



# **SINGLE ELECTRICITY MARKET COMMITTEE**

**System Services**

**Tariff Review**

**Decision Paper**

**SEM-24-065**

**11 September 2024**

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## 1. Introduction & Background

The SEM Committee consulted on the Phased Implementation Roadmap (PIR), for System Services Future Arrangements, during 2023 and on 8 December 2023, published its decision<sup>1</sup>. As part of its decision, the SEM Committee instructed the TSOs to initiate a System Services Tariff review and Consultation, in Q1 2024. The TSOs published a 'DS3 System Services Tariffs Consultation Document' in March 2024<sup>2</sup> and based on the responses to this paper, the TSOs submitted their 'DS3 System Services Tariffs Recommendation Paper', on 11 June 2024, to the Regulatory Authorities (RAs). The TSOs' Recommendation paper (Annex 1) and Consultation paper should be read in conjunction with this SEM Committee Decision paper.

The current system services procurement tariff mechanism, known as the Regulated Arrangements, is based on price regulation, where service providers are tested to prove their service provision capability and are subsequently paid based on their real time availability, to provide a given service, in each trading period. There is currently no competition for individual services and the remuneration volumes per trading period are based on real time availability volumes, with no volume regulation in place. While this tariff-based approach has been successful in providing a transparent and stable framework, signaling future system requirements necessary for the renewable transition, to 2020 and has successfully delivered SNSP operational levels of 75%, the extension of the Regulated Arrangements to 30 April 2024 (and subsequently to April 2026 per the PIR decision), has led to significant investment in certain services (in particular by fast acting technologies).

A Temporal Scarcity Scalar (TSS) of 4.7 is applied to the tariffs, at times where System Non-Synchronous Penetration (SNSP) > 60%, increasing to 6.3 at times of SNSP > 70%. As the system moves towards times of increasing SNSP this has led to increasing payments to participants. With that in mind, section 4 of the system services contract put in place provisions to change the values of the TSS, where required, to manage DS3 expenditure. The extension of the arrangements, in conjunction with a unique set of market conditions, where interconnector imports remained high, even at times of medium to high wind generation, has resulted in a notable increase in DS3 payments in 2023.

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<sup>1</sup> [SEM-23-103 System Services Future Arrangements – Phase III: Detailed Design & Implementation – Phased Implementation Roadmap | The Single Electricity Market Committee \(semcommittee.com\)](#)

<sup>2</sup> [DS3-System-Services-Tariffs-Consultation-27-March-2024.pdf \(eirgrid.ie\)](#)

## 2. Proposals in the TSOs' Consultation Paper

The TSOs proposed the following options as part of its consultation:

- **Option 1: Reduction in the Temporal Scarcity Scaler (TSS)**  
Given that the power system now operates routinely at higher SNSP levels, the TSOs considered that the incentive to be available at high SNSP levels should be reduced (i.e. there should be a reduction in the TSS).
- **Option 2: Reduction in tariffs for Reserve Services**  
To reduce tariff rates for FFR – TOR2 services where it has been demonstrated, per the TSOs' consultation paper, that contractual volumes exceed requirements.
- **Option 3: Cease procurement of FFR – TOR2 from the next procurement gate**  
As shown in the TSOs' consultation paper, in the volume analysis section, there is an excess of system services in some areas. The TSOs consider that an option would be to stop the procurement of these services.

The TSOs also asked for information from stakeholders on whether increasing the reactive power (SSRP) tariff would encourage more volumes of SSRP system services from low carbon providers.

### 3. TSOs' Recommendations

Based on the 27 industry responses, the TSOs' recommendations were as follows:

- The TSS scalars should be reduced, as the TSOs' analysis has shown that expenditure is being driven by increasing imports from GB. No response disputed this analysis in the consultation. The TSOs proposed reducing the TSS from 1st October 2024. Appendix A in the TSOs' Recommendations paper highlights the potential change in expenditure, if the TSS scalars are reduced as proposed, from €352m to €230m, for the 24/25 tariff year and notes that a reduction in the TSS roughly affects all technology types equally.
  - From October 2024, the TSS should be reduced to 4 (as opposed to 6.3), when SNSP > 70% and to 2.25 (as opposed to 4.7), when SNSP > 60%.
  - From October 2025 the TSOs propose further reductions in the TSS, subject to the review of the impact from the first reduction in relation to service availability.
- Contracting for the fast-acting services (FFR – TOR2) should pause after Gate 11. The intention is to send a signal to new providers to start to build new business models which are not based around existing tariff rates.
  - It is recognised that there may be projects that are in middle of construction and hence should have a route to market. The TSOs proposed to develop a ruleset that would provide clarity while being compliant with procurement rules.

