



DS3 System Services Project Plan

Quarterly Update

19th October 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 other 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 a project plan¹ for delivery of the market arrangements in line with the following key milestones set out in the Decision Paper.

- 1st Oct 2016: Go-live of Interim Tariff arrangements;
- Q1 2017: First Auction Run; and
- 1st Oct 2017: Go-live of first competitively procured services.

In the project plan published in May 2015, the following particular items were identified as requiring further assessment by the Regulatory Authorities and TSOs before finalising the Project Plan:

- Procurement;
 - Qualification Process;
 - Other procurement exercises;
- IT systems;
 - Auction platform;
 - Settlement system;
 - Operational tools;
- Performance monitoring infrastructure;
- Complexity of aspects of the design;
- Other TSO readiness activities; and
- I-SEM interactions and alignment of incentives.

The Regulatory Authorities and the TSOs have been working together to develop a better understanding of these items and their implications for the project plan. The Regulatory Authorities and the TSOs will continue to refine the plan as implementation of the project progresses.

¹ 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

1.2 Purpose of this paper

In order to inform stakeholders of how the project is progressing, the TSOs and Regulatory Authorities are undertaking to publish quarterly project updates. This is the first in a series of quarterly project updates; the next will be published in December 2015. The paper indicates revisions to the project plan from those previously published. Overall, DS3 System Services is still on track for go-live of the Interim Tariff arrangements on 1st October 2016 and go-live of the enduring arrangements on 1st October 2017.

2. Key update

2.1 TSO Update

Since publication of the project plan, the TSOs have engaged external professional assistance to assist with development of the principles and methodologies for how various technical aspects of the market arrangements will work. This work has focused on the following areas and is expected to be completed by October 2015:

- Regulated tariff model;
- Detailed auction design; and
- Payment scalars.

In addition, external legal experts are providing the TSOs with a legal opinion as to the most appropriate procurement strategy to lawfully and successfully deliver the required DS3 Systems Services contracts.

The TSOs have also been working on other aspects of the arrangements with particular focus on the following items:

- Development of the volume calculation methodology – a consultation paper on this topic was published on 14th October 2015 with a closing date for responses of 25th November 2015; and
- TSO readiness activities including IT systems.

2.2 Regulatory Authorities Update

The Regulatory Authorities have been working on the development and delivery of the following workstreams:

- Development of the competition metrics consultation paper;
- Development of guidance notes for the TSOs on qualification criteria and processes;
- Development of key contractual considerations for procurement of DS3 System Services;
- Interactions with the Capacity Remuneration Mechanism in SEM
- Interactions with I-SEM design;

The Competition Metrics paper was published for consultation on the 21st September 2015, with a closing date for consultation responses of the 2nd November 2015.

2.3 Project update

The complexity of design and interdependencies between the various workstreams has led to greater development times than originally anticipated. In the project plan published in May 2015, implementation of the Interim Tariff arrangements was integrated with the design and delivery of the wider enduring arrangements. However, 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 Tariff arrangements from the enduring arrangements. The scope of the Interim Tariff arrangements will also likely need to be refined as a result.

Current drafting of the Contract Principles and Qualification Process consultation papers has highlighted much interaction between the two work streams, and the Regulatory Authorities are considering development of a single consultation paper to cover both topics. This may allow a more rounded overview of a proposed procurement process for System Services to be issued to industry for consultation.

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

3. Project Plan to March 2016

The project plan for the period through to March 2016 agreed by the Regulatory Authorities and TSOs is set out in Figure 1 at the end of this section. This work programme covers the key deliverables required under the following six workstreams:

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

Table 1 lists the planned issue dates for consultation papers and decision papers through to March 2016. The first of these consultation papers covering Competition Metrics² was published by the SEM Committee on 21st September 2015. This was followed by the TSOs' consultation paper on the Volume Calculation Methodology³ on 14th October 2015. Detailed timelines for post-March 2016 deliverables are being developed and will be published in the next Quarterly Update in December 2015.

Consultation Papers		
Subject Area	Responsible Party	Issue Date
Competition Metrics	DS3 Project Board*	21 st September 2015
Volume Calculation Methodology	TSOs	14 th October 2015
Qualification Process	DS3 Project Board*	29 th October 2015
Regulated Tariffs	TSOs	29 th October 2015
Contract Principles	DS3 Project Board*	29 th October 2015
Auction Design	TSOs	11 th November 2015
Scalar Design	TSOs	23 rd November 2015
Decision Papers		
Subject Area	Responsible Party	Issue Date
Competition Metrics	SEM Committee	18 th December 2015
Qualification Process	SEM Committee	2 nd February 2016
Contract Principles	SEM Committee	2 nd February 2016
Volume Calculation Methodology	TSOs	11 th February 2016
Regulated Tariffs	TSOs	3 rd March 2016
Auction Design	SEM Committee	3 rd March 2016
Scalar Design	TSOs	3 rd March 2016

