



SINGLE ELECTRICITY MARKET COMMITTEE

FASS: System Services Regulated Arrangements to Future Arrangements – The Gap

Decision Paper

SEM-25-031

23 June 2025

EXECUTIVE SUMMARY

The SEM Committee's Decision on the Future Arrangements for System Services (FASS) Phase III: Detailed Design & Implementation¹ required the Transmission System Operators (TSOs), EirGrid and SONI, to develop a Phased Implementation Roadmap (PIR) for the delivery of a Day Ahead System Services Auction (DASSA) by December 2026. The paper also granted an extension of the existing System Services Regulated Arrangements contracts out to 30th April 2026. At the point of the decision this was understood as the maximum permissible extension to the arrangements under the existing contracts.

Additionally, the decision directed the TSOs to explore the use of the Layered Procurement Framework (LPF) through an assessment of System Services products and how to move these to competitive procurement. This assessment is to be carried out at least annually. The expectation at that time was that the TSOs would develop a solution to use the LPF to bridge the gap from the end of tariffs to DASSA go-live, as there was no permissible means to extend the tariffs further.

Subsequent to that decision, the TSOs explored options to bridge the gap, and ultimately developed a consultation paper, which was published in February 2025 and included the following options:

1. **Layered Procurement Framework:** Introducing LPF arrangements to procure System Services via a monthly or quarterly auction.
2. **Market-based Volume Capped Contracts (without an availability requirement):** Establishing fixed-term contracts with no availability obligations.
3. **Market-based Volume Capped Contracts (with an availability requirement):** Establishing fixed-term contracts with availability obligations.
4. **Extension of the DS3 Regulated Arrangements:** to extend tariffs on all products under DS3 Regulated Arrangements.

During the development of the consultation paper the RAs emphasised the importance of exploring all available avenues to introducing competition earlier. However, based on a binding requirement that a solution for the gap be deliverable by April 2026, the TSOs ultimately concluded that none of the proposed options for competitive procurement (1-3 above) were viable, and indicated a preference for option 4 in their consultation.

Following the consultation process, the TSOs developed a recommendations paper having consideration for the views of stakeholders. 21 responses to the consultation were received, with general support for an extension of the tariffs as the simplest approach which maintained investor confidence. Respondents raised concerns around the following points:

¹ SEM-23-103

- The potential for further tariff reviews during the period ahead of go-live and the continued application of the System Services budget cap;
- The frequency of future procurement gates was raised. Respondents were concerned that allowing the gates would potentially erode the value of tariffs by allowing further increases to the volumes. Conversely some respondents expressed concern at the potential barrier to entry caused by ceasing future gates;
- A lack of clarity on the future treatment of non-reserve services was raised; and
- Respondents requested further clarity on the implementation timelines, which the TSOs have detailed in their Recommendations Paper.

The TSOs submitted their Recommendations Paper to the RAs on 4th June 2025, recommending an extension to the extension of the tariffs to allow focus on the implementation of the DASSA. A long stop date of 30th September 2027 has been recommended in the paper, based on discussions between the TSOs and RAs. This would mean that the tariffs would cease to apply for any services under the DASSA when it goes live, with all contracts definitively ending on 30th September 2027. The TSOs have however indicated that they consider it would be permissible to have further extensions if required.

This paper sets out the SEM Committee's decision on the Gap, having considered the recommendations of the TSOs, the views of stakeholders and previous SEM Committee decisions in this area. The RAs have reviewed the TSOs' Consultation paper, the responses received to that paper and have engaged with the TSOs and industry members, through the FASS Project Panel, in order to ensure a comprehensive consideration of all the issues raised in the development of this decision.

The SEM Committee has previously indicated that it does not consider the Regulated Arrangements to be the optimal framework for procuring the right levels of System Services. It does not have confidence that the framework is economically efficient, and it has previously expressed a strong preference for the early adoption of competitive procurement ahead of delivery of an enduring competitive solution through the full implementation of the FASS arrangements.

