of the Interim Tariff arrangements on 1<sup>st</sup> October 2016 and go-live of the enduring arrangements on 1<sup>st</sup> October 2017.

### 3. Enduring Arrangements: Project Plan to June 2016

The work programme for delivery of the Enduring Arrangements covers the key deliverables required under the following six work streams:

- WS1 - Regulated Tariffs;
- WS2 - System Services Volumes;
- WS3 - Qualification Process Design;
- WS4 - Auction Design;
- WS5 - Contract Design; and
- WS6 - Product Design and I-SEM.

Table 1 lists the planned issue dates for consultation papers and decision papers through to June 2016. Four separate consultations (two by the TSOs and two by the Regulatory Authorities) have been held so far on the following topics:

- Competition Metrics;
- Volume Calculation Methodology;
- Qualification Process and Contract Design; and
- Regulated Tariff Calculation Methodology.

Publication of the decision paper for the Competition Metrics consultation will be postponed to ensure there is opportunity to align with I-SEM market power considerations and is likely to issue in May/June 2016. Detailed timelines for post-June 2016 deliverables are being developed and will be published in the new-year.

Consultation Papers		
Subject Area	Responsible Party	Issue Date
Competition Metrics	DS3 Project Board*	Closed
Volume Calculation Methodology	TSOs	Closed
Qualification Process and Contract Design	DS3 Project Board*	Closed
Regulated Tariffs Calculation Methodology	TSOs	Closed
Auction Design	DS3 Project Board*	22 <sup>nd</sup> December 2015
Scalar Design	TSOs	25 <sup>th</sup> January 2016
Decision Papers		
Subject Area	Responsible Party	Issue Date
Competition Metrics	SEM Committee	June 2016
Qualification Process and Contract Design	SEM Committee	3 <sup>rd</sup> March 2016
Volume Calculation Methodology	TSOs	3 <sup>rd</sup> March 2016
Regulated Tariffs Calculation Methodology	TSOs	3 <sup>rd</sup> March 2016
Auction Design	SEM Committee	2 <sup>nd</sup> May 2016
Scalar Design	TSOs	1 <sup>st</sup> June 2016

**Table 1:** Issue dates for consultation and decision papers through to June 2016

\* The Regulatory Authorities are responsible for the development of the consultation papers on Competition Metrics, Qualification Process and Contract Design, and Auction Design which are approved by the SEM Committee's DS3 Project Board for publication. All decision papers are subject to SEM Committee approval.

While the Regulatory Authorities and the TSOs have endeavoured to avoid overlapping consultations in so far as possible, given the challenging timelines and dependencies in the plan, it has been necessary to schedule overlapping consultations in some instances.

The TSOs and Regulatory Authorities held a public DS3 System Services workshop on 12<sup>th</sup> November in Dundalk. Presentations were made on the Volume Calculation Methodology, Regulated Tariffs Calculation Methodology, and the Qualification Process and Contract Design. These presentations were followed by a Q&A session.

During November and December, the TSOs also hosted a series of tri-lateral meetings in Dublin and Belfast with the Regulatory Authorities and individual stakeholders. These meetings provided stakeholders with an opportunity to provide feedback on specific consultation papers as well as to discuss the wider DS3 System Services arrangements.

The TSOs and Regulatory Authorities plan to hold further public workshops in Q1 2016 to provide an opportunity for stakeholders to discuss the issues raised in the various consultation papers. In so far as possible, these will be co-ordinated and scheduled to facilitate discussion on multiple consultations at a single workshop. The Regulatory Authorities and the TSOs may also host a further series of meetings with individual stakeholders. Further details on these stakeholder engagement activities will be provided in the coming weeks.

## 4. Interim Arrangements: Project Plan

The Interim Arrangements involve procuring all 14 DS3 System Services for a single year beginning on 1<sup>st</sup> October 2016. As mentioned earlier in this document, the work required to ensure that Interim Tariffs and Contracts are available by Oct 2016 has been separated, and is now being carried forward in an additional Workstream. The payment rates for provision of the services will be set using a Tariff methodology appropriate to a single year set of arrangements.

Table 2 lists the planned issue dates for consultation papers and decision papers on the key aspects of the Interim Arrangements. The TSOs plan to issue two consultation papers in February 2016 on the proposed tariff rates and the proposed template contract.

Interim Arrangements: Consultation Papers		
Subject Area	Responsible Party	Issue Date
Interim Tariffs	TSOs	24 <sup>th</sup> February 2016
Interim Contracts	TSOs	24 <sup>th</sup> February 2016
Interim Arrangements: Decision Papers		
Subject Area	Responsible Party	Issue Date
Interim Tariffs	TSOs*	10 <sup>th</sup> June 2016
Interim Contracts	TSOs *	10 <sup>th</sup> June 2016

**Table 1:** Issue dates for consultation and decision papers on the Interim Arrangements

\*SEM Committee approval required

In addition to the consultation papers, the TSOs are working to design the procurement process that will be used to procure the 14 DS3 System Services, including the various qualification and award criteria to be employed. The TSOs expect to advertise the tender process on the Official Journal of the European Union (OJEU) in early March 2016.

