

DS3 System Services

Quarterly Update

April 2017



1. Introduction

1.1 Background

System Services is a key workstream within the DS3 Programme¹. The overall aim of the DS3 Programme is to put in place the required changes to system policies, tools and performance to support the realisation of 75% System Non-Synchronous Penetration (SNSP) on the island of Ireland by 2020.

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. Some of the key changes occurring as a result of this decision and the transition from the previous Harmonised Ancillary Services (HAS) arrangements to the new DS3 System Services include:

- An increase in the number of services procured from 7 to 14 services;
- An increase in the amount payable for the services to €235 million by 2020; and
- Movement from bilateral contracts with service providers to a new transparent procurement process, consisting of either a Regulated Tariff arrangement or an Auction depending on the level of competition for each service.

Since the Decision Paper was published, EirGrid and SONI (the TSOs) and Regulatory Authorities have worked to implement many aspects of the SEM Committee’s high-level design including the successful development and implementation of the DS3 System Services Interim Arrangements in October 2016.

Notwithstanding the successful implementation of the Interim Arrangements, a number of key issues have emerged which impact the design of the DS3 System Services programme of work as envisaged by the SEM Committee in its Decision Paper. In response, the SEM Committee published the DS3 System Services Future Programme Approach Information Paper on 23 March 2017² which outlines the emerging thinking of the SEM Committee for System Services going forward.

¹ [DS3 Programme - Delivering a Secure, Sustainable Electricity System](#)

² [DS3 System Services Future Programme Approach – Information Paper](#)

The TSOs are now working with the Regulatory Authorities to develop a detailed programme plan.

1.2 Purpose of this Paper

This paper presents an update on the status of delivery of the Interim and Enduring Arrangements, provides an overview of the key milestones which have been delivered, and sets out key dates that will underpin development of the detailed programme plan.

This document is the fifth in a series of quarterly updates; the previous quarterly update was issued in [December 2016](#) with all previous updates available [here](#).

2. TSOs - Key Updates

The recently published DS3 System Services Future Programme Approach Information Paper provides an overview of the direction of travel for the DS3 System Services arrangements in the coming years. Some of the key programme updates provided in that paper are set out below along with some other relevant programme updates.

2.1 Tariffs

Following the SEM Committee decision to extend the term of the existing Interim Arrangements framework agreements to April 2018, the TSOs will develop two sets of tariff payment rates for 2017/18.

Firstly, the TSOs will set tariff payment rates for the “rollover” contract period between October 2017 and April 2018 using a methodology appropriate to an extension period of 7 months.

A separate new tariff methodology will be applied for the contracts executed in May 2018, which the SEM Committee has requested that the TSOs develop and consult on before submitting the resulting payment rates to SEM Committee for approval. The SEM Committee has directed that the principles for establishing a tariff methodology should be based on the following approach:

1. *“Each year, uses the existing rates as a base.*

2. *Allocates a portion of the budget increase to system needs and a portion to volume requirements.*
3. *To the extent possible, the TSOs would allocate the system needs budget across the services based on their assessment of the services' value to the system.*
4. *The TSOs allocate the volume requirements budget across the services based on the volume shortfall relative to the required additional investment forecast for 2020.*
5. *The TSOs then use the resulting additional budget for each service to calculate the tariff rate increase, if any, for each service."*

In order to provide stakeholders with a holistic view of the TSOs' approach and proposed arrangements, a consultation will be held in July 2017 covering the tariff methodology as well as system services volumes and scalars.

2.2 Volumes

The Volume Calculation Methodology originally consulted on by the TSOs in 2015 aimed to determine the Capability Volume Requirements to be used in an auction, and was not for the purposes of ascertaining the volumes needed for new investment in capability or for tariff-based procurement. Given the new requirements, the TSOs are now seeking to establish a revised volume methodology that will identify:

- The services which are most likely to be most scarce in the period to 2020 and beyond;
- Current capability of existing fleet to provide technically realisable system services, highlighting potential areas for investment in additional provision; and
- A process for comparing forecasts with actual provision in previous years.

As stated above, an industry consultation on the new Volumes Calculation Methodology, tariff methodology and scalars will be held in July 2017.

2.3 Scalars

The SEM-14-108 paper decided that scalars will be applied to the unit price of a given service received by a given provider to incentivise efficient outcomes and more reliable performance in service provision. Those scalars were as follows:

- A performance scalar to incentivise reliability and reduce payments to unreliable providers;
- A volume scalar to protect the consumer from overpayment;
- A scarcity scalar to incentivise availability from providers at times and locations of most value to the system; and
- Product scalars to incentivise enhanced delivery of services from providers.