Notwithstanding the above, based on a review of the Recommendations paper, and the advice of economic experts, in the context of the delays by the TSOs in implementing the Layered Procurement Framework which was in the High Level Design decision of April 2022, it does not now appear feasible at this juncture to deliver any of the proposed competitive procurement options by April 2026. The SEM Committee has therefore reluctantly made the decision to allow the extension of the System Services Regulated Arrangements out to a long stop date of 30th September 2027. For any products that competitive procurement is established ahead of that date, payment of tariffs for all providers will cease.

The SEM Committee has decided that there will be no further extensions to any System Services tariffs beyond this date. For all System Services products, there is a need to ensure that a

procurement process under the LPF is implemented from 1 October 2027, to prevent further over-procurement of services and protect the customer from inefficient expenditure. The SEM Committee considers that this allows the TSOs sufficient time to develop solutions which will ensure that providers of System Services are remunerated for their provision, even in the event of further delay to the DASSA, through the use of the full suite of mechanisms under the FASS framework.

The TSOs are also directed to continue to monitor System Services volumes and expenditure, and to take proactive actions to address any over procurement of System Services products. In coming to this decision, the SEM Committee has considered the evidenced continued over procurement of reserve products, the evidence of continued high volume availability despite previous reductions to tariff rates and a lack of any evidence or analysis supporting the economic efficiency of current tariff rates. It also puts the responsibility on the TSOs to proactively manage the budget and to consider tariff reviews that aim to set the tariffs no higher than necessary.

In terms of the industry comments, the SEM Committee has responded on three main themes. Below is a summary of the SEM Committee's response:

- **Further tariff reviews and budget cap review:** Stakeholders have requested a review of the current System Services budget cap. To date there has been no observed reduction to the provision or availability of System Services following previous tariff reviews. There continues to be significant over-procurement of reserve services. Given this, there is little evidence to suggest that increased expenditure on System Services is required.

Similarly for non-reserve services, there has been no review (needs case, costs etc) of these products since the initial development of System Services in 2013. There is therefore no justification to increase expenditure on services.

- **Procurement Gates:** Based on engagement with the TSOs, the SEM Committee has already issued a decision via correspondence to the TSOs to keep the gates open. While this will continue to allow increased volumes through the lifetime of the tariffs, it would not be standard practice not to create barriers to entry for projects which are in development. On balance the SEM Committee considers it preferable to ensure such barriers are not introduced.
- **Future of non-Reserves:** For clarity, the decisions within this paper will apply to all System Services. As indicated by the TSOs, there will be a workstream and consultation on procurement of non-reserves in the coming months. This will address the treatment of non-reserve services beyond the time period to which this decision applies. The SEM Committee expects that proposals in this regard will adhere to the procurement framework set out in the FASS High Level Design.

This Decision Paper should be read in conjunction with the TSOs' Recommendation Paper.

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1 INTRODUCTION

The SEM Committee's FASS High Level Design (HLD) Decision², introduced a number of mechanisms which would be available to the TSOs to competitively procure System Services. These included:

- A daily auction mechanism to allow the development of a day ahead auction for System Services;
- A Layered Procurement Framework, which would allow for the competitive procurement of System Services through contracts or auctions to cover a period of greater than one day up to one year; and
- The fixed contract framework, which would allow for multi-year contracts and was designed to remove barriers to entry for new technologies which could address specific system needs and support decarbonisation of the electricity system.

It was envisaged that ultimately all these mechanisms would be used together in the enduring FASS to optimise the procurement of System Services to ensure the needs of the system were met. However, the SEM Committee decided that any of these mechanisms were available to be developed and used from the date of the HLD decision. At the time of publication of the HLD on 14th April 2022, the end date of the Regulated Arrangements contracts was 30th April 2024.

Prior to the HLD, the SEM Committee wrote to the TSOs following a review of the tariff rates in 2021 indicating a need to move towards competitive procurement. Additionally, following on from the HLD decision, the SEM Committee wrote to the TSOs again, indicating that the TSOs had the full suite of FASS mechanisms at its disposal, and adequate time to ensure that some form of competitive procurement was in place for 1st May 2024.