In relation to reactive power tariff (SSRP), the TSOs proposed no changes at this time or to any of the other tariff rates.

## 4. SEM Committee Decision

The RAs, alongside their economic consultants NERA, have assessed each of the TSOs' options and based on this analysis, have advised the SEM Committee on each of the TSOs' proposals. Based on this, the SEM Committee decision is as follows:

- The TSS scalars should be reduced from October 2024.
  - From October 2024, the TSS should be reduced to 4 (as opposed to 6.3), when SNSP > 70% and to 2.25 (as opposed to 4.7), when SNSP > 60%.
  - From October 2025 further reductions in the TSS and tariff rates may occur, subject to a review of the impact from the first reduction, in relation to service availability relative to system needs.
- Tariff rates will remain at the current rates.
- Procurement of FFR – TOR2 services will continue after Gate 11. However, the SEMC requests that the TSOs conduct a risk assessment, around the option to close the procurement of FFR-TOR2, after gate 11. This risk assessment should identify the pros and cons associated with, both leaving the procurement open and closing it, post gate 11. The TSOs' assessment should also consider alternative methods of providing these services, e.g. through long duration storage. The SEM Committee requests that this risk assessment is submitted to the RAs within one month of the publication of this Decision Paper.
- The TSOs will continue to monitor the effectiveness and costs of the tariff arrangements and report quarterly to the RAs, as per SEM-23-103 and, if appropriate, recommend revisions to current tariff rates and/or associated scalars.

The SEM Committee has reached this decision for the following reasons:

- Expenditure on system services has been heavily correlated with periods of high SNSP, driven by renewables and high interconnector imports. As we move towards higher levels of SNSP, periods of > 60% and > 70% SNSP are becoming more common, than when the TSS was originally established and therefore the incentive to provide system services, at this level, should be reduced. Reducing the TSS values also has the benefit of reducing the volatility associated with system services expenditure. Furthermore, analysis conducted by the TSOs has shown that a reduction in the TSS impacts on different technology types in a neutral manner. The SEM Committee is conscious of the effect this may have on providers' profits, in particular on the profits of short-term battery providers, however analysis carried out by NERA indicates that battery units typically achieve large net profit margins and that reducing the TSS should therefore not overly compromise providers' business models. In addition to this NERA have advised that over the period from May 2022 to March 2024 there is no evidence that the need for non-battery providers was higher during periods in which the TSS applied than others. This provides some comfort that a reduction in the TSS should not impact on providers availability to provide system services.

In any future tariff review undertaken, the SEMC may consider amending the TSS value by service type, rather than the blanket reduction outlined in this decision. The SEMC is aware that certain services are more valuable, during periods of high SNSP, than others and ideally would like to reflect this in the TSS values. The TSOs have advised that this would be possible under the current regulated arrangements but noted the system changes and longer implementation timelines associated with this option. For this reason and in the interests of timely implementation, the SEMC will not introduce TSS values per service type, at this time.

- The SEM Committee decided against the TSOs' proposal to pause the contracting for the fast-acting services (FFR – TOR2), after Gate 11, as the SEM Committee is keen to continue to attract investment in low carbon solutions and to ensure a continued route to market for these technologies, as part of the energy transition. Nevertheless, the SEM Committee requests that the TSOs carry out a risk assessment on the option of closing procurement of these fast-acting services i.e. FFR to TOR2, as the SEM Committee is cognisant of the TSOs' recommendation in relation to the volume of these services on the system.
- Additionally, the SEM Committee has decided not to alter the underlying tariff rates at this time.

## 5. Next Steps

The SEM Committee notes that the TSS values are published in section 6 of the DS3 System Services Protocol – Regulated Arrangements v4<sup>3</sup>. Given the SEM Committee’s decision to change these TSS values, the DS3 System Service Protocol - Regulated Arrangements document will need to be updated and republished. There will not be a further consultation for these changes to the Protocol.

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<sup>3</sup> <https://www.eirgrid.ie/site-files/library/EirGrid/DS3-SS-Protocol-v4.0.pdf>