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

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

² DS3 System Services Competition Metrics Consultation Paper:

<http://www.allislandproject.org/GetAttachment.aspx?id=0366907f-5ca3-4da7-ac3a-6d6aadf5ea91>

³ DS3 System Services Volume Calculation Methodology and Portfolio Scenarios Consultation Paper:

<http://www.eirgrid.com/media/DS3%20System%20Services%20-%20Consultation%20on%20Volume%20Calculation%20Methodology%20and...pdf>

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 Regulatory Authorities and the TSOs plan to hold public workshops to provide an opportunity for stakeholders to discuss the issues raised in the 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 provide an opportunity for bilateral meetings during each consultation (or batch of consultations). Further details on these stakeholder engagement activities will be provided in the coming weeks.

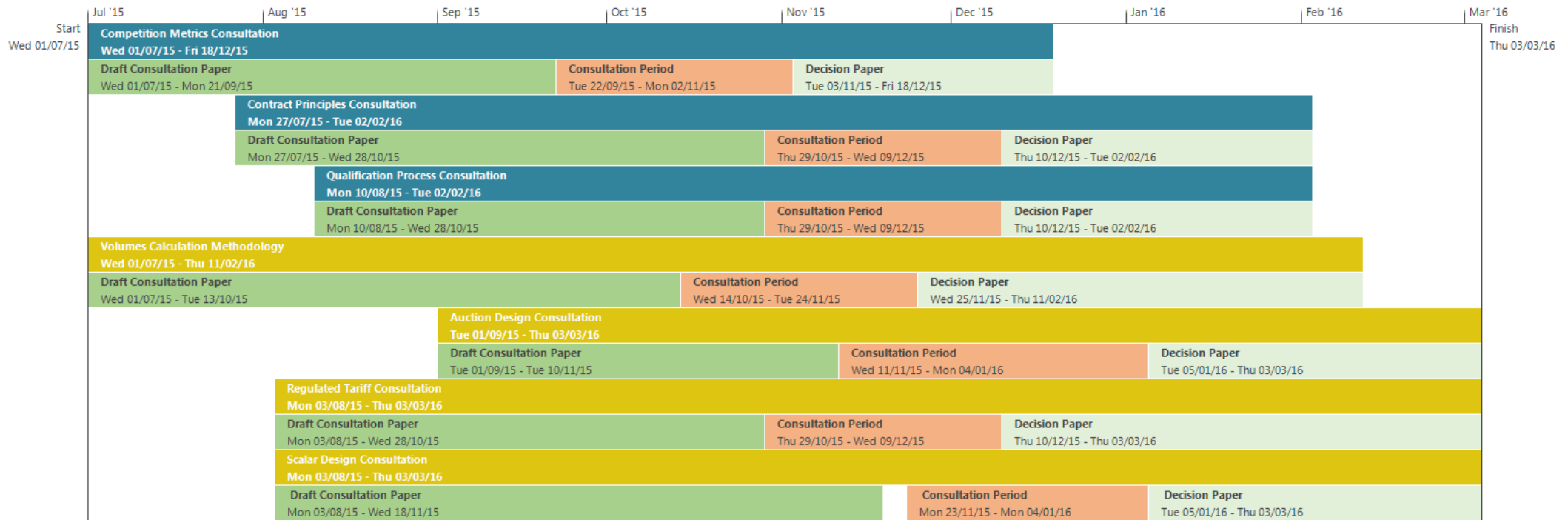


Figure 1 – High-level project plan

4. Next Steps

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

- Finalise and publish consultation papers in line with the issue dates listed in Table 1;
- Continue design and development work on all workstreams;
- Develop and publish timelines for all post-March 2016 deliverables in the next Quarterly Update in December 2015; and
- Refine the scope of the Interim Tariff arrangements and publish a separate project plan for delivery of these arrangements in the next Quarterly Update in December 2015.

Appendix

The section provides a brief overview of the Consultation Papers (published already and upcoming) out to March 2016:

1. Competition Metrics

This paper published on 21st September 2015 outlines 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 outlines market power concerns and potential mitigation measures that could be employed to facilitate competitive auctions where market power exists.

2. Volume Calculation Methodology

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 14th October 2015, the TSOs are consulting on the proposed methodology for calculating the Capability Volume Requirements for each DS3 System Service.

3. Qualification Process

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

4. Regulated Tariffs

This paper focuses on the approach to determining the regulated tariffs and will present a proposed new methodology for determining regulated tariffs for the full suite of 14 System Services to be procured.

5. Contract Principles

This paper will detail 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 will also outline the different phases in the contracting of DS3 System Services by the TSO, and the contract requirements that might be necessary for services procured by regulated tariff, and those procured through a DS3 System Service Auction.

6. Auction Design

This paper will present 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 will detail 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.

7. 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.