Following on from this, there was significant engagement between the RAs and TSOs with regard to how the LPF could be used. Ultimately, the SEM Committee considered it beneficial that the RAs develop thinking on the use of the LPF, as the TSOs expressed confusion as to how it could be used to competitively procure System Services. There was therefore a need for the RAs to be more explicit in its use than originally envisaged.

This resulted in a consultation on the use of the LPF to undertake quarterly auctions. Following the consultation period, having considered the responses of the TSOs and industry stakeholders, the SEM Committee decided not to proceed with this approach. In its decision on Phase III: Detailed Design & Implementation the SEM Committee decided not to explicitly prescribe how the LPF would be used, and introduced a requirement for the TSOs to report annually on how to use the LPF to move away from tariff based arrangements to competitive procurement for all System Services.

² SEM-22-012

This decision also directed the TSOs to develop a Phased Implementation Roadmap (PIR) for the delivery of a Day Ahead System Services Auction by December 2026. The paper also granted an extension of the Regulated Arrangements tariffs out to 30th April 2026.

The expectation at that time was that the TSOs would develop a solution to use the LPF to bridge the gap from the end of tariffs to DASSA go-live, as there was no permissible means to extend the tariffs further. In subsequent RA/TSO engagements it emerged that the TSOs did not consider the LPF a viable approach to bridging the gap between the end of the tariffs and the go-live of the DASSA.

The RAs and TSOs engaged extensively on potential solutions to the gap, including the use of the LPF for periodic auctions and annual volume capped availability contract competitions. In previous decisions and correspondence the SEM Committee has repeatedly emphasised a need to move towards volume regulation and market based price setting.

Ultimately, the engagement led to the options which were set out in the consultation paper, these being:

1. **Layered Procurement Framework:** Introducing LPF arrangements to procure System Services via a monthly or quarterly auction.
2. **Market-based Volume Capped Contracts (without an availability requirement):** Establishing fixed-term contracts with no availability obligations.
3. **Market-based Volume Capped Contracts (with an availability requirement):** Establishing fixed-term contracts with availability obligations.
4. **Extension of the DS3 Regulated Arrangements:** to extend tariffs on all products under DS3 Regulated Arrangements.

The TSOs indicated in the consultation paper that they considered option 4 to be the only feasible option to continue procurement. The consultation paper was published in February 2025, and 21 responses were received. Following a review of the responses received, the TSOs submitted their recommendations to the SEM Committee on 4th June 2025.

This paper sets out the SEM Committee's decision, having considered the recommendations of the TSOs, the views of stakeholders, and previous correspondence and decisions in this area. The paper firstly sets out the main themes from the stakeholder responses, along with the SEM Committee's position on these before setting out the SEM Committee's decision on how to procure System Services from 1 May 2026.

2 KEY RESPONSE THEMES

In terms of the responses received, general support for an extension of the tariffs as the simplest approach which maintained investor confidence. Ensuring investor confidence has continued to be the primary concerns for stakeholders. This is consistent with responses to previous consultations relating to both extensions to the Regulated Arrangements and reviews of tariff rates.

The SEM Committee is conscious that investor confidence is important to ensuring the right mix of technologies are available to provide ancillary services to the system. It is important that this is balanced with ensuring the consumer is protected from the risk of over procurement or over expenditure on System Services. Based on recent consultations on System Services tariff reviews, it is clear that there is an ongoing issue in terms of over procurement of reserve services.

The need to move promptly to competitive procurement to mitigate the continued impact of over procurement was highlighted in previous SEM Committee correspondence to the TSOs following on from the publication of the FASS HLD Decision. The SEM Committee has significant concerns with regard to continuing procurement through the Regulated Arrangements, and it is vital that there are measures in place to ensure that there will be no further need for tariff based arrangements following the end of the Regulated Arrangement contracts.

The SEM Committee considers that, based on the timelines for the alternative options presented by the TSOs in their Recommendations Paper, there are achievable measures in line with the framework set out in the HLD to ensure that there is volume regulation in place by 1 October 2027 regardless of any unforeseen delay to DASSA implementation.