The TSOS are also working on other aspects of the Interim Arrangements including the following:

- Settlement calculations;
- Contract compliance validation arrangements; and
- Operational readiness activities including control centre tools and performance monitoring arrangements.

The planned stakeholder engagement activities for the above aspects of the Interim Arrangements will be announced in January 2016.

## 5. Next Steps

The Regulatory Authorities and the TSOs will continue to focus on timely delivery of the Interim and Enduring Arrangements. The following are the next steps to be undertaken:

- Finalise and publish consultation and decision papers in line with the issue dates listed in Tables 1 and 2;
- Continue design and development work on all work streams;
- Develop and publish timelines for post-June 2016 deliverables in the next Quarterly Update in March 2016; and
- Organise a public workshop (likely to be in late January 2016) and series of trilateral stakeholder meetings to facilitate discussion on the auction design and scalar design consultations.



## Appendix

The section provides a brief overview of the Consultation Papers (published already and upcoming) for both the Interim and Enduring Arrangements:

### **Enduring Arrangements**

#### **1. Competition Metrics (consultation now closed)**

This paper published on 21<sup>st</sup> September 2015 outlined the proposed process for identifying the market related to DS3 System Services products and potential market concentration measurements that could be used to determine if a particular product market is competitive and therefore suitable for product procurement through an auction mechanism. This paper also outlined market power concerns and potential mitigation measures that could be employed to facilitate competitive auctions where market power exists.

#### **2. Volume Calculation Methodology (consultation now closed)**

The objective of the System Services Volumes work stream is to determine the volume of System Services required to operate the power system securely while facilitating increased levels of non-synchronous generation. For those services deemed to be competitive, this information will feed into the Capability Volume Requirements used in the auction. In this paper, published on 14<sup>th</sup> October 2015, the TSOs described the proposed methodology for calculating the Capability Volume Requirements for each DS3 System Service.

#### **3. DS3 System Services Volumes**

This paper will present the outcomes from the volume calculation process including the proposed Capability Volume Requirements for each DS3 System Service.

#### **4. Qualification Process and Contract Design (consultation now closed)**

This paper outlined the proposed key principles and processes that will be used to determine eligible providers of DS3 System Services under the Enduring Arrangements. The paper discussed the rationale and principles to be used by the TSOs in determining key qualification criteria when assessing potential DS3 System Service providers. The paper also outlined the proposed process that will be used by the TSOs when procuring DS3 System Services.

With regard to the contract design, the paper detailed the key concepts and principles the TSO should utilise when developing contractual terms and arrangements for DS3 System Services provision and performance of supply. This paper also outlined the different phases in the contracting of DS3 System Services by the TSO for the Enduring Arrangements.

#### **5. Regulated Tariff Calculation Methodology (consultation now closed)**

This paper focused on the approach to determining the regulated tariffs and presented a proposed new methodology for determining regulated tariffs for the full suite of 14 System

Services to be procured.

## **6. Regulated Tariffs**

This paper will present the outcomes from the regulated tariff calculation process including the proposed tariffs for each of the 14 DS3 System Services.

## **7. Auction Design**

This paper presents detailed proposals for how the auction for DS3 System Services could work, outlining reasons for specific design features and describing alternatives where appropriate. The paper details the main proposed design features including the contractual obligations for auction winners, treatment of losers, definition of the volume requirement, structuring of a bid, winner and price determination, and how different contract lengths are handled.

## **8. Scalar Design**

The SEM Committee Decision Paper identified four scalars as being appropriate for DS3 System Services: a Performance Scalar, a Scarcity Scalar, a Product Scalar and a Volume Scalar. This paper will present the principles and building blocks for the high-level design of the scalars as well as the detailed proposals for the form of each scalar.

## **9. Contract Design**

This consultation will cover the detailed template contract proposed to be used for the Enduring Arrangements for the year beginning 1<sup>st</sup> October 2017. The template contract will be developed in the context of the guidance notes provided to the TSOs by the Regulatory Authorities on the contract principles, terms and arrangements to be used.

## **Interim Arrangements**

### **10. Interim Tariffs**

This paper will present the proposed tariffs for each of the 14 DS3 System Services for the year beginning 1<sup>st</sup> October 2016.

### **11. Interim Contracts**

This consultation will cover the detailed template contract proposed to be used for the Interim Arrangements for the year beginning 1<sup>st</sup> October 2016.