Two of these scalar types (performance and product) were integrated into the on-going DS3 System Services Interim Arrangements. Separately the TSOs ran a consultation on scalar design during 2016 which focused on proposed scalar designs for all four scalar types with the expectation that these would be incorporated into the Enduring Arrangements. Stakeholder responses to this consultation will be used along with learnings from the Interim Arrangements to propose new refined Scalar Designs for consultation.

2.4 Contracts and Procurement

The TSOs are investigating the possibility of using an enduring panel-based process for the procurement of System Services until competitive arrangements are established. While the TSOs' procurement strategy is still under development, a panel-based procurement process would be more flexible than the arrangements established in October 2016 by allowing participants to qualify to the panel (and gain a DS3 System Services contract) more frequently (e.g. every six months). This flexibility will help facilitate the participation of new entrants, allow providers to make required changes to existing contracts (e.g. update contracted volumes) and provide more frequent opportunities for participants to access System Services contracts.

The process for the panel-based procurement is envisaged as follows:

- The 107 existing Interim Framework Agreements for the 11 services, due to expire in October 2017, will be extended until April 2018;

- The TSOs will run a panel-based procurement process for the 11 services currently contracted with contracts executed in April 2018 based on 2017/18 tariffs. This panel-based procurement process will be open to existing contracted units, new connections and successful participants emerging from the Qualification Trial Process; and
- The TSOs will run a panel-based procurement process for the provision of the three remaining services (Fast Frequency Response, Fast Post Fault Active Power Recovery and Dynamic Reactive Response) with contracts executed in August 2018.

A System Services Contract Principles & Performance Monitoring Workshop has been organised for 27 April 2017 in Dundalk - a further update to the future procurement processes will be provided then.

2.5 Qualification Trial Process

The selection of service providers to take part in the Qualification Trials Process is now complete and trials commenced on 01 March 2017. An overview of the technology types participating in the trials is outlined in the table below.

LOT Name	# Providers
Provenability – Wind – POR	4
Provenability – DSM – POR	2
Provenability – Other Tech - POR	1
Measurability – CDGU – FFR	2
Measurability - DSM – FFR	1
Measurability – Wind - FFR	1
Measurability – Other Tech – FFR	2
Measurability – CDGU -FPFAPR/DRR	1
Measurability – Wind -FPFAPR/DRR	1
Total Trials	15

2.6 Performance Monitoring

The TSOs are reviewing the performance monitoring methodologies being applied in the Interim Arrangements. A large volume of feedback has been received from stakeholders in relation to these methodologies since go-live of the arrangements in October 2016. The TSOs are currently consulting on the Interim Performance Scalar Calculation Methodology. The consultation paper was published on 18 April 2017 and is available to view [here](#). The paper outlines industry concerns as well as proposals to address these concerns. The proposals will be discussed at an industry forum planned in Dundalk for 27 April 2017.

3. Stakeholder Engagement

Owing to the revised plan a number of engagements with industry are planned in 2017, these include:

27 April 2017	DS3 System Services Industry Forum Crowne Plaza Hotel, Dundalk <i>The forum will cover performance monitoring, contract principles, and design developments as well as providing programme updates.</i>
July 2017	Tariffs, Volumes and Scalars Industry Workshop Contract Consultation Workshop
October 2017	Contract Consultation Workshop

Depending on design developments, there may be a need for further stakeholder workshops throughout 2017 on a variety of DS3 System Services related items. The details of these workshops will be communicated to stakeholders in due course.

4. Key Dates

Key System Services dates for stakeholders to be aware of include:

Publication Date	Item
May 2017	Publication of Rollover Tariff (for period 1 October 2017 – 30 April 2018) Consultation Paper
July 2017	Publication of Rollover Tariff (for period 1 October 2017 – 30 April 2018) Decision Paper
July 2017	Publication of Tariffs, Volumes & Scalars (for period 01 May – 30 Sep 2018) Consultation Paper
October 2017	Publication of Tariffs, Volumes & Scalars (for period 01 May – 30 Sep 2018) Decision Paper
September 2017	Publish Contract Consultation Paper (3 week consultation period)
November 2017	Publish System Services Contract for 11 Services
March 2018	Publish System Services Contract for 3 new Services
End April 2018	Contract Execution for 11 Services
End August 2018	Contract Execution for 3 new Services

5. Next Steps

With the publication of the SEM Committee's DS3 System Services Future Programme Approach Information Paper, the TSOs are now working towards delivering the milestones set out by the SEM Committee. The DS3 System Services Industry Workshop on 27 April 2017 will be the first opportunity for stakeholders to participate in the consultation process for System Services contracts and performance monitoring changes, along with receiving a further update on the DS3 System Services programme from the TSOs.