Below are further additional themes which the SEM Committee has identified from consultation responses.

2.1 Tariff Rates and Expenditure Levels

A key concern of stakeholders is the risk of continued downward pressure on tariff rates, and the need for a review of the expenditure cap of €235m. It is worth noting that the SEM Committee wrote to the TSOs in February 2023 with a decision to maintain prevailing tariff rates up to 30th September 2023 to allow focus on the prioritisation of a competitive solution through the LPF. This in effect has allowed expenditure to exceed the €235m budget cap since then. It is important to highlight that despite recent adjustments to the Temporal Scarcity Scalar following a review of the Regulated Arrangements, that expenditure continues to track towards exceeding the budget cap.

Noting the total expenditure levels, there is clear evidence that the volumes of reserve services procured significantly exceeds the total amount required on a daily basis. Additionally, in terms of non-reserve services, there has been no review (needs case, costs etc) of these products since the initial development of System Services in 2013. There is therefore no justification to increase

expenditure on services which may not even meet the needs of the system over the next few years, and there is an urgent need to reduce the volumes of reserve services procured.

Overall, there remains a need for an increased level of transparency and data behind the needs of the system in terms of what the System Services products deliver. The SEM Committee does not consider the previous approach of valuing the overall impact of System Services, which was informed by the estimated value of the overall DS3 Programme (in terms of the reduced price of electricity as a result of increased renewables penetration) as the appropriate approach.

2.2 Procurement Gates

Stakeholders also highlighted concerns around a lack of clarity on future procurement gates. Views were submitted for both sides of the argument. Firstly, that there should be no further gates as there is already an over procurement issue for some services and additional volumes may lead to further tariff reviews. Secondly arguments were presented that the gates should continue to avoid any issues in terms of in-development projects facing barriers to entry as a result of having no route to market for the Regulated Arrangements.

The SEM Committee has already considered this issue and engaged with the TSOs in regard to this. Having considered the evidence provided by the TSOs, the SEM Committee decided that on balance it is important to avoid blocking developers from entry to service provision in the coming years, and therefore wrote to the TSOs during the consultation period to inform them of a decision that the existing six monthly gate procurement process should continue throughout the lifetime of the Regulated Arrangements.

2.3 Future of Non-Reserves

Finally, respondents indicated a need for greater clarity on the future procurement of non-reserve services, given that it has been indicated that these will not be initially procured through the DASSA. The latest update to the Phased Implementation Roadmap highlights a workstream to determine the approach to procurement of non-reserves will be progressed in the coming months.

The SEM Committee acknowledges the need for clarity on the future procurement of non-reserves. The decision's set out in this paper will apply to all System Services products, including non-reserves, for the gap period. The coming workstream will determine the approach for the subsequent period from 1 October 2027, with the expectation that all services will be procured through long-term contracts via the LPF and Fixed Contract Arrangements or the DASSA. The SEM Committee notes that it is a requirement that proposals in the upcoming non-reserves consultation must adhere to the procurement framework set out in the FASS High Level Design.

3 SEMC DECISION

In terms of making a decision in this area, the SEM Committee has focused on the procurement mechanism for the period from 1 May 2026 up to DASSA go-live, and measures to protect consumers to go alongside that.

3.1 Decision on Regulated Arrangements Contracts

Having considered the evidence and recommendations from the TSOs, along with the views of stakeholders the SEM Committee has decided to allow an extension of the Regulated Arrangements. This extension will apply to all services up to the transfer of any service to the DASSA, and contracts will be extended no longer than the long-stop date of 30th September 2027. Upon its go-live, any products which will be procured through the DASSA will cease to have tariffs applied.

The SEM Committee has previously indicated that it does not consider the Regulated Arrangements to be the optimal framework for procuring the right levels of System Services. It does not have confidence that the framework is economically efficient, and it has previously expressed a strong preference for the early adoption of competitive procurement ahead of delivery of an enduring competitive solution through the full implementation of the FASS arrangements. Nevertheless, at this juncture, an extension of the tariffs is the most pragmatic approach available.

It is important to note that the TSOs have yet to fully implement the intended design for the Regulated Arrangements, and that the Market Ruleset is currently under review. It will be important in the context of the extension that this review fully implements the arrangements as originally intended.

The TSOs are directed to ensure there is a backstop in place through use of the mechanisms available under the HLD to ensure adequate levels of all System Services remain available following the end of the Regulated Arrangements contracts, which is 30th September 2027. Through volume regulation, this backstop will help ensure that the significant over procurement of reserves currently happening, does not go beyond the September 2027 longstop date. The most feasible option may be to introduce volume capped annual contracts through the LPF, as detailed under options 2 or 3 of the TSOs' Consultation. This can also be used to layer over the DASSA, potentially resulting in a reduced need for ex-post compensation mechanisms.

SEMC Decision 1: Regulated Arrangements contracts will be extended for all System Services products until the earlier of DASSA Go-Live or the long-stop date of 30th September 2027. For clarity any products which are not procured through the DASSA initially will continue on tariffs until the long-stop date.

SEMC Decision 2: TSOs to develop and implement an approach to ensuring procurement of defined volumes for all System Services products by 30th September 2027 using the mechanisms set out in the FASS HLD Decision.

3.2 Decision on Regulated Arrangements Expenditure Controls

In their response to industry comments relating to increasing the allowed expenditure on the Regulated Arrangements, the TSOs note that they will not comment on the appropriateness of the budget cap and it is for the SEM Committee to determine an appropriate level. While the SEM Committee had written on 10th February 2023 (SEM-23-020) to the TSOs indicating that tariffs should be maintained at the prevailing rates until 30th September 2023 in order to prioritise accelerating the introduction of competitive procurement, this accelerated delivery has not been achieved. Additionally, the letter stated that “the TSOs should continue its expenditure monitoring and reporting to the Regulatory Authorities, in addition the monitoring of volumes is of critical importance. In particular, where the volumes the market is making available to the TSOs are materially greater or lesser than the TSOs operational requirements. It will be necessary for the TSOs to fully implement volume monitoring for the Regulated Arrangements in order for the SEM Committee to decide next steps on the tariffs after 30th September 2023.”

Notwithstanding this, expenditure continues to track at a level significantly above that cap since the most recent tariff review and resulting reduction to the Temporal Scarcity Scalar, applied from October 2024. Without any proposed approach to regulating and valuing the price of System Services products individually, given continued over procurement of reserve services and uncertainty in terms of the value of the non-reserve services.

Having considered the need to protect consumers, alongside the recent delay to DASSA Go-Live, the SEM Committee has decided that the TSOs should monitor the volumes of services procured relative to system requirements and carry out a tariff review for any service where the volumes paid for exceed the required volumes. The TSOs will continue to provide monthly expenditure reports and quarterly reports which include an analysis on the economic efficiency of each of the System Services products, and assessment of these reports will be the basis for any need to review of the tariffs, as required by SEM-23-103.

SEMC Decision 3: The SEM Committee has decided that TSOs should monitor the volumes of services procured relative to system requirements and carry out a tariff review for any service where the volumes paid for exceed the required volumes, and that the TSOs proactively manage this through ongoing monitoring of tariff rates and reviews where appropriate.

4 NEXT STEPS

Following this SEMC Decision Paper the TSOs will work to ensure all administrative and governance arrangements to enable the extension of the Regulated Arrangements contracts are concluded. The TSOs should also ensure the System Services Market Ruleset is updated to enable the full implementation of all previous SEM Committee decisions on the Regulated Arrangements.

The TSOs will also commence work on measures to ensure there is appropriate procurement of defined volumes in place through the market mechanisms set out under the FASS HLD for all System Services from 1 October 2027, and will continue work on ensuring the timely implementation of the DASSA.

4.1 Next Steps

Should stakeholders have any queries or comments please contact Dylan Ashe (dashe@cru.ie) or Bronagh McKeown (bronagh.mckeown@uregni.gov.uk).